SERIAL NO:

STRICTLY PRIVATE AND CONFIDENTIAL

INFORMATION MEMORANDUM

INDUSTRIAL BANK OF KOREA

(Incorporated with limited liability under the laws of the Republic of Korea)

RM3.0 BILLION
MULTI-CURRENCY CONVENTIONAL AND/OR ISLAMIC
MEDIUM TERM NOTE PROGRAMME

Principal Adviser/Lead Arranger

RHB Investment Bank Berhad
(Company No. 19663-P)

International Financial Adviser to IBK

The date of this Information Memorandum is 11 March 2008

IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer, having made all reasonable enquiries, confirms that this Information Memorandum contains all information which is material in the context of the Notes, that the information contained in this Information Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Information Memorandum are honestly held and that there are no other facts the omission of which would make this Information Memorandum or any of such information or the expression of any such opinions or intentions misleading.

IBK has authorised RHB Investment Bank Berhad ("**RHB Investment Bank**" or the "**Principal Adviser/Lead Arranger**") to distribute this Information Memorandum on a confidential basis to potential investors for the sole purpose of assisting such investors to decide whether to subscribe for or purchase up to RM3.0 billion in nominal value of multi-currency conventional and/or Islamic medium term notes under a medium term note programme ("**MTN Programme**").

As the point of issuance of the Notes, the Notes may not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, falling within any one of the categories of persons specified in Schedule 6 or Section 229(1)(b), and Schedule 7 or Section 230(1)(b), and Schedule 8 or Section 257(3) of the Capital Markets and Services Act, 2007, as amended from time to time ("**CMSA**").

Subsequent to the issuance of the Notes, the Notes may not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, falling within any one of the categories of persons specified in Schedule 6 or Section 229(1)(b) and Schedule 8 or Section 257(3) of the CMSA.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by RHB Investment Bank Berhad as the principal adviser/lead arranger (the "**Principal Adviser/Lead Arranger**"). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Issuer and its subsidiaries (the "**Issuer Group**") since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer to subscribe for, or purchase, any of the Notes. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Principal Adviser/Lead Arranger has not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Principal Adviser/Lead Arranger or its affiliates as to the accuracy or completeness of the information contained in this Information Memorandum or any other information provided by the Issuer in connection with the Notes or their distribution.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer or as required under Malaysian laws, regulations or guidelines.

This Information Memorandum is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Principal Adviser/Lead Arranger that any recipient of this Information Memorandum should purchase any of the Notes. Each investor contemplating purchasing any of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the terms of the offering of the Notes, including the merits and risks involved.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction outside Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an offer of, or an invitation to subscribe for or purchase the Notes or any other securities of any kind by any party in any Foreign Jurisdiction. This Information Memorandum is not and is not intended to be a prospectus.

The distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction may be restricted or prohibited by law. Each recipient is required by the Issuer and the Principal Adviser/Lead Arranger to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer nor the Principal Adviser/Lead Arranger accept any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that: (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to receive this Information Memorandum and to subscribe for or purchase the Notes under all jurisdictions to which the recipient is subject, (c) the recipient will comply with all the applicable laws in connection with such subscription or purchase of the Notes, (d) the Issuer, the Principal Adviser/Lead Arranger and their respective directors, officers, employees, agents and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Notes and they shall not have any responsibility or liability in the event that such subscription or purchase of the Notes is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Notes can only be transferred or otherwise disposed of in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Notes and is able and prepared to bear the economic and financial risks of investing in or holding the Notes, (g) it is subscribing for or purchasing the Notes for its own account, and (h) it, at the point of issuance of the Notes, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Notes would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b), and Schedule 7 or Section 230(1)(b), and Schedule 8 or Section 257(3) of the CMSA and after the point of issuance of the Notes, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Notes would constitute an excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) and Schedule 8 or Section 257(3) of the CMSA.

This Information Memorandum includes, and any accompanying information memorandum supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Information Memorandum and any information memorandum supplement regarding, among other things, the Issuer's business may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

The information in this Information Memorandum is current as at the date hereof, unless specified otherwise.

STATEMENTS OF DISCLAIMER – SECURITIES COMMISSION

A copy of this Information Memorandum will be deposited in accordance with the CMSA with the Securities Commission, who takes no responsibility for its contents.

The issue, offer or invitation in relation to the Notes in this Information Memorandum or otherwise are subject to the fulfillment of various conditions precedent including without limitation the applicable deemed approval from the Securities Commission and each recipient of this Information Memorandum acknowledges and agrees that the approval of the Securities Commission shall not be taken to indicate that the Securities Commission recommends the subscription or purchase of the Notes.

The Securities Commission shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Information Memorandum.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

(a) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published interim non-consolidated financial statements (if any) of the Issuer; and

(b) all supplements or amendments to this Information Memorandum circulated by the Issuer, if any,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its offices set out at the end of this Information Memorandum.

CONFIDENTIALITY

This Information Memorandum and its contents are strictly confidential and the information herein contained is given to the recipient strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, or any information, which is made available to the recipient in connection with any further enquiries, must be held in complete confidence.

This Information Memorandum is submitted to selected persons specifically in reference to the Notes to whom an issue would constitute an excluded issue, excluded offer or excluded invitation as specified or set out in (a) Schedule 6 or Section 229(1)(b); (b) Schedule 7 or Section 230(1)(b); and (c) Schedule 8 or Section 257(3) of the CMSA, as amended from time to time.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer may, at its discretion, apply for any remedy available to the Issuer whether at law or equity, including without limitation, injunctions. The Issuer is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered, in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient’s professional advisors, directors, employees and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the Principal Adviser/Lead Arranger promptly upon the Principal Adviser/Lead Arranger’s request, unless that recipient provides proof of a written undertaking satisfactory to the Principal Adviser/Lead Arranger with respect to destroying these documents as soon as reasonably practicable after the said request from the Principal Adviser/Lead Arranger.

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GLOSSARY OF DEFINITIONS AND ABBREVIATIONS

The following definitions shall apply throughout this Information Memorandum except where the context otherwise requires:

BNM	:	Bank Negara Malaysia
Board	:	Board of Directors of IBK
BOK	:	The Bank of Korea
CMSA	:	Capital Market and Services Act 2007
FSC	:	Financial Supervisory Commission
FSS	:	Financial Supervisory Service
Government or Korean Government	:	Government of the Republic of Korea
IBK or Bank or Issuer	:	Industrial Bank of Korea
IBK Act	:	Industrial Bank of Korea Act 1961
Issuer Group	:	IBK and its subsidiaries
KDB	:	Korea Development Bank
KEXIM	:	The Export-Import Bank of Korea
Principal Adviser/Lead Arranger	:	RHB Investment Bank Berhad (19663-P)
Notes	:	Multi-currency conventional and/or Islamic medium term notes
Noteholders	:	The holders of the Notes
Minister	:	Minister of the MOFE
MOF	:	Ministry of Finance, Malaysia
MOFE	:	Korean Ministry of Finance and Economy
MTN Programme	:	A Medium Term Note Programme for the issuance of up to RM3.0 billion nominal value of multi-currency conventional and/or Islamic medium term notes
RAM Ratings	:	RAM Rating Services Berhad (763588-T)
RENTAS	:	The scripless book-entries securities trading and funds transfer system known as Real Time Electronic Transfer of Funds and Securities operated by BNM as may be modified or revised or substituted from time to time by BNM

RENTAS Rules	:	The Rules on the Scripless Securities under the RENTAS 2006 issued by BNM and as modified or revised or substituted from time to time by BNM
RHB Investment Bank	:	RHB Investment Bank Berhad (19663-P)
RM and sen	:	Ringgit and sen respectively
SC	:	The Securities Commission of Malaysia
SMEs	:	Small- and Medium-Sized Enterprises
SMIF Bonds	:	Small and Medium Industry Finance Bonds
U.S.$	:	United States Dollar
₩	:	Korean Won

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1 EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information, the audited financial statements and notes thereto appearing elsewhere in this Information Memorandum. Prospective investors should read the full text of this Information Memorandum before deciding whether or not to invest in the MTN Programme.

1.1 Brief Background of the Issuer

IBK was established in 1961 by the Korean Government under the IBK Act. The Bank's primary objective is to promote independent economic activities of SMEs and to enhance their economic position in the Korean economy. The Bank currently has four subsidiaries, 15 regional headquarters, one regional headquarters abroad, 560 branches and nine overseas branches.

The Bank's principal authority under the IBK Act has been to discount bills for, and make loans to SMEs. In addition, the Bank also provides banking services to individuals, households and other non-SMEs, including lending, deposit taking, credit card issuance and servicing, trust account management, and research and advisory services. In 2003, an amendment was made to the IBK Act, giving the Bank more autonomy in its operations. Certain banking activities that required Government approval were repealed or amended to allow the Bank greater flexibility in meeting the demands of the marketplace. Among other activities, the Bank invests in the equities or debt securities of the SMEs and decides budgeting requirements for general and administrative expenses besides labour costs.

IBK has ₩4,000 billion of authorised capital, consisting of 800 million shares with par value of ₩5,000 per-share. The Bank's paid-up shares amounts to approximately ₩2,291 billion with 405,151,618 common shares and 53,125,282 convertible preferred shares issued and outstanding as of 31 December 2007. As at 31 December 2007, the Korean Government directly owned 51.0% of the Bank's shares, in addition to its indirect holdings via KDB and KEXIM with 12.53% and 3.21% shareholding, respectively, accounting for 66.74% of the Bank's total outstanding shares.

As at 31 December 2007, KDB is wholly owned by the Korean Government. Meanwhile, KEXIM is 60.15%-owned by the Korean Government, 35.21%-owned by the BOK and 4.64%-owned by KDB. BOK is the national central bank of Korea whilst KDB serves as an agent for the Korean Government for the financing and managing major industrial projects in order to expedite industrial development and to enhance the national economy.

Due to the Bank's critical role in implementing its SMEs promotion policy, the Bank receives direct and indirect financial support from the Government. Under the IBK Act, the Government retains full control over the management, policies and operations of the Bank, irrespective of the level of its ownership. The Bank's operations are supported by the Government pursuant to Article 43 of the IBK Act, according to which the Bank is required to cover any net loss incurred during a given fiscal year with its reserves, but if the reserves are insufficient, the Government is legally obligated to provide funds to cover the deficit. In light of this provision, if the Bank had insufficient funds to make payment under any of its obligations, the Government would take appropriate steps by contributing capital, allocating funds or by taking other appropriate action to enable it to make such payment when due. By the terms of Article 43 and under Korean law, the Government's obligations thereunder are not dependent upon the Government owning at least 50% of the Bank's issued share capital. The provisions of Article 43 do not, however, constitute a direct guarantee by the Government of the Bank's obligations. Any amendment to the provisions of the IBK Act, including Article 43, would require legislative action by the National Assembly.

The Board is responsible for its governance and management and oversees the Bank's operations through several governing bodies. The Board consists of one president (who is also the Bank's chief executive officer and chairman of the Board), one deputy president, nine directors (consisting of five executive directors and four outside directors) and one statutory auditor. The president is appointed or dismissed by the President of Korea upon the recommendation of the Minister of the MOFE. The deputy president and directors are appointed or dismissed by the Minister upon the recommendation of the Bank's president. The statutory auditor is appointed or dismissed by the Minister and has the duty to oversee the Bank's operation and financial matters.

1.2 General Description of the Programme

The MTN Programme would involve the issuance by IBK of up to equivalent of RM3.0 billion nominal value of Notes. Under the MTN Programme, IBK is given the flexibility to issue conventional and/or Islamic medium term notes denominated either in Ringgit and/or such other foreign currencies at any time during the tenure of the MTN Programme, provided that the aggregate amount of outstanding Notes shall not at any time exceed RM3.0 billion in nominal value or its equivalent.

The MTN Programme shall have a tenure of up to ten (10) years from the date of first issue of the Notes. During the tenure of the MTN Programme, IBK has the option to issue (i) Ringgit-denominated conventional and/or Islamic medium term notes with maturities ranging from three (3) to ten (10) years and/or (ii) foreign-currency denominated conventional and/or Islamic medium term notes with maturities ranging from one (1) to ten (10) years, provided always that the final maturity of any of the Notes shall not exceed the tenure of the MTN Programme. The Notes will be issued at par, at a discount or at a premium to face value via book building or private placement.

1.3 Use of Proceeds

The proceeds from the issuance of the Notes under the MTN Programme will be utilised for the Bank's general operations.

1.4 Statutory Approvals

The MTN Programme has been approved by BNM vide its letter dated 13 February 2008 whilst MOF's approval is pending. The application to MOF has been submitted vide letters dated 29 January 2008 and 5 February 2008 and approval of which is to be obtained prior to issuance of Notes under the MTN Programme.

The MTN Programme will be established, and the Notes will be issued according to "Practice Note 2A – Application of the Guidelines on the Offering of Private Debt Securities to Foreign Governments and Agencies or Organizations of Foreign Governments" ("**PN2A**") and the Guidelines on the Offering of Islamic Securities (the "**Islamic Guidelines**") issued by the SC on 23 March 2006 and the 26 July 2004, respectively.

PN2A read with Practice Note 2 issued by the SC on 28 July 2004 and Practice Note 1A issued by the SC on 27 March 2007, modifies certain requirements of the Guidelines on the Offering of Private Debt Securities ("**PDS Guidelines**") and the Islamic Guidelines and deems the approval of the SC for the MTN Programme to be granted upon the submission of this Information Memorandum to the SC together with (i) a copy of a letter dated 10 March

2008 from the Bank confirming, inter alia, that the Korean Government is a direct shareholder of 51 per cent. of the Bank's shares and an indirect shareholder of a further 15.74 per cent. of the Bank's shares as at 30 September 2007, and (ii) a copy of rating report issued by Moody's Investors Service, Inc. dated December 2007 confirming the Bank's foreign currency rating of Aa3 in line with the country ceiling of the Republic of Korea. As an entity majority-owned by the Korean Government, the Bank qualifies as an eligible issuer as defined under item 2(b) of PN2A.

The MTN Programme and the Notes are not required to comply with the "Minimum Contents Requirements for Trust Deeds" as prescribed by the SC nor is any trustee for Noteholders being appointed.

1.5 Rating

IBK has foreign currency ratings of "A+" from Fitch Ratings Ltd., "A" from Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc., and "Aa3" from Moody's Investors Service, Inc.

RAM Ratings has assigned a credit rating of AAA for the MTN Programme.

A rating is not a recommendation to subscribe for, purchase, hold or sell the Notes. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant or upon a periodic review basis by the rating agencies during the tenure of the Notes. If the ratings initially assigned to the Notes are subsequently lowered or withdrawn for any reason whatsoever, no person or entity will be obliged to provide any additional credit enhancement with respect to the Notes. Any downgrade or withdrawal of the rating may have an adverse effect on the liquidity and market price of the Notes. Further, such a rating is not a guarantee of repayment or that there will be no default by IBK under the Notes.

1.6 Selling Restrictions

General

No action has been taken by IBK or the Principal Adviser/Lead Arranger that would or is intended to permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required.

Purchasers of the Notes are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposing of or otherwise dealing in the Notes.

Malaysia

(i) At issuance of the Notes

The Notes shall not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the CMSA.

(ii) Thereafter

The Notes shall not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 8 or Section 257(3) of the CMSA.

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2 SUMMARY OF THE MTN PROGRAMME

Principal Terms and Conditions of the Conventional Notes

This summary highlights selected information from this Information Memorandum and may not contain all of the information that is important to you. To understand the terms of the Notes, you should carefully read this Information Memorandum.

1.	Issuer	:	IBK
2.	Principal Adviser/Lead Arranger	:	RHB Investment Bank
3.	Central Depository and Paying Agent	:	BNM
4.	Legal Counsel	:	Messrs. Adnan Sundra & Low
5.	Facility Agent	:	RHB Investment Bank
6.	Credit Rating Assigned and Name of Rating Agency	:	AAA by RAM Ratings
7.	Facility Description	:	A medium term note programme for the issuance of up to equivalent of RM3.0 billion nominal value multi-currency conventional and/or Islamic medium term notes. The conventional medium term notes and Islamic medium term notes issued pursuant to the MTN Programme denominated either in Ringgit Malaysia and/or foreign currencies are collectively referred to as the "**Notes**". The principal terms and conditions of the Islamic medium term notes are as described in item 2.2 below.
8.	Issue Size	:	Up to RM3,000,000,000 (Malaysia Ringgit Three Billion) or its equivalent thereof. The aggregate outstanding nominal value of the Notes issued under the MTN Programme shall not at any point in time exceed RM3.0 billion or its equivalent thereof.
9.	Issue Price	:	The Notes shall be issued at par, at a discount to face value or at a premium to face value, which will be determined closer to the issuance date of the Notes. The price payable for each Note purchased shall be calculated in accordance with the formula specified in the Rules on Fully Automated System for Issuing/Tendering ("**FAST Rules**") for private debt securities issued by BNM or in the rules governing such issues and approved by BNM. The issue price of the Notes will be determined prior to each issuance.

10.	Tenure of the Facility/Issue	:	The tenure of the MTN Programme is ten (10) years from the date of the first issue under the MTN Programme. The first issuance of the Notes shall be made within two (2) years from the date of approval by the SC.
11.	Interest/Coupon Payment basis	:	Actual/365
12.	Security/Collateral (if any)	:	Unsecured
13.	Purpose	:	The net proceeds of the MTN Programme will be used by IBK for its general operations.
14.	Interest/Coupon	:	To be determined and payable semi-annually in arrears.
15.	Yield to Maturity	:	To be determined closer to the issuance date of the Notes.
16.	Sinking Fund	:	None.
17.	Maturity	:	The Notes may be issued with maturities of minimum three (3) years for the Ringgit-denominated Notes and one (1) year for Notes denominated in currencies other than Ringgit, provided always that the final maturity of any of the Notes shall not exceed the Tenure of the MTN Programme.
18.	Method of Issue	:	The Notes may be issued through any of the following modes to be determined by IBK and the Lead Arranger: (a) by private placement; or (b) through book running or a book building process Issuance of the Notes under the MTN programme shall be in accordance with the FAST Rules, subject to such exemptions (if any) granted from time to time.
19.	Form and Denomination	:	The Notes will be issued in a minimum denomination of RM1,000,000 or integral multiples thereof. The Notes will be represented by a global certificate (which is exchangeable for definitive certificates only in limited circumstances) to be deposited with BNM and will be traded under RENTAS.
20.	Ranking	:	The Notes will, upon issue, constitute direct, unconditional, unsubordinated and (subject to the Negative Pledge) unsecured obligations of the Issuer ranking at all times pari passu, without any preference among themselves, with all other unsecured and unsubordinated obligations (whether present or future) of the Issuer except those obligations preferred by law.
21.	Mandatory Redemption	:	Unless previously purchased by the Issuer and cancelled, the Notes shall be redeemed on the maturity date at 100% of their par value.

22.	Repurchase and Cancellation	:	The Issuer may at any time purchase the Notes in the open market at any price and these repurchased Notes may be cancelled at the option of the Issuer.
23.	Availability	:	Upon completion of all documentation and compliance of the conditions precedent.
24.	Selling Restrictions	:	(a) At issuance of the Notes The Notes shall not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the CMSA. (b) Thereafter The Notes shall not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 8 or Section 257(3) of the CMSA.
25.	Trading	:	Subject to the Selling Restrictions, the Notes shall be tradable in the secondary market on a willing-buyer willing-seller basis under RENTAS.
26.	Listing Status	:	The Notes will not be listed on Bursa Malaysia Securities Berhad or on any other stock exchange but will be reported on FAST.
27.	Conditions Precedent	:	Issuance of Notes is subject to compliance of conditions precedent including but not limited to the following: (a) a certificate signed by a duly authorised officer of the Issuer that there is (i) no adverse change in the condition (financial, economic or otherwise) of the Issuer which is material to the issue of the Notes; (ii) no event rendering untrue or incorrect to the material extent any of the representations and warranties; and (iii) no material breach of any of the undertakings by the Issuer; (iv) no event of default or an event, which with the giving of notice or passage of time or both, would be an event of default would have occurred and is continuing in the Transaction Documents; (v) no event of default under any Notes or notes which have been issued or guaranteed by the Issuer has occurred or is continuing or will occur as a result of the issuance of the Notes; (b) the Transaction Documents (all in form and substance acceptable to the Lead Arranger) shall have been duly executed by the parties thereto and stamped (if required);

(c) copies of all resolutions, authorisations and consents required in connection with the issuance and sale of the Notes having been obtained or otherwise delivered to the Lead Arranger;

(d) The MTN Programme has received its respective requisite rating as stated herein;

(e) a written opinion from Messrs. Adnan Sundra & Low on, inter alia, the validity, legality and enforceability of the Notes and the Transaction Documents and that all conditions precedent have been fulfilled; and

(f) a written opinion from the foreign solicitors in relation to laws of Republic of Korea.

28. Negative Pledge : So long as any Note remains outstanding or any amount is due under or in respect of any Note or otherwise under the Transaction Documents, the Issuer will not create or permit to subsist any mortgage, charge, pledge or other security interest upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below) any:

(i) payment of any sum owing in respect of any such International Investment Securities;

(ii) payment under any guarantee in respect of any such International Investment Securities; or

(iii) payment under any indemnity or other like obligations in respect of any such International Investment Securities

without, in any such case and at the same time, according to the Noteholders either the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation or such other security as (i) the Lead Arranger/Facility Agent shall in its absolute discretion deem to be not materially less beneficial to the interests of the Noteholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Transaction Documents) of the Noteholders.

In this principal terms and conditions:

International Investment Securities means notes, bonds, debentures, certificates of deposit or investment securities of any person which:

(i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside Korea; and

(ii) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

29. Events of Default : To include but not limited to the following:

(a) *Non-payment*: default is made in the payment of any amount of principal or interest in respect of any of the Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of principal, seven days, or, in the case of default in the payment of interest, 14 days thereafter;

(b) *Breach of other obligations*: default is made in the performance or observance of any other obligations of the Issuer under or in respect of the Notes and the Transaction Documents, and such default remains unremedied for 30 days after written notice thereof has been delivered to the Issuer by the Noteholders;

(c) *Cross-default*: (1) any Indebtedness (as defined below) of the Issuer in aggregate exceeding U.S.$10,000,000 (or its equivalent in one or more currencies) is not paid when due or, as the case may be, within any originally applicable grace period, (2) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity as a result of a default in respect of the terms thereof or (3) the Issuer fails to pay on the expiry of any originally applicable grace period any amount payable by it under any Surety (as defined below);

(d) *Enforcement proceedings*: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out upon or against the whole or a material part of the assets or revenues of the Issuer and is not discharged or stayed within 30 days;

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a material part of the undertaking, assets and revenues of the Issuer;

(f) *Insolvency, etc.*: (1) the Issuer becomes insolvent or is unable to pay its debts as they fall due, (2) an administrator or liquidator of the Issuer or the whole or any part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made (or documents filed with a court) and is not withdrawn within 30 days thereafter), (3) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Surety given by it or (4) the Issuer ceases or threatens to cease to carry on all or any substantial part of its business or (5) the Issuer ceases to be a foreign exchange bank with a general banking licence in Korea;

(g) *Winding-up, etc.*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer;

(h) *Analogous event*: any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in paragraphs (d) to (g) above;

(i) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (1) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Transaction Documents, (2) to ensure that those obligations are legal, valid, binding and enforceable and (3) to make the Notes and the Transaction Documents admissible in evidence in the courts of Korea (other than their translation into the Korean language) is not taken, fulfilled or done;

(j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under or in respect of any of the Notes or the Transaction Documents;

(k) *Government intervention*: (1) all or any substantial part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting or purporting to act under the authority of any national, regional or local government of Korea or (2) the Issuer is prevented by any such person from exercising normal control over all or any material part of its undertaking, assets and revenues.

