



CREATING THE PLATFORM TO DRIVE AHEAD



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Profile

Established in 1967 as a government-owned bank specializing in foreign exchange, Korea Exchange Bank (KEB) came to hold an unrivalled position in trade financing and global finance as a result of Korea's export drive of the 1970s and 1980s. With the bank's privatization in 1989, KEB solidified its standing as one of the country's premiere commercial banks with a competitive presence in the private and corporate banking fields.

Strong revenue generation and the self-help efforts of the entire staff enabled KEB to overcome difficulties arising from the Asian financial crisis of 1997. In late October 2003, the Bank succeeded in attracting 1.075 trillion won in new capital investment from Lone Star, thereby expanding its equity capital and creating the platform to drive ahead.

Also in 2003, the Bank increased its non-performing loan (NPL) coverage ratio to 91%, finally allowing KEB to dispose of accumulated large-scale NPLs extended to major corporations in the past. The Bank's asset management structure and approach emphasize quality over quantity, with the focus of lending operations being small & medium-sized enterprises (SMEs) and households with superior credit ratings and/or good growth potential.

While KEB continues to maintain an unchallenged lead in the high fee income-generating area of foreign exchange, it is also actively expanding its revenue sources to include new products such as bancassurance, investment trust and others. In addition, systems designed to strengthen marketing capabilities of branches have almost been completed and are already in place at several branches, and new fee-income streams are expected following the recent merger with KEB Credit Service, previously a subsidiary of the Bank.

Financial Highlights

(in Billions of Korean Won)

	FY2002	FY2003	YoY
Total Assets	61,452.6	68,048.9	10.7%
Total Deposits	44,622.2	47,695.8	6.9%
Total Credit	39,182.8	41,677.9	6.4%
Corporate	28,956.2	29,922.6	3.3%
Household	10,226.6	11,755.3	14.9%
Paid in Capital	1,850.8	3,194.6	72.6%
Total Shareholders' Equity	1,845.8	2,951.9	59.9%
Income Before Provisions	522.2	673.6	29.0%
Net Income	113.0	-213.8	n.a.
BIS Ratio	9.31%	9.32%	0.01%p
Return On Assets	0.22%	-0.36%	-0.58%p
Return On Equity	6.56%	-9.96%	-16.52%p
Net Interest Margin	2.13%	2.14%	0.01%p
Substandard & Below Ratio	2.85%	2.59%	-0.26%p
Delinquency Ratio	1.68%	1.35%	-0.33%p

KEB begins fiscal year 2004 with a vastly expanded capital base, an improved balance sheet and a stronger revenue structure than ever before, while its 322 domestic branches and 30 overseas branches and subsidiaries constitute the most extensive global network of any Korean bank. Combined, these factors create a dynamic springboard for KEB's transformation beginning this year into a truly "Global Bank" and its emergence as one of Northeast Asia's leading financial institutions. 🌐

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Message from the CEO



Robert E. Fallon
Chairman, President & CEO

*“I look forward to meeting the challenge of restoring **KEB** to healthy net operating profitability in 2004.”*

Distinguished Shareholders,

I am pleased to provide my first report as your Chairman and Chief Executive Officer of Korea Exchange Bank.

Last year was a year of significant change for your bank. After several years of effort to address the capital weakness caused by extraordinary loan loss provisions, KEB succeeded in attracting new capital investment in the amount of KRW 1.08 trillion from Lone Star. By virtue of this capital investment, Lone Star has secured a 51% ownership stake in your bank. Commerzbank AG, which had been KEB's largest shareholder, is now the second largest shareholder with a 14.75% ownership interest.

This additional capital has greatly improved our balance sheet strength and allowed the bank to address the significant deterioration in the performance of its credit card subsidiary, KEB Credit Service.

As has been widely reported, the Korean credit card market in 2003 experienced an extraordinary rise in delinquent receivables. Liquidity has dried up and credit card companies have been faced with extraordinary erosion of their capital base. In this environment, KEB Credit Service incurred significant operating losses and was in danger of defaulting on its obligations.

Your management made a courageous and difficult decision in December 2003 to effect a merger with KEB Credit Service as a means of rescuing the card company and taking the necessary steps to rehabilitate its performance.

This merger became effective as of March 2, 2004, and I am pleased to report that the initial steps of merger integration have restored liquidity, stabilized IT operational integrity, and

largely normalized operations. Considerable focus and management attention will be required in 2004 to restore our credit card business unit to profitability.

As a consequence of this merger and write-downs associated with our equity investment in KEB Credit Service, I regret to report that your bank recorded a net loss of KRW 214 billion for fiscal year 2003. The bank has also taken substantial loan loss provisions of KRW 843 billion to provide for the dispositions of accumulated non-performing loans. Nonetheless, despite such provisions, your bank remains well capitalized with a BIS capital ratio of 9.32%.

Your management anticipates a return to healthy profitability in 2004 and an improvement in our BIS capital ratio to 10% or higher. Our strategic initiatives in Process Innovation, Sales Stimulation and Private Banking in our retail branches, our conversion to a Next-Generation System architecture in our IT platform, and our implementation of Key Performance Measurement Systems in our corporate banking area are all expected to contribute to enhanced profitability. Moreover, product innovation in areas such as custody, fund accounting, mobile banking and e-commerce are expected to further develop our non-funds revenue base. This is to complement our traditional strength in foreign exchange and trade finance, which remains key to KEB's reputation and skill as Korea's preeminent international bank with our 30 overseas branches and subsidiaries.

Lastly, let me offer a more personal observation. As one of the few foreign CEOs of Korean financial institutions, I am impressed with the changes that have taken place in the Korean financial sector since the reform initiatives were

undertaken in 1998. The standards of corporate governance and disclosure and the willingness to embrace international best practices have considerably strengthened the banking environment.

I am also pleased with the credit policy and procedures implemented at KEB over the last seven years. There is greater appreciation for risk management and audit standards. Moreover, I have been impressed with the quality and dedication of the staff of KEB. They are a talented team who are willing to embrace change and compete in a more globally competitive banking environment. KEB has the resources and dedication to succeed in this world. Your bank has three substantial legs of its foundation for future growth: a healthy and more innovative retail bank, an established and well-diversified corporate bank and, with effect from March 2004, a wholly-owned credit card division that has excellent potential for sustained revenue growth.

As your CEO, I look forward to meeting the challenge of restoring KEB to healthy net operating profitability in 2004.

Robert E. Fallon
Chairman, President & CEO



We can give you plenty of reasons why KEB is the place to bank...

but we think our customers say it best.







“As a leading cellular phone manufacturer, Pantech & Curitel has a large and growing presence in domestic and global telecommunications markets. Exports make up over 60% of our sales, and imports over 60% of our raw materials and components. Because of this high dependency on exports & imports - together with KEB’s strengths in FX, export/import finance, and its extensive global networks - we began our relationship with the bank in 2001.

KEB gives us a direct foreign exchange line with the FX Team in the bank’s Capital Market Banking Group, FX risk-hedging services, and real-time information for foreign currency management. These kinds of services are essential for companies active in markets like China, where transferring foreign currency and accessing information can be difficult. Thanks to KEB’s correspondent-bank relationships in China, however, these problems are always resolved quickly.

KEB is a true leader in corporate lending in many respects. For instance, the bank flexibly adjusts different categories of credit within the overall credit limit according to each borrower’s own situation. Also, KEB’s extensive global network means we can use its services conveniently, whenever and wherever in the world we carry out financial transactions.

Using KEB’s customized corporate Internet banking service, CMS PLUS, we can process up to 25 billion won in loans on collateral of accounts receivable. This creates more opportunities for transactions with Pantech & Curitel’s subcontracting companies and helps to expand stable income sources in the fast-changing telecommunications industry. As we continue our efforts to build the Pantech brand in the global marketplace, KEB will remain a valued partner.”

Moon S. Song, PhD
President & CEO of Curitel Communications, Inc.

Story 1.





Story 2.

“At age 66, I can now afford to look back at how I got where I am today. My friends and colleagues say it’s my demanding personality that’s made me what I am. Perhaps that is why I’ve chosen to bank with KEB. Because they share my close attention to detail and demand for accuracy in the way they develop and manage financial products and services.

I’ve placed all my financial assets under the management of KEB’s Private Banking staff, and I’m quite satisfied with the results. Their advice has nearly always led to success, they’re always ready with new products and investment-type instruments before existing accounts mature, and their overall asset management performance has been extremely good.

Seeing how well they’ve manage my own assets, it was natural that I turned to KEB to remit college tuition for my children studying overseas. Whether it’s real estate, gold, bonds or other kinds of investment, I consider KEB’s knowledge and expertise in Global Wealth Management to be the industry’s best. I’ve even recommended KEB to a number of VIPs from the business world for this very reason.

Along with KEB’s real estate, tax and legal advisory services, I’ve heard the bank will soon be partnering with Seoul Nat’l University’s Health Care System. To me, this shows that KEB is truly on par with banks in advanced countries when it comes to offering its customers “total lifecare” solutions.

Joong Kyu Yang

Chairman of Jung Han Company, Inc.

MOST OF OUR

33,414

“VIP CLIENTS”

HAVE BEEN WITH US OVER 10 YEARS.

WITH COMBINED DEPOSITS EXCEEDING

13.3

TRILLION WON IN 2003.



"DaimlerChrysler Korea, Ltd., chose KEB as one of our main banks because it's one of the leading banks in Korea, with a fully developed nationwide network which serves our needs and those of our customers. Fast, convenient and dependable access to banking services is particularly essential for doing business in our sector. And that's been our experience with KEB – they're fast, convenient and dependable.

Forex facilities are indispensable for foreign companies operating in Korea, and KEB is highly professional in this area. But from my own experience, KEB's strengths are not just FX and trade finance, but consultation for inward foreign investment as well, and the related regulatory and legal matters. They also know how to take good personal and professional care of newly arriving foreign executives, with a total service package that includes everything: foreign exchange, credit cards, passbook accounts – even information on housing.

For our customers who purchase passenger cars and commercial vehicles, we are interested in exploring the retail financing programs that KEB offers. In this way, KEB would be meeting our customer needs and helping us to expand our business in Korea."

Wolfgang Nottebaum
CFO of Daimler Chrysler Korea, Ltd.

Story 3.

3,697 FOREIGN-INVESTED COMPANIES BANKED WITH KEB IN 2003

362 MORE THAN IN 2002,

AND WELL OVER

35% OF ALL FOREIGN DIRECT INVESTMENTS HAVE BEEN MADE THROUGH KEB.

"I'm an ethnic Korean born in Yanbian, China. After obtaining Korean citizenship, I set up a Chinese restaurant right beside KEB's FX Remittance Center, a new subbranch of the Banwol Industrial Complex Branch.

I opened my first account with KEB at the Banwol Branch two years ago, and I began making monthly remittances to my family in China. Once the staff at the branch knew that I ran a Chinese restaurant, they started dropping by for meals. We became very close, and I've been doing business with them ever since.

My main transaction is making online transfers for my children's tuition at the College of Education in Zhejiang, China, which I consider both a pleasure and an investment in the future. It's now a lot easier to transfer money overseas since KEB opened their FX Remittance Center in 2003.

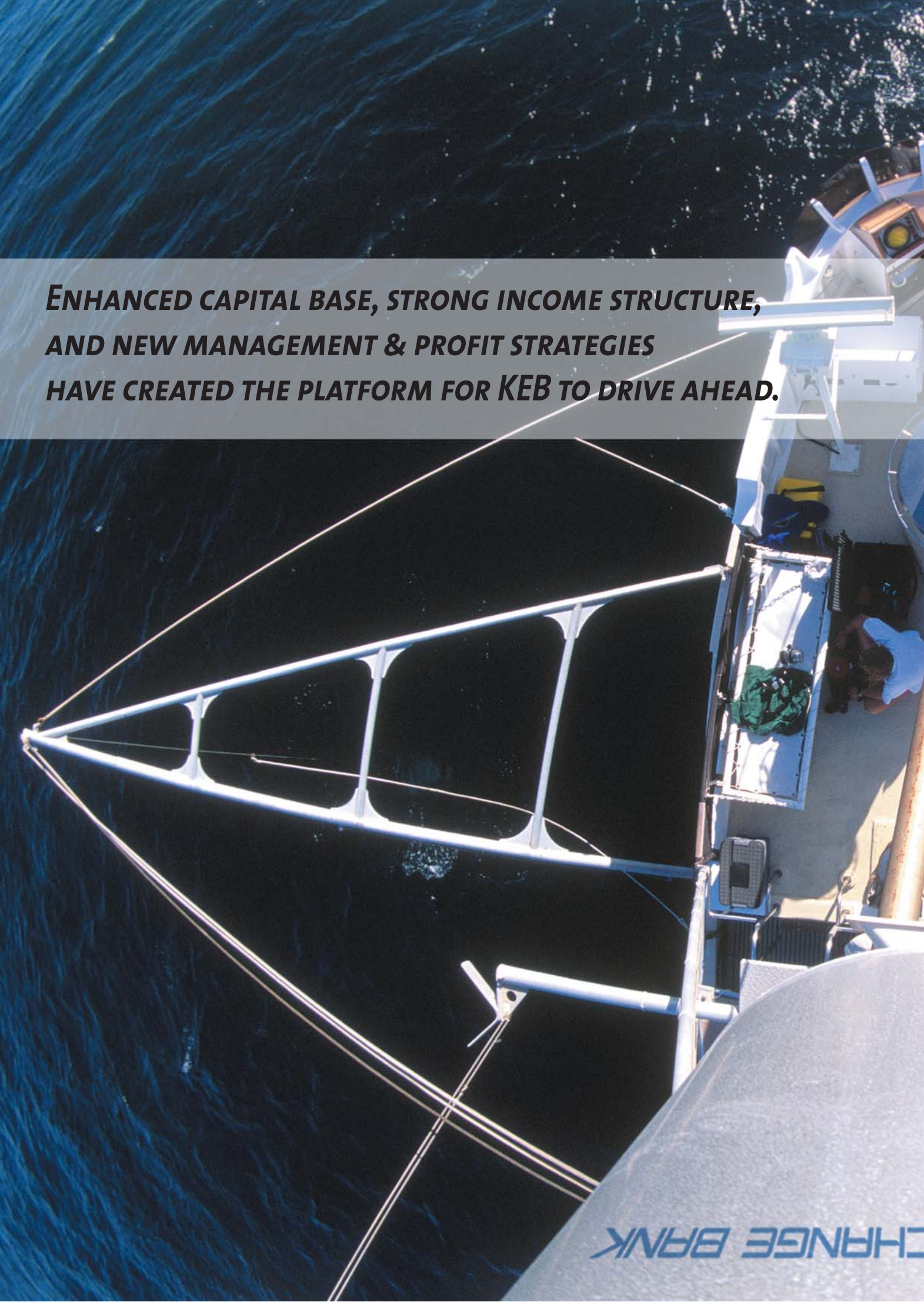
This is the main residential area for foreign laborers from China and Southeast Asia, and I've heard there are 50,000 to 60,000 foreigners working at the nearby Banwol and Sihwa industrial complexes. KEB makes it very easy for all of us to take care of our FX business by staying open till 8 p.m. on weekdays, and they're even open on Sundays, too.

Cho Kyung Sook (Zhao Jing Shu)
Owner of Yanbian Chinese Restaurant

Story 4.






An aerial photograph of a white sailboat on a deep blue ocean. The boat's mast and rigging are visible, extending from the deck towards the bow. On the deck, there are some items, including a green bag and a person in a light blue shirt. The text is overlaid on a semi-transparent grey band across the middle of the image.

***ENHANCED CAPITAL BASE, STRONG INCOME STRUCTURE,
AND NEW MANAGEMENT & PROFIT STRATEGIES
HAVE CREATED THE PLATFORM FOR KEB TO DRIVE AHEAD.***

CHANGE BANK



[RETAIL BANKING] [CORPORATE BANKING] [GLOBAL BANKING] [FX & TRADE FINANCE] [RISK MANAGEMENT]

Fiscal year 2003 signified the start of a fundamental and far-reaching transformation for KEB. Our successful inducement of foreign capital in late 2003 from Lone Star in the amount of 1.075 trillion won has significantly improved the Bank's capital base. One of the most direct and immediate consequences of the recent capital infusion has been the reduction of KEB's NPL legacy and the resulting enhancement of our asset quality. The Bank continues to clean up its balance sheets, which has been well reflected in our substantially reduced NPL ratio at the end of 2003. Moreover, KEB's year-end coverage ratio for loans classified as substandard and below was well over 90%.

Equally important has been the arrival of a new top management under the helm of our new CEO, Robert E. Fallon, as well as the introduction of strategic initiatives designed to build on KEB's existing strengths, identify new opportunities for continued growth, and steer a steady course to greater profitability.

Likewise, the Bank's ownership structure has also seen dramatic change, with combined shares owned by the Bank of Korea and Korea Export-Import Bank declining from 43% to 20% of total outstanding shares following Lone Star's equity participation. This has effectively reprivatized KEB and put it back on a solid growth path, following the Asian financial crisis of the late 1990s.

Of particular interest to the Bank's shareholders is our recent listing on the Korea Corporate Governance Stock Price Index (KOGI), a select group of 50 companies on the Korea Stock Exchange evaluated for superior management transparency and good corporate governance practices.

Ongoing improvement of our ability to effectively manage all types of risk will accelerate in 2004, as will new strategies aimed at enhancing profitability. These include implementation of Sales Stimulation Programs to hone product and service marketing abilities in the retail sector, Key Performance Indicators in corporate banking, and Next-Generation Systems architecture in our IT platform. Furthermore, preparatory efforts in advance of the adoption of the Basel II Accord, the new set of BIS standards, will also go forward with the goal of raising KEB's capital adequacy ratio to over 10% by the end of 2004.



RETAIL BANKING

Overview

The Korean retail banking market in 2003 continued to prove a relatively difficult operating environment. The ongoing effects of previous years' household loan and credit card crises, chronic sluggishness in domestic consumption, and persistently low interest rates all weighed heavily on local financial institutions.

Responding to this less-than-favorable business climate, Korea Exchange Bank (KEB) implemented a series of strategies and product & service innovations during the year that played directly to its strengths as Korea's leading foreign exchange (FX) and export/import handler.

Armed with our newly strengthened asset base, outstanding fee-earning structure, and enhanced transparency and management discipline, KEB emerges from 2003 as an institution more and more customers are turning to for an increasing range of financial and even non-financial needs. We stand ready to take the next step in 2004 to become a truly "Global Bank" recognized for our world-class banking standards and practices.

2003 Results

Retail banking produced solid gains in most key indicators in 2003, with this sector continuing to represent a large and thriving part of overall banking operations. Income from retail banking grew 18.5% YoY to 615.4 billion won, equal to 70% of KEB's total operating income of 879.2 billion won. Retail

banking also accounted 47.7%, 45.5% and 28.5%, respectively, of the Bank's total funding, loans, and FX transactions.

Deposits

Total deposits recorded as of the end of 2003 stood at 23,220 billion won, up 9.2% or 1,930 billion won over 2002. Core deposit products (demand deposits, etc.) rose 6.8% YoY, or 426.6 billion won, to 5,987 billion won, helping to expand interest income and thereby improve NIM.

To grow the portion of low-cost high-income core deposits, KEB concentrated its efforts on customer segmentation and on the development and marketing of products to meet the needs of each customer segment. Such new product offerings included equity-linked time deposits, exchange rate-linked time deposits, and beneficiary certificate deposits. We also took advantage of our predominance in foreign exchange to pursue FX customer segmentation and execute differentiated marketing, continuing to cross/up-sell our new Money Bag Service and other instruments aimed at FX customers.

To satisfy customers' increasingly diverse needs, the Bank rolled out derivative products, such as 11 recurring equity-linked securities (ELS) and seven recurring commodity-linked securities (CLS) in 2003, sales of which totaled 697.7 billion won and 99.9 billion won, respectively. In addition, KEB entered the bancassurance business – standard fixed and installment deposits combined with insurance products – in early September of 2003 to better meet the specific requirements of our customers.

Lending

Household loans rose 15.0% YoY to 11,756.3 billion won, or roughly 43% of all loans in Korean Won extended by the Bank last year. Of this total, home equity loans and mortgages accounted for a combined 68.5%. Our strategic objective in household lending continues to be earnings growth through improved portfolio quality, and overall strengthening of our asset base through active risk management.

Although the delinquency ratio for the Bank's household loans inched up 0.2% YoY to 1.25%, this figure remains relatively low by industry standards. On the other hand, steady progress toward eliminating non-performing loans (NPLs) on the corporate side effectively cut KEB's overall delinquency ratio from 1.68% in 2002 to 1.35% as of year-end 2003.

Private Banking Business

Private Banking (PB) and customer relationship management (CRM) continue to be the foci of KEB's retail banking strategies, as efforts increase to earn and retain the loyalty of high-net-worth individuals (HNWI) with the kinds of differentiated, comprehensive services – both financial and non-financial – that these clients have come to expect from their bank.

Service differentiation follows customer segmentation, as KEB classifies customers as follows: "Super-VIP Customers" (deposits of 1 billion won and over), "VIP Customers" (100 million to 1 billion won) and "Prospective Customers" (potential customers targeted for PB services). We are working to increase the weighting of these target customer groups with tailored "Life Care" packages that include traditional retail banking services as well as brokerage, insurance, health, tax, real estate, and legal advisory offerings.

Super-VIP and VIP Customers numbered 33,414 individuals at the close of 2003, up from 30,322 in 2002. Though relatively few in number given KEB's total base of 4.7 million retail banking customers, the combined deposits of HNWI's stood at 13.3 trillion won, or 53% of retail banking deposits, marking a solid 14.6% rise over 11.6 trillion won in 2002. Our share of this niche-customer market rose from 8.0% to 8.3% YoY, and is targeted to reach 9.0% in 2004.

With the rising number of HNWI's in Korea and their potentially significant contribution to the Bank's earnings performance, KEB expanded its PB Channels from 45 in 2002 to 60 last year and broadened its product & service profile. In addition, Global Wealth Management Centers (GWMCs) were established at three PB Branches to cater specifically to HNWI's, with another seven GWMCs and 25 new PB Branches scheduled to be up and running by the end of 2004. Furthermore, the 61 Private Bankers assigned to PB Branches and GWMCs in 2003 will be raised to 90 in 2004.

Credit Card Business

The merger between KEB and our former credit card subsidiary effective as of March 2, 2004, poses unique challenges as well as opportunities for the Bank. To improve KEB's credit ratings going forward, we seek to absorb KEBCS's reported FY2003 net loss of 1.4 trillion won while reactivating credit card business operations, placing top priority on enhancement of profitability rather than pursuing further loan growth. Increases in 2003 net

income and fees & commissions of 21% and 22%, respectively, demonstrate the Bank's superior profit base. By maintaining the same commitment to financial fundamentals in the credit card business, there is every reason to anticipate a sizeable income increase in 2004. Moreover, as fee income from card-based cash advances will be added to KEB's total interest income rather than to non-interest income, net interest margin will also improve.

CORPORATE BANKING

Overview

Small & medium-sized enterprises are as important to KEB's customer inducement and lending strategies as they are to the Korean economy itself. From manufacturing to the service industry, exporting or importing, retailing or wholesaling, each SME has its own unique set of needs and goals. The Corporate Customer Business Unit acts as an all-around "Solution Provider" for this key customer group, creating and marketing a broad array of "Package Solutions" comprising banking products, incentives and business support services.

SME Business Results

As a customer group, SMEs continued to rank as the single largest beneficiary of the Bank's lending activities, with SME lending on an average-balance basis accounting for 46.5% of total loans and a full 80% of all won-denominated corporate loans extended by KEB in 2003. The 14.33 trillion won in loans to SMEs last year (average-balance basis) represents a 39.9% increase over 10.24 trillion won in 2002.

The Bank stepped up marketing efforts in 2003 aimed at inducing promising new SME customers, raising their total to 3,962 firms, of which 1,777 are engaged in the export/import business.

KEB handled a total of \$22.77 billion in export/import financing, including remittance-type transactions, for SMEs last year, 33% up from \$17.11 billion recorded in 2002.

Membership in the Bank's KEB Prime Business Club, a club launched in 2001 aiming to bolster banking relations with blue-chip small and medium-sized enterprises, rose to 279 in 2003. KEB provides a host of differentiated services to members of the Prime Business Club and representatives of regional enterprises, including holding various seminars on



foreign exchange risk management techniques, foreign exchange rate forecasts and other topics of interest. Last year, the SME Consulting Center was established to offer our SME clientele more personal, customized support in the form of financial consulting, advice on FX risk management, and other services.

Targets for 2004

As we hone our ability to compete for and better serve the all-important SME market segment, we have positioned KEB as a total "Solution Provider" of differentiated products and services tailored to the needs of precisely defined customer niches. These include highly creditworthy SMEs, export/import SMEs, and SMEs advancing overseas or planning to do so.



In order to attract such customers and earn their loyalty, we are stepping up marketing of newly developed offerings like low-interest Star Loans and preferential trade financing terms, while cross-selling incidental products and services in conjunction with traditional lending and FX facilities. Bancassurance, FX risk management products, multicurrency revolving credit, B2B loans and mobile loans – just a taste of what KEB now offers SME customers.

To enhance marketing infrastructure and efficiency, KEB continues to streamline its global branch network through the merging or closure of unprofitable branches, while establishing new branches in regions deemed promising for corporate banking. Meanwhile, the creation of the Sales Stimulation Program (SSP) Team is strengthening the marketing capabilities of our corporate banking staff.

KEB will be taking a series of steps this year with an eye to enhancing the profitability and asset quality of its SME operations. Chief among these are fee business expansion, multiple revenue source cultivation, branch network consolidation, and strengthened credit risk management.

Foreign Companies in Korea

Korea's inward foreign direct investment (FDI) dropped to \$6.4 billion in 2003, down 28.9% from the previous year. Despite this decline, KEB managed to add 362 foreign-invested firms to its client roster to end the year with a total of 3,697 foreign corporate customers. The increase boosted the Bank's total revenue recorded last year by 97.4 billion won.

Given our status as Korea's preeminent FX handler and our proven expertise in corporate finance, it is natural that a growing number of foreign-invested companies choose to bank with KEB. Heading the list of our foreign corporate customers are such well-known names as Rolls-Royce Marine, BASF, ThyssenKrupp, Fujitsu, Heineken, BMW and DaimlerChrysler.

Inducing and retaining the loyalty of these clients requires the same approach as for retail customers: satisfy needs, meet expectations and create value. We accomplish this through close and constant relationship-building, the strategy employed by KEB's International Corporate Division. The division seeks to grow the Bank's foreign corporate customer base and increase the amount of lending to their local operations. Focusing its marketing efforts on Korean subsidiaries of Fortune 500 and BusinessWeek 1000 multinationals, the division provides one-stop service, packaged financial solutions and investment advisory for foreign-invested companies both large and small.

GLOBAL BANKING

Investment Banking

KEB has established itself as Korea's pioneering investment bank since 1967. For the year 2003, we continued to enjoy our leading position in terms of client franchise, product diversification and quality of service. Total investment banking revenue in 2003 was 195.6 billion won, of which 29.6 billion won was from credit & structured finance, 10.6 billion won from derivatives, 27.7 billion won from FX trading, and 127.7 billion won from security investments and trading.

Credit & Structured Finance

Due to reduced corporate demand, 2003 was a difficult year for all market players. However, KEB utilized its extensive know-how and marketing capabilities to arrange and participate in 33 deals in project finance, corporate finance, structured finance and real estate finance. The combined amount of

loan participations in such deals was 370.8 billion won. Notably, KEB once again demonstrated its capital market prowess with its performance as mandated lead arranger and bookrunner for Hanaro Telecom's 720-billion-won leveraged recapitalization. The deal was named "South Korea Loan of the Year" by IFR Asia and represented KEB's second such distinction in the past two years.

M&A

The year 2003 was a lackluster period for the M&A market in Korea. To revitalize M&A activities, KEB continues to strengthen deal-sourcing efforts aimed at existing loan clients, underwriting and advisory service business, private-placement M&A funds, and cultivating promising long-term client relationships.

FX Trading & Derivatives

KEB is ranked No. 1 in the FX trading market with a 14% share of overall trading (10% in spot, 15% in forward/swap). As president of Korea Forex Club and executive secretary of Seoul FX Market Operation Committee, we are a renowned market leader. KEB developed new derivative products, including ELD and FX Linked Deposits, that contributed substantially to our income for 2003.

Securities Investments and Trading

KEB is a primary dealer of Korean government bonds, playing a leading role in this market. We also outperformed the competition by a vast margin in the equity and foreign-currency bond markets in 2003. The average balance of holding securities for investments and trading was 8,580.6 billion won in 2003 (7,162.6 billion won in bonds, 58.7 billion won in stocks, 927.4 billion won in beneficiary certificates, and 431.9 billion won in foreign-currency securities).

Custody & Fund Administration

We maintained our firm grip on the No. 2 position in Korea's custody market in 2003. Although the overall scale of the industry in Korea shrank 14.2% from 182 trillion won at the end of 2002 to 156 trillion won at the end of 2003, KEB managed to hold 23.6 trillion won in assets under custody for a market share of about 15.1%. KEB Investors Services Co., Ltd., which was spun off as a subsidiary of the Bank in April 2003, currently engages in business partnerships as a Fund Administration Service Provider in alliance with U.S.-based State Street Bank and Trust Co. Armed with advanced accounting & settlement systems, industry best practices, and the nation's largest pension funds as our customers, KEB will continue to solidify its position

in this business sector in 2004.

Large Corporate Banking

Having resolved its legacy burden resulting from non-performing loans and effectively eliminating the over-concentration of loans to major conglomerates, KEB now pursues a profit-oriented marketing approach toward large corporate customers. Today our focus is on creating a more fee-based income structure through diversification of fee-earning sources, rather than simply offering traditional lending services.

The Bank's Large Corporate Banking Group (LCBG) aims to attract 100 new customers this year through aggressive marketing of our new STAR Loan Sales to Korea's superior large companies. To enhance portfolio management and secure customer loyalty, the LCBG has segmented customers by credit worthiness and profitability, automating the pricing of products and services accordingly. Playing the role of Product Innovator, the LCBG develops and sells competitive structured products designed to expand KEB's loan marketing platform and improve profit margins.





Merchant Banking

KEB's merchant banking activities were robust in 2003, with bills issuance and merchant banking accounts rising 48% and 23% YoY, respectively, to post 1,835 billion won and 2,178 billion won. Discounted commercial paper also rose a respectable 21% from 1,760 billion won in 2002 to 2,125 billion won last year on an average outstanding basis. Among the Bank's specialized merchant banking facilities, only cash management accounts (CMA) showed a decrease YoY, falling 35% from 511 billion won to 333 billion won.

OVERSEAS OPERATIONS

Overview

KEB enjoys the most extensive overseas network, comprising overseas branches, representative offices and subsidiaries, of any Korean bank. Last year, we broadened our global presence even further with the addition of our newly opened Shanghai branch, bringing to 48 the total number of offices operating in 21 countries in all key regions of the world.

2003 Results

We continued the restructuring of under-performing branches and subsidiaries, while establishing a presence in dynamic new markets around the globe. The sale of the Broadway branch (New York City) was completed in December, while the sale of our Chicago branch and KEBB, our subsidiary in Brazil, is now underway. In addition, KEB Ireland, a subsidiary in Ireland, is in the process of being closed.

Our Dubai Representative Office was launched in September, and our new Shanghai branch officially opened its doors the following month.

The Overseas Banking Group instituted a series of changes last year to improve the management and marketing capabilities of KEB's global network. Performance now determines tenure and pay at overseas operations, as it does at our domestic operations, while management systems and administrative budgets have been standardized. To drive fee business income, the Bank launched programs to promote the ratio of L/C advising and outward remittance to KEB's overseas offices. In the area of IT infrastructure, the KEB International Banking System (KIBS) was expanded to our Panama and Hanoi branches, and Global Internet Banking System (GIBS) is now up and running at our Tokyo, Hong Kong, Singapore, Manila and Paris branch offices, as well as subsidiaries KEBDAG (Germany) and KEBOC (Canada).

Overseas operations ended 2003 on a positive note overall, with total assets up a significant 17.8% YoY to \$7.141 billion from \$6.060 billion, due mainly to the increase of loans and bankers' acceptance. Lending and deposit-taking activities were both brisk, as loans rose from \$2.89 billion to \$3.32 billion, while deposits edged up from \$2.34 billion to \$2.62 billion. Although pre-provision income improved from \$119 million to \$129 million, net income generated by KEB's overseas offices contracted sharply to \$59 million from \$93 million in 2002. Ongoing efforts to enhance loan portfolio quality whittled down the overdue loan ratio of overseas operations to 0.7% from 1.0% YoY, though the classified loan ratio bounced back to the 2001 level of 3.9% from 2.1% in the previous year. Loan loss reserves for classified loans strengthened further to a healthy 130% from 113% in 2002.

Operational Directives for 2004

Changes to KEB's global operations this year will include ongoing branch restructuring in previously cultivated markets, particularly in the Americas, and careful monitoring of emerging opportunities to expand elsewhere. We will strengthen existing alliances with local banks wherever we do business, introduce an evaluation system for representative offices, and devise a profitability model for each branch or subsidiary. Naturally, China will be central to our growth strategies in 2004, as we cultivate more China specialists from Korea and place them in the field, and train locally hired staff at our Chinese operations.

FX & TRADE FINANCE

Overview

KEB continued its longstanding reign as Korea's undisputed leader in the foreign exchange business last year, capturing over 48% of the market and placing us well ahead of the second largest FX-dealing bank which accounted for 14%. We also handled over 24% of both export and import transactions in 2003, thereby maintaining our solid market share in trade finance as well.

These results, and the steady stream of innovative new products and services that helped to achieve them, demonstrate KEB's growing success at raising our brand value as Korea's premier foreign trade bank.

2003 Results

The combined volume of trade finance & FX transactions recorded during 2003 reached \$151.4 billion, a gain of 16.1% over the previous year's \$130.4 billion. This figure breaks down into export financing of \$47.4 billion, up from \$38.4 billion in 2002, import financing of \$44.1 billion (from \$34.6 billion), and foreign exchange handling of \$59.9 billion (from \$57.3 billion). The Bank took in 48.6% of all FX transactions performed by Korea's eight major commercial banks, down from 51.3% the previous year. We increased our shares of the export and import finance markets from 23.6% to 24.4% and from 22.8% to 24.7%, respectively.

Income from foreign trade business stood at 324.2 billion won at the end of the year, rising 11.9% from 289.7 billion won in 2002. Of this figure, gains on FX transactions tallied 205.0 billion won, fees & commissions 79.5 billion won, and interest income 39.8 billion won. FX and trade finance made a significant and growing contribution to the Bank's overall operating income, accounting for 45.8% as compared to 34.0% in 2002 and 27.6% in 2001.

Vision for 2004

By leveraging our brand value as Korea's "Trade Finance and FX Specialist," we will focus on strengthening our market dominance and increase fee income in 2004.

Meeting these goals will entail continued development and roll-out of new products and services to attract new customers, differentiated marketing and PR efforts to raise brand value, and strategies to strengthen infrastructure. To boost fee income, we will upgrade FX and trade finance pricing systems

and broaden the range of fee-business income sources vis-à-vis alliances with foreign financial institutions.

RISK MANAGEMENT

Overview

Global financial market integration, stiffening competition in the financial services sector, product diversification, and growing demands for sounder management from supervisory and credit rating agencies have increased the awareness of the importance of effective risk management. KEB has focused on the development and standardization of three key areas of risk management: organization, process and IT infrastructure.

As the first domestic bank to adopt modern risk management techniques, we continue to strengthen and update all risk management-related systems to the highest industry standards. In close cooperation with regulatory authorities, accounting and other related entities, the Bank is also building a risk management basis in preparation for adopting New Basel Capital Accord guidelines for measuring credit and operational risk with respect to determining capital levels.

Risk Management Organization

In terms of the Bank's risk management organization, the Risk Management Committee established under the supervision of the Board of Directors sets bank-wide risk management policy and direction. The Risk Management Division is exclusively responsible for enforcing risk management directives by business line, thereby ensuring the independence of overall risk management activities. The chairman and members of the Risk Management Committee are outside directors, thus guaranteeing the objectivity and independence of their decisions.

To promote qualitative improvement and expertise in risk management, the Risk Management Division carefully selects appropriate staff who possess specialized knowledge and experience (e.g., financial risk managers, certified public accountants, MBA-holders, etc.) and encourages them to pursue long-term service in their respective fields.

