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CELEBRATING 40 YEARS OF BANKING EXCELLENCE

THE NEXT STAGE OF SUCCESS

The Preferred Global Banking Partner

Responding Efficiently to Diversified Individual Needs

Quality Service through Efficient Systems & Process

Highest Standards & Advanced Risk Management

Transparent Corporate Culture & Foundation for Sharing

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35

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187

189



Launched in January 1967, KEB has over the past 40 years solidified its position at home and abroad as Korea's premier commercial bank.

1967-1988

KEB-Reflecting on
Korea's
Global Banking History

1989-2002

40th anniversary

2003-Present

Jan. 1967

Established as a government-owned foreign exchange and international trade financing specialist bank



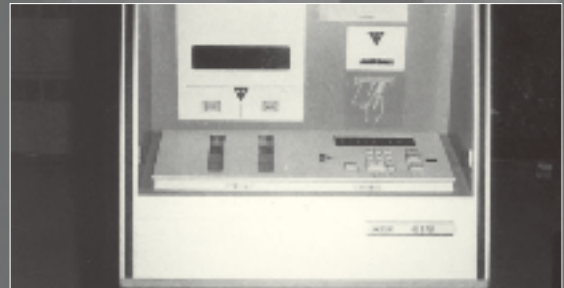
Nov. 1972

Launched Korea's first electronic deposit service, a first step to full electronic banking in Korea



Aug. 1975

Introduced first ATM(Automated Teller Machine) service in Korea



Apr. 1978

Launched first credit card(VISA) business in Korea, introducing credit commercial transaction for Korean society



Jan. 1981

Head office moved to newly constructed headquarter building



Feb. 1985

Designated as official sponsor bank for 1986 Asian Games & 1988 Seoul Olympic Games



Foundation & Growth

From F/X & International Trade Financing Specialist Bank to International Commercial Bank (1967-1988)

Korea Exchange Bank (KEB) was established in 1967 as a government-owned foreign-exchange (F/X) and international trade financing specialist bank. In fulfilling this founding mandate, we quickly acquired vast F/X and trade finance knowhow and experience, while chalking up an impressive record supporting the growth of Korean industry through export/import transactions.

Through our active participation in global financial markets, KEB also played a crucial role in inducing foreign funds into Korea and thereby aiding in the modernization of the domestic industrial base.

Later, to effectively respond to the changing internal and external financial environment as a result of Korea's rapid growth from the 1980s, we realigned our operations and profile to an international commercial bank.

To this end, we broadened our domestic network, and implemented bold strategies designed to put the bank on a more solid and profit-oriented footing. We also elevated our international reputation presence through the expansion of our overseas branch network.

1967-1988

1989-2002

2003-Present

Dec. 1989

Privatized with the repeal of "Korea Exchange Bank Act", a new start as a private commercial bank



Nov. 1990

Introduced first 365 days-a-year ATM service in Korea, providing a better retail banking service



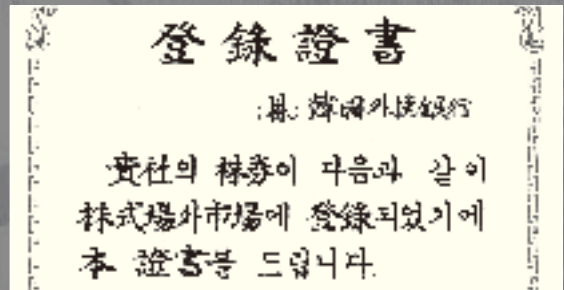
Mar. 1992

The first Korean bank to adopt SWIFT(Society for Worldwide Interbank Financial Telecommunication) system for F/X and Export/Import business and introduced automated F/X operations



Apr. 1994

KEB shares listed on Korea Stock Exchange



Jul. 1998

Commerz Bank became a major shareholder with capital investment of KRW350 billion



Aug. 2002

"Yes Mortgage Loan" received "New Millennium Brand Awards" given by *Korea Times*, proving our ability to produce innovative products and services



In 1989, KEB was privatized with the repeal of "Korea Exchange Bank Act". While placing us on the same competitive footing as other commercial banks, this also freed us from the limitations and obligations of state ownership.

Since then, KEB has continued to solidify its standing as one of the country's premier commercial banks. We broadened our capabilities in retail & corporate banking and newly emerging card services to position KEB as a Korea's leading bank.

Like other domestic banks, KEB was confronted with the threats posed by the collapse of large corporations following 1997 Asian financial crisis.

Unlike many other domestic banks, KEB survived without public bailout money. Revenue from our strong core franchise along with self-directed restructuring and the efforts of our staff enabled KEB to overcome difficulties arising from crisis.

Transformation & Attacking Challenges

From Bank Privatization to Overcoming Asian
Financial Crisis (1989-2002)

1967-1988

1989-2002

2003-Present

Oct. 2003

With capital investment of KRW1,383 billion, Lone Star Funds became a new major shareholder, inducing a remarkable turnaround.



Mar. 2004

Merged with KEB Credit Service, resolving the problems posted by the bursting of credit card bubble in Korea



Dec. 2004

Provided CLS(Continuous Linked Settlement) service for the settlement of real-time cross-border F/X transactions as the Settlement Member for CLS Bank International



Feb. 2005

Implemented NGBS(Next Generation Banking System), an advanced IT infrastructure establishment



Dec. 2005

Established "KEB Foundation" for KEB's charitable and community activities as the first charitable organization among Korean banking industry



Mar. 2007

First dividend declared since 1996, a very tangible sign that KEB has once-and-for-all overcome the extreme difficulties that burdened the bank for the past 10 years



Since 2003, the men and women of KEB have managed a remarkable turnaround with the new capital from our major shareholder, Lone Star Funds, and have a new spirit.

KEB successfully overcame threats arising from the Korean credit card crisis and built the platform for quality profit growth. With our new management, reorganization, and go-to-market clarity, KEB has driven ahead once again as a Korea's premier bank.

Building on unique franchise strengths and with emphasis on the quality of our businesses, KEB continues "Smart & Profitable" growth. Now, KEB has proven we are a healthy and strong institution, with profitability, capital adequacy and portfolio quality in the best shape in our history.

Celebrating our 40th anniversary in 2007, KEB will keep improving and evolving as a world-class banking institution.

1967-1988

1989-2002

Driving Ahead as Korea's Premier Bank

40 Years Behind Us and A Bright Future Ahead (2003~Present)

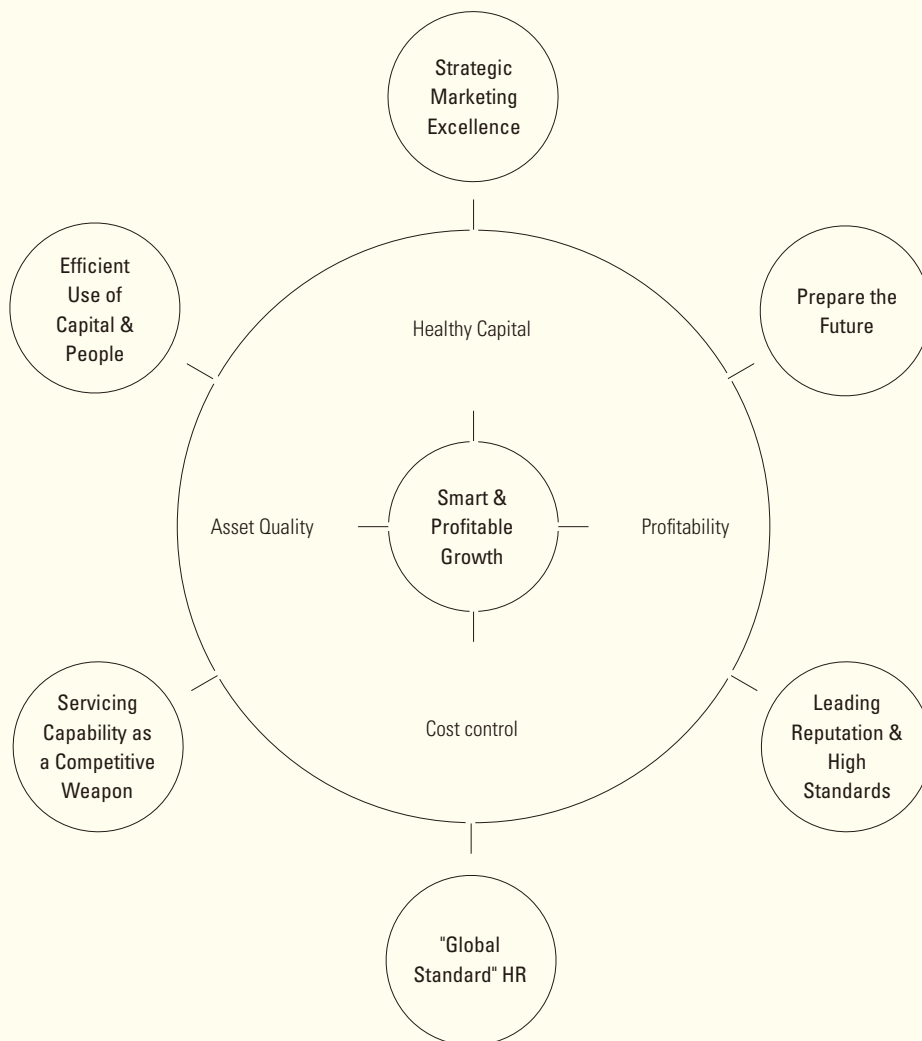
2003-Present



Vision

Smart & Profitable Growth

- Trade-oriented Global Corporate Banking
- Affluent Retail Banking
- Versatile Card Solutions



1967 - 1988

1989 - 2002

2003 - Present

Message from the CEO



KEB follows a disciplined strategy to pursue “safe and profitable growth” through all parts of the financial cycle.

To our Shareholders

In the midst of the most volatile financial markets in recent memory, I am pleased to report the stable and high quality performance of KEB in 2007. Your bank remains a healthy and sound financial institution contributing to the success of our customers and the Korean economy.

I am proud of and grateful for the efforts of the talented men and women of KEB who have made this performance possible.

KEB follows a disciplined strategy to pursue “safe and profitable growth” through all parts of the financial cycle. While this approach brought slower asset growth than our peers in the heady days of the real-estate lending boom, we are now benefiting from the stability of a clean balance sheet and profitable book of business. In 2007, KEB maintained industry-leading asset quality levels, healthy lending margins, and expanding fee business across our business lines.

Overall net profits totaled KrW 961 billion, down 4% from 2006. Inside that bottom-line figure, our results showed continued improvement of our normal business profitability (up 2% to KrW 937 billion) despite the challenging global financial market in the second half of the year. The net impact of special gains and charges totaled just KrW 24 billion as both were substantially lower than in previous years. While KEB continues to have significant unrealized gains in our special asset portfolio, our business profits in 2007 represented the bank’s core earnings power.

Our business approach is based on allocating our resources – both people and capital – to those areas where KEB can meet our customers needs better than our peers and differentiate our bank from our competition. In those areas, we strive to achieve appropriate returns for the risks we take and the capital we deploy to conduct our business.

Our specialized capabilities allow us to win with sophisticated, trade-oriented commercial banking customers and affluent retail customers. The complex and broad needs of these demanding customers create the business opportunity for KEB to diversify our banking business. Building on our core FX and trade services, we continued to expand our service and fee-based offerings to our corporate and retail customers. While KEB’s net interest income grew just 3% last year in the midst of a tight global funding environment, our successful response to our customers’ needs contributed to strong growth in fee income (+21%), International earnings (+22%), Trust (+28%) and trading profits (+19%).

We maintained healthy lending margins to preserve the appropriate returns on our risk capital within each business line. KEB’s reported overall net interest margin (NIM) of 3.23% was the second highest in our industry. The change in KEB’s reported NIM over the course of 2007 – down 21 bps versus 2006 – was due almost entirely to the “mix effect” of faster growth in lower-spread large corporate and SME lending versus the higher-spread consumer lending lines. KEB staff worked hard to overcome increased funding costs in the second half of the year to protect our overall returns. Because of our disciplined approach, KEB was able to capture good growth opportunities in the 4th quarter as liquidity management issues at some of our peers forced them to restrict some lending activities. While maintaining consistent underwriting standards and pricing discipline, KEB recorded

Until we achieve the clarity and stability of a long-term strategic shareholder, we will continue to make every effort to position KEB for a promising future.

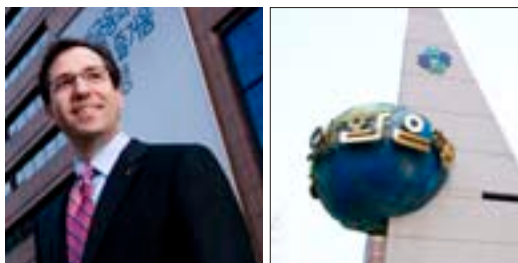
the best increase in total credits (+20.7%) in our industry. I believe that our performance in 2007 gives us a good foundation for 2008. Like all institutions, KEB endeavored to achieve higher returns from our investment portfolio, but we focused in areas we were confident that we understood. In areas we were still learning, we put strict exposure limits on our investments so that we could gain experience while mitigating the “tuition costs” inherent in our education process. As a result, the US mortgage market crisis that has shaken many institutions in the global financial industry resulted in total losses of just KrW 4 billion (US\$ 4 million) for KEB. At the same time, our investment portfolio earned KrW 34bn in 2007, up 224% compared with 2006 and outperformed our benchmarks.

With stable financial performance and a healthy capital base, KEB’s credit ratings have continued their steady climb against the tide of rating downgrades in the global financial industry. As I report to you today, KEB has earned long-term credit rating upgrades to “A2” and “A-” from international ratings agencies Moody’s and Fitch, respectively.

Our domestic credit ratings remain “triple A.” With our strong and stable financial health, KEB’s Board of Directors declared a KRW 700 per share dividend from 2007’s earnings. Our second consecutive dividend following a 10-year absence from 1996, this step is consistent with our focus on capital efficiency and our pledge to provide regular, ongoing dividend returns to shareholders. As we position the bank for 2008 and beyond, we have retained sufficient surplus internal capital to support all the growth in our business plan and the needs foreseen with the implementation of Basel II. After setting aside funds for this dividend, KEB’s BIS capital adequacy ratio (Basel 1 basis) remains at a very healthy 11.44%, with Tier 1 capital of 8.65% that is above the average of our peer banks.

Beyond the financial measures, KEB continued to invest in the improvement of our operational capabilities. We continued to upgrade and expand our product capabilities, our risk and credit management systems, and our branch network both domestically and internationally. These improvements translate directly into more competitive business capability.

We maintained our unbeatable reputation as “Best Trade Finance Bank” and “Best Foreign Exchange Bank,” our traditional strengths, as recognized by Global Finance and Asiamoney. We were also named “Best Cash Management Services Bank” by Asiamoney. Our investment banking support of Fila Korea’s acquisition of Fila Global Undertaking Finance was named “Deal of the Year” by IFR Asia. Our efforts to establish new competitive advantage through KEB’s differentiated servicing capability have begun to get traction. As we expanded the application of Six Sigma quality disciplines across our operations, KEB was recognized for our “Service Quality Innovation” by the Ministry of Commerce,



Industry and Energy (MOCIE). As we kicked off 2008, we launched our unique “KEB Service Quality Guarantee” system. Through our emphasis on high standards of ethical management, we experienced the lowest level of financial accidents among our peers, continuously fewer internal sanctions, and a strong reputation in the marketplace. The KEB Foundation, a flagship charitable foundation in the Korean financial industry, has been applauded for meaningful benefits it and our staff have made to the communities where we do business, in Korea and overseas.

With solid fundamentals, good operating discipline, and many opportunities for near-term improvement, we have confidence that 2008 will be another good year for KEB. We again expect to achieve net income of over KRW 1 trillion, with core business profitability growing between 5 and 10% in what continues to be a very difficult market environment.

As we look to the future, by far the greatest issue facing KEB is achieving long-term strategic clarity through the transition of our major shareholder. We operate in an intensely competitive banking industry. Our domestic peers are large and well-capitalized. Foreign banks have made significant acquisitions in Korea and are raising the level of competition. Impending regulatory policy changes will break down the walls between traditional business areas and bring new competitors. Our bank has operated for more than two years under the shadow of major shareholder change. While our staff works diligently to care for our customers and improve the bank’s performance, the uncertainty surrounding the long-term future of KEB continues to cloud our future. As time goes on, the strategic issues that our bank must act upon become more urgent. The once distant implementation of the Capital Markets Consolidation Act is now imminently upon us. As time goes on, our competitors have more clarity about their future and have more freedom to act. As time goes on, the strategic options that KEB may have been able to seize disappear or are taken by others.

The sale of shares by our major shareholder to HSBC, a strong strategic shareholder by any standard, offers KEB the opportunity to align with a major global banking institution. HSBC’s strategy as major shareholder allows KEB – with our own overseas branch network – to retain its identity as a leading Korean bank and simultaneously gain access to the resources, capabilities, expertise and customers that can only come from being part of a leading global institution. KEB already has capabilities that compare favorably with our peers in our market. In my view, this presents a great opportunity for KEB’s future development. A stronger and more advanced KEB can bring significant benefits to our customers, our staff, our shareholders, and the Korean financial system.

Until we achieve the clarity and stability of a long-term strategic shareholder, we will continue to make every effort to position KEB for a promising future. Our management and staff will strive to make KEB Korea’s best bank. We will attack new challenges with the same energy and creativity that have made us successful so far.

We ask again for the continued support and encouragement of our shareholders. I wish you and your families a happy, healthy, and prosperous 2008.

Richard F. Wacker
Chairman, President & CEO

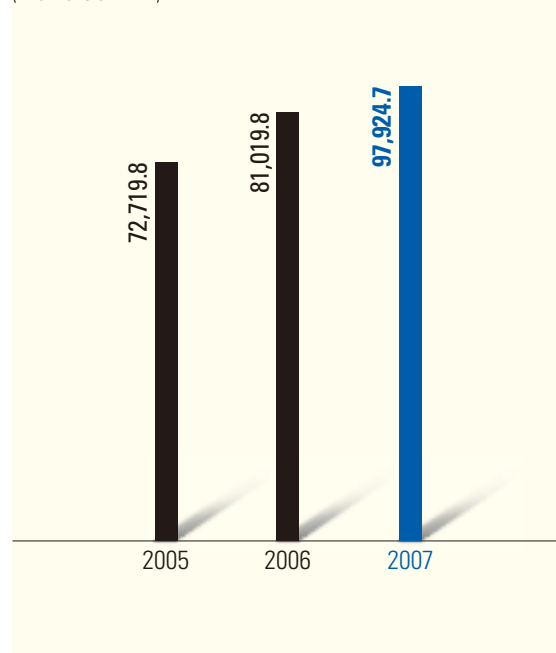
Financial Highlights

	2007	2006	YoY
Balance Sheet			
Total Assets	97,924.7	81,019.8	+20.9%
Total Credits	58,722.0	48,637.3	+20.7%
Corporate	41,394.0	31,858.4	+29.9%
Household	14,885.7	14,463.1	+2.9%
Credit Card	2,442.3	2,315.8	+5.5%
Substandard & Below Ratio	0.61%	0.62%	-0.01%p
Delinquency Ratio	0.56%	0.77%	-0.21%p
Total Deposits	59,755.4	48,015.2	+24.5%
Total Shareholders' Equity	6,650.8	6,379.2	+4.3%
Paid-in Capital	3,224.5	3,224.5	-
BIS Ratio(Basel I Basis)	11.44%	12.45%	-1.01%p
Tier I Ratio	8.65%	9.37%	-0.72%p
Income Statement			
Net Interest Margin	3.23%	3.44%	-0.21%p
Income Before Provision	1,836.0	2,029.6	-9.5%
Net Income	960.9	1,006.2	-4.5%
Return On Asset (ROA)	1.29%	1.52%	-0.23%p
Return On Equity (ROE)	15.05%	16.28%	-1.23%p

In billions of KRW, %

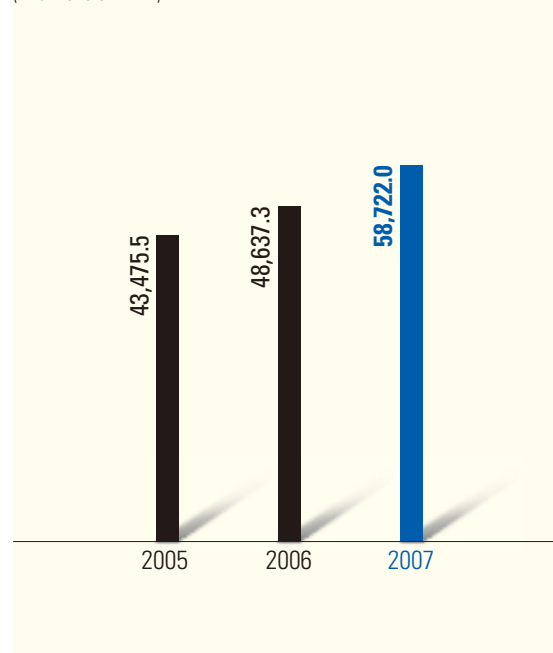
Total Assets

(In billions of KRW)



Total Credits

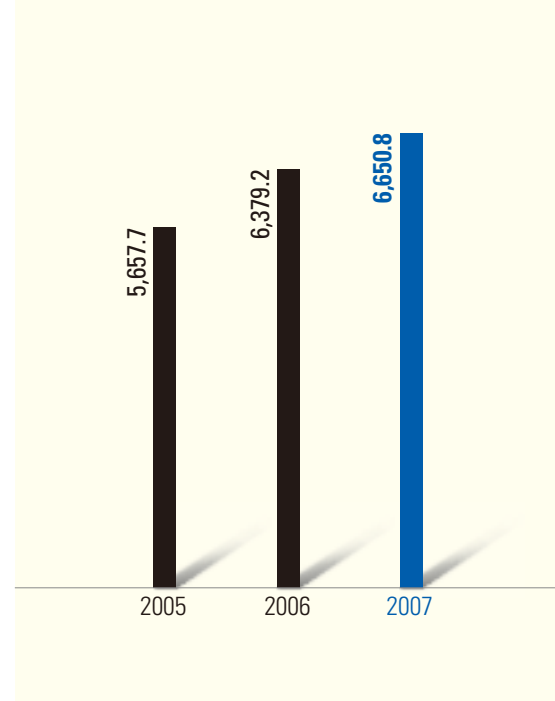
(In billions of KRW)



Good Business Performance in the Midst of Severe Global Financial Volatility

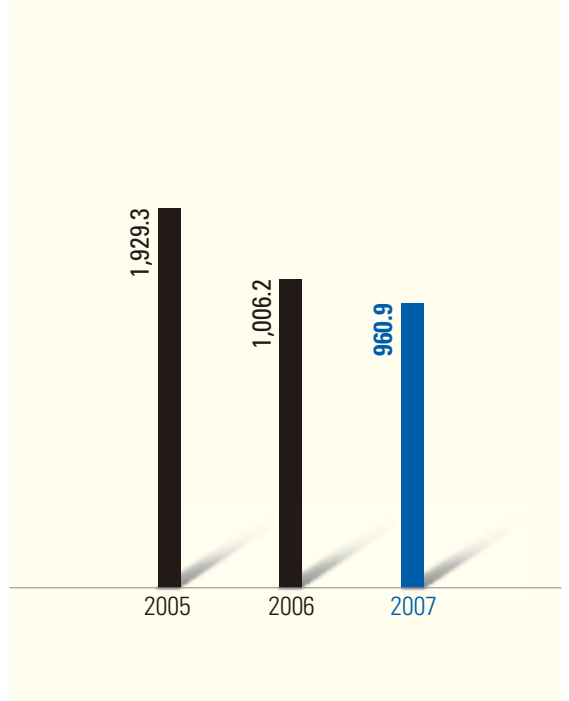
Total Shareholders' Equity

(In billions of KRW)

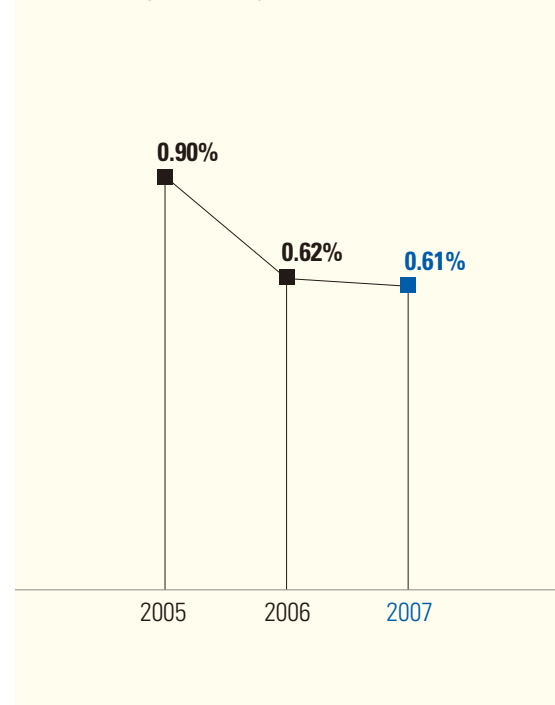


Net Income

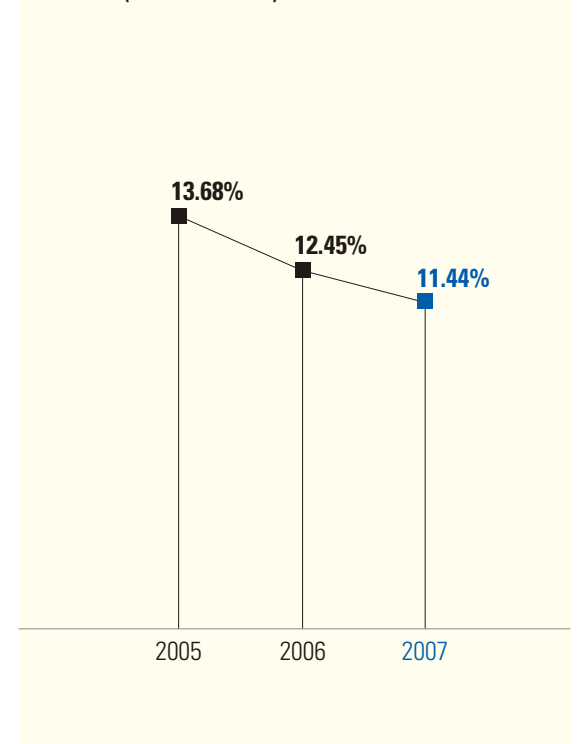
(In billions of KRW)



Substandard & Below Ratio(NPL Ratio)



BIS Ratio (Basel I Basis)







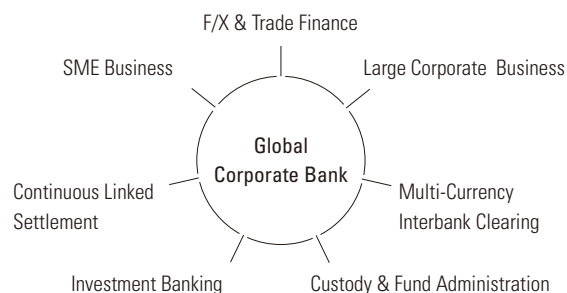
> **Global Corporate Bank**
> **International Group**

- **SME Business**
- **Large Corporate Business**
- **F/X & Trade Finance**
- **Investment Banking**
- **Custody & Fund Administration**
- **Continuous Linked Settlement**
- **Multi-Currency Interbank Clearing**
- **Overseas Operations**
- **Multi-National Corporate Business**

KEB's Global Corporate Bank (GCB) and International Group (IG) work seamlessly to serve our corporate banking customers in Korea and around the globe. GCB comprises our World Corporate Group, Corporate Group, Global Products Department, and Capital Markets Department. KEB's World Corporate Group manages our relationship with our Korea-based large corporate customers, while Corporate Group is dedicated to serving the needs of small & medium-sized enterprises (SMEs). • Our International Group supports the needs of these customers through the resources and activities of KEB's extensive overseas network in 18 countries around the globe.

The Preferred Global Banking Partner

Global Corporate Bank



SME Business

Small and medium-sized companies continued to rank as the largest customer group for the bank's lending activities. Through focused customer-segmentation marketing aimed at high-quality companies, KEB saw consistent, steady growth in loan volume to SMEs in 2007. The bank's total credits to SMEs reached KRW 23.5 trillion at the end of 2007, expanding 23.1% over KRW 19.1 trillion at the end of 2006. Among total credits, Korean Won denominated loans to SMEs stood at KRW 19.2 trillion, an increase of 30.1% over KRW 14.7 trillion recorded a year earlier. This figure accounted for 47.6% of total Korean Won denominated loans made at the end of 2007, up from the 43.4% weighting for 2006, reflecting the relative strength of the corporate banking market in 2007 compared to the retail market.

We rely on our expertise and proven advantages in the export & import finance businesses to develop clear customer segmentation strategies for our SME lending operations. In 2008, our new "KEB BizWin Loan" programs targeting high-quality trade-oriented SMEs will reinforce our "safe and profitable growth" approach toward this key customer category. KEB's SME customer group consists principally of high quality and internationally competitive export manufacturers who have proven their resilience through unfavorable domestic economic conditions. KEB has the lowest relative exposure to economically sensitive SOHO(Small Offices and Home Offices) domestic-only businesses among Korean banks.

Large Corporate Business

Despite ever-intensifying competition with domestic and foreign financial institutions, KEB showed continued strong performance in growing our business with large corporate customers in 2007. The bank's total credits to large corporations were KRW 17.9 trillion at the end of 2007, expanding 40.1% over the KRW 12.8 trillion posted at year-end 2006. Among total credits, Korean Won-denominated loans to large corporations stood at KRW 3.8 trillion, an increase of 50.9% compared to the previous year.

Our growth was based on concentrated marketing efforts against carefully targeted opportunities. In real-estate project financing (P/F), we focused our relationship marketing efforts on prime companies among Korea's top 30 builders in order to fund apartment construction projects in the major metropolitan development areas. This brought the increase of some KRW 2 trillion won in our loan assets.

With favorable industry conditions and rising order backlogs of the top domestic shipbuilders', KEB extended a total of US\$316 million in loans to firms including Hanjin Shipping, Hanjin Heavy Industries and EUKOR Car Carriers. Our role as arranger of related syndicated loans also helped us advance our investment banking capability, a key area of future growth for us as we become a leading bank in Asia.

To meet the growing foreign currency-related demands of top multinationals like Samsung Electronics, KEB developed new and differentiated products and services, becoming the first Korean bank to commercialize 'Nego of A/C receivable denominated in diverse Foreign Currencies' for the Russian Ruble, the South African Rand and the Mexican Peso. We also developed global factoring products that enabled Hynix Semiconductor's overseas subsidiary to convert export receivables into cash, services our Korean competitors could not offer.

F/X & Trade Finance

Boasting the broadest global branch network and most extensive money exchange and trade finance operations of any Korean bank, KEB continued its reign as Korea's unchallenged foreign exchange specialist bank. In 2007, we held onto our leading position in the domestic F/X market for the 12th consecutive year with a share of 40% of total transactions handled by the nation's seven top commercial banks.

This success was repeated in the trade finance sector, where we recorded industry-leading market shares of 29% each for both export financing and import financing.



In recognition of our continued strong performance in these core business areas in 2007, KEB garnered kudos from respected international financial publications. We were named “Best Trade Finance Bank in Korea” (7th consecutive year) and “Best Foreign Exchange Bank in Korea” (6th consecutive year) by *Global Finance*. *Asiamoney* also selected KEB as “2007 Best Foreign Currency Exchange Bank in Korea” (2nd consecutive year).

KEB is developing new services to strengthen our leading market positions and stay ahead of the competition. In 2007, we developed and patented the “Easy-One” foreign currency service, which automatically converts customers’ won-currency deposits into pre-designated foreign-currency remittances without requiring customers to come to the branch or go online.

Our broad range of convenient remittance products include the “Global On-Line” service which lets customers withdraw and deposit from their account whether at home or abroad, an overseas remittance card service, and “Real-Time Remittance” for sending remittances to foreign bank accounts instantaneously.

KEB’s “One-Stop Import Hedge Service” allows customers to issue Letters of Credit (L/Cs) and conclude forward exchange contracts on the spot, alleviating the financial burden and F/X risks for customers transacting import L/Cs.

As part of our efforts to continuously reduce exporters’ and investors’ foreign exchange risks, KEB continuously leads the market in introducing exchange services in newly important currencies. Following 2007’s introduction of Russian Ruble and South African Rand currency transactions, KEB was first again to launch Slovakian Koruna F/X business in Korea in January 2008. We currently offer foreign currency transaction for 23 currencies and money exchange service for 37 currencies, the most diversified in our industry. In addition, we engage in transactions in more than 100 foreign currencies, including 70 collection currencies, making us Korea’s undisputed F/X leader.

Investment Banking

— With know-how that comes from 30 years of pioneering the domestic investment banking (IB) field, KEB provides a broad array of IB services including project financing (PF), M&A advisory, real-estate development PF, ship financing, SOC financing and others. Our impressive results in 2007 included an award-winning leveraged buyout. In March 2007, KEB acted as Mandated Arranger in the US\$300 million leveraged buyout (LBO) of Fila Global by former subsidiary Fila Korea. Unique in many respects, this deal is regarded as a blueprint for future LBOs where the underlying asset is intellectual property rights, and earned the bank *IFR Asia’s* “Deal of the Year” award for 2007 in the “South Korean Loan Deal” category.

KEB successfully acted as lead-manager in arranging the KRW 800 billion capital investment in a consortium headed by the Lippo Group to develop the Woonbuk area of the Incheon Free Economic Zone (IFEZ). We also achieved strong results in real-estate development operations, beating stiff competition from four other consortiums to win the final selection as private company to provide PF for mixed-use development of the Pangyo district of Seongnam City.

These successes have heightened recognition of KEB’s formidable deal-structuring capabilities in the investment banking sector.

Custody & Fund Administration

As Korea's leading custodian bank, KEB's custody and fund administration services enjoy a broad customer base in and outside of Korea, including institutional investors, government entities and foreign investors. In 2007, assets under custody totaled KRW 42 trillion, and our high-quality fee-based capital market services encompass custody service, ABS trustee & backup service, and paying agency and escrow agency service. We are taking aggressive steps to respond to changes in our operating environment brought on by enforcement of Korea's Capital Markets Integration Act and continued asset management diversification. Through our cooperation with our subsidiary KEB Investor Services, we are improving the competitiveness of our custody services through reinforced investor protection and teaming up to jointly offer institutional customers services that better meet their needs and growing fiduciary duties.

Continuous Linked Settlement

The Continuous Linked Settlement (CLS) system is a cross-border electronic settlement system for foreign exchange transactions among global financial institutions. Established in 2002, CLS enables both sides of an F/X transaction to be settled simultaneously, risk-free and in real time. Run by the New York-based CLS Bank, the CLS system includes multilateral netting to minimize net flows of currency among "CLS Settlement Members" for reduced cost and operational efficiency.

The shareholders of CLS Bank, of which KEB is one, consist of 70 of the world's largest financial groups, accounting for more than half the value of the world's F/X market. The system involves 57 CLS Settlement Members and more than 2,400 Third Party financial institutions around the world. In December 2004, KEB became a CLS Settlement Member and Korean Won Liquidity Provider for CLS Bank International, enabling us to extend third-party CLS services for other Korean bank and CLS Korean Won nostro services to foreign CLS Settlement members.



In 2007, KEB accounted for an impressive 91% of Korea's total CLS volume, settling F/X deals via CLS for 11 out of 14 local banks. We also enjoy a commanding 75% share of total CLS Korean Won Nostro agent services, providing these to foreign CLS Settlement Members including BNP, ING and SMBC.

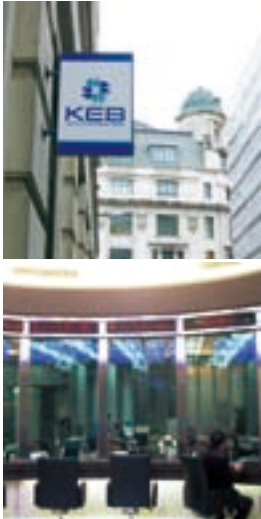
Multi-Currency Interbank Clearing

Another of KEB's unique F/X services is Multicurrency Interbank Clearing, which we have provided to 56 local and 109 overseas banks since we started business in 1967. Last year, KEB processed a total of 2.4 million interbank transfers, representing 95% of all inter-bank foreign currency transfers in Korea.

KEB has been upgrading our IT platform and developing new products to keep pace with the growing volume of SWIFT (Society for Worldwide Interbank Financial Telecommunication) traffic in payments, trade finance, treasury and securities year by year. As a result, KEB's interbank clearing service achieved a record high 93% Straight-Through Processing (STP) ratio in 2007. To accommodate internet-based foreign currency transfers and inquiries, KEB has been providing the I-vostro Service (www.eFIall.com) since 2005. I-vostro offers real-time online interbank clearing services for local and foreign banks.

Furthermore, in line with rising demand for Korean Won settlement and government-driven Won liberalization, KEB extends KRW-related services and regulatory advisory services to foreign banks.

KEB plans to include the Rubble, Zloty, Forint and Peso among available clearing currencies in response to Korea's increased trade volume with Russia, Poland, Hungary, Mexico, respectively. Leveraging KEB's demonstrated know-how, reliability and reputation in CLS and interbank clearing services, we are positioning the bank to become the Asian clearing hub for Korean and overseas banks.



Overseas Operations

KEB's overseas banking network spans 38 business offices in 18 countries worldwide, giving us the largest global presence of any Korean bank. We earned an operating profit of US\$163 million in 2007 from these offshore operations, a solid 20% year-on-year increase.

We expanded our overseas branch network with the opening new sub-branches in Cikarang industrial center outside of Jakarta, Indonesia and in the Wangjing area in northeastern Beijing where we launched retail banking services targeted toward Korean nationals residing in that district. We established a loan production office of our KEB New York Financial Corp. in Atlanta, GA to better support Korean corporate customers operating in the southeast United States.

To maintain our current 20% annual growth in overseas operations, KEB will continuously explore new opportunities to expand abroad. KEB's global expansion strategy is grounded in our 40 years of experience operating on the international stage. We have the most staff with international experience of any Korean bank. We have developed banking systems and tools that are common and easily extendable to new markets. We have an established operating model to grow safely and profitably, while ensuring compliance with local market laws and regulations. These factors give us substantial advantages over our domestic peers.

Our geographic expansion follows the global business expansion efforts of our customers. As Korean corporations develop new markets for sales, project investment, or manufacturing, KEB will advance beside them into these markets to support their growth efforts. In 2008 we will extend our network into Russia, India, Chile, and the Czech Republic.

With a solid core business base, we can extend our activities to local suppliers and trading partners of our core customers. In this regard we are expanding our network in China, Canada, Vietnam, and the US.

And with more experience in each market, we can selectively extend our activities to local businesses and retail customers. This is the goal of KEB's initiative to

establish a banking subsidiary in China where we have operated since 1992 when we were the first Korean bank to enter the market, and since when we have continued to outperform our domestic rivals. We have set up a special task force within the bank, "Global Expansion TFT," to lead our extensive preparations to expand the volume of transactions with select Chinese companies, as well as to roll out differentiated retail banking services for mass-affluent individual Chinese customers.

Multi-National Corporate Business

Our position as Korea's No. 1 F/X and trade finance bank, our global branch network, our convenient one-stop services, and our experience in international banking have long made KEB the first choice of foreign-invested enterprises (FIEs) in Korea. In 2007, KEB assisted in more than 1,100 cases of foreign direct investment (FDI), or 31.3% of the total registered in Korea during the year.

KEB has a trained group of FDI Consultants to assist foreign companies investing in Korea. We provide support for FDI reporting and business establishment, as well as establishing financial management systems for FIEs in Korea. Through our overseas network of 26 branches and subsidiaries, KEB offers the parent companies of our FIE customers in Korea seamless, integrated banking services. KEB provides additional assistance to newly established companies through cooperative ties with many FDI-related institutions including law firms, accountants, foreign chambers of commerce in Korea, foreign embassies, Korea Trade-Investment Promotion Agency (KOTRA), and the Ministry of Commerce, Industry & Energy (MOCIE).

In 2007, KOTRA established "Global Korea" to help Korean firms efficiently manage the process of investing overseas. KEB dispatches our personnel to Global Korea to provide consulting and regional information to companies planning to expand abroad, and we link them with KEB's overseas banking network as they establish their overseas operations.



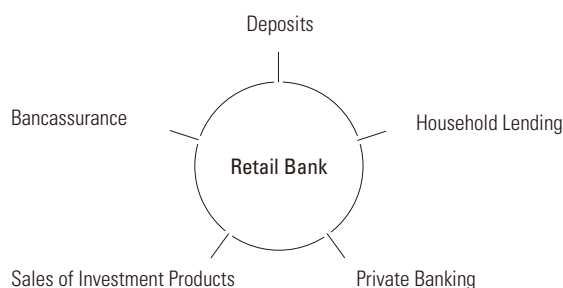


> **Retail Bank**
> **Card Bank**

- **Segmentation Marketing**
- **Deposits**
- **Household Lending**
- **Private Banking**
- **Bancassurance**
- **Sales of Investment Products**

From our traditional deposit and loan products to our advanced private banking, bancassurance, investment product and wealth management services, KEB's Retail Bank demonstrates the wisdom of a quality-over-quantity approach to banking. • To "get closer" to our retail customers and better grasp and serve their needs, KEB has refined relationship management and segment marketing strategies that produced high-quality growth.

Responding Efficiently to Diversified Individual Needs



Segmentation Marketing

KEB avoids aggressive asset-accumulation competition in our retail banking operations. Rather, we focus our energies on fostering close and enduring relationships with our best customers. This quality-over-quantity approach allows us to differentiate the KEB brand from our peers and provide unique, innovative deposit products and asset management services tailored to the diverse and growing needs of our clients.

KEB has invested in new customer analysis and CRM tools so that our branch and marketing staff can focus our marketing activities on developing and retaining our core customer segments. We launched new targeted marketing programs aimed at foreign VIPs, medical professionals, and other groups. As a result of these efforts, the bank's customer base swelled by approximately 443,000 new customers for a total of nearly 5.8 million, and around 8.7% increase in profits.

These approaches are helping our branch staff identify the best products and services to retain and migrate customers from lower-profit groups to high-profit (HP) customer groups. As we gather and disseminate successful marketing cases and Best Practices across the organization, we are seeing more consistent delivery of products and services better tailored to customer needs.



Deposits

In 2007, as equity markets in Korea and the rest of Asia enjoyed a bullish mood, Korean banking customers progressively shifted their personal wealth to investment products from traditional banking deposits. While KEB participated in this shift through our investment products sales activities, we also protected our funding position by strengthening our deposit product competitiveness. KEB rolled out special deposit programs commemorating our 40th Anniversary, supporting our KEB Foundation, and other themes. We also locked up large deposits with competitive interest rates to ensure a stable liquidity situation.

In the midst of intense market competition, KEB succeeded in expanding our deposit base. We limited the decline of demand deposits to just 1.5% year-on-year to KRW14.7 trillion at the end of 2007. Time deposits increased significantly by 25.0% to KRW14.9 trillion at the end of 2007. As a result, total KRW deposits grew 10.3% to KRW29.6 trillion at the end of 2007.

While we expect continued deposit pressure in 2008, KEB aims to increase both the settlement and payment accounts through intensified cross-selling, competitive interest rates, and marketing activities targeting promising customer segments, such as foreign VIP customers, so that we can further expand our funding base.

Household Lending

KEB's household lending portfolio recorded a moderate increase of 3.1% to KRW 14.7 trillion at the end of 2007. The Korean government's anti-speculation real estate policies significantly slowed the housing market in 2007. In addition, KEB maintained our strict policies against unprofitable mortgage loan pricing on "group loans", resulting in a 5.4% decline of Housing-related loans to KRW8.2 trillion at the end of 2007.



Personal loans expanded 16.4% to KRW 6.5 trillion in 2007 as KEB attracted promising new loan customers, intensified the cross-selling of these loans to high quality customers. KEB's wide array of loan products, such as "Leaders Loan" and "Yes Pro Loan" targeted at business executives, doctors and other specialized professionals, helped boost overall lending levels in 2007. We also rolled out special products and services for foreign personnel of multinationals, executives of Foreign Invested Enterprises, diplomats and others in Korea, growing populations that are broadly underserved by the local banking system.

In the year ahead, KEB will focus on enhancing profitability of loan operations through continued segmentation marketing aimed at our target customer groups, including selective premium class SOHO customers. Improvements to our credit scoring and pricing systems implemented in 2007 will ensure we are carefully managing new risks and achieving the proper returns.

Private Banking

KEB is developing a variety of sophisticated services to help VIP customers invest and manage their assets more profitably and efficiently. In the area of Private Banking (PB) products & services, we broaden our customers' asset portfolios with innovative stock, insurance and F/X-related investment instruments. In line with Korea's Capital Markets Consolidation Act, we offer tax consultation, real-estate management and disposal services, wills & inheritance consultation, Life Plan-based financial planning and medical services, overseas education & emigration services, and others.

Our objective is to make KEB the first choice partner in Korea's competitive PB market by constantly expanding the scope and elevating the quality of our comprehensive and professional PB services. We expanded our PB network in 2007, adding two new Wealth Management Centers (to a total of eight) in addition to the 48 specially designated PB Branches.

To promote an exclusive brand image for our "VVIP"

customer segment, KEB extends to these select individuals an unparalleled level of attentive service and popular benefits. We cultivate lasting brand loyalty through fine arts performances and year end parties, excursions to Japan where we held an investment conference, and even arranging such invitational events as mixers for the sons and daughters of VIP customers. Moreover, we are making maximum use of KEB's strengths in the F/X field and our overseas branch network to market our asset management services to Koreans residing abroad.

Bancassurance

KEB has completed its fourth full year of selling bancassurance products, and maturing market conditions, customer focus on investment products, and increasing competition resulted in flat profits at KRW 39.0 billion and a slight decline in market share, which slipped from 9.4% in 2006 to 8.7% in 2007.

The bank continues to outperform based on the size of our branch network, a testament to the appeal of our product lineup (and new products launched in partnership with insurers Mirae Asset, Dongbu Life and Daehan Fire).and the quality of our customer base.

Sales of Investment Products

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The credit crunch stemming from the subprime crisis in the U.S. fueled ongoing volatility in the investment product business. However, fundamental changes in domestic customers' asset management trends and strong growth rates in emerging markets, Korean stock markets proved largely resilient until the end of 2007.

KEB's sales of investment products enjoyed strong growth during the year, with AUM climbing 52.8% from KRW 7,231.5 billion in 2007. Profits from the sales of investment products grew 126.2% year-on-year from KRW 66.3 billion to KRW 150.0 billion.

Adopting an "open architecture" strategy to market the best performing third-party investment products, KEB was able to offer customized portfolios that best meet our clients' investment objectives and needs. As of the end of 2007, KEB offered a total of 150 offshore and 150 onshore investment funds from 35 separate fund houses. We upgraded our fund-related systems during the year, allowing us to introduced a "One passbook, multiple funds" system and other conveniences for our customers to transact with us and monitor the performance of

their investments. In addition, we revamped our Wealth Management System to improve the ability of our PBs to give advisory support to customers, providing timely market and fund information, as well as assistance in picking individual investments and building portfolios.

The bank has invested in training, sales activity monitoring systems, and compliance programs, including mystery shopping, to ensure the highest level of sales-related performance where we put the customers' best interest first. In 2008 we expect continued volatility in equity markets, and KEB will augment our team of portfolio consultants and financial consultants to ensure we offer the best possible support to customers in navigating uncertain markets.



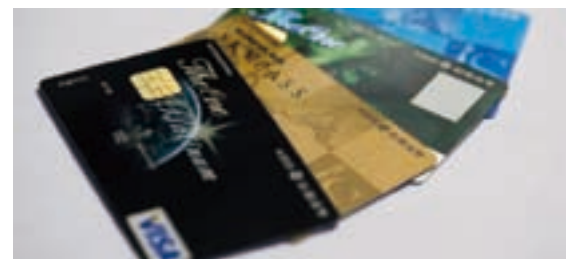
2008 will mark the 30th anniversary of the launch of the KEB Visa Card, the first credit card introduced to Korea. KEB's Card business continues to build on the long history of innovation and customer recognition that have been hallmarks of the KEB Card brand.

KEB's Card Bank generated net profits of KRW 197 billion in 2007, down from KRW 218 billion in 2006 with the absence of one-time profits from the sales of written off accounts. We maintained excellent asset quality, reducing our one-month delinquency ratio by 0.62%p from 2.55% at the end of 2006 to 1.93% at year-end 2007.

Increased competition in the Card business among banks and independent card companies and regulatory intervention in the setting of merchant discount rates (MDR) for smaller merchants will continue to limit profit growth in 2008. In this highly competitive environment, KEB Card took important steps to build a stronger business for the future.

The quality of KEB's card customer is excellent, the result of KEB's ongoing efforts to target, attract and retain premium customers. In particular, we place top priority on developing card products best suited to customers' needs, exploring untapped niche-product opportunities, and constantly upgrading our existing card lineup. Offering Korea's best Platinum card portfolio for the past ten years, KEB's "Premium Project" will further raise the proportion of top-quality customers among our total card customers. We will expand our current range of "Nobles" card series targeting high-income professionals, including the highly successful "Medi-nobles" Platinum card for doctors and pharmacists, as well as upgrade our market-leading SKYPASS Visa card to the "New SKYPASS" card.

During the past year, we developed more sophisticated customer segmentation strategies for our Card Bank operations. We developed diverse models and tools to predict customer spending behavior to maximize the effectiveness of marketing offers. We can identify "early warning signs" of customer attrition and launch pre-emptive outbound marketing efforts to retain our best customers. In a market where the number of consumers is not growing and everyone has multiple cards, these intelligent marketing approaches allow us to more efficiently defend our portfolio, build customer loyalty, and minimize unproductive mass acquisition campaigns for increasingly short-lived new card accounts. We continued to maximize valuable synergies between our Card Bank and Retail Bank through cross-selling, as we've proven that the best card customers are bank customers, and the best bank customers carry KEB Cards.







> **Process Management System**
> **Information Technology**

- **Enhanced Service Quality through Process Management & Six Sigma**
- **e-Business**
- **IT Infrastructure**

Customers today expect not only competitive deposit and lending rates, but they demand fast and reliable answers to their questions, simple and clear transactions, and attentive responsiveness to solve their problems.

As management, we want to minimize the administrative burden on our staff so that they can devote their attention to improving and deepening our business relationships with our customers. KEB has made efficient operational systems and processes a priority for several years, and was the first among Korean banks to implement a Process Management System (PMS) and Six Sigma approaches in the key areas of our customer service operations to fulfill these objectives.

- KEB has demonstrated the best quality customer service practice and received "Service Quality Innovation" recognition from MOCIE.

Quality Service through Efficient Systems & Process



Enhanced Service Quality through Process Management & Six Sigma

To improve service quality from the customer's view point and enhance work productivity, KEB was the first Korean bank to adopt a six sigma program. We implemented disciplined process management initiatives throughout our centralized servicing operations that produce detailed measurements of the effectiveness of our processes. Because these measures are available online in real-time, we can quickly identify and resolve problem areas to maintain high levels of service to our customers and our branches.

In early 2008, we launched our unique "KEB Service Quality Guarantee" system, a reflection of the complete confidence we have in our unrivalled level of customer service quality. Under this new program, we offer loan customers an "approval timing guarantee" and a "loan execution timing guarantee." After submitting their loan application, a customer will be notified of the loan approval decision within four hours. Loan funding is guaranteed to take place at the date and time specified by the customer. We stand behind the guarantees with loan interest rate discounts of 0.3% ~ 0.5% per annum.

Based on these and other initiatives, KEB was recognized for "Service Quality Innovation" by the Ministry of Commerce, Industry and Energy (MOCIE). In addition, KEB's Customer Service Center was deemed the "Best Call Center in Korea" in a survey of the Korean Service Quality Index (KSQI) conducted by Korea Management Association Consulting (KMAC).

Our focus on process efficiency and quality has contributed to dramatic reduction in the workload of branch staff, freeing them for more productive customer management activities. In addition, we've created a branch environment that is more welcoming and conducive to the consultative and advisory interactions necessary for the promotion of higher value-added business.

And efficient operating processes contribute to better control and compliance, and KEB has seen our operational losses and internal staff disciplinary measures drop consistently over the past four years.

e-Business

In today's world, an increasing large proportion of banking transactions are conducted outside the branch. We continue to add new products and services to our e-banking operations, developing advanced yet easy-to-use online content in line with customers' changing needs.

In 2007, we launched the innovative "In-House Banking" service for corporate customers, helping to solidify KEB's leading position as a total "solution provider." After installing KEB's In-House Banking on their systems, our customers can conduct inquiries, transfers, remittances and other account transactions, cash management and financial management tasks, and establish direct linkages their own ERP systems platforms. Unlike similar services offered by other banks, KEB's In-House Banking is a ready-made solution designed for quick implementation and incorporating a broad product line, including F/X, import/export, Global Cash Management, customizable internal controls, and more.

In addition, we initiated the Alliance Service in cooperation with the Bank of China (BOC) to provide their customers real-time won-currency/foreign-currency settlement. This service is available at the BOC's three branches in Korea and is based on KEB's Vostro account infrastructure for real-time foreign-currency settlement and virtual account infrastructure for won-currency settlement. With the start of this service, BOC's customers can now make use of any branch, cash dispenser, or ATM of any bank in Korea for deposits & withdrawals, while KEB is able to provide real-time F/X and transfer services at any of our branches at home or abroad.

IT Infrastructure

Information Technology is at the heart of the bank's operating processes and decision systems, and KEB invests heavily to ensure that our bank has the most reliable and most effective systems environment to manage our business and support our customers.

Our efforts have resulted in unique capabilities for our bank. Since March 2007, KEB's branches in Korea and overseas began offering real-time foreign-currency overseas remittance service, on our own and without using the traditional SWIFT messages, establishing a new level of customer service and convenience. Thanks to innovative efforts like these, KEB was voted "Best Cash Management Service Bank in Korea" for 2007 in a survey conducted by *Asiamoney* magazine, giving us our third consecutive top ranking.

We strengthened our competitive position in the F/X and e-Business sectors. We upgraded our derivatives systems for better product development capability and risk management. We developed new pricing systems for our business units to bring better consistency and effectiveness of implementing our pricing strategies. We also finalized upgrades of the KEB International Banking System (KIBS) and Business Online, our corporate cash management system.

To prepare for the implementation of Basel II requirements across the bank, we completed the implementation of enhanced credit and risk management systems. As part of KEB's efforts to continuously strengthen internal controls, we implemented a new Anti-Money Laundering system and enhanced our integrated real-time transaction audit system.

Most importantly, in February 2008, we successfully completed the consolidation and relocation of our two separately operated Bank data center and Card data centers to a state-of-the-art data center located in the new Sangam Digital Media City (DMC) in Seoul. Through this major investment, we have created the best, most reliable and secure data center in the Korean banking industry, and at the same time established a more efficient IT operating and data management environment.

KEB's IT capabilities will continue to be a strategic resource to improve customer service, staff productivity, and business competitiveness.





Weekly Sales Performance Report



Product Category		Q1 2024		Q2 2024	
Electronics	Revenue	120	150	130	160
Electronics	Profit	30	35	32	38
Electronics	Units Sold	1000	1200	1100	1300
Electronics	Avg Price	1200	1250	1180	1230
Electronics	Customer Rating	4.5	4.6	4.4	4.7
Electronics	Return Rate	2.1%	2.0%	2.2%	1.9%
Electronics	Inventory Level	500	450	550	500
Electronics	Supplier Lead Time	15 days	14 days	16 days	13 days
Electronics	Marketing Spend	5000	4800	5200	4900
Electronics	Website Conversion	2.5%	2.6%	2.4%	2.7%
Electronics	Social Media Engagement	1500	1600	1400	1700
Electronics	Partnership Revenue	1000	1100	900	1200
Electronics	Referral Revenue	800	850	750	900
Electronics	Gift Card Revenue	600	650	550	700
Electronics	Subscription Revenue	400	420	380	440
Electronics	Loyalty Program Revenue	200	220	180	240
Electronics	Other Revenue	100	110	90	120

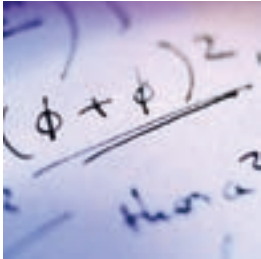


> **Risk Management**
> **Business Continuity Planning**

- **Capital Adequacy Framework**
- **Credit Risk**
- **Market Risk**
- **Operational Risk**
- **Interest Rate Risk**
- **Liquidity Risk**
- **Business Continuity Planning**

With the growth and increased complexity of global financial markets, the Basel Committee of Bank of International Settlement has issued the New Basel Capital Accord, or “Basel II,” with new requirements aimed at improving the consistency of capital regulations internationally. • In accordance with Basel II targets, KEB successfully executed an exhaustive bankwide effort to implement internally the Foundation Internal Ratings Based Approach (IRB) and the Advanced IRB in 2007. • In 2007, our Business Continuity Planning (BCP) was implemented to build more robust total risk disaster response system, enhance business reliability, and strengthen our capability for sustained growth.