In these principal terms and conditions:

(i) **Indebtedness** means all obligations created, incurred or assumed by any Persons for the payment or repayment of moneys relating to or in connection with (a) any indebtedness of any Persons in respect of moneys borrowed by it; (b) any indebtedness of any Persons under acceptance or documentary credit facilities; (c) any indebtedness of any Persons under bills, bonds, debentures, notes or similar instruments on which the Issuer is liable; (d) any obligations of any Persons under leases which in accordance with accounting principles generally accepted in Korea are required to be capitalised for financial reporting purposes; (e) any indebtedness of any Persons (whether actual or contingent) for moneys owing under any instrument entered into by any Persons in respect of the acquisition cost of assets payment of which is deferred for a period in excess of six months after acquisition thereof, and (f) indebtedness of any Persons (actual or contingent) under guarantees, security, indemnities or other commitments designed to assure any creditors in respect of the payment of any indebtedness of any other person.

(ii) **Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having a separate legal personality.

(iii) **Surety** means any obligation of any Person to pay any Indebtedness of another Person including, without limitation, (l) any obligation to purchase such Indebtedness, (2) any obligation to lend or give money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (3) any indemnity against the consequences of a default in the payment of such Indebtedness and (4) any other agreement to be responsible for such Indebtedness.

30.	Taxation	:	All payments by the Issuer shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of the Republic of Korea or any other applicable jurisdictions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.
31.	Jurisdiction	:	The Issuer shall unconditionally and irrevocably submit to the non-exclusive jurisdiction of the courts of Malaysia.
32.	Governing Law	:	Laws of Malaysia
33.	Transaction Documents	:	The documents to be entered into for the purposes of the conventional medium term notes under the MTN Programme will include: (i) Programme Agreement; (ii) Deed of Covenants; and (iii) Depository and Paying Agency Agreement. A separate Programme Agreement, and Depository and Paying Agency Agreement will be entered into for the purposes of Islamic medium term notes under the MTN Programme.

Principal Terms and Conditions of the Islamic Notes

This summary highlights selected information from this Information Memorandum and may not contain all of the information that is important to you. To understand the terms of the Notes, you should carefully read this Information Memorandum.

1.	Issuer	:	IBK
2.	Principal Adviser/Lead Arranger	:	RHB Investment Bank
3.	Central Depository and Paying Agent	:	BNM
4.	Legal Counsel	:	Messrs. Adnan Sundra & Low
5.	Facility Agent	:	RHB Investment Bank
6.	Credit Rating Assigned and Name of Rating Agency	:	AAA by RAM Ratings
7.	Syariah Advisers	:	Dr Mohd Daud Bakar or Dr Engku Rabiah Adawiah or any other independent Syariah Adviser(s) registered with the SC.
8.	Islamic Principle Used	:	Each issue of Islamic medium term notes will be based on but not limited to the following Syariah principles as agreed between the Syariah Adviser(s) and the Issuer: (a) Ijarah (b) Mudharabah (c) Musyarakah (d) Istisna' Where IBK proposes to issue any Islamic medium term notes based on Syariah principle, which is not listed above, the prior approval of the SC will be sought.
9.	Facility Description	:	A medium term note programme for the issuance of up to equivalent of RM3.0 billion nominal value multi-currency conventional and/or Islamic medium term notes. The conventional medium term notes and Islamic medium term notes issued pursuant to the MTN Programme denominated either in Ringgit Malaysia and/or foreign currencies are collectively referred to as the "**Notes**". The principal terms and conditions of the conventional medium term notes are as described in item 2.1 above. IBK may issue the Islamic medium term notes based on but not limited to the following Syariah principles:

Ijarah

The Trustee, on behalf of the Noteholders shall purchase certain Syariah compliant leasable assets (the "**Assets**") from the Issuer at an Asset purchase price. The Trustee shall lease the Assets to the Issuer under an Ijarah Agreement for a pre-determined lease rental. The Issuer shall pay the periodic lease rental on each rental payment date. The Issuer shall issue trust certificates or notes to Investors to evidence the Investors' respective interest in the Assets or the Issuer's obligation under the relevant transaction documents. On maturity, the dissolution date or any other events to be agreed between the parties, the Issuer shall purchase the Assets from the Trustee for a consideration plus other related expenses.

Musyarakah

Investors shall form a Musyarakah among themselves and shall, via the Trustee, invest in certain Syariah compliant assets (the "**Assets**") of the Issuer (the "**Venture**") and appoint the Issuer to manage its Venture, for which the Issuer shall be paid an incentive management fee. The Issuer shall issue trust certificates to Investors to evidence the Investors' respective interest in the Assets. The profits from the Venture shall be shared between the Investors either in the proportion of their respective investment as evidenced by the nominal value of the Notes held by them or any other basis to be pre-agreed amongst the Investors at the outset of the Venture. The losses from the Venture shall be shared between the Investors in proportion to their respective investment. The cashflow from the Venture shall be distributed by the Issuer to the Trustee, which shall then be distributed to Investors as periodic distributions. Cashflow in excess of the expected periodic distribution amount shall be paid to the Issuer as an incentive fee.

If the cashflow generated by the Venture is lower than the expected periodic distribution, the Issuer shall make good the shortfall with an amount ("**Advance Payment**") which will be set-off against the Issuer's obligation pursuant to a Purchase Undertaking issued by the Issuer in favour of the Trustee whereby the Issuer shall purchase the Trustee's interest in the Assets at an exercise price to be calculated based on a pre-agreed formula on maturity, the dissolution date or any other events to be agreed between the parties.

Mudharabah

The proposed Mudharabah is premised on a Mudharabah Venture (the "**Venture**") entered into between the Issuer (*Mudharib*) and the Investors (*Rabb al-mal*). The Investors, via the Trustee, shall invest in certain Syariah compliant assets (the "**Assets**") of the Issuer. The Issuer shall contribute its expertise in managing the Venture. The Issuer shall issue trust certificates to Investors to evidence the Investors' respective interest in the Assets. The profits from the Venture shall be shared between the Issuer as the manager and the Investors on a pre-agreed profit sharing ratio. The Investors profit portion shall be distributed by the Issuer to the Trustee which shall then be distributed to Investors as periodic distributions. Profits in excess of the expected periodic distribution amount shall be paid to the Issuer as an incentive fee. If the profits generated by the Venture is lower than the expected periodic distribution, the Issuer shall make good the shortfall with an amount ("**Advance Payment**") which will be set-off against the Issuer's obligation pursuant to a Purchase Undertaking issued by the Issuer in favour of the Trustee whereby the Issuer shall purchase the Trustee's interest in the Assets at an exercise price to be calculated based on a pre-agreed formula. Subject to the terms of the Purchase Undertaking, losses shall be borne by the Investors (as the *Rabb al-mal*).

<u>Istisna'</u>

The Issuer and Trustee (acting on behalf of the Investors) shall execute a First Istisna' Agreement (the "**FIA**") under which the Issuer agrees to deliver certain assets to be constructed to the Trustee for a consideration payable on spot, which represent an amount to be disbursed under a Notes issue. The Trustee shall subsequently enter into a Second Istisna' Agreement (the "**SIA**") with the Issuer under which the Trustee agrees to deliver certain assets to be constructed to the Issuer for a price, equivalent to the price under the FIA and a mark-up (profit) (the "**Sale Price**") to be settled on deferred payment basis. The Issuer shall issue Notes to Investors to evidence its obligation to settle the Sale Price to Investors.

Where IBK proposes to issue Islamic Notes based on a Syariah principle, which is not listed above, the prior approval of the SC will be sought. The foregoing description of the relevant Syariah principles shall not be taken as limiting the application of the principles only to the transactions as described. The Issuer may, in consultation with the Syariah adviser(s), enter into transactions consistent with the foregoing principles but involving third parties, such as special purpose corporate entities. Such special purpose corporate entities will not be the issuer of the Islamic Notes unless approval of the SC is first obtained.

10. Issue Size : Up to RM3,000,000,000 (Malaysia Ringgit Three Billion) or its equivalent thereof. The aggregate outstanding nominal value of the Notes issued under the MTN Programme shall not at any point in time exceed RM3.0 billion or its equivalent thereof.

11. Issue Price : The Notes shall be issued at par, at a discount to face value or at a premium to face value, which will be determined closer to the issuance date of the Notes. The price payable for each Note purchased shall be calculated in accordance with the formula specified in the FAST Rules for private debt securities issued

			by BNM or in the rules governing such issues and approved by BNM. The issue price of the Notes will be determined prior to each issuance.
12.	Tenure of the Facility/Issue	:	The tenure of the MTN Programme is ten (10) years from the date of the first issue under the MTN Programme. The first issuance of the Notes shall be made within two (2) years from the date of approval by the SC.
13.	Profit Payment basis	:	Actual/Actual
14.	Security/Collateral (if any)	:	Unsecured
15.	Purpose	:	The net proceeds of the MTN Programme will be used by IBK for its general operations in a Syariah compliant manner.
16.	Profit Rate	:	To be determined and payable semi-annually in arrears.
17.	Yield to Maturity	:	To be determined closer to the issuance date of the Notes.
18.	Sinking Fund	:	None.
19.	Maturity	:	The Notes may be issued with maturities of minimum three (3) years for the Ringgit-denominated Notes and one (1) year for Notes denominated in currencies other than Ringgit, provided always that the final maturity of any of the Notes shall not exceed the Tenure of the MTN Programme.
20.	Method of Issue	:	The Notes may be issued through any of the following modes to be determined by IBK and the Lead Arranger: (a) by private placement; or (b) through book running or a book building process Issuance of the Notes under the MTN programme shall be in accordance with the FAST Rules, subject to such exemptions (if any) granted from time to time.
21.	Form and Denomination	:	The Notes will be issued in a minimum denomination of RM1,000,000 or integral multiples thereof. The Notes will be represented by a global certificate (which is exchangeable for definitive certificates only in limited circumstances) to be deposited with BNM and will be traded under RENTAS.
22.	Ranking	:	The Notes will, upon issue, constitute direct, unconditional, unsubordinated and (subject to the Negative Pledge) unsecured obligations of the Issuer ranking at all times pari passu, without any preference among themselves, with all other unsecured and unsubordinated obligations (whether present or future) of the Issuer except those obligations preferred by law.
23.	Identified Assets	:	The Syariah-compliant assets based on the SC's Syariah Advisory Council criteria will be identified at the point of

			issuance for the purpose of the transaction. The Syariah Adviser(s) shall endorse the assets and the SC will be notified accordingly of the same.
24.	Purchase and Selling Price/Rental	:	To be determined upon determination of the Assets and the SC will be notified accordingly. However, to the extent applicable, the purchase and selling price of the Assets at which any sale and purchase transaction is undertaken will fully comply with the SC's Syariah Advisory Council's pricing guidelines dated 31 December 2003 and 30 April 2004 respectively (and such guidelines as may be amended from time to time).
25.	Mandatory Redemption	:	Unless previously purchased by the Issuer and cancelled, the Notes shall be redeemed on the maturity date at 100% of their par value.
26.	Repurchase and Cancellation	:	The Issuer may at any time purchase the Notes in the open market at any price and these repurchased Notes may be cancelled at the option of the Issuer.
27.	Compensation ("*Ta'widh*")	:	There will be no provision in the documentation relating to the Notes for compensation to be paid on any overdue payments of any amounts due under the Notes.
28.	Availability	:	Upon completion of all documentation and compliance of the conditions precedent.
29.	Selling Restrictions	:	(a) At issuance of the Notes The Notes shall not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the CMSA. (b) Thereafter The Notes shall not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b) and Schedule 8 or Section 257(3) of the CMSA.
30.	Trading	:	Subject to the Selling Restrictions, the Notes shall be tradable in the secondary market on a willing-buyer willing-seller basis under RENTAS.
31.	Listing Status	:	The Notes will not be listed on Bursa Malaysia Securities Berhad or on any other stock exchange but will be reported on FAST.
32.	Conditions Precedent	:	Issuance of Notes is subject to compliance of conditions precedent including but not limited to the following:

(a) a certificate signed by a duly authorised officer of the Issuer that there is (i) no adverse change in the condition (financial, economic or otherwise) of the Issuer which is material to the issue of the Notes; (ii) no event rendering untrue or incorrect to the material extent any of the representations and warranties; and (iii) no material breach of any of the undertakings by the Issuer; (iv) no event of default or an event, which with the giving of notice or passage of time or both, would be an event of default would have occurred and is continuing in the Transaction Documents; (v) no event of default under any Notes or notes which have been issued or guaranteed by the Issuer has occurred or is continuing or will occur as a result of the issuance of the Notes;

(b) the Transaction Documents (all in form and substance acceptable to the Lead Arranger) shall have been duly executed by the parties thereto and stamped (if required);

(c) copies of all resolutions, authorisations and consents required in connection with the issuance and sale of the Notes having been obtained or otherwise delivered to the Lead Arranger;

(d) The MTN Programme has received its respective requisite rating as stated herein;

(e) The MTN Programme shall have received the endorsement of the Syariah Adviser(s) for the issuance of Islamic medium term notes;

(f) a written opinion from Messrs. Adnan Sundra & Low on, inter alia, the validity, legality and enforceability of the Notes and the Transaction Documents and that all conditions precedent have been fulfilled; and

(g) a written opinion from the foreign solicitors in relation to laws of Republic of Korea.

33. Negative Pledge : So long as any Note remains outstanding or any amount is due under or in respect of any Note or otherwise under the Transaction Documents, the Issuer will not create or permit to subsist any mortgage, charge, pledge or other security interest upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below) any:

(i) payment of any sum owing in respect of any such International Investment Securities;

(ii) payment under any guarantee in respect of any such International Investment Securities; or

(iii) payment under any indemnity or other like obligations in respect of any such International Investment Securities without, in any such case and at the same time, according to the Noteholders either the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation or such other security as (i) the Lead Arranger/Facility Agent shall in its absolute discretion deem to be not materially less beneficial to the interests of the Noteholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Transaction Documents) of the Noteholders.

In this principal terms and conditions:

International Investment Securities means notes, bonds, debentures, certificates of deposit or investment securities of any person which:

(i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside Korea; and

(ii) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

34. Events of Default : To include but not limited to the following:

(a) *Non-payment*: default is made in the payment of any amount of principal or profit in respect of any of the Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of principal, seven days, or, in the case of default in the payment of interest, 14 days thereafter;

(h) *Breach of other obligations*: default is made in the performance or observance of any other obligations of the Issuer under or in respect of the Notes and the Transaction Documents, and such default remains unremedied for 30 days after written notice thereof has been delivered to the Issuer by the Noteholders;

(i) *Cross-default*: (1) any Indebtedness (as defined below) of the Issuer in aggregate exceeding U.S.$10,000,000 (or its equivalent in one or more currencies) is not paid when due or, as the case may be, within any originally applicable grace period, (2) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity as a result of a default in respect of the terms thereof or (3) the Issuer fails to pay on the expiry of any originally applicable grace period any amount payable by it under any Surety (as defined below);

(j) *Enforcement proceedings*: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out upon or against the whole or a material part of the assets or revenues of the Issuer and is not discharged or stayed within 30 days;

(k) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a material part of the undertaking, assets and revenues of the Issuer;

(l) *Insolvency, etc.*: (1) the Issuer becomes insolvent or is unable to pay its debts as they fall due, (2) an administrator or liquidator of the Issuer or the whole or any part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made (or documents filed with a court) and is not withdrawn within 30 days thereafter), (3) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Surety given by it or (4) the Issuer ceases or threatens to cease to carry on all or any substantial part of its business or (5) the Issuer ceases to be a foreign exchange bank with a general banking licence in Korea;

(m) *Winding-up, etc.*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer;

(n) *Analogous event*: any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in paragraphs (d) to (g) above;

(o) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (1) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Transaction Documents, (2) to ensure that those obligations are legal, valid, binding and enforceable and (3) to make the Notes and the Transaction Documents admissible in evidence in the courts of Korea (other than their translation into the Korean language) is not taken, fulfilled or done;

(p) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under or in respect of any of the Notes or the Transaction Documents;

(q) *Government intervention*: (1) all or any substantial part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting or purporting to act under the authority of any national, regional or local government of Korea or (2) the Issuer is prevented by any such person from exercising normal control over all or any material part of its undertaking, assets and revenues;

In these principal terms and conditions:

(i) **Indebtedness** means all obligations created, incurred or assumed by any Persons for the payment or repayment of moneys relating to or in connection with (a) any indebtedness of any Persons in respect of moneys borrowed by it; (b) any indebtedness of any Persons under acceptance or documentary credit facilities; (c) any indebtedness of any Persons under bills, bonds, debentures, notes or similar instruments on which the Issuer is liable; (d) any obligations of any Persons under leases which in accordance with accounting principles generally accepted in Korea are required to be capitalised for financial reporting purposes; (e) any indebtedness of any Persons (whether actual or contingent) for moneys owing under any instrument entered into by any Persons in respect of the acquisition cost of assets payment of which is deferred for a period in excess of six months after acquisition thereof, and (f) indebtedness of any Persons (actual or contingent) under guarantees, security, indemnities or other commitments designed to assure any creditors in respect of the payment of any indebtedness of any other person.

(ii) **Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having a separate legal personality.

(iii) **Surety** means any obligation of any Person to pay any Indebtedness of another Person including, without limitation, (l) any obligation to purchase such Indebtedness, (2) any obligation to lend or give money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (3) any indemnity against the consequences of a default in the payment of such Indebtedness and (4) any other agreement to be responsible for such Indebtedness.

35. Taxation : All payments by the Issuer shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of the Republic of Korea or any other applicable jurisdictions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and profit which would

			otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.
36.	Jurisdiction	:	The Issuer shall unconditionally and irrevocably submit to the non-exclusive jurisdiction of the courts of Malaysia.
37.	Governing Law	:	Laws of Malaysia
38.	Transaction Documents	:	The documents to be entered into for the purposes of the Islamic medium term notes under the MTN Programme will include: (i) Programme Agreement; (ii) Deed of Covenants; (iii) Depository and Paying Agency Agreement; and (iv) such other relevant documentation as may be necessary for the specific Syariah principle being utilised. A separate Programme Agreement, and Depository and Paying Agency Agreement will be entered into for the purposes of conventional medium term notes under the MTN Programme.

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3 CLEARANCE AND SETTLEMENT

Introduction

The Notes will be represented by a global certificate deposited with BNM as central depository. The transfer and trading of the Notes in the secondary market will be done through RENTAS and in accordance with the procedures established under the RENTAS Rules. Clearing and settlement for trades in the Notes will also be undertaken through RENTAS and in accordance with the procedures established under the RENTAS Rules. BNM also acts as paying agent for the Notes.

Procedures under the RENTAS Rules are subject to alteration by BNM.

The Issuing, Trading and Clearing System

BNM is the operator of RENTAS, which is a system for the issue of private debt securities on a scripless basis. As part of RENTAS, BNM also operates and manages the Scripless Securities Trading System ("**SSTS**") which is a scripless book-entry securities trading system that effects and records the trading and settlement of securities traded on RENTAS and an inter-bank funds transfer system that effects and records transfers of funds between BNM and persons approved by it to have access to and utilise RENTAS (such persons being referred to as "**Authorised Depository Institutions**" or "**ADIs**").

So long as the Notes are represented by the global certificate, interests in the Notes can only be held through ADIs and will be represented by book entries in the records of the ADIs.

Distributions of amounts due on the Notes with respect to book-entry interests in the Notes will be credited, to the extent received by BNM, as the paying agent, to the accounts of the ADIs maintained with BNM.

Form and Interests

The Notes will be represented by a global certificate in bearer form and deposited with BNM as central depository. BNM will credit each ADI with an aggregate amount of the Notes and are held by Noteholders having a beneficial interest in the Notes through that ADI. ADIs are responsible for establishing and maintaining accounts for their customers (the Noteholders) having interests in the Notes.

Neither the Issuer nor BNM will impose any fees or charges on Noteholders in respect of the deposit of the global certificate to the Notes with BNM. The ADIs, however, will charge their normal fees and expenses in respect of the maintenance and operation of accounts for Noteholders.

Clearing and Settlement

On issue of the Notes, BNM will credit the accounts of the ADIs in accordance with the instructions of the Facility Agent subject to availability of sufficient funds in the cash accounts of the relevant ADIs maintained with BNM. Allocation and settlement will normally be effected by 11.30 a.m. on the issue date with proceeds being paid to the Issuer by 2.00 p.m. on the same day.

Secondary market trading of the Notes is through the SSTS with transfers of interests between the ADIs being reflected in the book entries maintained by BNM. Settlement is also effected through the SSTS through the accounts maintained by the ADIs with BNM.

Interest/Profit Payments and Redemption

Redemption and interest/profit payment due on the Notes, subject to receipt of the relevant funds, are also effected through credits by BNM to the accounts of the ADIs with BNM and will be made in accordance with the RENTAS Rules.

Under the RENTAS Rules, if the date for redemption of the Notes is to fall on an expected holiday, redemption will be on the preceding business day. If the date for redemption of the Notes falls on an unexpected holiday, redemption will be the next business day.

If an Interest/Profit Payment Date is to fall on an expected holiday, payment of interest/profit is on the next business day unless it falls into the next month when it shall be paid on the preceding business day. If the Interest/Profit Payment Date falls on an unexpected holiday, payment shall be the next business day irrespective of whether it falls into the next month or not. Regardless of the foregoing, the final Interest/Profit Payment Date will coincide with the date for redemption of the Notes.

A "**business day**" is defined as any day from Monday to Friday but excluding any day which is a public holiday or bank holiday in Kuala Lumpur. Saturdays and Sundays are not business days, and public holidays or bank holidays in Kuala Lumpur which are known in advance are expected holidays.

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4 INVESTMENT CONSIDERATIONS

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay any amounts on or in connection with any Notes under the MTN Programme may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Note are exhaustive.

Prospective purchasers of the Notes should carefully consider all of the information contained in this Information Memorandum, including the Bank's non-consolidated financial statements and related notes, in addition to the following investment considerations. In particular, investors should pay attention to the fact that the Bank is subject to the legal and regulatory environment of Korea which in many respects differs from that which prevails in other countries.

Prior to making any decision to invest in the Notes, prospective investors are advised to seek professional advice and undertake their own investigations on the Issuer, and any other parties or matters connected with the MTN Programme as they may consider necessary.

4.1 Risks Relating to the Bank and its Business

4.1.1 The Bank is a specialised bank serving public policy objectives, and the Korean Government could cause the Bank to take actions or pursue policy objectives that may be against its best interests.

As a specialised bank serving the public policy objectives of the Korean Government to promote the growth and development of SMEs in Korea, the Bank seeks to maintain an overall level of profitability that will permit the Bank both to strengthen its financial condition and support growth in the volume of the Bank's business to SMEs.