In addition, a risk management section has been set up within each business unit to ensure the efficient operation of risk management procedures, issuing regular reports and performing round-the-clock monitoring. Established throughout the Bank, these risk management sections enable KEB to stay fully

abreast of rapid changes in financial markets and respond to risk factors in advance, as conditions require, with effective countermeasures.

New Basel Capital Accord

In response to the BIS standards set forth under the New Basel Capital Accord, KEB is working with supervisory authorities and financial institutions to build an advanced banking infrastructure. Spearheading efforts in this area is the New Basel Accord Task Force, created in conjunction with financial regulators and fellow commercial banks. Operating with the participation of KEB's relevant Banking Groups, the Task Force Team builds various credit risk management and monitoring systems and databases, and conducts impact studies that will facilitate our compliance with the new BIS risk management guidelines.

Risk Control & Management Process

Credit Risk

KEB employs a credit risk system that allows us to manage a customer's potential for loss at an appropriate level, through Credit VaR calculations according to the borrower's rating or organizational status. These calculations are based on Credit Suisse First Bank's CreditRisk+ portfolio approach for qualifying credit default risk. Also, through all-out expansion of the individual loan rating system, KEB has introduced advanced credit risk management techniques and established the foundation for implementing RAPM assessment at all branches.

Market Risk

To maintain optimal portfolio structure, KEB employs the globally acclaimed RiskWatch risk management tool to assess market factors and their impact on all financial products, making daily mark-to-market valuations, correlations to estimate

Market Value-at-Risk (VaR), sensitivity calculations and scenario analyses.

Interest Rate Risk

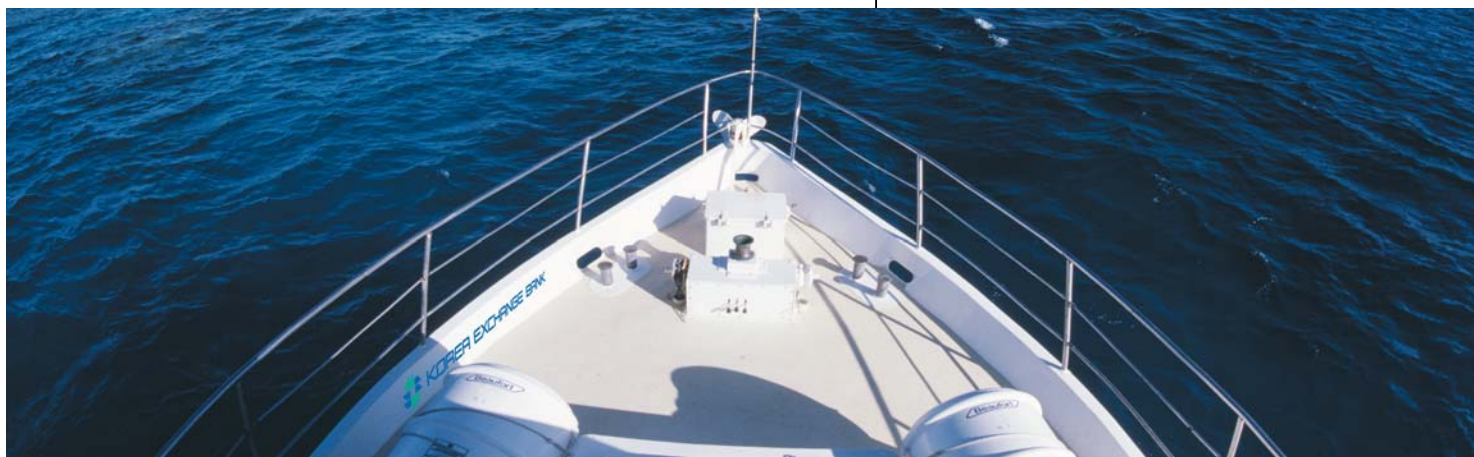
KEB calculates interest rate risk using interest rate sensitivity gap and effective duration gap. This is coupled with management of Earning at Risk (EaR). Through reorganization of its interest rate management system, accurate profit and loss calculations at the operational and business unit level are now possible. KEB has also bolstered its interest rate management capabilities with the adoption of a single yield curve for funding and application. The establishment of a daily ALM system has improved KEB's interest rate risk management capabilities with regard to changes in the market.

Liquidity Risk

With its liquidity risk contingency plan, KEB has established measures for rapid response to all types of crises. KEB can continuously monitor any crisis and has established a daily ALM system that has enhanced liquidity ratio management and liquidity risk management capabilities.

Operational Risk

Operational risks come in many forms, from those that can affect business strategy, work processes and computer systems to others that concern the Bank's credibility or matters of a legal nature. To counter and manage operational risks, KEB employs inspections and monthly and quarterly checklists covering all aspects of risk management performance, which are then reported to the Risk Management Committee. In response to the recent increase in electronic banking, security surveillance in this area has also been strengthened.



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Management Discussion & Analysis

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1. Key Financial Data

	(in Billions of Korean Won)		
	2002	2003	Change YoY
Operating Results			
Total income	1,575.0	1,541.9	-33.1 (-2.1%)
Net interest income	997.1	1,205.1	208.0 (20.9%)
Fees & commissions	464.7	564.8	100.1 (21.5%)
Non interest income	113.2	-228.1	-341.3 (n.a.)
Total expenses (G&A)	572.7	662.7	90.0 (15.7%)
Provision & others	889.3	1,093.0	203.7 (22.9%)
Operating income	1,002.3	879.2	-123.1 (-12.3%)
Net income	113.0	-213.8	-326.8 (n.a.)
Per Share Data (won)			
Earnings per common share	508	-348	-856 (n.a.)
Profitability Ratio			
Return on assets	0.22%	-0.36%	-0.58%p
Return on shareholders' equity	6.56%	-9.96%	-16.52%p
Net interest margin	2.13%	2.14%	0.01%p
Balance Sheet Data at Year-end			
Total assets	61,452.6	68,048.9	6,596.3 (10.7%)
Totals credits	39,182.8	41,677.9	2,495.1 (6.4%)
Total deposits	44,622.2	47,695.8	3,073.6 (6.9%)
Asset Quality Ratio			
Substandard & below ratio	2.85%	2.59%	-0.26%p
Precautionary & below ratio	5.78%	4.59%	-1.19%p
BIS Ratio			
(Tier 1)	9.31%	9.32%	0.01%p
(Tier 2)	4.66%	4.68%	0.02%p
(Tier 2)	4.65%	4.64%	-0.01%p

2. Overview

The year 2003 marked a major turnaround at KEB. Throughout much of the year, KEB experienced a severe constraint on asset growth due primarily to its weak capital base. The bank's capital adequacy ratio fell to a low of 8.6% in 1Q 2003, though it eventually recovered to 9.6% in 2Q with the issuance of Korea's first domestic Tier I Hybrid Capital in the amount of 250.0 billion won. However, KEB's industry-low BIS ratio soared to 11.9% on a pro forma basis upon arrival of Lone Star in Oct. 2003. Lone Star, the new major shareholder based in Dallas, Texas, injected 1,075.0 billion won of new money to fully remedy KEB's ongoing setbacks, i.e., huge write-offs totaling over 4.5 trillion won and NPLs sale of totaling over 5.0 trillion over the past six years since the outbreak of the Asian financial crisis. The setbacks represent the bank's ongoing efforts to clean up its balance sheet by paring down excessive loan exposure to several large Korean corporations, including affiliates of the Hyundai and Daewoo group. In 2003, KEB aggressively provisioned over 843.0 billion won. As a result, net exposure to Hynix as of the end of 2003, excluding the equity portion, had been reduced to nearly zero. The additional capital injection from Lone Star has helped the bank overcome the significant deterioration in performance of its credit card subsidiary, while maintaining a BIS ratio of 9.3% in 4Q 2003.

The bank has fully recovered from its weak capital base and substantially reduced its legacy large exposure risks to a more manageable size, thus setting the stage for a positive turnaround going forward.

3. Operating Results

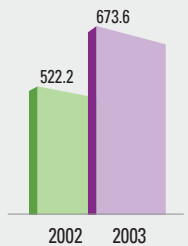
1) Profitability

Despite the sharp decline in non-interest income, which stood at -228.1 billion won after a huge equity write-down of nearly 322.0 billion won for KEB Credit Service (KEBCS), KEB reported 879.2 billion won in operating income as of the end of 2003, down 12.3% from 2002. Of this amount, net interest income and fees & commissions were up substantially from a year earlier, showing 21% and 22% increases, respectively, on a YoY basis. Meanwhile, sales & administrative expenses rose 16% over 2002 to 662.7 billion won, including some one-time extraordinary factors. KEB's pre-provisioning income showed a 29% gain over 2002 to 673.6 billion won. A major contributor to the bank's income before provisioning was the robust growth in net interest income and fees & commissions income. Impairment loss on invested securities was more halved at the end of 2003 to 204.7 billion won, though the bank continued to make aggressive loan loss provisions of 843.0 billion won, reducing large exposure risks from Hynix and the Hyundai group. Provisioning on a secured loan of 170.0 billion won to Hynix was increased to 85% from 20% in 2002. Additionally, provisioning for the unsecured portion of the bank's Hynix exposure was raised to 100% from 85% YoY. Thus, a net loss of -213.8 billion was recorded for 2003. Excluding the huge equity write-down of 322.0 billion won for KEBCS, the bank would have shown a positive net income for the year.

(in Billions of Korean Won)

	2002	2003				2003	Change YoY
		1Q	2Q	3Q	4Q		
Net interest income	997.1	248.4	302.3	266.2	388.1	1,205.1	20.9%
Fees & commissions	464.7	111.9	159.7	143.4	149.9	564.8	21.5%
Non interest income	113.2	-25.5	-54.8	-58.8	-88.9	-228.1	n.a.
General & adm. expenses	572.7	148.5	174.7	150.4	189.0	662.7	15.7%
Operating Income	1,002.3	186.2	232.5	200.4	260.1	879.2	-12.3%
Impairment loss on securities	465.9	297.3	-205.0	-7.6	120.0	204.7	-56.1%
Loan loss provision	480.0	61.4	385.0	43.3	353.3	843.0	75.6%
Provision for severance	30.9	17.1	5.7	9.6	6.5	38.9	25.9%
Income tax expenses	-87.5	1.9	1.9	1.0	1.6	6.4	n.a.
Provision & Others	889.3	377.7	187.6	46.3	481.4	1,093.0	22.9%
Net Income	113.0	-191.5	44.9	154.1	-221.3	-213.8	n.a.
Pre-Provisioning Income	522.2	-109.6	438.7	197.7	146.8	673.6	29.0%

(In Billions of Korean Won)



Pre-Provisioning Income

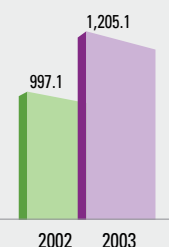
2) Net Interest Income

Net interest income rose 208.0 billion won to 1,205.1 billion won in 2003, reflecting a solid 164.6 billion won hike in won-currency interest income to 968.6 billion won and a 43.3 billion won increase in foreign-currency interest income to 236.4 billion won. Interest income rose sharply by 21% as a result of a bank-wide promotion to increase the base rate for both Korean Won and foreign currency loans by roughly 5 basis points, thus improving the Net Interest Margin (NIM). Extraordinary factors including aggressive collection of past-due interest payments also contributed significantly to the rise in net interest income. Moreover, the bank's total interest-bearing assets in 2003 grew to 48.5 trillion won, up 6.3 trillion won on a YoY basis, at the end of 2003.

Management Discussion & Analysis

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(In Billions of Korean Won)



Net Interest Income

(in Billions of Korean Won)

	2002	2003				2003	Change YoY
		1Q	2Q	3Q	4Q		
Won-currency interest income	804.0	195.6	254.8	223.0	295.3	968.6	20.5%
Foreign-currency interest income	193.1	52.9	47.6	43.2	92.8	236.4	22.4%
Net Interest Income	997.1	248.4	302.3	266.2	388.1	1,205.1	20.9%

3) Loan-to-Deposit Spread and Net Interest Margin (NIM)

(in Billions of Korean Won)

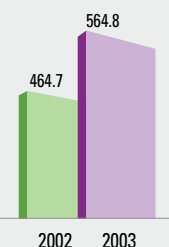
	2002	2003				2003	Change YoY
		1Q	2Q	3Q	4Q		
Loan-to-Deposit Spread (KrW)	2.83%	2.65%	3.01%	2.90%	3.31%	2.97%	0.14%p
Int. earned on KrW loans	7.02%	6.78%	6.84%	6.52%	6.74%	6.72%	-0.30%p
Int. paid on KrW deposits	4.19%	4.13%	3.83%	3.62%	3.43%	3.75%	-0.44%p
Net Interest Margin (NIM)	2.13%	1.86%	2.00%	1.96%	2.69%	2.14%	0.01%p
Korean Won	2.14%	1.88%	2.15%	2.16%	2.63%	2.21%	0.07%p
Foreign Currency	2.10%	1.81%	1.57%	1.40%	2.86%	1.93%	-0.17%p
Total Interest-Earning Assets	42,159.4	47,610.0	48,010.8	48,044.2	50,339.0	48,507.2	15.06%

While low market interest rates continued in 2003, the bank's Won-Currency Loan-to-Deposit Spread increased by 0.14%p over 2002 to 2.97% in 2003. The Loan-to-Deposit Spread rose by 0.41%p during 4Q due largely to branch-wide efforts and promotions to increase low interest-paying deposits. Average interest earned on won-currency loans fell 0.30%p to 6.72%, while average interest paid on won-currency deposits was 3.75%, down more than 0.44%p at the yearend. The bank's overall NIM for 2003 was 2.14%, showing a slight increase over the previous year. Although foreign-currency NIM decreased to 1.93% in 2003 from the previous year's 2.10%, won-currency NIM saw a 0.07%p rise YoY. The overall improvement in NIM was affected by over 1 trillion won of cost-free funding from Lone Star, the bank's new major shareholder, and broad efforts to raise the spreads of loans.

4) Fees & Commissions Income

The bank's fees & commissions income for 2003 saw a robust gain of 22% YoY, totaling 564.8 billion won. Of this amount, gains on FX transactions accounted for 247.9 billion won, which rose also nearly 19% from a year ago. Other fees & commissions income rose 24% YoY to record 316.9 billion won. Fees & commissions income accounted for 37% of the bank's total income, well over twice the 14% average for the five peer banks. FY2003 fees & commissions income represented roughly 85% of total G&A expenses.

(In Billions of Korean Won)



Fees & Commissions Income

(in Billions of Korean Won)

	2002	2003				2003	Change YoY
		1Q	2Q	3Q	4Q		
Gains on FX transactions	208.5	40.1	81.5	68.6	57.7	247.9	18.9%
Fees & commissions	256.2	71.8	78.2	74.7	92.2	316.9	23.7%
Fee income	233.4	66.4	73.1	68.7	86.0	294.2	26.0%
Guarantee income	22.8	5.4	5.1	6.0	6.2	22.7	-0.4%
Total	464.7	111.9	159.7	143.4	149.9	564.8	21.5%

5) Non-Interest Income

Non-interest income of –228.1 billion won represented a very significant YoY decline, due mainly to the equity write-down for KEBCS as the bank prepared for the merger with its credit card subsidiary. Declining income from subsidiaries continued to be the primary drag on non-interest income, with the equity write-down of 322.0 billion won for KEBCS being the single largest factor behind worsening gains on valuation using equity method. Income on operating trust account also fell sharply to 30.9 billion won, while trading profit rose moderately by 7.4% to 52.3 trillion won.

	(in Billions of Korean Won)						
	2002	2003				2003	Change YoY
		1Q	2Q	3Q	4Q		
Income on operating trust acct.	66.0	8.4	6.7	7.4	8.4	30.9	-53.2%
Income on merchant banking acct.	41.6	10.8	8.5	8.3	12.3	39.9	-4.1%
Trading profit	48.7	5.7	23.5	4.1	19.0	52.3	7.4%
Gains on valuation using equity method	14.6	-24.3	-75.6	-49.1	-135.0	-284.0	n.a.
Other non-interest income	-57.8	-26.1	-18.0	-29.6	6.5	-67.2	-16.3%
Total Non-Interest Income	113.2	-25.5	-54.8	-58.8	-88.9	-228.1	n.a.

6) G&A Expenses

The Bank's general and administrative expenses rose 90.0 billion won from a year earlier to 662.7 billion won. This 15.7% YoY increase was led by several extraordinary factors. First, there was a substantial first-year depreciation of IT investment. Second, while the bank has reduced its number of branches by 35% in the past six years, KEB opened approximately 30 new branches to secure "first mover" advantage in newly developed satellite cities around Seoul. The bank's cost ratio for FY2003 climbed to 44% from 40% a year earlier.

	(in Billions of Korean Won)						
	2002	2003				2003	Change YoY
		1Q	2Q	3Q	4Q		
Salaries	345.2	88.1	111.8	87.6	116.0	403.5	16.9%
Depreciation	63.5	17.2	18.9	21.1	23.3	80.6	26.9%
Taxes	24.8	5.1	5.7	5.9	9.1	25.7	3.8%
Other expenses	139.3	38.1	38.3	35.7	40.8	152.9	9.8%
Total	572.7	148.5	174.7	150.4	189.0	662.7	15.7%

4. Financials

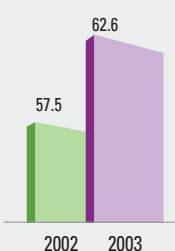
1) Total Assets

Total assets (Banking Account) as of the end of 2003 were 62,603.3 billion won, up 5,081.7 billion won and marking an 8.8% increase YoY. In terms of asset structure, loans and securities at the end of 2003 accounted for 39,397.1 billion won and 12,286.5 billion won, respectively. Total loans and securities grew by 18% and 3.1% on a YoY basis, respectively. Growth in loans, however, took place mainly during 1Q03, while the bank's 4Q03 Korean-won loan growth was nearly flat at 0.1%. Due to constraints on its BIS ratio, KEB reduced its loan portfolio in some cases to maintain a level above 9%.

Management Discussion & Analysis

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(In Trillions of Korean Won)



Total Assets
(Banking Accounts Only)

(in Billions of Korean Won)

	2002	2003				Change YoY
	Dec.	Mar.	Jun.	Sep.	Dec.	
Cash and due from banks	3,973.8	4,698.6	5,646.2	5,052.9	4,766.4	19.9%
Securities	11,913.6	12,526.5	10,344.1	10,529.9	12,286.5	3.1%
Loans	33,391.8	34,957.1	34,415.0	36,322.2	39,397.1	18.0%
Others	8,242.4	5,609.8	5,572.6	5,937.8	6,153.3	-25.3%
Total Assets	57,521.6	57,792.0	55,977.9	57,842.7	62,603.3	8.8%

2) Liabilities & Shareholders' Equity

In order to reduce the high funding costs for the bank's credit card subsidiary, the bank showed a substantial increase in deposit taking. As the primary funding source, deposits increased to 42,496.9 billion won at the end of 2003, rising over 8.4% from a year earlier and representing over 68% of total liabilities of 62,603.3 billion won at yearend. The bank's borrowing remained flat at 6,258.8 billion won, although debentures rose 22% to 4,083.4 billion won due largely to the issuance of Tier I Hybrid Capital in the amount of 250.0 billion won in May 2003.

(in Billions of Korean Won)

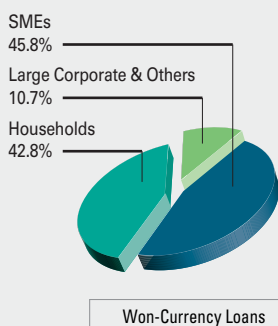
	2002	2003				Change YoY
	Dec.	Mar.	Jun.	Sep.	Dec.	
Deposits	39,210.5	39,518.0	38,377.8	38,748.5	42,496.9	8.4%
Borrowings	6,199.6	6,518.5	6,359.7	6,720.3	6,258.8	1.0%
Debentures	3,334.8	3,496.0	3,476.9	3,817.9	4,083.4	22.4%
Others	6,931.0	6,503.0	5,925.8	6,517.4	6,812.3	-1.7%
Shareholders' equity	1,845.8	1,756.5	1,837.7	2,038.6	2,951.9	59.9%
Total Liabilities & Shareholders' Equity	57,521.6	57,792.0	55,977.9	57,842.7	62,603.3	8.8%

3) Won-currency Loans

Korean won-denominated loans as of 2003 yearend posted 27,473.4 billion won, up 12.8% from the previous year's figure of 24,356.1 billion won. Household loans increased 15% on a YoY basis. Growth in household loans slowed substantially compared to 2002, which saw an exceptionally high 59.3% rise over 2001. Of total household loans, secured home mortgage and equity loans make up roughly 69%. SME (small & medium-sized enterprise) lending also posted a significant increase, rising 14.4% YoY to 12,586.3 billion won, or approximately 45% of the bank's total won-denominated loan portfolio. Loans to large corporations amounted to 2,946.5 billion won, remaining flat on a YoY basis. 4Q03's QoQ loan growth in both household and SME loans registered 5.4% and -1.6%, respectively. Total won-denominated loans were up 0.4% QoQ in the last quarter in 2003.

(in Billions of Korean Won)

	2002	2003				Change YoY
	Dec.	Mar.	Jun.	Sep.	Dec.	
Household	10,226.6	10,684.6	11,209.5	11,150.4	11,756.3	15.0%
Mortgage	5,352.6	5,649.0	5,977.3	4,281.5	6,727.6	25.7%
Home equity	1,588.4	1,606.2	1,517.2	1,469.0	1,332.4	-16.1%
Corporate	13,926.6	14,556.3	14,548.8	16,007.8	15,532.8	11.5%
SMEs	11,006.5	11,470.3	11,896.9	12,792.7	12,586.3	14.4%
Large corporation	2,920.1	3,086.0	2,651.9	3,215.1	2,946.5	0.9%
Public Sector	202.8	202.2	191.1	198.7	184.3	-9.1%
Total Loans in Korean Won	24,356.1	25,443.0	25,769.5	27,357.0	27,473.4	12.8%

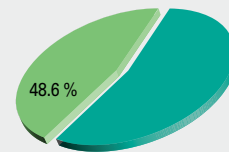
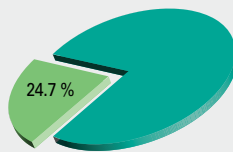
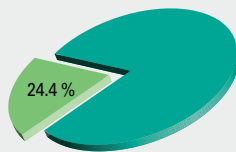


4) Foreign Exchange & Trade Finance

Foreign exchange transactions in 2003 rose U\$20.6 billion, or 16% over 2002, to register U\$151 billion. By business segment, export transactions grew U\$9 billion to U\$47 billion, a 23% YoY gain, while import transactions increased by U\$9.5 billion to U\$44 billion, also up roughly 27% from a year earlier. FX transactions recorded U\$60 billion, up by 5% from 2002. In terms of market share, the bank handled 24% and 25%, respectively, of the nation's total export and import transactions in 2003, while maintaining its leading share in FX with 49% of all transactions conducted by Korea's eight leading commercial banks. These commanding market shares demonstrate that, even amid tougher competition, the bank's brand power continues to bolster its strong presence and leadership in the nation's FX/trade finance business.

(in Billions of USD)

	2002	2003				Change YoY
	Dec.	Mar.	Jun.	Sep.	Dec.	
Export	38.4	10.5	21.6	33.1	47.3	23.1%
(Market share, %)	(23.6)	(24.3%)	(24.2%)	(24.1%)	(24.4%)	(0.8%p)
Import	34.6	10.1	20.5	31.0	44.1	27.1%
(Market share, %)	(22.8)	(22.9%)	(23.8%)	(24.0%)	(24.7%)	(1.9%p)
Foreign exchange	57.3	13.8	27.7	42.4	59.9	4.5%
(Market share, %)	(51.3)	(50.8%)	(50.1%)	(48.3%)	(48.6%)	(-2.7%p)



5. Asset Quality

1) Loan Classification

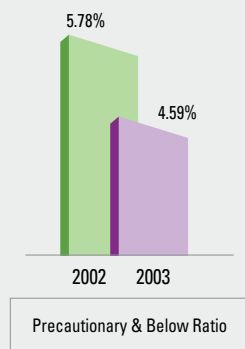
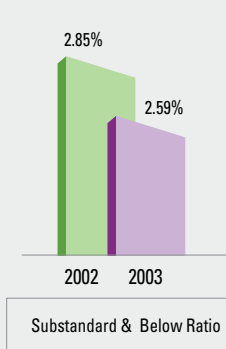
The year 2003 saw continued improvement in the bank's asset quality. KEB's 2003 provisioning amounted to 843.0 billion won, while it also wrote off 873.2 billion won. The aggressive provisioning in 2003 indicates the final and accelerated efforts not only to improve asset quality, but also reduce large loan exposures. The bank reduced its "Substandard & Below" credit amounting to 1,080.2 billion won and its "Precautionary & Below" credit of 1,913.7 billion won. As result, the bank's NPL ratio improved by 0.3%p to 2.59% from a year earlier, while the Precautionary & Below ratio improved by 1.2%p to 4.59%. More importantly, the bank has substantially improved its NPL coverage ratio and the coverage ratio for Precautionary & Below credit to roughly 91% and 51%, respectively. The NPL coverage ratio increased by 19.1%p YoY.

Management Discussion & Analysis

www.keb.co.kr

(in Billions of Korean Won)

	2002	2003				Change YoY
	Dec.	Mar.	Jun.	Sep.	Dec.	
Normal	36,919.2	38,345.5	38,450.3	39,983.3	39,764.3	7.7%
Precautionary	1,146.2	1,534.5	1,115.1	1,108.2	833.5	-27.3%
Substandard	653.4	685.8	833.2	846.0	848.0	29.8%
Doubtful	413.0	386.3	297.4	230.8	138.5	-66.5%
Estimated Loss	51.0	74.3	86.6	54.0	93.6	83.6%
Total Exposures	39,182.8	41,026.4	40,782.6	42,222.2	41,678.0	6.4%
Substandard & Below (a)	1,117.4	1,146.4	1,217.2	1,130.7	1,080.2	-3.3%
Substandard & Below Ratio	2.85%	2.79%	2.98%	2.68%	2.59%	-0.3%p
Precautionary & Below (b)	2,263.6	2,680.9	2,332.3	2,239.0	1,913.7	-15.5%
Precautionary & Below Ratio	5.78%	6.53%	5.72%	5.30%	4.59%	-1.2%p
Loan Loss Reserve (c)	801.6	854.5	1,056.6	770.9	981.6	22.5%
NPL Coverage Ratio (c/a)	71.74%	74.53%	86.81%	68.18%	90.87%	19.1%p
Coverage Ratio (c/b)	35.41%	31.87%	45.30%	34.43%	51.30%	15.9%p



2) NPL Ratio by Type

The Substandard & Below ratios for all segments of the bank's loan portfolio including household, SME and Large Corporate / Public sector, improved during 2003. The strongest growth segment in the bank's loan portfolio, households, saw a slight worsening in its NPL ratio to 1.52% from 0.83% in 2002. SME lending, on the other hand, improved significantly to 1.16% from 1.37% in 2002. The NPL ratio for the large corp. /public sector fell substantially to 5.65% from 6.15%, YoY.

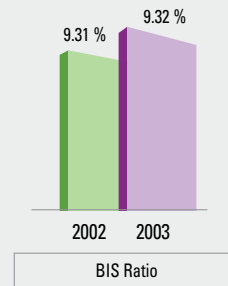
(in Billions of Korean Won)

	2002				2003			
	Household	SMEs	Large Corp. & Public	Total	Household	SMEs	Large Corp. & Public	Total
Total Exposure	10,226.6	15,654.8	13,301.4	39,182.8	11,786.0	17,538.4	12,353.5	41,678.0
Substandard & Below	85.3	214.5	817.6	1,117.4	178.6	203.4	698.2	1,080.2
Substandard & Below Ratio	0.83%	1.37%	6.15%	2.85%	1.52%	1.16%	5.65%	2.59%

6. Capital Adequacy

The bank's BIS Capital Adequacy Ratio as of the end of 2003 increased slightly to 9.32% from 9.31% a year earlier, in spite of the net loss of KEBCS.

	(in Billions of Korean Won)				
	2002	2003			
	Dec.	Mar.	Jun.	Sep.	Dec.
Tier 1	1,922.2	1,803.3	2,030.1	2,100.0	1,968.6
Paid-in Capital	1,850.9	1,850.9	1,850.9	1,850.9	3,194.6
Capital Reserve	120.8	124.1	126.6	120.9	63.3
Retained Earnings	-93.8	-281.5	-233.1	-74.4	-1,036.8
Hybrid Tier 1	n.a.	n.a.	250.0	250.0	250.0
Others	44.3	109.9	35.7	-47.3	-502.5
Tier 2	1,922.2	1,803.3	2,016.2	2,033.6	1,953.6
Revaluation Reserve	93.5	93.5	93.5	93.5	93.5
Upper Tier 2	440.1	450.6	438.6	430.0	439.6
Loan Loss Reserve	427.5	357.5	524.6	530.0	500.6
Others	n.a.	n.a.	15.7	41.7	86.7
Subordinated Debts	961.1	901.7	943.8	938.3	848.2
Total Qualifying Capital	3,844.4	3,606.6	4,041.2	4,128.7	3,922.3
Risk-weighted Assets	41,287.4	42,164.8	42,263.7	43,533.2	42,078.9
BIS Ratio	9.31%	8.55%	9.56%	9.48%	9.32%



INDEPENDENT AUDITORS' REPORT

(Based on a report originally issued in Korean)

KPMG Samjong Accounting Corp.

Star Tower 10th fl.,
737 YeokSam Dong, KangNam-gu
Seoul 135-984, Korea
(P.O. Box KangNam 1989)

To the Board of Directors and Shareholders of
Korea Exchange Bank

We have audited the accompanying non-consolidated balance sheet of Korea Exchange Bank (the "Bank") as of December 31, 2003, and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the year then ended, expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain foreign branches of the Bank, of which statements reflect 1.53% of the Bank's total assets as of December 31, 2003 and 1.0% of total revenues for the year then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these foreign branches, is based solely on the reports of the other auditors.

The accompanying non-consolidated balance sheet as of December 31, 2002 and the related statements of operations, disposition of deficit and cash flows for the year ended December 31, 2002, presented for comparative purposes, were audited by Samil Accounting Corporation and their report thereon, dated January 30, 2003, expressed an unqualified opinion, in all material respects, in accordance with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

We conducted our audit in accordance with the Auditing Standards as established by the Financial Supervisory Commission of 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 the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2003, and the results of its operations, the changes in its accumulated deficit and its cash flows for the year then ended, in conformity with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 2(a) to the accompanying non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows 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 non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As described in Note 33 to the accompanying non-consolidated financial statements, the Bank has determined to merge with the Korea Exchange Bank Credit Service Co., Ltd (KEBCS) in which the Bank has 68.6% of ownership interest in the Board of Directors' meeting held on November 28, 2003. The merger will be finalized on February 28, 2004, and the Bank will issue 0.533689 share of common stock of the Bank to the KEBCS shareholders who are included in the shareholders list as of January 1, 2004, according to the merger agreement. The total assets and liabilities of KEBCS as of December 31, 2003 are ₩2,770,289 million and ₩3,514,039 million, respectively.

As described in Note 1 to the accompanying non-consolidated financial statements, the Bank entered into a Memorandum of Understanding regarding the Share Subscription Agreement with Lone Star Fund IV on August 27, 2003. On October 30, 2003, the Bank issued 268,750,000 shares of common stock to LSF-KEB Holdings, SCA at ₩4,000 per share (at less than its par value) in accordance with a resolution during the special shareholders' meeting held on September 16, 2003. The balance that fell short of the par value was recognized as discount on stock issued. LSF-KEB Holdings, SCA acquired 26,235,923 shares of common stock and 30,865,792 shares of preferred stock from Commerz Bank and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. As a result of this acquisition, LSF-KEB Holdings, SCA became the largest shareholder that owns 51% of the total equity.

As described in Note 20(j) to the accompanying non-consolidated financial statements, as of December 31, 2003, the Bank's outstanding corporate bonds and loans with respect to LG Card Co., Ltd. that has undergone the liquidity crisis, amount to ₩20,000 million and ₩5,989 million, respectively. The corporate bonds and CP issued by LG Card Co., Ltd. amounts to ₩55,750 million out of total underlying assets of beneficiary certificates held by the Bank as of December 31, 2003. The actual loss may differ from the allowance for losses set by the Bank upon the result of restructuring of LG Card Co., Ltd.

As described in Note 20(g) to the accompanying non-consolidated financial statements, in accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. (Hynix) in 2001, the Bank acquired newly issued convertible bonds of Hynix, in exchange for ₩726,600 million of loans and convertible bonds, and provided additional loans amounting to ₩79,000 million to Hynix. Also, the Bank acquired the shares of common stock of Hynix at ₩708 per share in exchange for newly issued convertible bonds. The Financial Creditors Committee of Hynix made resolutions to reduce Hynix's equity in the ratio of 21:1, and to issue convertible bonds for the outstanding loans and corporate bonds amounting to ₩1,844,613 million, after the shareholders' meeting on December 30, 2002. The Bank converted loans and corporate bonds amounting to ₩115,806 million to common stock at a public offering price of 453 multiplied by the capital reduction rate as a conversion price on April 14, 2003. As of December 31, 2003, the Bank had loans to Hynix amounting to ₩217,800 million and available-for-sale securities of ₩342,905 million. The allowance for losses of ₩175,688 million and impairment loss of ₩55,850 million were recorded with respect to these loans and securities, respectively. However, the actual loss may differ from these allowances for losses and impairment loss upon the result of restructuring of Hynix.

As described in Note 20(h) to the accompanying non-consolidated financial statements, on October 24, 2003, the Bank converted ₩98,679 million out of ₩108,645 million loans to SK Networks Co., Ltd. to common stock in accordance with the resolution of the Financial Creditors Committee of SK Network Co., Ltd. As of December 31, 2003, the Bank recorded loans of ₩173,439 million and available-for-sale securities of ₩152,687 million with respect to SK Networks Co., Ltd. and set allowance for losses of ₩89,833 in association with these loans. During the current year, the Bank has recognized an impairment loss of ₩6,788 million. However, the actual loss may differ from the allowance for losses and impairment loss upon the result of the restructuring of SK Networks Co., Ltd.

As described in Note 4(g) to the accompanying non-consolidated financial statements, in accordance with the resolution of the Board of Directors, the Bank entered into a Trust Agreement and made related contracts with the trustee, to whom the Bank entrusted the disposal of its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary. On December 22, 2003, the entrusted trustee signed a contract with Hanmi Financial Corp., the holding company of Los Angeles-based Hanmi Bank, to sell 6,624,052 shares of PUB at US\$28 per share, amounting US\$185,473 thousand in total. This sales contract was submitted to Federal Reserve Bank of San Francisco in February 2004 for approval, which is required for the contract to become effective.

As described in Note 2(a) to the accompanying non-consolidated financial statements, the Bank adopted the Statements of Korea Accounting Standards No. 2 through No. 9 effective from first fiscal year beginning after December 31, 2002.

KPMG Samjong Accounting Corp.

