

KEB
Driving Ahead
2004 ANNUAL REPORT

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KEB

Driving Ahead



NOT BIGGEST, BUT BEST... SMARTER, FASTER, MORE EFFICIENT

Profile

Established in 1967 as a government-owned bank specializing in foreign exchange and international trade finance, Korea Exchange Bank (KEB) has earned a dominant position in these fields. KEB was privatized in 1989, and has since continued to solidify its standing as one of the country's premier commercial banks with a demonstrated track record as Korea's leading international bank.

Like other domestic banks, KEB was confronted with the dual threats posed by the collapse of large corporations following the Asian financial crisis as well the bursting of the consumer credit card bubble.

Unlike many other domestic banks, KEB survived without government rescue or bailout using public money. With the new capital from our major shareholder, Lone Star Funds, and a new spirit, the men and women of KEB have managed a successful turnaround of your company.

The platform for quality profit growth was built in 2004. KEB completed its reorganization and restructuring, and we successfully reduced bad assets at both the bank and the credit card business. In the process we reported record earnings for 2004.

In 2005, with the problems of the past behind us, KEB is driving ahead once again. Building on our unique franchise strengths and our emphasis on the quality of our business, KEB's focus is clear...to be Korea's premier bank.

Not biggest, but best...



Financial Highlights

(In Billions of Korean Won, %)

	FY2004	FY2003	YoY
Balance Sheet			
Total Asset	67,167.7	68,048.9	-1.3%
Total Credit	41,529.0	41,677.9	-0.4%
Corporate	26,598.1	29,922.6	-11.1%
Household	12,156.4	11,755.3	+3.4%
Credit Card	2,774.5	-	F*
Substandard & Below Ratio	1.82%	2.59%	-0.77%p
Delinquency Ratio	1.78%	1.35%	+0.43%p
Total Deposit	43,765.6	47,695.8	-8.2%
Total Shareholders' Equity	2,929.4	2,951.9	-0.8%
Paid- in Capital	3,224.5	3,194.6	+0.9%
BIS Ratio	9.47%	9.32%	+0.15%p
Income Statement			
Net Interest Margin	2.41%	2.14%	+0.27%p
Income Before Provision	1,445.1	673.6	+114.5%
Net Income	522.1	-213.8	F*
Return on Asset	0.81%	-0.36%	+1.17%p
Return on Equity	19.43%	-9.96%	+29.39%p

* Favorable

Message from the Chairman

Distinguished Shareholders,

Last year at this time, Korea Exchange Bank was a bank in crisis, threatened by the failure of its credit card subsidiary and confronted with management challenges to restore earnings and capital strength. Now, we can look back on 2004 with pride. In the face of significant challenges, we persevered and delivered the best earnings performance in KEB's history.

I characterize 2004 as the restructuring and clean-up year for KEB. Our solid new management team has reorganized the bank for go-to-market clarity and operational efficiency. We completed major restructurings in both the credit card business and bank to fix a somewhat bloated and imbalanced staffing structure. KEB took aggressive initiatives to clean up the re-aged credit card receivables, and we successfully reduced our re-aged portfolio from KRW1.5 trillion at the time of merger down to KRW238 billion at the end of 2004. We also divested non-core subsidiaries to bolster our capital base and focus our management efforts.

I also like to characterize the year 2004 as the foundation for operational improvement for this year. Despite the major organizational changes that took place in 2004, KEB reported annual profit of KRW522 billion, which was the highest level in our history. KEB continues to maintain an unchallenged lead in the high fee income-generating area of foreign exchange and trade finance business, and we are further expanding our revenue sources to include new products such as bancassurance, custody investment trust and others. With our credit card business now expected to be profitable, we have confidence in the operating outlook for the bank.

I expect 2005 to be another strong year for KEB in terms of profit and asset quality. KEB management's priority strategy is NOT the aggressive bulking-up of the bank's size, but efficiency improvement and profitability enhancement. We aim to be a top-tier bank in terms of profitability and efficiency.

Lastly, at the start of 2005 I moved up to become Executive Chairman of KEB, and former COO, Mr. Richard Wacker, has become the new CEO. Now that we achieved so much in 2004, I feel it is time to be bold and to exercise some change that will

allow us to meet all of our objectives inside the company and in our industry. The Korean market is not accustomed to having an active Chairman and an active CEO, but that's what Mr. Wacker and I have decided to do because we believe it will strengthen KEB further.

Mr. Wacker and I have worked closely together as partners over the past year, and that partnership will continue. We are excited for KEB and grateful that we have such a team of qualified, competent professionals to lead. I know you will support Mr. Wacker as CEO as you have supported me in the past. And as your Chairman, I look forward to having more visibility with you, and more opportunity to engage with our clients.



Robert E. Fallon
Chairman



Message from the CEO

Dear Shareholders,

During 2004 we made tremendous progress to ensure the long-term success of KEB. We restored the bank to profitability, reversing years of losses, and delivered the highest earnings in our history—KRW522 billion. But even more importantly, we laid the foundation for sustainable profit growth by aggressively attacking our problems head-on. Today, KEB's outlook is significantly brighter than just 1 year ago.

KEB's asset quality issues have been largely resolved, with substandard & below loans at the bank level totaling just 1.49% versus 2.59% at the end of 2003. We achieved this improvement through aggressive and disciplined management of our exposures as the economy has slowly strengthened.

The asset quality and operational issues of KEB's card business have also been largely resolved, and we expect KEB Card Bank to return to profitability in early 2005. It will become a valuable complement to our Retail Bank and Global Corporate Bank in diversifying KEB's growth and income sources.

Moreover, through necessary but painful reorganization and restructuring processes, we have addressed many of the long-standing issues with our cost structure and staffing. We have created a contemporary business organization through which our branch and business teams can more effectively bring all of KEB's capabilities to our customers. We expanded our dedicated product teams to improve the competitiveness of our offerings. Our newly "centralized operation" organizations of Credit Management, Service Delivery, and IT Operations are focused on improving the quality and consistency of our execution, while driving continuously higher levels of productivity.

Through all of these changes, our employees continued to reinforce KEB's reputation for excellence in our key markets. We improved our customer satisfaction ranking (as surveyed by the Korea Productivity Center) to third best among the 11 largest banks operating in Korea. We were again named Korea's "Best Foreign Exchange Bank" and "Best Trade Finance Bank" by widely respected international publications. And, of course, we again won the "Deal of the Year" award from IFR for our investment banking capabilities.

Though we still must do more to improve our operations, our capital base has begun to grow, rising to 9.47% from 9.32% a year earlier. Through the dedication and hard work of our staff and the support of our shareholders, KEB has emerged from great difficulty to become a sound, transparent, and profitable bank. We achieved a unified investment-grade credit rating from major international rating agencies.

We believe that KEB can translate these business improvements into continued profitability improvements. Our targets for 2005 are to exceed KRW700 billion in net income and achieve returns of over 1% on assets and 20% on equity.

Our markets are very competitive, and the road ahead has many obstacles. But the men and women of KEB are proud team players and tough competitors. It is a privilege for me to be their and your CEO, and I am confident we will meet these challenges and your expectations in the year ahead. I wish happiness and prosperity for you and your families.



Richard F. Wacker
President & CEO



Features

DRIVING AHEAD AS KOREA'S PREMIER BANK

With our new management, reorganization, and go-to-market clarity, KEB is poised to drive ahead as Korea's premier bank. Our position as the top trade finance and F/X bank remains unchallenged with unmatched global networks. Our healthy and competitive retail banking business expands its network, products, & services. Our credit card business joins as a valuable component of KEB's diverse services to our customers. On top of our business role supporting the economic growth of our customers, KEB is enhancing its role as "good corporate citizen" with the creation of the KEB Foundation to strengthen the role of our company and staff in supporting the communities where we do business.



➤ Feature 1– New Management

Aggressive and Consistent

In 2004, we directed our efforts toward establishing a solid platform for KEB to drive ahead.

Our new management team, representing an excellent mix of global experience, top local-market talent and proven KEB leadership, has taken aggressive and consistent measures to reverse the deterioration in the bank's competitiveness and profitability.

The strategic goal of management is to transform KEB not into a biggest bank, but into a smarter, faster, and more efficient bank. We have a focus on quality and profitability, not simply size. Our efforts are targeted on market segments where KEB can be the best competitor and where we have demonstrated franchise strengths.

We go to market as three integrated businesses – Global Corporate Bank, Retail Bank, and Card Bank.

We simplified our organization around those segments, we are investing staff and resources in better products & services for those segments, and we are seeing the results.

We centralized our operation functions---Credit, Service Delivery, and Information Technology---for better execution, control and productivity.

We restructured our workforce to correct imbalances and excesses, and we promoted the best performers into key jobs.

We restructured our portfolio to reduce bad assets and resolve once and for all our legacy asset quality issues in Large Corporate and Credit Card.

We invested in new banking and card IT systems to give our staff the tools they need to compete, and to give our customers the reliability they deserve.

The outcome of these efforts was KEB's net profit of KRW522 billion won for 2004, the highest ever in our history. Today KEB is driving ahead once again to be Korea's premier bank.

Global Standard KEB ○



○ New Management

Culture of Speed and Flexibility ○



➤ Feature 2- Global Corporate Banking

Keeping One Step Ahead

Playing to our franchise strengths in the areas of trade finance and foreign exchange has always been part of KEB's competitive edge in corporate banking. Market shares of 46% in F/X transactions, 25% in export trade volume and 27% in import trade volume all demonstrate our unrivaled leadership in the industry and substantiate our reputation as Korea's "Trade Finance Experts."

KEB's overseas branch network is another component crucial to maintaining our lead in corporate banking. Having the most extensive overseas branch network among all Korean banks gives us unique advantages and unmatched capability to help domestic corporations respond to opportunities in newly emerging markets like China and Southeast Asia.

Last year, we once again proved our leadership in foreign exchange business by becoming the Settlement Member and Korean Won Liquidity Provider for CLS Bank International, enabling KEB to extend third-party continuous linked settlement services for other Korean banks.

Keeping one step ahead of the competition is what earns KEB industry accolades and media recognition. In 2004, *Global Finance* chose us as "Best Trade Finance Bank in Korea" for the fifth consecutive year and "Best Foreign Exchange Bank in Korea" for the fourth year running. *Asiamoney* also voted KEB "Best Trade Finance Bank in Korea" and "Best Foreign Exchange Bank in Korea." Along with these citations, KEB was bestowed "Deal of the Year" honors in the Investment Banking category by *IFR Asia*, the third such distinction in as many years.

At home, KEB received the "Prime Minister's Award" for meritorious service in inducing foreign direct investment, and was also picked as the sole handler of asset management by Korea's Ministry of Labor, thus proving ourselves the best custody bank in Korea.



Best Trade Finance Bank in Korea

Best Foreign Exchange Bank in Korea

Settlement Member of CLS (Continuous Linked Settlement) Bank

➤ Feature 3 - Retail Banking & Card Banking

Engaging the Customer

We made sustained efforts in 2004 to re-establish and upgrade our longstanding relationship with VIP clients. We increased the number of Private Banking (PB) branches and Wealth Management (WM) Centers, and opening the new “KEB Private Bank” in Seoul’s affluent Gangnam district. Our global experience and recognized superiority in foreign exchange also enabled us to target a high net-worth clientele with Global Wealth Management products and services, including foreign currency funds and offshore investments, as well as a range of domestic instruments.

To provide highly differentiated products and services, we established the Retail Product Development Division last year to facilitate the rollout of new investment trust, loan, F/X and derivative-type products aimed at our retail customer base.

KEB has engaged in a range of new business activities, such as bancassurance, sales of investment company products, and sales of long-term mortgages, as we seek to respond more effectively to growing individual needs for diversified financial products and services. We outperformed our larger rivals in these areas, ranking second in the promising bancassurance market and in sales of long-term mortgages provided by Korea Housing Finance Corp.

With the addition of the KEB Card Bank, we now offer an expanded range of our card-related products & services to our valuable customers. As the first to introduce credit cards in Korea, KEB has always been at the forefront in meeting different customer needs. Now KEB is enhancing services to our VIP customers with a wealth of benefits and privileges, and we have the largest Platinum card portfolio in Korea to prove it.



○ Global Wealth Management Service

Bancassurance ○

Platinum Credit Card ○

➤ Feature 4 - Corporate Citizenship

Reaching out to the Community

Of all KEB's charitable activities during 2004, none compares with our response to the devastating tsunami that struck much of Southeast Asia. Local subsidiary P.T. Danamon (Indonesia) served as the base of KEB's aid and assistance operations, which included channeling donations from the bank, management and staff to the government of Indonesia. Employees of our subsidiary were also dispatched to help relief agencies for six months. To help foreign workers in Korea from the 11 countries hit by the tsunami, KEB eliminated its remittance commissions for remitting wages and relief funds to their home countries.

KEB added links to several charitable organizations in our Internet homepage, making it easier for "netizens" to donate to those worthy causes. As a result, contributions we solicited from the public rose 14-fold over the previous year, for which KEB received a special commendation from the Korean Salvation Army. In addition, senior management officials paid visits to the Holt Foundation orphanage, ROK Army installations, and other venues during the year.

We are currently in the process of establishing the KEB Foundation, which will henceforth lead the bank's charitable and community activities at home and abroad. The KEB Foundation will receive regular funding from the bank and contributions from our staff and clients, channeling these donations to worthy causes, organizing employee volunteer programs, and carrying out our role as good corporate citizen in the communities where we do business.



○ Pride in KEB

Charitable and Community Activities ○

○ KEB Foundation

Review of Operations

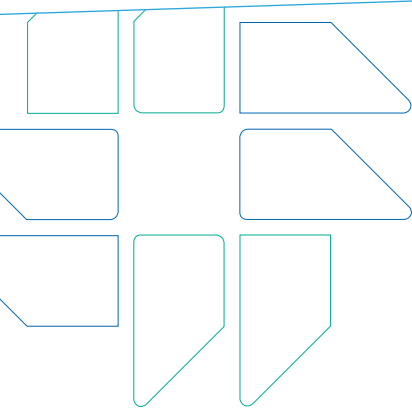
“SUCCESS” – FEATURING A CAST OF THOUSANDS

No individual, department or team takes sole credit for KEB’s record-setting results of 2004, as it truly was a group effort.

Whether it was stabilizing our card operations and strengthening our credit and risk management, or improving internal controls, cutting costs and enhancing efficiencies, or the efforts of our branch staff to deliver high quality service to our customers through all the changes, every KEB employee played his or her own vital role to build a foundation for a new bank and create a platform for driving ahead.







➤ Reorganization

In early 2004, KEB carried out a thoroughgoing reorganization of the bank's operational structure. Driving this major undertaking was the need to enhance our competitive strengths.

The KEB of today is a vastly different bank than we were decades ago. Similarly, the markets in which we compete have also changed. Deregulation and more robust capital markets have changed the nature of banking in Korea. Whereas, there were 33 domestic banks in 1997, there are now less than one third of that number. Moreover, customers have become more sophisticated in the products they seek and more discriminating in their choice of banks. Innovation and expansion by other Korean banks, and recent market entry by major foreign banks, further underscore why KEB must be prepared to respond to increasing competition.

Our new organization has improved our competitive strengths by creating three main businesses or client channels: the Global Corporate Bank, the Retail Bank, and the Credit Card Bank. They are the three main profit centers that support our bank. Each of the three businesses has responsibility for clients and products related to their businesses. Business managers now have more responsibility for decisions related to their business, and they will have more say in determining where to invest resources and how to reallocate resources.

These three client businesses are supported by three main operational groups: the Credit Management Group, the Service Delivery Group, and the Information Technology Group. These three groups are expertise and cost centers that are tasked with efficiently delivering credit, operational, or IT support to allow the smooth functioning of the three main banking businesses. Their role is vital to ensure our products and services are designed to meet our clients' needs flexibly and efficiently on a timely basis.

In addition, our support functions -- such as Financial Management, Human Resources, Corporate Communications, and Risk Management -- ensure the integrity of our bank and facilitate the smooth functioning of the three main banking businesses and the three main operational groups.

Through this reorganization, KEB is moving ahead with more "Go-to-Market" clarity and operational efficiency in promoting business than ever before.

➤ Global Corporate Bank

Overview

Global Corporate Bank, one of KEB's main business groups, consists of five key customer channels & product centers: Corporate Group, World Corporate Group, Global Products Department, Global Markets Department, and International Department. Corporate Group is dedicated to a customer group of small & medium-sized enterprises (SMEs), the largest beneficiary of KEB's lending activities. World Corporate Group is dedicated to large corporate customers, investment banking, and project & structing financing. Global Products Department handles the development and management of products and services relating to foreign exchange, trade finance, custody, and foreign currencies settlements. Global Markets Department handles foreign exchange trading, securities trading, and derivative financial products. International Department manages the business performed by KEB's overseas network.

SME Business

In 2004, Korean SMEs' business activities were lackluster overall due to the sluggish domestic economy, though brisk performances were achieved in the export sector. As export/import-oriented SMEs have long been the principal component of KEB's client base, the bank managed to post good results in business operation and asset quality in the SME sector in spite of challenging macroeconomic conditions.

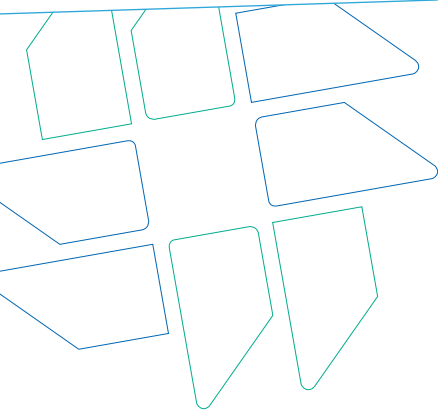
A total of KRW12.0 trillion, or 45.1% of the bank's Korean Won loans are to SMEs, down 4.6% from KRW12.5 trillion at year-end 2003.

Despite the slight decrease in loan amount, KEB successfully improved SME loan quality through targeted execution of loans to high-quality SMEs under the "Star Loan" program, which tallied KRW 2.0 trillion for the year, while de-marketing higher risk credits.



LEE, JOO HEE
SENIOR MANAGER & LOAN OFFICER
CORPORATE LOAN DIVISION

LEE, HEUY JOONG
HEAD OF CORPORATE SECTION
STAR TOWER BRANCH



Customer diversification by industry type and tight credit controls enabled us to improve asset quality for the year. In SME loans, we've reduced our delinquency rates from 1.68% at the end of 2003 to 1.40% at the end of 2004.

Large Corporate Business

The Large Corporate customer group accounted for 8.6% of Korean Won loans in 2004, down from 10.6% in 2003. We extended a total of KRW2.3 trillion to large corporate clients last year, reflecting a 22.0% reduction from KRW2.9 trillion in 2003. This decline is attributed to lower cash borrowing needs from healthy large corporates, efforts to mitigate concentration of loans to individual large corporate borrowers, as well as completing successful workout programs with certain customers.

Korea's large corporate entities remain an important component of our overall business strategies. As the legacy burden of non-performing loans to Korean conglomerates dating back to the Asian financial crisis in 1997 is now fully behind us, KEB is able to pursue a more balanced and profit-oriented customer-focused strategy toward this segment. We now offer a full range of competitive services, ranging from our world class CMS+ (cash management system) to the other fee-based products & services described below.

Investment Banking

Since pioneering the investment banking sector in Korea nearly 30 years ago, KEB has been at the forefront of credit & structured loans, and mergers & acquisitions. We have won industry accolades for our successes in these areas with recognized franchise expertise and experience, diversified product offerings, and the unmatched quality of service provided by our high-caliber team of investment bankers.

Credit & Structured Finance

Due to the aforementioned advantages, KEB was chosen by *International Financial Review (IFR) Asia* for 2004 "Deal of the Year" honors, the third such citation for the bank in as many years. The deal involved arranging a USD 140 million syndicated loan for the PT Indika Group of Indonesia, for which KEB played lead arranger of a consortium of Korean lenders including other commercial banks.



KOO, KIL MO
FX DEALING SPECIALIST
FOREIGN EXCHANGE TRADING TEAM

UM, JU HEE
FUND OPERATION SPECIALIST
FUND OPERATION MONITORING DIVISION

SUH, TAE SUK
ANTI-COUNTERFEIT SPECIALIST
FINANCIAL INSTITUTIONS DIV.

M&A

KEB was Korea's top arranger of mergers & acquisitions (M&A) in 2004, handling three M&A deals worth USD 407.6 million. This amount represents roughly 26% of the entire market of such deals arranged by domestic commercial banks during 2004. Though the M&A market in Korea remains relatively sluggish, we continue to maintain our skills, expertise and deal-sourcing efforts while fostering long-term client relationships for the future.

F/X & Trade Finance

With the most extensive global presence among Korean banks as well as a continuous rollout of strategically targeted F/X products and promotional campaigns throughout the year, KEB retained its unrivalled lead in the areas of foreign exchange and trade finance in 2004.

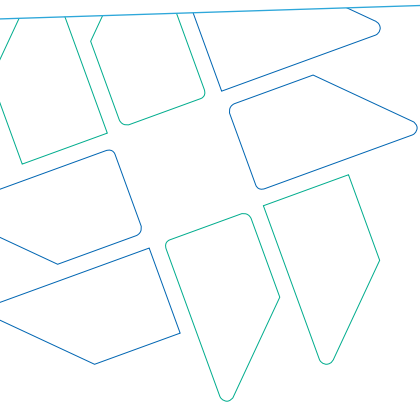
The bank handled 46% of all F/X transactions conducted by eight largest Korean commercial banks last year, more than four times larger than the share held by our nearest competitor in the increasingly competitive F/X field. We also succeeded in boosting export and import transaction volumes, lifting our industry-leading market shares to over 25%.

Attesting to our solid market leadership in foreign exchange and trade finance, KEB was awarded "Best Foreign Exchange Bank" and "Best Trade Finance Bank" in Korea for the 4th and 5th consecutive year in 2004 respectively by *Global Finance*. We were also awarded Korea's "Best Foreign Exchange Bank" and "Best Trade Finance Bank in Korea" by *Asiamoney* in 2004.

Custody & Fund Administration

In 2004, KEB was the first custodian bank in Korea ever to introduce a securities lending program on behalf of our client with assets under custody as a new fee-based business, accounting for more than half of the market in transactions with domestic borrowers. Along with new product innovations, KEB continues to play a leading role as service provider for major institutional investors. In this area, we were bestowed an award from the Korean Ministry of Health & Welfare for our contributions to the National Pension Corporation's asset management operations.