Highest Standards & Advanced Risk Management



Capital Adequacy Framework

In January 2007, KEB began calculating risk weighted assets using the advanced approach of Basel II and established a new capital adequacy framework.

The core feature of the new capital adequacy framework is that banks separate quantifiable risks from non-quantifiable risks, and select and manage material risks. Quantifiable risks include credit risk, market risk, operational risk, interest rate risk, credit concentration risk, and strategic risk. Liquidity risk is a non-quantifiable risk, but is classified as a material risk.

The Basel II advanced approach calls for the Advanced Internal Ratings Based (A-IRB) approach in determining credit risk, the Internal Model to measure market risk, and the Advanced Measurement Approach (AMA) for calculating operational risk, and sets the confidence level at 99.9%. A capital buffer of at least 8% of risk volume has also been set, and a correlation matrix for integrating various risks volume has been introduced.

Credit Risk

Since 2007, KEB has measured credit risk using the A-IRB approach of Basel II; the risk volume is reflected in setting and managing risk limits. Credit risk assessments are now much more sophisticated than in 2006, encompassing rating systems, probability of default (PD) calculations, and the Credit Scoring System (CSS).

The Risk Based Pricing System is established by the risk data generated by the approach. Furthermore, since the latter half of 2007, KEB has utilized this advanced risk data to implement bank-wide risk-adjusted performance management (RAPM) by individual business unit. KEB has employed risk-adjusted return on capital (RAROC) as an index of RAPM in order to determine targets and manage performances by division.

Market Risk

KEB has implemented the Basel Committee's recommendation by refining our market risk internal model. The risk volume measured by the model is reflected in setting our risk-limit. Particularly since 2007, it has been reflected in our RAROC index with targets set and performances managed on a divisional basis as credit risk volume has.

To better reflect exceptionally volatile market environment in 2007, KEB modified the method of generating interest rate scenarios and stress-testing scenarios. To manage market risk, KEB monitors the risk limit and daily back-testing results, which comes from daily P/L and 1-day Value at Risk (VaR) of the previous day. In 2008, KEB plans to use the risk volume measured by the internal model to calculate regulatory capital.

Operational Risk

From 2007, KEB has implemented operational risk limits based on AMA methodologies. For internal controls and measuring risk volume of operational risk, we instituted Basel II AMA-based Control Self-Assessment at our headquarters, domestic branches and overseas operations in the first and second half of 2007. AMA-based loss data and scenarios are also used in measuring AMA-based operational risk.

Beginning in 2008, KEB plans to integrate operational risk with RAROC and strengthen internal controls by forming a committee composed of directors of operational risk, compliance, auditing, and financial departments.

Interest Rate Risk

KEB has fully developed and deployed a new system for measuring interest rate risk in line with Basel II recommendations since 2007. Shifting from the partial valuation method relying on simple duration gap analysis, we now use full valuation incorporating current value of assets & liabilities in measuring interest rate risk.

From 2008, we plan to set interest rate risk limits based on risk volume measured by new methods. Calculation of Earnings at Risk (EaR) indexes has begun, and EaR limits will also be added in 2008.

Liquidity Risk

A daily report to monitor the bank's liquidity ratio (current assets to current liabilities) was introduced in 2007. Additionally, a customer behavior model was developed for more advanced forecasting of asset & liability maturities. Finally, to ensure that KEB copes effectively with any potential liquidity crisis with rapid-response measures, we have created a Liquidity Contingency Plan and continue to review and update it as necessary.



Business Continuity Planning

KEB introduced an enhanced Business Continuity Plan (BCP) in December 2006 in order to improve the bank's ability to prevent, respond to and recover from growing threats to normal operation posed by strikes, terrorist acts, computer malfunctions, typhoons, earthquakes and other disasters.

Our BCP encompasses procedures and plans that will help us minimize damage from unforeseeable disasters and enable the bank to continue operating. Risks to the bank are ranked and weaknesses are analyzed by experts deployed to inspect major sites performing the functioning of the headquarters, and through self-assessment of our domestic branches and overseas network (including subsidiaries).

We have devised a Contingency Plan identifying major potential disasters by workplace and outlining what steps to take for before and after emergency situations occur. We have categorized core activities for recovery of operations in the event of business disruption into five steps through Business Impact Analysis (BIA), and selected critical tasks among our 1-day Recovery Time Objective (RTO) activities.

Should operations at a domestic branch be disrupted, recovery will be organized by other branches in the vicinity; if business is disrupted at KEB's overseas branches (including subsidiaries), plans are in place to utilize leasehold alternate worksites to restore operations. In case of disruption of KEB's headquarters, an alternate worksite was established in another company facility just outside Seoul.

KEB will hold annual BCP simulation tests as part of our ongoing IT-based Disaster Recovery System training in order to reinforce customer confidence and build a stable foundation for continued growth by securing business continuity even in case of disasters. Also, in the first half of 2008, we plan to create a separate customer service call center system for our alternate worksites to take over in the event of disruption to our existing call center.





-
- > **Corporate Ethics**
 - > **KEB Foundation**
-

KEB has a responsibility to its employees, customers and shareholders.

- We honor this commitment through internal controls to ensure the highest standards of ethical and transparent management, an ombudsman system, compliance officers and other programs that help to instill corporate pride, earn public trust and enhance our reputation.
- Through the KEB Foundation, the Korean financial industry's flagship charitable organization, KEB volunteers perform a wide range of activities to assist society's most needy and neglected members, build homes for the homeless, support the arts, and provide relief to those struck by disaster in communities where we operate, both at home and overseas.

Transparent Corporate Culture & Foundation for Sharing

KEB men and women understand that the reputation of our bank depends on the integrity of our operations and a high standard of ethical behavior of our staff. To protect the bank and our customers, employees, and shareholders, KEB pursues transparency in business management through a comprehensive internal control system.

In 2007, in line with efforts to improve internal oversight and compliance, we increased the number of Chief Compliance Officers (CCOs) from 15 to 43. Drawn from the bank's most senior and experienced managers, CCOs play a vital role in implementing KEB's compliance program through training, overseeing branch work processes, troubleshooting, and other tasks.

KEB is the first domestic bank to set up an independent ombudsman system, the goal of which is to encourage employees to identify and address problems or concerns. Thanks to the full independence of the Ombudsman and the confidentiality guaranteed to whistleblowers, this system provides a safe channel for KEB staff to raise questions that will improve bank operations.

As a precaution against losses and increased reputation risk arising from violations of Korea's Fair Trade Act, KEB reinforced and relaunched a comprehensive Fair Trade Compliance Program .

The success of the aforementioned initiatives is readily apparent in the figures. In 2007, irregularities in our banking operations have decreased a 71.6% in number and 80.0% in amount from the previous year. In fact, not a single case was reported during the second half of last year.

KEB takes a proactive stance on anti-money laundering (AML) efforts. This year, we launched our newly upgraded aAML Monitoring System, which has been under development for roughly one year, and to aggressively manage AML Risk through reinforcement of our "Know Your Customer" (KYC) system. We expect these steps will give KEB the most advanced AML risk management system in Korea.



To fulfill corporate social responsibility, the KEB Foundation engages in a wide range of charitable activities.



In order to coordinate the bank's social activities and maximize their impact, KEB created the Korean banking industry's first non-profit foundation, the KEB Foundation, in December 2005. Even before the Foundation's establishment, KEB was an active corporate member of the community through our scholarships, music festivals and a range of other activities. But working with the Foundation, we are able to pursue these efforts in a more systemic, sustained and professional manner.

In step with growing awareness and expectations of corporate social responsibility, the KEB Sharing Foundation engages in charitable activities to support the needy and neglected members of our society, including underprivileged children, child welfare facilities, and those the government defines as "Basic Livelihood Security Recipients." At the regional level, we assist low-income families and students with scholarships, while also lending a helping hand to international humanitarian causes. Among these tasks, we have devoted particular energy to building a social safety net by nurturing the future dreams of youths in need, and to international relief work which,

as Korea's preeminent global bank since our inception in 1967, goes hand-in-hand with our global brand image.

Though only three years old, the KEB Foundation has already achieved a great deal in fulfilling our social responsibilities. Since 2005, we have disbursed a total of KRW 4 billion won, much of this going to help underprivileged youths, arrange Christmas benefits for Holt Int'l Children's Services, and host various related events, and to finance hiking and nature tours for children at regional community centers to Korea's famed Jiri and Halla mountains and Jeju Island.

Furthermore, we co-sponsor essay contests for youth-headed households with the Korea Welfare Foundation. To foster the hopes, dreams and patriotic spirit of youth-headed households, KEB invites them to tour Goryeo historical sites in China and Kyushu, Japan. KEB also forms domestic and international one-to-one partnerships for worthy causes, establishing cooperative ties with leading non-profit organizations such as World Vision and Food for the Hungry.



Through this approach the Foundation has arranged 1:1 relationships between KEB employees and 479 youngsters, with fixed-amount donations going each month to where they will do the most good.

Over the past three years, KEB has donated KRW 1 billion annually directly to roughly 160 low-income households as part of our commitment to building a better social safety net. During this same three years, we have also provided monthly free meal to the homeless and the solitary elderly. We made contributing to the operating expenses of hospitals providing free medical exams for foreign laborers in Korea, and in the winter we distribute 20,000 pairs of earmuffs to foreign laborers through community centers and designated KEB branches.

The KEB Foundation has approximately 900 permanent volunteers registered, including bank staff and family members. Their sphere of activity includes building homes for the needy in cooperation with Habitat Korea. Providing scholarships for children of low-income families has long been a staple among KEB's charities, since 1989 to the present. Our scholarships in 2006 totaled KRW 90 million, then soared to KRW 176 million last year, and we expect the scale to continue rising.

International relief assistance dovetails perfectly with KEB's outward-oriented image. Thus far, we have provided support for disaster relief efforts following an earthquake in Pakistan, a tsunami in Indonesia, and floods in Vietnam and the Philippines. Through our branch office in Arbil, Iraq, a country torn by war and disease, KEB has paid for children's operations and medical treatment, giving them renewed hope for life, and has provided scholarships for

overseas study in Vietnam, Indonesia and the Philippines. We provided 128 students from developing countries in Southeast Asia with one-year scholarships in 2006. This figure rose to 246 in 2007.

Other social welfare activities include inviting underprivileged youths to musical and theatrical performances, helping to enrich their lives with culture. Some 600 bank employees to date have participated in the KEB Foundation's 1:1 partnership with the "Ten Angels of Love" movement, raising over KRW 140 million in donations.

To further the Foundation's efforts, the bank itself contributed KRW 2.0 billion to the Foundation in 2007, double the amount of donations raised in 2006. Another KRW 300 million in donations came from proceeds from our non-profit "KEB Sharing Savings Account" product. In these and other ways, KEB is actively leading the way in returning a portion of our profits to society.

As the first philanthropic charity foundation of any domestic banks, the KEB Foundation will continue to set new standards for social contributions commensurate with KEB's stature and corporate image of KEB.



Financial Section

42	Management Discussion & Analysis
54	Independent Auditors' Report (Non-Consolidated)
55	Non-Consolidated Balance Sheets
56	Non-Consolidated Statements of Income
58	Non-Consolidated Statements of Appropriations of Retained Earnings
59	Non-Consolidated Statement of Changes in Shareholders' Equity
60	Non-Consolidated Statements of Cash Flows
62	Notes to Non-Consolidated Financial Statements
120	Independent Accountants' Review Report on Internal Accounting Control System
121	Independent Auditors' Report (Consolidated)
122	Consolidated Balance Sheets
123	Consolidated Statements of Income
125	Consolidated Statements of Changes in Shareholders' Equity
126	Consolidated Statements of Cash Flows
128	Notes to Consolidated Financial Statements

Management Discussion & Analysis

1. Key Financial Data

	In billions of KRW		
	2007	2006	YoY
Operating Results			
Total Income	2,720.6	2,518.1	+8.04%
Net Interest Income	1,886.6	1,827.0	+3.26%
Fees & Commissions	581.2	479.4	+21.23%
Non Interest Income	252.8	211.6	+19.47%
Total Expenses (G&A)	1,092.2	1,053.4	+3.68%
Operating Income	1,628.4	1,464.7	+11.18%
Net Income	960.9	1,006.2	-4.50%
Profitability Indices			
Net Interest Margin (NIM)	3.23%	3.44%	-0.21%
Return on Assets	1.29%	1.52%	-0.23%p
Return on Equity	15.05%	16.28%	-1.23%p
Balance Sheet Data at Year-End (inclg. Trust Account)			
Total Assets	97,924.7	81,019.8	+20.87%
Total Credits	58,722.0	48,637.3	+20.73%
Total Deposits	59,755.4	48,015.2	+24.45%
Asset Quality			
NPL Ratio	0.61%	0.62%	-0.01%p
NPL Coverage Ratio	203.5%	206.0%	+2.5%p
Precautionary & Below Ratio	1.21%	1.47%	-0.26%p
Pre & Bel. Coverage Ratio	102.9%	86.4%	+16.5%p
Delinquency Ratio	0.56%	0.77%	-0.21%p
Capital Adequacy			
BIS Ratio (Basel I Basis)	11.44%	12.45%	-1.01%p
Tier I Ratio	8.65%	9.37%	-0.72%p
Tier II Ratio	2.79%	3.08%	-0.29%p

2. Overview

The bank has added another year of strong financial results with net income of KRW 960.9 billion in 2007. As a result, the bank has generated profits in the range of KRW 1 trillion for its third consecutive year. Under a management objective to maintain an efficient capital structure and consistent and reliable dividend payments, the bank's Board of Directors declared a dividend of KRW 700 per share for shareholders of record as of the end of 2007, a total of KRW 451.4 billion.

KEB's capital position remained very strong after reflecting the dividend payout, with BIS capital ratio standing at 11.44%(Basel I basis). Asset quality remained at an industry-leading level, as non-performing loan and delinquency ratios recorded 0.61% and 0.56%, respectively.

3. Profitability

1) Summary of Profitability

KEB recorded net income of KRW 960.9 billion in 2007 in the midst of the recent severe global financial volatility. Although the bank's net income of 2007 declined slightly, KRW 45.3 billion, from 2006 on significantly lower special gains, improved normal business profitability and more diverse income sources contributed to maintain a solid business performance for the third consecutive year. Overall profitability remained strong with ROA of 1.29% and ROE of 15.05% for 2007. KEB once again delivered strong profitability thanks to responsible loan asset growth, stable net interest margin (NIM), and continuing leadership in the foreign exchange (F/X) and export/import markets. The bank also realized good growth in fee income across all major business lines.

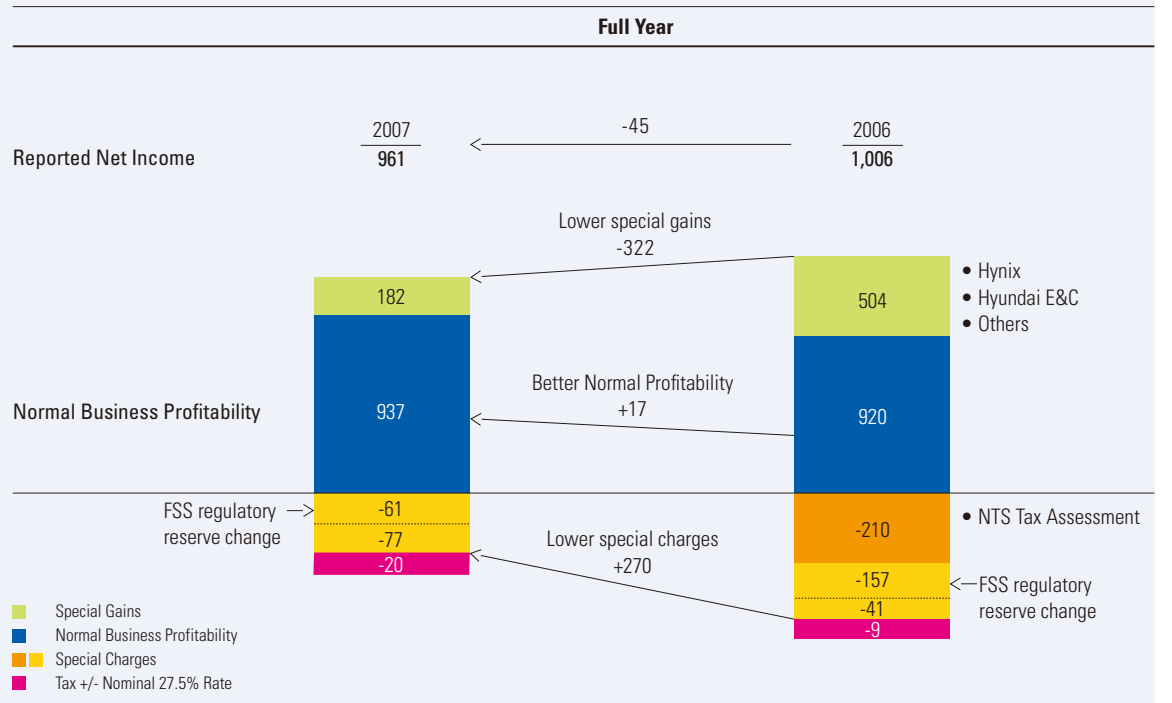
In billions of KRW

		FY2007															FY2006		
					4Q			3Q			2Q			1Q					
			Bank	Card		Bank	Card		Bank	Card		Bank	Card		Bank	Card			
Net Interest Income		1,886.6	1,442.5	444.1	501.2	385.4	115.8	454.5	346.8	107.7	475.3	363.9	111.4	455.6	346.4	109.3	1,827.0	1,346.3	480.7
Fees & Commissions		581.2	726.3	-145.1	159.8	199.1	-39.2	133.4	173.2	-39.8	150.9	186.2	-35.4	137.2	167.8	-30.7	479.4	609.9	-130.4
Non Interest Income	Reported	252.8	244.8	8.0	219.1	212.3	6.7	44.2	41.9	2.3	-65.2	-64.1	-1.1	54.7	54.7	0.1	85.1	44.7	40.4
	Adjusted	252.8	244.8	8.0	107.5	100.7	6.7	44.2	41.9	2.3	46.4	47.5	-1.1	54.7	54.7	0.1	211.6	171.2	40.4
Total Income	Reported	2,720.6	2,413.6	307.0	880.1	796.8	83.3	632.0	561.9	70.1	560.9	486.0	75.0	647.5	568.9	78.7	2,391.6	2,000.9	390.7
	Adjusted	2,720.6	2,413.6	307.0	768.5	685.2	83.3	632.0	561.9	70.1	672.5	597.6	75.0	647.5	568.9	78.7	2,518.1	2,127.4	390.7
Total Expenses(-)		1,092.2	1,008.2	84.0	282.1	259.6	22.5	294.4	273.5	20.9	226.0	207.5	18.5	289.6	267.5	22.0	1,053.4	966.2	87.1
Operating Income	Reported	1,628.4	1,405.4	223.0	597.9	537.2	60.7	337.6	288.4	49.2	334.9	278.5	56.4	358.0	301.3	56.6	1,338.2	1,034.7	303.6
	Adjusted	1,628.4	1,405.4	223.0	486.3	425.6	60.7	337.6	288.4	48.2	446.5	390.1	56.4	358.0	301.3	56.6	1,464.7	1,161.2	303.6
Impairment Loss, etc. (-)		-207.6	-197.0	-10.6	-128.7	-124.3	-4.4	-16.4	-13.3	-3.1	-1.1	-1.1	-	-61.4	-58.2	-3.2	-564.9	-560.7	-4.2
Income before Provision	Reported	1,836.0	1,602.4	233.6	726.6	661.5	65.1	354.0	301.7	52.3	336.0	279.6	56.4	419.3	359.5	59.8	1,903.1	1,595.3	307.7
	Adjusted	1,836.0	1,602.4	233.6	615.0	549.9	65.1	354.0	301.7	52.3	447.6	391.2	56.4	419.3	359.5	59.8	2,029.6	1,721.8	307.7
Provision & Others (-)		319.4	284.3	35.2	245.2	238.1	7.1	86.2	77.3	8.9	-102.6	-113.3	10.7	90.7	82.2	8.5	435.8	343.6	92.2
Loan Loss Provision		318.7	304.5	14.3	178.6	173.9	4.7	68.7	65.9	2.7	16.3	13.8	2.4	55.2	50.8	4.4	182.2	160.9	21.3
Other Provision		-56.7	-74.2	17.5	48.4	47.0	1.4	8.8	3.2	5.6	-128.1	-135.8	7.6	14.2	11.4	2.8	197.8	131.1	66.7
Income before Tax	Reported	1,516.6	1,318.1	198.5	481.5	423.5	58.0	267.9	224.5	43.4	438.6	392.9	45.7	328.6	277.3	51.3	1,506.7	1,251.7	215.6
	Adjusted	1,516.6	1,318.1	198.5	369.9	311.9	58.0	267.9	224.5	43.4	550.2	504.5	45.7	328.6	277.3	51.3	1,593.8	1,378.2	215.6
Income Tax Expense (-)	Reported	555.6	555.6	-	230.6	230.6	-	73.5	73.5	-	161.4	161.4	-	90.2	90.2	-	461.2	461.2	-
	Adjusted	555.6	555.6	-	119.0	119.0	-	73.5	73.5	-	273.0	273.0	-	90.2	90.2	-	587.7	587.7	-
Net Income		960.9	762.5	198.5	250.9	192.9	58.0	194.4	151.0	43.4	277.2	231.5	45.7	238.4	187.1	51.3	1,006.2	790.6	215.6

* Adjusted figures are provided to show the effect of the KASB(Korea Accounting Standards Board) accounting standard change (effective as of November, 2007) for the purpose of comparison.

Excluding special gains and charges, KEB's normal business profit grew 1.8% to KRW 937 billion as the bank diversified sources of income to offset higher provisions from loan growth and changes in regulatory reserve requirements. The effect of special items on profitability diminished significantly in 2007 compared to 2006, as the bank registered KRW 322 billion less in special gains (from sales of debt/equity swapped investment securities, etc.) and KRW 259 billion less in special charges.

In billions of KRW



Management Discussion & Analysis

Details of special gains & special charges

In billions of KRW

		FY 2007					FY 2006
		4Q	3Q	2Q	1Q		
Special Gains	Sale of Debt-for-Equity Positions	80	67	-	13	-	171
	Reversal of impairment loss	7	-	-	-	7	210
	Recoveries/Sale of NPLs	30	7	-	23	-	89
	Sale of CFEB Affiliate Shares	-	-	-	-	-	17
	Retrieval from Non-Performing Asset Fund	26	-	-	-	26	-
	Asset Recognition of Shares of VISA Inc.	39	39	-	-	-	-
	Others	-	-	-	-	-	17
Total		182	113	-	36	33	504
Special Charges	Special Income-related Bonuses	-	-	-	-	-	22
	Retroactive CBA Payments	11	11	-	-	-	10
	Regulatory Reserve Changes	61	61	-	-	-	157
	NTS Tax Assessment	27	-	-	24	3	210
	Bonus Recognition Timing	-	-24	24	-24	24	-
	KEBCS-related Lawsuit	25	25	-	-	-	-
	Others	14	14	-	-	-	9
Total		138	87	24	-	27	408

2) Net Interest Income

Interest revenues in 2007 showed a 13.0% increase compared to the previous year, primarily driven by an expansion in loan interest revenue which rose 15.5% year-on-year with lending asset growth and disciplined profitability management. Interest revenue on securities declined 11.1% year-on-year due to the reduction of securities consistent with the bank's business plan.

Interest expenses increased 23.8% year-on-year along with rising funding costs stemming from the tighter liquidity environment and higher market interest rates. Net interest income, defined as interest income minus interest expense, increased 3.3% year-on-year in the challenging funding markets.

In billions of KRW

	FY 2007					FY 2006	Y o Y
		4Q	3Q	2Q	1Q		
Interest Revenue	4,078.8	1,132.5	1,027.1	985.4	933.8	3,609.9	13.0%
Income on due from banks	66.1	23.7	15.0	15.3	12.1	42.6	55.4%
Interest on securities	373.8	99.4	95.2	93.7	85.6	420.3	-11.1%
Interest income on loans	3,612.6	1,001.5	910.7	869.7	830.7	3,127.3	15.5%
Bank	3,053.6	854.5	774.3	730.9	693.9	2,538.6	20.3%
Card	558.9	146.9	136.4	138.8	136.8	588.7	-5.1%
Others	26.2	7.9	6.2	6.7	5.4	19.7	33.2%
Interest Expenses	2,066.6	593.9	536.1	485.2	451.3	1,669.6	23.8%
Interest on deposits	1,251.5	355.1	321.1	299.2	276.1	1,003.4	24.7%
Interest on borrowings	387.3	108.4	107.5	93.0	78.4	294.2	31.6%
Interest on debentures	389.6	118.3	97.4	84.6	89.2	349.3	11.5%
Others	38.3	12.1	10.1	8.4	7.6	22.7	68.7%
Insurance expenses for deposits & Contribution for Credit Guarantee Fund (-)	126.4	34.8	33.5	29.7	28.4	112.6	12.3%
Other Interest Income	0.8	-2.6	-3.0	0.1	1.6	-0.6	F.
Net Interest Income	1,886.6	501.2	454.5	470.6	455.6	1,827.0	3.3%
Bank	1,442.5	385.4	346.8	359.2	346.4	1,346.3	7.1%
Card	444.1	115.8	107.7	111.4	109.3	480.7	-7.6%

3) Net Interest Margin (NIM)

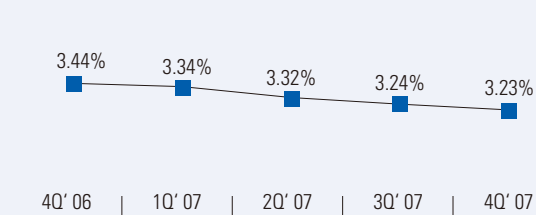
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KEB reported healthy and stable NIM of 3.23% on a cumulative basis despite difficult funding market conditions. By quarter, NIM slipped in 3Q 2007 due to increasing funding costs in the midst of an intensified funding and liquidity environment. However, NIM saw a fourth-quarter rebound in line with recovering asset profitability

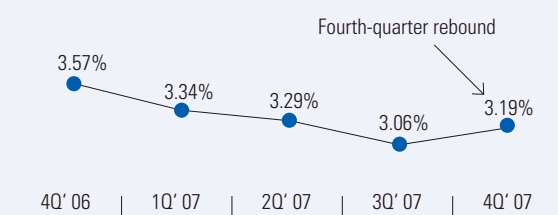
Unit : %

Cumulative Basis	2007				2006			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Net Interest Margin (NIM)	3.23	3.24	3.32	3.34	3.44	3.40	3.42	3.47
NIM in KRW	3.85	3.85	3.93	3.92	4.06	3.99	4.00	4.04
NIM in Foreign currency	1.20	1.21	1.30	1.45	1.31	1.34	1.34	1.39
Loan to Deposit Spread in KRW (a-b)	3.10	3.12	3.19	3.20	3.26	3.23	3.21	3.17
Interest rate on Loans in KRW (a)	6.62	6.54	6.53	6.46	6.29	6.23	6.17	6.10
Interest rate paid on Deposits in KRW (b)	3.52	3.42	3.34	3.26	3.03	3.00	2.96	2.93

NIM-Cumulative Basis



NIM-Quarterly Basis



4) Fees & Commissions

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Fees & commissions continued to grow as a core component of the bank's total income. Gains from F/X transaction grew 7.5% year-on-year aided by determined efforts to expand transactions.

KRW currency-related fees & commissions recorded another year of rapid growth, rising 45.9% over 2006 owing to strong sales of investment products and bancassurance. Foreign currency-related fees & commissions posted a more moderate increase of 6.3% year-on-year amid efforts to expand export/import volume.

In billions of KRW

		FY 2007					FY 2006	Y o Y
		4Q	3Q	2Q	1Q			
Bank	Gains from FX Transaction	250.3	68.8	58.9	62.2	60.5	232.8	7.5%
	Fees & Commissions	475.9	130.2	114.3	124.0	107.3	377.0	26.2%
	KRW currency-related	277.5	73.3	68.3	74.3	61.6	190.2	45.9%
	Foreign currency-related	137.8	39.8	32.1	33.8	32.2	129.7	6.3%
	Others	60.6	17.2	13.9	16.0	13.5	57.0	6.3%
	Subtotal	726.3	199.0	173.2	186.2	167.8	609.9	19.1%
Card		-145.1	-39.2	-39.8	-35.4	-30.7	-130.4	U.
Total		581.2	159.8	133.4	150.9	137.2	479.4	21.2%

Management Discussion & Analysis

5) Non-Interest Income

The bank's diverse sources of non-interest income such as operating trust account, merchant account, trading, and valuation equity method on subsidiaries all showed healthy performances in 2007. Income from operating trust account and merchant account increased 27.6% and 9.9%, respectively, year-on-year. Trading profit increased 18.8% over the year earlier. Valuation equity method on subsidiaries also grew by a substantial 35.5%, reflecting their overall strong business performance.

'Additional Tax Payment' and 'Corporate Tax Refund'— which were formerly included in 'Others' — have been reclassified from non-operating expense items to corporate tax items in accordance with the Korea Accounting Standards Board (KASB) accounting standard change, effective as of November 2007. Adjusted figures in the below table show the effect of the accounting change.

KRW 52.4 billion of special income was posted in 4Q2007 upon receipt of shares of Visa Inc. (2.7 million shares) in exchange for KEB's membership interest in Visa International in the restructuring process of Visa International becoming one of the subsidiary of a recently incorporated Visa Inc.

		In billions of KRW					
		FY 2007					FY 2006
		4Q	3Q	2Q	1Q		Y o Y
Operating Trust Account		32.7	9.5	7.9	7.7	7.6	25.7
Merchant Account		18.2	4.3	4.9	4.7	4.2	16.5
Trading Profit		93.2	22.4	16.5	30.0	24.4	78.5
Valuation equity method		54.6	12.1	14.3	17.3	11.0	40.3
Card sector		8.0	6.7	2.3	-1.1	0.1	1.1
NPL sales		5.0	9.2	-0.3	-8.1	4.2	47.7
Others	Other	41.0	43.3	-1.3	-4.2	3.2	1.7
	NTS item	-	112.2	-	-112.2	-	-127.0
	Tax refund	-	-0.6	-	0.6	-	0.5
Non -Interest Income	Reported	252.8	219.1	44.2	-65.2	54.7	85.1
	(NTS Item)	-	(+112.2)	-	(-112.2)	-	(-127.0)
	(Tax Refund)	-	(-0.6)	-	(+0.6)	-	(+0.5)
	Adjusted	252.8	107.5	44.2	46.4	54.7	211.6

* Adjusted figures show the effects when excluding 'NTS item' and 'Tax Refund'.

6) G&A Expenses

The bank succeeded in controlling growth in personnel expenses to a modest 0.9% year-on-year, with a moderate 8.5% growth in salaries offset by a 20.3% decline in employee benefits due to decreased special bonus payments. One noteworthy point related to KEB's Salaries account is the change in accounting methodology for the timing of recognition of certain employee costs. As a result, Salaries account now shows quarterly fluctuations. (Please refer to Appendix 1 for further details.)

Depreciation grew by a modest 3.0% due to investments in new branch openings and upgrading of the bank's IT capabilities. KEB's cost-income ratio (CIR), defined as the ratio of total expenses to total income, slipped 3.9%p from 2006 to a moderate 40.1% in 2007. With the reclassification of "Additional Tax Payment" from non-operating expense to corporate tax item, this no longer has a distorting impact on CIR. (Please refer to Appendix 1 for further details.)

		In billions of KRW					
		FY 2007					FY 2006
		4Q	3Q	2Q	1Q		Y o Y
Salaries & Benefits		644.1	135.3	189.5	125.5	193.8	638.5
Salaries		509.8	96.3	152.3	96.0	165.2	470.0
Employees benefits		134.4	39.0	37.2	29.5	28.6	168.5
Operating Expenses		284.7	92.2	65.3	65.2	62.0	248.2
Depreciation		126.2	38.3	31.8	29.7	26.4	122.6
Tax & Dues		37.0	16.3	7.8	5.7	7.3	44.0
Total Expenses		1,092.2	282.1	294.4	226.0	289.6	1,053.4
Bank		1,008.2	259.6	273.5	207.5	267.5	966.2
Card		84.0	22.5	20.9	18.5	22.0	87.1

7) Provisions, Tax Expenses, etc.

—

The bank's loan loss provisioning (LLP) rose to KRW 318.7 billion in 2007 from KRW 182.2 billion in 2006. This increase was primarily the result of the decision by the Financial Supervisory Service (FSS) in December 2007 to raise the minimum LLP requirement ratio for normal-class corporate credits. In conjunction with this regulatory policy change, one-time additional LLP of KRW 69 billion was accumulated in 4Q 2007. (Please refer to Appendix 2 for further details.) Another contributing factor was the exceptionally low provisioning figure for 2006 resulting from a KRW 75 billion special recovery.

Another regulatory policy change resulted in the addition of KRW 15 billion to 'Other provisioning' as the Korean regulator raised provision requirements for open, unused credit lines in 4Q 2007. In addition, 'Other provisioning' reflected the reversal of KRW 127 billion related to the disputed National Tax Service(NTS) tax assessment, which was recognized in 2006. (Please refer to Appendix 3 for further details). KRW 25.0 billion was recorded retroactively in 'Other provisioning' account as of the end of 2007, in accordance with accounting practice upon notification of fines as a result of the first court ruling on the disputed KEBCS(KEB Credit Service Co. Ltd)-related trial in February 2008.

In billions of KRW

	FY 2007					FY 2006	Y o Y
		4Q	3Q	2Q	1Q		
Loan Loss Provisioning	318.7	178.6	68.7	16.3	55.2	182.2	74.9%
<Bank>	304.7	173.9	66.1	13.8	50.9	160.9	89.4%
Corporate	275.6	160.8	60.4	10.6	43.9	118.1	133.4%
Household	29.0	13.1	5.7	3.2	7.0	42.8	-32.2%
<Card>	14.1	4.7	2.6	2.5	4.3	21.4	-34.0%
Other Provisioning, etc.	-56.7	48.4	8.8	-128.1	14.2	197.8	F.
Retirement Allowance	57.3	18.1	8.6	9.3	21.3	55.7	3.0%
Total							
- Reported	319.4	245.2	86.2	-102.6	90.7	435.7	-26.7%
- Excluding NTS item	453.3	245.2	86.2	31.3	90.7	301.8	50.2%

4. Assets & Liabilities (Bank Account)

1) Assets

—

Total assets at the end of 2007 were KRW 82.0 trillion, an 18.1% increase from KRW 69.4 trillion at the end of 2006. Thanks to disciplined marketing efforts focused on profitable customer segmentation strategies, the bank achieved 19.1% growth in loans in 2007. Total loans & discounts stood at KRW 54.1 trillion at the end of 2007 compared to KRW 45.4 trillion at the end of 2006.

In line with management's business plan to trim short-term, low-yield securities, KEB steadily reduced total securities throughout the year. Securities stood at KRW 9.8 trillion at the end of 2007, down from KRW 10.5 trillion at the end of 2006. Rapid expansion continued in the bank's merchant banking assets, which rose 60.4% over 2006 amid growing commercial paper discount activity.

In billions of KRW

	2007.12	2007.09	2007.06	2007.03	2006.12	Y o Y
Cash & Due from Banks	5,118.4	3,299.4	3,551.1	4,067.2	3,958.2	29.3%
Securities	9,773.4	10,445.5	11,071.5	10,182.6	10,457.9	-6.5%
Loans & Discounts	54,055.4	53,013.0	47,319.9	46,097.2	45,389.5	19.1%
Credit Card Receivables	2,440.6	2,245.7	2,252.2	2,229.3	2,314.6	5.4%
Other Asset	9,724.0	10,778.0	9,666.1	7,781.6	7,545.3	28.9%
Merchant Banking Accounts	3,353.8	2,323.5	1,885.1	2,424.8	2,090.5	60.4%
Total Assets	82,024.9	79,859.5	73,493.8	70,553.5	69,441.5	18.1%

Management Discussion & Analysis

2) Liabilities

Along with asset growth, KEB's funding through deposit-taking, borrowings, and debenture issuance also showed a corresponding increase. Deposits stood at KRW 44.4 trillion at the end of 2007, reflecting a gain of 15.4% year-on-year spurred by active marketing efforts to build liquidity. Borrowings rose by 17.0% to KRW 8.9 trillion at the end of 2007. Funding through issuing debentures grew at a relatively higher pace of 35.6%, and outstanding of debentures stood at KRW 8.5 trillion at year-end.

In billions of KRW						
	2007.12	2007.09	2007.06	2007.03	2006.12	Y o Y
Deposits	44,431.0	40,674.6	38,909.0	37,742.3	38,489.7	15.4%
Borrowings	8,858.1	10,306.4	8,842.3	8,077.2	7,568.5	17.0%
Debentures	8,547.9	7,542.2	6,586.7	6,422.6	6,305.5	35.6%
Other Liabilities	11,390.2	12,334.6	10,751.1	9,725.9	9,054.0	25.8%
Merchant Banking Accounts	2,147.0	2,383.0	2,060.9	2,662.6	1,644.5	30.6%
Shareholders' Equity	6,650.8	6,618.6	6,343.8	5,922.9	6,379.2	4.0%
Liabilities & Shareholders' Equity	82,024.9	79,859.5	73,493.8	70,553.5	69,441.5	18.1%

3) Shareholders' Equity

Total shareholders' equity at the end of 2007 was KRW 6.7 trillion reflecting a 4.3% year-on-year increase. As retained earnings were utilized for a 2006 dividend payout of KRW 645 billion (KRW 1,000 per share) in 1Q2007, the increase amount of retained earnings was less than the amount of net income for 2007.

In billions of KRW						
	2007.12	2007.09	2007.06	2007.03	2006.12	Y o Y
Paid-in Capital	3,224.5	3,224.5	3,224.5	3,224.5	3,224.5	-
Capital Surplus	0.9	0.9	0.9	0.9	0.9	-
Capital Adjustment (Unrealized gain on investment securities)	1,107.1	1,327.1	1,247.6	1,102.6	1,153.8	-46.7
Retained Earnings	2,318.2	2,066.0	1,870.8	1,594.8	1,999.9	+318.3
Total Shareholders' Equity	6,650.8	6,618.6	6,343.8	5,922.8	6,379.2	+271.6
Book value Per Share (BPS)	₩10,313	₩10,263	₩9,837	₩9,184	₩9,892	+₩421

5. Major Business Activities

1) Korean Won Currency Loan

Total KRW currency loans rose 18.7% to KRW 40.3 trillion at the end of 2007, more than doubling the 8.2% increase recorded in 2006. Loans to small and medium-sized enterprises (SMEs) outpaced the overall growth rate, rising 30.1% year-on-year to KRW 19.2 trillion at the end of 2007 as the bank focused on high-quality SME borrowers. Loans to large corporations expanded by KRW 1.3 trillion to KRW 3.8 trillion, reflecting reduced direct financing activities by these companies in the more volatile capital markets environment.

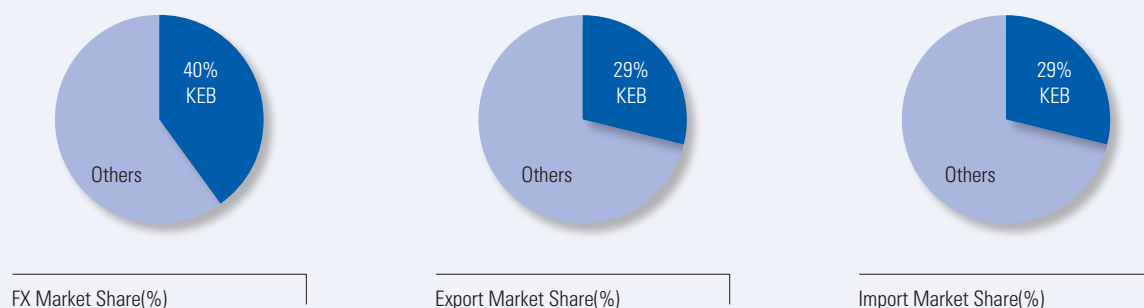
Loans to households recorded KRW 14.7 trillion with a 3.1% year-on-year growth. High-quality individual loan growth has compensated for the slowdown in housing-related loans caused by government regulations aimed at curtailing real estate speculation.

Credit card receivables also showed a moderate increase of 5.4%.

In billions of KRW						
	2007.12	2007.09	2007.06	2007.03	2006.12	Y o Y
Household	14,723.7	14,447.2	14,467.1	14,396.2	14,285.0	3.1%
Housing-related	8,242.4	8,452.9	8,502.8	8,728.7	8,715.4	-5.4%
Personal loans	6,481.3	5,994.4	5,964.3	5,667.4	5,569.6	16.4%
Corporate	22,947.5	21,117.5	19,008.8	17,664.8	17,231.6	33.2%
SMEs	19,157.6	17,851.2	16,407.2	15,354.5	14,720.5	30.1%
Large Corp.	3,789.9	3,266.3	2,601.6	2,310.3	2,511.1	50.9%
Public & others	154.8	151.7	69.0	72.1	78.3	97.7%
Subtotal	37,826.0	35,716.5	33,544.9	32,133.0	31,594.9	19.7%
Credit Card Receivables	2,440.6	2,245.7	2,252.2	2,229.3	2,314.6	5.4%
Total	40,266.5	37,962.2	35,797.1	34,362.3	33,909.6	18.7%

2) Foreign Exchange (F/X) & Trade Finance

KEB maintained its leading position in F/X and trade financing markets in 2007. In the F/X market, the bank covered 40% of transactions conducted by Korea's seven leading commercial banks. It also expanded its share of Korea's total export volume by 2%p to 29% and retained its 29% share of import volume from the previous year.



6. Asset Quality

1) Asset Classification

The bank maintained its industry-leading asset quality by adhering to disciplined growth and focusing on prime customers. As a result, it boasted a non-performing loan (NPL) ratio of only 0.61% at the end of 2007, improving slightly on the 0.62% figure recorded at the end of 2006. The FSS-mandated increase in minimum provisioning ratio for corporate normal-class loans in 4Q 2007 followed enforcement of a similar regulatory change in 4Q 2006. In keeping with these requirements, KEB maintained an NPL coverage ratio of 203.5% at the end of 2007. Current reserve levels significantly exceed KEB's estimated level of expected loss under the new Basel Capital Accord (Basel II).

In billions of KRW										
	2007. 12		2007. 09		2007. 06		2007. 03		2006. 12	
		(EX. card)		(EX. card)		(EX. card)		(EX. card)		(EX. card)
Normal	58,009.8	55,631.7	52,657.3	50,474.9	50,315.6	48,129.9	49,033.7	46,877.4	47,923.8	45,698.9
Precautionary	351.9	317.8	501.7	465.0	362.1	322.5	473.7	430.0	414.1	365.0
Substandard	242.3	242.3	182.2	182.2	168.8	168.8	195.6	195.6	181.9	181.9
Doubtful	43.0	18.7	46.8	21.7	42.2	16.9	55.0	24.9	56.5	21.0
Estimated Loss	75.0	69.2	47.5	43.1	53.1	48.6	66.9	62.1	61.0	54.7
Total Credits	58,722.0	56,279.7	53,435.5	51,186.9	50,941.8	48,686.7	49,824.9	47,590.0	48,637.3	46,321.5
Substandard & Below (NPL) (%)	0.61%	0.59%	0.52%	0.48%	0.52%	0.48%	0.64%	0.59%	0.62%	0.56%
Precautionary & Below (%)	1.21%	1.15%	1.46%	1.39%	1.23%	1.14%	1.59%	1.50%	1.47%	1.34%
Loan Loss Reserve	733.0	668.4	606.1	544.0	586.7	522.9	624.2	555.8	616.8	540.4
NPL Coverage (%)	203.5%	202.4%	219.2%	220.2%	222.2%	223.2%	196.6%	196.7%	206.0%	209.8%
Precautionary & Below Coverage (%)	102.9%	103.2%	77.9%	76.4%	93.7%	93.9%	78.9%	78.0%	86.4%	86.8%

Management Discussion & Analysis

2) Delinquency

–

The bank's delinquency ratio further improved to 0.56% at the end of 2007, down from 0.77% at the end of 2006. Disciplined credit management has resulted in consistently lower new delinquency formation and sustained strong asset quality.

Reported Basis	2007.12	2007.09	2007.06	2007.03	2006.12	Y o Y
Bank	0.49%	0.45%	0.29%	0.62%	0.62%	-0.13%p
Household	0.34%	0.36%	0.32%	0.50%	0.52%	-0.18%p
SME	0.87%	0.71%	0.43%	0.79%	0.74%	+0.12%p
Large Corp./Others	0.04%	0.09%	0.02%	0.48%	0.55%	-0.51%p
Card	1.92%	2.00%	1.98%	2.28%	3.66%	-1.74%p
Normal book	1.88%	1.96%	1.93%	2.22%	3.58%	-1.70%p
Re-aged book	10.77%	8.51%	8.38%	7.78%	10.08%	+0.69%p
Total Delinquency Ratio	0.56%	0.52%	0.37%	0.70%	0.77%	-0.22%p

3) Strict Risk Exposure Management—Minimal Exposure to US Mortgage Assets

–

Indicative of KEB's strict risk exposure management is the bank's minimal exposure to US mortgage assets amidst the recent turmoil in global financial markets caused by problems in the US subprime mortgage market.

The bank has no direct holdings of US mortgages or US mortgage-backed securities. Indirect exposure to sub/mid prime mortgages through collateralized debt obligations (CDOs) was only US\$1.3 million, which was just 1.9% of KEB's total of US\$63.0 million in CDO holdings at the end of 2007.

Details of exposures to Collateralized Debt Obligations(CDO)

In millions of USD

Purchase Month	Credit Rating	Investment	Maturity	Subprime + Midprime Ratio (amount)	Valuation (Dec 31,07)	Valuation Loss	
						CDO	Sub/Mid
Apr-06	AAA (US Treasury)	5.00	Mar-16	2.5% (0.12)	4.87	0.13	0.01
May-06	AAA	20.00	Apr-11	None	19.61	0.39	-
Mar-07	AAA (Freddie Mac)	20.00	Sep-15	5.7%(1.14)	16.68	3.32	1.09
Apr-07	AAA	18.00	Dec-14	None	18.00	-	-
Total		63.00		1.9% (1.26)	59.16	3.84	1.10

Partial sales of CDO amount of USD 17million in Dec, '07

Net valuation loss of total CDO = USD 3.84 million as of Dec. 31, 2007

(Net valuation loss of Sub/Midprime = USD 1.10 million)

7. Dividend & Capital Adequacy

1) Dividend

–

KEB declared a KRW 700 per share dividend, a total of KRW 451.4 billion, or 47% of 2007 earnings. The previous year dividend (2006) was KRW 1,000 per share, KEB's first dividend since 1996. The size of the dividend was decided after retaining sufficient capital to support expected 2008 business growth and additional surplus capital cushions. The dividend also helps the bank to optimize its return on equity (ROE) and cost of capital.

2) BIS Capital Adequacy Ratio (Basel I Basis)

–

After setting aside funds for the dividend, KEB's BIS capital adequacy ratio recorded 11.44%. The bank's Tier I ratio stood at 8.65% and Tier II ratio was 2.79% at the end of 2007. Tier I ratio remains above level of peer banks while Tier II ratio is smaller than peers.

In billions of KRW

	4Q 2007	3Q 2007	2Q 2007	1Q 2007	4Q 2006	Y o Y
Tier I	5,231.8	5,449.4	5,249.8	4,979.5	4,743.1	10.3%
Paid-in Capital	3,224.5	3,224.5	3,224.5	3,224.5	3,224.5	0.0%
Capital surplus	0.9	0.9	0.9	0.9	0.9	0.0%
Retained Earnings	2,355.8	2,102.0	1,905.6	1,629.0	1,390.5	69.4%
Outside Shareholders' Equity	1.5	1.5	1.4	1.4	1.3	13.5%
Hybrid Tier I	250.0	250.0	250.0	250.0	250.0	0.0%
Deferred Income Tax Debits (-)	-10.9	-9.6	-9.6	-9.4	-8.4	30.9%
Cost of Issuing New Shares (-)	0.0	0.0	0.0	-0.4	-0.4	F
Other Intangible Fixed Assets (-)	-81.1	-82.5	-89.6	-88.3	-82.3	-1.5%
Loss on Valuation of Investment Securities (-)	-56.5	-37.4	-33.5	-28.2	-33.2	70.5%
Tier II	1,797.6	1,855.8	1,788.9	1,706.3	1,745.1	+3.0%
Loan Loss Reserve	763.1	689.6	658.7	632.1	619.1	23.3%
45% of Gain on Valuation of Investment Securities	502.4	591.5	553.7	493.6	508.7	-1.2%
Subordinated Debts	531.5	574.7	576.5	580.6	617.4	-13.9%
Others (-)	104.3	96.4	115.9	100.7	186.9	-44.2%
Total Qualifying Capital	6,922.8	7,208.8	6,922.8	6,585.1	6,301.4	9.9%
Risk-Weighted Assets (incl'dg. Market Risk)	60,493.5	57,838.5	53,350.9	51,868.0	50,594.0	19.6%
BIS Ratio	11.44%	12.46%	12.98%	12.70%	12.45%	-1.01%p
Tier I Ratio	8.65%	9.42%	9.84%	9.60%	9.37%	-0.72%p
Tier II Ratio	2.79%	3.04%	3.14%	3.10%	3.08%	-0.29%p

Change in accounting methodology for timing of recognition of certain employee costs

- Certain employee costs, as reflected in the bank's collective bargaining agreements (CBAs), are paid to the staff in lump sums at the beginning of each half year performance period (January and July).
- Previously, these costs had been amortized over the six month period (or the full year) depending on the nature of the cost.
- As of 1Q'07 these costs will be recognized at the time of payment, resulting in higher expense recognition in the first and third quarters of each year (offset by lower expense recognition in the second and fourth quarters) than under the previous method.

In billions of KRW

Before			After			Impact		
1Q	2Q	1H	1Q	2Q	1H	1Q	2Q	1H
35.8	32.9	68.7	68.7	-	68.7	+32.9	-32.9	0
3Q	4Q	2H	3Q	4Q	2H	3Q	4Q	2H
34.2	34.2	68.4	68.4	-	68.4	+34.2	-34.2	0

- **Payments made** : 4Q'06 – KRW113.3bn

2Q'07 – KRW148.9bn (KRW119.1bn affecting P/L) → including 'additional tax payment' KRW112.2bn

Before

- 'Additional tax payment' recognized as non- operating expense
- Thus, this reduced total income, and it affected reported Cost/Income Ratio

After

- Recognized as 'corporate tax' item
- Does not have impact on total income, does not affect Cost/Income Ratio

	4Q'06	1Q'07	2Q'07	3Q'07	4Q'07
Reported	44.0%	44.7%	42.7%	44.0%	40.1%
Impact of NTS assessment	2.2%p	-	3.7%p	2.5%p	-
Impact of expense accounting change	-	5.1%p	-	1.8%p	-
Normalized	41.8%	39.6%	39.0%	39.7%	40.1%

- **Background**

As a precautionary measure for recent rapid growth in corporate loans, FSS decided to increase minimum LLP requirement ratio for normal class corporate loans (Effective as of Dec 31, 2007)

- **Provision Accumulation Policy Change Summary**

1. Minimum Provision Ratio Revision for normal class corporate credits

Unit: %

	Before	After					
		Manufacturing	Construction	Real Estate	Wholesale	Hotel & Restaurant	Others
Normal	0.7	0.85	0.9	0.9	0.9	0.9	0.8
Precautionary	7						
Substandard	20						
Doubtful	50						
Estimated Loss	100						

2. Minimum LLP ratio impact on profit

In billions of KRW

		Normal Credit	LLP ratio(%)		Additional Provision Accumulation
			Before	After	
Construction, Real Estate,	Loans	12,830	0.7	0.9	25.7
Wholesale, Hotel & Restaurant	Unused credit	20,358	0.7	0.9	4.1
Manufacturing and Others	Loans	28,934	0.7	0.85	43.4
	Unused credit	72,943	0.7	0.85	10.9

Appendix 3

Net income impact by NTS final notification of tax assessment

Progress after NTS '01-'04 tax assessment

In billions of KRW

	3Q'06	4Q'06	2Q'07
Other Provision (Balance)	247	134	7*
P/L - Transfer to (①)	-247		
P/L - Transfer from (②)		+113	+127
Corporate Tax Expense (③)	-	-113	-112
Deferred Income Tax Benefit/Expense (④)	× 27.5% → +68	× 27.5% → -31	× 27.5% → -35
Net Income Impact (①+②+③+④)	-179	-31	-20

* Related Yen Depo Swap withholding tax issue

Reclassified from 'Additional tax payment' to 'Corporate tax' item ←
in accordance with accounting standard change as of 4Q '07

• 3Q'06

- According to Korean Accounting Principles, companies are required to recognize the full liability of the preliminary tax assessment in their financial statements regardless of the merits of the assessed items or the probability of winning appeals. KRW 247bn was reflected in Other Provision for disputed NTS '01-'04 tax assessment.

• 4Q'06

- Payment for disputed NTS tax assessment resulted in KRW 113bn partial reversal of Other Provision (booked 3Q'06) and recognition of Corporate Tax expense.

• 2Q'07

- NTS Final Notification of Tax Assessment received June 2007

■ Result of initial step of appeal process

* Minor items accepted : KRW 39.9bn, total tax decreased → KRW 12.5bn impacting P/L

* KEBCS LLR item rejected (represents KRW 215bn of total assessment)

→ KEB has been under appeal process (National Tax Tribunal) since August 2007 and will pursue all available legal appeals.

■ All amounts due to NTS have been paid.