February 6, 2004

This report is effective as of February 6, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KOREA EXCHANGE BANK (BANKING ACCOUNT)
NON-CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

(In Millions of Won, except share data)

	2003	2002
Assets		
Cash and due from banks (notes 3, 15, 29 and 30)	₩ 4,766,404	3,973,793
Securities (notes 4, 15 and 30)	12,286,493	11,913,618
Loans, less allowance for loan losses of ₩906,249 in 2003 and ₩735,874 in 2002, less present value discount of ₩80,831 in 2003 and ₩99,167 in 2002 (notes 5, 15, 29 and 30)	39,397,129	33,391,818
Fixed assets, less accumulated depreciation of ₩ 430,665 in 2003 and ₩398,060 in 2002 (notes 6 and 16)	806,710	788,277
Other assets (notes 7 and 29)	3,696,107	5,682,829
Merchant banking account assets (notes 8 and 15)	1,650,488	1,771,273
Total assets	₩ 62,603,331	57,521,608
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits (notes 9, 15, 29 and 30)	42,496,885	39,210,485
Borrowings (notes 10, 15, 29 and 30)	6,258,832	6,199,576
Debentures (notes 11, 15 and 30)	4,083,409	3,334,808
Other liabilities (notes 12, 14, 15 and 29)	5,172,265	5,256,976
Merchant banking account liabilities (note 13)	1,640,076	1,673,982
Total liabilities	59,651,467	55,675,827
Commitments and contingencies (note 20)		
Shareholders' equity (note 1):		
Common stock of ₩5,000 par value; Authorized – 1,000,000,000 shares Issued – 612,924,931 shares in 2003 and 222,174,931 shares in 2002	3,064,625	1,110,875
Preferred stock of ₩5,000 par value; Issued – 26,000,000 shares in 2003 and 148,000,000 shares in 2002	130,000	740,000
Other statutory reserves (note 17)	33,434	23,494
Accumulated deficit (notes 16 and 17)	(343,435)	(121,225)
Capital adjustments (notes 18 and 19)	67,240	92,637
Total shareholders' equity	2,951,864	1,845,781
Total liabilities and shareholders' equity	₩ 62,603,331	57,521,608

See accompanying notes to non-consolidated financial statements

KOREA EXCHANGE BANK (BANKING ACCOUNT)
NON-CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2003 and 2002

(In Millions of Won, except earnings per share data)

	2003	2002
Operating revenue:		
Interest income :(notes 29 and 30)		
Interest on due from banks	W 27,849	33,306
Interest on trading securities	35,939	38,127
Interest on available-for-sale securities	440,199	474,233
Interest on held-to-maturity securities	45,733	50,813
Interest on loans	2,239,516	1,942,099
Other interest income	42,009	60,576
	2,831,245	2,599,154
Fees and commissions (notes 21 and 29)	350,951	313,405
Other operating income:		
Gain on disposition of trading securities	39,421	39,271
Gain on valuation of trading securities	2,893	34,294
Dividend on trading securities	377	232
Dividend on available-for-sale securities	10,751	50,702
Gain on derivatives trading and foreign exchange	1,477,286	1,300,583
Trust fees and commissions received from trust account (note 31)	30,001	51,677
Reversal of allowance for acceptances and guarantees	-	54,969
Reversal of loan loss allowance	-	881
Operating revenue of merchant banking account (note 22)	143,117	148,659
	1,703,846	1,681,268
Total operating income	4,886,042	4,593,827
Operating expenses:		
Interest expenses: (notes 29 and 30)		
Interest on deposits	1,142,293	1,176,846
Interest on borrowings	201,961	222,891
Interest on debentures	274,236	239,301
Other interest expense	23,680	23,287
	1,642,170	1,662,325
Commission charges (notes 23 and 29)	34,009	57,008
Other operating expenses:		
Loss on disposition of trading securities	21,376	26,336
Loss on valuation of trading securities	1,943	1,059
Loss on derivatives trading and foreign exchange	1,230,246	1,093,312
Provision for loan losses	829,057	518,701
Provision for allowance for acceptances and guarantees	13,976	-
Other operating expenses	107,445	62,912
Other operating expenses of merchant banking account (note 24)	99,386	96,805
	2,303,429	1,799,125
General and administrative expenses (note 25)	701,551	603,521
Total operating expenses	4,681,159	4,121,979
Operating income	W 204,883	471,848

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2003 and 2002

(In Millions of Won, except earnings per share data)

	2003	2002
Non-operating income:		
Gain on disposition of tangible assets	₩ 226	460
Rental revenue	2,792	3,002
Equity income on securities of equity method accounting (note 4)	-	14,620
Gain on disposition of available-for-sale securities	67,673	49,585
Reversal of impairment losses on available-for-sale securities (note 4)	12,267	-
Reversal of impairment losses on held-to-maturity securities (note 4)	483	-
Gains on valuation of stock market stabilization fund	-	21,734
Others	35,984	26,060
	119,425	115,461
Non-operating expenses:		
Loss on disposition of tangible assets	1,051	1,810
Equity loss on securities of equity method accounting (note 4)	283,985	-
Loss on disposition of available-for-sale securities	24,759	19,672
Impairment losses on available-for-sale securities (note 4)	177,167	493,309
Impairment losses on held-to-maturity securities (note 4)	47,836	23,729
Others	9,079	37,437
	543,877	575,957
Ordinary income (loss)	(219,569)	11,352
Extra-ordinary income:		
Gains from liabilities exempted	12,967	14,047
Gains on insurance settlements	1	146
	12,968	14,193
Extra-ordinary losses:		
Other	862	-
Earnings (losses) before income taxes	(207,463)	25,545
Income taxes (note 26)	6,354	(87,458)
Net earnings (losses)	₩ (213,817)	113,003
Ordinary earnings (losses) per share (note 27)		
Basic	₩ (530)	396
Diluted	₩ (530)	237
Earnings (losses) per share (note 27)		
Basic	₩ (502)	452
Diluted	₩ (502)	272

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT

for the years ended December 31, 2003 and 2002

Date of Appropriation for 2003: March 30, 2004

Date of Appropriation for 2002: March 28, 2003

(In Millions of Won)

	2003	2002
Undisposed accumulated deficit:		
Balance at beginning of year	₩ (129,596)	(173,476)
Cumulative effect of accounting changes	(22)	(60,752)
Net income (loss)	(213,817)	113,003
Balance at end of year before appropriation	(343,435)	(121,225)
Disposition of accumulated deficit:		
Other statutory reserves	(1,047)	(8,371)
Undisposed accumulated deficit to be carried over to subsequent year	₩ (344,482)	(129,596)

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2003 and 2002

(In Millions of Won)

	2003	2002
Cash flows from operating activities:		
Net income (loss)	₩ (213,817)	113,003
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on disposal of trading securities, net	(18,045)	(12,935)
Gain on valuation of trading securities, net	(950)	(33,235)
Gain on disposal of available-for-sale securities, net	(42,914)	(29,913)
Impairment loss on available-for-sale securities, net	164,900	493,309
Impairment loss on held-to-maturity securities, net	47,353	23,729
Equity loss (income) on securities of equity method accounting	283,985	(14,620)
Gain on disposal of loans, net	-	(14,129)
Loss on disposal of tangible assets, net	825	1,350
Loss (gain) on valuation of derivatives, net	(34,304)	46,096
Deferred losses on foreign currency translation, net	4,947	3,161
Gain on derivatives trading and foreign exchange, net	(15,787)	(12,011)
Interest expense	12,959	60,739
Provision for loan losses	829,057	521,669
Depreciation and amortization	80,556	63,466
Provision of retirement and severance benefits	38,914	30,852
Provision of allowance for acceptances and guarantees	13,976	-
Stock option expense	-	(21,734)
Gains on valuation of stock market stabilization fund	14	-
Reversal of loan loss allowance	(880)	(881)
Reversal of allowance for acceptances and guarantees	-	(54,969)
Amortization of present value discounts	(24,730)	(23,920)
Gains from liabilities exempted	(12,967)	(14,047)
Dividends of available for sale securities	-	(47,860)
Increase in accrued income	(21,530)	(37,757)
Decrease in prepaid expenses	19,239	37,501
Increase (decrease) in accrued expenses	(6,541)	117,601
Increase (decrease) in unearned revenues	(17,445)	6,420
Increase (decrease) in accrued income tax expenses	122	(391)
Increase in deferred tax assets	(511)	(96,891)
Payment of severance benefits	(6,747)	(3,248)
Decrease in transfer to National Pension Fund	13	34
Increase in deposit of insurance for retirement and severance benefits	(8,561)	(28,996)
Others, net	(9,200)	327
Net cash provided by operating activities	₩ 1,061,931	1,071,720

See accompanying notes to non-consolidated financial statements

KOREA EXCHANGE BANK (BANKING ACCOUNT)
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2003 and 2002

(In Millions of Won)

	2003	2002
Cash flows from investing activities:		
Disposal of trading securities	₩ 765,511	963,043
Acquisition of available-for-sale securities	(602,701)	(984,402)
Disposal (acquisition) of held-to-maturity securities	(286,736)	18,737
Decrease (increase) in equity securities of equity method accounting	(123,353)	41,035
Increase in loans	(6,813,626)	(5,880,613)
Acquisitions of premises and equipment	(100,594)	(116,686)
Decrease in other assets	3,473,338	712,534
Decrease (increase) in merchant banking assets	121,764	(485,875)
Net cash used in investing activities	(3,566,397)	(5,732,227)
Cash flows from financing activities:		
Issuance of common stock	1,075,000	-
Increase in deposits	3,299,367	5,639,433
Proceeds from borrowings	59,256	842,276
Proceeds from debentures	748,601	334,340
Increase (decrease) in other liabilities	(1,550,919)	(2,463,907)
Increase (decrease) in merchant banking account liabilities	(26,910)	870,220
Payment of stock issuance cost	(16,604)	-
Net cash provided by financing activities	3,587,791	5,222,362
Net increase in cash and cash equivalents	1,083,325	561,855
Cash and cash equivalents at beginning of year	4,001,767	3,439,912
Cash and cash equivalents at end of year (note 28)	₩ 5,085,092	4,001,767

See accompanying notes to non-consolidated financial statements

(1) Description of the Bank

Korea Exchange Bank (the "Bank") was established on January 30, 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The Bank implemented a two-to-one capital reduction on all outstanding shares of common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. In addition, on December 22, 2000, the Bank increased its capital by issuing 610,000 million new shares of preferred stock at par value of ₩5,000, of which 122 million shares were issued in accordance with a resolution of board of directors on November 10, 2000.

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

In addition, LSF-KEB Holdings, SCA acquired 26,235,923 shares of common stock and 30,865,792 shares of preferred stock from Commerz Bank and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. Also, 122 million shares of preferred stock were converted to common stock on December 22, 2003.

As of December 31, 2003, the total number of authorized stock of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,194,625 million (with 612,925 thousand shares of common stock and 26,000 thousand shares of preferred stock outstanding with par value of ₩5,000).

The preferred stock shareholders are entitled to non-cumulative and non-participating preferred dividends of 9% of par value per annum. Preferred stock shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. With regard to the 26 million shares of convertible preferred stock, each share may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock.

The Bank's shareholders as of December 31, 2003 and 2002 are as follows:

	Number of shares owned						Ownership(%)	
	2003			2002			2003	2002
	Common stock	Preferred stock	Total	Common stock	Preferred stock	Total		
LSF-KEB Holdings, SCA	325,851,715	-	325,851,715	-	-	-	51.00	0.00
Commerzbank A.G.	68,247,389	26,000,000	94,247,389	52,483,312	68,000,000	120,483,312	14.75	32.55
Bank of Korea	89,448,595	-	89,448,595	40,314,387	80,000,000	120,314,387	14.00	32.50
Export-Import Bank of Korea	39,500,000	-	39,500,000	39,500,000	-	39,500,000	6.18	10.67
Others	89,877,232	-	89,877,232	89,877,232	-	89,877,232	14.07	24.28
	612,924,931	26,000,000	638,924,931	222,174,931	148,000,000	370,174,931	100.00	100.00

As of December 31, 2003, the Bank has 343 branches, agencies and offices in total over both domestic and overseas market. The Bank closed four domestic branches and one overseas branch while opening 8 domestic branches and 14 agencies during 2003. Currently, the Bank is in process of disposing of one of its overseas subsidiaries, Pacific Union Bank.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank in the preparation of its accompanying non-consolidated financial statements are summarized as follows:

(a) Basis of Presenting Financial Statements

The Bank maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with financial accounting standards 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 non-consolidated financial statements have been condensed, restructured and translated into attached to the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

The Bank's financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea and Statements of Korean Financial Accounting Standards No.2 through No.9, in effect for the fiscal periods beginning after December 31, 2002. Regarding the overseas branches and subsidiaries, the Bank used their financial statements that are prepared in accordance with the financial accounting standards generally accepted in their locations, except for the cases that have material effect on the Bank's financial statements, due to difference of standards in various countries.

The 2002 financial statements, presented herein for comparative purposes, have been reclassified to conform to the 2003 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

(b) Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2003 and 2002, the amount of interest not recognized due to such policy approximates ₩57,191 million and ₩44,679 million, respectively.

(c) Allowance for Loan Losses

The Bank applied the Forward Looking Criteria ("FLC") for its loan classification to determine allowances for loan losses. Under this method, the borrowers' future debt service capacity as well as their overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral, and bankruptcy status only.

Estimated corporate loan losses as of December 31, 2003, were determined by applying the following minimum percentages to each credit risk classification:

Classification	(%)
Normal	0.5%
Precautionary	2.0%
Substandard	20.0%
Doubtful	50.0%
Loss	100.0%

The Bank provides allowance for loan losses for retail loans based on new provision ratios, which are as follows:

Classification	Before December 31, 2002(%)	On and after December 31, 2002(%)
Normal	0.50 and above	0.75 and above
Precautionary	2 and above	8 and above
Substandard	20 and above	20 and above
Doubtful	50 and above	55 and above
Loss	100	100

As a result of the change mentioned above, the Bank's allowance for loan losses for retail loans increased by ₩35,693 million and ₩30,955 million as of December 31, 2003, and 2002, respectively.

December 31, 2003 and 2002

The Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above.

(d) Accounting change of Domestic Import Usance Bills

During 2002, the Bank has changed its accounting treatment for Domestic Import Usance Bills from an off-balance-sheet item (banker's) to on-balance-sheet item due to the amendment of related laws. The amount accounted for as Domestic Import Usance Bill for the current year and the prior year amounted to ₩1,578,187 million and ₩1,367,788 million, respectively.

(e) Securities

Effective January 1, 2003, the Bank adopted Statement of Korea Accounting Standards (SKAS) No. 8, "Investments in Securities." In accordance with SKAS No. 8, certain debt and equity securities should be classified into one of the three categories of held-to-maturity, available-for-sale, or trading securities at the time of acquisition and such determination should be reassessed at each balance sheet date. Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

The securities are initially carried at cost, including incidental expenses, determined by using the specific identification method or moving-average method.

Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold or when an impairment loss on the securities is recognized. Equity securities that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Impairment losses are recognized in current operations when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities.

Classification	Valuation Method	Recognition of Unrealized Gains and Losses
Normal	Fair value	Current operations
Available-for-sale		
Debt securities and marketable equity securities	Fair value	Capital adjustment (except for impairment loss, which is recognized in current operations)
Non-marketable equity securities	Cost	Impairment loss to net income / loss
Held-to-maturity	Cost	Amortized cost
Investments in associates	Equity	Current operations, retained earnings, or capital adjustments, depending on the source of the gain or loss

(f) Investment Securities under the Equity Method of Accounting

Investments in affiliated companies owned 20% or more or over which the Bank has significant management control are stated at an amount as determined using the equity method.

Under the equity method of accounting, the Bank's initial investment is recorded at cost and is subsequently increased to reflect the Bank's share of the investee income and reduced to reflect the Bank's share of the investee losses or dividends received. Any excess in the Company's acquisition cost over the Bank's share of the investee's identifiable net assets is generally recorded as goodwill or other intangibles and amortized by the straight-line method over the five years. When events or circumstances indicate that carrying amount may not be recoverable, the Bank reviews goodwill for any impairment.

Under the equity method of accounting, the Bank does not record its share of losses of affiliate companies when such losses would make the Bank's investment in such entity less than zero.

Upon the sale to the investee, the Bank fully eliminates the unrealized gain, whereas in the sale to the investor company, the investee proportionately eliminates the unrealized gain based on the Bank's percentage of ownership.

Gains and losses recorded by the associates from the transactions among themselves are proportionately eliminated, based on the Bank's percentage of ownership over the selling company.

The stock market stabilization fund is carried at the value of the net assets, and the difference between the book value of the stock market stabilization fund before valuation and the value of net assets is recognized as a capital adjustment.

(g) Tangible Assets

Tangible assets are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see note 16). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Effective January 1, 2003, the Bank changed its method of depreciation for newly purchased property and equipment from the half-year convention to a method which uses a monthly calculation for depreciation expenses.

(h) Intangible Assets

Intangible assets are recorded at development cost or acquisition price plus the related incidental costs and amortized over five years using the straight-line method.

The software development costs incurred with respect to the office automatization, productivity enhancement were ₩12,505 million and ₩10,406 million in 2003 and 2002, respectively while the depreciation costs were ₩5,852 million and ₩4,147 million in 2003 and 2002, respectively.

The Bank recognizes on impairment loss when the assets become obsolete or their market values significantly fall and it causes their future economic benefit to fall below book value. However, where the recoverable cost that previously recognized the impairment loss exceeds the book value in next period, the difference is recognized as a recovery in the impairment loss up to the book value existing before the impairment loss was recognized.

(i) Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure which are to be sold are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

When the Bank disposes of foreclosed assets by installment sales, in conformity with Accounting standard for Banking Industry, the proceeds and the sale gain/loss are recognized as, receivable – disposition of asset and gain/loss – disposition of asset, respectively.

(j) Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expense. Debenture issuance costs carried over from previous years, continue to be amortized using the straight-line method consistent with the prior years' method in accordance with financial accounting standards.

(k) Retirement and Severance Benefits

Employees and executives with one year or more of service with the Bank are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Retirement and severance benefits of ₩85,739 million and ₩53,447 million represent the amount, which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2003 and 2002, respectively. The Bank's actual payments of severance benefits were ₩6,747 million (excluding ₩2,844 million of additional early retirement benefits) and ₩3,248 million (excluding ₩4,592 million of additional early retirement benefits) in 2002 and 2003, respectively.

As for 67.91% of the severance benefit provision, the Bank is under coverage by the Employee Retirement Insurance policy purchased from Samsung Life Insurance Co. and Kyobo Life Insurance Co., Ltd., that names the employees as beneficiaries as well as the Retirement Trust provided by Chohung Bank. Through March 1999, under the National Pension Scheme of Korea, the Bank transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Bank and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction from the retirement and severance benefit liability. Since April 1999, however, a new regulation applies and such transfers to the National Pension Fund are no longer required.

(l) Present Value Discounts

The difference between the nominal value and the present value of accounts receivable arising from installment sales of foreclosed assets is amortized using the effective interest rate method. Amortization of these discounts is included in other interest income.

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, and the difference between the nominal amount and present value is offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

(m) Discounts on Capital Stock

Discounts on capital stock arising from the payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized over three years through appropriations of retained earnings. However, due to accumulated deficits incurred as of December 31, 2003 and 2002, there has been no related amortization in 2003 and 2002.

(n) Income Taxes

Income tax on the earnings or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In addition, deferred income tax assets and liabilities recorded by the branches are included in other assets and liabilities, and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying financial statements.

(o) Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

(p) Foreign Currency Translation

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions. The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balance sheet dates in accordance with the financial accounting standards. The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 2003 and 2002 are ₩1,197.80:US\$1 and ₩1,200.40:US\$1, respectively.

(q) Stock Options

The stock option program allows the Bank's employees to acquire shares of the Bank. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Bank values stock options based upon an option pricing model under the minimum value method and recognizes this value as an expense over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received, and the difference between the exercise price and market price is included in compensation cost and credited to the capital adjustment account.

(r) Derivatives

Derivative instruments are presented as assets or liabilities valued principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations.

However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The ineffective portion of the gain or loss is charged or credited to current results of operations.

Forward foreign exchange contracts, which have been made to hedge foreign exchange receivables and payables in the future, are classified as forward foreign exchange contracts for hedging purposes. Unrealized gain or loss on forward foreign exchange contracts for hedging purposes are deferred as capital adjustment. The deferred gain or loss will be credited or charged to income when related foreign exchange receivables and payables are settled.

(s) Trust Fees and Compensation to the Trust Accounts

The Bank receives trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The bank's trust fees received from trust account at December 31, 2003 and 2002 are ₩30,001 million and ₩51,677 million, respectively.

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return. The reserves are used for future losses on such trust funds and, if the losses are incurred in excess of the reserves for future losses, the excess losses are compensated by the banking accounts. Accordingly, the banking accounts recognize the compensation paid as losses due to the trust accounts. There are no losses due to the trust accounts recorded by the Bank for the years ended 2003 and 2002.

(t) Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on an increased number of shares that would be outstanding assuming conversion of potentially dilutive securities.

(u) Merchant Banking Account

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

- Revenue Recognition on Discounted Notes

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

- Cash Management Accounts ("CMA")

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

- Lease Transactions

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

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

Operating lease equipments are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets.

Operating lease equipment is stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that the related lease rental revenues are recognized. Foreign currency translation gains incurred and deferred in 2003 approximate ₩52 million, and foreign currency translation losses incurred and deferred in 2002 approximate ₩5,078 million.

(v) Cash Equivalents

The Bank considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(w) Contingent Liabilities

Contingent losses are generally recognized as a liability when probable and reasonably estimable.

(3) Cash and Due from Banks

Cash and due from banks in Korean Won as of December 31, 2003 and 2002 are as follows:

	Annual Interest rate(%)		In Millions	
	2003.12.31.	2003	2002	
Cash on hand	-	₩ 1,620,775	₩	937,321
Foreign currencies	-	259,074		191,211
Due from banks in Won:				
Reserve deposit with the Bank of Korea	-	906,142		1,057,500
Deposits with other banks	3.7 ~ 8.1	616,382		119,852
Deposits with other financial institutions	0 ~ 2.5	3,013		69,313
		1,525,537		1,246,665
Due from banks in foreign currencies:				
Deposits with the Bank of Korea reserve deposit	-	553,746		413,750
Deposits with other financial institutions	0.63~0.89	133		709
Deposits with overseas financial institutions	0~7.5	807,139		1,184,137
		1,361,018		1,598,596
		₩ 4,766,404	₩	3,973,793

Due from banks restricted in use as of December 31, 2003 and 2002 are summarized as follows:

	2003		2002		Reference
	₩		₩		
Due from banks in Won:					
Reserve deposits with the Bank of Korea	₩	906,142	₩	1,057,500	Required under the Banking Act
Other deposits		57,149		127,868	
Due banks in foreign currencies:					
Reserve deposits with the Bank of Korea		553,746		413,750	Required under the Banking Act
Other deposits		11,915		2,567	
	₩	1,528,952	₩	1,601,685	

The scheduled maturities of due from banks as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 562,014	-	₩ 963,523	₩ 1,525,537
Due from banks in foreign currencies	753,761	-	607,257	1,361,018
	₩ 1,315,775	-	₩ 1,570,780	₩ 2,886,555

(4) Securities

Securities as of December 31, 2003 and 2002 are as follows:

	2003			2002		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Trading	₩ 340,080	39,338	379,418	1,147,978	6,243	1,154,221
Available for sale	9,485,029	924,165	10,409,194	8,713,629	737,799	9,286,161
Held-to-maturity	887,847	-	887,847	483,197	-	648,464
Investment in associates	-	610,034	610,034	-	824,772	824,772
	₩ 10,712,956	1,573,537	12,286,493	10,344,804	1,568,814	11,913,618

KOREA EXCHANGE BANK (BANKING ACCOUNT)
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(a) Debt Securities

Debt securities as of December 31, 2003 and 2002 are as follows:

		In Millions							
		2003				2002			
	Annual interest rate(%)	Nominal amount	Acquisition cost	Adjusted acquisition cost(*1)	Fair Value(*2)	Nominal amount	Acquisition cost	Adjusted acquisition cost(*1)	Fair Value(*2)
	2003.12.31								
Trading:									
Government bonds	3.00 ~ 15.00	₩ 151,838	153,395	153,156	153,105	610,808	616,455	616,137	621,229
Finance debentures	3.945 ~ 10.2	153,436	153,553	153,513	152,929	400,000	402,463	401,970	405,056
Corporate bonds	3.00	15,400	15,458	15,423	15,629	15,369	15,756	15,833	15,953
Beneficiary certificates	-	9,567	9,792	9,792	10,146	-	-	-	-
Bonds in foreign currencies	3.11 ~ 7.75	7,186	8,208	8,158	8,271	97,533	104,746	104,094	105,740
		337,427	340,406	340,042	340,080	1,123,710	1,139,420	1,138,034	1,147,978
Available-for-sale:									
Government bonds	1.00 ~ 15.00	3,919,525	3,990,683	3,977,479	3,958,268	4,092,807	4,178,779	4,140,057	4,183,775
Finance debentures	3.846 ~ 12.5	3,411,000	3,394,689	3,391,985	3,389,001	2,381,000	2,346,213	2,335,214	2,344,605
Corporate bonds	3.00 ~ 7.75	706,845	619,465	620,295	672,820	640,973	607,912	595,629	538,757
Beneficiary certificates	-	957,492	957,492	957,574	958,030	976,236	976,236	981,330	981,119
Other securities	-	78,202	78,202	47,159	47,159	-	-	-	-
Bonds in foreign currencies	0 ~ 12.75	497,582	470,900	464,645	459,715	544,697	510,667	497,988	500,070
Off-shore debt securities	-	9,582	4,882	36	36	9,603	4,892	3,601	36
		9,580,228	9,516,313	9,459,173	9,485,029	8,645,316	8,624,699	8,553,819	8,548,362
Held-to-maturity:									
Government bonds	3.00 ~ 15.00	251,884	248,634	249,164	249,164	260,900	257,017	257,115	257,115
Corporate bonds	5.00 ~ 8.00	647,885	647,545	576,642	576,642	405,800	404,133	355,385	355,385
Beneficiary certificates	5.00	2,569	2,569	2,569	2,568	2,865	2,865	2,865	2,865
Bonds in foreign currencies	0.015 ~ 6.75	59,056	59,795	59,473	59,473	33,099	33,099	33,099	33,099
		961,394	958,543	887,848	887,847	702,664	697,114	648,464	648,464
		₩ 10,879,049	10,815,262	10,687,063	10,712,956	10,471,690	10,461,233	10,340,317	10,344,804

(*1) Adjusted acquisition cost was calculated by adjusting the difference between the acquisition cost and par value using the effective interest rate method.

(*2) Debt securities in Won are recorded at fair value using the yield provided by the Korea Securities Dealers' Association and debt securities in foreign currency are recorded at fair value using the bid-price provided by Bloomberg or Reuter or risk-adjusted yield (calculated by reflecting the issuer's credit risk to the monetary stabilization bonds' yield).

The scheduled maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2003 are as follows:

							In Millions
	Due in less than one year	Due after one year through three years	Due after three years				Total
Government bonds	₩ 611,604	₩ 3,329,543	₩ 419,390	-	-	-	₩ 4,360,537
Finance debentures	1,308,283	2,233,648	-	-	-	-	3,541,931
Corporate bonds	498,089	591,428	175,573	-	-	-	1,265,090
Beneficiary certificates	968,176	-	-	-	-	-	968,176
Other securities	1,781	-	47,947	-	-	-	49,728
Bonds in foreign currencies	66,542	163,016	297,900	-	-	-	527,458
Off-shore debt securities	-	-	36	-	-	-	36
Total	₩ 3,454,475	₩ 6,317,635	₩ 940,846	0	0	0	₩ 10,712,956

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

Debt securities in foreign currencies, classified by country, as of December 31, 2003 and 2002 are as follows:

Countries	2003			2002		
	In thousands	In millions	Ratio (%)	In thousands	In millions	Ratio (%)
Korea	US\$ 351,297	₩ 420,783	79.8	US\$ 419,697	₩ 503,804	78.9
USA	44,539	53,349	10.1	62,723	75,293	11.8
Philippines	9,980	11,954	2.3	12,199	14,643	2.3
Brazil	5,088	6,095	1.2	3,834	4,602	0.7
Hong Kong	7,172	8,591	1.6	16,306	19,573	3.1
Others	22,310	26,723	5.0	17,520	21,030	3.2
	US\$ 440,386	₩ 527,495	100.0	US\$ 532,279	₩ 638,945	100.0

(b) Equity Securities

Equity securities as of December 31, 2003 is as follows:

	Shares owned by the Bank (1,000 shares)	Ownership Ratio (%)	Acquisition cost	Market or Asset Value	Book value
In Millions					
Trading securities:					
Trading securities in Won	2,678	-	₩ 38,427	39,338	39,338
Available-for-sale securities:					
Marketable equity securities in Won (*1)	153,052	-	961,195	717,366	717,366
Non-marketable equity securities in Won (*2)	55,460	-	318,423	189,935	189,935
Non-marketable equity in foreign currencies	-	-	13,827	9,838	9,838
Other investments	-	-	6,543	5,521	7,026
			1,299,988	922,660	924,165
Investment in domestic associates:					
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")(*4)(*5)					
	43,839	68.6	210,693	(510,254)	-
KEB Leasing Co., Ltd. ("KEBCS")(*3)(*4)					
	14,976	99.3	74,881	58,056	58,056
KEB Commerz Investment Trust Management Co. Ltd. ("KEBIT")(*3)(*4)					
	2,760	46.0	13,800	14,971	14,971
KEB Future Co., Ltd. ("KEBFC") (*3)(*4)					
	3,000	100.0	15,000	16,478	16,478
Doosan Heavy Industries & Construction Co., Ltd. (*4)(*5)					
	16,400	15.7	82,000	250,085	250,085
MP&T(*6)					
	170	38.1	850	850	850
KEB Investor Services Co., Ltd. (*6)					
	510	100.0	2,550	2,550	2,550
			399,774	(167,264)	342,990
Investment in foreign associates:					
Pacific Union Bank ("PUB")(*4)					
	6,624	62.0	38,493	82,869	82,869
KEB Ireland Ltd. ("KEB Ire")(*4)					
	3,000	100.0	3,436	7,019	7,019
Korea Exchange Bank of Canada ("KEBOC")(*3)(*4)					
	334	100.0	26,322	47,331	47,331
KEB Australia Co., Ltd. ("KEBA")(*4)					
	55,000	100.0	38,527	21,470	21,470
P.T. Korea Exchange Bank Damanon ("KEBD")(*4)					
	1	85.0	16,453	50,520	50,520
KEB Brazil ("KEBB")(*4)					
	24,726	100.0	13,632	8,041	8,041
Korea Exchange Bank (Deutschland) A.G. ("KEBD A.G.")(*4)					
	20	100.0	20,589	45,090	45,090
Cairo Far East Bank S.A.E. ("CFEB")(*4)					
	8	31.5	8,281	4,704	4,704
			165,733	267,044	267,044
			₩ 1,903,922	1,061,778	1,573,537

(*1) ₩493,391 million of the securities, which are converted securities, are restricted from being sold.

(*2) ₩61,230 million of the securities, which are converted securities, are restricted from being sold.

(*3) As for the subsidiaries, the latest version of financial statements was used due to a timing difference in closing of the fiscal year.

(*4) Using the unaudited or unreviewed financial statements of the associates.

(*5) The price per share of Doosan Heavy Industries & Constructions Co., Ltd. is ₩6,590 and ₩3,220, respectively, as of December 31, 2003.

(*6) These investment securities were excluded from the calculation to apply equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies was considered insignificant.

KOREA EXCHANGE BANK (BANKING ACCOUNT)
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

Equity securities as of December 31, 2002 is as follows:

	In Millions				
	Shares owned by the Bank (1,000 shares)	Ownership Ratio (%)	Acquisition cost	Market or Asset Value	Book value
Trading securities:					
Trading securities in Won	293	-	₩ 7,001	6,054	6,054
Trading securities in foreign currencies	157	-	189	189	189
			7,190	6,243	6,243
Available-for-sale securities:					
Marketable equity securities in Won (*1)	1,147,835	-	956,838	490,302	490,302
Non-marketable equity securities in Won (*2)	67,563	-	442,307	233,045	233,045
Non-marketable equity in foreign currencies	-	-	7,403	7,403	7,403
Other investments	-	-	5,543	7,049	7,049
			1,412,091	737,799	737,799
Investment in domestic associates:					
Korea Exchange Bank Credit					
Service Co., Ltd. ("KEBCS")(*4)(*5)	18,795	45.0	85,000	259,034	259,034
KEB Leasing Co., Ltd. ("KEBLS")(*3)(*4)	14,976	99.3	74,881	52,720	52,720
KEB Commerz Investment Trust					
Management Co. Ltd. ("KEBIT")(*3)(*4)	2,760	46.0	13,800	15,654	15,654
KEB Future Co., Ltd. ("KEBFC") (*3)(*4)	3,000	100.0	15,000	16,131	16,131
Doosan Heavy Industries & Construction Co., Ltd. (*4)(*5)					
	16,400	15.7	82,000	262,015	262,015
			270,681	605,554	605,554
Investment in foreign associates:					
Pacific Union Bank ("PUB")(*4)	6,624	62.5	38,493	75,691	75,691
KEB Ireland Ltd. ("KEB Ire")(*4)	3,000	100.0	3,436	6,827	6,827
Korea Exchange Bank of					
Canada ("KEBOC")(*3)(*4)	334	100.0	26,322	34,074	34,074
KEB Australia Co., Ltd. ("KEBA")(*4)	55,000	100.0	38,527	14,246	14,246
P.T. Korea Exchange Bank Damanon ("KEBD")(*4)	1	85.0	16,453	39,978	39,978
KEB Brazil ("KEBB")(*4)	24,726	100.0	13,632	8,424	8,424
Korea Exchange Bank (Deutschland) A.G.					
("KEBD A.G.")(*4)	20	100.0	20,589	33,526	33,526
Cairo Far East Bank S.A.E. ("CFEB")(*4)	8	31.5	8,281	6,452	6,452
			165,733	219,218	219,218
			₩ 1,855,695	1,568,814	1,568,814

(*1) ₩477,414 million of the securities, which are converted securities, are restricted from being sold.

(*2) ₩39,117 million of the securities, which are converted securities, are restricted from being sold.

(*3) As for the subsidiaries, the latest version of financial statements was used due to a timing difference in closing of the fiscal year.

(*4) Using the unaudited or unreviewed financial statements of the associates.

(*5) The price per share of Doosan Heavy Industries & Constructions Co., Ltd. and the Korea Exchange Bank Credit Service Co., Ltd. is ₩5,800 and ₩10,300, respectively, as of December 31, 2002.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

As of December 31, 2003, details of investments in subsidiaries accounted for using the equity method are as follows:

In Millions

	Acquisition cost	Beginning balance under equity method	Acquisition/ Disposition or dividend	Translation adjustment	Increase (decrease) in equity of equity method investees			Book value
					Equity in earnings (losses)	Accumulated deficit	Capital adjustment	
KEBCS	₩ 131,396	259,034	125,431	-	(321,991)	-	(62,474)	-
KEBLS	74,881	52,720	-	-	3,155	-	2,181	58,056
KEBIT	13,800	15,654	(1,380)	-	697	-	-	14,971
KEBFC	15,000	16,131	-	-	347	-	-	16,478
Doosan Heavy Industries & Construction Co., Ltd.	82,000	262,015	(2,460)	-	3,982	-	(13,452)	250,085
KEB Investor Services Co., Ltd.(*1)	2,550	-	2,550	-	-	-	-	2,550
MP&T(*1)	850	-	850	-	-	-	-	850
PUB	38,493	75,691	(926)	(164)	9,136	(412)	(456)	82,869
KEB Ire.	3,436	6,827	-	(14)	206	-	-	7,019
KEBOC	26,322	34,074	-	7,383	5,874	-	-	47,331
KEBA	38,527	14,246	-	4,553	2,671	-	-	21,470
KEBD	16,453	39,978	-	2,114	8,428	-	-	50,520
KEBB	13,632	8,424	-	1,846	(2,229)	-	-	8,041
KEBD A.G.	20,589	33,525	(713)	6,538	5,740	-	-	45,090
CFEB	8,281	6,452	-	(14)	(1)	-	(1,733)	4,704
	₩ 486,210	824,771	123,352	22,242	(283,985)	(412)	(75,934)	610,034

(*1) These investment securities were excluded from the calculation applying equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies were considered insignificant.

As of December 31, 2002, details of investments in subsidiaries accounted for using the equity method are as follows:

In Millions

	Acquisition cost	Beginning balance under equity method	Acquisition/ Disposition or dividend	Translation adjustment	Increase (decrease) in equity of equity method investees			Book value
					Equity in earnings (losses)	Accumulated deficit	Capital adjustment	
KEBCS	₩ 85,000	305,759	(23,494)	-	(22,856)	(707)	332	259,034
KEBLS	74,881	124,405	-	-	(7,878)	(65,618)	1,811	52,720
KEBIT	13,800	15,328	(1,035)	-	1,361	-	-	15,654
KEBFC	15,000	15,263	-	-	893	(99)	74	16,131
Doosan Heavy Industries & Construction Co., Ltd.	82,000	276,061	(2,460)	-	12,702	1,469	(25,757)	262,015
PUB	38,493	74,569	-	(7,068)	8,742	7,164	(7,716)	75,691
KEB Ire.	3,436	7,549	-	(716)	250	(256)	-	6,827
KEBOC	26,322	33,324	-	(2,886)	3,684	(48)	-	34,074
KEBA	38,527	11,628	-	17	2,875	(274)	-	14,246
KEBD	16,453	28,796	-	1,679	10,302	(799)	-	39,978
KEBB	13,632	14,103	-	(5,704)	32	(7)	-	8,424
KEBD A.G.	20,589	29,620	(468)	2,142	2,897	(665)	-	33,526
CFEB	8,281	7,744	(329)	(712)	1,616	(1,867)	-	6,452
KEB International Ltd.	33,078	-	-	-	-	-	-	-
	₩ 469,492	944,149	(27,786)	(13,248)	14,620	(61,707)	(31,256)	824,772

(c) Guarantee Deposits for Trust Operations

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits as of December 31, 2003 and 2002 are ₩10,680 million (₩12,320 million) and ₩5,952 million (₩7,394 million), respectively.

