

2004 ANNUAL REPORT

Creating New Value



Molding Success

Our main objective is to help our clients' dreams take shape, providing the financial means necessary to sculpt their visions into realistic ventures. With 395 domestic branches and 5 offices overseas, IBK offers businesses the freedom to follow their aspirations wherever they may lead.

Our commitment extends beyond mere numbers and figures. We understand that our customers are also our neighbors, friends and family. That is why we offer a lending hand through every step of their financial journey. This level of dedication earned IBK the title of "The Most Reliable Bank" by the Korea Federation of Small and Medium Business in the 2004.

At IBK, we strenuously emphasize our core principles of earning trust, enhancing customer value, and cultivating strong partnerships by showing transparency in our operations, optimizing our risk-reward ratio, and demanding virtuous conduct in all of our employees. With our priorities set squarely on promoting these fundamental values, we expect to maintain our leadership position in the financial services industry for many years to come.

Contents

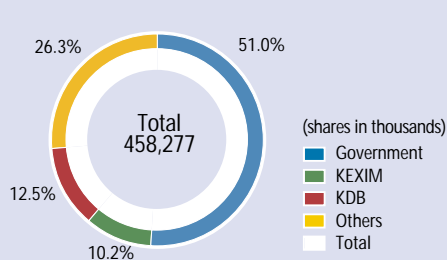
- 01 Financial Highlights
- 02 CEO Message
- 08 Entrepreneurship Hall of Fame
- 10 Business Section
- 22 Small and Medium-Sized Enterprise Section
- 28 Extensive Products & Services
- 34 Financial Section
- 180 Business Network
- 181 Contact Information

Financial Highlights

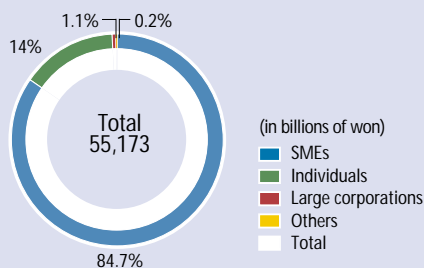
Results at a glance

	2003		2004	
	KRW (in billions)	USD (in millions)	KRW (in billions)	USD (in millions)
At the years-end				
Total Assets	71,584	68,581	74,494	71,369
Loans	51,741	49,570	55,173	52,858
Deposits	34,215	32,780	37,118	35,561
Total Shareholders' Equity	3,452	3,307	3,904	3,741
For the years-ended				
Total Revenues	6,403	6,134	6,897	6,608
Total Expenses	6,091	5,836	6,369	6,102
Net Income	224	215	370	355

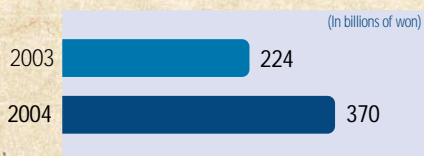
Ownership Structure



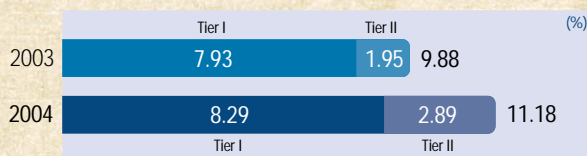
Loans Profile



Net Income



BIS Ratio



Credit Ratings

Moody's	Fitch Ratings	Standard & Poor's
A3	A	BBB+

CEO Message

“Progress only comes with change” was the guiding principle of the Industrial Bank of Korea (IBK) in 2004. We worked hard throughout the year to build a stronger client-focused, performance-driven corporate identity. From top to bottom, every facet of the Bank’s operations was reassessed. Our efforts to incorporate innovation in our strategy and product offerings proved successful, as we surpassed the financial expectations for the year despite numerous challenges and uncertainties clouding the Korean market place. Having emerged from the year better equipped to serve our customers, we move confidently toward an optimistic future.

2004 IN REVIEW

Solid Results Despite a Challenging Environment

With the economy performing below expectations, 2004 was a difficult year for both IBK and our customers. GDP growth slowed to an estimated 4.6%, falling short of government forecasts. And while there was a spectacular 31% surge in exports, the anemic domestic demand counterbalanced any of its positive effects. Furthermore, high oil prices and a strong won in the latter part of the year undermined efforts to kick-start the sluggish economy.

While daunting, we met these challenges as opportunities to extend our leadership position in the Korean banking industry. One main objective we set for the year was to leverage the competitiveness of scales and completeness we enjoy over our peers in the small and medium-sized enterprise (SME) finance market to the maximum advantage. To accomplish this task, we increased our SME financing by ₩4.3 trillion, accounting for an impressive 40% of the total annual increase in SME loans in the Korean banking industry. By the year-end, we once again held the largest share of the SME finance market with 16.5%.

Another top priority was to refine our credit risk management framework while disposing of non-performing loans by issuing asset-backed securities. I believe we successfully



met those objectives in 2004; our NPL ratio improved to 1.46% and delinquency ratios of SME loans, household loans and credit card assets fell to 1.42%, 1.08%, and 3.68% respectively. Also, thanks to our prudent capital management and the successful issuance of lower tier II subordinated bonds in March and June 2004, we ended the year with a solid capital adequacy ratio of 11.18%.

These factors proved instrumental in IBK posting positive figures for the sixth consecutive year. We recorded a double-digit increase of 65.4% in net income, taking in ₩370 billion for the year with ROE and ROA improving to 9.87% and 0.51%, respectively.

Our Accomplishments

In 2004, we strove to attain balanced growth across the board in our business operations. While primarily focusing on SME banking, our policy-mandated sphere, we pressed into new segments in search of greater profitability and better service capabilities. Here are just a few examples of how we expanded our horizons.

- **Network Loan:** Out of all the new products and services offered to the SME sector this year, the 'Network Loan', an IBK in-house developed financing product, arguably ranks at the top of the list. The first of its kind in the banking industry when initially offered, the Network Loan is a form of receivable-backed financing that makes funds available immediately to SMEs when sub-contracted by a large corporation. This unique pre-financing product alleviates the undue financing burdens our customers suffer from the traditional deferred payment schedule of subcontract transactions. The Network Loan has revolutionized the very nature of

the market dialogue between contractors and subcontractors from "supply now, payment later" to "payment now and supply later". Recognized for its substantial contribution to the SME sector, the Network Loan was awarded the Grand Prize by the Minister of Finance and Economy in the Maeil Economic Daily Financial Product Awards.

- **Primary CBOs:** In an effort to promote on-shore capital markets and to support SME trade activities between Japan and Korea, the two respective governments decided on the issuance of ¥10 billion primary CBOs (collateralized bond obligations.) As Korea's sole SME policy bank, we were tapped to participate in this transaction. The issuance was a benchmark bond transaction, providing Korea's SMEs access to international capital markets. IBK and the Japan Bank for International Cooperation were the credit guarantors on the senior tranche of the primary-CBOs sold to Japanese investors.
- **SME Consulting Center:** In 2003, IBK was the first bank to establish a SME Consulting Center in Korea. Since then, we have steadily expanded the scope of our service. This year, the Center launched a variety of services to address the dynamic needs and concerns of our clients: the Self-Business Check-Up Program, a self-diagnostic and examination solutions for SMEs; the SME Business Center, an exclusive SME business facility; and the SME Legal Support Team, a legal advisory service that provides assistance with various legal issues. These services help demonstrate the convenience and practicality our one-stop solution center extends to SMEs.

CEO Message

4

Our capacity to offer customer-specific products has substantially improved, along with our ability to engage in one-on-one marketing.

- **Bancassurance:** The Bancassurance Business Unit made notable strides in 2004, illustrating IBK's superiority in corporate marketing. We strengthened our leading position in the sector, as a result of our extensive corporate client base and strong sales network. By the year-end, our Bancassurance business had an impressive market share of 47.0% in the corporate insurance segment. Along with the consumer insurance operation, the Unit generated ₩32 billion in aggregate fee income during the year, ranking third overall among Korean banks.
- **IBK SG Asset Management:** In October 2004, we established IBK SG Asset Management, a joint venture asset management affiliate with Societe General Asset Management (SGAM). The partnership's first product, the Grandprix Fund Series, was made available to the public in January 2005. It provides a tailored assortment of investment products designed to address the particular needs of an investor. Seeing as we have some of the best distribution networks and marketing forces in the business and SGAM has world-class expertise and knowledge in the area of asset-management, I believe that our collaboration will bring out the best in both companies.
- **Credit Cards:** Like most financial institutions in Korea this past year, our Credit Card Business Unit needed to recover profitability by enhancing asset quality. The Unit focused on de-marketing potentially insolvent customers and reinforcing collection operations. To support these measures, we augmented our credit scoring system and early warning system. As a result, the net monthly profit of our credit card operation turned black beginning in June 2004, and closed the year by posting ₩6.2 billion in December.
- **Electronic Banking:** In 2004, our e-banking solutions garnered much critical and public acclaim. We took the top honor in the e-Business Awards held by the Ministry of Commerce, Industry and Energy, and another grand prize in the Korea e-Finance Awards presented by the Korea Economic Daily. Our new products for 2004 were the Fine CashOne, an automated and real-time total cash management solution that is linked to our e-CBS (electronic Corporate Banking System), the IC (Integrated Circuit) chip mobile banking, a service that enables a customer to use comprehensive banking services with a mobile phone, and the Fine Smart Card, an IC chip-installed card that functions as various banking instruments with augmented security.
- **Investor Relations:** IBK gained further prominence within the investment community in 2004, as attested to by our inclusion in major stock indices. Subsequent to our listing on the Korea Stock Exchange in December 2003, IBK was included in the KOSPI 200 (Korea Composite Stock Price Index 200) and the FTSE (Financial Times Stock Exchange) Asia Pacific Index, generating considerable interest among institutional investors. In recognition of our sustainable earnings, solid EPS growth and attractive dividend yield, Merrill Lynch Asia Pacific Limited added IBK as a component of the 2005 Asia Twenty Stock Value and Growth Basket in July 2004.

Technological Innovation

After more than two years of preparation, we successfully launched a new IT infrastructure called the Next Generation System (NGS) last September. Given that we were the first adaptor of the NGS in Korea, our seamless transition to the new system was pretty



remarkable. It has succeeded in promoting greater efficiency across the board at our Bank.

The NGS is a state-of-the-art technological platform that incorporates many exciting features. With its 24-hour operating system, the NGS provides on-demand banking service to customers through our diverse delivery channels. The NGS also features a complete information integration and management system for each customer that accumulates and analyzes transaction data on a real-time basis. As a result, our capacity to offer customer-specific products has substantially improved, along with our ability to engage in one-on-one marketing. Another unique NGS feature is its ability to promptly integrate needed product components in the course of product development. This has shortened the product development period to only three days. On the system maintenance front, the flexibility of the NGS has enhanced system interchangeability and compatibility, resulting in a marked reduction in IT maintenance costs.

Upholding Our Promise

A highlight for 2004 that is not reflected on the income statements, but one I hold in the highest regard, is the recognition we received from the Korea Federation of Small and Medium Business. We were named “The Most Reliable Bank” for our service and commitment to the SME industry. The award is especially gratifying because individual SME owners cast the votes to determine the recipient. It serves as a proud reminder of the symbiotic bond we share with this sector and the responsibility we have to ensure its continued success.

As a gesture of our goodwill and commitment to the SME sector, we established the IBK Entrepreneurship Hall of Fame, which honors the accomplishments of Korean SME entrepreneurs. It is the first exhibit ever in the Korean banking industry to be solely dedicated to the SME sector. The exhibit celebrates the achievements of individuals who have consistently set the highest standards in their entrepreneurial activities while steadfastly upholding their social responsibilities. We wanted to honor the contributions and lasting footprints of these distinguished individuals because their contributions to the national economy largely go unnoticed. On 1 August 2004, four entrepreneurs, who were selected based on their companies' global market share, credit ratings, company history, major achievements, and technological capability, became the inaugural inductees into the IBK Entrepreneurship Hall of Fame. We hope the entrepreneurial spirit of these great individuals inspires others on their journeys forward in an increasingly challenging financial environment.

2005 GOALS AND OBJECTIVES

Much like this past year, IBK must overcome several hurdles to have a successful 2005. Korea's economic growth is expected to continue its slowdown, with exports dwindling as a result of a strong won. Domestic demand, although it has shown small signs of recovery, will likely remain weak due to high household debts and personal bankruptcy. The high price of raw materials, as well as soaring oil prices, is also expected to saddle additional burden on domestic businesses.

CEO Message

An increasingly competitive environment is another reality IBK must confront in 2005. While the financial sector undergoes widespread restructuring efforts, the market entry of global financial giants will further intensify the competition among financial institutions. With international distribution channels and years of expertise to their name, they will be a formidable presence in the Korean financial services industry.

Our Principles

With the stagnant economy and intense competition slimming the field of major players, IBK is determined to emerge as one of the frontrunners in this sector. To that end, we have formulated our growth strategies according to the following four business principals:

- **Strengthening Partnership:** We are intent on strengthening partnerships with our customers because we believe that we can only grow in step with our customers. We are a shelter for SMEs from the rain so to speak, and we must continue to provide unwavering support to the SME sector.
- **Enhancing Profitability:** We place profitability as one of our top priorities not only because it is critical in maximizing shareholder value, but since it is also needed to increase our capacity to fulfill our policy mission of supporting the SME sector.
- **Inspiring Creativity:** We at IBK value a culture of creativity and innovation. Creativity is the muse that inspires excellence within our organization; innovation is what differentiates us from our peers in an environment of change, challenge and competition.

- **Fostering Trust:** We value people who are not only passionate about their work, but also about their commitment to upholding the highest levels of personal integrity. Moral fiber is the very backbone of any financial institution, for it is an implicit contract of trust that is at the heart of every financial transaction.

Growth Strategy

- **Market Leadership:** We have taken the lion's share of the SME market by steadfastly operating within our core strengths. The challenge now is to keep this momentum going with a strategy incorporating both new and existing initiatives. Over the course of 2005, we plan to commit approximately ₩20 trillion to various industries in an effort to identify promising SMEs, thereby building a solid base for future growth. The Private Equity Fund business is another area we are looking to develop to solidify our market leadership. Complementing these measures will be the refinement of our credit management infrastructure. We are currently working to establish an external SME credit rating agency in partnership with 11 other institutions. Not only will this assist us in preparing for the New Basel Capital Accord (Basel II), but it will also allow us to expand non-collateralized lending.

In addition, we will focus on diversifying our offerings with a list of innovative products and services. Services such as the electronic bills discount and the structured loan will challenge the traditional concept of SME banking. The key to these initiatives will be a marketing strategy that caters to each corporate clientele's specifications. We must also strike a personal cord with our customers, fostering life-long relationships. This means offering financial solutions that go beyond traditional SME services, connecting with CEOs, employees and their families on a personal level.

- **Prudent Risk Management:** It is an indisputable fact that strong profitability is only realized when there is prudent risk management. Also, global compliance of the risk management system is now more important than ever given the pending implementation of Basel II. As such, we are committed to bringing our risk management system in line with global standards by continuing to enhance our overall risk management framework and to cultivate a risk robust culture across all of our operating units.

On the credit risk management front, we are well positioned to improve asset quality and secure more stable earnings due to our substantial database of information on the SME sector and peerless credit rating models. However, we are planning a thorough refinement of our credit risk management framework, ranging from credit monitoring and credit review to delinquency management and work-out program. In addition, we will focus on insolvency prevention by taking full advantage of our early warning system. We will not only detect potentially delinquent SMEs, but will also work to help them address their financial difficulties.

- **Diverse Profit Sources:** Given the competitive environment, it is vital to improve our profit structure by expanding and diversifying our sources of income. With this in mind, we are intent on continuing to expand into non-interest segments such as investment banking, private banking, asset management and bancassurance. However, to achieve success in these new business segments, we must increase our retail client base and establish a comprehensive customer relationship management system.
- **Performance-Driven Organization:** We will continue to evolve into a performance-driven organization by adopting a new human resource management

framework. Our aim is to increase fairness and transparency in our human resource management. This means we must incorporate efficient performance standards and an accurate evaluation system to facilitate a better compensation program. Also, we will work to develop in-house experts by providing top notch training programs while offering personalized training roadmaps and guidelines tailored to the specific long-term career vision of each employee.

GOING FORWARD

I am proud of the progress we have made and the results we delivered in 2004. As we move forward, we will continue to build on our strong capital, funding and liquidity positions to enhance the financial strength of the Bank.

In closing, I would like to recognize the people who have made IBK the great financial institution it is today, and who hold in their hands the promise of what it can be tomorrow. I am deeply indebted and sincerely grateful to shareholders, investors, customers and the IBK staff for their passion, dedication and inexhaustible spirit. By working together in harmony, we can look forward to overcoming any challenges we may face in 2005.



Kwon-Seok Kang
Chairman and CEO

IBK Entrepreneurship Hall of Fame

In 2004, the Bank established the IBK Entrepreneurship Hall of Fame to recognize and honor outstanding achievements in the SME industry. This year, the Bank is proud to present the success stories of the four companies honored as the inaugural inductees. As partners from the early stages of their development and benefactors supporting their growth for over 20 years, it has been especially rewarding to witness the tremendous success of these companies. They have met and exceeded the Bank's selection criteria of market share in the global and domestic market, credit rating, technology development and financial performance. These companies are truly the standard-bearers of the SME sector.



JA HWA Co., Ltd.

Establishment: April 1981

Business Relationship: Since November 1983

Major Products: PCM (Purity Convergence Magnet), PTC (Positive Temperature Coefficient), Magnets

Staff: 306 employees, 43 research analysts

Marks of Excellence: Grand Prize in Electronic Industry Development by Electronic Industries Association of Korea in 2001; Over forty patents and utility models

Interview with Ja Hwa: "Successful Partner"

At the beginning stages of our business development, we were struggling for operating funds even though we had a robust supply line for Samsung. Lacking collateral, we weren't able to secure the lending support we needed from commercial banks. That's when IBK stepped in and offered us a loan with conditions we could handle. It meant a lot to us that they trusted in our business potential. Without the financial assistance from IBK, we would not be in the global readership position we are in today. For 20 years, IBK has a partner we could rely on to act as trustworthy stewards of our future.



INTOPS Co., Ltd.

Establishment: September 1975

Business Relationship: Since September 1983

Major Products: Telecom equipment development and Part manufacturing

Staff: 639 employees, 14 research analysts

Marks of Excellence: Export Achievement Presidential Award in 2004, a recognition given to companies that export over USD 100 million in goods; Global operations with two overseas branches in China; Supplier of mobile handset cases for Samsung Electronics Co., Ltd.

"Promising Investment"

INTOPS Co., Ltd. is a global leader in the telecom equipment development industry, enjoying a level of success all SMEs aspire to attain. Considering we, IBK, have been partners in INTOPS' growth since 1983, its success today has not come as a big surprise to us. In fact, we awarded INTOPS the title of "The Promising SME" back in 1989. In that time, we have had the challenge of evolving our offering set with the growth of their business.



Hankook Chinaware Co., Ltd.

Establishment: December 1943

Business relationship: Since August 1961

Major Product: Ceramic Tableware

Staff: 390 employees, 50 research analysts

Marks of Excellence: Korea's first ISO 9001, ISO 14001 in 1995 and 1996;

Domestic market share of 25%; 4 patents and 163 design rights; 2 billion won invested in R&D



Interview with Hankook Chinaware: "Meeting Our Operational Needs"

We have enjoyed IBK's distinctive products and services for over 40 years. A case in point is IBK's most recent hit product, the Network Loan, a form of receivable-backed financing available to subcontractors. By providing our subcontractors the financial liquidity they need to take on our contracts, the Network Loan has secured a sound supply chain and great tax benefits for our business. Another advantage to banking with IBK is its corporate Internet banking system, e-CBS. With its efficient tools for financial decision-making, the system has helped ease the burden of everyday bank transactions.

HJC Co., Ltd

Establishment: October 1971

Business relationship: Since September 1982

Major Product: Motorcycle helmets

Staff: 315 employees, 45 research analysts

Marks of Excellence: World Top Class Product by Ministry of Commerce, Industry, and Energy and Korea

International Trade Association; in 2001 Global operation, with distribution channels in over 50 countries;

Worldwide market share in the industry of over 16%; On-site research facility



"Comforting Investment"

HJC's tremendous success at home and abroad has given other Korean SMEs a business model to build upon. An IBK client since 1982, HJC was established in 1971 as a SME specializing in manufacturing motorcycle helmets. Since then, the company has evolved into a global operation, with distribution in over 50 countries. With HJC planning to expand their product line to include safety helmets for sports, fire fighting and construction, IBK is preparing to meet the changing needs of this dynamic enterprise.

>>
Business Section





Shaping Dreams

In the hands of a seasoned craftsman, wet clay represents unlimited potential. Much like the wet clay, our clients' futures are undefined and full of endless possibility. At IBK, we take a hands-on role in individually molding the futures of each and every customer. This deep commitment to the success of our clients is one of the reasons why we were voted "The Most Reliable Bank" in 2004.

Board of Directors & Management



Kwon-Seok Kang
Chairman & CEO

12

In-Hwan Kim

Director and
Deputy CEO



Yee-Soo Oh

Director and
Head of Credit
Management Division



Kyung-Jun Lee

Director and
Head of Management
Strategy Division



Sung-Tae Son
Auditor

Chun-Wook Cho

Director and
Head of Corporate
Banking Division



Outside Directors



Kyung-II Bae
Director and
Head of Treasury &
Global Markets Division



Tae Sohn
Head of
Trust Business Unit



Hee-Sup Choi
Director and
Head of General
Administration Division



Byung-Taek Hyun
Head of
Retail Banking Division



Dae-Won Kim
Director and Head of
Risk Management Division



Kyung-Lyoul Lee
Head of Corporate
Marketing Division



Taek-Kun Kwon
Head of IT Division and
Credit Card Business Unit



Dal-Soo Shin
Head of Bancassurance
Business Unit

Doo-Ho Lee
Non-Affiliated

Kwang-Suon Chung
Professor, Chung-Ang University

Jeong-Taek Hyun
Assistant to Economic Advisor
to the President of Korea

In-Soo Lim
Senior Executive Vice President,
Korea Technology Credit Guarantee Fund

Relationship With The Government

Established under the Industrial Bank of Korea (“IBK” or “the Bank”) Act in 1961, the Bank shares a special relationship with the Korean government. IBK’s primary objective is to “promote independent economic activities of small and medium-sized enterprises (SMEs) and to enhance their economic position in the Korean economy.” Due to this public policy purpose, the government retains full control over the management, policies and operations of the Bank, including the right to appoint and dismiss the entire Board of Directors and Auditor. IBK reports annually to the Minister of Finance and Economy, submitting for approval both a proposed business plan and a guideline governing all principal operations.

On 11 December 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 IBK greater flexibility in meeting the demands of the marketplace: (i) investment in the equity and debt securities of SMEs; (ii) use of surpluses; (iii) borrowing of foreign capital; (iv) setting of the budget for general and administrative expenditures other than labor costs. Another amendment was made to the Articles of Incorporation on 30 March 2005, granting the Bank access to more diverse sources of capital. The amendments were: (i) diversification of the types of preferred shares by allowing the Bank to issue non-participating or cumulative preferred shares in addition to previously permitted participating and non-cumulative preferred shares; (ii) deletion of 15 year tenure limits on bonds.

Due to the Bank’s critical role in implementing SME promotion policy, it receives the highest level of implicit and explicit support from the government. Operations are guaranteed in principle by Article 43 of the IBK Act, which states 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 the Article stipulates, if IBK’s reserves cannot cover the annual net losses incurred during operations, the Korean government is legally obligated to match the difference. Additionally, IBK is the only bank in Korea allowed to borrow government funds set aside specifically for SME support, and to issue Small and Medium Industry Finance (SMIF) bonds. These bonds provide IBK with a low cost funding advantage over commercial banks because SMIF bonds grant special benefits to its holders. For individual buyers, SMIF bonds provide certain tax benefits. In the case of financial institutions, the purchase of SMIF bonds is classified as SME loans for regulatory calculation purposes. As such, some financial institutions, in particular foreign banks, prefer to hold these bonds to meet their minimum loan exposure requirements with respect to SMEs. The Bank of Korea regulations require all banks operating in Korea to extend to SMEs a certain minimum percentage of any monthly increase in their Won currency lending.

Ownership Structure

Prior to 1994, IBK's entire issued share capital was held by the Korean government. The government's ownership decreased to 64.5% following the issue of new shares to the public and the Bank's employees in 1994. However, the government repurchased most of those shares after the Asian financial crisis of 1997 with a capital contribution of ₩1.7 trillion in October 1998 and an additional ₩100 billion in January 1999, raising its direct stake in IBK back up to 98.0%. In late 1999, the government announced a recapitalization plan to rehabilitate investment trust companies still reeling from the Asian financial crisis. Along with the two other state-controlled banks, the Korean Development Bank (KDB) and the Export-Import Bank of Korea (KEXIM), IBK was chosen to facilitate the initiative.

A major part of the plan involved the partitioning of IBK shares. Upon its implementation, KDB and Korea Investment & Securities Co., Ltd. (KITC) became new IBK shareholders in December 1999, receiving portions of shares previously held by the government. KEXIM also became a shareholder by purchasing ₩200 billion in shares on 29 January 2000, and ₩166.7 billion in shares on June 23 of the same year.

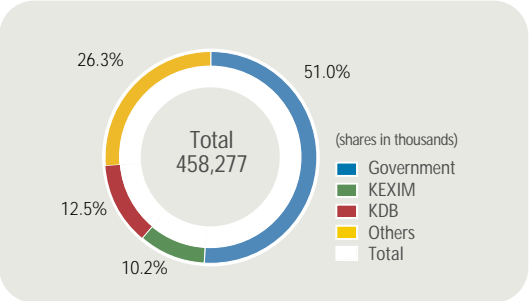
Coinciding with IBK's listing on the Korea Stock Exchange in December 2003, KEXIM and KITC sold 46,000,000 IBK shares in a public offering. KITC relinquished the rest of its ownership in the Bank by selling its remaining 48,532,922 common shares in a Global Depository Shares (GDS) offering the same month.

As of 31 December 2004, the Government directly owned 51.0% of IBK shares. Including the indirect shares through KEXIM and KDB, which were 10.2% and 12.5%, respectively, Government ownership stood at 73.7% of IBK shares.

Ownership Structure

(shares in thousands, as of December 31, 2004)

	Common shares	Preferred shares	Total	
Government	233,734		233,734	51.0%
KEXIM	40,501	6,210	46,711	10.2
KDB	10,490	46,915	57,405	12.5
Others	120,427		120,427	26.3
Total	405,152	53,125	458,277	100.0%



Risk Management

Organization

Besides the Board of Directors, there are four administrative units principally responsible for managing risk. The Risk Management Committee is the senior administrative and policy-making unit and is responsible for supervising the other three units, the Working Level Conference, the Treasury Committee and the Risk Management Division.

The Risk Management Committee reviews and creates risk policy, taking into account both on and off-balance sheet sources of risk. Some of its other functions are allocating exposure limits by business division and types of risk, assessing risk levels, monitoring management processes, setting standards, and establishing internal control systems to safeguard operational departments. The Committee enjoys a great deal of autonomy, overseeing capital adequacy ratios, and supervising asset and liability management practices. However, in cases involving any major policy shifts, the Committee is required to obtain prior approval from the Board of Directors.

The Working Level Conference is responsible for scrutinizing the Risk Management Committee's policy decisions on a practical front. The Treasury Committee, meanwhile, establishes the overall assets and liabilities management framework and makes decisions related to liquidity and interest rate risk management. And finally, the Risk Management Division monitors compliance with standards and enforces the policy decisions of the Risk Management Committee. Under the Risk Management Division are the Risk Management Department, the Basel II Team, and the Credit Review Department. There is also a risk management specialist in each business department that manages the specific risk management issues of his or her particular operating unit.

Credit Risk Management

IBK controls credit risk by establishing credit risk limits, assessing current risk levels and monitoring compliance with risk limits. Using expected and unexpected loss levels at a confidence level of 99%, the Bank determines the current level of credit risk. The expected loss level is calculated by using historical data regarding the probability of insolvency. On the other hand, the unexpected loss level incorporates the possibility of fluctuations in the expected loss level. The volatility of the bankruptcy ratio and the recovery ratio relative to collateral are used in this calculation.

Credit Policies and Approval Procedure

IBK's credit policies are based on its own prudential policies and its banking experience with small and medium-sized enterprises (SMEs) since its establishment. The Bank's principal strategy is to reduce credit risk through a thorough credit analysis of loan applicants, strict adherence to the credit evaluation and approval procedures, and a diversified and balanced loan portfolio.

All loan applicants and guarantors are subject to credit review except for governmental entities and applicants with loans fully secured by deposits. 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 banking history 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 one of the Bank's credit rating models. IBK uses different credit rating models depending on the borrower and type of

credit in consideration. As part of the credit investigation process, the Bank also conducts an appraisal of the value of any collateral being provided.

Credit analysis is generally performed by the Credit Analysis Team at the Bank's headquarters or branch, depending upon the size of the loan being considered. Loan approval authority is held by the Senior Credit Committee, the Credit Committee, the Credit Team of the Credit Department or general managers of branches, again depending upon the size of the loan being considered.

Credit Rating Models

IBK's credit rating models take into account a variety of evaluation criteria, standardizing credit decisions by focusing on the quality of borrowers rather than the volume of loans. Credit analysts consider both quantitative and qualitative factors. For corporate borrowers, financial evaluation factors include financial variables and ratios. Non-financial evaluation factors include the industry in which the borrower operates, competitive position in the industry, operating and funding capabilities, financial prospects and the quality of management. For retail borrowers, IBK takes into consideration factors such as the borrower's income, assets, profession, age, transaction history with financial institutions, and other relevant credit information.

IBK monitors and improves the effectiveness of its credit evaluation models by constantly updating its comprehensive database.

- *SME Credit Rating Model*

Using its accumulated experience and know-how in the SME market, IBK developed its first

SME credit rating model in 1995. The model accumulates and manages a wide range of financial and non-financial data on SMEs in Korea, updating rating criteria and rating samples on a regular basis. The model is actually a composition of the credit-scoring model and insolvency forecast model:

- The credit-scoring model is comprised of twelve sub-models depending on business segments and asset sizes. The model analyzes non-financial and financial data; and
 - The insolvency forecast model incorporates factors that reflect the characteristics of non-viable companies. The model evaluates and monitors the applicant's financial condition, operating environment and credit management ability.
- *Small Company and SOHO (Small Office/ Home Office) Credit Rating Models*

In an effort to diversify its customer base and to build upon its core competence in SME financing, IBK has also developed credit rating models for assessing the credit risk posed by small companies and SOHOs, borrowers whose total assets generally do not exceed ₩0.5 billion. Each model is designed to take into account credit evaluation factors specific to smaller businesses. Based upon an assessment of various financial and non-financial indicators, including the creditworthiness of the applicant, his or her prior banking history, management ability, cash flows and future business prospects, the models allow for the prompt processing of loan applications and setting of credit limits, as well as effective compliance monitoring.

Risk Management

- *Retail Credit Scoring Model*

Retail credit scoring model is an automated credit approval system that is comprised of the applicant scoring model and the behavior scoring model. The major benefits to using an automated credit scoring model are that it yields uniform results and that it can be updated easily to reflect changing market conditions by adjusting how each of the factors is weighted. The applicant scoring model evaluates the applicant's financial and non-financial information to determine the appropriate amount and pricing for the loan and the preliminary terms and conditions of the loan. The behavior scoring model automatically evaluates a borrower's payment history on a monthly basis to determine the borrower's credit rating and the appropriate amendments to the terms and conditions of a loan, including an extension of loan maturity.

- *Corporate Card Credit Scoring Model*

Corporate card credit scoring model is comprised of the applicant scoring model and the behavior scoring model. The applicant scoring model is made up of six sub-models and evaluates the applicant's financial information, transaction history and other credit information to determine the terms and conditions of the card and the limitations on card usage. The behavior scoring model is comprised of two sub-models and periodically evaluates the cardholder's credit rating, based on which IBK revises the limitations on card usages.

Market Risk Management

IBK sets limits for all market risk factors on a Value at Risk (VaR) basis and applies stringent stop-loss rules for transactions exposed to market risk.

The Risk Management Department is primarily responsible for establishing market risk limits and stop-loss rules while monitoring compliance by operational departments of the risk management regulations and guidelines. In addition, the Department calculates market risk volatility by each risk factor while measuring net positions and VaR regarding trading activities also by each risk factor on a daily basis. The results, including the overall market risk profile, broken down by each risk factor and business unit, are reported to the Risk Management Committee.

The Bank methodically computes VaR with an internal comprehensive risk measurement model. To measure its accuracy, the Bank conducts back-testing by comparing actual daily profits and losses to varying model-generated risk potentials. These evaluations are conducted at a 99% confidence level over the past 250 trading days. In an attempt to minimize potential losses, the Bank also conducts quarterly stress-testing to estimate the impact of worst-case scenarios.

Liquidity Risk Management

IBK manages liquidity risk by establishing separate limits and target ratios for funds in domestic currency, foreign currency and trust accounts. Contingency plans are ready to be implemented in the event of an actual crisis. The Bank determines its current funding status with a review of monthly and quarterly data as well as overnight money positions. Liquidity status is constantly monitored to ensure compliance with Financial Supervisory Service (FSS) liquidity ratio requirements.

As of 31 December 2004, the three-month Won-liquidity ratio was 105.9% and foreign currency liquidity was 116.5%, well above the FSS standard of 70% and 85% for Won and foreign currency assets and liabilities maturing within 90 days, respectively.

Operational Risk Management

The Bank minimizes the risk of loss resulting from inadequate internal processes, human behavior, or external events through a set of controls established by its operational risk policies. These controls are regularly reviewed as business circumstances change and new sources of risk emerge. Losses due to external events are insured while losses from human behavior and inadequate internal processes are mitigated through internal auditing.

Individual operational departments are primarily responsible for managing operational risk under the framework of established policies. They are required to report to the Risk Management Department on a regular basis.

The Risk Management Department quantifies the level of overall exposure by consolidating each business department's operational risk profile. The Risk Management Department also advises business departments on the methodologies of operational risk management and ensures that each unit strictly adheres to management policies.

In preparation for the New Basel Capital Accord (Basel II), the Bank is working to refine its operational risk management framework by conducting work process analysis and self-risk assessment of each operational department while setting up an appropriate infrastructure for systemic management of historical loss data.

Capital Management

Diversity is the mantra when it comes to capital management. By allocating capital in a variety of sources, the Bank promotes efficiency and strikes a prudent balance between capital and risks. Capital requirements are determined from conservative projections on business growth, capital investment plans, earnings, and reserve requirements.

The FSS capital adequacy guidelines are derived from standards established by the Bank for International Settlements (BIS). Under FSS guidelines, all banks in Korea are required to maintain a total Tier I and II capital adequacy ratio of at least 8.0% on a consolidated basis. IBK has met all of its obligations, maintaining a capital adequacy ratio of 11.18%, with a Tier I ratio of 8.29% and a Tier II of 2.89% as of 31 December 2004.

Basel II Accord

The Basel II will 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 soundness as a measure of risk. However, the Basel II will expand this approach, accounting for other areas of risk such as operational and off-balance sheet risk.

Although the Basel II was originally scheduled for implementation by year-end 2006, the Basel II Committee allowed one further year of quantitative impact studies and parallel calculations which was required to adopt the most advanced approaches. In Korea, the FSS has issued a draft notification to implement Basel II nationwide at year-end 2007. The Bank plans to launch its Basel II system in line with the FSS timeline.

Risk Management

The Bank schedules to finish building the Basel II compliant risk management infrastructure by year-end 2005. In implementing new approaches, the Bank plans to initially adopt Standardized Approaches (SA) and then migrate to advanced approaches. The Bank will go through three years of test runs before fully implementing advanced approaches at the year-end 2008.

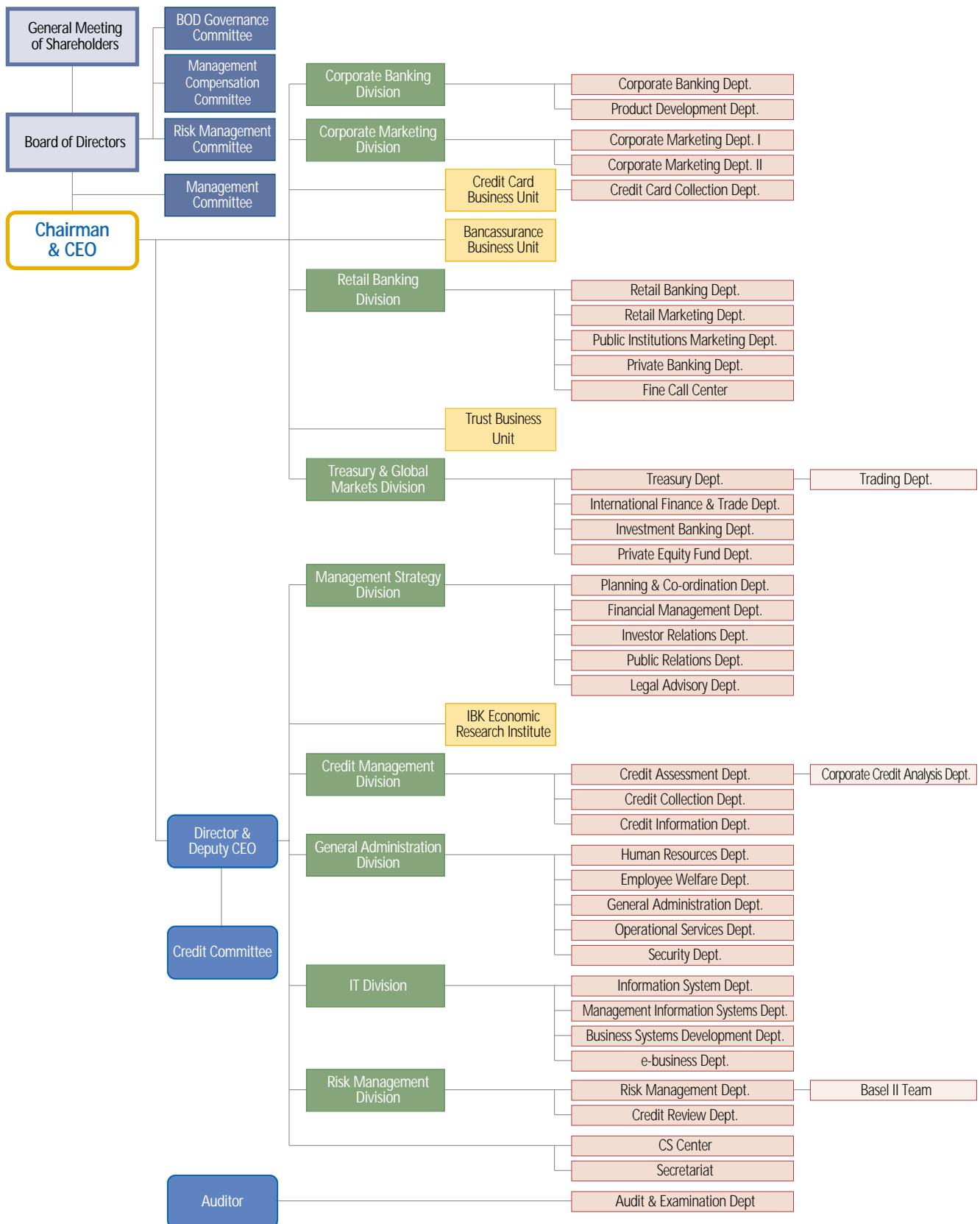
As for credit risk assessment, if the Bank attains FSS accreditation for its internal ratings models, plans are to adopt the Foundation Internal Ratings Based (IRB) approach at the end of 2007 and then progress to the Advanced IRB approach by year-end 2008. With respect to calculating operational risk charges, the Bank intends to move from the SA to the Advanced Measurement Approach (AMA) over time.

In addition to upgrading its internal ratings models for FSS accreditation, the Bank has taken more

proactive measures in preparing for the new accord. Currently, the Bank is working to establish the Korea Enterprise Data Co., Ltd. (KED), an external rating agency in partnership with five public institutions and six financial institutions. This was a response to Basel II's new risk weighting mechanism. Credit exposure to SMEs with no external ratings will be increased from 100% to 150% and the Bank believes that KED's services will assist greatly in covering the additional capital cushion required for its SME lending under the Basel II. Also in March 2005, the Bank made amendments to the Articles of Incorporation to create a legal base for the Bank to raise capital in various forms. The amendment gave the Bank the capability to issue preferred shares on diverse conditions to flexibly respond to the market demand while liberalizing the 15 year tenure limits on bonds, which facilitates the issuance of Hybrid Tier I notes.

	2004 year-end	2005 year-end	2006 year-end	2007 year-end	2008 year-end
CREDIT RISK					
SA or Foundation IRB		System Development		Implementation	
Advanced IRB		System Development	Test Run (3 Years)		Implementation
OPERATIONAL RISK					
Standardized Approach		System Development		Implementation	
Advanced Measurement Approach		System Development	Test Run (3 Years)		Implementation

Organization



>>
Small and Medium-Sized Enterprise Section





Crafting Success

The mark of a master craftsman is in his ability to sculpt out the finest details. With over 40 years of proven experience in SME banking, IBK has the precision to carve out any business specifications a customer may have in mind. We know that, oftentimes, it is the smallest details that make the biggest differences.

SME Banking

As the preeminent financial institution for small and medium-sized enterprises (SMEs) in Korea, IBK offers a variety of specialized products, systems and services to help businesses operate as a complete and competitive entity. Besides standard loans and deposit products, the Bank provides clients with comprehensive coverage from consulting services to financial management solutions that are focused and tailored for SMEs.

General SME Loans

In line with its policy objective, IBK allocates more than 80% of its loan portfolio to SME financing. As of 31 December 2004, IBK extended a total of ₩42,616 billion to 157,090 SMEs, accounting for 84.7% of its total outstanding loans.

	(in billions of won, except percentages)			
	2003		2004	
SMEs ⁽¹⁾	₩ 38,982	85.1%	₩ 42,616	84.7%
Individuals	6,133	13.4	7,044	14.0
Large corporations	572	1.3	545	1.1
Others ⁽²⁾	98	0.2	108	0.2
Total ⁽³⁾	₩ 45,785	100%	₩ 50,313	100.0%

Notes:

(1) Includes companies that were SMEs when the loans were made but no longer qualify as such.

(2) Includes local public and non-profit organizations.

(3) Includes domestic and foreign currency loans.

The Bank's principal loan products for 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. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of five years. Facilities loans, on the other hand, have a maximum maturity of fifteen years. Facilities loans are provided to finance the

purchase of equipment, buildings, land, and the establishment of manufacturing assembly plants. As of 31 December 2004, working capital loans and facilities loans accounted for 75.7% and 18.4%, respectively, of the Bank's total SME loans.

Bank Accounts	(in billions of Won, except percentages)			
	2003		2004	
Won currency loans:				
Working capital loans	29,654	76.1%	32,249	75.7%
Facilities loans	6,078	15.6	7,853	18.4
Sub-total	35,732	91.7	40,102	94.1
Foreign currency loans ⁽¹⁾	3,250	8.3	2,514	5.9
Total	38,982	100%	42,616	100%

Notes:

(1) Does not include syndicated loans in which the Bank participated.

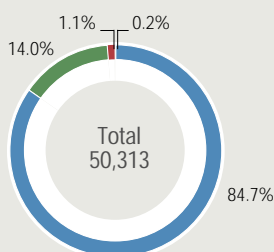
Policy Loans

The Korean Government provides policy loans to promote greater lending by financial institutions to a particular segment of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote, making low-interest funding available to financial institutions that are involved in these sectors. Pursuant to such government policies, IBK has signed-off loans for technology development, component manufacturing, small enterprise formation, female entrepreneurship and productivity improvement. At year-end 2004, the outstanding balance of the Bank's key policy loans was ₩6,316 billion.

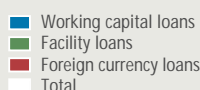
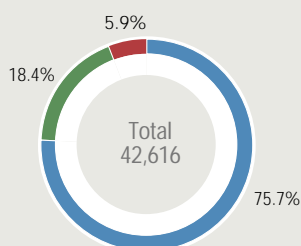
Venture Financing

The Bank also provides financial support to venture companies to encourage growth in Korea's economy. A "venture company" in this case means SMEs that qualify as such under the Act on Special Measures for the Promotion of Venture Businesses. Criteria include size, in terms of assets and number of employees, as

Loan Profile (in billions of won)



SME Loans (in billions of won)



well as capability for innovation, and various financial ratios as prescribed by the presidential decree.

As of 31 December 2004, the Bank's venture financing amounted to ₩94.7 billion. Of this total, ₩38.2 billion, or 40.3%, was in equity investments, ₩34.8 billion, or 36.8%, was in the form of convertible bonds and ₩21.7 billion, or 22.9%, was in investment partnerships.

SOHO Financing

In light of the recent slowdown in retail and credit card lending volume, the Bank's strategy for profit enhancement has been to maintain the growth of its loan portfolio by focusing on new "small office/home office" customers, or SOHOs. While they constitute a relatively new customer base within the SME segment, the Bank believes that the SOHO customer base has the potential to become a major source of profitability as the economy recovers. The Bank is well positioned to identify promising SOHO customers due to its unsurpassed credit review know-how and extensive database on SMEs. The Bank evaluates the risks that are specific to this customer segment by using its SOHO credit rating model, which takes into account both financial and non-financial criteria. This allows marketing efforts to focus directly on potential customers, strengthening working relationships at an early stage. As of 31 December 2004, loans to SOHOs amounted to ₩46 billion.