KEB was also picked as the sole handler of asset management by the Korean Ministry of Labor, thus furthering our stature as the best custody bank in Korea.



Foreign-Invested Enterprises

KEB has distinguished itself as the first choice for many foreign-invested enterprises (FIEs) operating in Korea, leveraging our leading position as Korea's foremost FX & trading finance handler, as well as our advanced e-banking platform that includes the popular "CMS Plus" online Credit Management Service.

KEB succeeded in attracting an additional 423 FIEs to the bank in 2004, bringing the total from 3,697 clients at year-end 2003 to 4,120 at year-end 2004. Official notification of Foreign Direct Investment through KEB represented 36% of all cases nationwide, the highest share among all Korean banks.

CLS (Continuous Linked Settlement)

In December 2004, KEB once again proved our expertise in foreign exchange business by becoming the Settlement Member and Korean Won Liquidity Provider for CLS Bank International, enabling KEB to extend continuous linked settlement services for other Korean and foreign banks.

Continuously Linked Settlement is designed to eliminate settlement risk derived from F/X transactions through multilateral netting payment scheme. It is newly developed settlement system involving 310 financial institutions around the world who act as Settlement Members or Third Parties.

Overseas Operations

Spanning 21 countries across the globe and totaling 28 branches and offices, Korea Exchange Bank's overseas operations are the most extensive of any Korean bank. Our broad global network has a clear focus - to support our leadership in trade finance and remittance businesses, and to support our customers as their business moves overseas. We are positioned in the markets of Korea's top trading partners. We establish or close outlets according to changing economic and market circumstances to ensure us the presence and reach that will enable KEB to continue winning.

As of the end of 2004, KEB's overseas operations included 17 branches, 9 subsidiaries and 2 representative offices. Last year, the bank assigned four regional leaders, one each in the Americas, Europe, China and Southeast Asia, in an effort to induce synergy effects from our operations in those key regions through more effective cooperation and information sharing among branches in each region.

We continued to restructure underperforming branches and subsidiaries, while establishing a presence in dynamic new markets around the globe. KEB closed down or sold branches in the United States, and created NY FinCo, LA FinCo and USA Int'l Co. to take over much of the business previously handled by those branches. Among our efforts to improve capital usage and sharpen business focus, KEB sold Pacific Union Bank (PUB), our former subsidiary in the United State. The sale of PUB contributed KRW181 billion in one-time extraordinary income to our bottom line and strengthened our capital base. Profit-based restructuring also led to the closing of our subsidiary in Ireland.

Liaison offices were opened in Shenzhen, China and Moscow, Russia as the first step toward establishment of branch offices in those high-growth markets, and we set up a branch in Arbil, Iraq for early positioning in that country.

➤ Retail Bank

The Korean retail banking market in 2004 continued to prove a relatively difficult business 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.

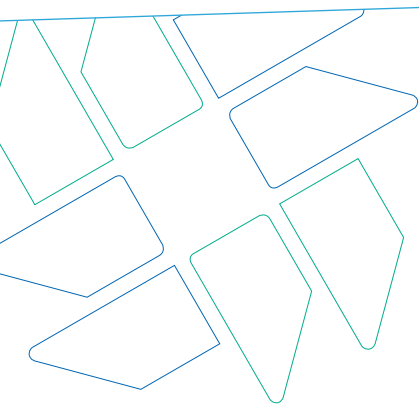
Deposits

Deposit as of the end of 2004 registered a 9.3% YoY decline, slipping from KRW42.5 trillion to KRW38.5 trillion. In terms of broad categories of deposit, deposits in Korean Won fell by KRW3.0 trillion and foreign currency-denominated deposits dropped by KRW2.0 trillion, while certificates of deposit rose by KRW1.1 trillion. The decrease of Korean Won deposits was mainly attributable to falling interest rates which caused a shift from bank deposits to beneficiary certificates, while the decrease of foreign currency denominated deposits was attributable to Korean Won appreciation.



OH, JUNG SUN
PRIVATE BANKER
APGUJEONGDONG BRANCH

JEONG, YEON HO
PRIVATE BANKER
Wealth Management Center , Head Office



KEB's loan to deposit ratio was still a healthy 91%, which allows KEB to manage deposit pricing strategically, avoiding general increases in the cost of deposits while allowing specific actions to retain important major customers.

Household Lending

Household loans stood at KRW12.1 trillion at the end of 2004, or 45.9% of the bank's Korean Won loans, an increase of 3.5% YoY over KRW11.7 trillion in 2003. Household loans were composed of 68% housing-related loans and 32% general purpose consumer loans.

During the year, KEB intensified and expanded its focus on household loan customers with better credit ratings, emphasizing quality over quantity.

Private Banking

In the three years since its launch, KEB's Private Banking (PB) operations have become the primary focus of the retail banking business that center around differentiating and targeting specific customer segments.

KEB meets the needs of Korea's increasingly affluent banking customers with personalized expertise and consulting in a wide range of financial and investment-related fields. Along with the highest-caliber human resources, we offer diversified, packaged product & service solutions available nowhere else. These range from traditional retail banking and loan services to securities, insurance, real property, estate management, tax, health and legal consultation.

Last year we increased the number of Wealth Management Centers (WMCs) from three at the close of 2003 to seven at the end of 2004, with a total of 12 WMCs nationwide envisioned by end of 2005. WMCs help us to concentrate our resources by drawing together the advantages of our global network and F/X know-how in a centralized platform for global wealth management. We also added five new PB Branches catering to our VIP Customer segment (KRW100 million or more in deposits), bringing the total of these facilities to 65, and we plan to increase that figure further to 70 by the end of 2005.

Bancassurance

Since introducing bancassurance products in 2003, this area has become one of the key contributors to KEB's non-interest income. We ranked second in the industry for bancassurance sales in 2004, netting KRW26 billion in fee income for the year. The bank expects an even bigger contribution in time as the government further deregulates which types of insurance products banks can handle.

➤ Card Bank

The merger between KEB and our former credit card subsidiary was effective as of February 28, 2004. This merger completed strategic initiatives to rescue KEB Credit Services, and more fully integrate the card business into that of the bank. It has enabled rehabilitation of the card business through closer integration with various operations of KEB, such as treasury, investment technology, credit assessment, and marketing through our branch network.

KEB's efforts to resolve the business issues in the shortest possible timeframe have been successful. Reaged delinquent accounts in the card sector amounting to KRW1.7 trillion at the end of 2003, before the merger, have been drastically reduced to KRW0.2 trillion as of the end of 2004 through active collection activities and aggressive write-offs of bad card assets.

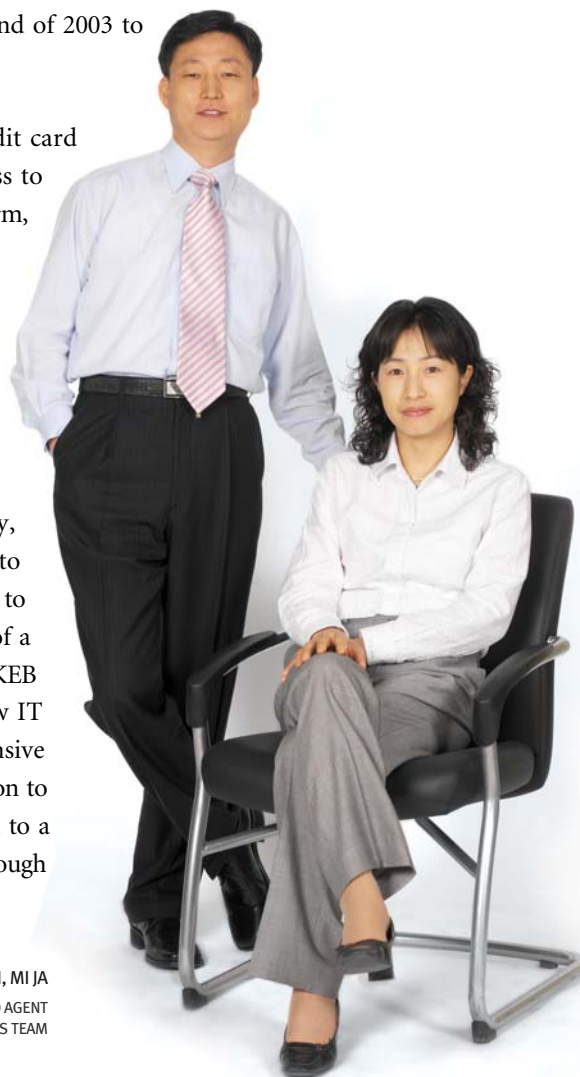
Restructuring of other high risk accounts resulted in a reduction of "normal" card assets from KRW4.0 trillion at the end of 2003 to KRW2.6 trillion at the end of 2004.

KEB has succeeded in addressing massive bad credit card exposures in 2004, and we expect the card business to become a profitable third leg of our business platform, along with retail and corporate business.

➤ Information Technology (IT)

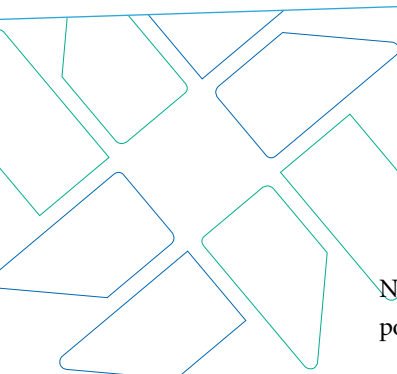
Converting to New Generation Banking System (NGBS)

In Korea's competitive financial services industry, success or failure hinges ultimately on the ability to provide fast and diverse services to customers. In order to ensure the highest customer satisfaction by means of a powerful IT infrastructure backing up those services, KEB has devoted significant resources to building a new IT infrastructure for the future of the bank. Our intensive efforts finally paid results with the successful conversion to NGBS as of February 2005. This followed conversion to a new IT system in the card sector in October 2004. Through



LEE, TAI HOON
CARD PRODUCT SPECIALIST
CARD MARKETING TEAM

KWON, MI JA
"BEST" PLATINUM CARD AGENT
CARD SALES TEAM



NGBS, KEB enhances convenience, efficiency and flexibility in providing services for today's corporate, retail and card customers.

e-Business

e-Banking continues to expand through growth in the Internet, ATMs, telephones and mobile phones. KEB's e-Banking platforms take advantage of the latest breakthroughs in the IT sector to offer our customers the most advanced, convenient and timesaving products and services available. e-Banking, which enjoyed relatively limited in customer penetration only a few years ago, has seen exponential growth in terms of users, channels, transaction volume, product/service range and fees. In 2004, KEB recorded a monthly average of 8.5 million account transfer transactions through e-Banking, or no less than 41.5% of total account transfer transactions. We aim to boost these figures to 9.0 million and 45% by the end of 2005.

Given KEB's industry-leading brand value in foreign exchange business, it is only natural that we're also leading the way in the rollout of FX-related products and services that customers can access over the Internet. These highly specialized new e-Business solutions include real-time account transfers in foreign currency, foreign currency inter-bank settlement service on the Internet, multi-currency non-deliverable spot, Web-based real-time foreign currency payment/settlement, e-Payment and e-Guarantee service for cross-border B2B transactions, and others. Our patented FX Club service launched in 2000 and our Internet Cyber Exchange service initiated in 2002 have not only earned us growing fee commission income, but also the praise of customers and recognition from the media.

To provide faster, more convenient access to our services over the Internet, we vastly upgraded our website (www.keb.co.kr) last year. This enables us to better highlight the vast array of financial products and services that differentiate KEB from its peer banks in personal banking, corporate banking, FX, trade service and other areas. With improved Customer Support, How-To Guide, Help Menus and the like, we've made the interface significantly more user-friendly, the website quicker to navigate, and our services easier to use. The up-to-the-minute FX and trade finance information available on our website is richer, more detailed and the best in the industry, as are KEB's Investor Relations(IR) related materials in both Korean and English.



JUNG, EUN HAE
ON-LINE PROMOTION PLANNER
INTERNAL/EXTERNAL RELATIONS TEAM

Risk Management

Among the first Korean banks to implement modern risk management tools and techniques, KEB maintains the industry's highest risk management standards by continuously updating and reinforcing systems and practices.

The Risk Management Committee operates under the supervision of KEB's Board of Directors and is responsible for setting bankwide policies and direction for risk management. It is the exclusive responsibility of the Risk Management Division to oversee the implementation of risk management directives in each business area, thus ensuring the independence of overall risk management activities.

One of the most important tasks in risk management is developing infrastructure in advance of stricter guidelines for measuring credit risk and operational risk in line with the New Basel Capital Accords (Basel II).

Risk Control & Management

Credit Risk

Our credit risk systems enable us to manage customers' potential losses at an appropriate level, using Credit VaR calculations according to the borrower's rating or organizational status. Also, through expansion of the individual loan rating system, KEB has introduced advanced credit risk management techniques and established the foundation for implementing RAPM (Risk Adjusted Performance Measures) assessment at all branches.

Market Risk

To maintain an optimal portfolio structure, KEB employs the global standard RiskWatch 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.

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.

Liquidity Risk

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

Operational Risk

Operational risks are those that can affect business strategy, work processes and computer systems, as well as 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 line with the ongoing increase in electronic banking, security surveillance in this area has been strengthened.

Basel II Preparation

The implementation of Basel II will be effective at the end of 2007 according to plans announced by Korea's Financial Supervisory Service. Basel II aims to enhance risk management abilities in worldwide banking industry by requiring adequate capital for credit risk, market risk and operational risk.

A key task in the lead-up to the implementation of Basel II guidelines is the establishment of a sophisticated infrastructure to measure more accurately credit risk & operational risk.

KEB is actively preparing for the introduction of the Advanced Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for quantifying operational risk stipulated in Basel II. The bank is in the process of developing prototype systems for credit risk management and operational risk management by the end of June 2005. We also plan to complete the full system setting for both risk managements by the end of December 2005, in order to prepare for preliminary operation of systems before the actual implementation of Basel II at the end of 2007.



CHOI, MYUNG KYUN
RISK MANAGEMENT SPECIALIST
BASEL II TASK FORCE TEAM

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Management discussion & analysis was prepared on the basis of the results of non-consolidated financial statements.

1. Key Financial Data

(In Billions of Korean Won, %)

	2004	2003	YoY	
			Amt.	%
Operating Results				
Total income	2,338.4	1,541.9	+796.5	+51.7%
Interest income	1,489.3	1,205.1	+284.2	+23.6%
Fees & commissions	789.0	564.8	+224.2	+39.7%
Non Interest Income	60.1	-228.0	+288.2	-
Total expenses (G&A)	847.0	662.7	+184.3	+27.8%
Operating income	1,491.4	879.2	+612.2	+69.6%
Net income	522.1	-213.8	+735.9	-
Profitability Indices				
Return on Assets	0.81%	-0.36%		+1.17%p
Return on Equity	19.43%	-9.96%		+29.39%p
Net Interest Margin (NIM)	2.41%	2.14%		+0.27%p
Balance Sheet Data at Year-end				
Total assets	67,167.7	68,048.9	-881.2	-1.3%
Totals credits	41,529.0	41,677.9	-148.9	-0.4%
Total deposits	43,765.6	47,695.8	-3,930.2	-8.2%
Asset Quality Ratio				
Substandard & below ratio	1.82%	2.59%		-0.77%p
Precautionary & below ratio	3.57%	4.59%		-1.02%p
BIS Ratio				
(Tier Ⅰ)	9.47%	9.32%		+0.15%p
(Tier Ⅱ)	5.51%	4.68%		+0.83%p
(Tier Ⅲ)	3.96%	4.64%		-0.68%p

2. Overview

In 2004, KEB achieved successful results both in terms of profitability and asset quality, while successfully addressing the challenge of non-performing assets in the credit card business unit resulting from the merger with KEBCS.

KEB registered a significant improvement in net income, which soared from a deficit of 213.8 billion won in 2003 to 522.1 billion won in the black in 2004.

In terms of asset quality, KEB lowered the substandard & below ratio from 2.59% in the banking sector at the end of 2003 to 1.82% even including card asset at the end of 2004. This was largely attributed to the fact that, despite unfavorable domestic market conditions last year, KEB stably managed asset quality of both households and small and medium-sized companies through improved credit risk management, and promptly reduced non-performing assets through aggressive write-offs of NPLs.

3. Profitability

1) Summary of Profitability

Despite a net loss of 558.9 billion won incurred in the credit card sector, KEB reported 522.1 billion won in net income as of 2004, thanks to net income of 1,081.0 billion won from the banking sector, thereby marking the largest net income reported by the bank since its inception.

In the banking sector, KEB recorded a sharp decrease in provisioning for bad debts, restoring KEB's earning power. This was mainly attributable to mitigation of provisioning needs thanks to the improvement of asset quality through prudent credit risk management in the face of unfavorable domestic business conditions. Meanwhile, one-time income of 181.1 billion won from the sale of the bank's U.S.-based subsidiary, Pacific Union Bank was reflected in non-interest income of the banking sector during the second quarter of 2004.

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In the credit card sector, 111.5 billion won of pre-merger losses incurred by KEBCS through January and February 2004 was reflected in non-interest income under valuation using equity method. Loan loss provisions for non-performing card assets amounted to 668.4 billion won, and with write-offs exceeding 2 trillion won, the reduction of bad assets was largely completed in 2004. As a result, the credit card sector posted a sizeable net loss of 558.9 billion won. .

(In Billions of Korean Won)

	FY 2004			2004												FY 2003 (Bank)
				4Q			3Q			2Q			1Q			
	Bank	Card	Total	Bank	Card	Total	Bank	Card	Total	Bank	Card	Total	Bank	Card	Total	
Net Interest Income	1,232.9	256.4	1,489.3	318.5	77.4	395.9	311.3	77.7	389.0	305.8	70.9	376.7	297.3	30.4	327.7	1,205.1
Fees & Commissions	625.7	163.2	789.0	179.3	37.8	217.1	153.2	27.3	180.5	140.1	36.7	176.8	153.2	61.4	214.6	564.8
Non Interest Income	272.4	-212.2	60.1	39.5	-9.4	30.1	18.7	-13.0	5.8	203.7	-75.3	128.3	10.4	-114.5	-104.1	-228.0
Total Income	2,131.0	207.4	2,338.4	537.3	105.8	643.2	483.2	92.0	575.2	649.5	32.3	681.8	460.9	-22.7	438.2	1,541.9
Total Expenses	756.9	90.1	847.0	237.3	32.3	269.6	178.3	24.0	202.3	170.9	24.8	195.7	170.3	9.0	179.3	662.7
Operating Income	1,374.1	117.3	1,491.4	300.0	73.5	373.5	304.9	68.0	372.9	478.6	7.5	486.1	290.6	-31.7	258.9	879.2
Impairment loss on Sec.(-)	40.6	5.8	46.3	-65.9	5.5	-60.4	13.4	0.3	13.7	77.3	-	77.3	15.7	-	15.7	204.7
Income before Provision	1,333.5	111.6	1,445.1	365.9	68.0	433.9	291.5	67.7	359.2	401.2	7.5	408.8	274.9	-31.7	243.2	674.5
Provisions & Others (-)	252.5	670.4	923.0	126.1	175.4	301.4	51.8	176.5	228.3	2.4	237.5	239.8	72.3	81.1	153.4	888.3
Net Income	1,081.0	-558.9	522.1	239.8	-107.3	132.5	239.7	-108.8	130.9	398.9	-229.9	168.9	202.6	-112.8	89.8	-213.8

2) Net Interest Income

In 2004, KEB registered 1,489.3 billion won in net interest income, 1,232.9 billion won from the banking sector and 256.4 billion won from the credit card sector. In the banking sector, interest on debentures rose as the result of the conversion of 2 trillion won of card debentures issued by KEBCS into bank debentures. However, net interest income increased by 27.8 billion won from 2003 largely due to decreased interest expenses paid on customer deposits and borrowings owing to the downward trend of market interest rates. The credit card sector contributed increase of 256.4 billion won in net interest income for 2004 with high-yield assets.

(In Billions of Korean Won, %)

	FY 2004	2004				FY 2003	YoY	
		4Q	3Q	2Q	1Q		Amt.	%
	Interest Revenue	3,073.9	744.7	796.3	797.2	735.8	2,831.2	+242.7
Interest from due from banks	23.2	15.0	9.3	2.5	8.2	27.8	-4.6	-16.7%
Interest from securities	472.1	323.9	133.9	118.4	148.2	521.9	-49.8	-9.5%
Interest from loans	2,551.8	1,980.1	647.9	670.5	571.7	2,239.5	+312.3	+13.9%
- Bank	2,149.3	546.4	530.0	525.7	547.1	2,239.5	-90.2	-4.0%
- Card *	402.6	115.3	117.9	144.8	24.6	-	+402.6	-
Others	26.8	19.2	5.1	5.9	7.6	42.0	-15.2	-36.2%
Interest Expenses	1,640.1	397.0	397.0	442.1	404.0	1,642.2	-2.1	-0.1%
Interest on deposits	1,036.5	245.8	256.4	262.2	272.1	1,142.3	-105.8	-9.3%
Interest on borrowings	157.0	33.6	37.4	36.3	49.6	202.0	-45.0	-22.3%
Interest on debentures	431.5	114.4	110.3	132.1	74.7	274.2	+157.2	+57.3%
Others	15.2	3.2	-7.1	11.6	7.5	23.7	-8.5	-35.9%
Other Interest Income	55.5	48.3	-10.4	21.7	-4.1	16.0	+39.5	+246.6%
Net Interest Income	1,489.3	395.9	388.9	376.8	327.7	1,205.1	+284.2	+23.6%
- Bank	1,232.9	318.5	311.3	305.8	297.3	1,205.1	+27.8	+2.3%
- Card *	256.4	77.4	77.7	70.9	30.4	-	+256.4	-

* 10 months after merger

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3) Net Interest Margin (NIM)

The bank's overall NIM rose to 2.41%, up 0.27%p from 2003 thanks to the inclusion of interest incomes from the high-return assets in the credit card sector. NIM is anticipated to improve steadily in the future as bank debentures, which were converted from card debentures at the time of the merger with KEBCS, are being replaced with low-cost bank funding when they mature.

On the other hand, loan-to-deposit spread was 3.83%, a 0.86%p rise YoY from the inclusion of high-return assets in the card business sector. Loan-to-deposit spread in the banking sector excluding the credit card sector also increased by 0.24%p over 2003 to 3.21% in 2004, reflecting the bank's continuously improving earning power.