Independent Auditors' Report(Non-Consolidated)

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of Korea Exchange Bank:

We have audited the accompanying consolidated balance sheet of the bank accounts of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows and for the year ended December 31, 2007, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have not audited the financial statements of KEB Australia Ltd., Korea Exchange Bank of Canada, PT. Bank KEB Indonesia, Korea Exchange Bank (Deutschland) A. G., Banco KEB do Brasil S.A., KEB NY Financial Corp. and KEB LA Financial Corp. whose statements reflect total assets constituting 2.79 percent of consolidated total assets as of December 31, 2007 and total revenues constituting 1.84 percent of consolidated total revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for those entities, is based solely on the reports of such other auditors. The accompanying consolidated statements as of and for the year ended December 31, 2006, which are presented for comparative purposes, were audited by other auditors, whose report dated February 27, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and other auditors' report provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2007, and the results of their operations, the changes in its shareholders' equity and their cash flows for the year then ended, in conformity with generally accepted accounting principles in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, cash flows and changes in shareholder' equity in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



Deloitte Anjin LLC
Seoul, Korea
March 11, 2008

Notice to Readers

This report is effective as of March 11, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Non-Consolidated Balance Sheets

55

KOREA EXCHANGE BANK (BANKING ACCOUNT) as of December 31, 2007 and 2006

(In millions of won)			
	2007		2006
ASSETS			
Cash and due from banks (Notes 3, 18, 19, 24 and 29)	₩	5,118,391	₩ 3,958,237
Securities (Notes 4, 17, 18, 19, 23 and 29)		9,773,435	10,457,920
Loans (Notes 5, 6, 7, 17, 18, 19, 23 and 24)		54,055,379	45,389,515
Tangible assets (Note 8)		876,864	852,179
Other assets (Notes 2, 9, 17 and 24)		8,847,087	6,693,115
Merchant banking account assets (Notes 10 and 18)		3,353,761	2,090,500
	₩	82,024,917	₩ 69,441,466
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits (Notes 11, 18, 19 and 24)	₩	44,430,991	₩ 38,489,731
Borrowings (Notes 12, 18, 19 and 24)		17,405,954	13,874,026
Other liabilities (Notes 2, 13, 15, 17, 18, 21 and 24)		11,390,209	9,054,037
Merchant banking account liabilities (Note 14)		2,146,964	1,644,507
		75,374,118	63,062,301
SHAREHOLDERS' EQUITY (Notes 15, 16, 17 and 21):			
Common stock		3,224,534	3,224,534
Capital surplus		940	940
Capital adjustments		-	18,862
Accumulated other comprehensive income		1,107,113	1,134,965
Retained earnings		2,318,212	1,999,864
		6,650,799	6,379,165
	₩	82,024,917	₩ 69,441,466

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

	(In millions of won, except per share amounts)	
	2007	2006
OPERATING REVENUES:		
Interest income (Notes 2, 19 and 24):		
Interest on due from banks	₩ 66,138	₩ 42,570
Interest on trading securities	71,335	63,309
Interest on available-for-sale securities	216,660	254,470
Interest on held-to-maturity securities	85,845	102,529
Interest on loans	3,612,561	3,127,303
Other interest income	26,248	19,701
	4,078,787	3,609,882
Gain on valuation and disposal of securities (Note 4):		
Gain on valuation of trading securities	405	5,916
Gain on disposal of trading securities	91,773	79,198
Reversal of impairment loss on available-for-sale securities	92,980	287,859
Reversal of impairment loss on held-to-maturity securities	-	19,253
Gain on disposal of available-for-sale securities	139,421	293,140
	324,579	685,366
Gain on valuation and disposal of loans:		
Gain on disposal of loans (Note 5)	11,920	47,487
Foreign exchange trading income	929,204	885,480
Gain on trading and valuation of derivatives (Notes 17 and 19)	2,611,234	2,212,459
Commission income (Notes 19 and 24)	546,565	440,686
Dividends income (Note 19)	7,113	3,891
Other operating revenue (Notes 10, 19 and 25)	253,265	103,371
Total operating revenues	8,762,667	7,988,622
OPERATING EXPENSES:		
Interest expenses (Notes 19 and 24):		
Interest on deposits	1,251,465	1,003,393
Interest on borrowings	776,855	643,549
Other interest expenses	38,263	22,683
	2,066,583	1,669,625
Loss on valuation and disposal of securities (Note 4):		
Loss on valuation of trading securities	6,515	9,331
Loss on disposal of trading securities	62,175	50,039
Impairment loss on available-for-sale securities	22,478	57,107
Impairment loss on held-to-maturity securities	-	204
Loss on disposal of available-for-sale securities	4,913	2,619
	96,081	119,300
Loss on valuation and disposal of loans:		
Provision for possible loan losses (Note 7)	307,042	174,597
Loss on disposal of loans (Notes 5 and 17)	7,247	7,219
	314,289	181,816

(Continued)

Non-Consolidated Statements of Income, continued

57

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(In millions of won, except per share amounts)			
	2007		2006
Foreign exchange trading losses	₩ 626,040	₩	612,446
Loss on trading and valuation of derivatives (Notes 12, 17 and 19)	2,599,923		2,199,236
Commission expenses (Notes 19 and 24)	215,718		194,244
General and administrative expenses (Notes 19, 24 and 26)	1,149,511		1,111,293
Other operating expenses (Notes 14 and 19)	282,876		384,055
Total operating expenses	7,351,021		6,472,015
OPERATING INCOME	1,411,646		1,516,607
NON-OPERATING INCOME (Notes 4 and 20)	139,041		97,934
NON-OPERATING EXPENSE (Note 20)	34,098		20,748
INCOME BEFORE INCOME TAX	1,516,589		1,593,793
INCOME TAX EXPENSE (Note 21)	555,644		587,626
NET INCOME (Note 23)	₩ 960,945	₩	1,006,167
BASIC NET INCOME PER SHARE (In currency units) (Note 22)	₩ 1,490	₩	1,560
DILUTED NET INCOME PER SHARE (In currency units) (Note 22)	₩ 1,490	₩	1,558

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriations of Retained Earnings

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

	(In millions of won)	
	2007	2006
RETAINED EARNINGS BEFORE APPROPRIATIONS:		
Beginning of the year	₩ 1,121,941	₩ 958,225
Adjustments using the equity method and others	-	(2)
Net income	960,945	1,006,167
	2,082,886	1,964,390
TRANSFER FROM VOLUNTARY RESERVES:		
Other reserve	-	1,409
APPROPRIATIONS:		
Legal reserve (Note 17)	96,100	196,500
Other reserve	572	2,451
Dividends	451,435	644,907
(Cash dividends (Note 28)		
Dividends per share (rate):		
₩ 700 (14%) at 2007		
₩ 1,000 (20%) at 2006)		
	548,107	843,858
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 1,534,779	₩ 1,121,941

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statement of Changes in Shareholders' Equity

59

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the year ended December 31, 2007

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As of January 1, 2007	₩ 3,224,534	₩ 940	₩ 18,862	₩ 1,134,965	₩ 1,999,864	₩ 6,379,165
Dividend	-	-	-	-	(644,907)	(644,907)
Balance after appropriations and adjustments	3,224,534	940	18,862	1,134,965	1,354,957	5,734,258
Changes in accounting estimation	-	-	(18,862)	-	-	(18,862)
Net income	-	-	-	-	960,945	960,945
Effect of exchange rate fluctuations for overseas branches	-	-	-	-	2,310	2,310
Valuation of available-for-sale securities	-	-	-	(29,191)	-	(29,191)
Valuation of held-to-maturity securities	-	-	-	410	-	410
Unrealized gain on investment in affiliates	-	-	-	929	-	929
As of December 31, 2007	₩ 3,224,534	₩ 940	₩ -	₩ 1,107,113	₩ 2,318,212	₩ 6,650,799

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

	(In millions of won)	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 960,945	₩ 1,006,167
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on valuation of trading securities, net	6,110	3,415
Reversal of impairment loss on available-for-sale securities, net	(70,502)	(230,752)
Reversal of impairment loss on held-to-maturity securities, net	-	(19,049)
Gain on valuation of securities using the equity method, net	(54,637)	(40,337)
Provision for possible loan losses	307,042	174,597
Loss on disposal of tangible assets, net	987	1,703
Depreciation and amortization	126,362	122,633
Loss (gain) on valuation of financial derivatives, net	4,267	(26,480)
Provision for severance benefits	57,344	55,683
Compensation cost	23,766	22,634
Reversal of allowance for other liabilities	(81,619)	-
Provision for other liabilities	-	117,198
Stock option compensation costs, net	5,417	4,965
Loss (gain) on foreign exchange trading, net	187	(29,108)
Others, net	(2,634)	85,818
	322,090	242,920
Changes in assets and liabilities resulting from operations:		
Net decrease (increase) in trading securities	867,057	(68,714)
Net decrease in available-for-sale securities	548,042	1,899,402
Net decrease (increase) in held-to-maturity securities	(319,704)	463,998
Net increase in loans	(8,965,205)	(4,630,050)
Net decrease (increase) in accrued income	47,923	(9,506)
Net decrease (increase) in prepaid expenses	(644)	57,596
Net increase in financial derivatives assets	(154,490)	-
Net increase in accrued expenses	1,617	34,344
Net increase in unearned revenues	26,881	7,397
Net increase in accrued income tax	-	223,003
Payment of severance benefits	(15,835)	(9,077)
Decrease in transfer to National Pension Fund	34	62
Increase in deposit of insurance for severance benefits	(12,068)	(41,946)
Net increase in financial derivatives liabilities	33,288	-
Net decrease in allowance for other liabilities	(14,844)	-
Exercise of stock option	(6,499)	-
Net decrease (increase) in deferred income tax assets	826	(267)
Net increase in deferred income tax liabilities	43,227	217,898
	(7,920,394)	(1,855,860)
Net cash used in operating activities	(6,637,359)	(606,773)

(Continued)

Non-Consolidated Statements of Cash Flows, continued

61

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

	(In millions of won)	
	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in securities using the equity method	₩ 593	₩ 28,674
Disposal of tangible assets	4,504	8,344
Disposal of real estate for non-business property	-	77
Purchase of tangible assets	(126,756)	(106,122)
Net increase in guarantee deposits paid	(127,431)	-
Purchase of intangible assets	(28,625)	(22,064)
Net increase in accounts receivable	(1,547,938)	-
Net decrease (increase) in other assets	(5,812,762)	589,288
Net increase in merchant banking account assets	(1,254,496)	(976,692)
Net increase in due from banks	(352,517)	(1,071,602)
Net cash used in investing activities	(9,245,428)	(1,550,097)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	5,953,672	492,297
Net increase in borrowings	1,289,602	828,097
Net increase in debentures	2,195,106	394,361
Net increase in other liabilities	8,155,296	477,687
Decrease of stock option	-	(122)
Dividend	(644,907)	-
Net cash provided by financing activities	16,948,769	2,192,320
NET INCREASE IN CASH AND DUE FROM BANKS	1,065,982	35,450
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	2,623,579	2,588,129
CASH AND DUE FROM BANKS, END OF YEAR (Note 29)	₩ 3,689,561	₩ 2,623,579

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

1. General

Korea Exchange Bank (the "Bank") was established on January 30, 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. On December 30, 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, the Bank was listed on the Korean Stock Exchange. The merger between the Bank and Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") was finalized on February 28, 2004.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank, a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea. The Bank operates through 338 branches (including 26 depository offices) and 3 subsidiaries in Korea and 21 branches (including 3 depository offices and 2 offices) and 8 subsidiaries in overseas as of December 31, 2007. The Bank's shareholders as of December 31, 2007 are as follows:

Shareholders	Number of shares owned (*1)	Ownership (%)
LSF-KEB Holdings, SCA (*2)	329,042,672	51.02
Export-Import Bank of Korea	40,314,387	6.25
Bank of Korea	39,500,000	6.13
Euro-Pacific Growth Fund	23,917,000	3.71
Others	212,132,767	32.89
	644,906,826	100.00

(*1) As of December 31, 2007, the date of closing a shareholders' list

(*2) Since LSF-KEB Holdings, SCA disposed 87,707,328 shares at ₩13,600 per share through after-hour trade on June 26, 2007, the number of shares owned has been changed from 416,750,000 shares (64.62% of ownership) to 329,042,672 shares (51.02% of ownership).

The Bank entered into a Memorandum of Understanding regarding the Share Subscription Agreement with Lone Star Fund IV on August 27, 2003. On October 30, 2003, the Bank issued 268,750,000 shares of common stock to LSF-KEB Holdings, SCA at ₩4,000 per share (at less than its par value) in accordance with a resolution during an extraordinary shareholders' meeting on June 16, 2003. The balance below the par value was recognized as a discount on stock issued.

As of December 31, 2007, the total number of authorized shares of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding with par value of ₩5,000).

2. Summary of significant accounting policies

Basis of Non-consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying financial statements.

The significant accounting policies followed by the Bank in preparing the accompanying non-consolidated financial statements are summarized below.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to due from banks, loans and securities. Whereas, interest on loans, whose principal or interest is past due at the balance sheet date or defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2007 and 2006, accrued interest income not recognized due to such criteria amounted to ₩81,016 million and ₩70,069 million, respectively.

Classification of Securities

At acquisition, the Bank classifies securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities accounted for using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that should be accounted for under the equity method are classified as securities accounted for using the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Bank change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. Whereas, if the Bank sells held-to-maturity securities or exercises early redemption right of securities to issuer in the current year or the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Valuation of Securities

1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specified identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

2) Valuation of Available-for-sale Securities

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specified identification method for debt securities). The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt security. After initial recognition, available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in accumulated other comprehensive income (loss), which is charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities (net asset fair value in case of non-marketable equity securities stated at acquisition cost) is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in accumulated other comprehensive income (loss) is reversed.

3) Valuation of Held-to-maturity Securities

Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

4) Valuation of Securities using the Equity Method

Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds more than 15 percent of the total issued shares, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in the retained earnings of investee are reflected in the retained earnings. Changes in the capital surplus, capital adjustments or accumulated other comprehensive income (loss) of investee are reflected as gain or loss on valuation of securities using the equity method in accumulated other comprehensive income (loss).

When the book value of equity securities using the equity method is less than zero due to the cumulative losses of the investees, the Bank discontinues applying the equity method and does not provide for additional losses. If the investees subsequently report net income, the Bank resumes applying the equity method only after its share of that net income equals the share of net losses not recognized during the period that the equity method was suspended.

In addition, any gain or loss from the disposal of equity securities of certain consolidated subsidiaries is accounted for as accumulated other comprehensive income (loss) resulting from applying the equity method in the balance sheets if the subsidiaries are still consolidated even after the Bank disposes of a portion of equity securities.

5) Reversal of Impairment Loss on Available-for-sale Securities and Held-to-maturity Securities

If the reasons for impairment loss on available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to amount of the previously recognized impairment loss as reversal of impairment loss on available-for-sale securities and any excess is included in accumulated other comprehensive income as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in accumulated other comprehensive income. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current operations under non-operating income within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of impairment loss on held-to-maturity securities.

6) Reclassification of Securities

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in accumulated other comprehensive income (loss) as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income (loss) and amortized using the effective interest rate method and the amortized amount is charged to interest income until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Transfer of Securities

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in accumulated other comprehensive income (loss) is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing control of the securities, the transaction is recorded as secured borrowing transaction.

Allowance for Possible Losses on Credits

According to the Korea Financial Accounting Standard Article 57 (Valuation of Receivables), allowance for bad debts shall be provided for estimated uncollectible accounts on a reasonable and objective basis. Presently, the historical loss rate (based on mitigation or roll-rate analysis) is one of the permitted reasonable and objective methods to estimate allowance for financial institutions. However, the Bank provides loan loss provision pursuant to the Supervisory Regulation of the Banking Business, which requires providing more than minimum rate of loss provision for each asset classification category.

The Bank applies the Forward Looking Criteria ("FLC") for its loan classification for large corporate based on the credit rating to determine allowance for loan losses. Under this method, the borrowers' future debt repayment capacity as well as their overall financial health and management soundness are considered in developing the credit rating and the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate, household loans and credit card receivables is classified based on the delinquency period, value of collateral and bankruptcy status only. Using such loan classification, the Bank classifies all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss and provides the minimum rate of loss provision for each category balance using the prescribed minimum percentages of 0.85 percent (construction, real estate, wholesale & retail, hotel and restaurant industries are 0.9%) or more, 7 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. Households' loans categorized as normal, precautionary, substandard and doubtful are 1 percent or more, 10 percent or more, 20 percent or more and 55 percent or more, respectively. Card receivables as those categories are 1.5 percent or more, 15 percent or more, 20 percent or more and 60 percent or more, respectively.

The Bank additionally provided ₩59,363 million of loss provision for normal, as the minimum rate for normal has changed from 0.7 percent to 0.85~0.9 percent in 2007.

The Bank provides allowance for possible losses on confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, and endorsed notes based on the credit classification, minimum rate of loss provision prescribed by the Financial Supervisory Service and the credit conversion factor based on the new standard of Bank for International Settlements Accord.

In addition, the Bank provides other allowances for the unused limit of credit card (including unused limit of credit card that have not been used at least once in recent one year) and unused loan commitments for corporate and retail loan customers considering the credit conversion factor based on the new standard of Bank for International Settlements Accord and minimum rate of loss provision prescribed by the Financial Supervisory Service.

Restructuring of Loans

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Bank's loans, collected through reorganization proceedings, court mediation or debt restructuring agreements of parties concerned, is recorded at fair value at the time of the restructuring. In cases where the fair value of the assets received are less than the book value of the loan (book value before allowances), the Bank offsets first the book value against allowances for loan losses and then recognizes provisions for loan losses. Impairment losses for loans that were restructured in a troubled debt restructuring involving a modification of terms are computed by the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated and the book value before allowances for loan losses. If the amount of allowances already established is less than the impairment losses, the Bank establishes additional allowances for the difference. Otherwise, the Bank reverses the allowances for loan losses.

Deferred Loan Origination Fees and Costs

The Bank defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

Valuation of Receivables and Payables at Present Value

Receivables and payables incurred through long-term installment transactions, long-term borrowing and lending transactions, and other similar transactions are stated at the present value of expected future cash flows, and the gain or loss on valuation of related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. Present value discount or premium is amortized using the effective interest rate method and credited or charged to interest income or interest expense.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Tangible Assets and Related Depreciation

Tangible assets are recorded at cost or production cost including incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed by using the declining-balance method (Straight-line method for building and leasehold improvements) based on the estimated useful lives of the assets as follows:

Tangible assets	Estimated useful life	Depreciation method
Buildings	40 years	Straight-line
Leasehold improvements	5 years	Straight-line
Equipment	4 years	Declining balance

Intangible Assets and Related Amortization

Intangible assets included in other assets are recorded at the production costs or purchase costs plus incidental expenses less discount if any. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future benefits expected, are capitalized as development costs. Intangible assets are amortized using the straight-line method over 5 years and presented after deducting amortized amount.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. Such assets are not depreciated. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price. As of December 31, 2007, the Bank does not have non-business use property.

Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the collective value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, the book value are adjusted to collective value in the balance sheet and the resulting impairment loss is charged to current operations. If the collective value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the collective value equals the book value of assets that would have been determined had no impairment loss been recognized. The Bank assessed the collective value based on expected selling price or appraisal value.

Amortization of Discounts (Premiums) on Debentures

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense on the debentures.

Securities under Resale or Repurchase Agreements

Securities purchased under resale agreements are recorded as loans, and securities sold under repurchase agreements are recorded as borrowings when the Bank purchases or sells securities under such agreements.

Other Liability Reserve

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank is recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation.

Accrued Severance Benefits

The accrued severance benefits that would be payable to assuming all eligible employees and directors were to resign are included in other liabilities. The Bank has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefit is presented as a deduction from the accrued severance benefits.

The estimated accrued severance benefits, which would be payable assuming all eligible employees and executives were to terminate their employment, amounted to ₩263,806 million and ₩222,587 million as of December 31, 2007 and 2006, respectively.

Accounting for Derivative Instruments

The Bank accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

Accounting for Share-based Payment

In accordance with the Statement of Korea Accounting Standards No.22 - Share-based Payment, and the Interpretations on Financial Accounting Standards 39-35 - Accounting for Stock Options, in case of equity-settled share-based payment transactions, compensation expense for stock option and stock option (capital adjustment) are recorded at fair value at the grant date through an agreement service period, whereas in case of cash-settled share-based payment transactions, compensation expense for stock option and accrued expenses are recorded at fair value at the grant date through an agreement service period. The other liabilities (accrued expenses) by cash-settled share-based payment transactions are assessed at fair value of the closing day or the final settlement day (assessed at intrinsic value for the portion occurred before December 31, 2006). The changes in the fair value of accrued expenses after the grant date are reflected as compensation expense for stock option. In addition, for share-based payment transactions in which the terms of the arrangement provide a choice for the Bank whether the Bank settles the transaction in cash or by issuing equity instruments, the Bank is required to account for that transaction as a cash-settled share-based payment transaction if the Bank has a present obligation to settle in cash, or as an equity-settled share-based payment transaction if no such obligation exists. In case of a cash-settled share-based payment, compensation cost is recorded as capital adjustment (stock option), and in case of an equity-settled share-based payment, compensation cost is recorded as other liabilities (accrued expenses).

Accounting for Trust Accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. Also, the borrowings from the bank account are recorded as due from trust accounts of the bank accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as operating expense of the bank accounts and as other income of the trust accounts. There are no compensating contributions of the Bank for the year ended December 31, 2007.

Merchant Banking Accounts

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from Korea International Merchant Bank upon merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

1) Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

2) Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

3) Lease Transactions

The Bank accounts for lease transactions as operating or financing leases, depending on the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

Income Tax Expense

Income tax expense is the amount currently payable for the period, additional income taxes or tax refunds for prior years(except for retroactive adjustments of tax effect directly added or deducted to shareholders' equity) added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period the related temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of shareholders' equity.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the basic rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩938.20 and ₩929.60 to US\$ 1.00 at December 31, 2007 and 2006, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at balance sheet dates.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable based on SKAS Act 92. The Bank adopted SKAS No.1 (Accounting Changes and Error Corrections) through SKAS No. 20 (Related Party Disclosures) (excluding No. 14) as of or before December 31, 2006, and SKAS No. 11 (Discontinued Operation) and SKAS No. 21 (Preparation and Presentation of Financial Statements) through SKAS No. 25 (Consolidated Financial Statements) have been adopted since January 1, 2007.

1) Adoption of SKAS No. 21 (Preparation and Presentation of Financial Statements) and SKAS No. 24 (Preparation and Presentation of Financial Statements [Financial Industry])

With the adoption of SKAS No. 21 (Preparation and Presentation of Financial Statements) and SKAS No. 24 (Preparation and Presentation of Financial Statements [Financial Industry]), the Bank included the statement of changes in shareholders' equity in the financial statements, and reclassified the components of the balance sheets as follows:

Classification	Before	After
Assets	<ul style="list-style-type: none"> - Cash and due from banks - Securities - Loans - Fixed assets - Other assets - Merchant banking account assets 	<ul style="list-style-type: none"> - Cash and due from banks - Securities - Loans - Tangible assets - Other assets (Include intangible assets previously under fixed assets) - Merchant banking account assets
Liabilities	<ul style="list-style-type: none"> - Deposits - Borrowings - Debentures - Other liabilities - Merchant banking account liabilities 	<ul style="list-style-type: none"> - Deposits - Borrowings - (Note: Included in borrowings) - Other liabilities - Merchant banking account liabilities
Shareholders' Equity	<ul style="list-style-type: none"> - Common stock - Capital surplus - Retained earnings - Capital adjustments 	<ul style="list-style-type: none"> - Common stock - Capital surplus - Capital adjustments - Accumulated other comprehensive income (Previously included in capital adjustments) - Retained earnings

In addition, a discontinued operation is separately presented in the income statements and extraordinary items are no longer reported separately. The Bank has reclassified the components of the income statements; such as, gains or losses relating to available-for-sale securities and sale of loans that were presented under non-operating income (expenses) are currently presented under operating income (loss). The financial statements for the prior period were restated for comparative purposes due to the application of SKAS No. 21 and No. 24. The restatement did not affect the previously reported prior period's net income (as shown below) or shareholders' equity (Unit: In millions).

Classification	Before	After	Effect
Operating revenues	₩ 7,340,883	₩ 7,988,622	₩ 647,739
Operating expenses	6,402,621	6,472,015	69,394
Operating income	983,262	1,516,607	578,345
Non-operating income	734,143	97,934	(636,209)
Non-operating expenses	217,147	20,748	(196,399)
Extraordinary gain	12,063	-	(12,063)
Income before income tax	1,467,321	1,593,793	126,472
Income tax expense	461,154	587,626	126,472
Net income	₩ 1,006,167	₩ 1,006,167	₩ -
Basic net income per share (In currency units)	₩ 1,560	₩ 1,560	₩ -
Diluted net income per share (In currency units)	₩ 1,558	₩ 1,558	₩ -

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

In addition, the Bank has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities. The accompanying non-consolidated statement of cash flows for the year ended December 31, 2006, which are presented for comparative purposes, was restated due to the application of SKAS No. 21 and No. 24.

Classification	Before	After	Effect
Cash flows from operating activities	₩ 1,368,198	₩ (606,773)	₩ (1,974,971)
Cash flows from investing activities	(2,453,466)	(1,550,097)	903,369
Cash flows from financing activities	2,192,320	2,192,320	-
Net increase in cash and due from banks	1,107,052	35,450	(1,071,602)
Cash and due from banks, beginning of year	3,051,009	2,588,129	(462,880)
Cash and due from banks, end of year	₩ 4,158,061	₩ 2,623,579	₩ (1,534,482)

2) Adoption of amended SKAS No. 2 (Interim Financial Reporting)

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) amended SKAS No. 2 (Interim Financial Reporting), which states that statements of cash flows and changes in shareholders' equity can be presented for year-to-date period of the current fiscal year. Although the amended standard is effective from December 31, 2007, the Bank opted to early adopt the amended standard from January 1, 2007 as early application is permitted.

3) Adoption of the new accounting standards and transition provision

The prior period financial statements were neither restated nor the earnings per share adjusted to reflect the effect of the application of SKAS No. 22 (Share-based Payment) and No. 23 (Earnings per Share), which is in accordance with the transition provision.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes; however, such reclassifications had no effect on the previously reported prior period's net income or shareholders' equity of the Bank.

3. Cash and due from banks

(1) Cash and due from banks as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	2007	2006
Cash	₩ 972,061	₩ 1,031,776
Foreign currencies on hand	357,266	268,896
Due from banks in Won	2,433,120	1,381,127
Due from banks in foreign currencies	1,355,944	1,276,438
	₩ 5,118,391	₩ 3,958,237

(2) Due from banks in Won as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%)	2007	2006
Reserve deposit	The Bank of Korea	-	₩ 1,437,782	₩ 1,267,307
Due from banks on time deposits	Other banks	5.30~6.37	991,348	-
Other due from banks	Other banks	0.10~2.20	3,145	11,457
Other due from banks	Other financial institutions	1.25~2.00	845	102,363
			₩ 2,433,120	₩ 1,381,127

(3) Due from banks in foreign currencies as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%)	2007	2006
Reserve deposit	The Bank of Korea	-	₩ 413,203	₩ 236,404
Due from banks on time deposits	Overseas financial institutions	0.00~9.50	394,602	369,876
Other due from banks	Overseas financial institutions	0.00~4.40	182,713	89,680
Other due from banks	Domestic financial institutions	0.00~0.30	1,323	21,791
Due from banks in other bank-foreign currencies	Overseas financial institutions	3.25~3.75	364,103	558,687
			₩ 1,355,944	₩ 1,276,438

Notes to Non-Consolidated Financial Statements

69

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(4) Restricted due from banks in Won and foreign currencies as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006	Reason for restriction
Due from banks in Won:			
The Bank of Korea	₩ 1,437,782	₩ 1,267,307	Required under the BOK Act
Woori Bank	611	5,223	Escrow account
Samsung Securities Co., Ltd.	1	1,764	Subscription related to derivatives
Kyobo Securities Co., Ltd.	174	599	Subscription related to derivatives
National agricultural cooperative federation	1	-	Restricted by double payment of card receivable
	1,438,569	1,274,893	
Due from banks in foreign currencies:			
The Bank of Korea	413,203	236,404	Required under the BOK Act
Wells Fargo	-	1,394	Restricted deposits in relation to closing of US branch
J.P. Morgan and others	35,227	21,791	Subscription related to derivatives
	448,430	259,589	
	₩ 1,886,999	₩ 1,534,482	

(5) Term structure of due from banks in Won and foreign currencies as of December 31, 2007 was as follows (Unit: In millions):

Classification	Due from banks in Won	Due from banks in foreign currencies	Total
Due in less than one year	₩ 2,432,510	₩ 1,355,944	₩ 3,788,454
Due from one to two years	610	-	610
Due from two to three years	-	-	-
Due from three to five years	-	-	-
Due more than five years	-	-	-
	₩ 2,433,120	₩ 1,355,944	₩ 3,789,064

4. Securities

(1) Securities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Trading securities	₩ 393,895	₩ 1,265,890
Available-for-sale securities	6,854,616	7,063,769
Held-to-maturity securities	2,071,555	1,753,559
Securities using the equity method	453,369	374,702
	₩ 9,773,435	₩ 10,457,920

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(2) Securities excluding securities using the equity method as of December 31, 2007 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 48,681	₩ -	₩ 45,402
Beneficiary certificates	10,000	10,000	10,000	9,730
Government and public bonds	55,743	54,961	55,141	54,639
Finance bonds	256,567	255,260	255,531	253,416
Corporate bonds	30,961	30,646	30,653	30,708
	353,271	399,548	351,325	393,895
Available-for-sale securities:				
Equity securities	-	847,458	-	2,272,262
Equity investments	-	62,966	-	69,305
Government and public bonds	750,398	758,451	734,205	733,476
Finance bonds	2,754,136	2,748,856	2,741,545	2,719,522
Foreign government bonds	125	125	125	125
Corporate bonds	691,974	692,606	687,206	682,336
Asset-backed securities	405,514	401,232	299,844	311,436
Other debt securities	87,636	87,636	60,360	66,154
	4,689,783	5,599,330	4,523,285	6,854,616
Held-to-maturity securities:				
Government and public bonds	795,566	794,503	793,074	793,074
Finance bonds	1,109,846	1,116,420	1,109,390	1,109,822
Foreign government bonds	18,280	17,574	16,665	16,665
Corporate bonds	140,356	141,706	140,675	140,686
Asset-backed securities	10,000	9,989	9,996	9,996
Other debt securities	1,323	1,312	1,312	1,312
	2,075,371	2,081,504	2,071,112	2,071,555
	₩ 7,118,425	₩ 8,080,382	₩ 6,945,722	₩ 9,320,066

(*) Acquisition costs of trading securities are the book value before valuation.

Notes to Non-Consolidated Financial Statements

71

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Securities excluding securities using the equity method as of December 31, 2006 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 163,875	₩ -	₩ 160,483
Beneficiary certificates	10,000	10,000	10,000	10,093
Government and public bonds	110,774	105,384	105,598	105,433
Finance bonds	930,000	929,947	928,901	928,803
Corporate bonds	10,096	10,085	9,816	9,959
Securities in foreign currency	51,128	51,116	51,116	51,119
	1,111,998	1,270,407	1,105,431	1,265,890
Available-for-sale securities:				
Equity securities	-	820,471	-	2,269,598
Equity investments	-	9,459	-	9,458
Beneficiary certificates	14,774	14,774	14,774	14,774
Government and public bonds	761,972	766,111	733,817	746,406
Finance bonds	2,005,000	2,000,541	1,984,206	1,989,966
Corporate bonds	1,135,000	1,152,543	1,124,561	1,130,549
Asset-backed securities	312,000	312,024	241,717	249,049
Other debt securities	87,636	87,636	40,373	60,360
Securities in foreign currency	596,728	596,228	592,705	593,609
	4,913,110	5,759,787	4,732,153	7,063,769
Held-to-maturity securities:				
Government and public bonds	505,838	501,278	502,927	502,927
Finance bonds	285,000	288,379	285,666	285,666
Corporate bonds	448,772	454,951	451,104	451,104
Asset-backed securities	30,000	29,994	17,157	30,000
Other debt securities	1,687	1,674	1,674	1,674
Securities in foreign currencies	480,324	486,406	482,188	482,188
	1,751,621	1,762,682	1,740,716	1,753,559
	₩ 7,776,729	₩ 8,792,876	₩ 7,578,300	₩ 10,083,218

(*) Acquisition costs of trading securities are the book value before valuation.

The difference of trading securities between the fair value and the adjusted cost using the effective interest rate method (acquisition cost for stocks) was recorded as gain on valuation of trading securities amounting to ₩405 million and ₩5,916 million and loss on valuation of trading securities amounting to ₩6,515 million and ₩9,331 million for the years ended December 31, 2007 and 2006, respectively.

The fair values of trading and available-for-sale debt securities were assessed by applying the average of base prices as of December 31, 2007, provided by Korea Bond Pricing & KR Co. (KBP), KIS Pricing Inc. and National Information & Credit Evaluation Inc. (NICE).

The fair value of available-for-sale non-marketable equity securities such as SK Networks Co., Ltd. and 20 others, and the restricted available-for-sale marketable equity securities such as Hyundai Engineering and Construction Co., Ltd. and 7 others was reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value (IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount (DD) Model and Risk Adjusted Discounted Cash Flow (RADCF) Model depending on the equity securities. In order to assess the fair value of stocks, the financial statements for 5 years are estimated based on past operating result. Also, assuming the same operation is continued during the estimated period, the model is applied using the estimated financial statements from 2007 to 2011. Operating income and expenses are reasonably estimated based on the past result, the future plan and the expected market condition, and for non-operating income and expenses, gain or loss from irregular transactions such as gain or loss on disposition of tangible assets are excluded. For the equity investment of association, net assets are calculated deducting total liabilities from the present value of assets of each equity investment.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(3) Discretionary investing contract assets included in beneficiary certificate of trading securities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Short-term financial instruments	₩ 2,385	₩ 429
Stocks	7,312	9,665
Others	45	7
Total assets	9,742	10,101
Total liabilities	12	8
Net assets value	₩ 9,730	₩ 10,093

(4) The book value of non-marketable stocks and equity investments among available-for-sale securities, which were not valued at fair value as of December 31, 2007 and 2006, was as follows (Unit: In millions):

<As of December 31, 2007>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
Alpha Dome City	7,200
KAMCO	6,330
KCB	3,000
Hallyu-Wood	1,200
M Cietta Development (*)	1,125
BLADEX	921
C & Woobang ENC	733
Others	1,100
	54,548
Equity investments:	
Consolidated Fund for Impaired Loans	36,680
Others	1
	36,681
	₩ 91,229

(*) The company name was changed from M Cietta Development to M Cietta Development.

<As of December 31, 2006>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
KAMCO	6,330
KCB	3,000
Kyobo Investment Trust Management	2,700
Realty Advisors Korea, Ltd.	1,000
M Cietta Development	1,000
BLADEX	912
KOCES	897
C & Woobang ENC	733
Hallyu-Wood	600
Korea Finance Security	588
Booyoung Finance	500
Others	2,085
	53,284
Equity investments:	
Daegu Venture Fund Association	500
Others	3
	503
	₩ 53,787

Notes to Non-Consolidated Financial Statements

73

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(5) The impairment loss and the reversal of impairment loss on available-for-sale securities for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007		2006	
	Impairment	Reversal	Impairment	Reversal
Equity securities	₩ 6,891	₩ 1,364	₩ 20,981	₩ 230,228
Equity investments	-	36,680	689	-
Corporate bonds	-	139	-	5,928
Asset-backed securities	15,587	54,797	35,437	50,896
Beneficiary certificates	-	-	-	807
	₩ 22,478	₩ 92,980	₩ 57,107	₩ 287,859

(6) The impairment loss and the reversal of impairment loss on held-to-maturity securities for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007		2006	
	Impairment	Reversal	Impairment	Reversal
Asset-backed securities	₩ -	₩ -	₩ 204	₩ 19,253

(7) Loaned securities included in securities as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Securities in foreign currencies	₩ 12,701	₩ 11,723

(8) Securities provided as collateral as of December 31, 2007 were as follows (Unit: In millions):

Provided to	Collateral amount	Book value	Provided for
Korea securities depository & others	₩ 807,415	₩ 800,711	Sale to RP to customer
BOK	330,000	326,919	Settlement of difference
BOK	369,000	368,319	Daily overdraft
BOK	900,000	885,982	Borrowings from BOK
BOK	450,000	449,382	Sale to RP to BOK
Others	235,200	222,351	Derivatives settlement
	₩ 3,091,615	₩ 3,053,664	

In addition, securities that are possible to be discounted by BOK amounted to ₩495,502 million as of December 31, 2007.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(9) Securities using the equity method

1) Securities using the equity method as of December 31, 2007 and 2006 were summarized as follows (Unit: shares in thousand, in millions):

<December 31, 2007>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
Domestic stocks:					
KEB Capital Inc. (KEBC)	14,976	99.3	₩ 74,881	₩ 98,312	₩ 98,439
KEB Futures Co., Ltd. (KEBF)	3,000	100.0	15,000	27,800	28,115
KEB Fund Services Co., Ltd. (KEBIS) (*)	510	100.0	2,550	5,101	2,550
Lippo Incheon Development Co., Ltd.	388	2.7	1,939	1,830	1,830
Realty Advisors Korea, Ltd.	200	14.3	1,000	575	1,000
			95,370	133,618	131,934
Foreign stocks:					
K.E.B. of Canada (KEBOC)	334	100.0	31,961	88,142	88,142
KEB Australia Ltd. (KEBA)	55,000	100.0	45,257	31,505	31,505
K.E.B Deutschland A.G. (KEBDAG)	20	100.0	24,718	51,490	51,490
PT. Bank KEB Indonesia (KEBI)	1	99.0	23,119	79,757	79,756
Banco KEB do Brasil S.A (KEBB)	33,726	100.0	16,452	16,269	16,269
KEB NY Financial Corp. (NYFinco)	0.1	100.0	18,764	24,780	24,780
KEB LA Financial Corp. (LAFinco)	0.1	100.0	18,764	25,257	25,257
KEB USA International Corp. (USAI)	0.1	100.0	2,346	4,236	4,236
			181,381	321,436	321,435
			₩ 276,751	₩ 455,054	₩ 453,369

(*) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

<December 31, 2006>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
Domestic stocks:					
KEBC	14,976	99.3	₩ 74,881	₩ 85,883	₩ 85,917
KEBF	3,000	100.0	15,000	22,806	23,085
MP&T (*)	170	38.1	850	-	-
KEBIS (*)	510	100.0	2,550	2,550	2,550
			93,281	111,239	111,552
Foreign stocks:					
KEBOC	334	100.0	26,759	62,746	62,746
KEBA	55,000	100.0	40,396	24,005	24,005
KEBDAG	20	100.0	21,872	43,160	43,160
KEBI	1	99.0	23,814	70,799	70,799
KEBB	33,726	100.0	13,475	12,421	12,421
NYFinco	0.1	100.0	18,592	23,555	23,555
LAFinco	0.1	100.0	18,592	22,954	22,954
USAI	0.1	100.0	2,324	3,510	3,510
			165,824	263,150	263,150
			₩ 259,105	₩ 374,389	₩ 374,702

(*)1) The bankruptcy procedure was completed in prior fiscal year.

(*)2) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

Notes to Non-Consolidated Financial Statements

75

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

2) The valuation of securities using the equity method for the years ended December 31, 2007 and 2006 was as follows (Unit: In millions):

<December 31, 2007>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Retained earnings	Valuation of securities using the equity method	Book value after valuation
KEBC	₩ 74,881	₩ 85,917	₩ -	₩ -	₩ 12,681	₩ -	₩ (159)	₩ 98,439
KEBF	15,000	23,085	-	-	5,030	-	-	28,115
KEBIS (*1)	2,550	2,550	-	-	-	-	-	2,550
Lippo Incheon Development Co., Ltd	1,939	-	1,939	-	(109)	-	-	1,830
Realty Advisors Korea, Ltd.(*2)	1,000	1,000	-	-	-	-	-	1,000
KEBOC	31,961	62,746	-	12,198	13,198	-	-	88,142
KEBA	45,257	24,005	-	2,888	4,612	-	-	31,505
KEBDAG	24,718	43,160	(593)	5,615	3,308	-	-	51,490
KEBI	23,119	70,799	-	(2,064)	11,021	-	-	79,756
KEBB	16,452	12,421	-	2,744	1,104	-	-	16,269
NYFinCo	18,764	23,555	-	218	1,007	-	-	24,780
LAFinCo	18,764	22,954	-	212	2,091	-	-	25,257
USAI	2,346	3,510	-	32	694	-	-	4,236
	₩ 276,751	₩ 375,702	₩ 1,346	₩ 21,843	₩ 54,637	₩ -	₩ (159)	₩ 453,369

(*1) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(*2) Reclassified from available-for-sale securities to securities using equity method in this period

<December 31, 2006>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Retained earnings	Valuation of securities using the equity method	Book value after valuation
KEBC	₩ 74,881	₩ 78,682	₩ -	₩ -	₩ 6,869	₩ -	₩ 366	₩ 85,917
KEBF	15,000	20,640	-	-	2,445	-	-	23,085
MP&T (*1)	850	-	-	-	-	-	-	-
KEBIS (*2)	2,550	2,550	-	-	-	-	-	2,550
KEBOC	26,759	58,226	-	(4,617)	9,137	-	-	62,746
KEBA	40,396	21,498	-	(217)	2,724	-	-	24,005
KEBDAG	21,872	39,598	(510)	755	3,317	-	-	43,160
KEBI	23,814	59,009	-	(114)	11,904	-	-	70,799
KEBB	13,475	11,441	-	61	919	-	-	12,421
CFEB (*3)	6,037	4,243	(4,243)	-	-	-	-	-
NYFinCo	18,592	24,547	-	(2,020)	1,028	-	-	23,555
LAFinCo	18,592	23,487	-	(1,934)	1,401	-	-	22,954
USAI	2,324	3,179	-	(262)	593	-	-	3,510
	₩ 265,142	₩ 347,100	₩ (4,753)	₩ (8,348)	₩ 40,337	₩ -	₩ 366	₩ 374,702

(*1) The bankruptcy procedure was completed in prior fiscal year.

(*2) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(*3) It was disposed during the first quarter of 2006.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

3) Elimination of Unrealized Profit from Inter-company Transactions

Material unrealized profit from inter-company transactions is eliminated when equity investments were valued. Unrealized gain from lease transaction of inter-company transaction amounted to ₩762 million and ₩547 million as of December 31, 2007 and 2006, respectively.

4) Summary of Financial Information in Affiliates

The summary of financial information in affiliates using the equity method as of and for the period ended December 31, 2007, was as follows (Unit: In millions):

Classification	KEBC	KEBOC	KEBA	KEBDAG	KEBI	Others	Total
Total assets	₩ 810,237	₩ 821,187	₩ 385,014	₩ 425,832	₩ 256,993	₩ 996,355	₩3,695,618
Total liabilities	711,243	733,045	353,510	374,342	176,431	830,241	3,178,812
Operation revenue	58,799	51,794	22,259	26,711	24,742	63,714	248,019
Net income	12,676	13,198	4,611	3,307	11,148	5,845	50,785

Unaudited financial statements as of December 31, 2007 were used for the application of the equity method. The significant events from the closing dates of the investees to that of the Bank were properly reflected in applying the equity method. There was no material exception as a result of analytical review, such as analysis of major accounts to assess reliability of those financial statements.

(10) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2007 and 2006 was as follows (Unit: In millions):

By industry type	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Government and government-invested public companies	₩ 332,237	84.35	₩ 1,081,573	85.44
Financial institutions	7,505	1.90	31,452	2.48
Manufacturing	32,150	8.16	88,861	7.02
Others	22,003	5.59	64,004	5.06
	₩ 393,895	100.00	₩ 1,265,890	100.00
Available-for-sale securities:				
Government and government-invested public companies	₩ 1,478,732	21.57	₩ 1,999,922	28.31
Financial institutions	2,689,884	39.24	2,354,538	33.33
Manufacturing	1,384,049	20.19	1,375,869	19.48
Others	1,301,951	19.00	1,333,440	18.88
	₩ 6,854,616	100.00	₩ 7,063,769	100.00
Held-to-maturity securities:				
Government and government-invested public companies	₩ 1,142,419	55.15	₩ 833,641	47.54
Financial institutions	871,220	42.06	815,925	46.53
Manufacturing	20,375	0.98	29,691	1.69
Others	37,541	1.81	74,302	4.24
	₩ 2,071,555	100.00	₩ 1,753,559	100.00

Notes to Non-Consolidated Financial Statements

77

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(11) The portfolio of securities excluding securities using the equity method, by security type, as of December 31, 2007 and 2006 was as follows (Unit: In millions):

By security type	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Stocks	₩ 45,402	11.53	₩ 160,483	12.68
Fixed rate bonds	301,530	76.55	1,044,194	82.48
Floating rate bonds	37,233	9.45	51,120	4.04
Beneficiary certificates	9,730	2.47	10,093	0.80
	₩ 393,895	100.00	₩ 1,265,890	100.00
Available-for-sale securities:				
Stocks	₩ 2,271,799	33.14	₩ 2,269,598	32.13
Fixed rate bonds	2,385,862	34.81	2,956,296	41.85
Floating rate bonds	1,299,720	18.96	1,045,740	14.80
Subordinated bonds	761,313	11.11	707,543	10.02
Beneficiary certificates	-	-	14,774	0.21
Others	135,922	1.98	69,818	0.99
	₩ 6,854,616	100.00	₩ 7,063,769	100.00
Held-to-maturity securities:				
Fixed rate bonds	₩ 1,461,909	70.57	₩ 1,022,541	58.31
Floating rate bonds	50,854	2.45	107,584	6.14
Subordinated bonds	558,073	26.94	623,434	35.55
Others	719	0.04	-	-
	₩ 2,071,555	100.00	₩ 1,753,559	100.00

(12) The portfolio of securities excluding securities using the equity method, by country, as of December 31, 2007 and 2006 was as follows (Unit: In millions):

By country type	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Korea	₩ 393,895	100.00	₩ 1,258,056	99.38
Japan	-	-	6,311	0.50
Hong Kong (China)	-	-	1,523	0.12
	₩ 393,895	100.00	₩ 1,265,890	100.00
Available-for-sale securities:				
Korea	₩ 6,731,325	98.20	₩ 6,968,729	98.65
Cayman Islands	38,613	0.56	42,081	0.60
USA	63,062	0.92	28,153	0.40
Hong Kong (China)	5,852	0.09	12,166	0.17
UK	2,802	0.04	10,111	0.14
Others	12,962	0.19	2,529	0.04
	₩ 6,854,616	100.00	₩ 7,063,769	100.00
Held-to-maturity securities:				
Korea	2,054,854	99.19	₩ 1,743,419	99.42
Singapore	11,584	0.56	7,801	0.45
Philippines	5,081	0.25	2,303	0.13
Hong Kong (China)	36	0.00	36	0.00
	₩ 2,071,555	100.00	₩ 1,753,559	100.00

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(13) Term structure of securities except for stocks and equity investments in available-for-sale and held-to-maturity securities as of December 31, 2007 was as follows (Unit: In millions):

Classification	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	More than 10 years	Total
Government and public bonds	₩ 683,892	₩ 897,229	₩ 68	₩ -	₩ 1,581,189
Finance bonds	1,385,126	1,843,384	854,250	-	4,082,760
Foreign government bonds	11,584	-	5,081	125	16,790
Corporate bonds	278,043	525,509	50,178	-	853,730
Beneficiary certificates	9,730	-	-	-	9,730
Asset-backed securities	113,462	187,755	20,215	-	321,432
Others	1,313	-	-	66,153	67,466
	₩ 2,483,150	₩ 3,453,877	₩ 929,792	₩ 66,278	₩ 6,933,097

(14) Structured securities relating to stock and interest rate and credit risk as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (available-for-sale securities) (*)	₩ -	₩ -	₩ -
Convertible bonds (loans)	24,820	-	24,820
	24,820	-	24,820
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	239,252	-	239,252
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	40,144	-	40,144
	279,396	-	279,396
Structured notes relating to credit risk:			
Synthetic CDO	-	18,398	18,398
	₩ 304,216	₩ 18,398	₩ 322,614

(*) The Bank has two convertible bonds in foreign currencies with par value of ₩8,206 million and the book value was nil after reduction.

<December 31, 2006>

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (available-for-sale securities) (*)	₩ -	₩ -	₩ -
Convertible bonds (loans)	448	-	448
	448	-	448
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	539,247	-	539,247
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	90,407	-	90,407
	629,654	-	629,654
	₩ 630,102	₩ -	₩ 630,102

(*) The Bank has two convertible bonds in foreign currencies with par value of ₩8,206 million and the book value was nil after reduction.

Notes to Non-Consolidated Financial Statements

79

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(15) Changes in accumulated other comprehensive income (loss) of available-for-sale securities for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Equity securities	₩ 1,129,927	₩ 26,892	₩ (43,244)	₩ 4,497	₩ 1,118,072
Debt securities	(10,118)	(29,011)	5,099	6,576	(27,454)
	₩ 1,119,809	₩ (2,119)	₩ (38,145)	₩ 11,073	₩ 1,090,618

(16) Changes in accumulated other comprehensive loss of held-to-maturity securities for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Debt securities	₩ (773)	₩ 566	₩ -	₩ (156)	₩ (363)

(17) Changes in accumulated other comprehensive income of securities using the equity method for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Securities using the equity method	₩ 15,929	₩ 1,282	₩ -	₩ (353)	₩ 16,858

(18) Acquisition of stocks of Visa Inc.

The Bank acquired 2,719 thousand shares of Visa Inc. at the IPO on October 1, 2007. The Bank estimated the fair value of the stocks using the financial statements. The Bank has recognized the fair value of the stocks of ₩53,604 million as income related to available-for-sales.

5. Loans

(1) Loans as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Call loans	₩ 2,648,227	₩ 1,940,225
Domestic import usance bill	1,742,654	1,370,534
Credit card receivables	2,440,553	2,314,637
Bills bought in foreign currencies	3,443,838	3,050,344
Bills bought in Won	815,027	715,063
Bonds purchased under repurchase agreements	-	200,000
Loans in Won	37,120,145	30,954,080
Loans in foreign currencies	5,479,975	3,962,101
Factoring receivables	310,786	300,160
Advances for customers	6,718	12,351
Privately placed bonds	798,613	1,198,641
	54,806,536	46,018,136
Less: Allowance for possible loan losses	(719,365)	(614,102)
Deferred loan origination fees and costs	(31,792)	(14,519)
	₩ 54,055,379	₩ 45,389,515

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(2) Loans in Won and loans in foreign currencies as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification		2007	2006
Loans in Won:			
Commercial	Working capital loans:		
	Bank overdrafts	₩ 164,568	₩ 132,798
	General purpose loans	14,709,059	10,418,151
	Trade notes discounted	2,125,876	2,010,795
	Others	3,015,487	2,649,265
		20,014,990	15,211,009
	Loans with government funds (operating)	80,170	98,612
	Facilities loans:		
	General purpose loans	1,341,913	521,527
	Others	323,359	325,415
		1,665,272	846,942
	Loans with government funds (equipment)	481,256	434,215
		22,241,688	16,590,778
Households	Bank overdrafts	25	27
	General purpose loans	14,134,895	13,672,860
	Others	588,483	611,757
		14,723,403	14,284,644
Loans for installment credit		285	339
Public sector and others	Bank overdrafts	5,297	4,691
	General purpose loans	146,823	71,534
	Others	2,649	2,094
		154,769	78,319
Total loans in Won		37,120,145	30,954,080
Loans in foreign currencies:			
	Loans on deeds in foreign currency	2,417,071	2,289,814
	Inter-bank loans	177,370	98,082
	Others	2,885,534	1,574,205
Total loans in foreign currencies		5,479,975	3,962,101
		₩ 42,600,120	₩ 34,916,181

(3) Loans in Won and loans in foreign currencies, classified by borrower type, as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

By borrower type	Loans in Won	Loans in foreign currencies (*2)	Total	Percentage (%)
Large corporations	₩ 3,642,676	₩ 5,394,479	₩ 9,037,155	20.46
Small and medium corporations (*1)	18,599,012	1,650,780	20,249,792	45.85
Households	14,723,688	-	14,723,688	33.34
Others	154,769	-	154,769	0.35
	₩ 37,120,145	₩ 7,045,259	₩ 44,165,404	100.00

(*1) Small and medium corporations are prescribed in Article 2 of the Minor Enterprise Basic Act.

(*2) Domestic import usance bill is included and inter-bank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies.

<December 31, 2006>

By borrower type	Loans in Won	Loans in foreign currencies (*2)	Total	Percentage (%)
Large corporations	₩ 2,468,610	₩ 3,562,925	₩ 6,031,535	16.67
Small and medium corporations (*1)	14,122,168	1,671,628	15,793,796	43.64
Households	14,284,983	-	14,284,983	39.47
Others	78,319	-	78,319	0.22
	₩ 30,954,080	₩ 5,234,553	₩ 36,188,633	100.00

(*1) Small and medium corporations are prescribed in Article 2 of the Minor Enterprise Basic Act.

(*2) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

Notes to Non-Consolidated Financial Statements

81

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(4) Loans in foreign currencies classified by borrower's country as of December 31, 2007 and 2006 were as follows
(Unit: In thousands of U.S. dollars, in millions of Won):

<December 31, 2007>

By country	Loans in U.S. dollars (*1)	Translation into Won (*2)	Percentage (%)
Korea	US\$ 5,175,213	₩ 4,855,384	68.92
Canada	688,009	645,490	9.16
USA	446,314	418,732	5.94
Japan	367,831	345,099	4.90
China	127,545	119,663	1.70
Others	704,424	660,891	9.38
	US\$ 7,509,336	₩ 7,045,259	100.00

(*1) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the rate at the balance sheet date.

(*2) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies.

<December 31, 2006>

By country	Loans in U.S. dollars (*1)	Translation into Won (*2)	Percentage (%)
Korea	US\$ 4,132,493	₩ 3,841,565	73.39
Japan	301,590	280,358	5.36
Indonesia	46,135	42,887	0.82
China	65,426	60,820	1.16
Thailand	15,400	14,316	0.27
Others	1,069,930	994,607	19.00
	US\$ 5,630,974	₩ 5,234,553	100.00

(*1) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the rate of the balance sheet date.

(*2) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

(5) Loans classified by industry as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

By industry type	Loans in Won	Loans in foreign currencies (*)	Total	Percentage (%)
Corporations:	₩ 22,241,688	₩ 3,734,099	₩ 25,975,787	58.81
Manufacturing	8,101,371	2,593,343	10,694,714	24.22
Finance and insurance	624,551	80,193	704,744	1.60
Telecommunications	36,081	7	36,088	0.08
Service	5,197,444	483,782	5,681,226	12.86
Construction	3,090,027	90,926	3,180,953	7.20
Others	5,192,214	485,848	5,678,062	12.86
Households	14,723,688	-	14,723,688	33.34
Public sector and others	154,769	-	154,769	0.35
Loans of overseas branches	-	3,311,160	3,311,160	7.50
	₩ 37,120,145	₩ 7,045,259	₩ 44,165,404	100.00

(*) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies.

<December 31, 2006>

By borrower type	Loans in Won	Loans in foreign currencies (*)	Total	Percentage (%)
Corporations:	₩ 16,590,778	₩ 3,392,513	₩ 19,983,291	55.22
Manufacturing	6,765,094	2,148,708	8,913,802	24.63
Finance and insurance	271,889	136,877	408,766	1.13
Telecommunications	-	23,376	23,376	0.06
Service	3,765,448	536,638	4,302,086	11.89
Construction	2,320,978	88,696	2,409,674	6.66
Others	3,467,369	458,218	3,925,587	10.85
Households	14,284,983	-	14,284,983	39.47
Public sector and others	78,319	-	78,319	0.22
Loans of overseas branches	-	1,842,040	1,842,040	5.09
	₩ 30,954,080	₩ 5,234,553	₩ 36,188,633	100.00

(*) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(6) Loans to financial institutions as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Loans in Won	Loans in foreign currencies (*)	Call loans	Total	Percentage (%)
Bank	₩ 12,000	₩ -	₩ 1,505,959	₩ 1,517,959	45.27
Other financial institutions	612,551	80,193	-	692,744	20.66
Overseas financial institutions	-	-	1,142,268	1,142,268	34.07
	₩ 624,551	₩ 80,193	₩ 2,648,227	₩ 3,352,971	100.00

(*) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies.

<December 31, 2006>

Classification	Loans in Won	Loans in foreign currencies (*)	Call loans	Total	Percentage (%)
Bank	₩ 12,000	₩ 2,231	₩ 813,377	₩ 827,608	35.23
Other financial institutions	259,889	134,646	-	394,535	16.80
Overseas financial institutions	-	-	1,126,848	1,126,848	47.97
	₩ 271,889	₩ 136,877	₩ 1,940,225	₩ 2,348,991	100.00

(*) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

(7) The classification of asset quality for loans as of December 31, 2007 and 2006 was summarized as follows (Unit: In millions):

<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call loans	₩ 2,648,227	₩ -	₩ -	₩ -	₩ -	₩ 2,648,227
Credit card receivables	2,376,605	34,034	-	24,067	5,847	2,440,553
Bills bought in foreign currencies (*1)	3,543,588	32	7,965	1,501	-	3,553,086
Loans in Won (*2)	37,270,341	247,837	193,592	9,239	65,133	37,786,142
Loans in foreign currencies (*3)	6,944,075	55,014	37,733	6,227	464	7,043,513
Interbank loans in foreign currencies	177,370	-	-	-	-	177,370
Factoring receivables	310,786	-	-	-	-	310,786
Advances for customers (*4)	366	2,622	1,190	10	1,804	5,992
Privately placed bonds (*5)	798,096	245	173	-	-	798,514
Other accounts (*6)	1,331	86	1,634	1,138	1,665	5,854
	₩ 54,070,785	₩ 339,870	₩ 242,287	₩ 42,182	₩ 74,913	₩ 54,770,037

(*1) Local L/C bills bought in Won amounting to ₩17,352 million and Local L/C bills bought in foreign currencies amounting to ₩91,896 million among bills bought in Won are included in bills bought in foreign currencies.

(*2) Commercial bills purchased amounting to ₩705,779 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩39,782 million is deducted.

(*3) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies. Present value discount amounting to ₩1,746 million is deducted.

(*4) Present value discount amounting to ₩726 million is deducted on advances for customers.

(*5) Present value discount amounting to ₩99 million is deducted on privately placed bonds.

(*6) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩959 million, suspense payments in relation with loans amounting ₩3,583 million and securities (commercial paper) amounting to ₩1,312 million.