Exclusive Services

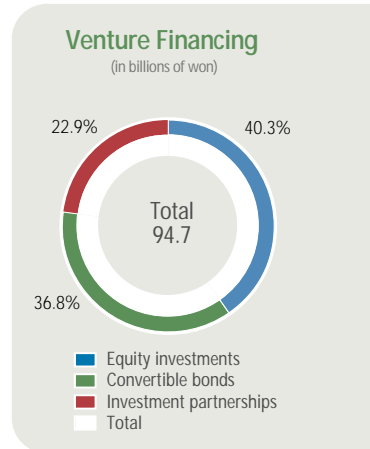
SME Consulting Service

Having worked with SMEs for over 40 years, the Bank recognizes how small changes in management strategies can have a huge impact on company earnings. With this in mind, IBK provides SME clients with a consulting

service that gives customer-specific advice and helps them map out individual growth paths. The service assesses strategies in management, marketing, production control, and cost deduction. Also, if necessary, the Bank employs experts to conduct consulting services in certain fields for a period of four to seven weeks and subsidizes 70~80% of the consulting fee. There are consulting services aside from the general management advice clients can use to improve their operations. For clients looking to invest in China, the Bank has a partnership with a consulting firm in China that gives them the accurate and useful information they need to succeed in this attractive yet potentially risky new market. Other IBK trademark services include the legal, tax and accounting consulting services. These free of charge services provide comprehensive consulting to clients in diverse industry segments.

e-CBS (electronic-Corporate Banking System)

e-CBS is a corporate Internet banking service that allows every financial interaction to occur online. This service incorporates traditional banking transactions with comprehensive corporate financial management, such as B2B (Business to Business) trade settlement, loan management, international trade, corporate credit card, and cash management. USB (Universal Serial Bus) keys are distributed to subscribers of the service, ensuring that the banking transactions are conducted by authorized users. This instrument allows for greater internal control when any transactions occur through the system, guaranteeing the security and efficiency of the program.



SME Banking

Cash Management Program: Fine CashOne

The Fine CashOne service is a total cash flow management system that is the first of its kind in the banking industry. Linked with e-CBS, it enables a company to project its cash flow in a given period and monitor all of its transactions with financial institutions from a single interface. This automated and real-time cash management solution allows for greater efficiency and accuracy in a customer's operations, from the development to execution of financial plans. The program is downloadable from the Bank's website and comes with a tutorial to familiarize customers with all the features. Once the program is installed, necessary upgrades are downloaded automatically and free of charge.

Credit Card: fine★biz card

Designed to meet the specific needs of SMEs, IBK's corporate credit card services have proven to be invaluable to a company's business operation. The IBK fine★biz card is the Bank's most recognized card for SME clients. A wide range of service coverage makes this card especially attractive to SME customers. It provides services and benefits that are essential to the common business. Benefits such as import-export forwarding, logistics, communication, legal and tax consultations at discounted rates give IBK customers an advantage over their peers. Another standout is the fine★biz platinum card. Instead of the company itself, the card targets SME CEOs as its top priority. Some of the exclusive services of the card include discounts on golf clubs, hotel memberships and travel insurance.

SME Package Insurance

In partnership with insurance companies, the Bank provides a unique SME Package Insurance that covers the majority of risks arising from general business operation. The insurance not only offers property and casualty coverage for fire, breakage, robbery, natural disaster, etc., it also provides enhanced coverage for machinery and equipment accidents, employee carelessness, third party recovery claims and suspension of business operation. IBK also has worker's compensation insurance available for SMEs. Insurance programs such as occupational accident and health insurance, pension insurance, and life savings insurance are all flexible and easily tailored to individual needs. To offer pre and after-sale services and to support the insurance product itself, IBK provides risk management consulting in alliance with several insurance companies to prepare for any potential risk scenarios.

2005 SME Financing Plan (in billions of won)

In 2005, the Bank plans on providing ₩20 trillion to the SME sector. Of that total, ₩15.5 trillion will be offered in the form of working capital and ₩4.5 trillion will be extended in the form of facility loans.



>>
Extensive Products & Services



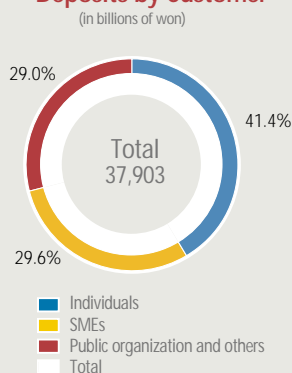


Fueling Change

By casting the clay mold into the fire, a craftsman forms its new identity and shape. Any transformation requires the proper catalyst and our mission is to be that source of energy our clients need to reveal their hidden business potential. That is why every year we consistently lead the market in financial services.

Consumer Banking

Deposits by Customer



30

Seeking for Balanced Deposit Growth

With traditional bank deposits losing their merits due to the low interest rates in 2004, liquidity moved to more profitable products and services. Despite these adverse circumstances, IBK posted an increase of 7.7% in the total deposit balance, amounting to ₩37,903 billion as of 31 December, 2004. The growth in total deposits was a major factor in the improvement of the Bank's market share to 7.2% in the consumer deposit segment.

(in billions of won, except percentages)

	2003		2004	
	Amount	Percentage	Amount	Percentage
Individuals	15,837	45.0%	15,705	41.4%
SMEs	10,097	28.7%	11,226	29.6%
Public organization and others	9,245	26.3%	10,972	29.0%
Total ⁽¹⁾	35,179	100.0%	37,903	100.0%

(1) Includes deposits in domestic currency, CDs and bills sold.

The distinguishing characteristics in IBK's retail operations were opportune timing in product launchings and successful marketing. A main priority for the year was to target a clientele beyond the Bank's traditional customer base of small and medium-sized enterprises (SMEs) and its employees. One byproduct of this effort was IBK's 'Seed Money to One Hundred Million Won Account'. Capitalizing on the growing interest for money management across all strata of society, the product offered a specialized savings plan and financial consulting service that corresponded to a customer's income. It was a commercial and critical success, with The Herald Business honoring the product as the 'Product of the Year'. 'Goguryo for Korea Account' was another product IBK launched to meet public demand. IBK donates a portion of its revenue generated from the accounts directly to research institutes working to find historical documents legitimatizing Korean claims over

Goguryo, an ancient kingdom of Korea which prospered in what is now the Northeastern part of China. In recognition of its social and economic impact, the product was awarded the '2004 Top Pride Award' by the Financial News.

Conservative Loan Operation

Under the IBK Act, loans to non-SMEs cannot exceed 20% of deposits plus the outstanding amount of Small and Medium Industry Finance (SMIF) bonds (net of reserve requirements.) Enhancing asset quality was a top priority in 2004, with the Bank taking measures to diminish delinquency ratio and adopting more conservative loan screening procedures. These measures met with improved results. Efforts to reduce the delinquency ratio were very successful, as the ratio fell to 1.08% in 2004 from 1.38% in 2003. As exhibited in the following, household loans increased by 14.8% from year-end 2003, due to the 22.4% increase in housing collateral loans. Total household loans represented 14% of the Bank's total loans.

Housing loans

(in billions of won)

	2003	2004	Change
General loans (A)	5,807	6,605	13.7%
Housing collateral (B)	3,370	4,125	22.4%
Housing fund loan (C)	311	420	35.0%
Total (D=A+C)	6,118	7,025	14.8%
Housing loans ratio (B+C/D)	60.2%	64.7%	4.5%p

Consumer loan delinquency

(%)

	2003	2004
Delinquency ratio	1.38	1.08

Fulfilling the Needs of Our Clients

For the year, the Bank outperformed most of its projections in Bancassurance. IBK generated ₩32 billion in fee income, earning 10.2% of the market share in this increasingly competitive sector. Contributing to these strong results were a new line of products and services the Bank developed in coordination with insurance companies that accurately reflected the needs and trends of the market. Building on the success of the Bank's customized products in 2004, current plans are to launch more specialized and exclusive insurance products this year.

The second phase of deregulation is slated for April 2005, at which point banks will be allowed to sell short-term non-savings-linked casualty policies. As was the case in 2004, IBK is expecting a fierce competition for market dominance. In preparation for the upcoming market, the Bank is working to match its best products with the diverse demands of its customers. Some features IBK is looking to incorporate in 2005 are products developed in conjunction with the Bank's accumulated customer database, strategic alliances with insurance companies, various sales promotions and improved marketing system.

(in billions of won, except percentages)

	2003	2004
Fee income	6	32
Market share	8.9%	10.2%

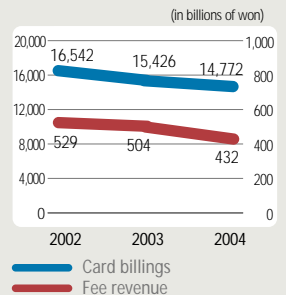
Results Focused on Asset Quality

Improving the asset quality and the delinquency ratio were consistent themes throughout the year. By taking a conservative strategy and supplying the customer base with high quality service, the credit card operation gradually began posting positive monthly net profit and eventually reached ₩6.2 billion for the month-ended December 2004. IBK also finished the year with 2.8 million cardholders, generating fee revenues of ₩432 billion. At the same time, efforts to enhance the delinquency ratio proved successful, producing a remarkable 3.4 percentage points decrease from 7.1% in 2003 to 3.7% in 2004 for one-month overdues.

Customer-Oriented, Individually Tailored Service

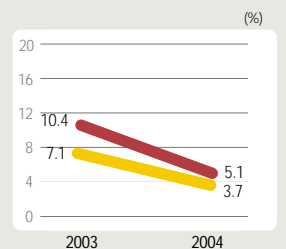
Concerning the increasingly competitive credit card market, it was imperative to launch services that accurately measured the changing trends and tastes of the market. IBK launched several products in 2004 that struck the right cord. The Fine Self-Making Card was one new offering with special features such as the option to choose a reward program from a wide range of service groups, including discount pool of oil, mobile bill, movie, sports and entertainment ticket reservation reward point accumulation. Another target product introduced this year was the Fine Edu Card. Partnering with Teachiworld Auto Insurance Co., Ltd, the Bank provided a card tailored specifically for education faculty, national and public hospital personnel and public service personnel at research institutes. It offers cardholders a highly assorted discount package ranging from car related services to shopping, and sports and leisure activities. The Fine Edu Card already has 55,483 customers since its launch in September and is expected to help expand the client base in 2005.

Card Billings / Revenue



(1) Inclusive of card loans.

Credit Card Delinquency



(1) Inclusive of card loans.

A Paradigm Shift

Due to the prevalence of low interest rates, the advantage in the trust market evaporated during 2004. Money trust lost its competitive edge, amounting to ₩3,129 billion as of 31 December 2004, which was a 23% decrease year-on-year. However, the lower interest rates catalyzed greater demand for beneficiary certificates, counterbalancing losses in the money trust. Beneficiary certificates amounted to ₩1,272 billion, marking a 155% increase year-on-year.

Another hurdle for the trust market was new domestic legislation aimed at regulating bank activities. Effective as of July 2004, the Indirect Investment Asset Management Business Act banned banks from offering non-specified money trust products. IBK responded to the tighter regulations by forming an alliance with Societe General Asset Management (SGAM) to establish a new joint venture, the IBK SG Asset Management Co., Ltd. in October. The Grandprix Fund Series was the first product offered by the group and was made available to the market in January 2005. The product offers a tailored assortment of funds designed to address the particular needs of the investor. This newest addition to the Bank's already healthy number of offerings will extend the competitiveness and growth of the asset management service.

The steps taken to address the paradigm shift of the trust market have established a firm foundation for the Bank to transform itself into a comprehensive asset management service provider. In 2005, IBK will continue to channel its core competency into creating strategic products and will maximize sales with effective marketing and promotion.

Reorganization

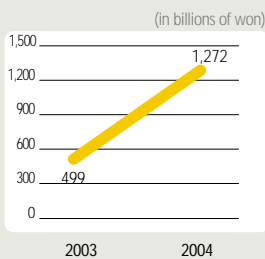
In 2004, IBK reorganized its Treasury and Global Markets Business Division into the following five departments:

- **Treasury Department**
A Department responsible for treasury operations and won funding.
- **International Finance and Trade Department**
A consolidated operating entity of the former International Banking and Trade Service Departments that oversees international money transfers, trade services, international funding, foreign currency deposits/loans, correspondent banking, overseas branch management and comprehensive trade advisory service.
- **Trading Department**
A complete trading operation handling foreign exchange, bonds, indices, equities, and derivatives.
- **Investment Banking Department**
A new department established under the Bank's initiative to expand investment banking such as project financing, venture financing, M&A, etc.
- **Private Equity Fund (PEF) Department**
A new department established to organize and manage SME specialized PEF.

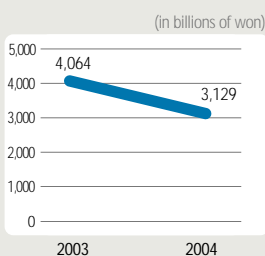
International Trade Services

In 2004, the Bank employed various marketing channels and diversified its offering set in an effort to broaden the client base. Marketing to premier clients, IBK leveraged its strategic relationships to deliver

Beneficiary Certificate



Money Trust



differentiated products and services in money exchange, money transfers, export credit guarantee, and trade financing. Also, heavily promoted were Internet-based services such as the electronic data interchange (EDI), on-line money exchange, exports documents tracking, and trade documents developer. Through its Export-Import Transaction Support Center, the Bank actively provided consulting services on various aspects of international trade, including duty drawback claims, international disputes, risk management, foreign direct investment and international marketing. In addition, the Bank twice held Export Business Seminars in Seoul and Busan and participated in the 2004 Trade Services Show. These efforts successfully attracted 3,000 new customers and boosted net profit from the trade services operation by 9.5%, bringing in ₩161 billion for 2004.

Derivatives Engineering

IBK boasts one of the best derivatives engineering capabilities in the industry, with the ability to offer structured products tailored to meet any client's needs. Despite the low interest rate environment in 2004, the Bank developed various high yield derivatives linked products. The Fine Double Chance Time Deposit, one of the Bank's hit products launched in 2003, recorded total sales of ₩715 billion during the year, putting IBK second in the domestic ELD (equity linked deposit) market in sales amount. IBK linked the Deposit to various indices such as the KOSPI (Korea Stock Price Index), NIKKEI (Nihon Keizai Shimbun) index, and WON/USD currency index.

New for this year was the 'Big Money Foreign Currency Time Deposit', a high yield knock-out currency option linked deposit. It offers a maximum rate of 7% should the WON/USD currency rate drop more than 6% at least once during the term of the deposit.

Investment Banking

This past year, IBK made entries into new investment banking segments such as asset-backed securities, and M&A, while reinforcing its current operations in international investment, and venture financing.

In December 2004, the Bank participated in the government-led issuance of ₩10 billion primary-CBOs (collateralized bond obligation), a transaction designed to promote on-shore capital markets and provide SMEs with access to international capital markets. ₩8.3 billion in credit guarantees were committed on the senior trench of the primary-CBOs.

To develop more sources of fee income, IBK reinforced its project financing operations by participating in energy development projects, social infrastructure projects and ship building projects. The Bank also made efforts to expand into new areas like the BTO (built-transfer-operation) business, and LBOs (leveraged buy-outs).

The PEF business was launched in 2004 to more effectively promote SMEs. It is a new segment where IBK enjoys a significant competitive advantage over its peers and IBK intends to use this leverage to solidify its position in the SME finance market.

Global Network

Currently, IBK has five overseas branches in New York, Tokyo, Hong Kong, Tianjin, and Qingdao. In 2004, IBK obtained regulatory approval to open another branch in Shenyang, China. Future options are currently being discussed, with the possibilities of expanding into South East Asia as well as strengthening the Bank's overall international presence all on the agenda.

>>
Financial Section



Capturing Perfection

While the final gloss and polish reflect a state of perfection, a true craftsman knows that this beauty is temporary without diligent care and attention. That is why at IBK our journey with each customer extends beyond the finished product. We make sure our customers have access to the best services available, helping them maintain that level of optimal performance.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Key Financial Highlights (Bank Accounts)

	(in billions of won, except ratio data)		
	2003	2004	% Change
At years end:			
Total assets	₩ 71,584	₩ 74,494	4.1%
Loans	51,741	55,173	6.6%
Securities	11,076	12,109	9.3%
Other assets	8,767	7,212	-17.7%
Total liabilities	68,132	70,590	3.6%
Deposits	34,215	37,118	8.5%
Borrowings	15,805	15,890	0.5%
Debentures	11,600	11,972	3.2%
Other liabilities	6,512	5,610	-13.9%
Shareholders' equity	₩ 3,452	₩ 3,904	13.1%
For the years ended:			
Operating results			
Net interest income	₩ 1,628	₩ 1,819	11.7%
Net none interest income	611	543	-11.1%
Pre-provision profit	1,769	1,540	-14.9%
Operating income before provisioning	1,540	1,535	-0.3%
Net income	₩ 224	₩ 370	65.4%
Profitability			
ROAA	0.33%	0.51%	0.18%p
ROAE	6.56%	9.87%	3.31%p
Net interest margin	2.94%	2.77%	-0.17%p
Capital adequacy			
Total capital adequacy ratio	9.88%	11.18%	1.30%p
Tier I	7.93%	8.29%	0.36%p
Tier II	1.95%	2.89%	0.94%p
Efficiency			
Cost/Income ratio	34.54%	36.04%	1.50%p

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Overview

Pursuant to its public policy role, the Industrial Bank of Korea (the "Bank") does not intrinsically focus on maximizing profits. The Bank does however seek a level of profit that can effectively strengthen its equity base and support its growth. The Government, under the IBK Act, has full control over the management, policies, and operations of the Bank. Accordingly, the Bank's financial condition and performance are affected by government policies.

Despite the surge in exports due to increased demand from major international markets like China, U.S and Japan, the Korean economy grew a moderate 4.6% in 2004. The potential positive effects generated by the thriving export segment were negated by anemic domestic demand and decreasing capital investments. The strong won and high oil prices in the latter half of the year added further pressure on the economy. These market conditions especially had a negative affect on the small and medium-sized enterprise (SME) sector. SME growth was subdued for the year, with the sector posting only a 3.9% annual growth in manufacturing and a 10.6% growth in exports. Despite the circumstances, the Bank performed well, making a 65.4% increase in net income and earning ₩370 billion by the year-end.

Total Assets

In 2004, total assets amounted to ₩74,494 billion, a modest 4.1% growth year on year due to the increase in loans and securities. Total loans came in at ₩55,173 billion, a 6.6% increase from the previous year. Loan book growth was largely driven by loans extended to small and medium-sized enterprise (SMEs), which expanded at a rate of 9.3% year on year. The annual growth for securities was 9.3% to ₩12,109 billion in 2004. Although the Bank aggressively increased its holdings of finance debentures and securities in foreign currencies by 97.1% and 47.9%, respectively, these steps were counterbalanced by a 23.5% decrease in government bonds and a 32.2% decrease in corporate bonds.

Total Liabilities

For 2004, there was a slight rise of 3.6% in the Bank's total liabilities to ₩70,590 billion. Deposits totaled ₩37,118 billion, an 8.5% increase that reflected the 16.5% annual growth in demand deposits to ₩5,098 billion. Due to a 12.5% annual increase in foreign currency debentures to ₩2,057 billion, the debentures segment posted a 3.2% growth to ₩11,972 billion in 2004. The increase in foreign currency debentures was largely attributable to the Bank's issuance of subordinated debts of ₩521 billion, a step taken to improve its Tier II capital. In 2004, won borrowings grew 14.4%, for a total of ₩9,228 billion. However, a 25.6% decrease in foreign currency borrowings to ₩2,498 billion offset the results and the Bank's borrowings remained approximately the same from the previous year. The Bank was able to reduce its foreign currency borrowings with the foreign currency liquidity generated by the 23% decrease in foreign currency loans to ₩2,784 billion in 2004.

Total Shareholders' Equity

Total shareholders equity increased to ₩3,904 billion in 2004, up 13.1% from the previous year. This was mainly due to the growth in retained earnings, which rose by 24.3% to ₩1,424 billion during the year. A couple of other factors also helped matters. First, net income totaled ₩370 billion, a 65.4% increase year on year. And second, the majority shareholders agreed to lower the dividend pay out ratio to 2% in an effort to help the Bank with preparations for Basel II implementation.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Average Balance Sheet and Interest Rate Data

The following table sets forth the average balances of assets and liabilities and for interest-earning assets and interest-bearing liabilities, and provides the amount of interest earned or paid and the average rate of such interest. For purposes of this table, average balances have been determined based upon daily average balances.

	(in billions of won, except ratio data)					
	2003			2004		
	Average Balance	Interest Amount	Average Interest Rate	Average Balance	Interest Amount	Average Interest Rate
ASSETS:						
Due from banks	₩ 1,273	₩ 9	0.71%	₩ 1,364	₩ 10	0.73%
Trading securities	1,282	61	4.76	599	26	4.35
Investment securities						
Government and public bonds	941	68	7.23	1,194	73	6.11
Finance debentures	2,440	126	5.16	3,186	139	4.36
Corporate bonds	4,873	265	5.44	3,854	188	4.88
Securities in foreign currencies	681	28	4.11	988	24	2.43
Others	57	4	7.02	199	1	0.51
Total	8,992	491	5.46	9,421	425	4.51
Loans						
Won	40,523	2,866	7.07	45,920	3,116	6.79
Foreign currency	3,752	127	3.38	3,370	109	3.23
Inter-bank loans	1,411	56	3.97	222	36	16.22
Credit card accounts	488	56	11.48	375	50	13.33
Other	1,382	52	3.76	1,655	58	3.56
Total	47,556	3,157	6.64	51,542	3,369	6.53
Other	1,427	62	4.34	1,472	61	4.14
Total average interest earning assets	60,530	3,780	6.24	64,398	3,891	6.04
Total average non-interest earning assets	7,760	-	-	8,067	-	-
Total average assets	68,290	3,780	5.54	72,465	3,891	5.37

(continued)

Management's Discussion & Analysis

for the years ended December 31, 2004 and 2003

LIABILITIES AND SHAREHOLDERS' EQUITY:						
Deposits						
Won	31,934	1,052	3.29	34,673	1,024	2.95
Foreign currency	1,165	8	0.69	1,354	8	0.59
Total	33,099	1,060	3.20	36,027	1,032	2.86
Borrowings						
Borrowings from Government and						
The Bank of Korea	4,653	161	3.46	4,722	157	3.32
Foreign currency	3,505	48	1.37	2,976	42	1.41
Other	8,109	349	4.30	8,903	342	3.84
Total	16,267	558	3.42	16,601	541	3.26
Debentures						
Small and Medium Industry Finance Bonds	9,104	467	5.13	9,387	437	4.66
Foreign currency	1,705	55	3.23	2,121	52	2.45
Total	10,809	522	4.83	11,508	489	4.25
Other	297	12	4.04	236	9	3.83
Total average interest bearing liabilities	60,472	2,152	3.56	64,372	2,071	3.22
Total average non-interest bearing liabilities						
and stockholders' equity	7,818	-	-	8,093	-	-
Total average liabilities and						
shareholders' equity	₩ 68,290	₩ 2,152	3.15%	₩ 72,465	₩ 2,071	2.86%

Results of Operation

Net Income

In 2004, net income posted a dramatic 65.4% increase, reaching ₩370 billion by the year-end. The Bank's principal source of revenue was from loans, which comprised 74.1% of total assets as of 31 December 2004. Interest on loans accounted for 50.1% of the total operating revenue. Commissions, the biggest component of which is credit card fees, represented 5.8% of the total operating revenue in 2004. The Bank's primary expense was interest expenses arising from deposits, borrowings and debentures and provisions for possible loan losses.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

The following table summarizes the Bank's operating results for the years indicated:

	(in billions of won)			
	2003		2004	
Interest income	₩	3,780	₩	3,891
Non-interest income ⁽¹⁾		2,623		3,006
Interest expense		2,152		2,072
Non-interest expense ⁽²⁾		3,939		4,298
Income (loss) before income taxes		312		527
Income tax expense		88		157
Net income (loss)	₩	224	₩	370

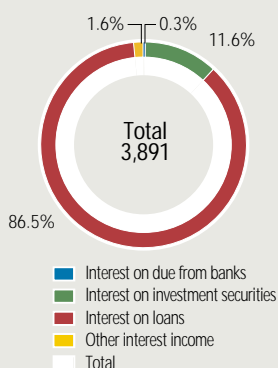
(1) Includes commission income, other operating income and non-operating income.

(2) Includes other operating expenses, general and administrative expenses, commission expenses and non-operating expenses. Operating expenses include provision for loan losses of ₩1,407 billion in 2003 and ₩918 billion in 2004, as well as general and administrative expenses of ₩804 billion in 2003 and ₩864 billion in 2004.

40

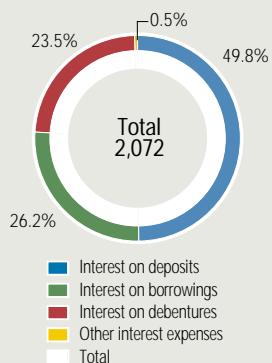
Interest Income

(in billions of won)



Interest Expenses

(in billions of won)



Net Interest Income

The following table summarizes the components of net interest income before provisions for loan losses during the years indicated:

	(in billions of won)			
	2003		2004	
Interest income:				
Interest on due from banks	₩	9	₩	10
Interest on investment securities		552		451
Interest on loans		3,157		3,369
Other interest income		62		61
Total		3,780		3,891
Interest expenses:				
Interest on deposits		1,060		1,032
Interest on borrowings		557		542
Interest on debentures		522		488
Other interest expenses		13		10
Total		2,152		2,072
Net interest income	₩	1,628	₩	1,819

Net interest income increased to ₩1,819 billion, up 11.7% from ₩1,628 billion in 2003. This was due to a 2.9% growth in interest income and a 3.8% reduction in interest expenses during the year. Net interest margin decreased 0.17 percentage points to 2.77% in 2004. The lower net interest margin was mainly attributable to a 95 basis point (bp) drop in the average yield on investment securities. This reflected the overall decline in market interest rates over the course of 2004.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Interest Income

For 2004, interest income came in at ₩3,891 billion, up 2.9% from ₩3,780 billion in 2003. The 6.4% rise in the average balance of interest earning assets to ₩64,398 billion was the main factor for the increase in interest income.

Interest income on loans, which comprises 86.5% of total interest income, improved 6.7% year on year due to a 13.3% increase in the average balance of won loans. These loans were mostly extended to small and medium-sized enterprises (SMEs) and retail customers. In addition, interest income on due from banks rose 11.1% to ₩10 billion, strengthened by a 7.1% growth in the average balance of due from banks to ₩1,364 billion. However, interest income on investment securities fell 18.3% and weighed down the gains in the loan book and due from banks accounts. Although the average balance of investment securities increased 4.8% during the year, the 95 bp decline in the average nominal rate earned on investment securities from 5.46% in 2003 to 4.51% in 2004 resulted in lower interest income on investment securities.

Interest Expenses

In 2004, interest expenses decreased 3.8% to ₩2,072 billion due to a 34bp drop in the average nominal cost of interest bearing liabilities to 3.22%. Despite a 6.45% increase in the average balance of these liabilities to ₩64,372 billion in 2004, the constant decline in the market interest rate helped reduce interest expenses. To illustrate by types of liabilities, the average rate paid on debentures, borrowings, and deposits fell by 63bp, 16bp, and 34bp, respectively.

Non-Interest Income and Expenses

The following table summarizes the components of non-interest income for the years indicated:

	(in billions of won)	
	2003	2004
Non - Interest income:		
Commission income	₩ 645	₩ 635
Credit card fee	456	391
Commission in Won	103	149
Others	86	95
Gain on securities	54	35
Gain on foreign exchange trading	544	450
Gain on financial derivatives trading	874	1,675
Others	2	2
Total ⁽¹⁾	2,119	2,797

(continued)

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

	(in billions of won)			
	2003		2004	
Non-Interest expenses:				
Commission expense	₩	86	₩	83
Loss on securities		24		18
Loss on foreign exchange trading		358		363
Loss on derivatives trading		921		1,624
Contributions to Credit Guarantee Fund		89		101
Others		30		65
Total ⁽²⁾		1,508		2,254
Net-non interest income	₩	611	₩	543

(1) Excludes fees and commissions from trust accounts and non-operating income

(2) Excludes provisions for other allowance which were ₩5 billion in 2003 and ₩8 billion in 2004, provisions for possible loan losses, subsidies for trust accounts adjustments, general and administrative expenses, and non-operating expenses.

Non-interest income decreased 11.1% to ₩543 billion in 2004. This was primarily due to a 14.3% decrease in credit card fees from ₩456 billion in 2003 to ₩391 billion in 2004. The Bank also had a 43.3% decrease in net gain on securities from ₩30 billion in 2003 to ₩17 billion in 2004. On the other hand, fees from bancassurance surged more than 400%, reaching ₩32 billion by the year-end as the Bank aggressively moved into this new business segment.

Although there was a growth of ₩98 billion in net gain on financial derivatives trading during 2004, a ₩99 billion decrease in net gain on foreign exchange trading during the same year counterbalanced the earnings. This was primarily a function of the Bank's hedging activities related to foreign exchange trading by using financial derivatives.

The following table summarizes the components of provisions for possible loan losses, general and administrative expenses and non-operating income for the years indicated:

	(in billions of won)			
	2003		2004	
Provisions for possible loan losses				
Corporate loans	₩	630	₩	626
Household loans		80		60
Credit card assets		698		232
Total		1,407		918
General & administrative expenses				
Salaries		402		442
Administrative cost (depreciation)		358		371
Provision for severance benefits		44		51
Total		804		864
Net-non operating income				
Debt sale		82		(108)
Gain on investment securities		122		15
Others		(20)		13
Total	₩	184	₩	(80)

Management's Discussion & Analysis

for the years ended December 31, 2004 and 2003

Loan Loss Provisioning

In 2004, provisions for possible loan losses decreased 34.8% to ₩918 billion as a result of improvements to the Bank's overall asset quality in its loan book. The Bank revised accounting policies regarding the recognition of gain/loss on sale of loans (See "Non-operating income and expenses" below.) The results were immediately noticeable, with provisions for possible loan losses decreasing by ₩183 billion. Factoring in the decrease of ₩183 billion, provisions for loan losses fell 21.7% from the previous year to ₩1,101 billion. The reduction in provisions for loan losses was mainly led by a decrease in provisions for credit card accounts. The Bank had a dramatic 66.7% turnaround in those accounts, with totals falling from ₩698 billion in 2003 to ₩232 billion in 2004.

Non-operating income and expenses

For the year 2004, net non-operating income fell 143.5%, recording ₩80 billion in the red. This was a result of a 87.7% drop in investment securities related gains to ₩15 billion and a 231.7% decrease in gains on the sale of loans to ₩108 billion in the red. Changes in the Bank's accounting policies regarding the recognition method of gains or losses on debt sales were the principal reasons for the decrease. Previously, in the case of written-off loans, proceeds from the debt sale were offset by the allowance for possible loans losses. And in the case of normal loans, the difference between the book value and the sales proceeds was recognized as gains or losses on debt sales. Pursuant to the new accounting policies, the difference between the book value as of the previous year and the proceeds of debt sale are all accounted as gains or losses on debt sales regardless of write-offs. The drop in investment securities related gain was a result of a 95.2% decrease in equity method gains from ₩68 billion in 2003 to ₩3 billion in 2004, as well as a 77.8% drop in gain on disposal/valuation of investment securities from ₩54 billion in 2003 to ₩12 billion in 2004.

General and Administrative Expenses

General and administrative expenses increased 7.5% to ₩864 billion in 2004. This was primarily due to a 10.0% increase in salaries, raising the figure to ₩442 billion. The reason for the increase was a 5.3% hike in the average wage during the year.

Loan Portfolio

The Korean government broadly supervises the Bank's lending operations, although the Bank has the autonomy to determine specific credit policies. For example, 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 will often provide lending to these specified areas at below the 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, advances and call loans) primarily to domestic SMEs in a wide range of industries, as well as to consumers (including through credit card accounts). As of 31 December 2004, loans denominated in the Korean Won amounted to ₩47,528 billion, representing 84.5% of total credits.

Management's Discussion & Analysis

for the years ended December 31, 2004 and 2003

The following table summarizes the composition of the Bank's total credit portfolio according to type of loan as of the years end indicated:

	(in billions of won, except ratio data)			
	2003		2004	
Loans in Won	₩ 42,167	80.0%	₩ 47,528	84.5%
Loans to SMEs	35,732	67.8	40,102	71.3
Loans to large corporations	232	0.4	310	0.5
Loans to households	6,118	11.6	7,025	12.5
Loans to public entities and others	85	0.2	91	0.2
Loans in foreign currencies	3,618	6.9	2,784	4.9
Bills purchased in Won	83	0.1	60	0.1
Bills purchased in foreign currencies	821	1.5	765	1.4
Domestic import usance bills	623	1.2	661	1.2
Advances for customers	25	0.1	19	0.0
Factoring receivables	9	0.0	5	0.0
Credit card accounts	2,238	4.3	1,867	3.3
Call loans	564	1.1	604	1.1
Privately placed bonds	213	0.4	65	0.1
Interbank loans	1,349	2.6	1,084	1.9
Bonds purchased under resale agreements	968	1.8	820	1.5
Loans to be converted into equity	4	0.0	0	0.0
Total credits ⁽¹⁾	₩ 52,682	100.0%	₩ 56,262	100.0%
Won-denominated (%)	90%		91.4%	
Foreign currency denominated (%) ⁽²⁾	10%		8.6%	

(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.

As of 31 December 2004, loans extended to SME's amounted to ₩40,102 billion, or 84.5% of total won loans. Of the total SME loans, working capital loans accounted for 80.4% and facility loans comprised 19.6%. 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.

The Bank's lending and other credit-providing activities are subject to credit analysis and approval in accordance with the Bank's internal policies and procedures (See Page 16, "Credit Policies and Approval Procedures".) The Bank maintains a diversified loan portfolio in order to limit its exposure to particular borrowers and industries.

Loan Concentration by Industrial Sector

The Bank's corporate loan portfolio represents a broad range of industries, but is mostly concentrated in the manufacturing sector, which accounted for 55.5% of total won and foreign currency loans as of 31 December 2004. However, within this broad category, loans are well diversified into a wide range of manufacturing sub-sectors.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

The following table is a composition of the Bank's won and foreign currency loan portfolio according to the industrial sector as of the years end indicated.

	(in billions of won, except ratio data)			
	2003		2004	
Manufacturing	₩ 25,143	54.9%	₩ 27,919	55.5%
Textile	2,847	6.2	2,739	5.5
Apparel and leather	1,031	2.2	667	1.3
Chemical products	1,282	2.8	1,449	2.9
Rubber and plastic products	2,047	4.5	2,369	4.7
Basic metals	1,335	2.9	1,560	3.1
Fabricated metal products	2,573	5.6	3,018	6.0
Other machinery	3,524	7.7	4,151	8.3
Electrical machinery	1,186	2.6	1,325	2.6
Communications equipment	1,944	4.3	2,228	4.4
Automobiles	1,846	4.0	2,111	4.2
Other	5,528	12.1	6,302	12.5
Construction	2,168	4.7	2,344	4.7
Wholesale, retail and repair of customer goods	6,276	13.7	6,709	13.3
Finance and insurance	223	0.5	271	0.5
Transportation, storage and communication	803	1.8	720	1.4
Real estate, renting and business service	2,530	5.5	2,743	5.5
Food and accommodations	722	1.6	638	1.3
Hygiene and social welfare	543	1.2	566	1.1
Public and personal service	609	1.3	643	1.3
Loans to households	6,133	13.4	7,044	14.0
Other	635	1.4	715	1.4
Total	₩ 45,785	100.0%	₩ 50,312	100.0%

Loan Concentration by Size of Loans

In accordance with its lending principles, the Bank avoids large exposure to an individual borrower. As illustrated below, the Bank extended 53.1% of its total domestic loans in amounts less than ₩1 billion. The following table illustrates the distribution of the Bank's domestic loans by the size of the loans as of the years end indicated.

	(in billions of won, except ratio data)			
	2003		2004	
Up to 0.1	₩ 9,729	21.3%	₩ 7,208	14.4%
Over 0.1 to 0.5	8,673	19.0	11,987	23.9
Over 0.5 to 1	6,736	14.7	7,416	14.8
Over 1 to 3	10,928	23.9	12,213	24.3
Over 3 to 5	4,292	9.4	4,743	9.4
Over 5 to 10	3,309	7.2	3,848	7.7
Over 10 ⁽¹⁾	2,044	4.5	2,740	5.5
Total	₩ 45,711	100.0%	₩ 50,155	100.0%

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

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Loan Analysis

Maturity Profile

As of 31 December 2004, ₩40,015 billion, or 71.1% of the Bank's total credits, 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 years end indicated.

	(in billions of won, except ratio data)			
	2003		2004	
Less than 3 months	₩ 10,382	19.7%	₩ 11,050	19.6%
Less than 6 months	10,142	19.3	11,580	20.6
Less than 1 year	15,653	29.7	17,385	30.9
Less than 3 years	8,259	15.7	7,364	13.1
More than 3 years	8,246	15.6	8,883	15.8
Total	₩ 52,682	100.0%	₩ 56,262	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 loans made by the Bank at year-end 2004 were at variable rates of interest, which are periodically adjusted. The Bank determines the annual interest rate with respect to companies by 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 may vary between 1.0 % to 5.9%. Loans to individuals were nearly all at variable rates, which, as of 31 December 2004, were on average 6.44%.

Collateral and Guarantees

By the end of 2004, 64.7% of the Bank's domestic loans, which amounted to ₩32,420 billion, was secured either by collateral or guarantees. ₩20,298 billion of domestic loans, or 40.5%, was secured by land, buildings, and other assets, and ₩12,122 billion of domestic loans or 24.2% 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. Collateral appraisal is conducted internally by qualified appraisers. The Bank's loan-to-value limit ranges between 40% and 100%, depending on the type of collateral and the term of the loan.

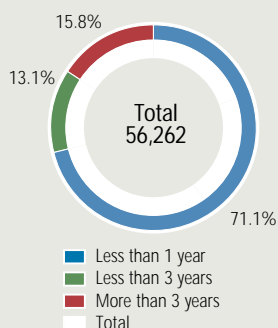
The following table shows the distribution of the Bank's total domestic loans by type of security as of the years end indicated.

	(in billions of won, except ratio data)			
	2003		2004	
Secured by collateral	₩ 17,825	39.0%	₩ 20,298	40.5%
Secured by guarantees ⁽¹⁾	11,385	24.9	12,122	24.2
Unsecured loans	16,501	36.1	17,735	35.3
Total ⁽²⁾	₩ 45,711	100.0%	₩ 50,155	100.0%

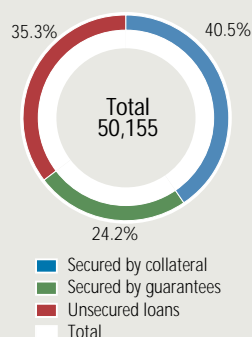
(1) Includes guarantees from the Korea Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund.

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

Loans by Maturity
(in billions of won)



Loans by Security
(in billions of won)



Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

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 for generating additional interest and dividend income and capital gains to supplement income from the Bank's core lending activities.

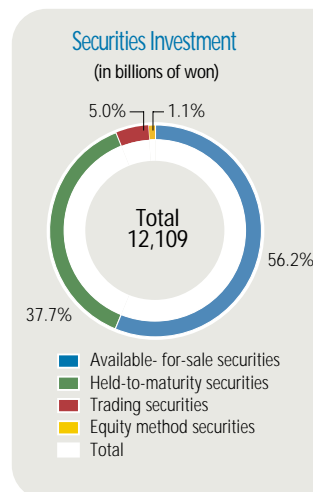
For accounting purposes, securities held by the Bank are required to be classified as trading securities, available-for-sale securities or held-to-maturity securities. The applicable valuation method differs for trading and investment securities (which consist of available-for-sale securities and held-to-maturity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

As of 31 December 2004, the Bank's total securities portfolio had a stated value of ₩12,109 billion, representing 16.3% of its total assets. The Bank's investment securities portfolio consists primarily of debt securities issued or guaranteed by the Korean government (including Monetary Stabilization Bonds), municipal debt securities and debt securities and shares issued by Korean and foreign companies. Monetary Stabilization Bonds are securities issued by the 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, including IBK Capital Corporation, IBK Tech Co., Ltd. and Kieun Credit Information Co., Ltd., is calculated using the equity method. As of 31 December 2004, the book value was ₩138 billion.

The following table sets forth the book value of the Bank's securities as of the years end indicated.

	(in billions of won, except ratio data)			
	2003		2004	
Trading securities				
Government and public bonds	₩ 497	4.5%	₩ 101	0.8%
Finance debentures	315	2.8	403	3.3
Corporate bonds	426	3.9	94	0.8
Stocks	48	0.4	10	0.1
Trading securities in foreign currencies	-	-	-	-
Others	40	0.4	-	-
Total	1,325	12.0	609	5.0
Available-for-sale securities				
Stocks	96	0.9	533	4.4
Other equity securities	40	0.4	31	0.3
Government and public bonds	548	4.9	371	3.1
Finance debentures	1,747	15.8	2,963	24.5
Corporate bonds	2,741	24.7	1,710	14.1
Securities in foreign currencies	726	6.6	1,074	8.9
Others	118	1.0	109	0.9
Total	6,015	54.3	6,791	56.2
Held-to-maturity securities				
Government and public bonds	634	5.8	825	6.8
Finance debentures	769	6.9	2,214	18.3
Corporate bonds	1,755	15.8	1,532	12.7
Total	3,157	28.5	4,571	37.7

(continued)



Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

	(in billions of won, except ratio data)			
	2003		2004	
Securities accounted for using the equity method of accounting				
Stocks	560	5.1	129	1.1
Other equity securities	18	0.1	9	0.1
	578	5.2	138	1.1
Total	₩ 11,077	100.0%	₩ 12,109	100.0%

The net unrealized gain or loss on the valuation of available-for-sale securities is presented as gain or loss on valuation of available-for-sale securities in capital adjustments. Capital adjustments for gains on valuation of the Bank's available-for-sale securities amounted to ₩49 billion and ₩223 billion as of 31 December 2003 and 2004, 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 to the extent 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% 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 Stabilization Bonds;
- (3) Securities acquired through investment by the government; and
- (4) Stock acquired pursuant to debt-for-equity swaps in connection with corporate restructuring.

The Bank is also generally prohibited from acquiring in more than 15% of the common shares issued by any other corporation, subject to certain exceptions described in the IBK Act.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Asset Quality Information

Asset Classification

Since December 1999, the Bank has met Financial Supervisory Service (FSS) provisioning requirements. Applicable FSS guidelines 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	Credits extended to customers, which, in consideration of their business and operations, financial conditions and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits extended to customers (1) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although any immediate risks of default in repayment have not occurred; or (2) which are in arrears for one month or more but less than three months.
Substandard	(1) Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred considerable risks for default in repayment as the customers' ability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) extended to customers which are judged to have incurred serious risks due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of "Doubtful Customers" or "Estimated-loss Customers" (each as defined below).
Doubtful	That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Doubtful Customers") which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred serious risks of default in repayment due to noticeable deterioration in their ability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months.
Estimated Loss	That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Estimated-loss Customers") which, in consideration of their business and operations, financial condition and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

Credits classified as substandard or below are considered to be "non-performing" credits. The FSS 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 FSS guidelines.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Loans and confirmed acceptances and guarantees provided by the Bank to corporate borrowers whose total assets exceeding ₩1 billion and, in the case of small-and medium-sized enterprise borrowers, for whom the Bank, in accordance with the Bank's internal regulations prepare a "Credit Evaluation Table for Small and Medium-Sized Companies," are classified as normal, precautionary, substandard, doubtful, or estimated loss based on historical debt repayment capability. In determining historical debt repayment capability, the Bank takes into consideration certain factors, such as the relevant past due period and status of bankruptcy filing. These factors are called "Criteria by Historical Debt Repayment Capability."

The Bank also classifies these loans into 15 categories based on future repayment capability. In determining future repayment capability, the Bank takes into consideration such factors as operating performance, financial position, cash flows, industrial characteristics and management capabilities, which are called "Criteria by Future Debt Repayment Capability." The Bank then reclassifies these loans into the five categories of normal, precautionary, substandard, doubtful, or estimated loss.

Loans and confirmed acceptances and guarantees to corporate borrowers whose total assets amount to less than ₩1 billion and households are classified into the five categories of normal, precautionary, substandard, doubtful, or estimated loss based only on historical debt repayment capability.

The ultimate classification of these loans is the lower of the classification according to historical debt repayment capability and the classification according to future repayment capability.

Allowance for Credit Losses and Write-Offs

Pursuant to FSS regulations, banks 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:

- 0.7 % or 1.9% in the case of watch-listed corporate loans (or, 0.75% and 1% in the case of household loans and credit card loans, respectively) of normal credits;
- 4% or 19% in the case of watch-listed or overdue corporate loans (or, 8% in the case of household loans, or 19% in the case of watch-listed or overdue household loans and credit card loans) of precautionary credits;
- 20% of substandard credits;
- 50% or 90% in the case of companies with overdue loans (or, 90% in the case of household loans and credit card loans) of doubtful credits; and
- 100% 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.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

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.

Classification	(in billions of won)			
	2003		2004	
	Loans	Allowance	Loans	Allowance
Performing				
Normal	₩ 45,722	₩ 254	₩ 49,487	₩ 360
Precautionary	2,782	127	3,077	195
Total performing loans	48,504	381	52,564	555
Non-Performing				
Substandard	827	175	783	154
Doubtful	268	180	174	141
Estimated loss	199	199	234	234
Total non-performing loans	1,294	554	1,191	529
Total loans ⁽¹⁾	₩ 49,798	₩ 936	₩ 53,753	₩ 1,084

(1) Loans required to be classified in accordance with FSS asset qualification guidelines. (inclusive of trust accounts)

The table below summarizes the changes in the Bank's provisions for loan losses for the years indicated.