(In Billions of Korean Won, %)

	FY 2004	2004				FY 2003	YoY	
		4Q	3Q	2Q	1Q		Amt.	%
Average interest-earning assets	51,227.4	49,492.8	51,481.1	52,590.2	52,335.4	48,507.2	+2,720.2	+5.6%
Interest revenue	2,935.7	725.9	761.7	733.4	714.8	2,743.3	+192.4	+7.0%
Interest expenses	1,696.8	410.4	422.1	445.7	418.6	1,706.6	-9.8	-0.6%
NIM	2.41%	2.54%	2.62%	2.19%	2.27%	2.14%		+0.27%p
NIM in KrW	2.70%	2.82%	2.95%	2.47%	2.57%	2.21%		+0.49%p
NIM in Foreign currency	1.53%	1.60%	1.70%	1.38%	1.44%	1.93%		-0.40%p
Loan to deposit spread in KrW	3.83%	4.19%	3.95%	3.98%	3.25%	2.97%		+0.86%p
Interest rate on Loans in KrW	7.16%	7.33%	7.16%	7.39%	6.71%	6.72%		+0.44%p
Interest rate paid on Deposits in KrW	3.33%	3.14%	3.21%	3.41%	3.46%	3.75%		-0.42%p

4) Fees & Commissions

Aided by continued operating improvement as well as the addition of the credit card business, the bank's fee & commission incomes, one of its strongest revenue sources, began to accelerate its contribution to total income. The credit card sector newly added 163.2 billion won in fees & commissions, accounting for 20.7% of the bank's total fees & commissions. Fee & commission incomes in the banking sector stood at 625.7 billion won for 2004, an increase of 10.8% over the previous year. Gains on FX transactions and fees & commissions from export/ import related transactions, traditionally a strongpoint of KEB, continued to account for a large part of fee incomes. Contributions from bancassurance and long-term mortgage sales, as well as agent sales of beneficiary certificates expanded.

Fee & commission incomes accounted for 33.7% of the bank's total income, well above the five peer-bank average of 23%, demonstrating the strength of KEB's earning structure.

(In Billions of Korean Won, %)

	FY 2004	2004				FY 2003	YoY	
		4Q	3Q	2Q	1Q		Amt.	%
Gains from FX Transaction	292.9	78.9	73.4	63.3	77.3	247.9	+45.0	+18.1%
Fees & Commissions	332.8	100.4	79.8	76.7	75.9	316.9	+15.9	+5.0%
KrW Currency-related	130.3	45.0	30.0	29.8	25.4	109.4	+20.9	+19.2%
Foreign Currency-related	140.2	39.6	34.3	30.4	35.8	146.2	-6.0	-4.1%
Others	62.3	15.7	15.4	16.5	14.7	61.3	+1.0	+1.6%
Fees from Card sector	163.2	37.8	27.3	36.7	61.4	-	+163.2	-
Total	789.0	217.1	180.5	176.8	214.6	564.8	+224.2	+39.7%

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5) Non-Interest Income

There were several exceptional items that influenced non-interest income in 2004. The most significant was the sale of Pacific Union Bank, KEB's subsidiary in the United States, which generated 181.1 billion won in non-interest income. In the course of restructuring, KEB disbursed early-retirement payments of 20.5 billion won in the credit card sector during the second quarter of 2004, and 67.3 billion won in the banking sector during the fourth quarter of 2004. A loss of 111.5 billion won, which was incurred in January-February by KEBCS before consolidation in February 28, 2004, was reflected under valuation using equity method.

(In Billions of Korean Won, %)

	FY 2004	2004				FY 2003	YoY	
		4Q	3Q	2Q	1Q		Amt.	%
Income on Operating Trust Acct.	27.7	7.5	6.3	6.0	7.8	30.9	-3.2	-10.3%
Income on Merchant Acct.	20.4	4.4	3.9	5.3	6.9	40.2	-19.8	-49.3%
Trading Profit *	237.1	17.8	12.6	202.2	4.5	52.4	+184.7	+352.5%
Gains on valuation using equity method excluding Credit Card	43.3	6.3	16.0	7.1	13.8	37.9	+5.4	+14.1%
Credit Card **	-212.2	-9.4	-13.0	-75.3	-114.5	-322.0	+109.8	-
Others	-56.1	3.5	-20.1	-16.9	-22.6	-67.4	+11.3	-
Non-Interest Income	60.1	30.1	5.8	128.3	-104.1	-228.0	+288.1	-

* Including gains of 181.1 billion won from sale of Pacific Union Bank in 2Q 2004.

** Credit card reflected the financial results of KEBCS before the merger under valuation using equity method in both January-February 2004 and full year of 2003.

6) G&A Expenses

The bank's general and administrative expenses recorded 847.0 billion won, up 27.8% from a year earlier, largely due to additional expenses of 90.1 billion won from the merger with the credit card business unit. G&A expenses in the banking sector alone rose by 14.2% over the previous year. Despite the merger with the credit card unit, the bank's cost-to-income ratio posted 39.3% (when excluding gains from PUB sale), an improvement of 3.7%p YoY, through prudent cost management, indicating the bank's rapidly improving productivity.

(In Billions of Korean Won, %)

	FY 2004	2004				FY 2003	YoY	
		4Q	3Q	2Q	1Q		Amt.	%
Salaries	501.0	150.6	120.9	115.8	113.7	403.5	+97.5	+24.2%
Depreciation	113.7	36.7	29.9	26.5	20.7	80.6	+33.1	+41.1%
Tax & Dues	32.5	11.8	7.3	7.2	6.2	25.7	+6.7	+26.2%
Other Expenses	199.8	70.6	44.2	46.3	38.7	152.9	+47.0	+30.7%
Total	847.0	269.6	202.3	195.8	179.3	662.6	+184.4	+27.8%

7) Provisions & Others

Provisioning for bad assets in the banking sector recorded 136.5 billion won, down 706.5 billion won from the preceding year, greatly improving the bank's financial structure. This sharp decline was largely due to the fact that the bank had significantly lower the need for additional provisions related to failed large corporations during the Asian currency crisis, as well as rigorous efforts to improve the quality of the lending book. In contrast, however, following the merger with KEBCS, additional reserves of 668.4 billion won were established to fully address and write off bad assets in the credit card sector, resulting in 804.9 billion won of provisioning for bad assets in the bank's overall business.

MANAGEMENT DISCUSSION & ANALYSIS

(In Billions of Korean Won, %)

	FY 2004	2004				FY 2003	YoY	
		4Q	3Q	2Q	1Q		Amt.	%
Loan Loss Provisions	804.9	231.8	210.5	230.3	132.3	843.0	-38.1	-4.5%
- Corporate	66.2	28.0	25.7	-18.9	31.4	694.3	-628.0	-90.5%
- Household	70.3	29.1	8.4	12.7	20.1	148.7	-78.4	-52.7%
- Card	668.4	174.7	176.4	236.5	80.8	-	+668.4	
Retirement Allowances	54.2	11.0	15.2	8.1	19.8	38.9	+15.3	+39.3%
Income Taxes	9.5	4.2	2.6	1.4	1.3	6.4	+3.1	
Others	54.4	54.4	-	-	-	-	+54.4	
Total	923.0	301.4	228.5	239.9	153.4	888.3	+34.7	+3.9%

4. Financials (Bank Account)

1) Total Assets

Total assets at the end of 2004 were 61.3 trillion won, down 1.3 trillion won over a year earlier. The decline in total assets was mainly caused by a decrease of 2.2 trillion won in cash and deposits, which are low-return assets. The bank's overall loans for 2004 slightly decreased from the previous year, as 2.6 trillion won in newly acquired assets from the merger with KEBCS were offset by a decrease in loans in the banking sector. The latter decline was due to prudent management in increasing loans amid the nation's economic slowdown, and to a decrease in won-converted amount of foreign currency-denominated loans caused by appreciation of the won.

(In Billions of Korean Won, %)

	2004				2003	YoY	
	Dec.	Sep.	Jun.	Mar.		Dec.	Amt.
Cash & Due from Banks	2,638.1	5,007.0	5,478.7	4,897.8	4,766.4	-2,128.4	-44.7%
Securities	12,111.5	12,239.0	11,995.0	12,842.0	12,286.5	-175.0	-1.4%
Loans & Discounts	39,329.4	40,550.1	40,304.9	40,884.5	39,397.1	-67.7	-0.2%
- Credit Card Receivable	2,620.0	3,117.3	3,286.7	3,034.2	-	+2,620.0	
Other Asset	6,069.6	6,982.7	5,750.4	5,205.3	4,502.8	+1,566.8	+34.8%
Merchant Banking Accounts	1,157.5	1,340.0	1,335.0	1,507.6	1,650.5	-493.0	-29.9%
Total Assets	61,306.1	66,118.8	64,864.0	65,337.2	62,603.3	-1,297.2	-2.1%

2) Liabilities & Shareholders' Equity

Due to declines both in won-currency deposits amidst the general trend of low interest rates and in foreign-currency deposits whose won-converted amount decreased owing to the appreciation of the won, the bank's deposits decreased by 4.0 trillion won over 2003.

The fall in the size of deposits was balanced by decreased demand for funding, which resulted from a reduction of 1.3 trillion won in total assets, and an increase in debentures amounting to 2 trillion won converted from the merger of KEBCS.

Despite the use of 812 billion won of the bank's capital to complete the merger with the card company, the bank's shareholders' equity showed only a narrow decrease from a year earlier thanks to 522 billion won in net income during 2004.

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(In Billions of Korean Won, %)

	2004				2003	YoY	
	Dec.	Sep.	Jun.	Mar.	Dec.	Amt.	%
Deposits	38,537.9	41,831.5	41,530.4	42,103.0	42,496.9	-3,959.0	-9.3%
Borrowings	6,097.7	5,902.1	5,846.3	7,387.6	6,258.8	-161.1	-2.6%
Debentures	6,480.8	6,485.7	6,602.0	6,378.9	4,083.4	+2,397.4	+58.7%
Other Liabilities	6,192.2	7,978.5	6,730.0	5,391.6	5,172.3	+1,020.0	+19.7%
Merchant Banking Accounts	1,068.1	1,196.4	1,559.4	1,580.0	1,640.1	-572.0	-34.9%
Shareholders' Equity	2,929.4	2,724.6	2,596.0	2,496.1	2,951.9	-22.5	-0.8%
Total Liabilities & Equity	61,306.1	66,118.8	64,864.0	65,337.2	62,603.3	-1,297.2	-2.1%

3) Won-currency Loans

Of the total won-currency loans at the end of 2004, loans to corporations took the lead, accounting for 48.9% (SMEs 41.1%, large corporations 7.8%) closely followed by household loans with 41.7%, the credit card sector with 9.0% and others with 0.4%.

Although SME lending posted a slight YoY decrease, the portion of high-quality loans soared through the employment of the "Star Loan" program, targeting at export-import businesses and highly profitable companies while de-marketing higher risk credits, which tallied 2 trillion won for 2004. The outstanding amount of loans to large corporations decreased over the previous year due to reduced concentration of lending to individual large corporate borrowers, whereas household loans grew slightly led by housing-related loans.

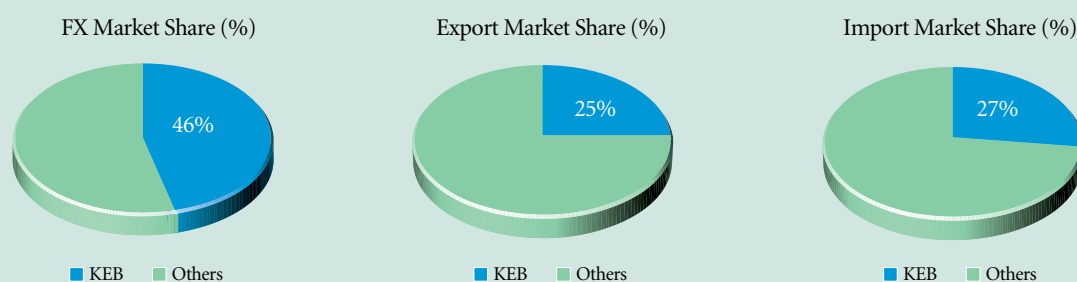
(In Billions of Korean Won, %)

	2004				2003	YoY	
	Dec.	Sep.	Jun.	Mar.	Dec.	Amt.	%
Household Loans	12,153.1	12,100.0	12,025.3	12,072.6	11,746.5	+406.6	+3.5%
Housing related	8,279.6	8,339.1	8,351.1	8,356.3	8,056.6	+223.0	+2.8%
Corporate	14,229.3	15,070.6	14,638.1	15,111.1	15,445.4	-1,216.2	-7.9%
SMEs	11,962.7	12,539.8	12,389.9	12,543.5	12,538.2	-575.5	-4.6%
Large Corp.	2,266.5	2,530.7	2,248.2	2,567.6	2,907.2	-640.7	-22.0%
Public & Others	116.2	132.6	148.5	169.7	184.3	-68.1	-36.9%
Sub Total	26,498.6	27,303.2	26,811.8	27,353.4	27,376.2	-877.6	-3.2%
Credit Card Receivables	2,620.0	3,117.3	3,286.7	3,034.2	-	+2,620.0	-
Total	29,118.6	30,420.6	30,098.5	30,387.6	30,703.9	-1,585.4	-5.2%

MANAGEMENT DISCUSSION & ANALYSIS

4) Foreign Exchange & Trade Finance

In terms of market share, the bank handled 25% and 27%, respectively, of the nation's total export and import transaction volume in 2004, while maintaining its leading share in F/X with 46% of transactions conducted by Korea's eight leading commercial banks. These commanding market shares demonstrate that, even amid tougher competition, the bank's capabilities and brand power continues to bolster its strong presence and leadership in the nation's F/X and trade finance business.



5. Asset Quality

1) Asset Classification

In 2004, the bank greatly improved its substandard & below ratio through efforts to minimize the occurrence of bad debts through prudent credit management, as well as by writing off existing bad debts which surged as the result of the merger with KEBCS. The bank's overall substandard & below ratio at the end of 2004 registered 1.82%, an improvement of 0.77%p over the preceding year's 2.59%. This ratio improved even more to 1.49% when excluding the credit card sector, freeing the bank's management from restrictions posed by problematic assets.

The NPL coverage ratio for substandard & below loans increased to 108.8% as of the end of 2004, up from 90.9% in 2003, reflecting the bank's adequate loan loss reserves.

(In Billions of Korean Won, %)

	2004								2003 Dec.	YoY	
	Dec.		Sep.		Jun.		Mar.				
	Excl. Card		Excl. Card		Excl. Card		Excl. Card				
Normal	40,044.4	37,670.3	41,140.2	38,998.8	41,121.5	38,971.6	41,119.4	39,494.6	39,764.3	+0.7%	-5.3%
Precautionary	729.7	505.1	951.1	635.4	1,276.2	797.0	1,535.0	807.7	833.5	-12.4%	-39.4%
Substandard	414.1	414.0	391.3	391.2	445.9	445.8	711.9	711.8	848.0	-51.2%	-51.2%
Doubtful	228.3	66.0	766.9	113.3	859.0	136.1	905.8	153.0	138.5	+64.8%	-52.3%
Estimated Loss	112.5	99.1	127.1	63.7	157.5	110.5	162.0	86.5	93.6	+20.1%	+5.8%
Total Exposure (a)	41,529.0	38,754.5	43,376.6	40,202.4	43,860.1	40,461.0	44,434.1	41,253.6	41,678.0	-0.4%	-7.0%
Substandard & Below (b)	754.9	579.1	1,285.3	568.2	1,462.4	692.4	1,779.7	951.3	1,080.2	-30.1%	-46.4%
Substandard & Below Ratio(b/a)	1.82%	1.49%	2.96%	1.41%	3.33%	1.71%	4.01%	2.31%	2.59%	-0.8%p	-1.1%
Precautionary & Below (c)	1,484.6	1,084.2	2,236.4	1,203.6	2,738.6	1,489.4	3,314.7	1,759.0	1,913.7	-22.4%	-43.3%
Precautionary & Below Ratio(c/a)	3.57%	2.80%	5.16%	2.99%	6.24%	3.68%	7.46%	4.26%	4.59%	-1.0%p	-1.8%
Loan Loss Reserve (d)	821.4	576.4	1,331.7	650.7	1,424.7	723.3	1,664.2	775.3	981.6	-16.3%	-41.3%
NPL Coverage Ratio (d/b)	108.81%	99.53%	103.61%	114.51%	97.42%	104.46%	93.51%	81.50%	90.87%	+17.94%p	+8.66%p
Precautionary & Below Coverage Ratio (d/c)	55.33%	53.16%	59.55%	54.06%	52.02%	48.56%	50.21%	44.08%	51.30%	+4.03%p	+1.86%p

MANAGEMENT DISCUSSION & ANALYSIS

www.keb.co.kr

2) Delinquency

The bank's overall delinquency ratio in 2004 was 1.78%, indicating progress in ensuring sound asset management. The delinquency ratio in the banking sector alone registered a stable 1.34%, little changed from 1.35% in 2003.

(In Billions of Korean Won, %)

	2004				2003	YoY
	Dec.	Sep.	Jun.	Mar.	Dec.	
Bank	1.34%	1.31%	1.49%	1.87%	1.35%	- 0.01%p
Household	1.60%	1.53%	1.45%	1.84%	1.25%	+0.35%p
SMEs	1.40%	1.34%	1.80%	2.48%	1.68%	- 0.28%p
Large / Public	0.89%	0.99%	1.05%	1.03%	0.95%	- 0.06%p
Card*	7.62%	20.88%	12.17%	17.44%	-	-
Normal book	6.96%	8.62%	9.86%	18.02%	-	-
Re-aged book	14.65%	56.08%	17.54%	16.65%	-	-
Total	1.78%	2.84%	2.38%	3.06%	1.35%	+0.44%p

* Merger as of Feb.28, 2004

6. Capital Adequacy

The bank's BIS capital ratio at the end of 2004 improved by 0.15%p YoY to 9.47%. The structure of capital ratio shows that KEB's capital adequacy shifted in a more desirable direction. The Tier I capital ratio for 2004 rose to 5.51%, an increase of 0.83%p from a year earlier, as a result of reduced accumulated deficit thanks to robust net income. In contrast, the Tier II ratio was 3.96%, down 0.68%p from a year earlier owing to the reduction of costly subordinated borrowings. In light of the bank's high income-earning potential, the capital adequacy ratio is expected to improve led by Tier I, and a high BIS ratio of over 10% is expected for 2005.

(In Billions of Korean Won, %)

	2004				2003	YoY	
	Dec.	Sep.	Jun.	Mar.	Dec.	Amt.	%
Tier ₩	2,316.2	2,228.6	2,096.1	1,978.0	1,968.6	+347.6	+17.7%
Paid-in Capital	3,224.5	3,224.5	3,224.5	3,224.5	3,194.6	+29.9	+0.9%
Capital Surplus	-	1.6	0.9	39.3	63.3	-63.3	-100.0%
Retained Earnings	-567.3	-698.1	-830.5	-1,000.9	-1,036.8	+469.5	-45.3%
Hybrid Tier ₩	250.0	250.0	250.0	250.0	250.0	-	-
Others	-591.0	-549.4	-548.8	-534.9	-502.4	-88.6	-17.6%
Tier ₩-	1,798.0	1,883.8	1,878.9	1,908.5	1,968.6	-170.6	-8.7%
Revaluation Reserve	-	93.5	93.5	93.5	93.5	-93.5	-100.0%
Upper Tier ₩-	208.8	429.6	430.5	430.7	439.6	-230.8	-52.5%
Loan Loss Reserve	510.7	532.6	524.0	520.0	500.6	+10.1	+2.0%
Subordinated Debts	797.3	645.8	646.2	654.4	848.2	-51.0	-6.0%
Others	281.3	182.3	184.6	209.9	86.7	+194.6	+224.4%
Others (-)	131.6	116.0	88.9	14.5	15.0	+116.6	+776.2%
Total Qualifying Capital	3,982.7	3,996.4	3,886.0	3,872.0	3,922.3	+60.4	+1.5%
Risk-weighted Assets (Market Risk)	42,055.8	43,402.1	42,600.7	42,580.8	42,078.9	-23.1	-0.1%
BIS Ratio (Market Risk)	9.47%	9.21%	9.12%	9.09%	9.32%	-	+0.15%p
Tier ₩ Ratio	5.51%	5.13%	4.92%	4.65%	4.68%	-	+0.83%p
Tier ₩- Ratio	3.96%	4.07%	4.20%	4.45%	4.64%	-	- 0.68%p

NON-CONSOLIDATED INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

(Based on a report originally issued in Korean)

KPMG Samjong Accounting Corp.

10th Floor, Star Tower,
737 Yeoksam-dong, Gangnam-gu
Seoul 135-984, Republic of Korea

To the Board of Directors and Shareholders of
Korea Exchange Bank

We have audited the accompanying non-consolidated balance sheets of Korea Exchange Bank (the "Bank") as of December 31, 2004 and 2003, and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the years 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 audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2004 and 2003, and the results of its operations, the changes in its accumulated deficit and its cash flows for the years then ended in conformity with accounting principles generally accepted in 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 discussed in Note 33 to the accompanying non-consolidated financial statements, the Bank decided to acquire Korea Exchange Bank Credit Service Co., Ltd (KEBCS) in which the Bank had 68.6% of ownership interest in the Board of Directors' meeting held on November 28, 2003. The acquisition was finalized on February 28, 2004, and the Bank issued 0.533689 share of common stock of the Bank per the share of KEBCS to the KEBCS shareholders who were included in the shareholders' list as of February 28, 2004, according to the merger agreement. The total assets and liabilities of KEBCS as of February 28, 2004 are ₩3,063,203 million and ₩3,982,986 million, respectively.

As discussed in Note 4(g) to the accompanying non-consolidated financial statements, effective April 30, 2004, the Bank sold its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary, to Hanmi Financial Corp., a holding company of Los Angeles-based Hanmi Bank and recorded a gain on disposal of available-for-sale securities amounting to ₩181,463 million. The total number of shares of PUB sold was 6,624,052 shares and the sales proceed amounted to US\$195,924 thousand.

As discussed in Note 20(f) to the accompanying non-consolidated financial statements, the Bank's outstanding loans (including payment guarantees) and available-for-sale securities with respect to Hynix Semiconductor Inc. amount to ₩36,497 million and ₩624,080 million, respectively as of December 31, 2004. The allowance for loan losses and acceptances and guarantees of ₩13,542 million was recorded with respect to these loans including payment guarantees. The actual loss may differ from the allowance for loan losses and acceptances and guarantees depending on the result of restructuring of Hynix Semiconductor Inc.