Notes to Non-Consolidated Financial Statements

83

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call loans	₩ 1,940,225	₩ -	₩ -	₩ -	₩ -	₩ 1,940,225
Credit card receivables	2,223,715	49,134	-	35,513	6,275	2,314,637
Bills bought in foreign currencies ^(*)	3,116,443	225	7,892	-	-	3,124,560
Bond purchased under repurchased agreement	200,000	-	-	-	-	200,000
Loans in Won ^{(*)2}	31,121,575	255,730	116,584	10,650	46,702	31,551,241
Loans in foreign currencies ^{(*)3}	5,125,417	46,294	52,662	9,338	842	5,234,553
Interbank loans in foreign currencies	98,082	-	-	-	-	98,082
Factoring receivables	300,160	-	-	-	-	300,160
Advances for customers	7,331	179	3,526	-	1,315	12,351
Privately placed bonds	1,198,641	-	-	-	-	1,198,641
Other accounts ^{(*)4}	2,081	169	1,111	908	2,352	6,621
	₩45,333,670	₩ 351,731	₩ 181,775	₩ 56,409	₩ 57,486	₩45,981,071

(*)1 Local L/C bills bought in Won amounting to ₩24,254 million and Local L/C bills bought in foreign currencies amounting to ₩49,962 million among bills bought in Won are included in bills bought in foreign currencies.

(*)2 Commercial bills purchased amounting to ₩640,847 million among bills bought in Won are included in loans in Won, and present value discount amounting to ₩43,686 million is deducted.

(*)3 Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

(*)4 Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩2,051 million, suspense payments in relation with loans amounting to ₩2,896 million and securities (commercial paper) amounting to ₩1,674 million.

(8) The term structure of loans as of December 31, 2007 was as follows (Unit: In millions):

Classification	Loans in Won	Loans in foreign currencies ^(*)	Total
Due in less than one year	₩ 27,549,129	₩ 5,011,018	₩ 32,560,147
Due from one to two years	2,119,829	339,767	2,459,596
Due from two to three years	2,363,429	259,303	2,622,732
Due from three to five years	1,317,970	723,097	2,041,067
Due after five years	3,769,788	712,074	4,481,862
	₩ 37,120,145	₩ 7,045,259	₩ 44,165,404

(*) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩177,370 million are excluded in loans in foreign currencies.

(9) The changes in deferred loan origination fees and costs for the year ended December 31, 2007 were as follows (Unit: In millions):

	Beginning balance	Addition	Deduction	Ending balance
Deferred loan origination fees and costs	₩ 14,519	₩ 39,012	₩ (21,739)	₩ 31,792

(10) Disposal of loans

The Bank disposed loans amounting to ₩157,149 million, ₩121,121 million and ₩17,101 million of principal to Tong-yang Financial Service Co., Ltd. and KEB 15th SPC, respectively, and recognized gain on disposal of loans of ₩6,520 million and loss on disposal of loans of ₩6,887 million and ₩360 million, respectively, for the year ended December 31, 2007 (see Note 17).

6. Restructured loans

(1) The loans that were restructured because of workouts plan and others for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Restructuring loans	Present value ^(*)	Ending balance of present value discounts
Workout plan	₩ 243,554	₩ 243,554	₩ -
Corporate reorganization	69,699	61,540	8,159
Rationalization of industry	140,518	99,055	41,463
	₩ 453,771	₩ 404,149	₩ 49,622

(*) As the present value is calculated with fair value at the restructuring date, if there is no fair value, the present value of total future cash receipts under the restructuring plans is discounted using interest rates of 6.41 percent to 13.46 percent. Also, the present value discount is calculated using effective interest rate method.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(2) Changes in the present value discounts relating to the outstanding restructured loans for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Amount (*1)	Present value discounts			
		Beginning balance	Addition	Deduction	Ending balance (*2)
Loans:					
Court receivership	₩ 4,142	₩ 908	₩ 59	₩ (375)	₩ 592
Others	122,214	42,779	6,013	(7,032)	41,760
	126,356	43,687	6,072	(7,407)	42,352
Accounts receivable:					
Court receivership	14,977	2,079	711	(656)	2,134
Others	20,624	4,450	1,738	(1,052)	5,136
	35,601	6,529	2,449	(1,708)	7,270
	₩ 161,957	₩ 50,216	₩ 8,521	₩ (9,115)	₩ 49,622

(*1) These only include restructured loans discounted at present value.

(*2) The present value discount is presented as allowance of possible loan losses.

7. Allowance for possible loan losses

(1) The allowance for possible loan losses as of December 31, 2007 and 2006 was summarized as follows (Unit: In millions):
<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Credit card loans	₩ 35,649	₩ 7,943	₩ -	₩ 15,062	₩ 5,847	₩ 64,501
Bills bought in foreign currencies	30,121	2	3,903	751	-	34,777
Loans in Won	344,949	19,248	39,967	4,703	65,133	474,000
Loans in foreign currencies	63,118	5,609	8,130	4,551	464	81,872
Factoring receivables	2,641	-	-	-	-	2,641
Advances for customers	3	487	238	5	1,804	2,537
Privately placed bonds	6,784	17	35	-	-	6,836
	483,265	33,306	52,273	25,072	73,248	667,164
Other accounts	11	7	327	569	1,665	2,579
Allowance for possible loan losses	483,276	33,313	52,600	25,641	74,913	669,743
Present value discounts	41,463	3,745	4,396	-	18	49,622
Allowance for possible loan losses on balance sheet	₩ 524,739	₩ 37,058	₩ 56,996	₩ 25,641	₩ 74,931	₩ 719,365

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Credit card loans	₩ 33,356	₩ 13,444	₩ -	₩ 23,308	₩ 6,275	₩ 76,383
Bills bought in foreign currencies	21,815	43	3,867	-	-	25,725
Loans in Won	260,397	28,595	28,610	6,973	46,702	371,277
Loans in foreign currencies	39,923	6,983	21,023	6,094	842	74,865
Factoring receivables	2,101	-	-	-	-	2,101
Advances for customers	51	13	705	-	1,315	2,084
Privately placed bonds	8,390	-	-	-	-	8,390
	366,033	49,078	54,205	36,375	55,134	560,825
Other accounts	15	17	223	454	2,352	3,061
Allowance for possible loan losses	366,048	49,095	54,428	36,829	57,486	563,886
Present value discounts	47,229	2,079	366	542	-	50,216
Allowance for possible loan losses on balance sheet	₩ 413,277	₩ 51,174	₩ 54,794	₩ 37,371	₩ 57,486	₩ 614,102

Notes to Non-Consolidated Financial Statements

85

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(2) The changes in allowance for possible loan losses for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Beginning balance	₩ 614,102	₩ 566,995
Provision for possible loan losses	307,042	174,597
Loans written-off	(355,682)	(331,704)
Repurchase of loan and others	153,328	214,402
Translation adjustments of overseas	1,169	(4,160)
Changes in present value discounts	(594)	(6,028)
Ending balance	₩ 719,365	₩ 614,102

(3) The allowance for possible loan losses compared to total loans, net of present value discount, was summarized as follows (Unit: In millions):

Classification	December 31, 2007	December 31, 2006	December 31, 2005
Loans (*1)	₩ 51,944,440	₩ 43,742,764	₩ 39,734,412
Allowance for possible loan losses (*2)	669,743	563,886	510,751
Percentage (%)	1.29	1.29	1.29

(*1) Call loans, bonds purchased under repurchase agreements and interbank loans in foreign currencies are excluded.

(*2) Present value discounts are excluded.

8. Tangible assets

(1) Tangible assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Tangible assets	₩ 1,606,470	₩ 1,560,388
Less: accumulated depreciation	(729,606)	(708,209)
	₩ 876,864	₩ 852,179

(2) Tangible assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

<December 31, 2007>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 377,328	₩ -	₩ 377,328
Buildings	513,696	(168,003)	345,693
Leasehold improvements	100,562	(66,606)	33,956
Equipment and vehicles	595,223	(494,997)	100,226
Construction in progress	19,661	-	19,661
	₩ 1,606,470	₩ (729,606)	₩ 876,864

<December 31, 2006>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 378,997	₩ -	₩ 378,997
Buildings	503,267	(157,674)	345,593
Leasehold improvements	87,828	(55,582)	32,246
Equipment and vehicles	590,296	(494,953)	95,343
	₩ 1,560,388	₩ (708,209)	₩ 852,179

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(3) The changes in book value of tangible assets for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Disposal	Depreciation	Ending
Land	₩ 378,997	₩ 214	₩ (1,883)	₩ -	₩ 377,328
Buildings	345,593	16,324	(2,819)	(13,405)	345,693
Leasehold improvements	32,246	14,089	(374)	(12,005)	33,956
Equipment and vehicles	95,343	76,468	(415)	(71,170)	100,226
Construction in progress	-	19,661	-	-	19,661
	₩ 852,179	₩ 126,756	₩ (5,491)	₩ (96,580)	₩ 876,864

(4) The published value of the land was ₩696,977 million and ₩631,805 million as of December 31, 2007 and 2006, respectively, based on the Laws on Disclosure of Land Price and Valuation of Land.

(5) Tangible assets, which have been insured as of December 31, 2007 and 2006, were as follows (Unit: In millions):

Type of insurance	Asset insured	Insured balance	Insurance company
Property composite	Buildings	₩ 336,657	Hyundai Marine Fire Insurance Co., Ltd. and others
	Leasehold improvements	31,522	
	Equipment and vehicles	72,889	
		₩ 441,068	

9. Other assets

(1) Other assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Guarantee deposits paid	₩ 621,251	₩ 493,820
Accounts receivable	5,927,168	4,381,017
Accrued income (see Note 2)	295,210	343,133
Prepaid expenses	8,912	8,268
Deferred income tax assets (see Note 21)	-	826
Derivatives assets (see Note 17)	786,839	630,499
Intangible assets	80,151	81,592
Sundry assets	1,127,556	753,960
	₩ 8,847,087	₩ 6,693,115

(2) Intangible assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

<December 31, 2007>

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 178,852	₩ (99,355)	₩ 79,497
Others (*)	4,297	(3,643)	654
	₩ 183,149	₩ (102,998)	₩ 80,151

(*) The effect of exchange rate fluctuation is included.

<December 31, 2006>

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 150,646	₩ (70,171)	₩ 80,475
Others (*)	4,836	(3,719)	1,117
	₩ 155,482	₩ (73,890)	₩ 81,592

(*) The effect of exchange rate fluctuation is included.

Notes to Non-Consolidated Financial Statements

87

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(3) The changes in intangible assets for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Amortization	Change in foreign currencies	Ending
Development expenditures	₩ 80,475	₩ 28,625	₩ (29,603)	₩ -	₩ 79,497
Others	1,117	-	(179)	(284)	654
	₩ 81,592	₩ 28,625	₩ (29,782)	₩ (284)	₩ 80,151

(4) Sundry assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Suspense payments in Won	₩ 54,547	₩ 39,184
Suspense payments in foreign currencies	2,595	759
Articles of consumption	4,231	3,193
Deposited money	19,682	18,187
Cash sending to other banks	-	300
Domestic exchange settlement debits	1,002,749	644,466
Bills unsettled	42,625	46,965
Others	1,127	906
	₩ 1,127,556	₩ 753,960

(1) Merchant banking accounts assets as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Loans	₩ 1,307,870	₩ 1,867,128
Cash Management Accounts	141,662	107,410
Trading securities	1,911,254	124,553
Financing lease receivables	4,556	5,820
Other assets	244	189
Allowance for possible loan losses	(11,825)	(14,600)
	₩ 3,353,761	₩ 2,090,500

(2) Loans

Classification	2007	2006
Bills discounted	₩ 1,307,870	₩ 1,834,491
Factoring receivables	-	32,637
	₩ 1,307,870	₩ 1,867,128
Discount interest rate of short-term bill (%)	4.73~8.01	4.60~6.95
Gain on valuation of bill discounted	₩ -	₩ 354

The merchant banking division of the Bank provides discounting of short-term bills maturing in one year or less at the interest rate of 4.73 ~ 8.01 percent per annum. In addition, certain bills discounted are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Gain or loss on valuation of bills discounted hasn't been recognized for the year ended December 31, 2007.

(3) Cash Management Accounts

Cash management accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Bills discounted	₩ 2,927	₩ 107,410
Securities	138,735	-
	₩ 141,662	₩ 107,410

10. Merchant banking account assets

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(4) Trading securities of December 31, 2007 and 2006 consisted of (Unit: In millions):

<December 31, 2007>

Classification	Face value	Adjusted value (*)	Fair value (Book value)
December 31, 2007	₩ 1,923,900	₩ 1,912,130	₩ 1,911,254
December 31, 2006	125,000	124,558	124,553

(*) Accrued interest is reflected.

(5) Financing Lease Receivables

Financial lease receivables in Won and foreign currencies, and the estimated future lease payments in aggregate to be received on financing leases as of December 31, 2007 were as follows (Unit: In millions):

Classification	Amounts
Due in less than one year	₩ 651
Due from one to two years	651
Due after two years	3,254
	₩ 4,556

(6) Asset Quality Classification and Related Allowance for Loan Losses

The asset quality classification and allowance for possible loan losses of the accounts in the merchant banking division of the Bank as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for possible loan and lease losses (*3)
Loans (*1)	₩ 1,310,797	₩ -	₩ -	₩ -	₩ -	₩ 1,310,797	₩ 11,142
Financial leases (*2)	-	4,556	-	-	-	4,556	683
	₩ 1,310,797	₩ 4,556	₩ -	₩ -	₩ -	₩ 1,315,353	₩ 11,825

(*1) Including bills discounted in CMA account.

(*2) These balances represent loan amount after deduction of present value discounted.

(*3) These balances include present value discounts.

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for possible loan and lease losses (*3)
Loans (*1)	₩ 1,974,538	₩ -	₩ -	₩ -	₩ -	₩ 1,974,538	₩ 13,822
Financial leases (*2)	614	5,159	-	-	-	5,773	778
	₩ 1,975,152	₩ 5,159	₩ -	₩ -	₩ -	₩ 1,980,311	₩ 14,600

(*1) Including bills discounted in CMA account.

(*2) These balances represent loan lease amount after deduction of present value discounted.

(*3) These balances include present value discounts.

(7) Other assets included in the merchant banking assets as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Accrued income	₩ 244	₩ 189

Notes to Non-Consolidated Financial Statements

89

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(8) Operating income of merchant banking accounts for the years ended December 31, 2007 and 2006 was as follows
(Unit: In millions):

Classification	2007	2006
Interest revenues	₩ 128,948	₩ 72,728
Commission revenues	281	274
Reversal of allowance for possible loan losses	2,775	-
Other revenues	6,824	4,666
	₩ 138,828	₩ 77,668

11. Deposits

(1) Deposits as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Demand deposits	₩ 18,176,330	₩ 18,380,737
Time deposits	20,683,185	16,137,336
Negotiable certificates of deposits	5,571,476	3,971,658
	₩ 44,430,991	₩ 38,489,731

(2) Details of deposits as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Demand deposits in Won:		
Checking deposits	₩ 224,068	₩ 231,408
Passbook deposits	1,276,736	1,329,049
Temporary deposits	878,238	1,203,870
Public fund deposits	38,522	39,186
General savings deposits	12,253,108	12,084,537
	14,670,672	14,888,050
Demand deposits in foreign currencies:		
Checking deposits	868,773	1,015,228
Passbook deposits	2,607,019	2,460,888
Temporary deposits	29,866	16,571
	3,505,658	3,492,687
Time deposits in Won:		
Time deposits	13,139,482	9,396,547
Installment savings deposits	957,391	1,233,238
Long-term savings for households	732,193	1,138,051
	14,829,066	11,767,836
Time deposits in foreign currencies:		
Time deposits	5,716,899	4,176,222
Notice deposits	26,578	6,662
Others	6,473	6,032
	5,749,950	4,188,916
Mutual installment savings	104,169	180,584
Negotiable certificates of deposits	5,571,476	3,971,658
	₩ 44,430,991	₩ 38,489,731

(3) Deposits with financial institutions as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 1,081,072	₩ 630,771	₩ 7,492	₩ 1,719,335
Demand deposits in foreign currencies	394,263	13,964	122,861	531,088
Time deposits:				
Savings deposits in Won	90,000	3,780,311	67,430	3,937,741
Savings deposits in foreign currencies	-	133,619	-	133,619
Negotiable certificates of deposits	204,849	165,625	-	370,474
	₩ 1,770,184	₩ 4,724,290	₩ 197,783	₩ 6,692,257

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

<December 31, 2006>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 62,811	₩ 537,629	₩ 1,834	₩ 602,274
Demand deposits in foreign currencies	388,212	5,732	170,717	564,661
Time deposits:				
Savings deposits in Won	-	1,368,611	28,350	1,396,961
Savings deposits in foreign currencies	-	210,291	-	210,291
Negotiable certificates of deposits	-	2,282,801	-	2,282,801
	₩ 451,023	₩ 4,405,064	₩ 200,901	₩ 5,056,988

(4) Term structure of deposits as of December 31, 2007 was as follows (Unit: In millions):

Classification	Deposits in Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in less than one year	₩ 28,177,856	₩ 9,250,344	₩ 5,524,314	₩ 42,952,514
Due from one to two years	346,163	4,438	47,162	397,763
Due from two to three years	706,550	821	-	707,371
Due from three to five years	108,242	5	-	108,247
Due after five years	265,096	-	-	265,096
	₩ 29,603,907	₩ 9,255,608	₩ 5,571,476	₩ 44,430,991

12. Borrowings

(1) Borrowings as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Call money	₩ 808,582	₩ 456,983
Bills sold	64,009	138,727
Bonds sold under repurchase agreements	444,762	397,246
Borrowings	7,540,748	6,572,361
Due to BOK in foreign currencies	-	3,182
Debentures	8,585,641	6,318,929
Less: Discount on debentures	(37,788)	(13,402)
	₩ 17,405,954	₩ 13,874,026

(2) Call money as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Lender	Annual interest rate (%)	2007	2006
Call money in Won	Financial institution in Korea and others	4.75 ~ 5.24	₩ 39,700	₩ 12,000
Call money in foreign currencies	Foreign financial institution and others	4.84 ~ 5.70	768,882	444,983
			₩ 808,582	₩ 456,983

(3) Bills sold, bonds sold under repurchase agreements and due to BOK in foreign currencies as of December 31, 2007 and 2006 consisted of the following (Unit: In millions):

Account	Lender	Annual interest rate (%)	2007	2006
Bills sold	General customer	3.00 ~ 5.80	₩ 64,009	₩ 138,727
Bonds sold under repurchase agreements	General customer and others	3.30 ~ 6.90	444,762	397,246
Due to BOK in foreign currencies	BOK	-	-	3,182
			₩ 508,771	₩ 539,155

Notes to Non-Consolidated Financial Statements

91

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(4) Borrowings as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Lender	Annual interest rate (%)	2007	2006
Borrowings in Won:				
Borrowings from the BOK	BOK	3.25	₩ 641,864	₩ 1,029,714
Borrowings from the Korean government	Ministry of Finance and Economy, and others	1.50 ~ 5.00	282,046	257,198
Borrowings from banking institutions	Industrial Bank of Korea and others	0.00 ~ 5.40	268,194	222,028
Other borrowings	Small Business Corporation and others	2.00 ~ 5.20	397,618	464,367
			1,589,722	1,973,307
Borrowings in foreign currencies:				
Refinance	Korea Exim Bank	5.18 ~ 5.60	541,341	395,080
Short term borrowing in foreign currencies	Foreign financial institution	0.98 ~ 5.95	3,318,227	2,326,698
Middle and long term borrowing in foreign currencies	SMBC and others	4.82 ~ 5.74	737,634	706,516
Borrowings from banks for sub-loan	Industrial Bank of Korea	2.35 ~ 2.55	751	2,113
Other borrowings	Foreign financial institution	2.71 ~ 9.25	1,353,073	1,168,647
			5,951,026	4,599,054
			₩ 7,540,748	₩ 6,572,361

(5) In the normal course of funding activities, the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions as of December 31, 2007 (see Note 4).

(6) Debentures

1) Debentures as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Annual interest rate (%)	2007	2006
Debentures in Won:			
Finance debentures	4.88 ~ 6.70	₩ 6,780,000	₩ 4,400,000
Subordinated financing debentures	4.90 ~ 6.75	694,513	1,292,554
Hybrid debentures	8.50	250,000	250,000
		7,724,513	5,942,554
Discounts on debentures		(34,065)	(9,940)
		7,690,448	5,932,614
Debentures in foreign currencies:			
Finance debentures	2.77 ~ 5.87	579,269	106,307
Subordinated financing debentures	5.00	281,859	270,068
		861,128	376,375
Discounts on debentures		(3,723)	(3,462)
		857,405	372,913
		₩ 8,547,853	₩ 6,305,527

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

2) As of December 31, 2007, all finance debentures issued in Won were general debentures and consisted of (Unit: In millions):

Issued date	Expiration date	Annual interest rate (%)	2007	2006
Feb. 19, 2002	Feb. 19, 2007	7.22	₩ -	₩ 50,000
Apr. 11, 2002	Apr. 11, 2007	7.60	-	10,000
Apr. 16, 2002	Apr. 16, 2007	7.60	-	20,000
Jun. 04, 2002	Jun. 04, 2007	7.20	-	50,000
Jan. 17, 2005	Jan. 17, 2007	3.93	-	10,000
Feb. 02, 2005	Feb. 02, 2007	4.25	-	50,000
Feb. 03, 2005	Feb. 03, 2007	4.23	-	50,000
Feb. 24, 2005	Feb. 24, 2007	4.34	-	50,000
Mar. 14, 2005	Mar. 14, 2007	4.23	-	50,000
Mar. 15, 2005	Mar. 15, 2007	4.18	-	50,000
Mar. 16, 2005	Mar. 16, 2007	4.16	-	50,000
Apr. 06, 2005	Apr. 06, 2007	4.07	-	50,000
Apr. 14, 2005	Apr. 14, 2007	4.05	-	50,000
Apr. 20, 2005	Apr. 20, 2007	3.97	-	50,000
Apr. 27, 2005	Apr. 27, 2007	3.96	-	50,000
Apr. 29, 2005	Apr. 29, 2007	3.92	-	100,000
May 17, 2005	May 17, 2007	3.86	-	50,000
May 18, 2005	May 18, 2007	3.86	-	50,000
Aug. 03, 2005	Aug. 03, 2007	4.40	-	50,000
Aug. 04, 2005	Aug. 04, 2007	4.37	-	30,000
Aug. 12, 2005	Aug. 12, 2007	4.40	-	40,000
Aug. 16, 2005	Aug. 16, 2007	4.35	-	40,000
Aug. 31, 2005	Aug. 31, 2007	4.35	-	50,000
Sep. 02, 2005	Mar. 02, 2007	4.17	-	30,000
Sep. 06, 2005	Sep. 06, 2007	4.29	-	50,000
Oct. 06, 2005	Apr. 06, 2007	4.84	-	50,000
Oct. 26, 2005	Oct. 26, 2008	5.32	50,000	50,000
Nov. 09, 2005	Nov. 09, 2007	5.30	-	50,000
Nov. 11, 2005	May 11, 2007	5.10	-	20,000
Nov. 15, 2005	May 15, 2007	5.08	-	10,000
Nov. 15, 2005	Nov. 15, 2007	5.32	-	40,000
Nov. 16, 2005	Nov. 16, 2007	5.35	-	50,000
Nov. 17, 2005	Nov. 17, 2007	5.30	-	10,000
Nov. 18, 2005	Nov. 18, 2007	5.30	-	50,000
Nov. 21, 2005	Nov. 21, 2007	5.30	-	50,000
Nov. 23, 2005	Nov. 23, 2007	5.22	-	40,000
Nov. 24, 2005	May 24, 2007	5.00	-	10,000
Nov. 25, 2005	Nov. 25, 2007	5.18	-	40,000
Nov. 28, 2005	May 28, 2007	5.00	-	50,000
Dec. 01, 2005	Dec. 01, 2007	5.24	-	50,000
Dec. 02, 2005	Dec. 02, 2007	5.26	-	50,000
Dec. 05, 2005	Dec. 05, 2007	5.31	-	20,000
Dec. 06, 2005	Jun. 06, 2007	5.14	-	50,000
Dec. 08, 2005	Dec. 08, 2007	5.36	-	50,000
Dec. 13, 2005	Dec. 13, 2007	5.18	-	40,000
Dec. 13, 2005	Jun. 13, 2007	5.07	-	10,000
Dec. 14, 2005	Dec. 14, 2007	5.14	-	40,000
Dec. 14, 2005	Jun. 14, 2007	5.03	-	10,000
Dec. 19, 2005	Dec. 19, 2007	5.14	-	30,000

Notes to Non-Consolidated Financial Statements

93

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rate (%)	2007	2006
Dec. 19, 2005	Jun. 19, 2007	5.01	₩ -	₩ 20,000
Dec. 20, 2005	Dec. 20, 2007	5.10	-	50,000
Dec. 23, 2005	Dec. 23, 2007	5.16	-	20,000
Dec. 26, 2005	Dec. 26, 2007	5.18	-	50,000
Dec. 27, 2005	Dec. 27, 2007	5.18	-	50,000
Dec. 28, 2005	Dec. 28, 2007	5.17	-	40,000
Dec. 28, 2005	Jun. 28, 2007	5.00	-	10,000
Dec. 29, 2005	Dec. 29, 2007	5.22	-	50,000
Jan. 03, 2006	Jul. 03, 2007	5.08	-	20,000
Jan. 03, 2006	Jan. 03, 2008	5.27	30,000	30,000
Jan. 04, 2006	Jan. 04, 2008	5.18	40,000	40,000
Jan. 09, 2006	Jul. 09, 2007	5.01	-	10,000
Jan. 11, 2006	Jan. 11, 2008	5.20	50,000	50,000
Jan. 12, 2006	Jul. 12, 2007	4.94	-	10,000
Jan. 13, 2006	Jan. 13, 2008	5.10	50,000	50,000
Jan. 16, 2006	Jul. 16, 2007	4.92	-	10,000
Jan. 17, 2006	Jul. 17, 2007	4.95	-	10,000
Feb. 08, 2006	Feb. 08, 2008	5.06	50,000	50,000
Apr. 04, 2006	Apr. 04, 2008	5.04	30,000	30,000
Apr. 04, 2006	Oct. 04, 2007	4.91	-	20,000
Apr. 05, 2006	Apr. 05, 2008	5.03	50,000	50,000
Apr. 06, 2006	Oct. 06, 2007	4.89	-	20,000
Apr. 06, 2006	Apr. 06, 2007	4.73	-	30,000
Apr. 10, 2006	Oct. 10, 2007	4.88	-	50,000
Apr. 11, 2006	Apr. 11, 2008	5.01	20,000	20,000
Apr. 11, 2006	Oct. 11, 2007	4.87	-	10,000
Apr. 12, 2006	Apr. 12, 2008	5.00	40,000	40,000
Apr. 12, 2006	Oct. 12, 2007	4.87	-	10,000
Apr. 14, 2006	Apr. 14, 2007	4.77	-	50,000
Apr. 18, 2006	Oct. 18, 2007	4.94	-	10,000
Apr. 19, 2006	Apr. 19, 2008	5.07	50,000	50,000
Apr. 25, 2006	Apr. 25, 2008	5.01	50,000	50,000
Apr. 27, 2006	Oct. 27, 2007	4.87	-	30,000
Apr. 28, 2006	Oct. 28, 2007	4.84	-	50,000
May. 02, 2006	Nov. 02, 2007	4.85	-	30,000
May. 03, 2006	May. 03, 2008	4.96	10,000	10,000
May. 03, 2006	Nov. 03, 2007	4.87	-	20,000
May. 08, 2006	May. 08, 2008	4.93	50,000	50,000
May. 11, 2006	May. 11, 2008	4.91	30,000	30,000
May. 11, 2006	Nov. 11, 2007	4.83	-	20,000
May. 12, 2006	May. 12, 2008	4.91	50,000	50,000
May. 16, 2006	May. 16, 2008	4.94	50,000	50,000
May. 17, 2006	May. 17, 2008	4.91	50,000	50,000
May. 19, 2006	May. 19, 2008	4.88	50,000	50,000
Jul. 04, 2006	Jul. 04, 2008	5.05	50,000	50,000
Jul. 05, 2006	Jul. 05, 2008	5.02	50,000	50,000
Jul. 06, 2006	Jul. 06, 2008	5.00	50,000	50,000
Jul. 19, 2006	Jul. 19, 2008	5.03	50,000	50,000
Jul. 26, 2006	Jan. 26, 2008	4.99	50,000	50,000
Nov. 17, 2006	Nov. 17, 2009	4.89	50,000	50,000
Dec. 04, 2006	Dec. 04, 2008	4.94	10,000	10,000

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rate (%)	2007	2006
Dec. 06, 2006	Dec. 06, 2008	4.92	₩ 10,000	₩ 10,000
Dec. 06, 2006	Dec. 06, 2009	4.98	40,000	40,000
Dec. 08, 2006	Dec. 08, 2008	4.89	30,000	30,000
Dec. 11, 2006	Dec. 11, 2009	5.00	50,000	50,000
Dec. 12, 2006	Dec. 12, 2008	4.96	50,000	50,000
Dec. 13, 2006	Dec. 13, 2008	4.95	50,000	50,000
Dec. 14, 2006	Dec. 14, 2008	4.97	50,000	50,000
Dec. 15, 2006	Dec. 15, 2008	4.99	120,000	120,000
Dec. 19, 2006	Dec. 19, 2008	5.00	50,000	50,000
Dec. 20, 2006	Dec. 20, 2007	4.95	-	30,000
Dec. 20, 2006	Dec. 20, 2008	5.02	20,000	20,000
Dec. 21, 2006	Dec. 21, 2007	4.96	-	90,000
Dec. 28, 2006	Dec. 28, 2007	4.83	-	50,000
Jan. 09, 2007	Jan. 09, 2009	5.07	50,000	-
Jan. 10, 2007	Jan. 10, 2010	5.10	50,000	-
Jan. 11, 2007	Jan. 11, 2010	5.09	50,000	-
Jan. 16, 2007	Jan. 16, 2008	5.09	40,000	-
Jan. 17, 2007	Jan. 17, 2009	5.15	50,000	-
Jan. 18, 2007	Jan. 18, 2009	5.17	20,000	-
Jan. 18, 2007	Jan. 18, 2010	5.20	30,000	-
Jan. 19, 2007	Jan. 19, 2009	5.16	50,000	-
Jan. 25, 2007	Jan. 25, 2009	5.20	20,000	-
Jan. 25, 2007	Jan. 25, 2010	5.23	30,000	-
Feb. 05, 2007	Feb. 05, 2010	5.23	50,000	-
Feb. 06, 2007	Feb. 06, 2008	5.10	10,000	-
Feb. 06, 2007	Aug. 06, 2008	5.14	30,000	-
Feb. 09, 2007	Feb. 09, 2010	5.14	50,000	-
Feb. 14, 2007	Feb. 14, 2008	5.09	40,000	-
Feb. 14, 2007	Aug. 14, 2008	5.11	10,000	-
Feb. 15, 2007	Feb. 15, 2008	5.05	30,000	-
Feb. 15, 2007	Aug. 15, 2008	5.06	60,000	-
Feb. 16, 2007	Aug. 16, 2008	5.05	20,000	-
Feb. 23, 2007	Aug. 23, 2008	5.03	10,000	-
Feb. 28, 2007	Feb. 28, 2010	5.05	30,000	-
Mar. 02, 2007	Mar. 02, 2008	5.03	10,000	-
Mar. 09, 2007	Mar. 09, 2008	5.00	40,000	-
Mar. 12, 2007	Mar. 12, 2008	5.03	30,000	-
Mar. 15, 2007	Mar. 15, 2008	5.03	30,000	-
Mar. 15, 2007	Mar. 15, 2009	5.06	20,000	-
Mar. 16, 2007	Mar. 16, 2009	5.05	50,000	-
Mar. 23, 2007	Sep. 23, 2008	5.02	70,000	-
Mar. 27, 2007	Mar. 27, 2008	5.01	20,000	-
Mar. 27, 2007	Mar. 27, 2009	5.03	30,000	-
Mar. 29, 2007	Sep. 29, 2008	5.02	10,000	-
Apr. 03, 2007	Apr. 03, 2009	5.05	50,000	-
Apr. 18, 2007	Oct. 18, 2008	5.11	10,000	-
Apr. 19, 2007	Oct. 19, 2008	5.10	20,000	-
Apr. 24, 2007	Oct. 24, 2008	5.15	20,000	-
May. 02, 2007	May. 02, 2009	5.24	50,000	-
May. 03, 2007	Nov. 03, 2008	5.20	30,000	-
May. 08, 2007	May. 08, 2008	5.18	10,000	-

Notes to Non-Consolidated Financial Statements

95

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rate (%)	2007	2006
May. 08, 2007	May. 08, 2009	5.24	₩ 10,000	₩ -
May. 09, 2007	May. 09, 2009	5.27	20,000	-
May. 14, 2007	May. 14, 2008	5.22	10,000	-
May. 14, 2007	May. 14, 2010	5.32	40,000	-
May. 15, 2007	May. 15, 2008	5.24	10,000	-
May. 15, 2007	May. 15, 2009	5.28	20,000	-
May. 16, 2007	May. 16, 2010	5.35	50,000	-
May. 17, 2007	May. 17, 2010	5.36	50,000	-
May. 21, 2007	May. 21, 2009	5.33	20,000	-
May. 21, 2007	May. 21, 2010	5.39	30,000	-
May. 23, 2007	May. 23, 2010	5.38	100,000	-
May. 29, 2007	May. 29, 2008	5.22	50,000	-
May. 30, 2007	May. 30, 2010	5.36	50,000	-
Jun. 01, 2007	Jun. 01, 2010	5.37	50,000	-
Jun. 05, 2007	Jun. 05, 2009	5.28	50,000	-
Jun. 13, 2007	Jun. 13, 2010	5.49	50,000	-
Jun. 15, 2007	Dec. 15, 2008	5.35	50,000	-
Jun. 18, 2007	Jun. 18, 2009	5.39	30,000	-
Jun. 26, 2007	Jun. 26, 2009	5.40	50,000	-
Jun. 28, 2007	Jun. 28, 2010	5.44	50,000	-
Jul. 10, 2007	Jul. 10, 2009	5.50	50,000	-
Jul. 11, 2007	Jul. 11, 2009	5.50	50,000	-
Jul. 16, 2007	Jul. 16, 2008	5.40	40,000	-
Jul. 16, 2007	Jan. 16, 2009	5.40	10,000	-
Jul. 18, 2007	Jul. 18, 2008	5.41	40,000	-
Jul. 19, 2007	Jan. 19, 2009	5.53	50,000	-
Jul. 24, 2007	Jan. 24, 2009	5.52	30,000	-
Jul. 24, 2007	Jul. 24, 2010	5.60	20,000	-
Jul. 25, 2007	Jul. 25, 2010	5.61	50,000	-
Jul. 26, 2007	Jan. 26, 2009	5.51	40,000	-
Jul. 26, 2007	Jul. 26, 2009	5.55	10,000	-
Jul. 30, 2007	Jul. 30, 2010	5.53	30,000	-
Jul. 31, 2007	Jul. 31, 2009	5.48	20,000	-
Jul. 31, 2007	Jul. 31, 2010	5.53	30,000	-
Aug. 01, 2007	Aug. 01, 2009	5.45	20,000	-
Aug. 03, 2007	Aug. 03, 2009	5.44	40,000	-
Aug. 03, 2007	Aug. 03, 2010	5.48	10,000	-
Aug. 08, 2007	Feb. 08, 2009	5.32	10,000	-
Aug. 09, 2007	Aug. 09, 2009	5.57	40,000	-
Aug. 14, 2007	Aug. 14, 2010	5.58	10,000	-
Aug. 23, 2007	Aug. 23, 2010	5.65	30,000	-
Aug. 24, 2007	Aug. 24, 2010	5.67	50,000	-
Aug. 28, 2007	Aug. 28, 2008	5.50	10,000	-
Aug. 29, 2007	Aug. 29, 2008	5.50	10,000	-
Sep. 10, 2007	Sep. 10, 2010	5.77	200,000	-
Sep. 20, 2007	Sep. 20, 2008	5.64	50,000	-
Sep. 27, 2007	Sep. 27, 2008	5.65	50,000	-
Oct. 2, 2007	Apr. 2, 2009	5.77	50,000	-
Oct. 9, 2007	Oct. 9, 2008	5.65	10,000	-
Oct. 9, 2007	Apr. 9, 2009	5.77	20,000	-
Oct. 10, 2007	Oct. 10, 2010	5.93	200,000	-

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rate (%)	2007	2006
Oct. 11, 2007	Oct. 11, 2008	5.65	₩ 24,000	₩ -
Oct. 11, 2007	Apr. 11, 2009	5.78	26,000	-
Oct. 12, 2007	Apr. 12, 2009	5.80	50,000	-
Oct. 16, 2007	Apr. 16, 2009	5.81	140,000	-
Oct. 17, 2007	Apr. 17, 2009	5.80	50,000	-
Oct. 18, 2007	Oct. 18, 2009	5.84	30,000	-
Oct. 18, 2007	Oct. 18, 2010	5.91	70,000	-
Oct. 23, 2007	Oct. 23, 2010	5.84	10,000	-
Oct. 24, 2007	Oct. 24, 2008	5.65	10,000	-
Oct. 24, 2007	Oct. 24, 2009	5.78	40,000	-
Oct. 25, 2007	Oct. 25, 2008	5.65	40,000	-
Oct. 26, 2007	Apr. 26, 2009	5.74	20,000	-
Oct. 29, 2007	Oct. 29, 2010	5.69	40,000	-
Oct. 29, 2007	Apr. 29, 2009	5.76	30,000	-
Oct. 30, 2007	Oct. 30, 2008	5.70	190,000	-
Oct. 30, 2007	Apr. 30, 2009	5.76	30,000	-
Nov. 02, 2007	Nov. 02, 2009	5.86	40,000	-
Nov. 05, 2007	Nov. 05, 2008	5.72	50,000	-
Nov. 06, 2007	Nov. 06, 2008	5.72	10,000	-
Nov. 08, 2007	Nov. 08, 2010	5.88	200,000	-
Nov. 14, 2007	Nov. 14, 2010	5.94	50,000	-
Nov. 23, 2007	Nov. 23, 2010	6.22	70,000	-
Nov. 26, 2007	Nov. 26, 2010	6.25	260,000	-
Nov. 30, 2007	Nov. 30, 2010	6.63	170,000	-
Dec. 05, 2007	Dec. 05, 2010	6.70	140,000	-
Dec. 17, 2007	Dec. 17, 2008	6.33	110,000	-
			₩ 6,780,000	₩ 4,400,000

Notes to Non-Consolidated Financial Statements

97

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

3) Finance debentures issued in foreign currencies as of December 31, 2007 and 2006 consisted of (Unit: In thousands of U.S. dollars, in millions of Won):

First underwriter	Issued date	Expiration date	Annual interest rate (%)	2007	2006
BNP Paribas, HSBC	Dec. 23, 2005	Dec. 23, 2007	-	₩ -	₩ 22,310 (US\$24,000)
BNP Paribas, HSBC	Dec. 23, 2005	Dec. 23, 2008	4.89	45,034 (US\$48,000)	44,621 (US\$48,000)
BNP Paribas	Mar. 13, 2006	Mar. 12, 2007	-	-	39,376 (US\$42,358)
DBS (*1)	Jan. 25, 2007	Jan. 25, 2008	2.77	32,447 (US\$34,585)	-
BOA (*2)	Feb. 16, 2007	Feb. 19, 2008	4.65	18,760 (US\$19,999)	-
HSBC (*3)	Mar. 14, 2007	Mar. 14, 2008	4.48	46,901 (US\$49,998)	-
Calyon	Jul. 20, 2007	Jul. 20, 2012	5.51	281,460 (US\$300,000)	-
NAB (*4)	Oct. 15, 2007	Oct. 15, 2009	5.87	24,052 (US\$25,640)	-
MIZUHO	Oct. 29, 2007	Oct. 29, 2009	5.21	46,910 (US\$50,000)	-
MIZUHO	Oct. 30, 2007	Oct. 30, 2009	5.20	18,764 (US\$20,000)	-
NAB (*5)	Nov. 05, 2007	Nov. 05, 2008	4.40	45,699 (US\$48,716)	-
NAB (*6)	Nov. 07, 2007	Nov. 07, 2008	4.49	19,242 (US\$20,512)	-
				₩ 579,269 (US\$617,450)	₩ 106,307 (US\$114,358)

(*1) Issued in Singapore dollar (SGD) amounting to SGD 50 million

(*2) Issued in Hong Kong dollar (HKD) amounting to HKD 156 million

(*3) Issued in Hong Kong dollar (HKD) amounting to HKD 390 million

(*4) Issued in Hong Kong dollar (HKD) amounting to HKD 200 million

(*5) Issued in Hong Kong dollar (HKD) amounting to HKD 380 million

(*6) Issued in Hong Kong dollar (HKD) amounting to HKD 160 million

4) Subordinated debentures as of December 31, 2007 and 2006 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

First underwriter	Issued date	Expiration date	Annual interest rate (%)	2007	2006
Debentures in Won:					
General sale	Feb. 28, 2000	Feb. 28, 2005	-	₩ -	₩ 50
General sale	May. 28, 2001	Feb. 28, 2007	-	2,009	400,000
General sale	Nov. 28, 2001	Feb. 28, 2007	-	-	200,000
General sale	Oct. 28, 2002	Jan. 28, 2008	6.75	200,000	200,000
General sale	Mar. 28, 2003	Dec. 28, 2008	5.80	242,504	242,504
Underwriting sale (*1)	Oct. 21, 2004	Oct. 21, 2014	5.10	170,000	170,000
General sale (*1)	Nov. 28, 2004	Nov. 28, 2014	4.90	80,000	80,000
				694,513	1,292,554
Debentures in foreign currencies:					
CITI group & HSBC (*1,*2)	Jun. 10, 2005	Jun. 10, 2015	5.00	281,859 (US\$300,426)	270,068 (US\$290,521)
				₩ 976,372	₩ 1,562,622

(*1) After 5 years from issuance date, the optional early redemption right is able to be exercised by the Bank.

(*2) The first underwriters

In addition, certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Loss on valuation of derivatives amounting to ₩9,293 million was accounted for in connection to such contracts for the year ended December 31, 2007.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(7) As of December 31, 2007, Hybrid Tier 1 bond was as follows (Unit: In millions):

Classification	Issued period (*2)	Annual interest rate (%) (*3)	Balance
Hybrid debentures 1st (*1)	May 28, 2003 ~ May 28, 2033	8.50	₩ 250,000

(*1) After 5 years from issuance date, call option can be exercised under the authorization of the Governor of the Financial Supervisory Service.

(*2) After expiration, the bond can be extended under the same terms.

(*3) After 10 years from issuance date, the interest rate increases to 10.0%.

(8) Term structure of borrowings as of December 31, 2007 was as follows (Unit: In millions):

Classification	Borrowing in Won	Borrowing in foreign currencies	Debentures in Won	Debentures in foreign currencies	Total
Due in less than one year	₩ 683,495	₩ 5,897,658	₩ 3,238,513	₩ 208,083	₩ 10,027,749
Due from one to two years	57,126	10,805	1,626,000	89,726	1,783,657
Due from two to three years	89,789	42,563	2,360,000	-	2,492,352
Due from three to five years	203,734	-	-	281,460	485,194
Due after five years	555,578	-	500,000	281,859	1,337,437
	₩ 1,589,722	₩ 5,951,026	₩ 7,724,513	₩ 861,128	₩ 16,126,389

13. Other liabilities

(1) Other liabilities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Accounts payable (see Note 17)	₩ 6,225,943	₩ 4,675,485
Accrued expenses (see Note 17)	718,028	674,865
Unearned revenues	83,812	56,931
Guarantee money received	136,849	165,136
Accrued payable foreign exchange	337,041	292,898
Deferred income tax liabilities (see Note 21)	176,823	144,159
Derivatives instruments liabilities (see Note 17)	805,025	771,737
Due to trust accounts	718,049	414,391
Accrued severance benefits	263,806	222,587
Less: Funds converted to National Pension	(740)	(774)
Less: Due to retirement insurance	(184,171)	(172,103)
Liability reserve for acceptances and guarantees	55,179	40,617
Liability reserve for unused credit limit	179,282	161,519
Allowance for other liabilities (see Note 17)	107,764	205,689
Sundry liabilities	1,767,519	1,400,900
	₩ 11,390,209	₩ 9,054,037

(2) Accrued severance benefits

The changes in accrued severance benefits for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Beginning	₩ 222,587	₩ 176,136
Provision	57,344	55,683
Payment (*)	(16,262)	(9,077)
Foreign currencies translation	137	(155)
	263,806	222,587
Funds Converted to National Pension	(740)	(774)
Due from Retirement Insurance	(184,171)	(172,103)
	₩ 78,895	₩ 49,710

(*) The payment of severance benefits amounting to ₩427 million for the year ended December 31, 2007 is accounted as accounts payable.

As of December 31, 2007, parts of severance benefits were contributed to pension funds of Samsung Life Insurance Co., Ltd.

Notes to Non-Consolidated Financial Statements

99

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(3) Liability reserve for acceptances and guarantees

1) Acceptances and guarantees as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Confirmed acceptances and guarantees in Won:		
Payment guarantee for issuance of debentures	₩ 2,253	₩ 1,034
Acceptances for letters of guarantee for importers	719	975
Payment guarantee for loans	70,658	64,555
Others	1,650,183	623,525
	1,723,813	690,089
Confirmed acceptances and guarantees in foreign currencies:		
Acceptances on letters of credit	275,546	242,972
Acceptances for letters of guarantee for importers	116,922	98,727
Credit derivatives-sold	47,489	18,592
Others	3,136,768	1,675,618
	3,576,725	2,035,909
Unconfirmed acceptances and guarantees:		
Letters of credit	4,610,604	3,533,844
Others	93,359	14,734
	4,703,963	3,548,578
Bills endorsed	62,165	63,486
	₩ 10,066,666	₩ 6,338,062

2) The classification of asset quality for acceptances and guarantees and liability reserve for acceptances and guarantees as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩ 5,292,158	₩ 7,485	₩ -	₩ 748	₩ 147	₩ 5,300,538	₩ 46,134
Unconfirmed acceptances	4,698,171	3,159	2,521	35	77	4,703,963	8,516
Bills endorsed	62,165	-	-	-	-	62,165	529
	₩10,052,494	₩ 10,644	₩ 2,521	₩ 783	₩ 224	₩10,066,666	₩ 55,179

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩2,665,155	₩ 57,224	₩ -	₩ 91	₩ 3,528	₩2,725,998	₩ 32,309
Unconfirmed acceptances	3,468,206	74,532	5,825	4	11	3,548,578	7,864
Bills endorsed	63,486	-	-	-	-	63,486	444
	₩6,196,847	₩ 131,756	₩ 5,825	₩ 95	₩ 3,539	₩6,338,062	₩ 40,617

3) Acceptances and guarantees, by industry, except for the portion of overseas branches as of December 31, 2007 and 2006 were as follows (Unit: In millions):

By industry	2007		2006	
	Balance	Percentage (%)	Balance	Percentage (%)
Manufacturing	₩ 3,244,398	64.07	₩ 1,352,630	52.46
Wholesale/retail	577,458	11.40	425,829	16.52
Construction	640,519	12.65	292,256	11.33
Finance	284,271	5.61	210,253	8.15
Telecommunication	12,718	0.25	15,507	0.60
Others	304,836	6.02	281,896	10.94
	5,064,200	100.00	2,578,371	100.00
Confirmed acceptance and guarantees in overseas branches	236,338		147,627	
	₩ 5,300,538		₩ 2,725,998	

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

4) Confirmed acceptances and guarantees in foreign currencies, by country, as of December 31, 2007 and 2006 were as follows (Unit: In thousands of U.S. Dollars, in millions of Won):

<December 31, 2007>

By country	Confirmed acceptances and guarantees in foreign currencies (*)	Translation into Won	Percentage (%)
Korea	US\$ 3,370,918	₩ 3,162,595	88.42
Taipei	75,633	70,959	1.98
France	69,252	64,972	1.82
USA	48,806	45,790	1.28
Singapore	40,480	37,978	1.06
Others	207,238	194,431	5.44
	US\$ 3,812,327	₩ 3,576,725	100.00

(*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

<December 31, 2006>

By country	Confirmed acceptances and guarantees in foreign currencies (*)	Translation into Won	Percentage (%)
Korea	US\$ 1,868,255	₩ 1,736,730	85.30
France	51,350	47,735	2.34
Germany	40,508	37,656	1.85
UK	21,140	19,652	0.97
USA	77,087	71,660	3.52
Japan	27,156	25,244	1.24
Others	104,597	97,232	4.78
	US\$ 2,190,093	₩ 2,035,909	100.00

(*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

5) The percentage of liability reserve for acceptances and guarantees as of December 31, 2007, 2006 and 2005 was as follows (Unit: In millions):

Classification	Acceptances and guarantees	Liability reserve	Percentage (%)
Dec. 31, 2007	₩ 10,066,666	₩ 55,179	0.55
Dec. 31, 2006	6,338,062	40,617	0.64
Dec. 31, 2005	5,710,324	40,593	0.71

(4) Liability reserve for unused credit limit

The Bank accrued reserve for estimated potential losses on unused credit limit considering the credit conversion factor based on the new standard of the Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses since 2005. The calculation of liability reserve for unused credit limit as of December 31, 2007 and 2006 was as follows (Unit: In millions):

<December 31, 2007>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 15,508,197	₩ 2,006,812	₩ 6,750,429	₩ 106,962
Loans to enterprise (**1)	65,471,645	25,102,582	9,762,067	85,093
Loans to household	3,405,898	1,429,844	398,239	3,982
Loans to public and others	133,939	83,246	10,139	86
	₩ 84,519,679	₩ 28,622,484	₩ 16,920,874	196,123
Merchant Banking Account (**2)				(16,841)
Liability reserve for unused credit limit				₩ 179,282

(**1) Unused credit limit of merchant banking account was included.

(**2) It was included in other liabilities of merchant banking account (see Note 14).

Notes to Non-Consolidated Financial Statements

101

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

<December 31, 2006>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 14,831,100	₩ 1,911,563	₩ 6,459,424	₩ 102,003
Loans to enterprise ^{(*)1}	55,145,872	18,377,572	8,646,210	65,831
Loans to household	2,922,734	1,165,632	358,421	3,584
Loans to public and others	14,955	7,332	1,525	11
	₩ 72,914,661	₩ 21,462,099	₩ 15,465,580	171,429
Merchant Banking Account ^{(*)2}				(9,910)
Liability reserve for unused credit limit				₩ 161,519

(*)1) Unused credit limit of merchant banking account was included.

(*)2) It was included in other liabilities of merchant banking account.

(5) Allowance for other liabilities

Allowance for other liabilities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Reserve for tax probe (see Note 17)	₩ -	₩ 133,953
Reserve for money-back point & yes-point	21,203	20,325
Reserve for litigation (see Note 17)	51,999	22,074
Reserve for employees' accident ^{(*)1}	600	3,950
Compensation to customers related to Won & Yen swap (see Note 17)	17,741	-
Provision for severance and early retirement benefits ^{(*)2}	12,172	-
Others ^{(*)3}	4,049	25,387
	₩ 107,764	₩ 205,689

(*)1) Provision was made for 2 suspense payment, which occurred in connection with employees' illegal act such as embezzlement.

(*)2) The Bank reserved the provision for severance and early retirement benefits for voluntary retirees who have worked for more than 15 years and are more than 40 years old.

(*)3) The Bank reversed the allowance for other liabilities amounting to ₩18,149 million as it won the lawsuit of a claim for refund of disposal deposit of Hanbo Steel. The Bank also reversed the allowance amounting to ₩3,218 million as escrow deposit of KP Chemical Co., Ltd.

(6) Sundry liabilities

Sundry liabilities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Suspense receipt	₩ 250,355	₩ 112,009
Withholding taxes	31,329	28,006
Agency business accounts	93,251	80,582
Agency	820,170	461,139
Credit control deposits	2,150	1,700
Guarantee deposits for securities subscription	14,999	17,592
Domestic exchange settlements credits	536,596	692,316
Domestic remittance payable	16,896	5,459
Others	1,773	2,097
	₩ 1,767,519	₩ 1,400,900

14. Merchant banking account liabilities

(1) Merchant banking accounts liabilities as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Deposits	₩ 2,121,888	₩ 1,625,156
Other liabilities	25,076	19,351
	₩ 2,146,964	₩ 1,644,507

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(2) Deposits as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	Annual interest rate (%)	2007	2006
Notes payable (*)	3.00 ~ 5.20	₩ 1,965,862	₩ 1,495,588
Due to CMA	4.70 ~ 4.89	156,026	129,568
		₩ 2,121,888	₩ 1,625,156

(*) Notes payable matures within a maximum of one year from issue date and bears interest at variable rates according to market conditions and note terms.

(3) Other liabilities as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Accrued expenses	₩ 1,009	₩ 1,131
Unearned income	7,226	8,310
Liability reserve	16,841	9,910
	₩ 25,076	₩ 19,351

(4) Operating expenses of merchant banking accounts for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Interest expenses	₩ 116,075	₩ 65,861
Transfer to reserve for bad debts	-	7,570
Transfer to other liability reserve	6,932	6,194
Other operating expenses	976	-
	₩ 123,983	₩ 79,625

15. Shareholders' equity

(1) Capital stock

Capital stock as of December 31, 2007 and 2006 was as follows (Unit: in Won, shares):

Classification	2007	2006
Shares authorized	1,000,000,000	1,000,000,000
Per share	₩ 5,000	₩ 5,000
Shares issued	644,906,826	644,906,826
Common stock	₩ 3,224,534 million	₩ 3,224,534 million

(2) Capital surplus

The amount of capital surplus as of December 31, 2007 and 2006 was transferred from stock option (accounted for as capital adjustment) since it lapsed as it was not exercised.

(3) Capital adjustments

Changes in capital adjustments for the year ended December 31, 2007 were as follows (Unit: In millions):

	Beginning	Increase	Decrease (*)	Ending
Stock option	₩ 18,862	₩ 5,417	₩ (24,279)	₩ -

(*) Represents exercise of stock option amounting to ₩6,499 million for the year ended December 31, 2007 and reclassification to accrued expenses amounting to ₩17,780 million.

In accordance with SKAS No.22, Share-Based Payment, the stock compensation costs, which had been recorded in capital adjustment was reclassified as other liabilities since the Bank had settled stock option by cash payment in the last two years and was assessed at fair value (intrinsic value for stock option granted before December 31, 2006). As a result, stock compensation costs were decreased by ₩285 million for the year ended December 31, 2007.

Notes to Non-Consolidated Financial Statements

103

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(4) Accumulated other comprehensive income

The changes in accumulated other comprehensive income for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Changes	Disposal	Deferred income tax	Ending
Gain (loss) on valuation of available-for-sale securities	₩ 1,119,809	₩ (2,119)	₩ (38,145)	₩ 11,073	₩ 1,090,618
Gain (loss) on valuation of held-to-maturity securities	(773)	566	-	(156)	(363)
Unrealized gain on investment in affiliates	15,929	1,282	-	(353)	16,858
	₩ 1,134,965	₩ (271)	₩ (38,145)	₩ 10,564	₩ 1,107,113

(5) Statements of comprehensive income

Comprehensive income consists of all changes in equity during a period from transactions and other events except those resulting from investments by owners and distributions to owners. Comprehensive income for year ended December 31, 2007 was as follows (Unit: In millions):

Classification	2007
Net income	₩ 960,945
Effect of exchange rate fluctuation	2,310
Other comprehensive income:	
Gain on valuation of available-for-sale securities	(40,264)
Gain on valuation of held-to-maturity securities	566
Unrealized gain on investment in affiliates	1,282
Less: Effect of income tax	10,564
Comprehensive income	₩ 935,403

(6) Retained earnings

Retained earnings as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Legal reserve (*1)	₩ 196,500	₩ -
Other reserves (*2)	38,826	35,474
Unappropriated retained earnings	2,082,886	1,964,390
	₩ 2,318,212	₩ 1,999,864

(*1) The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

(*2) Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10 percent of annual income after income tax as a legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. In addition, Singapore and Hanoi branches' statutory reserves are included in other statutory reserves.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

16. Share-based payment

(1) The details of the stock options as of December 31, 2007 were as follows (Unit: share, in Won):

Grant date	Stock option granted	Stock option expired to date	Stock option exercised	Stock option outstanding	Exercise price	Exercise period
Mar. 13, 2001	547,000	-	(547,000)	-	₩ 5,000	Mar. 14, 2004–Mar. 13, 2007
Mar. 30, 2002 (*)	32,020	(24,015)	-	8,005	70,715	Mar. 31, 2005–Mar. 30, 2008
Aug. 26, 2002	725,000	(421,850)	(220,150)	83,000	6,300	Aug. 27, 2005–Aug. 26, 2008
Mar. 31, 2003 (*)	101,401	-	-	101,401	13,266	Apr. 01, 2006–Mar. 31, 2009
Sep. 04, 2003 (*)	53,369	-	-	53,369	15,533	Sep. 05, 2006–Sep. 04, 2009
Sep. 16, 2003	120,000	(120,000)	-	-	5,000	Sep. 17, 2006–Sep. 16, 2009
Feb. 13, 2004	2,390,000	(567,770)	(972,760)	849,470	7,000	Feb. 14, 2006–Feb. 13, 2009
Mar. 07, 2005	1,355,000	(338,525)	(178,515)	837,960	8,800	Mar. 08, 2007–Mar. 07, 2010
Jun. 29, 2005	200,000	(63,230)	(15,880)	120,890	9,000	Jun. 30, 2007–Jun. 29, 2010
Mar. 07, 2006	400,000	(100,850)	-	299,150	13,300	Mar. 08, 2008–Mar. 07, 2011
Aug. 01, 2006	200,000	(35,000)	-	165,000	11,900	Aug. 02, 2008–Aug. 01, 2011
Mar. 08, 2007	1,090,000	(72,510)	-	1,017,490	13,900	Mar. 09, 2009–Mar. 08, 2012
Mar. 29, 2007	100,000	-	-	100,000	14,500	Mar. 30, 2009–Mar. 29, 2012
Mar. 29, 2007	530,000	-	-	530,000	14,500	Mar. 30, 2009–Mar. 29, 2012
Aug. 10, 2007	380,000	-	-	380,000	13,900	Aug. 11, 2009–Aug. 10, 2012
	8,223,790	(1,743,750)	(1,934,305)	4,545,735		

(*) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of cash equivalent to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria of the number of exercisable shares.