	(in billions of won, except percentages)	
	2003	2004
Beginning balance	₩ 883	₩ 936
Write-offs charged to present value discount	(4)	(2)
Loans written-off	(1,100)	(620)
Changes in foreign exchange rates	4	(8)
Others	(255)	(140)
Total	(472)	165
Provision for possible loan losses	1,407	918
Ending balance	₩ 936	₩ 1,084
Loan loss reserve as a percentage of total credit	1.9%	2.0%
Write-offs as a percentage of total credit	2.2%	1.1%

The Bank previously set allowances for possible loan losses at 0.5%, 2%, and 50% with respect to corporate loans classified as normal, precautionary and doubtful, respectively. In the case of household loans, the allowance ratio for normal, precautionary and doubtful was 0.75%, 8% and 55%, respectively. Meanwhile, in the case of credit card loans classified as normal, precautionary and doubtful, the Bank set allowance at 1%, 12%, and 65%, respectively. However, beginning on 1 January 2005, the Bank increased the allowance ratios for corporate loans classified as normal to 0.7% and to 1.9% in the case of watch-listed or overdue corporate loans. The Bank also increased the allowance ratio for corporate loans classified as precautionary to 4% and to 19% in the 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%. In the case of household loans and credit card loans classified as doubtful, the allowance ratio was increased to 90%. The Bank adjusted the ratios upwards to maintain an appropriate level of allowance ratios for possible loan losses and in preparation of the forthcoming implementation of expected loss based reserve standard.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

In addition, for secured household loans newly placed after 9 September 2002, if the ratio of loan-to-collateral value exceeds 60%, the Bank provides an allowance for possible loan losses of 1% or more for loans classified as normal, and 10% or more for loans classified as precautionary.

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 analysis of non-government companies. Companies placed on the watch-list or potential problem list as a result of such analysis receive a more stringent general quarterly review and credit review when being considered for any extension of credit.

Loans are recognized as problem loans when principal or interest payments are contractually one day or more past due. Through the Bank's information system, the Bank produces weekly reports containing arrears information from its headquarters and branches. The Bank also utilizes 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 branches 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 a list of 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 computerized method, the head office reviews various information on each borrower, including 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 regarding certain qualitative information that cannot be electronically processed, including labor 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 categorized as "caution" or "warning", the Bank takes appropriate remedial measures, including 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 securitization transactions. In 2004, the Bank sold non-performing loans of ₩491 billion to Kieun 4th SPC at the price of ₩370 billion in June and sold ₩537 billion to Kieun 5th SPC at the price of ₩390 billion in December. In connection with these transactions, the Bank recognized the gain on disposition of loans amounting to ₩65 million for the year-ended 2004. With respect to Kieun 4th SPC and Kieun 5th SPC, the Bank also purchased subordinated bonds of ₩120 billion and ₩130 billion, respectively, and the book value of these bonds were ₩87 billion and ₩104 billion, respectively as of 31 December 2004. Additionally during 2004, the Bank also sold non-performing loans of ₩453 billion to KB Partner at the price of ₩8 billion. In connection with this transaction, the Bank recognized the loss on disposition of loans amounting to ₩108 billion for the year-ended 2004. With respect to each of these three SPCs, the Bank holds 15% ownership interest, with the remainder held by the representative director of such SPC. The Bank also directly manages the assets of these SPCs.

The Bank writes off loans classified as "estimated loss" that the Bank deems to be uncollectible, subject to prior approval by the FSS.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Credits in Workout and Restructuring Proceedings

As of 31 December 2004, ₩72 billion, or 0.1% 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 reorganization proceedings relating to the Bank's borrowers.

Funding

The Bank's sources of funding include deposits and other borrowed funds. Deposits include demand deposits, time and savings deposits, mutual installments and certificates of deposit. The Bank's other sources of funding consist primarily of repurchase instruments, borrowings from the Korean government, The Bank of Korea (BOK) and other banks and the issuance of Small and Medium Industry Finance (SMIF) bonds.

The Bank's funding strategy has been to increase the average balances of deposits, to increase the percentage of deposits constituted by demand deposits, savings deposits and other lower cost deposits, to diversify funding sources and to increase borrowings from the Korean government and other sources of low cost funding.

The table below is a summary of the Bank's deposits and other borrowed funds by type as of the years end indicated.

	2003		2004	
	₩	(in billions of won, except percentages)	₩	(in billions of won, except percentages)
Deposits (Won)	31,963	51.9%	34,915	53.8%
Demand deposits	4,389	7.1	5,098	7.9
Savings deposits	27,574	44.7	29,817	46.0
Deposits (foreign currencies) ⁽¹⁾	1,068	1.7	1,161	1.8
Certificate of deposit	1,197	1.9	1,045	1.6
Bills sold	2,019	3.3	1,943	3.0
SMIF bonds	9,766	15.9	9,915	15.3
Borrowings (Won)	8,065	13.1	9,228	14.2
Borrowings (foreign currencies)	3,358	5.5	2,498	3.9
Other borrowings ⁽²⁾	2,346	3.8	2,112	3.3
Bonds issued (foreign currencies)	1,839	3.0	2,063	3.2
Total	₩ 61,621	100.0%	₩ 64,880	100.0%

(1) Includes amounts due to The Bank of Korea in foreign currencies.

(2) Includes bonds sold under repurchase agreements, borrowings from Industry Foundation Fund and call money.

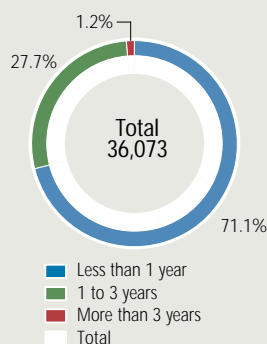
The Bank determines the rate of interest that it pays on won deposits according to prevailing market conditions. Interest on savings deposits is paid at variable rates of interest, while interest on mutual installments and certificates of deposit is generally paid at fixed rates of interest. Interest rates on foreign currency deposits are based principally on LIBOR. As of 31 December 2004, 91.1% of the Bank's deposits and other borrowed funds was denominated in Won and the remainder was denominated principally in foreign currencies.

Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Deposits by Maturity

(in billions of won)



The Bank attracts deposits principally through its extensive branch network. The Bank also borrows funds from the Korean government at rates of interest below the market rates, which it may utilize only to make loans to SMEs in certain sectors identified by the government as requiring support on favorable 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. SMIF bonds provide a stable source of funding for the Bank because SMIF bonds have more flexibility in maturity structure and have a low cost funding advantage over the bonds issuable by commercial banks, as it offers certain benefits to the holders (See Page 14, "Relationship with the Government".)

As of 31 December 2004, ₩25,639 billion in deposits, or 71.1% of the Bank's deposits, had a remaining maturity of less than one year. However, deposits are generally rolled over at maturity at the prevailing rates of interest, providing the Bank with a stable source of funding.

The following table is a summary of the Bank's deposits in its bank accounts by remaining maturity as of 31 December 2004.

Remaining maturity	(in billions of won, except percentages)			
	Domestic currency	Foreign currencies	Total	Percentage
3 months or less	₩ 11,416	₩ 414	₩ 11,830	32.8%
3 to 6 months	4,450	53	4,503	12.5
6 to 12 months	9,050	255	9,306	25.8
1 to 3 years	9,544	435	9,979	27.7
More than 3 years	455	-	455	1.2
Total	₩ 34,915	₩ 1,157	₩ 36,073	100.0%

Capital Adequacy

The Bank's capital management policies are to diversify its sources of capital, to allocate capital efficiently and to maintain a prudent relationship between its capital and the risks of its underlying business. In determining capital requirements, the Bank projects business growth, capital investment plans, earnings and reserve requirements.

The FSS's capital adequacy guidelines derive from standards established by the Bank for International Settlements (BIS). Under the FSS guidelines, all banks in Korea are required to maintain a total Tier I and Tier II capital adequacy ratio of at least 8.0% on a consolidated basis. As of 31 December 2004, the Bank's capital adequacy ratio on a consolidated basis was 11.18%, with a Tier I ratio of 8.29% and Tier II ratio of 2.89%.

Under the FSS guidelines, the capital adequacy ratio of a bank is the percentage of its risk-adjusted assets constituted by its total Tier I and Tier II capital (less any capital deductions), calculated on a consolidated basis. Tier I capital includes paid-in capital, capital surplus, retained earnings, minority interests in consolidated subsidiaries and unpaid share dividends minus deductions. Tier II capital includes reserves for certain loan losses up to 1.25% of total risk-adjusted assets, subordinated debt with an initial maturity of at least five years, and revaluation surplus (to the extent total Tier II capital does not exceed Tier I capital). Subordinated debentures that qualify for Tier II capital treatment are generally subject to amortization of such capital treatment commencing five years prior to the applicable maturity date of such debentures. Risk-adjusted assets comprise all assets on the balance sheet together with certain off-balance-sheet assets (discounted in each case by applicable risk weightings), multiplied by the applicable credit translation rate provided in the FSS guidelines.

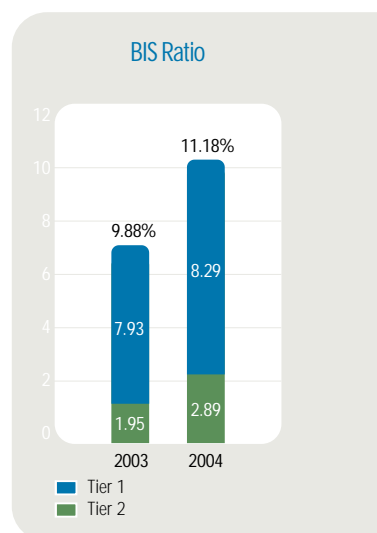
Management's Discussion & Analysis

for the years ended December 31, 2003 and 2004

Effective as of 1 January 1999, the FSS implemented certain changes to its capital adequacy guidelines that affect the method of calculation of capital adequacy ratios. For example, reserves for loan losses against substandard, doubtful and estimated loss credits may not be included in Tier II capital. Effective January 2000, the credit translation rate for guaranteed trust account were increased to 100%. In addition, the BIS recently adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivative instruments held by banks. These changes became applicable to Korean banks commencing in 2002.

The following table sets out a summary of the Bank's consolidated capital base and its capital adequacy ratio as of 31 December 2003 and 2004:

Consolidated basis	(in billions of won, except percentages)	
	2003	2004
Tier I	₩ 3,255	₩ 3,573
Paid-in capital	2,291	2,291
Capital surplus	-	-
Retained earnings	1,162	1,442
Minority interest in consolidated subsidiaries	1	13
Gain on valuation of available-for-sale securities and others	(199)	(173)
Tier II	962	1,248
Credit loss provisions	384	546
45% of valuation gains on securities and others	24	100
Subordinated debt	554	953
Interest in unconsolidated subsidiaries	(7)	(2)
Asset-backed securities issued with respect to non-performing loans	(157)	(349)
Total capital	4,053	4,821
Total risk-weighted assets	₩ 41,020	₩ 43,136
Total capital to risk-weighted assets ratio	9.88%	11.18%
Ratio of Tier I capital to risk-weighted assets	7.93%	8.29%
Ratio of Tier II capital to risk-weighted assets	1.95%	2.89%



Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheets of the Bank Accounts of Industrial Bank of Korea (the "Bank") as of December 31, 2004 and 2003, and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank Accounts of Industrial Bank of Korea as of December 31, 2004 and 2003, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 2, the Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) since January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Statements) through No.9 (Convertible Securities), since January 1, 2003. Also, the Bank has implemented SKAS No.13 (Troubled Debt Restructurings) and No.15 (Equity Method), since January 1, 2004.

As explained in Note 31(1), the Bank sold loans of ₩ 1,027,842 million (US\$ 984,712 thousand), including ₩ 316 million (US\$ 303 thousand) in trust accounts, to Kieun 4th and 5th Special Purpose Companies. With respect to these transactions, the Bank purchased subordinated bonds of ₩ 250,000 million (US\$ 239,509 thousand), of which the book values of the subordinated bonds are ₩ 191,375 million (US\$ 183,345 thousand) as of December 31, 2004, and recognized the loss on disposition of loans amounting to ₩ 108,498 million (US\$ 103,945 thousand).

Also, the Bank sold loans of ₩ 829,550 million (US\$ 794,740 thousand), including ₩ 1,341 million (US\$ 1,285 thousand) in trust accounts, to Kieun 2nd and 3rd Special Purpose Companies. With respect to these transactions, the Bank purchased subordinated bonds of ₩ 215,000 million (US\$ 205,978 thousand), of which the book values of the subordinated bonds are ₩ 75,793 million (US\$ 72,613 thousand) as of December 31, 2004, and recognized the gain on disposition of loans amounting to ₩ 75,793 million (US\$ 72,613 thousand).

As explained in Note 2, the Bank increased allowance ratio for loans classified as normal and precautionary in asset quality in 2004 in consideration of valuation of past experience of bad debt. With respect to this change, the Bank's allowance for possible loan losses increased by ₩ 183.6 billion (US\$ 175.9 million) and the Bank's net income decreased by ₩ 129.1 billion (US\$ 123.7 million).

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

Anjin Deloitte LLC

Deloitte HanaAnjin LLC

Seoul, Korea

January 31, 2005

Notice to Readers

This report is effective as of January 31, 2005, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Non-Consolidated Balance Sheets

as of December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
ASSETS				
Cash and due from banks (Notes 3, 24 and 25)	₩ 1,879,516	₩ 2,248,579	\$ 1,800,648	\$ 2,154,224
Securities (Notes 4, 24 and 25)	12,109,167	11,076,507	11,601,041	10,611,714
Loans (Notes 5, 6, 7, 24 and 25)	55,173,009	51,741,094	52,857,836	49,569,931
Fixed assets (Note 8)	929,509	937,393	890,505	898,058
Other assets (Notes 9, 15, 20 and 25)	4,403,353	5,580,786	4,218,579	5,346,605
	₩ 74,494,554	₩ 71,584,359	\$ 71,368,609	\$ 68,580,532
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits (Notes 10, 24, 25 and 26)	₩ 37,118,215	₩ 34,215,360	\$ 35,560,658	\$ 32,779,613
Borrowings (Notes 11, 24 and 25)	15,890,080	15,805,170	15,223,299	15,141,953
Debentures (Notes 12, 24 and 25)	11,971,773	11,600,076	11,469,413	11,113,313
Other liabilities (Notes 13, 14, 15, 25 and 26)	5,609,985	6,511,807	5,374,579	6,238,558
	₩ 70,590,053	₩ 68,132,413	\$ 67,627,949	\$ 65,273,437
SHAREHOLDERS' EQUITY (Notes 16, 21 and 22):				
Common stock	₩ 2,025,758	₩ 2,025,758	\$ 1,940,753	\$ 1,940,753
Preferred stock	265,627	265,627	254,481	254,481
Legal reserve	325,446	269,147	311,789	257,853
Other reserve	727,779	651,852	697,240	624,499
Retained earnings before appropriations (Net income of ₩ 370,435 million in 2004 and ₩ 223,959 million in 2003)	370,435	223,959	354,891	214,561
Capital adjustments (Notes 4 and 16)	189,456	15,603	181,506	14,948
	3,904,501	3,451,946	3,740,660	3,307,095
	₩ 74,494,554	₩ 71,584,359	\$ 71,368,609	\$ 68,580,532

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
OPERATING REVENUE:				
Interest income (Notes 17 and 26):				
Interest on due from banks	₩ 9,704	₩ 9,225	\$ 9,297	\$ 8,838
Interest on securities	451,475	551,959	432,530	528,798
Interest on loans (Note 2)	3,368,575	3,156,524	3,227,223	3,024,070
Other interest income	61,034	62,496	58,473	59,874
	3,890,788	3,780,204	3,727,523	3,621,580
Commission income	635,000	645,340	608,354	618,260
Other operating income:				
Gain on disposal of trading securities	28,175	36,165	26,993	34,647
Gain on valuation of trading securities	2,246	8,214	2,152	7,869
Dividend on trading securities	1,379	964	1,321	924
Dividend on available-for-sale securities	2,958	8,972	2,834	8,596
Foreign exchange trading income	449,698	544,242	430,828	521,404
Fees and commissions from trust accounts	38,608	104,755	36,988	100,359
Gain on financial derivatives trading	1,675,143	874,453	1,604,850	837,759
Others	2,021	1,586	1,936	1,519
	2,200,228	1,579,351	2,107,902	1,513,077
Total operating revenues	6,726,016	6,004,895	6,443,779	5,752,917
OPERATING EXPENSES:				
Interest expenses (Notes 17 and 26):				
Interest on deposits	1,032,176	1,059,826	988,864	1,015,353
Interest on borrowings	541,796	557,361	519,061	533,973
Interest on debentures	487,971	522,329	467,495	500,411
Other interest expenses	9,504	12,793	9,105	12,256
	2,071,447	2,152,309	1,984,525	2,061,993
Commission expense	82,923	86,246	79,443	82,627
Other operating expenses:				
Loss on disposal of trading securities	17,823	18,620	17,075	17,839
Loss on valuation of trading securities	466	5,790	446	5,547
Foreign exchange trading loss	363,428	357,561	348,178	342,557
Contributions to Credit Guarantee Fund	101,095	88,797	96,853	85,071
Provision for possible loan losses	918,223	1,407,278	879,693	1,348,226
Provision for possible losses on acceptances and guarantees	-	332	-	318
Subsidy for trust accounts adjustments	1,505	-	1,442	-
Loss on financial derivatives trading	1,623,485	921,347	1,555,360	882,685
Others	73,421	34,653	70,340	33,199
	3,099,446	2,834,378	2,969,387	2,715,442

(continued)

Non-Consolidated Statements of Income (continued)

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
General and administrative expenses (Note 18):				
Salaries, employee benefits and provision for severance indemnities	₩ 557,081	₩ 507,238	\$ 533,705	\$ 485,953
Depreciation and amortization	97,980	104,904	93,868	100,502
Taxes and dues	56,985	55,149	54,594	52,835
Others	151,927	136,579	145,552	130,848
	863,973	803,870	827,719	770,138
Total operating expenses	6,117,789	5,876,803	5,861,074	5,630,200
OPERATING INCOME	608,227	128,092	582,705	122,717
NON-OPERATING INCOME (Note 19)	170,896	398,399	163,725	381,681
NON-OPERATING EXPENSES (Note 19)	251,446	214,568	240,895	205,564
ORDINARY INCOME	527,677	311,923	505,535	298,834
EXTRAORDINARY ITEM	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	527,677	311,923	505,535	298,834
INCOME TAX EXPENSE (Note 20)	157,242	87,964	150,644	84,273
NET INCOME	₩ 370,435	₩ 223,959	\$ 354,891	\$ 214,561
ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 21)	₩ 819	₩ 489	\$ 0.785	\$ 0.468
NET INCOME PER COMMON SHARE (in currency units) (Note 21)	₩ 819	₩ 489	\$ 0.785	\$ 0.468
DILUTED ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 21)	₩ 814	₩ 489	\$ 0.780	\$ 0.468
DILUTED NET INCOME PER COMMON SHARE (in currency units) (Note 21)	₩ 814	₩ 489	\$ 0.780	\$ 0.468

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriations of Retained Earnings

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
RETAINED EARNINGS BEFORE APPROPRIATIONS:				
Unappropriated retained earnings carried forward from prior years	₩ -	₩ -	\$ -	\$ -
Net income	370,435	223,959	354,891	214,561
Balance at end of year before appropriations	370,435	223,959	354,891	214,561
APPROPRIATIONS:				
Legal reserve (Note 16)	92,963	56,326	89,062	53,962
Other reserve (Note 16)	214,662	75,926	205,654	72,740
Amortization of discount on stock issuance (Note 16)	-	54	-	52
Amortization of loss on sale of treasury stock (Note 16)	-	31	-	30
Dividends (Note 22)	62,810	91,622	60,175	87,777
	370,435	223,959	354,891	214,561
CASH DIVIDENDS:				
Dividend (rate) per share				
Common stock				
Major shareholders (in currency units)	₩ 100(2.0%)	₩ 200(4.0%)	\$ 0.096(2.0%)	\$ 0.192(4.0%)
Minority shareholders (in currency units)	₩ 250(5.0%)	₩ 200(4.0%)	\$ 0.240(5.0%)	\$ 0.192(4.0%)
Preferred stock				
Major shareholders (in currency units)	₩ 100(2.0%)	₩ 200(4.0%)	\$ 0.096(2.0%)	\$ 0.192(4.0%)
Minority shareholders (in currency units)	₩ 250(5.0%)	₩ 200(4.0%)	\$ 0.240(5.0%)	\$ 0.192(4.0%)
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR				
	₩ -	₩ -	\$ -	\$ -

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩ 370,435	₩ 223,959	\$ 354,891	\$ 214,561
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of trading securities	(10,352)	(17,545)	(9,919)	(16,809)
Gain on valuation of trading securities	(1,780)	(2,424)	(1,705)	(2,322)
Loss on valuation of derivatives trading	63,519	29,835	60,854	28,583
Provision for severance benefits	51,311	44,828	49,158	42,947
Depreciation and amortization	97,980	104,904	93,868	100,502
Gain on valuation using the equity method	(2,779)	(67,558)	(2,662)	(64,723)
Loss (gain) on disposal of loans	108,433	(81,766)	103,883	(78,335)
Gain on disposal of available-for-sale securities, net	(121,071)	(199,922)	(115,991)	(191,533)
Available-for-sale securities impairment loss, net	27,444	88,784	26,292	85,058
Held-to-maturity securities impairment loss, net	81,689	56,730	78,261	54,350
Decrease (increase) in accrued income	73,426	(49,502)	70,345	(47,424)
Decrease in prepaid expenses	37,057	35,680	35,502	34,183
Decrease (increase) in deferred tax assets	127	(41,614)	122	(39,868)
Decrease in accrued expenses	(9,672)	(43,738)	(9,266)	(41,903)
Decrease in unearned income	(4,981)	(13,349)	(4,772)	(12,789)
Payment of severance benefits	(3,427)	(2,546)	(3,283)	(2,439)
Decrease in National Pension payments	-	7	-	7
Increase in severance insurance deposits	(34,309)	(29,623)	(32,869)	(28,380)
Others	4,449	(5,439)	4,262	(5,211)
Net cash provided by operating activities	727,499	29,701	696,971	28,455

(continued)

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of trading securities	₩ 9,666,424	₩ 10,398,732	\$ 9,260,802	\$ 9,962,380
Proceeds from sale of available-for-sale securities	7,839,036	4,889,398	7,510,094	4,684,229
Redemption of held-to-maturity securities	2,113,175	1,226,861	2,024,502	1,175,379
Increase in loans, net	(3,637,996)	(5,264,714)	(3,485,338)	(5,043,796)
Proceeds from sale of fixed assets	2,517	7,975	2,411	7,640
Acquisition of trading securities	(8,937,653)	(9,823,969)	(8,562,611)	(9,411,735)
Acquisition of available-for-sale securities	(7,777,895)	(4,329,867)	(7,451,518)	(4,148,177)
Acquisition of held-to-maturity securities	(3,608,234)	(1,392,174)	(3,456,825)	(1,333,755)
Purchase of fixed assets	(92,239)	(187,527)	(88,369)	(179,658)
Decrease in guarantee deposits, net	10	-	10	-
Increase in accounts receivable-other, net	(1,800)	(6,241)	(1,725)	(5,979)
Decrease (increase) in other assets, net	1,006,189	(1,430,212)	963,967	(1,370,197)
Net cash used in investing activities	(3,428,466)	(5,911,738)	(3,284,600)	(5,663,669)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in deposits, net	2,902,855	2,071,054	2,781,045	1,984,148
Increase in borrowings	84,910	866,817	81,347	830,443
Increase in debentures, net	369,208	2,030,037	353,715	1,944,853
Increase (decrease) in other liabilities	(1,025,069)	1,531,423	(982,054)	1,467,161
Net cash provided by financing activities	2,331,904	6,499,331	2,234,053	6,226,605
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS				
	(369,063)	617,294	(353,576)	591,391
CASH AND DUE FROM BANKS, BEGINNING OF YEAR (Note 33)				
	2,248,579	1,631,285	2,154,224	1,562,833
CASH AND DUE FROM BANKS, END OF YEAR (Note 33)				
	₩ 1,879,516	₩ 2,248,579	\$ 1,800,648	\$ 2,154,224

See accompanying notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

1. GENERAL:

Industrial Bank of Korea (the "Bank") was established in 1961 under the Industrial Bank of Korea Act for the purpose of conducting banking activities and promoting independent economic activities among small and medium-sized companies. In accordance with the revised Industrial Bank of Korea Act, effective December 31, 1991, the Bank converted its equity shares into stock on May 15, 1992. The Bank's common stock was listed on KOSDAQ, the Korean over-the-counter market, on November 30, 1994. However, the Bank moved to the Korea Stock Exchange (KSE) on December 24, 2003 through a public offering of common shares. In addition, the Bank listed 48 million common shares of Global Depository Shares (GDS) on the Luxembourg Stock Exchange on December 19, 2003. As of December 31, 2004, the Bank's common stock and preferred stock amounted to ₩ 2,025.8 billion (US\$ 1,941 million) and ₩ 265.6 billion (US\$ 254 million), respectively. The Korean government owns 51 percent of the Bank's common and preferred stock. The head office of the Bank is located at 50, Uljiro 2-Ga, Chung-Ku, Seoul, Korea. The Bank has 368 branches and 27 depository offices in Korea, and 5 branches overseas.

64

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Non-Consolidated Financial Statement Presentation

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

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into U.S. dollars based on the basic rate of ₩ 1,043.80 to US\$ 1.00 announced by Seoul Money Brokerage Service, Ltd. at December 31, 2004, solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

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

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans of which the principal or interest is past due at the balance sheet date is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income. Unrecorded accrued interest income for the reasons above as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Overdue loans	₩ 39,429	₩ 39,968	\$ 37,774	\$ 38,291
Loans to companies under legal process	48,330	32,512	46,302	31,148
Loans to companies under composition proceedings	32,043	47,174	30,698	45,194
Loans to companies under court management	4,510	9,816	4,321	9,404
	₩ 124,312	₩ 129,470	\$ 119,095	\$ 124,037

For overseas branches, accrued interest is recognized on an accrual basis. However, interest income on overdue interest is recognized based on the standard practices in the respective countries.

Classification of Securities

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

If the objective and ability to hold securities of the Bank change, available-for-sale securities can be reclassified as held-to-maturity securities and vice-versa. However, if the Bank sells held-to-maturity securities or requires the issuer to redeem early in the current year and the proceeding two years, and if it reclassifies held-to-maturity securities as available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be recategorized as available-for-sale or held-to-maturity securities and the other categories cannot be reclassified as trading securities. Nevertheless, trading securities can be reclassified as available-for-sale securities only when the fair value of the trading securities cannot be readily determinable.

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method or individual method. When the face value of trading debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, trading securities are valued at fair value if the fair value of trading securities differs from its acquisition cost. The carrying value is adjusted to the fair value and the resulting valuation gain or loss is charged to current operations.

(2) Valuation of Held-to-maturity Securities

Held-to-maturity securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual method. After initial recognition, held-to-maturity securities are valued at amortized cost. The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the securities. If collectible value is below the acquisition cost and pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations.

(3) Valuation of Available-for-sale Securities

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method or individual method. After initial recognition, the effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the available-for-sale debt security. Available-for-sale equity securities are valued at fair value, and the net unrealized gain or loss is presented as gain or loss on valuation of available-for-sale securities in capital adjustments. Accumulated capital adjustment of securities is charged to current operations in lump at the time of disposal or impairment recognition. Non-marketable equity securities can be stated at acquisition cost on the financial statement if the fair value of the securities is not credibly determinable.

For available-for sale equity securities, if the decline in the fair value of equity securities is below the acquisition cost and pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. For available-for-sale debt securities, if the decline in the collectible value of debt securities is below the amortized cost and pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in the capital adjustment account should be reversed.

(4) Valuation of Securities Using the Equity Method

Equity Securities that are in companies in which the company is able to exercise significant influence over the investees are accounted for using the equity method. Under the Bank Law, investors with more than 15% ownership of voting right are generally considered to exercise significant influence. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings of the investee are reflected in the retained earnings of the investors. Changes in the capital surplus or other capital accounts of the investee are reflected as gain or loss on valuation of securities using the equity method in the capital adjustments.

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

For available-for-sale securities, the recovery is recorded in current non-operations up to the amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in the capital adjustment account as gain on valuation of available-for-sale securities. However, if increase in the fair value of the impaired securities is not regarded as the recovery of the impairment, the increase in the fair value is recorded as gain or loss on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost. For held-to-maturity securities, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of held-to-maturity securities.

(6) Reclassification of Securities

When held-to-maturity securities are reclassified as available-for-sale securities, those securities are stated at the fair value on the reclassification date and the difference between the fair value and book value are accounted on the capital adjustment account as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified as held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be stated on the capital adjustment account and will be amortized using the effective interest rate and be charged to interest income upon maturity. The difference between the fair value on the reclassification date and face value of the securities reclassified as held-to-maturity securities is amortized using the effective interest rate and charged to interest income.

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities lost from the sale of the securities, the unrealized valuation gain or loss of securities included in the capital adjustment account is added to or deducted from the gain or loss on sale. The gain or loss amounts to the difference between the net proceeds received or receivable and its carrying value. Whereas when securities are transferred without losing its control, the transaction is recorded as a secured borrowing transaction.

Allowance for Possible Loan Losses and Sale of Loans

The Supervisory Regulation of Banking Business (the “Supervisory Regulation”) legislated by the Financial Supervisory Commission (the “FSC”) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers’ repayment capability and historical financial transaction records. The Supervisory Regulation also requires to provide minimum rate of loss provision for each category as described in the next paragraph.

As required by the FSC, loans and confirmed acceptances and guarantees provided to corporate borrowers whose total assets amount to ¥1 billion or more and required to prepare the “Credit Evaluation Table for Small and Medium Sized Company” pursuant to the Bank’s internal regulation, are classified as normal, precautionary, substandard, doubtful, or estimated loss based on historical debt repayment capability considering various factors such as past due period, status of bankruptcy filing and others, which are called ‘Criteria by Historical Financial Transactions’. The Bank also classifies these loans into 15 categories, based on future repayment capability considering such factors as operating performance, financial position, cash flows, industrial characteristics, management capabilities, upon which the Bank reclassifies these loans into the five categories of normal, precautionary, substandard, doubtful, or estimated loss, which is called ‘Criteria by Debt Repayment Capability’. As a result of these two credit analyses based on the ‘Criteria by Historical Financial Transactions’ and ‘Criteria by Debt Repayment Capability’, the Bank finally classifies these loans to corporate borrowers into the five categories aforementioned at the lower of the categories rated by the two credit analyses.

Credits to other corporate borrowers and households are classified into the five categories of normal, precautionary, substandard, doubtful, or estimated loss based only on the historical debt repayment capability of the borrowers considering various factors such as past due period, status of bankruptcy filing and others.

The Criteria by Historical Financial Transactions are set forth as follows:

- > 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 the final default by non-payment 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 (less than six months for credit card accounts).
- > Estimated Loss - amount in excess of the collectible portion of loans in arrears for twelve months or more (six months or more for credit card accounts) and/or loans extended to customers, which are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses.

The Criteria of 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 ‘Small and Medium Sized Company Credit Rating Table’ of the Bank). The Bank classifies credits rated C or inferior of the seven categories (A1, A2, A3, B, C, D, E) based on the past bankruptcy rate as precautionary.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

- > 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 the 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 the 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).

As required by the FSC and the result of asset quality classification mentioned above, the allowance for possible loan losses is then calculated at the prescribed minimum percentages of 0.7 percent or more (0.75 percent or more and 1.0% or more for households loans and credit card receivable, respectively), 4 percent or more (8.0% or more and 19.0% or more for households loans and credit card receivable, respectively), 20 percent or more, 50 percent or more (90 percent or more for households loans and credit card receivable) and 100 percent of the loan balances classified as normal, precautionary, substandard, doubtful and estimated loss, respectively. However, the Bank does not provide any allowances for loans to the Korean government and local government entities, call loans, bonds bought under resale agreements and inter-bank loans, which are classified as normal, as it is not required by the Accounting Standards for the Banking Industry. In addition, for secured household loans newly placed in high speculation areas after September 9, 2002, if the ratio of loans to collateral value (loan-to-value, or LTV) exceeds 60 percent, the Bank provides an allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary instead of providing 0.5 percent or more for normal and 2.0 percent or more for precautionary.

According to the requirement of the Financial Supervisory Service, beginning in 2002, the Bank provides 1 percent of other allowance in other liabilities for a certain portion of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year.

In addition, when an allowance for possible loan losses differs from the expected loss which is calculated through objective and reasonable method in accordance with the accounting principle in Korea materially, expected loss is reflected in the provision for possible loan losses since 2004, and the result of change is as follows:

		2004	2003
Corporate loans	Normal	0.7	0.5
	Precautionary		
	Overdues	19.0	12.0
	Credit default	19.0	8.0
	Others	4.0	2.0
Households loans	Precautionary		
	Overdues/precautionary transactions	19.0	8.0
	Doubtful	90.0	55.0
Credit Card Receivables	Precautionary	19.0	12.0
	Doubtful	90.0	65.0

As a result of this change, the Bank's allowance for possible loan losses increased by ₩ 183.6 billion (US\$ 175.9 million) and the Bank's net income decreased by ₩ 129.1 billion (US\$ 123.7 million).

Also, with respect to the sale of loan, the Bank changed the recognition method of gain on sale of loans. Previously, for written-off loans, proceeds from sale is adjusted in the allowance for possible loan losses and for non written-off loans, the difference between the book value and the proceeds is recognized in the gain on sale of loans. Currently, for all loans, the difference between the book value as of previous year and proceeds is adjusted in the gain on sale of loans. In accordance with this change, loss on sale of loans increased by ₩ 108,498 million (US\$ 103,945 thousand), and gain on sale of loans and provision for possible loan losses decreased by ₩ 74,406 million (US\$ 71,284 thousand) and ₩ 182,904 million (US\$ 175,229 thousand), respectively.

Restructuring of Loans

Impairment losses of loan, whose contractual terms are modified in a debt restructuring process based on mutual agreements such as commencement of reorganization, court receivership and workout plans, is recognized as the difference between the present value of expected future cash flows and book value of loans. The difference between the present value and book value of loans is accounted for as allowance for possible loan losses. The difference between book value and is offset against the allowance for possible loan losses, and any remaining amount is charged to operations as bad debt expense. The present value discount is amortized over the remaining maturity using the effective interest rate method, and the amortization amount is recorded as interest income.

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Related Depreciation

Tangible assets included in fixed assets are stated at acquisition cost or production cost including the incidental expenses, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as prescribed by the Corporate Income Tax Law of Korea as follows:

	Years
Buildings	37~60
Machinery	5
Office equipment	5
Leasehold improvements	5
Vehicles	5

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits are probably expected, are capitalized as development costs under intangible assets. Intangible assets are amortized using the reasonable amortization method over the reasonable useful life under 20 years for development costs and other intangible assets.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations.

Recognition of Asset Impairment

When the book value of assets (except for trading securities, investment securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, those assets are adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as a gain until the recoverable value equals the book value of the assets before the impairment loss was recognized.

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discount or premium is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with more than one year of employment are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of employment and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign amount to ₩ 152,233 million (US\$ 145,845 thousand) and ₩ 104,349 million (US\$ 99,970 thousand) as of December 31, 2004 and 2003, respectively. The accrued severance benefits are included in other liabilities. Actual payments of severance indemnities amounted to ₩ 3,427 million (US\$ 3,283 thousand) and ₩ 2,546 million (US\$ 2,439 thousand) in 2004 and 2003, respectively.

The Bank has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Hungkuk Life Insurance and others. Withdrawal of these deposits, with a balance of ₩ 103,380 million (US\$ 99,042 thousand) and ₩ 69,071 million (US\$ 66,173 thousand) as of December 31, 2004 and 2003, respectively, is restricted to the payment of severance benefits. These are presented as a deduction from the accrued severance benefits.

Bonds under Resale or Repurchase Agreements

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

Accounting for Financial Derivative Instruments

The Bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value and the valuation gain or loss is recorded as an asset or liability.

Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria (types of risk hedge, purpose of risk control, official documentation of risk hedge strategy, expected effect of risk hedge and others) for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is reflected in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified as current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩ 1,043.80 to US\$ 1.00 at December 31, 2004) announced by Seoul Money Brokerage Service, Ltd. or cross rates for currencies other than U.S. Dollars at the balance sheet date. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at the balance sheet date.

Loss from Trust Business Operations

The Bank has been engaged in the trust business with the approval, under Article 3 of the Trust Act, of the Ministry of Finance and Economy (the "MOFE") since February 29, 1988. The Bank maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) separately from those of the bank accounts in accordance with the Trust Business Act and the trust accounting guidelines of the MOFE. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. The Bank receives fees for the operation and management of the trust business and accounts for them as fees and commissions from trust accounts. The Bank received ₩ 38,608 million (US\$ 36,988 thousand) and ₩ 104,755 million (US\$ 100,359 thousand) from the trust accounts in 2004 and 2003, respectively.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank, which are reflected as other operating expense of the bank accounts and as other income of the trust accounts. The Bank paid ₩ 1,505 million (US\$ 1,442 thousand) of compensating contribution to guaranteed return trusts in 2004.

Effects of Changes in Financial Accounting Standards

The cumulative effect on prior periods of changes in financial accounting standards is reflected directly in the beginning accumulated retained earnings.

Reclassification of Special Contribution to Korea Deposit Insurance Corporation

The Bank reclassified Special Contribution to Korea Deposit Insurance Corporation from non-operating expenses to operating expenses in 2004. The effect of this reclassification was ₩ 30,984 million (US\$ 29,684 thousand), which had no effect on net income.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) since January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Statements) through No.9 (Convertible Securities), since January 1, 2003. Also, the Bank has implemented SKAS No.13 (Troubled Debt Restructurings) and No.15 (Equity Method), since January 1, 2004.

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks in local currency and foreign currencies as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Cash and checks	₩ 930,725	₩ 936,246	\$ 891,670	\$ 896,959
Foreign currencies	82,306	75,074	78,852	71,924
Due from banks in local currency	669,872	665,994	641,763	638,048
Due from banks in foreign currencies	196,613	571,265	188,363	547,293
	₩ 1,879,516	₩ 2,248,579	\$ 1,800,648	\$ 2,154,224

(2) Due from banks as of December 31, 2004 and 2003 included:

Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Due from banks in local currency				
BOK	₩ 626,713	₩ 534,130	\$ 600,415	\$ 511,717
Korea Exchange Bank	818	792	784	759
Other financial institutions	42,341	131,072	40,564	125,572
	669,872	665,994	641,763	638,048
Due from banks in foreign currencies				
BOK and others	12,238	59,155	11,725	56,672
Foreign financial institutions	184,375	512,110	176,638	490,621
	196,613	571,265	188,363	547,293
	₩ 866,485	₩ 1,237,259	\$ 830,126	\$ 1,185,341

(3) Restricted due from banks in local currency and foreign currencies as of December 31, 2004 and 2003 consisted of:

	Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason of restriction
		2004	2003	2004	2003	
Due from banks in local currency						
Reserve deposits with BOK	BOK	₩ 626,713	₩ 534,130	\$ 600,415	\$ 511,717	BOK deposits
Due from banks in foreign currencies						
Time deposits	BOK	12,238	11,955	11,725	11,453	BOK deposits
		₩ 638,951	₩ 546,085	\$ 612,140	\$ 523,170	

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

4. SECURITIES:

(1) Securities as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Trading securities				
Government and public bonds	₩ 101,072	₩ 496,954	\$ 96,831	\$ 476,101
Finance debentures	402,639	314,919	385,743	301,704
Corporate bonds	94,222	425,552	90,268	407,695
Stocks	10,810	47,524	10,357	45,530
Others	-	40,433	-	38,736
	608,743	1,325,382	583,199	1,269,766
Available-for-sale securities				
Stocks	532,829	95,639	510,470	91,626
Equity securities	31,216	40,407	29,906	38,712
Government and public bonds	371,166	547,562	355,591	524,585
Finance debentures	2,963,323	1,747,114	2,838,976	1,673,801
Corporate bonds	1,709,890	2,740,687	1,638,139	2,625,682
Securities in foreign currencies	1,073,504	725,567	1,028,458	695,121
Others	109,355	118,442	104,767	113,472
	6,791,283	6,015,418	6,506,307	5,762,999
Held-to-maturity securities				
Government and public bonds	825,012	633,653	790,393	607,064
Finance debentures	2,214,162	768,706	2,121,251	736,450
Corporate bonds	1,531,693	1,755,138	1,467,420	1,681,488
	4,570,867	3,157,497	4,379,064	3,025,002
Securities accounted for using the equity method				
Stocks	129,274	560,210	123,849	536,702
Equity securities	9,000	18,000	8,622	17,245
	138,274	578,210	132,471	553,947
	₩ 12,109,167	₩ 11,076,507	\$ 11,601,041	\$ 10,611,714

(2) The valuation of securities excluding securities using the equity method as of December 31, 2004 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest rate method	Fair value
Trading securities				
Equity securities	₩ -	₩ 10,665	₩ -	₩ 10,810
Government and public debentures	100,000	100,754	100,732	101,072
Finance debentures	400,000	402,922	402,711	402,639
Corporate bonds in local currency	92,701	93,475	92,958	94,222
	592,701	607,816	596,401	608,743
Available-for-sale securities				
Equity securities in local currency	-	403,486	-	564,045
Government and public debentures	361,385	354,737	354,265	371,166
Finance debentures	3,016,500	2,950,014	2,949,081	2,963,323
Corporate bonds in local currency	1,213,124	1,238,863	1,225,761	1,225,905
Corporate bonds in foreign currencies	1,089,453	1,092,704	1,088,040	1,058,568
Asset-backed debt securities	478,678	478,785	478,742	483,985
Foreign government debentures	13,922	13,922	13,922	14,936
Equity-linked securities	70,000	70,000	-	90,671
CP ^(*)	20,000	19,946	-	14,165
Beneficiary certificates	-	4,931	-	4,519
	6,263,062	6,627,388	6,109,811	6,791,283
Held-to-maturity securities				
Government and public debentures	828,000	824,359	825,012	870,755
Finance debentures	2,255,000	2,214,488	2,214,162	2,227,123
Corporate bonds in local currency	1,199,750	1,181,037	1,182,568	1,214,594
Asset-backed debt securities	465,002	465,002	349,125	349,125
	4,747,752	4,684,886	4,570,867	4,661,597
	₩ 11,603,515	₩ 11,920,090	₩ 11,277,079	₩ 12,061,623

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The valuation of securities excluding securities using the equity method as of December 31, 2003 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest rate method	Fair value
Trading securities				
Equity securities	₩ -	₩ 43,193	₩ -	₩ 47,524
Government and public debentures	500,000	497,384	497,351	496,954
Finance debentures	320,000	315,102	315,263	314,919
Corporate bonds in local currency	414,121	420,916	416,924	415,545
Asset-backed debt securities	10,000	9,999	10,035	10,007
Entrusted securities ^(*)	-	40,000	-	40,433
	1,244,121	1,326,594	1,239,573	1,325,382
Available-for-sale securities				
Equity securities in local currency	-	166,312	-	136,046
Equity securities in foreign currencies	-	159	-	116
Government and public debentures	541,909	532,475	532,873	547,562
Finance debentures	1,776,000	1,746,751	1,747,113	1,747,114
Corporate bonds in local currency	2,539,781	2,568,514	2,547,079	2,475,346
Corporate bonds in foreign currencies	740,050	711,504	711,798	718,847
Asset-backed debt securities	265,678	265,671	265,674	265,341
Foreign government debentures	6,306	6,306	6,306	6,604
Equity-linked securities	-	100,000	-	117,343
Beneficiary certificates	-	2,732	-	1,099
	5,869,724	6,100,424	5,810,843	6,015,418
Held-to-maturity securities				
Government and public debentures	638,691	634,400	633,653	644,141
Finance debentures	785,000	769,023	768,706	764,571
Corporate bonds in local currency	1,457,121	1,469,859	1,461,728	1,449,733
Asset-backed debt securities	350,702	350,697	293,410	294,649
	3,231,514	3,223,979	3,157,497	3,153,094
	₩ 10,345,359	₩ 10,650,997	₩ 10,207,913	₩ 10,493,894

(*)1 See Note 4 (12)

(*)2 CP was swapped from corporate bond in local currency of LG Card Co., Ltd. based on the Financial Institution Creditors' agreement for the normalization of the business of LG Card Co., Ltd.

The book values of available-for-sale securities are the sum of the fair value of government and public bonds, finance debentures and corporate bonds and the book values of held-to-maturity securities are the adjusted value using the effective interest method.

Fair values of debt securities as of December 31, 2004 and 2003 were assessed by applying the average of base prices per bond on recent trading day announced by Korea Bond Pricing and KIS Co., Ltd.

The fair value of debt securities in foreign currencies as of December 31, 2004 and 2003 were assessed by applying the average of base prices per bond on recent trading day announced by Korea Bond Pricing and Nice Co., Ltd. Acquisition costs of debt securities in foreign currencies are Korean Won equivalents of foreign currency denominated acquisition costs using the basic rate at the balance sheet dates.

In addition, the Bank used derivative instruments to hedge the risk from the interest rate and foreign exchange rate changes. For the years ended December 31, 2004 and 2003, the Bank recorded gain on fair value hedge of ₩ 4,710 million (US\$ 4,512 thousand) and ₩ 7,672 million (US\$ 7,350 thousand), respectively, and loss on fair value hedge of ₩ 12,709 million (US\$ 12,176 thousand) and ₩ 5,874 million (US\$ 5,628 thousand), respectively.