In addition, the Korean Government currently owns, directly and indirectly, 66.74 per cent. of the Bank's outstanding shares (including preferred shares) and, as a result of its public functions mandated in the IBK Act, has full control over the Bank's management, policies and operations. As a result, the Bank may be influenced to conduct business operations in a manner in which the Bank otherwise would not in the absence of such Government influence, and this may adversely affect the Bank's results of operations and financial condition. Furthermore, irrespective of the Government's ownership level, under the IBK Act, the Government has the ability to appoint or dismiss the Bank's Board and statutory auditor.

4.1.2 The Bank cannot assure investors that the Korean government will not cease to support any losses it may incur by enacting changes to Article 43 of the IBK Act or adopt other amendments to the IBK Act that may adversely affect the Bank's financial condition.

Under Article 43 of the IBK Act, the Bank is required to cover any net loss incurred during a given fiscal year with its reserves, and if the reserves are insufficient, the Korean Government is legally obligated to provide funds to cover the deficit. In light of this provision, if the Bank had insufficient funds to make payment under any of its obligations, the Government would take appropriate steps by contributing capital, allocating funds or by taking other appropriate action to enable it to make such payment when due. Any amendment to the provisions of the IBK Act, including Article 43, would require legislative action by the National Assembly. The Bank cannot assure investors that the Government will not enact changes to the IBK Act, including changes that may result in the cessation of Government support for its losses, or adopt other amendments to the IBK Act that may adversely affect its financial condition.

4.1.3 The Bank's failure to sustain or improve the assets quality of its corporate credit, retail credit, credit card and securities portfolios may have an adverse impact on the Bank.

As regards its corporate credit portfolio, the Bank has significant exposure to SMEs, and if companies in this segment experience financial difficulties as a result of, among others, weakness in the Korean economy, or if there is aggressive marketing and intense competition among banks to lend to this segment, then this may result in a deterioration in the quality of the Bank's loans to this segment.

The Bank's retail lending and credit card businesses, which offer higher margins than other lending activities, have contributed significantly to the increase in the Bank's interest income. However, the Bank may not be able to sustain this growth in the future due to various factors, including government-imposed limits on retail lending, increasing market saturation, competition and government regulation in the retail lending and credit card industries, as well as changes in consumer confidence levels or spending patterns or in the public perception of consumer debt and credit card usage, which may result in the lack of improvement or deterioration in the asset quality of the Bank's retail loan and credit card portfolios.

Any deterioration in the asset quality of the Bank's abovementioned business segments and portfolios would require the Bank to increase its loan loss provisions and write-offs and will adversely affect its overall operating results and financial condition.

As for the securities portfolio of the Bank, the values of its debt securities may fluctuate as a result of among other things, changes in prevailing market interest rates. The values of the equity securities in the Bank's portfolio, which consist largely of equity securities of Korean companies, have been and are expected to remain volatile due to the uncertainties in the financial prospects of Korean companies and the Korean economy in general. No assurance can be given that the Bank will not experience future significant declines in the value of the Bank's securities portfolio, which may adversely affect its results of operations and financial condition.

4.1.4 An increase in interest rates would raise its funding costs while reducing loan demand, which could adversely affect the Bank

Interest rates in Korea have been subject to significant fluctuations in recent years. From 2000 to 2004, interest rates declined to historically low levels as the Korean Government sought to stimulate economic growth value of traded debt securities. A sustained increase in interest rates will also raise the Bank's funding costs, while reducing loan demand, especially among retail consumers and SMEs, and reducing the Bank's net interest margin. Rising interest rates may therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition and repayment ability of the Bank's corporate and retail borrowers (including holders of its credit cards), which in turn may lead to a deterioration in the Bank's credit portfolio.

4.1.5 The Bank's funding is highly dependent on short-term deposits, which dependence may adversely affect its operations.

Most of the Bank's funding requirements are met through short-term funding sources, primarily customer deposits. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with the Bank (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding for the Bank. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with the Bank.

The FSS requires Korean commercial banks to maintain a minimum Won liquidity ratio of 100 per cent. but provides for a lower Won liquidity ratio of 70 per cent. for certain government supported banks such as the Bank. If a substantial number of the Bank's customers fail to roll over their deposits upon maturity or withdraw their deposits from the Bank, its liquidity position could be adversely affected, and the Bank may be required to seek funding from more expensive sources. In addition, the FSS may require the Bank to take measures to improve its liquidity position to levels maintained by other commercials banks, or impose certain restrictions on its operations, which may constrain its lending and funding activities.

4.1.6 If there are deficiencies in the Bank's guaranteed trust accounts, it may be required to make transfers from its bank accounts to its trust accounts, which may have an adverse impact on the Bank.

Under Korean law, assets accepted in trust by a bank are segregated from other assets of the bank and are not available to satisfy the claims of the depositors or other creditors of the bank. Accordingly, the Bank's non-consolidated financial statements do not include trust accounts.

In respect of certain trust account products, the Bank guarantees the principal of the trust account and, in certain cases, a fixed rate of return. Since January 2004, banks have been prohibited from providing new trust accounts that guarantee the principal amount of investments, other than certain retirement trust and annuity trust products. However, the Bank will continue to provide guarantees with respect to existing accounts that contain these guarantee provisions. If the principal or income of a particular guaranteed trust account is insufficient to pay the guaranteed amount, the resulting deficiency must be satisfied from either reserves maintained in the trust accounts or funds transferred from the Bank's bank accounts. The Bank cannot provide assurance that it will not in the future be required to make transfers from its bank accounts to its trust accounts to satisfy any deficiencies that may arise, which may result in an adverse impact on the Bank.

4.1.7 A decline in the value of the collateral securing the Bank's loans and its inability to realise full collateral value may adversely affect the Bank's credit portfolio.

A substantial portion of the Bank's loans are secured by real estate or securities, the values of which may fluctuate or decline due to factors such as developments affecting the Korean economy and the Korean Government's initiatives to curb real estate speculation. While the Bank's general policy with respect to secured lending has been to lend at between 40 per cent. and 100.0 per cent. of the appraised value of real estate (other than residential real estate collateral, in respect of which the Bank may lend up to a maximum of 40.0 per cent. to 60.0 per cent. of the appraised value thereof depending on whether such residential real estate collateral is located in a highly speculative area) or securities collateral depending on the nature of the collateral and the type of loan, downturns in the Korean real estate and securities markets have resulted from time to time in declines in the value of collateral securing a number of loans to levels below the outstanding principal balance of such loans. The Bank cannot assure investors that collateral values will not decline in the future, in particular as a result of various Government measures, or that they will be sufficient to cover amounts that cannot be collected in respect of its secured loans. Any future declines in the value of the Bank's collateral or inability to obtain additional collateral may require the Bank to reclassify the relevant loans and take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. Foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of the Bank's security interests and fraudulent transfers by borrowers may impair its ability to recover on collateral. Accordingly, there can be no assurance that the Bank will be able to realise the full value of its collateral.

4.1.8 The Bank's allowances with respect to acceptances under letters of credit and guarantees may not be sufficient to cover its actual losses relating to these financing instruments, which may adversely affect the Bank.

As part of the Bank's lending activities, the Bank provides acceptances under letters of credit and guarantees with respect to payment obligations of its customers in return for fees and commissions. Although the Bank's contingent liabilities with respect to such acceptances and guarantees are recorded as off-balance sheet items in its financial statements, they are subject to similar risks as those relating to other types of credit. As of 31 December 2006 and 30 September 2007, the Bank had established allowances in respect of approximately 0.36 per cent. and 0.75 per cent., respectively, of its confirmed acceptances and guarantees. The Bank cannot assure you that such allowances will be sufficient to cover its actual losses in respect of its acceptances and guarantees, which insufficiency may adversely affect its results of operations and financial condition.

4.1.9 The Bank is exposed to a variety of risks inherent in the banking industry and failure to manage these risks may have an adverse impact on the Bank.

In the course of its business activities, the Issuer is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. While the Issuer believes that it has implemented the appropriate policies, systems and processes to control and mitigate these risks, investors should aware that any failure to adequately control these risks could be greater than anticipated, which could result in adverse effects on the Bank's financial conditions and operation results.

4.2 Risks Relating to the Korean Banking Industry

4.2.1 The Bank is operating in a highly regulated industry and any significant reforms and changes to the regulatory framework for the Korean financial industry could adversely affect the Bank's results of operations.

The legal and regulatory framework for the Korean financial industry is undergoing significant reforms and changes. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates and have relaxed barriers to entry, including by foreign financial institutions, leading to increased competition. At the same time, the Korean Government has revised its regulations in recent years to impose stricter regulatory standards and oversight on Korean financial institutions, as part of its efforts to modernise the industry and to address specific social and economic issues. The Korean Government has also revised the regulations relating to credit cards and household lending, particularly mortgage and home equity, as part of its effort to control the potential risks of excessive consumer lending.

In addition, the Korean Government has adopted the Financial Investment Services and Capital Market Act (the "**FCA**") in August 2007 to integrate and rationalise the Korean capital markets and financial investment products industry. According to the FCA, which will become effective from 4 February 2009, the Bank and other banks in Korea may face greater competition in the Korean financial services market from securities companies and other non-bank financial institutions. The FSS has also announced that it intends to adopt the New Basel Capital Accord (the "**New Accord**") capital adequacy standards in Korea from January 2008, which requires the Bank to meet more risk-sensitive capital requirements, which in turn may result in the Bank maintaining more capital or incurrence of substantial compliance and monitoring costs.

The nature and impact of changes in laws, regulation and regulatory policies are not predictable and are beyond the Bank's control, which may require the Bank to modify its business operations. Any current and future changes in such laws, regulation and regulatory policies may adversely affect its financial condition and results of operations.

4.2.2 The Bank may be required to raise additional capital to maintain its capital adequacy ratio or for other reasons, which it may not be able to do on favourable terms at all.

Pursuant to the capital adequacy requirements of the FSC, the Bank is required to maintain a minimum Tier I capital adequacy ratio of 4.0 per cent. and a combined Tier I and Tier II capital adequacy ratio of 8.0 per cent., on a consolidated basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100 per cent. of Tier I capital. Currently, the Bank's capital adequacy ratio has exceeded the minimum levels required by the FSC. However, the Bank's capital base and capital adequacy ratio may deteriorate in the future if its results of operations or financial condition deteriorates for any reason, including as a result of any future deterioration in the asset quality of the Bank's retail loans and loans to SMEs. If the Bank's capital adequacy ratio deteriorates, it may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. The Bank may not be able to obtain additional capital on favourable terms, or at all. The Bank's ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that the Bank fails to maintain its capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on it ranging from a warning to suspension or revocation of its licence.

4.2.3 Competition in the Korean financial industry is intense, and the Bank may lose market share and experience declining margins as a result.

Competition in the Korean financial market has been and is likely to remain intense. Some of the financial institutions that the Bank compete with are or may become significantly larger in terms of asset size and customer base and have greater financial resources or more specialised capabilities than the Bank. In addition, in the area of the

Bank's core banking operations, most Korean banks have indicated their intention to target retail customers and SMEs as they scale back their exposure to large corporate borrowers, and to focus on developing fee income businesses as increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have engaged in aggressive marketing activities and made significant investments in recent years, contributing, to a certain extent, to the asset quality problems currently existing with respect to credit card receivables. The competition and market saturation resulting from this common focus may make it more difficult for the Bank to secure retail and SME customers with the credit quality and on credit terms necessary to maintain or increase the Bank's income and profitability.

In addition, the Bank believes regulatory reforms and the general modernisation of business practices in Korea will lead to increased competition among financial institutions in Korea. The Bank also believes that foreign financial institutions, many of which have greater experience and resources than the Bank, will seek to compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years. The Bank expects that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Bank. The Bank's results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

4.2.4 The Bank is subject to Korean accounting, regulatory and corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Banks in Korea, including the Bank, are subject to accounting standards that differ in significant respects from those applicable to banks in other countries, including Malaysia. In addition, the Bank is subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including Malaysia. There may also be less publicly available information about Korean companies, such as the Bank, than is regularly made available by public or non-public companies in other countries. Such differences in accounting and corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

In addition, in March 2007, the Korean Government announced that all companies listed on the Korea Exchange will be required to comply with the International Financial Reporting Standards (the "**IFRS**") by 2011. The IFRS are the financial reporting standards adopted in more than 110 countries and have requirements that are substantially different from the accounting principles generally accepted in Korea ("**Korean GAAP**"). The preparation for the compliance, as well as actual compliance, is likely to result in significant costs for the Issuer and may have a material adverse effect on the Issuer's results of operations. In addition, the Issuer may not be able to comply with the IFRS within the prescribed or recommended time line, and such non-compliance may result in regulatory sanctions as well as harm to the Issuer's reputation.

4.2.5 Recent market conditions and the risk of continued market deterioration may have an adverse effect on the Issuer's financial condition.

The United States credit markets and the sub-prime residential mortgage market have recently experienced substantial dislocations, liquidity disruptions and market corrections. In particular, sub-prime mortgage loans in the United States have experienced increased rates of delinquency, foreclosure and loss. These and other related events have had a significant impact on the global credit and financial markets as a whole.

The Issuer does not have significant investments in any assets or securities linked to, or the value of which is derived from, assets that could be classified as sub-prime residential mortgages, or in investment securities comprising asset funds and trusts which hold and invest in assets that are classified as sub-prime residential mortgages. As such, the Issuer currently does not have significant direct or indirect exposure to the sub-prime residential lending market in the United States, Korea or elsewhere. However, the values of many of the investment securities that the Issuer holds are sensitive to the volatility of the credit markets and accordingly, such investment securities may be adversely affected by future developments in the credit markets.

4.2.6 The Act concerning Protection of Fixed Term or Part Time Employees may have an adverse effect on the Issuer's operations.

On 21 December 2006, the Act concerning Protection of Fixed Term or Part Time Employees (the "**Non-regular Employee Act**") was enacted. Under the Non-regular Employee Act, fixed-term employees hired under fixed-term employment contracts must not be discriminated against by employers, compared to regular employees performing the same or similar duties as those of the fixed-term employees in wages and other labour conditions, without justifiable grounds. The Non- regular Employee Act also provides that, if a fixed-term employee remains employed under a fixed-term employment contract for a period exceeding two years, the fixed-term employee will be deemed to be a regular employee and the employer will not be able to terminate the employment of such fixed-term employee without justifiable grounds, even after the expiration of the fixed-term employment contract, provided that this provision shall apply only to fixed-term employees to be hired under fixed-term employment contracts to be newly entered into or renewed on extended after the effective date of the Non-regular Employee Act. As of 29 February 2008, the Bank had a total of 6,879 full-time employees and 3,077 contract and part-time employees who are employed on a temporary basis. Effective 1 July 2007, the Bank is required to provide those fixed-term employees under fixed-term employment contracts with the same wages and other benefits as it currently provides to its regular employees performing the same or similar duties as those of the fixed-term employees, including, but not limited to, medical insurance, annual leave, contribution into such employees' personal pension accounts in accordance with the National Health Insurance Act, Labour Standard Act and Korean National Pension Law under the above Act. The Bank is required to provide its fixed-term employees with the same wages and benefits it currently provides to its regular employees performing the same or similar duties as those of such fixed-term employees and is also required to provide those fixed-term employees who remain employed under a fixed-term employment contract for over two years with the legal status of regular employees. This in turn, may result in the Bank having to incur additional selling and administrative expenses, which may have a material adverse effect on the Bank's business, results of operations and financial condition.

4.2.7 Unfavourable political, economic, legal and regulatory, and social developments in Korea may adversely effect the Bank's operations.

The business, prospects, financial condition and results of operations of the Bank may be adversely affected by political, economic, legal and regulatory, and social developments in Korea, including but not limited to the risk of war, terrorism, riots, expropriation, renegotiations or nullification of existing contracts, changes of interest rates and methods of taxation.

Adverse developments such as outbreak of avian influenza, severe acute respiratory syndrome or any other contagious diseases, political uncertainty due to the continued tensions between Korea and North Korea, increasing strife among or within political parties in Korea, financial problems relating to *chaebols*, social and labour unrest and negative changes in the economies of countries such as the United States, China, Japan and emerging markets in Asia could result in a loss of confidence in the Korean economy, adversely affect the economy of Korea and have a material adverse effect on the Bank's business, financial condition, cash flows, prospects and result of operations.

Buoyed by the progress in the nuclear issue and the agreements reached via the various six-party talks among Korea, North Korea, the United States, China, Japan and Russia, Korea and North Korea held a summit on 2 October - 4 October 2007 following the first summit in 2000. South Korean President Roh symbolically walked across the North's border, pledging to foster peace on the divided peninsula. President Roh Moo Hyun and North Korea's leader Kim Jong-Il signed a joint declaration in Pyongyang on 4 October 2007 to initiate a series of economic development and political steps consisting of 10 sections. Both sides jointly pledged to push forward a peace regime on the Korean Peninsular, adopted concrete new measures to implement the previous agreements, particularly the Basic Agreement of 1992 and upgraded the forums for the implementation of the declaration.

There can be no assurance that the level of tension with North Korea will not escalate and that such escalation will not have a material adverse impact on the Republic's economy or its ability to obtain future funding. Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by Korea.

4.3 Risks Relating to the Notes

4.3.1 There has been no prior public market for the Notes; the liquidity and market price of such Notes following their issue may be volatile.

There is no existing market for the Notes and there can be no assurance that a secondary market for the Notes will develop, or if a secondary market does develop, that it will provide the Noteholders with liquidity of investment or that it will continue for the life of the Notes. In addition, the Notes could trade in the secondary market at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates and the market for similar securities. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Notes and an investor in the Notes must be prepared to hold the Notes for an indefinite period of time or until their maturity, nor any assurance can be given as to the ability of the Noteholders to sell their Notes, or prices at which the Noteholders would be able to sell their Notes.

4.3.2 The market value of the Notes may be subject to fluctuation

Trading prices of the Notes may be influenced by numerous factors, including the operating results and/or financial condition of the Issuer, political, economic, financial and any other factors that can affect the capital markets, the industry and the Issuer. Adverse economic developments could have a material adverse effect on the market value of the Notes.

4.3.3 An investment in the Notes is subject to interest rate risk

The Notes may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices. The Notes may be similarly affected resulting in a capital loss for the Noteholders. Conversely, when interest rates fall, bond prices and the prices at which the Notes trade may rise. The Noteholders may enjoy a capital gain but profit received may be reinvested for lower returns.

4.3.4 An investment in the Notes is subject to inflation risk

The Noteholders may suffer erosion on return of their investment due to inflation. The Noteholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Notes. An unexpected increase in inflation could reduce the actual return.

4.3.5 The Notes are unsecured obligations

Because the Notes are unsecured obligations, their repayment may be compromised if:

- the Bank enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Bank's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Bank's indebtedness.

If any of these events occurs, the Bank's assets may not be sufficient to pay amounts due on any of the Notes.

4.3.6 Rating

A rating is not a recommendation to purchase, hold or sell the Notes. There is no assurance that ratings, if any, will remain in effect for any given period of time or that ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. In the event that a rating initially assigned to the Notes is subsequently lowered or withdrawn for any reason whatsoever, no person or entity will be obliged to provide any additional credit enhancement with respect to the Notes. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Notes.

4.3.7 Suitability of investments

The Notes issued under the MTN Programme may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Information Memorandum;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency of payment is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

4.4 General Considerations

4.4.1 Change in law

The MTN Programme is based on Malaysian law, tax and administrative practice in effect at the date hereof. No assurance can be given that Malaysian law, tax or administrative practice will not change after the date hereof or that such change will not adversely impact the treatment of the Notes.

4.4.2 Withholding tax and gross up

Currently the interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax under the Korean tax laws. However, in the event that the Bank is required by law to make any withholding or deduction for or on account of any Korean taxes, the Bank has agreed to pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and interest/profit which would otherwise have been receivable in respect of the Notes in absence of such withholding or deduction. Please refer to Section 9.2 on "Korean Taxation" for brief description of the Korean taxation.

4.4.3 Forward looking statements

This Information Memorandum includes, and any accompanying information memorandum supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Information Memorandum and any information memorandum supplement regarding, among other things, the Issuer's business may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

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5 INFORMATION ON THE ISSUER

5.1 History and Development of the Bank

The Bank was incorporated in 1961 pursuant to the IBK Act by the Korean Government to provide development finance and related banking services to SMEs in Korea. Under the IBK Act, the Bank is treated as a special juridical entity and thus is not subject to certain laws regulating the banking activities of commercial banks.

Under the IBK Act, the Bank's primary purpose is to "promote independent economic activities of SMEs and to enhance their economic position in the Korean economy". The Bank's principal authority under the IBK Act has been to discount bills for, and make loans to, SMEs. Most of the Bank's activities have been carried out pursuant to this authority. In keeping with the Bank's public purpose and functions, once a SME customer reaches a certain level of growth in terms of number of employees and total assets, the Bank is generally not permitted to provide further financing. However, the Bank will provide a three-year grace period before terminating its lending activities to any SME that ceases to qualify as a SME and the Bank will honour the maturity dates of any of their existing financing obligations to it. In addition to the Bank's principal authority, the Bank also provides banking services to individuals and households and other non-SMEs, including lending, deposit taking, credit card issuance and servicing, trust account management, and research and advisory services.

In May 2003, the Korean Government proposed amendments to the IBK Act (the "**2003 Amendments**") in order to enable the Bank to compete more effectively with other commercial banks in the competitive market for lending to SMEs. The 2003 Amendments became effective on 11 December 2003. The 2003 Amendments include the repeal of Government approval requirements for the Bank to conduct the following activities:

(1) investment in the equity or debt securities of SMEs;
(2) use of surplus;
(3) borrowing of foreign capital; and
(4) setting of the budget for general and administrative expenditures other than labour costs.

In anticipation of the New Accord being implemented in 2008, in February 2005, the Bank made certain amendments to its Articles of Incorporation so as to allow it to raise different types of capital. The amendments to the Bank's Articles of Incorporation include the following:

(1) providing additional flexibility to the Bank to cope with changes in market conditions by allowing it to issue non-participating or cumulative preferred shares, in addition to previously permitted participating and non-cumulative preferred shares; and

(2) removing the maturity limitation (inclusive of any grace period) on its bonds of 15 years so as to allow the Bank to issue perpetual hybrid securities.

In June 2006, the Enforcement Decree of the IBK Act (the "**Decree**") was further amended to allow the Bank to increase its credits to non-SMEs. Pursuant to the amendments to the Decree, which became effective on 1 July 2006, the limit on the aggregate amount of the Bank's credits to non-SMEs increased from 20 per cent. to 30 per cent. of the Bank's deposits plus the outstanding amount of SMIF Bonds.

5.2 Relationship with the Government

5.2.1 Government Support

The Bank's operations are supported by the Korean Government pursuant to Articles 42 and 43 of the IBK Act. Article 42 provides that the Bank's annual profit, after adequate allowances are made for depreciation in assets, shall be applied each fiscal year as follows: (1) 25 per cent. or more of the net profits shall be transferred to the legal reserve until such reserve equals the Bank's paid-in capital; and (2) the net profits remaining after the transfer specified in (1) above shall be applied in accordance with resolutions of the Bank's Board; provided that if dividends are paid to the Bank's shareholders, shareholders other than the Government may be given priority.