KOREA EXCHANGE BANK (BANKING ACCOUNT)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(d) Securities denominated in foreign currencies

Securities denominated in foreign currencies as of December 31, 2003 and 2002 are as follows:

	Currency	2003		2002	
		In Foreign Currency (In Thousands)	Korean Won Equivalent (In Millions)	In Foreign Currency (In Thousands)	Korean Won Equivalent (In Millions)
Government bonds	USD	40,366	₩ 48,351	237,462	₩ 285,050
	HKD	85,060	13,122	85,055	13,091
	SGD	7,439	5,233	5,498	3,803
	Others(*)	2,075	2,485	2,184	2,622
			69,191		304,566
Finance debentures	USD	266,498	319,214	216,181	259,606
Corporate bonds	USD	102,054	122,240	57,982	69,601
	CHF	55	53	125	108
	DEM	1,496,183	16,751		
	JPY	300	46	500,000	5,064
			139,090		74,773
Trading equity securities	USD	-	-	16	189
Available-for-sale equity securities	USD	2,836	3,341	6,346	7,403
	CHF	6,738	6,497	-	-
			9,838		7,403
Investments in associates	Others(*)	222,945	267,043	161,047	219,218
			₩ 804,376		₩ 865,755

(*) Securities denominated in other foreign currencies are presented at equivalent U.S. dollar amounts.

(e) Securities provided as collateral

Securities as collateral for borrowings from the Bank of Korea and other financial institutions are as follows:

Guarantees	Pledge Value	Reference	In Millions
Other financial institutions	₩ 676,452	Bonds sold under repurchase agreements	
Bank of Korea	1,023,879	Borrowings from the Bank of Korea (BOK)	
Bank of Korea	171,104	Overdrafts from BOK	
Bank of Korea	1,323,982	Bonds sold under repurchase agreements (BOK)	
Bank of Korea	372,675	Inter-bank settlements	
Korea Development Bank	35,800	Asset-backed settlements	
Futures Corporations, Bank	104,145	Futures transaction/Borrowings denominated in foreign currencies	
Merrill Lynch	4,881	Credit default swap	
	₩ 3,712,918		

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(f) Impairment Loss

Impairment losses on equity securities for the year ended December 31, 2003 is as follows:

		In Millions			
Equity securities	Issuer	Acquisition cost	Impairment loss	Book value	
Marketable securities in Won	Forks Co., Ltd.	₩ 990	594	396	
	Kyoung Nam Enterprise Co., Ltd.	1,371	783	588	
	Darwoo Precision Industries Co., Ltd.	11,668	3,289	8,379	
	Daewoo Securities Co., Ltd.	13,922	832	13,090	
	Donghae Pulp Co., Ltd.	908	77	831	
	Byuck San C&O Co., Ltd.	7,233	2,803	4,430	
	Samyang Foods Co., Ltd.	3,020	910	2,110	
	Saehan Inc.	3,299	2,634	665	
	Saehan Media Co., Ltd.	924	262	662	
	Saeshin Co., Ltd.	475	174	301	
	Soosan Heavy Industries Co., Ltd.	46	24	22	
	Shinwon	7,064	5,206	1,858	
	Shinhan TS	55	33	22	
	Ssang Yong Engineering & Construction Co., Ltd.	744	95	649	
	Woobang Housing & Construction Co., Ltd.	2	1	1	
	Choil Paper Mfg. Co., Ltd.	1,342	1,144	198	
	KP Chemical Corporation	18,233	6,008	12,225	
	Cosmo Chemical Co., Ltd.	684	603	81	
	Korea Capital	660	167	493	
	Hyundai Corporation	12,216	4,838	7,378	
	MAXON Telecom Co., Ltd.	225	132	93	
	Samick Musical Instruments Co., Ltd.	86	14	72	
	Hynix	398,734	55,833	342,901	
Hyundai Construction	59,645	17,095	42,550		
		₩ 543,546	103,551	439,995	

		In Millions			
Equity securities	Issuer	Acquisition cost	Impairment loss	Book value	
Non-marketable securities in Won	Metel Inc.	891	891	-	
	Minet Inc.	1,000	1,000	-	
	Prime Venture Capital Corp.	1,000	589	411	
	SMIT Inc.	500	500	-	
	Sourcetel Co., Ltd.	500	349	151	
	IO Telecom	900	653	247	
	Life & Environment	880	880	-	
	Gamebox E&T	700	700	-	
	Sourcetel	80	48	32	
	Kyungyoung Co., Ltd.	19	19	-	
	Orion Electric	1,008	1,008	-	
	KEB 1st SPC	1	1	-	
	KEB 5th SPC	2	2	-	
	KEB 6th SPC	2	2	-	
	Jungwon Industry	4	4	-	
	Hunix	358	358	-	
	New state Investment Trust	400	253	147	
		₩ 8,245	7,257	988	
Non-marketable securities in foreign currencies	AFIC	5,989	3,989	2,000	
		₩ 557,780	114,797	442,983	

Impairment losses on debt securities for the year ended December 31, 2003 is as follows:

		In Millions		
Debt securities	Issuer	Amortized cost	Impairment loss	Book value
Debt securities in Won	Hyundai Corporation	₩ 35,143	13,917	21,226
	KEB 6th SPC	164,153	26,540	137,613
	KEB 8th SPC	59,000	21,296	37,704
	SK Networks Co., Ltd.	8,073	6,788	1,285
	LG Card Co., Ltd	20,028	9,604	10,424
	Hynix Semiconductor Inc.	21	17	4
		₩ 286,418	78,162	208,256
Others	Beneficiary certificate of Daewoo Motors	78,202	31,042	47,160
Debt securities in foreign currencies	Pacific Elephant Leverage Fund	5,195	1,003	4,192
		₩ 369,815	110,206	259,608

The recovery of impairment losses on available-for-sale equity securities for the year ended December 31, 2003 is as follows:

		In Millions		
Equity securities	Issuer	Amortized cost	Recovery of Impairment loss	Book value
Listed securities in Won	Koryo Cement Co., Ltd.	₩ 25	-	25
	Shinwon Construction	819	82	901
	Ssangyong Mortors	11,540	12,185	23,725
		₩ 12,384	12,267	24,651

The recovery of impairment losses on debt securities for the year ended of December 31, 2003 is as follows:

		In Millions		
Debt securities	Issuer	Amortized cost	Recovery of Impairment loss	Book value
Debt securities in Won	KEB 7th SPC	₩ 30,918	483	31,401

(g) Sales Contract of Overseas Subsidiary

In accordance with the resolution of the Board of Directors, the Bank entered into a Trust Agreement and made a related contracts with the trustee, to whom the Bank entrusted the disposal of its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary. On December 22, 2003, the entrusted trustee signed a contract with Hanmi Financial Corp., the holding company of Los Angeles-based Hanmi Bank, to sell 6,624,052 shares of PUB at US\$28 per share, amounting US\$185,473 thousand in total. This sales contract was submitted to Federal Reserve Bank of San Francisco in February 2004 for approval, which is required for the contract to become effective.

(5) Loans

(a) Loans as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Loans in Won	₩ 26,288,827	22,945,606
Loans in foreign currencies	6,218,823	5,715,989
Bills bought in Won	1,179,460	1,420,575
Foreign exchange bills purchased	2,857,628	2,791,257
Call loans	2,165,183	408,840
Other	1,674,288	944,592
	40,384,209	34,226,859
Less: Allowance for loan losses	(906,249)	(735,874)
Present value discount	(80,831)	(99,167)
	₩ 39,397,129	33,391,818

Interest rates on the above loans are normally prime rates or effective market rates plus spreads of up to 5.0%, as determined based on the types and terms of loans. Most loans bear either floating interest rates or fixed rates which are subject to subsequent change as prime rates fluctuate.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(b) Loans to Other Financial Institutions

Loans to other financial institutions as of December 31, 2003 and 2002 are as follows:

	2003				2002				In Millions
	Banks	Other Financial Institutions	Foreign Financial Institutions	Total	Banks	Other Financial Institutions	Foreign Financial Institutions	Total	
Loans in Won	₩ -	194,900	-	194,900	-	232,366	-	232,366	
Loans in foreign currencies	-	71,991	-	71,991	-	120,333	-	120,333	
Call loans	1,323,304	-	841,878	2,165,182	-	-	261,687	261,687	
	₩ 1,323,304	266,891	841,878	2,432,073	-	352,699	261,687	614,386	

(c) Foreign Currency Loans by Nationality

As of December 31, 2003 and 2002, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2003			2002		
	In thousands	In millions	Ratio (%)	In thousands	In millions	Ratio (%)
Korea	US\$ 3,300,148	₩ 3,952,917	63.56	US\$ 4,200,885	₩ 5,042,742	88.22
Japan	255,792	306,388	4.93	239,232	287,174	5.02
Russia	99,000	118,582	1.91	99,000	118,840	2.08
Indonesia	36,058	43,190	0.69	31,869	38,256	0.67
China	35,337	42,327	0.68	33,363	40,049	0.70
Thailand	8,960	10,732	0.17	14,239	17,092	0.30
Other	1,456,576	1,744,687	28.06	143,149	171,836	3.01
	US\$ 5,191,871	₩ 6,218,823	100.00	US\$ 4,761,737	₩ 5,715,989	100.00

(d) Loans by Industry

As of December 31, 2003 and 2002, the Bank's loans denominated in Korean Won, including trade bills discounted and corporate bills discounted (a portion of bills discounted), classified by industry, are as follows:

	2003		2002		In Millions
	Amount	Ratio(%)	Amount	Ratio(%)	
Manufacturing	₩ 9,564,775	30.55	₩ 9,038,236	32.40	
Financial and insurance	707,062	2.26	463,611	1.66	
Telecommunication	64,273	0.21	105,522	0.38	
Wholesale and retails/service	3,737,318	11.94	3,170,128	11.36	
Construction	1,804,800	5.77	1,580,742	5.67	
Individuals and households	11,746,506	37.52	10,206,189	36.58	
Others	3,679,392	11.75	3,334,579	11.95	
	31,304,126	100.00	27,899,007	100.0	
Loans of overseas branches	2,290,859		2,104,635		
	₩ 33,594,985		₩ 30,003,642		

(e) Loan Classification

The asset quality classification for loans and allowance for losses as of December 31, 2003 and 2002 are as follows:

	2003 (*1)						In Millions
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for loan losses
Loans :							
Loans in Won(*2)	₩ 26,202,308	486,547	493,010	45,219	81,250	27,308,344	566,969
Loans in foreign currencies	5,752,985	250,486	187,438	23,969	2,454	6,217,332	176,794
Foreign exchange bills bought(*3)	2,887,549	8,607	46,802	6,797	-	2,949,755	27,369
Advances							
payments acceptance and guarantees	4,447	5,415	31,089	22,371	3,032	66,354	27,966
Call loans(*4)	2,071,784	-	-	-	-	2,071,784	-
Credit card account	43,733	-	-	-	-	43,733	219
Loans for							
debt-to-equity swap	-	-	-	2,608	-	2,608	1,304
Privately placed bonds	361,187	20,100	46,062	309	-	427,658	11,575
Interbank loans							
in foreign currencies	351,828	-	-	-	-	351,828	-
Banks purchased under resale agreement	700,000	-	-	-	-	700,000	-
	38,375,821	771,155	804,401	101,273	86,736	40,139,386	812,196
Others(*5)	1,892,376	3,896	6,714	4,695	34,170	1,941,851	94,053
	₩ 40,268,197	775,051	811,115	105,968	120,906	42,081,237	906,249

	2002 (*1)						In Millions
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for loan losses
Loans :							
Loans in Won(*2)	₩ 23,212,432	405,160	391,687	167,150	35,727	24,212,156	452,037
Loans in foreign currencies	5,216,953	344,497	106,045	45,434	2,650	5,715,579	130,750
Foreign exchange bills bought(*3)	2,700,535	22,989	65,365	69,801	-	2,858,690	61,937
Advances							
payments acceptance and guarantees	6,746	7,406	18,406	12,640	3,917	49,115	14,100
Factoring receivables	4,306	-	-	-	-	4,306	22
Call loans(*4)	408,840	-	-	-	-	408,840	-
Credit card account	2,248	-	-	-	-	2,248	11
Loans for							
debt-to-equity swap	-	8,722	-	3,084	-	11,806	1,716
Privately placed bonds	364,931	162,113	51,697	40,923	309	619,973	36,177
Interbank loans							
in foreign currencies	185,867	-	-	-	-	185,867	-
Unsettled foreign currencies	70,641	-	-	-	-	70,641	-
	32,173,499	950,887	804,401	339,032	42,603	34,139,221	696,750
Others(*5)	-	-	-	-	-	618,627	39,124
	₩ 32,173,499	950,887	804,401	339,032	42,603	34,757,848	735,874

(*1) These balances represent loan amount after deduction of present value discounts.

(*2) Including corporate bills discounted and trade bills discounted

(*3) Including local Letter of Credit bills brought and exporting bills bought

(*4) Excluding inter-bank reconciliation funds

(*5) Comprising due from banks, suspense receivables, non-performing asset management fund, etc.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(f) Maturity of Loans

The scheduled repayments of loans as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Loans in Won(*)	₩ 19,195,279	6,083,882	2,097,001	27,376,162
Loans in foreign currencies	4,102,313	641,808	1,474,702	6,218,823
	₩ 23,297,592	6,725,690	3,571,703	33,594,985

(*) Including trade bills discounted and corporate bills discounted

(g) Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the years ended December 31, 2003 and 2002 is as follows:

	In Millions	
	2003	2002
Balance at the beginning of the year	₩ 735,874	987,759
Provision for loan losses	829,057	518,701
Reversal of allowance	-	(881)
Loans charged off	(866,848)	(1,261,076)
Transfer from repurchase of loan from KAMCO and others	203,397	503,986
Translation adjustments	4,769	(12,615)
Balance at the end of the year	₩ 906,249	735,874

Ratios of allowance for loan losses to total loans (Net of present value discount) for the years ended December 31, 2003, 2002 and 2001 are 2.3%, 2.2% and 3.4%, respectively.

As of December 31, 2003 and 2002, the Bank's loans, of which the balance had been already charged off without the expiry of the Bank's legal claim rights against borrowers or guarantors, amounted to ₩3,227,985 million and ₩2,871,430 million, respectively.

(h) Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipts specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 2003, ₩2,607 million of loans subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2003, discounted using interest rates of 5.25% to 15.25%, is ₩771,645 million which is less than their nominal value of ₩849,869 million.

The changes in present value discount of the Bank's restructured loans in 2003 are as follows:

	In Millions			
	Balance at January 1	Addition	Deduction	Balance at December 31
Loans restructured under work-out plan	₩ 11,556	-	11,556	-
Loans restructured under other similar rescheduling agreements	12,756	21,250	18,525	15,481
Loans in industry rationalization policy	74,855	505	10,010	65,350
	₩ 99,167	21,755	40,091	80,831

(i) Loans to Directors and Employees

The Bank provides housing loans bearing interest at a rate of 6.00% per annum to directors and employees. The outstanding balance of these housing loans receivable as of December 31, 2003 and 2002 amounts to ₩56,329 million and ₩20,455 million, respectively.

(6) Fixed Assets

Fixed assets as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Tangible assets:		
Land	₩ 367,197	365,333
Buildings	436,827	416,494
Office facilities held on lease	56,294	42,715
Equipment	352,339	340,551
Construction in-progress	335	111
	1,212,992	1,165,204
Less: Accumulated depreciation	(430,665)	(398,060)
	782,327	767,144
Intangible assets:		
Goodwill	10	1,973
Development cost	21,927	15,274
Others	2,223	2,883
	24,160	20,130
Foreclosed assets:		
Acquisition cost	1,449	2,109
Less: allowance for possible losses on foreclosed assets	(1,226)	(1,106)
	223	1,003
	₩ 806,710	788,277

As of December 31, 2003, the domestic branches of the Bank are under renovation for repairs and environmental improvement, and in connection with the renovations, the Bank incurred ₩39,108 million for the year ended December 31, 2003.

As of December 31, 2003, the residual value of fixed assets, which had been fully depreciated and used, amounted to ₩129 million.

As of December 31, 2003, and 2002, the values of the Bank's domestic land as determined by the tax authorities for property tax assessment purpose amounted to ₩424,813 million and ₩380,942, respectively.

As of December 31, 2003, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

(7) Other Assets

Other assets as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Guarantee deposits	₩ 454,742	428,662
Accounts receivable	1,639,195	2,923,427
Accrued income	317,582	296,052
Prepaid expenses	86,953	106,192
Deferred tax assets	200,584	200,073
Contribution to Non-Performing Fund	36,680	36,680
Derivatives instrument assets	205,743	206,177
Suspense receivable	40,034	36,253
Security deposits	12,242	6,294
Domestic exchange settlement	679,680	1,359,031
Loans to trust accounts	18,040	78,094
Others	4,632	5,894
	₩ 3,696,107	5,682,829

(8) Merchant Banking Account Assets**(a) Merchant banking account assets as of December 31, 2003 and 2002 are as follows:**

	2003	2002	In Millions
Loans	₩ 1,318,267		1,211,606
Cash management account (CMA)	207,725		314,491
Operating lease assets	27,214		77,549
Financing lease receivable	102,172		187,690
Other assets	19,238		36,804
	1,674,616		1,828,140
Less: allowance for loan and lease losses	(8,020)		(8,900)
accumulated depreciation of operating lease asset	(15,908)		(47,657)
allowance for estimated loss of future sale of operating lease assets	(200)		(310)
	₩ 1,650,488		1,771,273

(b) Loans

The merchant banking division of the Bank provides discounting of short-term notes maturing in one year or less at the interest rate of 4.03~8.7 percent per annum.

Loans of the merchant banking division held as of December 31, 2003 and 2002 comprise the following:

	2003	2002	In Millions
Notes discounted	₩ 1,298,924		1,211,606
Factored accounts receivable	19,343		-
	₩ 1,318,267		1,211,606

(c) Cash Management Accounts

Cash management accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets as of December 31, 2003 and 2002 comprise the following:

	2003	2002	In Millions
Notes discounted	₩ 117,000		285,432
Other securities	90,725		29,059
	₩ 207,725		314,491

(d) Operating Lease Equipment

The merchant banking division of the Bank purchases equipment to be leased for periods ranging from three to fifteen years. Lease contracts include the following general provisions:

- Leases are non-cancelable.
- In the event of early termination by the lessee, predetermined liquidation losses are assessed to the lessee.
- The lessee has the option to return the equipment to the merchant banking division of the Bank at the end of the lease term or to renew the lease contract on the basis of a predetermined price at a stated percentage of the original cost.
- The merchant banking division of the Bank is beneficiary of insurance policies.
- Interest rates applied in the computation of quarterly or monthly minimum lease payments are based on actual financing costs plus fixed margins as stated in the lease contracts.
- In certain lease agreements, lease payments and potential liquidation losses are partly secured by collateral, amounting up to 5% of acquisition costs of lease assets, in the form of lease contract guarantee deposits from the lessees or guarantees from other Korean financial institutions or the Korean Fidelity and Surety Insurance Company.

Equipment held for lease classified by industry as of December 31, 2003 and 2002 is as follows:

	In Millions	
	2003	2002
General industrial equipment	₩ 10,312	26,211
Shipping	16,902	50,780
Office equipment	-	500
Others	-	58
	27,214	77,549
Less : Accumulated depreciation	(15,908)	(47,657)
Allowance for estimated loss on future Sales of operating lease assets (see note 2)	(200)	(310)
	₩ 11,106	29,582

The estimated future lease payments to be received on the operating leases as of December 31, 2003 are as follows:

	In Millions		
	Foreign Currency	Won Currency	Total
2004	₩ 4,215	11	4,226
2005	3,677	-	3,677
2006	1,901	-	1,901
2007	1,988	-	1,988
2008	2,081	-	2,081
2009 and thereafter	8,778	-	8,778
	₩ 22,640	11	22,651

(e) Financing Lease Receivable

The estimated future lease payments in aggregate to be received on financing leases as of December 31, 2003 are as follows:

	In Millions	
	Amount	
2004	₩	64,909
2005		19,942
2006		14,708
2007 and thereafter		4,344
Total lease payments to be received		103,903
Less: Unearned interest income		(1,731)
	₩	102,172

As of December 31, 2003, net financing lease receivables amounting to US\$83,590 thousand are denominated in foreign currencies, and net financing lease receivables amounting to ₩2,048 million are denominated in Korean Won.

(f) Credit Risk Classification and Related Allowance for Loan and Lease Losses

The credit risk classification and allowance for loan and lease losses of the accounts in the merchant banking division of the Bank as of December 31, 2003 and 2002 are as follows:

							In Millions	
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance for loan and lease losses	
2003:								
Notes discounted	₩ 1,435,267	-	-	-	-	1,435,267	7,250	
Financing lease receivables	98,257	2,801	1,114	-	-	102,172	770	
	₩ 1,533,524	2,801	1,114	-	-	1,537,439	8,020	
2002:								
Notes discounted	₩ 1,497,038	-	-	-	-	1,497,038	7,485	
Financing lease receivables	168,968	17,608	1,114	-	-	187,690	1,415	
	₩ 1,666,006	17,608	1,114	-	-	1,684,728	8,900	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(g) Other Assets

As of December 31, 2003 and 2002, the other assets included in the merchant banking assets comprise of the following:

	In Millions	
	2003	2002
Gain on foreign currency translation	₩ 15,726	27,669
Accrued income	2,998	9,135
Receivables	514	-
	₩ 19,238	36,804

(9) Deposits**(a) Deposits as of December 31, 2003 and 2002 are as follows:**

	Annual interest rate(%) for the year 2003	In Millions	
		2003	2002
Deposits in Won:			
Demand deposits	0.00 ~ 3.1	₩ 13,739,944	12,185,297
Saving deposits	0.00 ~ 4.8	16,787,010	18,588,193
Mutual installment saving	2.5 ~ 4.4	508,097	743,396
		31,035,051	31,516,886
Deposits in foreign currencies:			
Demand deposits	0.00 ~ 5.1	2,406,060	2,375,565
Saving deposits	0.00 ~ 5.8	6,871,669	4,950,510
		9,277,729	7,326,075
Certificates of deposits	2.9 ~ 3.7	2,184,105	367,524
		₩ 42,496,885	39,210,485

(b) Deposits from Other Financial Institutions

Deposits from other financial institutions as of December 31, 2003 and 2002 are as follows:

	2003				2002				In Millions
	Bank	Institutions other than banks	Foreign financial institutions	Total	Banks	Institutions other than banks	Foreign financial institutions	Total	
Deposits in Won:									
Demand deposits	₩ 14,823	150,140	14,100	179,063	₩ 6,426	940,973	6,432	953,831	
Saving deposits	21,729	2,137,094	35,000	2,193,823	1,775,096	541,515	41,959	2,358,570	
Certificate of Deposit	-	662,059	-	662,059					
Deposits in foreign currencies:									
Demand deposits	135,400	32,403	98,999	266,802	176	37,113	879	38,168	
Saving deposits (*)	273,146	613,689	13,423	900,258	214,305	709,849	36	924,190	
	₩ 445,098	3,595,385	161,522	4,202,005	₩ 1,996,003	2,229,450	49,306	4,274,759	

(*) Deposits in foreign currencies from banks represent deposits by the Bank of Korea.

(c) The scheduled maturities of deposits as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 28,334,546	1,470,763	1,229,742	31,035,051
Deposits in foreign currencies	7,315,475	1,947,724	14,530	9,277,729
Certificates of deposits	2,184,065	-	40	2,184,105
	₩ 37,834,086	3,418,487	1,244,312	42,496,885

(10) Borrowings

(a) Borrowings as of December 31, 2003 and 2002 are as follows:

	Annual interest rate(%) for the year 2003	In Millions	
		2003	2002
Borrowings in Won:			
Borrowings from the Bank of Korea	2.5	₩ 998,307	1,052,650
Borrowings from the Governmental and Public fund	1.5 ~ 3.75	358,745	324,879
Borrowings from other banks	1.83 ~ 4.5	253,349	142,889
Borrowings from other financial institutions	-	-	70,000
Borrowings from others	1.5 ~ 8.02	446,775	418,899
		2,057,176	2,009,317
Borrowings in foreign currencies:			
Medium and long-term borrowings	3ML+0.42 ~ 3.5	646,287	606,111
Short-term borrowings	1.32 ~ 1.47375	1,537,851	1,212,389
Refinance	1.37 ~ 1.495	110,227	151,065
Borrowings from banks for subordinated loans	2.35 ~ EURIOR+0.625	13,997	21,176
Others	3ML+0.21 ~ 0.44	722,956	616,113
		3,031,318	2,606,854
Securities sold under repurchase agreements	2.9 ~ 3.8	510,530	542,549
Bills sold	2.9 ~ 3.7	323,975	653,355
Call money	0.93 ~ 3.65	335,833	387,501
		1,170,338	1,583,405
		₩ 6,258,832	6,199,576

(b) Subordinated Borrowings

Subordinated borrowings at December 31, 2003 and 2002 are as follows:

	Borrower	Annual interest rate(%) for the year 2003	Thousands of U.S. Dollars	
			2003	2002
Borrowings in Won	Kyobo Life Insurance	-	₩ -	70,000
Borrowing on foreign currencies	Commerz Bank	6ML+3.5	41,923 (US\$35,000)	42,014 (US\$35,000)
			₩ 41,923	112,014

(c) Maturity Information

The scheduled maturities of borrowings as of December 31, 2003 are as follows:

				In Millions
	Due in less than one year	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,155,476	303,837	597,863	2,057,176
Borrowings in foreign currencies	2,789,343	219,127	22,848	3,031,318
	₩ 3,944,819	522,964	620,711	5,088,494

As of December 31, 2003, in the normal course of funding activities the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions (see note 4).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(11) Debentures**(a) Debentures as of December 31, 2003 and 2002 are as follows:**

	Annual interest rate(%) for the year 2003	In Millions	
		2003	2002
Debentures in Won:			
Debentures	4.4 ~ 10.5	₩ 1,960,960	1,570,960
Subordinated debentures	5.8 ~ 10.5	1,192,504	950,000
Subordinated convertible debentures	4	200,000	200,000
Hybrid Tier 1(*)	8.5	250,000	-
Others	-	-	16
		3,603,464	2,720,976
Discounts on debentures		(5,273)	(9,864)
		3,598,191	2,711,112
Debentures in foreign currencies:			
Debentures	13.75 ~ 3ML+2.0	488,282	627,555
Discounts on debentures		(3,064)	(3,859)
		485,218	623,696
		₩ 4,083,409	3,334,808

(*) The maturity of Hybrid Tier 1 is May 28, 2033.

(b) Subordinated Debentures

Subordinated debentures as of December 31, 2003 and 2002 are as follows:

	Borrower	Annual interest rate(%) for the year 2003	Thousands of U.S. Dollars	
			2003	2002
Sold to general public	Feb. 28, 2004 ~ Dec. 28, 2008	5.80~10.5	₩ 1,192,504	₩ 950,000
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	Nov. 18, 2006	3ML+2.0	239,560 (US\$200,000)	240,080 (US\$200,000)
Credit Suisse First Boston (CSFB)	June 30, 2010	13.75	248,722 (US\$207,649)	253,031 (US\$210,789)
			₩ 1,680,786	1,443,111

(c) Subordinated Convertible Debentures

Subordinated convertible debentures as of December 31, 2003 and 2002 are as follows:

	Terms of debentures	Annual interest rate(%) for the year 2003	In Millions	
			2003	2002
Subordinated convertible debentures (No.4)	12/6/99 ~ 12/6/09	4	₩ 100,000	100,000
Subordinated convertible Debentures (No.5)	12/27/99 ~ 12/27/09	4	100,000	100,000
			₩ 200,000	200,000

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through November 6, 2009 and November 27, 2009, respectively, into common shares at a conversion price of ₩10,000 per share of common stock, as adjusted for the 2:1 capital reduction in December 22, 2000. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service ("FSS") on December 6, 2004 (fourth series) and December 27, 2004 (fifth series) at 150.82% of their principal amounts. If such options were not exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the remaining principal will be paid ten years from the issue date.

(d) Repayment Schedules

The scheduled maturities of debentures as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 470,960	1,640,000	1,492,504	₩ 3,603,464
Debentures in foreign currencies	-	239,560	248,722	488,282
	₩ 470,960	1,879,560	1,741,226	₩ 4,091,746

(12) Other Liabilities

Other liabilities as of December 31, 2003 and 2002 consist of the following:

	In Millions	
	2003	2002
Retirement and severance benefits (see note 14)	₩ 26,693	2,949
Allowance for acceptance and guarantees	54,200	43,500
Due to trust account	1,260,415	265,004
Foreign exchange remittance pending	283,028	218,012
Account payable	1,583,101	2,858,873
Accrued expenses	639,406	645,947
Unearned income	63,557	81,002
Deposits for letter of guarantees and others	174,993	154,876
Derivative instrument liabilities	214,050	237,140
Suspense receipt	125,386	81,371
GIRO accounts	79,122	96,090
Agency receipt	556,447	420,477
Others	111,867	151,735
	₩ 5,172,265	5,256,976

(13) Merchant Banking Account Liabilities

Merchant banking account liabilities as of December 31, 2003 and 2002 comprise of the following:

		In Millions	
	Annual interest rate(%) for the year 2003	2003	2002
Notes payable	3.25 ~ 5.50	₩ 1,409,238	1,295,963
CMA deposits	3.40 ~ 3.79	216,946	352,709
Others		13,892	25,310
		₩ 1,640,076	1,673,982

Notes payable mature within a maximum of one year from issue date and bear interest at varying rates according to market conditions and note terms.

(14) Retirement and Severance Benefits

Retirement and severance benefits as of December 31, 2003 and 2002 are as following:

	In Millions	
	2003	2002
Balance at the beginning of the year	₩ 53,447	26,314
Provisions	38,914	30,852
Severance payments	(6,747)	(3,248)
Adjustments of foreign exchange transactions	125	(471)
	85,739	53,447
Transfer to the National Pension Fund	(58,223)	(49,662)
Deposits of insurance for retirement and severance benefits	(823)	(836)
Balance at the end of the year	₩ 26,693	2,949

(15) Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2003 and 2002 are as follows:

	2003		2002	
	In thousands	In Millions	In thousands	In Millions
Assets:				
Cash and due from banks	US\$ 1,352,556	₩ 1,620,092	US\$ 1,491,008	₩ 1,789,807
Trading securities	6,905	8,271	88,245	105,930
Investment securities	664,640	796,105	632,978	759,826
Loans & lease asset	9,408,233	11,269,179	7,699,021	9,241,904
	US\$ 11,432,334	₩ 13,693,647	US\$ 9,911,252	₩ 11,897,467
Liabilities:				
Deposits	US\$ 7,745,641	₩ 9,277,729	US\$ 6,103,028	₩ 7,326,075
Borrowings	2,615,513	3,132,862	2,379,221	2,856,018
Debentures	407,649	488,282	522,788	627,555
Others	236,290	283,028	181,616	218,012
	US\$ 11,005,093	₩ 13,181,901	US\$ 9,186,653	₩ 11,027,660

Monetary assets and liabilities of the Bank denominated in other than U.S. Dollars were converted into equivalent U.S. Dollar amounts using the exchange rate prevailing on December 31, 2003 and 2002.

(16) Asset Revaluation

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

(17) Other Statutory Reverses and Accumulated Deficit

(a) Accumulated deficit as of December 31, 2003 and 2002 is as follows:

	2003		2002	
	In Millions		In Millions	
Other statutory reserves	₩	33,434		23,494
Accumulated deficit before disposition		(343,435)		(121,225)
	₩	(310,001)		(97,731)

(b) Other Statutory Reserves

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

(c) Disposition of Accumulated Deficits

Details of the recent two years' disposition of accumulated deficits approved by shareholders on March 28, 2003, March 29, 2002, and March 13, 2001 are as follows:

	In Millions		
	March 28, 2003	March 29, 2002	March 13, 2001
Accumulated deficit before disposition	₩ 121,225	165,031	1,523,622
Disposition	-	-	-
Transfer from gain on capital reduction	-	-	1,240,875
Appropriation for other statutory reserves	(8,371)	(8,445)	(236)
	(8,371)	(8,445)	1,240,639
Accumulated deficit	₩ 129,596	173,476	282,983

(d) Adjustments to the Beginning Accumulated Deficit

Details of adjustments to the beginning accumulated deficits are as follows:

	2003	2002
Accumulated deficit before adjustments	₩ (129,596)	(173,476)
Adjustments:		
Equity method accounting for investment securities in subsidiaries	(412)	(61,707)
Others, net	390	955
Accumulated deficit after adjustments	₩ (129,618)	(234,228)

(18) Capital Adjustment

Capital adjustments as of December 31, 2003 and 2002 are as follows:

	2003	2002
Unrealized gain on available-for-sale securities	₩ 234,085	(105,014)
Unrealized gain on investments in associates	128,067	207,223
Stock option	14	-
Discounts on capitals stocks	(294,926)	(9,572)
	₩ 67,240	92,637

(19) Stock Options

As of December 31, 2003, the stock options granted to the Bank's employees and executives are as follows:

	March 25, 2000	May 18, 2000	March 13, 2001	August 26, 2002	September 16, 2003	Total
Share granted	784,000	400,000	562,000	725,000	120,000	2,591,000
Shares expired to date	761,500	247,500	15,000	421,850	-	1,445,850
Shares exercised	-	-	-	-	-	-
Share outstanding	22,500	152,500	547,000	303,150	120,000	1,145,150
Exercise price per share	10,000	5,000	5,000	6,300	5,000	
Exercise period	March 26, 2003 ~ March 25, 2006	May 19, 2003 ~ May 18, 2006	March 14, 2004 ~ March 13, 2007	August 27, 2005 ~ August 26, 2007	September 17, 2006 ~ September 16, 2009	

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

The risk-free interest rate	The interest rate for governmental bonds at the grant date
The expected exercise period	In six years from the grant date
The volatility of the underlying stock price	0 %
The expected dividend rate	0 %

Under the above assumptions, compensation costs are calculated based on minimum value method using the option pricing model. However, since the exercise price of the stock option exceeded the market value of the Bank's stock as of the data of the grant, except for the stock option granted on September 16, 2003, no compensation cost was accrued.

(20) Commitments and Contingencies

(a) Guarantees and Acceptances

The Bank makes various commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding as of December 31, 2003 and 2002 are summarized as follows:

	2003	2002
Guarantees and acceptances in Won	₩ 856,386	876,786
Guarantees and acceptances in foreign currencies	2,196,235	2,076,720
Guarantees provided by merchant banking operations	-	1,545
	₩ 3,052,621	2,955,051

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December 31, 2003 and 2002

Asset quality classification of the guarantees and acceptances and allowances for acceptances and guarantees as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Normal	₩ 2,944,718	2,813,911
Precautionary	44,082	85,812
Substandard	30,567	749
Doubtful	32,114	50,811
Estimated loss	1,140	3,768
Total	3,052,621	2,955,051
Allowance for acceptances and guarantees	₩ 54,200	43,500

The guarantees and acceptances, excluding acceptance in offshore branches and guarantees arising from merchant banking operations, classified by industry as of December 31, 2003 and 2002 are as follows:

	In Millions			
	2003		2002	
	Amount	Ratio(%)	Amount	Ratio(%)
Manufacturing	₩ 1,347,266	47.50	₩ 1,288,325	46.27
Wholesale and retail/service	519,285	18.31	593,770	21.32
Construction	403,259	14.22	415,214	14.90
Financial insurance	283,000	9.98	264,986	9.52
Telecommunication	8,399	0.30	7,971	0.29
Others	274,254	9.69	214,368	7.70
	2,835,463	100.00	2,784,634	100.00
Acceptance in overseas branches	217,158		168,872	
Guarantees provided by merchant banking operation	-		1,545	
	₩ 3,052,621		₩ 2,955,051	

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2003 and 2002 are as follows:

Countries	2003			2002		
	In thousands	In millions	Ratio (%)	In thousands	In millions	Ratio (%)
Korea	US\$ 1,660,140	₩ 1,988,516	90.54	US\$ 1,563,792	₩ 1,877,176	90.39
France	36,869	44,163	2.01	76,307	91,599	4.41
Germany	16,226	19,436	0.88	25,940	31,138	1.50
UK	7,464	8,940	0.41	10,558	12,674	0.61
U.S.A.	24,136	28,910	1.32	22,144	26,582	1.28
Japan	21,431	25,670	1.17	24,196	29,045	1.40
Others	67,290	80,600	3.67	7,086	8,506	0.41
	US\$ 1,833,556	₩ 2,196,235	100.00	US\$ 1,730,023	₩ 2,076,720	100.00

In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of the Bank's guarantees and acceptances without underlying liabilities of customers, provided in the normal course of business, as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Letters of credit issued but not yet drawn	₩ 4,360,934	4,291,012
Other guarantees and acceptance	16,115	7,869
	₩ 4,377,049	4,298,881

The Bank's loan commitments as of December 31, 2003 and 2002 are as follows :

	In Millions	
	2003	2002
Commitments for loans in Won	₩ 397,464	115,403
Commitments for foreign loans	112,266	96,496
Securities purchase commitments in foreign currency	1,198	-
Other commitments in foreign currency	46,714	5,011
Total	₩ 557,642	216,910

Loans written off amounted to ₩3,227,985 million and ₩2,871,430 million as of December 31, 2003 and 2002, respectively.