NON-CONSOLIDATED INDEPENDENT AUDITORS' REPORT

Years ended December 31, 2004 and 2003

As discussed in Note 20(h) to the accompanying non-consolidated financial statements, as of December 31, 2004, the Bank recorded loans of ₩92,361 million and available-for-sale securities of ₩157,509 million with respect to SK Networks Co., Ltd. and set allowance for loan losses of ₩10,776 in association with these loans. The actual loss may differ from the allowance for loan losses depending on the result of the restructuring of SK Networks Co., Ltd.

As discussed in Note 20(i) to the accompanying non-consolidated financial statements, as of December 31, 2004, the Bank has commercial papers and loans with respect to LG Card Co., Ltd. which is going through a liquidity crisis, amounting to ₩50,721 million (including those held at private placement fund amounting to ₩45,721 million) and ₩3,770 million, respectively. The actual loss may differ from the allowance for loan losses set by the Bank depending on the result of restructuring of LG Card Co., Ltd.

As discussed in Note 2 to the accompanying non-consolidated financial statements, in connection to the disposal of loans, the accounting treatment to recognize gain or loss resulting from disposal of loans was changed and that such gain and loss are no longer adjusted in the allowances but recorded as gain or loss on disposal of loans. Due to the above changes in accounting treatment, gain on disposal of loans increased by ₩78,938 million, while provision for loan losses increased by ₩78,938 million for the year ended December 31, 2004. For the comparison purposes, gain on disposal of loans and the provision for loan losses in the prior year financial statements were each increased by ₩24,488 million. Such changes in accounting treatment have no effect to the net asset value, ordinary income or the net income for the years ended December 31, 2004 and 2003, respectively.

As discussed in Note 29 to the accompanying non-consolidated financial statements, the Bank has total assets and liabilities in connection to the related party transactions amounting to ₩456,857 million and ₩405,521 million, respectively. Total revenues and expenses from such related party transactions amount to ₩23,500 million and ₩12,025 million, respectively.

As discussed in Note 35 to the accompanying non-consolidated financial statements, the Bank entered into a contract with Landmark Investment Trust Management Co., Ltd. in order to sell its 2,760,000 shares of KEB Commerz Investment Trust Co., Ltd. a domestic subsidiary of the Bank at ₩28,043 million. The contract became effective on January 21, 2005 upon receiving an approval from Financial Supervisory Commission.

KPMG Samjong Accounting Corp.

Seoul, Korea
January 24, 2005

This report is effective as of January 24, 2005, 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.

NON-CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

(In Millions of Won, except share data)

	2004	2003
Assets		
Cash and due from banks (notes 3, 15, 29 and 30)	₩ 2,638,053	4,766,404
Securities (notes 4, 15 and 30)	12,111,473	12,286,493
Loans, less allowance for loan losses of ₩871,228 in 2004 and ₩987,080 in 2003, less net deferred loan fees and costs of ₩1,271 in 2004 and nil in 2003 (notes 5, 15, 29 and 30)	39,329,447	39,317,194
Fixed assets, less accumulated depreciation of ₩617,575 in 2004 and ₩430,665 in 2003 (notes 6 and 16)	896,696	806,710
Other assets (notes 7 and 29)	5,172,937	3,776,042
Merchant banking account assets (notes 8 and 15)	1,157,504	1,650,488
Total assets	₩ 61,306,110	62,603,331
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits (notes 9, 15, 29 and 30)	38,537,885	42,496,885
Borrowings (notes 10, 15, 29 and 30)	6,097,717	6,258,832
Debentures (notes 11, 15 and 30)	6,480,781	4,083,409
Other liabilities (notes 12, 14, 15 and 29)	6,192,249	5,172,265
Merchant banking account liabilities (note 13)	1,068,088	1,640,076
Total liabilities	58,376,720	59,651,467
Commitments and contingencies (note 20)		
Shareholders' equity (note 1):		
Common stock of ₩5,000 par value; Authorized - 1,000,000,000 shares Issued - 644,906,826 shares in 2004 and 612,924,931 shares in 2003	3,224,534	3,064,625
Preferred stock of ₩5,000 par value; Issued - nil in 2004 and 26,000,000 shares in 2003	-	130,000
Other statutory reserves (note 17)	30,694	33,434
Accumulated deficit (notes 16 and 17)	(634,186)	(343,435)
Capital adjustments (notes 18 and 19)	308,348	67,240
Total shareholders' equity	2,929,390	2,951,864
Total liabilities and shareholders' equity	₩ 61,306,110	62,603,331

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2004 and 2003

(In Millions of Won)

	2004	2003
Operating revenue:		
Interest income (notes 29 and 30):		
Interest on due from banks	₩ 23,211	27,849
Interest on trading securities	19,202	35,939
Interest on available-for-sale securities	356,630	440,199
Interest on held-to-maturity securities	96,275	45,733
Interest on loans	2,551,812	2,239,516
Other interest income	26,800	42,009
	3,073,930	2,831,245
Fees and commissions (notes 21 and 29)	677,890	350,951
Other operating revenue:		
Gain on disposition of trading securities	48,114	39,421
Gain on valuation of trading securities	4,618	2,893
Dividend on trading securities	1,332	377
Dividend on available-for-sale securities	4,107	10,751
Gain on derivatives trading and foreign currency exchange	2,530,062	1,477,286
Trust fees and commissions received from trust account (note 31)	27,682	30,001
Gain from operation of private placement funds	49,183	-
Reversal of allowance for acceptances and guarantees	35,116	-
Operating revenue of merchant banking account (note 22)	72,805	143,117
	2,773,019	1,703,846
Total operating revenue	6,524,839	4,886,042
Operating expenses:		
Interest expenses (notes 29 and 30):		
Interest on deposits	1,036,505	1,142,293
Interest on borrowings	156,982	201,961
Interest on debentures	431,456	274,236
Other interest expense	15,179	23,680
	1,640,122	1,642,170
Commission charges (notes 23 and 29)	202,916	34,009
Other operating expenses:		
Loss on disposition of trading securities	27,998	21,376
Loss on valuation of trading securities	877	1,943
Loss on derivatives trading and foreign currency exchange	2,247,405	1,230,246
Provision for loan losses	840,235	853,545
Provision for allowance for acceptances and guarantees	-	13,976
Other operating expenses	158,640	107,445
Other operating expenses of merchant banking account (note 24)	52,043	99,386
	3,327,198	2,327,917
General and administrative expenses (note 25)	901,250	701,551
Total operating expenses	6,071,486	4,705,647
Operating income	₩ 453,353	180,395

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

Years ended December 31, 2004 and 2003

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

	2004	2003
Non-operating income:		
Gain on disposition of available-for-sale securities	₩ 287,530	67,673
Gain on disposition of loans	78,938	24,488
Rental revenue	2,728	2,792
Recovery of impairment losses on available-for-sale securities (note 4)	1,431	12,267
Recovery of impairment losses on held-to-maturity securities (note 4)	-	483
Others	39,779	36,210
	410,406	143,913
Non-operating expenses:		
Equity loss on from affiliates (note 4)	68,215	283,985
Impairment losses on available-for-sale securities (note 4)	79,527	177,167
Impairment losses on held-to-maturity securities (note 4)	25,353	47,836
Early retirement costs	89,592	2,844
Loss on disposition of available-for-sale securities	6,458	24,759
Loss on disposition of tangible assets	725	1,051
Others	80,046	6,235
	349,916	543,877
Ordinary income (loss)	513,843	(219,569)
Extraordinary income:		
Gains from liabilities exempted	16,175	12,967
Others	1,500	1
	17,675	12,968
Extraordinary losses:		
Others	-	862
Earnings (losses) before income taxes	531,518	(207,463)
Income taxes (note 26)	9,451	6,354
Net earnings (losses)	₩ 522,067	(213,817)
Ordinary earnings (losses) per share (note 27)		
Basic	₩ 783	(530)
Diluted	₩ 783	(530)
Earnings (losses) per share (note 27)		
Basic	₩ 811	(502)
Diluted	₩ 811	(502)

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT

Years ended December 31, 2004 and 2003

Date of Appropriation for 2004: March 28, 2005

Date of Appropriation for 2003: March 30, 2004

(In Millions of Won)

	2004	2003
Undisposed accumulated deficit:		
Balance at beginning of year	₩ (344,482)	(129,596)
Investment securities in subsidiaries accounted for using equity method	(73)	(22)
Accumulated deficit transferred due to the merger with Korea Exchange Bank Credit Card Service Co., Ltd.	(811,698)	-
Net earnings (loss)	522,067	(213,817)
Balance at end of year before appropriation	(634,186)	(343,435)
Disposition of accumulated deficit:		
Other statutory reserves	(8,082)	(1,047)
Undisposed accumulated deficit to be carried over to subsequent year	₩ (642,268)	(344,482)

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004 and 2003

(In Millions of Won)

	2004	2003
Cash flows from operating activities:		
Net earnings (loss)	₩ 522,067	(213,817)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Gain on disposal of trading securities, net	(20,116)	(18,045)
Gain on valuation of trading securities, net	(3,741)	(950)
Gain on disposal of available-for-sale securities, net	(281,072)	(42,914)
Impairment loss on available-for-sale securities, net	78,096	164,900
Impairment loss on held-to-maturity securities, net	25,353	47,353
Equity loss from affiliates	68,215	283,985
Gain on disposal of loans	(50,158)	(24,488)
Loss on disposal of tangible assets, net	587	825
Loss (gain) on valuation of derivatives, net	101,366	(34,304)
Deferred losses on foreign currency translation, net	1,364	4,947
Gain on derivatives trading and foreign exchange, net	(25,898)	(15,787)
Amortization of debt securities purchased with premiums	26,371	12,959
Provision for loan losses	840,235	853,545
Depreciation and amortization	113,698	80,556
Provision of retirement and severance benefits	54,233	38,914
Provision of allowance for acceptances and guarantees	-	13,976
Stock option expense	6,492	14
Reversal of allowance for loan losses in merchant banking account	(242)	(880)
Reversal of allowance for acceptances and guarantees	(35,116)	-
Amortization of present value discounts	(13,825)	(24,730)
Gains from liabilities exempted	(16,175)	(12,967)
Increase in deferred tax assets	(3,866)	(511)
Changes in assets and liabilities:		
Decrease (increase) in accrued income	63,706	(21,530)
Decrease (increase) in prepaid expenses	(13,812)	19,239
Increase (decrease) in accrued expenses	104,347	(6,541)
Decrease in unearned revenues	(17,167)	(17,445)
Increase (decrease) in accrued income tax expenses	(1,883)	122
Increase in deferred tax assets	(3,866)	(511)
Payment of severance benefits	(40,071)	(6,747)
Decrease in transfer to National Pension Fund	773	13
Increase in deposit of insurance for retirement and severance benefits	(19,647)	(8,561)
Others, net	63,279	(8,689)
Net cash provided by operating activities	₩ 1,523,527	1,061,931

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, 2004 and 2003

(In Millions of Won)

	2004	2003
Cash flows from investing activities:		
Decrease in trading securities	₩ -	765,511
Decrease in available-for-sale securities	854,115	-
Decrease (increase) in loans	1,560,986	(6,813,626)
Increase in trading securities, net	(345,863)	-
Increase in available-for-sale securities	-	(602,701)
Increase in held-to-maturity securities	(601,404)	(286,736)
Decrease (increase) in equity securities of equity method accounting	443,611	(123,353)
Purchase of fixed assets	(128,396)	(100,594)
Decrease in other assets	2,126,669	3,473,338
Decrease in merchant banking assets	488,781	121,764
Net cash provided by (used in) investing activities	4,398,499	(3,566,397)
Cash flows from financing activities:		
Issuance of common stock	-	1,075,000
Increase (decrease) in deposits, net	(3,934,446)	3,299,367
Proceeds from (repayment of) borrowings	(1,649,775)	59,256
Proceeds from debentures	375,197	748,601
Decrease in other liabilities	(2,608,523)	(1,550,919)
Decrease in merchant banking account liabilities	(570,887)	(26,910)
Payment of stock issuance costs	(19)	(16,604)
Net cash provided by (used in) financing activities	(8,388,453)	3,587,791
Net increase (decrease) in cash and cash equivalents	(2,466,427)	1,083,325
Cash and cash equivalents at beginning of year	5,085,092	4,001,767
Transfer due to the merger	28,718	-
Cash and cash equivalents at end of year (note 28)	₩ 2,647,383	5,085,092

See accompanying notes to non-consolidated financial statements.

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(1) Organization and 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 merger between the Bank and Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") was finalized on February 28, 2004. (see note 36)

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 122 million new shares of preferred stock at par value of ₩5,000 per share 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 an extraordinary 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 Commerzbank AG and Export-Import Bank of Korea, respectively, at ₩5,400 per share on October 30, 2003. Also, 122 million shares and 26 million shares of preferred stock were converted to common stock on December 22, 2003 and April 22, 2004, respectively.

In addition, the Bank issued 5,981,895 shares of common stock of the Bank to the shareholders listed in the stockholders' list of KEBCS as of February 28, 2004 according to the merger agreement (note 36).

As of December 31, 2004, the total number of authorized stock of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,907 thousand shares of common stock outstanding with par value of ₩5,000).

The Bank's shareholders as of December 31, 2004 and 2003 are as follows:

	Number of shares owned						Ownership (%)	
	2004			2003			2004	2003
	Common stock	Preferred stock	Total	Common stock	Preferred stock	Total		
LSF-KEB Holdings, SCA	325,851,715	-	325,851,715	325,851,715	-	325,851,715	50.53	51.00
Commerzbank AG	94,247,389	-	94,247,389	68,247,389	26,000,000	94,247,389	14.61	14.75
Export-Import Bank of Korea	89,448,595	-	89,448,595	89,448,595	-	89,448,595	13.87	14.00
Bank of Korea	39,500,000	-	39,500,000	39,500,000	-	39,500,000	6.12	6.18
Others	95,859,127	-	95,859,127	89,877,232	-	89,877,232	14.87	14.07
	644,906,826	-	644,906,826	612,924,931	26,000,000	638,924,931	100.00	100.00

As of December 31, 2004, the Bank has 334 branches, agencies and offices in total over both domestic and overseas market. The Bank closed or sold 11 domestic branches and 4 overseas branches while opening 6 domestic branches and 1 overseas branch during 2004. In addition, during 2004, the Bank established 3 new overseas subsidiaries (KEB NY Financial Corp., KEB LA Financial Corp. and KEB USA International Corp.), and sold Pacific Union Bank and liquidated KEB Ireland Ltd.

(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:

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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(a) Basis of Presenting Financial Statements

The Bank maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

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

The accompanying non-consolidated financial statements include only the accounts of the Bank, and do not include the accounts of any of its subsidiaries. Instead, these subsidiaries are accounted for under the equity method of accounting-see note 4(b).

Effective January 1, 2004, the Bank adopted Statements of Korea Accounting Standard No. 13 "Troubled Debt Restructuring". The adoption of this standard did not have a significant impact on the net earnings of the accompanying financial statements. 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.

Certain accounts of prior year's financial statements, presented herein for comparative purposes, were reclassified to conform to the current year's presentation. These reclassifications did not result in any change to reported net earnings (losses) 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 defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2004 and 2003, the amount of interest not recognized due to such policy approximates ₩156,037 million and ₩57,191 million, respectively.

All additional gains during the process of handling loans are deferred and recorded as deduction from the loan amount. Additional expenses with the future economic profits, which can be classified by individual loans, are also deferred and expressed as addition to the loan amount. Such gains and expenses are reversed or amortized using effective interest rates and expressed as addition to or deduction from the interest income.

(c) Allowance for Loan Losses

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

Estimated loan losses as of December 31, 2004 and 2003 were determined by applying the following minimum percentages to each credit risk classification:

Classification	Corporate loans	Retail loans	Credit card loans and receivables
Normal	0.50%	0.75%	1.0%
Precautionary	2.0%	8.0%	12.0%
Substandard	20.0%	20.0%	20.0%
Doubtful	50.0%	55.0%	60.0%
Loss	100.0%	100.0%	100.0%

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.

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(d) Securities

Upon acquisition, the Bank classifies certain debt and equity securities into one of the three categories of held-to-maturity, available-for-sale, or trading securities and such determination should be reassessed at each balance sheet date. Investments in 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. Investments 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 income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in 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. Investments in 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. Recognition of unrealized gains and losses is summarized as follows:

Classification	Valuation method	Recognition of unrealized gains and losses
Trading	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 earnings (losses)
Held-to-maturity	Cost	Amortized cost
Investments in affiliates	Equity	Current operations, retained earnings (accumulated deficit), or capital adjustments, depending on the source of the gain or loss

The private placement fund held by the Bank consists of deposits, call loans, securities and others. The valuation of such assets is reflected to the balance sheet by classifying them for their purposes. The results including interest income, valuation gain/loss, disposal gain/loss and others are presented in the statement of operation as a net amount.

(e) Investment Securities under the Equity Method of Accounting

Equity securities held for investment in which the Bank is able to exercise significant influence over the investees, are accounted for using the equity method. The Bank's share in net income or net loss of the investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of the investees are accounted for as an adjustment to retained earnings or to capital adjustments.

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.

Any excess in the Bank's acquisition cost over its share in the investee's identifiable net assets is considered as goodwill and amortized using the straight-line method over 5 years of estimated useful life. If the Bank's acquisition cost is less than its share in the investee's net asset value, then the portion of difference caused by the investee's amortizable non-currency assets is reversed over the weighted average useful lives of such assets using the straight-line method, and the remaining resulted from the investee's unamortizable assets is reversed at the point when expensed. If the difference between the Bank's acquisition cost over its share in the investee's net asset value is resulted due to the specific assets and liabilities

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which are evaluated using their fair market values, such difference is accounted for using the investee's accounting treatments applied for such assets and liabilities.

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

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

(f) 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.

(g) Intangible Assets

Intangible asset consist of primarily of software development costs related to the office automation and productivity enhancement. Amounts capitalized were ₩26,409 million and ₩12,505 million in 2004 and 2003, respectively while the amortization costs were ₩8,403 million and ₩5,852 million in 2004 and 2003, 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.

(h) 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 in installment sales, in conformity with accounting standard for the Korean banking industry, the proceeds and the sale gain/loss are recognized as receivable-disposition of asset and gain/loss-disposition of asset, respectively.

(i) 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.

(j) Retirement and Severance Benefits

Employees and executives who have been with the Bank for more than one year are entitled to lump-sum payment based on the current rate of pay and the length of service when they leave the Bank. Retirement and severance benefits of ₩123,258 million and ₩85,739 million represent the amount, which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2004 and 2003, respectively. The Bank's actual payments of severance benefits were ₩40,071 million (excluding ₩89,592 million of additional early retirement payments) and ₩6,747 million (excluding ₩2,844 million of additional early retirement payments) in 2004 and 2003, respectively.

As for 71.67% of the severance benefit provision as of December 31, 2004, the Bank is under coverage by the employee retirement insurance policies purchased from insurance companies including Samsung Life Insurance Co., Ltd., in which the employees are the beneficiaries as well as

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the Retirement Trust provided by Chohung Bank and other financial institutions.

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.

(k) Restructuring of Troubled Loans

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. Allowance for loan losses is calculated based on the nominal amount, net of present value discount. Up to the fiscal year ended December 31, 2003, the difference between the nominal amount and the present value had been accounted for as present value discount and amortized using effective interest rate. However, in accordance with Statement of Korea Accounting Standard No. 13 "Troubled Debt Restructuring", the remaining balance of present value discount has been accounted for as allowance for loan losses.

(l) 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 as of December 31, 2004 and 2003, there has been no related amortization for the years then ended.

(m) 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 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 foreign branches are included in other assets and liabilities, and corresponding income tax benefits and expenses are recorded as non-operating income and expenses.

(n) 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.

(o) 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 rate used to translate U.S. Dollar into Korean Won at December 31, 2004 was ₩1,043.80:US\$1.

(p) 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 (under the fair value method as for the stock options granted after December 31, 2003) 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. In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank.

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All stock options granted prior to December 31, 2003, were accounted for using minimum value method using the Black-Scholes model. Effective January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

(q) 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 for 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 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.

(r) 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 for the years ended December 31, 2004 and 2003 are ₩27,682 million and ₩30,001 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.

(s) 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 Korea International Merchant Bank 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.

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

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.

(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) Cash Equivalents

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

(v) Contingent Liabilities

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

(w) Change in Accounting Treatment for Gain/Loss on Disposal of Loans

In connection to the disposal of loans, accounting treatment to recognize gain or loss resulting from disposal of loans was changed and that such gain and loss are no longer adjusted in the allowances but recorded as gain or loss on disposal of loans. Due to the above changes in accounting treatment, gain on disposal of loans increased by ₩78,938 million, while provision for loan losses increased by ₩78,938 million for the year ended December 31, 2004. For the comparison purpose, gain on disposal of loans and the provision for loan losses in the prior year financial statements were each increased by ₩24,488 million. Such changes in accounting treatment have no effect to the net asset value, ordinary income or the net income for the year ended December 31, 2004 and 2003 respectively.