(3) Stock investments and equity securities in available-for-sale securities as of December 31, 2004 were as follows (Unit: Won in millions, Shares in thousands):

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Marketable equity securities:					
KT&G ⁽¹⁾	9,510	6.41	₩ 172,377	₩ 294,350	₩ 294,350
LG Card Co., Ltd. ^(2,3)	36,378	7.00	92,559	576,589	144,711
KDS Co., Ltd. (common stock) ⁽²⁾	36	0.04	133	6	6
KDS Co., Ltd. (convertible stock) ⁽²⁾	36	0.04	43	6	6
KDS Co., Ltd. (redeemable stock) ⁽²⁾	145	0.14	43	43	43
Hynix Semiconductor Inc. ⁽²⁾	141	0.03	1,211	1,647	1,647
SK Networks Co., Ltd. (common stock) ⁽²⁾	3,562	1.52	16,031	45,953	15,873
SK Networks Co., Ltd. (callable preferred stock) ⁽²⁾	345	0.10	10,242	-	10,887
Daewoo Construction ⁽²⁾	1,000	0.30	6,550	6,310	6,310
Woongjin Coway Co., Ltd.	50	0.21	457	485	485
Neungyule English Co., Ltd.	36	0.76	108	126	126
Digital-cube Co., Ltd.	1,298	3.62	650	1,201	1,201
Mediopia Technology Co., Ltd.	582	6.28	500	329	329
Tovis Co., Ltd.	165	2.65	495	405	405
others			702	776	776
			302,101	928,226	477,155
Unlisted equity securities:					
Korea Finance Security Co., Ltd.	176	12.57	880	1,430	880
Korea Non-bank Lease Financing Co., Ltd.	757	18.93	3,786	-	-
Dongbu Investment Trust Management Co., Ltd. ⁽³⁾	540	9.00	2,700	2,542	2,276
Samsung Investment Trust Management Co., Ltd.	332	1.78	1,500	2,198	1,500
BC Card ⁽³⁾	218	4.95	1,980	7,603	3,661
Korea Money Broker Corp.	45	2.26	226	951	226
KAMCO	458	1.64	2,290	3,887	2,290
Korea Securities Finance Corp. ⁽³⁾	1,400	2.06	7,000	10,466	7,619
Meta Payment & Trust Co., Ltd.	20	4.48	100	78	100
Daewoo Electronics Corp. ^(2,3)	407	0.38	1,038	1,818	1,856
Medison	281	0.28	₩ 56	₩ 40	₩ 56

(continued)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Badbank Harmony Ltd.	0.079	-	₩ 198	₩ -	₩ 233
Kieun 2nd Special Purpose Company	0.3	15.00	2	-	-
Kieun 3rd Special Purpose Company	0.3	15.00	2	-	-
Kieun 4th Special Purpose Company	0.3	15.00	2	-	-
Kieun 5th Special Purpose Company	0.3	15.00	2	-	-
Newcore (preferred shares)	0.2	0.00	22	8	-
Hunix. Inc.	33	0.02	164	-	-
Sangrocksoo 1st Special Purpose Company	0.1	10.00	1	-	-
SSPC Co., Ltd.	525	4.41	1,500	2,044	1,500
KBF Co., Ltd.	400	11.11	1,300	1,215	1,300
Samatron Corp.	75	13.27	1,100	1,757	1,100
GTT Co., Ltd.	34	10.47	1,000	203	155
KDT Systems Co., Ltd.	38	10.53	1,000	571	1,000
Iramtech Co., Ltd.	50	10.31	1,000	659	1,000
Intertech Co., Ltd.	286	5.43	1,000	886	1,000
Atdata Co., Ltd.	167	7.19	1,000	636	1,000
Sanyang Electromechanics Co., Ltd.	400	5.35	1,000	571	1,000
Innochip Technologies Co., Ltd.	143	5.23	1,000	470	1,000
Micron Precision Company Ltd	29	9.77	1,000	485	1,000
Value Added Technologies Co., Ltd.	24	5.27	800	338	800
Tritontech Com.	393	6.90	800	100	800
Telewin Inc.	24	13.11	800	733	800
Samgwanggohachem Co., Ltd.	1,000	9.14	600	14	-
Newq System Co., Ltd.	30	7.70	600	103	600
Goldenbell Entertainment Co., Ltd.	18	9.23	600	221	600
Signet System Co., Ltd.	250	11.10	618	622	618
Others			25,712	11,978	19,704
			64,379	54,627	55,674
Equity investments:					
Seoul Debt Restructuring Fund	5,240	4.37	4,739	4,549	4,549
Hankang Restructuring Fund	2,920	2.31	3,984	3,026	3,026
Arirang Restructuring Fund	2,920	4.38	8,030	5,817	5,817
Moogungwha Restructuring Fund	2,920	4.38	7,175	5,145	5,145
Daeduck Tecno-Valley Venture Investment Association	0.01	7.41	1,000	1,041	1,000
Hansing High-tech Investment Association	0.191	6.62	1,679	1,237	1,679
Valuemeet Corporate Restructuring Partnership	0.02	9.30	2,000	2,000	2,000
SBC-KTB Small and Medium-sized Enterprise Restructuring Partnership	0.05	14.70	5,000	5,000	5,000
Neoplus Corporate Restructuring Partnership	0.3	6.91	3,000	3,000	3,000
			36,607	30,815	31,216
			₩ 403,087	₩ 1,013,668	₩ 564,045

Stock investments and equity securities in available-for-sale securities as of December 31, 2003 were as follows (Unit: Won in millions, Shares in thousands):

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Marketable equity securities:					
SK Networks Co., Ltd. (common stock) ^{(*)2}	2,931	0.82	₩ 10,014	₩ 45,424	₩ 10,014
SK Networks Co., Ltd (callable preferred stock) ^{(*)2}	345	0.10	10,242	-	10,242
KDS Co., Ltd. (common stock) ^{(*)2}	36	0.02	133	18	18
KDS Co., Ltd. (convertible stock) ^{(*)2}	35	1.58	43	18	18
KDS Co., Ltd. (redeemable stock) ^{(*)2}	145	1.58	43	43	43
Hynix Semiconductor Inc. ^{(*)2}	104	0.02	1,043	581	581
Daewoo Construction ^{(*)2}	1,617	0.97	6,550	9,008	9,008
Daewoo International ^{(*)2}	477	0.38	1,932	3,482	3,482
Woongjin Coway Co., Ltd.	110	0.47	1,005	714	714
Migwang Contact Lens Co., Ltd.	182	5.35	312	661	661
Neungyule English Co., Ltd.	126	5.04	378	437	437
Cadland Co., Ltd.	160	5.66	400	418	418
Others			2,335	288	288
			34,430	61,092	35,924
Unlisted equity securities:					
Korea Finance Security Co., Ltd.	176	11.00	880	1,142	880
Korea Non-bank Lease Financing Co., Ltd.	757	18.93	3,786	(55,044)	-
Dongbu Investment Trust Management Co., Ltd.	540	9.00	2,700	2,727	2,700
Samsung Investment Trust Management Co., Ltd.	332	1.78	1,500	1,856	1,500
National Information & Credit Evaluation, Inc.	296	6.25	1,480	3,350	1,480
BC Card	218	4.95	1,980	7,558	1,980
Korea Money Broker Corp.	45	2.26	226	880	226
KAMCO	458	1.64	2,290	3,782	2,290
Korea Securities Finance Corp.	1,400	2.06	7,000	9,439	7,000
Meta Payment & Trust Co., Ltd.	20	4.48	100	3	100
Daewoo Electronics Corp.	407	0.38	1,038	1,505	1,038
Medison ^{(*)2}	281	0.29	56	27	56
Kieun 2nd Special Purpose Company	0.3	15.00	2	1,378	2
Kieun 3rd Special Purpose Company	0.3	15.00	2	2	2
Sangrocksoo 1st Special Purpose Company	0.1	10.00	1	1	1
SSCP Co., Ltd.	375	4.41	1,500	1,577	1,500
KBF Co., Ltd.	40	11.11	1,300	1,029	1,300
Samatron Corp.	75	13.27	1,100	1,690	1,100
GTT Co., Ltd.	34	10.47	1,000	155	155
KDT Systems Co., Ltd.	38	10.53	1,000	455	1,000
Iramtech Co., Ltd.	50	10.31	₩ 1,000	₩ 601	₩ 1,000

(continued)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Intertech Co., Ltd.	28	7.04	₩ 1,000	₩ 478	₩ 1,000
Atdata Co., Ltd.	167	7.19	1,000	388	1,000
Sanyang Electromechanics Co., Ltd.	20	5.35	1,000	303	1,000
Innochip Technologies Co., Ltd.	143	6.10	1,000	126	1,000
Micron Precision Company Ltd	29	9.77	1,000	159	1,000
Value Added Technologies Co., Ltd.	24	5.27	800	327	800
Tritontech Com.	393	6.90	800	211	800
Telewin Inc.	16	13.11	800	478	800
Samgwanggohachem Co., Ltd.	1,000	9.14	600	607	600
Newq System Co., Ltd.	30	7.74	600	78	600
Goldenbell Entertainment Co., Ltd.	18	9.23	600	331	600
Others			29,389	24,936	25,205
			68,530	12,535	59,715
Equity investments:					
Seoul Debt Restructuring Fund	5,240	4.37	7,652	7,473	7,473
Hankang Restructuring Fund	2,920	2.31	7,809	5,314	5,314
Arirang Restructuring Fund	2,920	4.38	9,548	8,241	8,241
Moogungwha Restructuring Fund	2,920	4.38	9,453	7,279	7,279
Daeduck Tecno-Valley Venture Investment Association	0.01	7.41	1,000	1,027	1,000
Hansing High-tech Investment Association	0.20	6.62	2,000	1,996	2,000
Valuemeet Corporate Restructuring Partnership	0.02	9.30	2,000	2,000	2,000
SBC-KTB Small and Medium-sized Enterprise Restructuring Partnership	0.05	14.70	5,000	5,000	5,000
Neoplus Corporate Restructuring Partnership	0.21	6.91	2,100	2,100	2,100
			46,562	40,430	40,407
			₩ 149,522	₩ 114,057	₩ 136,046

(*1) The Bank reclassified securities of KT&G from securities using the equity method into available-for-sale because the Bank's ownership decreased from 15.51% as of December 31, 2003 to 6.41% as of December 31, 2004.

(*2) As of December 31, 2004, the Bank's stock in SK Networks Co., Ltd., which was identified "possible insolvent company" according to the Corporate Restructuring Promotions Law, was swapped from loans and restricted to sell until 2007. Therefore, the Bank valued stock in SK Networks Co., Ltd. at fair value based on the report of Korea Bond Pricing Co., Ltd. instead of market value. Also, stocks in KDS Co., Ltd., Hynix Semiconductor Inc., Daewoo Construction and Daewoo Electronics are restricted to sell until 2006 ~ 2007, and stock in LG Card Co., Ltd is restricted to sell as of December 31, 2004.

(*3) The Bank valued stocks in LG Card Co., Ltd., Daewoo Electronics, Dongbu Investment Trust Management Co., Ltd., BC Card and Korea Securities Finance Corp. at fair value based on the report of Korea Bond Pricing Co., Ltd.

Net asset value of stocks and equity securities were computed based on recent financial statements. However, net asset values of others in unlisted equity securities were stated at book value, which were mostly investments in small and medium sized companies and newly established companies at the time of investment.

(4) The portfolio of securities excluding securities using the equity method, by industry, as of December 31, 2004 and 2003 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Trading securities						
Finance	₩ 404,647	₩ 124,551	\$ 387,667	\$ 119,324	66.47	9.40
Government	170,895	1,034,194	163,724	990,797	28.07	78.03
Manufacturing	10,522	43,664	10,081	41,832	1.73	3.29
Telecommunication	20,345	63,092	19,491	60,445	3.34	4.76
Others	2,334	59,881	2,236	57,368	0.39	4.52
	608,743	1,325,382	583,199	1,269,766	100.00	100.00
Available-for-sale securities						
Finance	3,849,736	2,023,243	3,688,193	1,938,344	56.69	33.63
Government	1,831,419	2,833,452	1,754,569	2,714,555	26.97	47.10
Manufacturing	762,120	514,188	730,140	492,612	11.22	8.55
Wholesale and retail	32,861	33,688	31,482	32,274	0.48	0.56
Telecommunication	162,681	333,155	155,855	319,175	2.40	5.54
Others	152,466	277,692	146,068	266,039	2.24	4.62
	6,791,283	6,015,418	6,506,307	5,762,999	100.00	100.00
Held-to-maturity securities						
Finance	2,563,287	731,155	2,455,726	700,474	56.08	23.16
Government	2,007,580	2,237,134	1,923,338	2,143,259	43.92	70.85
Manufacturing	-	109	-	105	-	-
Construction	-	3,099	-	2,969	-	0.10
Others	-	186,000	-	178,195	-	5.89
	4,570,867	3,157,497	4,379,064	3,025,002	100.00	100.00
	₩11,970,893	₩10,498,297	\$ 11,468,570	\$ 10,057,767		

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(5) The portfolio of securities excluding securities using the equity method, by type, as of December 31, 2004 and 2003 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Trading securities						
Stocks	₩ 10,810	₩ 47,524	\$ 10,356	\$ 45,530	1.78	3.59
Fixed rate bonds	558,066	802,050	534,648	768,394	91.67	60.51
Floating rate bonds	19,792	360,298	18,962	345,179	3.25	27.18
Convertible (exchangeable) bonds	20,075	75,077	19,233	71,927	3.30	5.67
Others	-	40,433	-	38,736	-	3.05
	608,743	1,325,382	583,199	1,269,766	100.00	100.00
Available-for-sale securities						
Stocks	564,045	136,162	540,377	130,448	8.30	2.26
Fixed rate bonds	5,418,101	4,570,445	5,190,746	4,378,660	79.78	75.98
Floating rate bonds	591,313	1,043,848	566,500	1,000,046	8.71	17.35
Convertible (exchangeable) bonds	108,469	146,521	103,918	140,373	1.60	2.44
Others	109,355	118,442	104,766	113,472	1.61	1.97
	6,791,283	6,015,418	6,506,307	5,762,999	100.00	100.00
Held-to-maturity securities						
Fixed rate bonds	4,020,213	2,635,601	3,851,517	2,525,006	87.95	83.47
Floating rate bonds	201,529	364,184	193,072	348,902	4.41	11.53
Subordinated corporate bonds	349,125	157,712	334,475	151,094	7.64	5.00
	4,570,867	3,157,497	4,379,064	3,025,002	100.00	100.00
	₩11,970,893	₩10,498,297	\$ 11,468,570	\$ 10,057,767		

(6) Securities using the equity method as of December 31, 2004 and 2003 were as follows (Unit: Won in millions, Shares in thousands):

December 31, 2004

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Stocks:					
IBK Capital Corporation	10,999	99.18	₩ 54,997	₩ 115,493	₩ 115,493
IBK-SG Asset Management Co., Ltd. ⁽¹⁾	2,000	50.00	10,000	9,536	9,536
IBK Tech Co., Ltd.	3,400	54.82	1,700	3,307	2,745
Kieun Credit Information Corp.	300	100.00	1,500	3,850	1,500
			68,197	132,186	129,274
Equity securities: ⁽²⁾					
KTTC Hansol Technology	0.2	20.00	2,000	1,999	2,000
Kieun Material Special Investment Association	0.5	33.33	5,000	5,184	5,000
MIC 2002-3 Kieun IT Special Investment Association	0.2	16.00	2,000	2,062	2,000
			9,000	9,245	9,000
			₩ 77,197	₩ 141,431	₩ 138,274

December 31, 2003

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Stocks:					
IBK Capital Corporation	10,999	99.18	₩ 54,997	₩ 116,326	₩ 116,648
IBK Mutual Savings and Finance Company ^(*)	28,000	100.00	139,998	30,705	-
IBK Tech Co., Ltd.	3,399	54.82	1,700	2,887	2,152
Kieun Credit Information Corp.	300	100.00	1,500	2,385	1,500
KT&G ^(*)	19,510	15.51	353,625	396,732	439,910
			551,820	549,035	560,210
Equity securities: ^(**)					
INNO-BIZ Special Venture Investment Association	0.05	16.67	5,000	5,206	5,000
KTTC Hansol Technology	0.2	20.00	2,000	2,041	2,000
Sinbo Environmental Venture Investment Association	0.04	36.36	4,000	4,084	4,000
Kieun Material Special Investment Association	0.5	33.33	5,000	5,039	5,000
MIC 2002-3 Kieun IT Special Investment Association	0.2	16.00	2,000	2,016	2,000
			18,000	18,386	18,000
			₩ 569,820	₩ 567,421	₩ 578,210

(*) IBK-SG Asset Management Co., Ltd. was founded through 50:50 joint investment between the Bank and Societe General Group on October 26, 2004. Also, the Bank did not applied equity method on its stocks on IBK Mutual Savings and Finance Company as it ended liquidation process on December 23, 2004.

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

(***) As of December 31, 2003, the Bank owned 21,474,569 shares including 19,510,485 shares of common stock and 1,964,084 shares of exchangeable bonds, and the Bank's ownership including exchangeable bonds was 15.51% as of December 31, 2003 of which the Bank applied 14.09 % (excluding exchangeable bonds) ownership when recognizing the gain on valuation using the equity method.

Net asset value of investment equity securities was computed based on recent financial statements.

(7) Changes in securities using the equity method for the year ended December 31, 2004 were as follows (Unit: Won in millions):

	Book value before valuation	Gain (loss) on valuation using the equity method	Presented in capital adjustments	Book value after valuation
IBK Capital Corporation	₩ 114,723	₩ 2,480	₩ (1,710)	₩ 115,493
IBK-SG Asset Management Co., Ltd.	10,000	(464)	-	9,536
IBK Tech Co., Ltd.	1,982	763	-	2,745
Kieun Credit Information Corp.	1,500	-	-	1,500
	₩ 128,205	₩ 2,779	₩ (1,710)	₩ 129,274

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Changes in securities using the equity method for the year ended December 31, 2003 were as follows (Unit: Won in millions):

	Book value before valuation	Gain (loss) on valuation using the equity method	Presented in capital adjustments	Book value after valuation
IBK Capital Corporation	₩ 112,987	₩ 4,167	₩ (506)	₩ 116,648
IBK Tech Co., Ltd.	1,649	503	-	2,152
Kieun Credit Information Corp.	1,500	-	-	1,500
KT&G	366,698	62,888	10,324	439,910
	₩ 482,834	₩ 67,558	₩ 9,818	₩ 560,210

- 1) The Bank valued stock in IBK Capital Corporation, applying audited financial statements.
- 2) Stock in IBK Tech Co., Ltd. has been valued at the equity method since April 2003 because it has increased paid-in capital and its total assets amounted to more than ₩ 7 billion as of December 31, 2004, applying unaudited financial statements.
- 3) Stock in Kieun Credit Information Corp. was valued at acquisition cost because its asset size was less than ₩ 7 billion and not required to be accounted for using the equity method under financial accounting standards in the Republic of Korea.
- 4) The difference between the Bank's acquisition cost and investment portion of the fair value of KT&G at the time of investment resulted from the revaluation of KT&G's fixed assets. Accordingly, the stock in KT&G was adjusted in line with the depreciation schedule of related fixed assets over the estimated useful lives. The Bank depreciated ₩ 1,273 million (US\$ 1,220 thousand) in 2003 and the balance as of December 31, 2003 amounted to ₩ 32,523 million (US\$ 31,158 thousand). The market value of stock in KT&G as of December 31, 2003 was ₩ 403,867 million (US\$ 386,920 thousand).
- 5) As of December 31, 2004, IBK Mutual Savings and Finance Company ended its liquidation process.
- 6) IBK-SG Asset Management Co., Ltd. was founded through 50:50 joint investment between the Bank and Societe General Group on October 26, 2004, of which capital was ₩ 20 billion (US\$ 19.2 million) as of December 31, 2004.
- 7) The closing month of companies accounted for using the equity method and balance sheet date of the financial statements of these companies used in the equity method were as follows:

	Closing month	Balance sheet date
IBK Capital Corporation	December	December 2004
IBK Tech Co.	March	December 2004
IBK-SG Asset Management Co., Ltd.	March	December 2004

(8) Significant financial data of companies of which stocks were valued using the equity method as of December 31, 2004 and 2003 were as follows (Unit: Won in millions):

December 31, 2004

	Assets	Liabilities	Sale (operating revenue)	Net income
IBK Capital Corporation	₩ 778,736	₩ 662,289	₩ 48,515	₩ 2,501
IBK-SG Asset Management Co., Ltd.	19,175	103	114	(928)
IBK Tech Co., Ltd. ^(*)	9,659	3,627	23,986	960
Kieun Credit Information Corp.	4,719	869	7,365	369

(*) Operating revenue and net income were for the year ended December 31, 2004.

December 31, 2003

	Assets	Liabilities	Sale (operating revenue)	Net income
IBK Capital Corporation	₩ 538,727	₩ 422,946	₩ 37,694	₩ 4,066
IBK Mutual Savings and Finance Company	86,706	56,000	207	610
IBK Tech Co., Ltd.	9,446	4,180	20,210	680
Kieun Credit Information Corp.	4,715	1,235	10,458	1,096
KT&G	4,013,386	1,198,054	2,178,876	459,701

(9) The gain (loss) on valuation of available-for-sale securities and securities using the equity method as of December 31, 2004 and 2003 reflected in capital adjustments were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Available-for-sale securities				
Equity securities	₩ 142,738	₩ 1,326	\$ 136,748	\$ 1,270
Debt securities in local currency	50,572	26,843	48,450	25,717
Debt securities in foreign currencies	9,804	4,256	9,393	4,077
Beneficiary certificates	20,261	16,256	19,411	15,574
	223,375	48,681	214,002	46,638
Securities using the equity method	(4,724)	(28,705)	(4,526)	(27,500)
	₩ 218,651	₩ 19,976	\$ 209,476	\$ 19,138

(10) Term structure of debt securities in available-for-sale and held-to-maturity securities as of December 31, 2004 was as follows (Unit: Won in millions):

2004:

	Less than 1 year	Less than 5 years	Less than 10 years	More than 10 years	Total
Available-for-sale securities					
Book value and fair value (*)	₩ 3,037,352	₩ 3,096,670	₩ 78,707	₩ 14,509	₩ 6,227,238
Held-to-maturity securities					
Book value	2,286,182	2,044,780	239,905	-	4,570,867
Fair value	2,299,358	2,102,368	259,871	-	4,661,597

(*) Excluding equity securities of ₩ 565,045 million (US\$ 541,335 thousand)

2003:

	Less than 1 year	Less than 5 years	Less than 10 years	More than 10 years	Total
Available-for-sale securities					
Book value and fair value (*)	₩ 2,977,208	₩ 2,827,969	₩ 62,155	₩ 12,040	₩ 5,879,372
Held-to-maturity securities					
Book value	808,055	2,209,353	140,089	-	3,157,497
Fair value	813,165	2,203,134	136,795	-	3,153,094

(*) Excluding equity securities of ₩ 136,046 million (US\$ 130,337 thousand)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(11) Securities impairment loss as of December 31, 2004 and 2003 was as follows (Unit: Won in millions):

	(In millions) 2004		(In millions) 2003	
	Impairment loss	Reversal	Impairment loss	Reversal
Available-for-sale securities				
Equity securities	₩ 11,538	₩ -	₩ 7,760	₩ 179
Debt securities	16,620	-	82,489	-
Foreign debentures	-	714	-	1,286
	28,158	714	90,249	1,465
Held-to-maturity securities				
Debt securities	81,727	38	57,290	560
	₩ 109,885	₩ 752	₩ 147,539	₩ 2,025

Accrued interest income from impaired securities were ₩ 1,615 million (US\$ 1,547 thousand) and ₩ 437 million (US\$ 419 thousand) as of December 31, 2004 and 2003, respectively.

During the year ended December 31, 2004, the Bank acquired the subordinate corporate bonds of ₩ 120,000 million (US\$ 114,965 thousand) and ₩ 130,000 million (US\$ 124,545 thousand) issued by Kieun 4th and 5th Special Purpose Companies, respectively, and recognized impairment losses of ₩ 32,750 million (US\$ 31,376 thousand) and ₩ 25,875 million (US\$ 24,789 thousand), respectively. In 2003, the Bank acquired the subordinate corporate bonds of ₩ 110,000 million (US\$ 105,384 thousand) and ₩ 105,000 million (US\$ 100,594 thousand) issued by Kieun 2nd and 3rd Special Purpose Companies, respectively, and the Bank recognized impairment losses of ₩ 32,625 million (US\$ 31,256 thousand) and ₩ 24,663 million (US\$ 23,628 thousand), respectively, for the year ended December 31, 2003. In addition, the Bank recognized held-to-maturity securities impairment loss of ₩ 23,102 million (US\$ 22,133 million), the difference between the book value and fair value during the year ended December 31, 2004.

(12) As of December 31, 2003, others of trading securities include entrusted securities in Global Asset Management Company and Solomon Asset Advisors Ltd.. The major assets entrusted securities in Global Asset Management Company and Solomon Asset Advisors Ltd. as of December 31, 2003 were as follows (Unit: Won in millions):

December 31, 2003

	Face value	Acquisition cost	Fair value	Book value
Global Asset Management Company				
Finance debentures	₩ 20,000	₩ 19,196	₩ 19,134	₩ 19,134
Solomon Asset Advisors Ltd.				
Finance debentures	10,000	9,601	9,557	9,557
	₩ 30,000	₩ 28,797	₩ 28,691	₩ 28,691

(13) The portfolio of available-for-sale securities in foreign currencies, by country, as of December 31, 2004 and 2003 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Korea	₩ 936,047	₩ 511,086	\$ 896,768	\$ 489,640	87.20	70.44
United States	81,619	133,989	78,194	128,367	7.60	18.47
Mexico	15,542	18,533	14,890	17,755	1.45	2.56
Hong Kong	9,004	8,492	8,626	8,136	0.84	1.17
Malaysia	5,635	13,715	5,398	13,139	0.53	1.89
Slovakia	5,576	6,697	5,342	6,416	0.52	0.92
Thailand	5,435	2,358	5,207	2,259	0.51	0.33
India	5,388	6,384	5,162	6,116	0.50	0.88
South Africa	3,772	6,968	3,614	6,676	0.35	0.96
Singapore	3,251	3,872	3,115	3,710	0.30	0.53
Croatia	1,438	2,469	1,378	2,365	0.13	0.34
Qatar	797	1,396	764	1,337	0.07	0.19
Tunisia	-	9,608	-	9,205	-	1.32
	₩ 1,073,504	₩ 725,567	\$ 1,028,458	\$ 695,121	100.00	100.00

(14) With regards to the borrowings from the Bank of Korea and bonds sold under repurchase, investment securities provided as collateral as of December 31, 2004 and 2003 were as follows (Unit: Won in millions):

Provided to	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Provided for
	2004	2003	2004	2003	
Bank of Korea	₩ 1,955,200	₩ 1,889,500	\$ 1,873,156	\$ 1,810,213	Borrowings
Bank of Korea	1,030,000	316,400	986,779	303,123	Customers' bonds sold under repurchase agreements
Customers	1,940,000	1,573,900	1,858,594	1,507,856	Customers' bonds sold under repurchase agreements
Bank of Korea	301,000	388,100	288,369	371,815	Overdrafts and settlement risk
LG Securities Co. and others	52,200	74,300	50,010	71,182	Futures settlement and others
	₩ 5,278,400	₩ 4,242,200	\$ 5,056,908	\$ 4,064,189	

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

5. LOANS:

(1) Loans as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Loans in local currency	₩ 47,528,431	₩ 42,167,090	\$ 45,534,040	\$ 40,397,672
Loans in foreign currencies	2,783,787	3,618,033	2,666,974	3,466,213
Bills bought in local currency	59,931	82,889	57,416	79,411
Bills bought in foreign currencies	764,610	821,063	732,525	786,609
Domestic Import Usance Bill	660,740	623,092	633,014	596,946
Advances for customers	18,939	24,707	18,144	23,670
Factoring receivables	4,718	9,466	4,520	9,069
Credit card accounts	1,867,384	2,238,054	1,789,025	2,144,141
Call loans	603,873	564,107	578,533	540,436
Privately placed bonds	64,914	212,525	62,190	203,607
Inter-bank loans	1,084,182	1,348,738	1,038,688	1,292,142
Bonds purchased under resale agreements	820,000	967,800	785,591	927,189
Loans to be swapped to equity	45	4,477	43	4,289
	56,261,554	52,682,041	53,900,703	50,471,394
Allowance for possible loan losses	(1,088,545)	(940,947)	(1,042,867)	(901,463)
	₩ 55,173,009	₩ 51,741,094	\$ 52,857,836	\$ 49,569,931

(2) Loans in local currency as of December 31, 2004 and 2003, classified by borrower type, were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Loans to enterprises				
Working capital	₩ 32,456,173	₩ 29,527,058	\$ 31,094,245	\$ 28,288,042
Facilities and equipment	7,739,056	6,095,593	7,414,309	5,839,809
Finance	254,220	369,225	243,553	353,732
	40,449,449	35,991,876	38,752,107	34,481,583
Loans to households				
General purpose	6,604,841	5,807,141	6,327,688	5,563,461
Housing	420,028	311,354	402,403	298,289
	7,024,869	6,118,495	6,730,091	5,861,750
Loans to public sector and other	54,113	56,719	51,842	54,339
	₩ 47,528,431	₩ 42,167,090	\$ 45,534,040	\$ 40,397,672

(3) Loans to financial institutions (excluding inter-bank loans) as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Leasing companies	₩ 14,723	₩ 11,865	\$ 14,105	\$ 11,367
Finance companies	-	37	-	35
Others	243,206	179,903	233,001	172,354
	₩ 257,929	₩ 191,805	\$ 247,106	\$ 183,756

(4) Loans in local and foreign currencies, by customers, as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Large corporations	₩ 544,559	₩ 572,263	\$ 521,708	\$ 548,250	1.08	1.25
Small and medium corporations	42,615,565	38,982,006	40,827,328	37,346,241	84.70	85.14
Households	7,044,033	6,133,031	6,748,451	5,875,676	14.00	13.40
Others	108,061	97,823	103,527	93,718	0.22	0.21
	₩ 50,312,218	₩ 45,785,123	\$ 48,201,014	\$ 43,863,885	100.00	100.00

(5) Loans in local and foreign currencies, by industry, as of December 31, 2004 and 2003 were as follows:

Industry	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Manufacturing						
Textile	₩ 2,739,130	₩ 2,846,983	\$ 2,624,190	\$ 2,727,518	5.44	6.22
Apparel & leather	667,305	1,031,193	639,304	987,922	1.33	2.25
Chemical products	1,449,104	1,282,152	1,388,297	1,228,350	2.88	2.80
Rubber & plastic products	2,368,541	2,047,203	2,269,152	1,961,298	4.71	4.47
Basic metals	1,559,461	1,334,759	1,494,023	1,278,750	3.10	2.92
Fabricated metal products	3,018,413	2,573,278	2,891,754	2,465,298	6.00	5.62
Other machinery	4,150,801	3,524,165	3,976,625	3,376,284	8.25	7.70
Electrical machinery	1,325,054	1,185,929	1,269,452	1,136,165	2.63	2.59
Communications equipment	2,227,881	1,943,794	2,134,395	1,862,228	4.43	4.25
Automobiles	2,111,418	1,845,470	2,022,819	1,768,030	4.20	4.03
Other	6,301,532	5,528,039	6,037,107	5,296,071	12.52	12.07
	₩ 27,918,640	₩ 25,142,965	\$ 26,747,118	\$ 24,087,914	55.49	54.92

(continued)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Industry	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Construction	₩ 2,343,595	₩ 2,168,348	\$ 2,245,253	\$ 2,077,360	4.66	4.73
Wholesale, retail and repair of customer goods	6,709,266	6,275,649	6,427,731	6,012,310	13.34	13.71
Finance and insurance	271,444	223,224	260,054	213,857	0.54	0.49
Transportation, storage and communication	720,405	803,487	690,175	769,771	1.43	1.75
Real estate, renting and business service	2,743,418	2,529,876	2,628,299	2,423,717	5.45	5.52
Food and accommodations	637,812	721,666	611,048	691,384	1.27	1.58
Hygiene and social welfare	565,673	542,892	541,936	520,111	1.12	1.19
Public and personal service	642,762	609,011	615,790	583,456	1.28	1.33
Loans to households	7,044,033	6,133,031	6,748,450	5,875,676	14.00	13.39
Other	715,170	634,974	685,160	608,329	1.42	1.39
	₩ 50,312,218	₩ 45,785,123	\$ 48,201,014	\$ 43,863,885	100.00	100.00

(6) Loans in foreign currencies, by country, as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Korea	₩ 2,650,979	₩ 3,492,750	\$ 2,539,739	\$ 3,346,187	95.23	96.54
U.S.A	73,484	68,436	70,400	65,564	2.64	1.89
China	28,053	11,208	26,876	10,738	1.01	0.31
Indonesia	20,396	11,121	19,540	10,654	0.73	0.31
Others	10,875	34,518	10,419	33,070	0.39	0.95
	₩ 2,783,787	₩ 3,618,033	\$ 2,666,974	\$ 3,466,213	100.00	100.00

(7) As of December 31, 2004, as a result of the creditors' meeting of SK Networks Co., Ltd. in October 2003, loans amounting to ₩ 38,443 million (US\$ 36,830 thousand) were swapped to equity and convertible bonds, which consist of common stock of ₩ 15,873 million (US\$ 15,207 thousand) and callable preferred stock of ₩ 10,887 million (US\$ 10,430 thousand). The Bank extended remaining loans to SK Networks Co., Ltd. amounting to ₩ 27,013 million (US\$ 25,879 thousand) in substandard rating of asset quality classification and has provided allowance for loan losses of ₩ 5,132 million (US\$ 4,917 thousand). According to the Corporate Restructuring Promotions Law, SK Networks Co., Ltd. has been identified as "possible insolvent company" by the Financial Institution Creditors' Committee of SK Networks Co., Ltd. and has been administrated for normalization of business as of December 31, 2004.

(8) Many credit card companies in Korea have been facing difficulties in liquidity due to the bad credit of assets as of December 31, 2004. Of the credit card companies, LG Card Co., Ltd. has been supported with ₩ 2 trillion by the Financial Institution Creditors based on their agreement on November 24, 2003 caused by the significant financial difficulties. The association of Financial Institution Creditors in January 2004 agreed to support new loan of ₩ 1,591.6 billion (US\$ 1,524.8 million) and exercise debt-equity swap of ₩ 3,499.4 billion (US\$ 3,352.6 million) for rehabilitating LG Card Co., Ltd. ₩ 953.9 billion (US\$ 913.9 million) and ₩ 2,545.5 billion (US\$ 2,438.7 million) of loans were swapped to equity stocks in February and July 2004, respectively. In addition, the Financial Institution Creditors and LG Group jointly invested on the stocks of ₩ 1 trillion of LG Card Co., Ltd. by 50:50 in January 2005. According to the above agreement, the Bank acquired asset-backed securities of ₩ 168.5 billion (US\$ 161.4 million) issued by LG Card Co., Ltd. in December 2003 and extended a new loan of ₩ 120.2 billion (US\$ 115.2 million) and ₩ 21.2 billion (US\$ 20.3 million), in January and February 2004, and January 2005, respectively. The Bank has loans and securities to LG Card Co., Ltd amounting to ₩ 274.8 billion (US\$ 263.3 million) as of December 31, 2004. The current concern issues on LG Card Co., Ltd. are fully dependent on the rehabilitation plan and an effective funding support from the Financial Institution Creditors. Therefore, the actual amount to be collected from loans and securities held by the Bank might materially differ from management's current estimation.

6. RESTRUCTURING OF LOANS:

(1) Restructuring of loans for the year ended December 31, 2004 was as follows (Unit: Won in millions):

Type	Amount before restructuring	Exemption	Transferred to CB	Rescheduled
Court receivership	₩ 78,821	₩ -	₩ 45	₩ 78,776
Workout program	34,344	-	-	34,344
Others	8,293	-	-	8,293
	₩ 121,458	₩ -	₩ 45	₩ 121,413

(2) Outstanding restructured loans as of December 31, 2004, which were restructured under corporate reorganization, court receivership and workout plans, were as follows (Unit: Won in millions):

	Discount rate (%)	Nominal value	Present value discounts			Ending balance
			Beginning balance	Addition	Deduction	
Court receivership	0.00~11.40	₩ 34,704	₩ 1,743	₩ 1,579	₩ 965	₩ 2,357
Workout program	5.00~6.11	30,780	3,582	-	1,074	2,508
Others	5.27	6,167	73	-	18	55
		₩ 71,651	₩ 5,398	₩ 1,579	₩ 2,057	₩ 4,920

Cash flows from outstanding fixed rate loans were discounted by interest rates originally agreed upon and cash flows from matured fixed rate loans and floating rate loans were discounted by interest rates reflecting debtors' credit at the time of restructuring of the loans.

Restructured loans above was restructured prior to 2004 in accordance with previous accounting standards, and remaining balance of present value discounts was reclassified as allowance for possible loan losses in accordance with SKAS No.13 (Troubled Debt Restructurings).

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(3) The changes in allowance for possible loan losses of newly restructured loan for the year ended December 31, 2004 were as follows:

	Korean Won (In millions)	U.S. Dollars (Note2) (In thousands)
Provision for possible loan losses	₩ 1,579	\$ 1,513
Offset to loans	-	-
Interest revenue recognized	(55)	(53)
Others	-	-

In connection with above-mentioned loans, there was no additional loan agreement to borrowers.

7. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) The classification of asset quality for loans and allowance for possible loan losses (excluding present value discounts) as of December 31, 2004 was summarized as follows (Unit: Won in millions):

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans						
Loan in local currency ^(*)	₩ 44,019,719	₩ 2,549,456	₩ 703,299	₩ 102,703	₩ 148,389	₩ 47,523,566
Loan in foreign currencies ^(*)	2,971,627	390,081	69,755	7,773	5,236	3,444,472
Bills bought in local currency / Bills bought in foreign currencies	813,316	8,954	372	1,018	881	824,541
Advances for customers	2,197	5,052	4,705	2,677	4,308	18,939
Credit card accounts	1,616,426	119,363	212	58,893	72,490	1,867,384
Privately placed bonds	58,953	3,506	2,116	93	246	64,914
Others ^(**)	4,856	92	2,176	574	1,978	9,676
	49,487,094	3,076,504	782,635	173,731	233,528	53,753,492
Allowance for possible loan losses						
Loan in local currency	₩ 316,429	₩ 149,086	₩ 138,345	₩ 78,848	₩ 148,389	₩ 831,097
Loan in foreign currencies	21,711	21,729	13,951	5,021	5,236	67,648
Bills bought in local currency / Bills bought in foreign currencies	5,726	415	74	895	881	7,991
Advances for customers	15	586	941	2,409	4,308	8,259
Credit card accounts	16,164	22,679	42	53,003	72,490	164,378
Privately placed bonds	412	140	423	55	246	1,276
Others	34	10	435	518	1,978	2,976
	360,491	194,645	154,211	140,749	233,528	1,083,625
	₩ 49,126,603	₩ 2,881,859	₩ 628,424	₩ 32,982	₩ -	₩ 52,669,867

The classification of asset quality for loans and allowance for possible loan losses (excluding present value discounts) as of December 31, 2003 was summarized as follows (Unit: Won in millions):

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans						
Loan in local currency ^(*)	₩ 39,272,042	₩ 1,935,856	₩ 709,714	₩ 98,566	₩ 145,514	₩42,161,692
Loan in foreign currencies ^(**)	3,646,165	473,825	103,048	14,861	3,226	4,241,125
Bills bought in local currency / Bills bought in foreign currencies	890,249	11,288	2,153	255	7	903,952
Advances for customers	5,929	3,973	6,220	1,449	7,136	24,707
Credit card accounts	1,847,527	199,437	427	151,953	38,710	2,238,054
Privately placed bonds	49,999	157,927	3,325	958	316	212,525
Others ^(***)	9,919	44	1,853	194	3,918	15,928
	45,721,830	2,782,350	826,740	268,236	198,827	49,797,983
Allowance for possible loan losses						
Loan in local currency	₩ 211,264	₩ 49,113	₩ 150,771	₩ 67,700	₩ 145,514	₩ 624,362
Loan in foreign currencies	19,784	25,045	21,482	11,178	3,226	80,715
Bills bought in local currency / Bills bought in foreign currencies	4,451	226	431	192	7	5,307
Advances for customers	30	79	1,471	1,090	7,136	9,806
Credit card accounts	18,475	23,933	85	98,769	38,710	179,972
Privately placed bonds	250	28,948	665	721	316	30,900
Others	50	1	371	147	3,918	4,487
	254,304	127,345	175,276	179,797	198,827	935,549
	₩ 45,467,526	₩ 2,655,005	₩ 651,464	₩ 88,439	₩ -	₩ 48,862,434

(*1) After deducting allowance for possible loan losses equal to present value discounts

(*2) Including domestic import usance

(*3) Including debit card accounts, credit-related suspense payments and accounts receivable transferred from bills purchased due to defaults and call loans classified as substandard, doubtful, and estimated loss, but excluding inter-bank loans, call loans classified as normal and precautionary, bonds purchased under resale agreements

(2) The allowance for possible loan losses (excluding present value discounts) compared to total loans as of December 31, 2004, 2003 and 2002 was as follows:

	Total loans		Allowance for possible loan losses		Percentage(%)
	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	
December 31, 2004	53,753,492	51,497,885	1,083,625	1,038,154	2.02
December 31, 2003	49,797,983	47,708,357	935,549	896,291	1.88
December 31, 2002	45,163,949	43,268,777	883,047	845,993	1.96

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(3) The changes in allowance for possible loan losses (excluding present value discounts) for the years ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Beginning balance	₩ 935,549	₩ 883,047	\$ 896,291	\$ 845,992
Write-offs charged to present value discount	(1,579)	(4,274)	(1,513)	(4,095)
Loans written-off	(619,637)	(1,099,767)	(593,635)	(1,053,619)
Changes in foreign exchange rates	(8,471)	4,084	(8,115)	3,913
Others	(140,460)	(254,819)	(134,566)	(244,126)
	165,402	(471,729)	158,462	(451,935)
Provision for possible loan losses	918,223	1,407,278	879,692	1,348,226
Ending balance	₩ 1,083,625	₩ 935,549	\$ 1,038,154	\$ 896,291

94

8. FIXED ASSETS:

(1) Fixed assets as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Tangible assets	₩ 1,390,637	₩ 1,310,654	\$ 1,332,283	\$ 1,255,656
Less: accumulated depreciation	(461,128)	(374,418)	(441,778)	(358,707)
Non-business use property	-	1,315	-	1,260
Less: Valuation allowance	-	(158)	-	(151)
	₩ 929,509	₩ 937,393	\$ 890,505	\$ 898,058

(2) Tangible assets as of December 31, 2004 consisted of:

	Acquisition cost		Accumulated depreciation	
	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Land	₩ 496,442	\$ 475,610	₩ -	\$ -
Buildings	364,740	349,435	78,493	75,199
Equipment, machinery, vehicles and furniture	472,662	452,828	351,783	337,022
Leasehold improvements	56,793	54,410	30,852	29,557
	₩ 1,390,637	\$ 1,332,283	₩ 461,128	\$ 441,778

Tangible assets as of December 31, 2003 consisted of:

	Acquisition cost		Accumulated depreciation	
	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Land	₩ 490,343	\$ 469,767	₩ -	\$ -
Buildings	351,048	336,317	67,987	65,134
Equipment, machinery, vehicles and furniture	418,181	400,633	283,308	271,420
Leasehold improvements	51,082	48,939	23,123	22,153
	₩ 1,310,654	\$ 1,255,656	₩ 374,418	\$ 358,707

As of September 24, 2004, the Bank made purchasing contract of land and building for IT center, where is Yong-In city in Gyeonggido, and proceeds of sale was ₩ 37,445 million (US\$ 35,874 thousand).