(b) Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price.

A summary of derivative financial instrument information as of December 31, 2003 and 2002 are as follows:

	Valuation gains or losses (US)											valuation gains or losses (B/S)		
	2003											Assets	Liabilities	
	Outstanding		Trading		Hedging		Total							
Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses	Gains	Losses				
Foreign Currency Related Contracts														
Forward contracts	₩ 8,052,020	415,467	8,467,487	39,308	(10,782)	10,108	169	49,416	(10,613)		130,782	127,947		
Futures contracts														
Futures contracts purchased	38,090	-	38,090	-	-	-	-	-	-	-	-	-		
Swap contracts	555,730	-	555,730	(7,688)	12,098	-	-	(7,688)	12,098		21,335	18,185		
Option contracts														
Option contracts purchased	296,456	-	296,456	(3,896)	-	-	-	(3,896)	-		4,041	-		
Option contracts sold	429,303	-	429,303	1,005	(1,308)	-	-	1,005	(1,308)		-	5,623		
	9,371,599	415,467	9,787,066	28,729	8	10,108	169	38,837	177		156,158	151,755		
Interest Rate Related Contracts														
Futures contracts														
Futures contracts purchased	179,103	-	179,103	-	-	-	-	-	-		-	-		
Futures contracts sold	1,721,739	-	1,721,739	-	-	-	-	-	-		-	-		
Swap contracts	4,271,377	131,758	4,403,135	4,809	6	3,395	7,585	8,204	7,591		44,427	41,803		
Option contracts														
Option contracts purchased	299,402	-	299,402	(152)	-	-	-	(152)	-		511	-		
Option contracts sold	323,358	-	323,358	-	465	-	-	-	465		-	1,624		
	6,794,979	131,758	6,926,737	4,657	471	3,395	7,585	8,052	8,056		44,938	43,427		
Index Option Related Contracts														
Kospi 200 futures	44,115	-	44,115	-	-	-	-	-	-		-	-		
Option contracts														
Option contracts purchased	102,055	-	102,055	2,245	-	-	-	2,245	-		4,647	-		
Option contracts sold	467,489	-	467,489	-	7,381	-	-	-	7,381		-	18,868		
	613,659	-	613,659	2,245	7,381	-	-	2,245	7,381		4,647	18,868		
	₩ 16,780,237	547,225	17,327,462	35,631	7,860	13,503	7,754	49,134	15,614		205,743	214,050		

In Millions

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	In Millions											
	2002		Valuation gains or losses (US)								valuation gains or losses (B/S)	
	Trading	Outstanding	Trading		Hedging		Total		Assets	Liabilities		
	Hedging	Gains	Losses	Gains	Losses	Gains	Losses	Losses	Assets	Liabilities		
Foreign Currency Related Contracts												
Forward contracts	₩ 8,161,748	949,320	9,111,068	(10,285)	62,198	994	16,451	(9,291)	78,649	103,159	158,010	
Futures contracts	-	-	-	-	-	-	-	-	-	-	-	
Futures contracts purchased	-	-	-	-	-	-	-	-	-	-	-	
Swap contracts	585,278	-	585,278	28,808	(4,447)	-	(10,979)	28,808	(15,426)	29,023	6,087	
Option contracts	270,090	-	270,090	(15,401)	-	-	-	(15,401)	-	7,937	-	
Option contracts purchased	270,090	-	270,090	-	(15,019)	-	-	-	(15,019)	-	7,937	
Option contracts sold	-	-	-	-	-	-	-	-	-	-	-	
	9,287,206	949,320	10,236,526	3,122	42,732	994	5,472	4,116	48,204	140,119	172,034	
Interest Rate Related Contracts												
Futures contracts	-	-	-	-	-	-	-	-	-	-	-	
Futures contracts purchased	-	-	-	-	-	-	-	-	-	-	-	
Futures contracts sold	2,909,965	-	2,909,965	-	-	-	-	-	-	-	-	
Swap contracts	3,236,849	120,040	3,356,889	-	372	3,247	-	3,247	372	65,395	63,947	
Option contracts	360,120	-	360,120	-	-	-	-	-	-	663	-	
Option contracts purchased	375,531	-	375,531	-	563	-	460	-	1,023	-	1,159	
Option contracts sold	-	-	-	-	-	-	-	-	-	-	-	
	6,882,465	120,040	7,002,505	-	935	3,247	460	3,247	1,395	66,058	65,106	
Index Option Related Contracts												
Long position on stock index option	463	-	463	14	-	-	-	14	-	-	-	
Short position on stock index option	-	-	-	-	19	-	-	-	19	-	-	
	463	-	463	14	19	-	-	14	19	-	-	
	₩ 16,170,134	1,069,360	17,239,494	3,136	43,686	4,241	5,932	7,377	49,618	206,177	237,140	

(c) Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought by and against the Bank were approximately ₩262,059 million and ₩68,688 million, respectively, as of December 31, 2003. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material ultimate losses on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying financial statements. As of December 31, 2003, the Bank retains floating rate bonds of US\$7,000,000 (book value US\$3,500,000) issued by Pacific Elephant Fund. In the current period, the Bank made a guarantee-payment amounting to US\$20,357,500 in association with the default of Pacific Rainbow Fund for which the Bank has provided guarantee, and received US\$9,858,500 as reimbursement from other guarantee institutions. The two funds mentioned above, Pacific Elephant Fund and Pacific Rainbow, Fund are the offshore funds established in Malaysia by Anam Semiconductor (the "Company") and it mainly invests in companies in Indonesia. With respect to these two funds, the Company has provided a letter of commitment ("LOC"), which confirms the compensation of the loss arising from the funds, but is not currently performing such commitments. Accordingly, the Bank is undergoing a process to bring a case to court in relation to the breach of performance of commitment by the Company, but the ultimate effect as of balance sheet date cannot presently be determined.

(d) Asset Backed Securitization

On December 16, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company ("1st SPC") and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

On February 1, 2001, the Bank sold certain non-performing loans to leasing companies amounting to ₩589,175 million to a Special Purpose Company ("5th SPC") and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank entered into a credit line commitment in the amount of ₩110 billion with Korea Development Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩34 billion as collateral to Korea Development Bank.

On May 25, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company ("6th SPC") and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank entered into a credit line commitment in the amount of ₩30 billion with Kookmin Bank. For this commitment, the Bank provided deposits equivalent to ₩37,700 million as collateral to Kookmin Bank.

On October 30, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company ("7th SPC") and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. In relation to this asset-backed securitization ("ABS"), Korea Development Bank offered a credit line amounting to ₩7,000 million. According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset becomes unqualified under the conditions of the contract or when the asset value is reduced arising from a significant misstatement as a result of a due diligence report for the assets or when the debtor delayed the payment of the principal for more than six months. Also, when the duty to perform arises, the Bank should pay the damage amount to the transferee with cash within seven business days from document notification.

On November 12, 2003, the Bank sold certain non-performing loans amounting to ₩155,391 million to a Special Purpose Company ("8th SPC") and received ₩60,000 million and ₩59,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset becomes unqualified under the conditions of the contract or when the asset value is reduced arising from a significant misstatement as a result of a due diligence report for the assets. Also, when the duty to perform arises, the Bank should pay the damage amount to the transferee with cash within three business days from document notification.

The limit of the damage to indemnity relating to the fifth, sixth, and seventh asset securitization amounts to US\$84,000 thousand (equivalent to ₩110,040 million), ₩130,000 million, and ₩26,000 million, respectively (27 percent, 34 percent, and 36 percent of the total proceeds, respectively).

(e) Loans Sold under Repurchase Agreements

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

- When it is considered impossible to collect the loans and interest because borrowers delay their repayment of loans and interest over 6 months
- When it is considered impossible to collect the loans and interest due to the abrogation of court-receivership process and the cancellation of mediation

As of December 31, 2003, KAMCO may exercise the resale option for loans amounting to ₩372,835 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO exercise their repurchase agreement.

(f) Stock of Samsung Life Insurance

On September 26, 2000, the Bank received 117,638 shares of stock of Samsung Life Insurance in accordance with contribution contract with Gun-Hee Lee, the chairman of Samsung Group, in accordance with the agreement that the Bank would be compensated against estimated loan losses arising from Samsung Motors.

(g) Debt to Equity Swap of Hynix Semiconductor Inc.

In accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. (Hynix) in 2001, the Bank acquired newly issued convertible bonds of Hynix, in exchange for ₩726,600 million of loans and convertible bonds, and provided additional loans amounting to ₩79,000 million to Hynix. Also the Bank acquired the shares of common stocks of Hynix at 708 per share in exchange for the newly issued convertible bonds mentioned above.

The Financial Institution Creditors' committee of Hynix made resolutions to reduce Hynix's equity in the ratio of 21:1, and to issue convertible bonds for the outstanding loans and corporate bonds amounting to ₩1,844,613 million, after the shareholders' meeting on December 30, 2002. The Bank converted consumer and corporate loans amounting to ₩115,806 million to common stock at a public offering price of ₩453 multiplied by the capital reduction rate as a conversion price on April 14, 2003.

Among the converted shares of common stock mentioned above that are classified as available-for-sale securities and carried at fair value, 18,310,000 shares amounting to the book value of ₩102,536 million can be sold through over-the-counter trading from September 16, 2003, on condition that purchasers comply with the resolutions of the Financial Institution Creditors' Council, and the remaining 42,922,307 shares amounting to the book value of ₩240,365 million are restricted from being sold until December 31, 2006.

As of December 31, 2003, the Bank had loans to Hynix amounting to ₩217,800 million and available-for-sale securities of ₩342,905 million. The allowance for losses of ₩175,688 million and impairment loss of ₩55,850 million were recorded with respect to these loans and securities, respectively. However, the actual loss may differ from these allowances for losses and impairment loss upon the result of restructuring of Hynix.

(h) Debt to Equity Swap of SK Networks Co., Ltd.

In accordance with a resolution of the Financial Creditors Committee, SK Networks Co., Ltd. on September 26, 2003 performed a debt to-equity swap amounting to ₩98,679 million for the year 2003.

As of December 31, 2003, the Bank has loans of ₩173,439 million and available-for-sale securities of 152,687 million with respect to SK Networks Co., Ltd. and set allowance provision of ₩89,833 in association with these loans. During the current year, the Bank has recognized an impairment loss of ₩6,788 million. However, the actual loss may differ from the allowance for losses and impairment loss upon the result of the restructuring of SK Networks Co., Ltd.

(i) Loans to Workout Companies

As of December 31, 2003, the Bank's outstanding loans and guarantees to related companies of the Daewoo Group, SK Networks Co., Ltd. and other companies under workout programs amounted to ₩577,063 million. In addition as of December 31, 2003, the Bank's outstanding loans and guarantees to related companies of the Hyundai Group, including Hyundai Construction Co., Ltd. and Hynix Semiconductor Inc., amounted to ₩923,400 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank. No adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

(j) Uncertainty of Loans to LG Card Co., Ltd

As of December 31, 2003, the Bank's outstanding corporate bonds and loans with respect to LG Card Co., Ltd. that has undergone a liquidity crisis, amount to ₩20,000 million and ₩5,989 million, respectively. The corporate bonds and CP issued by LG Card Co., Ltd. amounts to ₩55,750 million out of total underlying assets of beneficiary certificates held by the Bank as of December 31, 2003. The actual loss may differ from the allowance for losses provided by the Bank upon the result of restructuring of LG Card Co., Ltd.

(k) Economic Environment

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

(I) Indemnification Obligations regarding the Share Subscription Agreement by and between the Bank and the Lone Star Fund IV

The Bank shall indemnify Lone Star Fund IV for all purchaser losses (*1) and pay for damages resulting from any breach by the Bank of any of the Bank's covenants (*2) in the Share Subscription Agreement. The Bank's indemnification obligations are as follows:

Duration Periods of Indemnification Obligations are as follows:

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

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

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

The total amount of indemnification obligations cannot exceed Lone Star Fund IV's investments in the Bank.

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

(*2) Covenant means all sorts of conditions in the Share Subscription Agreement that the Bank shall comply for the share subscription until the Closing Date.

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

(21) Fees and Commissions

Fees and commissions for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Commissions received	₩ 289,560	248,148
Guarantee fees	22,727	22,885
Early termination penalty fees	38	111
Others	38,626	42,261
	₩ 350,951	313,405

(22) Operating Revenue of Merchant Banking Account

Operating revenue of merchant banking account for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Interest income	₩ 110,623	109,974
Fees and commissions income	653	1,022
Reversal of allowance for loan loss	880	-
Others	30,961	37,663
	₩ 143,117	148,659

(23) Commission Charges

Commission charges for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Service fees	₩ 29,148	52,645
Others	4,861	4,363
	₩ 34,009	57,008

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(24) Other Operating Expenses of Merchant Banking Account

Other operating expenses of merchant banking account for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Interest expenses	₩ 82,537	74,633
Provision of allowance for loan loss	-	2,968
Others	16,849	19,204
	₩ 99,386	96,805

(25) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Salaries	₩ 319,633	276,680
Employee benefits	83,858	68,482
Provision for retirement and severance benefits	38,914	30,852
Depreciation	72,081	56,624
Amortization	8,475	6,842
Tax and dues	25,720	24,782
Rent	29,361	26,241
Entertainment	9,520	10,101
Advertising	13,095	15,087
Others	100,894	87,830
	₩ 701,551	603,521

(26) Income Taxes

The Bank is subject to a number of income taxes based on taxable earnings which result in the following normal tax rates:

Taxable earnings	Prior to 2005	Thereafter
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	29.7%	27.5%

During 2003, the Korean government reduced the corporate income tax rate beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate will be reduced from 29.7% to 27.5%. The current income tax expenses represent income taxes paid by overseas branches.

The components of income tax expense for the years ended December 31, 2003 and 2002 are summarized as follows:

	In Millions	
	2003	2002
Current	₩ 6,865	12,542
Deferred	(511)	(100,000)
	₩ 6,354	(87,458)

The details of tax effect on accumulated temporary differences and loss carry forward as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Deferred tax assets (liabilities):		
Loss on valuation of securities	₩ 236,726	79,289
Gain on valuation of Held-to-maturity securities	4,236	14,788
Accrued interest	(28,755)	(27,973)
Allowance for loan losses	116,436	38,033
Loans charged off	18,209	19,665
Allowance for losses from guarantees and acceptances	16,097	12,920
Present value discount	21,734	24,272
Gain on valuation of derivative financial instruments	4,669	9,196
Others, net	158,189	91,696
	547,541	261,886
Loss carry-forward	251,354	439,466
Deferred tax assets	798,895	701,352
Allowance for deferred tax assets	(598,895)	(501,352)
Deferred tax assets (Domestic)	200,000	200,000
Deferred tax assets (Foreign)	584	73
Deferred tax assets, net	₩ 200,584	200,073

Deferred tax assets of ₩598,895 million in 2003 and ₩501,352 million in 2002 have not been recognized because it is not probable that future taxable earnings will be available against which the Bank can utilize the related benefit.

(27) Earnings Per Share and Ordinary Income Per Share

Basic earnings per share and ordinary income per share for the years ended December 31, 2003 and 2002 are calculated as follows:

(a) Earnings per share

	In Millions	
	2003	2002
Net earnings (loss)	₩ (213,817,206,100)	113,003,462,879
Preferred stock dividends	-	-
Net income allocated to common stock	(213,817,206,100)	113,003,462,879
Weighted average number of common shares outstanding (in share) (*1)	425,888,100	249,736,152
Basic net earnings per share (in Won)	₩ (502)	452

(*1) The weighted average number of common shares outstanding in 2002 was 222,174,931 shares, however, it is changed to 249,736,152 shares reflecting the effect of increase of capital without consideration.

(b) Basic ordinary income per share

	In Millions	
	2003	2002
Net earnings (loss)	₩ (213,817,206,100)	113,003,462,879
Extraordinary gain	12,968,089,390	14,192,811,396
Extraordinary loss	(862,494,818)	-
Income tax related to extraordinary income	-	-
Ordinary income allocated to common stock	(225,922,800,672)	98,810,651,483
Weighted average number of common shares outstanding (in shares)	425,888,100	249,736,152
Basic ordinary income per share (in Won)	₩ (530)	396

Diluted earnings per shares and diluted ordinary income per share for the years ended December 31, 2003 and 2002 are calculated as follows:

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(c) Diluted earnings per share

In Millions

	2003	2002
Net earnings (loss) allocated to common stock	₩ (213,817,206,100)	113,003,462,879
Preferred stock dividends	-	-
Diluted net earnings (loss)	(213,817,206,100)	113,003,462,879
Weighted average number of common shares before diluted (in shares)	425,888,100	249,736,152
Dilutive shares(*)	-	166,359,680
Diluted weighted average number of common shares outstanding (in shares)	425,888,100	416,095,832
Diluted earnings per share (in Won)	₩ (502)	272

(*) Due to the net loss in 2003, there is no dilution effect, and therefore the number of diluted shares was not computed for 2003. Diluted shares in 2002 consist of convertible preferred stocks.

(d) Diluted ordinary income per share

In Millions

	2003	2002
Ordinary income allocated to common stock	₩ (225,922,800,672)	98,810,651,483
Preferred stock dividends	-	-
Diluted ordinary income	(225,922,800,672)	98,810,651,483
Weighted average number of common shares before diluted (in shares)	425,888,100	249,736,152
Dilutive shares(*)	-	166,359,680
Diluted weighted average number of common shares outstanding (in shares)	425,888,100	416,095,832
Diluted ordinary income per share (in Won)	₩ (530)	237

(*) Due to the net loss in 2003, there is no dilution effect, and therefore the number of diluted shares as not computed for 2003. Diluted shares in 2002 consist of convertible preferred stocks.

(e) Potential common share information as of December 31, 2003 is as follows;

	Face value (In Millions)	Exercise period	Number of common share to be issued upon conversion
Convertible preferred shares	₩ 130,000	(*)	26,000,000
Subordinated convertible debentures (No. 4)	100,000	From Mar. 7, 2001 to Nov. 6, 2009	10,000,000
Subordinated convertible Debentures (No. 5)	100,000	From Mar. 28, 2001 to Nov. 27, 2009	10,000,000
Stock options	-	From Mar. 26, 2003 to Aug. 29, 2009	1,145,150

(*) For 26 million shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock.

(28) Statements of Cash Flows

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent as of December 31, 2003 and 2002 are as follows:

In Millions

	2003	2002
Cash on hand	₩ 1,879,849	1,128,532
Deposits in Won	1,525,537	1,246,665
Deposits in foreign currencies	1,361,018	1,598,596
Marketable securities	318,688	27,974
	₩ 5,085,092	4,001,767

Significant non-cash flow transactions for the years ended December 31, 2003 and 2002 are as follows:

In Millions

	2003	2002
Decrease in loans by charge-off	₩ 866,847	1,261,076
Decrease in allowance for loan losses by offsetting present value discounts	-	5,659
Gain/loss on investment securities (capital adjustment)	336,276	120,596
Domestic exchange settlement	1,433,976	2,791,543

(29) Related Party Transaction

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2003 and related account balances as of December 31, 2003 are summarized as follows:

	In Millions											
	KEBA	KEBOC	KEBIT	KEBLS	KEBSCS	KEB A.G	KEBD	KEB Ite	KEBFC	Trust	Others	Total
Assets:												
Due from banks in foreign currency	₩ -	1,209	-	-	-	16,529	-	-	-	-	1,442	19,180
Loan from banks in Won	-	-	-	19,700	390,666	-	-	-	5,000	-	-	415,366
Loans in foreign currency	22,150	1,465	-	71,781	3,067	80,930	96,588	11,932	-	-	-	287,913
Others	-	-	-	111	2,570	226	-	2,529	-	18,125	-	23,561
Liabilities:												
Deposits in Won	-	-	26,291	-	13,650	-	-	-	4,014	-	-	43,955
Deposits in foreign currency	-	159	-	142	-	1,385	395	562	708	-	260	3,611
Borrowings in foreign currency	-	-	-	-	-	13,559	17,975	11,453	-	-	-	42,987
Others	-	-	221	2,450	4,332	446	-	1,813	60	128,094	-	137,416
Revenues:												
Interest income in Won	-	-	-	1,392	745	-	-	-	334	2,456	-	4,927
Interest income in foreign currency	87	34	-	1,231	-	1,592	1,564	749	43	-	-	5,300
Fees and commissions	-	-	-	-	39,086	-	-	-	513	10,115	-	49,714
Others	-	-	-	171	81	-	-	-	-	-	-	252
Expenses:												
Interest in Won currency	-	-	1,300	-	12,214	-	-	-	249	3,109	-	16,872
Interest in foreign currency	23	20	-	6	-	2,733	149	31	-	-	-	2,962
Commission charges	-	-	-	-	-	173	-	-	1,345	-	-	1,518
Others	-	-	-	-	87	-	-	-	-	-	-	87

(30) Assets and Liabilities Bearing Interest

Assets and liabilities bearing interest income and interest expenses for the year ended December 31, 2003 are as follows:

	In Millions		
	Average balance	Interest income and expenses	Average annual interest rate(%)
Assets:			
Due from banks	₩ 715,038	27,849	3.89
Securities	9,539,206	521,871	5.47
Loans	35,057,664	2,239,515	6.39
	₩ 45,311,908	2,789,235	6.16
Liabilities:			
Deposits	₩ 37,830,760	1,142,293	3.02
Borrowings	6,072,641	201,962	3.33
Debentures	3,591,415	274,236	7.64
	₩ 47,494,816	1,618,491	3.41

(31) Operation Performance of Trust Accounts

The significant financial information relating to trust accounts for the years ended December 31, 2003 and 2002 are as follows.

	In Millions	
	2003	2002
Trust commissions		
Trust fees for money trust	₩ 24,227	42,965
Trust fees for securities investment trusts	5,774	8,712
	₩ 30,001	51,677
Commissions received from termination of commodities in trust account	₩ 38	111

(32) Added Value

The details of costs constituting value added expenses for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Salaries	₩ 319,633	276,680
Employee benefit	83,858	68,482
Provision for severance benefits	38,914	30,852
Depreciation	72,081	56,624
Amortization	8,475	6,842
Taxes and dues	25,720	24,782
Rent	29,361	26,241
	₩ 578,042	490,503

(33) Merger with Korea Exchange Bank Credit Service

During the Board of Directors' meeting held on November 28, 2003, the Bank has determined to merge with Korea Exchange Bank Credit Service Co., Ltd. (KEBCS) on February 28, 2004, in which the Bank has 68.8% of ownership.

With respect to this merger, the Bank will issue 0.533689 share of common stock of the Bank to the KEBCS shareholders who are included on the shareholders list as of January 1, 2004.

In terms of transfer of assets and liabilities, since this merger falls under the parent-subsiary type, the book value of KEBCS on the consolidated financial statements as of February 28, 2004, will be transferred to the Bank.

KEBCS was initially established on May 19, 1988, in accordance with Credit Specialized Finance Business Act, as Korea Exchange Bank Credit Card Co., Ltd. with the contribution from the Bank at an aim to formulate a credit based society, provide convenient financial service for customers and further promote the domestic economic development. The name of Company was changed to KEBCS on January 1, 1992, and its core business - credit card issuance, usage, and payment service - was extended to installment finance service through M&A with Korea Exchange Bank Installment Finance Co., Ltd. on January 1, 1999. KEBCS was listed on Korea Stock Exchange on December 21, 2001.

As of December 31, 2003, KEBCS has 200 million (par value ₩5,000) of authorized shares and the paid-in capital amounts to ₩319,500 million (63,900 thousand shares of common stock, par value ₩5,000). As of December 31, 2003, the Bank is the largest shareholder of KEBCS that owns 43,838,938 shares amounting to 68.8% of total equity.

As of December 31, 2003, KEBCS has 7,567 thousand customers, 2,660 thousand of stores accepting the KEBCS credit cards, and 15 business offices (including 13 customer service centers) and the total assets and liabilities of KEBCS as of December 31, 2003 are ₩2,770,289 million and ₩3,514,039 million, respectively.

INDEPENDENT AUDITORS' REPORT

(Based on a report originally issued in Korean)

KPMG Samjong Accounting Corp.
Star Tower 10th fl.,
737 YeokSam Dong, KangNam-gu
Seoul 135-984, Korea
(P.O. Box KangNam 1989)

To the Board of Directors and Shareholders of
Korea Exchange Bank

We have audited the accompanying consolidated balance sheet of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended, expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain subsidiaries and certain foreign branches of the Bank, of which the statements reflect 6.57% of the consolidated total assets as of December 31, 2003 and 19.78% of total revenues for the year then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these foreign branches, is based solely on the reports of the other auditors.

The accompanying consolidated balance sheet as of December 31, 2002 and the related statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2002, presented for comparative purposes, were audited by Samil Accounting Corporation and their report thereon, dated February 9, 2003, expressed an unqualified opinion, in all material respects, in accordance with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

We conducted our audit in accordance with the Auditing Standards as established by the Financial Supervisory Commission of 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 the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2003, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended, in conformity with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

The accompanying consolidated financial statements as of and for the years ended December 31, 2003 and 2002 have been translated into United States dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 3(b) to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in Note 2(a) to the accompanying consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows 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 consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As described in Note 29 to the accompanying consolidated financial statements, the Bank has determined to merge with the Korea Exchange Bank Credit Service Co., Ltd (KEBCS) in which the Bank has 68.6% of ownership interest in the Board of Directors' meeting held on November 28, 2003. The merger will be finalized on February 28, 2004, and the Bank will issue 0.533689 share of common stock of the Bank to the KEBCS shareholders who are included in the shareholders list as of January 1, 2004, according to the merger agreement.

As described in Note 2(a) to the accompanying consolidated financial statements, the Bank entered into a Memorandum of Understanding regarding the Share Subscription Agreement with Lone Star Fund IV on August 27, 2003. On October 30, 2003, the Bank issued 268,750,000 shares of common stock to LSF-KEB Holdings, SCA at ₩4,000 per share (at less than its par value) in accordance with a resolution during the special shareholders' meeting held on September 16, 2003. The balance that fell short of the par value was recognized as discount on stock issued. LSF-KEB Holdings, SCA acquired 26,235,923 shares of common stock and 30,865,792 shares of preferred stock from Commerz Bank and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. As a result of this acquisition, LSF-KEB Holdings, SCA became the largest shareholder that owns 51% of the total equity.

As described in Note 20(j) to the accompanying consolidated financial statements, as of December 31, 2003, the Bank's outstanding corporate bonds and loans with respect to LG Card Co., Ltd. that has undergone the liquidity crisis, amount to ₩20,000 million and ₩5,989 million, respectively. The corporate bonds and CP issued by LG Card Co., Ltd. amounts to ₩55,750 million out of total underlying assets of beneficiary certificate held by the Bank as of December 31, 2003. The actual loss may differ from the allowance for losses set by the Bank upon the result of restructuring of LG Card Co., Ltd.

As described in Note 20(k) to the accompanying consolidated financial statements, in accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. (Hynix) in 2001, the Bank acquired newly issued convertible bonds of Hynix, in exchange for ₩726,600 million of loans and convertible bonds, and provided additional loans amounting to ₩79,000 million to Hynix. Also, the Bank acquired the shares of common stock of Hynix at ₩708 per share in exchange for newly issued convertible bonds. The Financial Creditors Committee of Hynix made resolutions to reduce Hynix's equity in the ratio of 21:1, and to issue convertible bonds for the outstanding loans and corporate bonds amounting to ₩1,844,613 million, after the shareholders' meeting on December 30, 2002. The Bank converted loans and corporate bonds amounting to ₩115,806 million to common stock at a public offering price of 453 multiplied by the capital reduction rate as a conversion price on April 14, 2003. KEB Leasing Co., Ltd. ("KEBLS"), the Bank's consolidated subsidiary, acquired convertible bonds of Hynix amounting to ₩6,343 million in accordance with rescheduling plan of credit and debt with respect to Hynix. The convertible bonds acquired by KEBLS were issued by private offering and these bonds will be exempted from payment unless the bondholders exercise the convertible right by the maturity date for conversion. 666,771 shares of common stock are to be issued with respect to these convertible bonds. As of December 31, 2003, the Bank and KEBLS had loans to Hynix amounting to ₩224,143 million and available-for-sale securities of ₩342,905 million. The allowance for losses of ₩180,141 million and impairment loss of ₩55,850 million were recorded with respect to these loans and securities, respectively. However, the actual loss may differ from these allowances for losses and impairment loss upon the result of restructure of Hynix.

As described in Note 20(h) to the accompanying consolidated financial statements, on October 24, 2003, the Bank converted ₩98,679 million out of ₩108,645 million loans to SK Networks Co., Ltd. to common stock in accordance with the resolution of the Financial Creditors Committee of SK Networks Co., Ltd. As of December 31, 2003, the Bank recorded loans of ₩173,439 million and available-for-sale securities of ₩152,687 million with respect to SK Networks Co., Ltd. and set allowance for losses of ₩89,833 in association with these loans. During the current year, the Bank has recognized an impairment loss of ₩6,788 million. However, the actual loss may differ from the allowance for losses and impairment loss upon the result of the restructuring of SK Networks Co., Ltd.

As described in Note 5(g) to the accompanying consolidated financial statements, in accordance with the resolution of the Board of Directors, the Bank entered into a Trust Agreement and made related contracts with the trustee, to whom the Bank entrusted the disposal of its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary. On December 22, 2003, the entrusted trustee signed a contract with Hanmi Financial Corp., the holding company of Los Angeles-based Hanmi Bank to sell 6,624,052 shares of PUB at US\$28 per share, amounting US\$185,473 thousand in total. This sales contract was submitted to Federal Reserve Bank of San Francisco in February of 2004 for the approval, which is required for the contract to become effective.

As described in Note 3(a) to the accompanying consolidated financial statements, the Bank adopted the Statements of Korea Accounting Standards No. 2 through No. 9 effective from first fiscal year beginning after December 31, 2002.

KPMG Samjong Accounting Corp.