(3) Cash and Due from Banks

Cash and due from banks in Korean Won as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004	2004	2003
Cash on hand		₩ 1,266,966	1,620,775
Foreign currencies		240,408	259,074
Due from banks in Won:			
Reserve deposit with the Bank of Korea		237,045	906,142
Deposits with other banks	2.30 ~ 3.56	149,811	616,382
Deposits with other financial institutions	0.00 ~ 4.20	3,169	3,013
		390,025	1,525,537
Due from banks in foreign currencies:			
Deposits with the Bank of Korea reserve deposit		226,344	553,746
Deposits with other financial institutions	0.00 ~ 2.24	1,570	133
Deposits with overseas financial institutions	0.00 ~ 2.32	512,740	807,139
		740,654	1,361,018
		₩ 2,638,053	4,766,404

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Due from banks restricted in use as of December 31, 2004 and 2003 are summarized as follows:

(In Millions of Won)

	2004		2003	Reference
Due from banks in Won:				
Reserve deposits with the Bank of Korea	₩	237,045	906,142	Required under the Banking Act
Other deposits		70,674	57,149	
Due banks in foreign currencies:				
Reserve deposits with the Bank of Korea		226,344	553,746	Required under the Banking Act
Other deposits		15,472	11,915	
	₩	549,535	1,528,952	

The scheduled maturities of due from banks as of December 31, 2004 are as follows:

(In Millions of Won)

	Due in less than one year		Due from one to three years	Due after three years	Total
Due from banks in Won	₩	72,306	-	317,719	390,025
Due from banks in foreign currencies		736,354	-	4,300	740,654
	₩	808,660	-	322,019	1,130,679

(4) Securities

Securities as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004			2003		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Trading	₩ 699,056	49,718	748,774	340,080	39,338	379,418
Available-for-sale	8,017,021	1,552,755	9,569,776	9,485,029	924,165	10,409,194
Held-to-maturity	1,463,988	-	1,463,988	887,847	-	887,847
Investment under equity method	-	328,935	328,935	-	610,034	610,034
	₩10,180,065	1,931,408	12,111,473	10,712,956	1,573,537	12,286,493

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(a) Debt Securities

Debt securities as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Annual interest rate(%) 2004.12.31	2004				2003			
		Nominal amount	Acquisition cost	Adjusted acquisition cost(*1)	Fair value(*2)	Nominal amount	Acquisition cost	Adjusted acquisition cost(*1)	Fair value(*2)
Trading:									
Government bonds	3.00~10.70	₩ 140,549	143,341	143,186	143,500	151,838	153,395	153,156	153,105
Finance debentures	3.19~9.09	528,134	529,030	528,793	530,556	153,436	153,553	153,513	152,929
Corporate bonds	3.00	10,000	9,948	10,176	10,425	15,400	15,458	15,423	15,629
Beneficiary certificates	-	-	-	-	-	9,567	9,792	9,792	10,146
Bonds in foreign currencies	3.02~4.625	14,613	14,516	14,517	14,575	7,186	8,208	8,158	8,271
		693,296	696,835	696,672	699,056	337,427	340,406	340,042	340,080
Available-for-sale:									
Government bonds	3.00~15.00	3,111,751	3,166,086	3,149,227	3,149,256	3,919,525	3,990,683	3,977,479	3,958,268
Finance debentures	3.19~9.10	3,527,470	3,502,141	3,498,792	3,515,778	3,411,000	3,394,689	3,391,985	3,389,001
Corporate bonds	3.43~11.00	695,846	698,570	680,443	667,752	706,845	619,465	620,295	672,820
Beneficiary certificates	-	-	-	-	-	957,492	957,492	957,574	958,030
Other securities	3.20~7.50	160,764	159,315	123,233	117,599	78,202	78,202	47,159	47,159
Bonds in foreign currencies (*3)	0.00~12.75	595,525	595,601	626,335	566,605	497,582	470,900	464,645	459,715
Off-shore debt securities	-	8,350	4,254	31	31	9,582	4,882	36	36
		8,099,706	8,125,967	8,078,061	8,017,021	9,580,228	9,516,313	9,459,173	9,485,029
Held-to-maturity:									
Government bonds	2.50~15.00	510,114	511,248	513,526	513,526	251,884	248,634	249,164	249,164
Finance debentures	4.28~7.13	254,000	256,920	256,571	256,571	-	-	-	-
Corporate bonds	4.00~9.02	473,029	394,109	323,414	298,062	647,885	647,545	576,642	576,642
Other securities	5.00	2,290	2,272	2,272	2,272	2,569	2,569	2,569	2,568
Bonds in foreign currencies	0.00~7.625	388,220	394,131	394,053	393,557	59,056	59,795	59,473	59,473
		1,627,653	1,558,680	1,489,836	1,463,988	961,394	958,543	887,848	887,847
		₩10,420,655	10,381,482	10,264,569	10,180,065	10,879,049	10,815,262	10,687,063	10,712,956

(*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).

(*3) Certain bonds in foreign currencies are subject to swap contracts in order to hedge risks from changes in interest rates and exchange rates. Gain and loss from foreign currency transactions amounting to ₩110 million and ₩476 million, respectively, have been accounted for.

The scheduled maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2004 are as follows:

(In Millions of Won)

		Due in less than one year	Due after one year through three years	Due after three years	Total
Government bonds	₩	663,140	2,417,301	725,841	3,806,282
Finance debentures		2,112,053	1,906,598	284,254	4,302,905
Corporate bonds		149,191	644,398	182,650	976,239
Other securities		76,409	492	42,970	119,871
Bonds in foreign currencies		124,792	147,832	702,113	974,737
Off-shore debt securities		-	-	31	31
	₩	3,125,585	5,116,621	1,937,859	10,180,065

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Debt securities in foreign currencies, classified by country, as of December 31, 2004 and 2003 are as follows:

Countries	2004			2003		
	In thousands of U.S.dollars(*)	In millions of Won	Ratio (%)	In thousands of U.S.dollars(*)	In millions of Won	Ratio (%)
Korea	\$ 838,909	₩ 875,653	89.8	\$ 351,297	₩ 420,783	79.8
USA	49,149	51,302	5.3	44,539	53,349	10.1
Philippines	7,675	8,011	0.8	9,980	11,954	2.3
Brazil	5,223	5,451	0.6	5,088	6,095	1.2
Hong Kong	8,255	8,616	0.9	7,172	8,591	1.6
Others	24,655	25,735	2.6	22,310	26,723	5.0
	\$ 933,866	₩ 974,768	100.0	\$ 440,386	₩ 527,495	100.0

(*) All currencies other than U.S. dollars were translated into U.S. dollars using the exchange rates as of the balance sheet dates.

(b) Equity Securities

Equity securities as of December 31, 2004 are as follows:

(In Millions of Won)

	Shares owned by the Bank (1,000 shares)	Ownership ratio (%)	Acquisition cost	Market or asset value	Book value
Trading securities:					
Trading securities in Won	4,722	-	₩ 48,361	49,718	49,718
Available-for-sale securities:					
Marketable equity securities in Won (*1)	132,865	-	₩ 1,158,335	1,329,776	1,329,776
Marketable equity securities in foreign currencies	1,169	-	30,504	43,870	43,870
Non-marketable equity securities in Won (*2)	50,273	-	310,703	169,582	169,582
Non-marketable equity in foreign currencies	-	-	12,578	8,022	8,022
Other investments	-	-	1,505	1,505	1,505
Total available-for-sale securities			₩ 1,513,625	1,552,755	1,552,755
Investment in domestic associates:					
KEB Capital Co., Ltd. ("KEBC")(*3)(*4)	14,976	99.3	₩ 74,881	69,685	69,685
KEB Commerz Investment Trust Management Co. Ltd. ("KEBIT")(*3)(*4)(*5)	2,760	46.0	13,800	15,600	15,600
KEB Future Co., Ltd. ("KEBFC")(*3)(*4)	3,000	100.0	15,000	18,394	18,394
MP&T(*6)	170	38.1	850	850	850
KEB Investor Services Co., Ltd.(*6)	510	100.0	2,550	2,550	2,550
			107,081	107,079	107,079
Investment in foreign associates:					
Korea Exchange Bank of Canada ("KEBOC")(*4)	334	100.0	₩ 26,322	50,868	50,868
KEB Australia Co., Ltd. ("KEBA")(*4)	55,000	100.0	38,527	20,997	20,997
P.T.Korea Exchange Bank Damanon ("KEBD")(*4)	1	85.0	16,453	44,950	44,950
KEB Brazil ("KEBB")(*4)	33,726	100.0	17,175	9,857	9,857
Korea Exchange Bank (Deutschland) AG ("KEBD AG")(*4)	20	100.0	20,589	44,169	44,169
Cairo Far East Bank S.A.E. ("CFEB")(*4)	8	31.5	8,281	4,153	4,153
KEB NY Financial Corp. ("NYF")(*4)	0.1	100.0	20,876	21,976	21,976
KEB LA Financial Corp. ("LAF")(*4)	0.1	100.0	20,876	22,045	22,045
KEB USA International Corp. ("USAI")(*4)	0.1	100.0	2,610	2,841	2,841
			171,709	221,856	221,856
Total securities accounted for using equity method			₩ 278,790	328,935	328,935

(*1) ₩1,156,741 million (book value) of the securities, which are debt-to-equity converted securities, are restricted from being sold.

(*2) ₩66,416 million (book value) of the securities, which are debt-to-equity 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 financial statements of the affiliates.

(*5) As of December 31, 2004, KEBIT is in the process of disposition.

(*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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

(In Millions of Won)

	Shares owned by the Bank (1,000 shares)	Ownership ratio (%)	Acquisition cost	Market or asset value	Book value
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
Total available-for-sale securities			₩ 1,299,988	922,660	924,165
Investment in domestic associates:					
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")(*4)(*5)(*6)	43,839	68.6	₩ 210,693	(510,254)	-
KEB Capital Co., Ltd. ("KEBFC")(*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)(*6)	16,400	15.7	82,000	250,085	250,085
MP&T(*7)	170	38.1	850	850	850
KEB Investor Services Co., Ltd.(*7)	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)	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) AG ("KEBD AG")(*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
Total securities accounted for using equity method			₩ 565,507	99,780	610,034

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

(*2) ₩61,230 million of the securities, which are debt-to-equity 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) Equity method is no longer applied for KEBCS and as a result equity loss on securities of equity method accounting of ₩510,254 million was not reflected to the financial statement.

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

(*7) 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

As of December 31, 2004, details of investments in affiliates accounted for using the equity method are as follows:

(In Millions of Won)

	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(*1)	₩ 210,693	-	-	-	(111,505)	-	-	-
KEBC	74,881	58,056	-	-	3,105	-	8,524	69,685
KEBIT	13,800	14,971	-	-	1,086	(457)	-	15,600
KEBFC	15,000	16,478	-	-	1,916	-	-	18,394
Doosan Heavy Industries & Construction Co., Ltd.(*2)	82,000	250,085	(264,561)	-	18,396	384	(4,304)	-
MP&T(*4)	850	850	-	-	-	-	-	850
KEB Investor Services Co., Ltd.(*4)	2,550	2,550	-	-	-	-	-	2,550
PUB(*3)	38,493	82,869	(81,575)	(3,858)	2,821	-	(257)	-
KEB Ire.(*5)	3,436	7,019	(6,389)	(268)	(362)	-	-	-
KEBOC	26,322	47,331	-	(3,027)	6,564	-	-	50,868
KEBA	38,527	21,470	-	(2,011)	1,538	-	-	20,997
KEBD	16,453	50,520	-	(10,504)	4,934	-	-	44,950
KEBB	17,175	8,041	3,543	(390)	(1,337)	-	-	9,857
KEBD AG	20,589	45,090	(665)	(2,384)	2,128	-	-	44,169
CFEB	8,281	4,704	-	(605)	-	-	54	4,153
NYF	23,050	-	22,958	(2,082)	1,100	-	-	21,976
LAF	23,050	-	22,958	(2,082)	1,169	-	-	22,045
USAI	2,881	-	2,870	(261)	232	-	-	2,841
	₩ 618,031	610,034	(300,861)	(27,472)	(68,215)	(73)	4,017	328,935

(*1) Result of operation of KEBCS allocated based on the Bank's ownership in prior to the merger on February 28, 2004 was used in calculations.

(*2) These were excluded from the applying equity method due to the partial disposal of investment. Investments in subsidiaries accounted for using the equity method amounting to ₩198,173 million were reclassified into available-for-sale securities.

(*3) These were disposed during the current period.

(*4) 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.

(*5) The investee was liquidated during the current period.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

(In Millions of Won)

	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	₩ 210,693	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 AG	20,589	33,525	(713)	6,538	5,740	-	-	45,090
CFEB	8,281	6,452	-	(14)	(1)	-	(1,733)	4,704
	₩ 565,507	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.

(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, 2004 and 2003 are ₩17,628 million (₩19,433 million) and ₩10,680 million (₩12,320 million), respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Securities denominated in foreign currencies as of December 31, 2004 and 2003 are as follows:

	Currency	2004		2003	
		In foreign currency (In Thousands)	Korean Won equivalent (In Millions)	In foreign currency (In Thousands)	Korean Won equivalent (In Millions)
Government bonds	USD	20,005	₩ 20,882	40,366	₩ 48,351
	HKD	160,039	21,482	85,060	13,122
	SGD	13,186	8,424	7,439	5,233
	Others(*1)	14,658	15,300	2,075	2,485
			66,088		69,191
Finance debentures	USD	718,749	750,231	266,498	319,214
Corporate bonds	USD	141,802	148,013	102,054	122,240
	CHF	55	50	55	53
	JPY	1,022,251	10,346	1,496,183	16,751
	HKD	300	40	300	46
			158,449		139,090
Available-for-sale equity securities	USD	43,764	45,681	2,836	3,341
	CHF	6,738	6,211	6,738	6,497
			51,892		9,838
Investments in Affiliates(*2)	Others(*1)	212,546	221,856	222,945	267,044
			₩ 1,248,516		₩ 804,377

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

(*2) Korean Won equivalents were calculated using the book values resulted from applying equity method.

e) Securities Provided as Collateral

Securities provided as collateral for borrowings from the Bank of Korea and other financial institutions as of December 31, 2004 are as follows:

Guarantees	Pledge value	Reference
Other financial institutions	₩ 578,201	Bonds sold under repurchase agreements
Bank of Korea	986,726	Borrowings from the Bank of Korea (BOK)
Bank of Korea	220,823	Overdrafts from BOK
Bank of Korea	1,072,808	Bonds sold under repurchase agreements (BOK)
Bank of Korea	483,406	Inter-bank settlements
Korea Development Bank	36,100	Asset-backed settlements
Futures Corporations, Bank	382,456	Futures transaction/Borrowings denominated in foreign currencies
Merrill Lynch	4,328	Credit default swap
	₩ 3,764,848	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(f) Impairment Loss

Impairment losses on equity securities for the year ended December 31, 2004 are as follows:

(In Millions of Won)

Equity securities	Issuer	Acquisition cost	Impairment loss	Book value
Marketable securities in Won	FOR-CS International, Inc.	₩ 396	99	297
	Digital Multimedia Technology Co., Ltd.	750	411	339
	Korea Industrial	1,110	238	872
	Daewoo Precision Industries Co., Ltd.	793	44	749
	Moohan Investment Co., Ltd.	1,229	853	376
	Saeahan Inc.	665	263	402
	Saeahan Media Co., Ltd.	661	67	594
	Shinwon Corporation	1,850	815	1,035
	Hyundai Corporation	7,378	24	7,354
		₩	14,832	2,814
Non-marketable securities In Won	Prime Venture Capital Corp.	410	376	34
	Sourcetel Co., Ltd.	32	32	-
	SL Systems Co., Ltd.	151	151	-
	IO Telecom	247	247	-
	Inpro Network	500	500	-
	Oxy-Cure Co., Ltd.	500	500	-
	Korea Aerospace Industries, Ltd.	7,827	2,032	5,795
	Newcore Co., Ltd.	67	67	-
	Dasan Co., Ltd.	119	119	-
	Daewoo Electronics Corp.	36,143	3,173	32,970
	Daeil Industry Co., Ltd.	12	12	-
	Dongyang Ganchul Co., Ltd.	7	7	-
	Sammi Corporation	608	608	-
	Acorn	99	99	-
	Onse Telecom	175	175	-
	Inchon Oil Refinery Co., Ltd.	5,303	525	4,778
	Konics Co., Ltd.	55	55	-
	Poonghan Co., Ltd.	77	77	-
	SKM Ltd.	203	203	-
	The Korea Economic Daily	262	136	126
Badbank Harmony Ltd.	10,929	5,450	5,479	
VCash Company Ltd.	420	371	49	
	₩	64,146	14,915	49,231
Non-marketable securities in foreign currencies	AFIC	1,741	1,078	663
Other	Contribution to non-performing asset management(*)	36,680	36,680	-
	₩	117,399	55,487	61,912

(*) Contribution to non-performing asset management is classified in other assets.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Impairment losses on debt securities for the year ended December 31, 2004 are as follows:

(In Millions of Won)

Debt securities	Issuer	Book value prior to adjustment	Impairment loss	Book value
Debt securities in Won	Hyundai Corporation	₩ 21,226	70	21,156
	LG Card Co., Ltd	5,212	212	5,000
	Beneficiary certificate of Daewoo Motors	46,908	5,422	41,486
	KEB 8th SPC Subordinated bond	37,705	260	37,445
	KEB 9th SPC Subordinated bond	70,000	25,093	44,907
	KEB 10th SPC Subordinated bond	45,000	18,336	26,664
		₩ 226,051	49,393	176,658

The recovery of impairment loss on available-for-sale equity securities for the year ended December 31, 2004 is follows:

(In Millions of Won)

Equity securities	Issuer	Book value prior to adjustment	Recovery of impairment loss	Book value
Non-marketable Securities in Won	Korea Housing Guarantee Co., Ltd	₩ 475	177	652

The recovery of impairment loss on debt securities for the year ended of December 31, 2004 is as follows:

(In Millions of Won)

Debt securities	Issuer	Book value prior to adjustment	Recovery of impairment loss	Book value (*)
Debt securities in Won	Il Shin Stone Co., Ltd.	₩ 14	1,254	-

(*) Entirely extinguished during the current period

(g) Sales and Liquidation of Overseas Subsidiaries

The Bank had entered into a contract to sell its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary, to Hanmi Financial Corp., a holding company of Los Angeles-based Hanmi Bank. This sales transaction was finalized on April 30, 2004 upon the approval from Federal Reserve Bank of San Francisco on April 12, 2004. The total number of shares of PUB sold was 6,624,052 shares and the sales proceed received amounted to US\$195,924 thousand. The Bank recorded gain on disposal of available-for-sale securities amounting to ₩181,463 million.

KEB Ireland Ltd., a subsidiary of the Bank, was liquidated on September 30, 2004.

(h) Partial Sale of Investments Accounted for Using the Equity Method

On December 17, 2004, the Bank sold 4 million shares (out of 16.4 million shares) of Doosan Heavy Industries & Construction Co., Ltd. at ₩49,566 million. As its ownership declined to 11.9%, the remaining 12.4 million shares with book value of ₩198,173 million were excluded from the application of equity method and reclassified into available-for-sale securities. During 2004, the Bank recorded a gain on disposal of available-for-sale securities of ₩593 million.

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December 31, 2004 and 2003

(i) Private Placement Funds

Major assets for private placement funds held by the Bank and its result of operation as of December 31, 2004 are as follows:

(In Millions of Won)

	Forever 12M Private Bond 2	SAFE&PLUS Private Hybrid 5	KEB Core Best Private Bond 1	Total
Assets:				
Due from banks in Won	₩ 53,380	-	406	53,786
Due from banks in foreign currencies	-	-	73	73
Call loans	21,371	737	2,797	24,905
Available-for-sale securities	755,908	29,369	46,043	831,320
Derivative instruments	-	-	478	478
Others	8,863	617	1,093	10,573
	₩ 839,522	30,723	50,890	921,135
Revenue:				
Gain from operation of private placement funds	₩ 46,350	3,062	2,092	51,504

During 2004, a loss from the ceased operation of private placement fund amounted to ₩2,321 million.

(5) Loans

(a) Loans as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Loans in Won	₩ 25,678,795	26,288,827
Loans in foreign currencies	5,172,849	6,218,823
Bills bought in Won	895,815	1,179,460
Bills bought in foreign currencies	3,126,906	2,857,628
Call loans	850,479	2,165,183
Credit card accounts	2,619,986	43,733
Securities purchased under resale agreements	1,230,000	700,000
Other	627,116	850,620
	40,201,946	40,304,274
Less: Allowance for loan losses	(871,228)	(987,080)
net deferred loan fees and costs	(1,271)	-
	₩ 39,329,447	39,317,194

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.

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December 31, 2004 and 2003

(b) Loans to Other Financial Institutions

Loans to other financial institutions as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004				2003			
	Banks	Domestic	Foreign	Total	Banks	Domestic	Foreign	Total
Loans in Won	₩ -	182,170	-	182,170	-	194,900	-	194,900
Loans in foreign currencies	-	80,081	-	80,081	-	71,991	-	71,991
Call loans	143,564	-	650,544	794,108	1,323,305	-	841,878	2,165,183
	₩ 143,564	262,251	650,544	1,056,359	1,323,305	266,891	841,878	2,432,074

(c) Foreign Currency Loans by Country

As of December 31, 2004 and 2003, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2004			2003		
	Thousands of U.S.dollars	Millions of Won	Ratio (%)	Thousands of U.S.dollars	Millions of Won	Ratio (%)
Korea	\$ 4,026,664	₩ 4,203,032	81.25	\$ 3,300,148	₩ 3,952,917	63.56
Japan	225,521	235,399	4.55	255,792	306,388	4.93
Russia	-	-	-	99,000	118,582	1.91
Indonesia	54,459	56,844	1.10	36,058	43,190	0.69
China	40,395	42,164	0.82	35,337	42,327	0.68
Thailand	9,940	10,375	0.20	8,960	10,732	0.17
Others	598,807	625,035	12.08	1,456,576	1,744,687	28.06
	\$ 4,955,786	₩ 5,172,849	100.00	\$ 5,191,871	₩ 6,218,823	100.00

(d) Loans by Industry

As of December 31, 2004 and 2003, the Bank's loans denominated in Korean Won, including trade bills discounted, corporate bills discounted (a portion of bills discounted) and foreign currency loans to domestic borrowers classified by industry, are as follows:

(In Millions of Won)

	2004		2003	
	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 9,139,626	30.47	₩ 9,564,775	30.55
Financial and insurance	271,325	0.90	707,062	2.26
Telecommunication	47,679	0.16	64,273	0.21
Wholesale and retails/service	3,692,559	12.31	3,737,318	11.94
Construction	1,597,761	5.33	1,804,800	5.77
Individuals and households	12,153,088	40.50	11,746,506	37.52
Others	3,095,026	10.33	3,679,392	11.75
	29,997,064	100.00	31,304,126	100.00
Loans of overseas branches	1,674,366		2,290,859	
	₩ 31,671,430		₩ 33,594,985	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(e) Loan Classification

The asset quality classification for loans and allowance for loan losses as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004 (*1)						Allowance for loan losses
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	
Loans :							
Loans in Won(*2)	₩ 25,589,540	349,508	279,665	37,849	80,177	26,336,739	389,019
Loans in foreign currencies	5,007,950	96,931	51,801	10,149	5,077	5,171,908	95,836
Foreign exchange bills bought(*3)	3,195,440	22	7,468	-	5	3,202,935	17,476
Advances							
payments acceptance and guarantees	3,426	9,400	21,033	13,394	4,763	52,016	28,228
Call loans(*4)	819,013	-	-	-	-	819,013	-
Credit card accounts	2,374,100	224,555	85	162,248	13,441	2,774,429	244,989
Privately placed bonds	221,946	-	5,637	1,067	38	228,688	2,809
Interbank loans in foreign currencies	294,156	-	-	-	-	294,156	-
Securities purchased under resale agreements	1,230,000	-	-	-	-	1,230,000	-
	38,735,571	680,416	365,689	224,707	103,501	40,109,884	778,357
Others(*5)	959,057	3,410	43,330	1,793	7,888	1,015,478	92,871
	₩ 39,694,628	683,826	409,019	226,500	111,389	41,125,362	871,228

(In Millions of Won)

	2003 (*1)						Allowance for loan losses
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	
Loans :							
Loans in Won(*2)	₩ 26,202,308	486,547	493,010	45,219	81,250	27,308,334	647,800
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 accounts	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	-
Securities purchased under resale agreements	700,000	-	-	-	-	700,000	-
	38,375,821	771,155	804,401	101,273	86,736	40,139,396	893,027
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	42,081,247	987,080

(*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 and others.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(f) Allowance for Loan Losses

Changes in allowances for loan losses for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Balance at the beginning of the year	₩ 987,080	835,041
Provision for loan losses	840,235	829,057
Loans charged off	(2,792,932)	(866,848)
Transfer from merger with KEBCS	1,478,366	-
Transfer from repurchase of loans, recoveries and others	380,336	185,061
Translation adjustments and others	(21,857)	4,769
Balance at the end of the year	₩ 871,228	987,080

Ratios of allowance for loan losses to total loans (net of present value discount) for the years ended December 31, 2004, 2003 and 2002 are 2.25%, 2.53% and 2.45%, respectively.