(3) Fixed assets have been insured as of December 31, 2004 and 2003 as follows (Unit: Won in millions):

2004:

Type of insurance	Assets	Net book value	Insured amount
Property composite (Local)	Buildings	₩ 286,087	₩ 285,797
	Leasehold improvements	24,970	29,273
	Equipment, machinery, vehicles and furniture	119,051	148,115
		430,108	463,185
Property composite (Overseas)	Leasehold improvements, buildings, furniture and others	3,150	3,260
		₩ 433,258	₩ 466,445

2003:

Type of insurance	Assets	Net book value	Insured amount
Property composite (Local)	Buildings	₩ 282,848	₩ 261,407
	Leasehold improvements	26,680	20,434
	Equipment, machinery, vehicles and furniture	133,406	136,013
		442,934	417,854
Property composite (Overseas)	Leasehold improvements, buildings, furniture and others	2,052	17,426
		₩ 444,986	₩ 435,280

As of December 31, 2004 and 2003, the book value of fixed assets of which the depreciation was completed but still being used was ₩49 million (US\$ 47 thousand) and ₩ 45 million (US\$ 43 thousand), respectively.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(4) The changes in book value of fixed assets for the year ended December 31, 2004 were as follows (unit: Won in millions):

	December 31, 2003	Acquisition	Disposal	Depreciation	Changes in foreign currencies	December 31, 2004
Land	₩ 490,343	₩ 6,140	₩ 2	₩ -	₩ (39)	₩ 496,442
Buildings	283,061	13,920	81	10,626	(27)	286,247
Leasehold improvements	27,959	6,270	169	7,957	(162)	25,941
Equipment, machinery, vehicles and furniture	134,873	65,909	320	79,397	(186)	120,879
	₩ 936,236	₩ 92,239	₩ 572	₩ 97,980	₩ (414)	₩ 929,509

The changes in book value of fixed assets for the year ended December 31, 2003 were as follows (unit: Won in millions):

	December 31, 2002	Acquisition	Disposal	Depreciation	Substitution	Changes in foreign currencies	December 31, 2003
Land	₩ 484,695	₩ 6,121	₩ 472	₩ -	₩ -	₩ (1)	₩ 490,343
Buildings	254,876	34,104	236	10,353	4,672	(2)	283,061
Leasehold improvements	8,544	26,747	820	6,509	-	(3)	27,959
Equipment, machinery, vehicles and furniture	110,672	113,370	1,126	88,042	-	(1)	134,873
Construction in progress	2,246	2,426	-	-	(4,672)	-	-
	₩ 861,033	₩ 182,768	₩ 2,654	₩ 104,904	₩ -	₩ (7)	₩ 936,236

(5) The disbursements for future economic benefits, which were not recognized as intangible assets for the years ended December 31, 2004 and 2003, were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Education and training	₩ 7,097	₩ 5,906	\$ 6,799	\$ 5,658
Advertising	18,092	14,521	17,333	13,912
	₩ 25,189	₩ 20,427	\$ 24,132	\$ 19,570

9. OTHER ASSETS:

(1) Other assets as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Guarantee deposits	₩ 739	₩ 749	\$ 708	\$ 718
Accounts receivable	44,351	42,551	42,490	40,765
Accrued income	255,607	329,033	244,881	315,226
Prepaid expenses	101,784	138,841	97,513	133,015
Deferred income tax assets (Note 20)	74,091	74,218	70,982	71,104
Financial derivative instruments (Note 15)	913,602	512,921	875,265	491,398
Sundry assets	3,013,179	4,482,473	2,886,740	4,294,379
	₩ 4,403,353	₩ 5,580,786	\$ 4,218,579	\$ 5,346,605

(2) Sundry assets as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Domestic exchange settlement debits	₩ 2,037,209	₩ 2,026,972	\$ 1,951,724	\$ 1,941,916
Unsettled spot exchange receivables	425,035	1,931,537	407,200	1,850,486
Leasehold deposits	451,901	424,017	432,938	406,224
Deposited money	14,680	12,530	14,064	12,004
Membership rights	7,558	7,391	7,241	7,081
Receivables on cash sent to other banks	850	650	814	623
Card account settlement debits	2,629	12,106	2,519	11,598
Supplies	1,941	1,863	1,860	1,785
Suspense receivable	16,313	21,262	15,628	20,370
Unsettled inter-office account in foreign currency	18,748	37,135	17,961	35,577
Advanced payments	34,559	5,972	33,109	5,721
Others	1,756	1,038	1,682	994
	₩ 3,013,179	₩ 4,482,473	\$ 2,886,740	\$ 4,294,379

10. DEPOSITS:

(1) Deposits as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Deposits in local currency	₩ 34,915,012	₩ 31,962,888	\$ 33,449,906	\$ 30,621,659
Deposits in foreign currencies	1,158,281	1,055,726	1,109,677	1,011,426
Certificates of deposit	1,044,922	1,196,746	1,001,075	1,146,528
	₩ 37,118,215	₩ 34,215,360	\$ 35,560,658	\$ 32,779,613

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(2) Deposits in local currency as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Demand deposits	0.09	₩ 5,098,234	₩ 4,388,649	\$ 4,884,302	\$ 4,204,492
Savings deposits	3.16	27,235,086	25,236,919	26,092,246	24,177,926
Mutual installment savings	4.79	2,242,419	2,010,506	2,148,322	1,926,141
Housing installment deposits	5.09	339,273	326,814	325,036	313,100
		₩ 34,915,012	₩ 31,962,888	\$ 33,449,906	\$ 30,621,659

(3) Deposits in foreign currencies as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Deposits in checking accounts	-	₩ 7,136	₩ 1,710	\$ 6,837	\$ 1,638
Passbook deposits	0.34	695,283	581,002	666,108	556,622
Notice deposits	2.63	4,041	10,129	3,870	9,704
Time deposits	0.86	449,892	460,521	431,014	441,197
Temporary deposits	-	1,929	2,364	1,848	2,265
		₩ 1,158,281	₩ 1,055,726	\$ 1,109,677	\$ 1,011,426

(4) Deposits, by depositor type, as of December 31, 2004 and 2003 were as follows:

Depositor type		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2004	2003	2004	2003
Local currency	Individuals	₩ 16,096,993	₩ 15,912,211	\$ 15,421,530	\$ 15,244,502
	Corporations	14,158,597	11,986,675	13,564,473	11,483,689
	Municipal governments	356,721	270,807	341,752	259,443
	Commercial banks and non-banking financial institutions	3,027,694	2,520,577	2,900,646	2,414,808
	Government	1,256,299	1,227,645	1,203,582	1,176,131
	Non-residents	18,708	44,973	17,923	43,086
		₩ 34,915,012	₩ 31,962,888	\$ 33,449,906	\$ 30,621,659
Foreign currencies	Deposits in foreign branches	62,964	72,413	60,322	69,374
	Residents and others	1,095,317	983,313	1,049,355	942,052
		₩ 1,158,281	₩ 1,055,726	\$ 1,109,677	\$ 1,011,426
	₩ 36,073,293	₩ 33,018,614	\$ 34,559,583	\$ 31,633,085	

(5) Deposits in local and foreign currencies with financial institutions as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Banks	₩ 38,238	₩ 302,015	\$ 36,633	\$ 289,342
Securities companies	19,390	42,636	18,576	40,847
Insurance companies	176,364	254,337	168,963	243,664
Investment trust companies	16,548	165,276	15,854	158,341
Merchant banks	810	24,874	776	23,830
SPC	609,773	249,352	584,186	238,889
Guarantee Funds	379,661	265,478	363,730	254,338
Korea Deposit Insurance Corp.	411,786	269,014	394,507	257,726
Korea Securities Finance Corp.	400,000	460,000	383,215	440,697
Credit card companies	24,851	36,590	23,808	35,055
Capital companies	10,699	7,377	10,250	7,067
Mutual savings banks & Credit union	241,762	270,768	231,617	259,406
Lease companies	34,387	14,892	32,944	14,267
Resolution & Finance Corp.	26,167	-	25,069	-
Others	663,394	158,704	635,557	152,045
	₩ 3,053,830	₩ 2,521,313	\$ 2,925,685	\$ 2,415,514

11. BORROWINGS:

(1) Borrowings as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Borrowings in local currency	₩ 9,228,477	₩ 8,064,958	\$ 8,841,231	\$ 7,726,536
Borrowings in foreign currencies	2,497,904	3,357,752	2,393,087	3,216,854
Bonds sold under repurchase agreements	1,300,019	1,378,135	1,245,467	1,320,305
Bills sold	1,943,363	2,018,834	1,861,815	1,934,120
Borrowings from Industry Foundation Fund	10,323	14,041	9,890	13,452
Due to the BOK in foreign currencies	2,604	12,045	2,495	11,540
Call money	907,390	959,405	869,314	919,146
	₩ 15,890,080	₩ 15,805,170	\$ 15,223,299	\$ 15,141,953

(2) Borrowings in local currency as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Bank of Korea (BOK)	2.0	₩ 1,778,092	₩ 1,654,242	\$ 1,703,480	\$ 1,584,827
Governmental policy funds	2.03~4.50	4,397,263	3,656,350	4,212,745	3,502,922
Government	2.09~4.70	3,053,122	2,754,366	2,925,006	2,638,787
		₩ 9,228,477	₩ 8,064,958	\$ 8,841,231	\$ 7,726,536

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(3) Borrowings in foreign currencies as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Deutsche Bank, NY and others	-	₩ 111,508	₩ 75,670	\$ 106,829	\$ 72,495
JP Morgan and others	0.19~2.90	1,554,355	1,895,410	1,489,131	1,815,874
KBC Bank NV and others	0.25~1.00	122,039	226,249	116,918	216,755
Ministry of Finance and Economy	IBRD notice rate	14,091	19,764	13,500	18,935
Japan Bank for International Cooperation	1.70 ~ 2.20	608,776	992,384	583,231	950,742
DBS	2.10~2.63	76,510	117,384	73,300	112,458
The Korea Development Bank	Libor+1.00~2.20	2,329	14,985	2,231	14,356
Small and Medium Industry Promotion Corp.	Libor+1.28~1.78	342	802	327	768
		2,489,950	3,342,648	2,385,467	3,202,383
Gain on valuation of fair market value risk hedge (current year portion)		(2,212)	(1,470)	(2,119)	(1,408)
Loss on valuation of fair market value risk hedge (prior year portion)		10,166	16,574	9,739	15,879
		₩ 2,497,904	₩ 3,357,752	\$ 2,393,087	\$ 3,216,854

(4) Due to the BOK in foreign currencies was received for the purpose of working capital and policy lending, and interest rates of 2.17~ 2.77% per annum and 0.99~ 1.23% per annum as of December 31, 2004 and 2003, respectively.

(5) Call money as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Samsung Investment Trust Management and others	3.15	₩ 903,900	₩ 929,100	\$ 865,970	\$ 890,113
Foreign financial institutions	-	-	30,305	-	29,033
Inter-bank reconciliation fund		3,490	-	3,344	-
		₩ 907,390	₩ 959,405	\$ 869,314	\$ 919,146

(6) Borrowings in local and foreign currencies with financial institutions as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
BOK	₩ 1,780,696	₩ 1,666,287	\$ 1,705,974	\$ 1,596,366
Banks	4,080,775	3,539,376	3,909,537	3,390,856
Trust management companies	-	779,100	-	746,407
	₩ 5,861,471	₩ 5,984,763	\$ 5,615,511	\$ 5,733,629

12. DEBENTURES:

(1) Debentures as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Debentures in local currency	₩ 9,914,772	₩ 9,765,724	\$ 9,498,728	\$ 9,355,934
Debentures in foreign currencies	2,063,432	1,839,308	1,976,846	1,762,127
Less: Discounts	(6,431)	(4,956)	(6,161)	(4,748)
	₩ 11,971,773	₩ 11,600,076	\$ 11,469,413	\$ 11,113,313

(2) The changes in debentures in local currency for the year ended December 31, 2004 were as follows:

	Beginning balance	Korean Won (In millions)			Ending balance	U.S. Dollars (Note 2) (In thousands)	
		Issuance	Redemption	Substitution		Ending balance	Ending balance
Small and Medium Industry							
(SMI) Finance Bonds	₩ 8,306,802	₩ 7,096,595	₩ 6,710,222	₩ (28,323)	₩ 8,664,852	\$ 8,301,257	
SMI Refinance Bonds	30,119	-	27,081	28,323	31,361	30,045	
SMI Finance Bonds for automation projects	686,000	-	124,000	-	562,000	538,417	
SMI Development Finance Bonds	123,474	-	89,110	-	34,364	32,922	
Subordinated SMI Finance Bonds	618,188	-	-	-	618,188	592,248	
	9,764,583	₩ 7,096,595	₩ 6,950,413	₩ -	9,910,765	9,494,889	
SMI Finance Bonds, not rendered	817				464	445	
Loss on valuation of fair market value risk hedge	324				3,543	3,394	
	₩ 9,765,724				₩ 9,914,772	\$ 9,498,728	

The changes in debentures in local currency for the year ended December 31, 2003 were as follows:

	Beginning balance	Korean Won (In millions)			Ending balance	U.S. Dollars (Note 2) (In thousands)	
		Issuance	Redemption	Substitution		Ending balance	Ending balance
Small and Medium Industry							
(SMI) Finance Bonds	₩ 7,118,406	₩ 7,639,943	₩ 6,427,340	₩ (24,207)	₩ 8,306,802	\$ 7,958,231	
SMI Refinance Bonds	28,175	-	22,263	24,207	30,119	28,855	
SMI Finance Bonds for automation projects	350,000	500,000	164,000	-	686,000	657,214	
SMI Development Finance Bonds	165,074	-	41,600	-	123,474	118,293	
Subordinated SMI Finance Bonds	318,188	300,000	-	-	618,188	592,248	
	7,979,843	₩ 8,439,943	₩ 6,655,203	₩ -	9,764,583	9,354,841	
SMI Finance Bonds, not rendered	48				817	783	
Loss on valuation of fair market value risk hedge	-				324	310	
	₩ 7,979,891				₩ 9,765,724	\$ 9,355,934	

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

To improve its BIS capital adequacy ratio, the Bank issued the Subordinated Small and Medium Industry Finance Bonds amounting to ₩ 300,000 million (US\$ 287,411 thousand), the earliest of which matures in January 2009 and interest rates of 5.37~5.67 percent per annum as of December 31, 2004.

(3) Debentures in foreign currencies as of December 31, 2004 and 2003 were as follows:

Managers	Issuance date	Annual interest rate (%)		Expiration date	Korean Won (In millions)		U.S. Dollars (note 2) (In thousands)	
		2004			2004	2003	2004	2003
BNP Paribas	May. 2002	3ML+0.51		May. 2007	₩ 40,483	₩ 44,784	\$ 38,784	\$ 42,905
Merrill Lynch and others	Jul. 2002	3ML+0.43		Jul. 2004	-	59,890	-	57,377
Merrill Lynch	Nov. 2004	Libor+0.12,0.17		Nov. 2009	52,190	-	50,000	-
Shinkin	Aug. 2002	6ML+0.56		Aug. 2005	31,314	35,934	30,000	34,426
Natexis	Aug. 2002	3ML+0.40		Aug. 2004	-	23,956	-	22,951
CSFB and others	Sep. 2002	6ML+0.74		Sep. 2005	521,900	598,900	500,000	573,769
JP Morgan	Dec. 2002	6ML+0.87		Dec. 2007	365,330	419,230	350,000	401,638
JP Morgan	Dec. 2002	6ML+0.38		Dec. 2005	-	26,951	-	25,820
Citigroup, HSBC	Jun. 2003	3ML+1.06		Jun. 2008	417,520	479,120	400,000	459,015
JP Morgan	Aug. 2003	3ML+0.51		Aug. 2006	26,846	30,856	25,719	29,561
BA ASIA	Aug. 2003	3ML+0.55		Aug. 2006	26,095	29,945	25,000	28,689
Mizuho Corporate Asia (HK)	Aug. 2003	3ML+0.50		Aug. 2006	10,438	11,978	10,000	11,475
Mizuho International	Sep. 2003	3ML+0.51		Sep. 2006	50,603	55,980	48,480	53,631
JP Morgan	Oct. 2003	3ML+0.48		Oct. 2006	21,950	24,218	21,029	23,202
CSFB and others	Mar. 2004	6ML+0.99		May. 2014	313,140	-	300,000	-
UBS, Deutsche Bank	Jun. 2004	6ML+1.28		Jan. 2015	208,760	-	200,000	-
					2,086,569	1,841,742	1,999,012	1,764,459
					(21,165)	(21,637)	(20,277)	(20,729)
					(1,972)	19,203	(1,889)	18,397
					₩2,063,432	₩1,839,308	\$ 1,976,846	\$ 1,762,127

The Bank listed Global Medium Term Note Programme on London Stock Exchange for issuing medium and long-term debentures in foreign currencies with Merrill Lynch International Ltd., as its agency, on April 11, 1997. Also, the Bank increased its ceiling amount to US\$ 2 billion from US\$ 1 billion.

On March 16, 2004, the Bank issued the 4.00% Lower Tier II subordinate notes due 2014 for improving Tier II capital adequacy ratio (face value: US\$ 300,000,000). The Bank has a right to redeem the subordinate notes from May 19, 2009 (the "Reset Date") at a redemption price equal to the principle amount of the notes plus accrued but unpaid interest. If the Bank does not redeem, the interest rate of the notes will be reset at the U.S. Treasury Rate plus 2.07%.

On June 15, 2004, the Bank listed US\$ 2 billion Global Medium Term Note Programme on the Singapore Stock Exchange. As of December 31, 2004, the Bank issued the subordinate notes (face value: US\$ 200,000,000, maturity: January 15, 2015) with UBS and Deutsche Bank based on GMTN programme.

13. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Accrued severance benefits ^(Note 2)	₩ 152,233	₩ 104,349	\$ 145,845	\$ 99,970
Less: Transfer to National Pension ^(Note 2)	(52)	(52)	(50)	(50)
Less: Severance insurance deposits ^(Note 2)	(103,380)	(69,071)	(99,042)	(66,173)
Allowance for possible losses on acceptances and guarantees ^(Notes 2 and 14)	1,474	1,599	1,412	1,532
Due to trust accounts	307,003	351,762	294,121	337,001
Other allowances	32,617	24,510	31,248	23,482
Accounts payable	20,703	76,432	19,834	73,225
Accrued expenses	853,082	862,754	817,285	826,551
Unearned revenues	77,778	82,759	74,514	79,286
Deposits for letter of guarantees and others	184,897	134,250	177,138	128,617
Financial derivative instruments ^(Note 15)	968,455	591,685	927,818	566,857
Dividends payable	67	65	64	62
Sundry liabilities	3,115,108	4,350,765	2,984,392	4,168,198
	₩ 5,609,985	₩ 6,511,807	\$ 5,374,579	\$ 6,238,558

(2) Sundry liabilities as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Accounts payable	₩ 4,718	₩ 9,474	\$ 4,520	\$ 9,076
Domestic exchange settlement credits	2,166,030	1,854,115	2,075,139	1,776,313
Unsettled spot exchange payables	425,222	1,930,900	407,379	1,849,875
Agencies	98,002	99,223	93,890	95,059
Withholding taxes	977	22,394	936	21,454
Management funds	668	4,092	640	3,920
Giro accounts	66,077	73,292	63,304	70,217
Payables on cash received from other banks	3,560	4,760	3,411	4,560
Deposits for securities subscription	28,762	21,142	27,555	20,255
Card account settlement credit	7,035	17,310	6,740	16,584
Suspense payable	9,306	11,030	8,915	10,567
Inter-office account payable in foreign currencies	31,142	66,448	29,835	63,660
Others	273,609	236,585	262,128	226,658
	₩ 3,115,108	₩ 4,350,765	\$ 2,984,392	\$ 4,168,198

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

14. ACCEPTANCES AND GUARANTEES AND ALLOWANCE FOR POSSIBLE LOSSES:

(1) Acceptances and guarantees provided by the Bank as of December 31, 2004 and 2003 were summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debentures	₩ 100	₩ 100	\$ 96	\$ 96
Payment guarantee for loans	123,949	154,985	118,748	148,482
Payment guarantee for performance of contract	333,413	288,168	319,422	276,076
Others	23,090	20,560	22,121	19,697
	480,552	463,813	460,387	444,351
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letters of credit	72,277	90,562	69,244	86,762
Letters of guarantees for importers	77,712	155,257	74,451	148,742
Others (*)	278,648	11,978	266,955	11,475
	428,637	257,797	410,650	246,979
Unconfirmed acceptances and guarantees				
Customer's liability on letters of credit	1,136,742	1,259,512	1,089,042	1,206,660
Others	25,319	222,839	24,257	213,488
	1,162,061	1,482,351	1,113,299	1,420,148
	₩ 2,071,250	₩ 2,203,961	\$ 1,984,336	\$ 2,111,478

(*) The Bank provided the guarantee to primary CBO issued by small and medium sized enterprises, and underwritten by Daeshin Securities Co., Ltd. and Nomura Securities Co., Ltd in 2004. With respect to this guarantee, guaranteed amount was JPY 8,337 million and the rate of guarantee income and commission for asset management was 105bais point. (issuance date: December 13, 2004, maturity date: December 28, 2007)

(2) Confirmed and unconfirmed acceptances and guarantees, by customer, as of December 31, 2004 and 2003 were as follows:

Industry	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2004	2003	2004	2003	2004	2003
Confirmed						
Large corporations	₩ 44,767	₩ 47,095	\$ 42,888	\$ 45,119	4.92	6.53
Small and medium corporations	735,712	647,014	704,840	619,864	80.92	89.66
Others	128,710	27,501	123,309	26,347	14.16	3.81
	₩ 909,189	₩ 721,610	\$ 871,037	\$ 691,330	100.00	100.00
Unconfirmed						
Large corporations	₩ 129,591	₩ 160,222	\$ 124,153	\$ 153,499	11.15	10.81
Small and medium corporations	944,924	1,255,487	905,273	1,202,804	81.31	84.69
Others	87,546	66,642	83,873	63,845	7.54	4.50
	₩ 1,162,061	₩ 1,482,351	\$ 1,113,299	\$ 1,420,148	100.00	100.00

(3) Confirmed and unconfirmed acceptances and guarantees, by industry, as of December 31, 2004 and 2003 were as follows:

Industry	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)		
	2004	2003	2004	2003	2004	2003	
Confirmed							
Manufacturing	₩ 484,654	₩ 366,974	\$ 464,317	\$ 351,575	53.31	50.86	
Wholesale and retail	167,515	144,969	160,486	138,886	18.42	20.09	
Finance and insurance	70,882	103,068	67,908	98,743	7.80	14.28	
Construction	30,490	29,814	29,210	28,563	3.35	4.13	
Transportation and storage	25,063	8,236	24,011	7,890	2.76	1.14	
Others	130,585	68,549	125,105	65,673	14.36	9.50	
	₩ 909,189	₩ 721,610	\$ 871,037	\$ 691,330	100.00	100.00	
Unconfirmed							
Manufacturing	₩ 695,306	₩ 797,448	\$ 666,130	\$ 763,986	59.83	53.80	
Wholesale and retail	374,569	467,545	358,851	447,926	32.23	31.54	
Finance and insurance	419	3,897	401	3,733	0.04	0.26	
Construction	12,630	19,699	12,100	18,872	1.09	1.33	
Transportation and storage	19,068	4,600	18,268	4,407	1.64	0.31	
Others	60,069	189,162	57,549	181,224	5.17	12.76	
	₩ 1,162,061	₩ 1,482,351	\$ 1,113,299	\$ 1,420,148	100.00	100.00	

(4) Confirmed and unconfirmed acceptances and guarantees, by country, as of December 31, 2004 and 2003 were as follows:

Industry	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)		
	2004	2003	2004	2003	2004	2003	
Confirmed							
Korea	₩ 607,571	₩ 476,482	\$ 582,076	\$ 456,488	66.83	66.03	
America	39,071	20,992	37,431	20,111	4.30	2.91	
Japan	47,753	62,461	45,749	59,840	5.25	8.66	
China	86,936	23,838	83,288	22,838	9.56	3.30	
Hong Kong	28,480	8,287	27,285	7,939	3.13	1.15	
Others	99,378	129,550	95,208	124,114	10.93	17.95	
	₩ 909,189	₩ 721,610	\$ 871,037	\$ 691,330	100.00	100.00	
Unconfirmed							
Korea	₩ 270,402	₩ 3,546	\$ 259,055	\$ 3,397	23.27	0.24	
America	111,443	186,769	106,767	178,932	9.59	12.60	
Japan	139,222	204,623	133,380	196,037	11.98	13.80	
China	207,739	317,397	199,022	304,078	17.88	21.41	
Hong Kong	42,167	39,386	40,398	37,733	3.63	2.66	
Others	391,088	730,630	374,677	699,971	33.65	49.29	
	₩ 1,162,061	₩ 1,482,351	\$ 1,113,299	\$ 1,420,148	100.00	100.00	

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(5) Allowance for possible losses on confirmed acceptances and guarantees as of December 31, 2004 and 2003 were as follows:

Classification	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Normal	₩ 861,578	₩ 658,677	\$ 825,424	\$ 631,038
Precautionary	42,037	57,731	40,273	55,308
Substandard	4,563	4,455	4,371	4,268
Doubtful	940	114	901	109
Estimated loss	71	633	68	607
	₩ 909,189	₩ 721,610	\$ 871,037	\$ 691,330
Allowance for possible losses	₩ 1,474	₩ 1,599	\$ 1,412	\$ 1,532
Ratio (%)	0.16	0.22	0.16	0.22

15. CONTINGENCIES AND COMMITMENTS:

In the normal course of its commercial banking business, the Bank makes various commitments and incurs certain contingent liabilities, which are not presented in the balance sheets.

(1) The Bank manages written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩ 1,726,235 million (US\$ 1,653,799 thousand) and ₩ 1,761,462 million (US\$ 1,687,547 thousand) as of December 31, 2004 and 2003, respectively.

(2) The Bank has ₩ 81,866 million (US\$ 78,431 thousand) and ₩ 5,551 million (US\$ 5,318 thousand) of outstanding endorsed notes for sale, which have been purchased at a discount, as of December 31, 2004 and 2003, respectively.

(3) As of December 31, 2004 and 2003, the Bank provided ₩ 65,855 million (US\$ 63,092 thousand) and ₩ 30,000 million (US\$ 28,741 thousand) of local currency for the loan commitments to be executed in the near future, respectively.

(4) Derivative instruments:

As of and for the years period ended December 31, 2004 and 2003, outstanding contract amount, gain or loss on valuation of derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets were as follows (Unit: Won in millions):

December 31, 2004:

Type	Outstanding contract amount ⁽¹⁾		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 3,252,950	₩ -	₩ (24,655)	₩ -	₩ (23,867)
Currency swaps	5,989,562	296,437	93	(31,111)	(11,632)
Currency options (buy)	42,555	-	39	-	(593)
Currency options (sell)	39,453	-	96	-	(25)
	9,324,520	296,437	(24,427)	(31,111)	(36,117)
Interest rate					
Interest rate swaps	21,234,436	2,807,777	2,205	(10,918)	(26,007)
Interest rate options (buy)	316,990	-	10	-	2,014
Interest rate options (sell)	269,380	-	(88)	-	(4,976)
Interest rate futures	30,000	-	-	-	-
	21,850,806	2,807,777	2,127	(10,918)	(28,969)
Stock					
Stock price index futures	11,764	-	-	-	-
Stock price index swaps	100,000	-	2,314	-	13,238
Stock price index options (buy)	114,028	-	(534)	-	1,858
Stock price index options (sell)	140,227	-	(970)	-	(4,863)
	366,019	-	810	-	10,233
	₩ 31,541,345	₩ 3,104,214	₩ (21,490)	₩ (42,029)	₩ (54,853)

December 31, 2003:

Type	Outstanding contract amount ⁽¹⁾		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 6,019,524	₩ -	₩ 15,372	₩ -	₩ 15,112
Currency swaps	3,826,445	512,986	(65,085)	34,136	(67,583)
Currency options (buy)	2,156	-	(7)	-	(7)
Currency options (sell)	56,856	-	185	-	(410)
Currency futures	30,424	-	-	-	-
	9,935,405	512,986	(49,535)	34,136	(52,888)
Interest rate					
Interest rate swaps	21,696,972	1,930,739	4,158	(26,001)	(26,845)
Interest rate options (buy)	170,752	-	798	-	2,085
Interest rate options (sell)	60,752	-	(999)	-	(2,100)
Interest rate futures	101,858	-	-	-	-
	₩ 22,030,334	₩ 1,930,739	₩ 3,957	₩ (26,001)	₩ (26,860)

(continued)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Type	Outstanding contract amount ^(*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Stock					
Stock price index futures	₩ 23,120	₩ -	₩ -	₩ -	₩ -
Stock price index swaps	100,000	-	10,923	-	10,923
Stock price index options (buy)	26,441	-	6,004	-	8,568
Stock price index options (sell)	89,914	-	(9,319)	-	(18,507)
	239,475	-	7,608	-	984
	₩ 32,205,214	₩ 2,443,725	₩ (37,970)	₩ 8,135	₩ (78,764)

(*) In the translation of derivative contracts from local currency to foreign currency and from foreign currency to foreign currency, the contractual exchange rate against foreign currency and market exchange rate at the balance sheet date against purchased foreign currency are applied, respectively.

Outstanding contractual amount and gain or loss on valuation for hedging purpose in the table included and resulted from both derivative instruments accounted for using hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70 and derivative instruments used for hedging activities but not accounted for using hedge accounting.

Futures and options such as currency options and currency futures were subjected to mark to market accounting with valuation gain or loss recorded as settlement accounts in the balance sheets.

Hedged items, to which fair value hedge accounting was applied, consisted of investment securities, borrowings and bonds issued and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair values of hedged items resulting from interest rate changes. Resulting from valuation of hedged items accounted for using fair value hedge accounting, as of December 31, 2004 and 2003, loss on valuation of ₩ 7,999 million (US\$ 7,663 thousand) and gain on valuation of ₩ 1,798 million (US\$ 1,723 thousand) on foreign available-for-sale securities, gain on valuation of ₩ 2,212 million (US\$ 2,119 thousand) and gain on valuation of ₩ 1,470 million (US\$ 1,408 thousand) on borrowings in foreign currencies, gain on valuation of ₩ 21,165 million (US\$ 20,277 thousand) and gain on valuation of ₩ 21,637 million (US\$ 20,729 thousand) on debentures in foreign currencies and loss on valuation of ₩ 3,543 million (US\$ 3,394 thousand) and loss on valuation of ₩ 324 million (US\$ 310 thousand) on debentures in local currencies, respectively, were reflected in current operations, and the opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for using fair value hedge accounting were reflected in other assets or liabilities.

The Bank has unsettled interest swap agreement amounting to ₩ 490,000 million (US\$ 469,439 thousand) and unsettled interest option agreement amounting to ₩ 60,000 million (US\$ 57,482 thousand) with LG Card Co., Ltd. as of December 31, 2004.

As of December 31, 2004, the Bank sold credit default swap to Merrill Lynch International Bank Ltd.(London) for obtaining commission income as follows (Unit: US\$ in thousands):

Launch date	Maturity	Amount	Credited
Feb. 2002	Sep. 2005	10,000	SK Co., Ltd

(5) In the normal course of its business, the Bank regularly files lawsuits and takes other legal actions in connection with its business, primarily with respect to collection actions. As of December 31, 2004, the Bank is a plaintiff in 688 legal cases involving ₩ 69,787 million (US\$ 66,859 thousand) and as a defendant in 179 legal cases involving ₩ 34,167 million (US\$ 32,733 thousand). The Bank has provided an allowance of ₩ 13,706 million (US\$ 13,131 thousand) for the following cases of which the ultimate outcome is likely to have unfavorable effects on the Bank as follows (Unit: Won in millions):

Plaintiff	Defendant	Description	Amount	Other allowance
Educational Foundation Eunkwang	Bank	Repayment of deposit	12,128	13,481
Interage Co., Ltd.	Bank	Claim of L/C liability	441	225

Also, the Bank's trust account filed a lawsuit to Hanhwa Merchant Bank for confirmation of bankruptcy credits. As of December 31, 2003, the Bank won the lawsuit partly, and recognized ₩ 13,431 million (US\$ 12,867 thousand) of income.

16. SHAREHOLDERS' EQUITY:

(1) Common stock and Preferred stock

The Bank is authorized to issue up to 800 million shares of capital stock (₩ 5,000 par value). The number of shares of common stock and preferred stock issued by the Bank as of December 31, 2004 were 405,151,618 shares and 53,125,315 shares, respectively.

The major shareholders as of December 31, 2004 were as follows (Unit: Shares in thousands):

Shareholder	Common Stock		Preferred Stock ^(*)	
	No. of shares	Percentage (%)	No. of shares	Percentage (%)
Korean Government	233,734	57.69	-	-
Korea Development Bank	10,490	2.59	46,915	88.31
Export-Import Bank of Korea	40,501	10.00	6,210	11.69
Global Depository Shares ^(*)	10,679	2.64	-	-
Employee Stock Ownership Association	6,708	1.65	-	-
Others	103,040	25.43	-	-
	405,152	100.00	53,125	100.00

(*1) The preferred stock could be converted into common stock and participating as to dividends.

(*2) Citibank N.A. is the overseas depository for GDS listed on the Luxembourg Stock Exchange.

(2) Legal reserve

The Industrial Bank of Korea Act requires the Bank to appropriate at least 25 percent of net income as a legal reserve until such reserve equals 100 percent of its paid-in capital. The legal reserve may only be used to offset against any future deficit or be transferred to capital stock.

(3) Capital adjustments

Capital adjustments as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Treasury stock	₩ (29,717)	₩ (4,992)	\$ (28,470)	\$ (4,783)
Gain on valuation of available-for-sale securities (Note 4)	223,375	48,681	214,002	46,638
Loss on valuation of securities using the equity method (Note 4)	(4,724)	(28,705)	(4,526)	(27,500)
Others	522	619	500	593
	₩ 189,456	₩ 15,603	\$ 181,506	\$ 14,948

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, treasury stock including 4,245,948 shares entrusted in treasury stock trust agreement with Shinhan Bank for the stabilization of stock price, was acquired in connection with the Bank's capital reduction, which the Bank intends to dispose in the near future.

17. INTEREST REVENUE AND EXPENSES:

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expense as of and for the years ended of December 31, 2004 and 2003 were as follows (Unit: Won in millions):

	2004		2003	
	Average balance	Interest revenue/expense	Average balance	Interest revenue/expense
Assets				
Due from banks	₩ 1,362,928	₩ 9,704	₩ 1,272,629	₩ 9,225
Securities	10,783,923	451,475	10,273,730	551,959
Loans	51,542,149	3,368,575	47,555,789	3,156,524
Others	1,473,201	61,034	1,428,200	62,496
	₩ 65,162,201	₩ 3,890,788	₩ 60,530,348	₩ 3,780,204
Liabilities				
Deposits	₩ 36,027,715	₩ 1,032,176	₩ 33,098,853	₩ 1,059,826
Borrowings	16,601,351	541,796	16,266,955	557,361
Debentures	11,507,226	487,971	10,808,728	522,329
Others	236,049	9,504	297,691	12,793
	₩ 64,372,341	₩ 2,071,447	₩ 60,472,227	₩ 2,152,309

18. GENERAL AND ADMINISTRATIVE EXPENSES:

(1) General and administrative expenses for the years ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Salaries	₩ 441,641	₩ 401,537	\$ 423,109	\$ 384,688
Provision for severance benefits	51,311	44,828	49,158	42,947
Other employee benefits	64,129	60,873	61,438	58,319
Rent	13,916	12,424	13,332	11,903
Entertainment	1,223	1,179	1,172	1,130
Depreciation	97,980	104,904	93,869	100,502
Taxes and dues	56,985	55,149	54,594	52,835
Advertising	18,092	14,521	17,333	13,911
Others	118,696	108,455	113,714	103,903
	₩ 863,973	₩ 803,870	\$ 827,719	\$ 770,138

(2) Others in general and administrative expenses for the years ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Communications	₩ 8,079	₩ 8,392	\$ 7,740	\$ 8,040
Electric and water supply	6,236	5,841	5,974	5,596
Book and periodicals	5,551	5,942	5,318	5,693
Facilities maintenance	3,675	3,883	3,521	3,720
Service fees	30,795	29,789	29,503	28,539
Computer	35,894	28,875	34,387	27,663
Travel and transportation	2,231	2,315	2,137	2,218
Fuel	1,735	1,741	1,662	1,668
Supplies	5,133	5,424	4,918	5,196
Maintenance of automobile	3,706	3,284	3,550	3,146
Insurance	1,148	1,038	1,100	994
Education and training	7,097	5,906	6,799	5,658
Others	7,416	6,025	7,105	5,772
	₩ 118,696	₩ 108,455	\$ 113,714	\$ 103,903

(3) The value added information on the administrative expense account for the years ended December 31, 2004 and 2003 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Salaries	₩ 441,641	₩ 401,537	\$ 423,109	\$ 384,688
Provision for severance benefits	51,311	44,828	49,158	42,947
Other employee benefits	64,129	60,873	61,438	58,319
Rent	13,916	12,424	13,332	11,903
Depreciation	97,980	104,904	93,869	100,502
Taxes and dues	56,985	55,149	54,594	52,835
	₩ 725,962	₩ 679,715	\$ 695,500	\$ 651,194

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

19. NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Non-operating income:				
Gain on disposal of tangible assets	₩ 409	₩ 857	\$ 392	\$ 821
Rent	2,022	3,425	1,937	3,281
Gain on valuation using the equity method	3,243	67,558	3,107	64,723
Gain on disposal of available-for-sale securities	122,434	209,910	117,296	201,102
Recovery of available-for-sale securities impairment loss (Note 4)	714	1,465	684	1,404
Recovery of held-to-maturity securities impairment loss (Note 4)	38	560	37	536
Gain on sale of loans	65	81,876	62	78,440
Others	41,971	32,748	40,210	31,374
	₩ 170,896	₩ 398,399	\$ 163,725	\$ 381,681
Non-operating expenses:				
Loss on disposal of tangible assets	35	302	34	289
Loss on valuation using the equity method	464	-	445	-
Loss on disposal of available-for-sale securities	1,363	9,988	1,305	9,569
Available-for-sale securities impairment loss (Note 4)	28,158	90,249	26,976	86,462
Held-to-maturity securities impairment loss (Note 4)	81,727	57,290	78,298	54,886
Loss on sale of loans	108,498	110	103,945	105
Others	31,201	56,629	29,892	54,253
	₩ 251,446	₩ 214,568	\$ 240,895	\$ 205,564

20. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income for the year ended December 31, 2004 and taxable income pursuant to Korean Corporate Tax Law were summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Income before income tax	₩ 527,677	₩ 311,923	\$ 505,535	\$ 298,834
Taxable and non-deductible items				
Temporary difference	1,938,001	1,374,860	1,856,678	1,317,168
Permanent difference	3,944	140	3,779	134
	₩ 1,941,945	₩ 1,375,000	\$ 1,860,457	\$ 1,317,302

(continued)

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Deductible and non-taxable items				
Temporary difference	₩ 1,948,949	₩ 1,240,569	\$ 1,867,167	\$ 1,188,512
Permanent difference	23,366	22,110	22,386	21,182
	1,972,315	1,262,679	1,889,553	1,209,694
Taxable income	497,307	424,244	476,439	406,442
Tax rate	(15%, 27%)	(15%, 27%)	(15%, 27%)	(15%, 27%)
Calculated tax amount	134,261	114,535	128,627	109,729
Deduction and exemption	633	-	606	-
Resident tax of 10%	13,363	11,453	12,802	10,972
Special farming and fishery tax	15	-	14	-
Income tax currently payable	₩ 147,006	₩ 125,988	\$ 140,837	\$ 120,701

(2) Changes in cumulative temporary differences for the year ended December 31, 2004 were as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	Jan 1, 2004	Addition	Deduction	Dec 31, 2004	Dec 31, 2004
Accrued income	₩ (105,590)	₩ (103,315)	₩ (105,590)	₩ (103,315)	\$ (98,980)
Gain (loss) on valuation of trading securities	1,213	(927)	1,213	(927)	(888)
Allowance for possible losses on acceptances and guarantees	1,599	1,474	1,599	1,474	1,412
Gain (loss) on valuation using the equity method	(37,718)	31,532	-	(6,186)	(5,926)
Accrued severance benefits	(62,557)	(29,925)	(1,195)	(91,287)	(87,456)
Allowance for non-business real estate	158	-	158	-	-
Available-for-sale and held-to-maturity securities impairment loss and others	228,642	206,958	228,642	206,958	198,274
Other allowance	24,510	32,617	24,510	32,617	31,248
Gain on valuation of derivatives	(509,486)	(910,210)	(509,486)	(910,210)	(872,016)
Advanced depreciation allowance	(244,563)	-	(2)	(244,561)	(234,299)
Loss on valuation of derivatives	580,999	955,525	580,999	955,525	915,429
Others	140,524	53,294	27,569	166,249	159,273
	17,731	237,023	248,417	6,337	6,071
Less: advanced depreciation allowance	(244,563)	-	(2)	(244,561)	(234,299)
	262,294			250,898	240,370
Income tax rate	29.70%, 27.50%			27.50%	27.50%
Effect of deferred income taxes	71,905			68,997	66,102
Adjustment ^(*)	-			4,091	3,919
	₩ 71,905			₩ 73,088	\$ 70,021

(*) As of December 31, 2004, temporary difference was adjusted.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(3) Deferred income tax assets as of December 31, 2004 and 2003 arose from the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Local:				
Tax effect on cumulative temporary differences	₩ 73,088	₩ 71,905	\$ 70,021	\$ 68,888
Overseas branches:	1,003	2,313	961	2,216
	₩ 74,091	₩ 74,218	\$ 70,982	\$ 71,104

(4) Income tax expense for the year ended December 31, 2004 was summarized as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	Local	Overseas branches	Total		
Decrease (increase) of deferred tax assets	₩ 2,908	₩ 1,310	₩ 4,218	\$	4,041
Income tax payable ^(*)	150,464	2,560	153,024		146,603
	₩ 153,372	₩ 3,870	₩ 157,242	\$	150,644

(*) Income tax payable (local) of ₩ 147,006 million (US\$ 140,837 thousand) plus ₩ 3,458 million (US\$ 3,313 thousand), the difference between income tax payable and actual payment.

(5) The legal income tax rate, including resident tax rate, applied by the Bank was 29.7%. However, the effective tax rates calculated dividing income tax expense by income before income tax expense were 29.8% and 28.2% in 2004 and 2003, respectively, due to the effect of tax reconciling items aforementioned.

21. ORDINARY INCOME PER COMMON SHARE AND NET INCOME PER COMMON SHARE:

(1) Ordinary income per common share and net income per common share

Since the preferred shares could be converted into common stock and participating as to dividends, the computation of ordinary income per share and net income per share below applies to both common shares and preferred shares, respectively. Ordinary income per common share and net income per common share are computed by dividing the ordinary income (after deducting the tax effect) and net income available to common shareholders, respectively, by the weighted average number of common shares outstanding during the period. The capital infusion in common stock is also considered in the calculation of the weighted average number of common shares based on the payment date.

Ordinary income per common share, net income per common share, ordinary income per preferred share, and net income per preferred share for the year ended December 31, 2004 were calculated as follows:

1) Computation of the weighted average number of common shares and preferred shares outstanding during 2004

	No. of shares	Days	Cumulative no. of shares
Common stock			
Beginning balance	405,151,585	366	148,285,480,110
Treasury stock	(767,314)	366	(280,836,924)
Treasury stock	(280,980)	365	(102,557,700)
Treasury stock	(163,960)	362	(59,353,520)
Treasury stock	(240,000)	358	(85,920,000)
Treasury stock	(90,000)	348	(31,320,000)
Treasury stock	(300,000)	338	(101,400,000)
Treasury stock	(300,000)	337	(101,100,000)
Treasury stock	(133,210)	334	(44,492,140)
Treasury stock	(86,570)	291	(25,191,870)
Treasury stock	(60,180)	290	(17,452,200)
Treasury stock	(300,000)	236	(70,800,000)
Treasury stock	(186,920)	235	(43,926,200)
Treasury stock	(179,380)	234	(41,974,920)
Treasury stock	(47,410)	225	(10,667,250)
Treasury stock	(156,340)	200	(31,268,000)
Treasury stock	(76,550)	193	(14,774,150)
Treasury stock	(300,000)	192	(57,600,000)
Treasury stock	(181,820)	191	(34,727,620)
Treasury stock	(130,990)	190	(24,888,100)
Treasury stock	(138,710)	187	(25,938,770)
Treasury stock	(55,540)	186	(10,330,440)
Treasury stock	(150,700)	185	(27,879,500)
	400,825,011		147,041,080,806
Preferred stock			
Beginning balance	53,125,315	366	19,443,865,290

No. of common shares outstanding: $147,041,080,806 \div 366 \text{ days} = 401,751,587 \text{ shares}$

No. of preferred shares outstanding: $19,443,865,290 \div 366 \text{ days} = 53,125,315 \text{ shares}$

2) Computation of net income applicable to common shares and preferred shares (Unit: Korean Won)

Common shares: $\text{₩ } 307,625,368,186 \times 400,825,011 \text{ shares} \div (400,825,011 \text{ shares} + 53,125,315 \text{ shares}) = \text{₩ } 271,624,304,521$

Preferred shares: $\text{₩ } 307,625,368,186 \times 53,125,315 \text{ shares} \div (400,825,011 \text{ shares} + 53,125,315 \text{ shares}) = \text{₩ } 36,001,063,665$

Since there were no extraordinary item for the year ended December 31, 2004, ordinary income applicable to common shares and preferred shares was the same as net income applicable to common shares and preferred shares as computed above.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

3) Computation of per share amounts for the year ended December 31, 2004 (Unit: Korean Won)

	Computation		Amount
Net income per common share	₩ 329,121,848,071	÷ 401,751,587 shares =	₩ 819
Ordinary income per common share	₩ 329,121,848,071	÷ 401,751,587 shares =	₩ 819
Net income per preferred share	₩ 41,313,600,115	÷ 53,125,315 shares =	₩ 778
Ordinary income per preferred share	₩ 41,313,600,115	÷ 53,125,315 shares =	₩ 778

Computation of per share amounts for the year ended December 31, 2003, for the three-month period ended March 31, 2004, for the six-month period ended June 30, 2004 and for the nine-month ended September 30, 2004 were as follows (Unit: Korean Won):

	Dec.31.2003	Mar.31.2004	Jun.30.2004	Sep.30.2004
Per common share net income (ordinary income)	₩ 489	₩ 214	₩ 450	₩ 718
Per preferred share net income (ordinary income)	₩ 489	₩ 214	₩ 450	₩ 718

(2) Diluted ordinary income per share and diluted net income per share

Diluted ordinary income and diluted net income are computed by adding the ordinary and net income applicable to convertible preferred shares to ordinary and net income applicable to common shares. Diluted ordinary income per share and diluted net income per share are computed by dividing diluted ordinary income and diluted net income in 2004 by the number of common shares outstanding plus number of convertible preferred shares outstanding during the period.