Article 43 provides that "*the Bank shall cover any net loss incurred during a particular fiscal year with its reserves, and if the reserves are insufficient, the Government shall provide funds to cover the deficit*". As a result of the IBK Act, the Korean Government is generally responsible for the Bank's operations and is legally obligated to replenish any deficit that arises if the Bank's reserves are insufficient to cover any of its annual net losses. In light of this provision, if the Bank has insufficient funds to make payment under any of its obligations, the Government would take appropriate steps by contributing capital, allocating funds or by taking other appropriate action to enable the Bank to make such payment when due. By the terms of Article 43 and under Korean law, the Government's obligations thereunder are not dependent upon the Government owning at least 50 per cent. of the Bank's issued share capital. The provisions of Article 43 do not, however, constitute a direct guarantee by the Government of the Bank's obligations. Any amendment to the provisions of the IBK Act, including Article 43, would require legislative action by the National Assembly.

The Korean Government also provides direct and indirect financial support for the Bank's financing activities. The Government lends funds, including through BOK and other governmental entities, to the Bank for it to re-lend. Under the IBK Act, the Bank is the only financial institution in Korea that may borrow Government funds for the benefit of SMEs and issue the SMIF Bonds. In addition, the Bank has a low cost funding advantage over other banks due to BOK regulations that require all banks operating in Korea to extend to SMEs a certain minimum percentage of any monthly increase in their Won currency lending. Currently, this minimum percentage is 45 per cent. in the case of nation-wide banks, 60 per cent. in the case of regional banks and, subject to certain exceptions, 35 per cent. in the case of Korean branches of foreign banks. The purchase of debentures issued by the Bank is classified as loans to SMEs for regulatory calculation purposes. As a result, some financial institutions, in particular foreign banks and insurance companies, prefer to hold the Bank's debentures to meet such minimum loan exposure requirements with respect to SMEs. Under the IBK Act, the outstanding amount of SMIF Bonds and debentures may not exceed 20 times the sum of the Bank's paid-in capital and reserves.

The Korean Government's determination each fiscal year regarding the amount of financial support to extend to the Bank, in the form of loans, guarantees or contributions to capital, and the broad areas of the economy to which the Bank should lend, plays an important role in determining the Bank's own lending capacity and policy.

5.2.2 Government Ownership and Control

Until 1994, the Bank's entire issued share capital was held by the Korean Government. In 1994, the Bank issued new shares to the public and to the Bank's employees, which issuance then reduced the Government's share ownership to 64.5 per cent. Under the IBK Act, as amended effective December 1964, the Government was required to own at least 50 per cent. of the Bank's issued share capital. The IBK Act was amended effective November 1997 in order to permit the Bank to increase its management efficiency while pursuing its public function. Under the amendments (the "**1997 Amendments**"), the Government's minimum share ownership requirement was repealed to permit the Bank to increase its capital base. In addition (1) under the 1997 Amendments, the Bank's authorised share capital was increased from ₩1 trillion to ₩2 trillion and (2) in January 1998, the Bank's authorised share capital was increased from ₩2 trillion to ₩4 trillion effective 1 April 1998.

In September 2007, the MOFE released the "Restructuring Plan for Policy Banks", which described the desirable future for some policy banks including the Bank. Although such plan did not contain any specific details, the MOFE is expected to formulate a long-term master plan for the Bank's privatisation by the end of 2008. The Bank's privatisation is planned to be implemented in phases as Korean SMEs are still in need of policy financing support. The Bank also believes that it will continue to serve as one of the leading banks serving the public policy objectives of the Korean Government to promote the growth and development of SMEs in Korea.

Irrespective of the level of its ownership, the Korean Government, under the IBK Act, retains full control over the Bank's management, policies and operations. Under the IBK Act, the Government has the absolute right to appoint or remove the Bank's entire Board, including the chairman and chief executive officer. The Government also has the power to appoint or dismiss the Bank's statutory auditor who has the duty to oversee the Bank's operations and financial matters. The Bank's Articles of Incorporation may only be amended with the approval of the Minister of the MOFE.

In addition, by November of each year, the Bank is required to submit to the Minister for his approval for the Bank's proposed programme of operations for the following year. The Bank must also obtain the approval of the Minister for the Bank's Operations Manual, which sets forth guidelines on all of the Bank's principal operating matters.

The FSC has direct authority under the IBK Act to supervise the Bank in matters relating to the sound management of its assets. The Bank must also submit an annual report to the National Assembly and the Minister within four months after the end of each fiscal year outlining the Bank's operations and the Government's major financial policies toward SMEs and analysing the Bank's activities during such fiscal year. The Bank must also submit a settlement of accounts to the Minister within three months after the end of each fiscal year. Under the Inspection and Investigation of State Administration Act, the Bank is listed as an organisation subject to review and inspection by the National Assembly and, accordingly, the Bank's operations are reviewed and inspected in September of each year.

The Minister may require the Bank to report on such matters as are deemed necessary and may examine the Bank's books, records and other necessary documents. The Minister may issue to the Bank such orders concerning its business as he deems necessary for the enforcement of the IBK Act.

5.3 Share Capital

The authorised and issued and paid-up share capital of IBK as at 31 December 2007 are as follows:

Type	No. of shares	Par value (₩)	Total (₩ million)
Authorised Capital stock	800,000,000	5,000	4,000,000
Issued and paid-up Common shares Convertible preferred shares	 405,151,618 53,125,282	 5,000 5,000	 2,025,758 265,626

The Bank's common shares are currently listed on the Korea Exchange. In December 2003, the Bank delisted its common shares from the Korean Securities Dealers Automated Quotation market and conducted a public offering of common shares in Korea concurrent with a listing on the Korea Exchange. Global Depository Shares ("**GDS**"), which represent the Bank's 48 million common shares, were issued as a result of the disposal of the Bank's common shares by Korea Investment and Securities Co. Ltd. in the International offering in December 2003, and these GDSs are currently listed on the Luxembourg Stock Exchange.

5.4 Shareholders

As of 31 December 2007, the Bank's shareholders were as follows:

Shareholder	Common Stock		Preferred Stock		Total	
	No. of shares	%	No. of shares	%	No. of shares	%
Korean Government	233,734	57.69	-	-	233,734	51.00
KDB(1)	10,490	2.59	46,915	88.31	57,405	12.53
KEXIM(2)	8,501	2.10	6,210	11.69	14,711	3.21
Others	152,427	37.62			152,427	33.26
Total	**405,152**	**100.00**	**53,125**	**100.00**	**458,277**	**100.00**

(1) The Korean Government held a 100 per cent. equity interest in KDB as of 31 December 2007.

(2) MOFE held a 60.1 per cent. equity interest, BOK held a 35.2 per cent. equity interest and KDB held a 4.7 per cent. equity interest in KEXIM as of 31 December 2007.

Each share of the Bank's preferred stock may be converted into one share of the Bank's common stock at any time.

5.5 Management

The current members of the Bank's Board and the statutory auditor as of 29 February 2008 are as follows:

Name	Title
Yong-Ro Yun	Chairman & Chief Executive Officer
Kyung-Jun Lee	Director and Deputy Chief Executive Officer
Byung-Taek Hyun	Director and Head of Corporate Banking Division
Kyung-Lyoul Lee	Director and Head of Management Strategy Division
Joon-Hee Cho	Director and Head of Management Support Division
Yeong-Geun Han	Director, Head of Retail Banking Division and Head of Private Banking Business Unit
Tae Sohn	Director, Head of Treasury and Global Market Division
Lee, Doo-Ho	Outside Director
Chung, Kwang-Suon	Outside Director
Lee, Kyung-Hyung	Outside Director
Lee, Jae-Chul	Outside Director
Jong-Hoon Yun	Auditor

5.6 Domestic Banking and Other Activities

The Bank is a nation-wide provider of financial services to SMEs in Korea. Building upon the Bank's core competence in SME banking, the Bank has expanded its domestic operations to cover retail banking, credit card operations and trust account management, primarily by leveraging its extensive network of branches and by effectively marketing its electronic banking system.

SME Banking

SME banking has been and will remain the Bank's core business. The Bank provides a full range of banking services to SMEs, including extending loans and discounting bills, underwriting debt and equity securities issued by SMEs, issuing guarantees and acceptances and letters of credit, trade financing, foreign exchange services and payment remittances. According to a report by BOK, the Bank had a domestic market share of approximately 19.1 per cent. and 18.7 per cent. as of 31 December 2006 and 30 September 2007, respectively, in terms of loan volume with respect to SMEs. The Bank's total loan volume with respect to SMEs constitutes 81.4 per cent. and 82.3 per cent. of loans made from the Bank's bank accounts as of 31 December 2006 and 30 September 2007, respectively.

The Bank's principal loan products for its SME customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. Working capital loans generally have a maturity of one year, but may be extended at the option of the borrower on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of ten years. The Bank also offers an innovative banking product called "**Network Loan**", which is a loan secured by receivables under a sub-contract between SME and a large corporation. Once such a sub-contract is entered into, immediate funds equal to a discounted amount of the receivables will be available to the SME, alleviating its burden under a traditional deferred payment schedule for a sub-contract.

The Korean Government has in the past provided and may continue to provide policy loans which encourage lending by financial institutions to particular types of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that, in some cases, may lend to these sectors. Pursuant to such Government policies, the Bank has provided policy loans intended to promote technology development, component manufacturing, small enterprise formation, female entrepreneurship and productivity improvement.

The Bank also provides financial support to venture companies to encourage growth in Korea's venture sector. The term "venture company" means SMEs qualifying under certain criteria for designation as a venture company under the Act on Special Measures for the Promotion of Venture Businesses. Those criteria include size in terms of assets and number of employees as well as capability for innovation and various financial ratios as prescribed by presidential decree.

A developing area of the Bank's strategy for profit enhancement is to maintain the growth of its loan portfolio by focusing on new "small office/home office" customers (the "**SOHOs**"). As the economy improves, the Bank believes that the SOHO customer base has the potential to expand and provide the Bank with an increasing opportunity to enhance its profitability. Based on the Bank's accumulated experience with SMEs in general, the Bank is well positioned to understand the credit risks embedded in this market. In addition, the Bank has an unrivalled database of information regarding SMEs with which the Bank has been able to identify certain SOHOs as priority target customers. The Bank's marketing efforts are directed towards establishing a relationship with these potential customers.

The Bank also offers its SME customers several types of corporate deposit products. These products can be divided into two general categories: demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. The Bank also offers instalment deposits, certificates of deposit and repurchase instruments.

Retail Banking

Under the IBK Act, the Bank may discount bills for and make loans to non-SMEs, including individuals and households, insofar as such business does not obstruct the Bank's principal business of discounting bills for and making loans to SMEs but the credits to non-SMEs, in the aggregate, cannot exceed 30 per cent. of the Bank's deposits plus the outstanding amount of the SMIF Bonds (net of reserve requirements). As of 31 December 2006 and 30 September 2007, this ratio in respect of credits extended by the Bank to non-SMEs, which include individuals, large corporations and public entities, was 18.4 per cent. and 17.7 per cent., respectively.

The Bank believes that these amendments to the IBK Act have enabled it to attract more deposits from retail customers by increasing loans to individuals and households using its extensive network of branches. The Bank believes that the increase in the volume of its customer deposits enables the Bank to provide expanded and improved banking services to SMEs.

The Bank provides deposit, loan, money transfer and other services to retail customers, comprising individuals and households, and to other non-SMEs, which consist primarily of local governments and non-profit organisations. The Bank offers various forms of deposit accounts namely time deposits, demand deposits, savings deposits, instalment deposits and certificate of deposits, each targeting the needs of customers with varying financial profiles.

Credit Cards

The Bank is a member of BC Card Co., Ltd. ("**BC Card**") which was established in 1982 by five nation-wide banks and is currently owned by ten member banks and one credit card company. BC Card issues credit cards under the names of its members, substantially all of which are licenced to use MasterCard, Visa or the Japan Credit Bureau ("**JCB**"). The Bank uses these brands through a fee-based system and, as a result, the Bank's customers are able to use their cards outside of Korea. BC Card provides a number of services for the Bank's card operations including issuing cards and providing billing services. The Bank plans to remain in the BC Card consortium. As of 31 December 2006 and 30 September 2007, the Bank owned 4.95 per cent. and 4.95 per cent., respectively of BC Card.

As of 31 December 2006 and 30 September 2007, the Bank had approximately 3.8 million and 4.3 million cardholders, respectively. The Korean market share for BC Card issued on the Bank's behalf with respect to credit card transaction volumes increased to 4.4 per cent. as of 30 September 2007 from 3.9 per cent. as of 31 December 2006.

In contrast to the system in the United States and many other countries, where credit cards are revolving cards that allow outstanding amounts to be rolled over as long as a required minimum percentage is repaid, credit card holders in Korea are required to pay the entire amount of their purchases within 23 to 57 days after the date of purchase depending on their payment cycle. Except in the case of instalment purchases and revolving payments, accounts that remain unpaid after this period are deemed to be delinquent. This reflects standards generally present in the Korean credit card industry. A cardholder's overdue balance is generally written off by the Bank after six months.

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. The Bank periodically extends certain of its overdue credit card balances and recharacterises them as loans, which the Bank calls "re-aged loans." In line with industry practice, the Bank has also restructured a portion of its delinquent credit card account balances as loans commencing in 2002.

The terms of the restructured loans usually require the payment of approximately 10 per cent. to 20 per cent. of the outstanding balance as a down payment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in instalments over terms ranging from three months to 60 months.

Trust Account Management

The Bank provides trust account management services in respect of assets deposited in trust by its customers. The Bank's trust account business is not subject to the IBK Act or the Decree and is governed by the Trust Act and the Trust Business Act of Korea, as is the case with commercial banks in Korea. Most Korean commercial banks generally offer similar trust account products.

In 2004, the Indirect Investment Asset Management Business Act (the "**IIAMB Act**") took effect and is applicable to trust account products under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act and securities investment companies under the Securities Investment Company Act. The IIAMB Act prohibits banks, including the Bank, from offering current trust account products (other than retirement money trust, pension trust and specified money trust products). In response to this legislation, the Bank established IBK SG Asset Management Co., Ltd., a joint venture with Societe Generale Asset Management S.A. to offer various trust account products.

With respect to investment trust products, these will need to be established pursuant to a trust deed entered into between an asset management company and a trustee and will have to be sold through a distributor. The assets in such investment trust may only be invested in certain permitted investment categories for the relevant investment vehicle. However, for the purposes of facilitating repurchases of indirect investment securities and effective investment of idle money, certain portions of the investment trust asset may be deposited with financial institutions or may be invested through advancement of call loans. Accordingly, the Bank is prohibited from lending the assets of the investment trust (other than call loans) as a result of the IIAMB Act.

Under Korean law, assets accepted in trust by a bank are segregated from other assets of the bank and are not available to satisfy the claims of the depositors of the bank accounts or other creditors of the bank. Accordingly, in the Bank's financial statements, trust accounts are accounted for and reported separately from its bank accounts. Trust accounts that guarantee principal and/or a fixed rate of interest are included in its consolidated financial statements. However, the Bank does not consolidate performance trusts on which it does not guarantee principal or interest since the assets invested are not the Bank's assets but customer assets and the customers bear the risk of loss.

Trust funds managed by the Bank consist primarily of money trusts. Except for specified money trusts, the Bank has investment discretion over all money trusts, which are pooled and managed jointly for each type of trust. Specified money trusts are established on behalf of customers, typically corporations, which give specific directions to the Bank as to the investment of trust assets.

The Bank's trust account customers typically are individuals seeking higher rates of return than those offered by bank account deposit products. Because there are fewer regulatory restrictions on trust accounts than on bank account deposits, including no deposit reserve requirements, the Bank has historically been able to offer higher rates of return on trust account deposits than on bank account deposits. Trust accounts, however, generally require higher minimum deposit amounts and longer deposit periods compared with comparable bank account deposit products.

The money trusts managed by the Bank are generally trusts with a fixed life, which allow investors to share in the performance of the investments of the trust in proportion to the amount of their investments in the trust. Under the IIAMB Act, the Bank is prohibited from offering any new money trust account products (other than specified money trust and pension trust products). Therefore, the Bank intends to maintain the current outstanding balance of its current trust account products until these products mature.

As permitted by Korean trust law, the Bank has established a reserve for future trust losses in respect of principal- and interest-guaranteed trusts and principal-guaranteed trusts. If income from a trust account in respect of which the Bank guarantees principal and/or a fixed rate of interest is insufficient to pay the guaranteed amount, such deficiency may be satisfied first from such reserve and then from funds transferred from the Bank's bank accounts. In addition, the Bank has also established a special reserve for unspecified money trusts.

The Bank also offers asset trust services and currently acts as a trustee for various investment trusts, which are entities established by investment trust management companies to invest in securities using funds raised by the sale of beneficial certificates in such trust to investors.

Bancassurance

The term "bancassurance" generally refers to the marketing and sale by commercial banks of insurance products manufactured by them directly or by third-party insurance companies. The Bank currently offers a wide range of bancassurance products. The Bank has formed strategic alliances with 23 insurance companies.

The Bank's domestic market share, in terms of total fee revenue, was 12.2 per cent. in 2005, 13.9 per cent. in 2006 and 15.4 per cent. for the nine months ended 30 September 2007, which ranks fourth amongst its competitors.

The Bank plans to offer a range of bancassurance products, including additional specialised and exclusive bancassurance products. From April 2005, the Bank is permitted to offer non-savings linked casualty insurance policies under the life insurance coverages, and is permitted to offer long term non-savings-linked casualty and health insurance policies under the non-life insurance coverages. Pursuant to the Insurance Business Law from April 2008, banks in Korea, including the Bank, will be allowed to offer a wider range of bancassurance products, including car insurance and a wider range of non-savings-linked insurance policies.

International Banking

The Bank expanded into international banking in 1967 and currently provide a full range of international banking services, targeting primarily SMEs. The units responsible for conducting international banking activities are the International Finance and Trade Department, the Trading Department, the Investment Banking Division and the 511 domestic branches and 39 depositary offices as of 30 September 2007, which offer banking services for a range of international transactions.

The International Finance and Trade Department overseas international money transfers, trade services, international funding, foreign currency deposits/loans, correspondent banking, overseas branch management and comprehensive trade advisory services.

The Trading Department handles derivatives trading, such as foreign exchange forward trading for its clients' trading books as well as its own book. The Bank believes that it has competitive derivatives engineering capabilities, with the ability to offer structured products tailored to meet the diverse needs of clients. The Bank hedges its exposure on transactions with its clients on a book basis.

The Investment Banking Division participates in various financial transactions, including, among others, issue of asset-backed securities, mergers and acquisitions, establishment and operation of private equity funds, international investments, venture financing and project financing.

The Bank has nine overseas branches in New York, Tokyo, Hong Kong, Tianjin, Qingdao, Shenyang, Yantai, Suzhou and London and a representative office in Ho Chi Minh City. The primary activities of the Bank's overseas branches are to support the overseas trading and investment activities of SMEs, many of which are relocating parts of their operations to China, and to manage correspondent banking relationships with foreign banks. The Bank plans to further expand its international presence and is currently exploring business opportunities in Asia Pacific region.

5.7 Subsidiaries and Other Related Companies

The table below sets forth details of the Bank's securities using the equity method as of 30 September 2007 (Unit: Won in millions, Shares in thousands)

	No of Shares	Percentage of ownership (%)	Acquisition cost (₩)	Net asset or fair value (₩)	Book value (₩)
Stocks					
IBK Capital Corporation	12,999	99.31	64,997	193,987	194,448
IBK SG Asset Management Co., Ltd.[1]	2,000	50.00	10,000	11,092	11,092
IBK System Co., Ltd	3,449	55.63	1,725	6,328	6,242
IBK Credit Information Corp	600	100.00	3,000	7,887	7,887
Maea Food Co, Ltd[2]	63	24.00	1,200	748	1,200
Equity securities					
KTTC Hansol Technology[3]	0.20	20.00	2,000	1,441	2,000
Kieun Material Special Investment Association	0.50	33.33	5,000	5,373	5,373
MIC2002-3 Kieun IT Special Investment Association	0.20	16.00	2,000	2,471	2,471
IBKC Start-up Fund No. 1	0.03	23.08	3,000	3,027	3,027
IBK-KTB Private Equity Fund No. 1	-	25.00	25,820	27,258	27,258
IBK-KTAC Private Equity Fund No. 1	2.366	50.98	23,660	27,362	27,362
IBK-KTAC Private Equity Fund No. 2	0.48	54.55	4,800	4,782	4,782
IBK Private Equity Fund No. 3	2.640	88.89	26,400	29,584	29,584
IBK-SKS Private Equity Fund No. 1	1.594	50.25	9,191	9,007	9,007
IBK-SKS Private Equity Fund No. 2	0.68	43.86	6,750	6,719	6,719
Kieun-Venex Munwha Contents Partnership[2]	0.25	25.00	2,500	2,516	2,516

Notes:

(1) IBK SG Asset Management Co., Ltd. was established through a 50 : 50 joint investment between the Bank and Societe Generale Group on 26 October 2004.

(2) These were recorded at acquisition cost because the changes in the net assets were not material to the Bank.

(3) Recorded at acquisition cost because the Bank, as a member of a limited liability association, is not able to exercise significant influence.

5.8 Information Technology

The Bank has a fully integrated IT system that provides information to all offices and branches. Currently, the Bank's head office functions as a back-up centre on a real-time basis. Through the implementation of a new multi-host information system, the Bank believes that it is able to conduct its operations without material interruption in the event of an internal system failure. The integrity of the Bank's electronic systems, and their ability to withstand potential catastrophic events (such as natural calamities and internal system failures), is crucial to the Bank's continuing operations. In the event of a system failure, the Bank's disaster recovery system is designed to prioritise the recovery process by first re-establishing the Bank's account information, followed by non-account-related information and lastly non-critical information.

In September 2004, the Bank launched a new IT infrastructure, Next Generation System (the "**NGS**"). The NGS is a state-of-the art technological platform that incorporates certain innovative features, including:

- 24-hour operation system which enables the Bank to provide non-stop banking service.

- complete information integration and management system for each customer which accumulates and analyses transactional data on a real time basis, thereby promoting one-on-one marketing and personalised product development.

- innovative system integration of product components which provides the Bank the flexibility to create a new product in a shorter period.

- user-friendly web-terminal system with simple control manuals and easy access to a wide range of information.

- increased simplification and automation of business processes.

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6 FINANCIAL INFORMATION

6.1 Key Financial Highlights

Set out below is a summary of the key financial highlights of IBK for the financial years ended 31 December 2005 and 31 December 2006, and for the nine months ended 30 September 2007, which were extracted from the audited non-consolidated financial statements for the financial years ended 31 December 2005 and 31 December 2006, and the unaudited but reviewed non-consolidated financial statements for the nine months ended 30 September 2007, respectively:

	For the year ended and as of 31 December		For the period ended and as of 30 September
	(in billions of Won, except ratios)		
	2005	**2006**	**2007**
Income Statement Data			
Interest income	4,479	5,559	5,004
Interest expense	2,160	3,029	2,922
Net interest income	2,319	2,530	2,082
Non-interest income	2,186	2,672	2,482
Non-interest expense	3,447	3,761	3,109
Net non-interest expense	(1,261)	(1,089)	(627)
Income before income tax	1,058	1,441	1,455
Income tax expense	279	388	392
Net income	779	1,053	1,063
Balance Sheet			
Cash and due from banks	2,282	2,369	3,264
Securities	15,069	18,900	19,746
Loans	64,358	77,997	88,504
Total assets	85,364	103,436	117,970
Deposits	40,117	37,005	36,196
Borrowings	36,742	55,463	67,517
Total liabilities	80,607	97,538	111,413
Total shareholders' equity	4,757	5,897	6,557
Other Data			
Return on average assets	0.99%	1.10%	1.28%
Return on average equity	17.79	19.62	22.63
Cost-to-income ratio	37.76	36.87	33.63
Cost-to average-assets ratio	1.24	1.13	1.13
Net interest margin	2.97	2.66	2.52
Tier I capital adequacy ratio	8.10	8.37	8.62
Tier II capital adequacy ratio	3.01	3.33	2.74
Total risk-based capital adequacy ratio	11.11	11.70	11.36
Total shares outstanding (end of period)			
Common shares	405,151,618	405,151,618	405,151,618
Convertible preferred shares	53,125,315	53,125,315	53,125,282

Notes:

"Non-interest income" includes commissions, other operating income and non-operating income.