As of December 31, 2004 and 2003, 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 ₩3,136,009 million and ₩3,227,985 million, respectively.

(g) 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. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2004, discounted using interest rates of 5.25% to 15.25%, is ₩600,669 million which is less than their nominal value of ₩669,129 million.

The changes in present value discount and net deferred loan fees and costs of the Bank's loans for the year ended December 31, 2004 are as follows:

(In Millions of Won)

	Balance at January 1, 2004	Addition	Deduction	Balance at December 31, 2004
Allowance for loan losses (Present value discount)	₩ 80,831	1,454	13,825	68,460
Net deferred loan fees and costs	-	7,335	6,064	1,271

The scheduled repayments of loans as of December 31, 2004 are as follows:

(In Millions of Won)

	Due in less than one year	Due from one to three years	Due after three years	Total
Loans in Won(*)	₩ 20,733,819	3,571,012	2,193,750	26,498,581
Loans in foreign currencies	3,871,087	634,035	667,727	5,172,849
	₩ 24,604,906	4,205,047	2,861,477	31,671,430

(*) Including trade bills discounted and corporate bills discounted

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(h) Loans to Employees

The Bank provides housing loans bearing interest at a rate of 6.00% per annum to employees. The outstanding balance of these housing loan receivables as of December 31, 2004 and 2003 amounts to ₩47,782 million and ₩56,329 million, respectively.

(6) Fixed Assets

Fixed assets as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Tangible assets:		
Land	₩ 387,579	367,197
Buildings	459,515	436,827
Office facilities held on lease	61,384	56,294
Equipment	562,516	352,339
Construction in-progress	351	335
	1,471,345	1,212,992
Less: accumulated depreciation	(617,575)	(430,665)
	853,770	782,327
Intangible assets		
Development costs	39,933	21,927
Others	2,923	2,233
	42,856	24,160
Foreclosed assets		
Acquisition cost	70	1,449
Less: allowance for possible losses on foreclosed assets	-	(1,226)
	70	223
	₩ 896,696	806,710

As of December 31, 2004, the domestic branches of the Bank are under renovation for repairs and working condition improvement, and in connection with the renovations, the Bank incurred ₩16,407 million for the year ended December 31, 2004.

As of December 31, 2004, the residual value of fixed assets, which had been fully depreciated and used, amounted to ₩174 million.

As of December 31, 2004, the value of the Bank's domestic land as determined by the tax authorities for property tax assessment purpose amounted to ₩495,692 million (book value ₩387,579 million).

As of December 31, 2004, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses with a coverage amounting to ₩464,124 million. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(7) Other Assets

Other assets as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Guarantee deposits	₩ 498,721	454,742
Accounts receivable	2,744,995	1,639,195
Accrued income	253,876	317,582
Prepaid expenses	100,765	86,953
Deferred tax assets	204,450	200,584
Contribution to Non-Performing Fund	-	36,680
Derivatives instrument assets	738,841	205,743
Suspense receivable	98,451	40,034
Security deposits	21,514	12,242
Domestic exchange settlement	459,871	679,680
Loans to trust accounts	1,901	18,040
Others	49,552	84,567
	₩ 5,172,937	3,776,042

(8) Merchant Banking Account Assets

(a) Merchant banking account assets as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Loans	₩ 871,560	1,318,267
Cash management account (CMA)	235,425	207,725
Operating lease assets	26,145	27,214
Financing lease receivable	34,489	102,172
Other assets	14,883	19,238
	1,182,502	1,674,616
Less: allowance for loan and lease losses	(7,778)	(8,020)
accumulated depreciation of operating lease asset	(17,175)	(15,908)
allowance for estimated loss of future sale of operating lease assets	(45)	(200)
	₩ 1,157,504	1,650,488

(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 3.34~8.25 percent per annum.

Loans of the merchant banking division held as of December 31, 2004 and 2003 comprise the following:

(In Millions of Won)

	2004	2003
Notes discounted	₩ 863,623	1,298,924
Factored accounts receivable	7,937	19,343
	₩ 871,560	1,318,267

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(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, 2004 and 2003 comprise the following:

(In Millions of Won)

	2004	2003
Notes discounted	₩ 235,425	117,000
Other securities	-	90,725
	₩ 235,425	207,725

(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.

Equipment held for lease classified by industry as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
General industrial equipment	₩ 9,244	10,312
Shipping	16,901	16,902
	26,145	27,214
Less: accumulated depreciation	(17,175)	(15,908)
allowance for estimated loss on future		
sales of operating lease assets (see note 2)	(45)	(200)
	₩ 8,925	11,106

The estimated future lease payments to be received on the operating leases as of December 31, 2004 are as follows:

(In Millions of Won)

	Foreign currency	
2005	₩	3,390
2006		1,819
2007		1,878
2008		1,940
2009		2,008
2010 and thereafter		5,925
	₩	16,960

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(e) Financing Lease Receivables

The estimated future lease payments in aggregate to be received on financing leases as of December 31, 2004 are as follows:

(In Millions of Won)

	Amount	
2005	₩	19,280
2006		13,043
2007		3,852
2008 and thereafter		22
Total lease payments to be received		36,197
Less: unearned interest income		(1,708)
	₩	34,489

As of December 31, 2004, net financing lease receivables amounting to US\$31,115 thousand are denominated in foreign currencies, and net financing lease receivables amounting to ₩2,011 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, 2004 and 2003 are as follows:

(In Millions of Won)

	Classification (*1)					Total	Allowance for loan and lease losses
	Normal	Precautionary	Substandard	Doubtful	Loss		
2004:							
Loans(*2)	₩ 1,103,215	3,770	-	-	-	1,106,985	7,418
Financing lease receivables	33,269	-	970	-	-	34,239	360
	₩ 1,136,484	3,770	970	-	-	1,141,224	7,778
2003:							
Loans(*2)	₩ 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

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

(*2) Including notes discounted in CMA account.

(g) Other Assets

As of December 31, 2004 and 2003, the other assets included in the merchant banking assets comprise the following:

(In Millions of Won)

	2004	2003
Deferred gain on foreign currency translation	₩ 13,261	15,726
Accrued income	1,622	2,998
Receivables	-	514
	₩ 14,883	19,238

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(9) Deposits

(a) Deposits as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004		2004	2003
Deposits in Won:				
Demand deposits	0.00~0.2	₩	12,505,326	13,739,944
Savings and time deposits	0.00~3.7		14,981,796	16,787,010
Mutual installment saving	2.5~3.9		496,128	508,097
			27,983,250	31,035,051
Deposits in foreign currencies:				
Demand deposits	0.00~1.98		2,751,788	2,406,060
Savings and time deposits	0.00~6.66		4,475,134	6,871,669
			7,226,922	9,277,729
Certificates of deposits	2.4~3.0		3,327,713	2,184,105
		₩	38,537,885	42,496,885

(b) Deposits from other financial institutions as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004				2003			
	Banks	Domestic	Foreign	Total	Banks	Domestic	Foreign	Total
Deposits in Won:								
Demand deposits	₩ 21,386	298,289	1,159	320,834	14,823	150,140	14,100	179,063
Savings and time deposits	25,995	1,724,070	25,711	1,775,776	21,729	2,137,094	35,000	2,193,823
Certificates of deposits	-	2,137,416	-	2,137,416	-	662,059	-	662,059
Deposits in foreign currencies:								
Demand deposits	74,763	26,193	66,229	167,185	135,400	32,403	98,999	266,802
Saving deposits (*)	135,721	917,039	-	1,052,760	273,146	613,689	13,423	900,258
	₩ 257,865	5,103,007	93,099	5,453,971	445,098	3,595,385	161,522	4,202,005

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

(c) The scheduled maturities of deposits as of December 31, 2004 are as follows:

(In Millions of Won)

		Due in less than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩	25,521,514	1,682,502	779,234	27,983,250
Deposits in foreign currencies		5,021,331	2,202,962	2,629	7,226,922
Certificates of deposits		3,327,706	-	7	3,327,713
	₩	33,870,551	3,885,464	781,870	38,537,885

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(10) Borrowings

(a) Borrowings as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004		2004	2003
Borrowings in Won:				
Borrowings from the Bank of Korea	2.00	₩	1,062,945	998,307
Borrowings from the Governmental and Public fund	0.75~5.00		297,889	358,745
Borrowings from other banks	2.04~4.50		116,971	253,349
Borrowings from others	2.38~4.20		501,574	446,775
			1,979,379	2,057,176
Borrowings in foreign currencies:				
Medium and long-term borrowings	3ML+0.22~6ML+0.21		374,611	646,287
Short-term borrowings	2.12~3.01		1,803,103	1,537,851
Refinance	2.40~2.97		156,570	110,227
Borrowings from banks for subordinated loans	2.35~2.84		8,762	13,997
Others	3ML+0.20~0.44		665,089	722,956
			3,008,135	3,031,318
Securities sold under repurchase agreements	3.65		435,909	510,530
Bills sold	2.40~4.762		130,255	323,975
Call money	2.19~3ML+0.22		544,039	335,833
		₩	6,097,717	6,258,832

(b) Subordinated borrowings at December 31, 2004 and 2003 are as follows:

(Millions of Won, Thousands of U.S. Dollars)

	Borrower	Annual interest rate (%) for the year 2004		2004	2003
Borrowings on foreign currencies	Commerz Bank	6ML+3.5	₩	36,533 (US\$35,000)	41,923 (US\$35,000)

(c) The scheduled maturities of borrowings as of December 31, 2004 are as follows:

(In Millions of Won)

		Due in less than one year	Due from one to three years	Due after three years	Total
Borrowings in Won	₩	1,148,916	304,102	526,361	1,979,379
Borrowings in foreign currencies		2,929,202	77,086	1,847	3,008,135
	₩	4,078,118	381,188	528,208	4,987,514

As of December 31, 2004, 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, 2004 and 2003

(11) Debentures

(a) Debentures as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004		2004	2003
Debentures in Won:				
Debentures	3.34~7.73	₩	4,384,000	1,960,960
Subordinated debentures	4.90~10.50		1,442,504	1,192,504
Subordinated convertible debentures	-		-	200,000
Hybrid Tier 1(*)	8.50		250,000	250,000
			6,076,504	3,603,464
Discounts on debentures			(13,052)	(5,273)
			6,063,452	3,598,191
Debentures in foreign currencies:				
Debentures	13.75~3ML+2.00		419,757	488,282
Discounts on debentures			(2,428)	(3,064)
			417,329	485,218
		₩	6,480,781	4,083,409

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

(b) Subordinated debentures as of December 31, 2004 and 2003 are as follows:

(Millions of Won, Thousands of U.S. Dollars)

	Maturity	interest rate (%) at Dec. 31, 2004		2004	2003
Sold to general public	Feb. 28, 2005 ~ Nov. 28, 2014	4.90~10.50	₩	1,442,504	1,192,504
Chase Manhattan Bank and Merrill Lynch	Nov. 18, 2006	3ML+2.0		208,760 (US\$200,000)	239,560 (US\$200,000)
Credit Suisse First Boston (CSFB)	June 30, 2010	13.75		210,997 (US\$202,143)	248,722 (US\$207,649)
			₩	1,862,261	1,680,786

Certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates, and a gain on foreign currency transactions amounting to ₩6,925 million has been accounted for in connection to such contracts during the year ended December 31, 2004.

(c) Subordinated convertible debentures as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Terms of Debentures	Interest rate (%) at Dec. 31, 2004		2004(*)	2003
Subordinated convertible debentures (No.4)	Dec. 6, 1999 ~Dec. 6, 2009	4	₩	-	100,000
Subordinated convertible debentures (No.5)	Dec. 27, 1999 ~Dec. 27, 2009	4		-	100,000
			₩	-	200,000

(*) All of the above debentures were early extinguished during 2004.

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December 31, 2004 and 2003

(d) The scheduled maturities of debentures as of December 31, 2004 are as follows:

(In Millions of Won)

		Due in less than one year	Due from one to three years	Due after three years	Total
Debentures in Won	₩	3,714,000	1,420,000	942,504	6,076,504
Debentures in foreign currencies		-	208,760	210,997	419,757
	₩	3,714,000	1,628,760	1,153,501	6,496,261

(12) Other Liabilities

Other liabilities as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

		2004	2003
Accrual for Retirement and severance benefits	₩	34,069	26,693
Liability for acceptances and guarantees		18,982	54,200
Due to trust account		402,434	1,260,415
Foreign exchange remittance pending		253,448	283,028
Account payable		2,705,401	1,583,101
Accrued expenses		743,753	639,406
Unearned income		46,390	63,557
Deposits for letter of guarantees and others		139,134	174,993
Derivative instrument liabilities		831,130	214,050
Suspense receipt accrual		155,025	125,386
Liability for GIRO accounts		81,960	79,122
Agency receipt liability		564,844	556,447
Others (*)		215,679	111,867
	₩	6,192,249	5,172,265

(*) Allowance amounting to ₩212 million was included in relation to the suspense receivable resulted due to the employees' embezzlements (2 cases) amounting to ₩212 million as of December 31, 2004.

(13) Merchant Banking Account Liabilities

Merchant banking account liabilities as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004		2004	2003
Notes payable	2.85~4.30	₩	792,667	1,409,238
CMA deposits	2.99~3.63		262,687	216,946
Others			12,734	13,892
		₩	1,068,088	1,640,076

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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(14) Retirement and Severance Benefits

Retirement and severance benefits as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004		2003	
Balance at the beginning of the year	₩	85,739		53,447
Provisions		54,233		38,914
Transfer from KEBCS		23,611		-
Severance payments		(40,071)		(6,747)
Adjustments of foreign exchange transactions		(254)		125
		123,258		85,739
Deposits of insurance for retirement and severance benefits		(88,341)		(58,223)
Transfer to the National Pension Fund		(848)		(823)
Balance at the end of the year	₩	34,069		26,693

In addition to the above severance payments, employees electing voluntary early retirement plans received additional amounts of severance payments which were expensed amounting to ₩89,592 million and ₩2,844 million in 2004 and 2003, respectively.

(15) Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	In thousands of U.S.dollars	In millions of Won	In thousands of U.S.dollars	In millions of Won
Assets:				
Cash and due from banks	\$ 939,895	₩ 981,062	\$ 1,352,556	₩ 1,620,092
Securities	1,196,125	1,248,516	671,545	804,376
Loans and lease asset	9,130,052	9,529,947	9,292,747	11,130,850
	\$ 11,266,072	₩11,759,525	\$ 11,316,848	₩ 13,555,318
Liabilities:				
Deposits	\$ 6,923,666	₩ 7,226,922	\$ 7,745,641	₩ 9,277,729
Borrowings	3,007,256	3,138,973	2,615,513	3,132,862
Debentures	402,143	419,757	407,649	488,282
Others	242,813	253,448	236,290	283,028
	\$ 10,575,878	₩11,039,100	\$ 11,005,093	₩ 13,181,901

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, 2004 and 2003.

(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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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(17) Other Statutory Reverses and Accumulated Deficit**(a) 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 and Hanoi branches' statutory reserves are included in this reserve amount.

(b) Adjustments to the Beginning Accumulated Deficit

Details of adjustments to the beginning accumulated deficits as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Accumulated deficit before adjustments	₩ (344,482)	(129,596)
Adjustments:		
Equity method accounting for investment securities in subsidiaries	(73)	(412)
Others, net	-	390
Accumulated deficit after adjustments	₩ (344,555)	(129,618)

(18) Capital Adjustment

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

(In Millions of Won)

	2004	2003
Unrealized gain on available-for-sale securities	₩ 594,908	234,085
Unrealized gain on investments in affiliates	30,645	128,067
Stock option	7,649	14
Discounts on stock issued	(324,854)	(294,926)
	₩ 308,348	67,240

(19) Stock Options

As of December 31, 2004, the stock options granted to the Bank's employees and executives are as follows:

Grant date	Shares granted	Shares expired to date	Shares exercised	Shares outstanding	Exercise price in Won per share	Exercise period
March 25, 2000	784,000	761,500	-	22,500	₩ 10,000	2003.3.26~2006.3.25
March 28, 2000(*)	53,369	-	-	53,369	15,927	2003.6.22~2006.3.28
May 18, 2000	400,000	377,500	-	22,500	10,000	2003.5.19~2006.5.18
September 14, 2000(*)	74,716	-	-	74,716	15,927	2003.9.15~2006.9.14
March 13, 2001	562,000	15,000	-	547,000	5,000	2004.3.14~2007.3.13
March 30, 2002(*)	32,020	24,015	-	8,005	70,715	2005.3.31~2008.3.30
August 26, 2002	725,000	421,850	-	303,150	6,300	2005.8.27~2008.8.26
March 31, 2003(*)	101,401	-	-	101,401	13,266	2006.4.1~2009.3.31
September 4, 2003(*)	53,369	-	-	53,369	15,533	2006.9.5~2009.9.4
September 16, 2003	120,000	54,400	-	65,600	5,000	2006.9.17~2009.9.16
February 13, 2004	2,450,000	-	-	2,450,000	7,000	2006.2.14~2009.2.13
	5,355,875	1,654,265	-	3,701,610		

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

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In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank. All stock options granted prior to December 31, 2003 were accounted for using minimum value method using the Black-Scholes model. Effective January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

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

Grant date	Risk-free interest rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%)	Expected dividend rate (%)
March 25, 2000	6.35	6	90.01	0
March 28, 2000(*)	6.70	3.25	49.68	0
May 18, 2000	6.35	6	90.01	0
September 14, 2000(*)	6.70	3	61.29	0
March 13, 2001	6.35	6	90.01	0
March 30, 2002(*)	6.39	3	63.53	4.4
March 31, 2003(*)	4.62	3	58.35	0
August 26, 2002	6.35	6	90.01	0
September 4, 2003(*)	4.40	3	50.30	0
September 16, 2003	4.54	6	89.81	0
February 13, 2004	5.12	5	84.86	0

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

Changes in stock options during the year ended December 31, 2004 are as follows:

(In Millions of Won)

	2004
Beginning balance	₩ 14
Compensation costs for the year ended December 31, 2004	6,492
Transfer from KEBCS due to the merger	1,143
Decrease due to the stock options exercised	-
Ending balance	₩ 7,649

The difference between compensation costs calculated using minimum value method and those calculated using fair value method is as follows:

(In Millions of Won)

	Minimum value method	Fair value method
Total compensation costs	₩ 15,473	23,384
Compensation costs for the year ended December 31, 2004	6,492	7,020
Accumulated compensation costs as of December 31, 2003	14	1,660
Transfer from KEBCS due to the merger	1,142	6,482
Compensation costs to be recognized	7,825	8,222

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If the Bank applies fair value method in calculating compensation costs, ordinary income, net income, ordinary earnings per share and net earnings per share for the year ended December 31, 2004 are as follows:

	As reported	Adjustment	Revised
			(In Millions of Won)
Ordinary income	502,146	(528)	501,618
Net income	526,635	(528)	526,107
Ordinary earnings per share in Won	790	(1)	789
Net earnings per share in Won	818	(1)	817

(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, 2004 and 2003 are summarized as follows:

(In Millions of Won)

	2004	2003
Guarantees and acceptances in Won	₩ 798,429	856,386
Guarantees and acceptances in foreign currencies	1,764,396	2,196,235
	₩ 2,562,825	3,052,621

Asset quality classification of the guarantees and acceptances and allowance for acceptances and guarantees as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Normal	₩ 2,498,425	2,944,718
Precautionary	34,943	44,082
Substandard	27,032	30,567
Doubtful	1,160	32,114
Estimated loss	1,265	1,140
	₩ 2,562,825	3,052,621
Allowance for acceptances and guarantees	₩ 18,982	54,200

The guarantees and acceptances, excluding guarantees and acceptances in offshore branches, classified by industry as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004		2003	
	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩ 1,192,874	49.19	₩ 1,347,266	47.50
Wholesale and retail/service	395,435	16.31	519,285	18.31
Construction	350,427	14.45	403,259	14.22
Financial insurance	207,800	8.57	283,000	9.98
Telecommunication	10,181	0.42	8,399	0.30
Others	268,394	11.06	274,254	9.69
	2,425,111	100.00	2,835,463	100.00
Acceptance in overseas branches	137,714		217,158	
	₩ 2,562,825		₩ 3,052,621	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2004 and 2003 are as follows:

	2004			2003		
	Thousands of U.S.dollars	Millions of Won	Ratio (%)	Thousands of U.S.dollars	Millions of Won	Ratio (%)
Korea	\$ 1,489,732	1,554,982	88.13	\$ 1,660,140	₩ 1,988,516	90.54
France	59,345	61,944	3.51	36,869	44,163	2.01
Germany	22,443	23,426	1.33	16,226	19,436	0.88
UK	7,505	7,834	0.44	7,464	8,940	0.41
U.S.A.	27,121	28,309	1.60	24,136	28,910	1.32
Japan	29,537	30,831	1.75	21,431	25,670	1.17
Others	54,675	57,070	3.24	67,290	80,600	3.67
	\$ 1,690,358	1,764,396	100.00	\$ 1,833,556	₩ 2,196,235	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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Letters of credit issued but not yet drawn	₩ 3,686,975	4,360,934
Other guarantees and acceptance	14,840	16,115
	₩ 3,701,815	4,377,049

The Bank's loan commitments as of December 31, 2004 and 2003 are as follows :

(In Millions of Won)

	2004	2003
Commitments for loans in Won	₩ 605,206	397,464
Commitments for foreign currency loans	21,099	112,266
Securities purchase commitments in Won	50,000	-
Securities purchase commitments in foreign currencies	-	1,198
Other commitments in foreign currencies	74,632	46,714
	₩ 750,937	557,642

Loans written off amounted to ₩3,136,009 million and ₩3,227,985 million as of December 31, 2004 and 2003, respectively.