February 26, 2004

This report is effective as of February 26, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KOREA EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

	In millions of Korean Won except share data		In thousands of U.S. Dollars	
	2003	2002	2003	2002
Assets				
Cash and due from banks (notes 4 and 26)				
Securities (notes 5 and 27)	₩ 4,837,878	4,101,781	US\$ 4,038,970	3,424,429
Loans, less allowance for loan losses of ₩2,357,026 in 2003 and ₩1,075,890 in 2002, less present value discount of ₩84,752 in 2003 and ₩109,358 in 2002 (notes 6 and 27)	13,591,231	12,642,699	11,346,828	10,554,933
Fixed assets, less accumulated depreciation of ₩619,543 in 2003 and ₩603,335 in 2002 (note 8)	43,113,930	40,918,969	35,994,264	34,161,771
Other assets (notes 9 and 27)	960,286	954,792	801,708	797,121
Total Assets	₩ 66,556,382	64,729,968	US\$ 55,565,522	54,040,715
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits (notes 10 and 27)	₩ 45,568,339	42,642,982	US\$ 38,043,362	35,601,087
Borrowings (notes 11 and 27)	6,847,935	6,987,479	5,717,094	5,833,594
Debentures (note 12)	6,354,574	7,032,631	5,305,205	5,871,290
Other liabilities (notes 13 and 27)	5,542,814	5,829,317	4,627,495	4,866,686
Total liabilities	64,313,662	62,492,409	53,693,156	52,172,657
Commitments and contingencies (note 20)				
Shareholders' equity (note 2):				
Common stock of ₩5,000 par value; Authorized – 1,000,000,000 shares Issued – 612,924,931 shares in 2003 and 222,174,931 shares in 2002	3,064,625	1,110,875	2,558,545	927,429
Preferred stock of ₩5,000 par value; Issued – 26,000,000 shares in 2003 and 148,000,000 shares in 2002	130,000	740,000	108,532	617,799
Capital surplus (note 16)	156,805	214,306	130,911	178,916
Accumulated deficit (notes 15 and 17)	(1,036,845)	(93,754)	(865,624)	(78,272)
Capital adjustments (note 18)	(98,693)	(121,670)	(82,395)	(101,578)
Minority interests in consolidated subsidiaries	26,828	387,802	22,398	323,762
Total Shareholders' equity	2,242,720	2,237,559	1,872,366	1,868,057
Total liabilities and shareholders' equity	₩ 66,556,382	64,729,968	US\$ 55,565,522	54,040,715

See accompanying notes to non-consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2003 and 2002

	In millions of Korean Won		In thousands of U.S. Dollars	
	2003	2002	2003	2002
Operating revenue:				
Interest income: (note 27)				
Interest on due from banks	₩ 29,396	26,557	US\$ 24,542	22,171
Interest on trading securities	69,467	80,823	57,995	67,476
Interest on available-for-sale securities	746,077	536,642	30,054	448,023
Interest on held-to-maturity securities	45,733	50,813	38,181	42,422
Interest on loans	2,561,586	2,445,379	2,138,576	2,041,559
Other interest income	53,416	71,488	44,595	59,683
	3,505,675	3,211,702	2,926,762	2,681,334
Fees and commissions (note 21)	1,030,767	1,418,202	860,550	1,184,006
Other operating income:				
Gain on disposition of trading securities	49,684	46,968	41,479	39,229
Gain on derivatives trading and foreign exchange	1,540,342	1,339,419	1,285,976	1,118,233
Trust fees and commissions received from trust account	23,808	33,696	19,876	28,132
Others	197,606	282,867	164,975	236,138
	1,811,440	1,702,950	1,512,306	1,421,732
Total operating revenue	6,347,882	6,332,854	5,299,618	5,287,071
Operating expenses:				
Interest expenses:				
Interest on deposits	1,243,134	1,305,551	1,037,848	1,089,957
Interest on borrowings	236,372	279,757	197,338	233,559
Interest on debentures	486,212	491,683	407,921	410,488
Other interest expense	20,702	20,487	17,283	17,104
	1,986,420	2,097,478	1,658,390	1,751,109
Commission charges (note 22)	251,201	348,485	209,719	290,938
Other operating expenses:				
Loss on derivatives trading and foreign exchange	1,454,590	1,236,952	1,214,385	1,032,687
Provision for loan losses	2,846,418	1,414,877	2,376,372	1,181,230
Others	176,462	119,439	147,321	99,715
	4,477,470	2,771,268	3,738,078	2,313,632
General and administrative expenses (note 23)	909,480	844,339	759,292	704,908
Total operating expenses	7,624,571	6,061,570	6,365,479	5,060,586
Operating income (loss)	₩ (1,276,689)	271,284	US\$ (1,065,862)	226,485

See accompanying notes to non-consolidated financial statements

KOREA EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2003 and 2002

	In millions of Korean Won except earnings per share data		In thousands of U.S. Dollars except earnings per share data	
	2003	2002	2003	2002
Non-operating income:				
Gain on disposition of tangible assets	₩ 19,355	13,337	US\$ 16,159	11,135
Rental revenue	2,538	2,770	2,119	2,313
Equity income on securities of equity method accounting (note 5)	13,118	14,317	10,952	11,953
Gain on disposition of available-for-sale securities	68,426	50,117	57,126	41,841
Gains on valuation of stock market stabilization fund	-	21,734	-	81,145
Others	249,836	198,185	208,579	165,458
	353,273	300,460	294,935	250,843
Non-operating expenses:				
Loss on disposition of tangible assets	3,062	2,138	2,556	1,785
Loss on disposition of available-for-sale securities	24,761	19,672	20,672	16,423
Impairment losses on available-for-sale securities	236,097	493,308	197,109	411,845
Impairment losses on held-to-maturity securities	47,353	23,729	39,533	19,810
Others	69,605	81,139	58,111	67,740
	380,878	619,986	317,981	517,604
Ordinary loss	(1,304,294)	(48,242)	(1,088,908)	(40,276)
Extra-ordinary income	13,039	15,457	10,886	12,904
Extra-ordinary losses	7,522	2,627	6,280	2,193
	(1,298,777)	(35,412)	(1,084,302)	(29,564)
Income taxes (note 24)	16,518	(68,307)	13,790	(57,027)
Net earnings (losses) before minority interest	(1,315,295)	32,895	(1,098,092)	27,463
Minority interest in losses of consolidated subsidiaries	(446,718)	(20,150)	(372,949)	(16,823)
Net earnings (losses)	₩ (868,577)	53,045	US\$ (725,144)	44,285
Ordinary earnings (losses) per share (note 25)				
Basic	₩ (2,052)	176	US\$ (1.71)	0.15
Diluted	₩ (2,052)	106	US\$ (1.71)	0.09
Earnings (losses) per share (note 25)				
Basic	₩ (2,039)	212	US\$ (1.70)	0.18
Diluted	₩ (2,039)	127	US\$ (1.70)	0.11

See accompanying notes to non-consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

for the years ended December 31, 2003 and 2002

	In millions of Korean Won				In thousands of U.S. Dollars							
	Capital stock	Consolidated capital surplus	Consolidated deficit	Consolidated capital adjustment	Minority interest equity	Total	Capital stock	Consolidated capital surplus	Consolidated deficit	Consolidated capital adjustment	Minority interest equity	Total
January 1, 2002	₩ 1,850,875	244,002	(139,489)	(268,153)	440,928	2,128,163	US\$ 1,545,229	203,708	(116,454)	(223,871)	368,115	1,776,726
Cumulative effect of accounting changes	-	-	(2,349)	2,349	-	-	-	-	(1,961)	1,961	-	-
Consolidated net earnings	-	-	53,045	-	-	53,045	-	-	44,285	-	-	44,285
Effect of the change in capital of equity-method investees	-	(14,095)	-	-	-	(14,095)	-	(11,767)	-	-	-	(11,767)
Gain (loss) on foreign exchange translations	-	(3,990)	(3,754)	(124)	-	(7,868)	-	(3,331)	(3,134)	(104)	-	(6,569)
Cash dividend	-	-	(27,786)	-	-	(27,786)	-	-	(23,198)	-	-	(23,198)
Effect of accounting period adjustment	-	-	1,469	-	-	1,469	-	-	1,226	-	-	1,226
Increase in consolidated capital adjustment	-	-	-	144,193	-	144,193	-	-	-	120,382	-	120,382
Increase in minority interest equity	-	-	-	-	(53,126)	(53,126)	-	-	-	-	(44,353)	(44,353)
Amortization of discount on stock issued	-	-	(74)	74	-	-	-	-	(62)	62	-	-
Others	-	(11,611)	25,184	(9)	-	13,564	-	(9,694)	21,025	(8)	-	11,324
December 31, 2002	1,850,875	214,306	(93,754)	121,670	387,802	2,237,559	1,545,229	178,916	(78,272)	(101,578)	323,762	1,868,057
Consolidated net loss	-	-	(868,577)	-	-	(868,577)	-	-	(725,144)	-	-	(725,144)
Issuance of common stock	1,343,750	-	-	(285,577)	-	1,058,396	1,212,848	-	-	(238,232)	-	883,617
Changes of subsidiaries interest	-	(263)	101,291	(3,892)	-	97,136	-	(220)	84,564	(3,249)	-	81,095
Effect of the change in capital of equity-method investees	-	413	-	-	-	413	-	345	-	-	-	345
Changes of stop of equity method	-	(61,055)	58,718	2,337	-	-	-	(50,973)	49,022	1,951	-	-
Gain (loss) on foreign exchange translations	-	3,404	(2,172)	(1)	-	1,231	-	2,842	(1,813)	(1)	-	1,028
Cash dividend	-	-	-	-	(1,620)	(1,620)	-	-	-	-	(1,352)	(1,352)
Increase in consolidated capital adjustment	-	-	-	309,887	-	309,887	-	-	-	258,713	-	258,713
Increase in minority interest equity	-	-	-	-	(359,354)	(359,354)	-	-	-	-	(300,012)	(300,012)
Additional loss of minority interest	-	-	(233,497)	-	-	(233,497)	-	-	(194,938)	-	-	(194,938)
Others	-	-	1,146	-	-	1,146	-	-	957	-	-	957
December 31, 2003	₩ 3,194,625	156,805	(1,036,845)	(98,693)	26,828	2,242,720	US\$ 2,667,077	130,911	(865,624)	(82,395)	22,398	1,872,366

See accompanying notes to non-consolidated financial statements

KOREA EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2003 and 2002

	In millions of Korean Won		In thousands of U.S. Dollars	
	2003	2002	2003	2002
Cash flows from operating activities:				
Net income (loss)	₩ (868,577)	53,045	US\$ (725,144)	44,285
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Gain on disposal of trading securities, net	(19,994)	(9,512)	(16,692)	(7,941)
Gain on valuation of trading securities, net	4,045	(39,857)	3,377	(33,275)
Gain on disposal of available-for-sale securities, net	(43,665)	(30,445)	(36,454)	(25,417)
Impairment loss on available-for-sale securities, net	236,097	493,308	197,109	411,845
Impairment loss on held-to-maturity securities, net	47,353	23,729	39,533	19,810
Equity income on securities of equity method accounting	(13,118)	(14,620)	(10,952)	(11,953)
Gain on disposal of loans, net	(199,223)	(14,129)	(166,324)	(11,796)
Gain on disposal of tangible assets, net	(16,293)	(11,199)	(13,602)	(9,350)
Gain on derivatives trading and foreign exchange, net	(80,142)	43,651	(66,908)	36,443
Deferred gain on foreign currency translation, net	(39,955)	(4,177)	(33,357)	(3,487)
Interest expense	1,187	60,739	991	50,709
Provision for loan losses	2,846,418	1,414,877	2,376,372	1,181,230
Depreciation and amortization	136,900	114,943	114,293	95,962
Provision of severance benefits	50,977	39,595	42,559	33,056
Provision of allowance for acceptances and guarantees	13,976	-	11,668	-
Stock option expense	928	-	775	-
Gains on valuation of stock market stabilization fund	-	(21,734)	-	(18,145)
Reversal of loan loss allowance	(4,874)	-	(4,069)	-
Reversal of allowance for acceptances and guarantees	-	(54,969)	-	(45,892)
Amortization of present value discounts	(24,606)	(23,920)	(20,543)	(19,970)
Minority interest in loss	(446,718)	(20,150)	(372,949)	(16,823)
Gains from liabilities exempted	(12,967)	(14,047)	(10,826)	(11,727)
Dividends of available for sale securities	-	(47,860)	-	(39,957)
Increase in accrued income	(28,530)	(39,154)	(23,819)	(32,688)
Decrease in prepaid expenses	23,461	23,209	19,587	19,376
Increase (decrease) in accrued expenses	(99,513)	52,351	(83,080)	43,706
Increase (decrease) in unearned revenues	(12,459)	10,449	(10,402)	8,723
Payment of severance benefits	(19,859)	(6,549)	(16,580)	(5,468)
Decrease in transfer to National Pension Fund	266	154	222	129
Increase in deposit of insurance for severance and retirement	(19,908)	(11,551)	(16,620)	(9,644)
Others, net	18,832	15,493	15,722	12,935
Net cash provided by operating activities	₩ 1,430,039	1,981,973	US\$ 1,193,888	1,654,678

See accompanying notes to non-consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2003 and 2002

	In millions of Korean Won		In thousands of U.S. Dollars	
	2003	2002	2003	2002
Cash flows from investing activities:				
Disposal of trading securities	₩ 844,183	1,533,179	US\$ 704,778	1,279,996
Acquisition of available-for-sale securities	(1,110,023)	(1,107,103)	(926,718)	(924,280)
Disposal (acquisition) of held to maturity securities	(286,736)	149,068	(239,386)	124,451
Decrease (increase) in equity securities subject to equity method	(3,400)	-	(2,839)	-
Increase in loans	(4,813,664)	(7,577,853)	(4,021,259)	(6,326,476)
Increase in investment assets	(42)	(171)	(35)	(143)
Acquisitions of tangible assets	(113,409)	(134,065)	(94,681)	(111,926)
Increase in intangible assets	(13,430)	(14,248)	(11,212)	(11,895)
Decrease in account receivables	1,393,129	-	1,163,073	-
Decrease in derivative instruments	63,833	-	53,292	-
Increase in guarantee deposits	(24,731)	(712,354)	570,226	768,738
Decrease in other assets	683,017	920,794	(20,647)	(594,719)
Net cash used in investing activities	(3,384,273)	(6,942,753)	(2,825,407)	(5,796,254)
Cash flows from financing activities:				
Issuance of common stock	1,075,000	-	897,479	-
Increase in deposits	2,938,324	5,438,698	2,453,101	4,540,573
Increase (decrease) in borrowings	(139,544)	995,477	(116,500)	831,088
Increase (decrease) in debentures	(679,244)	1,351,806	(567,076)	1,128,574
Payment of dividend	(1,620)	(28,757)	(1,352)	(24,008)
Decrease in other liabilities	(166,139)	(2,174,755)	(138,703)	(1,815,624)
Payment of stock issuance cost	(16,604)	-	(13,862)	-
Net cash provided by financing activities	3,010,173	5,582,469	2,513,085	4,660,602
Decrease in cash of change of consolidated subsidiaries	(29,128)	-	(24,318)	-
Net increase in cash and cash equivalents	1,026,811	621,689	857,247	519,026
Cash and cash equivalents at the beginning of the year	4,129,755	3,508,066	3,447,783	2,928,758
Cash and cash equivalents at the end of the year (note 26)	₩ 5,156,566	4,129,755	US\$ 4,305,031	3,447,783

See accompanying notes to non-consolidated financial statements

(1) 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 accounting guidelines of the Financial Supervisory Commission ("FSC").

Subsidiaries of the Bank as of December 31, 2003 and 2002 were as follows:

(a) Subsidiaries Included in Consolidated Financial Statements

	No. of shares held (In thousands)		Ownership(%)	
	2003	2002	2003	2002
Domestic:				
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")	43,839	18,795	68.6	45.0
KEB Leasing Co., Ltd. ("KEBLS")	14,976	14,976	99.3	99.3
KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")	2,760	2,760	46.0	46.0
KEB Futures Co., Ltd. ("KEBFC")	3,000	3,000	100.0	100.0
Foreign:				
Pacific Union Bank ("PUB")(*)	6,624	6,624	62.0	62.5
Korea Exchange Bank of Canada. ("KEBOC")	334	334	100.0	100.0
KEB Australia Ltd. ("KEBA")	55,000	55,000	100.0	100.0
KEB Deutschland A.G. ("KEBD A.G.")	20	20	100.0	100.0
P.T. KEB Danamon ("KEBD")	1	1	85.0	85.0
KEB Ireland Ltd. ("KEB Ire")	3,000	3,000	100.0	100.0
Banco KEB do Brazil S.A. ("KEBB")	24,726	24,726	100.0	100.0

(*)The Bank's trustee entered into an agreement with Hanmi Financial Corp. to sell its 6,624 thousand shares of PUB on December 22, 2003. Such agreement will be activated once Hanmi Financial Corp. receives an approval from Federal Reserve Bank of San Francisco. Hanmi Financial Corp., applied for an approval during February 2004, and since the sale is to be completed by the end of 2004, PUB was not included in consolidated financial statements for 2003.

(b) Subsidiaries Using Equity Accounting Method

Valuation of Pacific Union Bank ("PUB"), Cairo Far East Bank S.A.E. ("CFEB") and Doosan Heavy Industries & Construction which the Bank owns 6,624 thousand shares (62.0%), 8 thousand shares (31.5%) and 16,400 thousand shares (15.7%), respectively, was assessed using equity method.

Meta Payment & Trust and KEB Fund Investor Service, which the Bank owns 170 thousand shares (38.1%) and 510 thousand shares (100%), respectively, were excluded from consolidation since the net asset values were less than ₩7 billion and excluded from using equity method accounting since there is no significant changes from applying equity method.

(2) Consolidated Companies

The accompanying consolidated financial statements are made by including the banking and certain trust accounts of Korea Exchange Bank ("the Bank") and its consolidated subsidiaries. General information of the Bank, its consolidated subsidiaries, its non-consolidated subsidiaries and equity-method investees are described below.

(a) The Bank

Korea Exchange Bank (the "Bank") was established on January 30, 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

The Bank implemented a two-to-one capital reduction on all outstanding shares of common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. In addition, on December 22, 2000, the Bank increased its capital by issuing 610,000 million new shares of preferred stock at par value of ₩1,000, of which 122 million shares were issued in accordance with a resolution of board of directors on November 10, 2000.

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

In addition, LSF-KEB Holdings, SCA acquired 26,235,923 shares of common stock and 30,865,792 shares of preferred stock from Commerz Bank and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. Also, 122 million shares of preferred stock were converted to common stock on December 22, 2003.

As of December 31, 2003, the total number of authorized stock of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,194,625 million (with 612,925 thousand shares of common stock and 26 million shares of preferred stock outstanding with par value of ₩5,000).

The preferred stock shareholders are entitled to non-cumulative and non-participating preferred dividends of 9% of par value per annum. Preferred stock shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. With regard to the 26 million shares of convertible preferred stock, each share may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock.

The Bank's shareholders as of December 31, 2003 and 2002 are as follows:

	Number of shares owned						Ownership(%)	
	2003			2002			2003	2002
	Common stock	Preferred stock	Total	Common stock	Preferred stock	Total		
LSF-KEB Holdings, SCA	325,851,715	-	325,851,715	-	-	-	51.00	0.00
Commerzbank A.G.	68,247,389	26,000,000	94,247,389	52,483,312	68,000,000	120,483,312	14.75	32.55
Bank of Korea	89,448,595	-	89,448,595	40,314,387	80,000,000	120,314,387	14.00	32.50
Export-Import Bank of Korea	39,500,000	-	39,500,000	39,500,000	-	39,500,000	6.18	10.67
Others	89,877,232	-	89,877,232	89,877,232	-	89,877,232	14.07	24.28
	612,924,931	26,000,000	638,924,931	222,174,931	148,000,000	370,174,931	100.00	100.00

As of December 31, 2003, the Bank has 343 branches, agencies and offices in total over both domestic and overseas markets. The Bank closed down four domestic branches and one overseas branch while opening eight domestic branches and 14 agencies during 2003. Currently, the Bank is in process of disposing of one of its overseas subsidiaries, Pacific Union Bank.

(b) Domestic Subsidiaries*Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")*

KEBCS was initially established on May 19, 1988, in accordance with Credit Specialized Finance Business Act, as Korea Exchange Bank Credit Card Co., Ltd. with the contribution from the Bank with an aim to formulate a credit based society, provide convenient financial service for customers and further promote domestic economic development. The name of the Company was changed to KEBCS on January 1, 1992, and its core business – credit card issuance, usage, and payment service - was extended to installment finance service through M&A with Korea Exchange Bank Installment Finance Co., Ltd. on January 1, 1999. KEBCS was listed on Korea Stock Exchange on December 21, 2001. As of December 31, 2003, KEBCS has 200,000 thousand (par value ₩5,000) of authorized shares and the paid-in capital amounts to ₩319,500 million (63,900 thousand shares of common stock, par value ₩5,000). KEBCS will be merged with Korea Exchange Bank, on February 28, 2004, a controlling entity that owns 68.8% equity of the KEBCS.

KEB Capital Co., Ltd. ("KEBLS")

KEBLS was incorporated on September 11, 1989 to engage in leasing industrial equipment. KEBLS implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction, or execution of stock selling option with ₩800 per share on the shares owned by other individual shareholders and the employee stock ownership association as of November 9, 2001, for the purpose of debt restructuring due to the work-out process, based on the resolution of shareholders' meeting on October 13, 2001. This capital reduction resulted in a gain on capital reduction of ₩34,725 million.

In addition, on November 9, 2001, KEBS issued 14,805 thousand shares of common stock for cash at par value to the Bank, in accordance with the resolution of the board of directors on October 26, 2001. The proceeds of the new stock issuance were used for the repayment of borrowings amounting to ₩74,024 million from the Bank. As of December 31, 2003, the total paid-in-capital amounts to ₩75,400 million.

KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")

KEBIT was established on April 6, 1988 to provide investment consulting and information services under the name, Korea Securities Investment Management Co., Ltd., which was changed to KEB Investment Management Co., Ltd. on September 16, 1992, and KEB Investment Trust Management Co., Ltd. on July 8, 1997, and again to KEB Commerz Investment Trust Management Co., Ltd. on May 28, 1999. As of December 31, 2003, the total paid-in-capital amounts to ₩30,000 million.

KEB Futures Co., Ltd. ("KEBFC")

KEBFC was incorporated on September 24, 1997 as the integrated futures brokerage arm of the Bank. In 1998, the Company was granted a futures trading license for overseas markets and domestic operations from the Ministry of Economy and Finance. As of December 31, 2003, the total paid-in-capital amount to ₩15,000 million.

(c) Overseas Subsidiaries

KEB Australia Ltd. ("KEBA")

KEBA was established in Sydney, Australia on July 6, 1986 to provide financial services to Korean companies. The Bank retains 100% equity ownership as of December 31, 2003, and the total paid-in-capital of KEBA amounts to AUD55,000 thousand.

Korea Exchange Bank of Canada ("KEBOC")

KEBOC was established in Toronto in Canada on October 6, 1981 to provide financial services to Korean companies and residents in Toronto. The Bank retains 100% equity ownership as of December 31, 2003, and the total paid-in-capital of KEBOC amounts to CAD33,400 thousand.

P.T. Korea Exchange Bank Danamon ("KEBD")

KEBD was established in Jakarta in Indonesia on November 5, 1990 to provide financial services to Korean companies and residents in Jakarta. KEB retains 85% equity ownership as of December 31, 2003, and the total paid-in-capital of KEBD amounts to IDR150,000 thousand.

Korea Exchange Bank Deutschland AG ("KEBD AG")

KEBD AG was established in Frankfurt in Germany on December 29, 1992 to provide financial services to Korean companies and residents in Frankfurt. KEB retains 100% equity ownership as of December 31, 2003, and the total paid-in-capital of KEBD AG amounts to EUR17,895 thousand.

(d) Equity Method Investees

In accordance with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea and the relevant laws, the Bank's investment in Pacific Union Bank ("PUB"), 62.0% owned subsidiary, Cairo Far East Bank S.A.E. ("CFEB"), a 31.5% owned subsidiary, and Doosan Industries & Construction Co., Ltd., 15.7% owned subsidiary, are accounted for by equity method.

Pacific Union Bank ("PUB")

PUB was established in Los Angeles, U.S. on September 24, 1974 to provide financial services to Korean companies and residents in L.A., with 100% investment of the Bank. PUB made a public offer on August 1, 2000 and was the first Korean financial institution to list its shares in NASDAQ (stock exchange in U.S.). The Bank retains 62.5% equity ownership as of December 31, 2003, and the total paid-in-capital of the Bank amounts to US\$63,724 thousand while having 16 branches in U.S.

Cairo Far East Bank S.A.E. ("CFEB")

CFEB was established on October 1, 1978 to engage in general financial business. The Bank has 31.5% equity ownership of CFEB as of December 31, 2003 and total paid-in-capital of CFEB amounts to US\$10,169 thousand.

Doosan Heavy Industries & Construction Co., Ltd. ("DHIC")

Doosan Heavy Industries & Construction Co., Ltd. (formerly, Korea Heavy Industries Co., Ltd.) was incorporated on September 20, 1962 to supply equipment for power plants, industrial plants, iron&steel facilities and construction service. The Bank has 15.7% equity ownership of DHIC as of December 31, 2003 and the total paid-in-capital of DHIC amounts to ₩521,000 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(e) Condensed Financial Statements of Significant Subsidiaries

Condensed financial statements of significant subsidiaries as of December 31, 2003 and for the year then ended are as follows:

	In Millions					
	KEBCS	KEBOC	KEBD A.G.	KEBLS	Others	Total
Balance sheets:						
Assets:						
Cash and deposits	₩ 21,569	25,588	4,047	135	85,251	136,590
Trading securities	-	-	-	-	668,577	668,577
Available-for-sale securities	732,928	-	750	5,609	75,125	814,412
Loans	1,659,192	438,663	446,831	86,828	444,127	3,075,641
Fixed assets	80,087	1,949	219	56,050	4,164	142,469
Other assets	281,744	2,167	3,310	28,080	55,304	370,605
Total assets	₩ 2,775,520	468,367	455,157	176,702	1,332,548	5,208,294
Liabilities and shareholders' equity:						
Deposits	₩ -	412,673	186,855	-	916,394	1,515,922
Borrowings	855,867	6,096	221,000	102,481	176,862	1,362,306
Debentures	2,266,983	-	-	-	9,183	2,276,166
Other liabilities	396,420	2,269	2,212	24,954	68,215	494,070
Total liabilities	3,519,270	421,038	410,067	127,435	1,170,654	5,648,464
Capital stock	319,500	30,931	23,048	75,400	129,367	578,246
Capital surplus	132,568	-	3,841	-	-	136,409
Retained earnings (deficit)	(1,199,811)	16,398	18,201	(22,354)	32,527	(1,155,039)
Capital adjustments	3,993	-	-	(3,779)	-	214
Total shareholders' equity	(743,750)	47,329	45,090	49,267	161,894	(440,170)
Total liabilities and shareholders' equity	₩ 2,775,520	468,367	455,157	176,702	1,332,548	5,208,294
Statement of operations:						
Operating revenue	₩ 1,153,356	23,145	54,870	41,271	295,811	1,568,453
Operating expenses	2,666,024	14,096	48,171	27,063	266,221	3,021,575
Operating income (loss)	(1,512,668)	9,016	6,699	14,208	29,590	(1,453,122)
Non-operating income	212,079	122	3,249	1,034	308	216,792
Non-operating expenses	129,839	8	2,341	930	12,376	145,494
Ordinary income (loss)	(1,430,428)	9,163	7,607	14,312	17,522	(1,381,824)
Extraordinary income	-	-	-	-	70	70
Extraordinary loss	-	-	-	6,659	-	6,659
Net earnings before income tax	(1,430,428)	9,163	7,607	7,653	17,592	(1,388,413)
Corporate income tax	-	3,289	1,875	-	4,999	10,163
Net earnings (loss)	₩ (1,430,428)	5,874	5,732	7,653	12,593	(1,398,576)

Above condensed balance sheets and statements of operations are based on the consolidated subsidiaries' financial statements before consolidation adjustments. Also, amount which is presented as "others" totals data of financial statements of "KEBIT", "KEBFC", consolidated guaranteed trust accounts and other foreign consolidated subsidiaries.

(3) Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank in the preparation of its accompanying consolidated financial statements are summarized as follows:

(a) Basis of Presenting Consolidated Financial Statements

The Bank and the consolidated companies maintain their official accounting records in Korean Won and prepare statutory financial statements in the Korean language in conformity with financial accounting standards 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 consolidated financial statements have been condensed, restructured and translated into the attached Korean

language consolidated financial statements. Certain information attached Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

The Bank's financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea and Statements of Korean Financial Accounting Standards No.2 through No.9, in effect for the fiscal periods beginning after December 31, 2002. Regarding the oversea branches and subsidiaries, the Bank used their financial statements that are prepared in accordance with the financial accounting standards generally accepted in their locations, except for the cases that have material effect on the Bank's financial statements, due to difference of standards in various countries.

The fiscal year-end date of most subsidiaries and branches accords with that of the Bank, except KEBS, KEBIT, and KEBFC. Financial statements for the twelve-month period ended December 31, 2003 were used for consolidation of these three subsidiaries having a fiscal year ending March 31. The financial statements of KEBOC for the twelve-month period ended October 31, 2003 were used for consolidation.

The 2002 financial statements, presented herein for comparative purposes, have been reclassified to conform to the 2003 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

(b) United States Dollar Amounts of Financial Statements

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All Won amounts are expressed in U.S. Dollars at ₩1,197.8:US\$1, the rate in effect on December 31, 2003. Such presentation is not in accordance with generally accepted accounting standards in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 2002 U.S. Dollar amounts, which were previously expressed at ₩1,200.4:US\$1, the rate in effect on December 31, 2002, have been restated to reflect the exchange rate in effect on December 31, 2003.

(c) Off-set of Investment Account and Capital Account

The Bank records differences between its investment account and corresponding capital account of subsidiaries as a goodwill (negative goodwill), which is amortized over five years using the straight-line method. The differences between the investment account and corresponding capital account for equity-method investee companies at the date of acquisition of the investment are amortized over five years using the straight-line method. Such amortization is included in the determination of equity in earnings (losses) of equity-method investees.

All significant inter-company transactions and balances among the consolidated companies have been eliminated in consolidation.

(d) Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2003 and 2002, the Bank did not recognize interest income amounting to ₩57,191 million and ₩44,679 million, respectively, due to such policy.

(e) Allowance for Loan Losses

The Bank applied the Forward Looking Criteria ("FLC") for its loan classification to determine allowances for loan losses. Under this method, the borrowers' future debt service capacity as well as their overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for the smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral, and bankruptcy status only.

Estimated corporate loan losses as of December 31, 2003, were determined by applying the following minimum percentages to each credit risk classification:

Classification	(%)
Normal	0.5%
Precautionary	2.0%
Substandard	20.0%
Doubtful	50.0%
Loss	100.0%

The Bank provides allowance for loan losses for retail loans based on new provision ratios, which are as follows:

Classification	Before December 31, 2002(%)	On and after December 31, 2002(%)
Normal	0.50 and above	0.75 and above
Precautionary	2 and above	8 and above
Substandard	20 and above	20 and above
Doubtful	50 and above	55 and above
Loss	100	100

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As a result of the change mentioned above, the Bank's allowance for loan losses for retail loans increased by ₩35,693 million and ₩30,955 million as of December 31, 2003, and 2002, respectively.

KEBCS, the consolidated subsidiary, adopted the revised guidelines to calculate its allowance for doubtful accounts, prescribed by the regulatory authorities for financial institutions in the Republic of Korea. The collectibility of receivables are estimated by applying the following minimum percentages to each credit risk classification.

Classification	Percentage (%)
Normal	1.0%
Precautionary	12.0%
Substandard	20.0%
Doubtful	60.0%
Loss	100.0%

The Bank accrued allowances for estimated losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above.

(f) Accounting change of Domestic Import Usance Bills

During 2002, the Bank has changed its accounting treatment for Domestic Import Usance Bills from an off-balance-sheet item (banker's) to on-balance-sheet item due to the amendment of related laws. The amount accounted for as Domestic Import Usance Bill for the current year and the prior year amounted to ₩1,578,187 million and ₩1,367,788 million, respectively.

(g) Securities

Effective January 1, 2003, the Bank adopted Statement of Korea Accounting Standards (SKAS) No. 8, "Investments in Securities." In accordance with SKAS No. 8, certain debt and equity securities should be classified into one of the three categories of held-to-maturity, available-for-sale, or trading securities at the time of acquisition and such determination should be reassessed at each balance sheet date. Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

The securities are initially carried at cost, including incidental expenses, determined by using the specific identification method or moving-average method.

Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold or when an impairment loss on the securities is recognized. Equity securities that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Impairment losses are recognized in current operations when the recoverable amounts are less than the acquisition cost of equity securities or amortized cost of debt securities.

Classification	Valuation Method	Recognition of Unrealized Gains and Losses
Normal	Fair value	Current operations
Available-for-sale		
Debt securities and marketable equity securities	Fair value	Capital adjustment (except for impairment loss, which is recognized in current operations)
Non-marketable equity securities	Cost	Impairment loss to net income / loss
Held-to-maturity	Cost	Amortized cost
Investments in associates	Equity	Current operations, retained earnings, or capital adjustments, depending on the source of the gain or loss

(h) Investment Securities under the Equity Method of Accounting

Investments in affiliated companies owned 20% or more or over which the Bank has significant management control are stated at an amount as determined using the equity method.

Under the equity method of accounting, the Bank's initial investment is recorded at cost and is subsequently increased to reflect the Bank's share of the investee income and reduced to reflect the Bank's share of the investee losses or dividends received. Any excess in the Company's acquisition cost over the Bank's share of the investee's identifiable net assets is generally recorded as goodwill or other intangibles and amortized by the straight-line method over the five years. When events or circumstances indicate that carrying amount may not be recoverable, the Bank reviews goodwill for any impairment.

Under the equity method of accounting, the Bank does not record its share of losses of affiliate companies when such losses would make the Bank's investment in such entity less than zero.

Upon the sale to the investee, the Bank fully eliminates the unrealized gain, whereas in the sale to the investor company, the investee proportionately eliminates the unrealized gain based on the Bank's percentage of ownership.

Gains and losses recorded by the associates from the transactions among themselves are proportionately eliminated, based on the Bank's percentage of ownership over the selling company.

The stock market stabilization fund is carried at the value of the net assets, and the difference between the book value of the stock market stabilization fund before valuation and the value of net assets is recognized as a capital adjustment.

(i) Tangible Assets

Tangible assets are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see note 15). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Effective January 1, 2003, the Bank changed its method of depreciation for newly purchased property and equipment from the half-year convention to a method which uses a monthly calculation for depreciation expenses.

(j) Intangible Assets

Intangible assets are recorded at development cost or acquisition price plus the related incidental costs and amortized over five years using the straight-line method.

Software development costs incurred with respect to the office automatization, productivity enhancement were ₩12,505 million and ₩10,406 million in 2003 and 2002, respectively while the depreciation costs were ₩5,852 million and ₩4,147 million in 2003 and 2002, respectively.

The Bank recognizes an impairment loss when the assets become obsolete or their market values significantly fall and it causes their future economic benefit to fall below book value. However, where the recoverable cost that previously recognized the impairment loss exceeds the book value in next period, the difference is recognized as a recovery in the impairment loss up to the book value existing before the impairment loss was recognized.

(k) Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure which are to be sold are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

When the Bank disposes of foreclosed assets by installment sales, in conformity with Accounting standard for Banking Industry, the proceeds and the sale gain/loss are recognized as, receivable – disposition of asset and gain/loss – disposition of asset, respectively.

(l) Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expense. Debenture issuance costs carried over from previous years, continue to be amortized using the straight-line method consistent with the prior years' method in accordance with financial accounting standards.

(m) Retirement and Severance Benefits

Employees and executives with one year or more of service with the Bank and the consolidated domestic companies are entitled to receive a lump-sum payment upon termination of their employment with the Bank and consolidated companies, based on their length of service and rate of pay at the time of termination. Retirement and severance benefits of ₩110,215 million and ₩78,972 million represent the amount, which would be payable assuming

all eligible employees and executives were to terminate their employment on December 31, 2003 and 2002, respectively. The Bank and the consolidated companies' actual payments of severance benefits were ₩19,859 million and ₩6,549 million in 2003 and 2002, respectively.

As for 58.1% of the severance benefit provision, the Bank is under coverage by the Employee Retirement Insurance policy purchased from Samsung Life Insurance Co. and Kyobo Life Insurance Co., Ltd., that names the employees as beneficiaries as well as the Retirement Trust provided by Chohung Bank. Through March 1999, under the National Pension Scheme of Korea, the Bank transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Bank or the consolidated companies and is accordingly reflected in the accompanying consolidated financial statements as a reduction from the retirement and severance benefit liability. Since April 1999, however, a new regulation applies and such transfers to the National Pension Fund are no longer required.

(n) Present Value Discounts

The difference between the nominal value and the present value of accounts receivable arising from installment sales of foreclosed assets is amortized using the effective interest rate method. Amortization of these discounts is included in other interest income.

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, and the difference between the nominal amount and present value is offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

(o) Discounts on Capital Stock

Discounts on capital stock arising from the payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized over three years through appropriations of retained earnings. However, due to accumulated deficits incurred as of December 31, 2003 and 2002, there has been no related amortization in 2003 and 2002.

(p) Income Taxes

Income tax on the earnings or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In addition, deferred income tax assets and liabilities recorded by the branches are included in other assets and liabilities, and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying financial statements.

(q) Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

(r) Foreign Currency Translation

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions. The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balance sheet dates in accordance with the financial accounting standards. The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 2003 and 2002 are ₩1,197.80:US\$1 and ₩1,200.40:US\$1, respectively.

(s) Stock Options

The stock option program allows the Bank's employees to acquire shares of the Bank. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Bank values stock options based upon an option pricing model under the minimum value method and recognizes this value as an expense over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received, and the difference between the exercise price and market price is included in compensation cost and credited to the capital adjustment account.

(t) Derivatives

Derivative instruments are presented as assets or liabilities valued principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations.

However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The ineffective portion of the gain or loss is charged or credited to current results of operations.

Forward foreign exchange contracts, which have been made to hedge foreign exchange receivables and payables in the future, are classified as forward foreign exchange contracts for hedging purposes. Unrealized gain or loss on forward foreign exchange contracts for hedging purposes are deferred as capital adjustment. The deferred gain or loss will be credited or charged to income when related foreign exchange receivables and payables are settled.

(u) Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on an increased number of shares that would be outstanding assuming conversion of potentially dilutive securities.

(v) Merchant Banking Account

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

- Revenue Recognition on Discounted Notes

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

- Cash Management Accounts ("CMA")

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

(w) Lease Transactions

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

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

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets.

Operating lease equipment is stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that the related lease rental revenues are recognized.

(x) Accounting for Trust Accounts

The Bank has engaged in investment trust operations, which includes unrestricted money trusts, household money trusts and development money trusts in accordance with Article 3 of the Trust Business Act. Financial statements for Trust Accounts were prepared in accordance with the Trust Business Act, Regulation on Supervision of Trust Business, Articles of Regulation on Supervision of Trust Business and Accounting Standards for Trust Business, and items not stipulated are regulated by Accounting Standards for the Banking Industry or Appendices 4 and 5 in the Articles of Accounting Standards for the Banking Industry. Trust Accounts are separately accounted for from the Bank Accounts in accordance with the related laws and regulations. Trusts and securities investment trusts in which principals and profits are not guaranteed are excluded from the consolidated financial statements.

The significant accounting policies in the consolidation of the Trust Accounts are summarized as follows:

- Revenues and Expenses of Trust Accounts

Consolidated trust accounts comprise operating revenues and expenses, trust fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The non-consolidated trust accounts' trust fees to the Bank are recognized as income of the banking accounts of the Bank.

- Interest Income Recognition

Interest income on loans and investment securities held by the consolidated trust accounts are recognized using the same method as the banking accounts of the Bank, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral, is recognized on a cash basis.

- Deposits at the Bank's Banking Accounts

The Bank's consolidated trust accounts deposit certain amounts for drawing of unspecified money trust, and account for them as deposits at the Bank's banking accounts. Interest on these deposits is computed and recorded daily. These deposits at the Bank and their interests are eliminated in consolidation.

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- Special Allowance

Certain consolidated money trust agreements provide that the Bank guarantees a minimum rate of return. In relation to such guarantees, the Bank is required to set up a minimum 25% of trust fees as a special allowance, until the total allowance equals 5% of the related money trust balance. If the current income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or from the Bank's banking business operations. These special allowances amounting to ₩15,079 million and ₩12,346 million, respectively at December 31, 2003 and 2002 are reclassified into consolidated retained earnings.

- Allowance for Loan Losses

Allowance for loan losses of consolidated trust account assets which are not carried at market value (including loans, commercial paper and certain corporate debentures) are provided based on a credit risk classification of the loan portfolio as of December 31. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank.

The Bank provided allowance for loan losses from retail loans based on new provision ratios, which are as follows:

Classification	Before	After
Normal	0.5%	0.75 %
Precautionary	2.0%	8 %
Substandard	20.0%	20 %
Doubtful	50.0%	55 %
Loss	100.0%	100 %

The allowance for loan losses of consolidated trust accounts with a guaranteed minimum rate of return at December 31, 2003 and 2002 amounts to ₩8,854 million and ₩11,584 million, respectively, and the charge-offs recorded by the trust accounts of the Bank in 2003 and 2002 amount to ₩284,498 million and ₩285,670 million, respectively.