The method for valuing "securities" used by Korean banks for financial statement purposes has changed several times in recent year. Includes trading securities, available-for-sale securities, held-to-maturity securities and securities using the equity method of accounting.

"Loans" comprises loans (including bills purchased, privately placed bonds, credit card accounts, call loans, advances for customers, domestic import usance bills and securities bought under resale agreements) net of allowance for loan losses and present value discounts.

"Return on average assets" is computed by dividing net income by average total assets, calculated on the basis of daily balances, for the period.

"Return on average equity" is computed by dividing net income by average total equity, calculated on the basis of daily balances, for the period.

"Cost-to-income ratio" is computed by dividing general and administrative expenses by pre-provision net operating income (excluding provisions for loan losses and administrative expenses).

"Cost-to-average-assets ratio" is computed by dividing general administrative expenses by average assets.

"Net interest margin" is computed under the FSC guidelines by dividing net interest income (plus cash advance fees) by average interest earning assets (including credit card cash advances), calculated on the basis of daily balances, for the period. The calculations pursuant to the FSC guidelines include adjustments for credit card loans and cash advances but exclude reserve deposits with BOK.

The Bank's capital adequacy ratios are computed in accordance with the guidelines issued by the FSC.

6.2 Capitalisation and Indebtedness

The following table sets out the Bank's non-consolidated capitalisation and indebtedness as at 30 September 2007, and has been extracted from the unaudited but reviewed non-consolidated financial statements of the Bank as at 30 September 2007:

	As at 30 September 2007 (billions of Won)
Short-term debt	43,737
Long-term debt[1]	
Borrowings in local currency	9,093
Borrowings in foreign currency	1
Borrowings from Industry Foundation Fund	18
Small and Medium Industry Finance Bonds[2]	12,596
Finance debentures issued in foreign currency	2,072
Total long-term debt (A)[1]	23,780
Stockholders' equity	
Common stock[3]	2,026
Preferred stock	265
Capital surplus	7
Legal reserve	877
Other legal reserve	1,880
Unappropriated retained earnings	1,063
Capital adjustment	(1)
Accumulated other comprehensive income	440
Total stockholders' equity (B)	6,557
Total Capitalisation (A+B)[4]	30,337

Notes:

(1) For the purpose of the above table, long-term debt means debt with an original maturity of one or more years, net of current portion.

(2) After deducting discounts on debentures.

(3) Authorised: 800 million shares, par value ₩5,000, issued and outstanding: 405 million common shares and 53 million convertible preferred shares.

(4) Save for the information given at Notes (1) and (3) above, all borrowings of the Bank are unsecured and unguaranteed.

6.3 Asset Quality

6.3.1 Loan Portfolio

Although the Korean Government broadly supervises the Bank's lending operations, the Bank has the autonomy to determine specific credit policies. From time to time in providing financial support to the Bank, the Government may specify areas of the economy in which the Bank should focus its lending activities. The Bank may provide lending to these specified areas at below market interest rates. In the case of borrowers with weaker credit, the Bank will receive guarantees from certain government-related entities or third party credit guarantee institutions. In most circumstances of policy lending, the government provides preferential funding to the Bank.

The Bank provides loans (including in the form of purchases of bills and privately placed bonds, and call loans) primarily to domestic SMEs in a wide range of industries, as well as to customers (including in the form of credit card accounts). As of 31 December 2006, loans denominated in the Korean Won amounted to ₩70,116 billion, representing 88.8 per cent. of total credits. As of 30 September 2007, loans denominated in the Korean Won amounted to ₩80,070 billion, representing 89.2 per cent. of total credits.

The following table summarises the composition of the Bank's total credit portfolio according to type of loan as of the dates indicated:

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(in billions of Won, except percentages)	As of 31 December				As of 30 September	
	2005		2006		2007	
	Amount	% of total	Amount	% of total	Amount	% of total
Loans in Won	57,029	87.4	70,116	88.8	80,070	89.2
Loans to SMEs	46,686	71.5	56,741	71.8	65,517	73.0
Loans to large corporation	410	0.6	329	0.4	302	0.3
Loans to households	9,717	14.9	12,768	16.2	13,979	15.6
Loans to public and others	216	0.4	278	0.4	272	0.3
Loans in foreign currencies	3,088	4.7	3,565	4.5	3,703	4.1
Bills purchased in Won	53	0.1	51	0.1	35	0.0
Bills purchase in foreign currencies	840	1.3	782	1.0	766	0.9
Domestic import usance bills	773	1.2	914	1.2	1,100	1.2
Advances for customers	13	IM(2)	10	0.0	12	0.0
Factoring receivables	3	IM(2)	3	0.0	0	0.0
Credit card accounts	1,693	2.6	2,114	2.7	2,111	2.4
Call loans	740	1.1	479	0.6	655	0.7
Privately placed bonds	27	0.1	33	0.0	40	0.0
Inter-bank loans	1,011	1.5	915	1.1	1,078	1.2
Bonds purchased under resale agreements	0	0.0	0	0.0	163	0.2
Loans to be converted into equity	0	0.0	0	0.0	0	0.0
Total credits (1)	65,270	100.0	78,982	100.0	89,733	100.0

Notes:

(1) Prior to deducting allowance for loan losses and present value discounts and deferred loan origination fees.

(2) IM means immaterial.

As of 31 December 2006, loans extended to SMEs amounted to ₩56,741 billion, or 80.9 per cent. of total loans in Won. Of the total loans to enterprises, working capital loans accounted for 74.8 per cent. and facility loans comprised 25.2 per cent. As of 30 September 2007, loans extended to SMEs amounted to ₩65,517 billion, or 81.8 per cent. of total loans in Won. Of the total loans to enterprises, working capital loans accounted for 72.9 per cent. and facility loans comprised 27.0 per cent. Facility loans generally have maturities of three to 15 years, while working capital loans typically have maturities of one year, and extended up to five years on an annual basis.

Loan Concentration by Industrial Sector

The Bank's corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the manufacturing sector, which accounted for 52.4 per cent and 52.8 per cent. as of 31 December 2006 and 30 September 2007, respectively. However, within this broad category, loans are well diversified into a wide range of manufacturing sub-sectors.

The following table sets forth the composition of the Bank's Won and foreign currency loan portfolio according to the industrial sector in which the borrower operates as of the dates indicated.

	As of 31 December				**As of 30 September**	
	2005		**2006**		**2007**	
(in billions of Won, except percentages)	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
Manufacturing	32,548	54.1	38,613	52.4	44,194	52.8
Textile	2,588	4.3	2,432	3.3	2,429	2.9
Apparel and leather	959	1.6	755	1.0	1,184	1.4
Chemical products	1,736	2.9	2,099	2.8	2,413	2.9
Rubber and plastic products	2,757	4.6	3,125	4.2	3,577	4.3
Basic metals	2,017	3.4	2,312	3.1	2,807	3.4
Fabricated metal products	3,673	6.1	4,725	6.4	5,635	6.7
Other machinery	5,148	8.5	6,678	9.1	7,679	9.2
Electrical machinery	1,477	2.5	1,787	2.4	2,038	2.4
Communications equipment	2,654	4.4	3,149	4.3	3,533	4.2
Automobiles	2,611	4.3	3,039	4.1	3,456	4.1
Others	6,929	11.5	8,513	11.6	9,443	11.3
Construction	2,674	4.4	3,960	5.4	4,984	5.9
Wholesale, retail and repair of customer goods	7,747	12.9	9,469	12.9	10,638	12.7
Finance and insurance	388	0.7	211	0.3	110	0.1
Transportation, storage and communication	753	1.3	880	1.2	1,091	1.3
Real estate, renting and business service	3,004	5.0	3,657	5.0	4,359	5.2
Food and accommodations	568	1.0	600	0.8	638	0.8
Hygiene and social welfare	1,135	1.9	1,669	2.3	1,852	2.2
Public and personal service	713	1.2	797	1.1	831	1.0
Loans to households	9,743	16.2	12,795	17.4	14,022	16.7
Others	844	1.4	1,030	1.4	1,054	1.3
Total credits	**60,117**	**100.0**	**73,681**	**100.0**	**83,772**	**100.0**

6.3.2 Loan Analysis

Maturity Profile

As of 31 December 2006 and 30 September 2007, ₩52,552 billion and ₩58,159 billion, or 66.5 per cent. and 64.9 per cent. of the Bank's total loan portfolio, respectively, had a remaining maturity of less than one year. The following table is a summary of the Bank's total credits by remaining maturity as of the year ends indicated:

(in billions of Won, except percentages)	As of 31 December				As of 30 September	
	2005		2006		2007	
	Amount	% of total	Amount	% of total	Amount	% of total
Less than 3 months	14,216	21.8	14,832	18.8	16,014	17.9
Less than 6 months	12,878	19.7	15,111	19.1	13,189	14.7
Less than 1 year	19,586	30.0	22,609	28.6	28,956	32.3
Less than 3 years	8,485	13.0	12,355	15.6	14,538	16.2
More than 3 years	10,105	15.5	14,075	17.9	16,838	18.8
Total	**65,270**	**100.0**	**78,982**	**100.0**	**89,535**	**100.0**

(1) Prior to deducting allowance for loan losses and present value discounts

(2) Includes loans in foreign currencies, bills purchased in foreign currencies, domestic import usance bills, call loans in foreign currencies, advances for customers in foreign currencies and interbank loans in foreign currencies.

Interest Rates

Virtually all of the outstanding loans as of 30 September 2007 were at variable rates of interest, which are periodically adjusted. The Bank determines the annual interest rate with respect to companies taking into account their expected bankruptcy rate and the expected recovery rate of the underlying collateral. In the case of loans funded by the Korean Government or governmental agencies, annual interest rates typically vary between 2.0 per cent. to 5.9 per cent.

The interest rates on foreign currency loans were generally determined by reference to the London Inter-Bank Offered Rate, or LIBOR. Beginning in August 2006, the Bank implemented a benchmark lending rate linked to Korea Inter-Bank Offered Rate, or KORIBOR, in general, for its new Won loans to gradually replace the interest rate for 91-day negotiable certificates of deposit.

Collateral and Guarantees

As of 31 December 2006, 63.2 per cent. of the Bank's domestic loans, which amounted to ₩46,216 billion, were secured either by collateral or guarantees. ₩33,947 billion of domestic loans, or 46.3 per cent., was secured by land, buildings, and other assets, and ₩12,269 billion of domestic loans or 16.7 per cent. was secured by guarantees. On 30 September 2007, 62.8 per cent. of the Bank's domestic loans, which amounted to ₩52,096 billion, were secured either by collateral or guarantees. ₩39,115 billion of domestic loans, or 47.2 per cent., was secured by land, buildings, and other assets, and ₩12,981 billion of domestic loans or 15.6 per cent. was secured by guarantees. Assets taken as collateral for secured loans, which consist primarily of developed real estate, are generally subject to appraisal and loan-to-value limits. The Bank's loan-to-value limit ranges between 40.0 per cent. and 100.0 per cent. depending on the type and location of collateral, and credit rating of borrowers.

The following table shows the distribution of the Bank's total domestic loans by type of security as of the dates indicated:

(in billions of Won, except percentages)	As of 31 December				As of 30 September	
	2005		2006		2007	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
Secured by collateral	24,579	41.1	33,947	46.3	39,115	47.2
Secured by guarantees (1)	12,256	20.5	12,269	16.7	12,981	15.6
Unsecured loans	22,952	38.4	27,142	37.0	30,859	37.2
Total (2)	**59,787**	**100.0**	**73,358**	**100.0**	**82,955**	**100.0**

(1) Includes guarantees from the Korea Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund.

(2) Includes Won currency loans, credit card loans and foreign currency loans (excluding offshore loans and loans extended from overseas branches) but excludes policy loans extended from Japan Bank for International Cooperation Policy Fund loans.

6.3.3 Credit Policies and Approval Procedure

The Bank's credit policies have been developed from its own prudential policies and its banking experience with SMEs since 1961. The Bank's credit policies are formulated by the Bank's Board. The Bank's principal strategy has been to reduce credit risk through a thorough credit analysis of loan applicants, strict adherence to the Bank's credit evaluation and approval procedures, and a diversified and balanced loan portfolio.

All loan applicants and guarantors are subject to credit review except Governmental entities and applicants with loans fully secured by deposits with the Bank. The credit review process includes an interview with the applicant, a review of the business, its prospects and debt servicing capacity, an assessment of the applicant's past history with the Bank and a detailed credit analysis. The credit analysis includes due diligence investigations, searches of bankruptcy or other court records and a "credit score" based on the one of the Bank's credit rating models. The Bank uses different credit rating models depending on the borrower and type of credit extended. As part of the credit investigation process, the Bank also conducts an appraisal of the value of any collateral being provided.

The following table sets forth the Bank's loan decision procedure in respect of companies audited by independent auditors and companies that are not audited by independent auditors:

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1. Companies audited by independent auditors:

	Credit Category	Type of Loan	Loan Approval Body and Amounts Senior Credit Committee	Credit Committee	Credit Team of the Credit Department	Branch Manager
1.	AAA + through AA	Unsecured	Over ₩10 billion	-	-	Less than or equal to ₩10 billion
		Secured	Over ₩12 billion	-	-	Less than or equal to ₩12 billion
2.	AA- through A	Unsecured	Over ₩8 billion	-	-	Less than or equal to ₩8 billion
		Secured	Over ₩12 billion	-	-	Less than or equal to ₩12 billion
3.	A- through BBB+	Unsecured	Over ₩7 billion	-	-	Less than or equal to ₩7 billion
		Secured	Over ₩10 billion	-	-	Less than or equal to ₩10 billion
4.	BBB	Unsecured	Over ₩6 billion	Less than or equal to ₩6 billion	-	Less than or equal to ₩3 billion
		Secured	Over ₩10 billion	Less than or equal to ₩10 billion	-	Less than or equal to ₩9 billion
5.	BB+	Unsecured	Over ₩4 billion	Less than or equal to ₩4 billion	Less than or equal to ₩3 billion	Less than or equal to ₩2 billion
		Secured	Over ₩10 billion	Less than or equal to ₩10 billion	Less than or equal to ₩9 billion	Less than or equal to ₩8 billion
6.	BB	Unsecured	Over ₩4 billion	Less than or equal to ₩4 billion	Less than or equal to ₩2 billion	Less than or equal to ₩0.4 billion
		Secured	Over ₩10 billion	Less than or equal to ₩10 billion	Less than or equal to ₩7 billion	Less than or equal to ₩5 billion
7.	B- through B	Unsecured	Over ₩4 billion	Less than or equal to ₩4 billion	Less than or equal to ₩2 billion	Less than or equal to ₩0.1 billion
		Secured	Over ₩10 billion	Less than or equal to ₩10 billion	Less than or equal to ₩7 billion	Less than or equal to ₩4 billion
8.	(no rating)	Unsecured	Over ₩3 billion	Less than or equal to ₩3 billion	Less than or equal to ₩1 billion	Less than or equal to ₩0.05 billion
		Secured	Over ₩8 billion	Less than or equal to ₩3 billion	Less than or equal to ₩5 billion	Less than or equal to ₩3 billion
9.	CCC+	Unsecured	Over ₩3 billion	Less than or equal to ₩3 billion	Less than or equal to ₩1 billion	Less than or equal to ₩0.02 billion
		Secured	Over ₩8 billion	Less than or equal to ₩3 billion	Less than or equal to ₩5 billion	Less than or equal to ₩2 billion
10.	CCC and below	Unsecured	Over ₩3 billion	Less than or equal to ₩3 billion	Less than or equal to ₩1 billion	-
		Secured	Over ₩8 billion	Less than or equal to ₩3 billion	Less than or equal to ₩5 billion	-

Credit analysis is generally performed by a Credit Analysis Team at the Bank's headquarters or branches depending upon the size of the loan being considered. Loan approval authority is held by a senior credit committee, credit committee, credit team of the credit department or the general manager of the branch, again depending upon the size of the loan being considered.

2. Companies not audited by independent auditors:

		Loan Approval Body and Amounts				
Credit Category	**Type of Loan**	**Senior Credit Committee**	**Credit Committee**	**Credit Team of the Credit Department**	**Branch Loan Committee**	**Branch Manager**
1. AAA + through AA	Unsecured	Over ₩6 billion	-	-	Less than or equal to ₩6 billion	Less than or equal to ₩6 billion
	Secured	Over ₩12 billion	-	-	Less than or equal to ₩12 billion	Less than or equal to ₩12 billion
2. AA- through A	Unsecured	Over ₩6 billion	Less than or equal to ₩6 billion	-	Less than or equal to ₩5 billion	Less than or equal to ₩8 billion
	Secured	Over ₩12 billion	Less than or equal to ₩12 billion	-	Less than or equal to ₩12 billion	Less than or equal to ₩12 billion
3. A- through BBB+	Unsecured	Over ₩6 billion	Less than or equal to ₩6 billion	-	Less than or equal to ₩4 billion	Less than or equal to ₩3 billion
	Secured	Over ₩10 billion	Less than or equal to ₩10 billion	-	Less than or equal to ₩10 billion	Less than or equal to ₩9 billion
4. BBB	Unsecured	Over ₩6 billion	Less than or equal to ₩6 billion	-	Less than or equal to ₩3 billion	Less than or equal to ₩2 billion
	Secured	Over ₩10 billion	Less than or equal to ₩10 billion	-	Less than or equal to ₩9 billion	Less than or equal to ₩8 billion
5. BB+	Unsecured	Over ₩4 billion	Less than or equal to ₩4 billion	Less than or equal to ₩3 billion	Less than or equal to ₩5 billion	Less than or equal to ₩1 billion
	Secured	Over ₩10 billion	Less than or equal to ₩10 billion	Less than or equal to ₩9 billion	Less than or equal to ₩8 billion	Less than or equal to ₩7 billion
6. BB	Unsecured	Over ₩4 billion	Less than or equal to ₩4 billion	Less than or equal to ₩2 billion	Less than or equal to ₩0.2 billion	Less than or equal to ₩0.2 billion
	Secured	Over ₩10 billion	Less than or equal to ₩10 billion	Less than or equal to ₩7 billion	Less than or equal to ₩5 billion	Less than or equal to ₩5 billion
7. B- through B	Unsecured	Over ₩4 billion	Less than or equal to ₩4 billion	Less than or equal to ₩2 billion	Less than or equal to ₩0.1 billion	Less than or equal to ₩0.1 billion
	Secured	Over ₩10 billion	Less than or equal to ₩10 billion	Less than or equal to ₩7 billion	Less than or equal to ₩4 billion	Less than or equal to ₩4 billion
8. (no rating)	Unsecured	Over ₩3 billion	Less than or equal to ₩3 billion	Less than or equal to ₩1 billion	Less than or equal to ₩0.05 billion	Less than or equal to ₩0.05 billion
	Secured	Over ₩8 billion	Less than or equal to ₩8 billion	Less than or equal to ₩5 billion	Less than or equal to ₩3 billion	Less than or equal to ₩3 billion
9. CCC+	Unsecured	Over ₩3 billion	Less than or equal to ₩3 billion	Less than or equal to ₩1 billion	Less than or equal to ₩0.02 billion	Less than or equal to ₩0.02 billion
	Secured	Over ₩8 billion	Less than or equal to ₩8 billion	Less than or equal to ₩5 billion	Less than or equal to ₩2 billion	Less than or equal to ₩2 billion
10. CCC and below	Unsecured	Over ₩3 billion	Less than or equal to ₩3 billion	Less than or equal to ₩1 billion	-	-
	Secured	Over ₩8 billion	Less than or equal to ₩8 billion	Less than or equal to ₩5 billion	-	-

Credit analysis is generally performed by a Credit Analysis Team at the Bank's headquarters or branches depending upon the size of the loan being considered. Loan approval authority is held by a senior credit committee, credit committee, credit team of the credit department or the general manager of the branch, again depending upon the size of the loan being considered.

6.3.4 Securities Investment

The Bank invests in and trades Won and foreign currency securities for its own account, for purposes of maintaining the stability and diversification of its asset base and adequate sources of back-up liquidity, as well as generating additional interest and dividend income and capital gains to supplement income from the Bank's core lending activities.

For accounting purposes, securities held by the Bank are required to be classified as trading securities, available-for-sale securities or held-to-maturity securities. The applicable valuation method differs for trading and investment securities (which consist of available-for-sale securities and held-to-maturity securities) and for different types of equity and debt securities included in each such classification.

As of 31 December 2006, the Bank's total securities portfolio had a stated value of ₩18,900 billion, representing 18.3 per cent. of its total assets. As of 30 September 2007, the Bank's total securities portfolio had a stated value of ₩19,746 billion, representing 16.7 per cent. of its total assets. The Bank's investment securities portfolio consist primarily of debt securities issued or guaranteed by the Korean Government (including Monetary Stabilisation Bonds), municipal debt securities and debt securities and shares issued by Korean and foreign companies. Monetary Stabilisation Bonds are securities issued by the Korean Government as part of its strategy to control the money supply in Korea. The book value of the Bank's shares in subsidiaries and affiliates calculated using the equity method, including IBK Capital Corporation, IBK System Co., Ltd. and IBK Credit Information Corp., as of 31 December 2006 and 30 September 2007 was ₩251 billion and ₩341 billion, respectively.

The following table sets forth the book value of the Bank's securities as of the dates indicated:

	As of 31 December				**As of 30 September**	
	2005		**2006**		**2007**	
(in billions of Won)	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
Trading securities	909	6.0	927	4.9	1,244	6.3
Available-for-sale securities	9,234	61.3	11,506	60.9	10,624	53.8
Held-to-maturity securities	4,753	31.5	6,215	32.9	7,536	38.2
Securities accounted for using equity method of accounting	173	1.2	251	1.3	341	1.7
Total	**15,069**	**100.0**	**18,899**	**100.0**	**19,746**	**100.0**

The net unrealised gain or loss on the valuation of available-for-sale securities is presented as gain or loss, as the case may be, on valuation of available-for-sale securities in accumulated other comprehensive incomes. Accumulated other comprehensive incomes for gains on valuation of the Bank's available-for-sale securities amounted to ₩320 billion, ₩591 billion and ₩440 billion as of 31 December 2005 and 2006 and 30 September 2007, respectively.

In making securities investments, the Bank's principal objectives are to maintain the stability of its assets and obtain consistent, stable returns on its investment. The Bank takes into account a number of factors, including macroeconomic trends, industrial analysis and credit evaluation.