The diluted ordinary income per share and diluted net income per share for the year ended December 31, 2004 were computed as follows:

- 1) Diluted ordinary income and diluted net income: ₩ 370,435 million (Since there were no extraordinary items in 2004, diluted ordinary income and diluted net income are the same)
- 2) Number of diluted shares: 401,751,587 common shares + 53,125,315 preferred shares = 454,876,902 shares
- 3) Diluted ordinary income per share and diluted net income per share: ₩ 370,435 million ÷ 454,876,902 shares = ₩ 814

Computation of per share amounts for the year ended December 31, 2003, for the three-month period ended March 31, 2004, for the six-month period ended June 30, 2004 and for the nine-month ended September 30, 2004 were as follows (Unit: Korean Won):

	Dec.31.2003	Mar.31.2004	Jun.30.2004	Sep.30.2004
Per diluted share net income (ordinary income)	₩ 489	₩ 214	₩ 450	₩ 718

(3) As of December 31, 2004, convertible preferred shares were summarized as follows (Unit: Won in millions):

Issuance date	Preferred stock at par value	Exercise period	Number of common shares to be issued	Remarks
1999.12.28	₩ 234,577	6 months after issuance date	46,915,315	Conversion ratio is 1 : 1
2000.01.29	30,350	6 months after issuance date	6,070,000	''
2000.06.29	700	6 months after issuance date	140,000	''
	₩ 265,627		53,125,315	

22. DIVIDENDS:

(1) Dividends per share in 2004 and 2003 approved at the shareholders' general meeting were as follows:

2004:

Shareholder	No. of shares entitled to receive dividends	Korean Won (In millions)		Dividend rate (%)	U.S. Dollars (Note 2) (In thousands)			
		Par value			Dividends	Dividends		
Common stock								
Principal shareholder:	284,724,728	₩	5,000	2.0	₩	28,472	\$	27,277
Minority shareholder:	116,100,283		5,000	5.0		29,025		27,807
	400,825,011				₩	57,497	\$	55,084
Preferred stock:								
Principal shareholder:	53,125,282	₩	5,000	2.0	₩	5,313	\$	5,091
Minority shareholder:	33		5,000	5.0		-		-
	53,125,315				₩	5,313	\$	5,091

2003:

Shareholder	No. of shares entitled to receive dividends	Korean Won (In millions)		Dividend rate (%)	U.S. Dollars (Note 2) (In thousands)			
		Par value			Dividends	Dividends		
Common stock:	404,984,273	₩	5,000	4.0	₩	80,997	\$	77,598
Preferred stock:	53,125,315		5,000	4.0		10,625		10,179
	458,109,588				₩	91,622	\$	87,777

(2) Dividend to net income ratio and dividend yield ratio (for common shares) in 2004 and 2003 were as follows:

Classification	Computation	2004	2003	Ratio
Dividend to net income ratio	Dividend amount / Net income	16.96%	40.91%	
Dividend yield ratio (Common shares) (*)	Dividend per share / Stock price (Closing price at balance sheet date)	1.38%	2.95%	Principal
		3.44%	2.95%	Minority

(*) Yield of preferred shares, which did not have any closing price available, was not calculated.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

23. FINANCIAL INFORMATION ON INTERIM PERIOD:

The Bank's operating revenues, operating income, and net income for the three-month periods ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Operating Revenues:				
Interest income	₩ 982,844	₩ 957,690	\$ 941,602	\$ 917,503
Commission income	160,693	171,487	153,950	164,291
Other operating income	722,212	361,435	691,906	346,269
	1,865,749	1,490,612	1,787,458	1,428,063
Operating Expenses:				
Interest expenses	509,958	518,619	488,559	496,857
Commission expense	21,184	22,123	20,295	21,194
Other operating expenses	941,971	598,764	902,444	573,639
General and administrative expenses	253,217	229,234	242,591	219,615
	1,726,330	1,368,740	1,653,889	1,311,305
Operating income	139,419	121,872	133,569	116,758
Non-operating income	137,915	127,306	132,128	121,964
Non-operating expenses	209,641	124,810	200,844	119,573
Income before income tax expense	67,693	124,368	64,853	119,149
Income tax expense	24,055	35,949	23,046	34,441
Net income	₩ 43,638	₩ 88,419	\$ 41,807	\$ 84,708

24. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of significant assets and liabilities based on the disclosure standard by the FSS as of December 31, 2004 was as follows (Unit: Won in millions):

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ (458,313)	₩ 28,734	₩ -	₩ -	₩ 1,099,451	₩ 669,872
Foreign currencies	196,613	-	-	-	-	196,613
Trading securities:						
Government, public, and local government bonds	-	-	-	80,965	20,107	101,072
Finance debentures	-	-	151,326	251,313	-	402,639
Corporate bonds	₩ -	₩ 24,399	₩ 50,031	₩ 19,792	₩ -	₩ 94,222

(continued)

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Available-for-sale securities:						
Government, public, and local government bonds	₩ 43,856	₩ 50,799	₩ 66,370	₩ 130,312	₩ 79,829	₩ 371,166
Finance debentures	521,001	368,711	1,049,839	1,023,772	-	2,963,323
Corporate bonds	85,736	257,433	467,901	705,918	192,902	1,709,890
Available-for-sale securities in foreign currencies	25,533	31,908	47,087	303,535	665,441	1,073,504
Held-to-maturity securities:						
Government, public, and local government bonds	77,021	20,114	25,690	200,165	502,055	825,045
Finance debentures	234,831	187,346	1,034,536	552,449	205,000	2,214,162
Corporate bonds	10,056	-	696,610	660,942	164,085	1,531,693
Loans:						
Local currency	7,919,441	10,783,797	16,545,182	6,052,867	6,227,144	47,528,431
Foreign currencies	211,041	390,107	620,877	879,277	682,485	2,783,787
Bills bought in local currency	59,591	-	-	-	340	59,931
Bills bought in foreign currencies	656,336	82,409	20,647	3,326	1,892	764,610
Domestic import usance	463,358	171,751	1,077	-	24,554	660,740
Advances for customers	18,421	-	-	-	518	18,939
Factoring receivables	4,718	-	-	-	-	4,718
Credit card accounts	80,506	51,264	97,209	35,551	1,602,854	1,867,384
Call loans	603,873	-	-	-	-	603,873
Privately placed bonds	3,306	5,046	5,170	48,862	2,530	64,914
Inter-bank loans	209,135	95,237	95,326	343,988	340,496	1,084,182
Bonds purchased under repurchase agreements	820,000	-	-	-	-	820,000
Deposits:						
Local currency	11,415,854	4,450,225	9,050,266	9,543,762	454,905	34,915,012
Foreign currencies	414,186	53,231	255,479	435,385	-	1,158,281
Borrowings:						
Local currency	2,104,150	218,528	522,325	2,472,803	3,910,671	9,228,477
Foreign currencies	1,275,804	248,393	269,204	618,207	86,296	2,497,904
Bonds sold under repurchase agreements	659,050	275,364	365,605	-	-	1,300,019
Bills sold	663,053	475,568	804,742	-	-	1,943,363
Borrowings from Industry Foundation Fund	-	-	-	-	10,323	10,323
Due to BOK in foreign currencies	465	360	345	1,434	-	2,604
Call money	907,390	-	-	-	-	907,390
Debentures						
Local currency	1,708,758	2,188,274	3,268,723	1,751,510	997,507	9,914,772
Foreign currencies	-	-	552,608	542,382	968,442	2,063,432

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

25. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Assets:				
Cash	₩ 82,306	₩ 75,074	\$ 78,852	\$ 71,924
Due from banks	196,613	571,265	188,363	547,293
Securities	1,073,504	725,567	1,028,458	695,121
Loans	2,783,787	3,618,033	2,666,973	3,466,213
Bills bought in foreign currencies	764,610	821,063	732,525	786,609
Call loans	345,700	431,644	331,194	413,531
Others	1,700,083	2,242,269	1,628,744	2,148,179
	₩ 6,946,603	₩ 8,484,915	\$ 6,655,109	\$ 8,128,870
Liabilities:				
Deposits	₩ 1,158,281	₩ 1,055,726	\$ 1,109,677	\$ 1,011,426
Borrowings	2,497,904	3,357,752	2,393,087	3,216,854
Due to BOK	2,604	12,045	2,495	11,540
Call money	-	30,304	-	29,032
Debentures	2,063,432	1,839,308	1,976,846	1,762,127
Others	1,672,780	1,739,941	1,602,587	1,666,929
	₩ 7,395,001	₩ 8,035,076	\$ 7,084,692	\$ 7,697,908

26. TRANSACTIONS WITH RELATED PARTIES:

(1) Significant transactions with related parties for the years ended December 31, 2004 and 2003 were as follows:

		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2004	2003	2004	2003
Trust accounts of the Bank ^(*)	Interest revenue	₩ -	₩ 2,278	\$ -	\$ 2,182
	Fee and commissions	11,228	69,198	10,757	66,294
	Interest expenses	2,868	2,484	2,748	2,380
BK SG Asset Management Company	Interest expenses	5	-	5	-
IBK Mutual Savings and Finance Company	Interest expenses	1	5	1	5
IBK Capital Corporation	Commission income	221	288	212	276
	Interest revenue	8	786	8	753
	Interest expenses	-	8	-	8

(continued)

		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2004	2003	2004	2003
IBK Tech Co., Ltd.	Interest revenue	₩ -	₩ 4	\$ -	\$ 4
	Selling & administrative expenses	8,157	16,475	7,815	15,784
	Interest expenses	145	139	139	133
	Commission income	4	4	4	4
Export-Import Bank of Korea	Interest revenue	-	6,836	-	6,549
	Interest expenses	118	5	113	5
Kieun Credit Information Corp.	Commission expenses	8,955	9,998	8,579	9,578
	Interest expenses	29	-	28	-

(*) Including only the trust accounts whose principal or interest guaranteed by the Bank.

(2) Significant balances with related parties as of December 31, 2004 and 2003 were as follows:

		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2004	2003	2004	2003
Trust accounts of the Bank (*)	Accounts receivable	₩ 32,146	₩ 58,205	\$ 30,797	\$ 55,763
	Due from trust account	145,672	65,073	133,559	62,342
IBK SG Asset Management Company	Deposits	11,374	-	10,897	-
IBK Mutual Savings and Finance Company	Deposits	-	1,556	-	1,491
IBK Capital Corporation	Loans	-	21,910	-	20,991
	Accrued income	-	22	-	21
	Deposits	819	2,019	785	1,934
	Unearned revenue	79	51	76	49
IBK Tech Co., Ltd.	Deposits	7,729	5,645	7,405	5,408
Export-Import Bank of Korea	Deposits	4,476	215	4,288	206
Kieun Credit Information Corp.	Accrued expenses	-	959	-	919
	Deposits	690	693	661	664
	Other liabilities	-	2,150	-	2,060

(*) Including only the trust accounts whose principal or interest guaranteed by the Bank.

(3) The Bank has provided acceptances and guarantees of ₩ 70,000 million (US\$ 67,063 thousand) and ₩ 102,143 million (US\$ 97,857 thousand) to IBK Capital Corporation as of December 31, 2004 and 2003, respectively. Also, the Bank has provided guarantees of ₩ 512 million (US\$ 491 thousand) to IBK Tech Co., Ltd as of December 31, 2003.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

27. TRUST ACCOUNTS:

(1) As of December 31, 2004 and 2003, assets and liabilities of the trust accounts were summarized as follows (Unit: Won in million):

December 31, 2004:

Accounts	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts	Performance - based trust accounts	Total
Securities	₩ 29,829	₩ 784,386	₩ 140,150	₩ 1,956,198	₩ 2,910,563
Loans	5,365	18,509	2,557	10,994	37,425
Monetary claims	-	-	-	82,522	82,522
Other assets	21	17,408	3,080	64,553	85,062
Bank accounts credit	96	142,419	9,172	107,481	259,168
Present value discounts	(32)	-	-	-	(32)
Allowances for valuation of assets	(3,018)	(28)	(59)	(217)	(3,322)
Total assets	₩ 32,261	₩ 962,694	₩ 154,900	₩ 2,221,531	₩ 3,371,386
Money trusts	₩ 78	₩ 919,623	₩ 139,568	₩ 2,069,743	₩ 3,129,012
Property trusts	-	-	-	82,522	82,522
Other liabilities	32,179	25,538	14,083	69,266	141,066
Special reserves	4	17,533	1,249	-	18,786
Total liabilities	₩ 32,261	₩ 962,694	₩ 154,900	₩ 2,221,531	₩ 3,371,386

December 31, 2003:

Accounts	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts	Performance - based trust accounts	Total
Securities	₩ 50,933	₩ 843,778	₩ 152,775	₩ 2,690,398	₩ 3,737,884
Loans	8,147	25,650	3,612	16,815	54,224
Movables & real estate	-	-	-	282,329	282,329
Other assets	5	29,391	3,723	155,828	188,947
Bank accounts credit	6,726	53,761	23,506	202,779	286,772
Present value discounts	(3,282)	-	-	-	(3,282)
Allowances for valuation of assets	(4,173)	(53)	(432)	(758)	(5,416)
Total assets	₩ 58,356	₩ 952,527	₩ 183,184	₩ 3,347,391	₩ 4,541,458

(continued)

Accounts	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts	Performance - based trust accounts	Total
Money trusts	₩ 80	₩ 919,263	₩ 166,709	₩ 2,977,961	₩ 4,064,013
Property trusts	-	-	-	282,329	282,329
Other liabilities	58,272	18,757	14,061	87,101	178,191
Special reserves	4	14,507	2,414	-	16,925
Total liabilities	₩ 58,356	₩ 952,527	₩ 183,184	₩ 3,347,391	₩ 4,541,458

(2) Of the certain trusts for which a fixed rate of return, and/or the repayment of principal is guaranteed by the Bank, the possible losses that the Bank account may bear due to the difference between the book value and the fair market value as of December 31, 2004 and 2003 consisted of the following (Unit: Won in millions):

December 31, 2004:

Classification	Book value	Fair market value	Charge to the Bank account
Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal			
Unspecified money trusts	₩ 96	₩ 96	₩ -
	96	96	-
Trust accounts guaranteeing the repayment of principal			
Household money trusts	12,287	12,471	-
Corporate money trusts	11,646	11,864	-
Individual pension trusts	17,718	17,949	-
Specified money trusts	2,985	3,039	-
Personal pension trusts	575,210	583,594	-
Retirement money trusts	177,363	177,363	-
New personal pension trusts	5,327	5,327	-
New individual pension trusts	138,652	138,652	-
Pension trusts	42,056	42,056	-
	983,244	992,315	-
	₩ 983,340	₩ 992,411	₩ -

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

December 31, 2003:

Classification	Book value		Fair market value		Charge to the Bank account	
Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal						
Unspecified money trusts	₩	96	₩	96	₩	-
		96		96		-
Trust accounts guaranteeing the repayment of principal						
Household money trusts		13,643		13,613		-
Corporate money trusts		11,459		11,436		-
Individual pension trusts		24,011		24,064		-
Specified money trusts		3,881		3,881		-
Personal pension trusts		563,370		566,456		-
Retirement money trusts		151,872		151,872		-
New personal pension trusts		4,146		4,146		-
New individual pension trusts		181,934		181,934		-
Pension trusts		24,635		24,635		-
		978,951		982,037		-
	₩	979,047	₩	982,133	₩	-

28. EMPLOYEE BENEFITS:

Employee benefit expenses for the years ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Health and medical	₩ 912	₩ 842	\$ 874	\$ 807
Legal benefits	30,490	28,261	29,211	27,075
Congratulations & condolences	1,915	1,521	1,835	1,457
Health training	30,686	30,007	29,398	28,748
Physical training expense	3,483	3,316	3,337	3,177
Meal	5,370	5,367	5,145	5,142
Others	4,433	4,353	4,247	4,170
	₩ 77,289	₩ 73,667	\$ 74,047	\$ 70,576

Legal benefits included medical insurance premiums, industrial accident compensation, insurance premiums, insurance premiums for industrial casualties and insurance premiums for wage guarantee.

29. EXPERT TRAINING EXPENSES:

The Bank incurred ₩ 2,170 million (US\$ 2,079 thousand) and ₩ 3,043 million (US\$ 2,915 thousand) for expert training from local and foreign training institutes for the years ended December 31, 2004 and 2003, respectively.

30. FINANCIAL INFORMATION BY BUSINESS AND REGION

(1) As of and for the years ended December 31, 2004 and 2003, the Bank's assets and operating revenues by business are as follows (Unit: Won in millions):

December 31, 2004:

	Individual Banking	Corporate Banking	Capital Market	Card Business	Others	Total
Cash & due from banks	₩ 496,733	₩ 233,483	₩ 1,011,661	₩ -	₩ 137,639	₩ 1,879,516
Securities	-	213	11,215,776	-	893,178	12,109,167
Loans	7,218,408	43,363,711	1,875,479	1,817,699	897,712	55,173,009
Fixed assets	23,239	15,771	6,999	-	883,500	929,509
Other assets	224,014	20,637	3,506,858	-	651,844	4,403,353
	7,962,394	43,633,815	17,616,773	1,817,699	3,463,873	74,494,554
Operating revenue	540,352	2,951,582	2,315,569	430,045	488,468	6,726,016

December 31, 2003:

	Individual Banking	Corporate Banking	Capital Market	Card Business	Others	Total
Cash & due from banks	₩ 581,051	₩ 242,299	₩ 1,034,272	₩ -	₩ 390,957	₩ 2,248,579
Securities	-	77,219	10,248,940	-	750,348	11,076,507
Loans	6,318,132	40,471,832	1,991,903	2,018,721	940,506	51,741,094
Fixed assets	28,817	24,477	-	-	884,099	937,393
Other assets	245,193	21,426	4,678,359	5	635,803	5,580,786
	7,173,193	40,837,253	17,953,474	2,018,726	3,601,713	71,584,359
Operating revenue	545,680	2,316,941	2,011,958	503,987	626,329	6,004,895

(2) As of and for the years ended December 31, 2004 and 2003, the Bank's assets and operating revenues by region are as follows (Unit: Won in millions):

December 31, 2004:

	Domestic	Overseas	Total
Cash & due from banks	₩ 1,707,616	₩ 171,900	₩ 1,879,516
Securities	11,993,074	116,093	12,109,167
Loans	54,879,057	293,952	55,173,009
Fixed assets	927,046	2,463	929,509
Other assets	4,396,399	6,954	4,403,353
	73,903,192	591,362	74,494,554
Operating revenue	6,675,066	50,950	6,726,016

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

December 31, 2003:

	Domestic	Overseas	Total
Cash & due from banks	₩ 2,072,954	₩ 175,625	₩ 2,248,579
Securities	10,895,058	181,449	11,076,507
Loans	51,517,299	223,795	51,741,094
Fixed assets	934,126	3,267	937,393
Other assets	5,572,426	8,360	5,580,786
	70,991,863	592,496	71,584,359
Operating revenue	5,957,080	47,815	6,004,895

31. SECURITIZATION OF ASSETS:

(1) Kieun Special Purpose Company:

The Bank sold loans of ₩ 490,932 million (US\$ 470,331 thousand) and ₩ 536,910 million (US\$ 514,380 thousand) for ₩ 370,000 million (US\$ 354,474 thousand) and ₩ 390,000 million (US\$ 373,635 thousand) to Kieun 4th and 5th Special Purpose Companies, respectively. With respect to these transactions, the Bank purchased subordinated bonds of ₩ 120,000 million (US\$ 114,965 thousand) and ₩ 130,000 million (US\$ 124,545 thousand), and the book values of the subordinated bonds are ₩ 87,250 million (US\$83,589 thousand) and ₩ 104,125 million (US\$99,756 thousand), respectively, as of December 31, 2004. Also, the Bank sold loans of ₩ 453,162 million (US\$ 434,146 thousand) for ₩ 7,895 million (US\$ 7,564 thousand) to KB Partner. In connection with this transaction, the Bank recognized the gain and loss on sale of loans amounting to ₩ 65 million (US\$ 62 thousand) and ₩ 108,498 million (US\$ 103,945 thousand), respectively for the year ended December 31, 2004.

For the year ended December 31, 2003, the Bank sold loans of ₩ 384,163 million (US\$ 368,043 thousand) and ₩ 445,387 million (US\$ 426,698 thousand) for ₩ 300,000 million (US\$ 287,411 thousand) each to Kieun 2nd and 3rd Special Purpose Company. In connection with these transactions, the Bank recognized the gain on sale of loan amounting to ₩ 75,793 million (US\$ 72,613 thousand) for the year ended December 31, 2003 and also purchased subordinated bonds of ₩ 215,000 million (US\$ 205,978 thousand) of which the book value is ₩ 157,750 million (US\$ 151,130 thousand) as of December 31, 2004.

(2) KT & G common stock:

In 2000, the Bank entrusted 19,510,485 shares of its shareholdings in KT&G common stock (the "Trusted Securities") to the Trust account. The Securities Trust of the Bank issued a subordinated trust certificate to the Bank and a senior trust certificate to IBK Cayman Finance Company, a limited liability corporation organized and existing under the laws of Cayman Islands. The owner of the senior trust certificate is entitled to exercise a call option, which gives the owner a right to buy the KT&G shares at US\$ 352,909 thousand that expired in August 2003. However, the Securities Trust did not exercise the call option.

32. LIQUIDATION OF INVESTEE COMPANIES:

IBK Mutual Savings and Finance Company, which is a 100 percent owned subsidiary of the Bank, has been in the process of liquidation since 2001. The liquidation decision was made on October 23, 2001 based on the company's financial difficulties and uncertainty regarding its future operations. With respect to the liquidation process, the Bank paid ₩ 78,000 million (US\$ 74,727 thousand) as the guarantor of the borrowings of IBK Mutual Savings and Finance Company and wrote off ₩ 71,300 million (US\$ 68,308 thousand) for the year ended December 31, 2001. As of December 31, 2004, IBK Mutual Savings and Finance Company ended its liquidation process.

33. STATEMENT OF CASH FLOWS:

Cash flows from operating activities were presented by the indirect method. Cash in the cash flow statements includes cash and due from banks as of December 31, 2004 and 2003.

Significant transactions not involving cash inflows and outflows for the years ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Write-offs of loans	₩ 619,637	₩ 1,099,767	\$ 593,636	\$ 1,053,619
Decrease in capital adjustments due to valuation of available-for-sale securities	174,694	(135,600)	167,363	(129,910)
Newly restructured credits accounted for	-	4,274	-	4,095
Transfer of construction in progress to buildings	-	4,672	-	4,476
Conversion of preferred stock into common stock	-	511,000	-	489,557
Conversion of KT&G stock from securities using the equity method into available-for-sale securities	439,910	-	421,450	-
Increase (decrease) in capital adjustments due to valuation of securities using the equity method	23,982	-	22,976	-

34. ACCOUNTS RECEIVABLE FROM ILLEGAL ACTS OF DIRECTORS AND EMPLOYEES

As of December 31, 2004, the Bank has accounts receivable of ₩ 1,742 million (US\$ 1,669 thousand) resulting from illegal acts of directors and employees, and provided 100% of other allowance considering its collectibility.

35. SUBSEQUENT EVENTS AFTER BALANCE SHEET DATE

According to the agreement on the association of the Financial Institution Creditors of LG Card Co., Ltd, the Bank additionally invested in the stocks of ₩ 21.2 billion (US\$ 20.3 million) of LG Card Co., Ltd in January 2005.

36. DATE AND ORGANIZATION OF 2003 FINANCIAL STATEMENTS APPROVAL:

The board of directors of the Bank plans to approve the financial statements on February 28, 2005 for submission to the general meeting of shareholders.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated balance sheets of Industrial Bank of Korea and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of IBK Capital Corporation, whose statement reflects total assets of 0.74 % and total revenue of 0.63% of the related consolidated totals as of and for the year ended December 31, 2003 was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Industrial Bank of Korea and its subsidiaries as of December 31, 2004 and 2003, and the results of their operations, changes in shareholders' equity and their cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 2, the Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) since January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Statements) through No.9 (Convertible Securities), since January 1, 2003. Also, the Bank has implemented SKAS No.13 (Troubled Debt Restructurings) and No.15 (Equity Method), since January 1, 2004.

As explained in Note 20(1), the Bank sold loans of ₩ 1,027,842 million (US\$ 984,712 thousand), including ₩ 316 million (US\$ 303 thousand) in trust accounts, to Kieun 4th and 5th Special Purpose Companies. With respect to these transactions, the Bank purchased subordinated bonds of ₩ 250,000 million (US\$ 239,509 thousand) and the book values of the subordinated bonds are ₩ 191,375 million (US\$ 183,345 thousand) as of December 31, 2004, and recognized the loss on disposition of loans amounting to ₩ 108,498 million (US\$ 103,945 thousand). Also, the Bank sold loans of ₩ 829,550 million (US\$ 794,740 thousand), including ₩ 1,341 million (US\$ 1,285 thousand) in trust accounts, to Kieun 2nd and 3rd Special Purpose Companies. With respect to these transactions, the Bank purchased subordinated bonds of ₩ 215,000 million (US\$ 205,978 thousand) and the book values of the subordinated bonds are ₩ 157,750 million (US\$ 151,130 thousand) as of December 31, 2004, and recognized the gain on disposition of loans amounting to ₩ 75,793 million (US\$ 72,613 thousand).

As explained in Note 2, the Bank increased allowance ratio for loans classified as normal and precautionary in asset quality in 2004 in consideration of valuation of past experience of bad debt. With respect to this change, the Bank's allowance for possible loan losses increased by ₩ 183.6 billion (US\$ 175.9 million) and the Bank's net income decreased by ₩ 129.1 billion (US\$ 123.7 million).

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



Deloitte HanaAnjin LLC

Seoul, Korea

January 31, 2005

Notice to Readers

This report is effective as of January 31, 2005, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Consolidated Balance Sheets

as of December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
ASSETS				
Cash and due from banks (Notes 3, 17 and 18)	₩ 1,887,991	₩ 2,248,927	\$ 1,808,767	\$ 2,154,557
Securities (Notes 4, 17, 18, 19 and 20)	12,786,968	11,907,879	12,250,400	11,408,200
Loans (Notes 5, 17, 18, 19 and 20)	55,984,095	52,240,436	53,634,887	50,048,320
Fixed assets (Note 6)	934,387	941,527	895,178	902,019
Other assets (Note 7)	4,404,721	5,563,226	4,219,890	5,329,781
	₩ 75,998,162	₩ 72,901,995	\$ 72,809,122	\$ 69,842,877
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits (Notes 8, 17, 18 and 19)	₩ 38,042,428	₩ 35,152,874	\$ 36,446,089	\$ 33,677,787
Borrowings (Notes 9, 17 and 18)	16,499,070	16,191,540	15,806,735	15,512,110
Debentures (Notes 10, 17 and 18)	12,011,625	11,600,572	11,507,592	11,113,788
Other liabilities (Notes 11, 12, 17 and 18)	5,508,478	6,484,685	5,277,331	6,212,574
Total liabilities	72,061,601	69,429,671	69,037,747	66,516,259
SHAREHOLDERS' EQUITY				
Capital stock, par value ₩5,000 (Note 13)	2,291,385	2,291,385	2,195,234	2,195,234
Retained earnings (Note 13) (Net income of ₩ 370,435 million in 2004 and ₩223,959 million in 2003)	1,442,195	1,161,883	1,381,678	1,113,128
Capital adjustments (Note 13)	189,651	15,713	181,693	15,054
Minority interests (Note 2)	13,330	3,343	12,770	3,202
Total shareholders' equity	3,936,561	3,472,324	3,771,375	3,326,618
	₩ 75,998,162	₩ 72,901,995	\$ 72,809,122	\$ 69,842,877

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
OPERATING REVENUE INTEREST INCOME:				
Interest income in local currency	₩ 3,305,791	₩ 3,067,634	\$ 3,167,073	\$ 2,938,910
Interest income in foreign currencies	177,717	188,424	170,260	180,517
Interest and dividends on securities	501,869	621,913	480,809	595,816
	3,985,377	3,877,971	3,818,142	3,715,243
COMMISSION INCOME				
Commission received in local currency	551,175	570,295	528,047	546,364
Commission received in foreign currencies	90,355	79,662	86,563	76,319
	641,530	649,957	614,610	622,683
OTHER OPERATING INCOME				
Gain on disposal of trading securities	38,054	47,586	36,457	45,589
Gain on valuation of trading securities	7,050	31,729	6,754	30,398
Gain on financial derivatives trading	1,675,179	874,453	1,604,885	837,759
Others	500,933	626,246	479,913	599,968
	2,221,216	1,580,014	2,128,009	1,513,714
	6,848,123	6,107,942	6,560,761	5,851,640
OPERATING EXPENSES INTEREST EXPENSE:				
Interest expense in local currency	2,032,121	2,100,520	1,946,849	2,012,378
Interest expense in foreign currencies	101,606	111,985	97,342	107,286
	2,133,727	2,212,505	2,044,191	2,119,664
COMMISSION EXPENSE				
Commission paid in local currency	76,159	77,331	72,963	74,086
Commission paid in foreign currencies	6,624	9,023	6,346	8,644
	82,783	86,354	79,309	82,730
OTHER OPERATING EXPENSES				
Loss on disposal of trading securities	19,846	28,699	19,013	27,495
Loss on valuation of trading securities	11,274	10,016	10,801	9,596
Provision for possible loan losses	921,345	1,408,218	882,684	1,349,126
Selling and administrative expenses	871,757	798,520	835,176	765,012
Loss on financial derivatives trading	1,625,732	921,347	1,557,513	882,685
Others	558,152	501,996	534,731	480,932
	4,008,106	3,668,796	3,839,918	3,514,846
	6,224,616	5,967,655	5,963,418	5,717,240

(continued)

Consolidated Statements of Income (continued)

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
OPERATING INCOME	₩ 623,507	₩ 140,287	\$ 597,343	\$ 134,400
NON-OPERATING INCOME	168,885	398,253	161,798	381,541
NON-OPERATING EXPENSES	263,524	223,503	252,465	214,124
ORDINARY INCOME	528,868	315,037	506,676	301,817
EXTRAORDINARY ITEM	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	528,868	315,037	506,676	301,817
INCOME TAX EXPENSE (Note 14)	158,416	90,736	151,769	86,928
NET INCOME BEFORE MINORITY INTERESTS	370,452	224,301	354,907	214,889
MINORITY INTERESTS, GAIN	17	342	16	328
NET INCOME	₩ 370,435	₩ 223,959	\$ 354,891	\$ 214,561
BASIC ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 15)	₩ 819	₩ 489	\$ 0.785	\$ 0.468
BASIC NET INCOME PER COMMON SHARE (in currency units) (Note 15)	₩ 819	₩ 489	\$ 0.785	\$ 0.468
DILUTED ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 15)	₩ 814	₩ 489	\$ 0.780	\$ 0.468
DILUTED NET INCOME PER COMMON SHARE (in currency units) (Note 15)	₩ 814	₩ 489	\$ 0.780	\$ 0.468

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

for the years ended December 31, 2004 and 2003

Description	(Won in millions)					Total
	Capital stock	Retained earnings	Capital adjustments	Minority interests		
2004.1.1	₩ 2,291,385	₩ 1,161,883	₩ 15,713	₩ 3,343	₩ 3,472,324	
Change in the scope of consolidation	-	-	-	10,000	10,000	
Gain on valuation of available-for-sale securities	-	-	172,873	1	172,874	
Gain on valuation of securities using the equity method	-	-	25,691	-	25,691	
Acquisition of treasury stock	-	-	(24,725)	-	(24,725)	
Transferred from special reserve for the trust accounts	-	1,831	-	-	1,831	
Amortization of discount on capital stock	-	(54)	54	-	-	
Dividends (Note 16)	-	(91,622)	-	(156)	(91,778)	
Net income	-	370,435	-	-	370,435	
Gain attributable to minority interests	-	-	-	17	17	
Other	-	(278)	45	125	(108)	
2004.12.31	₩ 2,291,385	₩ 1,442,195	₩ 189,651	₩ 13,330	₩ 3,936,561	

Description	(U.S. Dollars in thousands)					Total
	Capital stock	Retained earnings	Capital adjustments	Minority interests		
2004.1.1	\$ 2,195,234	\$ 1,113,128	\$ 15,054	\$ 3,202	\$ 3,326,618	
Change in the scope of consolidation	-	-	-	9,580	9,580	
Gain on valuation of available-for-sale securities	-	-	165,619	1	165,620	
Gain on valuation of securities using the equity method	-	-	24,613	-	24,613	
Purchase of treasury stock	-	-	(23,688)	-	(23,688)	
Transferred from special reserve for the trust accounts	-	1,754	-	-	1,754	
Amortization of discount on capital stock	-	(52)	52	-	-	
Dividends (Note 16)	-	(87,777)	-	(149)	(87,926)	
Net income	-	354,891	-	-	354,891	
Gain attributable to minority interests	-	-	-	16	16	
Other	-	(266)	43	120	(103)	
2004.12.31	\$ 2,195,234	\$ 1,381,678	\$ 181,693	\$ 12,770	\$ 3,771,375	

(continued)

Consolidated Statements of Changes in Shareholders' Equity (continued)

for the years ended December 31, 2004 and 2003

(Won in millions)

Description	Capital stock	Retained earnings	Capital adjustments	Minority interests	Total
2003.1.1	₩ 2,291,385	₩ 1,008,186	₩ 155,508	₩ 955	₩ 3,456,034
Change in the scope of consolidation	-	-	-	2,071	2,071
Gain on valuation of available-for-sale securities	-	-	(145,419)	-	(145,419)
Gain on valuation of securities using the equity method	-	-	10,325	-	10,325
Acquisition of treasury stock	-	-	(4,532)	-	(4,532)
Change of capital adjustment in subsidiary company	-	-	(502)	(4)	(506)
Transferred from special reserve for the trust accounts	-	3,531	-	-	3,531
Amortization of discount on capital stock	-	(14)	14	-	-
Dividends (Note 16)	-	(73,892)	-	(21)	(73,913)
Net income	-	223,959	-	-	223,959
Gain attributable to minority interests	-	-	-	342	342
Other	-	113	319	-	432
2003.12.31	₩ 2,291,385	₩ 1,161,883	₩ 15,713	₩ 3,343	₩ 3,472,324

(U.S. Dollars in thousands)

Description	Capital stock	Retained earnings	Capital adjustments	Minority interests	Total
2003.1.1	\$ 2,195,234	\$ 965,880	\$ 148,983	\$ 915	\$ 3,311,012
Change in the scope of consolidation	-	-	-	1,984	1,984
Gain on valuation of available-for-sale securities	-	-	(139,317)	-	(139,317)
Gain on valuation of securities using the equity method	-	-	9,892	-	9,892
Purchase of treasury stock	-	-	(4,342)	-	(4,342)
Change of capital adjustment in subsidiary company	-	-	(481)	(4)	(485)
Transferred from special reserve for the trust accounts	-	3,383	-	-	3,383
Amortization of discount on capital stock	-	(13)	13	-	-
Dividends (Note 16)	-	(70,791)	-	(20)	(70,811)
Net income	-	214,561	-	-	214,561
Gain attributable to minority interests	-	-	-	327	327
Other	-	108	306	-	414
2003.12.31	\$ 2,195,234	\$ 1,113,128	\$ 15,054	\$ 3,202	\$ 3,326,618

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩ 370,435	₩ 223,959	\$ 354,891	\$ 214,561
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of trading securities, net	(18,208)	(18,887)	(17,444)	(18,094)
Loss (gain) on valuation of trading securities, net	4,224	(21,713)	4,047	(20,802)
Loss on valuation of derivatives trading, net	63,441	29,835	60,779	28,583
Provision for severance benefits	52,389	45,523	50,191	43,613
Depreciation and amortization	98,490	105,435	94,357	101,011
Gain on valuation using the equity method, net	(191)	(63,202)	(183)	(60,550)
Loss (gain) on disposal of loans, net	108,433	(81,766)	103,883	(78,335)
Gain on disposal of available-for-sale securities, net	(120,722)	(203,068)	(115,656)	(194,547)
Available-for-sale securities impairment loss, net	37,637	96,283	36,058	92,243
Held-to-maturity securities impairment loss, net	81,689	56,730	78,261	54,349
Transferred from special reserve for the trust accounts	1,831	3,531	1,754	3,383
Minority interests, gain	17	342	16	328
Decrease in accrued income	19,495	8,130	18,677	7,789
Decrease in prepaid expenses	35,370	36,147	33,886	34,630
Increase in deferred tax assets	(3,244)	(43,371)	(3,108)	(41,551)
Decrease in accrued expenses	(26,526)	(43,459)	(25,413)	(41,635)
Decrease in unearned income	(759)	(12,487)	(727)	(11,963)
Increase in accounts payable-other	-	1,512	-	1,449
Payment of severance benefits	(4,158)	(2,775)	(3,984)	(2,659)
Decrease in National Pension payments	9	7	9	7
Increase in severance insurance deposits	(34,059)	(29,765)	(32,630)	(28,516)
Others, net	4,288	(8,147)	4,107	(7,805)
Net cash provided by operating activities	669,881	78,794	641,771	75,489

(continued)

Consolidated Statements of Cash Flows (continued)

for the years ended December 31, 2004 and 2003

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of trading securities	₩ 9,797,813	₩ 10,491,739	\$ 9,386,677	\$ 10,051,484
Proceeds from sale of available-for-sale securities	7,841,929	4,897,270	7,512,865	4,691,770
Redemption of held-to-maturity securities	2,113,271	1,226,861	2,024,594	1,175,379
Increase in loans	(3,949,725)	(5,135,864)	(3,783,986)	(4,920,353)
Proceeds from sale of fixed assets	2,524	7,976	2,418	7,641
Acquisition of trading securities	(8,937,653)	(9,834,232)	(8,562,611)	(9,421,567)
Acquisition of available-for-sale securities	(7,777,895)	(4,330,601)	(7,451,518)	(4,148,880)
Acquisition of held-to-maturity securities	(3,608,234)	(1,392,303)	(3,456,825)	(1,333,879)
Purchase of fixed assets	(93,326)	(188,041)	(89,410)	(180,150)
Decrease (increase) in accounts receivable-other	37,904	(15,661)	36,313	(15,004)
Decrease (increase) in other assets	1,014,539	(1,498,009)	971,967	(1,435,149)
Net cash used in investing activities	(3,558,853)	(5,770,865)	(3,409,516)	(5,528,708)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in deposits	2,889,554	1,985,774	2,768,302	1,902,447
Increase in borrowings	307,530	758,939	294,625	727,092
Increase in debentures	408,536	2,030,037	391,393	1,944,852
Increase (decrease) in other liabilities	(1,087,584)	1,532,413	(1,041,946)	1,468,110
Net cash provided by financing activities	2,518,036	6,307,163	2,412,374	6,042,501
NET DECREASE IN CHANGE OF SCOPE IN CONSOLIDATION				
	10,000	2,705	9,581	2,592
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS				
	(360,936)	617,797	(345,790)	591,873
CASH AND DUE FROM BANKS, BEGINNING OF YEAR (Note 22)				
	2,248,927	1,631,130	2,154,557	1,562,684
CASH AND DUE FROM BANKS, END OF YEAR (Note 22)				
	₩ 1,887,991	₩ 2,248,927	\$ 1,808,767	\$ 2,154,557

See accompanying notes to consolidated financial statements.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

1. GENERAL:

Industrial Bank of Korea (the "Bank") was established in 1961 under the Industrial Bank of Korea Act for the purpose of conducting banking activities and promoting independent economic activities among small and medium-sized companies. In accordance with the revised Industrial Bank of Korea Act, effective December 31, 1991, the Bank converted its equity shares into stock on May 15, 1992. The Bank's common stock was listed on KOSDAQ, the Korean over-the-counter market, on November 30, 1994. However, the Bank moved to the Korea Stock Exchange (KSE) on December 24, 2003 through a public offering of common shares. In addition, the Bank listed 48 million common shares of Global Depository Shares (GDS) on the Luxembourg Stock Exchange on December 19, 2003. As of December 31, 2004, the Bank's common stock and preferred stock amounted to ₩ 2,025.8 billion (US\$ 1,941 million) and ₩ 265.6 billion (US\$ 254 million), respectively. The Korean government owns 51 percent of the Bank's common and preferred stock. The head office of the Bank is located at 50, Ulgjo 2-Ga, Chung-Ku, Seoul, Korea. The Bank has 368 branches and 27 depository offices in Korea, and 5 branches overseas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

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

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into U.S. dollars based on the basic rate of ₩ 1,043.80 to US\$ 1.00 announced by Seoul Money Brokerage Service, Ltd. at December 31, 2004, solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

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

Scope of Consolidation and Accounting using the Equity Method

The consolidated financial statements include the bank accounts and the trust accounts of the Bank and its wholly or partially owned subsidiaries. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial statements in accordance with the Supervisory Regulation of Banking Business issued by the Financial Supervisory Commission (the "FSC").

Note to Consolidated Financial Statements

December 31, 2004 and 2003

Subsidiaries of the Bank as of December 31, 2004 and 2003 were as follows:

Subsidiaries	No. of Shares	Percentage of ownership of the Bank (%)		Business	Fiscal year-end	Date of acquisition of controlling interest
		2004	2003			
Consolidation:						
IBK Capital Corporation	10,999,400	99.18	99.18	Financial	Dec. 31	Nov. 1, 1986
IBK-SG Asset Management Co., Ltd. ^{(*)1}	2,000,000	50.00	-	Asset management	Mar. 31	Oct. 26, 2004
IBK Tech Co., Ltd. ^{(*)2}	3,399,000	54.82	54.82	System management	Mar. 31	Mar. 31, 2003
Accounting using the equity method:						
KT&G ^{(*)3}	19,510,485	-	15.51	Manufacturing	Dec. 31	
IBK Mutual Savings and Finance Company ^{(*)4}	27,999,600	-	100.00	Financial	Jun. 30	
Kieun Credit Information ^{(*)5}	300,000	100.00	100.00	Financial	Dec. 31	
INNO-BIZ Special Venture Investment Association ^{(*)6 & (*)7}		-	16.67	Investment association	Dec. 31	
KTTC Hansol Technology Industrialization Association ^{(*)6}		20.00	20.00	Investment association	Dec. 31	
Sinbo Environmental Venture Investment Association (II) ^{(*)6 & (*)7}		-	36.36	Investment association	Dec. 31	
Kieun Material Special Investment Association ^{(*)6}		66.66	66.66	Investment association	Dec. 31	
MIC 2002-3 Kieun IT Special Investment Association ^{(*)6}		60.00	60.00	Investment association	Dec. 31	

(*)1 The Bank founded IBK-SG Asset Management Co., Ltd. through 50:50 joint investments with Societe General Group on October 26, 2004 and has the power to appoint the majority of the members of Board of Directors. Therefore, according to the Rules for Preparation of Consolidated Financial Statements, IBK-SG Asset Management Co., Ltd. was included in the consolidation in 2004.

(*)2 IBK Tech Co., Ltd. increased its paid-in capital, and its total assets became more than ₩ 7,000 million. Also, the Bank's ownership interest in IBK Tech Co., Ltd has increased to 54.82% as of December 31, 2003 from 24.98% as of December 31, 2002. Therefore, IBK Tech Co., Ltd was included in the 2003 consolidation.

(*)3 The Bank reclassified securities of KT&G from securities using the equity method into available-for-sale because the Bank's ownership decreased from 15.51% as of December 31, 2003 to 6.41% as of December 31, 2004. As of December 31, 2003, the Bank owned 21,474,569 shares including 19,510,485 shares of common stock and 1,964,084 shares of exchangeable bonds, and the Bank's ownership including exchangeable bonds was 15.51% as of December 31, 2003 of which the Bank applied 14.09% (excluding exchangeable bonds) ownership when recognizing the gain on valuation using the equity method.

(*)4 IBK Mutual Savings and Finance Company was excluded from securities using the equity method since it ended its liquidation process.

(*)5 It was excluded from consolidation and stated at cost because its total assets are less than ₩ 7 billion.

(*)6 It was owned by the Bank. However, it was excluded from the consolidation since the Bank is the limited partner and has no significant influence over their business operations.

(*)7 INNO-BIZ Special Venture Investment Association and Sinbo Environmental Venture Investment Association (II) were excluded from securities using the equity method since they dissolved their organizations in 2004.

Changes in Scope of Consolidation

The Bank founded IBK-SG Asset Management Co., Ltd. through 50:50 joint investments with Societe General Group on October 26, 2004 and has the power to appoint the majority of the members of Board of Directors members. Therefore, according to the Rules for Preparation of Consolidated Financial Statements, IBK-SG Asset Management Co., Ltd. was included in the consolidation.

During 2003, IBK Tech Co., Ltd., the subsidiary of the Bank, increased its paid-in capital and its total assets became more than ₩ 7 billion. As a result of the transaction above, the Bank's ownership interest in IBK Tech Co., Ltd. has increased to 54.82% as of December 31, 2003 from 24.98% as of December 31, 2002. Therefore, according to the Rules for Preparation of Consolidated Financial Statements, IBK Tech Co., Ltd. was included in the consolidation as of December 31, 2003.

Key Financial Statements of the Subsidiaries

The material data on financial statements of the subsidiaries included in the consolidation as of December 31, 2004 and 2003 were as follows (Unit: Won in millions):

Subsidiaries	Total assets	Total liabilities	Total shareholders' equity	Operating revenue /Sales of goods	Operating income	Net income
2004:						
IBK Capital Corporation	₩ 778,736	₩ 662,289	₩ 116,447	₩ 48,515	₩ 3,334	₩ 2,501
IBK-SG Asset Management Co., Ltd.	19,176	103	19,073	114	(928)	(928)
IBK Tech Co., Ltd.	9,718	3,627	6,091	23,986	1,161	1,019
2003:						
IBK Capital Corporation	₩ 540,450	₩ 422,838	₩ 117,612	₩ 38,394	₩ 5,876	₩ 4,201
IBK Tech Co., Ltd.	9,446	4,180	5,266	20,210	856	680

The trust accounts operated by the Bank as of December 31, 2004 and 2003 were summarized as follows (Unit: Won in millions):

	Total assets		Total revenue	
	2004	2003	2004	2003
Included in the consolidation	₩ 1,022,054	₩ 1,039,981	₩ 61,879	₩ 139,507
Excluded from the consolidation	2,349,332	3,501,477	165,748	249,342
	₩ 3,371,386	₩ 4,541,458	₩ 227,627	₩ 388,849

Basis of Consolidation

(1) Offset of investments and shareholders' equity

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiaries. The differences between the acquisition cost and the fair value of the identifiable assets and liabilities acquired are recorded as goodwill, which is determined as excess residual cost of acquisition after recognizing identifiable assets and liabilities at their fair values. Goodwill is amortized using the straight-line method over 5 years. If additional shares are purchased after acquiring control, the difference between the additional acquisition cost and the portion of net assets acquired is credited or charged to capital surplus. If the acquisition date does not agree with the year-end balance sheet date of the subsidiary, the closest date to the acquisition date is regarded as the acquisition date. Receivables and payables, profits and losses and unrealized profits and losses between the Bank and its subsidiaries are eliminated in the consolidated financial statements.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

(2) Recognition of identifiable assets and liabilities

Identifiable assets and liabilities acquired are recognized separately at their fair value on the basis of a reliable measure at the dates the Bank obtained control of the subsidiaries.