- Securities

Pursuant to the laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, equity securities and beneficiary certificates held by the Bank's consolidated trust accounts are stated at market or net asset value. Certain debt securities including corporate debentures, except for debt securities included in the consolidated trust accounts established subsequent to November 15, 1998, which are stated at market or net asset value, are stated at cost as permitted by the Trust Business Act and relevant related regulations.

The securities in the trust accounts, which are consolidated, are valued by the closing stock price as of the balance sheet date, if no closing price exists as of that date the nearest closing price to the date is used, retroactively.

Under Korean Stock Exchange Act 2, article 14, unlisted stock with market price formed under KOSDAQ, is valued by the method used for listed stock, unlisted stock without market price will be valued under cost method.

In addition, if the stock does not yet have a market price due to ex-rights, ex-dividend, decrease in capital or M&A it will be valued according to Financial Supervisory Service at its book value until a market price is formed.

Other than debt securities in performance yield trusts or unspecified money trusts which guarantee principal at a minimum rate of return, all the debt securities in the trust which have a formed market price in the exchange market for at least 10 days for each preceding 3 months from the valuation date, are valued at the closing market price on the valuation date. However, for listed and unlisted debt securities which have no market price as of the valuation date, the interest rates announced daily by Korean Securities Dealer Association, and incremental interest rate relating to illiquidity risk can be considered in computing the adjusted rate of return for valuation of debt securities. Furthermore, under transition clause in the accounting and reporting guidelines prescribed by the trust regulatory authorities, when market value does not exist or does not reflect fair value, securities are valued by computation of fair value provided by the Market Value Appraisal Committee, which is managed by the trust company established by the Bank.

- Trust Fees

The Bank receives trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations.

- Compensation to the Trust Accounts

The Bank compensates for losses incurred in certain consolidated trust accounts subject to minimum return guarantees. Such compensations are accounted for as compensation for trust accounts of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

There are no compensations accounted for as other income of the consolidated trust accounts in years 2003 and 2002.

(y) Cash Equivalents

The Bank considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(z) Contingent Liabilities

Contingent losses are generally recognized as a liability when probable and reasonably estimable.

(4) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Cash on hand	₩ 1,620,908	937,428
Foreign currencies	260,614	218,010
Due from banks in Won	1,568,913	1,308,425
Due from banks in foreign currencies	1,387,443	1,637,918
	₩ 4,837,878	4,101,781

(b) Cash and due from banks which are restricted as to withdrawal as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Reserve deposits with the Bank of Korea:		
In Won	₩ 906,142	1,057,500
In Foreign Currency	553,746	413,750
Won currency deposit	57,288	130,871
Foreign currency deposit	12,049	2,775
	₩ 1,529,225	1,604,896

Deposits with the Bank of Korea (reserve deposits) represent reserves, which the Bank is required to maintain for the payment of deposit liabilities in accordance with the Banking Act and the Bank of Korea Act. Won currency deposits comprise deposits in Kookmin Bank deposited in connection with the asset-backed securitization. Foreign currency deposits consist of deposits provided by the Bank in connection with derivative transactions and the deposits made by Banco KEB do Brazil S.A. to the Central Bank of Brazil in accordance with the related regulations.

(c) The scheduled maturities of due from banks as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 599,709	-	969,204	1,568,913
Due from banks in foreign currencies	780,186	-	607,257	1,387,443
	₩ 1,379,895	-	1,576,461	2,956,356

(5) Securities

(a) Securities as of December 31, 2003 and 2002 are as follows:

	2003			2002		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Trading	₩ 996,441	51,554	1,047,995	1,897,960	6,243	1,904,203
Available for sale	10,285,808	1,028,523	11,314,331	9,076,982	744,584	9,821,566
Held-to-maturity	887,847	-	887,847	648,464	-	648,464
Investment in associates	-	341,058	341,058	-	268,466	268,466
	₩ 12,170,096	1,421,135	13,591,231	11,623,406	1,019,293	12,642,699

Foreign currency denominated securities lent to other financial institutions in 2003 and 2002 amount to ₩182 million and ₩8,431 million, respectively.

As of December 31, 2003 and 2002 trading securities included in Cash Management Accounts ("CMA"), which are managed by the merchant banking division of the Bank amount to ₩90,725 million and ₩29,059 million, respectively.

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(b) Securities Provided as Collateral

Securities provided as collateral for borrowings from the Bank of Korea and other financial institutions are as follows:

In Millions

Guarantees	Pledge Value	Reference
Other financial institutions	₩ 676,452	Bonds sold under repurchase agreements
Bank of Korea	1,023,879	Borrowings from the Bank of Korea (BOK)
Bank of Korea	171,104	Overdrafts from BOK
Bank of Korea	1,323,982	Bonds sold under repurchase agreements (BOK)
Bank of Korea	372,675	Inter-bank settlements
Korea Development Bank	35,800	Asset-backed settlements
Futures Corporations, Bank	104,145	Futures transaction/Borrowings denominated in foreign currencies
Merrill Lynch	4,881	Credit default swap
Other financial institutions	750	Collateral as emergency borrowings
	₩ 3,713,668	

(c) Foreign Currency Denominated Debt Securities

Foreign currency denominated debt securities, classified by country, as of December 31, 2003 and 2002 are as follows:

Countries	2003			2002		
	In thousands	In millions	Ratio (%)	In thousands	In millions	Ratio (%)
Korea	US\$ 363,514	₩ 435,417	73.04	US\$ 419,697	₩ 503,804	58.09
USA	44,539	53,349	8.95	216,739	260,173	30.00
Philippines	9,980	11,954	2.01	12,199	14,643	1.69
Brazil	5,088	6,095	1.01	3,834	4,602	0.53
Others	74,589	89,343	14.99	70,037	84,071	9.69
	US\$ 497,710	₩ 596,158	100.00	US\$ 722,506	₩ 867,293	100.00

(d) Equity Securities Accounted for Using the Equity Method

As of December 31, 2003, details of investments in subsidiaries accounted for using the equity method are as follows:

	Acquisition cost	Beginning balance under equity method	Acquisition/ Disposition or dividend	Translation adjustment	Increase (decrease) In equity of equity method investees			
					Equity in earnings (losses)	Accumulated deficit	Capital adjustment	Book value
Doosan Heavy Industries & Construction Co., Ltd.	₩ 82,000	262,015	(2,460)	-	3,982	-	(13,452)	250,085
KEB Investor Services Co., Ltd.(*)	2,550	-	2,550	-	-	-	-	2,550
MP&T(*)	850	-	850	-	-	-	-	850
PUB	38,493	75,691	(926)	(164)	9,136	(412)	(456)	82,869
CFEB	8,281	6,452	-	(14)	(1)	-	(1,733)	4,704
	₩ 132,174	344,158	14	(179)	13,118	(412)	(15,641)	341,058

(*) These investment securities were excluded from the calculation applying equity method because they had assets less than ₩7,000 million as of the end of prior year and the change in investment arising from these companies was considered insignificant.

As of December 31, 2002, details of investments in subsidiaries accounted for using the equity method are as follows:

	Acquisition cost	Beginning balance under equity method	Acquisition/ Disposition or dividend	Translation adjustment	Increase (decrease) In equity of equity method investees			
					Equity in earnings (losses)	Accumulated deficit	Capital adjustment	Book value
Doosan Heavy Industries & Construction Co., Ltd.	₩ 82,000	276,061	(2,460)	-	12,702	1,469	(25,757)	262,015
CFEB	8,281	7,744	(329)	(713)	1,616	(1,867)	-	6,452
	₩ 90,281	283,805	(2,789)	(713)	14,318	(398)	(25,757)	268,466

(e) Guarantee Deposits for Trust Operations

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits as of December 31, 2003 and 2002 are ₩10,680 million (₩12,320 million) and ₩5,952 million (₩7,394 million), respectively.

(f) The scheduled maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2003 are as follows:

				In Millions
	Due in less than one year	Due after one year through three years	Due after three years	Total
Government bonds	₩ 1,269,986	3,388,466	419,390	5,077,842
Finance debentures	1,308,283	2,233,649	-	3,541,932
Corporate bonds	498,103	1,262,584	175,573	1,936,260
Beneficiary certificates	968,176	-	-	968,176
Other securities	1,781	-	47,947	49,728
Foreign currency denominated securities	120,571	163,016	297,900	581,487
Off-shore debt securities	-	-	14,671	14,671
	₩ 4,166,900	7,047,715	955,481	12,170,096

(g) Sales Contract of Overseas Subsidiary

In accordance with the resolution of the Board of Directors, the Bank entered into a Trust Agreement and made a related contract with the trustee, to whom the Bank entrusted the disposal of its investments in Pacific Union Bank("PUB"), a U.S.-based subsidiary. On December 22, 2003, the entrusted trustee signed a contract with Hanmi Financial Corp. the holding company of Los Angeles based Hanmi Bank to sell 6,624,052 shares of PUB at US\$28 per share, amounting US\$185,473 thousands in total. This sale contract was submitted to Federal Reserve Bank of San Francisco in February 2004, which is required for the contract to become effective.

(6) Loans

(a) Foreign Currency Loans By Nationality

As of December 31, 2003 and 2002, the Bank and the consolidated companies' loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2003			2002		
	In thousands	In millions	Ratio (%)	In thousands	In millions	Ratio (%)
Korea	US\$ 3,302,043	₩ 3,955,187	58.8	US\$ 5,025,632	₩ 6,032,769	86.2
Japan	255,792	306,388	4.6	239,232	287,174	4.1
Russia	99,000	118,582	1.8	99,000	118,840	1.7
Indonesia	41,840	50,116	0.7	32,730	39,289	0.6
Other	1,913,468	2,291,952	34.1	432,079	518,668	7.4
	US\$ 5,612,143	₩ 6,722,225	100.0	US\$ 5,828,673	₩ 6,996,740	100.0

(b) Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the years ended December 31, 2003 and 2002 is as follows:

	In Millions	
	2003	2002
Balance at the beginning of the year	₩ 1,075,890	1,126,090
Provision for loan losses	2,846,418	1,416,851
Reversal of allowance	(4,874)	(1,974)
Loans charged off	(1,768,500)	(1,944,551)
Transfer from repurchase of loan from KAMCO and others	203,397	503,986
Translation adjustments	4,695	(24,512)
Balance at the end of the year	₩ 2,357,026	1,075,890

Ratios of allowance for loan losses to total loans (net of present value discount) for the years ended December 31, 2003, 2002 and 2001 are 5.5%, 2.6% and 3.1%, respectively.

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December 31, 2003 and 2002

As of December 31, 2003 and 2002, the Bank's loans, of which the balance had been already charged off without the expiry of the Bank's legal claim rights against borrowers or guarantors, amounted to ₩3,872,426 million and ₩3,157,100 million, respectively.

The loans in Won in 2003 and 2002 amounting to ₩117,000 million and ₩285,432 million, respectively, are the discounted notes that are included in CMA operating assets of the Bank.

(c) Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipts specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 2003, ₩2,607 million of loans subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2003, discounted using interest rates of 5.25% to 15.25%, is ₩771,645 million which is less than their nominal value of ₩849,869 million.

The changes in present value discount of the Bank's restructured loans in 2003 are as follows:

	In Millions			
	Balance at January 1	Addition	Deduction	Balance at December 31
Loans restructured under work-out plan	₩ 11,556	-	11,556	-
Loans restructured under other similar rescheduling agreements	12,756	21,250	18,525	15,481
Loans in industry rationalization policy	74,855	505	10,010	65,350
	₩ 99,167	21,755	40,091	80,831

(7) Cash Management Accounts

CMA comprises customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets as of December 31, 2003 and 2002 comprise the following:

	In Millions	
	2003	2002
Notes discounted	₩ 117,000	285,432
Other securities	90,725	29,059
	₩ 207,725	314,491

(8) Fixed Assets

Fixed assets as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Tangible assets:		
Land	₩ 387,985	₩ 387,888
Buildings	452,092	436,353
Office facilities held on lease	63,720	54,583
Equipment	649,086	654,760
Construction in-progress	335	111
	1,553,218	1,533,695
Less: Accumulated depreciation	(619,543)	(603,335)
	933,675	930,360
Intangible assets:		
Goodwill	10	2,887
Development cost	22,281	15,795
Others	2,452	3,145
	24,743	21,827
Foreclosed assets:		
Acquisition cost	1,449	2,108
Less: allowance for possible losses on foreclosed assets	(1,226)	(1,106)
	223	1,002
	₩ 960,286	₩ 954,792

As of December 31, 2003, and 2002, the values of the Bank and the consolidated companies' domestic land as determined by the tax authorities for property tax assessment purpose amounted to ₩446,927 million (book value ₩387,722) and ₩404,829 million (book value ₩387,888 million), respectively.

As of December 31, 2003, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

(9) Other Assets

Other assets as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Guarantee deposit	₩ 521,913	497,182
Accounts receivable	1,684,802	3,077,931
Accrued interest	470,498	441,968
Non-Performing Loan Management Fund	36,680	36,680
Deferred tax assets	208,009	211,121
Domestic exchange settlement	679,680	1,359,031
Others	451,475	487,814
	₩ 4,053,057	6,111,727

(10) Deposits

The scheduled maturities of deposits as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 30,731,930	1,470,763	1,229,742	33,432,435
Deposits in foreign currencies	7,888,747	2,037,301	25,751	9,951,799
Certificates of deposits	2,184,065	-	40	2,184,105
	₩ 40,804,742	3,508,064	1,255,533	45,568,339

(11) Borrowings

(a) Borrowings as of December 31, 2003 and 2002 are as follows:

	Annual Interest rate(%) for the year 2003	In Millions	
		2003	2002
Borrowings in Won:			
Borrowings from the Bank of Korea	2.5	₩ 998,307	1,052,650
Borrowings from the Governmental and Public fund	1.5 ~ 3.75	358,745	324,879
Borrowings from other banks	1.83 ~ 4.5	253,349	192,889
Borrowings from other financial institutions		417,134	556,521
Borrowings from others	1.5 ~ 8.02	446,775	418,899
		2,474,310	2,545,838
Borrowings in foreign currencies:			
Short-term borrowings	1.32 ~ 1.47375	1,598,090	1,212,389
Medium and long-term borrowings	3ML+0.42~3.5	646,287	606,296
Refinance	1.37 ~ 1.495	110,227	141,480
Borrowings from banks for subordinated loans	2.35 ~ EURIOR+0.625	13,997	21,465
Others	3ML+0.21 ~ 0.44	733,955	713,250
		3,102,556	2,831,139
Securities sold under repurchase agreements	2.9 ~ 3.8	510,530	542,549
Bills sold	2.9 ~ 3.7	324,044	653,356
Call money	0.93 ~ 3.65	436,495	414,597
		₩ 6,847,935	6,987,479

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As of December 31, 2003, in the normal course of funding activities the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions (see note 5).

(b) Subordinated Borrowings

Subordinated borrowings as of December 31, 2003 and 2002 are as follows:

	Borrower	Annual Interest rate(%) for the year 2003	In Millions of Won, In Thousands of U.S.Dollars	
			2003	2002
Borrowings in Won	Kyobo Life Insurance	-	₩ -	70,000
Borrowing in foreign currencies	Commerz Bank	6ML+3.5	41,923	42,014
	Federal Home Loan Bank	-	(US\$35,000)	84,028
			₩ 41,923	196,042

(c) The scheduled maturities of borrowings as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,572,610	303,837	597,863	2,474,310
Borrowings in foreign currencies	2,863,264	221,518	17,774	3,102,556
	₩ 4,435,874	525,355	615,637	5,576,866

(12) Debentures

(a) Debentures as of December 31, 2003 and 2002 are as follows:

	Annual Interest rate(%) for the year 2003	In Millions	
		2003	2002
Debentures in Won:			
Debentures	4.4 ~ 10.5	₩ 4,228,927	5,285,960
Subordinated debentures	5.8 ~ 10.5	1,192,504	950,000
Subordinated convertible debentures	4	200,000	200,000
Hybrid Tier 1(*)	8.5	250,000	-
Others	-	-	16
		5,871,431	6,435,976
Discounts on debentures		(6,257)	(11,398)
		5,865,174	6,424,578
Debentures in foreign currencies:			
Debentures	13.75 ~ 3ML+2.0	492,464	611,912
Discounts on debentures		(3,064)	(3,859)
		489,400	608,053
		₩ 6,354,574	7,032,631

(*) The maturity of Hybrid Tier 1 is May 28, 2033.

(b) Subordinated Debentures

Subordinated debentures as of December 31, 2003 and 2002 are as follows:

	Maturity	Annual Interest rate(%) for the year 2003	In Millions of Won, In Thousands of U.S.Dollars	
			2003	2002
Sold to general public	Feb. 28, 2005 ~ Dec. 28, 2008	5.8~10.5	₩ 1,192,504	₩ 950,000
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	Nov 18, 2006	3ML+2.0	239,560	240,080
			(US\$200,000)	(US\$200,000)
Credit Suisse First Boston (CSFB)	June 30, 2010	13.75	248,722	240,080
			(US\$207,649)	(US\$210,789)
			₩ 1,680,786	1,430,160

(c) Subordinated Convertible Debentures

Subordinated convertible debentures as of December 31, 2003 and 2002 are as follows:

	Terms of debentures	Annual Interest rate(%) for the year 2003	In Millions	
			2003	2002
Subordinated convertible debentures (No.4)	Dec. 6, 1999 ~ Dec. 6, 2009	4	₩ 100,000	100,000
Subordinated convertible debentures (No.5)	Dec. 27,1999 ~ Dec. 27,2009	4	100,000	100,000
			₩ 200,000	200,000

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through November 6, 2009 and November 27, 2009, respectively, into common shares at a conversion price of ₩10,000 per share of common stock, as adjusted for the 2:1 capital reduction in December 22, 2000. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service ("FSS") on December 6, 2004 (fourth series) and December 27, 2004 (fifth series) at 150.82% of their principal amounts. If such options were not exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the remaining principal will be paid ten years from the issue date.

(d) The scheduled maturities of debentures as of December 31, 2003 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 1,490,927	2,718,000	1,662,504	5,871,431
Debentures in foreign currencies	4,182	239,560	248,722	492,464
	₩ 1,495,109	2,957,560	1,911,226	6,363,895

(13) Other Liabilities

Other liabilities as of December 31, 2003 and 2002 consist of the following:

	In Millions	
	2003	2002
Retirement and severance benefits (see note 14)	₩ 44,515	32,914
Allowance for acceptance and guarantees	54,247	43,542
Due to trust account	1,132,321	205,506
Foreign exchange remittance pending	283,304	218,318
Account payable	1,817,754	3,090,767
Accrued expenses	806,260	905,773
Unearned income	79,736	92,195
Deposits for letter of guarantees and others	183,093	151,635
Derivative instrument liabilities	214,546	241,575
Suspense receipt	137,684	91,876
GIRO accounts	79,122	96,090
Agency receipt	556,447	420,477
Others	153,785	238,649
	₩ 5,542,814	5,829,317

(14) Retirement and Severance Benefit

Retirement and severance benefits as of December 31, 2003 and 2002 are as following:

	In Millions	
	2003	2002
Balance at the beginning of the year	₩ 78,972	47,386
Provisions	50,977	39,595
Severance payments	(19,859)	(6,549)
Adjustments of foreign exchange transactions	125	(1,460)
	110,215	78,972
Transfer to the National Pension Fund	(64,052)	(44,144)
Deposits of insurance for retirement and severance benefits	(1,648)	(1,914)
Balance at the end of the year	₩ 44,515	32,914

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(15) Asset Revaluation

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

(16) Capital Surplus

Consolidated capital surplus as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
The Bank's ownership in capital surplus of consolidated subsidiaries	₩ 24,965	120,363
The Bank's ownership in capital surplus of equity-method investees	131,840	93,943
	₩ 156,805	214,306

(17) Accumulated Deficit

(a) Consolidated accumulated deficit as of December 31, 2003 and 2002 is as follows:

	In Millions	
	2003	2002
Other statutory reserves	₩ 33,434	23,494
Accumulated deficit before disposition	(1,070,279)	(117,248)
	₩ (1,036,845)	(93,754)

(b) Other Statutory Reserves

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

(c) Disposition of Accumulated Deficits

Details of the recent two years' disposition of accumulated deficits approved by shareholders on March 28, 2003, March 29, 2002, and March 13, 2001 are as follows:

	In Millions		
	March 28, 2003	March 29, 2002	March 13, 2001
Accumulated deficit before disposition	₩ 121,225	165,031	1,523,622
Disposition			
Transfer from gain on capital reduction	-	-	1,240,875
Appropriation for other statutory reserves	(8,371)	(8,445)	(236)
	(8,371)	(8,445)	1,240,639
Accumulated deficit	₩ 129,596	173,476	282,983

(18) Capital Adjustment

Capital adjustments as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Unrealized gain on available-for-sale securities	₩ 234,085	(105,014)
Unrealized gain on investments in associates	(30,930)	(9,034)
Stock option	14	-
Discounts on stock issued	(294,926)	(9,572)
Capital adjustment of consolidated subsidiaries	(6,936)	1,950
	₩ (98,693)	(121,670)

(19) Stock Options

As of December 31, 2003, the stock options granted to the Bank's employees and executives are as follows:

	March 25, 2000	May 18, 2000	March 13, 2001	August 26, 2002	September 16, 2003	Total
Share granted	784,000	400,000	562,000	725,000	120,000	2,591,000
Shares expired to date	761,500	247,500	15,000	421,850	-	1,445,850
Shares exercised	-	-	-	-	-	-
Share outstanding	22,500	152,500	547,000	303,150	120,000	1,145,150
Exercise price per share	₩ 10,000	5,000	5,000	6,300	5,000	
Exercise period	March 26, 2003 ~ March 25, 2006	May 19, 2003 ~ May 18, 2006	March 14, 2004 ~ March 13, 2007	August 27, 2005 ~ August 26, 2007	September 17, 2006 ~ September 16, 2009	

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

The risk-free interest rate	The interest rate for governmental bonds at the grant date
The expected exercise period	In six years from the grant date
The volatility of the underlying stock price	0 %
The expected dividend rate	0 %

Under the above assumptions, compensation costs of the Bank are calculated based minimum value method using the option pricing model. However, since the exercise price of the stock option exceeded the market value of the Bank's stock as of the data of the grant, except for the stock option granted on September 16, 2003, no compensation cost was accrued.

(20) Commitments and Contingencies

(a) Guarantees and Acceptances

The Bank entered into a number of commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding as of December 31, 2003 and 2002 are summarized as follows:

	In Millions	
	2003	2002
Guarantees and acceptances in Won	₩ 856,386	876,786
Guarantees and acceptances in foreign currencies	2,239,356	2,092,844
	₩ 3,095,742	2,969,630

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2003 and 2002 are as follows:

Countries	2003			2002		
	In thousands	In millions	Ratio (%)	In thousands	In millions	Ratio (%)
Korea	US\$ 1,668,418	₩ 1,998,431	89.24	US\$ 1,563,792	₩ 1,877,176	90.39
France	36,870	44,163	1.97	76,307	91,599	4.41
Germany	16,226	19,436	0.87	25,940	31,138	1.50
UK	7,464	8,940	0.40	10,558	12,674	0.61
U.S.A.	24,136	28,910	1.29	22,144	26,582	1.28
Japan	21,431	25,670	1.15	24,196	29,045	1.40
Others	95,012	113,806	5.08	7,086	8,506	0.41
	US\$ 1,869,557	₩ 2,239,356	100.00	US\$ 1,730,023	₩ 2,076,720	100.00

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In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of the Bank's guarantees and acceptances without underlying liabilities of customers, provided in the normal course of business, as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Letters of credit issued but not yet drawn	₩ 4,362,854	4,302,470
Other guarantees and acceptance	16,115	41,641
	₩ 4,378,969	4,344,111

(b) The Bank's loan commitments as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Commitments for loans in Won	₩ 397,464	115,403
Commitments for foreign loans	112,266	96,496
Securities purchase commitments in foreign currency	1,198	-
Other commitments in foreign currency	46,714	5,011
	₩ 557,642	216,910

Loans written off amounted to ₩3,872,426 million and ₩3,157,100 million as of December 31, 2003 and 2002, respectively.

(c) Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price.

A summary of derivative financial instrument information as of December 31, 2003 and 2002 are as follows:

	Valuation gains or losses (I/S)											valuation gains or losses (B/S)		
	Outstanding		Trading		Hedging		Total		Assets		Liabilities			
	Trading	Hedging	Gains	Losses	Gains	Losses	Gains	Losses	Gains	Losses				
2003														
Foreign Currency Related Contracts														
Forward contracts		418,965	39,308	(10,782)	10,089	27	49,397	(10,755)	131,284	128,444				
Futures contracts	₩ 8,052,020	-	-	-	-	-	-	-	-	-	-	-		
Futures contracts purchased	38,090	-	-	-	-	-	-	-	-	-	-	-		
Swap contracts	555,730	-	(7,688)	12,098	-	-	(7,688)	12,098	21,335	18,185				
Option contracts														
Option contracts purchased	296,456	-	(3,896)	-	-	-	(3,896)	-	4,041	-				
Option contracts sold	429,303	-	1,005	(1,308)	-	-	1,005	(1,308)	-	5,623				
	9,371,599	418,965	28,729	8	10,089	27	38,818	35	156,660	152,252				
Interest Rate Related Contracts														
Futures contracts														
Futures contracts purchased	179,103	-	-	-	-	-	-	-	-	-	-	-		
Futures contracts sold	1,721,739	-	-	-	-	-	-	-	-	-	-	-		
Swap contracts	4,271,377	131,758	4,809	6	3,395	7,585	8,204	7,591	44,427	41,803				
Option contracts														
Option contracts purchased	299,402	-	(152)	-	-	-	(152)	-	512	-				
Option contracts sold	323,358	-	-	465	-	-	-	465	-	1,624				
	6,794,979	131,758	4,657	471	3,395	7,585	8,052	8,056	44,939	43,427				
Index Option Related Contracts														
Kospi 200 futures	44,115	-	-	-	-	-	-	-	-	-	-	-		
Option contracts														
Option contracts purchased	102,055	-	2,245	-	-	-	2,245	-	4,647	-				
Option contracts sold	467,489	-	-	7,381	-	-	-	-	-	18,868				
	613,659	-	2,245	7,381	-	-	2,245	7,381	4,647	18,868				
	₩ 16,780,237	550,723	35,631	7,860	13,484	7,612	49,115	15,472	206,246	214,546				

In Millions

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In Millions

	Valuation gains or losses (US)												valuation gains or losses (B/S)		
	Outstanding			Trading			Hedging			Total			Assets	Liabilities	
	Trading	Hedging	Total	Gains	Losses	Total	Gains	Losses	Total	Gains	Losses	Total			
2002															
Foreign Currency Related Contracts															
Forward contracts	₩ 8,161,522	962,019	9,123,541	(10,285)	62,198	1,115	16,582	(9,291)	78,649	103,159	158,148				
Futures contracts	-	-	-	-	-	-	-	-	-	-	-				
Futures contracts purchased	585,278	-	585,278	28,808	(4,447)	-	(10,979)	28,808	(15,426)	29,023	6,087				
Swap contracts	270,090	-	270,090	(15,401)	-	-	-	(15,401)	-	7,937	-				
Option contracts purchased	270,090	-	270,090	-	(15,019)	-	-	-	(15,019)	-	7,937				
Option contracts sold	9,286,980	962,019	20,248,999	3,122	42,732	1,115	5,603	4,116	48,204	140,119	172,172				
Interest Rate Related Contracts															
Futures contracts	-	-	-	-	-	-	-	-	-	-	-				
Futures contracts purchased	-	-	-	-	-	-	-	-	-	-	-				
Futures contracts sold	2,911,042	-	2,911,042	-	5	-	-	-	2	-	-				
Swap contracts	3,223,645	120,040	3,343,685	-	372	3,247	-	3,247	372	65,395	63,947				
Option contracts	346,832	-	346,832	-	-	-	-	-	-	663	-				
Option contracts purchased	375,531	-	375,531	-	560	-	460	-	1,023	-	1,159				
Option contracts sold	6,857,050	120,040	6,977,090	-	937	3,247	460	3,247	1,397	66,058	65,106				
Index Option Related Contracts															
Options contracts	855,648	-	855,648	1,265	1,731	-	-	1,265	1,731	4,327	-				
Long position on stock index option	1,537,453	-	1,537,453	1,524	1,313	-	-	1,524	1,313	-	4,297				
Short position on stock index option	2,393,101	-	2,393,101	2,789	3,044	-	-	2,789	3,044	4,327	4,297				
Futures contracts	3,498	-	3,498	-	126	-	-	-	126	-	-				
Long position on stock index futures	3,180	-	3,180	20	9	-	-	20	9	-	-				
Short position on stock index futures	6,678	-	6,678	20	135	-	-	20	135	-	-				
	₩ 18,543,809	1,082,059	19,625,868	5,931	43,686	4,362	6,063	10,172	52,780	210,504	241,575				

(d) Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought by and against the Bank were approximately ₩262,095 million and ₩68,668 million, respectively, as of December 31, 2003. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material losses on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying financial statements. As of December 31, 2003, the Bank retains floating rate bonds of US\$7,000,000 (book value US\$3,500,000) issued by Pacific Elephant Fund. In the current period, the Bank made a guarantee-payment amounting to US\$20,357,500 in association with the default of Pacific Rainbow Fund for which the Bank has provided guarantee, and received US\$9,858,500 as reimbursement from other guarantee institutions. The two funds mentioned above, Pacific Elephant Fund and Pacific Rainbow, Fund are the offshore funds established in Malaysia by Anam Semiconductor (the "Company") and it mainly invests in companies in Indonesia. With respect to these two funds, the Company has provided a letter of commitment ("LOC"), which confirms the compensation of the loss arising from the funds, but is not currently performing such commitments. Accordingly, the Bank is undergoing a process to bring a case to court in relation to the breach of performance of commitment by the Company, but as of balance sheet date, the ultimate effect cannot presently be determined. In addition, there are several pending litigations in relation to KEBCS, and the outcome of such litigation is expected to have no material effect to the Bank's operation or financial status.

(e) Asset Backed Securitization

On December 16, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company ("1st SPC") and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

On February 1, 2001, the Bank sold certain non-performing loans to leasing companies amounting to ₩589,175 million to a Special Purpose Company ("5th SPC") and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank entered into a credit line commitment in the amount of ₩110 billion with Korea Development Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩34 billion as collateral to Korea Development Bank.

On May 25, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company ("6th SPC") and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank entered into a credit line commitment in the amount of ₩30 billion with Kookmin Bank. For this commitment, the Bank provided deposits equivalent to ₩37,700 million as collateral to Kookmin Bank.

On October 30, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company ("7th SPC") and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. In relation to this asset-backed securitization ("ABS"), Korea Development Bank offered a credit line amounting to ₩7,000 million. According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset becomes unqualified under the conditions of the contract or when the asset value is reduced arising from a significant misstatement as a result of a due diligence report for the assets or when the debtor delayed the payment of the principal for more than six months. Also, when the duty to perform arises, the Bank should pay the damage amount to the transferee with cash within seven business days from document notification.

On November 12, 2003, the Bank sold certain non-performing loans amounting to ₩155,391 million to a Special Purpose Company ("8th SPC") and received ₩60,000 million and ₩59,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset becomes unqualified under the conditions of the contract or when the asset value is reduced arising from a significant misstatement as a result of a due diligence report for the assets. Also, when the duty to perform arises, the Bank should pay the damage amount to the transferee with cash within three business days from document notification.

The limit of the damage to indemnity relating to the fifth, sixth, and seventh asset securitization amounts to US\$84,000 thousand (equivalent to ₩110,040 million), ₩130,000 million, and ₩26,000 million, respectively (27 percent, 34 percent, and 36 percent of the total proceeds, respectively).

Effective November 25, 2000, KEBCS has entered into a card receivables sales agreement with KEBCS Securitization 2000-1, L.L.C. (the "SPC 1") to sell amounts due from cardholders amounting to ₩373,724 million and future receivables from certain 142,916 cardholders up to December 17, 2003. SPC 1 has redeemed all the securitization debentures including subordinated debentures on December 17, 2003, the maturity date of the debentures.

Effective February 22, 2001, KEBCS has entered into a card receivables sales agreement with KEBCS Securitization 2001-1, L.L.C. (the "SPC 2") to sell amounts due from cardholders amounting to ₩496,399 million and future receivables from certain 266,123 cardholders up to June 27, 2004. According to the agreement, amounts due from cardholders of ₩439,039 million were transferred to the SPC 2 as of December 31, 2003. The sales agreement includes early amortization clauses which require the sale of future receivables as well as the early redemptions of principal, and payments of interest, of debentures issued by the SPC 2. KEBCS underwrote the subordinated debenture of the SPC 2 amounting to ₩46,429 million, and owns shares of the SPC 2 amounting to ₩200,000. Additionally, KEBCS has provided the SPC 2 with short-term loans and has received interest income from the SPC 2 relating to such loans (Notes 5 and 6). Servicing of the receivables sold is retained by KEBCS, and KEBCS is entitled to receive the related servicing fees from the SPC 2.

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KEBCS transferred credit card receivables from the 120,213 cardholders totaling ₩176,769 million which fall in the period from July 2, 2001 to November 28, 2003 to the SPC 2. KEBCS is also entitled to transfer the future card receivables from these cardholders up to June 27, 2004, to supplement the outstanding card receivables balance required by the securitization regulations.

KEBCS repurchased the credit card receivables from the 66,976 cardholders totaling ₩182,752 million during the period from November 1, 2001 through March 10, 2003 from the SPC 2 in accordance with the sale agreement.

Effective June 11, 2001, KEBCS has entered into a cash advances trust agreement with Kookmin Bank's trust account (the "Trust") to transfer cash advances amounting to ₩408,678 million and future cash advances from certain 328,120 cardholders up to July 27, 2004. According to the agreement, cash advances amounting to ₩324,204 million were transferred to the Trust as of December 31, 2003. Based on the cash advances transferred to the Trust, the Trust issued three types of beneficiary certificates (type 1-1, type 1-2 and type 2) and KEBCS Securitization 2001-3, L.L.C. (the "SPC 3") underwrote the type 1-1 beneficiary certificate and issued securitized debentures. The KEBCS underwrote the type 1-2 beneficiary certificate of the Trust amounting to ₩34,000 million and the type 2 beneficiary certificate of the Trust, and owns the shares of the SPC 3 amounting to ₩200,000. Proceeds from the cash advances transferred to the Trust are primarily used to fund interest expense of securitized debentures and the operating expenses of the SPC 3, and the remaining amounts are transferred to KEBCS. Servicing of the cash advances sold is retained by KEBCS, and KEBCS is entitled to receive the related servicing fees from the Trust. The sales agreement includes a clause which requires the additional transfer of cash advances from KEBCS to supplement the outstanding cash advances balance required for securitization when cash advances outstanding are lower than ₩347,360 million. Additionally, KEBCS has provided the SPC 3 with short-term loans and has received interest income from the SPC 3 relating to such loans.

KEBCS transferred the credit card receivables from 262,007 cardholders totaling ₩354,033 million which fall in the period from August 1, 2001 to November 28, 2003 to the Trust 9 times through July 27, 2004, to supplement the outstanding cash advances balance required for securitization.

KEBCS transferred the receivables from 115,796 cardholders totaling ₩132,131 million back to the Proprietary Account of KEBCS from the Trust 6 times during the period from August 1, 2001 through March 10, 2003 whose cash advances had been converted to revolving purchases or whose cardholders had defaulted their payments for more than three months, and, accordingly, KEBCS reclassified those receivables from entrusted assets to due from cardholders or loans to cardholders.

Effective November 16, 2001, KEBCS has entered into a loans to cardholders sales agreement with KEBCS Securitization 2001-4, L.L.C. (the "SPC 4"), to sell the loans to cardholders amounting to ₩475,161 million from 153,022 cardholders. According to the agreement, loans to cardholders amounting to ₩351,657 million were transferred to the SPC 4 as of December 31, 2003. The sales agreement includes early amortization clauses which require the sale of loans to cardholders as well as the early redemptions of principal and payments of interests of debentures issued by the SPC 4. KEBCS underwrote the subordinated debenture of the SPC 4 amounting to ₩75,161 million, and owns the shares of the SPC 4 amounting to ₩200,000. Servicing of the loans to cardholders sold is retained by KEBCS, and KEBCS is entitled to receive the related servicing fees from the SPC 4.

According to the agreement, KEBCS is entitled to transfer additional credit card loans pertaining to the 452,595 cardholders amounting to ₩511,392 million to the SPC 25 times in total since the first transfer date during the time period from December 15, 2001 through December 12, 2003. KEBCS repurchased the credit card loans pertaining to 12,458 cardholders amounting to ₩10,193 million from the SPC 4 3 times during the time period from October 31, 2002 through May 2, 2003 in accordance with the sale agreement.