Under the IBK Act, the Bank may subscribe or underwrite equity securities or bonds issued by SMEs or guarantee bonds issued by SMEs; provided, however, that the amount of equity securities underwritten by the Bank shall not exceed its paid-in capital.

In addition, under the IBK Act and the Decree, the Bank may not invest in excess of an amount exceeding 60 per cent. of its Tier I and Tier II capital (less any capital deductions) in stocks or other securities with a remaining maturity of over three years. However, this stipulation does not apply to:

(1) bonds issued by the Korean Government or local governments, corporations incorporated under special laws of Korea and funds established pursuant to the Framework Act on Fund Management;

(2) Monetary Stabilisation Bonds;

(3) securities acquired through investment by the Government; and

(4) stock acquired pursuant to debt-for-equity swaps in connection with corporate restructuring.

6.3.5 Loan Classifications and Loan Loss Provisioning

Since December 1999, the Bank has met FSC provisioning requirements. Applicable guidelines of the FSC require banks to classify their loans and other credits (including confirmed acceptances and guarantees and trust account loans) into the following five asset quality categories: normal, precautionary, substandard, doubtful and estimated loss. Credits classified as substandard or below are considered to be "non-performing" credits. The FSC allows banks some degree of discretion in the specific application of these guidelines. In classifying the Bank's credits into the five asset quality categories, the Bank applies both historical criteria and forward-looking criteria (in the case of corporate borrowers), in accordance with the FSC guidelines.

The Criteria by Historical Debt Repayment Capability are set forth as follows:

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Normal	Loans in arrears for less than one month.
Precautionary	Loans in arrears for one month or more but less than three months.
Substandard	Collectible portion of loans in arrears for three months or more and/or loans extended to customers which are judged to have serious risks in collectibility due to final default by nonpayment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses.
Doubtful	Amount in excess of the collectible portion of loans in arrears for three months or more but less than twelve months.
Estimated Loss	Amount in excess of the collectible portion of loans in arrears for twelve months or more and/or loans extended to customers which are judged to have serious risks in collectibility due to final default by non-paymentof their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses.

The Criteria by Future Debt Repayment Capability based on ability to repay are set forth as follows:

Normal	Credits extended to customers, which do not raise concerns regarding their capability to repay the credits considering their business and operations, financial position and future cash flows (credits rated AAA to B- based on the Bank's "Small- and Medium-Sized Company Credit Rating Table"). However, the Bank classifies credits rated C or inferior of the seven categories (A1, A2, A3, B, C, D, E) based on past bankruptcy rate as precautionary.
Precautionary	Credits extended to customers, which are judged to have potential risks with respect to their capability to repay the credits in the future considering their business and operations, financial position and future cash flows, although there have not occurred any immediate risks for default in repayment (credits rated CCC).
Substandard	Collectible portion of credits extended to customers, which are judged to have incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows (credits rated CC).
Doubtful	Amount in excess of the collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows (credits rated C).
Estimated Loss	Amount in excess of the collectible portion of credits extended to customers, which are judged to have been accounted for as loss as the inability to repay becomes certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows (credits rated D).

Pursuant to FSS regulations, banks, including the Bank, are required to establish provisions for loan losses for bank accounts and trust accounts as of the end of each fiscal year in an amount (**Loss-risk Weighted Expected Loan Loss**) covering:

- 0.85 per cent. or 1.9 per cent., in the case of cautionary corporate loans (or 1.0 per cent. and 1.5 per cent. in the case of household loans and credit card loans, respectively) of normal credits;
- 7 per cent. or 19 per cent., in the case of overdue corporate loans (or 10.0 per cent., in the case of household loans, and 19 per cent., in the case of overdue household loans and credit card loans) of precautionary credits;
- 20 per cent. of substandard credits or 40.0 per cent. in the case of corporate loans with credit rating C;
- 90 per cent. in the case of companies with overdue loans (or 90 per cent., in the case of household loans and credit card loans) of doubtful credits; and
- 100 per cent. of estimated loss credits.

The guidelines apply to such bank account items as Won and foreign currency loans, offshore loans, local letter of credit bills bought, domestic import usance bills, advances for customers, foreign bills of exchange bought, credit card accounts, privately-placed corporate bonds, customers' liabilities under acceptances and guarantees, trust account loans and certain other credits. Unlike many nation-wide commercial banks, the Bank was not required to advance loans in the 1980s to large companies under industry rationalisation programmes established by the Korean Government. As a result, the Bank maintains a relatively diversified loan portfolio with minimal exposure to *chaebols*.

The following table provides a breakdown of the Bank's loans and allowance for loan losses according to asset quality category as of the years end indicated:

	As of 31 December				**As of 30 September**	
	2005		**2006**		**2007**	
(in billions of Won)	**Loans**	**Allowance**	**Loans**	**Allowance**	**Loans**	**Allowance**
Performing						
Normal	61,028	448	75,803	615	85,352	683
Precautionary	1,742	137	1,243	108	1,669	156
Total performing loans [(1)]	62,770	585	77,046	723	87,021	839
Non-Performing						
Substandard	504	101	360	72	559	112
Doubtful	125	100	91	71	97	86
Estimated Loss	117	117	90	90	158	158
Total non-performing loans [(2)]	746	318	540	233	814	356
Total loans	**63,516**	**903**	**77,586**	**956**	**87,835**	**1,196**

Notes:

(1) Loan required to be classified in accordance with FSC asset qualification guidelines.

(2) Total loans exclude present value discounts.

For the nine months ended 30 September 2007, the Bank set aside provisions for loan losses in respect of its credit exposure in the amount of ₩1,195 billion, an increase of ₩239 billion or 25.0 per cent. from the year ended 31 December 2006. The table below summarises the changes in the Bank's provisions for loan losses for the periods indicated.

	For the year ended 31 December		For the nine months ended 30 September
	2005	2006	2007
	(in billions of Won, except percentages)		
Beginning balance	1,083	903	956
Write-offs charged to present value discount	(6)	(3)	(4)
Loans written-off	(481)	(294)	(202)
Changes in foreign exchange rates	(6)	(4)	(0)
Others	(89)	(28)	(10)
	501	574	740
Provision for possible loan losses	402	382	455
Ending balance	903	956	1,195
Loan loss reserve as a percentage of total credit	1.4	1.2	1.4
Write-offs as a percentage of total credit	0.8	0.4	0.2

The Bank made provisions for loan losses in 2005 and 2006 of ₩402 billion and ₩382 billion, respectively, and ₩455 for the nine months ended 30 September 2007. The Bank's allowance for possible losses compared to total loans as of 31 December 2005, 2006 and 30 September 2007 was as follows:

	Total Loans	Allowance for Possible Loan Losses	Percentage
	(in billions of Won, except percentage)		
31 December 2005	63,516	903	1.4
31 December 2006	77,586	956	1.2
30 September 2007	87,835	1,195	1.4

Notes: Includes loans, bills bought in Won and foreign currencies, advances for customers, credit card accounts and privately placed bonds.

The Bank previously set allowances for possible loan losses at 0.5 per cent., 2 per cent., and 50 per cent. of corporate loans classified as normal, precautionary and doubtful, respectively. In case of household loans, the allowance ratio for normal, precautionary and doubtful was 0.75 per cent., 8 per cent. and 55 per cent., respectively. In case of credit card loans classified as normal, precautionary and doubtful, the Bank set allowance at 1 per cent., 12 per cent., and 65 per cent., respectively. However, beginning on 1 January 2005, the Bank increased the allowance ratios for corporate loans classified as normal to 0.7 per cent. and to 1.9 per cent., in case of watch-listed or overdue corporate loans. The Bank also increased the allowance ratio for corporate loans classified as precautionary to 4 per cent. and to 19 per cent. in case of watch-listed or overdue corporate loans. For watch-listed or overdue household loans and credit card loans classified as precautionary, the allowance ratio was increased to 19.0 per cent. In case of household loans and credit card loans classified as doubtful, the allowance ratio was increased to 90.0 per cent. The Bank adjusted the ratios upwards to maintain an appropriate level of allowance ratios for possible loan losses, however, it is subject to prior approval from the FSS.

One of the Bank's primary objectives is to prevent loans from becoming non-performing. The Bank has instituted an early remedial management process to identify potential problem loans even though interest and principal payments are not yet in arrears. A loan is identified as a potential problem loan if there exists serious doubt as to the ability of the borrower to comply with repayment terms in the near future. The Bank regularly performs analyses of non-government companies. Companies placed on the watch-list or potential problem list as a result of such analyses receive a more stringent general quarterly review and credit review in respect of any extension of credit to such companies.

Through the Bank's information system, the Bank produces weekly reports containing arrears information from its headquarters and branches. The Bank also utilises its computer system to identify borrowers who have received a "yellow" or "red" warning of arrears exceeding three months and six months, respectively, from any Korean bank branch located in Korea. The Bank monitors a daily report derived from a computer network system originating from the Korea Financial Telecommunications and Clearing Institute, which includes borrowers who have declared bankruptcy.

In January 2005, the Bank implemented an early warning system (the "**EWS**"). Previously, the Bank examined its loan portfolio for troubled loans every three months. The EWS, on the other hand, permits the Bank to automatically conduct daily searches for signs of troubled borrowers. Under the EWS, the head office of the Bank conducts a general examination of all borrowers. Through a computerised method, the head office reviews various information on each borrower, including, among others, payment delinquencies, the amount of loans in arrears and financial statements. Once the head office identifies borrowers that require further examination, the relevant branch conducts a detailed examination on each of those borrowers. The relevant branch conducts an examination of certain qualitative information that cannot be electronically processed, including, among others, labour problems, pending lawsuits and changes in the borrower's place of business. Once the results of these examinations are consolidated, the Bank classifies the borrowers into the following four categories: normal, attention, caution, and warning. For those borrowers that are classified as "attention", the Bank monitors their financial and operating conditions on a monthly or quarterly basis. For those borrowers that are categorised as "caution" or "warning", the Bank takes appropriate remedial measures, including, among others, reducing the amount of available credit and enhancing the quality of the credit by requiring the borrower to provide collateral and/or secure third-party guarantee.

Notwithstanding the above, if a loan becomes non-performing, the Bank will undertake measures to reduce the level of non-performing loans by selling non-performing loans to third parties or by entering into asset securitisation transactions. The Bank sold loans of ₩333 billion for ₩233 billion to Kieun 10th Special Purpose Company for the nine months ended 30 September 2007. With respect to the transactions, the Bank recognised a loss on disposal of loans amounting to ₩48 billion for the nine months ended 30 September 2007, and the Bank purchased from Kieun 10th Special Purpose Company subordinated bonds of ₩75 billion and the book value of the subordinated bonds was ₩43 billion as of 30 September 2007. The Bank sold loans of ₩315 billion and ₩290 billion for ₩234 billion and ₩220 billion of Kieun 8th and 9th Special Purpose Company, respectively, for the year ended 31December 2006. With respect to these transactions, the Bank recognised a loss on disposal of loans amounting to ₩67 billion for the year ended 31 December 2006, and the Bank purchased from Kieun 8th and 9th Special Purpose Company subordinated bonds of ₩69 billion and ₩76 billion.

The disposal of non-performing loans to Kieun 2nd to 10th Special Purpose Companies as of 30 September 2007 were as follows:

	Loans					Subordinated Bonds	
						Book Value	
	Date of Disposal	Non-Performing Loans	Disposal Amounts	Gain (loss) on Disposal of Loans	Acquisition Cost	31 December 2006	30 September 2007
				(in billions of Won)			
Kieun 2nd	23.9.2003	384	300	42	215	-	-
Kieun 3rd	11.12.2003	445	300	34	215	-	-
Kieun 4th(1)	23.6.2004	491	370	(10)	120	20	-
Kieun 5th(2)	21.12.2004	537	390	(98)	130	-	-
Kieun 6th(3)	23.6.2005	471	326	(12)	116	-	-
Kieun 7th(4)	19.12.2005	398	266	(91)	101	101	-
Kieun 8th	21.6.2006	290	220	(46)	69	38	69
Kieun 9th	13.12.2006	333	233	(48)	76	48	48
Kieun 10th	27.6.2007	333	233	(48)	75	-	43
		3,682	2,638	(277)	1,117	207	160

Notes:

(1) The subordinated bond was redeemed and liquidated by Kieun 4th Special Purpose Company and the Bank recognised ₩1.6 billion as a gain on redemption of held-to-maturity securities for the nine months ended 30 September 2007.

(2) The subordinated bond was redeemed by Kieun 5th Special Purpose Company in 2006 and the Bank recognised ₩28.6 billion as a dividend income for the nine months ended 30 September 2007.

(3) The subordinated bond was redeemed by Kieun 6th Special Purpose Company in 2006 and the Bank recognised ₩18.6 billion as a dividend income for the nine months ended 30 September 2007.

(4) The subordinated bond was redeemed by Kieun 7th Special Purpose Company and the Bank recognised ₩65.5 billion as a dividend income for the nine months ended 30 September 2007.

6.3.6 Credits in Workout and Restructuring Proceedings

As of 31 December 2006 and 30 September 2007, ₩225 billion, or 0.3 per cent. and ₩177 billion or 0.2 per cent., respectively, of the Bank's total credits had been or were being restructured pursuant to a voluntary workout plan, corporate restructuring proceedings or composition or corporate reorganisation proceedings relating to the Bank's borrowers.

In July 2001, the National Assembly adopted the Corporate Restructuring Promotion Act (the "**CRPA**"), which became effective in September 2001 and has expired on 31 December 2005. Under the CRPA, the restructuring plan of a borrower (which may provide for additional funding by creditors, as well as the restructuring of existing debt) will become binding on all creditor financial institutions of the borrower if it is approved by creditor financial institutions holding 75 per cent.or more of the total outstanding debt (as well as 75 per cent. of the total outstanding secured debt, if the restructuring plan includes the restructuring of existing debt) of the borrower.

However, any creditor financial institution that disagrees with the final restructuring plan approved by the creditors' committee has the right to request the creditors' committee to purchase its claims at a mutually agreed upon price within seven days of such approval. In the event that the creditors' committee and the dissenting creditor financial institution fail to come to an agreement, a coordination committee consisting of seven experts, all of which are appointed by a select number of public organisations, will be set up to determine the purchase price.

As the CRPA expired on 31 December 2005 and no other law replacing this Act or other law with the similar effect was enacted, an amendment bill to extend the effective term of this Act until 31 December 2010 was presented to and is pending at the National Assembly of Korea. With respect to any workout for which the lead creditor bank called for a meeting of the creditors' committee while the CRPA was still effective, the procedures applicable to such creditors' committee and the related workout remain subject to the CRPA until the suspension or conclusion of such workout. The amendment bill is designed not solely to extend the validity of the CRPA but also contain other amendments which provide, among others, (i) that creditor financial institutions must defer from exercising their creditor rights upon receiving notice from the FSS and (ii) for relaxation of some of the restrictions previously imposed on the creditor financial institutions' disposition of their shares acquired by debt-to-equity swap.

Korean law also provide for corporate reorganisation and rehabilitation proceedings. The Debtor Rehabilitation and Bankruptcy Act, promulgated on 31 March 2005 became effective as of 1 April 2006, which was designed to consolidate all existing bankruptcy-related laws in Korea, namely the Corporate Reorganisation Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act.

Prior to the enactment of the Debtor Rehabilitation and Bankruptcy Act, court receivership or corporate reorganisation procedures under the Corporate Reorganisation Act were court-supervised procedures to rehabilitate an insolvent company. The restructuring plan was adopted at a meeting of interested parties and was subject to approval of a court. In a court receivership, the management of the company was taken over by a court appointed receiver. Creditors were required to file their claims with the court and if they failed to do so, their claims were discharged at the end of the reorganisation proceeding. Creditors were allowed to recover on their claims only in compliance with the reorganisation plan.

Under the Composition Act, composition was also a court-supervised procedure to rehabilitate an insolvent company. The restructuring plan was adopted at a meeting of interested parties and was subject to approval of a court. However, in composition proceedings the existing management of the company continued to operate the debtor's business. Claims not filed with the court were not discharged at the end of a composition proceeding although the creditors were required to file their claims with the court if they wanted to exercise their voting rights at the meeting of interested parties. In addition, secured creditors were allowed to enforce their security interest outside the composition proceeding unless they waived their security interest and consent to the composition plan.

Under the Debtor Rehabilitation and Bankruptcy Act, composition proceedings are abolished and rehabilitation proceedings are introduced to replace the court receiverships. In a rehabilitation proceeding, unlike the previous court receivership proceedings where the management of the debtor company was assigned to a court appointed receiver, the current chief executive officer of the debtor company may continue to manage the debtor company, provided that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) financial failure of the debtor company was not due to the gross negligence of the chief executive officer, and (iii) no creditors' meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace the existing chief executive officer. While court receivership proceedings were permitted only with respect to joint stock companies (chushik-hoesa), the rehabilitation proceeding may be commenced by any insolvent debtor. In addition, in an effort to meet the global standards, international bankruptcy procedures were introduced in Korea, under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court's approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceedings conducted in a Korean court. Similarly, a receiver in a domestic rehabilitation proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

However, any composition, corporate reorganisation, bankruptcy and rehabilitation proceedings for individual debtors pending as of 1 April 2006, the effective date of the Debtor Rehabilitation and Bankruptcy Act, continue to proceed in accordance with the respective applicable laws.

6.4 Funding

The Bank's sources of funding include deposits and other borrowed funds. Deposits include demand deposits, time and savings deposits, mutual instalments and certificates of deposit. The Bank's other sources of funding consist principally of repurchase instruments, borrowings from the Korean Government, BOK and other banks and the issuance of SMIF Bonds. Customer deposits are the Bank's significant source of funding, constituting 34.2 per cent. and 28.2 per cent. of the Bank's total funding as of 31 December 2006 and 30 September 2007, respectively.

The Bank attracts deposits from SMEs and individuals principally through its extensive branch network. The Bank also borrows funds from the Korean Government at rates of interest below market rates, which it may utilise only to make loans to SMEs in certain sectors identified by the Government as requiring support on favourable terms or the growth of which the Government wishes to encourage (such as start-up companies and advanced technology companies). The Bank is the only financial institution in Korea that may borrow Government funds for the benefit of SMEs and issue SMIF Bonds. The Bank believes SMIF Bonds provide a stable source of funding because SMIF Bonds, unlike bonds issuable by commercial banks, may, among other things, have more flexibility in maturity structure.

6.4.1 Deposits and Other Borrowed Funds by Type

The table below sets forth a summary of the Bank's deposits and other borrowed funds by type as of the dates indicated.

(in billion of Won)	As of 31 December				As of 30 September	
	2005		2006		2007	
	Amount	% of total	Amount	% of total	Amount	% of total
Deposit (Won)	34,352	44.6	30,181	32.6	27,579	26.6
Demand deposits	6,784	8.8	8,136	8.8	7,159	6.9
Savings deposits	27,568	35.8	22,045	23.8	20,420	19.7
Deposits (foreign currencies)	1,361	1.8	1,523	1.6	1,672	1.6
Certificates of deposits	4,404	5.7	5,300	5.7	6,945	6.7
Bills sold	1,199	1.6	1,467	1.6	1,344	1.3
SMIF Bonds	14,682	19.3	30,598	33.1	39,823	38.4
Borrowings (Won)	10,760	14.0	12,163	13.2	12,750	12.3
Borrowings (foreign currencies)	2,769	3.6	2,553	2.8	3,007	2.9
Other borrowings*	5,350	6.9	6,395	6.9	7,115	6.9
Bonds issued in foreign currencies	1,982	2.5	2,287	2.5	3,478	3.4
Total	**76,859**	**100.0**	**92,467**	**100.0**	**103,713**	**100.0**

* Includes bonds sold under repurchase agreements, borrowings from Information Promotion Fund and call money.

6.4.2 Maturity Structure for Deposits

The table below sets forth a summary of the Bank's deposits in its bank accounts by remaining maturity as of 31 December 2006.

Remaining maturity	As of 31 December 2006 (in billion of Won, except percentages)			
	Domestic currency	Foreign currency	Total	% of total
3 months or less	9,399	558	9,957	31.4
3 to 6 months	2,000	72	2,072	6.5
6 to 12 months	6,767	891	7,658	24.2
1 to 3 years	11,298	2	11,300	35.6
More than 3 years	717	0	717	2.3
Total	**30,181**	**1,523**	**31,704**	**100.0**

The table below sets forth a summary of the Bank's deposits in its bank accounts by remaining maturity as of 30 September 2007.

Remaining maturity	As of 30 September 2007 (in billion of Won, except percentages)			
	Domestic currency	Foreign currency	Total	% of total
3 months or less	7,317	647	7,964	27.23
3 to 6 months	2,371	54	2,425	8.29
6 to 12 months	6,115	968	7,083	24.22
1 to 3 years	10,989	2	10,991	37.57
More than 3 years	787	0	787	2.69
Total	**27,579**	**1,671**	**29,250**	**100.0**

6.5 Capital Adequacy

Under the FSC's guidelines, all banks in Korea are required to maintain a total Tier I and Tier II capital adequacy ratio of at least 8.0 per cent. on a consolidated basis.

As of 31 December 2006, the Bank's capital adequacy ratio on a consolidated basis was 11.70 per cent., with Tier I ratio of 8.37 per cent. and Tier II ratio of 3.33 percent. As of 30 September 2007, the Bank's capital adequacy ratio on a consolidated basis was 11.36 per cent., with a Tier I ratio of 8.62 per cent. and Tier II ratio of 2.74 per cent.

The following table sets out a summary of the Bank's consolidated capital base and its capital adequacy ratio as of 31 December 2005, 31 December 2006 and 30 September 2007.

(in billions of Won, except percentages)	**As of 31 December**		**As of 30 September**
	2005	**2006**	**2007**
Tier I Capital			
Paid-up capital	2,291	2,291	2,291
Capital surplus	7	7	7
Retained earnings	2,162	3,032	3,844
Hybrid capital	0	600	600
Minority interest in consolidated subsidiaries	27	103	154
Gain on valuation of available-for-sale securities and others	(189)	(288)	(32)
Total Tier 1 Capital	**4,298**	**5,746**	**6,864**
Tier II Capital			
Credit loss provisions	667	861	1,000
45% of valuation gains on securities and others	143	262	196
Subordinated debt	1,114	1,288	1,100
Interest in unconsolidated subsidiaries	(3)	(2)	(3)
Asset-backed securities issued with respect to non-performing loans	(327)	(125)	(110)
Total Tier II Capital	**1,594**	**2,285**	**2,183**
Total capital	**5,892**	**8,030**	**9,047**
Total risk-weighted assets	53,042	68,641	79,616
Total capital to risk-weighted assets ratio	11.11%	11.70%	11.36%
Ratio of Tier I capital to risk-weighted assets	8.10%	8.37%	8.62%
Ratio of Tier II capital to risk-weighted assets	3.01%	3.33%	2.74%

7 RISK MANAGEMENT

Along with the Board, the Bank has four risk managing functions, namely the Risk Management Committee, Working Level Conference, Treasury Committee and the Risk Management Division. Out of the four, the Risk Management Committee is the superceding administrative policy making unit. The Risk Management Committee performs risk policy reviews and analyzes risks both on and off the balance sheet. The Committee's other functions include: assigning credit limits by each business line and risk type; assessing risk levels; monitoring management processes; setting risk management standards; and developing internal control systems to safeguard operating business departments. The Committee also holds significant autonomy in overseeing capital adequacy requirements and assets and liabilities management practices. For significant policy issues, the Committee seeks approval or authorization from the Board. The Committee's policy decisions are then reviewed by the Working Level Conference, which is responsible for rationalising and scrutinising the decisions from a pragmatic perspective. Whereas the Treasury Committee creates the overall assets and liabilities management and makes decisions upon issues pertaining to liquidity and interest rate risk management, the Risk Management Division ensures compliance and enforces the Risk Management Committee decisions. The Risk Management Division is comprised of the Risk Management Department, Basel II Team and Credit Review Department. Each business department employs a specialist to manage specific risk management issues for their respective operating unit.