(3) Disposition of subsidiaries' securities

If the subsidiaries of the Bank are still subject to the scope of consolidation even after certain portions of securities are disposed to minority interests, gain/loss on disposal of investment securities is recognized as capital surplus. If the subsidiaries of the Bank are subject to the equity method due to the disposition of securities, the investment account is recorded at net assets of subsidiaries at the time of disposition, net of unamortized goodwill or negative goodwill in the consolidated financial statements.

(4) Inter-company transactions and balances

All inter-company transactions and balances have been eliminated in the consolidation.

(5) Fiscal years of subsidiaries

The accounts of consolidated subsidiaries whose fiscal years are different from those of the Bank have been adjusted to reflect balances as of December 31, 2004 and 2003.

(6) Minority interests

The portion of a subsidiary's shareholders' equity not attributable to the Bank, in cases when the Bank has a controlling but less than 100 percent interest, is presented as minority interests.

(7) Capital stock owned by subsidiary companies

Capital stock of the Bank owned by subsidiaries in which the Bank has controlling interests is presented as capital stock owned by subsidiaries in the consolidated balance sheets.

(8) Translation of financial statements of foreign subsidiaries

Financial statements of foreign subsidiaries are translated into Korean Won at current rates of exchange at the balance sheet date. Gain and losses resulting from translation of financial statements of foreign subsidiaries are recorded as capital adjustment.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans of which the principal or interest is past due at the balance sheet date is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income. Unrecorded accrued interest income for the reasons above as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Overdue loans	₩ 39,429	₩ 39,968	\$ 37,774	\$ 38,291
Loans to companies under legal process	48,330	32,512	46,302	31,148
Loans to companies under composition proceedings	32,043	47,174	30,698	45,194
Loans to companies under court management	4,510	9,816	4,321	9,404
	₩ 124,312	₩ 129,470	\$ 119,095	\$ 124,037

For overseas branches, accrued interest is recognized on an accrual basis. However, interest income on overdue interest is recognized based on the standard practices in the respective countries.

Classification of Securities

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

If the objective and ability to hold securities of the Bank change, available-for-sale securities can be reclassified as held-to-maturity securities and vice-versa. However, if the Bank sells held-to-maturity securities or requires the issuer to redeem early in the current year and the proceeding two years, and if it reclassifies held-to-maturity securities as available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be recategorized as available-for-sale or held-to-maturity securities and the other categories cannot be reclassified as trading securities. Nevertheless, trading securities can be reclassified as available-for-sale securities only when the fair value of the trading securities cannot be readily determinable.

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method or individual method. When the face value of trading debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, trading securities are valued at fair value if the fair value of trading securities differs from its acquisition cost. The carrying value is adjusted to the fair value and the resulting valuation gain or loss is charged to current operations.

(2) Valuation of Held-to-maturity Securities

Held-to-maturity securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual method. After initial recognition, held-to-maturity securities are valued at amortized cost. The effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the securities. If collectible value is below the acquisition cost and pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations.

(3) Valuation of Available-for-sale Securities

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method or individual method. After initial recognition, the effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the available-for-sale debt security. Available-for-sale equity securities are valued at fair value, and the net unrealized gain or loss is presented as gain or loss on valuation of available-for-sale securities in capital adjustments. Accumulated capital adjustment of securities is charged to current operations in lump at the time of disposal or impairment recognition. Non-marketable equity securities can be stated at acquisition cost on the financial statement if the fair value of the securities is not credibly determinable.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

For available-for sale equity securities, if the decline in the fair value of equity securities is below the acquisition cost and pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. For available-for-sale debt securities, if the decline in the collectible value of debt securities is below the amortized cost and pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in the capital adjustment account should be reversed.

(4) Valuation of Securities Using the Equity Method

Equity Securities that are in companies in which the company is able to exercise significant influence over the investees are accounted for using the equity method. Under the Bank Law, investors with more than 15% ownership of voting right are generally considered to exercise significant influence. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings of the investee are reflected in the retained earnings of the investors. Changes in the capital surplus or other capital accounts of the investee are reflected as gain or loss on valuation of securities using the equity method in the capital adjustment account of the investor.

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

For available-for-sale securities, the recovery is recorded in current non-operations up to the amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in the capital adjustment account as gain on valuation of available-for-sale securities. However, if increase in the fair value of the impaired securities is not regarded as the recovery of the impairment, the increase in the fair value is recorded as gain or loss on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost. For held-to-maturity securities, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of held-to-maturity securities.

(6) Reclassification of Securities

When held-to-maturity securities are reclassified as available-for-sale securities, those securities are stated at the fair value on the reclassification date and the difference between the fair value and book value are accounted on the capital adjustment account as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified as held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be stated on the capital adjustment account and will be amortized using the effective interest rate and be charged to interest income upon maturity. The difference between the fair value on the reclassification date and face value of the securities reclassified as held-to-maturity securities is amortized using the effective interest rate and charged to interest income.

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities lost from the sale of the securities, the unrealized valuation gain or loss of securities included in the capital adjustment account is added to or deducted from the gain or loss on sale. The gain or loss amounts to the difference between the net proceeds received or receivable and its carrying value. Whereas when securities are transferred without losing its control, the transaction is recorded as a secured borrowing transaction.

Allowance for Possible Loan Losses and Sale of Loans

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Financial Supervisory Commission (the "FSC") requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires to provide minimum rate of loss provision for each category as described in the next paragraph.

As required by the FSC, loans and confirmed acceptances and guarantees provided to corporate borrowers whose total assets amount to ₪ 1 billion or more and required to prepare the "Credit Evaluation Table for Small and Medium Sized Company" pursuant to the Bank's internal regulation, are classified as normal, precautionary, substandard, doubtful, or estimated loss based on historical debt repayment capability considering various factors such as past due period, status of bankruptcy filing and others, which are called 'Criteria by Historical Financial Transactions'. The Bank also classifies these loans into 14 categories, based on future repayment capability considering such factors as operating performance, financial position, cash flows, industrial characteristics, management capabilities, upon which the Bank reclassifies these loans into the five categories of normal, precautionary, substandard, doubtful, or estimated loss, which is called 'Criteria by Debt Repayment Capability'. As a result of these two credit analyses based on the 'Criteria by Historical Financial Transactions' and 'Criteria by Debt Repayment Capability', the Bank finally classifies these loans to corporate borrowers into the five categories aforementioned at the lower of the categories rated by the two credit analyses.

Credits to other corporate borrowers and households are classified into the five categories of normal, precautionary, substandard, doubtful, or estimated loss based only on the historical debt repayment capability of the borrowers considering various factors such as past due period, status of bankruptcy filing and others.

The Criteria by Historical Financial Transactions are set forth as follows:

- > 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 the final default by non-payment 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 (less than six months for credit card accounts).
- > Estimated Loss - amount in excess of the collectible portion of loans in arrears for twelve months or more (six months or more for credit card accounts) and/or loans extended to customers, which are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses.

The Criteria of 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 'Small and Medium Sized Company Credit Rating Table' of the Bank). The Bank classifies credits rated C or inferior of the seven categories (A1, A2, A3, B, C, D, E) based on the 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 the 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 the 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).

Note to Consolidated Financial Statements

December 31, 2004 and 2003

As required by the FSC and the result of asset quality classification mentioned above, the allowance for possible loan losses is then calculated at the prescribed minimum percentages of 0.7 percent or more (0.75 percent or more and 1.0% or more for households loans and credit card receivable, respectively), 4 percent or more (8.0% or more and 19.0% or more for households loans and credit card receivable, respectively), 20 percent or more, 50 percent or more (90 percent or more for households loans and credit card receivable) and 100 percent of the loan balances classified as normal, precautionary, substandard, doubtful and estimated loss, respectively. However, the Bank does not provide any allowances for loans to the Korean government and local government entities, call loans, bonds bought under resale agreements and inter-bank loans, which are classified as normal, as it is not required by the Accounting Standards for the Banking Industry. In addition, for secured household loans newly placed in high speculation areas after September 9, 2002, if the ratio of loans to collateral value (loan-to-value, or LTV) exceeds 60 percent, the Bank provides an allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary instead of providing 0.5 percent or more for normal and 2.0 percent or more for precautionary.

According to the requirement of the Financial Supervisory Service, beginning in 2002, the Bank provides 1 percent of other allowance in other liabilities for a certain portion of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year.

In addition, when an allowance for possible loan losses differs from the expected loss which is calculated through objective and reasonable method in accordance with the accounting principle in Korea materially, expected loss is reflected in the provision for possible loan losses since 2004 and the changes in allowance ratio are as follows:

		2004	2003
Corporate loans	Normal	0.7	0.5
	Precautionary		
	Overdue	19.0	12.0
	Credit default	19.0	8.0
	Others	4.0	2.0
Households loans	Precautionary		
	Overdue / precautionary transactions	19.0	8.0
	Doubtful	90.0	55.0
Credit card receivables	Precautionary	19.0	12.0
	Doubtful	90.0	65.0

As a result of the changes above, the Bank's allowance for possible loan losses increased by ₩ 183.6 billion (US\$ 175.9 million) and the Bank's net income decreased by ₩ 129.1 billion (US\$ 123.7 million).

Also, with respect to the sale of loans, the Bank changed the recognition method of gain on sale of loans. Previously, for written-off loans, proceeds from sale is adjusted in the allowance for possible loan losses and for non written-off loans, the difference between the book value and the proceeds is recognized in the gain on sale of loans. Currently, for all loans, the difference between the book value as of previous year and proceeds is adjusted in the gain on sale of loans. In accordance with this change, loss on sale of loans increased by ₩ 108,498 million (US\$ 103,945 thousand), and gain on sale of loans and provision for possible loan losses decreased by ₩ 74,406 million (US\$ 71,284 thousand) and ₩ 182,904 million (US\$ 175,229 thousand), respectively.

Restructuring of Loans

Impairment losses of loan, whose contractual terms are modified in a debt restructuring process based on mutual agreements such as commencement of reorganization, court receivership and workout plans, is recognized as the difference between the present value of expected future cash flows and book value of loans. The difference between the present value and book value of loans is accounted for as allowance for possible loan losses. The difference between book value and is offset against the allowance for possible loan losses, and any remaining amount is charged to operations as bad debt expense. The present value discount is amortized over the remaining maturity using the effective interest rate method, and the amortization amount is recorded as interest income.

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at acquisition cost or production cost including the incidental expenses and capitalized expenditures (expenditures that result in the enhancement of the value or extension of the useful lives of the facilities), except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as prescribed by the Corporate Income Tax Law of Korea as follows:

	Years
Buildings	37~60
Machinery	5
Office equipment	5
Leasehold improvements	5
Vehicles	5
Other	5

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits are probably expected, are capitalized as development costs under intangible assets. If the Bank donates assets such as buildings to government or local government and is given a right to use or benefit from the assets, the donated assets are recorded as beneficial donated assets under intangible assets. Intangible assets are amortized using the straight-line method over the estimated useful life of 5 years for development costs and other intangible assets, and contractual benefit period for the beneficial donated assets.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations.

Recognition of Asset Impairment

When the book value of assets (except for trading securities, investment securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, those assets are adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as a gain until the recoverable value equals the book value of the assets before the impairment loss was recognized.

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discount or premium is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with more than one year of employment are entitled to receive a lump-sum payment upon termination of their employment with the Bank and its subsidiaries, based on their length of employment and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign are ₩ 154,187 million (US\$ 147,717 thousand) and ₩ 105,956 million (US\$ 101,510 thousand) as of December 31, 2004 and 2003, respectively. The accrued severance benefits are included in other liabilities. Actual payments of severance indemnities amounted to ₩ 4,158 million (US\$ 3,984 thousand) and ₩ 2,775 million (US\$ 2,659 thousand) in 2004 and 2003, respectively.

The Bank and its subsidiaries have purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. Withdrawal of these deposits, with a balance of ₩ 103,955 million (US\$ 99,593 thousand) and ₩ 69,896 million (US\$ 66,963 thousand) as of December 31, 2004 and 2003, respectively, is restricted to the payment of severance benefits. These are presented as a deduction from the accrued severance benefits.

Bonds under Resale or Repurchase Agreements

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

Accounting for Financial Derivative Instruments

The Bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value and the valuation gain or loss is recorded as an asset or liability.

Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria (types of risk hedge, purpose of risk control, official documentation of risk hedge strategy, expected effect of risk hedge and others) for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is reflected in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified as current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩ 1,043.80 to US\$ 1.00 at December 31, 2004) announced by Seoul Money Brokerage Service, Ltd. or cross rates for currencies other than U.S. Dollars at the balance sheet date. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at the balance sheet date.

Summary of Accounting Policies for the Bank's Trust Accounts

Significant accounting policies for the Bank's trust accounts are summarized as follows:

(1) Valuation of Securities

Performance-based trust accounts

Debt securities are generally recorded at acquisition costs, which include in additional costs and deduct accrued interest income for the period before acquisition. If the acquisition cost differs from face value, the difference is adjusted using the effective interest method for the period up to maturity. Also, debt securities are classified into five categories to provide loss provision in accordance with the credit rates of bonds issued by each company. The classification of bonds for allowance for possible losses is summarized as follows:

Classification	Corporate bonds	CP
Normal	BBB above	A3 above
Precautionary	BB	B
Substandard	B	-
Doubtful	C~CCC	C
Estimated loss	D	D

Note to Consolidated Financial Statements

December 31, 2004 and 2003

In accordance with classification above, an allowance is then calculated to be at least zero percent (0.5 percent for the trusts that guarantee a fixed rate of return), 2 percent, 20 percent, 50 percent, and 100 percent, respectively.

Base price-based trust accounts

Debt securities, which are traded for over 10 days each month for the 3 months, are stated at fair value. Unlisted bonds and listed bonds not traded as of the value date are estimated by applying the average of base prices per bond closing on recent trading day announced by Korea Bond Pricing and Nice Co., Ltd. Some of debt securities such as defaulted bonds, which prices are not announced by bond price evaluation institute or which prices did not reflect the market value, are assessed by the market price evaluation committee of the trust.

Stocks are stated at acquisition cost determined by the individual moving average method plus incidental expenses. Stocks traded on the Korea Stock Exchange or the Korea Securities Dealers Association (KOSDAQ) are stated at market value.

(2) Allowance for Possible Credit Losses

An allowance for possible credit losses is provided for the assets (including loans, commercial papers and guaranteed notes (loans) that are managed in unspecified monetary trust accounts), which were not marked to market, pursuant to the asset classification criteria promulgated by the FSC. Loans are classified as of the balance sheet date into normal, precautionary, substandard, doubtful and estimated loss. An allowance is then calculated to be at least zero percent (0.5 percent for the trusts that guarantee a fixed rate of return), 2 percent, 20 percent, 50 percent, and 100 percent, respectively.

Effects of Changes in Financial Accounting Standards

The cumulative effect on prior periods of changes in financial accounting standards is reflected directly in the beginning accumulated retained earnings.

Reclassification of Special Contribution to Korea Deposit Insurance Corporation

The Bank reclassified Special Contribution to Korea Deposit Insurance Corporation from non-operating expenses to operating expenses in 2004. The effect of this reclassification was ₩ 30,984 million (US\$29,684 thousand), which had no effect on net income.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) since January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Statements) through No.9 (Convertible Securities), since January 1, 2003. Also, the Bank has implemented SKAS No.13 (Troubled Debt Restructurings) and No.15 (Equity Method), since January 1, 2004.

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks in local currency and foreign currencies as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Cash and checks	₩ 930,726	₩ 936,247	\$ 891,671	\$ 896,960
Foreign currencies	82,306	75,074	78,852	71,924
Due from banks in local currency	678,346	666,341	649,881	638,380
Due from banks in foreign currencies	196,613	571,265	188,363	547,293
	₩ 1,887,991	₩ 2,248,927	\$ 1,808,767	\$ 2,154,557

(2) Due from banks as of December 31, 2004 and 2003 included:

Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Due from banks in local currency				
BOK	₩ 626,713	₩ 534,130	\$ 600,415	\$ 511,717
Korea Exchange Bank	818	792	784	759
Other financial institutions	42,341	131,072	40,564	125,572
	669,872	665,994	641,763	638,048
Subsidiaries	28,395	7,902	27,203	7,570
Inter-company transactions	(19,921)	(7,555)	(19,085)	(7,238)
	678,346	666,341	649,881	638,380
Due from banks in foreign currencies				
BOK and others	12,238	59,155	11,725	56,672
Foreign financial institutions	184,375	512,110	176,638	490,621
	196,613	571,265	188,363	547,293
	₩ 874,959	₩ 1,237,606	\$ 838,244	\$ 1,185,673

(3) Restricted due from banks in local currency and foreign currencies as of December 31, 2004 and 2003 consisted of:

	Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason of restriction
		2004	2003	2004	2003	
Due from banks in local currency						
Reserve deposits with BOK	BOK	₩ 626,713	₩ 534,130	\$ 600,415	\$ 511,717	BOK deposits
Guarantee deposits of current accounts	Pusan Bank	2,000	205	1,916	196	Guarantee deposits
Due from banks in foreign currencies						
Time deposits	BOK	12,238	11,955	11,725	11,453	BOK deposits
		₩ 640,951	₩ 546,290	\$ 614,056	\$ 523,366	

Note to Consolidated Financial Statements

December 31, 2004 and 2003

4. SECURITIES:

(1) Securities as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Trading securities				
Government and public bonds	₩ 413,428	₩ 694,370	\$ 396,080	\$ 665,233
Finance debentures	606,248	560,976	580,809	537,436
Corporate bonds	192,397	670,948	184,324	642,794
Stocks	32,783	86,730	31,407	83,091
Others	130,609	208,617	125,128	199,862
	1,375,465	2,221,641	1,317,748	2,128,416
Available-for-sale securities				
Stocks	560,607	137,469	537,083	131,701
Equity securities	31,216	41,507	29,906	39,765
Government and public bonds	371,166	547,562	355,591	524,585
Finance debentures	2,963,323	1,747,114	2,838,976	1,673,801
Corporate bonds	1,709,890	2,740,687	1,638,139	2,625,682
Securities in foreign currencies	1,073,504	725,567	1,028,458	695,121
Others	109,355	118,442	104,766	113,472
	6,819,061	6,058,348	6,532,919	5,804,127
Held-to-maturity securities				
Government and public bonds	825,045	633,782	790,424	607,187
Finance debentures	2,214,162	768,706	2,121,251	736,450
Corporate bonds	1,531,693	1,755,138	1,467,420	1,681,489
	4,570,900	3,157,626	4,379,095	3,025,126
Securities accounted for using the equity method				
Stocks	1,500	441,410	1,437	422,888
Equity securities	20,042	28,854	19,201	27,643
	21,542	470,264	20,638	450,531
	₩ 12,786,968	₩11,907,879	\$ 12,250,400	\$ 11,408,200

(2) The valuation of securities excluding securities using the equity method as of December 31, 2004 was as follows (Unit: Won in millions):

	The Bank	Trust accounts	Subsidiaries	Total
Trading securities				
Equity securities	₩ 10,810	₩ 21,973	₩ -	₩ 32,783
Government and public debentures	101,072	312,356	-	413,428
Finance debentures	402,639	203,609	-	606,248
Corporate bonds in local currency	94,222	98,175	-	192,397
Others	-	130,609	-	130,609
	608,743	766,722	-	1,375,465
Available-for-sale securities				
Equity securities in local currency	564,045	-	27,778	591,823
Government and public debentures	371,166	-	-	371,166
Finance debentures	2,963,323	-	-	2,963,323
Corporate bonds in local currency	1,225,905	-	-	1,225,905
Corporate bonds in foreign currencies	1,058,568	-	-	1,058,568
Asset-backed debt securities	483,985	-	-	483,985
Foreign government debentures	14,936	-	-	14,936
Equity-linked securities	90,671	-	-	90,671
CP	14,165	-	-	14,165
Beneficiary certificates	4,519	-	-	4,519
	6,791,283	-	27,778	6,819,061
Held-to-maturity securities				
Government and public debentures	825,012	-	33	825,045
Finance debentures	2,214,162	-	-	2,214,162
Corporate bonds in local currency	1,182,568	-	-	1,182,568
Asset-backed debt securities	349,125	-	-	349,125
	4,570,867	-	33	4,570,900
	₩ 11,970,893	₩ 766,722	₩ 27,811	₩ 12,765,426

The valuation of securities excluding securities using the equity method as of December 31, 2003 was as follows (Unit: Won in millions):

	The Bank	Trust accounts	Subsidiaries	Total
Trading securities				
Equity securities	₩ 47,524	₩ 38,943	₩ 263	₩ 86,730
Government and public debentures	496,954	197,416	-	694,370
Finance debentures	314,919	246,057	-	560,976
Corporate bonds in local currency	415,545	245,396	-	660,941
Asset-backed debt securities	10,007	-	-	10,007
Entrusted securities	40,433	-	-	40,433
Others	-	158,184	10,000	168,184
	₩ 1,325,382	₩ 885,996	₩ 10,263	₩ 2,221,641

(continued)

Note to Consolidated Financial Statements

December 31, 2004 and 2003

	The Bank	Trust accounts	Subsidiaries	Total
Available-for-sale securities				
Equity securities in local currency	₩ 136,046	₩ -	₩ 42,930	₩ 178,976
Equity securities in foreign currencies	116	-	-	116
Government and public debentures	547,562	-	-	547,562
Finance debentures	1,747,114	-	-	1,747,114
Corporate bonds in local currency	2,475,346	-	-	2,475,346
Corporate bonds in foreign currencies	718,847	-	-	718,847
Asset-backed debt securities	265,341	-	-	265,341
Foreign government debentures	6,604	-	-	6,604
Equity-linked securities	117,343	-	-	117,343
Beneficiary certificates	1,099	-	-	1,099
	6,015,418	-	42,930	6,058,348
Held-to-maturity securities				
Government and public debentures	633,653	-	129	633,782
Finance debentures	768,706	-	-	768,706
Corporate bonds in local currency	1,461,728	-	-	1,461,728
Asset-backed debt securities	293,410	-	-	293,410
	3,157,497	-	129	3,157,626
	₩ 10,498,297	₩ 885,996	₩ 53,322	₩11,437,615

(3) Securities accounted for using the equity method as of December 31, 2004 and 2003 were as follows (Unit: Won in millions):

December 31, 2004:

	Acquisition cost	Book value before valuation	Gain (loss) on valuation using the equity method of accounting	Presented in capital adjustments	Book value
Kieun Credit Information Corp. ^(**)	₩ 1,500	₩ 1,500	₩ -	₩ -	₩ 1,500
KTTC Hansol Technology					
Industrialization Association	2,000	2,000	-	-	2,000
Kieun Material Special					
Investment Association	10,000	10,184	98	-	10,282
MIC 2002-3 Kieun IT Special					
Investment Association	7,500	7,667	93	-	7,760
	₩ 21,000	₩ 21,351	₩ 191	₩ -	₩ 21,542

December 31, 2003:

	Acquisition cost	Book value before valuation	Gain (loss) on valuation using the equity method of accounting	Presented in capital adjustments	Book value
KT&G ^{(*)2}	₩ 353,625	₩ 366,698	₩ 62,888	₩ 10,324	₩ 439,910
IBK Mutual Savings and Finance Company ^{(*)3}	139,998	-	-	-	-
Kieun Credit Information Corp.	1,500	1,500	-	-	1,500
INNO-BIZ Special Venture Investment Association	5,000	5,000	-	-	5,000
KTTC Hansol Technology Industrialization Association	2,000	2,000	-	-	2,000
Sinbo Environmental Venture Investment Association	4,000	4,000	-	-	4,000
Kieun Material Special Investment Association	10,000	10,039	146	-	10,185
MIC 2002-3 Kieun IT Special Investment Association	7,500	7,501	168	-	7,669
	₩ 523,623	₩ 396,738	₩ 63,202	₩ 10,324	₩ 470,264

(*1) Stock in Kieun Credit Information Corp. was valued at acquisition cost because its asset size was less than ₩ 7 billion and not required to be accounted for using the equity method under the financial accounting standards in the Republic of Korea.

(*2) The Bank reclassified securities of KT&G from securities using the equity method into available-for-sale because the Bank's ownership decreased from 15.51% as of December 31, 2003 to 6.41% as of December 31, 2004. In 2003, the difference between the Bank's acquisition cost and investment portion of the fair value of KT&G at the time of investment resulted from the revaluation of KT&G's fixed assets. Accordingly, the stock in KT&G was adjusted in line with the depreciation schedule of related fixed assets over the estimated useful lives. The Bank depreciated ₩ 1,273 million (US\$ 1,220 thousand) in 2003 and the balance as of December 31, 2003 amounted to ₩ 32,523 million (US\$ 31,158 thousand). The market value of stock in KT&G as of December 31, 2003 was ₩ 403,867 million (US\$ 386,920 thousand).

(*3) As of December 31, 2004, IBK Mutual Savings and Finance Company ended its liquidation process.

(4) With regards to the borrowing from the Bank of Korea and bonds sold under repurchase, securities provided as collateral as of December 31, 2004 and 2003 were as follows:

Provided to	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Provided for
	2004	2003	2004	2003	
Bank of Korea	₩ 1,955,200	₩ 1,889,500	\$ 1,873,156	\$ 1,810,213	Borrowings
Bank of Korea	1,030,000	316,400	986,779	303,123	Customers' bonds sold under repurchase agreements
Customers	1,940,000	1,573,900	1,858,594	1,507,856	Customers' bonds sold under repurchase agreements
Bank of Korea	301,000	388,100	288,369	371,815	Overdrafts and settlement risk
LG Securities Co. and others	52,200	74,300	50,010	71,182	Futures settlement and others
	₩ 5,278,400	₩ 4,242,200	\$ 5,056,908	\$ 4,064,189	

Note to Consolidated Financial Statements

December 31, 2004 and 2003

(5) The gain (loss) on valuation of available-for-sale securities and securities using the equity method as of December 31, 2004 and 2003 reflected in capital adjustments were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Available-for-sale securities				
Equity securities	₩ 138,209	₩ (1,578)	\$ 132,409	\$ (1,512)
Debt securities in local currency	50,572	26,843	48,450	25,717
Debt securities in foreign currencies	9,804	4,256	9,393	4,077
Beneficiary certificates	20,261	16,256	19,411	15,574
	218,846	45,777	209,663	43,856
Securities using the equity method	-	(25,691)	-	(24,613)
	₩ 218,846	₩ 20,086	\$ 209,663	\$ 19,243

(6) Securities impairment loss of securities for the years ended December 31, 2004 and 2003 were as follows (Unit: Won in millions):

	(In millions)			
	2004		2003	
	Impairment loss	Reversal	Impairment loss	Reversal
Available-for-sale securities				
Equity securities	₩ 21,731	₩ -	₩ 15,259	₩ 179
Debt securities	16,620	-	82,489	-
Foreign debentures	-	714	-	1,286
	38,351	714	97,748	1,465
Held-to-maturity securities				
Debt securities	81,727	38	57,290	560
	₩ 120,078	₩ 752	₩ 155,038	₩ 2,025

Accrued interest income from impaired securities were ₩ 1,615 million (US\$ 1,547 thousand) and ₩ 437 million (US\$ 419 thousand) as of December 31, 2004 and 2003, respectively.

During the year ended December 31, 2004, the Bank acquired the subordinate corporate bonds of ₩ 120,000 million (US\$ 114,965 thousand) and ₩ 130,000 million (US\$ 124,545 thousand) issued by Kieun 4th and 5th Special Purpose Companies, respectively, and recognized impairment losses of ₩ 32,750 million (US\$ 31,376 thousand) and ₩ 25,875 million (US\$ 24,789 thousand), respectively. In 2003, the Bank acquired the subordinate corporate bonds of ₩ 110,000 million (US\$ 105,384 thousand) and ₩ 105,000 million (US\$ 100,594 thousand) issued by Kieun 2nd and 3rd Special Purpose Companies, respectively, and the Bank recognized impairment losses of ₩ 32,625 million (US\$ 31,256 thousand) and ₩ 24,663 million (US\$ 23,628 thousand), respectively, for the year ended December 31, 2003. In addition, the Bank recognized held-to-maturity securities impairment loss of ₩ 23,102 million (US\$ 22,133 thousand), the difference between the book value and fair value.

(7) As of December 31, 2003, others of trading securities includes entrusted securities in Global Asset Management Company and Solomon Asset Advisors Ltd. The major assets entrusted securities in Global Asset Management Company and Solomon Asset Advisors Ltd. as of December 31, 2003 were as follows (Unit: Won in millions):

December 31, 2003

	Face value	Acquisition cost	Fair value	Book value
Global Asset				
Management Company Finance debentures	₩ 20,000	₩ 19,196	₩ 19,134	₩ 19,134
Solomon Asset Advisors Ltd.				
Finance debentures	10,000	9,601	9,557	9,557
	₩ 30,000	₩ 28,797	₩ 28,691	₩ 28,691

5. LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) Loans and allowance for possible loan losses as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Loans				
Loans in local currency	₩ 47,738,288	₩ 42,248,898	\$ 45,735,091	\$ 40,476,047
Loans in foreign currencies	2,783,787	3,618,033	2,666,973	3,466,213
Other	6,561,050	7,325,958	6,285,735	7,018,546
	57,083,125	53,192,889	54,687,799	50,960,806
Allowance for possible loan losses	(1,099,030)	(952,453)	(1,052,912)	(912,486)
	₩ 55,984,095	₩ 52,240,436	\$ 53,634,887	\$ 50,048,320

(2) The details of loans and allowance for possible loan losses as of December 31, 2004 and 2003 consisted of:

December 31, 2004:

	The Bank	Trust accounts	Subsidiaries	Inter-company transactions	Total
Loans	₩ 56,261,554	₩ 94,830	₩ 26,741	₩ -	₩ 57,083,125
Allowance for possible loan losses	(1,088,545)	(3,084)	(7,401)	-	(1,099,030)
	₩ 55,173,009	₩ 91,746	₩ 719,340	₩ -	₩ 55,984,095

December 31, 2003:

	The Bank	Trust accounts	Subsidiaries	Inter-company transactions	Total
Loans	₩ 52,682,041	₩ 66,209	₩ 466,549	₩ 21,910	₩ 53,192,889
Allowance for possible loan losses	(940,947)	(7,226)	(4,390)	(110)	(952,453)
	₩ 51,741,094	₩ 58,983	₩ 462,159	₩ 21,800	₩ 52,240,436

Note to Consolidated Financial Statements

December 31, 2004 and 2003

(3) The classification of asset quality for loans and allowance for possible loan losses of the Bank and IBK Capital Corporation as of December 31, 2004 and 2003 are summarized as follows (Unit: Won in millions):

December 31, 2004:

Classification	The Bank		IBK Capital Corporation	
	Loans ^(*)	Allowance for possible loans Losses ^(*)	Loans ^(*)	Allowance for possible loans losses ^(*)
Normal	₩ 49,487,094	₩ 360,632	₩ 716,791	₩ 3,740
Precautionary	3,076,504	194,645	3,243	37
Substandard	782,635	154,211	3,349	670
Doubtful	173,731	140,749	1,613	1,210
Estimated Loss	233,528	233,388	1,727	1,727
	₩ 53,753,492	₩ 1,083,625	₩ 726,723	₩ 7,384

December 31, 2003:

Classification	The Bank		IBK Capital Corporation	
	Loans ^(*)	Allowance for possible loans Losses ^(*)	Loans ^(*)	Allowance for possible loans losses ^(*)
Normal	₩ 45,721,830	₩ 254,304	₩ 460,130	₩ 2,365
Precautionary	2,782,350	127,345	2,527	41
Substandard	826,740	175,276	2,124	425
Doubtful	268,236	179,796	956	716
Estimated Loss	198,827	198,828	812	812
	₩ 49,797,983	₩ 935,549	₩ 466,549	₩ 4,359

(*1) After deducting allowance for possible loan losses equal to present value discounts. These include debit card accounts, credit-related suspense payments and accounts receivable transferred from bills purchased due to defaults and call loans classified as substandard, doubtful and estimated loss, but exclude inter-bank loans, call loans classified as normal and precautionary, bonds purchased under resale agreements.

(*2) Excluding the allowance for possible loan losses equal to present value discounts of the Bank and allowance for possible loan losses of the trust accounts

(4) As of December 31, 2004, as a result of the creditors' meeting of SK Networks Co., Ltd. in October 2003, loans amounting to ₩ 38,443 million (US\$ 36,830 thousand) were swapped to equity and convertible bonds, which consist of common stock of ₩ 15,873 million (US\$ 15,207 thousand) and callable preferred stock of ₩ 10,887 million (US\$ 10,430 thousand). The Bank extended remaining loans to SK Networks Co., Ltd. amounting to ₩ 27,013 million (US\$ 25,879 thousand) in substandard rating of asset quality classification and has provided allowance for loan losses of ₩ 5,132 million (US\$ 4,917 thousand). According to the Corporate Restructuring Promotions Law, SK Networks Co., Ltd. has been identified as "possible insolvent company" by the Financial Institution Creditors' Committee of SK Networks Co., Ltd. and has been administrated for normalization of business as of December 31, 2004.

(5) Many credit card companies in Korea have been facing difficulties in liquidity due to the bad credit of assets as of December 31, 2004. Of the credit card companies, LG Card Co., Ltd. has been supported with ₩ 2 trillion by the Financial Institution Creditors based on their agreement on November 24, 2003 caused by the significant financial difficulties. The association of Financial Institution Creditors in January 2004 agreed to support new loan of ₩ 1,591.6 billion (US\$ 1,524.8 million) and exercise debt-equity swap of ₩ 3,499.4 billion (US\$ 3,352.6 million) for rehabilitating LG Card Co., Ltd. ₩ 953.9 billion (US\$ 913.9 million) and ₩ 2,545.5 billion (US\$ 2,438.7 million) of loans were swapped to equity stocks in February and July 2004, respectively. In addition, the Financial Institution Creditors and LG Group jointly invested on the stocks of ₩ 1 trillion of LG Card Co., Ltd. by 50:50 in January 2005. According to the above agreement, the Bank acquired asset-backed securities of ₩ 168.5 billion (US\$ 161.4 million) issued by LG Card Co., Ltd. in December 2003 and extended a new loan of ₩ 120.2 billion (US\$ 115.2 million) and ₩ 21.2 billion (US\$ 20.3 million), in January and February 2004, and January 2005, respectively. The Bank has loans and securities to LG Card Co., Ltd amounting to ₩ 274.8 billion (US\$ 263.3 million) as of December 31, 2004. The current concern issues on LG Card Co., Ltd. are fully dependent on the rehabilitation plan and an effective funding support from the Financial Institution Creditors. Therefore, the actual amount to be collected from loans and securities held by the Bank might materially differ from management's current estimation.

6. FIXED ASSETS:

Fixed assets as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Tangible assets:				
Land	₩ 498,743	₩ 492,644	\$ 477,815	\$ 471,972
Building	366,716	353,024	351,328	338,210
Leasehold improvements	57,169	51,082	54,770	48,938
Equipment, machinery, vehicles and furniture	474,983	419,914	455,052	402,294
Other	1,157	1,153	1,108	1,105
	1,398,768	1,317,817	1,340,073	1,262,519
Accumulated depreciation	(463,819)	(376,715)	(444,356)	(360,907)
	934,949	941,102	895,717	901,612
Negative goodwill	(562)	(735)	(539)	(704)
Non-business property	-	1,318	-	1,262
Valuation allowances	-	(158)	-	(151)
	₩ 934,387	₩ 941,527	\$ 895,178	\$ 902,019

The published value of land as of December 31, 2004 and 2003 was ₩ 491,489 million (US\$ 470,865 thousand) and ₩ 401,270 million (US\$ 384,432 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

The difference between investments and equity accounts in IBK Tech Co., Ltd. was accounted for as negative goodwill, which was amortized using a straight-line method over 5 years.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

7. OTHER ASSETS:

(1) Other assets as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Guarantee deposits	₩ 3,426	₩ 749	\$ 3,282	\$ 718
Accounts receivable	15,313	53,217	14,670	50,984
Accrued income	273,517	293,012	262,040	280,717
Prepaid expenses	105,936	141,306	101,491	135,376
Deferred income tax assets (Note 14)	77,915	74,671	74,646	71,538
Financial derivative instruments (Note 12)	913,602	512,921	875,265	491,397
Sundry assets	3,015,012	4,487,350	2,888,496	4,299,051
	₩ 4,404,721	₩ 5,563,226	\$ 4,219,890	\$ 5,329,781

(2) Sundry assets as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Domestic exchange settlement debits	₩ 2,037,209	₩ 2,026,972	\$ 1,951,724	\$ 1,941,916
Unsettled spot exchange receivables	425,035	1,931,537	407,200	1,850,486
Leasehold deposits	451,901	424,017	432,938	406,224
Deposited money	14,680	12,530	14,064	12,004
Membership rights	7,558	7,391	7,241	7,081
Receivables on cash sent to other banks	850	650	814	623
Card account settlement debits	2,629	12,106	2,519	11,598
Supplies	1,941	1,863	1,860	1,785
Suspense receivable	16,313	21,262	15,628	20,370
Unsettled inter-office account in foreign currency	18,748	37,135	17,961	35,577
Advanced payments	34,559	5,972	33,109	5,721
Others	1,756	1,038	1,682	994
	3,013,179	4,482,473	2,886,740	4,294,379
Subsidiaries	147,505	69,950	141,315	67,015
Inter-company transactions	(145,672)	(65,073)	(139,559)	(62,343)
	₩ 3,015,012	₩ 4,487,350	\$ 2,888,496	\$ 4,299,051

8. DEPOSITS:

(1) Deposits as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Deposits in local currency	₩ 35,839,225	₩ 32,900,402	\$ 34,335,337	\$ 31,519,833
Deposits in foreign currencies	1,158,281	1,055,726	1,109,677	1,011,426
Certificates of deposit	1,044,922	1,196,746	1,001,075	1,146,528
	₩ 38,042,428	₩ 35,152,874	\$ 36,446,089	\$ 33,677,787

(2) Deposits in local currency as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Demand deposits	0.09	₩ 5,098,234	₩ 4,388,649	\$ 4,884,302	\$ 4,204,492
Savings deposits	3.16	27,235,086	25,236,919	26,092,246	24,177,926
Mutual installment savings	4.79	2,242,419	2,010,506	2,148,322	1,926,141
Housing installment deposits	5.09	339,273	326,814	325,036	313,100
		34,915,012	31,962,888	33,449,906	30,621,659
Trust accounts		944,522	945,069	904,888	905,412
Inter-company transactions		(20,309)	(7,555)	(19,457)	(7,238)
		₩ 35,839,225	₩ 32,900,402	\$ 34,335,337	\$ 31,519,833

(3) Deposits in foreign currencies as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Deposits in checking accounts	-	₩ 7,136	₩ 1,710	\$ 6,837	\$ 1,638
Passbook deposits	0.34	695,283	581,002	666,107	556,622
Notice deposits	2.63	4,041	10,129	3,871	9,704
Time deposits	0.86	449,892	460,521	431,014	441,197
Temporary deposits	-	1,929	2,364	1,848	2,265
		₩ 1,158,281	₩ 1,055,726	\$ 1,109,677	\$ 1,011,426

Note to Consolidated Financial Statements

December 31, 2004 and 2003

9. BORROWINGS:

(1) Borrowings as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Borrowings in local currency	₩ 9,817,467	₩ 8,449,595	\$ 9,405,506	\$ 8,095,033
Borrowings in foreign currencies	2,497,904	3,359,485	2,393,087	3,218,514
Bonds sold under repurchase agreements	1,300,019	1,378,135	1,245,468	1,320,306
Bills sold	1,943,363	2,018,834	1,861,815	1,934,120
Borrowings from Industry Foundation Fund	10,323	14,041	9,890	13,452
Due to BOK in foreign currencies	2,604	12,045	2,495	11,539
Call money	927,390	959,405	888,474	919,146
	₩ 16,499,070	₩ 16,191,540	\$ 15,806,735	\$ 15,512,110

(2) Borrowings in local currency as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Bank of Korea (BOK)	2.0	₩ 1,778,092	₩ 1,654,242	\$ 1,703,480	\$ 1,584,827
Governmental policy funds	2.03~4.50	4,397,263	3,656,350	4,212,745	3,502,922
Government	2.09~4.70	3,053,122	2,754,366	2,925,006	2,638,787
		9,228,477	8,064,958	8,841,231	7,726,536
Subsidiaries		588,990	406,547	564,275	389,487
Inter-company transactions		-	(21,910)	-	(20,990)
		₩ 9,817,467	₩ 8,449,595	\$ 9,405,506	\$ 8,095,033

(3) Borrowings in foreign currencies as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Deutsche Bank, NY and others	-	₩ 111,508	₩ 75,670	\$ 106,829	\$ 72,495
JP Morgan and others	0.19~2.90	1,554,355	1,895,410	1,489,131	1,815,874
KBC Bank NV and others	0.25~1.00	122,039	226,249	116,918	216,755
Ministry of Finance and Economy	IBRD notice rate	14,091	19,764	13,500	18,935
Japan Bank for International Cooperation	1.70 ~ 2.20	608,776	992,384	583,231	950,742
DBS	2.10~2.63	76,510	117,384	73,300	112,458
The Korea Development Bank	Libor+1.00~2.20	2,329	14,985	2,231	14,356
Small and Medium Industry Promotion Corp.	Libor+1.28~1.78	342	802	327	768
		₩ 2,489,950	₩ 3,342,648	₩ 2,385,467	₩ 3,202,383

(continued)

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Gain on valuation of fair market value risk hedge (current year portion)		₩ (2,212)	₩ (1,470)	₩ (2,119)	₩ (1,408)
Loss on valuation of fair market value risk hedge (prior year portion)		10,166	16,574	9,739	15,879
		₩ 2,497,904	₩ 3,357,752	\$ 2,393,087	\$ 3,216,854
Subsidiaries		-	1,733	-	1,660
		₩ 2,497,904	₩ 3,359,485	\$ 2,393,087	\$ 3,218,514

(4) Due to the BOK in foreign currencies was received for the purpose of working capital and policy lending, and interest rates of 2.17~ 2.77% per annum and 0.99~ 1.23% per annum as of December 31, 2004 and 2003, respectively.

(5) Call money as of December 31, 2004 and 2003 consisted of:

	Average interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Samsung Investment Trust					
Management and others	3.15	₩ 903,900	₩ 929,100	\$ 865,970	\$ 890,113
Foreign financial institutions	2.00	-	30,305	-	29,033
Inter-bank fund for adjustment		3,490	-	3,344	-
		907,390	959,405	869,314	919,146
Subsidiaries		20,000	16,000	19,160	15,329
		₩ 927,390	₩ 959,405	\$ 888,474	\$ 919,146

10. DEBENTURES:

(1) Debentures as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Debentures in local currency	₩ 9,954,772	₩ 9,766,224	9,537,049	\$ 9,356,413
Less: Discounts	(148)	(4)	(142)	(4)
Debentures in foreign currencies	2,063,432	1,839,308	1,976,846	1,762,127
Less: Discounts	(6,431)	(4,956)	(6,161)	(4,748)
	₩ 12,011,625	₩ 11,600,572	\$ 11,507,592	\$ 11,113,788

Note to Consolidated Financial Statements

December 31, 2004 and 2003

(2) Changes in debentures in local currency for the year ended December 31, 2004 were as follows:

	Beginning balance	Issuance	Korean Won (In millions)		Ending balance	U.S. Dollars (Note 2) (In thousands)	
			Redemption	Substitution		Ending balance	Ending balance
Small and Medium Industry (SMI)							
Finance Bonds	₩ 8,306,802	₩ 7,096,595	₩ 6,710,222	₩ (28,323)	₩ 8,664,852	\$ 8,301,257	
SMI Refinance Bonds	30,119	-	27,081	28,323	31,361		30,045
SMI Finance Bonds for automation projects	686,000	-	124,000	-	562,000		538,417
SMI Development Finance Bonds	123,474	-	89,110	-	34,364		32,922
Subordinated SMI Finance Bonds	618,188	-	-	-	618,188		592,248
	9,764,583	7,096,595	6,950,413	-	9,910,765		9,494,889
SMI Finance Bonds, not rendered	817				464		445
Loss on valuation of fair market value risk hedge	324				3,543		3,394
	9,765,724				9,914,772		9,498,728
Subsidiary company	500	40,000	500	-	40,000		38,321
	₩ 9,766,224	₩ 7,136,595	₩ 6,950,913	₩ -	₩ 9,954,772	\$ 9,537,049	

To improve its BIS capital adequacy ratio, the Bank issued the Subordinated Small and Medium Industry Finance Bonds amounting to ₩ 300,000 million (US\$ 287,411 thousand), the earliest of which matures in January 2009 and interest rates of 5.37–5.67 percent per annum as of December 31, 2004.