(2) Assumption to value stock compensation cost as of December 31, 2007 was as follows (Unit: In Won):

Grant date	Risk free rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%)	Expected dividend rate (%)	Exercised price	Intrinsic value (*2)
Mar. 30, 2002 (*1)	5.64	3	28.92	0.00	₩ 70,715	₩ -
Aug. 26, 2002	5.66	6	26.61	0.00	6,300	8,360
Mar. 31, 2003 (*1)	5.68	3	29.38	0.00	13,266	1,394
Sep. 04, 2003 (*1)	5.69	3	29.49	0.00	15,533	-
Sep. 16, 2003	5.69	6	29.33	0.00	5,000	9,660
Feb. 13, 2004	5.67	5	29.85	0.00	7,000	7,600
Mar. 07, 2005	5.71	5	31.69	0.00	8,800	5,860
Jun. 29, 2005	5.72	5	31.33	0.00	9,000	5,660
Mar. 07, 2006	5.74	5	29.98	0.00	13,300	1,360
Aug. 01, 2006	5.75	5	30.74	0.00	11,900	2,760
Mar. 08, 2007 (*2)	5.76	5	37.41	0.00	13,900	5,823
Mar. 29, 2007 (*2)	5.76	5	37.74	0.00	14,500	5,668
Mar. 29, 2007 (*2)	5.76	5	37.74	0.00	14,500	5,668
Aug. 10, 2007 (*2)	5.77	5	39.51	0.00	13,900	6,310

(*1) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

(*2) The intrinsic value of compensation cost granted before December 31, 2006 is the difference between the market price and the exercise price in accordance with SKAS Interpretations 39-35 - *Accounting for Stock Options*, and the intrinsic value of compensation cost granted after January 1, 2007 is fair value in accordance with SKAS No.22 - *Share-Based Payment*.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

17. Contingencies and commitments

(1) Derivatives

The notional amounts outstanding for derivative contracts as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Type (*)	2007			2006		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards	₩42,684,356	₩ -	₩42,684,356	₩31,817,720	₩ -	₩31,817,720
Currency futures	2,799,874	-	2,799,874	740,966	-	740,966
Currency swaps	6,640,534	-	6,640,534	6,101,202	-	6,101,202
Currency options purchased	6,477,700	-	6,477,700	2,115,263	-	2,115,263
Currency options sold	8,762,723	-	8,762,723	3,890,146	-	3,890,146
	67,365,187	-	67,365,187	44,665,297	-	44,665,297
Interest rate:						
Interest rate futures	779,425	-	779,425	561,752	-	561,752
Interest rate swaps	26,064,128	426,881	26,491,009	16,772,450	599,195	17,371,645
Interest rate options purchased	-	-	-	185,920	-	185,920
Interest rate options sold	-	-	-	185,920	-	185,920
	26,843,553	426,881	27,270,434	17,706,042	599,195	18,305,237
Index:						
Stock index futures	2,178	-	2,178	40,162	-	40,162
Stock index purchased	37,204	-	37,204	1,919	-	1,919
Stock index sold	92,389	-	92,389	356,710	-	356,710
	131,771	-	131,771	398,791	-	398,791
	₩94,340,511	₩ 426,881	₩94,767,392	₩62,770,130	₩ 599,195	₩63,369,325

(*) For transaction between Won and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate based on foreign currencies purchased at balance sheet dates.

The details of derivatives as of December 31, 2007, and the valuation of derivatives for the year ended December 31, 2007 were as follows (Unit: In millions):

<December 31, 2007>

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 373,915	₩ 340,937	₩ -	₩ -	₩ 373,915	₩ 340,937	₩ 377,600	₩ 375,544
Currency swaps	56,970	51,191	-	-	56,970	51,191	154,324	78,804
Currency options purchased	48,298	12,540	-	-	48,298	12,540	75,422	-
Currency options sold	21,417	36,603	-	-	21,417	36,603	-	94,368
	500,600	441,271	-	-	500,600	441,271	607,346	548,716
Interest:								
Interest rate swaps	147,109	212,952	9,569	3,452	156,678	216,404	178,479	233,678
Interest rate options purchased	-	-	-	-	-	-	-	-
Interest rate options sold	-	-	-	-	-	-	-	-
	147,109	212,952	9,569	3,452	156,678	216,404	178,479	233,678
Index:								
Stock index purchased	-	1,336	-	-	-	1,336	1,014	-
Stock index sold	3,617	34	-	-	3,617	34	-	22,631
Others	-	-	-	-	-	-	-	-
	3,617	1,370	-	-	3,617	1,370	1,014	22,631
	₩ 651,326	₩ 655,593	₩ 9,569	₩ 3,452	₩ 660,895	₩ 659,045	₩ 786,839	₩ 805,025

The Bank uses various derivative instruments for its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates.

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and bills discounted of merchant banking. The Bank recognized ₩3,452 million of gains on valuation of derivatives of available-for-sale securities, and ₩276 million and ₩9,293 million of losses on valuation of derivatives of available-for-sale securities and finance debentures in foreign currencies, respectively, for the year ended December 31, 2007. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

The details of derivatives and the valuation of derivatives for the year ended December 31, 2006 were as follows (Unit: In millions):

<December 31, 2006>

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 40,979	₩ 54,193	₩ -	₩ -	₩ 40,979	₩ 54,193	₩ 263,377	₩ 407,093
Currency swaps	80,643	33,173	-	-	80,643	33,173	251,873	127,406
Currency options purchased	5,633	-	-	-	5,633	-	21,406	-
Currency options sold	-	14,187	-	-	-	14,187	-	25,424
	127,255	101,553	-	-	127,255	101,553	536,656	559,923
Interest:								
Interest rate swaps	10,328	21,931	694	631	11,022	22,562	90,669	119,285
Interest rate options purchased	3,102	-	-	-	3,102	-	3,102	-
Interest rate options sold	-	-	-	-	-	-	-	-
	13,430	21,931	694	631	14,124	22,562	93,771	119,285
Index:								
Stock index purchased	9,514	873	-	-	9,514	873	72	-
Stock index sold	-	-	-	-	-	-	-	92,529
Others	-	-	-	-	-	-	-	-
	9,514	873	-	-	9,514	873	72	92,529
	₩ 150,199	₩ 124,357	₩ 694	₩ 631	₩ 15,893	₩ 124,988	₩ 630,499	₩ 771,737

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and notes discounted in merchant banking assets, and the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate. The Bank recognized ₩802 million, ₩492 million and ₩12 million of gains on valuation of derivatives of securities debentures and deposits, respectively, and ₩731 million of losses on valuation of derivatives of securities and recorded as gain or loss on valuation of derivatives, which were included in gain or loss on trading and valuation of derivatives for the year ended December 31, 2006. Also, gain on valuation of derivatives of loans to hedge interest rate amounting to ₩354 million was recognized as other income of operating income of merchant banking accounts and reflected in current operation.

(2) The credit default swap sold for revenue, for example fee revenue, as of December 31, 2007, was as follows (Unit : In thousands of USD, in thousands of CAD):

Type	Contract	Maturity	Par value
CDS	Apr. 02, 2007	Apr. 02, 2010	CAD 12,500
CDS (Unfunded Synthetic CDO)	Apr. 18, 2007	Dec. 30, 2014	USD 18,000
Synthetic CDO	May 30, 2006	Apr. 28, 2011	USD 20,000

When the Bank sells the credit default swap above, it's possible to suffer a loss depending on swap commitment, if a credit event stated on commitment occurs, such as dishonor of reference entities.

(3) The Bank holds written-off loans, of which the claim for borrowers and guarantors have not been terminated, amounting to ₩1,167,728 million and ₩1,467,531 million as of December 31, 2007 and 2006, respectively.

(4) Endorsed notes with collateral amount to ₩62,165 million and ₩63,486 million as of December 31, 2007 and 2006, respectively. Endorsed notes without collateral held at the merchant banking account amount to ₩8,095,294 million and ₩4,839,947 million as of December 31, 2007 and 2006, respectively.

(5) The Bank is obliged to repurchase some of the loans previously sold to the Korea Asset Management Corporation ("KAMCO") under certain conditions including the following:

- When it is considered impossible to collect the loans and interest due to delay in repayment of loans and interest over six months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-receivership process and the cancellation of mediation.

As of December 31, 2007, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩1,940 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(6) Loans sold to asset backed securitization (ABS) (Unit : In millions)

Classification	Date	Value of loans	Sale price	Subordinated debentures ^{(*)1}
KEB 5th Securitization Specialty Co., Ltd. ^{(*)2}	Feb. 01, 2001	₩ 589,175	₩ -	₩ -
KEB 6th Securitization Specialty Co., Ltd. ^{(*)3}	May 25, 2001	998,923	-	-
KEB 7th Securitization Specialty Co., Ltd. ^{(*)4}	Oct. 30, 2001	163,750	-	-
KEB 8th Securitization Specialty Co., Ltd. ^{(*)5}	Nov. 12, 2003	155,391	-	-
KEB 9th Securitization Specialty Co., Ltd. ^{(*)6}	May 14, 2004	206,442	-	-
KEB 10th Securitization Specialty Co., Ltd. ^{(*)7}	Aug. 10, 2004	147,464	-	-
KEB 11th Securitization Specialty Co., Ltd. ^{(*)8}	Apr. 30, 2005	207,886	-	-
KEB 12th Securitization Specialty Co., Ltd.	Nov. 14, 2005	178,587	136,000	66,000
KEB 13th Securitization Specialty Co., Ltd.	May 08, 2006	121,173	92,000	45,000
KEB 14th Securitization Specialty Co., Ltd.	Nov. 10, 2006	92,087	74,000	36,000
KEB 15th Securitization Specialty Co., Ltd. ^{(*)9}	Jun. 20, 2007	121,121	90,000	44,000

(*)1 The subordinated debentures are included in sale price.

(*)2 After redemption of the subordinated bonds on March 27, 2007, the 5th SPC had liquidation registered on September 5, 2007.

(*)3 After redemption of the subordinated bonds on March 20, 2006, the 6th SPC had liquidation registered on October 27, 2006.

(*)4 After redemption of the subordinated bonds on March 9, 2006, the 7th SPC had liquidation registered on October 27, 2006.

(*)5 After redemption of the subordinated bonds on January 16, 2006, the 8th SPC had liquidation registered on October 30, 2006.

(*)6 After redemption of the subordinated bonds on January 19, 2006, the 9th SPC had liquidation registered on October 23, 2007.

(*)7 After redemption of the subordinated bonds on January 19, 2006, the 10th SPC had liquidation registered on October 31, 2007.

(*)8 After redemption of the subordinated bonds on January 19, 2006, the 11th SPC had liquidation registered on October 31, 2007.

(*)9 The losses on disposal of loans have been recognized amounting to ₩6,887 million (see Note 5).

(7) The Bank has pending litigation as plaintiff or defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩352,345 million (1,405 cases) and ₩102,514 million (132 cases), respectively, as of December 31, 2007. The Bank recognized ₩51,999 million of provisions related to these lawsuits (see Note 13). The Bank believes that the outcome of these matters will not have a material impact to the Bank's financial position or operations.

The Bank was fined ₩25 billion for a violation of the securities exchange act related to affiliation with Korea Exchange Bank Credit Service Co. Ltd on February 1, 2008. The Bank appealed to the court immediately and the litigation is pending.

(8) Tax probe

The Bank was under tax probe by the National Tax Service ("NTS") from January 25 to August 31, 2006 for the fiscal years from 2001 to 2004, and was informed of a pre-taxation notice on October 12, 2006 as a result of the tax probe.

The Bank has reserved ₩133,953 million as other provision as of December 31, 2006 according to SKAS No.17 'Provisions, Contingent Liabilities and Contingent Assets' regardless of the tax payment amount to be confirmed after legal process such as confirmed-taxation notice, appeal to tax tribunal and others (see Note 13).

As the tax reconciliation partially reflects the Bank's appeal in pre-taxation judgment on the pre-taxation notice above, the Bank reversed the allowance for other liability amounting to ₩127,091 million out of ₩133,953 million less the amount related to Won-Yen swap of ₩6,862 million.

In addition, NTS notified the Bank and its customers of the tax on interest income on Won & Yen swap from 2003 to 2005. The Bank compensated its customers with the condition of entrusting tax appeal procedures. The amount of compensation to customers, meeting compensation requisite and reported is ₩10,879 million as of December 31, 2007. The Bank totally accounted it as an allowance for other liabilities (see Note 13). The Bank has obligation to pay when a customer requires compensation, meeting the requisite hereafter; however, the amount is not accounted as an allowance of other liabilities since it cannot be reliably estimated as of December 31, 2007.

(9) Credit to work-out companies

As of December 31, 2007, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩907,723 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank.

(10) Debt to equity swap of Hynix Semiconductor Inc.

The Bank's outstanding loans (including acceptances and guarantees) and available-for-sale securities convertible to equity securities with respect to Hynix Semiconductor Inc. ("Hynix") as of December 31, 2007 amount to ₩190,872 million and ₩933,171 million, respectively. As of December 31, 2007, the Bank's loans for Hynix are classified as normal. Joint control procedure for Hynix Semiconductor Inc was completed on Jul. 12, 2005. Also, the Bank's 37,742 thousand shares of Hynix are restricted for sale until December 31, 2007 and the gain on valuation of available-for-sale securities amounting to ₩498,367 million is accounted as other comprehensive income as of December 31, 2007.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(11) Debt to equity swap of Hyundai Engineering & Construction Co., Ltd.

As of December 31, 2007, the Bank has loans (including acceptances and guarantees) of ₩312,702 million and available-for-sale securities of ₩961,961 million with respect to Hyundai Engineering & Construction Co., Ltd. and the Bank's loans for Hyundai Engineering & Construction Co., Ltd. are classified as normal.

The Bank has 13,778 thousand shares of Hyundai Engineering & Construction Co., Ltd., which are restricted for sale until completion of M&A of Hyundai Engineering & Construction Co., Ltd. With regards to these securities, the gain on valuation of available-for-sale securities amounting to ₩514,621 million is accounted as other comprehensive income as of December 31, 2007.

(12) Commitments related to credit card business

The Bank has entered into trademark license (membership) agreements with Master Card International Incorporated in 1993, VISA International Service Association in 1988 and JCB International Service Association in 1997. The Bank pays and receives certain amounts of fees and commissions in connection to the income and expense incurred pertaining to these agreements.

The Bank has entered into credit card affinity agreements with KDB Capital. Under the agreements, the Bank gives an allocation of the fee income related to the credit card affinities.

(13) Indemnification obligations regarding the share subscription agreement by and between the Bank and the LSF-KEB Holdings, SCA

The Bank shall indemnify LSF-KEB Holdings, SCA for all purchaser losses ^{(*)1} and pay for damages resulting from any breach by the Bank of any of the Bank's covenants ^{(*)2} in the Share Subscription Agreement. The Bank's indemnification obligations are as follows:

Duration of indemnification obligations are as follows:

- Purchaser losses, excluding those mentioned below, may be indemnified until 18 months from the Closing Date ^{(*)3}.
- Purchaser losses arising as a result of fraud or intentional misrepresentation by the Bank may be indemnified at the Closing Date and continue to be in full force and effective until three years from the Closing Date.
- Purchaser losses related to tax matters may be indemnified at the Closing Date and continue to be in full force effective until five years from the Closing Date.

The Bank's indemnification obligations expire after the duration periods stated above. However, if the Bank receives written claims from Lone Star before the expiration of the durations, regardless of the durations stated above, the Bank's indemnification obligations continue to be in force and effective until the related matter are brought to satisfactory settlement.

The Bank has no indemnification obligation for claims less than ₩100 million. The Bank's indemnification obligation applies to claims exceeding ₩15,000 million cumulative, and only losses exceeding ₩10,000 million may be indemnified.

The total amount of indemnification obligations cannot exceed the LSF-KEB Holdings, SCA's investments in the Bank.

^{(*)1} Purchase losses means the amount of any and all losses, costs, liabilities, damages, judgments, settlements and expenses that arise out of any breach by the Bank of any of the Bank's representations and warranties contained in the Share Subscription Agreement or any breach by the Bank of any of the Bank's covenants or agreements in the Share Subscription Agreement.

^{(*)2} Covenant means the conditions set forth in the Share Subscription Agreement that the Bank shall comply with the share subscription until the Closing Date.

^{(*)3} Closing Date means the date that the new shares come into effect, and falls on October 31, 2003.

(14) The equity linked special incentive

On July 15, 2005, December 21, 2006 and December 12, 2007, the Bank granted the equity linked special incentive to employees for the purpose of motivation to improve long-term performance. Above incentive is one time incentive which is linked with the Bank's stock price and net asset per share, and can be eligible for the incentive for three years after two years from the effective date. The Bank recognized ₩23,766 million as compensation expense for the accomplishment over the long period related to above bonus and ₩17,385 million is recognized as long-term payable. The number of shares decreased due to early retirement was 38 thousand shares and 2,583 thousand shares of these were exercised and ₩37,914 million was paid for the year ended December 31, 2007.

(15) The dormant deposit

The Bank has recognized the dormant accounts which have no transaction for 5 years since the date of last transaction as income. The Bank has no legal obligation to pay for them which have been recognized as income. In accordance with the custom practice of the banking industry and by consideration of the bank's public responsibility; however, the Bank grants the account for refund in case a customer requires.

In addition, the special act about on transfer of dormant accounts, which enables the dormant deposit recognized as income since 2003 less than the amount the Presidential decree limits - the decree, limits the amount of translation of the dormant accounts to ₩300 thousand per an account, was announced and effected during this period, - to freely be transferred the dormant account if there is an active account in the same Bank or the other financial company institution, was pronounced on August 3, 2007. The Bank recognized dormant deposit to be transferred to other banks based on the Act amounting to ₩13,611 million as expenses.

Notes to Non-Consolidated Financial Statements

109

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

18. Assets and liabilities denominated in foreign currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

Classification	2007		2006	
	USD Equivalent (*)	Translation into Won	USD Equivalent (*)	Translation into Won
Assets:				
Cash and due from bank:				
Foreign currencies	US\$ 380,800	₩ 357,266	US\$ 289,260	₩ 268,896
Due from banks in foreign currencies	1,445,261	1,355,944	1,373,105	1,276,438
Securities:				
Trading securities	39,686	37,233	63,418	58,953
Available-for-sale securities	1,022,510	959,319	667,518	620,525
Held-to-maturity securities	483,349	453,478	518,704	482,188
Securities using the equity method	342,608	321,435	283,080	263,150
Loans:				
Call loans	2,236,439	2,098,227	2,087,162	1,940,225
Domestic import usance bill	1,857,444	1,742,654	1,474,327	1,370,534
Credit card receivables	2,004	1,880	1,727	1,605
Bills bought in foreign currencies	3,670,686	3,443,838	3,281,351	3,050,344
Bills bought in Won	97,949	91,896	79,836	74,216
Loans in foreign currencies	5,840,945	5,479,975	4,262,157	3,962,101
Factoring receivables	191,876	180,018	175,032	162,710
Private placed bonds	8,559	8,030	116,321	108,132
(Reserve for bad debts)	(47,930)	(44,968)	(48,102)	(44,716)
Other assets:				
Lease assets (financial lease receivable)	4,856	4,556	5,550	5,159
	US\$ 17,577,042	₩ 16,490,781	US\$ 14,630,446	₩ 13,600,460
Liabilities:				
Deposits:				
Demand deposits in foreign currencies	US\$ 3,736,579	₩ 3,505,658	US\$ 3,757,194	₩ 3,492,687
Savings deposits in foreign currencies	6,128,704	5,749,950	4,506,148	4,188,916
Borrowings:				
Borrowings in foreign currencies	6,343,025	5,951,026	4,947,347	4,599,054
Due to BOK in foreign currencies	-	-	3,423	3,182
Call money in foreign currencies	819,529	768,882	478,682	444,983
Bonds in foreign currencies	917,851	861,128	404,878	376,375
Other liabilities:				
Accrued expenses in foreign currencies	359,242	337,041	315,080	292,898
	US\$ 18,304,930	₩ 17,173,685	US\$ 14,412,752	₩ 13,398,095

(*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

19. Operating revenue and expenses

(1) Interest revenue and expenses

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expenses as of and for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Average balance	Interest revenue/expense	Rate of interest (%)
Interest revenue :			
Due from banks (*1)	₩ 1,510,866	₩ 66,138	4.38
Securities (*2)	7,681,849	373,840	4.87
Loans	49,683,702	3,612,561	7.27
	₩ 58,876,417	₩ 4,052,539	6.89
Interest expense:			
Deposits	₩ 38,954,077	₩ 1,251,465	3.21
Borrowings	16,499,922	776,855	4.71
	₩ 55,453,999	₩ 2,028,320	3.66

(*1) Excluding the average balance of reserve deposits with BOK

(*2) Excluding the average balance of stocks and beneficiary certificates

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

<December 31, 2006>

Classification	Average balance	Interest revenue/expense	Rate of interest (%)
Interest revenue:			
Due from banks (*1)	₩ 1,052,497	₩ 42,570	4.04
Securities (*2)	8,680,702	420,308	4.84
Loans	43,086,310	3,127,303	7.26
	₩ 52,819,509	₩ 3,590,181	6.80
Interest expense:			
Deposits	₩ 36,421,333	₩ 1,003,393	2.75
Borrowings	13,981,882	643,549	4.60
	₩ 50,403,215	₩ 1,646,942	3.27

(*1) Excluding the average balance of reserve deposits with BOK

(*2) Excluding the average balance of stocks and beneficiary certificate

(2) Gain and loss on trading and valuation of derivatives

Details of gain and loss on trading and valuation of derivatives for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Gain:		
Gain on trading of derivatives	₩ 1,946,887	₩ 2,060,260
Gain on valuation of derivatives	664,347	152,199
	₩ 2,611,234	₩ 2,212,459
Loss:		
Loss on trading of derivatives	₩ 1,931,309	₩ 2,073,517
Loss on valuation of derivatives	668,614	125,719
	₩ 2,599,923	₩ 2,199,236

(3) Commission income and expenses

Details of commission income and expenses for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Commission income:		
Commission received	₩ 525,532	₩ 421,982
Guarantee fees received	20,100	18,541
Other commission received	933	163
	₩ 546,565	₩ 440,686
Commission expenses:		
Commission paid	₩ 60,601	₩ 59,387
Other commission paid	155,117	134,857
	₩ 215,718	₩ 194,244

(4) Dividend income

Details of dividend income for the years ended December 31, 2007 and 2006 were as follows (Unit: In million)

Classification	2007	2006
Dividend income from trading securities	₩ 2,620	₩ 1,975
Dividend income from available-for-sale securities	4,493	1,916
	₩ 7,113	₩ 3,891

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(5) Other operating revenue and expenses

Details of other operating revenue and expenses for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Other operating revenue:		
Profit on operating trust account	₩ 32,818	₩ 25,703
Reversal of allowance for other liabilities	81,619	-
Operating income of merchant banking accounts	138,828	77,668
	₩ 253,265	₩ 103,371
Other operating expenses:		
Fund contributions	₩ 126,409	₩ 112,579
Provision for allowance for acceptances and guarantees	14,478	60
Provision for unused credit limit	18,006	74,453
Provision for other liabilities	-	117,198
Operating expenses of merchant banking accounts	123,983	79,625
Others	-	140
	₩ 282,876	₩ 384,055

(6) General and administrative expenses

General and administrative expenses for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Salaries	₩ 509,754	₩ 470,017
Expenses for fringe benefits	134,363	166,886
Retirement allowances	57,344	55,683
Honorary retirement	2,547	2,245
Operating expense	185,439	170,956
Depreciation	96,580	98,101
Amortization	29,782	24,532
Taxes	37,020	44,013
Rental	47,923	36,458
Entertainment	11,738	7,848
Advertising	37,021	34,554
	₩ 1,149,511	₩ 1,111,293

20. Non-operating income and expenses

Non-operating income and expenses for the years ended December 31, 2007 and 2006 consisted of (In millions):

Classification	2007	2006
Non-operating income:		
Gain on disposal of tangible assets	₩ 2,302	₩ 1,932
Rental income	2,186	2,067
Gain on securities using the equity method	54,746	40,337
Others	79,807	53,598
	₩ 139,041	₩ 97,934
Non-operating expenses:		
Loss on disposal of tangible assets	₩ 3,289	₩ 3,635
Loss on securities using the equity method	109	-
Others	30,700	17,113
	₩ 34,098	₩ 20,748

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

21. Income tax expense

(1) Components of income tax expense

The components of income tax expense for the years ended December 31, 2007 and 2006 were summarized as follows (Unit: In millions):

Classification	2007	2006
Income tax currently payable	₩ 468,063	₩ 363,237
Change in deferred taxes due to temporary differences	62,623	(25,156)
Change in deferred taxes due to loss carry forward	-	134,410
Effect of income tax	530,686	472,491
Income tax directly applied to shareholders' equity	10,564	108,377
Income tax expense in overseas branch	14,394	6,758
Income tax expense	555,644	587,626
(*) The ending balance of deferred income tax liabilities due to temporary differences	176,823	143,967
The beginning balance of deferred income tax liabilities due to temporary differences	114,200	169,123
Change in deferred taxes due to temporary differences	62,623	(25,156)

There is difference of ₩29,767 million between the ending balance of deferred taxes liabilities in 2006 amounting to ₩143,967 million and the beginning balance in 2007 amounting to ₩114,200 million due to temporary differences. It is recognized as the beginning balance of deferred taxes liabilities in 2007 due to the result of tax probe in 2007 which required to recognize deferred tax effects of temporary differences as the beginning balance of deferred tax liabilities.

(2) The income tax on income before income tax and reconciling items

The income tax on income before income tax and reconciling items for the years ended December 31, 2007 and 2006 were as follows (Units: In millions):

Classification	2007	2006
Income before income tax (①)	₩ 1,516,589	₩ 1,593,793
Burden of taxation (Current applicable rate : 27.5%)	417,049	438,280
Reconciliation items:		
Non-taxable income (₩4,560 million and ₩4,992 million in 2007 and 2006, respectively)	(1,254)	(1,373)
Non deducted expense (₩74,444 million and ₩77,551 million in 2007 and 2006, respectively)	20,472	21,326
Tax credits	(6,559)	(3,837)
Additional payment (refund) of income taxes	111,542	126,472
Income tax expense in overseas branch	14,394	6,758
Sum of reconciliation items	138,595	149,346
Income tax expense (②)	555,644	587,626
Effective tax rate (② ÷ ①)	36.64%	36.87%

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(3) Changes in cumulative temporary differences for the years ended December 31, 2007 and 2006, and deferred income tax assets (liabilities) as of December 31, 2007 and 2006 are as follows (Unit: In millions):

	Taxable (deductible) temporary differences				Deferred income tax assets (liabilities) ^{(*)2}			
	Beginning balance ^{(*)1}	Deduction	Addition	Ending balance	Beginning balance ^{(*)1}	Deduction	Addition	Ending balance
(Deductible temporary differences)								
Accrued income	₩ (98,076)	₩ (98,076)	₩(84,406)	₩ (84,406)	₩ (26,971)	₩ (26,971)	₩ (23,212)	₩ (23,212)
Gains or losses related to derivatives	33,752	1,382,811	1,308,339	(40,720)	9,282	380,273	359,793	(11,198)
Gain from assets contributed	49,408	-	13,950	63,358	13,587	-	3,836	17,423
Unearned dividend from SPC ^{(*)3}	-	-	9,781	9,781	-	-	-	-
Gains or losses on valuation of trading securities	207,159	215,242	75,992	68,018	56,969	59,192	20,898	18,675
Gains or losses on valuation of held-to-maturity securities	24,781	25,366	16,396	15,811	6,815	6,976	4,509	4,348
Allowance for other liability ^{(*)4}	377,118	377,118	303,887	303,887	103,707	103,707	76,694	76,694
Liability reserve for guarantees	40,617	40,617	55,179	55,179	11,170	11,170	15,174	15,174
Deferred loan organization fees and costs	9,745	9,745	33,239	33,239	2,680	2,680	9,141	9,141
Compensation expense for stock option	18,660	18,660	17,780	17,780	5,132	5,132	4,890	4,890
Long term accrued expenses	31,532	31,532	17,385	17,385	8,671	8,671	4,781	4,781
Convertible to equity securities	288,664	12,921	7,131	282,874	79,383	3,553	1,961	77,791
Other payables	-	-	17,162	17,162	-	-	4,720	4,720
Others	160,502	64,580	63,681	159,603	44,138	17,760	17,512	43,890
	1,143,862	2,080,516	1,855,496	918,951	314,563	572,143	500,697	243,117
(Accumulated other comprehensive income) ^{(*)5}								
Gain on disposal of available-for-sale securities	(1,544,565)	(1,544,565)	(1,504,301)	(1,504,301)	(424,755)	(424,755)	(413,683)	(413,683)
Loss on valuation of held-to-maturity securities	1,067	1,067	501	501	293	293	138	138
Unrealized gain on investment in affiliates	(21,970)	(21,970)	(23,253)	(23,253)	(6,042)	(6,042)	(6,395)	(6,395)
	(1,565,468)	(1,565,468)	(1,527,053)	(1,527,053)	(430,504)	(430,504)	(419,940)	(419,940)
	₩(421,606)	₩ 515,048	₩ 328,443	₩(608,102)	₩(115,941)	₩ 141,639	₩ 80,757	₩(176,823)

(*)1 The difference of retention amounting to ₩(6,331) million [₩(1,741) million of the effect of deferred income tax] in the final income tax report for the year ended December 31, 2006, and the difference of retention amounting to ₩108,244 million (₩29,767 million of the effect of deferred income tax) in the income tax report for the year ended December 31, 2007 were adjusted.

(*)2 The tax rate used for calculating deferred income tax assets and liabilities is expected tax rate applied to the period for which temporary differences are reversed based on settled tax rate at the balance date.

(*)3 Unearned dividend from SPC consists of deferred tax assets as taxable items in terms of taxation. As result of the tax probe, however, it was regarded as suspense receivable on related party; thus, it's possible to be taxable based on the provision of rejection of unfair act and calculation when the Bank deducts income tax by it.

(*)4 The allowance for other liabilities recognized due to acquisition of KEB Credit Service Ltd. amounting to ₩25,000 million will be excluded from expense and will not be able to deduct future's taxable income because it's reported as permanent difference. The Bank didn't recognize it as deferred income tax assets as it fails to meet requirement of deferred tax assets recognition.

(*)5 Deferred income tax assets and liabilities due to other accumulated comprehensive income are added or deducted directly from other accumulated comprehensive income.

(4) There was no temporary difference due to deferred income tax liabilities as of December 31, 2007.

(5) There was no carry-forward deficit as of December 31, 2007.

(6) Accrued income tax and receivables of prior year's income tax before offsetting (Unit: In millions):

Classification	2007	2006
Refund of prior year's income tax before offsetting	₩ 207,371	₩ 139,920
Accrued income tax before offsetting	356,838	363,751
Offset refund of prior year's income tax (overseas)	101	115
Offset accrued income tax	₩ 149,568	₩ 223,946

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

22. Earnings per share

(1) Basic net income per share

Basic income per share is calculated for common stock by dividing net income available to common shareholders by the weighted average number of outstanding common stock. The basic net income per share for the years ended December 31, 2007 and 2006 was as follows (Unit: In Won):

Classification	2007	2006
Net income	₩ 960,944,014,839	₩ 1,006,167,352,466
Weighted average number of common shares	644,906,826	644,906,826
Basic net income per share	₩ 1,490	₩ 1,560

Both the weighted average number of outstanding common stock and the number of outstanding common stock are same because there is no change on the number of outstanding common stock for the years ended December 31, 2007 and 2006.

(2) Diluted net income per share

Diluted net income per share for the years ended December 31, 2007 and 2006 represent diluted net income divided by the number of common shares and diluted securities. Diluted net income per share for the years ended December 31, 2007 and 2006 was computed as follows (Unit: In Won):

Classification	2007	2006
Net income	₩ 960,944,014,839	₩ 1,006,167,352,466
(+) Expense by stock option	-	51,593,823
Diluted net income (①)	960,944,014,839	1,006,218,946,289
Weighted average number of common shares	644,906,826	644,906,826
Number of diluted securities (*)	-	980,257
Weighted average number of common shares outstanding and diluted securities (②)	644,906,826	645,887,083
Diluted net income per share (① ÷ ②)	₩ 1,490	₩ 1,558

(*) The number of shares in relation with stock option is calculated using treasury stock method.

Since the Bank transferred stock option included in other accumulated comprehensive income to accrued expense as of December 31, 2007 and did not have diluted securities, the basic net income per share and diluted net income per share were the same (see Note 15).

23. Segment information

(1) Operating segments

1) General information of operating segments

The Bank's operating segments were as follows:

Classification	Operation
Consumer	Consumer banking
Corporate	Corporate banking
Foreign	International financial business
Credit card	Credit card operation
Others	Treasury operation of investment in securities (including derivatives), management and others

2) As of and for the year ended December 31, 2007 and 2006, financial information on the Bank's operating segments was as follows (Unit: In millions):

Classification	2007			2006		
	Operating income before provision	Loans (*)	Securities (*2)	Operating income before provision	Loans (*)	Securities (*2)
Consumer	₩ 846,539	₩20,059,106	₩ -	₩ 784,630	₩18,542,654	₩ -
Corporate	628,218	26,799,966	1,923,741	579,204	22,001,286	130,136
Foreign	62,223	4,758,937	657,570	74,357	3,378,907	541,996
Credit card	233,680	2,441,329	2,652	307,731	2,315,623	1,787
Others	65,337	2,055,068	9,100,726	277,432	1,646,794	9,935,554
	₩ 1,835,997	₩56,114,406	₩11,684,689	₩ 2,023,354	₩47,885,264	₩10,582,473

(*) Allowance for possible loan losses and deferred loan organization fees and costs are not deducted, and loans of merchant banking accounts are included.

(*2) Trading securities of merchant banking accounts are included.

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

3) Adjustment of income before liability reserve

Details of adjustment of income before liability reserve for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Operating income before provision	₩ 1,835,997	₩ 2,023,354
Liability reserve (*)	(262,064)	(373,878)
Accrued severance benefits	(57,344)	(55,683)
Income tax expense	(555,644)	(587,626)
Net income	₩ 960,945	₩ 1,006,167

(*) Liability reserves for acceptances and guarantees, unused credit limit and others (including merchant banking accounts) are included.

(2) Geographical segments

1) General information of geographical segments

The Bank operates domestic bank for local residents and overseas bank for Korean residents abroad and overseas companies.

2) As of and for the year ended December 31, 2007 and 2006, financial information on the Bank's geographical segments was as follows (Unit: In millions):

Classification	2007			2006		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Operating revenue	₩ 8,399,872	₩ 362,795	₩ 8,762,667	₩ 7,716,619	₩ 272,003	₩ 7,988,622
Operation income	1,328,924	82,722	1,411,646	1,448,411	68,196	1,516,607
Loans (*1)	51,355,405	4,759,001	56,114,406	44,508,588	3,376,676	47,885,264
Securities (*2)	11,321,822	362,867	11,684,689	10,319,932	262,541	10,582,473

(*1) Allowance for possible loan losses and deferred loan organization fees and costs are not deducted, and loans of merchant banking accounts are included.

(*2) Trading securities of merchant banking accounts are included.

24. Related party transactions

(1) The subsidiaries of the Bank as of December 31, 2007 were as follows:

Company	Relation
LSF-KEB Holdings, SCA	Parent company
KEBC	Subsidiary
KEBF	Subsidiary
KEBIS	Subsidiary
KEBOC	Subsidiary
KEBA	Subsidiary
KEBDAG	Subsidiary
KEBI	Subsidiary
KEBB	Subsidiary
NYFinCo	Subsidiary
LAFinCo	Subsidiary
USAI	Subsidiary

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(2) Significant balances made in the normal course of business with related parties as of December 31, 2007 and 2006 are summarized as follows (Unit: In millions):

<December 31, 2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ 1,322	₩ 2,777	₩ 2,818	₩ 57,265	₩ 284	₩ -	₩ -	₩ 64,466
Loans in Won	51,300	-	-	-	-	-	-	-	51,300
Loans in foreign currencies(*)	33,472	-	-	249,484	60,489	13,419	-	330,146	687,010
Allowance for possible loan losses	(1,111)	(340)	-	-	-	-	-	-	(1,451)
Other assets	139	1	-	624	830	7	-	3,475	5,076
	₩ 83,800	₩ 983	₩ 2,777	₩ 252,926	₩ 118,584	₩ 13,710	₩ -	₩ 333,621	₩ 806,401
Liabilities:									
Deposits in Won	₩ 145	₩ 35	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 180
Deposits in Foreign currencies	-	3,562	-	-	889	455	-	1,245	6,151
Borrowings in foreign currencies	-	-	-	59,867	54,926	9,384	-	13,262	137,439
Other liabilities	3,345	342	-	-	618	64	108,751	377	113,497
	₩ 3,490	₩ 3,939	₩ -	₩ 59,867	₩ 56,433	₩ 9,903	₩ 108,751	₩ 14,884	₩ 257,267

(*) including call loan in foreign currencies

<December 31, 2006>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ -	₩ 849	₩ 10,056	₩ 5,603	₩ 256	₩ -	₩ -	₩ 16,764
Loans in Won	72,400	-	-	-	-	-	-	-	72,400
Loans in foreign currencies(*)	29,276	-	-	127,795	73,472	25,471	-	169,187	425,201
Allowance for possible loan losses	(385)	-	-	-	-	(16)	-	-	(401)
Other assets	259	-	-	-	421	138	-	2,681	3,499
	₩ 101,550	₩ -	₩ 849	₩ 137,851	₩ 79,496	₩ 25,849	₩ -	₩ 171,868	₩ 517,463
Liabilities:									
Deposits in Won	₩ 151	₩ 47	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 198
Deposits in Foreign currencies	2,794	3,666	-	-	253	46	-	1,930	8,689
Borrowings in foreign currencies	-	-	-	23,492	66,529	-	-	17,504	107,525
Other liabilities	2,763	2	-	-	21,063	16,009	86,631	838	127,306
	₩ 5,708	₩ 3,715	₩ -	₩ 23,492	₩ 87,845	₩ 16,055	₩ 86,631	₩ 20,272	₩ 243,718

(*) including call loan in foreign currencies

Notes to Non-Consolidated Financial Statements

117

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

(3) Significant transactions with related parties for the years ended December 31, 2007 and 2006 were as follows
(Unit: In millions):

<December 31, 2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ 5,954	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 5,954
Interest revenues in foreign currencies	1,912	-	7	8,580	3,682	1,377	-	16,971	32,529
Commission income in Won	-	175	-	-	-	-	2	-	177
Commission income in foreign currencies	-	-	36	-	2,718	-	-	26	2,780
Other revenue	1,023	-	-	-	-	-	10,833	535	12,391
	₩ 8,889	₩ 175	₩ 43	₩ 8,580	₩ 6,400	₩ 1,377	₩ 10,835	₩ 17,532	₩ 53,831
Expenses:									
Interest expenses in Won	₩ 101	₩ 1	₩ -	₩ -	₩ -	₩ -	₩ 2,407	₩ -	₩ 2,509
Interest expenses in foreign currencies	-	116	65	1,495	5,045	979	-	1,244	8,944
Commission expense in Won	-	569	-	-	-	-	-	-	569
Commission expense in foreign currencies	-	100	-	-	101	-	-	-	201
Written-off of bad debts	305	-	-	-	-	(16)	-	-	289
Other expenses	1,262	36	-	-	-	60	-	581	1,939
	₩ 1,668	₩ 822	₩ 65	₩ 1,495	₩ 5,146	₩ 1,023	₩ 2,407	₩ 1,825	₩ 14,451

<December 31, 2006>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ -	₩ -	₩ 3,562	₩ -	₩ -	₩ 142	₩ -	₩ -	₩ 3,704
Interest revenues in foreign currencies	1,163	91	2,298	3,806	2,100	-	-	7,877	17,335
Commission income	-	-	-	2,996	-	2	-	10	3,008
Other revenue	-	-	145	-	-	162	9,548	-	9,855
	₩ 1,163	₩ 91	₩ 6,005	₩ 6,802	₩ 2,100	₩ 306	₩ 9,548	₩ 7,887	₩ 33,902
Expenses:									
Interest expenses in foreign currencies	₩ 690	₩ 8	₩ 43	₩ 3,721	₩ 615	₩ -	₩ -	₩ 1,096	₩ 6,173
Commission expense in Won	-	-	-	-	-	577	-	-	577
Commission expense in foreign currencies	-	-	-	284	-	223	-	-	507
Written-off of bad debts	-	-	59	-	16	(25)	-	-	50
Other expenses	-	-	2,481	-	57	-	2,238	-	4,776
	₩ 690	₩ 8	₩ 2,583	₩ 4,005	₩ 688	₩ 775	₩ 2,238	₩ 1,096	₩ 12,083

(4) The key management compensations for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Compensations
Short-term employee benefits	₩ 7,027
Employee benefits after resignation	1,904
Stock option	4,969
	₩ 13,900

The key management includes the directors, the executives and the officers who have authorities and responsibilities for decision-making of the business plan, operations and control over the Bank.

Notes to Non-Consolidated Financial Statements

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

25. Operation performance of trust accounts

(1) The significant financial information relating to trust accounts for the years ended December 31, 2007 and 2006 was as follows (Unit: In millions):

Classification	2007	2006
Revenue:		
Trust fees and commissions received from trust accounts	₩ 32,818	₩ 25,703
Commission from pre-payment	37	37
	₩ 32,855	₩ 25,740
Expense:		
Interest on borrowings from trust accounts	₩ 34,299	₩ 18,296

(2) As of December 31, 2007, the Bank is not obligated to pay difference between book value and fair value of trust account, and the trust accounts for which the Bank provided the guarantees for a fixed rate of return and/or the repayment of principal consisted of following (Unit: In millions):

Classification	Book value	Fair value
Trust accounts guaranteeing the repayment of principal:		
Installment trust	₩ 583	₩ 559
Household trust	2,603	2,534
Old age pension trust	7,820	7,484
Corporate trust	166	160
Personal pension trust	254,415	253,012
Retirement trust	721,001	719,124
New personal pension trust	34,852	34,747
New old age pension trust	12,019	11,316
Pension trust	97,113	97,021
	1,130,572	1,125,957
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:		
Unspecified monetary trust	76	73
Development money trust	7,953	36
	8,029	109
	₩ 1,138,601	₩ 1,126,066

26. Computation of value added

Accounts required for computation of value added for the years ended December 31, 2007 and 2006 consist of the following (Unit: In millions):

Accounts	2007	2006
Salaries	₩ 509,754	₩ 470,017
Retirement allowances	57,344	55,683
Expenses for fringe benefit	134,363	166,886
Rent	47,923	36,458
Depreciation	96,580	98,101
Amortization	29,782	24,532
Taxes and dues	37,020	44,013
	₩ 912,766	₩ 895,690

27. Financial information of the fourth quarter (unaudited)

The Bank is required to report interim financial statement but it doesn't report the financial statement of last quarter. The Bank's summary financial information for the last quarter ended December 31, 2007 and 2006 were as follows (Unit: In millions except per share amounts):

	4thQ in 2007	4thQ in 2006
Operating revenue	₩ 2,831,677	₩ 1,918,769
Net income	250,905	25,986
Ordinary income per share (In currency units)	389	40
Net income per share (In currency units)	389	40

KOREA EXCHANGE BANK (BANKING ACCOUNT) for the years ended December 31, 2007 and 2006

28. Dividends

(1) The calculation of dividends as of December 31, 2007 and 2006 was as follows (Unit: shares, In millions except per share amounts):

Classification	2007	2006
Dividends per share (rate) (In currency units)	₩ 700 (14%)	₩ 1,000 (20%)
Shares issued	644,906,826	644,906,826
Dividends	451,435	644,907

(2) The calculation of dividend payout ratio as of December 31, 2007 and 2006 was as follows (Unit: In millions):

Classification	2007	2006
Dividends	₩ 451,435	₩ 644,907
Net income	960,945	1,006,167
Dividend payout ratio (%)	46.98	64.10

The calculation of dividend yield ratio as of December 31, 2007 and 2006 was as follows (Unit: In currency units):

Classification	2007	2006
Dividends per share	₩ 700	₩ 1,000
Closing price	14,500	12,850
Dividend yield ratio (%)	4.83	7.78

29. Cash flows

(1) Cash in statements of cash flows consists of cash, due from bank (excluding restricted due from bank), receivables and preferred stock with 3 months or less of maturity and securities under agreement to repurchase with 3 months or less of maturity. Cash flows from operating activities are presented by the indirect method.

In addition, the Bank has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities.

(2) The cash and due from banks in the statements of cash flows for the years ended December 31, 2007 and 2006 were as follows (Unit : In millions)

Classification	2007	2006
Cash and due from banks	₩ 5,118,391	₩ 3,958,237
Add: securities	458,169	199,824
	5,576,560	4,158,061
Less: restricted due from bank	(1,886,999)	(1,534,482)
	₩ 3,689,561	₩ 2,623,579

(3) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2007 and 2006 were as follows (Unit : In millions):

Classification	2007	2006
Decrease of loans from write-offs of loans	₩ 373,091	₩ 332,886
Decrease of gain on valuation of available-for-sale securities	(29,191)	(286,505)
Change on unsettled spot transactions	5,439,166	883,864
Transferring of accrued expenses in stock option	17,780	-

Independent Accountants' Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Korea Exchange Bank:

We have reviewed the accompanying report on the management's assessment of IACS (the "Management's Report") of Korea Exchange Bank (the "Bank") as of December 31, 2007. The Management's Report, and the design and operation of IACS are the responsibility of the Bank's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Bank's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2007, the Bank's IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS framework established by the Korean Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of the Bank's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Bank's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with of the IACS Framework established by the Korean Listed Companies Association.

Our review is based on the Bank's IACS as of December 31, 2007, and we did not review its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.



Deloitte Anjin LLC
Seoul, Korea
March 11, 2008

Independent Auditors' Report(Consolidated)

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of Korea Exchange Bank:

We have audited the accompanying consolidated balance sheet of the bank accounts of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows and for the year ended December 31, 2007, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have not audited the financial statements of KEB Australia Ltd., Korea Exchange Bank of Canada, PT. Bank KEB Indonesia, Korea Exchange Bank (Deutschland) A. G., Banco KEB do Brasil S.A., KEB NY Financial Corp. and KEB LA Financial Corp. whose statements reflect total assets constituting 2.79 percent of consolidated total assets as of December 31, 2007 and total revenues constituting 1.84 percent of consolidated total revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for those entities, is based solely on the reports of such other auditors. The accompanying consolidated statements as of and for the year ended December 31, 2006, which are presented for comparative purposes, were audited by other auditors, whose report dated February 27, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and other auditors' report provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2007, and the results of their operations, the changes in its shareholders' equity and their cash flows for the year then ended, in conformity with generally accepted accounting principles in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, cash flows and changes in shareholder' equity in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



Deloitte Anjin LLC
Seoul, Korea
March 11, 2008

Notice to Readers

This report is effective as of March 11, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Consolidated Balance Sheets

KOREA EXCHANGE BANK AND SUBSIDIARIES as of December 31, 2007 and 2006

	(In millions of won)	
	2007	2006
ASSETS		
Cash and due from banks (Notes 4, 17, 24 and 27)	₩ 5,650,475	₩ 4,227,646
Securities (Notes 5, 16 and 17)	12,128,017	10,978,756
Loans (Notes 6, 7, 8, 16, 17, 18, 23 and 24)	57,344,247	48,645,510
Tangible assets (Note 9)	909,889	890,968
Other assets (Notes 3, 10, 16, 21 and 24)	8,903,538	6,739,653
	₩ 84,936,166	₩ 71,482,533
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits (Notes 11, 17 and 24)	₩ 48,671,354	₩ 41,803,940
Borrowings (Notes 12, 17 and 24)	18,149,233	14,188,853
Other liabilities (Notes 3, 13, 14, 16, 17 and 24)	11,439,716	9,085,694
	78,260,303	65,078,487
SHAREHOLDERS' EQUITY (Notes 14, 15 and 16):		
Common stock	3,224,534	3,224,534
Capital adjustments	-	18,862
Accumulated other comprehensive income	1,094,064	1,122,961
Retained earnings	2,355,777	2,036,379
Minority interests	1,488	1,310
	6,675,863	6,404,046
	₩ 84,936,166	₩ 71,482,533

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

123

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(In millions of won, except per share amounts)

	2007	2006
OPERATING REVENUES:		
Interest income (Notes 19 and 24):		
Interest on due from banks	₩ 87,278	₩ 49,733
Interest on trading securities	157,188	94,662
Interest on available-for-sale securities	217,642	262,890
Interest on held-to-maturity securities	88,911	105,149
Interest on loans	3,811,763	3,278,637
Other interest income	34,212	26,017
	4,396,994	3,817,088
Gain on valuation and disposal of securities (Note 5):		
Gain on valuation of trading securities	3,980	6,650
Gain on disposal of trading securities	97,613	85,152
Reversal of impairment loss on available-for-sale securities	92,980	287,859
Reversal of impairment loss on held-to-maturity securities	-	19,253
Gain on disposal of available-for-sale securities	141,394	293,220
	335,967	692,134
Gain on valuation and disposal of loans:		
Gain on disposal of loans (Note 6)	18,439	47,487
Foreign exchange trading income	938,684	897,163
Gain on trading and valuation of derivatives (Notes 16 and 18)	2,615,278	2,219,293
Commission income (Notes 18 and 24)	579,071	462,293
Dividends income (Note 18)	8,159	4,502
Other operating revenue (Notes 18 and 24)	103,573	16,157
Total operating revenues	8,996,165	8,156,117
OPERATING EXPENSES:		
Interest expenses (Notes 19 and 24):		
Interest on deposits	1,429,539	1,113,830
Interest on borrowings	798,872	648,107
Other interest expenses	35,850	20,439
	2,264,261	1,782,376
Loss on valuation and disposal of securities (Note 5):		
Loss on valuation of trading securities	12,285	10,894
Loss on disposal of trading securities	69,359	54,746
Impairment loss on available-for-sale securities	22,478	57,107
Impairment loss on held-to-maturity securities	-	204
Loss on disposal of available-for-sale securities	4,962	2,619
	109,084	125,570
Loss on valuation and disposal of loans:		
Provision for possible loan losses (Note 8)	304,777	181,715
Loss on disposal of loans (Notes 6 and 16)	7,246	7,219
	312,023	188,934

(Continued)

Consolidated Statements of Income, continued

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

	(In millions of won, except per share amounts)	
	2007	2006
Foreign exchange trading losses	₩ 630,378	₩ 619,182
Loss on trading and valuation of derivatives (Notes 12, 16 and 18)	2,605,516	2,207,480
Commission expenses (Notes 18 and 24)	222,434	197,838
General and administrative expenses (Notes 18 and 25)	1,197,362	1,142,461
Other operating expenses (Note 18)	168,865	316,217
Total operating expenses	7,509,923	6,580,058
OPERATING INCOME	1,486,242	1,576,059
NON-OPERATING INCOME (Notes 5 and 20)	86,828	58,612
NON-OPERATING EXPENSE (Notes 5 and 20)	36,459	27,074
INCOME BEFORE INCOME TAX	1,536,611	1,607,597
INCOME TAX EXPENSE (Note 21)	575,468	601,020
NET INCOME (Note 22)		
Controlling company interests, gain	₩ 960,945	₩ 1,006,414
Minority interests, gain	198	163
	961,143	1,006,577
BASIC NET INCOME PER SHARE (In currency units) (Note 22)	₩ 1,490	₩ 1,561
DILUTED NET INCOME PER SHARE (In currency units) (Note 22)	₩ 1,490	₩ 1,558

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

125

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(In millions of won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total
January 1, 2006	₩3,224,534	₩ -	₩ (309,894)	₩1,408,452	₩1,358,864	₩ 1,146	₩5,683,102
Net income	-	-	-	-	1,006,414	163	1,006,577
Loss on foreign exchange trading	-	(316)	-	-	(3,795)	(1)	(4,112)
Amortization of discount on capital stock	-	-	324,854	-	(324,854)	-	-
Stock options	-	-	3,902	-	-	-	3,902
Valuation of available-for-sale securities	-	-	-	(285,389)	-	2	(285,387)
Valuation of held-to-maturity securities	-	-	-	(102)	-	-	(102)
Capital adjustment on investment in subsidiaries (KEBC)	-	316	-	-	(316)	-	-
Others	-	-	-	-	66	-	66
December 31, 2006	₩3,224,534	₩ -	₩ 18,862	₩1,122,961	₩2,036,379	₩ 1,310	₩6,404,046
January 1, 2007	₩3,224,534	₩ -	₩ 18,862	₩1,122,961	₩2,036,379	₩ 1,310	₩6,404,046
Dividend	-	-	-	-	(644,907)	-	(644,907)
Net income	-	-	-	-	960,945	198	961,143
Loss (gain) on foreign exchange trading	-	1,441	-	-	2,310	(19)	3,732
Stock options	-	-	(18,862)	-	-	-	(18,862)
Valuation of available-for-sale securities	-	-	-	(29,307)	-	(1)	(29,308)
Valuation of held-to-maturity securities	-	-	-	410	-	-	410
Capital adjustment on investment in subsidiaries (KEBC)	-	(1,441)	-	-	1,441	-	-
Others	-	-	-	-	(391)	-	(391)
December 31, 2007	₩3,224,534	₩ -	₩ -	₩1,094,064	₩2,355,777	₩ 1,488	₩6,675,863

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

	(In millions of won)	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 961,143	₩ 1,006,577
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on valuation of trading securities, net	8,305	4,244
Reversal of impairment loss on available-for-sale securities, net	(70,502)	(230,752)
Reversal of impairment loss on held-to-maturity securities, net	-	(19,049)
Gain on valuation of securities using the equity method, net	(585)	(593)
Provision for possible loan losses	304,777	181,715
Loss on disposal of tangible assets, net	1,963	7,479
Depreciation and amortization	137,331	123,130
Loss (gain) on valuation of financial derivatives, net	4,407	(26,407)
Provision for severance benefits	58,137	56,329
Compensation cost	23,766	22,634
Reversal of allowance for other liabilities	(79,004)	-
Provision for other liabilities	-	119,625
Stock option compensation costs, net	5,417	4,965
Loss (gain) on foreign exchange trading, net	20,743	(38,337)
Others, net	6,818	85,247
	421,573	290,230
Changes in assets and liabilities resulting from operations:		
Net increase in trading securities	(1,090,574)	(164,848)
Net decrease in available-for-sale securities	545,580	1,911,289
Net decrease (increase) in held-to-maturity securities	(266,823)	451,208
Net increase in loans	(8,996,483)	(5,926,999)
Net decrease (increase) in accrued income	41,370	(13,456)
Net decrease (increase) in prepaid expenses	(75)	56,004
Net decrease (increase) in financial derivatives assets	(154,031)	17,173
Net increase in accrued expenses	2,260	35,761
Net increase in unearned revenues	26,137	13,217
Payment of severance benefits	(16,170)	(9,517)
Decrease in transfer to National Pension Fund	33	62
Increase in deposit of insurance for severance benefits	(12,060)	(41,953)
Net increase (decrease) in financial derivatives liabilities	33,012	(6,148)
Net decrease in allowance for other liabilities	(17,741)	-
Net decrease in accrued expenses (exercise of stock option)	(6,499)	-
Net decrease (increase) in deferred income tax assets	(2,582)	108,039
Net increase in deferred income tax liabilities	45,220	107,866
	(9,869,426)	(3,462,302)
Net cash used in operating activities	(8,486,710)	(2,165,495)

(Continued)

Consolidated Statements of Cash Flows, continued

127

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

	(In millions of won)	
	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of securities using the equity method	₩ -	₩ 28,965
Disposal of tangible assets	7,028	8,344
Disposal of real estate for non-business property	-	73
Acquisition of securities using the equity method	(4,000)	-
Purchase of tangible assets	(134,659)	(117,277)
Net increase in guarantee deposits paid	(127,952)	(11,693)
Purchase of intangible assets	(29,064)	(22,553)
Net decrease (increase) in accounts receivable	(1,548,684)	69,300
Net decrease (increase) in other assets	(5,813,785)	524,641
Net increase in due from banks	(348,820)	(1,073,762)
Net cash used in investing activities	(7,999,936)	(593,962)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	6,879,826	1,077,941
Net increase in borrowings	1,552,539	1,022,442
Net increase in debentures	2,361,784	449,741
Net increase in other liabilities	7,669,758	269,592
Decrease of stock option	-	(122)
Dividend (Note 26)	(644,907)	-
Net cash provided by financing activities	17,819,000	2,819,594
NET INCREASE IN CASH AND DUE FROM BANKS	1,332,354	60,137
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	2,884,434	2,824,297
CASH AND DUE FROM BANKS, END OF YEAR (Note 27)	₩ 4,216,788	₩ 2,884,434

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

1. General

Korea Exchange Bank (the “Bank”) was established on January 30, 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. On December 30, 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, the Bank was listed on the Korean Stock Exchange. The merger between the Bank and Korea Exchange Bank Credit Service Co., Ltd. (“KEBCS”) was finalized on February 28, 2004.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank, a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea. The Bank operates through 338 branches (including 26 depositary offices) and 3 subsidiaries in Korea and 21 branches (including 3 depositary offices and 2 offices) and 8 subsidiaries in overseas as of December 31, 2007.