Government bonds sold over the counter as of December 31, 2004 and 2003 amounted to ₩24,484 million and ₩23,557 million, respectively.

Endorsed notes with collateral amount to ₩94,493 million and ₩83,986 million as of December 31, 2004 and 2003, respectively. Endorsed notes without collateral held at the merchant banking account amount to ₩1,479,383 million and ₩3,492,679 million as of December 31, 2004 and 2003, respectively.

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(b) Derivative Financial Instruments

The Bank has entered into various derivative financial instrument contracts for trading or hedging purposes, including futures contracts that are subject to exchange of 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, 2004 and 2003 are as follows:

2004	Outstanding		Valuation gains or losses (I/S)				Total		Valuation gains or losses (B/S)	
	Trading	Hedging	Trading		Hedging		Gains	Losses	Assets	Liabilities
			Gains	Losses	Gains	Losses				
Foreign currency related contracts										
Forward contracts	₩ 8,675,214	700,013	248,182	429,890	2,024	1,174	250,206	431,064	391,691	555,581
Futures contracts	162,624	-	-	-	-	-	-	-	-	-
Futures contracts purchased	1,181,147	-	194,297	110,201	-	-	194,297	110,201	215,632	128,386
Swap contracts	1,698,416	-	30,289	-	-	-	30,289	-	34,330	-
Option contracts	1,358,540	-	-	27,793	-	-	-	27,793	-	33,416
Option contracts purchased	13,075,941	700,013	472,768	567,884	2,024	1,174	474,792	569,058	641,653	717,383
Option contracts sold										
Interest rate related contracts										
Futures contracts	56,447	-	-	-	-	-	-	-	-	-
Futures contracts purchased	1,445,254	-	-	-	-	-	-	-	-	-
Futures contracts sold	7,495,779	104,380	56,742	71,117	1,951	7,692	58,693	78,809	97,100	111,917
Swap contracts	140,913	-	-	423	-	-	-	423	88	-
Option contracts	154,482	-	1,276	-	-	-	1,276	-	-	348
Option contracts purchased	9,292,875	104,380	58,018	71,540	1,951	7,692	59,969	79,232	97,188	112,265
Option contracts sold										
Index option related contracts										
KOSPI 200 futures	17,965	-	-	-	-	-	-	-	-	-
Option contracts	-	-	7,204	-	-	-	7,204	-	-	-
Option contracts purchased	39,104	-	-	1,600	-	-	-	1,600	-	1,482
Option contracts sold	57,069	-	7,204	1,600	-	-	7,204	1,600	-	1,482
	₩22,425,885	804,393	537,990	641,024	3,975	8,866	541,965	649,890	738,841	831,130

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(In Millions of Won)

2003	Outstanding		Valuation gains or losses (US)				Total		Valuation gains or losses (B/S)	
	Trading	Hedging	Trading		Hedging		Gains	Losses	Assets	Liabilities
			Gains	Losses	Gains	Losses				
Foreign currency related contracts										
Forward contracts	₩ 8,052,020	415,467	8,467,487		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		12,098	-	(7,688)	12,098	21,335	18,185
Option contracts										
Option contracts purchased	296,456	-	296,456		-	-	(3,896)	-	4,041	-
Option contracts sold	429,303	-	429,303		(1,308)	-	1,005	(1,308)	-	5,623
	9,371,599	415,467	9,787,066		8	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		6	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		471	7,585	8,052	8,056	44,938	43,427
Index option related contracts										
KOSPI 200 futures										
Option contracts	44,115	-	44,115		-	-	-	-	-	-
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	-	2,245	7,381	4,647	18,868
	₩16,780,237	547,225	17,327,462		35,631	7,754	49,134	15,614	205,743	214,050

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(b) Derivative Financial Instruments, continued

The above transactions with respect to securities and bonds are for the purpose to hedge risks from changes in exchange rates or interest rates, and to generate profits from trading derivative instruments.

Outstanding hedging transactions above include both derivative transactions accounted for using hedge accounting treatment and those held for the purpose of risk hedge. As of December 31, 2004, hedged items consist of securities and bonds, and risks from change in fair values are hedged by interest rate swap. Based on the valuation of hedged items under fair value hedge accounting, gain and loss on valuation of securities amounting to ₩110 million and ₩476 million, respectively, and gain on valuation of bonds amounting to ₩6,925 million have been accounted for during 2004.

(c) Litigation

As of December 31, 2004, the Bank has 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\$9,935,822 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 Bank, but the ultimate effect as of balance sheet date cannot presently be determined.

The Bank has suspense receivables of ₩32,040 million in connection to the forged notes purchased from Kukdong City Gas which was accounted for as the commercial papers endorsed without recourse under merchant banking account. The Bank recorded allowance for losses of ₩32,040 million in 2004.

The Bank is also in litigation as the defendant or the plaintiff in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩301,115 million and ₩78,271 million, respectively, as of December 31, 2004. The Bank believes that the outcome of these matters would not have a material impact to the Bank's financial position or operations.

(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. The difference between the book value and the proceed amounting to ₩165,823 was accounted for as loss on disposal of securities.

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. The difference between the book value and the sales price amounting to ₩616,622 million was adjusted from the allowance for loan losses. In relation to this asset backed securitization ("ABS"), the Bank provided deposits equivalent to ₩39,600 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. Out of the difference between the book value and the sales price, ₩90,628 million was adjusted from allowance for loan losses and ₩20,200 million was accounted for as a loss. 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 written 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 written 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"). The difference between the book value and the sales price amounting to ₩24,488 million was recognized as a gain on disposal of loans. According to the business transaction agreement (the "Agreement"), the transferee and the trustee could claim damages arising from

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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 written notification.

On May 14, 2004, the Bank sold certain non-performing loans amounting to ₩206,442 million to a Special Purpose Company ("9th SPC") and received ₩80,000 million and ₩7,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩27,052 million was recognized as a gain on disposal of loans. 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, such the duty to arise, the Bank should pay the damage amount to the transferee with cash within three business days from written notification.

On August 10, 2004, the Bank sold certain non-performing loans amounting to ₩147,464 million to a Special Purpose Company ("10th SPC") and received ₩55,000 million and ₩45,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩19,520 million was recognized as a gain on disposal of loans. 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 written 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, such the duty to arise, the Bank should pay the damage amount to the transferee with cash within three business days from written 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 ₩87,679 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, 2004, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩308,494 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

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

The Bank's outstanding loans (including payment guarantees) and available-for-sale securities including debt-to-equity securities with respect to Hynix Semiconductor Inc. amount to ₩36,497 million and ₩624,080 million, respectively, as of December 31, 2004. 18,416,307 shares of debt-to-equity securities amounting to the book value of ₩187,699 million may 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 42,816,000 shares amounting to the book value of ₩436,381 million are restricted from being sold until December 31, 2006. The allowance for loan losses and acceptances and guarantees of ₩13,542 million was recorded with respect to these loans including payment guarantees. However, the actual loss may differ from the allowance for loan losses and acceptances and guarantees depending on the result of restructuring of Hynix Semiconductor Inc.

(g) Loans to Workout Companies

As of December 31, 2004, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩828,653 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.

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

As of December 31, 2004, the Bank has loans of ₩92,361 million and available-for-sale securities of ₩157,509 million with respect to SK Networks Co., Ltd. and set allowance for loan losses of ₩10,776 in association with these loans. The actual loss may differ from the allowance for loan losses and impairment loss upon the result of the restructuring of SK Networks Co., Ltd.

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

As of December 31, 2004, the Bank has commercial papers and loans with respect to LG Card Co., Ltd. which is going through liquidity crisis, amounting to ₩50,721 million (including those held at private placement fund amounting to ₩45,721 million) and ₩3,770 million, respectively. The actual loss may differ from the allowance for loan losses set by the Bank depending on the result of restructuring of LG Card Co., Ltd.

(j) Commitments Related to Credit Card Business

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

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

(k) Asset Backed Securitization Related to Credit Card Business

Dues and receivables from cardholders provided to SPCs as of December 31, 2004 are summarized as follows

(In Millions of Won)

SPC	Assets provided	Transferred (entrusted) amount	Date of transfer (entrusted)	Remaining balance
KEBCS Securitization 2001-1, L.L.C. (the "SPC 2") (*1)	Credit card receivables	496,399	2001.7.2	-
KEBCS Securitization 2001-3, L.L.C. (the "SPC 3")(*2)	Cash advances	408,399	2001.7.2	-
KEBCS Securitization 2001-4, L.L.C. (the "SPC 4")(*3)	Credit card loans	475,161	2001.12.1	-
KEB Card International ABS 2002-5 Limited (the "SPC 5") (*4)	Credit card receivables	845,771	2002.8.8	-
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	Cash advances and revolving purchases	403,804	2003.1.13	325,442
KEBCS Securitization 2003-8, L.L.C. (the "SPC 8")(*5)	Credit card receivables	570,730	2003.4.2	-
		₩ 3,200,264		325,442

(*1) The entire amount of senior and subordinated bonds were extinguished on March 29, 2004. The registration of SPC was terminated and was liquidated on April 9, 2004 and April 30, 2004, respectively.

(*2) The entire amount of senior and subordinated bonds were extinguished on July 27, 2004. The registration of SPC was terminated and was liquidated on August 10, 2004 and December 16, 2004, respectively.

(*3) The entire amount of senior and subordinated bonds were extinguished on May 20, 2004. The registration of SPC was terminated and was liquidated on June 2, 2004 and September 22, 2004, respectively.

(*4) Due to the merger with KEBCS, the early redemption of the securitized bonds was made based on the agreement with Financial Security Assurance Inc. ("FSA"), the guarantor of the SPC. The Bank recognized a loss of ₩35,025 million during the current period because of the early redemption.

(*5) Early redemption of ₩300,000 million was made on December 27, 2004.

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The Bank is responsible for possible delinquencies in the underlined assets of the SPCs and additional assets should be provided to the SPCs if the remaining balances of the underlined assets fall below the stipulated amounts.

Additional assets which had been transferred or entrusted to the SPCs up to December 31, 2004 are summarized as follows:

(In Millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2001-3, L.L.C. (the "SPC 3")	2001.8.1~2004.4.29	11	322,429	₩ 443,888	Trust type
KEBCS Securitization 2001-4, L.L.C. (the "SPC 4")	2001.12.15~2004.4.19	26	471,173	1,214,814	
KEB Card International ABS 2002-5 Limited (the "SPC 5")	2003.3.18~2003.7.31	2	128,644	158,204	Trust type
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2003.5.19~2004.7.30	8	125,874	301,348	Trust type
KEBCS Securitization 2003-8, L.L.C. (the "SPC 8")	2003.5.23~2004.9.30	8	457,869	383,838	Trust type
			1,505,989	₩ 2,502,092	

Assets which had been extracted from SPC and transferred back to or repurchased by the Bank up to December 31, 2004 are summarized as follows:

(In Millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2001-3, L.L.C. (the "SPC 3")	2001.8.1~2003.3.10	6	115,796	₩ 132,131	Trust type
KEBCS Securitization 2001-4, L.L.C. (the "SPC 4")	2002.10.31~2003.5.2	3	12,458	10,193	
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2004.3.29	1	31,913	33,458	Trust type
			160,167	₩ 175,782	

The Bank receives service fees from the SPC 4 calculated by multiplying the asset balances 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 the Trustee company, and divided by twelve. Also, profits from the SPC 3, the SPC 5, the SPC 7 and the SPC 8, net of the expenses of the Trust for each settlement period, are accounted for as interest income by the Bank.

(1) 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Commissions received	₩ 654,093	289,560
Guarantee fees	23,675	22,727
Early termination penalty fees	19	38
Others	103	38,626
	₩ 677,890	350,951

(22) Operating Revenue of Merchant Banking Account

Operating revenue of merchant banking account for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Interest income	₩ 63,387	110,623
Fees and commissions income	777	653
Reversal of allowance for loan losses	242	880
Others	8,399	30,961
	₩ 72,805	143,117

(23) Commission Charges

Commission charges for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Service fees	₩ 38,605	29,148
Others	164,311	4,861
	₩ 202,916	34,009

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(24) Other Operating Expenses of Merchant Banking Account

Other operating expenses of merchant banking account for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004		2003
Interest expenses	₩	47,416	82,537
Others		4,627	16,849
	₩	52,043	99,386

(25) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004		2003
Salaries	₩	400,884	319,633
Employee benefits		100,149	83,858
Provision for retirement and severance benefits		54,233	38,914
Depreciation		104,551	72,081
Amortization		9,147	8,475
Tax and dues		32,465	25,720
Rent		34,643	29,361
Entertainment		10,332	9,520
Advertising		17,598	13,095
Others		137,248	100,894
	₩	901,250	701,551

(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%

Effective December 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, 2004 and 2003 are summarized as follows:

(In Millions of Won)

	2004		2003
Current	₩	9,451	6,354
Deferred		-	-
	₩	9,451	6,354

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The details of tax effect on accumulated temporary differences and loss carry forward as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Deferred tax assets (liabilities):		
Loss on valuation of securities	₩ 167,426	236,726
Gain on valuation of Held-to-maturity securities	8,952	4,236
Accrued interest	(27,654)	(28,755)
Allowance for loan losses	18,209	116,436
Loans charged off	115,845	18,209
Allowance for guarantees and acceptances	5,220	16,097
Present value discount	17,357	21,734
Gain on valuation of derivative financial instruments	25,945	4,669
Others, net	57,437	158,189
	388,737	547,541
Loss carry-forward	594,820	251,354
Total deferred tax assets	983,557	798,895
Allowance for deferred tax assets	(779,637)	(598,895)
Deferred tax assets (Domestic)	203,920	200,000
Deferred tax assets (Foreign branches)	530	584
Deferred tax assets, net	₩ 204,450	200,584

Expiration dates allowed for tax loss carry forwards in accordance with Korean corporate income tax law to reduce the future taxable income are as follows:

(In Millions of Won)

Year incurred	Amount	Expiration date
2000	₩ 728,443	December 31, 2005
2001	75,318	December 31, 2006
2004	1,359,221	December 31, 2009
	₩ 2,162,982	

The Bank concluded that it was not probable that it would be able to realize the tax benefit of loss carry forwards and temporary differences and therefore did not recognize deferred income tax assets amounting to ₩ 779,637 million and ₩ 598,895 million for 2004 and 2003, respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(27) Earnings (Loss) Per Share and Ordinary Earnings (Loss) Per Share

Basic earnings (loss) per share and ordinary earnings (loss) per share for the years ended December 31, 2004 and 2003 are calculated as follows:

(a) Earnings Per Share

	2004	2003
Net earnings (loss)	₩ 522,066,523,790	(213,817,206,100)
Preferred stock dividends	-	-
Net earnings (loss) allocated to common stock	522,066,523,790	(213,817,206,100)
Weighted average number of common shares outstanding (in share)	643,939,890	425,888,100
Basic net earnings (loss) per share (in Won)	₩ 811	(502)

(b) Basic Ordinary Earnings (Loss) Per Share

	2004	2003
Net earnings (loss)	₩ 522,066,523,790	(213,817,206,100)
Extraordinary gain	(17,674,366,459)	(12,968,089,390)
Extraordinary loss	-	862,494,818
Income tax related to extraordinary income	-	-
Ordinary income (loss) allocated to common stock	504,392,157,331	(225,922,800,672)
Weighted average number of common shares outstanding (in shares)	643,939,890	425,888,100
Basic ordinary earnings (loss) per share (in Won)	₩ 783	(530)

Diluted earnings (loss) per shares and diluted ordinary earnings (loss) per share for the years ended December 31, 2004 and 2003 are calculated as follows:

(c) Diluted Earnings (Loss) Per Share

	2004	2003
Net earnings (loss) allocated to common stock	₩ 522,066,523,790	(213,817,206,100)
Preferred stock dividends	-	-
Diluted net earnings (loss)	522,066,523,790	(213,817,206,100)
Weighted average number of common shares before diluted (in shares)	643,939,890	425,888,100
Dilutive shares(*)	143,322	-
Diluted weighted average number of common shares outstanding (in shares)	644,083,212	425,888,100
Diluted earnings (loss) per share (in Won)	₩ 811	(502)

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(d) Diluted Ordinary Earnings (Loss) Per Share

	2004	2003
Ordinary income (loss) allocated to common stock	₩ 522,066,523,790	(213,817,206,100)
Extraordinary gain	(17,674,366,459)	(12,968,089,390)
Extraordinary loss	-	862,494,818
Income tax related to extraordinary income	-	-
Diluted ordinary income (loss) allocated to common stock	504,392,157,331	(225,922,800,672)
Weighted average number of common shares before diluted (in shares)	643,939,890	425,888,100
Dilutive shares (*)	143,322	-
Diluted weighted average number of common shares outstanding (in shares)	644,083,212	425,888,100
Diluted ordinary earnings (loss) per share (in Won)	₩ 783	(530)

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

(e) Potential common share information as of December 31, 2004 is as follows;

	Exercise period	Number of common share to be issued upon conversion
Stock options	From March 26, 2003 to September 16, 2009	3,701,610

(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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Cash on hand	₩ 1,507,374	1,879,849
Deposits in Won	390,025	1,525,537
Deposits in foreign currencies	740,654	1,361,018
Marketable securities	9,330	318,688
	₩ 2,647,383	5,085,092

Significant non-cash flow transactions for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Decrease in loans by charge-off	₩ 2,779,105	866,847
Gain/loss on investment securities (capital adjustment)	289,195	336,276
Domestic exchange settlement	2,507,072	1,433,976
Transfer from the merger with KEBCS	2,951,095	-

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(29) Related Party Transactions

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2004 and related account balances as of December 31, 2004 are summarized as follows:

	(In Millions of Won)										
	KEBA	KEBOC	KEBIT	KEBC	KEBD AG	KEBD	KEBFC	Trust	Others	Total	
Assets:											
Due from banks in foreign currency	₩ 4,425	398	-	-	4,203	7,770	-	-	-	16,796	
Loans in foreign currency	10,846	626	-	40,041	78,051	37,624	-	-	167,008	334,196	
Loans in Won	-	-	-	4,200	-	-	5,000	-	335	9,535	
Others	49,764	-	-	167	443	38,621	-	1,907	5,428	96,330	
	₩ 65,035	1,024	-	44,408	82,697	84,015	5,000	1,907	172,771	456,857	
Liabilities:											
Deposits in Won	₩ -	-	9,193	494	-	-	30	-	-	9,717	
Deposits in foreign currency	-	-	-	-	982	310	5,026	-	2,252	8,570	
Borrowings in foreign currency	61,593	82	-	-	151,075	455	-	-	-	213,205	
Others	-	-	146	2,026	28,422	44,883	4	97,236	1,312	174,029	
	₩ 61,593	82	9,339	2,520	180,479	45,648	5,060	97,236	3,564	405,521	
Revenues:											
Interest income in Won	₩ -	-	-	1,060	-	-	311	383	17	1,771	
Interest income in foreign currency	31	22	-	978	1,506	1,359	-	-	2,564	6,460	
Fees and commissions	-	-	-	-	-	-	638	14,428	-	15,066	
Others	-	-	-	146	-	-	-	-	57	203	
	₩ 31	22	-	2,184	1,506	1,359	949	14,811	2,638	23,500	
Expenses:											
Interest in Won	₩ -	-	960	1	-	-	9	1,707	-	2,677	
Interest in foreign currency	629	16	-	-	3,471	286	-	-	-	4,402	
Commission charges	-	-	-	-	206	-	1,481	-	3,259	4,946	
Others	-	-	-	-	-	-	-	-	-	-	
	₩ 629	16	960	1	3,677	286	1,490	1,707	3,259	12,025	

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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 of Won)

	KEBA	KEBOC	KEBIT	KEBC	KEBCS	KEBD AG	KEBD	KEB Ite	KEBFC	Trust	Others	Total
Assets:												
Due from banks in foreign currency	₩ -	1,209	-	-	-	16,529	-	-	-	-	1,442	19,180
Loan in foreign currency	22,150	1,465	-	71,781	3,067	80,930	96,588	11,932	-	-	-	287,913
Loans in Won	-	-	-	19,700	390,666	-	-	-	5,000	-	-	415,366
Others	-	-	-	111	2,570	226	-	2,529	-	18,125	-	23,561
	₩ 22,150	2,674	-	91,592	396,303	97,685	96,588	14,461	5,000	18,125	1,442	746,020
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
	₩ -	159	26,512	2,592	17,982	15,390	18,370	13,828	4,782	128,094	260	227,969
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
	₩ 87	34	-	2,794	39,912	1,592	1,564	749	890	12,571	-	60,193
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
	₩ 23	20	1,300	6	12,301	2,906	149	31	1,594	3,109	-	21,439

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(30) Assets and Liabilities Bearing Interest

Assets and liabilities bearing interest income and interest expenses for the year ended December 31, 2004 are as follows:

(In Millions of Won)

		Average balance	Interest income and expenses	Average annual interest rate
Assets:				
Due from banks (*1)	₩	1,420,674	23,211	1.63%
Securities (*2)		9,786,856	472,107	4.82%
Loans (*3)		40,739,494	2,551,812	6.26%
	₩	51,947,024	3,047,130	5.87%
Liabilities:				
Deposits	₩	40,980,681	1,036,505	2.53%
Borrowings		6,359,245	156,982	2.47%
Debentures		6,154,669	431,456	7.01%
	₩	53,494,595	1,624,943	3.04%

(*1) The Reserve deposit with the Bank of Korea and due from the Bank of Korea in foreign currencies were excluded.