(3) Debentures in foreign currencies as of December 31, 2004 and 2003 were as follows:

Managers	Issuance date	Annual interest rate (%)		Expiration date	Korean Won (In millions)		U.S. Dollars (note 2) (In thousands)	
		2004	2003		2004	2003		
BNP Paribas	May. 2002	3ML+0.51		May. 2007	₩ 40,483	₩ 44,784	\$ 38,784	\$ 42,905
Merrill Lynch and others	Jul. 2002	3ML+0.43		Jul. 2004	-	59,890	-	57,377
Merrill Lynch	Nov. 2004	Libor+0.12,0.17		Nov. 2009	52,190	-	50,000	-
Shinkin	Aug. 2002	6ML+0.56		Aug. 2005	31,314	35,934	30,000	34,426
Natexis	Aug. 2002	3ML+0.40		Aug. 2004	-	23,956	-	22,951
CSFB and others	Sep. 2002	6ML+0.74		Sep. 2005	521,900	598,900	500,000	573,769
JP Morgan	Dec. 2002	6ML+0.87		Dec. 2007	365,330	419,230	350,000	401,638
JP Morgan	Dec. 2002	6ML+0.38		Dec. 2005	-	26,951	-	25,820
Citigroup, HSBC	Jun. 2003	3ML+1.06		Jun. 2008	417,520	479,120	400,000	459,015
JP Morgan	Aug. 2003	3ML+0.51		Aug. 2006	26,846	30,856	25,719	29,561
BA ASIA	Aug. 2003	3ML+0.55		Aug. 2006	26,095	29,945	25,000	28,688
Mizuho Corporate Asia (HK)	Aug. 2003	3ML+0.50		Aug. 2006	10,438	11,978	10,000	11,475
Mizuho International	Sep. 2003	3ML+0.51		Sep. 2006	50,603	55,980	48,480	53,631
JP Morgan	Oct. 2003	3ML+0.48		Oct. 2006	21,950	24,218	21,029	23,202
CSFB and others	Mar. 2004	6ML+0.99		May. 2014	313,140	-	300,000	-
UBS, Deutsche Bank	Jun. 2004	6ML+1.28		Jun. 2014	208,760	-	200,000	-
					2,086,569	1,841,742	1,999,012	1,764,459
Gain on valuation of fair market value risk hedge (current year)					(21,165)	(21,637)	(20,277)	(20,729)
Loss (gain) on valuation of fair market value risk hedge (prior year)					(1,972)	19,203	(1,889)	18,397
					₩2,063,432	₩1,839,308	\$ 1,976,846	\$ 1,762,127

The Bank listed Global Medium Term Note Programme on London Stock Exchange for issuing medium and long-term debentures in foreign currencies with Merrill Lynch International Ltd., as its agency, on April 11, 1997. Also, the Bank increased its ceiling amount to US\$ 2 billion from US\$ 1 billion.

On March 16, 2004, the Bank issued the 4.00% Lower Tier II subordinate notes due 2014 for improving Tier II capital adequacy ratio (face value: US\$ 300,000,000). The Bank has a right to redeem the subordinate notes from May 19, 2009 (the "Reset Date") at a redemption price equal to the principle amount of the notes plus accrued but unpaid interest. If the Bank does not redeem, the interest rate of the notes will be reset at the U.S. Treasury Rate plus 2.07%.

On June 15, 2004, the Bank listed US\$ 2 billion Global Medium Term Note Programme on the Singapore Stock Exchange. As of December 31, 2004, the Bank issued the subordinate notes (face value: US\$ 200,000,000, maturity: January 15, 2015) with UBS and Deutsche Bank based on GMTN programme.

11. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Accrued severance benefits (Note 2)	₩ 154,187	₩ 105,956	\$ 147,717	\$ 101,510
Less: Severance insurance deposits	(103,955)	(69,896)	(99,593)	(66,963)
Less: Transfer to National Pension (Note 2)	(52)	(61)	(50)	(58)
Allowance for possible losses on				
acceptances and guarantees (Note 2)	1,474	1,599	1,412	1,532
Other allowances	32,617	24,510	31,248	23,481
Due to trust accounts	161,331	286,689	154,561	274,659
Accounts payable	42,424	77,764	40,644	74,501
Dividends payable	67	65	64	62
Accrued expenses	853,479	880,005	817,665	843,078
Unearned revenues	89,131	89,890	85,391	86,118
Deposits for letter of guarantees and others	184,897	134,250	177,139	128,617
Financial derivative instruments	968,455	591,685	927,817	566,857
Sundry liabilities	3,124,423	4,362,229	2,993,316	4,179,180
	₩ 5,508,478	₩ 6,484,685	\$ 5,277,331	\$ 6,212,574

Note to Consolidated Financial Statements

December 31, 2004 and 2003

(2) Sundry liabilities as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Accounts payable	₩ 4,718	₩ 9,474	\$ 4,520	\$ 9,076
Domestic exchange settlement credits	2,166,030	1,854,115	2,075,139	1,776,313
Unsettled spot exchange payables	425,222	1,930,900	407,379	1,849,875
Agencies	98,002	99,223	93,890	95,059
Withholding taxes	977	22,394	936	21,454
Management funds	668	4,092	640	3,920
Giro accounts	66,077	73,292	63,304	70,217
Payables on cash received from other banks	3,560	4,760	3,411	4,560
Deposits for securities subscription	28,762	21,142	27,555	20,255
Card account settlement credit	7,035	17,310	6,740	16,584
Suspense receivable	9,306	11,030	8,916	10,567
Inter-office account payable in foreign currency	31,142	66,448	29,835	63,660
Others	273,609	236,585	262,128	226,657
	3,115,108	4,350,765	2,984,393	4,168,197
Subsidiary	9,315	11,464	8,923	10,983
	₩ 3,124,423	₩ 4,362,229	\$ 2,993,316	\$ 4,179,180

12. CONTINGENCIES AND COMMITMENTS:

(1) Acceptances and guarantees provided by the Bank as of December 31, 2004 and 2003 were summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debentures	₩ 100	₩ 100	\$ 96	\$ 96
Payment guarantee for loans	123,949	154,985	118,748	148,482
Payment guarantee for performance of contract	333,413	288,168	319,422	276,076
Others	23,090	20,560	22,121	19,698
	480,552	463,813	460,387	444,352
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letters of credit	72,277	90,562	69,244	86,762
Letters of guarantees for importers	77,712	155,257	74,451	148,742
Others (*)	278,648	11,978	266,955	11,475
	428,637	257,797	410,650	246,979
Unconfirmed acceptances and guarantees				
Customer's liability on letters of credit	1,136,742	1,259,512	1,089,042	1,206,660
Others	25,319	222,839	24,257	213,488
	1,162,061	1,482,351	1,113,299	1,420,148
	₩ 2,071,250	₩ 2,203,961	\$ 1,984,336	\$ 2,111,479

(*) The Bank provided the guarantee to primary CBO issued by small and medium sized enterprises, and underwritten by Daeshin Securities Co., Ltd. and Nomura Securities Co., Ltd in 2004. With respect to this guarantee, guaranteed amount was JPY 8,337 million and the rate of guarantee income and commission for asset management was 105basis point (issuance date: December 13, 2004, maturity date: December 28, 2007).

Allowance for possible losses on confirmed acceptances and guarantees as of December 31, 2004 and 2003 were as follows:

Classification	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Normal	₩ 861,578	₩ 658,677	\$ 825,424	\$ 631,038
Precautionary	42,037	57,731	40,273	55,309
Substandard	4,563	4,455	4,371	4,268
Doubtful	940	114	901	109
Estimated loss	71	633	68	607
	₩ 909,189	₩ 721,610	\$ 871,037	\$ 691,331
Allowance for possible losses	₩ 1,474	₩ 1,599	\$ 1,412	\$ 1,532
Ratio (%)	0.16	0.22	0.16	0.22

(2) The Bank manages written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩ 1,726,235 million (US\$ 1,653,799 thousand) and ₩ 1,761,462 million (US\$ 1,687,547 thousand) as of December 31, 2004 and 2003, respectively.

(3) The Bank has ₩ 81,866 million (US\$ 78,431 thousand) and ₩ 5,551 million (US\$ 5,318 thousand) of outstanding endorsed notes for sale, which have been purchased at a discount, as of December 31, 2004 and 2003, respectively.

(4) As of December 31, 2004 and 2003, the Bank provided ₩ 65,855 million (US\$ 63,092 thousand) and ₩ 30,000 million (US\$ 28,741 thousand) of local currency for the loan commitments to be executed in the near future.

(5) As of December 31, 2003, the Bank offered collateral and guarantee of ₩ 70,000 million (US\$ 67,063 thousand) to Small Business Corporation, Shinhan Bank and others in connection with borrowings of IBK Capital Corporation, a subsidiary of the Bank.

(6) Derivative instruments:

As of and for the years period ended December 31, 2004 and 2003, outstanding contract amount, gain or loss on valuation of derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets were as follows (Unit: Won in millions):

Note to Consolidated Financial Statements

December 31, 2004 and 2003

December 31, 2004:

Type	Outstanding contract amount ^(*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S), net
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 3,252,950	₩ -	₩ (24,655)	₩ -	₩ (23,867)
Currency swaps	5,989,562	296,437	93	(31,111)	(11,632)
Currency options (buy)	42,555	-	39	-	(593)
Currency options (sell)	39,453	-	96	-	(25)
Currency futures	-	-	-	-	-
	9,324,520	296,437	(24,427)	(31,111)	(36,117)
Interest rate					
Interest rate swaps	21,234,436	2,807,777	2,205	(10,918)	(26,007)
Interest rate options (buy)	316,990	-	10	-	2,014
Interest rate options (sell)	269,380	-	(88)	-	(4,976)
Interest rate futures	30,000	-	-	-	-
	21,850,806	2,807,777	2,127	(10,918)	(28,969)
Stock					
Stock price index futures	11,764	-	-	-	-
Stock price index swaps	100,000	-	2,314	-	13,238
Stock price index options (buy)	114,028	-	(534)	-	1,858
Stock price index options (sell)	140,227	-	(970)	-	(4,863)
	366,019	-	810	-	10,233
	₩ 31,541,345	₩ 3,104,214	₩ (21,490)	₩ (42,029)	₩ (54,853)

December 31, 2003:

Type	Outstanding contract amount ^(*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S), net
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 6,019,524	₩ -	₩ 15,372	₩ -	₩ 15,112
Currency swaps	3,826,445	512,986	(65,911)	34,136	(67,583)
Currency options (buy)	2,156	-	(7)	-	(7)
Currency options (sell)	56,856	-	185	-	(410)
Currency futures	30,424	-	-	-	-
	9,935,405	512,986	(50,361)	34,136	(52,888)
Interest rate					
Interest rate swaps	21,696,972	1,930,739	4,158	(26,001)	(26,845)
Interest rate options (buy)	170,752	-	798	-	2,085
Interest rate options (sell)	60,752	-	(999)	-	(2,100)
Interest rate futures	101,858	-	-	-	-
	22,030,334	1,930,739	3,957	(26,001)	(26,860)
Stock					
Stock price index futures	23,120	-	-	-	-
Stock price index swaps	100,000	-	10,923	-	10,923
Stock price index options (buy)	26,441	-	6,004	-	8,568
Stock price index options (sell)	89,914	-	(9,319)	-	(18,507)
	239,475	-	7,608	-	984
	₩ 32,205,214	₩ 2,443,725	₩ (38,796)	₩ 8,135	₩ (78,764)

(*) In the translation of derivative contracts from local currency to foreign currency and from foreign currency to foreign currency, the contractual exchange rate against foreign currency and market exchange rate at the balance sheet date against purchased foreign currency are applied, respectively.

Outstanding contractual amount and gain or loss on valuation for hedging purpose in the table included and resulted from both derivative instruments accounted for using hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70 and derivative instruments used for hedging activities but not accounted for using hedge accounting.

Futures and options such as currency options and currency futures were subjected to mark to market accounting with valuation gain or loss recorded as settlement accounts in the balance sheets.

Hedged items, to which fair value hedge accounting was applied, consisted of investment securities, borrowings and bonds issued and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair values of hedged items resulting from interest rate changes. Resulting from valuation of hedged items accounted for using fair value hedge accounting, as of December 31, 2004 and 2003, loss on valuation of ₩ 7,999 million (US\$ 7,663 thousand) and gain on valuation of ₩ 1,798 million (US\$ 1,723 thousand) on foreign available-for-sale securities, gain on valuation of ₩ 2,212 million (US\$ 2,119 thousand) and gain on valuation of ₩ 1,470 million (US\$ 1,408 thousand) on borrowings in foreign currencies, gain on valuation of ₩ 21,165 million (US\$ 20,277 thousand) and gain on valuation of ₩ 21,637 million (US\$ 20,729 thousand) on debentures in foreign currencies and loss on valuation of ₩ 3,543 million (US\$ 3,394 thousand) and loss on valuation of ₩ 324 million (US\$ 310 thousand) on debentures in local currencies, respectively, were reflected in current operations, and the opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for using fair value hedge accounting were reflected in other assets or liabilities.

The Bank has unsettled interest swap agreement of ₩ 490,000 million (US\$ 469,439 thousand) and unsettled interest option agreement of ₩ 60,000 million (US\$ 57,482 thousand) with LG Card Co., Ltd. as of December 31, 2004.

As of December 31, 2004, the Bank sold credit default swap to Merrill Lynch International Bank Ltd.(London) for obtaining commission income as follows (Unit: US\$ in thousands):

Launch date	Maturity	Amount	Credited
Feb. 2002	Sep. 2005	10,000	SK Co., Ltd

(7) In the normal course of its business, the Bank regularly files lawsuits and takes other legal actions in connection with its business, primarily with respect to collection actions. As of December 31, 2004, the Bank is a plaintiff in 688 legal cases involving ₩ 70 billion (US\$ 67 million) and as a defendant in 179 legal cases involving ₩ 34 billion (US\$ 33 million). The Bank has provided an allowance of ₩ 13,706 million (US\$ 13,131 thousand) for the following cases of which the ultimate outcome is likely to have unfavorable effects on the Bank.

Plaintiff	Defendant	Description	Amount	Other allowance
Educational Foundation Eunkwang	Bank	Repayment of deposit	12,128	13,481
Interage Co., Ltd.	Bank	Claim of L/C liability	441	225

13. SHAREHOLDERS' EQUITY:

(1) Common stock and Preferred stock

The Bank is authorized to issue up to 800 million shares of capital stock (₩ 5,000 par value). The number of shares of common stock and preferred stock issued by the Bank as of December 31, 2004 were 405,151,618 shares and 53,125,315 shares, respectively.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

The major shareholders as of December 31, 2004 were as follows (Unit: Shares in thousands):

Shareholder	Common stock		Preferred stock ^(*)	
	No. of shares	Percentage (%)	No. of shares	Percentage (%)
Korean Government	233,734	57.69	-	-
Korea Development Bank	10,490	2.59	46,915	88.31
Export-Import Bank of Korea	40,501	10.00	6,210	11.69
Global Depository Shares ^(*)	10,679	2.64	-	-
Employee Stock Ownership Association	6,708	1.65	-	-
Others	103,040	25.43	-	-
	405,152	100.00	53,125	100.00

(*1) The preferred stock could be converted into common stock and participating as to dividends.

(*2) Citibank N.A. is the overseas depository for GDS listed on the Luxembourg Stock Exchange.

(2) Retained earnings as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Legal reserve	₩ 353,329	₩ 269,147	\$ 338,503	\$ 257,853
Other reserve	739,392	651,852	708,366	624,499
Retained earnings before appropriation	349,474	240,884	334,809	230,776
	₩ 1,442,195	₩ 1,161,883	\$ 1,381,678	\$ 1,113,128

(3) Legal reserve

The Industrial Bank of Korea Act requires the Bank to appropriate at least 25 percent of net income as a legal reserve until such reserve equals 100 percent of its paid-in capital. The legal reserve may only be used to offset against any future deficit or be transferred to capital stock.

(4) Capital adjustments as of December 31, 2004 and 2003 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Treasury stock	₩ (29,717)	₩ (4,992)	\$ (28,470)	\$ (4,782)
Gain on valuation of available-for-sale securities	218,846	45,777	209,663	43,856
Gain on valuation of using the equity method	-	(25,691)	-	(24,613)
Other	522	619	500	593
	₩ 189,651	₩ 15,713	\$ 181,693	\$ 15,054

As of December 31, 2004, treasury stock, which includes 4,245,948 shares entrusted in treasury stock trust agreement with Shinhan Bank for the stabilization of stock price, was acquired in connection with the Bank's capital reduction and the Bank intends to dispose in the near future.

14. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income for the years ended December 31, 2004 and 2003, and taxable income pursuant to Korean Corporate Tax Law of the Bank were summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Income before income tax	₩ 527,677	₩ 311,923	\$ 505,535	\$ 298,834
Taxable and non-deductible items				
Temporary difference	1,937,554	1,374,860	1,856,250	1,317,168
Permanent difference	4,391	140	4,207	134
	1,941,945	1,375,000	1,860,457	1,317,302
Deductible and non-taxable items				
Temporary difference	1,948,949	1,240,569	1,867,167	1,188,512
Permanent difference	23,366	22,110	22,386	21,182
	1,972,315	1,262,679	1,889,553	1,209,694
Taxable income	497,307	424,244	476,439	406,442
Tax rate	(15%, 27%)	(15%, 27%)	(15%, 27%)	(15%, 27%)
Calculated tax amount	134,261	114,535	128,627	109,729
Deduction and exemption	633	-	606	-
Resident tax of 10%	13,363	11,453	12,802	10,972
Special farming and fishery tax	15	-	14	-
Income tax currently payable	₩ 147,006	₩ 125,988	\$ 140,837	\$ 120,701

(2) Changes in cumulative temporary differences for the year ended December 31, 2004 were as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	Jan 1, 2004	Addition	Deduction	Dec 31, 2004	Dec 31, 2004
Accrued income	₩ (105,590)	₩ (103,315)	₩ (105,590)	₩ (103,315)	\$ (98,980)
Gain (loss) on valuation of trading securities	1,213	(927)	1,213	(927)	(888)
Allowance for possible losses on acceptances and guarantees	1,599	1,474	1,599	1,474	1,412
Gain (loss) on valuation using the equity method	(37,718)	31,532	-	(6,186)	(5,926)
Accrued severance benefits	(62,557)	(29,925)	(1,195)	(91,287)	(87,456)
Allowance for non-business real estate	158	-	158	-	-
Available-for-sale and held-to-maturity securities impairment loss and others	228,642	206,958	228,642	206,958	198,274
Other allowance	24,510	32,617	24,510	32,617	31,248
Gain on valuation of derivatives	(509,486)	(910,210)	(509,486)	(910,210)	(872,016)
Advanced depreciation allowance	(244,563)	-	(2)	(244,561)	(234,299)
Loss on valuation of derivatives	580,999	955,525	580,999	955,525	915,429
Others	140,524	53,294	27,569	166,249	159,273
	₩ 17,731	₩ 237,023	₩ 248,417	₩ 6,337	\$ 6,071

(continued)

Note to Consolidated Financial Statements

December 31, 2004 and 2003

	Jan 1, 2004	Korean Won (In millions)		Dec 31, 2004	U.S. Dollars (Note 2) (In thousands)	
		Addition	Deduction		Dec 31, 2004	Dec 31, 2004
Less: advanced depreciation allowance	₩ (244,563)	₩ -	₩ (2)	₩ (244,561)	\$ (234,299)	
	262,294			250,898	240,370	
Income tax rate	29.70%, 27.50%			27.50%	27.50%	
Effect of deferred income taxes	71,905			68,997	66,102	
Adjustment ^(*)	-			4,091	3,919	
	₩ 71,905			₩ 73,088	\$ 70,021	

(*) As of December 31, 2004, difference between income tax payable and actual payment was adjusted.

(3) Deferred income tax assets and liabilities of the Bank and its subsidiaries as of December 31, 2004 and 2003 were as follows:

December 31, 2004:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	The Bank	Subsidiaries	Total		
Local:					
Tax effect on cumulative temporary differences	₩ 73,088	₩ 3,824	₩ 76,912	\$ 73,685	
Overseas branches:	1,003	-	1,003	961	
Deferred income tax assets	₩ 74,091	₩ 3,824	₩ 77,915	\$ 74,646	

December 31, 2003:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	The Bank	Subsidiaries	Total		
Local:					
Tax effect on cumulative temporary differences	₩ 71,905	₩ 453	₩ 72,358	\$ 69,322	
Overseas branches:	2,313	-	2,313	2,216	
Deferred income tax assets	₩ 74,218	₩ 453	₩ 74,671	\$ 71,538	

(4) Income tax expense of the Bank and its subsidiaries for the years ended December 31, 2004 and 2003 were summarized as follows:

December 31, 2004:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	The Bank	Subsidiaries	Total		
Income tax currently payable in local	₩ 153,024	₩ 4,230	₩ 157,254	\$ 150,655	
Changes in deferred income tax assets	4,218	(3,056)	1,162	1,114	
	₩ 157,242	₩ 1,174	₩ 158,416	\$ 151,769	

December 31, 2003:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	The Bank	Subsidiaries	Total		
Income tax currently payable in local	₩ 129,578	₩ 4,529	₩ 134,107	\$ 128,479	
Changes in deferred income tax assets	(41,614)	(1,757)	(43,371)	(41,551)	
	₩ 87,964	₩ 2,772	₩ 90,736	\$ 86,928	

(5) The legal income tax rate, including resident tax rate, applied by the Bank was 29.7%. However, the effective tax rates calculated dividing income tax expense by income before income tax expense were 29.95% and 28.80% in 2004 and 2003, respectively, due to the effect of tax reconciling items aforementioned and tax loss carry forwards.

15. ORDINARY INCOME PER SHARE AND NET INCOME PER SHARE:

(1) Ordinary income per common share and net income per common share

Since the preferred shares could be converted into common stock and participating as to dividends, the computation of ordinary income per share and net income per share below applies to both common shares and preferred shares, respectively. Ordinary income per common share and net income per common share are computed by dividing the ordinary income (after deducting the tax effect) and net income available to common shareholders, respectively, by the weighted average number of common shares outstanding during the period. The capital infusion in common stock is also considered in the calculation of the weighted average number of common shares based on the payment date.

Ordinary income per common share, net income per common share, ordinary income per preferred share, and net income per preferred share for the year ended December 31, 2004 were calculated as follows:

1) Computation of the weighted average number of common shares and preferred shares outstanding during 2004

	No. of shares	Days	Cumulative no. of shares
Common stock			
Beginning balance	405,151,585	366	148,285,480,110
Treasury stock	(767,314)	366	(280,836,924)
Treasury stock	(280,980)	365	(102,557,700)
Treasury stock	(163,960)	362	(59,353,520)
Treasury stock	(240,000)	358	(85,920,000)
Treasury stock	(90,000)	348	(31,320,000)
Treasury stock	(300,000)	338	(101,400,000)
Treasury stock	(300,000)	337	(101,100,000)
Treasury stock	(133,210)	334	(44,492,140)
Treasury stock	(86,570)	291	(25,191,870)
Treasury stock	(60,180)	290	(17,452,200)
Treasury stock	(300,000)	236	(70,800,000)
Treasury stock	(186,920)	235	(43,926,200)
Treasury stock	(179,380)	234	(41,974,920)
Treasury stock	(47,410)	225	(10,667,250)
Treasury stock	(156,340)	200	(31,268,000)
Treasury stock	(76,550)	193	(14,774,150)
Treasury stock	(300,000)	192	(57,600,000)
Treasury stock	(181,820)	191	(34,727,620)
Treasury stock	(130,990)	190	(24,888,100)
Treasury stock	(138,710)	187	(25,938,770)
Treasury stock	(55,540)	186	(10,330,440)
Treasury stock	(150,700)	185	(27,879,500)
	400,825,011		147,041,080,806
Preferred stock			
Beginning balance	53,125,315	366	19,443,865,290

Note to Consolidated Financial Statements

December 31, 2004 and 2003

No. of common shares outstanding: $147,041,080,806 \div 366 \text{ days} = 401,751,587 \text{ shares}$

No. of preferred shares outstanding: $19,443,865,290 \div 366 \text{ days} = 53,125,315 \text{ shares}$

2) Computation of net income applicable to common shares and preferred shares (Unit: Korean Won)

Common shares: $\text{₩ } 307,625,368,186 \times 400,825,011 \text{ shares} \div (400,825,011 \text{ shares} + 53,125,315 \text{ shares}) = \text{₩ } 271,624,304,521$

Preferred shares: $\text{₩ } 307,625,368,186 \times 53,125,315 \text{ shares} \div (400,825,011 \text{ shares} + 53,125,315 \text{ shares}) = \text{₩ } 36,001,063,665$

Since there were no extraordinary item for the year ended December 31, 2004, ordinary income applicable to common shares and preferred shares was the same as net income applicable to common shares and preferred shares as computed above.

3) Computation of per share amounts for the year ended December 31, 2004 (Unit: Korean Won)

	Computation		Amount
Net income per common share	₩ 329,121,848,071	$\div 401,751,587 \text{ shares} =$	₩ 819
Ordinary income per common share	₩ 329,121,848,071	$\div 401,751,587 \text{ shares} =$	₩ 819
Net income per preferred share	₩ 41,313,600,115	$\div 53,125,315 \text{ shares} =$	₩ 778
Ordinary income per preferred share	₩ 41,313,600,115	$\div 53,125,315 \text{ shares} =$	₩ 778

Computation of per share amounts for the year ended December 31, 2003, for the three-month periods ended March 31, 2004, June 30, 2004 and September 30, 2004 were as follows (Unit: Korean Won):

	Dec.31.2003	Mar.31.2004	Jun.30.2004	Sep.30.2004
Per common share net income (ordinary income)	₩ 489	₩ 214	₩ 450	₩ 718
Per preferred share net income (ordinary income)	₩ 489	₩ 214	₩ 450	₩ 718

(2) Diluted ordinary income per share and diluted net income per share

Diluted ordinary income and diluted net income are computed by adding the ordinary and net income applicable to convertible preferred shares to ordinary and net income applicable to common shares. Diluted ordinary income per share and diluted net income per share are computed by dividing diluted ordinary income and diluted net income in 2004 by the number of common shares outstanding plus number of convertible preferred shares outstanding during the period.

The diluted ordinary income per share and diluted net income per share for the year ended December 31, 2004 were computed as follows:

1) Diluted ordinary income and diluted net income: ₩ 370,435 million (Since there was no extraordinary item in 2004, diluted ordinary income and diluted net income are the same)

2) Number of diluted shares: $401,751,587 \text{ common shares} + 53,125,315 \text{ preferred shares} = 454,876,902 \text{ shares}$

3) Diluted ordinary income per share and diluted net income per share: $\text{₩ } 370,435 \text{ million} \div 454,876,902 \text{ shares} = \text{₩ } 814$

Computation of per share amounts for the year ended December 31, 2003, for the three-month periods ended March 31, 2004, June 30, 2004 and September 30, 2004 were as follows (Unit: Korean Won):

	Dec.31.2003	Mar.31.2004	Jun.30.2004	Sep.30.2004
Per diluted share net income (ordinary income)	₩ 489	₩ 214	₩ 450	₩ 718

(3) As of December 31, 2004, convertible preferred shares were summarized as follows (Unit: Won in millions):

Issuance date	Preferred stock at par value	Exercise period	Number of common shares to be issued	Remarks
1999.12.28	₩ 234,577	6 months after issuance date	46,915,315	Conversion ratio is 1 : 1
2000.01.29	30,350	6 months after issuance date	6,070,000	"
2000.06.29	700	6 months after issuance date	140,000	"
	₩ 265,627		53,125,315	

16. DIVIDENDS:

(1) Dividends per share in 2004 and 2003 were as follows:

2004:

Shareholder	No. of shares entitled to receive dividends	Korean Won (In millions)		Dividend rate (%)	U.S. Dollars (Note 2) (In thousands)	
		Par value	Dividends		Dividends	Dividends
Common stock						
Principal shareholder:	284,724,728	₩ 5,000	2.0	₩ 28,472	\$ 27,277	
Minority shareholder:	116,100,283	5,000	5.0	29,025	27,807	
	400,825,011			₩ 57,497	\$ 55,084	
Preferred stock:						
Principal shareholder:	53,125,282	₩ 5,000	2.0	₩ 5,313	\$ 5,091	
Minority shareholder:	33	5,000	5.0	-	-	
	53,125,315			₩ 5,313	\$ 5,091	

2003:

Shareholder	No. of shares entitled to receive dividends	Korean Won (In millions)		Dividend rate (%)	U.S. Dollars (Note 2) (In thousands)	
		Par value	Dividends		Dividends	Dividends
Common stock:	404,984,273	₩ 5,000	4.0	₩ 80,997	\$ 77,598	
Preferred stock:	53,125,315	5,000	4.0	10,625	10,179	
	458,109,588			₩ 91,622	\$ 87,777	

(2) Dividend to net income ratio and dividend yield ratio (for common shares) in 2004 and 2003 were as follows:

Classification	Computation	2004	2003	Ratio
Dividend to net income ratio	Dividend amount / Net income	16.96%	40.91%	
Dividend yield ratio (Common shares) (*)	Dividend per share / Stock price (Closing price at balance sheet date)	1.38%	2.95%	Principal
		3.44%	2.95%	Minority

(*) Yield of preferred shares, which did not have any closing price available, was not calculated.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

17. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of significant assets and liabilities of the Bank based on the disclosure standard by the FSS as of December 31, 2004 was as follows (Unit: Won in millions):

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ (449,841)	₩ 28,734	₩ -	₩ -	₩ 1,099,453	₩ 678,346
Foreign currencies	196,613	-	-	-	-	196,613
Trading securities:						
Government, public, and						
local government bonds	1,752	424	14,703	219,177	177,372	413,428
Finance debentures	54,718	29,264	156,508	365,758	-	606,248
Corporate bonds	6,420	67,098	74,756	44,123	-	192,397
Available-for-sale securities:						
Government, public, and						
local government bonds	43,856	50,799	66,370	130,312	79,829	371,166
Finance debentures	521,001	368,711	1,049,839	1,023,772	-	2,963,323
Corporate bonds	85,736	257,433	467,901	705,918	192,902	1,709,890
Available-for-sale securities						
in foreign currencies	25,533	31,908	47,087	303,535	665,441	1,073,504
Held-to-maturity securities:						
Government, public, and						
local government bonds	77,021	20,114	25,690	200,165	502,055	825,045
Finance debentures	234,831	187,346	1,034,536	552,449	205,000	2,214,162
Corporate bonds	10,056	-	696,610	660,942	164,085	1,531,693
Loans:						
Local currency	7,929,164	10,787,684	16,739,348	6,054,499	6,227,593	47,738,288
Foreign currencies	211,041	390,107	620,877	879,277	682,485	2,783,787
Bills bought in local currency	123,407	-	-	-	6,705	130,112
Bills bought in foreign						
currencies	656,336	82,409	20,647	3,326	1,892	764,610
Domestic import usance	463,358	171,751	1,077	-	24,554	660,740

(continued)

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Advances for customers	₩ 18,421	₩ -	₩ -	₩ -	₩ 518	₩ 18,939
Factoring receivables	541,230	-	-	-	-	541,230
Credit card accounts	80,506	51,264	97,209	35,551	1,602,854	1,867,384
Call loans	603,873	-	-	-	-	603,873
Privately placed bonds	3,848	5,646	6,161	51,222	2,730	69,607
Inter-bank loans	209,162	95,237	95,497	343,988	340,626	1,084,510
Bonds purchased under repurchase agreements	820,000	-	-	-	-	820,000
Deposits:						
Local currency	11,584,665	4,496,819	9,100,458	9,675,749	981,534	35,839,225
Foreign currencies	414,186	53,231	255,479	435,385	-	1,158,281
Borrowings:						
Local currency	2,564,040	282,728	557,225	2,502,803	3,910,671	9,817,467
Foreign currencies	1,275,804	248,393	269,204	618,207	86,296	2,497,904
Bonds sold under repurchase agreements	659,050	275,364	365,605	-	-	1,300,019
Bills sold	663,053	475,568	804,742	-	-	1,943,363
Borrowings from Industry Foundation Fund	-	-	-	-	10,323	10,323
Due to BOK in foreign currencies	465	360	345	1,434	-	2,604
Call money	927,390	-	-	-	-	927,390
Debentures						
Local currency	1,708,758	2,188,274	3,278,723	1,781,510	997,507	9,954,772
Foreign currencies	-	-	552,608	542,382	968,442	2,063,432

Note to Consolidated Financial Statements

December 31, 2004 and 2003

18. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Assets:				
Cash	₩ 82,306	₩ 75,074	\$ 78,852	\$ 71,924
Due from banks	196,613	571,265	188,363	547,293
Securities	1,073,504	725,567	1,028,458	695,121
Loans	2,783,787	3,618,033	2,666,973	3,466,213
Bills bought in foreign currencies	764,610	821,063	732,525	786,609
Call loans	345,700	431,644	331,194	413,531
Others	1,700,083	2,242,269	1,628,744	2,148,179
	₩ 6,946,603	₩ 8,484,915	\$ 6,655,109	\$ 8,128,870
Liabilities:				
Deposits	₩ 1,158,281	₩ 1,055,726	\$ 1,109,677	\$ 1,011,426
Borrowings	2,497,904	3,359,485	2,393,087	3,218,514
Due to BOK	2,604	12,045	2,495	11,539
Call money	-	30,305	-	29,033
Debentures	2,063,432	1,839,308	1,976,846	1,762,127
Others	1,672,780	1,739,941	1,602,587	1,666,929
	₩ 7,395,001	₩ 8,036,810	\$ 7,084,692	\$ 7,699,568

19. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant balances with subsidiaries as of December 31, 2004 and 2003 were as follows:

		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2004	2003	2004	2003
Trust accounts of the Bank (*)	Accounts receivable	₩ 32,146	₩ 58,205	\$ 30,797	\$ 55,763
	Due from trust account	145,672	65,073	139,559	62,342
IBK SG Asset Management Co., Ltd.	Deposits	11,373	-	10,896	-
IBK Capital Corporation	Loans to trust account	-	21,910	-	20,991
	Accrued income	-	22	-	21
	Deposits	819	1,910	785	1,830
	Unearned income	79	51	76	49
IBK Tech Co., Ltd.	Deposits	7,729	5,645	7,405	5,408

(*) Including the trust accounts whose principal or interest guaranteed by the Bank.

(2) Significant transactions with subsidiaries for the years ended December 31, 2004 and 2003 were as follows (Unit: Won in millions):

		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2004	2003	2004	2003
Trust accounts of the Bank ^(*)	Interest income	₩ -	₩ 2,278	\$ -	\$ 2,182
	Fee and commissions	11,228	69,198	10,757	66,294
	Interest expenses	2,868	2,484	2,748	2,380
	Interest expenses	5	-	5	-
IBK Capital Corporation	Commission	221	288	212	276
	Interest income	8	786	8	753
	Interest expenses	-	8	-	8
	Commission incomes	4	4	4	4
IBK Tech Co., Ltd.	Interest income	-	4	-	4
	Selling & administrative expenses	8,157	16,475	7,815	15,784
	Interest expenses	145	139	139	133
	Others	63	-	60	-

(*) Including the trust accounts whose principal or interest guaranteed by the Bank.

(3) The Bank has provided ₩70,000 million (US\$ 67,063 thousand) and ₩ 102,143 million (US\$ 97,857 thousand) of acceptances and guarantees to IBK Capital Corporation as of December 31, 2004 and 2003, respectively. Also, the Bank has provided ₩ 512 million (US\$ 491 thousand) of guarantees to IBK Tech Co., Ltd. as of December 31, 2003.

Note to Consolidated Financial Statements

December 31, 2004 and 2003

20. SECURITIZATION ASSETS:

(1) Kieun Special Purpose Company:

The Bank sold loans of ₩ 490,932 million (US\$ 470,331 thousand) and ₩ 536,910 million (US\$ 514,380 thousand) for ₩ 370,000 million (US\$ 354,474 thousand) and ₩ 390,000 million (US\$ 373,635 thousand) to Kieun 4th and 5th Special Purpose Companies, respectively. With respect to these transactions, the Bank purchased subordinated bonds of ₩ 120,000 million (US\$ 114,965 thousand) and ₩ 130,000 million (US\$ 124,545 thousand), and the book values of the subordinated bonds are ₩ 87,250 million (US\$ 83,589 thousand) and ₩ 104,125 million (US\$ 99,756 thousand), respectively, as of December 31, 2004. Also, the Bank sold loans of ₩ 453,162 million (US\$ 434,146 thousand) for ₩ 7,895 million (US\$ 7,564 thousand) to KB Partner. In connection with this transaction, the Bank recognized the gain and loss on sale of loans amounting to ₩ 65 million (US\$ 62 thousand) and ₩ 108,498 million (US\$ 103,945 thousand), respectively for the year ended December 31, 2004.

For the year ended December 31, 2003, the Bank sold loans of ₩ 384,163 million (US\$ 368,043 thousand) and ₩ 445,387 million (US\$ 426,698 thousand) for ₩ 300,000 million (US\$ 287,411 thousand) each to Kieun 2nd and 3rd Special Purpose Companies. In connection with these transactions, the Bank recognized the gain on sale of loans amounting to ₩ 75,793 million (US\$ 72,613 thousand) for the year ended December 31, 2003 and also purchased subordinated bonds of ₩ 215,000 million (US\$ 205,978 thousand) of which the book value is ₩ 157,750 million (US\$ 151,130 thousand) as of December 31, 2004.

(2) KT & G common stock:

In 2000, the Bank entrusted 19,510,485 shares of its shareholdings in KT&G common stock (the "Trusted Securities") to the Trust account. The Securities Trust of the Bank issued a subordinated trust certificate to the Bank and a senior trust certificate to IBK Cayman Finance Company, a limited liability corporation organized and existing under the laws of Cayman Islands. The owner of the senior trust certificate is entitled to exercise a call option, which gives the owner a right to buy the KT&G shares at US\$ 352,909 thousand that expired in August 2003. However, the Securities Trust did not exercise the call option.

21. LIQUIDATION OF INVESTEE COMPANIES:

IBK Mutual Savings and Finance Company, which is a 100 percent owned subsidiary of the Bank, has been in the process of liquidation since 2001. The liquidation decision was made on October 23, 2001 based on the company's financial difficulties and uncertainty regarding its future operations. With respect to the liquidation process, the Bank paid ₩ 78,000 million (US\$ 67,679 thousand) as the guarantor of the borrowings of IBK Mutual Savings and Finance Company and wrote off ₩ 71,300 million (US\$ 61,866 thousand) for the year ended December 31, 2001. As of December 31, 2004, IBK Mutual Savings and Finance Company ended its liquidation process.

22. STATEMENT OF CASH FLOWS:

Cash flows from operating activities were presented by the indirect method. Cash in the cash flow statements includes cash and due from banks as of December 31, 2004 and 2003.

Significant transactions not involving cash inflows and outflows for the years ended December 31, 2004 and 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Write-offs of loans	₩ 619,678	₩ 1,099,767	\$ 593,675	\$ 1,053,619
Decrease in capital adjustments due to valuation of available-for-sale securities	175,646	(146,067)	168,276	(139,938)
Restructured credits accounted for newly	-	4,274	-	4,095
Transfer of construction in progress to buildings	-	4,672	-	4,476
Conversion of preferred stock into common stock	-	511,000	-	489,557
Conversion of KT&G stock from securities using the equity method into available-for-sale securities	439,910	-	421,450	-

23. SUBSEQUENT EVENTS AFTER BALANCE SHEET DATE

According to the agreement on the association of the Financial Institution Creditors of LG Card Co., Ltd., the Bank additionally invested in the stocks of ₩ 21.2 billion (US\$ 20.3 million) of LG Card Co., Ltd. in January 2005.

24. ACCOUNTS RECEIVABLE FROM ILLEGAL ACTS OF DIRECTORS AND EMPLOYEES

As of December 31, 2004, the Bank has accounts receivable of ₩ 1,742 million (US\$ 1,669 thousand) resulting from illegal acts of directors and employees, and provided 100% of other allowance considering its collectibility.

Business Network

● Head Office

50, Ulchiro 2-ga, Chung-gu, Seoul, 100-758, Korea
Tel: 82-2-729-6114/7114 Fax: 82-2-729-7095 Telex: K23932-4 Cable: IBK SEL SWIFT: IBKOKRSE
<http://www.ibk.co.kr>

● Regional Headquarters

Kangdong Regional Headquarters

201 Jamsil Reesireon Building, 22-5, Bangee-dong, Songpa-gu, Seoul, 138-050, Korea
Tel: 82-2-2145-0321-5
Fax: 82-2-2145-0326

Kangseo Regional Headquarters

817 Guro 3-dong, Guro-gu, Seoul, 152-878, Korea
Tel: 82-2-838-8762-7
Fax: 82-2-838-8768-9

Kangnam Regional Headquarters

2nd Fl, Handook Building, 735, Yeoksam-dong, Kangnam-gu, Seoul, 135-080, Korea
Tel: 82-2-564-9103-9
Fax: 82-2-564-9051-2

Bukbu Regional Headquarters

715, Hwanghak-dong, Chung-gu Seoul, 100-440, Korea
Tel: 82-2-2253-7683-8
Fax: 82-2-2253-0921-2

Seobu Regional Headquarters

255-1, Gongdeok 2-dong, Mapo-gu Seoul, 121-022, Korea
Tel: 82-2-3272-4234-9
Fax: 82-2-3272-4181-2

Kyungsu Regional Headquarters

519 Kojan-dong, Ahnsan-si, 425-020, Korea
Tel: 82-31-475-0812-7
Fax: 82-31-475-0818

Kyungin Regional Headquarters

126-7, Bupyong 5-dong, Bupyong-gu Incheon, 403-015, Korea
Tel: 82-32-501-4233-6
Fax: 82-32-501-4822-3

Choongchung Regional Headquarters

56-3, Won-dong, Tong-gu Taejeon, 300-010, Korea
Tel: 82-42-252-4000
Fax: 82-42-254-5974

Taegu and Kyungbuk Regional Headquarters

189-1, Pomo-dong, Susong-gu Taegu, 706-011, Korea
Tel: 82-53-749-5444-5
Fax: 82-53-754-8690

Pusan and Kyungnam Regional Headquarters

2, Kwangbok-dong, 1-ga, Chung-gu Pusan, 600-031, Korea
Tel: 82-51-245-9573
Fax: 82-51-245-9644-5

Honam Regional Headquarters

1600-3, Usan-dong, Kwangsan-gu Kwangju, 506-050, Korea
Tel: 82-62-949-5625
Fax: 82-62-949-5666-7

● Overseas Branches

New York Branch

1250 Broadway 37th floor New York, NY 10001 U.S.A
Tel : 002-1-212-268-6363
Fax: 002-1-212-268-0190
Telex: 273144 IBK. NY
SWIFT: IBKOUS33

Tokyo Branch

Akasaka Twin Tower
Main Building 9th Fl.
17-22, Akasaka 2-Chome, Minato-ku Tokyo, 107-0052, Japan
Tel : 81-3-3586-7304-7
Fax: 81-3-3586-7269
Telex: 2423058 IBK. J 2228350 IBK. J
SWIFT: IBKOJPJT

Hong Kong Branch

Suite 3113, 31/F, Two Pacific Place, 88 Queensway, Hong Kong
Tel : 852-2521-1398
Fax: 852-2596-0920
Telex: 79117 IBKHK HX
SWIFT: IBKOHKHH

Tianjin Branch

911 Tianjin International Building
75 Nanjing Road Heping District
Tianjin, 300050, China
Tel : 86-22-2330-5842
Fax: 86-22-2330-1847
SWIFT: IBKOCNBT

Qingdao Branch

1st Fl. Hisense Mansion, Donghaixi Road 17, Qingdao, China
Tel : 86-532-388-8900
Fax: 86-532-388-8990
SWIFT: IBKOCNBO

Contact Information

International Finance and Trade Department

Capital markets	Tel:82-2-729-7030	Fax:82-2-729-7003
Money market transactions	Tel:82-2-729-7954	Fax:82-2-729-7095
Correspondents banking	Tel:82-2-729-7262	Fax:82-2-729-7003
Credit ratings	Tel:82-2-729-7959	Fax:82-2-729-7095
Foreign currency loans	Tel:82-2-729-7048	Fax:82-2-729-7003
Overseas network information	Tel:82-2-729-7058	Fax:82-2-729-7095
Export payments	Tel:82-2-729-7230	Fax:82-2-729-7204~6
Foreign investors services	Tel:82-2-729-7208	Fax:82-2-729-7204~6
International factoring business	Tel:82-2-729-7253	Fax:82-2-729-7204~6
Letters of credit advising	Tel:82-2-729-7208	Fax:82-2-729-7204~6
Letters of credit issuance	Tel:82-2-729-7233	Fax:82-2-729-7204~6
Remittance inquiries	Tel:82-2-729-7220	Fax:82-2-729-7204~6

Investment Banking Department

Tel:82-2-729-7956 Fax:82-2-729-7904

Trading Department

Financial derivatives	Tel:82-2-729-6877	Fax:82-2-729-7944
Foreign exchange trading	Tel:82-2-729-7094	Fax:82-2-729-7944

Treasury Department

Derivatives settlement	Tel:82-2-729-7946	Fax:82-2-729-6885
Foreign exchange settlement	Tel:82-2-729-7962	Fax:82-2-729-6885

Investor Relations Department

Tel:82-2-729-7942 Fax:82-2-729-7105

Legal Advisory Department (Compliance)

Tel:82-2-729-6425 Fax:82-2-729-6322,5105

Risk Management Department

Tel:82-2-729-7168 Fax:82-2-729-6808

e-Business Department

Tel:82-2-729-7110 Fax:82-2-729-7704



INDUSTRIAL BANK OF KOREA

50, Ulchiro 2-ga, Chung-gu, Seoul, 100-758, Korea

Tel: 82-2-729-6114/7114

Fax: 82-2-729-7095

SWIFT: IBKOKRSE

Telex: K23932-4

Cable: IBK SEL

<http://www.ibk.co.kr>