Effective June 30, 2002, KEBCS has entered into a trust agreement with Kookmin Bank's trust account (the "Trust") to transfer card receivables and loans to cardholders amounting to ₩845,771 million and future card receivables and loans to cardholders from 378,410 cardholders up to February 28, 2009. According to the agreement, card receivables and loans to cardholders of ₩917,446 million were transferred to the Trust as of December 31, 2003.

Based on the card receivables and loans to cardholders transferred to the Trust, the Trust issued three types of beneficiary certificates (Investor Interest, Seller Interest and Subordinated Seller Interest) and KEB Card International ABS 2002-5 Limited (the "SPC 5") underwrote the Investor Interest beneficiary certificate and issued a securitized bond. KEBCS underwrote the Seller Interest and the Subordinated Seller Interest beneficiary certificates of the Trust, and owns the shares of the SPC 5 amounting to ₩200,000. Proceeds from the card receivables and card loans transferred to the Trust are primarily used to fund interest expense of securitized bonds and operating expenses of the SPC 5, and the remaining amounts are transferred to KEBCS. Servicing of the card receivables and loans to cardholders sold is retained by KEBCS, and KEBCS is entitled to receive the related servicing fees from the Trust.

The servicing agreement includes clauses which require early amortization, such as when the aggregate amount of card receivables and loans to cardholders outstanding are equal to or lower than 106% of the aggregate amount of Investor Interest and Subordinated Seller Interest beneficiary certificates.

KEBCS transferred card receivables and loans to 128,644 cardholders amounting to ₩158,204 million twice to the Trust during the period from March 18, 2003 through July 31, 2003. Future card receivables and loans to cardholders from certain cardholders are to be transferred to the Trust on the earlier date of (i) completion of payments for the securitized Bond Issuer's liabilities, trust liabilities and Note Issuer's liabilities, or (ii) February 28, 2009 (the bond's maturity date), for the credit enhancement of securitized bondholders and to supplement the outstanding cash advances balance required for securitization.

KEBCS was merged into Korea Exchange Bank, the major shareholder of KEBCS, on February 28, 2004. KEBCS has received a waiver of the early redemption of the securitized bond issued by the SPC 5, which may be caused by the merger transaction, from Financial Security Assurance Inc. ("FSA"), the guarantor of the SPC 5, until March 31, 2004. Also, KEBCS is in negotiation with FSA to revise the related agreements to respond to changes in credit risks resulting from the merger. The outcome of the negotiation and the ultimate effect of this uncertainty on the financial statements of KEBCS as of the balance sheet date cannot presently be determined and, accordingly, the accompanying consolidated financial statements do not

include any adjustments that might result from these uncertainties.

Effective August 31, 2002, KEBCS, the consolidated subsidiary, has entered into a sales agreement with KEBCS Securitization 2002-6 L.L.C. (the "SPC 6") to sell loans to cardholders amounting to ₩60,907 million from certain 314,045 cardholders for ₩773,269 million. KEBCS recognized the resulting gains on the sale as adjustments to the allowance for doubtful accounts. In addition, the SPC 6 has redeemed all the securitization debentures including subordinated debentures on October 4, 2003, the maturity date of the debentures.

Effective January 13, 2003, KEBCS, the consolidated subsidiary, has entered into a trust agreement with Kookmin Bank's trust account (the "Trust") to transfer cash advances and amounts due from cardholders arising from revolving purchases amounting to ₩403,804 million and future cash advances and revolving purchase accounts from 180,763 cardholders up to April 21, 2006. According to the agreement, cash advances and revolving purchase accounts of ₩352,758 million were transferred to the Trust as of December 31, 2003. Based on the cash advances and revolving purchase accounts transferred to the Trust, the Trust issued two types of beneficiary certificates (Type 1 and Type 2) and KEBCS Securitization 2002-7, L.L.C. (the "SPC 7") underwrote the Type 1 beneficiary certificate (Par value: ₩300,000 million) as of January 13, 2003 and issued a securitized bond based on the certificate, as of January 21, 2003. KEBCS underwrote the Type 2 beneficiary certificate (no par) issued by the Trust and the subordinated debentures, issued by the SPC 7 and owns the shares of the SPC 7 amounting to ₩200,000.

Proceeds from the cash advances and revolving purchase accounts transferred to the Trust, are primarily used to fund interest expense of the securitized bond and the operating expenses of the SPC 7, and the remaining amounts are transferred to KEBCS. Servicing of the cash advances and revolving purchase accounts sold is retained by KEBCS, and KEBCS is entitled to receive the related servicing fees from the Trust. The servicing agreement includes a clause which requires additional transfers of cash advances and revolving purchase accounts from KEBCS, to supplement outstanding cash advances and revolving purchase accounts balance, required for securitization, when cash advances and revolving purchase accounts are equal to or lower than 104% of the aggregate amounts of Type 1 beneficiary certificate and 4% of cash advances and revolving purchase accounts.

KEBCS transferred cash advances and revolving credit card receivables from 121,457 cardholders amounting to ₩163,538 million to the Trust 6 times during the period from May 19, 2003 through November 28, 2003. Future cash advances and revolving credit card receivables from certain cardholders are to be transferred to the Trust up to March 31, 2006, to supplement the outstanding cash advances balances required for securitization.

Effective February 20, 2003, KEBCS has entered into a trust agreement with Korea Exchange Bank's trust account (the "Trust") to transfer card receivables amounting to ₩570,730 million and future card receivables accounts from 248,034 cardholders up to February 28, 2006. According to the agreement, card receivables of ₩398,962 million were transferred to the Trust as of December 31, 2003. Based on the card receivables transferred to the Trust, the Trust issued two types of beneficiary certificates (Type 1 and Type 2) and KEBCS Securitization 2003-8, L.L.C. (the "SPC 8") underwrote the Type 1 beneficiary certificate (par value: ₩300,000 million) as of April 2, 2003 and issued a securitized bond based on the certificate, as of April 18, 2003. KEBCS underwrote the Type 2 beneficiary certificate (no par) as of April 2, 2003 and owns the shares of the SPC 8 amounting to ₩200,000. Proceeds from the card receivables transferred to the Trust, are primarily used to fund interest expense of the securitized bond and the operating expenses of the SPC 8, and the remaining amounts are transferred to KEBCS. Servicing of the card receivables sold is retained by KEBCS, and KEBCS is entitled to receive the related servicing fees from the Trust. The servicing agreement includes a clause, which requires additional transfers of card receivables from KEBCS, to supplement outstanding card receivables balance, required for securitization.

KEBCS transferred cash advances from 265,511 cardholders amounting to ₩219,688 million to the Trust 5 times during the period from May 23, 2003 through November 26, 2003. Future cash advances from certain cardholders are to be transferred to the Trust up to February 28, 2006, to supplement the outstanding cash advances balances required for securitization.

KEBCS, the consolidated subsidiary, receives additional servicing fees from, the SPC 2 and SPC 4 on the first payment date after the end of each settlement period. The additional servicing fees relating to the SPC 2 and SPC 4 are calculated by multiplying the assets of the SPC as of the first day of each settlement period by the servicing fees rate for the settlement period, as determined by the manager of the SPC and KEBCS, and divided by twelve. The additional servicing fees relating to the SPC 3, SPC 5, SPC 7 and SPC 8 are calculated by deducting the expenses of the Trust, and the SPC 3, SPC 5, SPC 7 and SPC 8 from the profits of the Trust for each settlement period.

KEBCS, the consolidated subsidiary, has entered into agreements to sell certain due from cardholders accounts and loans to cardholders, which were previously written off, and the resulting gains were recognized as subsequent recoveries and adjusted to the allowance for doubtful accounts. The details of the agreements are as follows:

Date of sales	Cur-off date	Purchaser	In Millions
			Purchase amount
March 18, 2003	February 18, 2003	LONESTAR ADVISORS KOREA L.L.C	₩ 71,154
June 5, 2003	April 30, 2003	Solomon Mutual Saving Bank	40,410
June 24, 2003	May 31, 2003	Solomon Mutual Saving Bank	28,960
June 30, 2003	June 30, 2003	KAMCO(*)	28,203
September 23, 2003	August 19, 2003	Jin-Heung Mutual Saving Bank	33,000

(*) Gains are subject to change depending on KAMCO's review of the related loan documents and subsequent settlement of possible adjustment resulting from such review. KEBCS recorded accrued expenses of ₩4,094 million payable to KAMC as of December 31, 2003, which represent the amount of loans to be repurchased based on the review of the related loan documents.

KEBCS, the consolidated subsidiary, sold the factoring loan provided to Jinro Co. Ltd. amounting to ₩3,650 million (₩913 million, net of allowance), to Deutsche Bank for ₩2,404 million, and the resulting gains of ₩1,492 million were adjusted to the allowance for doubtful accounts.

KEBCS, the consolidated subsidiary, participated in a joint asset-securitization program, under which, ten financial institutions including KEBCS sold their receivables to LG Investments and Securities Co., Ltd. Consequently, LG Investments and Securities Co., Ltd established a special purpose company to issue asset-backed securities based on the receivables sold, with a certain portion guaranteed by Korean Development Bank. The special purpose company was established and asset-backed securities were issued on October 29, 2003. Under the aforementioned program, KEBCS sold its dues from cardholders accounts and loans to cardholders amounting to ₩97,604 million, which were previously written off, at ₩15,008 million on October 24, 2003. On the other hand, KEBCS recognized an impairment on all subordinated debentures underwritten from this asset-backed securitization transaction, based on the aggregate estimated collectibility of the subordinated debentures. As a result, ₩56,295 million of impairment loss on available-for-sale securities was recorded for the year ended December 31, 2003.

(f) Loans Sold under Repurchase Agreements

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

- When it is considered impossible to collect the loans and interest because borrowers delay their repayment of loans and interest over 6 months
- When it is considered impossible to collect the loans and interest due to the abrogation of court-receivership process and the cancellation of mediation

As of December 31, 2003, KAMCO may exercise the resale option for loans amounting to ₩372,835 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO exercise their repurchase agreement.

(g) Stock of Samsung Life Insurance

On September 26, 2000, The Bank received 117,638 shares of stock of Samsung Life Insurance in accordance with contribution contract with Gun-Hee Lee, the chairman of Samsung Group, in accordance with the agreement that the Bank would be compensated against estimated loan losses arising from Samsung Motors.

(h) Debt to Equity Swap of SK Networks Co., Ltd.

In accordance with a resolution of the Financial Creditors Committee, SK Networks Co., Ltd. on September 26, 2003 performed a debt to-equity swap amounting to ₩98,679 million for the year 2003.

As of December 31, 2003, the Bank has loans of ₩173,439 million and available-for-sale securities of 152,687 million with respect to SK Networks Co., Ltd. and set allowance for losses of ₩89,833 in association with these loans. During the current year, the Bank has recognized an impairment loss of ₩6,788 million. However, the actual loss may differ from the allowance for losses and impairment loss upon the result of the restructuring of SK Networks Co., Ltd.

(i) Loans to Workout Companies

As of December 31, 2003, the Bank's outstanding loans and guarantees to related companies of the Daewoo Group, SK Networks Co., Ltd. and other companies under workout programs amounted to ₩577,063 million. In addition as of December 31, 2003, the Bank's outstanding loans and guarantees to related companies of the Hyundai Group, including Hyundai Construction Co., Ltd. and Hynix Semiconductor Inc., amounted to ₩923,400 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank. No adjustments have been made in the accompanying consolidated financial statements related to such uncertainties.

(j) Uncertainty of Loans to LG Card Co., Ltd.

As of December 31, 2003, the Bank's outstanding corporate bonds and loans with respect to LG Card Co. Ltd. that has undergone a liquidity crisis, amount to ₩71,700 million and ₩5,989 million, respectively. The corporate bonds and CP issued by LG Card Co., Ltd. amounts to ₩55,750 out of total underlying assets of beneficiary certificates held by the Bank as of December 31, 2003. The actual loss may differ from the allowance for losses provided by the Bank upon the result of restructuring of LG Card Co. Ltd.

(k) Debt to Equity Swap of Hynix Semiconductor Inc.

In accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. (Hynix) in 2001, the Bank acquired newly issued convertible bonds of Hynix, in exchange for ₩726,600 million of loans and convertible bonds, and provided additional loans amounting to ₩79,000 million to Hynix. Also the Bank acquired the shares of common stocks of Hynix at 708 per share in exchange for the newly issued convertible bonds mentioned above.

The Financial Creditors Committee of Hynix made resolutions to reduce Hynix's equity in the ratio of 21:1, and to issue convertible bonds for the outstanding loans and corporate bonds amounting to ₩1,844,613 million, after the shareholders' meeting, on December 30, 2002. The Bank converted consumer and corporate loans amounting to ₩115,806 million to common stock at a public offering price of ₩453 multiplied by the capital reduction rate as a conversion price on April 14, 2003.

Among the converted shares of common stock mentioned above that are classified as available-for-sale securities and carried at fair value, 18,310,000 shares amounting to the book value of ₩102,536 million can be sold through over-the-counter trading from September 16, 2003, on condition that purchasers comply with the resolutions of the Financial Institution Creditors' Council, and the remaining 42,922,307 shares amounting to the book value of ₩240,365 million are restricted from being sold until December 31, 2006.

KEB Leasing Co., Ltd. ("KEBLS"), the Bank's consolidated subsidiary, acquired convertible bonds of Hynix amounting to ₩6,343 million in accordance with a rescheduling plan of credit and debt with respect to Hynix. The convertible bonds acquired by KEBLS were issued by private offering and these bonds will be exempted from payment unless the bondholders exercise the convertible right by the maturity date for conversion. 666,771 shares of common stock are to be issued with respect to these convertible bonds.

As of December 31, 2003, the Bank and KEBLS had loans to Hynix amounting to ₩224,143 million and available-for-sale securities of ₩342,905 million. The allowance for losses of ₩180,141 million and impairment loss of ₩55,850 million were recorded with respect to these loans and securities, respectively. However, the actual loss may differ from these allowance for losses and impairment loss upon the result of restructure of Hynix.

(l) Economic Environment

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

(m) Indemnification Obligations regarding the Share Subscription Agreement by and between the Bank and the Lone Star Fund IV

The Bank shall indemnify Lone Star Fund IV for all purchaser losses (*1) and pay for damages resulting from any breach by the Bank of any of the Bank's covenants (*2) in the Share Subscription Agreement. The Bank's indemnification obligations are as follows:

Duration Periods of Indemnification Obligations are as follows:

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

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

The Bank has no indemnification obligation for claims less than ₩100 million. Lone Star Fund IV may file claims on cumulative purchase losses exceeding ₩15 billion, and the Bank will indemnify any amounts exceeding ₩10 billion of these claims.

The total amount of indemnification obligations cannot exceed Lone Star Fund IV's investments in the Bank.

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

(*2) Covenant means all sorts of conditions in the Share Subscription Agreement that the Bank shall comply for the share subscription until the Closing Date.

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

(21) Fees and Commissions

Fees and commissions for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Commissions received	₩ 1,007,393	1,393,752
Guarantee fees	23,119	23,394
Early termination penalty fees	145	582
Others	110	474
	₩ 1,030,767	1,418,202

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(22) Commission Charges

Commission charges for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Service fees	₩ 243,728	343,221
Others	7,473	5,264
	₩ 251,201	348,485

(23) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Salaries	₩ 368,820	337,014
Employee benefits	103,913	92,593
Provision for retirement and severance benefits	50,977	39,595
Depreciation	126,387	106,729
Amortization	9,599	8,214
Others	249,784	260,194
	₩ 909,480	844,339

(24) Income Taxes

The details of tax effect on accumulated temporary differences and loss carry forward as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Deferred tax assets (liabilities):		
Loss on valuation of securities	₩ 236,726	79,289
Gain on valuation of Held-to-maturity securities	4,236	14,788
Accrued interest	(28,755)	(27,973)
Allowance for loan losses	116,436	38,033
Loans charged off	18,209	19,665
Allowance for losses from guarantees and acceptances	16,097	12,920
Present value discount	21,734	24,272
Gain on valuation of derivative financial instruments	4,669	9,196
Others, net	158,189	91,696
	547,541	261,886
Loss carry-forward	251,354	439,466
Deferred tax assets	798,895	701,352
Allowance for deferred tax assets	(598,895)	(501,352)
Deferred tax assets (Domestic)	200,000	200,000
Deferred tax assets (Foreign)	584	73
Deferred tax assets (The Bank total)	200,584	200,073
Deferred tax assets (Subsidiaries)	7,425	11,012
Deferred tax assets, net	₩ 208,009	211,211

Deferred tax assets of ₩598,895 million in 2003 and ₩501,352 million in 2002 have not been recognized because it is not probable that future taxable earnings will be available against which the Bank can utilize the related benefit.

(25) Earnings Per Share and Ordinary Income Per Share

Basic earnings per share and ordinary income per share for the years ended December 31, 2003 and 2002 are calculated as follows:

(a) Earnings per share

	In Millions	
	2003	2002
Net earnings (loss)	₩ (868,576,739,264)	53,044,738,207
Preferred stock dividends	-	-
Net income allocated to common stock	(868,576,739,264)	53,044,738,207
Weighted average number of common shares outstanding (in share) (*1)	425,888,100	249,736,152
Basic net earnings per share (in Won)	₩ (2,039)	212

(*1) The weighted average number of common shares outstanding in 2002 was 222,174,931 shares, however, it is changed to 249,736,152 shares reflecting the effect of increase of capital without consideration for the year 2003.

(b) Basic ordinary income per share

	In Millions	
	2003	2002
Net earnings (loss)	₩ (868,576,739,264)	113,003,462,879
Extraordinary gain	13,038,297,047	15,457,210,126
Extraordinary loss	(7,521,573,594)	(2,627,159,248)
Income tax related to extraordinary income	(20,851,674)	(3,810,525,111)
Ordinary income allocated to common stock	(874,072,611,043)	44,025,212,440
Weighted average number of common shares outstanding (in shares)	425,888,100	249,736,152
Basic ordinary income per share (in Won)	₩ (2,052)	176

Diluted earnings per shares and diluted ordinary income per share for the years ended December 31, 2003 and 2002 are calculated as follows:

(c) Diluted earnings per share

	In Millions	
	2003	2002
Net income (loss) allocated to common stock	₩ (868,576,739,264)	53,044,738,207
Preferred stock dividends	-	-
Diluted net income (loss)	(868,576,739,264)	53,044,738,207
Weighted average number of common shares before diluted (in shares)	425,888,100	249,736,152
Diluted shares(*)	-	166,359,680
Diluted weighted average number of common shares outstanding (in shares)	425,888,100	416,095,832
Diluted earnings per share (in Won)	₩ (2,039)	127

(*) Due to the net loss in 2003, there is no dilution effect, and therefore the number of diluted shares was not computed for 2003. Diluted shares in 2002 consist of convertible preferred stocks.

(d) Diluted ordinary income per share

	In Millions	
	2003	2002
Ordinary income allocated to common stock	₩ (874,072,611,043)	44,025,212,440
Preferred stock dividends	-	-
Diluted ordinary income	(874,072,611,043)	44,025,212,440
Weighted average number of common shares before diluted (in shares)	425,888,100	249,736,152
Diluted shares(*)	-	166,359,680
Diluted weighted average number of common shares outstanding (in shares)	425,888,100	416,095,832
Diluted ordinary income per share (in Won)	₩ (2,052)	106

(*) Due to the net loss in 2003, there is no dilution effect, and therefore the number of diluted shares was not computed for 2003. Diluted shares in 2002 consist of convertible preferred stocks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(e) Potential common share information as of December 31, 2003 is as follows:

	Face value (In Millions)	Exercise period	Number of common share to be issued upon conversion
Convertible preferred shares	₩ 130,000	(*)	26,000,000
Subordinated convertible debentures (No. 4)	100,000	From Mar. 7, 2001 to Nov. 6, 2009	10,000,000
Subordinated convertible Debentures (No. 5)	100,000	From Mar. 28, 2001 to Nov. 27, 2009	10,000,000
Stock options	-	From Mar. 26, 2003 to Aug. 29, 2009	1,145,150

(*) For 26 million shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock.

(26) Statements of Cash Flows

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent as of December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Cash on hand	₩ 1,620,908	1,128,532
Cash on hand in foreign currencies	260,614	218,010
Deposits in Won	1,568,913	1,308,425
Deposits in foreign currencies	1,387,443	1,637,918
Marketable securities	318,688	27,974
	₩ 5,156,566	4,129,755

Significant non-cash flow transactions for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Decrease in loans by charge-off	₩ 1,768,500	1,944,551
Decrease in allowance for loan losses by offsetting present value discounts	-	5,521
Gain/loss on available-for-sale securities (capital adjustment)	358,758	-
Domestic exchange settlement	1,433,976	2,791,543

(27) Significant Transactions Between the Bank and Subsidiaries

(a) Significant transactions made in the normal course of business with subsidiaries during the years ended December 31, 2003 and 2002 and related account balances as of December 31, 2003 and 2002 are summarized as follows:

	2003											Total
	KEBA	KEBOC	KEBIT	KEBLS	KEBSCS	KEB A.G	KEBD	KEB Ire	KEBFC	Trust	Others	
Assets:												
Due from banks in Won	₩ -	-	-	19,700	390,666	-	-	-	5,000	-	-	415,366
Due from banks in foreign currency	-	1,209	-	-	-	16,529	-	-	-	-	1,442	19,180
Loans in foreign currency	22,150	1,465	-	71,781	3,067	80,930	96,588	11,932	-	-	-	287,913
Others	-	-	-	111	2,570	226	-	2,529	-	18,125	-	23,561
Liabilities:												
Deposits in Won	-	-	26,291	-	13,650	-	-	-	4,014	-	-	43,955
Deposits in foreign currency	-	159	-	142	-	1,385	395	562	708	-	260	3,611
Borrowings in foreign currency	-	-	-	-	-	13,559	17,975	11,453	-	-	-	42,987
Others	-	-	221	2,450	4,332	446	-	1,813	60	128,094	-	137,416
Revenues:												
Interest income in Won	-	-	-	1,392	745	-	-	-	334	2,456	-	4,927
Interest income in foreign currency	87	34	-	1,231	-	1,592	1,564	749	43	-	-	5,300
Fees and commissions	-	-	-	-	39,086	-	-	-	513	10,115	-	49,714
Others	-	-	-	171	81	-	-	-	-	-	-	252
Expenses:												
Interest in Won currency	-	-	1,300	-	12,214	-	-	-	249	3,109	-	16,872
Interest in foreign currency	23	20	-	6	-	2,733	149	31	-	-	-	2,962
Commission charges	-	-	-	-	-	173	-	-	1,345	-	-	1,518
Others	-	-	-	-	87	-	-	-	-	-	-	87

KOREA EXCHANGE BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(b) Details of significant receivables and payables among subsidiaries as of December 31, 2003 are as follows:

In Millions					
Subsidiaries	Account	Amount	Counter party subsidiary	Account	Amount
KEBD	Call loan	₩ 6,950	KEBA	Call money	₩ 6,950
KEBD	Due from banks in foreign currencies	60	KEBD A.G.	Deposit in foreign currencies	60
KEBA	Due from banks in foreign currencies	11	KEBD A.G.	Deposit in foreign currencies	11
KEBD	Due from banks in foreign currencies	6,945	KEBA	Borrowings in foreign currencies	6,945
KEBIT	Other asset	1	Trust account	Other liabilities	1
KEBLS	Other asset	12	Trust account	Other liabilities	12
KEBIT	Deposits of insurance for retirement and severance benefits	216	Trust account	Deposit in foreign currencies	216
KEBIT	Deposits of insurance for retirement and severance benefits	239	Trust account	Deposit in foreign currencies	239
KEBCS	Deposits of insurance for retirement and severance benefits	4,796	Trust account	Deposit in foreign currencies	4,796
KEBFC	Deposits of insurance for retirement and severance benefits	283	Trust account	Deposit in foreign currencies	283
		₩ 19,513			₩ 19,513

(c) Details of significant transactions among subsidiaries for the year ended December 31, 2003 are as follows:

In Millions					
Subsidiaries	Account	Amount	Counter party subsidiary	Account	Amount
Trust account	Commission charges in Won	₩ 71	KEBFC	Fees and commissions in Won	₩ 71
Trust account	Commission charges in Won	1	KEBIT	Fees and commissions in Won	1
KEFCS	Interest expenses in foreign currencies	20	Trust account	Fees and commissions in Won	20
KEBD	Interest expenses in foreign currencies	29	KEBD A.G.	Interest income in foreign currencies	29
KEB IRE	Interest expenses in foreign currencies	455	KEBD A.G.	Interest income in foreign currencies	455
KEBA	Interest expenses in foreign currencies	12	KEBD	Interest income in foreign currencies	12
KEB IRE	Interest expenses in foreign currencies	47	KEBA	Interest income in foreign currencies	47
KEBD A.G.	Interest expenses in foreign currencies	306	KEB IRE	Interest income in foreign currencies	306
KEBA	Interest expenses in foreign currencies	1,140	KEBD A.G.	Interest income in foreign currencies	1,140
Trust account	Interest expenses in foreign currencies	157	KEBCS	Interest income in foreign currencies	157
Trust account	Interest expenses in foreign currencies	6	KEBIT	Interest income in foreign currencies	6
Trust account	Interest expenses in foreign currencies	13	KEBFC	Interest income in foreign currencies	13
Trust account	Interest expenses in foreign currencies	54	KEBLS	Interest income in foreign currencies	54
		₩ 2,311			₩ 2,311

(28) Added Value

The details of costs constituting value added expenses for the years ended December 31, 2003 and 2002 are as follows:

	In Millions	
	2003	2002
Salaries	₩ 368,820	337,014
Employee benefit	103,913	92,593
Provision for severance benefits	50,977	39,595
Depreciation	126,387	106,729
Amortization	9,599	8,214
Taxes and dues	27,886	31,482
Rent	39,461	33,470
	₩ 727,043	649,097

(29) Merger with Korea Exchange Bank Credit Service

In the Board of Directors' meeting held on November 28, 2003, the Bank has determined to merge with Korea Exchange Bank Credit Service Co., Ltd. (KEBCS) on February 28, 2004, in which the Bank has 68.8% of ownership.

With respect to this merger, the Bank will issue 0.533689 share of common stock of the Bank to the KEBCS shareholders who are included on the shareholders list as of January 1, 2004.

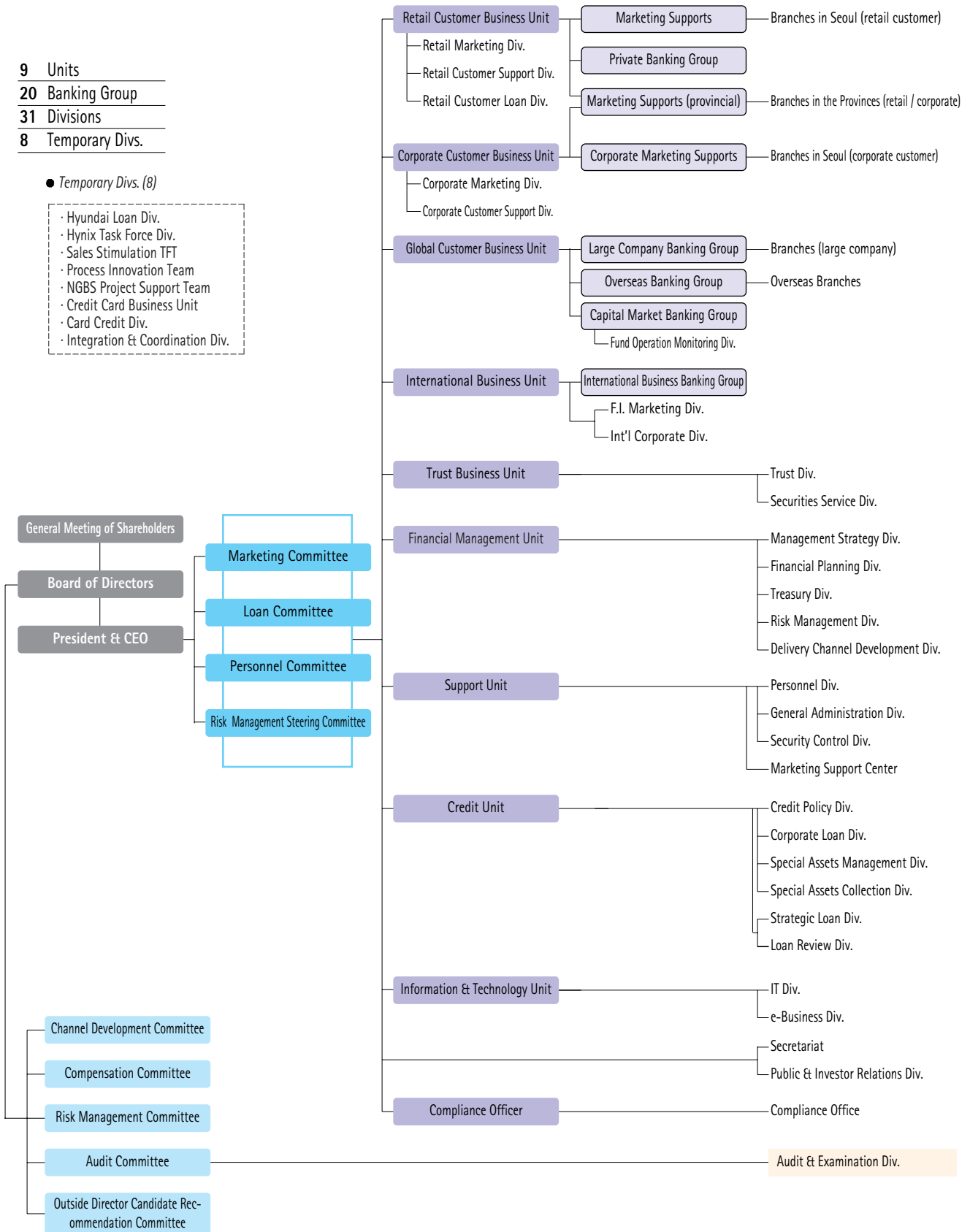
In terms of transfer of assets and liabilities, since this merger falls under the parent-subsiary type, the book value of KEBCS on the consolidated financial statements as of February 28, 2004, will be transferred to the Bank.

ORGANIZATION CHART (As of March 31, 2004)

- 9 Units
- 20 Banking Group
- 31 Divisions
- 8 Temporary Divs.

● Temporary Divs. (8)

- Hyundai Loan Div.
- Hynix Task Force Div.
- Sales Stimulation TFT
- Process Innovation Team
- NGBS Project Support Team
- Credit Card Business Unit
- Card Credit Div.
- Integration & Coordination Div.



BOARD OF DIRECTORS

Robert E. Fallon
Chairman, President & CEO

Standing Director

Richard F. Wacker
Deputy President & COO

Outside Directors

Ellis Short
Vice Chairman, Lone Star

Steven Lee
*Country Manager,
Lone Star Advisors Korea*

Paul Yoo
*President,
Lone Star Advisors Korea*

Michael D. Thomson
*General Counsel-Asia,
Lone Star*

Klaus M. Patig
*Member of the BOD,
Commerzbank AG*

Lee, Soo-gil
*Fomer General Manager of
Research Dept. at BOK*

Yoo, Hee-sun
*Fomer Managing Director of
Risk Management Div. at KEXIM*

MANAGING DIRECTORS

Choi, Hong-myung
Senior Managing Director

Jang, Myoung-kee
Senior Managing Director

Hyun, Yong-goo
Managing Director

Min, Hyung-sik
Managing Director

Jeon, Yong-joon
Managing Director

Kim, Hyoung-min
Managing Director

Lee, Seung-yon
Managing Director

Christopher Yongsuhn Shin
Managing Director

GLOBAL DIRECTORY

(As of March 31, 2004)

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F.I. Marketing Division

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Senior Manager : Kim, Sang-sup
Tel : (82-2) 729-8538

Europe

Senior Manager : Kim, Kyoo-sung
Tel : (82-2) 729-0465

Middle East & Africa

Senior Manager : Jung, Chang-goo
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Credit Risk Management

Europe
Manager : Kim, Sang-chol
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Asia, Middle East, Oceania, Korea

Senior Manager : Lee, In
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Africa, North & South America

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International Operation Center

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Telex : K23141,K24244

Letter of Credit Issuance

Senior Manager : Byun, Kyoung-ah
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Letter of Credit Notification

Manager : Shin, Seong-hi
Tel : (82-2) 729-8476

Reconciliation

Manager : Kim, Jung-suk
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Remittance After Service System

Senior Manager : Baik, Yun-ju
Tel : (82-2) 729-8370

Inward Remittance

Senior Manager : Noh, Young-og
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SWIFT Administration

Deputy General Manager : Kim, Beom-sang
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International Corporate Division

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American Region

Deputy General Manager : Kim, Dae-hwan
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UK & Asian Region

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Europe I

Marketing Manager : Cho, Jin-je
Tel : (82-2) 729-0255

Europe II

Marketing Manager : Cho, Yong-sung
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FDI Consulting Desk

Assistant Manager : Min, Kyung-soo
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Head of Debt Capital Market

Cho, In-gyun
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Corporate Finance

Chief Manager : Park, Hyung-kook
Tel : (82-2) 729-0556

Project Finance

Chief Manager : Han, Han-sang
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Structured Finance

Chief Manager : Lee, Hoa-sun
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Head of M&A & Real Estate Team

Moon, Byung-sung
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M&A

Chief Manager : Lee, Sung-ho
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Real Estate

Chief Manager : Cho, Yong-woo
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Asset Management

Senior Specialist : Kang, Chul-soo
Tel : (82-2) 729-0031

Financial Products & Engineering

Head of Financial Products & Engineering Team :
Kim, Hee-dong
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Head of Derivatives Desk : Yoo, Jeon-moo
Tel : (82-2) 729-8346
Head of Corporate Sales : Chung, Dong-choon
Tel : (82-2) 729-8781

FX Dealing

Head of FX Dealing Team : Yang, Jin-young
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Chief Dealer : Ha, Jong-soo
Tel : (82-2) 729-8770
Chief Dealer : Lee, Sang-bae
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Securities Dealing

Head of Securities Investment & Trading Team :
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Chief Dealer : Kim, Byung-sik
Tel : (82-2) 729-0197
Chief Dealer : Kim, Eui-keon
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TREASURY DIVISION

General Manager : Lee, Hyung-soo
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Medium & Long-Term Financing

Senior Manager : Ki, Sung-keun
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Assistant Manager : Kim, Jee-soo
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(As of March 31, 2004)

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Fax: 852-2311-0390

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Fax : 850-4649 (Domestic)

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Korea Exchange Bank of Canada (H.O.)

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Fax : 1-416-222-5822
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Managing Director : Park, Sam-lyung
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Korea Exchange Bank (Deutschland) A.G.

Managing Director : Song, Jae-yong
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P.T. Korea Exchange Bank Danamon

President: Kang, In-koo
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KEB Ireland Ltd.

Managing Director : Song, Min-seop
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keb@eircom.net

Banco KEB do Brazil S.A.

President : Hwang, Sun-gap
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Tel : 55-11-3171-1122
Fax : 55-11-3171-1100
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Affiliate

Cairo Far East Bank S.A.E.

104 El Nil ST., Dokki, Cairo, Egypt
Tel : 202-336-2516
Fax : 202-748-3818
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DOMESTIC NETWORK

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Subsidiaries

KEB Capital Inc.

President : Yang, Bong-hoi
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Fax : (82-2) 756-5269

KEB Commerz Investment Trust Management Co.,Ltd.

President : Yoon, Jin-hoi
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Yeoido-Dong, Youngdungpo-gu,Seoul
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KEB Futures Co.,Ltd.

President : Song, Yo-sun
23-7 Youido-dong, Youngdungpo-gu,
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Fax : (82-2) 3770-4147

KEB Investors Services Company

President : Ahn, Joong-suk
181, Euljiro 2-ga, Jung-gu,
Seoul 100-793, Korea
Tel : (82-2) 729-8950
Fax : (82-2) 777-5311

Meta Payment & Trust Co.,Ltd.

President : Baik, Sung-ki
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Seoul 100-793, Korea
Tel : (82-2) 729-8744
Fax : (82-2) 774-8252

CORPORATE DATA

(as of December 31, 2003)

Established	January 30, 1967
Paid-In Capital	3,194,625 Million Won
Common Stock Issued and Outstanding	612,924,931
Stock Exchange Listing	Korea Stock Exchange
Number of Stockholders	83,568
Number of Employees	5,359



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