The Bank’s shareholders as of December 31, 2007 are as follows:

Shareholders	Number of shares owned (*1)	Ownership (%)
LSF-KEB Holdings, SCA (*2)	329,042,672	51.02
Export-Import Bank of Korea	40,314,387	6.25
Bank of Korea	39,500,000	6.13
Euro-Pacific Growth Fund	23,917,000	3.71
Others	212,132,767	32.89
	644,906,826	100.00

(*1) As of December 31, 2007 - the date of closing a shareholders’ list
(*2) Since LSF-KEB Holdings, SCA disposed 87,707,328 shares at ₩13,600 per share through after-hour trade on June 26, 2007, the number of shares owned has been changed from 416,750,000 shares (64.62% of ownership) to 329,042,672 shares (51.02% of ownership).

The Bank entered into a Memorandum of Understanding regarding the Share Subscription Agreement with Lone Star Fund IV on August 27, 2003. On October 30, 2003, the Bank issued 268,750,000 shares of common stock to LSF-KEB Holdings, SCA at ₩4,000 per share (at less than its par value) in accordance with a resolution during an extraordinary shareholders’ meeting on September 16, 2003. The balance below the par value was recognized as a discount on stock issued.

As of December 31, 2007, the total number of authorized shares of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding with par value of ₩5,000)

2. Scope of consolidation and equity method accounting

The consolidated financial statements are based on the financial statements of the KEB (including merchant banking accounts), its trust accounts and subsidiaries. Subsidiaries included in the consolidation and accounted for using the equity method as of December 31, 2007 were as follows:

Subsidiaries	Closing date	No. of shares (unit: thousand)	Percentage of ownership (%)	Business
Consolidated (Domestic):				
KEB Capital Inc. (“KEBC”)	March 31	14,976	99.30	Leasing and Installment Financing
KEB Futures Co., Ltd. (“KEBF”)	March 31	3,000	100.00	Brokerage services for futures transactions
Consolidated (Oversea):				
Korea Exchange Bank of Canada (“KEBOC”)	December 31	334	100.00	Banking service
KEB Australia Ltd. (“KEBA”)	December 31	55,000	100.00	Commercial banking business and foreign exchange operation
Korea Exchange Bank (Deutschland) A.G. (“KEBDAG”)	December 31	20	100.00	Banking service
PT. Bank KEB Indonesia (“KEBI”)	December 31	1	99.00	Banking service
Banco KEB do Brasil S. A. (“KEBB”)	December 31	33,726	100.00	Banking service.
KEB NY Financial Corp. (“KEBNYFINCO”)	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
KEB LA Financial Corp. (“KEBLAFINCO”)	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
Accounted for using the equity method:				
Lippo Incheon Development Co., Ltd.	December 31	388	2.70	Developing Woonbook Leisure Complex
KEB USA Int’l Corp. (*1)	December 31	0.1	100.00	Remitting US dollars of the bank

(*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

Notes to Consolidated Financial Statements

129

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Subsidiaries included in the consolidation and accounted for using the equity method as of December 31, 2006 were as follows:

Subsidiaries	Closing date	No. of shares	Percentage of ownership (%)	Business
Consolidated (Domestic):				
KEB Capital Inc. ("KEBC")	March 31	14,976	99.30	Leasing and Installment Financing
KEB Futures Co., Ltd. ("KEBF")	March 31	3,000	100.00	Brokerage services for futures transactions
Consolidated (Oversea):				
Korea Exchange Bank of Canada ("KEBOC")	December 31	334	100.00	Banking service.
KEB Australia Ltd. ("KEBA")	December 31	55,000	100.00	Commercial banking business and foreign exchange operation
Korea Exchange Bank (Deutschland) A.G. ("KEBDAG")	December 31	20	100.00	Banking service
PT. Bank KEB Indonesia ("KEBI")	December 31	1	99.00	Banking service
Banco KEB do Brasil S. A. ("KEBB")	December 31	33,726	100.00	Banking service
KEB NY Financial Corp. ("KEBNYFINCO")	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
KEB LA Financial Corp. ("KEBLAFINCO")	December 31	0.1	100.00	Commercial banking business and foreign exchange operation
Accounted for using the equity method:				
KEB USA Int'l Corp. (*1)	December 31	0.1	100.00	Remitting US dollars of the bank

(*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

SUBSIDIARIES

TRUST ACCOUNTS

Certain trust accounts whose principal or fixed rate of return is guaranteed by the Bank are included in the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission in the Republic of Korea. The trust accounts as of December 31, 2007 and 2006 were as follows (Unit: In millions):

	2007		2006	
	Total assets	Operating revenue	Total assets	Operating revenue
Consolidated	₩ 1,126,066	₩ 66,081	₩ 1,028,696	₩ 57,714
Not consolidated	15,348,911	767,476	10,856,183	460,813
	₩ 16,474,977	₩ 833,557	₩ 11,884,879	₩ 518,527

KEB Capital Co., Ltd. ("KEBC")

KEBC was incorporated on September 11, 1989 to engage in leasing industrial equipment and registered in Korea Securities Dealers Automated Quotation ("KOSDAQ") on January 15, 1995. As KEBC continued to experience negative capital until March 31, 2001, its registration with KOSDAQ was canceled by KOSDAQ Committee on July 11, 2001 and withdrawn from KOSDAQ market on August 24, 2001. As of December 31, 2007, 99.3% of the total shares of KEBC are owned by the Bank.

KEBC implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction, or execution of stock selling option at ₩800 per share on the shares owned by other individual shareholders and the employee stock ownership association as of November 9, 2001, for the purpose of debt restructuring due to the work-out process, based on the resolution at the shareholders' meeting on October 13, 2001. This capital reduction resulted in a gain on capital reduction of ₩34,725 million which was used to recover negative capital.

In addition, on November 9, 2001, KEBC issued 14,805 thousand shares of common stock for cash at par value to the Bank, in accordance with the resolution of the board of directors on October 26, 2001. The proceeds of the new stock issuance were used for the repayment of borrowings amounting to ₩74,024 million from the Bank. As of December 31, 2007, the total paid-in-capital amounts to ₩75,400 million.

KEB Futures Co., Ltd. ("KEBF")

KEBF was incorporated on September 24, 1997 as an integrated futures brokerage of the Bank. In 1998, KEBF was granted a futures trading license for overseas markets and domestic operations from the Ministry of Economy and Finance. The Bank retains 100% equity ownership as of December 31, 2007, and the total paid-in-capital amounts to ₩15,000 million.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

KEB Australia Ltd. ("KEBA")

KEBA was established in Sydney, Australia on July 6, 1986 to provide financial services to Korean companies and residents in Sydney and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2007, and the total paid-in-capital of KEBA amounts to AUD 55,000 thousand.

Korea Exchange Bank of Canada ("KEBOC")

KEBOC was established in Toronto, Canada on October 6, 1981 to provide financial services to Korean companies and residents in Toronto and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2007 and the total paid-in-capital of KEBOC amounts to CAD 33,400 thousand.

PT. Bank KEB Indonesia ("KEBI")

KEBI was established in Jakarta, Indonesia on November 5, 1990 to provide financial services to Korean companies and residents in Jakarta and the surrounding area. KEBI changed the firm name from PT. Korea Exchange Bank Danamon to PT. Bank KEB Indonesia in 2006. The Bank retains 99% equity ownership as of December 31, 2007, and the total paid-in-capital of KEBI amounts to IDR 150,000 million.

Korea Exchange Bank of Deutschland AG ("KEBDAG")

KEBDAG was established in Frankfurt, Germany on December 29, 1992 to provide financial services to Korean companies and residents in Frankfurt and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2007 and the total paid-in-capital of KEBDAG amounts to EUR 15,339 thousand.

KEB NY Financial Corp. ("KEBNYFINCO")

KEBNYF was established in New York, USA on April 8, 2004 to provide financial services to Korean companies and residents in New York and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2007, and the total paid-in-capital of KEBNYFINCO amounts to USD 1.

KEB LA Financial Corp. ("KEBLAFINCO")

KEBLAF was established in Los Angeles, USA on April 8, 2004 to provide financial services to Korean companies and residents in Los Angeles and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2007, and the total-in-capital of KEBLAFINCO amounts to USD 1.

A summary of significant financial data of the Bank's subsidiaries, included in the balance sheets as of December 31, 2007 and 2006, and income statements for the years ended December 31, 2007 and 2006 are as follows (Unit: In millions):

Subsidiaries	2007				
	Total assets	Capital stock	Shareholders' equity	Operating revenue	Net income
Trust accounts	₩ 1,126,066	₩ -	₩ 18,381	₩ 66,081	₩ -
KEB Capital Inc.	810,237	75,400	98,993	58,799	12,676
KEB Futures Co., Ltd.	105,867	15,000	27,800	20,552	4,994
Korea Exchange Bank of Canada	821,187	31,961	88,142	51,794	13,198
KEB Australia Ltd.	385,014	45,257	31,505	22,259	4,611
Korea Exchange Bank (Deutschland) A.G.	425,832	21,187	51,490	26,711	3,307
PT. Bank KEB Indonesia	256,993	14,985	80,562	24,742	11,148
Banco KEB do Brasil S. A.	47,988	17,898	16,269	6,276	1,103
KEB NY Financial Corp.	238,740	-	24,780	17,376	1,008
KEB LA Financial Corp.	196,425	-	25,257	16,649	2,091

Subsidiaries	2006				
	Total assets	Capital stock	Shareholders' equity	Operating revenue	Net income
Trust accounts	₩ 1,028,696	₩ -	₩ 18,772	₩ 57,714	₩ -
KEB Capital Inc.	450,886	75,400	86,478	35,300	6,230
KEB Futures Co., Ltd.	92,649	15,000	22,806	13,049	2,167
Korea Exchange Bank of Canada	565,342	26,759	62,746	36,115	9,137
KEB Australia Ltd.	187,245	40,396	24,005	13,443	2,724
Korea Exchange Bank (Deutschland) A.G.	381,427	18,748	43,161	19,899	3,316
PT. Bank KEB Indonesia	201,405	15,435	71,499	27,534	11,997
Banco KEB do Brasil S. A.	23,253	14,660	12,421	3,742	920
KEB NY Financial Corp.	115,179	-	23,555	11,593	1,028
KEB LA Financial Corp.	119,134	-	22,954	8,703	1,401

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

3. Summary of significant accounting policies

Basis of Consolidated Financial Statement Presentation

The Bank and its subsidiaries maintain their official accounting records in Korean Won (only domestic subsidiaries) and prepare statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank and its subsidiaries that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language consolidated financial statements. Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Bank and its subsidiaries' financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying consolidated financial statements.

The significant accounting policies followed by the Bank and its subsidiaries in preparing the accompanying consolidated financial statements are summarized below.

Basis of Consolidated Financial Statements Preparation

1) Offset of Investments and Equity Accounts of Subsidiaries

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiaries. The differences between the amounts of investment and the equity accounts are recorded as goodwill or negative goodwill, which is amortized or reversed using the straight-line method over five years. If additional shares are purchased after acquiring control, the difference between the additional acquisition cost and the portion of net assets acquired is credited or charged to capital surplus. If the acquisition date does not agree with the year-end balance sheet date of the subsidiary, the closest closing date to the acquisition date is regarded as acquisition date.

2) Inter-company Transactions and Balances

All inter-company transactions are eliminated in the consolidated financial statements.

3) Disposition of Subsidiaries' Shares

If a subsidiary of the Bank is still subject to the scope of consolidation even after certain portions of shares are disposed to minority interests, gain/loss on disposal of investment securities is recognized as capital surplus. If a subsidiary of the Bank is subject to the equity method due to the disposition of securities, the investment account is recorded at net assets of subsidiaries at the time of disposition, net of unamortized goodwill or negative goodwill in the consolidated financial statements.

4) Equity Method

For investments in affiliates accounted for using the equity method, the difference between acquisition cost and net assets acquired at the acquisition date is added to or deducted from the carrying amount of investments and is amortized in equal annual amounts for five years from the year incurred. Changes in the Bank's portion of net assets of affiliates accounted for using the equity method are added to or deducted from the carrying amount of investments.

5) Balance Sheet Date for the Consolidated Financial Statements

Balance sheet date for the consolidated financial statements is the closing date of the Bank, the parent company. The accounts of consolidated subsidiaries whose fiscal years are different from that of the Bank have been adjusted to reflect balances as of the closing date of the Bank.

6) Special Reserve in Trust Accounts

A special reserve provided for possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and/or repayment of the principal each year is included in retained earnings in the consolidated financial statements.

7) Minority Interests

Non-controlling, outside ownership interests in a subsidiary's shareholders' equity are presented as minority interests. Gain (loss) attributable to minority interests is disclosed on the face of the income statement.

Accounting Policies of the Consolidated Entities

The relevant laws and regulations applied to the consolidated entities are as follows:

Entity	Relevant laws and regulations
The Bank	Accounting standards of the banking industry & the General Banking act
Trust accounts	Trust Business Act
KEB Capital Inc.	Regulation on Supervision of Specialized Credit Financial Business Law
KEB Futures Co., Ltd.	Supervisory guidelines on futures trading
Korea Exchange Bank of Canada	Financial accounting standards in Canada
KEB Australia Ltd.	Financial accounting standards in Australia
Korea Exchange Bank (Deutschland) A.G.	Financial accounting standards in Deutschland
PT. Bank KEB Indonesia	Financial accounting standards in Indonesia
Banco KEB do Brasil S. A.	Financial accounting standards in Brazil
KEB NY Financial Corp.	Financial accounting standards in U.S.A.
KEB LA Financial Corp.	Financial accounting standards in U.S.A.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Interest Income Recognition

The Bank and its subsidiaries apply the accrual basis in recognizing interest income related to due from banks, loans and securities. Whereas, interest on loans, whose principal or interest is past due at the balance sheet date or defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2007 and 2006, accrued interest income not recognized due to such criteria amounted to ₩81,296 million and ₩70,334 million, respectively.

Classification of Securities

At acquisition, the Bank and its subsidiaries classify securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities accounted for using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank and its subsidiaries have the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that should be accounted for under the equity method are classified as securities accounted for using the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Bank and its subsidiaries change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. Whereas, if the Bank and its subsidiaries sell held-to-maturity securities or exercise early redemption right of securities to issuer in the current year or the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities are reclassified to available-for-sale securities only when the trading securities lose their marketability.

Valuation of Securities

1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specified identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

2) Valuation of Available-for-sale Securities

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specified identification method for debt securities). The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt security. After initial recognition, available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in accumulated other comprehensive income (loss), which is charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities (net asset fair value in case of non-marketable equity securities stated at acquisition cost) is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in accumulated other comprehensive income (loss) is reversed.

3) Valuation of Held-to-maturity Securities

Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

4) Valuation of Securities using the Equity Method

Equity securities held for investment in companies in which the Bank and its subsidiaries are able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds more than 15 percent of the total issued shares, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in the retained earnings of investee are reflected in the retained earnings. Changes in the capital surplus, capital adjustments or accumulated other comprehensive income (loss) of investee are reflected as gain or loss on valuation of securities using the equity method in accumulated other comprehensive income (loss).

When the book value of equity securities using the equity method is less than zero due to the cumulative losses of the investees, the Bank and its subsidiaries discontinue applying the equity method and does not provide for additional losses. If the investee subsequently reports net income, the Bank and its subsidiaries resume applying the equity method only after their share of that net income equals the share of net losses not recognized during the period that the equity method was suspended.

In addition, any gain or loss from the disposal of equity securities of certain consolidated subsidiaries is accounted for as accumulated other comprehensive income (loss) resulting from applying the equity method in the balance sheets if the subsidiaries are still consolidated even after the Bank disposes of a portion of equity securities.

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

5) Reversal of Impairment Loss on Available-for-sale Securities and Held-to-maturity Securities

If the reasons for impairment loss on available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to amount of the previously recognized impairment loss as reversal of impairment loss on available-for-sale securities and any excess is included in accumulated other comprehensive income as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in accumulated other comprehensive income. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current operations under non-operating income within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of impairment loss on held-to-maturity securities.

6) Reclassification of Securities

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in accumulated other comprehensive income (loss) as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income (loss) and amortized using the effective interest rate method and the amortized amount is charged to interest income until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

Transfer of Securities

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in accumulated other comprehensive income (loss) is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing control of the securities, the transaction is recorded as secured borrowing transaction.

Allowance for Possible Losses on Credits

According to the Korea Financial Accounting Standard Article 57 (Valuation of Receivables), allowance for bad debts shall be provided for estimated uncollectible accounts on a reasonable and objective basis. Presently, the historical loss rate (based on mitigation or roll-rate analysis) is one of the permitted reasonable and objective methods to estimate allowance for financial institutions. However, the Bank and its subsidiaries provide loan loss provision pursuant to the Supervisory Regulation of the Banking Business, which requires providing more than minimum rate of loss provision for each asset classification category.

The Bank additionally provided ₩59,363 million of loss provision for normal, as the minimum rate for normal has changed from 0.7 percent to 0.85–0.9 percent in 2007.

The Bank and its subsidiaries apply the Forward Looking Criteria ("FLC") for their loan classification for large corporate based on the credit rating to determine allowance for loan losses. Under this method, the borrowers' future debt repayment capacity as well as their overall financial health and management soundness are considered in developing the credit rating and the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate, household loans and credit card receivables is classified based on the delinquency period, value of collateral and bankruptcy status only. Using such loan classification, the Bank and its subsidiaries classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss and provides the minimum rate of loss provision for each category balance using the prescribed minimum percentages of 0.85 percent (construction, real estate, wholesale & retail, hotel and restaurant industries are 0.9%) or more, 7 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. Households' loans categorized as normal, precautionary, substandard and doubtful are 1 percent or more, 10 percent or more, 20 percent or more and 55 percent or more, respectively. Card receivables as those categories are 1.5 percent or more, 15 percent or more, 20 percent or more and 60 percent or more, respectively.

The Bank and its subsidiaries provide allowance for possible losses on confirmed acceptances and guarantees, unconfirmed acceptances and guarantees, and endorsed notes based on the credit classification, minimum rate of loss provision prescribed by the Financial Supervisory Service and the credit conversion factor based on the new standard of Bank for International Settlements Accord.

In addition, the Bank and its subsidiaries provide other allowances for the unused limit of credit card (including unused limit of credit card that have not been used at least once in recent one year) and unused loan commitments for corporate and retail loan customers considering the credit conversion factor based on the new standard of Bank for International Settlements Accord and minimum rate of loss provision prescribed by the Financial Supervisory Service.

Restructuring of Loans

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Bank's and subsidiaries' loans, collected through reorganization proceedings, court mediation or debt restructuring agreements of parties concerned, is recorded at fair value at the time of the restructuring. In cases where the fair value of the assets received is less than the book value of the loan (book value before allowances), the Bank and its subsidiaries offset first the book value against allowances for loan losses and then recognizes provisions for loan losses. Impairment losses for loans that were restructured in a troubled debt restructuring involving a modification of terms are computed by the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated and the book value before allowances for loan losses. If the amount of allowances already established is less than the impairment losses, the Bank and its subsidiaries establish additional allowances for the difference. Otherwise, the Bank and its

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

subsidiaries reverse the allowances for loan losses.

Deferred Loan Origination Fees and Costs

The Bank and its subsidiaries defer loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

Valuation of Receivables and Payables at Present Value

Receivables and payables incurred through long-term installment transactions, long-term borrowing and lending transactions, and other similar transactions are stated at the present value of expected future cash flows, and the gain or loss on valuation of related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. Present value discount or premium is amortized using the effective interest rate method and credited or charged to interest income or interest expense.

Tangible Assets and Related Depreciation

Tangible assets are recorded at cost or production cost including incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed by using the declining-balance method (straight-line method for building and leasehold improvements) based on the estimated useful lives of the assets as follows:

Tangible assets	Estimated useful life	Depreciation method
Construction	40 years	Straight-line
Leasehold improvements	3-10 years	Straight-line
Equipment	3-20 years	Declining balance

Intangible Assets and Related Amortization

Intangible assets included in other assets are recorded at the production costs or purchase costs plus incidental expenses less discount if any. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future benefits expected, are capitalized as development costs. Intangible assets are amortized using the straight-line method over 5 years and presented after deducting amortized amount.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank and its subsidiaries acquire collateral by foreclosure on the mortgage for loans. Such assets are not depreciated. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price. As of December 31, 2007, the Bank and its subsidiaries do not have non-business use property.

Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the collective value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, the book value are adjusted to collective value in the balance sheet and the resulting impairment loss is charged to current operations. If the collective value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the collective value equals the book value of assets that would have been determined had no impairment loss been recognized. The Bank and its subsidiaries assess the collective value based on expected selling price or appraisal value.

Amortization of Discounts (Premiums) on Debentures

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense on the debentures.

Securities under Resale or Repurchase Agreements

Securities purchased under resale agreements are recorded as loans, and securities sold under repurchase agreements are recorded as borrowings when the Bank and its subsidiaries purchase or sell securities under such agreements.

Other Liability Reserve

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and its subsidiaries are recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation.

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Accrued Severance Benefits

The accrued severance benefits that would be payable to assuming all eligible employees and directors were to resign are included in other liabilities. The Bank and its domestic subsidiaries has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefit is presented as a deduction from the accrued severance benefits.

The estimated accrued severance benefits, which would be payable assuming all eligible employees and executives were to terminate their employment, amounted to ₩265,369 million and ₩223,694 million as of December 31, 2007 and 2006, respectively. In addition, the severance benefits paid actually for the years ended December 31, 2007 and 2006 are ₩16,170 million and ₩9,517 million, respectively.

Accounting for Derivative Instruments

The Bank and its subsidiaries account for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

Accounting for Share-based Payment

In accordance with the Statement of Korea Accounting Standards No.22 - Share-based Payment. and the Interpretations on Financial Accounting Standards 39-35 - Accounting for Stock Options., in case of equity-settled share-based payment transactions, compensation expense for stock option and stock option (capital adjustment) are recorded at fair value at the grant date through an agreement service period, whereas in case of cash-settled share-based payment transactions, compensation expense for stock option and accrued expenses are recorded at fair value at the grant date through an agreement service period. The other liabilities (accrued expenses) by cash-settled share-based payment transactions are assessed at fair value of the closing day or the final settlement day (assessed at intrinsic value for the portion occurred before December 31, 2006). The changes in the fair value of accrued expenses after the grant date are reflected as compensation expense for stock option. In addition, for share-based payment transactions in which the terms of the arrangement provide a choice for the Bank whether the Bank settles the transaction in cash or by issuing equity instruments, the Bank is required to account for that transaction as a cash-settled share-based payment transaction if the Bank has a present obligation to settle in cash, or as an equity-settled share-based payment transaction if no such obligation exists. In case of a cash-settled share-based payment, compensation cost is recorded as capital adjustment (stock option), and in case of an equity-settled share-based payment, compensation cost is recorded as other liabilities (accrued expenses).

Accounting for Trust Accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. Also, the borrowings from the bank account are recorded as due from trust accounts of the bank accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as operating expense of the bank accounts and as other income of the trust accounts. There are no compensating contributions of the Bank for the year ended December 31, 2007.

Merchant Banking Accounts

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from Korea International Merchant Bank upon merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

1) Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

2) Cash Management Accounts (“CMA”)

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

3) Lease Transactions

The Bank accounts for lease transactions as operating or financing leases, depending on the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

Income Tax Expense

Income tax expense is the amount currently payable for the period, additional income taxes or tax refunds for prior years(except for retroactive adjustments of tax effect directly added or deducted to shareholders' equity) added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period the related temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of shareholders' equity.

Accounting for Foreign Currency Transactions and Translation

The Bank and its domestic subsidiaries maintain its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the basic rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩938.20 and ₩929.60 to US\$ 1.00 at December 31, 2007 and 2006, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at balance sheet dates.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable based on SKAS Act 92. The Bank adopted SKAS No.1 (Accounting Changes and Error Corrections) through SKAS No. 20 (Related Party Disclosures) (excluding No. 14) as of or before December 31, 2006, and SKAS No. 11 (Discontinued Operation) and SKAS No. 21 (Preparation and Presentation of Financial Statements) through SKAS No. 25 (Consolidated Financial Statements) have been adopted since January 1, 2007.

1) Adoption of SKAS No. 21 (Preparation and Presentation of Financial Statements) and SKAS No. 24 (Preparation and Presentation of Financial Statements [Financial Industry])

With the adoption of SKAS No. 21 (Preparation and Presentation of Financial Statements) and SKAS No. 24 (Preparation and Presentation of Financial Statements [Financial Industry]), the Bank included the statement of changes in shareholders' equity in the financial statements, and reclassified the components of the balance sheets as follows:

Classification	Before	After
Assets	<ul style="list-style-type: none"> - Cash and due from banks - Securities - Loans - Fixed assets - Other assets 	<ul style="list-style-type: none"> - Cash and due from banks - Securities - Loans - Tangible assets - Other assets (Include intangible assets previously under fixed assets)
Liabilities	<ul style="list-style-type: none"> - Deposits - Borrowings - Debentures - Other liabilities 	<ul style="list-style-type: none"> - Deposits - Borrowings - (Note: Included in borrowings) - Other liabilities
Shareholders' Equity	<ul style="list-style-type: none"> - Common stock - Capital surplus - Retained earnings - Capital adjustments - Minority interests 	<ul style="list-style-type: none"> - Common stock - Capital surplus - Capital adjustments - Accumulated other comprehensive income (Previously included in capital adjustments) - Retained earnings - Minority interests

Notes to Consolidated Financial Statements

137

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

In addition, a discontinued operation is separately presented in the income statements and extraordinary items are no longer reported separately. The Bank and its subsidiaries have reclassified the components of the income statements; such as, gains or losses relating to available-for-sale securities and sale of loans that were presented under non-operating income (expenses) are currently presented under operating income (loss). The financial statements for the prior period were restated for comparative purposes due to the application of SKAS No. 21 and No. 24. The restatement did not affect the previously reported prior period's net income (as shown below) or shareholders' equity (Unit: In millions).

Classification	Before	After	Effect
Operating revenues	₩ 7,508,297	₩ 8,156,117	₩ 647,820
Operating expenses	6,510,663	6,580,058	69,395
Operating income	997,634	1,576,059	578,425
Non-operating income	695,896	58,612	(637,284)
Non-operating expenses	223,473	27,074	(196,399)
Extraordinary gain	12,063	-	(12,063)
Income before income tax	1,482,120	1,607,597	125,477
Income tax expense	475,543	601,020	125,477
Net income	₩ 1,006,577	₩ 1,006,577	₩ -
Basic net income per share (In currency units)	₩ 1,561	₩ 1,561	₩ -
Diluted net income per share (In currency units)	₩ 1,558	₩ 1,558	₩ -

In addition, the Bank and its subsidiaries have reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities. The accompanying non-consolidated statement of cash flows for the year ended December 31, 2006, which is presented for comparative purposes, was restated due to the application of SKAS No. 21 and No. 24.

Classification	Before	After	Effect
Cash flows from operating activities	₩ 1,096,231	₩ (2,165,495)	₩ (3,261,726)
Cash flows from investing activities	(2,781,926)	(593,962)	2,187,964
Cash flows from financing activities	2,819,594	2,819,594	-
Net increase in cash and due from banks	1,133,899	60,137	(1,073,762)
Cash and due from banks, beginning of year	3,293,571	2,824,297	(469,274)
Cash and due from banks, end of year	₩ 4,427,470	₩ 2,884,434	₩ (1,543,036)

2) Adoption of the new accounting standards and transition provision

The prior period financial statements were neither restated nor the earnings per share adjusted to reflect the effect of the application of SKAS No. 22 (Share-based Payment) and No. 23 (Earnings per Share), which is in accordance with the transition provision.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes; however, such reclassifications had no effect on either the previously reported prior period's net income or shareholders' equity of the Bank and its subsidiaries.

4. Cash and due from banks

(1) Cash and due from banks as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	2007	2006
Cash	₩ 972,061	₩ 1,031,776
Foreign currencies on hand	360,496	271,383
Due from banks in Won	2,694,677	1,463,783
Due from banks in foreign currencies	1,623,241	1,460,704
	₩ 5,650,475	₩ 4,227,646

(2) Due from banks in Won as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%)	2007	2006
Reserve deposit	The Bank of Korea	-	₩ 1,437,782	₩ 1,267,307
Due from banks on time deposits	Other banks	5.30~6.37	1,179,153	14,865
Other due from banks	Other banks	0.00~2.20	3,145	11,460
Other due from banks	Other financial institutions	1.25~5.17	74,597	170,151
			₩ 2,694,677	₩ 1,463,783

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(3) Due from banks in foreign currencies as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Financial institution	Interest rate (%)	2007	2006
Reserve deposit	The Bank of Korea	-	₩ 418,825	₩ 236,404
Due from banks on time deposits	Domestic financial institutions	1.19~5.53	131,093	141,090
Due from banks on time deposits	Overseas financial institutions	0.00~9.50	459,388	388,161
Other due from banks	Overseas financial institutions	0.00~1.62	-	5,028
Other due from banks	Domestic financial institutions	0.00~11.6	312,976	131,334
Due from banks in other bank-foreign currencies	Overseas financial institutions	3.25~3.75	300,959	558,687
			₩ 1,623,241	₩ 1,460,704

(4) Restricted due from banks in Won and foreign currencies as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Due from banks in Won:		
The Bank of Korea and others	₩ 1,437,782	₩ 1,267,307
Woori Bank and others	949	12,028
Due from banks in foreign currencies:		
The Bank of Korea and others	418,825	236,404
J.P. Morgan and others	34,300	27,297
	₩ 1,891,856	₩ 1,543,036

The due from bank of Korea and others is deposited based on the Banking Act or other acts. Other due from banks in Won are escrow deposits related to sales of stocks of Ssangyong Corporation, S&T Daewoo Co. Ltd and Daerim Corporation, and guarantee deposits from derivatives transaction. In addition, other due from banks in foreign currencies is guarantee deposits from derivatives transaction and deposited by Banco KEB do Brasil S.A. for agriculture supporting loan based on related Act.

(5) Term structure of due from banks in Won and foreign currencies as of December 31, 2007 was as follows (Unit: In millions):

Classification	Due from banks in Won	Due from banks in foreign currencies	Total
Due in less than one year	₩ 2,694,067	₩ 1,623,241	₩ 4,317,308
Due from one to three years	610	-	610
Due more than three years	-	-	-
	₩ 2,694,677	₩ 1,623,241	₩ 4,317,918

5. Securities

(1) Securities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Trading securities	₩ 3,108,987	₩ 2,025,546
Available-for-sale securities	6,874,425	7,081,276
Held-to-maturity securities	2,130,989	1,865,874
Securities using the equity method	13,616	6,060
	₩ 12,128,017	₩ 10,978,756

Notes to Consolidated Financial Statements

139

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(2) Securities excluding securities using the equity method as of December 31, 2007 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 65,426	₩ -	₩ 64,830
Beneficiary certificates	10,000	10,000	10,000	9,730
Government and public bonds	193,754	192,972	193,152	192,253
Finance bonds	687,479	686,171	686,443	681,241
Corporate bonds	101,828	101,514	101,520	101,664
Commercial papers	2,063,900	2,041,798	2,050,966	2,049,989
Other debt securities	-	9,280	-	9,280
	3,056,961	3,107,161	3,042,081	3,108,987
Available-for-sale securities:				
Equity securities	-	858,976	-	2,283,243
Equity investments	-	62,966	-	69,305
Beneficiary certificates	-	2,000	-	2,078
Government and public bonds	750,398	758,451	734,205	733,476
Finance bonds	2,754,136	2,748,857	2,741,545	2,719,522
Foreign government bonds	125	125	125	125
Corporate bonds	698,724	699,357	693,956	689,086
Asset-backed securities	405,514	401,232	299,844	311,436
Other debt securities	87,636	87,636	60,360	66,154
	4,696,533	5,619,600	4,530,035	6,874,425
Held-to-maturity securities:				
Government and public bonds	803,482	802,775	800,738	800,737
Finance bonds	1,153,877	1,162,000	1,153,424	1,153,856
Foreign government bonds	24,796	23,430	24,402	24,402
Corporate bonds	140,356	141,706	140,675	140,686
Asset-backed securities	10,000	9,989	9,996	9,996
Other debt securities	1,323	1,312	1,312	1,312
	2,133,834	2,141,212	2,130,547	2,130,989
	₩ 9,887,328	₩ 10,867,973	₩ 9,702,663	₩ 12,114,401

(*) Acquisition costs of trading securities are the book value before valuation.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Securities excluding securities using the equity method as of December 31, 2006 consisted of (Unit: In millions):

Classification	Face value	Acquisition cost (*)	Adjusted by effective interest rate method	Book value
Trading securities:				
Equity securities	₩ -	₩ 178,883	₩ -	₩ 175,941
Beneficiary certificates	10,000	10,000	10,000	10,093
Government and public bonds	222,733	217,433	217,647	217,295
Finance bonds	1,332,517	1,328,846	1,327,800	1,327,089
Corporate bonds	102,036	101,042	100,773	101,097
Commercial papers	125,000	124,558	124,558	124,553
Other debt securities	-	18,364	-	18,359
Securities in foreign currencies	51,128	51,116	51,116	51,119
	1,843,414	2,030,242	1,831,894	2,025,546
Available-for-sale securities:				
Equity securities	-	831,350	-	2,279,973
Equity investments	-	9,459	-	9,458
Beneficiary certificates	14,774	15,774	14,774	15,800
Government and public bonds	761,972	766,111	733,817	746,406
Finance bonds	2,005,435	2,000,976	1,984,213	1,990,407
Corporate bonds	1,135,000	1,152,543	1,124,561	1,130,549
Asset-backed securities	312,000	312,024	241,717	249,049
Other debt securities	87,636	87,636	40,373	60,360
Securities in foreign currencies	601,525	601,025	593,573	599,274
	4,918,342	5,776,898	4,733,028	7,081,276
Held-to-maturity securities:				
Government and public bonds	516,278	512,418	513,155	513,155
Finance bonds	285,611	288,990	286,278	286,278
Foreign government bonds	448,772	454,951	451,104	451,104
Corporate bonds	30,000	29,994	17,157	30,000
Asset-backed securities	1,687	1,674	1,674	1,674
Other debt securities	581,069	589,226	583,663	583,663
	1,863,417	1,877,253	1,853,031	1,865,874
	₩ 8,625,173	₩ 9,684,393	₩ 8,417,953	₩ 10,972,696

(*) Acquisition costs of trading securities are the book value before valuation.

The difference of trading securities between the fair value and the adjusted cost using the effective interest rate method (acquisition cost for stocks) was recorded as gain on valuation of trading securities amounting to ₩3,980 million and ₩6,650 million, and loss on valuation of trading securities amounting to ₩12,285 million and ₩10,894 million for the years ended December 31, 2007 and 2006, respectively.

The fair values of trading and available-for-sale debt securities were assessed by applying the average of base prices as of December 31, 2007, provided by Korea Bond Pricing & KR Co. (KBP), KIS Pricing Inc. and National Information & Credit Evaluation Inc. (NICE).

The fair value of available-for-sale non-marketable equity securities such as SK Networks Co., Ltd. and 20 others, and the restricted available-for-sale marketable equity securities such as Hyundai Engineering and Construction Co., Ltd. and 7 others was reliably measured by an independent appraisal institute using reasonable judgment. The fair value was determined based on more than one valuation models such as Discounted Cash Flow (DCF) Model, Imputed Market Value (IMV) Model, Discounted Free Cash Flow to Equity (FCFE) Model, Dividend Discount (DD) Model and Risk Adjusted Discounted Cash Flow (RADCF) Model depending on the equity securities. In order to assess the fair value of stocks, the financial statements for 5 years are estimated based on past operating result. Also, assuming the same operation is continued during the estimated period, the model is applied using the estimated financial statements from 2007 to 2011. Operating income and expenses are reasonably estimated based on the past result, the future plan and the expected market condition, and for non-operating income and expenses, gain or loss from irregular transactions such as gain or loss on disposition of tangible assets are excluded. For the equity investment of association, net assets are calculated deducting total liabilities from the present value of assets of each equity investment.

Notes to Consolidated Financial Statements

141

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(3) Discretionary investing contract assets included in beneficiary certificate of trading securities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Short-term financial instruments	₩ 2,385	₩ 429
Stocks	7,312	9,665
Others	45	7
Total assets	9,742	10,101
Total liabilities	12	8
Net assets value	₩ 9,730	₩ 10,093

(4) The book value of non-marketable stocks and equity investments among available-for-sale securities, which were not valued at fair value as of December 31, 2007 and 2006, was as follows (Unit: In millions):

<As of December 31, 2007>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
Alpha Dome City	7,200
KAMCO	6,330
KCB	3,000
KRX	3,000
Hallyu-Wood	1,200
M Cieta Development (*)	1,125
BLADEX	921
C & Woobang ENC	733
Others	1,802
	58,250
Equity investments:	
Consolidated Fund for Impaired Loans	36,680
Others	1
	36,681
	₩ 94,931

(*) The company name was changed from M Ciety Development to M Cieta Development.

<As of December 31, 2006>

Company	Amounts
Stocks:	
Samsung Life	₩ 32,939
KAMCO	6,330
KCB	3,000
KRX	3,000
Kyobo Investment Trust Management	2,700
Realty Advisors Korea	1,000
M Cieta Development	1,000
BLADEX	912
KOCES	897
C & Woobang ENC	733
Hallyu-Wood	600
Korea Finance Security	588
Booyoung Finance	500
Others	2,085
	56,284
Equity investments:	
Daegu Venture Fund Association	500
Others	3
	503
	₩ 56,787

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(5) The impairment loss and the reversal of impairment loss on available-for-sale securities for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007		2006	
	Impairment	Reversal	Impairment	Reversal
Equity securities	₩ 6,891	₩ 1,364	₩ 20,981	₩ 230,228
Equity investments	-	36,680	689	-
Corporate bonds	-	139	-	5,928
Asset-backed securities	15,587	54,797	35,437	50,896
Beneficiary certificates	-	-	-	807
	₩ 22,478	₩ 92,980	₩ 57,107	₩ 287,859

(6) The impairment loss and the reversal of impairment loss on held-to-maturity securities for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007		2006	
	Impairment	Reversal	Impairment	Reversal
Asset-backed securities	₩ -	₩ -	₩ 204	₩ 19,253

(7) Loaned securities included in securities as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Securities in foreign currencies	₩ 12,701	₩ 11,723

(8) Securities provided as collateral as of December 31, 2007 were as follows (Unit: In millions):

Provided to	Collateral amount	Book value	Provided for
Korea securities depository & others	₩ 807,415	₩ 800,711	Sale to RP to customer
BOK	330,000	326,919	Settlement of difference
BOK	369,000	368,319	Daily overdraft
BOK	900,000	885,982	Borrowings from BOK
BOK	450,000	449,382	Sale to RP to BOK
Futures Corporations, Securities Corporation, Banks	254,100	241,251	Derivatives settlement
KRX	7,664	7,664	Derivatives settlement
Brazilian money brokerage service	4,220	4,220	Collateral
Deutsche Bundes Bank	691	691	Borrowings from Deutsche Bundes Bank
	₩ 3,123,090	₩ 3,085,139	

In addition, securities that are possible to be discounted by BOK amounted to ₩495,502 million as of December 31, 2007.

(9) Securities using the equity method

1) Securities using the equity method as of December 31, 2007 and 2006 were summarized as follows (Unit: shares in thousand, in millions):

<December 31, 2007>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
KEB Fund Services Co., Ltd. (KEBFS) (*1)	510	100.0	₩ 2,550	₩ 5,101	₩ 2,550
Lippo Incheon Development Co., Ltd.	388	2.7	1,939	1,830	1,830
Realty Advisors Korea, Ltd. (*1 & 2)	200	14.3	1,000	575	1,000
KEB USA International Corp. (USAI)	0.1	100.0	2,346	4,236	4,236
HTIC2 Corporate Restructuring Association (*3)	0.04	20.0	4,000	4,000	4,000
			₩ 11,835	₩ 15,742	₩ 13,616

(*1) The investment securities were excluded from the application of equity method because the assets are less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(*2) Reclassified from available-for-sale securities to securities using equity method in this period.

(*3) It hasn't started business.

Notes to Consolidated Financial Statements

143

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

<December 31, 2006>

Company	No. of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
MP&T (*1)	170	38.1	₩ 850	₩ -	₩ -
KEBFS (*2)	510	100.0	2,550	2,550	2,550
USAI	0.1	100.0	2,324	3,510	3,510
			₩ 5,724	₩ 6,060	₩ 6,060

(*1) The bankruptcy procedure was completed in prior fiscal year.

(*2) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

2) The valuation of securities using the equity method for the years ended December 31, 2007 and 2006 was as follows (Unit: In millions):

<December 31, 2007>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Retained earnings	Valuation of securities using the equity method	Book value after valuation
KEBFS (*1)	₩ 2,550	₩ 2,550	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2,550
Realty Advisors Korea, Ltd. (*1 & 2)	1,000	1,000	-	-	-	-	-	1,000
Lippo Incheon Development Co., Ltd.	1,939	-	1,939	-	(109)	-	-	1,830
USAI	2,346	3,510	-	32	694	-	-	4,236
HTIC2 Corporate restructuring association (*3)	4,000	-	4,000	-	-	-	-	4,000
	₩ 11,835	₩ 7,060	₩ 5,939	₩ 32	₩ 585	₩ -	₩ -	₩ 13,616

(*1) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(*2) Reclassified from available-for-sale securities to securities using equity method in this period.

(*3) It hasn't started business.

<December 31, 2006>

Company	Acquisition cost	Book value before valuation	Increase (Decrease) Dividend	Foreign exchange trading income (loss)	Equity in earnings	Retained earnings	Valuation of securities using the equity method	Book value after valuation
KEBFS (*1)	₩ 2,550	₩ 2,550	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2,550
MP&T (*2)	850	-	-	-	-	-	-	-
CFEB (*3)	6,037	4,243	(4,243)	-	-	-	-	-
USAI	2,324	3,179	-	(262)	593	-	-	3,510
	₩ 11,761	₩ 9,972	₩ (4,243)	₩ (262)	₩ 593	₩ -	₩ -	₩ 6,060

(*1) The investment securities were excluded from the application of equity method because the assets were less than ₩7,000 million as of the end of prior year and the change in investment arising from this company was considered insignificant.

(*2) The bankruptcy procedure was completed in prior fiscal year.

(*3) It was disposed during the first quarter of 2006.

3) Summary of Financial Information in Affiliates

The summary of financial information in affiliates using the equity method as of and for the period ended December 31, 2007 was as follows (Unit: In millions):

Classification	Lippo Incheon Development Co., Ltd.	USAI	Total
Total assets	₩ 403,047	₩ 4,289	₩ 407,336
Total liabilities	335,275	52	335,327
Operation revenue	-	2,862	2,862
Net income (loss)	(4,045)	694	(3,351)

Unaudited financial statements as of December 31, 2007 were used for the application of the equity method. The significant events from the closing dates of the investees to that of the Bank and its subsidiaries were properly reflected in applying the equity method. There was no material exception as a result of analytical review, such as analysis of major accounts to assess reliability of those financial statements.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(10) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2007 and 2006 was as follows (Unit: In millions):

By industry type	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Government and government-invested public companies	₩ 933,689	30.02	₩ 1,365,384	67.41
Financial institutions	1,900,392	61.13	423,953	20.93
Manufacturing	87,888	2.83	128,946	6.36
Others	187,018	6.02	107,263	5.30
	3,108,987	100.00	2,025,546	100.00
Available-for-sale securities:				
Government and government-invested public companies	1,478,732	21.51	2,005,588	28.32
Financial institutions	2,692,883	39.18	2,357,979	33.30
Manufacturing	1,394,371	20.28	1,377,840	19.46
Others	1,308,439	19.03	1,339,869	18.92
	6,874,425	100.00	7,081,276	100.00
Held-to-maturity securities:				
Government and government-invested public companies	1,157,820	54.33	843,869	45.23
Financial institutions	915,254	42.95	918,012	49.20
Manufacturing	20,375	0.96	29,691	1.59
Others	37,540	1.76	74,302	3.98
	2,130,989	100.00	1,865,874	100.00
	₩ 12,114,401		₩ 10,972,696	

(11) The portfolio of securities excluding securities using the equity method, by security type, as of December 31, 2007 and 2006 was as follows (Unit: In millions):

By security type	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Stocks	₩ 64,830	2.09	₩ 175,941	8.69
Fixed rate bonds	2,997,194	96.40	1,788,392	88.29
Floating rate bonds	37,233	1.20	51,120	2.52
Beneficiary certificates	9,730	0.31	10,093	0.50
	3,108,987	100.00	2,025,546	100.00
Available-for-sale securities:				
Stocks	2,282,779	33.21	2,279,973	32.20
Fixed rate bonds	2,392,612	34.80	2,956,737	41.75
Floating rate bonds	1,299,720	18.91	1,051,405	14.85
Subordinated bonds	761,313	11.07	707,543	9.99
Beneficiary certificates	2,078	0.03	15,800	0.22
Others	135,923	1.98	69,818	0.99
	6,874,425	100.00	7,081,276	100.00
Held-to-maturity securities:				
Fixed rate bonds	1,513,606	71.03	1,134,856	60.82
Floating rate bonds	58,591	2.75	107,584	5.77
Subordinated bonds	558,073	26.19	623,434	33.41
Others	719	0.03	-	-
	2,130,989	100.00	1,865,874	100.00
	₩ 12,114,401		₩ 10,972,696	

Notes to Consolidated Financial Statements

145

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(12) The portfolio of securities excluding securities using the equity method, by country, as of December 31, 2007 and 2006 was as follows (Unit: In millions):

By country type	2007		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading securities:				
Korea	₩ 3,108,987	100.00	₩ 2,017,711	99.61
Japan	-	-	6,311	0.31
Hong Kong (China)	-	-	1,524	0.08
	3,108,987	100.00	2,025,546	100.00
Available-for-sale securities:				
Korea	6,751,134	98.20	6,980,129	98.57
Cayman Islands	38,613	0.56	42,081	0.59
USA	63,061	0.92	28,153	0.40
Hong Kong (China)	5,852	0.09	12,166	0.18
UK	2,803	0.04	10,111	0.14
Others	12,962	0.19	8,636	0.12
	6,874,425	100.00	7,081,276	100.00
Held-to-maturity securities:				
Korea	2,105,327	98.80	1,796,589	96.29
Singapore	11,583	0.54	7,801	0.42
Philippines	5,081	0.24	2,303	0.12
Hong Kong (China)	36	0.00	36	0.00
Germany	691	0.03	612	0.03
Brazil	8,271	0.39	-	-
Others	-	-	58,533	3.14
	2,130,989	100.00	1,865,874	100.00
	₩ 12,114,401		₩ 10,972,696	

(13) Term structure of securities except for stocks and equity investments in available-for-sale and held-to-maturity securities as of December 31, 2007 was as follows (Unit: In millions):

Classification	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	More than 10 years	Total
Government and public bonds	₩ 686,100	₩ 1,008,528	₩ 31,838	₩ -	₩ 1,726,466
Finance bonds	1,575,422	2,124,947	854,250	-	4,554,619
Foreign government bonds	19,321	-	5,081	125	24,527
Corporate bonds	329,345	551,913	50,178	-	931,436
Beneficiary certificates	9,730	-	-	2,078	11,808
Asset-backed securities	113,463	187,755	20,214	-	321,432
Commercial papers	2,049,989	-	-	-	2,049,989
Others	10,592	-	-	66,154	76,746
	₩ 4,793,962	₩ 3,873,143	₩ 961,561	₩ 68,357	₩ 9,697,023

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(14) Structured securities relating to stock and interest rate and credit risk as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (available-for-sale securities) (*)	₩ 14,355	₩ -	₩ 14,355
Convertible bonds (loans)	24,820	-	24,820
	39,175	-	39,175
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	239,252	-	239,252
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	40,144	-	40,144
	279,396	-	279,396
Structured notes relating to credit risk:			
Synthetic CDO	-	18,398	18,398
	₩ 318,571	₩ 18,398	₩ 336,969

(*) The Bank has two convertible bonds in foreign currencies with par value of ₩8,206 million and the book value was nil after reduction.

<December 31, 2006>

Classification	Won	Foreign currencies	Total
Structured notes relating to stock:			
Convertible bonds (available-for-sale securities) (*)	₩ -	₩ -	₩ -
Convertible bonds (loans)	448	-	448
	448	-	448
Structured notes relating to interest rate:			
Long-term government bond floating rates notes (CMT) (available-for-sale securities)	539,247	-	539,247
Long-term government bond floating rates notes (CMT) (held-to-maturity securities)	90,407	-	90,407
	629,654	-	629,654
	₩ 630,102	₩ -	₩ 630,102

(*) The Bank has two convertible bonds in foreign currencies with par value of ₩8,206 million and the book value was nil after reduction.

(15) Changes in accumulated other comprehensive income (loss) of available-for-sale securities for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Equity securities	₩ 1,133,852	₩ 26,733	₩ (43,244)	₩ 4,540	₩ 1,121,881
Debt securities	(10,118)	(29,011)	5,099	6,576	(27,454)
	₩ 1,123,734	₩ (2,278)	₩ (38,145)	₩ 11,116	₩ 1,094,427

(16) Changes in accumulated other comprehensive loss of held-to-maturity securities for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Increase (decrease)	Disposal	Deferred income tax	Ending
Debt securities	₩ (773)	₩ 566	₩ -	₩ (156)	₩ (363)

(17) Acquisition of stocks of Visa Inc.

• The Bank acquired 2,719 thousand shares of Visa Inc. from its IPO on October 1, 2007. The Bank estimated the fair value of the stocks using the financial statements. The Bank has recognized the fair value of the stocks of ₩53,604 million as income related to available-for-sales.

Notes to Consolidated Financial Statements

147

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

6. Loans

(1) Loans as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Call loans	₩ 2,387,891	₩ 1,866,601
Domestic import usance bill	1,742,654	1,370,534
Credit card receivables	2,440,553	2,314,636
Bills bought in foreign currencies	3,525,118	3,107,091
Bills bought in Won	2,110,881	2,711,888
Bonds purchased under repurchase agreements	-	200,000
Loans in Won	37,824,623	31,420,021
Loans in foreign currencies	6,887,316	4,806,748
Factoring receivables	310,786	300,160
Advances for customers	6,719	12,351
Privately placed bonds	893,194	1,198,641
Less: Allowance for possible loan losses (see Note 18)	58,129,735	49,308,671
Deferred loan origination fees and costs	(753,696)	(648,642)
	(31,792)	(14,519)
	₩ 57,344,247	₩ 48,645,510

(2) Loans in Won and loans in foreign currencies as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Loans in Won:		
Commercial	₩ 22,780,182	₩ 16,875,994
Households	14,869,384	14,442,955
Loans for installment credit	285	22,753
Public sector and others	174,772	78,319
Total loans in Won	37,824,623	31,420,021
Loans in foreign currencies :		
Loans on deeds in foreign currency	2,417,071	2,289,814
Inter-bank loans in foreign currency (*)	-	98,082
Others	4,470,245	2,418,852
Total loans in foreign currencies	6,887,316	4,806,748
	₩ 44,711,939	₩ 36,226,769

(*) It was totally deducted by intercompany elimination.

(3) Loans in Won and loans in foreign currencies, classified by borrower type, as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

By borrower type	Loans in Won	Loans in foreign currencies (*)	Total	Percentage (%)
Commercial	₩ 22,780,182	₩ 8,156,356	₩ 30,936,538	66.60
Households	14,869,669	430,126	15,299,795	32.93
Public sector and others	174,772	43,488	218,260	0.47
	₩ 37,824,623	₩ 8,629,970	₩ 46,454,593	100.00

(*)1 Domestic import usance bill is included in loans in foreign currencies.

<December 31, 2006>

By borrower type	Loans in Won	Loans in foreign currencies (*)	Total	Percentage (%)
Commercial	₩ 16,875,994	₩ 5,703,156	₩ 22,579,150	60.21
Households	14,465,708	285,274	14,750,982	39.34
Public sector and others	78,319	90,770	169,089	0.45
	₩ 31,420,021	₩ 6,079,200	₩ 37,499,221	100.00

(*)1 Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(4) Loans in foreign currencies classified by borrower's country as of December 31, 2007 and 2006 were as follows
(Unit: In thousands of U.S. dollars, in millions of Won):

<December 31, 2007>

By country	Loans in U.S. dollars (*1)		Translation into Won (*2)		Percentage (%)
Korea	US\$	5,586,116	₩	5,240,894	60.73
Canada		688,009		645,490	7.48
USA		446,314		418,732	4.85
Japan		367,831		345,099	4.00
China		127,545		119,663	1.39
Others		1,982,619		1,860,092	21.55
	US\$	9,198,434	₩	8,629,970	100.00

(*1) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the rate at the balance sheet date.

(*2) Domestic import usance bill is included in loans in foreign currencies.

<December 31, 2006>

By country	Loans in U.S. dollars (*1)		Translation into Won (*2)		Percentage (%)
Korea	US\$	4,299,676	₩	3,996,979	65.75
Japan		301,590		280,358	4.61
Indonesia		61,791		57,441	0.94
Others		1,876,530		1,744,422	28.70
	US\$	6,539,587	₩	6,079,200	100.00

(*1) Foreign currencies other than U.S. dollars are converted into U.S. dollars at the rate of the balance sheet date.

(*2) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies

(5) Loans classified by industry as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

By industry type	Loans in Won		Loans in foreign currencies (*1)		Total	Percentage (%)
Corporations:	₩	22,780,182	₩	4,845,196	₩ 27,625,378	59.47
Manufacturing		8,400,049		3,019,377	11,419,426	24.59
Finance and insurance		632,657		24,613	657,270	1.41
Telecommunications		36,081		307	36,388	0.08
Service		5,210,933		1,173,387	6,384,320	13.74
Construction		3,308,248		97,643	3,405,891	7.33
Others		5,192,214		529,869	5,722,083	12.32
Households		14,869,669		430,126	15,299,795	32.93
Public sector and others		174,772		43,488	218,260	0.47
		37,824,623		5,318,810	43,143,433	92.87
Loans of overseas branches		-		3,311,160	3,311,160	7.13
	₩	37,824,623	₩	8,629,970	₩ 46,454,593	100.00

(*1) Domestic import usance bill is included in loans in foreign currencies.