7.1 Liquidity Risk

The Bank undertakes liquidity risk management by setting specific ceilings and target ratios for funds in Won currency, foreign currencies and trust accounts. It maintains action plans that are ready to be executed in the event of contingencies. The Bank's funding status is reviewed based upon data prepared on a monthly and quarterly basis, in addition to overnight money positions. The liquidity is reviewed on a continuous basis to ensure compliance with the FSS's requirements. As of 31 December 2006, the Bank's three-month Won liquidity ratio was 104.07 per cent. and the foreign currency liquidity was 107.54 per cent., well above the FSS standard of 70 per cent. and 85 per cent. for Korean Won and foreign currency assets and liabilities maturing within 90 days, respectively.

7.2 Credit Risk

The Bank manages credit risks by setting credit risk ceilings, assessing current risk levels, and monitoring compliance requirements. The credit risk level is determined by applying expected and unexpected loss levels at a confidence level of 99 per cent. The expected loss is computed based upon historic data on the probability of insolvency, whereas the unexpected loss reflects variance potential in the expected loss level. Volatility of the insolvency and recovery ratios relative to the collateral are reflected in this computation. The Bank's policies derive from its in-house regulations and record of past business transactions. Its principal strategy is to hedge credit risks by analysing the qualifications of the loan applicants, observing evaluation and approval procedures, and managing diversified loan portfolios. All loan applicants and guarantors are subject to credit review, unless they are public entities or are able to fully secure their loans through collateral. The credit review requires interviews with the applicant, review of the business undertaken, prospects and debt servicing capability, assessment of prior banking records, and credit analyses; whereas the credit analysis includes a review of due diligence requirements, research on public records, and credit scores generated by the Bank's credit rating models. The Bank applies varying credit rating models depending upon each applicant and type of credit being extended. It also performs an appraisal of the collateral presented as part of the review. The credit analyses are performed by a Credit Analysis Team located within the Bank's headquarters or branches, subject to the size of the credit being extended. Depending upon the size of the credit being extended, authority to approve or deny loan applications is held by the Senior Credit Committee, Credit Committee, Credit Team of the Credit Department, or branch head. The credit rating models reflect a variety of evaluation criteria that standardise credit decisions by focusing upon the qualification of the applicants rather than the size of the credit. Both quantitative and qualitative factors are included in the credit analyses. Evaluation of corporate borrowers includes financial variables and ratios. Non-financial evaluation, however, includes a review of the nature of the borrower's business, industry position, operating and funding capabilities, financial prospects and management quality. For small retail businesses, the Bank considers, among other factors, the borrower's income, assets, profession, age, financial transaction history, and other credit related information. The Bank updates its database to improve the performance of its credit evaluation on a regular basis.

SME Credit Rating Model

The Bank’s SME Credit Rating Model was first created in 1995 and is based upon the Bank’s considerable experience in the SME market. It collects and maintains both financial and non financial data on SMEs, updating rating standards and samples on a regular basis. The model is comprised of the credit scoring and insolvency forecasting functions. Comprised of twelve sub models, each classified by business segment and asset size, the credit scoring function performs financial and non-financial data analysis, whereas the insolvency forecasting function monitors the elements that identify non viable businesses. The SME credit rating model evaluates and monitors the applicant's financial conditions, operating environment, and credit management performance.

Small Business and SOHO (Small Office Home Office)

To diversify its customer base and further build upon its core competency in SME financing, the Bank also maintains credit rating models developed to assess the credit risks generated by small businesses and SOHOs, whose total assets typically do not exceed ₩0.5 billion. The model takes into consideration credit evaluation criteria specific to smaller businesses. Some of the various financial and non-financial indicators for assessment include the applicant’s credit worthiness, banking history, management performance, cash flows and business prospects; the model enables the Bank to promptly process loan applications, assign credit limits, and monitor compliance.

Retail Credit Rating Model

As an automated credit approval system, the Bank’s retail credit scoring model is comprised of the applicant scoring function and behavior scoring function. The benefits of such an automated model include consistency in results and weighted evaluation reflecting continuously variable market conditions. The applicant scoring function reviews the applicant's financial and non financial information to determine the loan value and conditions. The behavior scoring function checks the borrower's monthly payments, adjusting the borrower's credit rating and making changes to the loan conditions, including its maturity, as necessary.

Corporate Card Credit Rating Model

The Bank’s corporate card credit scoring model is comprised of the applicant scoring function and behavior scoring function. Comprised of six sub models, the applicant scoring function reviews the applicant's financial information, banking history and other credit related information to determine the card account conditions and credit limits. The behavior scoring function, on the other hand, is comprised of two sub models and reviews the cardholder's credit rating on a regular basis. The Bank assigns credit limits based upon the results of the review.

7.3 Market Risk

The Bank assigns limits to all market risk variables on a Value at Risk ("**VaR**") basis and applies stringent stop loss rules against transactions exposed to market risk. Responsible for setting the market risk limitations and stop loss rules, the Risk Management Department oversees the compliance of all operating departments to the Bank's risk management regulations and guidelines. The Risk Management Department also calculates the market risk volatility by each risk variable, further to assessing the net positions and VaR of trading activities on a daily basis. The results of the calculation are reported to the Risk Management Committee, reflecting the overall market risk profile which classifies each risk variable due to each operating department. Employing a comprehensive internal risk assessment model, the Bank quantifies the VaR, whose accuracy is ensured by repeat tests of the daily profits and losses relative to the varying model- generated risk potentials. These tests are performed at a 99 per cent. confidence level over the past 250 business days. The Bank also conducts stress tests on a quarterly basis to be prepared for worst case scenarios.

7.4 Interest Rate Risk

A key component of the Bank's asset and liability management policy is the management of interest rate sensitivity, which is the exposure of the Bank's net interest income to changes in market interest rates. The Bank's interest rate sensitivity for a given period is affected by the "maturity gap" for such period, which is the difference between the amounts of rate-sensitive interest earning assets and interest bearing liabilities maturing or re-pricing during such period. If the maturity gap for a given period is positive (i.e., if there is an excess of interest earning assets over interest bearing liabilities maturing or re-pricing during such period), a decline in market interest rates would normally have a negative effect on net interest income while an increase in interest rates would have a positive effect on net interest income. The Bank seeks to manage its assets and liabilities to minimise the maturity gap for future periods and thereby reduce its interest rate sensitivity. The Bank performs gap analysis in respect of such imbalance every month and estimates the future net interest income effect of changes in market rates of interest.

Since Korea does not currently have a well-established derivatives market, the Bank primarily adjusts the maturity of its rate sensitive assets and liabilities and the terms of its financial products in order to manage its Won currency interest rate risk.

Interest Rate Risk on Won Currency Assets and Liabilities

Won-currency deposits generally bear fixed rates of interest for fixed time periods. The interest on such Won-currency deposits is generally adjusted upon the rollover of such deposits. As of 30 September 2007, 59.74 per cent. of the Bank's deposits had current maturity of one year or less and virtually all loans made by the Bank were at variable rates of interest generally based upon its benchmark lending rate. Under the Bank's benchmark lending rate system, which was implemented in January 2002, the Bank adjusts its benchmark lending rate according to market interest rates for 91-day negotiable certificates of deposit. Any such adjustments in the Bank's benchmark lending rate has an immediate effect. As a result, the Bank believes that its interest rate sensitivity is limited.

Interest Rate Risk on Foreign Currency Assets and Liabilities

As with most Korean banks, the Bank's foreign currency lending is primarily in the form of floating rate loans and is funded principally with foreign currency deposits and borrowings. The majority of the Bank's foreign currency deposits and borrowings bear interest at a floating rate. In addition, a portion of the Bank's foreign currency deposits originate from BOK and are loaned by the Bank at a pre-determined spread over the interest rate payable by the Bank on such deposits. Most of the Bank's foreign currency loans earn interest at a spread above LIBOR and are therefore subject to rates that reset periodically.

7.5 Operational Risk

The Bank manages the risks of loss resulting from inadequate internal control procedures, human behaviors, or external events beyond its control. It does not include strategy and reputation risk but rather measurable legal risk. The Bank has a total operational risk framework consisting of governance, management process and management systems to minimize the risks of operational loss. To ensure the effective performance of its operational risk management system, the Bank established an operational risk control system based on two factors. First, the independent department related operational risk manages the operational risk on a bank-wide basis. Second, the internal auditors examine the operational risk. In order to control its operational risk effectively, the Bank manages the following procedures:

- Acknowledgement and assessment of operational risk;
- Systematic management of loss databases;
- Establishment and verification on operational risk measurement system;
- Periodic reporting to the Board and management;
- Implement Bank-wide Risk and Control Self Assessment on a regular basis, with which the Bank can appraise operational risk, evaluate the appropriateness of internal controls, and derive action plans;
- Monitor and collect Key Risk Indicators representing the Bank's exposure on operational risk;
- Collect and maintain internal loss databases systematically by integrating Loss Event Datagenerated from the related department; and
- Complete the establishment of methodology of calculating operational risk and its related systems prepared for FSS's approval on Advanced Measurement Approach ("**AMA**"), and apply them to risk measurement.

7.6 Foreign Exchange Risk

The Bank manages its foreign exchange risks principally through close monitoring and matching of its foreign currency assets and liabilities. In the Bank's foreign exchange dealings, counterparties are restricted to domestic financial institutions participating in the foreign exchange market and international banks ranked among the top 1,000 banks worldwide. Foreign exchange dealing is primarily in the Won/U.S. Dollar market and is subject to what the Bank believes to be conservative daily and closing limits and daily and monthly stop loss limits.

7.7 Derivatives

Foreign exchange banks, under the Foreign Exchange Transaction Laws, are generally allowed to engage in derivative transactions unless such transactions involve credit-linked transactions, in which case prior notice is required to be given to, and acceptance is required from BOK. Except within the open position limits applicable to its foreign exchange dealings, the Bank generally does not engage in unmatched speculative trading of derivative instruments for its own account and enters into interest rate and currency derivative transactions such as swaps, options and forward contracts either on behalf of customers or for the purpose of hedging interest rate and foreign exchange mismatches. The Bank's exposure in connection with such transactions is therefore generally limited to the credit risk with respect to its transaction counterparties.

7.8 The New Basel Capital Accord

The New Accord is expected to have a substantial impact on the way risk is measured among international financial institutions. The original Basel Accord focused primarily on capital adequacy and asset quality as a measure of risk. The New Accord, however, will measure credit risk more elaborately and expand the scope of this approach, reflecting areas of risk such as operational and off-balance sheet risks. In Korea, although the implementation was originally planed by the year-beginning 2008, the time for implementation and application method were adjusted to allow more preparation time for both FSS and banks.

FSS's Recommended Guidelines

The Bank plans to apply the "Foundation Internal Ratings-based Approach" in assessing credit risk and the "Standardized Approach" in assessing operational risk at the beginning of 2008. At the beginning of 2009, the Bank will be using the "Advanced Internal Ratings-based Approach" in assessing credit risk and "Advanced Measurement Approaches" in assessing operational risk.

The Bank's lmplementation Schedule

The Bank completed construction of its New Accord infrastructure by the end of June 2006. It includes risk management infrastructure such as database, IT systems, credit rating models, and projection systems creating risk parameters such as probability of default ("**PD**"), loss given default ("**LGD**"), and expose at default ("**EAD**"), by the end of June 2006. FSS conducted three preliminary reviews of the New Accord risk management infrastructure during the first half of 2006 and was satisfied with majority of the infrastructure. The Bank is working to make improvements according to FSS's recommendations. The Bank has submitted its Foundation Internal Ratings-based Approach ("**F-IRB**") for FSS's approval.

On the strength of its superb credit rating models, the Bank has been making excellent progress in preparing for the New Accord implementation. For that reason, the Bank is confident in acquiring FSS accreditation for F-IRB by the first half of 2008. Based on the sound asset quality promoted by its advanced risk management system, the Bank expects to hold onto its prominent position in the Korean banking industry.

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8 THE KOREAN ECONOMY AND FINANCIAL INDUSTRY

8.1 The Korean Economy

8.1.1 Overview

Korea was a typical underdeveloped, largely agrarian country up until the turn of the 1960s. However, thanks to the success of export-oriented industrialization within a short period of three and a half decades, it was transformed into a modern industrialized country. Helped by the rapid growth, which averaged over 8 percent per annum for more than thirty years, its GDP volume soared from only 2.1 billion U.S. dollars in 1961 to 557.4 billion U.S. dollars by 1996, while its per capita GNI also leapt from 82 U.S. dollars to 12,197 U.S. dollars over the same period.

Based on this remarkable development, Korea emerged on the world stage as one of the front-runners among the newly industrializing economies so that it was able to become a member of the OECD in 1996. This outstanding economic achievement was truly remarkable considering the poor endowment of natural resources and the limited domestic market. For these reasons, the economic development strategy of Korea was widely held up as a suitable model for other countries on the road to development.

However, structural weaknesses accumulated in the process of concentrated growth. These underlying fractures were abruptly revealed toward the end of 1997 with the transformation of the internal and external economic environment. Consequently, the Korean economy experienced a currency crisis and faced severe difficulties. In order to overcome the crisis, Korea pressed ahead with the thoroughgoing structural reform of the entire economy. At present, Korea is focusing on maintaining stable growth trends while establishing a solid economic recovery.

Source: The Korean Economy published by The Bank of Korea on 24 December 2007

8.1.2 Economic Developments in 2006 and 2007

During 2006, the Korean economy showed a relatively strong performance. The growth rate of real GDP rose from 4.2 percent to 5.0 percent as exports kept up their brisk performance and domestic demand exhibited a recovering trend. However, the current account surplus narrowed to 6.1 billion dollars owing to a widened deficit on the services account.

Along with this growth trend, there was some improvement in labor market conditions. The unemployment rate edged down from the previous year's 3.7 percent to 3.5 percent and the proportion of temporary workers declined. However, this was a less than sufficient performance considering the level of GDP growth. Meanwhile, consumer prices increased by only 2.2 percent on average as stable prices of agricultural, livestock and marine products and the appreciation of the Korean won against the U.S. dollar offset a surge in international oil prices.

During the first half of 2007, the Korean economy continued its upward trend. Real GDP grew by 4.5 percent year on year. Domestic demand showed an ongoing upward trend centering on facilities investment and exports maintained their robust growth. Meanwhile, the current account remained in the red but the employment situation continued to improve slightly while prices showed stable trends.

The overall picture in regard to employment showed a mildly improving trend with the unemployment rate standing at 3.4 percent, a slight fall from the previous year's 3.5 percent. The current account was 1.6 billion U.S. dollars in the red as the deficit on the services account widened.

The rate of increase in the CPI registered the same level as in the same period of the previous year. Prices of agricultural, livestock & marine products rose but the pace of price increases for industrial products slowed down.

Source: The Korean Economy published by The Bank of Korea on 24 December 2007

During the third quarter of 2007, the Korean economy saw its growth pace slow down slightly, but the employment situation continued an improving trend and the current account posted a large surplus while prices showed a stable trend. Real gross domestic product (GDP) grew by 1.3 percent seasonally adjusted inthe third quarter, lower than the 1.8 per-cent of the preceding quarter. Private consumption and exports continued their robust growth pace, but fixed investment shifted to a decline. Real gross national income (GNI), however, increased by 1.7 percent, higher than the real GDP growth rate, as real net factor income from abroad inclined sharply.

The employment situation showed an improving trend. The number of persons employed (before seasonal adjustment) increased by 296,000 year on year, more than 289,000 in the previous quarter, while the seasonally-adjusted unemployment rate stood at 3.3 percent, the same as the previous quarter's.

Consumer prices in the third quarter marked an increase of 1.1 percent from the previous quarter, owing to a rise in prices of agricultural products. Its year-on-year rate of increase, however, posted 2.3 percent, a slight drop from 2.4 percent in the previous quarter. Meanwhile, core inflation, which strips out prices of petroleum fractions and agricultural products other than grains from the CPI, marked a rise of 0.4 percent over the previous quarter, continuing its stable trend.

Source: *Quarterly Bulletin published by The Bank of Korea on 31 December 2007*

8.1.3 Key Economic Indicators (since 2001)

	2001	2002	2003	2004	2005	2006		2007
			(year)			(1st half)	(year)	(1st half)
Per capita GNI (US$)	10,160	11,499	12,720	14,193	16,413	-	18,372	-
Real GDP Growth Rate (%)	3.8	7.0	3.1	4.7	4.2	5.7	5.0	4.5
Current Account (US$ billion)	8.0	5.4	11.9	28.2	15.0	-0.4	6.1	-1.6
Goods Accounts	13.5	14.8	22.0	37.6	32.7	12.6	29.2	13.0
Exports (FOB)	151.5	163.4	197.3	257.7	289.0	157.9	331.8	179.4
Imports (FOB)	138.0	148.6	175.3	220.1	256.3	145.3	302.6	166.4
Servicew Accounts	-3.9	-8.2	-7.4	-8.0	-13.7	-8.9	-18.8	-10.6
Consumer Prices (%)	4.1	2.8	3.5	3.6	2.8	2.2	2.2	2.2
Unemployment Rate[1] (%)	4.0	3.3	3.6	3.7	3.7	3.6	3.5	3.4

Note: [1] Unemployment rate surveyed by four week job search duration criterion

Source: The Korean Economy published by The Bank of Korea on 24 December 2007

8.1.4 Principal Sectors of the Economy

Industrial Sectors

The following table sets out production indices for the principal industrial products of the Republic and their relative contribution to total industrial production:

Industrial Production
(2000 = 100)

	Index Weight(1)	2002	2003	2004	2005	2006
Mining	36.2	103.9	103.1	100.0	93.8	92.5
Coal	4.7	83.4	84.3	86.1	88.5	91.1
Metal Ores	0.8	96.7	84.5	111.0	107.1	121.3
Others	30.7	107.2	106.5	101.9	94.2	91.9
Manufacturing	9,362.9	108.4	113.8	126.2	134.0	148.1
Food Products and Beverages	658.8	108.6	106.7	108.9	108.3	108.8
Tobacco Products	53.4	99.9	130.3	140.9	113.5	126.9
Textiles	472.7	84.6	76.5	70.8	63.5	58.2
Apparel and Fur Articles	210.3	98.0	82.5	82.4	86.6	93.7
Tanning and Dressing of Leather	97.6	87.6	75.5	65.1	58.8	58.6
Wood and Wood and Cork Products	62.2	112.8	113.9	109.1	104.4	111.7
Pulp, Paper and Paper Products	193.2	105.3	105.4	108.7	109.3	109.4
Publishing, Printing and Reproduction of Record Media	226.8	109.3	101.2	98.3	92.6	92.6
Coke, Refined Petroleum Products and Nuclear Fuel	309.9	88.2	91.1	94.1	97.0	98.2
Chemicals and Chemical Products	856.9	109.2	113.4	119.0	122.7	127.0
Rubber and Plastic Products	429.9	109.2	112.0	115.7	118.0	124.4
Non-Metallic Mineral Products	331.5	104.2	110.1	108.4	101.3	101.9
Basic Metals	566.2	106.4	111.9	117.6	118.0	121.3
Fabricated Metal Products	414.8	95.6	97.4	99.9	98.4	101.7
Machinery and Equipment	812.5	104.5	109.0	119.7	123.0	131.3
Office, Accounting and Computing Machinery	330.8	111.4	97.4	85.4	78.0	77.9
Electrical Machinery and Apparatus and Others	379.8	104.2	107.2	116.0	120.1	128.7
Radio, Television and Communication Equipment	1,481.0	131.6	158.7	214.9	258.1	323.1
Medical Precision and Optical Instrument, Watches	105.0	100.9	102.8	104.4	98.9	97.2
Motor Vehicles, Trailers and Semitrailers	916.1	107.3	114.3	127.6	138.3	150.2
Other Transport Equipment	274.6	119.4	127.5	145.2	156.3	173.8
Furniture and Other Manufactured Goods	178.9	94.6	87.3	83.0	78.0	73.4
Electricity and Gas	600.9	115.0	121.3	128.4	137.5	143.5
All Items	10,000.0	108.8	114.2	126.2	134.1	147.6
Percentage Increase (Decrease) of All Items Over Previous Year		8.0	5.2	10.2	6.3	10.1

(1) Index weights were established on the basis of an industrial census in 2000 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.

Source: The Bank of Korea.

Industrial production increased by 8.0 per cent. in 2002 primarily due to strong domestic consumption and increased exports. Industrial production increased by 5.2 per cent. in 2003 primarily due to increased exports and construction investment growth although domestic consumption was sluggish during 2003. Industrial production increased by 10.2 per cent. in 2004 primarily due to increased exports and domestic consumption recovery. Industrial production increased by 6.3 per cent. in 2005 primarily due to strong exports and increased domestic consumption. Based on preliminary data, industrial production increased by 10.1 per cent. in 2006 primarily due to increased exports and domestic consumption**.**

Manufacturing

The manufacturing sector increased production by 8.2 per cent. in 2002, 5.4 per cent. in 2003, 10.5 per cent. in 2004, 6.2 per cent. in 2005 and 10.5 per cent. in 2006.

In 2002, light industry recorded a 1.9 per cent. increase due to increased production of food products. In 2003, light industry recorded a 4.1 per cent. decline due to the decreased production of textile, apparel, publishing and printing and food products and beverages. In 2004, light industry recorded a 0.8 per cent. decrease due to decreased production of food products, textile, apparel and furniture. In 2005, light industry recorded a 2.8 per cent. decrease due to decreased production of textile, wood products, publishing and printing, furniture and non-metallic mineral products. In 2006, light industry recorded a 1.1 per cent. production increase due to increased production of wood, apparel and leather products.

Automobiles

In 2002, automobile production increased by 6.8 per cent., domestic sales recorded an increase of 11.8% and exports recorded an increase of 0.6 per cent., each compared with 2001. In 2003, automobile production increased by 1.0 per cent., domestic sales recorded a decrease of 18.7 per cent. and exports recorded an increase of 20.2 per cent., each compared with 2002. In 2004, automobile production increased by 9.2 per cent., domestic sales recorded a decrease of 17.0 per cent. and exports recorded an increase of 31.1 per cent., compared with 2003. In 2005, automobile production increased by 6.6 per cent., domestic sales recorded an increase of 4.5 per cent. and exports recorded an increase of 8.7 per cent., compared with 2004. In 2006, automobile production increased by 3.8 per cent., domestic sales recorded an increase of 1.8 per cent. and exports recorded an increase of 2.3 per cent., compared with 2005.