<December 31, 2006>

By industry type	Loans in Won		Loans in foreign currencies (*1)		Total	Percentage (%)
Corporations:	₩	16,875,994	₩	3,861,116	₩ 20,737,110	55.30
Manufacturing		6,862,719		2,414,581	9,277,300	24.74
Finance and insurance		199,491		87,355	286,846	0.76
Telecommunications		-		23,465	23,465	0.06
Service		3,768,835		778,641	4,547,476	12.13
Construction		2,425,366		93,697	2,519,063	6.72
Others		3,619,583		463,377	4,082,960	10.89
Households		14,465,708		285,274	14,750,982	39.34
Public sector and others		78,319		90,770	169,089	0.45
		31,420,021		4,237,160	35,657,181	95.09
Loans of overseas branches		-		1,842,040	1,842,040	4.91
	₩	31,420,021	₩	6,079,200	₩ 37,499,221	100.00

(*1) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies

Notes to Consolidated Financial Statements

149

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(6) Loans to financial institutions as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Loans in Won	Loans in foreign currencies (*1)	Call loans	Total	Percentage (%)
Bank	₩ 12,000	₩ -	₩ 1,090,624	₩ 1,102,624	35.64
Other financial institutions	612,551	81,882	-	694,433	22.44
Overseas financial institutions	-	-	1,297,267	1,297,267	41.92
	₩ 624,551	₩ 81,882	₩ 2,387,891	₩ 3,094,324	100.00

(*1) Domestic import usance bill is included in loans in foreign currencies.

<December 31, 2006>

Classification	Loans in Won	Loans in foreign currencies (*1)	Call loans	Total	Percentage (%)
Bank	₩ 12,000	₩ 2,231	₩ 813,597	₩ 827,828	36.37
Other financial institutions	259,889	135,109	-	394,998	17.36
Overseas financial institutions	-	-	1,053,004	1,053,004	46.27
	₩ 271,889	₩ 137,340	₩ 1,866,601	₩ 2,275,830	100.00

(*1) Domestic import usance bill is included in loans in foreign currencies.

(7) The classification of asset quality for loans as of December 31, 2007 and 2006 was summarized as follows (Unit: In millions):

<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call loans	₩ 2,387,891	₩ -	₩ -	₩ -	₩ -	₩ 2,387,891
Credit card receivables	2,376,605	34,034	-	24,067	5,847	2,440,553
Bills bought in foreign currencies (*1)	3,624,868	32	7,965	1,501	-	3,634,366
Loans in Won (*2)	39,264,157	250,931	195,997	10,238	65,151	39,786,474
Loans in foreign currencies (*3)	8,520,466	60,367	38,785	6,559	2,047	8,628,224
Factoring receivables	310,786	-	-	-	-	310,786
Advances for customers (*4)	366	2,622	1,190	10	1,805	5,993
Privately placed bonds (*5)	892,677	245	173	-	-	893,095
Other accounts (*6)	1,331	86	1,636	1,138	1,671	5,862
	₩57,379,147	₩ 348,317	₩ 245,746	₩ 43,513	₩ 76,521	₩58,093,244

(*1) Local L/C bills bought in Won amounting to ₩17,352 million and Local L/C bills bought in foreign currencies amounting to ₩91,896 million among bills bought in Won are included in bills bought in foreign currencies.

(*2) Commercial bills purchased amounting to ₩2,001,633 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩39,782 million is deducted.

(*3) Domestic import usance bill is included in foreign currencies. Present value discount amounting to ₩1,746 million is deducted.

(*4) Present value discount amounting to ₩726 million is deducted on advances for customers.

(*5) Present value discount amounting to ₩99 million is deducted on privately placed bonds.

(*6) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩959 million, suspense payments in relation with loans amounting to ₩3,591 million and securities (commercial paper) amounting to ₩1,312 million.

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call loans	₩ 1,866,601	₩ -	₩ -	₩ -	₩ -	₩ 1,866,601
Credit card receivables	2,223,714	49,134	-	35,513	6,275	2,314,636
Bills bought in foreign currencies (*1)	3,189,339	339	7,892	-	-	3,197,570
Bond purchased under repurchased agreement	200,000	-	-	-	-	200,000
Loans in Won (*2)	33,564,948	257,418	117,583	10,937	46,858	33,997,744
Loans in foreign currencies (*3)	5,951,549	58,005	54,931	12,087	2,628	6,079,200
Interbank loans in foreign currencies	98,082	-	-	-	-	98,082
Factoring receivables	300,160	-	-	-	-	300,160
Advances for customers	7,331	179	3,526	-	1,315	12,351
Privately placed bonds	1,198,641	-	-	-	-	1,198,641
Other accounts (*4)	2,081	169	1,111	908	2,355	6,624
	₩48,602,446	₩ 365,244	₩ 185,043	₩ 59,445	₩ 59,431	₩49,271,609

(*1) Local L/C bills bought in Won amounting to ₩24,254 million and Local L/C bills bought in foreign currencies amounting to ₩66,225 million among bills bought in Won are included in bills bought in foreign currencies.

(*2) Commercial bills purchased amounting to ₩2,621,409 million among bills bought in Won are included in bills bought in foreign currencies, and present value discount amounting to ₩43,686 million is deducted.

(*3) Domestic import usance bill is included and interbank loans in foreign currencies amounting to ₩98,082 million are excluded in loans in foreign currencies.

(*4) Other accounts consisted of account receivable (transfer-in bills bought in foreign currencies) amounting to ₩2,051 million, suspense payments in relation with loans amounting to ₩2,899 million and securities (commercial paper) amounting to ₩1,674 million.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(8) The term structure of loans as of December 31, 2007 was as follows (Unit: In millions):

Classification	Loans in Won	Loans in foreign currencies (*)	Total
Due in less than one year	₩ 27,940,186	₩ 5,561,737	₩ 33,501,923
Due from one to three years	4,743,567	1,177,465	5,921,032
Due after three years	5,140,870	1,890,768	7,031,638
	₩ 37,824,623	₩ 8,629,970	₩ 46,454,593

(*) Domestic import usance bill is included in foreign currencies.

(9) The changes in deferred loan origination fees and costs for the year ended December 31, 2007 were as follows (Unit: In millions):

	Beginning balance	Addition	Deduction	Ending balance
Deferred loan origination fees and costs	₩ 14,519	₩ 39,012	₩ (21,739)	₩ 31,792

(10) Disposal of loans

• The Bank disposed loans amounting to ₩157,149 million, ₩121,121 million and ₩17,101 million of principal to Tong-yang Financial Service Co., Ltd. and KEB 15th SPC, respectively, and recognized gain on disposal of loans of ₩6,520 million and loss on disposal of loans of ₩6,887 million and ₩360 million, respectively, for the year ended December 31, 2007 (see Note 16).

(1) The loans that were restructured because of workouts plan and others for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Restructuring loans	Present value (*)	Ending balance of present value discounts
Workout plan	₩ 243,554	₩ 243,554	₩ -
Corporate reorganization	69,699	61,540	8,159
Rationalization of industry	140,518	99,055	41,463
	₩ 453,771	₩ 404,149	₩ 49,622

(*) As the present value is calculated with fair value at the restructuring date, if there is no fair value, the present value of total future cash receipts under the restructuring plans is discounted using interest rates of 6.41 percent to 13.46 percent. Also, the present value discount is calculated using effective interest rate method.

(2) Changes in the present value discounts relating to the outstanding restructured loans for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Amount (*)	Present value discounts			
		Beginning balance	Addition	Deduction	Ending balance (*)
Loans:					
Court receivership	₩ 4,142	₩ 908	₩ 59	₩ (375)	₩ 592
Others	122,214	42,779	6,013	(7,032)	41,760
	126,356	43,687	6,072	(7,407)	42,352
Accounts receivable:					
Court receivership	14,977	2,079	711	(656)	2,134
Others	20,624	4,450	1,738	(1,052)	5,136
	35,601	6,529	2,449	(1,708)	7,270
	₩ 161,957	₩ 50,216	₩ 8,521	₩ (9,115)	₩ 49,622

(*)1 These only include restructured loans discounted at present value.

(*)2 The present value discount is presented as allowance of possible loan losses.

7. Restructured loans

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

8. Allowance for possible loan losses

(1) The allowance for possible loan losses as of December 31, 2007 and 2006 was summarized as follows (Unit: In millions):

<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans:						
Credit card loans	₩ 35,649	₩ 7,943	₩ -	₩ 15,062	₩ 5,847	₩ 64,501
Bills bought in foreign currencies	30,524	2	3,903	751	-	35,180
Loans in Won	362,865	19,279	40,620	5,452	65,151	493,367
Loans in foreign currencies	74,954	6,323	8,305	4,881	1,963	96,426
Factoring receivables	2,641	-	-	-	-	2,641
Advances for customers	3	487	238	5	1,805	2,538
Privately placed bonds	6,784	17	35	-	-	6,836
	513,420	34,051	53,101	26,151	74,766	701,489
Other accounts	11	7	327	569	1,671	2,585
Allowance for possible loan losses	513,431	34,058	53,428	26,720	76,437	704,074
Present value discounts	41,463	3,745	4,396	-	18	49,622
Allowance for possible loan losses on balance sheet	₩ 554,894	₩ 37,803	₩ 57,824	₩ 26,720	₩ 76,455	₩ 753,696

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans :						
Credit card loans	₩ 33,356	₩ 13,444	₩ -	₩ 23,308	₩ 6,275	₩ 76,383
Bills bought in foreign currencies	22,510	49	3,867	-	-	26,426
Loans in Won	281,373	28,614	28,809	7,187	46,858	392,841
Loans in foreign currencies	47,936	8,109	21,375	7,089	2,628	87,137
Factoring receivables	2,101	-	-	-	-	2,101
Advances for customers	51	13	705	-	1,315	2,084
Privately placed bonds	8,390	-	-	-	-	8,390
	395,717	50,229	54,756	37,584	57,076	595,362
Other accounts	15	17	223	454	2,355	3,064
Allowance for possible loan losses	395,732	50,246	54,979	38,038	59,431	598,426
Present value discounts	47,229	2,079	366	542	-	50,216
Allowance for possible loan losses on balance sheet	₩ 442,961	₩ 52,325	₩ 55,345	₩ 38,580	₩ 59,431	₩ 648,642

(2) The changes in allowance for possible loan losses for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Beginning balance	₩ 648,642	₩ 598,422
Provision for possible loan losses	304,777	181,715
Loans written-off	(355,998)	(338,835)
Repurchase of loan and others	155,029	218,052
Translation adjustments of overseas	1,840	(4,684)
Changes in present value discounts	(594)	(6,028)
Ending balance	₩ 753,696	₩ 648,642

(3) The allowance for possible loan losses compared to total loans, net of present value discount, was summarized as follows (Unit: In millions):

Classification	December 31, 2007	December 31, 2006	December 31, 2005
Loans	₩ 55,705,353	₩ 47,106,926	₩ 43,486,483
Allowance for possible loan losses	704,074	598,426	598,422
Percentage (%)	1.26	1.27	1.40

(*1) Call loans, bonds purchased under repurchase agreements and interbank loans in foreign currencies are excluded.

(*2) Present value discounts are excluded.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

9. Tangible assets

(1) Tangible assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Tangible assets	₩ 1,666,440	₩ 1,623,937
Less: accumulated depreciation	(756,551)	(732,969)
	₩ 909,889	₩ 890,968

(2) Tangible assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

<December 31, 2007>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 377,328	₩ -	₩ 377,328
Construction	513,696	(168,003)	345,693
Leasehold improvements	104,236	(68,611)	35,625
Equipment and vehicles	651,519	(519,937)	131,582
Construction in progress	19,661	-	19,661
	₩ 1,666,440	₩ (756,551)	₩ 909,889

<December 31, 2006>

Classification	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 379,224	₩ -	₩ 379,224
Construction	503,585	(157,962)	345,623
Leasehold improvements	90,746	(57,335)	33,411
Equipment and vehicles	650,382	(517,672)	132,710
	₩ 1,623,937	₩ (732,969)	₩ 890,968

(3) The changes in book value of tangible assets for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Disposal	Depreciation	Change in foreign currencies	Ending
Land	₩ 379,224	₩ 214	₩ (2,154)	₩ -	₩ 44	₩ 377,328
Construction	345,623	16,325	(2,857)	(13,405)	7	345,693
Leasehold improvements	33,411	14,793	(374)	(12,319)	114	35,625
Equipment and vehicles	132,710	83,666	(3,606)	(81,581)	393	131,582
Construction in progress	-	19,661	-	-	-	19,661
	₩ 890,968	₩ 134,659	₩ (8,991)	₩ (107,305)	₩ 558	₩ 909,889

(4) The published value of the land was ₩696,977 million and ₩631,805 million as of December 31, 2007 and 2006, respectively, based on the Laws on Disclosure of Land Price and Valuation of Land.

(5) Tangible assets, which have been insured as of December 31, 2007 were as follows (Unit: In millions):

Type of insurance	Asset insured	Insured balance	Insurance company
Property composite	Construction	₩ 336,657	Hyundai Marine Fire Insurance Co., Ltd. and others
	Leasehold improvements	34,437	
	Equipment and vehicles	84,071	
		₩ 455,165	

Notes to Consolidated Financial Statements

153

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

10. Other assets

(1) Other assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Guarantee deposits paid	₩ 624,768	₩ 496,816
Accounts receivable	5,931,028	4,384,131
Accrued income	320,582	361,952
Prepaid expenses	10,819	10,744
Deferred income tax assets (see Note 21)	10,948	8,366
Derivatives assets (see Note 16)	786,570	630,829
Intangible assets	81,059	82,300
Sundry assets	1,137,764	764,515
	₩ 8,903,538	₩ 6,739,653

(2) Intangible assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

<December 31, 2007>

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 180,973	₩ (100,702)	₩ 80,271
Others (*)	4,866	(4,078)	788
	₩ 185,839	₩ (104,780)	₩ 81,059

(*) The effect of exchange rate fluctuation is included.

<December 31, 2006>

Classification	Acquisition cost	Accumulated amortization	Book value
Development expenditures	₩ 152,348	₩ (71,339)	₩ 81,009
Others (*)	5,396	(4,105)	1,291
	₩ 157,744	₩ (75,444)	₩ 82,300

(*) The effect of exchange rate fluctuation is included.

(3) The changes in intangible assets for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Acquisition	Amortization	Change in foreign currencies	Ending
Development expenditures	₩ 81,009	₩ 29,035	₩ (29,773)	₩ -	₩ 80,271
Others	1,291	29	(253)	(279)	788
	₩ 82,300	₩ 29,064	₩ (30,026)	₩ (279)	₩ 81,059

(4) Sundry assets as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Suspense payments in Won	₩ 54,547	₩ 39,178
Suspense payments in foreign currencies	3,259	119
Deposited money	4,231	3,193
Cash sending to other banks	19,682	18,187
Domestic exchange settlement debits	-	300
Bills unsettled	1,002,749	644,466
Unsettled inter-office transaction	42,633	46,917
Others	10,663	12,155
	₩ 1,137,764	₩ 764,515

11. Deposits

(1) Deposits as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Demand deposits	₩ 21,751,581	₩ 20,286,701
Time deposits	21,329,740	17,543,485
Negotiable certificates of deposits	5,590,033	3,973,754
	₩ 48,671,354	₩ 41,803,940

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(2) Details of deposits as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Demand deposits:		
Demand deposits in Won	₩ 17,949,291	₩ 16,566,943
Demand deposits in foreign currencies	3,802,290	3,719,758
	21,751,581	20,286,701
Time deposits:		
Time deposits in Won	14,829,065	12,759,759
Time deposits in foreign currencies	6,396,506	4,603,142
Mutual installment savings	104,169	180,584
	21,329,740	17,543,485
Negotiable certificates of deposits	5,590,033	3,973,754
	₩ 48,671,354	₩ 41,803,940

(3) Deposits with financial institutions as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 2,196,375	₩ 1,353,455	₩ 46,306	₩ 3,596,136
Demand deposits in foreign currencies	395,004	14,830	123,755	533,589
Time deposits:				
Savings deposits in Won	90,000	3,780,311	67,430	3,937,741
Savings deposits in foreign currencies	-	133,619	-	133,619
Negotiable certificates of deposits	204,849	165,625	-	370,474
	₩ 2,886,228	₩ 5,447,840	₩ 237,491	₩ 8,571,559

<December 31, 2006>

Classification	Bank	Other financial institution	Foreign financial institution	Total
Demand deposits:				
Demand deposits in Won	₩ 614,720	₩ 1,254,034	₩ 29,551	₩ 1,898,305
Demand deposits in foreign currencies	388,381	13,677	171,235	573,293
Time deposits:				
Savings deposits in Won	-	1,368,611	28,350	1,396,961
Savings deposits in foreign currencies	-	210,291	-	210,291
Negotiable certificates of deposits	-	2,282,801	-	2,282,801
	₩ 1,003,101	₩ 5,129,414	₩ 229,136	₩ 6,361,651

(4) Term structure of deposits as of December 31, 2007 was as follows (Unit: In millions):

Classification	Deposits in Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in less than one year	₩ 31,063,505	₩ 10,096,102	₩ 5,541,060	₩ 46,700,667
Due from one to three years	1,113,065	67,483	48,759	1,229,307
Due after three years	705,955	35,211	214	741,380
	₩ 32,882,525	₩ 10,198,796	₩ 5,590,033	₩ 48,671,354

12. Borrowings

(1) Borrowings as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Call money	₩ 854,566	₩ 466,060
Bills sold	64,009	138,730
Bonds sold under repurchase agreements	444,762	397,246
Borrowings	7,968,927	6,774,507
Due to BOK in foreign currencies	-	3,182
Debentures	8,855,629	6,422,825
Less: Discount on debentures	(38,660)	(13,697)
	₩ 18,149,233	₩ 14,188,853

Notes to Consolidated Financial Statements

155

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(2) Call money as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Lender	Annual interest rates (%)	2007	2006
Call money in Won	Financial institution in Korea and others	4.75 ~ 5.24	₩ 39,700	₩ 12,000
Call money in foreign currencies	Foreign financial institution and others	4.50 ~ 5.70	₩ 814,866	₩ 454,060
			₩ 854,566	₩ 466,060

(3) Bills sold, bonds sold under repurchase agreements and due to BOK in foreign currencies as of December 31, 2007 and 2006 consisted of the following (Unit: In millions):

Account	Lender	Annual interest rates (%)	2007	2006
Bills sold	General customer	3.00 ~ 5.80	₩ 64,009	₩ 138,730
Bonds sold under repurchase agreements	General customer and others	3.30 ~ 6.90	444,762	397,246
Due to BOK in foreign currencies	BOK	-	-	3,182
			₩ 508,771	₩ 539,158

(4) Borrowings as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Lender	Annual interest rates (%)	2007	2006
Borrowings in Won:				
Borrowings from the BOK	BOK	3.25	₩ 641,864	₩ 1,029,714
Borrowings from the Korean government	Ministry of Finance and Economy, and others	1.50 ~ 5.00	282,046	257,198
Borrowings from banking institutions	Industrial Bank of Korea and others	0.00 ~ 5.40	268,194	272,028
Other borrowings	Small Business Corporation and others	2.00 ~ 5.20	571,118	534,690
			1,763,222	2,093,630
Borrowings in foreign currencies:				
Refinance	Korea Exim Bank and others	5.18 ~ 5.60	541,341	395,080
Short term borrowing in foreign currencies	Foreign financial institution	0.98 ~ 11.10	3,588,669	2,385,952
Middle and long term borrowing in foreign currencies	SMBC and others	4.82 ~ 5.74	847,961	726,023
Borrowings from banks for sub-loan	Industrial Bank of Korea and others	2.35 ~ 2.55	1,589	5,075
Other borrowings	Foreign financial institution	2.71 ~ 9.25	1,226,145	1,168,747
			6,205,705	4,680,877
			₩ 7,968,927	₩ 6,774,507

(5) In the normal course of funding activities, the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions as of December 31, 2007 (see Note 5).

(6) Debentures

1) Debentures as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Account	Annual interest rate (%)	2007	2006
Debentures in Won:			
Finance debentures	4.88 ~ 6.70	₩ 7,010,000	₩ 4,470,000
Subordinated financing debentures	4.90 ~ 6.75	694,513	1,292,554
Hybrid debentures	8.50	250,000	250,000
		7,954,513	6,012,554
Discounts on debentures		(34,752)	(10,235)
		7,919,761	6,002,319
Debentures in foreign currencies:			
Finance debentures	277 ~ 6.55	619,257	140,203
Subordinated financing debentures	5.00	281,859	270,068
		901,116	410,271
Discounts on debentures		(3,908)	(3,462)
		897,208	406,809
		₩ 8,816,969	₩ 6,409,128

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

2) As of December 31, 2007, all finance debentures issued in Won were general debentures and consisted of (Unit: In millions):

Issued date	Expiration date	Annual interest rates (%)	2007	2006
Feb. 19, 2002	Feb. 19, 2007	7.22	₩ -	₩ 50,000
Apr. 11, 2002	Apr. 11, 2007	7.60	-	10,000
Apr. 16, 2002	Apr. 16, 2007	7.60	-	20,000
Jun. 04, 2002	Jun. 04, 2007	7.20	-	50,000
Jan. 17, 2005	Jan. 17, 2007	3.93	-	10,000
Feb. 02, 2005	Feb. 02, 2007	4.25	-	50,000
Feb. 03, 2005	Feb. 03, 2007	4.23	-	50,000
Feb. 24, 2005	Feb. 24, 2007	4.34	-	50,000
Mar. 14, 2005	Mar. 14, 2007	4.23	-	50,000
Mar. 15, 2005	Mar. 15, 2007	4.18	-	50,000
Mar. 16, 2005	Mar. 16, 2007	4.16	-	50,000
Apr. 06, 2005	Apr. 06, 2007	4.07	-	50,000
Apr. 14, 2005	Apr. 14, 2007	4.05	-	50,000
Apr. 20, 2005	Apr. 20, 2007	3.97	-	50,000
Apr. 27, 2005	Apr. 27, 2007	3.96	-	50,000
Apr. 29, 2005	Apr. 29, 2007	3.92	-	100,000
May 17, 2005	May 17, 2007	3.86	-	50,000
May 18, 2005	May 18, 2007	3.86	-	50,000
Aug. 03, 2005	Aug. 03, 2007	4.40	-	50,000
Aug. 04, 2005	Aug. 04, 2007	4.37	-	30,000
Aug. 12, 2005	Aug. 12, 2007	4.40	-	40,000
Aug. 16, 2005	Aug. 16, 2007	4.35	-	40,000
Aug. 31, 2005	Aug. 31, 2007	4.35	-	50,000
Sep. 02, 2005	Mar. 02, 2007	4.17	-	30,000
Sep. 06, 2005	Sep. 06, 2007	4.29	-	50,000
Oct. 06, 2005	Apr. 06, 2007	4.84	-	50,000
Oct. 26, 2005	Oct. 26, 2008	5.32	50,000	50,000
Nov. 09, 2005	Nov. 09, 2007	5.30	-	50,000
Nov. 11, 2005	May 11, 2007	5.10	-	20,000
Nov. 15, 2005	May 15, 2007	5.08	-	10,000
Nov. 15, 2005	Nov. 15, 2007	5.32	-	40,000
Nov. 16, 2005	Nov. 16, 2007	5.35	-	50,000
Nov. 17, 2005	Nov. 17, 2007	5.30	-	10,000
Nov. 18, 2005	Nov. 18, 2007	5.30	-	50,000
Nov. 21, 2005	Nov. 21, 2007	5.30	-	50,000
Nov. 23, 2005	Nov. 23, 2007	5.22	-	40,000
Nov. 24, 2005	May 24, 2007	5.00	-	10,000
Nov. 25, 2005	Nov. 25, 2007	5.18	-	40,000
Nov. 28, 2005	May 28, 2007	5.00	-	50,000
Dec. 01, 2005	Dec. 01, 2007	5.24	-	50,000
Dec. 02, 2005	Dec. 02, 2007	5.26	-	50,000
Dec. 05, 2005	Dec. 05, 2007	5.31	-	20,000
Dec. 06, 2005	Jun. 06, 2007	5.14	-	50,000
Dec. 08, 2005	Dec. 08, 2007	5.36	-	50,000
Dec. 13, 2005	Dec. 13, 2007	5.18	-	40,000
Dec. 13, 2005	Jun. 13, 2007	5.07	-	10,000
Dec. 14, 2005	Dec. 14, 2007	5.14	-	40,000
Dec. 14, 2005	Jun. 14, 2007	5.03	-	10,000
Dec. 19, 2005	Dec. 19, 2007	5.14	-	30,000

Notes to Consolidated Financial Statements

157

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rates (%)	2007	2006
Dec. 19, 2005	Jun. 19, 2007	5.01	₩ -	₩ 20,000
Dec. 20, 2005	Dec. 20, 2007	5.10	-	50,000
Dec. 23, 2005	Dec. 23, 2007	5.16	-	20,000
Dec. 26, 2005	Dec. 26, 2007	5.18	-	50,000
Dec. 27, 2005	Dec. 27, 2007	5.18	-	50,000
Dec. 28, 2005	Dec. 28, 2007	5.17	-	40,000
Dec. 28, 2005	Jun. 28, 2007	5.00	-	10,000
Dec. 29, 2005	Dec. 29, 2007	5.22	-	50,000
Jan. 03, 2006	Jul. 03, 2007	5.08	-	20,000
Jan. 03, 2006	Jan. 03, 2008	5.27	30,000	30,000
Jan. 04, 2006	Jan. 04, 2008	5.18	40,000	40,000
Jan. 09, 2006	Jul. 09, 2007	5.01	-	10,000
Jan. 11, 2006	Jan. 11, 2008	5.20	50,000	50,000
Jan. 12, 2006	Jul. 12, 2007	4.94	-	10,000
Jan. 13, 2006	Jan. 13, 2008	5.10	50,000	50,000
Jan. 16, 2006	Jul. 16, 2007	4.92	-	10,000
Jan. 17, 2006	Jul. 17, 2007	4.95	-	10,000
Feb. 08, 2006	Feb. 08, 2008	5.06	50,000	50,000
Apr. 04, 2006	Apr. 04, 2008	5.04	30,000	30,000
Apr. 04, 2006	Oct. 04, 2007	4.91	-	20,000
Apr. 05, 2006	Apr. 05, 2008	5.03	50,000	50,000
Apr. 06, 2006	Oct. 06, 2007	4.89	-	20,000
Apr. 06, 2006	Apr. 06, 2007	4.73	-	30,000
Apr. 10, 2006	Oct. 10, 2007	4.88	-	50,000
Apr. 11, 2006	Apr. 11, 2008	5.01	20,000	20,000
Apr. 11, 2006	Oct. 11, 2007	4.87	-	10,000
Apr. 12, 2006	Apr. 12, 2008	5.00	40,000	40,000
Apr. 12, 2006	Oct. 12, 2007	4.87	-	10,000
Apr. 14, 2006	Apr. 14, 2007	4.77	-	50,000
Apr. 18, 2006	Oct. 18, 2007	4.94	-	10,000
Apr. 19, 2006	Apr. 19, 2008	5.07	50,000	50,000
Apr. 25, 2006	Apr. 25, 2008	5.01	50,000	50,000
Apr. 27, 2006	Oct. 27, 2007	4.87	-	30,000
Apr. 28, 2006	Oct. 28, 2007	4.84	-	50,000
May 02, 2006	Nov. 02, 2007	4.85	-	30,000
May 03, 2006	May. 03, 2008	4.96	10,000	10,000
May 03, 2006	Nov. 03, 2007	4.87	-	20,000
May 08, 2006	May 08, 2008	4.93	50,000	50,000
May 11, 2006	May 11, 2008	4.91	30,000	30,000
May 11, 2006	Nov. 11, 2007	4.83	-	20,000
May 12, 2006	May 12, 2008	4.91	50,000	50,000
May 16, 2006	May 16, 2008	4.94	50,000	50,000
May 17, 2006	May 17, 2008	4.91	50,000	50,000
May 19, 2006	May 19, 2008	4.88	50,000	50,000
Jul. 04, 2006	Jul. 04, 2008	5.05	50,000	50,000
Jul. 05, 2006	Jul. 05, 2008	5.02	50,000	50,000
Jul. 06, 2006	Jul. 06, 2008	5.00	50,000	50,000
Jul. 19, 2006	Jul. 19, 2008	5.03	50,000	50,000
Jul. 26, 2006	Jan. 26, 2008	4.99	50,000	50,000
Nov. 13, 2006	Nov. 13, 2009	5.03	50,000	50,000
Nov. 17, 2006	Nov. 17, 2009	4.89	50,000	50,000

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rates (%)	2007	2006
Dec. 04, 2006	Dec. 04, 2008	4.94	₩ 10,000	₩ 10,000
Dec. 06, 2006	Dec. 06, 2008	4.92	10,000	10,000
Dec. 06, 2006	Dec. 06, 2009	4.98	40,000	40,000
Dec. 08, 2006	Dec. 08, 2008	4.89	30,000	30,000
Dec. 11, 2006	Dec. 11, 2009	5.00	50,000	50,000
Dec. 12, 2006	Dec. 12, 2008	4.96	50,000	50,000
Dec. 13, 2006	Dec. 13, 2008	4.95	50,000	50,000
Dec. 14, 2006	Dec. 14, 2008	4.97	50,000	50,000
Dec. 15, 2006	Dec. 15, 2008	4.99	120,000	120,000
Dec. 18, 2006	Dec. 18, 2008	5.04	20,000	20,000
Dec. 19, 2006	Dec. 19, 2008	5.00	50,000	50,000
Dec. 20, 2006	Dec. 20, 2007	4.95	-	30,000
Dec. 20, 2006	Dec. 20, 2008	5.02	20,000	20,000
Dec. 21, 2006	Dec. 21, 2007	4.96	-	90,000
Dec. 28, 2006	Dec. 28, 2007	4.83	-	50,000
Jan. 09, 2007	Jan. 09, 2009	5.07	50,000	-
Jan. 10, 2007	Jan. 10, 2010	5.10	50,000	-
Jan. 11, 2007	Jan. 11, 2010	5.09	50,000	-
Jan. 16, 2007	Jan. 16, 2008	5.09	40,000	-
Jan. 17, 2007	Jan. 17, 2009	5.15	50,000	-
Jan. 18, 2007	Jan. 18, 2009	5.17	20,000	-
Jan. 18, 2007	Jan. 18, 2010	5.20	30,000	-
Jan. 19, 2007	Jan. 19, 2009	5.16	50,000	-
Jan. 25, 2007	Jan. 25, 2009	5.20	20,000	-
Jan. 25, 2007	Jan. 25, 2010	5.23	30,000	-
Jan. 26, 2007	Jan. 26, 2010	5.47	30,000	-
Feb. 05, 2007	Feb. 05, 2010	5.23	50,000	-
Feb. 06, 2007	Feb. 06, 2008	5.10	10,000	-
Feb. 06, 2007	Aug. 06, 2008	5.14	30,000	-
Feb. 09, 2007	Feb. 09, 2010	5.14	50,000	-
Feb. 14, 2007	Feb. 14, 2008	5.09	40,000	-
Feb. 14, 2007	Aug. 14, 2008	5.11	10,000	-
Feb. 15, 2007	Feb. 15, 2008	5.05	30,000	-
Feb. 15, 2007	Aug. 15, 2008	5.06	60,000	-
Feb. 16, 2007	Aug. 16, 2008	5.05	20,000	-
Feb. 23, 2007	Aug. 23, 2008	5.03	10,000	-
Feb. 28, 2007	Feb. 28, 2010	5.05	30,000	-
Mar. 02, 2007	Mar. 02, 2008	5.03	10,000	-
Mar. 09, 2007	Mar. 09, 2008	5.00	40,000	-
Mar. 12, 2007	Mar. 12, 2008	5.03	30,000	-
Mar. 15, 2007	Mar. 15, 2008	5.03	30,000	-
Mar. 15, 2007	Mar. 15, 2009	5.06	20,000	-
Mar. 16, 2007	Mar. 16, 2009	5.05	50,000	-
Mar. 23, 2007	Sep. 23, 2008	5.02	70,000	-
Mar. 27, 2007	Mar. 27, 2008	5.01	20,000	-
Mar. 27, 2007	Mar. 27, 2009	5.03	30,000	-
Mar. 27, 2007	Mar. 27, 2009	5.21	40,000	-
Mar. 27, 2007	Mar. 27, 2010	5.26	10,000	-
Mar. 29, 2007	Sep. 29, 2008	5.02	10,000	-
Apr. 03, 2007	Apr. 03, 2009	5.05	50,000	-
Apr. 18, 2007	Oct. 18, 2008	5.11	10,000	-

Notes to Consolidated Financial Statements

159

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rates (%)	2007	2006
Apr. 19, 2007	Oct. 19, 2008	5.10	₩ 20,000	₩ -
Apr. 24, 2007	Oct. 24, 2008	5.15	20,000	-
May 02, 2007	May 02, 2009	5.24	50,000	-
May 03, 2007	Nov. 03, 2008	5.20	30,000	-
May 08, 2007	May 08, 2008	5.18	10,000	-
May 08, 2007	May 08, 2009	5.24	10,000	-
May 09, 2007	May 09, 2009	5.27	20,000	-
May 14, 2007	May 14, 2008	5.22	10,000	-
May 14, 2007	May 14, 2010	5.32	40,000	-
May 15, 2007	May 15, 2008	5.24	10,000	-
May 15, 2007	May 15, 2009	5.28	20,000	-
May 16, 2007	May 16, 2010	5.35	50,000	-
May 17, 2007	May 17, 2010	5.36	50,000	-
May 21, 2007	May 21, 2009	5.33	20,000	-
May 21, 2007	May 21, 2010	5.39	30,000	-
May 23, 2007	May 23, 2010	5.38	100,000	-
May 25, 2007	May 25, 2010	5.67	40,000	-
May 29, 2007	May 29, 2008	5.22	50,000	-
May 30, 2007	May 30, 2010	5.36	50,000	-
Jun. 01, 2007	Jun. 01, 2010	5.37	50,000	-
Jun. 05, 2007	Jun. 05, 2009	5.28	50,000	-
Jun. 13, 2007	Jun. 13, 2010	5.49	50,000	-
Jun. 15, 2007	Dec. 15, 2008	5.35	50,000	-
Jun. 18, 2007	Jun. 18, 2009	5.39	30,000	-
Jun. 26, 2007	Jun. 26, 2009	5.40	50,000	-
Jun. 28, 2007	Jun. 28, 2010	5.44	50,000	-
Jul. 10, 2007	Jul. 10, 2009	5.50	50,000	-
Jul. 11, 2007	Jul. 11, 2009	5.50	50,000	-
Jul. 16, 2007	Jul. 16, 2008	5.40	40,000	-
Jul. 16, 2007	Jan. 16, 2009	5.40	10,000	-
Jul. 18, 2007	Jul. 18, 2008	5.41	40,000	-
Jul. 19, 2007	Jan. 19, 2009	5.53	50,000	-
Jul. 24, 2007	Jan. 24, 2009	5.52	30,000	-
Jul. 24, 2007	Jul. 24, 2010	5.60	20,000	-
Jul. 25, 2007	Jul. 25, 2010	5.61	50,000	-
Jul. 26, 2007	Jan. 26, 2009	5.51	40,000	-
Jul. 26, 2007	Jul. 26, 2009	5.55	10,000	-
Jul. 30, 2007	Jul. 30, 2010	5.53	30,000	-
Jul. 31, 2007	Jul. 31, 2009	5.48	20,000	-
Jul. 31, 2007	Jul. 31, 2010	5.53	30,000	-
Aug. 01, 2007	Aug. 01, 2009	5.45	20,000	-
Aug. 03, 2007	Aug. 03, 2009	5.44	40,000	-
Aug. 03, 2007	Aug. 03, 2010	5.48	10,000	-
Aug. 08, 2007	Feb. 08, 2009	5.32	10,000	-
Aug. 09, 2007	Aug. 09, 2009	5.57	40,000	-
Aug. 14, 2007	Aug. 14, 2010	5.58	10,000	-
Aug. 23, 2007	Aug. 23, 2010	5.65	30,000	-
Aug. 24, 2007	Aug. 24, 2010	5.67	50,000	-
Aug. 28, 2007	Aug. 28, 2008	5.50	10,000	-
Aug. 29, 2007	Aug. 29, 2008	5.50	10,000	-
Sep. 10, 2007	Sep. 10, 2010	5.77	200,000	-

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

Issued date	Expiration date	Annual interest rates (%)	2007	2006
Sep. 17, 2007	Sep. 17, 2009	6.00	₩ 20,000	₩ -
Sep. 17, 2007	Sep. 17, 2010	6.06	20,000	-
Sep. 20, 2007	Sep. 20, 2008	5.64	50,000	-
Sep. 27, 2007	Sep. 27, 2008	5.65	50,000	-
Oct. 02, 2007	Apr. 2, 2009	5.77	50,000	-
Oct. 09, 2007	Oct. 9, 2008	5.65	10,000	-
Oct. 09, 2007	Apr. 9, 2009	5.77	20,000	-
Oct. 10, 2007	Oct. 10, 2010	5.93	200,000	-
Oct. 11, 2007	Oct. 11, 2008	5.65	24,000	-
Oct. 11, 2007	Apr. 11, 2009	5.78	26,000	-
Oct. 12, 2007	Apr. 12, 2009	5.80	50,000	-
Oct. 16, 2007	Apr. 16, 2009	5.81	140,000	-
Oct. 17, 2007	Apr. 17, 2009	5.80	50,000	-
Oct. 18, 2007	Oct. 18, 2009	5.84	30,000	-
Oct. 18, 2007	Oct. 18, 2010	5.91	70,000	-
Oct. 23, 2007	Oct. 23, 2010	5.84	10,000	-
Oct. 24, 2007	Oct. 24, 2008	5.65	10,000	-
Oct. 24, 2007	Oct. 24, 2009	5.78	40,000	-
Oct. 25, 2007	Oct. 25, 2008	5.65	40,000	-
Oct. 26, 2007	Apr. 26, 2009	5.74	20,000	-
Oct. 29, 2007	Oct. 29, 2010	5.69	40,000	-
Oct. 29, 2007	Apr. 29, 2009	5.76	30,000	-
Oct. 30, 2007	Oct. 30, 2008	5.70	190,000	-
Oct. 30, 2007	Apr. 30, 2009	5.76	30,000	-
Nov. 02, 2007	Nov. 02, 2009	5.86	40,000	-
Nov. 05, 2007	Nov. 05, 2008	5.72	50,000	-
Nov. 06, 2007	Nov. 06, 2008	5.72	10,000	-
Nov. 08, 2007	Nov. 08, 2010	5.88	200,000	-
Nov. 14, 2007	Nov. 14, 2010	5.94	50,000	-
Nov. 23, 2007	Nov. 23, 2010	6.22	70,000	-
Nov. 26, 2007	Nov. 26, 2010	6.25	260,000	-
Nov. 30, 2007	Nov. 30, 2010	6.63	170,000	-
Dec. 05, 2007	Dec. 05, 2010	6.70	140,000	-
Dec. 17, 2007	Dec. 17, 2008	6.33	110,000	-
			₩ 7,010,000	₩ 4,470,000

Notes to Consolidated Financial Statements

161

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

3) Finance debentures issued in foreign currencies as of December 31, 2007 and 2006 consisted of (Unit: In thousands of U.S. dollars, in millions of Won):

First underwriter	Issued date	Expiration date	Annual interest rate (%)	2007	2006
BNP Paribas, HSBC	Dec. 23, 2005	Dec. 23, 2007	-	₩ -	₩ 22,310 (US\$24,000)
BNP Paribas, HSBC	Dec. 23, 2005	Dec. 23, 2008	4.89	45,034 (US\$48,000)	44,621 (US\$48,000)
BNP Paribas	Mar. 13, 2006	Mar. 12, 2007	-	-	39,376 (US\$42,358)
SMBC Bank Seoul	Jun. 07, 2006	Jun. 07, 2007	-	-	7,788 (US\$8,378)
SMBC Bank Seoul	Jun. 26, 2006	Jun. 26, 2007	-	-	7,788 (US\$8,378)
DBS (*1)	Jan. 25, 2007	Jan. 25, 2008	2.77	32,447 (US\$34,585)	-
BOA (*2)	Feb. 16, 2007	Feb. 19, 2008	4.65	18,760 (US\$19,999)	-
HSBC (*3)	Mar. 14, 2007	Mar. 14, 2008	4.48	46,901 (US\$49,998)	-
NH Investment & Securities Korea Investment & Securities	Jul. 13, 2007	May 25, 2010	5.98	37,528 (US\$40,000)	-
Calyon	Jul. 20, 2007	Jul. 20, 2012	5.51	281,460 (US\$300,000)	-
NAB (*4)	Oct. 15, 2007	Oct. 15, 2009	5.87	24,052 (US\$25,640)	-
MIZUHO	Oct. 29, 2007	Oct. 29, 2009	5.21	46,910 (US\$50,000)	-
MIZUHO	Oct. 30, 2007	Oct. 30, 2009	5.20	18,764 (US\$20,000)	-
NAB (*5)	Nov. 05, 2007	Nov. 05, 2008	4.40	45,699 (US\$48,716)	-
NAB (*6)	Nov. 07, 2007	Nov. 07, 2008	4.49	19,242 (US\$20,512)	-
Others	-	-	-	2,460 (US\$2,622)	18,320 (US\$19,706)
				₩ 619,257 (US\$660,072)	₩ 140,203 (US\$150,820)

(*1) Issued in Singapore dollar (SGD) amounting to SGD 50 million

(*2) Issued in Hong Kong dollar (HKD) amounting to HKD 156 million

(*3) Issued in Hong Kong dollar (HKD) amounting to HKD 390 million

(*4) Issued in Hong Kong dollar (HKD) amounting to HKD 200 million

(*5) Issued in Hong Kong dollar (HKD) amounting to HKD 380 million

(*6) Issued in Hong Kong dollar (HKD) amounting to HKD 160 million

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

4) Subordinated debentures as of December 31, 2007 and 2006 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

Classification	Issued date	Expiration date	Annual interest rate (%)	2007	2006
Debentures in Won:					
General sale	Feb. 28, 2000	Feb. 28, 2005	-	₩ -	₩ 50
General sale	May. 28, 2001	Feb. 28, 2007	-	2,009	400,000
General sale	Nov. 28, 2001	Feb. 28, 2007	-	-	200,000
General sale	Oct. 28, 2002	Jan. 28, 2008	6.75	200,000	200,000
General sale	Mar. 28, 2003	Dec. 28, 2008	5.80	242,504	242,504
Underwriting sale (*1)	Oct. 21, 2004	Oct. 21, 2014	5.10	170,000	170,000
General sale (*1)	Nov. 28, 2004	Nov. 28, 2014	4.90	80,000	80,000
				694,513	1,292,554
Debentures in foreign currencies:					
CITI group & HSBC (*1,*2)	Jun. 10, 2005	Jun. 10, 2015	5.00	281,859 (US\$300,426)	270,068 (US\$290,521)
				₩ 976,372	₩ 1,562,622

(*1) After 5 years from issuance date, the optional early redemption right is able to be exercised by the Bank.

(*2) The first underwriters

In addition, certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates. Loss on valuation of derivatives amounting to ₩9,293 million was accounted for in connection to such contracts for the year ended December 31, 2007.

5) As of December 31, 2007, Hybrid Tier 1 bond was as follows (Unit: In millions):

Classification	Issued period (*2)	Annual interest rate (%) (*3)	Balance
Hybrid debentures 1st (*1)	May 28, 2003 ~ May 28, 2033	8.50	₩ 250,000

(*1) After 5 years from issuance date, call option can be exercised under the authorization of the Governor of the Financial Supervisory Service.

(*2) After expiration, the bond can be extended under the same terms.

(*3) After 10 years from issuance date, the interest rate increases to 10.0%.

(7) Term structure of borrowings as of December 31, 2007 was as follows (Unit: In millions):

Classification	Borrowing in Won	Borrowing in foreign currencies	Debentures in Won	Debentures in foreign currencies	Total
Due in less than one year	₩ 768,495	₩ 6,070,976	₩ 3,258,513	₩ 210,543	₩ 10,308,527
Due from one to three years	235,415	134,729	4,196,000	127,254	4,693,398
Due after three years	759,312	-	500,000	563,319	1,822,631
	₩ 1,763,222	₩ 6,205,705	₩ 7,954,513	₩ 901,116	₩ 16,824,556

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

13. Other liabilities

(1) Other liabilities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Accounts payable	₩ 6,235,955	₩ 4,684,241
Accrued expenses (see Notes 16 and 18)	743,056	699,250
Unearned revenues	93,497	67,360
Guarantee money received	214,429	215,174
Accrued payable foreign exchange	338,981	298,785
Deferred income tax liabilities	173,867	139,606
Derivatives instruments liabilities (see Note 16)	805,501	772,489
Due to trust accounts	609,298	327,760
Accrued severance benefits (see Note 3)	265,369	223,694
Less: Funds converted to National Pension	(743)	(776)
Less: Due to retirement insurance	(184,198)	(172,138)
Liability reserve for acceptances and guarantees	56,085	41,142
Liability reserve for unused credit limit	196,813	172,349
Allowance for other liabilities (see Note 16)	108,259	206,359
Sundry liabilities	1,783,547	1,410,399
	₩ 11,439,716	₩ 9,085,694

(2) Accrued severance benefits

The changes in accrued severance benefits for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Beginning	₩ 223,694	₩ 177,037
Provision (see Note 18)	58,137	56,329
Payment (*)	(16,597)	(9,517)
Foreign currencies translation	135	(155)
	265,369	223,694
Funds Converted to National Pension	(743)	(776)
Due to Retirement Insurance	(184,198)	(172,138)
	₩ 80,428	₩ 50,780

(*) The payment of severance benefits amounting to ₩427 million for the nine month ended December 31, 2007 is accounted as accounts payable.

As of December 31, 2007, parts of severance benefits were contributed to pension funds of Samsung Life Insurance Co., Ltd.

(3) Liability reserve for acceptances and guarantees

1) Acceptances and guarantees as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Confirmed acceptances and guarantees in Won:		
Payment guarantee for issuance of debentures	₩ 2,253	₩ 1,034
Acceptances for letters of guarantee for importers	719	975
Payment guarantee for loans	70,658	64,555
Others	1,650,183	623,525
	1,723,813	690,089
Confirmed acceptances and guarantees in foreign currencies:		
Acceptances on letters of credit	280,958	252,443
Acceptances for letters of guarantee for importers	116,944	98,727
Credit derivatives-sold	47,489	18,592
Others	3,212,635	1,739,551
	3,658,026	2,109,313
Unconfirmed acceptances and guarantees:		
Letters of credit	4,793,835	3,627,527
Others	20,131	14,354
	4,813,966	3,641,881
Bills endorsed	62,165	63,486
	₩ 10,257,970	₩ 6,504,769

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

2) The classification of asset quality for acceptances and guarantees and liability reserve for acceptances and guarantees as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩5,373,439	₩ 7,485	₩ 20	₩ 748	₩ 147	₩5,381,839	₩ 46,633
Unconfirmed acceptances	4,806,173	3,159	4,522	35	77	4,813,966	8,923
Bills endorsed	62,165	-	-	-	-	62,165	529
	₩10,241,777	₩ 10,644	₩ 4,542	₩ 783	₩ 224	₩10,257,970	₩ 56,085

<December 31, 2006>

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Liability reserve for acceptances and guarantees
Confirmed acceptances	₩2,737,964	₩ 57,798	₩ 21	₩ 91	₩ 3,528	₩2,799,402	₩ 32,456
Unconfirmed acceptances	3,560,363	74,532	6,971	4	11	3,641,881	8,242
Bills endorsed	63,486	-	-	-	-	63,486	444
	₩6,361,813	₩ 132,330	₩ 6,992	₩ 95	₩ 3,539	₩6,504,769	₩ 41,142

3) Acceptances and guarantees, by industry, except for the portion of overseas branches as of December 31, 2007 and 2006 were as follows (Unit: In millions):

By industry	2007		2006	
	Balance	Percentage (%)	Balance	Percentage (%)
Manufacturing	₩ 3,253,373	63.23	₩ 1,371,939	51.74
Wholesale/retail	608,254	11.82	467,820	17.64
Construction	641,312	12.46	294,609	11.11
Finance	284,857	5.54	210,253	7.93
Telecommunication	18,635	0.36	20,181	0.76
Others	339,070	6.59	286,973	10.82
	5,145,501	100.00	2,651,775	100.00
Confirmed acceptance and guarantees in overseas branches	236,338		147,627	
	₩ 5,381,839		₩ 2,799,402	

4) Confirmed acceptances and guarantees in foreign currencies, by country, as of December 31, 2007 and 2006 were as follows (Unit: In thousands of U.S. Dollars, in millions of Won):

<December 31, 2007>

By country	Confirmed acceptances and guarantees in foreign currencies (*)	Translation into Won	Percentage (%)
Korea	US\$ 3,391,350	₩ 3,181,765	86.97
Taiwan	75,633	70,959	1.94
France	69,252	64,972	1.78
USA	58,817	55,182	1.51
Singapore	40,480	37,978	1.04
Others	263,451	247,170	6.76
	US\$ 3,898,983	₩ 3,658,026	100.00

(*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

Notes to Consolidated Financial Statements

165

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

<December 31, 2006>

By country	Confirmed acceptances and guarantees in foreign currencies (*)	Translation into Won	Percentage (%)
Korea	US\$ 1,888,127	₩ 1,755,203	83.22
France	51,350	47,735	2.26
Germany	41,226	38,324	1.82
UK	26,540	24,672	1.17
USA	88,350	82,130	3.89
Japan	27,451	25,518	1.21
Others	146,010	135,731	6.43
	US\$ 2,269,054	₩ 2,109,313	100.00

(*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

5) The percentage of liability reserve for acceptances and guarantees as of December 31, 2007, 2006 and 2005 was as follows (Unit: In millions):

Classification	Acceptances and guarantees	Liability reserve	Percentage (%)
Dec. 31, 2007	₩ 10,257,971	₩ 56,085	0.55
Dec. 31, 2006	6,504,769	41,142	0.63
Dec. 31, 2005	5,829,430	41,336	0.71

(4) Liability reserve for unused credit limit

The Bank accrued reserve for estimated potential losses on unused credit limit considering the credit conversion factor based on the new standard of the Bank for International Settlements Accord by applying the same methodology that was used to determine the allowance for loan losses since 2005. The calculation of liability reserve for unused credit limit as of December 31, 2007 and 2006 was as follows (Unit: In millions):

<December 31, 2007>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 15,508,197	₩ 2,006,812	₩ 6,750,429	₩ 106,962
Loans to enterprise	65,471,645	25,102,582	9,762,067	85,093
Loans to household	3,405,898	1,429,844	398,239	3,982
Loans to public and others	133,939	83,246	10,139	86
	₩ 84,519,679	₩ 28,622,484	₩ 16,920,874	196,123
Subsidiaries				690
Liability reserve for unused credit limit				₩ 196,813

<December 31, 2006>

Classification	Limit (a)	Balance (b)	Allowance (c) = (a-b) x credit conversion factor	Liability reserve for unused credit limit (d)
Card loans	₩ 14,831,100	₩ 1,911,563	₩ 6,459,424	₩ 102,003
Loans to enterprise	55,145,872	18,377,572	8,646,210	65,831
Loans to household	2,922,734	1,165,632	358,421	3,584
Loans to public and others	14,955	7,332	1,525	11
	₩ 72,914,661	₩ 21,462,099	₩ 15,465,580	171,429
Subsidiaries				920
Liability reserve for unused credit limit				₩ 172,349

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(5) Allowance for other liabilities

Allowance for other liabilities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Reserve for tax probe (see Note 16)	₩ -	₩ 133,953
Reserve for money-back point & yes-point	21,203	20,325
Reserve for litigation (see Note 16)	52,268	17,926
Reserve for employees' accident (*1)	600	3,950
Compensation to customers related to Won & Yen swap (see Note 16)	17,741	-
Provision for severance and early retirement benefits (*2)	12,172	-
Others (*3)	4,275	30,205
	₩ 108,259	₩ 206,359

(*1) Provision was made for 2 suspense payment, which occurred in connection with employees' illegal act such as embezzlement.

(*2) The Bank reserved the provision for severance and early retirement benefits for voluntary retirees who have worked for more than 15 years and are more than 40 years old.

(*3) The Bank reversed the allowance for other liabilities amounting to ₩18,149 million as it won the lawsuit of a claim for refund of disposal deposit of Hanbo Steel. The Bank also reversed the allowance amounting to ₩3,218 million as escrow deposit of KP Chemical Co., Ltd.

(6) Sundry liabilities

Sundry liabilities as of December 31, 2007 and 2006 consisted of (Unit: In millions):

Classification	2007	2006
Suspense receipt	₩ 256,757	₩ 113,088
Withholding taxes	32,193	28,324
Agency business accounts	93,251	80,582
Agency	820,170	461,139
Credit control deposits	2,150	1,700
Guarantee deposits for securities subscription	14,999	17,592
Domestic exchange settlements credits	536,596	692,316
Domestic remittance payable	16,896	5,459
Others	10,535	10,199
	₩ 1,783,547	₩ 1,410,399

14. Shareholders' equity

(1) Capital stock

Capital stock as of December 31, 2007 and 2006 was as follows (Unit: in millions except par share amounts):

Classification	2007	2006
Shares authorized	1,000,000,000	1,000,000,000
Par share (In currency units)	₩ 5,000	₩ 5,000
Shares issued	644,906,826	644,906,826
Common stock	₩ 3,224,534	₩ 3,224,534

(2) Capital adjustments

Changes in capital adjustments for the year ended December 31, 2007 were as follows (Unit: In millions):

	Beginning	Increase	Decrease (*)	Ending
Stock option	₩ 18,862	₩ 5,417	₩ (24,279)	₩ -

(*) Represents exercise of stock option amounting to ₩6,499 million for the year ended December 31, 2007 and reclassification to accrued expenses amounting to ₩17,780 million.

In accordance with SKAS No.22, Share-Based Payment, the stock compensation costs, which had been recorded in capital adjustment was reclassified as other liabilities since the Bank had settled stock option by cash payment in the last two years and was assessed at fair value (intrinsic value for stock option granted before December 31, 2006). As a result, stock compensation costs were decreased by ₩285 million for the year ended December 31, 2007.

Notes to Consolidated Financial Statements

167

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(3) Accumulated other comprehensive income

The changes in accumulated other comprehensive income for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Beginning	Changes	Disposal	Deferred income tax	Ending
Gain(loss) on valuation of available-for-sale securities	₩ 1,123,734	₩ (2,278)	₩ (38,145)	₩ 11,116	₩ 1,094,427
Gain(loss) on valuation of held-to-maturity securities	(773)	566	-	(156)	(363)
	₩ 1,122,961	₩ (1,712)	₩ (38,145)	₩ 10,960	₩ 1,094,064

(4) Statements of comprehensive income

Comprehensive income consists of all changes in equity during a period from transactions and other events except those resulting from investments by owners and distributions to owners. Comprehensive income for the year ended December 31, 2007 was as follows (Unit: In millions):

Classification	2007
Net income	₩ 961,143
Effect of exchange rate fluctuation	2,290
Retained earnings on trust accounts	(391)
Other comprehensive income:	
Gain on valuation of available-for-sale securities (Effect of income tax : 11,116)	₩ (29,307)
Gain on valuation of held-to-maturity securities (Effect of income tax : (156))	410
Comprehensive income	₩ 934,145
Controlling company's comprehensive income	₩ 933,968
Minority's comprehensive income	177

(5) Retained earnings

Retained earnings as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Legal reserve (*1)	₩ 196,500	₩ -
Other reserves (*2)	39,379	35,516
Unappropriated retained earnings	2,119,898	2,000,863
	₩ 2,355,777	₩ 2,036,379

(*1) The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

(*2) Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10 percent of annual income after income tax as a legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. Singapore and Hanoi branches' statutory reserves are included in other statutory reserves. In addition, it includes futures transaction reserves by the Act of futures transaction and electronic commerce accident reserve by the Act of electronic commerce reserved by KEBFC.

15. Share-based payment

(1) The details of the stock options as of December 31, 2007 were as follows (Unit: share, in Won):

Grant date	Stock option granted	Stock option expired to date	Stock option exercised	Stock option outstanding	Exercise price	Exercise period
Mar. 13, 2001	547,000	-	(547,000)	-	₩ 5,000	Mar. 14, 2004-Mar. 13, 2007
Mar. 30, 2002 (*)	32,020	(24,015)	-	8,005	70,715	Mar. 31, 2005-Mar. 30, 2008
Aug. 26, 2002	725,000	(421,850)	(220,150)	83,000	6,300	Aug. 27, 2005-Aug. 26, 2008
Mar. 31, 2003 (*)	101,401	-	-	101,401	13,266	Apr. 01, 2006-Mar. 31, 2009
Sep. 04, 2003 (*)	53,369	-	-	53,369	15,533	Sep. 05, 2006-Sep. 04, 2009
Sep. 16, 2003	120,000	(120,000)	-	-	5,000	Sep. 17, 2006-Sep. 16, 2009
Feb. 13, 2004	2,390,000	(567,770)	(972,760)	849,470	7,000	Feb. 14, 2006-Feb. 13, 2009
Mar. 07, 2005	1,355,000	(338,525)	(178,515)	837,960	8,800	Mar. 08, 2007-Mar. 07, 2010
Jun. 29, 2005	200,000	(63,230)	(15,880)	120,890	9,000	Jun. 30, 2007-Jun. 29, 2010
Mar. 07, 2006	400,000	(100,850)	-	299,150	13,300	Mar. 08, 2008-Mar. 07, 2011
Aug. 01, 2006	200,000	(35,000)	-	165,000	11,900	Aug. 02, 2008-Aug. 01, 2011
Mar. 08, 2007	1,090,000	(72,510)	-	1,017,490	13,900	Mar. 09, 2009-Mar. 08, 2012
Mar. 29, 2007	100,000	-	-	100,000	14,500	Mar. 30, 2009-Mar. 29, 2012
Mar. 29, 2007	530,000	-	-	530,000	14,500	Mar. 30, 2009-Mar. 29, 2012
Aug. 10, 2007	380,000	-	-	380,000	13,900	Aug. 11, 2009-Aug. 10, 2012
	8,223,790	(1,743,750)	(1,934,305)	4,545,735		

(*) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of cash equivalent to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria of the number of exercisable shares.

(2) Assumption to value stock compensation cost as of December 31, 2007 was as follows (Unit: In Won):

Grant date	Risk free rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%)	Expected dividend rate (%)	Exercised price	Intrinsic value (*2)
Mar. 30, 2002 (*1)	5.64	3	28.92	0.00	₩ 70,715	₩ -
Aug. 26, 2002	5.66	6	26.61	0.00	6,300	8,360
Mar. 31, 2003 (*1)	5.68	3	29.38	0.00	13,266	1,394
Sep. 04, 2003 (*1)	5.69	3	29.49	0.00	15,533	-
Sep. 16, 2003	5.69	6	29.33	0.00	5,000	9,660
Feb. 13, 2004	5.67	5	29.85	0.00	7,000	7,660
Mar. 07, 2005	5.71	5	31.69	0.00	8,800	5,860
Jun. 29, 2005	5.72	5	31.33	0.00	9,000	5,660
Mar. 07, 2006	5.74	5	29.98	0.00	13,300	1,360
Aug. 01, 2006	5.75	5	30.74	0.00	11,900	2,760
Mar. 08, 2007 (*2)	5.76	5	37.41	0.00	13,900	5,823
Mar. 29, 2007 (*2)	5.76	5	37.74	0.00	14,500	5,668
Mar. 29, 2007 (*2)	5.76	5	37.74	0.00	14,500	5,668
Aug. 10, 2007 (*2)	5.77	5	39.51	0.00	13,900	6,310

(*1) Granted from KEBCS prior to the merger with the Bank. Exercise price per share and the shares outstanding were adjusted based on the merger ratio.

(*2) The intrinsic value of compensation cost granted before December 31, 2006 is the difference between the market price and the exercise price in accordance with SKAS Interpretations 39-35 - Accounting for Stock Options, and the intrinsic value of compensation cost granted after January 1, 2007 is fair value in accordance with SKAS No.22 - Share-Based Payment.

16. Contingencies and commitments

(1) Derivatives

The notional amounts outstanding for derivative contracts as of December 31, 2007 and 2006 were as follows (Unit: In millions):

	2007			2006		
Type (*)	Trading	Hedge	Total	Trading	Hedge	Total
Currency:						
Currency forwards	₩42,704,051	₩ -	₩42,704,051	₩31,819,496	₩ 1,750	₩31,821,246
Currency futures	2,828,810	-	2,828,810	740,966	-	740,966
Currency swaps	6,640,534	-	6,640,534	6,101,202	-	6,101,202
Currency options purchased	6,477,700	-	6,477,700	2,115,263	-	2,115,263
Currency options sold	8,762,723	-	8,762,723	3,890,146	-	3,890,146
	67,413,818	-	67,413,818	44,667,073	1,750	44,668,823
Interest rate:						
Interest rate futures	779,424	-	779,424	563,809	-	563,809
Interest rate swaps	26,084,129	426,881	26,511,010	16,772,450	599,195	17,371,645
Interest rate options purchased	-	-	-	185,920	-	185,920
Interest rate options sold	-	-	-	185,920	-	185,920
	26,863,553	426,881	27,290,434	17,708,099	599,195	18,307,294
Index:						
Stock index futures	2,178	-	2,178	41,189	-	41,189
Stock index purchased	45,648	-	45,648	31,767	-	31,767
Stock index sold	99,628	-	99,628	382,294	-	382,294
	147,454	-	147,454	455,250	-	455,250
	₩94,424,825	₩ 426,881	₩94,851,706	₩62,830,422	₩ 600,945	₩63,431,367

(*) For transaction between Won and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate based on foreign currencies purchased at balance sheet dates.

Notes to Consolidated Financial Statements

169

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

The details of derivatives as of December 31, 2007, and the valuation of derivatives for the year ended December 31, 2007 were as follows (Unit: In millions):

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 374,033	₩ 340,957	₩ -	₩ -	₩ 374,033	₩ 340,957	₩ 377,619	₩ 376,020
Currency swaps	56,970	51,191	-	-	56,970	51,191	154,324	78,804
Currency options purchased	48,298	12,540	-	-	48,298	12,540	75,422	-
Currency options sold	21,417	36,603	-	-	21,417	36,603	-	94,368
	500,718	441,291	-	-	500,718	441,291	607,365	549,192
Interest:								
Interest rate swaps	146,813	212,897	9,569	3,452	156,382	216,349	178,190	233,678
	146,813	212,897	9,569	3,452	156,382	216,349	178,190	233,678
Index:								
Stock index purchased	₩ -	₩ 1,363	₩ -	₩ -	₩ -	₩ 1,363	₩ 1,015	₩ -
Stock index sold	3,647	34	-	-	3,647	34	-	22,631
	3,647	1,397	-	-	3,647	1,397	1,015	22,631
	₩ 651,178	₩ 655,585	₩ 9,569	₩ 3,452	₩ 660,747	₩ 659,037	₩ 786,570	₩ 805,501

The Bank uses various derivative instruments for its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates.

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and bills discounted of merchant banking. The Bank recognized ₩3,452 million of gains on valuation of derivatives of available-for-sale securities, and ₩276 million and ₩9,293 million of losses on valuation of derivatives of available-for-sale securities and finance debentures in foreign currencies, respectively, for the year ended December 31, 2007. In addition, the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate.

The details of derivatives and the valuation of derivatives for the year ended December 31, 2006 were as follows (Unit: In millions):

Type	P/L						B/S	
	Trading		Hedging		Total		Assets	Liabilities
	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation		
Currency:								
Currency forwards	₩ 40,979	₩ 54,913	₩ -	₩ -	₩ 40,979	₩ 54,913	₩ 263,377	₩ 407,814
Currency swaps	80,643	33,173	164	-	80,807	33,173	251,873	127,406
Currency options purchased	5,633	-	-	-	5,633	-	21,406	-
Currency options sold	-	14,187	-	-	-	14,187	-	25,424
	127,255	102,273	164	-	127,419	102,273	536,656	560,644
Interest:								
Interest rate swaps	10,448	21,931	1,048	631	11,496	22,562	90,953	119,285
Interest rate options purchased	3,102	-	-	-	3,102	-	3,102	-
Interest rate options sold	-	-	-	-	-	-	-	-
	13,550	21,931	1,048	631	14,598	22,562	94,055	119,285
Index:								
Stock index purchased	9,519	887	-	-	9,519	887	118	-
Stock index sold	19	1	-	-	19	1	-	92,560
	9,538	888	-	-	9,538	888	118	92,560
	₩ 150,343	₩ 125,092	₩ 1,212	₩ 631	₩ 151,555	₩ 125,723	₩ 630,829	₩ 772,489

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

The Bank holds derivative instruments accounted for as fair value hedges applied to securities, debentures and notes discounted in merchant banking assets, and the interest rate swap covers the fair value changes of the hedged items resulted from the fluctuation in interest rate and foreign exchange rate. The Bank recognized ₩802 million, ₩492 million and ₩12 million of gains on valuation of derivatives of securities debentures and deposits, respectively, and ₩731 million of losses on valuation of derivatives of securities, and recorded as gain or loss on valuation of derivatives, which were included in gain or loss on trading and valuation of derivatives for the year ended December 31, 2006. Also, gain on valuation of derivatives of loans to hedge interest rate amounting to ₩354 million was recognized as other income of operating income of merchant banking accounts and reflected in prior operation.

(2) The credit default swap sold for revenue as of December 31, 2007 was as follows (Unit : In thousands of USD):

Type	Contract	Maturity	Par value	
CDS (Unfunded Synthetic CDO)	Apr. 18, 2007	Dec. 30, 2014	USD	18,000
Synthetic CDO	May 30, 2006	Apr. 28, 2011	USD	20,000

When the Bank sells the credit default swap above, it's possible to suffer a loss depending on swap commitment, if a credit event stated on commitment occurs, such as dishonor of reference entities.

(3) The Bank holds written-off loans, of which the claim for borrowers and guarantors have not been terminated, amounting to ₩1,167,728 million and ₩1,467,531 million as of December 31, 2007 and 2006, respectively.

(4) Endorsed notes with collateral amount to ₩62,165 million and ₩63,486 million as of December 31, 2007 and 2006, respectively. Endorsed notes without collateral held at the merchant banking account amount to ₩8,095,294 million and ₩4,839,947 million as of December 31, 2007 and 2006, respectively.

(5) The Bank is obliged to repurchase some of the loans previously sold to the Korea Asset Management Corporation ("KAMCO") under certain conditions including the following:

- When it is considered impossible to collect the loans and interest due to delay in repayment of loans and interest over six months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-receivership process and the cancellation of mediation.

As of December 31, 2007, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩1,940 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

(6) Loans sold to asset backed securitization (ABS) (Unit: In millions)

Classification	Date	Value of loans		Sale price	Subordinated debentures ^{(*)1}
KEB 5th Securitization Specialty Co., Ltd. ^{(*)2}	Feb. 01, 2001	₩	589,175	₩ -	₩ -
KEB 6th Securitization Specialty Co., Ltd. ^{(*)3}	May 25, 2001		998,923	-	-
KEB 7th Securitization Specialty Co., Ltd. ^{(*)4}	Oct. 30, 2001		163,750	-	-
KEB 8th Securitization Specialty Co., Ltd. ^{(*)5}	Nov. 12, 2003		155,391	-	-
KEB 9th Securitization Specialty Co., Ltd. ^{(*)6}	May 14, 2004		206,442	-	-
KEB 10th Securitization Specialty Co., Ltd. ^{(*)7}	Aug. 10, 2004		147,464	-	-
KEB 11th Securitization Specialty Co., Ltd. ^{(*)8}	Apr. 30, 2005		207,886	-	-
KEB 12th Securitization Specialty Co., Ltd.	Nov. 14, 2005		178,587	136,000	66,000
KEB 13th Securitization Specialty Co., Ltd.	May 08, 2006		121,173	92,000	45,000
KEB 14th Securitization Specialty Co., Ltd.	Nov. 10, 2006		92,087	74,000	36,000
KEB 15th Securitization Specialty Co., Ltd. ^{(*)9}	Jun. 20, 2007		121,121	90,000	44,000

(*)1) The subordinated debentures are included in sale price.

(*)2) After redemption of the subordinated bonds on March 27, 2007, the 5th SPC had liquidation registered on September 5, 2007.

(*)3) After redemption of the subordinated bonds on March 20, 2006, the 6th SPC had liquidation registered on October 27, 2006.

(*)4) After redemption of the subordinated bonds on March 9, 2006, the 7th SPC had liquidation registered on October 27, 2006.

(*)5) After redemption of the subordinated bonds on January 16, 2006, the 8th SPC had liquidation registered on October 30, 2006.

(*)6) After redemption of the subordinated bonds on January 19, 2006, the 9th SPC had liquidation registered on October 23, 2007.

(*)7) After redemption of the subordinated bonds on January 19, 2006, the 10th SPC had liquidation registered on October 31, 2007.

(*)8) After redemption of the subordinated bonds on January 19, 2006, the 11th SPC had liquidation registered on October 31, 2007.

(*)9) The losses on disposal of loans have been recognized amounting to ₩6,887 million (see Note 5).

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(7) The Bank has pending litigation as plaintiff or defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩352,722 million (1,411 cases) and ₩107,003 million (135 cases), respectively, as of December 31, 2007. The Bank recognized ₩52,268 million of provisions related to these lawsuits (see Note 13). The Bank believes that the outcome of these matters will not have a material impact to the Bank's financial position or operations. The Bank was fined ₩25 billion for a violation of the securities exchange act related to affiliation with Korea Exchange Bank Credit Service Co, Ltd. on February 1, 2008. The Bank appealed to the court immediately and the litigation is pending.

(8) Tax probe

The Bank was under tax probe by the National Tax Service ("NTS") from January 25 to August 31, 2006 for the fiscal years from 2001 to 2004, and was informed of a pre-taxation notice on October 12, 2006 as a result of the tax probe.

The Bank has reserved ₩133,953 million as allowance for other liabilities as of December 31, 2006 according to SKAS No.17 'Provisions, Contingent Liabilities and Contingent Assets' regardless of the tax payment amount to be confirmed after legal process such as confirmed-taxation notice, appeal to tax tribunal and others (see Note 13).

As the tax reconciliation partially reflects the Bank's appeal in pre-taxation judgment on the pre-taxation notice above, the Bank reversed the allowance for other liabilities amounting to ₩127,091 million out of ₩133,953 million less the amount related to Won-Yen swap of ₩6,862 million.

In addition, NTS notified the Bank and its customers of the tax on interest income on Won & Yen swap from 2003 to 2005. The Bank compensated its customers with the condition of entrusting tax appeal procedures. The amount of compensation to customers, meeting compensation requisite and reported is ₩10,879 million as of December 31, 2007. The Bank totally accounted it as an allowance for other liabilities (see Note 13). The Bank has obligation to pay when a customer requires compensation, meeting the requisite hereafter; however, the amount is not accounted as an allowance of other liabilities since it cannot be reliably estimated as of December 31, 2007.

(9) Credit to work-out companies

As of December 31, 2007, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩907,723 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank.

(10) Debt to equity swap of Hynix Semiconductor Inc.

The Bank's outstanding loans (including acceptances and guarantees) and available-for-sale securities convertible to equity securities with respect to Hynix Semiconductor Inc. ("Hynix") as of December 31, 2007 amount to ₩190,872 million and ₩933,171 million, respectively. As of December 31, 2007, the Bank's loans for Hynix are classified as normal. Joint control procedure for Hynix Semiconductor Inc was completed on Jul. 12, 2005. Also, the Bank's 37,742 thousand shares of Hynix are restricted for sale until December 31, 2007 and the gain on valuation of available-for-sale securities amounting to ₩498,367 million is accounted as other comprehensive income as of December 31, 2007.

(11) Debt to equity swap of Hyundai Engineering & Construction Co., Ltd.

As of December 31, 2007, the Bank has loans (including acceptances and guarantees) of ₩312,702 million and available-for-sale securities of ₩961,961 million with respect to Hyundai Engineering & Construction Co., Ltd. and the Bank's loans for Hyundai Engineering & Construction Co., Ltd. are classified as normal.

The Bank has 13,778 thousand shares of Hyundai Engineering & Construction Co., Ltd., which are restricted for sale until completion of M&A of Hyundai Engineering & Construction Co., Ltd. With regards to these securities, the gain on valuation of available-for-sale securities amounting to ₩514,621 million is accounted as other comprehensive income as of December 31, 2007.

(12) Commitments related to credit card business

The Bank has entered into trademark license (membership) agreements with Master Card International Incorporated in 1993, VISA International Service Association in 1988 and JCB International Service Association in 1997. The Bank pays and receives certain amounts of fees and commissions in connection to the income and expense incurred pertaining to these agreements.

The Bank has entered into credit card affinity agreements with KDB Capital. Under the agreements, the Bank gives an allocation of the fee income related to the credit card affinities.

(13) Indemnification obligations regarding the share subscription agreement by and between the Bank and the LSF-KEB Holdings, SCA

The Bank shall indemnify LSF-KEB Holdings, SCA for all purchaser losses (*1) and pay for damages resulting from any breach by the Bank of any of the Bank's covenants (*2) in the Share Subscription Agreement. The Bank's indemnification obligations are as follows:

Duration of indemnification obligations are as follows:

- Purchaser losses, excluding those mentioned below, may be indemnified until 18 months from the Closing Date (*3).
- Purchaser losses arising as a result of fraud or intentional misrepresentation by the Bank may be indemnified at the Closing Date and continue to be in full force and effective until three years from the Closing Date.
- Purchaser losses related to tax matters may be indemnified at the Closing Date and continue to be in full force effective until five years from the Closing Date.

The Bank's indemnification obligations expire after the duration periods stated above. However, if the Bank receives written claims from Lone Star before the expiration of the durations, regardless of the durations stated above, the Bank's indemnification obligations continue to be in force and effective until the related matter are brought to satisfactory settlement.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

The Bank has no indemnification obligation for claims less than ₩100 million. The Bank’s indemnification obligation applies to claims exceeding ₩15,000 million cumulative, and only losses exceeding ₩10,000 million may be indemnified.

The total amount of indemnification obligations cannot exceed the LSF-KEB Holdings, SCA’s investments in the Bank.

(*1) Purchase losses means the amount of any and all losses, costs, liabilities, damages, judgments, settlements and expenses that arise out of any breach by the Bank of any of the Bank’s representations and warranties contained in the Share Subscription Agreement or any breach by the Bank of any of the Bank’s covenants or agreements in the Share Subscription Agreement.

(*2) Covenant means the conditions set forth in the Share Subscription Agreement that the Bank shall comply with the share subscription until the Closing Date.

(*3) Closing Date means the date that the new shares come into effect, and falls on October 31, 2003.

(14) The equity linked special incentive

On July 15, 2005, December 21, 2006 and December 12, 2007, the Bank granted the equity linked special incentive to employees for the purpose of motivation to improve long-term performance. Above incentive is one time incentive which is linked with the Bank’s stock price and net asset per share, and can be eligible for the incentive for three years after two years from the effective date. The Bank recognized ₩23,766 million as compensation expense for the accomplishment over the long period related to above bonus and ₩17,385 million is recognized as long-term payable. The number of shares decreased due to early retirement was 38 thousand shares and 2,583 thousand shares of these were exercised and ₩37,914 million was paid for the year ended December 31, 2007.

(15) The dormant deposit

The Bank has recognized the dormant accounts which have no transaction for 5 years since the date of last transaction as income. The Bank has no legal obligation to pay for them which have been recognized as income. In accordance with the custom practice of the banking industry and by consideration of the bank’s public responsibility; however, the Bank grants the account for refund in case a customer requires.

In addition, the special act about on transfer of dormant accounts, which enables the dormant deposit recognized as income since 2003 less than the amount the Presidential decree limits - the decree, limits the amount of translation of the dormant accounts to ₩300 thousand per an account, was announced and effected during this period, -to freely be transferred the dormant account if there is an active account in the same Bank or the other financial company institution, was pronounced on August 3, 2007. The Bank recognized dormant deposit to be transferred to other banks based on the Act amounting to ₩13,611 million as expenses.

17. Assets and liabilities denominated in foreign currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 were as follows (Unit: In thousands of U.S. dollars, in millions of Won):

Classification	2007		2006	
	USD Equivalent (*)	Translation into Won	USD Equivalent (*)	Translation into Won
Assets:				
Cash and due from bank:				
Foreign currencies	US\$ 384,242	₩ 360,496	US\$ 291,935	₩ 271,383
Due from banks in foreign currencies	1,730,165	1,623,241	1,571,325	1,460,704
Securities:				
Trading securities	39,686	37,233	63,418	58,953
Available-for-sale securities	1,022,510	959,319	669,899	622,738
Held-to-maturity securities	492,901	462,440	628,522	584,274
Securities using the equity method	4,516	4,236	3,776	3,510
Loans:				
Call loans	1,958,954	1,837,891	1,897,915	1,764,301
Domestic import usance bill	1,857,444	1,742,654	1,474,327	1,370,534
Credit card receivables	2,004	1,880	1,727	1,605
Bills bought in foreign currencies	3,757,320	3,525,118	3,342,396	3,107,091
Advances for customers	1	1	-	-
Bills bought in Won	97,949	91,896	97,329	90,478
Loans in foreign currencies	7,340,989	6,887,316	5,170,770	4,806,748
Factoring receivables	191,876	180,018	175,032	162,710
Private placed bonds	109,370	102,611	116,321	108,132
(Reserve for bad debts)	(67,444)	(63,276)	(61,252)	(56,940)
	US\$ 18,992,483	₩ 17,753,074	US\$ 15,443,440	₩ 14,356,221
Liabilities:				
Deposits:				
Demand deposits in foreign currencies	US\$ 4,052,749	₩ 3,802,290	US\$ 4,001,461	₩ 3,719,758
Savings deposits in foreign currencies	6,817,849	6,396,506	4,951,745	4,603,142
Borrowings:				
Borrowings in foreign currencies	6,614,481	6,205,705	5,035,367	4,680,877
Due to BOK in foreign currencies	-	-	3,423	3,182
Call money in foreign currencies	868,542	814,866	488,447	454,060
Bonds in foreign currencies	960,474	901,116	441,342	410,271
Other liabilities:				
Accrued expenses in foreign currencies	361,310	338,981	321,412	298,785
	US\$ 19,675,405	₩ 18,459,464	US\$ 15,243,197	₩ 14,170,075

(*) Foreign currencies other than U.S. dollars were converted into U.S. dollars at the basic rates of exchange at balance sheet dates.

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

18. Operating revenue and expenses

(1) Gain and loss on trading and valuation of derivatives

Details of gain and loss on trading and valuation of derivatives for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Gain:		
Gain on trading of derivatives	₩ 1,951,079	₩ 2,066,432
Gain on valuation of derivatives	664,199	152,861
	₩ 2,615,278	₩ 2,219,293
Loss:		
Loss on trading of derivatives	₩ 1,936,910	₩ 2,081,026
Loss on valuation of derivatives	668,606	126,454
	₩ 2,605,516	₩ 2,207,480

(2) Commission income and expenses

Details of commission income and expenses for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Commission income:		
Commission received	₩ 557,241	₩ 443,136
Guarantee fees received	20,862	18,980
Other commission received	968	177
	₩ 579,071	₩ 462,293
Commission expenses:		
Commission paid	₩ 217,809	₩ 188,392
Other commission paid	4,625	9,446
	₩ 222,434	₩ 197,838

(3) Dividend income

Details of dividend income for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Dividend income from trading securities	₩ 3,458	₩ 2,586
Dividend income from available-for-sale securities	4,701	1,916
	₩ 8,159	₩ 4,502

(4) Other operating revenue and expenses

Details of other operating revenue and expenses for the years ended December 31, 2007 and 2006 were as follows (Unit: In million):

Classification	2007	2006
Other operating revenue:		
Profit on operating trust account	₩ 21,985	₩ 16,157
Reversal of allowance for other liabilities	79,004	-
Others	2,584	-
	₩ 103,573	₩ 16,157
Other operating expenses:		
Fund contributions	₩ 128,293	₩ 114,285
Provision for allowance for acceptances and guarantees	14,737	600
Provision for unused credit limit	24,464	81,567
Provision for other liabilities	-	119,625
Others	1,371	140
	₩ 168,865	₩ 316,217

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(5) General and administrative expenses

General and administrative expenses for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Salaries	₩ 528,241	₩ 484,181
Expenses for fringe benefits	137,550	170,072
Retirement allowances	58,137	56,329
Honorary retirement	2,547	2,245
Operating expense	193,218	178,640
Depreciation	107,305	98,379
Amortization	30,026	24,751
Taxes	38,597	45,066
Rental	51,926	39,656
Entertainment	12,277	8,305
Advertising	37,538	34,837
	₩ 1,197,362	₩ 1,142,461

18. Other interest income and expenses

Other interest income and expenses for the years ended December 31, 2007 and 2006 consisted of (In millions):

Classification	2007	2006
Other interest income:		
Interest on domestic transaction	₩ 13,116	₩ 8,794
Miscellaneous interest revenues	8,178	8,479
Interest on cashier's check reimbursement	3,281	1,876
Others	9,637	6,868
	₩ 34,212	₩ 26,017
Other interest expenses:		
Interest paid on domestic transaction	₩ 3,661	₩ 4,240
Interest on borrowings from trust account	31,892	16,058
Others	297	141
	₩ 35,850	₩ 20,439

20. Non-operating income and expenses

Non-operating income and expenses for the years ended December 31, 2007 and 2006 consisted of (In millions):

Classification	2007	2006
Non-operating income:		
Gain on disposal of tangible assets	₩ 3,485	₩ 1,954
Rental income	2,243	2,097
Gain on securities using the equity method	694	593
Others	80,406	53,968
	₩ 86,828	₩ 58,612
Non-operating expenses:		
Loss on disposal of tangible assets	₩ 5,448	₩ 9,433
Loss on securities using the equity method	109	-
Others	30,902	17,641
	₩ 36,459	₩ 27,074

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

21. Income tax expense

(1) Components of income tax expense

The components of income tax expense for the years ended December 31, 2007 and 2006 were summarized as follows (Unit: In millions):

Classification	2007	2006
Bank:		
Income tax currently payable	₩ 468,063	₩ 363,237
Change in deferred taxes due to temporary differences	62,623	(25,156)
Change in deferred taxes due to loss carry forward	-	134,410
Income tax directly applied to shareholders' equity	10,564	108,377
Income tax expense of overseas branch	14,394	6,758
Income tax expense	555,644	587,626
Subsidiaries:		
Income tax currently payable	21,194	15,038
Changes in deferred income tax assets	(1,414)	(1,543)
Income tax directly applied to shareholders' equity	44	(101)
Income tax expense	19,824	13,394
	₩ 575,468	₩ 601,020

(2) Deferred income tax assets in the consolidated financial statements as of December 31, 2007 and 2006 were as follows (Unit: In millions):

Classification	2007	2006
Bank	₩ -	₩ 826
KEBC	2,562	2,136
KEBF	-	13
KEBOC	1,511	1,266
KEBA	3,934	1,845
KEBI	555	827
KEB NYFINCO	1,304	1,050
KEB LAFINCO	1,082	403
	₩ 10,948	₩ 8,366

(3) The statutory income tax rate applicable to the Bank and its subsidiaries, including resident tax surcharges, is 27.5 percent for the years ended December 31, 2007 and 2006, respectively. However, due to tax adjustments, the effective tax rates for the years ended December 31, 2007 and 2006 are 37.45 percent and 37.39 percent, respectively.

22. Earnings per share

(1) Basic net income per share

Basic income per share is calculated for common stock by dividing controlling company's net income available to common shareholders by the weighted average number of outstanding common stock. The basic net income per share for the years ended December 31, 2007 and 2006 was as follows (Unit: In Won):

Classification	2007	2006
Controlling company's net income	₩ 960,944,014,839	₩ 1,006,413,554,624
Weighted average number of common shares	644,906,826	644,906,826
Basic net income per share	₩ 1,490	₩ 1,561

Both the weighted average number of outstanding common stock and the number of outstanding common stock are same because there is no change on the number of outstanding common stock for years ended December 31, 2007 and 2006.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(2) Diluted net income per share

Diluted net income per share for the years ended December 31, 2007 and 2006 represent diluted controlling company's net income divided by the number of common shares and diluted securities. Diluted net income per share for the years ended December 31, 2007 and 2006 was computed as follows (Unit: In Won):

Classification	2007	2006
Controlling company's net income	₩ 960,944,014,839	₩ 1,006,413,554,624
(+) Expense by stock option	-	51,593,823
Diluted net income (①)	960,944,014,839	1,006,465,148,447
Weighted average number of common shares	644,906,826	644,906,826
Number of diluted securities (*)	-	980,257
Weighted average number of common shares outstanding and diluted securities (②)	644,906,826	645,887,083
Diluted net income per share (① ÷ ②)	₩ 1,490	₩ 1,558

(*) The number of shares in relation with stock option is calculated using treasury stock method.

Since the Bank transferred stock option included in other accumulated comprehensive income to accrued expense as of December 31, 2007 and did not have diluted securities, the basic net income per share and diluted net income per share were the same (see Note 14).

23. Segment information

(1) Balance sheets per business segment as of December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

	Financial & insurance business	Consolidation adjustment	Total
Asset:			
Cash and due from banks	₩ 5,759,429	₩ (108,954)	₩ 5,650,475
Securities	12,571,770	(443,753)	12,128,017
Loans	58,289,464	(945,217)	57,344,247
Tangible assets	912,740	(2,851)	909,889
Other assets	10,112,659	(1,209,121)	8,903,538
	₩ 87,646,062	₩ (2,709,896)	₩ 84,936,166
Liability:			
Deposits	₩ 48,740,719	₩ (69,365)	₩ 48,671,354
Borrowings	19,028,425	(879,192)	18,149,233
Other liabilities	12,762,940	(1,323,224)	11,439,716
	80,532,084	(2,271,781)	78,260,303
Shareholders equity:			
Common stock	3,446,222	(221,688)	3,224,534
Capital surplus	42,000	(42,000)	-
comprehensive income	1,106,780	(12,716)	1,094,064
Retained earnings	2,518,976	(163,199)	2,355,777
Minority interests	-	1,488	1,488
	7,113,978	(438,115)	6,675,863
	₩ 87,646,062	₩ (2,709,896)	₩ 84,936,166

Notes to Consolidated Financial Statements

177

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

<December 31, 2006>

	Financial & insurance business	Consolidation adjustment	Total
Asset:			
Cash and due from banks	₩ 4,253,581	₩ (25,935)	₩ 4,227,646
Securities	11,347,398	(368,642)	10,978,756
Loans	49,372,458	(726,948)	48,645,510
Tangible assets	894,440	(3,472)	890,968
Other assets	7,184,795	(445,142)	6,739,653
	₩ 73,052,672	₩ (1,570,139)	₩ 71,482,533
Liability:			
Deposits	₩ 41,818,156	₩ (14,216)	₩ 41,803,940
Borrowings	14,842,714	(653,861)	14,188,853
Other liabilities	9,624,241	(538,547)	9,085,694
	66,285,111	(1,206,624)	65,078,487
Shareholders equity:			
Common stock	3,430,932	(206,398)	3,224,534
Capital surplus	41,249	(41,249)	-
Capital adjustments	18,862	-	18,862
Accumulated other comprehensive income	1,134,429	(11,468)	1,122,961
Retained earnings	2,142,089	(105,710)	2,036,379
Minority interests	-	1,310	1,310
	6,767,561	(363,515)	6,404,046
	₩ 73,052,672	₩ (1,570,139)	₩ 71,482,533

(2) Statements of income per business segment for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

	Financial & insurance business	Consolidation adjustment	Total
Operating revenue	₩ 9,113,174	₩ (117,009)	₩ 8,996,165
Operating expenses	7,613,641	(103,718)	7,509,923
Operating income	1,499,533	(13,291)	1,486,242
Non-operating income	141,026	(54,198)	86,828
Non-operating expenses	50,011	(13,552)	36,459
Income before income Tax	1,590,548	(53,937)	1,536,611
Income tax expense	575,468	-	575,468
Net income	₩ 1,015,080	₩ (53,937)	₩ 961,143
Controlling company interests	₩ 1,015,080	₩ (54,135)	₩ 960,945
Minority interests	-	198	198

<December 31, 2006>

	Financial & insurance business	Consolidation adjustment	Total
Operating revenue	₩ 9,113,174	₩ (117,009)	₩ 8,996,165
Operating revenue	₩ 8,211,541	₩ (55,424)	₩ 8,156,117
Operating expenses	6,624,283	(44,225)	6,580,058
Operating income	1,587,258	(11,199)	1,576,059
Non-operating income	98,463	(39,851)	58,612
Non-operating expenses	39,616	(12,542)	27,074
Income before income Tax	1,646,105	(38,508)	1,607,597
Income tax expense	601,020	-	601,020
Net income	₩ 1,045,085	₩ (38,508)	₩ 1,006,577
Controlling company interests	₩ 1,045,085	₩ (38,671)	₩ 1,006,414
Minority interests	-	163	163

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(3) Financial information per business segment as of and for years ended December 31, 2007 and 2006 was as follows
(Unit: In millions):

<December 31, 2007>

	Banking	Trust account	Others	Consolidation adjustment	Total
Operating revenue	₩ 8,909,485	₩ 66,081	₩ 137,608	₩ (117,009)	₩ 8,996,165
Less: inter-company transaction	(108,555)	(2,407)	(6,047)	117,009	-
Net operating revenue	8,800,930	63,674	131,561	-	8,996,165
Operating income (loss)	₩ 1,457,065	₩ 10,833	₩ 31,635	₩ (13,291)	₩ 1,486,242
Cash and due from banks	₩ 5,405,380	₩ 187,969	₩ 166,080	₩ (108,954)	₩ 5,650,475
Securities	11,832,386	665,102	74,282	(443,753)	12,128,017
Loans	56,596,566	265,019	1,427,879	(945,217)	57,344,247
Tangible assets	878,800	-	33,940	(2,851)	909,889
Other assets	10,070,582	7,975	34,102	(1,209,121)	8,903,538
	₩ 84,783,714	₩ 1,126,065	₩ 1,736,283	₩ (2,709,896)	₩ 84,936,166

<December 31, 2006>

	Banking	Trust account	Others	Consolidation adjustment	Total
Operating revenue	₩ 8,074,241	₩ 57,638	₩ 79,662	₩ (55,424)	₩ 8,156,117
Less: inter-company transaction	(47,877)	(2,238)	(5,309)	55,424	-
Net operating revenue	8,026,364	55,400	74,353	-	8,156,117
Operating income (loss)	₩ 1,556,446	₩ 9,545	₩ 21,267	₩ (11,199)	₩ 1,576,059
Cash and due from banks	₩ 4,120,606	₩ 14,901	₩ 118,074	₩ (25,935)	₩ 4,227,646
Securities	10,647,726	635,100	64,572	(368,642)	10,978,756
Loans	48,285,017	371,091	716,350	(726,948)	48,645,510
Tangible assets	853,933	-	40,507	(3,472)	890,968
Other assets	7,151,603	7,603	25,589	(445,142)	6,739,653
	₩ 71,058,885	₩ 1,028,695	₩ 965,092	₩ (1,570,139)	₩ 71,482,533

(4) Financial information per geographical area as of and for the years ended December 31, 2007 and 2006 was as follows (Unit: In millions):

<December 31, 2007>

	Domestic	Overseas	Consolidation adjustment	Total
Operating revenue	₩ 8,947,367	₩ 165,807	₩ (117,009)	₩ 8,996,165
Less: inter-company transaction	(106,345)	(10,664)	117,009	-
Net operating revenue	8,841,022	155,143	-	8,996,165
Operating income	₩ 1,443,182	₩ 56,351	₩ (13,291)	₩ 1,486,242
Cash and due from banks	₩ 5,395,448	₩ 363,981	₩ (108,954)	₩ 5,650,475
Securities	12,519,999	51,771	(443,753)	12,128,017
Loans	56,367,494	1,921,970	(945,217)	57,344,247
Tangible assets	909,651	3,089	(2,851)	909,889
Other assets	10,081,291	31,368	(1,209,121)	8,903,538
	₩ 85,273,883	₩ 2,372,179	₩ (2,709,896)	₩ 84,936,166

<December 31, 2006>

	Domestic	Overseas	Consolidation adjustment	Total
Operating revenue	₩ 8,095,536	₩ 116,005	₩ (55,424)	₩ 8,156,117
Less: inter-company transaction	(48,619)	(6,805)	55,424	-
Net operating revenue	8,046,917	109,200	-	8,156,117
Operating income	₩ 1,540,545	₩ 46,713	₩ (11,199)	₩ 1,576,059
Cash and due from banks	₩ 4,060,723	₩ 192,858	₩ (25,935)	₩ 4,227,646
Securities	11,239,205	108,193	(368,642)	10,978,756
Loans	48,103,251	1,269,207	(726,948)	48,645,510
Tangible assets	892,247	2,193	(3,472)	890,968
Other assets	7,164,263	20,532	(445,142)	6,739,653
	₩ 71,459,689	₩ 1,592,983	₩ (1,570,139)	₩ 71,482,533

Notes to Consolidated Financial Statements

179

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

24. Significant transactions between the bank and subsidiaries

(1) Significant balances made in the normal course of business with subsidiaries as of December 31, 2007 and 2006 are summarized as follows (Unit: In millions):

<December 31, 2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ 1,322	₩ 2,777	₩ 2,818	₩ 57,265	₩ 284	₩ -	₩ -	₩ 64,466
Loans in Won	51,300	-	-	-	-	-	-	-	51,300
Loans in foreign currencies	33,472	-	-	249,484	60,489	13,419	-	330,146	687,010
Allowance for possible loan losses	(1,111)	(340)	-	-	-	-	-	-	(1,451)
Other assets	139	1	-	624	830	7	-	3,475	5,076
	₩ 83,800	₩ 983	₩ 2,777	₩ 252,926	₩ 118,584	₩ 13,710	₩ -	₩ 333,621	₩ 806,401
Liabilities:									
Deposits in Won	₩ 145	₩ 35	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 180
Deposits in Foreign currencies	-	3,562	-	-	889	455	-	1,245	6,151
Borrowings in foreign currencies	-	-	-	59,867	54,926	9,384	-	13,262	137,439
Other liabilities	3,345	342	-	-	618	64	108,751	377	113,497
	₩ 3,490	₩ 3,939	₩ -	₩ 59,867	₩ 56,433	₩ 9,903	₩ 108,751	₩ 14,884	₩ 257,267

<December 31, 2006>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Assets:									
Due from banks in foreign currencies	₩ -	₩ -	₩ 849	₩ 10,056	₩ 5,603	₩ 256	₩ -	₩ -	₩ 16,764
Loans in Won	72,400	-	-	-	-	-	-	-	72,400
Loans in foreign currencies	29,276	-	-	127,795	73,472	25,471	-	169,187	425,201
Allowance for possible loan losses	(385)	-	-	-	-	(16)	-	-	(401)
Other assets	259	-	-	-	421	138	-	2,681	3,499
	₩ 101,550	₩ -	₩ 849	₩ 137,851	₩ 79,496	₩ 25,849	₩ -	₩ 171,868	₩ 517,463
Liabilities:									
Deposits in Won	₩ 151	₩ 47	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 198
Deposits in Foreign currencies	2,794	3,666	-	-	253	46	-	1,930	8,689
Borrowings in foreign currencies	-	-	-	23,492	66,529	-	-	17,504	107,525
Other liabilities	2,763	2	-	-	21,063	16,009	86,631	838	127,306
	₩ 5,708	₩ 3,715	₩ -	₩ 23,492	₩ 87,845	₩ 16,055	₩ 86,631	₩ 20,272	₩ 243,718

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(2) Significant transactions with subsidiaries for the years ended December 31, 2007 and 2006 were as follows (Unit: In millions):

<December 31, 2007>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ 5,954	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 5,954
Interest revenues in foreign currencies	1,912	-	7	8,580	3,682	1,377	-	16,971	32,529
Commission income in Won	-	175	-	-	-	-	2	-	177
Commission income in foreign currencies	-	-	36	-	2,718	-	-	26	2,780
Other revenue	1,023	-	-	-	-	-	10,833	535	12,391
	₩ 8,889	₩ 175	₩ 43	₩ 8,580	₩ 6,400	₩ 1,377	₩ 10,835	₩ 17,532	₩ 53,831
Expenses:									
Interest expenses in Won	₩ 101	₩ 1	₩ -	₩ -	₩ -	₩ -	₩ 2,407	₩ -	₩ 2,509
Interest expenses in foreign currencies	-	116	65	1,495	5,045	979	-	1,244	8,944
Commission expense in Won	-	569	-	-	-	-	-	-	569
Commission expense in foreign currencies	-	100	-	-	101	-	-	-	201
Written-off of bad debts	305	-	-	-	-	(16)	-	-	289
Other expenses	1,262	36	-	-	-	60	-	581	1,939
	₩ 1,668	₩ 822	₩ 65	₩ 1,495	₩ 5,146	₩ 1,023	₩ 2,407	₩ 1,825	₩ 14,451

<December 31, 2006>

Classification	KEBC	KEBF	KEBOC	KEBA	KEBDAG	KEBI	Trust	Other subsidiaries	Total
Revenue:									
Interest revenues in Won	₩ -	₩ -	₩ 3,562	₩ -	₩ -	₩ 142	₩ -	₩ -	₩ 3,704
Interest revenues in foreign currencies	1,163	91	2,298	3,806	2,100	-	-	7,877	17,335
Commission income	-	-	-	2,996	-	2	-	10	3,008
Other revenue	-	-	145	-	-	162	9,548	-	9,855
	₩ 1,163	₩ 91	₩ 6,005	₩ 6,802	₩ 2,100	₩ 306	₩ 9,548	₩ 7,887	₩ 33,902
Expenses:									
Interest expenses in foreign currencies	₩ 690	₩ 8	₩ 43	₩ 3,721	₩ 615	₩ -	₩ -	₩ 1,096	₩ 6,173
Commission expense in Won	-	-	-	-	-	577	-	-	577
Commission expense in foreign currencies	-	-	-	284	-	223	-	-	507
Written-off of bad debts	-	-	59	-	16	(25)	-	-	50
Other expenses	-	-	2,481	-	57	-	2,238	-	4,776
	₩ 690	₩ 8	₩ 2,583	₩ 4,005	₩ 688	₩ 775	₩ 2,238	₩ 1,096	₩ 12,083

Notes to Consolidated Financial Statements

181

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

(3) Details of significant receivables and payables among subsidiaries as of December 31, 2007 were as follows(Unit: In millions):

Subsidiaries	Classification	Amount	Counterparty	Classification	Amount
KEBF	Due from Retirement Insurance	₩ 819	Trust	Time deposits in Won	₩ 819
KEBF	Due from Retirement Insurance	12	Trust	Accrued expenses	12
KEBC	Due from Retirement Insurance	242	Trust	Time deposits in Won	242
KEBDAG	Due from banks in foreign currencies	196	KEBOC	Demand deposits in foreign currencies	196
KEBI	Due from banks in foreign currencies	50	KEBDAG	Demand deposits in foreign currencies	50
		₩ 1,319			₩ 1,319

(4) Details of significant transactions among subsidiaries for the year ended December 31, 2007 were as follows(Unit: In millions):

Subsidiaries	Classification	Amount	Counterparty	Classification	Amount
KEBLAFinco	Operating expense	₩ 210	KEBNYFinco	Commission Income in foreign currency	₩ 210
KEBNYFinco	Interest on borrowings in foreign currency	210	KEBOC	Interest on Call Loan in foreign currency	210
KEBNYFinco	Interest on borrowings in foreign currency	209	KEBOC	Interest on Due from Banks in foreign currency	209
KEBLAFinco	Interest on borrowings in foreign currency	102	KEBOC	Interest on Call Loan in foreign currency	102
Trust	Interest on deposits in Won	13	KEBF	Interest on Due from Banks in Won	13
KEBOC	Interest on deposits in Won	11	KEBDAG	Interest on Due from Banks in foreign currency	11
		₩ 755			₩ 755

(5) Guarantees and acceptances with subsidiaries as of December 31, 2007 were as follows (Unit: In millions):

Subsidiaries	Classification	Amount	Counterparty	Provided for
KEBA	Other guarantees and acceptances in foreign currency	₩ 1,213	KEB	Trade transaction With strings of loan guarantee
KEBA	Interest rate swap sold	33,103	KEB	
KEBA	Interest rate swap purchased	33,103	KEB	
KEBDAG	Other guarantees and acceptances in foreign currency	47	KEB	
KEB	Guarantees and acceptances in Won	40,000	KEBF	
KEBNYF	Guarantees and acceptances in foreign currency	846	KEB	
KEBNYF	Guarantees and acceptances in foreign currency	2,455	KEB	
KEBOC	Credit default swap purchased	11,762	KEB	
		₩ 122,529		

(6) The key management compensations for the year ended December 31, 2007 were as follows (Unit: In millions):

Classification	Compensations
Short-term employee benefits	₩ 7,027
Employee benefits after resignation	1,904
Stock option	4,969
	₩ 13,900

The key management includes the directors, the executives and the officers who have authorities and responsibilities for decision-making of the business plan, operations and control over the Bank.

Notes to Consolidated Financial Statements

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

25. Computation of value added

Accounts required for computation of value added for the years ended December 31, 2007 and 2006 consisted of the following (Unit: In millions):

Accounts	2007	2006
Salaries	₩ 528,241	₩ 484,181
Retirement allowances	58,137	56,329
Expenses for fringe benefit	137,550	170,072
Rent	51,926	39,656
Depreciation	107,305	98,379
Amortization	30,026	24,751
Taxes and dues	38,597	45,066
	₩ 951,782	₩ 918,434

26. Dividends

(1) The calculation of dividends for the years ended December 31, 2007 and 2006 was as follows (Unit: shares, In millions except per share amounts):

Classification	2007	2006
Dividends per share (rate)	₩ 700 (14%)	₩ 1,000 (20%)
Shares issued	644,906,826	644,906,826
Dividends	₩ 451,435	₩ 644,907

(2) The calculation of dividend payout ratio for the years ended December 31, 2007 and 2006 was as follows(Unit: In millions):

Classification	2007	2006
Dividends	₩ 451,435	₩ 644,907
Net income	960,945	1,006,167
Dividend payout ratio(%)	46.98	64.10

(3) The calculation of dividend yield for the years ended December 31, 2007 and 2006 was as follows (Unit: In currency units):

Classification	2007	2006
Dividends	₩ 700	₩ 1,000
Closing price	14,500	12,850
Dividend yield ratio (%)	4.83	7.78

KOREA EXCHANGE BANK AND SUBSIDIARIES for the years ended December 31, 2007 and 2006

27. Cash flows

(1) Cash in statements of cash flows consists of cash, due from bank (excluding restricted due from bank), receivables and preferred stock with 3 months or less of maturity and securities under agreement to repurchase with 3 months or less of maturity. Cash flows from operating activities are presented by the indirect method. In addition, the Bank has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities.

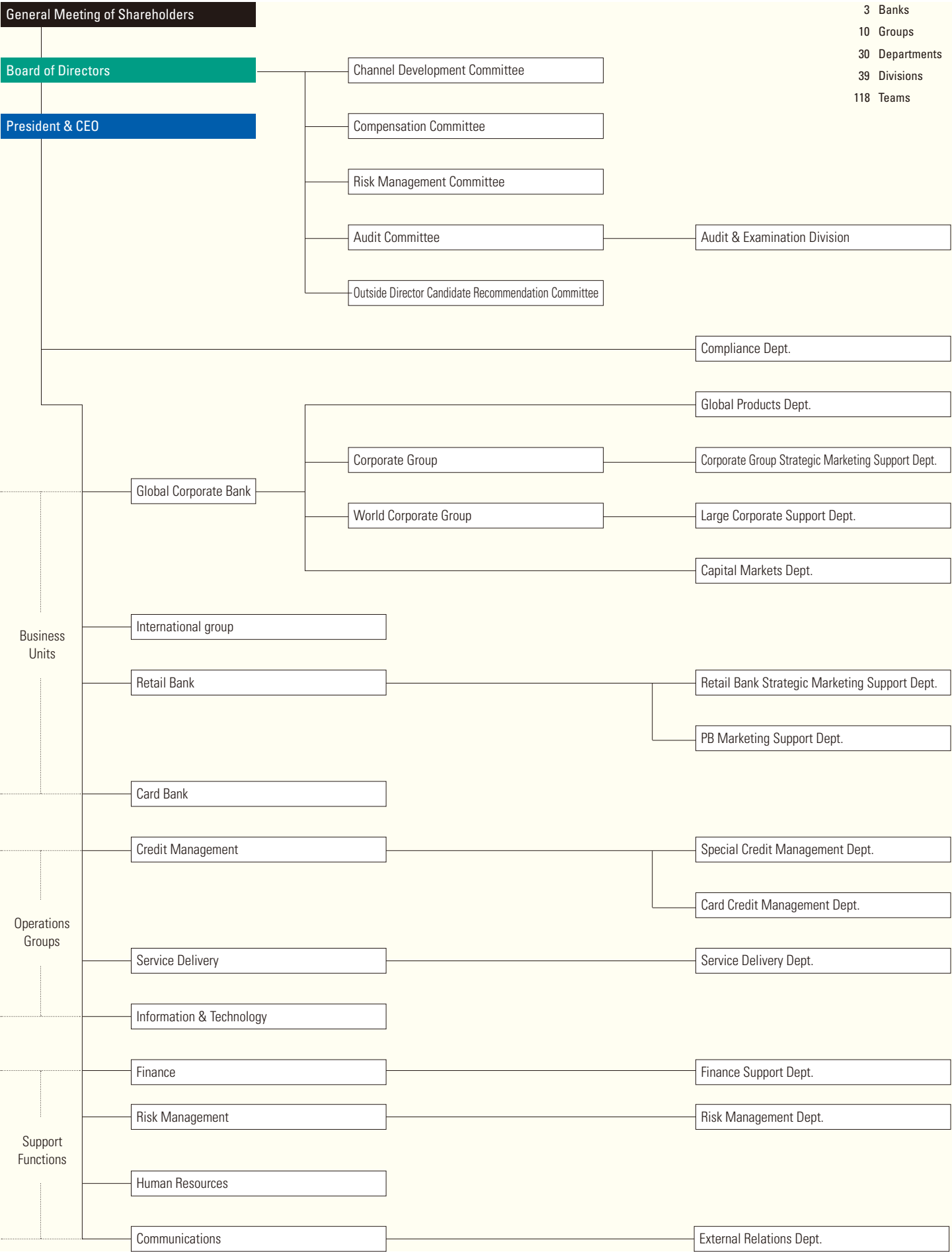
(2) The cash and due from banks in the statements of cash flows for the years ended December 31, 2007 and 2006 were as follows (Unit : In millions)

Classification	2007	2006
Cash and due from banks	₩ 5,650,475	₩ 4,227,646
Add: securities	458,169	199,824
	6,108,644	4,427,470
Less: restricted due from bank	(1,891,856)	(1,543,036)
	₩ 4,216,788	₩ 2,884,434

(3) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2007 and 2006 were as follows (Unit : In millions):

Classification	2007	2006
Decrease of loans from write-offs of loans	₩ 355,998	₩ 338,835
Decrease of gain on valuation of available-for-sale securities	29,307	286,506
Change on unsettled spot transactions	5,439,166	883,864
Transferring of accrued expenses in stock option	17,780	-

Organization Chart (Mar. 21, 2008)



Board of Directors



Standing Directors

-

Richard F. Wacker	Chairman, President & CEO
Jang, Myoung-Kee	Deputy President, CCO
William H. Roelle	Deputy President, SDG/IT/ Risk/ BPDD

Outside Directors

-

Ellis Short	Vice President, Lone Star
Michael D. Thomson	General Counsel-Asia, Lone Star
Paul Yoo	President, Lone Star Advisors Korea
Park, Hyo-Min	Ex-General Manager of Currency Issue Dept., BOK
Larry S. Owen	Managing Director, Stanford Management Company
Shin, Joong-Ouk	Ex-Executive Director, KEXIM
Park, Chin-Keun	Dean of Department of Business and Economics, Yonsei University
Kim, Joung-Soo	Director of Economic Research at JoongAng Daily

Managing Directors



Kim, Hyoung-Min	Senior Managing Director, HR/Communications
Suh, Choong-Suk	Senior Managing Director, CFO
Yun, Jong-Ho	Senior Managing Director, Global Corporate Bank / World Corporate Group
Kim, Gwi-Hyun	Senior Managing Director, Retail Bank
Noh, Chan	Senior Managing Director, Int'l Group.
Kevin W. Kneebone	Managing Director, Card Bank/Trust Division
Jhun, Joong-Gyu	Managing Director, Special Credit Mgmt. Dept.
Alexander S. Kim	Managing Director, Service Delivery Dept.
Kwon, Moo-Kyung	Managing Director, Corporate Group
Lee, Sang-Don	Managing Director, Capital Markets Dept.
Jang, Chan-Woong	Managing Director, Information&Technology
Park, Jae-Hong	Managing Director, PB Marketing Support Dept.
Choi, Myung-Hee	Auditor

Global Directory

Financial Institutions Division

•

Head of Financial Institutions

Chung, Chung-Won
Tel : 82-2-729-0432 Fax : 82-2-775-2565,8323

The Americas & China

(Hong Kong, Singapore & Taiwan)
Senior Manager : Chang, Suk-Ho
Tel : 82-2-729-0464

Asia

Senior Manager : Kim, Chi-Ok
Tel : 82-2-729-8538

Western Europe & Africa

Senior Manager : Lee, Joo-Yun
Tel : 82-2-729-0457

Middle East & Eastern Europe

Senior Manager : Choi, Sung-Ho
Tel : 82-2-729-0465

Oceania & German

Manager : Choi, Su-Hee
Tel : 82-2-729-0448

Korean Banks

Senior Manager : Kim, Jong-Wook
Tel : 82-2-729-8916

Treasury Division

•

Head of Treasury Division

Lee, Hyung-Soo
Tel : 82-2-729-0531

Medium & Long-Term Financing

Head of Foreign Currency Treasury Team
Park, Jun-Sik
Tel : 82-2-729-0365

Senior Manager

Kim, Beom-Rae
Tel : 82-2-729-0520

Multi-National Corporate Division

•

Head of Multi-National Corporate Division

Yoo,Jae-Hoo
Tel : 82-2-729-0266

USA

Marketing Manager
Han, Sang-Gwa
Tel : 82-2-729-0919

Asia, UK

Marketing Manager
Jeong, Han-Kyu
Tel : 82-2-729-0288

German, Swiss, Denmark, Norway

Marketing Manager
Chang, Tae-Yung
Tel : 82-2-729-0304

Europe II

Marketing Manager
Kim, Hyun-Sik
Tel : 82-2-729-0834

Outbound Marketing

General Manager
(Dispatched to Global Korea)
Lee, Han Jong
Tel : 82-2-729-0141

Outbound Marketing

Marketing Manager
Park, Ji Sung
Tel : 82-2-3671-1478

FDI Consulting Desk

FDI Consultant
Kim, Yoen-Ju
Tel : 82-2-729-0280

FDI Consultant

Shon, Suk-Yeong
Tel : 82-2-729-0281

FDI Consultant

Kim, Chang-Bae
Tel : 82-2-729-0285

Investment Banking Division

•

Head of Investment Banking Division

Cho, In-Kyun
Tel : 82-2-729-0557

P/F, M&A, S/F

Head of Structured Finance/M&A
Han, Sang-Han
Tel : 82-2-729-0542

Project Finance/M&A

Chief Manager of Project
Finance/M&A Team
Jeong, Jong-Min
Tel : 82-2-729-0943

Structured Finance

Chief Manager of Structured
Finance Team
Lee, Hoa-Sun
Tel : 82-2-729-0547

C/F, SOC, R/E

Head of Corporate Finance/SOC/
Real Estate Team
Lee, Jae-Hak
Tel : 82-2-729-0292

Corporate Finance

Chief Manager of Corporate
Finance Team
Kim, Jae-Ho
Tel : 82-2-729-8882

SOC

Chief Manager of SOC Team
Park, Seong-Soo
Tel : 82-2-729-8436

Real Estate

Chief Manager of Real Estate Team
Choi, Yun-Hyun
Tel : 82-2-729-0546

FX Trading

•

Head of FX Dealing Team

Yang, Jin-Young
Tel : 82-2-729-0472

Chief Dealer

Lee, Sang-Bae
Tel : 82-2-729-0476

Chief Dealer

Moon, Young-Sun
Tel : 82-2-729-0498

Chief Dealer

Kim, Doo-Hyeon
Tel : 82-2-729-0507

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AMERICAS

- Panama Branch
General Manager : Lim, Young-No
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- London Branch
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- Paris Branch
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- Amsterdam Branch
General Manager : Min, Seung-Ki
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- Arbil Branch
General Manager : Shin, Hwan-Cheol
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- Tianjin Branch
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- Shinjuku(Tokyo Sub-Branch)
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Branches <ul style="list-style-type: none">	340
Subsidiaries <ul style="list-style-type: none">	KEB Capital Inc. 10F Hanwi Building, 70 Da-dong, Jung-gu, Seoul 100-180, Korea Tel : 82-2-3708-2100 Fax : 82-2-756-5269 KEB Futures Co.,Ltd. 11F Yuhwa Building, 23-7 Youido-dong, Youngdungpo-gu, Seoul 150-738, Korea Tel : 82-2-3770-4100 Fax : 82-2-3770-4147 KEB Investor Services Co.,Ltd. 23F KEB Head Office, 181 Euljiro 2-ga, Jung-gu, Seoul 100-793, Korea Tel : 82-2-729-0447 Fax: 82-2-777-5311

19
67

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