Electronics

In 2002, electronics production increased by 17.3 per cent. and exports increased by 17.2 per cent., each compared with 2001 primarily due to the growth in global information technology products demand. In 2002, export sales of semiconductor memory chips constituted approximately 10.2 per cent. of the Republic's total exports. In 2003, electronics production increased by 17.1 per cent. and exports increased by 21.8 per cent., each compared with 2002 primarily due to the continued growth in global information technology products demand. In 2003, export sales of semiconductor memory chips constituted approximately 10.1 per cent. of the Republic's total exports. In 2004, electronics production increased by 21.8 per cent. and exports increased by 29.6 per cent., each compared with 2003 primarily due to growth in exports of semiconductor memory chips and global information technology products. In 2004, export sales of semiconductor memory chips constituted approximately 10.4 per cent. of the Republic's total exports. In 2005, electronics production increased by 16.0 per cent. and exports increased by 7.1 per cent., each compared with 2004 primarily due to continued growth in exports of semiconductor memory chips and global information technology products. In 2005, export sales of semiconductor memory chips constituted approximately 10.5 per cent. of the Republic's total exports. In 2006, electronics production increased by 10.0 per cent., based on preliminary data, and exports increased by 11.7 per cent., each compared with 2005 primarily due to continued growth in exports of semiconductor memory chips and global information technology products. In 2006, export sales of semiconductor memory chips constituted approximately 11.5 per cent. of the Republic's total exports.

Iron and Steel

In 2002, crude steel production totaled 45.4 million tons, an increase of 3.5 per cent. from 2001. Domestic sales increased by 14.6 per cent. due to the recovery of the domestic economy and exports increased by 2.3 per cent.. In 2003, crude steel production totaled 46.3 million tons, an increase of 2.0 per cent. from 2002. Domestic sales increased by 3.8 per cent. and exports increased by 31.8 per cent.. In 2004, crude steel production totaled 47.5 million tons, an increase of 2.6 per cent. from 2003. Domestic sales increased by 3.6 per cent. and exports increased by 44.4 per cent. due to increased demand in China. In 2005, crude steel production totaled 47.8 million tons, an increase of 0.5 per cent. from 2004. Domestic sales increased by 0.3 per cent. and exports increased by 23.8 per cent. due to continued strong demand in China. In 2006, crude steel production totaled 48.4 million tons, an increase of 1.2 per cent. from 2005. Domestic sales increased by 5.3 per cent. and exports increased by 14.2 per cent..

Shipbuilding

In 2002, the Republic's shipbuilding orders amounted to 6.5 million compensated gross tons, a decrease of 6.2 per cent. compared to 2001. In 2003, the Republic's shipbuilding orders amounted to 15.8 million compensated gross tons, an increase of 143.1 per cent. compared to 2002. In 2004, the Republic's shipbuilding orders amounted to 15.2 million compensated gross tons, a decrease of 3.8 per cent. compared to 2003. In 2005, the Republic's shipbuilding orders amounted to 11.8 million compensated gross tons, a decrease of 22.4 per cent. compared to 2004. In 2006, the Republic's shipbuilding orders amounted to 19.6 million compensated gross tons, an increase of 44.1 per cent. compared to 2005.

Agriculture, Forestry and Fisheries

The Government's agricultural policy has traditionally focused on:

- grain production;
- development of irrigation systems;
- land consolidation and reclamation;
- seed improvement;
- mechanization measures to combat drought and flood damage; and
- increasing agricultural incomes.

Recently, however, the Government has increased emphasis on cultivating profitable crops and strengthening international competitiveness in anticipation of the opening of the domestic agricultural market.

In 2002, the production of rice, the largest agricultural product in Korea, decreased 10.7 per cent. from 2001 to 4.9 million tons. In 2003, rice production decreased 9.7 per cent. from 2002 to 4.5 million tons. In 2004, rice production increased 12.3 per cent. from 2003 to 5.0 million tons. In 2005, rice production decreased 4.6 per cent. from 2004 to 4.8 million tons. Based on preliminary data, in 2006, rice production decreased 2.1 per cent. from 2005 to 4.7 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs. In 2001, 2002, 2003, 2004 and 2005, the Republic's self sufficiency ratio was 56.8 per cent., 58.3 per cent., 53.3 per cent., 50.2 per cent. and 53.4 per cent., respectively.

The Government is seeking to develop the fisheries industry by encouraging the building of large fishing vessels and modernizing fishing equipment, marketing techniques and distribution outlets.

In 2002, the agriculture, forestry and fisheries industry, which decreased by 3.5 per cent. compared to 2001, was affected by unusually unfavorable weather conditions, including a severe typhoon during the month of September. In 2003, the agriculture, forestry and fisheries industry decreased by 5.3 per cent. compared to 2002 primarily due to unfavorable weather conditions. In 2004, the agriculture, forestry and fisheries industry increased by 9.2 per cent. compared to 2003 primarily due to increased production of rice, fruits and vegetables, as well as an increase in fishing catch. In 2005, the agriculture, forestry and fisheries industry increased by 0.7 per cent. compared to 2004 primarily due to slightly increased production of rice, fruits and corns. Based on preliminary data, in 2006, production in the agriculture, forestry and fisheries industry decreased by 2.6 per cent. compared to 2005 primarily due to decreased production of rice, fruits and corns.

Construction

In 2002, the construction industry increased by 2.8 per cent. compared to 2001 due to the expansion of residential and commercial construction. In 2003, the construction industry increased by 8.6 per cent. compared to 2002, mainly driven by a surge in building construction, notably of commercial and residential buildings. In 2004, the construction industry increased by 1.8 per cent. compared to 2003 primarily due to a steady increase in residential and commercial construction. In 2005, the construction industry increased by 0.1 per cent. compared to 2004 primarily due to a slight increase in residential and commercial construction. Based on preliminary data, in 2006, the construction industry decreased by 0.1 per cent. compared to 2005 primarily due to a slight decrease in the construction of residential and commercial buildings.

Electricity and Gas

The following table sets out the Republic's dependence on imports for energy consumption:

Dependence on Imports for Energy Consumption

	Total Energy Consumption	Imports	Imports Dependence Ratio
	(millions of tons of oil equivalents, except ratios)		
2002	208.8	202.7	97.1
2003	215.1	208.5	96.9
2004	220.2	213.2	96.8
2005	228.6	221.1	96.7
2006	231.5	224.0	96.8

Source: Korea Energy Economics Institute.

Korea has no domestic oil or gas production and depends on imported oil and gas to meet its energy requirements. Accordingly, international prices of oil and gas significantly affect the Korean economy. Any significant long-term increase in the prices of oil and gas will increase inflationary pressures in Korea and adversely affect the Republic's balance of trade.

To reduce its dependence on oil and gas imports, the Government has encouraged energy conservation and energy source diversification emphasizing nuclear energy. The following table sets out the principal primary sources of energy consumed in the Republic, expressed in oil equivalents and as a percentage of total energy consumption.

Consumption of Energy by Source

	Coal		Petroleum		Nuclear		Others		Total	
	Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%
	(millions of tons of oil equivalents, except percentages)									
2002	49.1	23.5	102.4	49.1	29.8	14.3	27.5	13.1	208.8	100.0
2003	51.1	23.7	102.4	47.6	32.4	15.1	29.2	13.5	215.1	100.0
2004	53.1	24.1	100.6	45.7	32.7	14.8	33.8	15.4	220.2	100.0
2005	54.8	24.0	101.5	44.4	36.7	16.1	35.6	15.5	228.6	100.0
2006	56.7	24.5	101.4	43.8	37.2	16.1	36.2	15.6	231.5	100.0

Source: Korea Energy Economics Institute.

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. Construction of an additional 18 nuclear power plants was completed by July 2004, adding 16,129 megawatts of generating capacity. The Republic's total nuclear power generating capacity is estimated to be 17,715 megawatts as of December 31, 2006.

Services Sector

In 2002, the transportation, storage and communications sector increased by 9.2 per cent. compared with 2001. In 2003, the transportation, storage and communications sector increased by 4.8 per cent. compared with 2002. In 2004, the transportation, storage and communications sector increased by 7.0 per cent. In 2005, the transportation, storage and communications sector increased by 4.8 per cent. Based on preliminary data, in 2006, the transportation, storage and communications sector increased by 4.7 per cent. In 2002, the financing, insurance, real estate and business service subsector increased by 11.0 per cent. compared with 2001. In 2003, the financing, insurance, real estate and business service subsector increased by 1.5 per cent. compared with 2002. In 2004, the financing, real estate and business service subsector increased by 1.4 per cent. compared to 2003. In 2005, the financing, real estate and business service subsector increased by 3.4 per cent. compared to 2004. Based on preliminary data, in 2006, the financing, real estate and business service subsector increased by 4.2 per cent. compared to 2005.

Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index(1)	Increase Over Previous Year	Consumer Price Index(1)	Increase Over Previous Year	Wage Index(1)(2)	Increase Over Previous Year	Unemployment Rate(1)(3)
	(2000=100)	(%)	(2000=100)	(%)	(2000=100)	(%)	(%)
2002	99.2	(0.3)	106.9	2.7	116.8	11.2	3.3
2003	101.4	2.2	110.7	3.6	127.6	9.2	3.6
2004	107.6	6.1	114.7	3.6	135.2	6.0	3.7
2005	109.9	2.1	117.8	2.7	144.2	6.6	3.7
2006	112.4	2.3	120.4	2.2	N/A(4)	N/A(4)	3.5

(1) Average for year.
(2) Nominal wage index of earnings in all industries.
(3) Expressed as a percentage of the economically active population.
(4) Not available.

Source: The Bank of Korea; Korea National Statistical Office.

The Government's economic policy has helped keep inflation low. The inflation rate was 2.7 per cent. in 2002, 3.6 per cent. in 2003, 3.6 per cent. in 2004, 2.7 per cent. in 2005 and 2.2 per cent. in 2006. The inflation rate, on an annualized basis, was 2.1 per cent. in the first quarter of 2007, 2.4 per cent. in the second quarter of 2007 and 2.3 per cent. in the third quarter of 2007.

The unemployment rate was 3.3 per cent. in 2002, 3.6 per cent. in 2003, 3.7 per cent. in 2004, 3.7 per cent. in 2005 and 3.5 per cent. in 2006. The unemployment rate was 3.6 per cent. in the first quarter of 2007, 3.2 per cent. in the second quarter of 2007 and 3.1 per cent. in the third quarter of 2007.

From 1992 to 2005, the economically active population of the Republic increased by 21.5 per cent. to 23.7 million, while the number of employees increased by 21.2 per cent. to 22.9 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 60 per cent. and 63 per cent. over the past decade. Literacy among workers under 50 is almost universal.

As of July 1, 2004, Korea adopted a five-day workweek for large corporations with over 1,000 employees, publicly-owned (state-run) companies, banks and insurance companies, reducing working hours from 44 to 40 hours a week. The adoption of the five-day workweek has been extended to companies with over 300 employees and to government employees as of July 1, 2005 and to companies with over 100 employees as of July 1, 2006. Companies with more than 50 employees are expected to adopt the five-day workweek by July of 2007 and those with over 20 by July 2008.

Approximately 10.8 per cent. of the Republic's workers were unionized as of December 31, 2003. In the early 2000s, the labor unions of several of the Republic's largest commercial banks, including Kookmin Bank, Chohung Bank (now Shinhan Bank) and KorAm Bank (now Citibank), staged strikes in response to consolidation in the banking industry. In addition, in the summer of 2004 and 2005, respectively, unionized workers of GS Caltex Corporation and Asiana Airlines staged strikes demanding better compensation and working conditions. In the fall of 2005, unionized workers at Hyundai Motor Company and Kia Motors Corp. went on strikes during annual contract talks. In December 2005, Korean Air's unionized pilots also staged strikes demanding a higher wage increase. In the summer of 2006, unionized workers of Hyundai Motor Company and Kia Motors Corp. went on partial strikes demanding better compensation and working conditions, and unionized workers of Ssangyong Motor Company went on strike in response to the company's proposed layoff plans. Also, in July 2006, unionized workers of POSCO's subcontractors initiated a sit-in strike at POSCO's headquarters in Pohang demanding better wages and working conditions, disrupting POSCO's operations for nine days. Actions such as these by labor unions may hinder implementation of the labor reform measures and disrupt the Government's plans to create a more flexible labor market. Although much effort is being expended to resolve labor disputes in a peaceful manner, there can be no assurance that further labor unrest will not occur in the future. Continued labor unrest in key industries of the Republic may have an adverse effect on the economy.

In 1997, the Korean Confederation of Trade Unions organized a political alliance, which led to the formation of the Democratic Labor Party in January 2000. The Democratic Labor Party, which seeks to represent the interests of workers, currently controls nine seats in the National Assembly.

8.2 Financial Industry

8.2.1 Banking Industry

The banking industry in Korea can be divided into two broad categories: commercial banks and specialised banks.

Commercial Banks

As of the end of June 2007, commercial banks consisted of seven nationwide commercial banks, six local banks, and 36 foreign bank branches. Commercial banks have adopted the branch banking system with a nationwide or province-wide network. The total number of domestic branches of commercial banks amounted to about 4,900 as of the end of June 2007.

Nationwide commercial banks held total assets amounting to about 845.4 trillion won as of the end of June 2007, representing a 79.5 percent share in the total assets of commercial banks. Their principal sources of funds are deposits in domestic currency. At the end of June 2007, deposits and bonds payable in domestic currency accounted for 48.5 percent and 12.3 percent of total sources, respectively. As for uses of funds, nationwide commercial banks operated the largest proportion of their funds, 57.9 percent, as loans and discounts in won. The share of securities investment in total assets was 16.6 percent.

The financial structure of local banks is largely similar to that of the nationwide commercial banks, but their reliance on domestic currency deposits and securities investment is higher. At the end of June 2007, deposits in domestic currency accounted for 54.6 percent of total sources. And the share of securities investment in their total assets was 22.1 percent.

Foreign bank branches'most important source of funds is, typically, the inter-office account which, as of the end of June 2007, represented 24.5 percent of their total sources followed by call money (21.1 per cent.) while deposits in domestic currency constituted only 4.0 percent. As to uses of funds, securities investment accounted for the largest proportion, at 39.2 percent. Loans to Korean banks in foreign currencies accounted for 4.3 percent and loans in domestic currency represented 4.5 percent.

Specialised banks

As of the end of June 2007, there were five specialized banks:

- The Korea Development Bank for the financing of key industries for the development of industries and national economy,

- The Export-Import Bank of Korea for financial support for export and import transactions, overseas investment projects, and the development of natural resources abroad,

- The Industrial Bank of Korea for the financing of small and medium sized firms,

- The credit and banking sector of the National Agricultural Cooperative Federation for agricultural, forestry, and livestock loans,

- The credit and banking sector of the National Federation of Fisheries Cooperatives for fishery loans.

Specialized banks share the following main characteristics. First, they were established to provide funds to particular sectors whose supply of funds through commercial banks was insufficient due to limited availability or low profitability. With subsequent changes in the financial environment, however, they have expanded their business into commercial banking areas, although their share of funds allocation to their relevant sectors is still relatively high. Now most specialized banks have, by and large, the same pattern of business as commercial banks.

Second, they rely heavily on deposits from the public for their sources of funds in addition to the issue of debentures and borrowing from the government. Therefore, they compete with commercial banks in acquiring deposits.

Source: Financial System in Korea published by The Bank of Korea on 24 December 2007

8.2.2 Non-Banking Financial Industry

Non-bank financial institutions can be broadly classified into five categories according to their business activities: that is non-bank depository institutions, securities related companies, insurance institutions, other financial institutions, and financial auxiliary institutions.

Non-bank depository institutions consist of merchant banking corporations, mutual savings banks, credit institutions, and the postal savings system. Merchant banking corporations can engage in almost all financial businesses except insurance business. Mutual savings banks specialize in taking deposits and lending for populace and small enterprises. Credit institutions such as credit unions, mutual credit facilities, and community credit cooperatives operate for mutual aid between members by taking deposits and lending. The postal savings system, which operates through post offices nationwide, is a public financial institution.

Insurance institutions consist of life insurance companies, non-life insurance companies, postal life insurance, and pensions.

The Act on the Business of Operating Indirect Investment and Assets entered into force from January 5, 2004; under its provisions both securities investment trust companies and asset management companies, which had been regulated respectively by the Securities Investment Trust Companies Act and the Securities Investment Company Act, were converted into asset management companies. The main business of such asset management companies is investing capital raised from investors in stocks and bonds and distributing the earnings on such investments. Securities companies engage in the stock and bond markets either as dealers or brokers. There are futures companies, securities finance company (the Korea Securities Finance Corporation), investment advisory companies which also operate as securities related companies.

In addition to the financial institutions just mentioned, there are other financial institutions such as credit specialized financial companies, venture capital companies, and trust companies. Also there are financial auxiliary institutions including, financial supervisory service, deposit insurance institution (the Korea Deposit Insurance Corporation), financial telecommunications & clearings institute, credit guarantee institutions, credit rating companies, etc.

These non-bank financial institutions, unlike banks, have no special limits on ownership, and some are affiliated companies of other financial institutions such as banks and securities companies.

Source: Financial System in Korea published by The Bank of Korea on 24 December 2007

9 GENERAL INFORMATION

9.1 Taxation in Malaysia

The following is intended as general information only and it does not purport to present any comprehensive or complete picture of all aspects of Malaysian tax laws, which could be of relevance to a holder of Notes. Prospective holders of Notes should therefore consult their tax advisor regarding the tax consequences of any purchase, ownership or disposal of Notes.

The following summary is based on the Malaysian tax law, published case law, and tax practice as in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Income Tax

In general, income tax is imposed on income accruing in or derived from Malaysia, or received in Malaysia from outside Malaysia. However, income derived from sources outside Malaysia and received in Malaysia is exempt from tax for all persons, except resident companies carrying on the business of banking, insurance, or sea or air transport.

Any person having queries about Malaysian taxation, or liability to tax in a jurisdiction other than Malaysia is advised to seek appropriate professional advice.

Withholding Tax

In general, interest derived from Malaysia that is payable to a non-resident is subject to a Malaysian withholding tax of 15 per cent. Malaysian withholding tax will not apply to the interest paid on the Notes on the basis that interest paid on the Notes will not be derived from Malaysia, as responsibility for payment does not lie with a Malaysian Government or a Malaysian resident and the interest will not be charged as an outgoing or expense against any income accruing in or derived from Malaysia.

Capital Gains Tax

There is no tax on capital gains from the disposition of the Notes.

9.2 Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.

Tax on Interest

In principle, interest paid to a non-resident by a Korean company is subject to withholding of Korean income or corporation tax unless exempted by relevant laws or tax treaties.

The Special Tax Treatment Control Law (the "**STTCL**") exempts interest on notes denominated in a foreign currency (excluding payments to a Korean corporation or resident other than to its overseas Permanent Establishment) from Korean income or corporation tax. The residence tax referred to below is also therefore eliminated. Accordingly, if not exempt under the STTCL, interest on the Notes will be subject to withholding of Korean income or corporation tax at the rate of 14 per cent. for a non-resident. In addition, a tax surcharge, called a residence tax, is imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

Tax is withheld by the payer of the interest. In principle, Korean law does not entitle the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if it subsequently produces evidence that it was entitled to have tax withheld at a lower rate, although in certain limited circumstances it may be possible to recover withheld tax from the payer. Tax rates may be reduced or exempted by applicable tax treaties, conventions or agreements between Korea and the country of the recipient of the interest. The relevant tax treaties are summarised below.

In order to obtain a reduction in withholding tax under an applicable tax treaty, a non-resident should submit, prior to the interest payment date, such evidence of tax residence as the Korean tax authorities may require in support of the claim for treaty protection. Further, in order to obtain a benefit of tax exemption available under an applicable tax treaty, a non-resident should submit an application for exemption by the ninth day of the month following the month in which the first payment occurred together with a certificate of the non-resident's tax residence issued by a competent authority of the non-resident's residence county. However, this requirement does not apply to any exemption under Korean tax law.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a non-resident without a permanent establishment in Korea from the sale of Notes to non-residents (unless the sale is to the non-resident's Permanent Establishment in Korea). In addition, capital gains earned by non-residents from the transfer of Notes taking place outside of Korea are currently exempt from taxation by virtue of the STTCL provided that the offering of the Notes is deemed to be an overseas issuance under the STTCL.

In the absence of an applicable treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax is the lower of 11 per cent. of the gross realisation proceeds (the Gross Realisation Proceeds) or (subject to the production of satisfactory evidence of the acquisition cost and transaction cost of the relevant Korean securities) 27.5 per cent. of the gain made. The gain is calculated as the Gross Realisation Proceeds less the acquisition cost and transaction cost. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Korean securities. Unless the seller can claim the benefit of an exemption or a reduced rate of tax under an applicable treaty or in the absence of the seller producing satisfactory evidence of its acquisition cost and transaction cost in relation to the Korean securities being sold, the purchaser or the securities company, as applicable, must withhold an amount equal to 11 per cent. of the Gross Realisation Proceeds. Any withheld tax must be paid no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Korean securities occurred. Failure to timely transmit the withheld tax to the Korean tax authorities technically subjects the purchaser or the securities company to penalties under Korean tax law.

In order to obtain the benefit of reduced rates of withholding tax under an applicable tax treaty, a non-resident seller should submit to the purchaser prior to or at the time of payment, such evidence of tax residence of the seller as the Korean tax authorities may require in support of the claim for treaty protection. Further, Korean tax law requires a non-resident seller to submit to the purchaser or the securities company, as applicable, the application for the exemption with a certificate of tax residence of the non-resident seller issued by a competent authority of the non-resident seller's country of residence by the ninth day of the month following the month in which the first payment occured in order to obtain the benefit of a tax treaty exemption. However, this requirement will not be applied to the exemption under Korean tax law.

Tax Treaties

At the date of this Information Memorandum, Korea has tax treaties with, inter alia, Australia, Austria, Bangladesh, Belgium, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Nepal, Kuwait, Kazakhstan, Luxembourg, Malaysia (excluding the Federal Territory of Labuan), Malta, Mexico, Mongolia, Morocco, Netherlands, New Zealand, Norway, Pakistan, Papua New Guinea, Philippines, Poland, Portugal, Belarus, Chile, Fiji, South Africa, Romania, Russia, Singapore, Slovakia, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Tunisia, Turkey, Ukraine, Myanmar, United Arab Emirates, United Kingdom, United States of America, Uzbekistan and Vietnam. Under these treaties, the rate of withholding tax generally is reduced to a rate ranging from 0 per cent. to 16.5 per cent. and the tax on capital gains is often eliminated.

Each holder of the Notes should inquire whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest/profit payments to file with the bank, the purchaser or the securities company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, the Bank, the purchaser or the securities company, as applicable, must withhold taxes in accordance with the above discussion.

Withholding and Gross Up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to STTCL. However, in the event that the Bank is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in Section 2 on "Summary of the MTN Programme – Taxation"), the Bank has agreed to pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and interest/profit which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.

9.3 Material Contracts

There are no contracts which materially and adversely affect the business practices, operations or condition of the Bank or any of its assets or property entered into by the Bank which are still in force as at 31 December 2007 or are expected to be entered into.

9.4 Material Litigation

The Bank is not engaged in any material litigation, arbitration or other proceedings (either as plaintiff or defendant), and the Bank is not aware of any such proceedings pending or threatened.

9.5 Contingent Liabilities and Capital Commitments

The Bank has not entered into any material capital transactions (either as vendor or purchaser) nor incurred any contingent liabilities (other than those incurred in the ordinary course of business and as already indicated in this Information Memorandum).

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