(*2) Equity securities and beneficiary certificates were excluded.

(*3) Loans for debt-to-equity swap were excluded.

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

(In Millions of Won)

		Average balance	Interest income and expenses	Average annual interest rate
Assets:				
Due from banks (*1)	₩	1,080,348	27,849	2.58%
Securities (*2)		9,853,286	521,871	5.30%
Loans (*3)		38,376,205	2,239,516	5.84%
	₩	49,309,839	2,789,236	5.66%
Liabilities:				
Deposits	₩	39,494,273	1,142,293	2.89%
Borrowings		7,314,318	201,961	2.76%
Debentures		3,591,415	274,236	7.64%
	₩	50,400,006	1,618,490	3.21%

(*1) The Reserve deposit with the Bank of Korea and due from the Bank of Korea in foreign currencies were excluded.

(*2) Equity securities were excluded.

(*3) Loans for debt-to-equity swap were excluded.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(31) Operation Performance of Trust Accounts

The significant financial information relating to trust accounts for the years ended December 31, 2004 and 2003 are as follows.

(In Millions of Won)

	2004	2003
Trust commissions		
Trust fees for money trust	₩ 23,526	24,227
Trust fees for securities investment trusts	4,156	5,774
	₩ 27,682	30,001
Commissions received from termination of commodities in trust account	₩ 19	38

(32) Added Value

The details of costs constituting value added expenses for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Salaries	₩ 400,884	319,633
Employee benefit	100,149	83,858
Provision for severance benefits	54,233	38,914
Severance for early retirements	89,592	2,844
Depreciation	104,551	72,081
Amortization	9,147	8,475
Taxes and dues	32,465	25,720
Rent	34,643	29,361
	₩ 825,664	580,886

(33) Merger with Korea Exchange Bank Credit Service

As decided at the Board of Directors' meeting held on November 28, 2003, the Bank has determined to acquire Korea Exchange Bank Credit Service Co., Ltd. (KEBCS) on February 28, 2004, in which the Bank has a 68.6% ownership interest.

The Bank issued 0.533689 share of common stock of the Bank per the share of KEBCS to the KEBCS shareholders who were included in the shareholders list as of February 28, 2004, according to the merger agreement. The total number of shares distributed to such KEBCS shareholders amounted to 5,981,895 shares.

Since this acquisition fell under the parent-subsidiary type, the assets and liabilities of KEBCS were transferred based on the book value as of February 28, 2004. The net loss incurred by KEBCS prior to the acquisition amounting to ₩111,505 million has been accounted for as loss from valuation using equity method by the Bank. Minority shareholders' remedies amounting to ₩35,445 million were reflected to the accumulated deficit for 2004. The par value of common shares of the Bank was ₩29,909 million and reflected as capital adjustment.

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 the merger with Korea Exchange Bank Installment Finance Co., Ltd. on January 1, 1999. KEBCS was listed on Korea Stock Exchange on December 21, 2001.

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December 31, 2004 and 2003

As of December 31, 2003, KEBCS had 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 February 28, 2004, the Bank was the largest shareholder of KEBCS that owned 43,838,938 shares amounting to 68.6% of total equity.

Total assets and liabilities of KEBCS as of February 28, 2004 were ₩3,063,203 million and ₩3,982,986 million, respectively.

(34) Results of Operations for the 4th Quarters

The results of operations for the 4th quarters of the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Operating revenue	₩ 2,268,698	1,225,347
Operating expenses	2,236,450	1,242,031
Operating income (loss)	32,248	(16,684)
Non-operating income	147,548	54,854
Non-operating expenses	63,615	269,959
Net earnings (loss)	132,505	(221,271)
Earnings (losses) per share(*)	205	(520)

(*) Unit: in Korean Won

(35) Subsequent Event

The Bank entered into a contract with Landmark Investment Trust Management Co., Ltd. in order to sell its 2,760,000 shares of KEB Commerz Investment Trust Co., Ltd., a domestic subsidiary of the Bank, with the book value of ₩15,000 million at ₩28,043 million. The contract became effective on January 21, 2005 upon an approval from Financial Supervisory Commission and will be finalized during February 2005.

CONSOLIDATED INDEPENDENT AUDITORS' REPORT*Independent Auditors' Report**(Based on a report originally issued in Korean)***KPMG Samjong Accounting Corp.**10th Floor, Star Tower,
737 Yeoksam-dong, Gangnam-gu
Seoul 135-984, Republic of KoreaTo the Board of Directors and Shareholders of
Korea Exchange Bank

We have audited the accompanying consolidated balance sheets of Korea Exchange Bank (the "Bank") and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries and certain foreign branches of the Bank, which statements reflect total assets constituting 6.57% and total revenues constituting 19.78% in 2003, of the related consolidated totals. 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 subsidiaries and foreign branches, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits 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 and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, the changes in their shareholders' equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted of the Republic of Korea.

The accompanying consolidated financial statements as of and for the years ended December 31, 2004 and 2003 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 3(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 discussed in Note 29 to the accompanying consolidated financial statements, the Bank decided to acquire Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") in which the Bank had 68.6% of ownership interest in the Board of Directors' meeting held on November 28, 2003. The acquisition was finalized on February 28, 2004, and the Bank issued 0.533689 share of common stock of the Bank per the share of KEBCS to the KEBCS shareholders who were included in the shareholders' list as of February 28, 2004, according to the merger agreement. The total assets and liabilities of KEBCS as of February 28, 2004 are ₩3,063,203 million and ₩3,982,986 million, respectively.

As discussed in Note 5(f) to the accompanying consolidated financial statements, effective April 30, 2004, the Bank sold its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary, to Hanmi Financial Corp., a holding company of Los Angeles-based Hanmi Bank and recorded a gain on disposal of available-for-sale securities amounting to ₩181,463 million. The total number of shares of PUB sold was 6,624,052 shares and the sales proceed amounted to US\$195,924 thousand.

CONSOLIDATED INDEPENDENT AUDITORS' REPORT

December 31, 2004 and 2003

As discussed in Note 20(f) to the accompanying consolidated financial statements, the Bank and one of its subsidiaries, KEB Capital Co., Ltd. ("KEBC") have loans outstanding (including payment guarantees) and available-for-sale securities with respect to Hynix Semiconductor Inc. amounting to ₩36,497 million and ₩631,041 million, respectively as of December 31, 2004. The bank recorded allowance for loan losses and acceptance and guarantees of ₩13,542 million with respect to these loans including payment guarantees. The actual loss may differ from the allowance for loan losses and acceptance and guarantees depending on the result of restructuring of Hynix Semiconductor Inc.

As discussed in Note 20(h) to the accompanying consolidated financial statements, as of December 31, 2004, the Bank recorded loans of ₩92,361 million and available-for-sale securities of ₩157,509 million with respect to SK Networks Co., Ltd. and set allowance for loan losses of ₩10,776 million in association with these loans. The actual loss may differ from the allowance for loan losses depending on the result of the restructuring of SK Networks Co., Ltd.

As discussed in Note 20(i) to the accompanying consolidated financial statements, as of December 31, 2004, the Bank has commercial papers and loans with respect to LG Card Co., Ltd. which is going through a liquidity crisis, amounting to ₩50,721 million (including those held at private placement fund amounting to ₩45,721 million) and ₩3,770 million, respectively. The actual loss may differ from the allowance for loan losses set by the Bank depending on the result of restructuring of LG Card Co., Ltd.

As discussed in Note 3 to the accompanying consolidated financial statements, in connection to the disposal of loans, the accounting treatment to recognize gain or loss resulting from disposal of loans was changed and that such gain and loss are no longer adjusted in the allowances but recorded as gain or loss on disposal of loans. Due to the above changes in accounting treatment, gain on disposal of loans increased by ₩78,938 million, while provision for loan losses increased by ₩78,938 million for the year ended December 31, 2004. For the comparison purposes, gain on disposal of loans and the provision for loan losses in the prior year financial statements were each increased by ₩24,488 million. Such changes in accounting treatment have no effect to the net asset value, ordinary income or the net income for the years ended December 31, 2004 and 2003, respectively.

As discussed in Note 27 to the accompanying consolidated financial statements, the Bank has total assets and liabilities in connection to the related party transactions amounting to ₩456,857 million and ₩405,521 million, respectively. Total revenues and expenses from such related party transactions amount to ₩23,500 million and ₩12,025 million, respectively.

As discussed in Note 30 to the accompanying consolidated financial statements, the Bank entered into a contract with Landmark Investment Trust Management Co., Ltd. in order to sell its 2,760,000 shares of KEB Commerz Investment Trust Co., Ltd. a domestic subsidiary of the Bank at ₩28,043 million. The contract became effective on January 21, 2005 upon receiving an approval from Financial Supervisory Commission.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 21, 2005

This report is effective as of February 21, 2005, 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.

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	In millions of Won, except share data		In thousands of U.S. Dollars	
	2004	2003	2004	2003
Assets				
Cash and due from banks (notes 4 and 27)	₩ 2,843,091	4,837,878	\$ 2,723,789	4,634,871
Securities (notes 5 and 27)	12,921,751	13,591,231	12,379,528	13,020,915
Loans, less allowance for loan losses of ₩912,467 in 2004 and ₩2,441,778 in 2003, less net deferred loan fees and costs of ₩1,271 in 2004 and nil in 2003 (notes 6 and 27)	41,194,134	43,033,995	39,465,543	41,228,200
Fixed assets, less accumulated depreciation of ₩716,223 in 2004 and ₩619,543 in 2003 (note 8)	947,334	960,286	907,582	919,990
Other assets (notes 9 and 27)	5,228,252	4,132,992	5,008,864	3,959,563
Total Assets	₩ 63,134,562	66,556,382	\$ 60,485,306	63,763,539
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits (notes 10 and 27)	₩ 41,392,585	45,568,339	\$ 39,655,667	43,656,198
Borrowings (notes 11 and 27)	6,015,501	6,847,935	5,763,078	6,560,582
Debentures (note 12)	6,566,878	6,354,574	6,291,318	6,087,923
Other liabilities (notes 14 and 27)	6,207,029	5,542,814	5,946,569	5,310,226
Total liabilities	60,181,993	64,313,662	57,656,632	61,614,929
Commitments and contingencies (note 20)				
Shareholders' equity (note 1):				
Common stock of ₩5,000 par value; Authorized - 1,000,000,000 shares Issued - 644,906,826 shares in 2004 and 612,924,931 shares in 2003	3,224,534	3,064,625	3,089,226	2,936,027
Preferred stock of ₩5,000 par value; Issued - nil in 2004 and 26,000,000 shares in 2003	-	130,000	-	124,545
Capital surplus (note 16)	-	156,805	-	150,225
Accumulated deficit (note 17)	(567,312)	(1,036,845)	(543,506)	(993,337)
Capital adjustments (note 18)	286,963	(98,693)	274,921	(94,552)
Minority interests in consolidated subsidiaries	8,384	26,828	8,033	25,702
Total shareholders' equity	2,952,569	2,242,720	2,828,674	2,148,610
Total liabilities and shareholders' equity	₩ 63,134,562	66,556,382	\$ 60,485,306	63,763,539

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2004 and 2003

	In millions of Won		In thousands of U.S. Dollars	
	2004	2003	2004	2003
Operating revenue:				
Interest income (note 27):				
Interest on due from banks	₩ 25,190	29,396	\$ 24,133	28,162
Interest on trading securities	57,085	69,467	54,690	66,552
Interest on available-for-sale securities	363,371	746,077	348,123	714,770
Interest on held-to-maturity securities	96,817	45,733	92,754	43,814
Interest on loans	2,694,320	2,561,586	2,581,261	2,454,097
Other interest income	29,897	53,416	28,642	51,175
	3,266,680	3,505,675	3,129,603	3,358,570
Fees and commissions (note 21)	774,841	1,030,767	742,327	987,514
Other operating revenue:				
Gain on disposition of trading securities	64,780	49,684	62,062	47,599
Gain on derivatives trading and foreign currency exchange	2,585,812	1,540,342	2,477,306	1,475,706
Trust fees and commissions received from trust account	13,261	23,808	12,705	22,809
Gain from operation of private placement funds	49,183	-	47,119	-
Reversal of allowance for acceptances and guarantees	35,088	-	33,616	-
Gain on derivative instruments	47,394	167,389	45,405	160,365
Others	58,559	25,343	56,101	24,280
	2,854,077	1,806,566	2,734,314	1,730,759
Total operating revenue	6,895,598	6,343,008	6,606,244	6,076,843
Operating expenses:				
Interest expenses:				
Interest on deposits	1,133,788	1,243,134	1,086,212	1,190,970
Interest on borrowings	172,669	236,372	165,423	226,453
Interest on debentures	458,068	486,212	438,847	465,810
Other interest expense	13,473	20,702	12,908	19,833
	1,777,998	1,986,420	1,703,390	1,903,066
Commission charges (note 22)	240,207	251,201	230,127	240,660
Other operating expenses:				
Loss on derivatives trading and foreign currency exchange	2,346,867	1,454,590	2,248,388	1,393,552
Provision for loan losses	1,001,057	2,866,032	959,051	2,745,767
Others	216,009	176,462	206,944	169,058
	3,563,933	4,497,084	3,414,383	4,308,377
General and administrative expenses (note 23)	954,037	909,480	914,004	871,316
Total operating expenses	6,536,175	7,644,185	6,216,904	7,323,419
Operating income (loss)	₩ 359,423	(1,301,177)	\$ 344,340	(1,246,576)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

Years ended December 31, 2004 and 2003

	In millions of Won, except earnings per share data		In thousands of U.S.Dollars, except earnings per share data	
	2004	2003	2004	2003
Non-operating income:				
Gain on disposition of tangible assets	₩ 368	19,355	\$ 352	18,543
Rental revenue	2,574	2,538	2,466	2,432
Equity income from affiliates (note 5)	22,173	13,118	21,243	12,568
Recovery of impairment losses on available-for-sale securities	1,431	12,267	1,371	11,752
Recovery of impairment losses on held-to-maturity securities	-	483	-	463
Gain on disposition of available-for-sale securities	287,530	68,426	275,465	65,555
Gain on disposition of loans	78,938	223,711	75,626	214,324
Others	42,442	50,613	40,660	48,487
	435,456	390,511	417,183	374,124
Non-operating expenses:				
Loss on disposition of tangible assets	1,202	3,062	1,152	2,934
Loss on disposition of available-for-sale securities	6,523	24,761	6,249	23,722
Impairment losses on available-for-sale securities	79,527	248,364	76,190	237,942
Impairment losses on held-to-maturity securities	25,353	47,836	24,289	45,829
Early retirement costs	89,592	2,844	85,832	2,725
Others	90,536	66,761	86,737	63,959
	292,733	393,628	280,449	377,111
Ordinary income (loss)	502,146	(1,304,294)	481,075	(1,249,563)
Extraordinary income	17,675	13,039	16,933	12,492
Extraordinary losses	-	7,522	-	7,206
Gains (losses) before income taxes	519,821	(1,298,777)	498,008	(1,244,277)
Income taxes (note 24)	20,771	16,518	19,899	15,825
Net earnings (losses) before minority interest	499,050	(1,315,295)	478,109	(1,260,102)
Minority interest in losses of consolidated subsidiaries	(27,585)	(446,718)	(26,427)	(427,973)
Net earnings (losses)	₩ 526,635	(868,577)	\$ 504,536	(832,129)
Ordinary earnings (losses) per share (note 25)				
Basic	₩ 790	(2,052)	\$ 757	(1,966)
Diluted	₩ 790	(2,052)	\$ 757	(1,966)
Earnings (losses) per share (note 25)				
Basic	₩ 818	(2,039)	\$ 784	(1,953)
Diluted	₩ 818	(2,039)	\$ 784	(1,953)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2004 and 2003

	In millions of Won				In thousands of U.S. Dollars				Total			
	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
January 1, 2003	1,850,875	214,306	(93,754)	(121,670)	387,802	2,237,559	1,773,208	205,313	(89,820)	(116,564)	371,529	2,143,666
Consolidated net loss	-	-	(868,577)	-	-	(868,577)	-	-	(832,130)	-	-	(832,130)
Issuance of common stock	1,343,750	-	-	(285,354)	-	1,058,396	1,287,363	-	-	(273,379)	-	1,013,984
Changes of subsidiaries interest	-	(263)	101,291	(3,892)	-	97,136	-	(252)	97,041	(3,729)	-	93,060
Effect of the change in capital of equity-method investees	-	413	-	-	-	413	-	396	-	-	-	396
Changes from discontinuance of equity method	-	(61,055)	58,718	2,337	-	-	-	(58,493)	56,254	2,239	-	-
Gain (loss) on foreign exchange translations	-	3,404	(2,172)	(1)	-	1,231	-	3,261	(2,081)	(1)	-	1,179
Cash dividend	-	-	-	-	(1,620)	(1,620)	-	-	-	-	(1,552)	(1,552)
Increase in consolidated capital adjustment	-	-	-	309,887	-	309,887	-	-	-	296,884	-	296,884
Increase in minority interest equity	-	-	-	-	(359,354)	(359,354)	-	-	-	-	(344,275)	(344,275)
Additional loss of minority interest	-	-	(233,497)	-	(233,497)	(233,497)	-	-	(223,699)	-	-	(223,699)
Others	-	-	1,146	-	-	1,146	-	-	1,098	-	-	1,098
December 31, 2003	₩3,194,625	156,805	(1,036,845)	(98,693)	26,828	2,242,720	\$ 3,060,571	150,225	(993,337)	(94,550)	25,702	2,148,611
Consolidated net earnings	-	-	526,635	-	-	526,635	-	-	504,536	-	-	504,536
Issuance of common stock	29,909	-	-	(29,909)	-	-	28,654	-	-	(28,654)	-	-
Effect of the change in capital of equity-method investees	-	1,283	-	-	-	1,283	-	1,229	-	-	-	1,229
Changes from discontinuance of equity method	-	(133,123)	-	81,373	-	(51,750)	-	(127,536)	-	77,958	(16,837)	(66,415)
Changes from discontinuance of consolidation	-	-	-	-	(17,574)	(17,574)	-	-	-	-	-	-
Gain (loss) on foreign exchange translations	-	(3,581)	(3,795)	255	-	(7,119)	-	(3,431)	(3,633)	244	-	(6,820)
Capital adjustment on investment in subsidiaries	-	(21,384)	12,256	9,128	-	-	-	(20,487)	11,742	8,745	-	-
Changes resulted from the acquisition of KEBCS	-	-	(39,438)	1,140	-	(38,298)	-	-	(37,783)	1,092	-	(36,691)
Increase in consolidated capital adjustment	-	-	-	323,669	-	323,669	-	-	-	310,087	-	310,087
Increase in minority interest equity	-	-	-	-	(29,379)	(29,379)	-	-	-	-	(28,146)	(28,146)
Additional loss of minority interest	-	-	(28,509)	-	28,509	-	-	-	(27,313)	-	27,313	-
Others	-	-	2,382	-	-	2,382	-	-	2,282	-	-	2,282
December 31, 2004	₩3,224,534	-	(567,312)	286,963	8,384	2,952,569	\$ 3,089,225	-	(543,506)	274,922	8,032	2,828,673

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004 and 2003

	In millions of Won		In thousands of U.S. Dollars	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net earnings (loss)	₩ 526,635	(868,577)	\$ 504,536	(832,130)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Gain on disposal of trading securities, net	(31,025)	(19,994)	(29,723)	(19,155)
Loss (gain) on valuation of trading securities, net	(6,317)	4,045	(6,052)	3,875
Gain on disposal of available- for-sale securities, net	(281,007)	(43,665)	(269,215)	(41,833)
Impairment loss on available- for-sale securities, net	78,096	236,097	74,818	226,190
Impairment loss on held-to-maturity securities, net	25,353	47,353	24,289	45,366
Equity income on securities of equity method accounting	(22,173)	(13,118)	(21,243)	(12,568)
Gain on disposal of loans, net	(50,158)	(223,711)	(48,053)	(214,324)
Loss (gain) on disposal of tangible assets, net	834	(16,293)	799	(15,609)
Loss (gain) on derivatives trading and foreign exchange, net	80,501	40,552	77,123	38,851
Deferred loss (gain) on foreign currency translation, net	1,364	(39,955)	1,307	(38,278)
Amortization of debt securities purchased with premiums	26,371	1,187	25,264	1,137
Provision for loan losses	1,001,057	2,866,032	959,051	2,745,767
Depreciation and amortization	121,879	136,900	116,765	131,155
Provision of severance benefits	55,990	50,977	53,641	48,838
Provision of allowance for acceptances and guarantees	-	13,976	-	13,390
Stock option expense	6,493	928	6,221	889
Reversal of allowance for acceptances and guarantees	(35,088)	-	(33,616)	-
Amortization of present value discounts	(13,825)	(24,606)	(13,245)	(23,573)
Minority interest in loss	(27,585)	(446,718)	(26,427)	(427,973)
Gains from liabilities exempted	(16,175)	(12,967)	(15,496)	(12,423)
Changes in assets and liabilities:				
Decrease (increase) in accrued income	199,202	(28,530)	190,843	(27,333)
Decrease in prepaid expenses	1,498	23,461	1,435	22,477
Increase in accrued expenses	(18,457)	(99,513)	(17,683)	(95,337)
Decrease in unearned revenues	(26,142)	(12,459)	(25,045)	(11,936)
Payment of severance benefits	(41,933)	(19,859)	(40,174)	(19,026)
Decrease in transfer to National Pension Fund	797	266	764	255
Increase in deposit of insurance for severance and retirement	(24,656)	(19,908)	(23,621)	(19,073)
Others, net	77,687	18,832	74,427	18,042
Net cash provided by operating activities	₩ 1,609,216	1,550,733	\$ 1,541,690	1,485,661

CONSOLIDATED STATEMENTS OF CASH FLOWS(continued)

Years ended December 31, 2004 and 2003

	In millions of Won		In thousands of U.S. Dollars	
	2004	2003	2004	2003
Cash flows from investing activities:				
Decrease (increase) in trading securities	₩ (672,613)	844,183	\$ (644,389)	808,759
Increase in available-for-sale securities	1,907,959	(1,109,686)	1,827,897	(1,063,121)
Decrease in held-to-maturity securities	(625,378)	(286,736)	(599,136)	(274,704)
Decrease (increase) in equity securities subject to equity method	233,668	(3,400)	223,863	(3,257)
Decrease (increase) in loans	918,139	(4,736,729)	879,612	(4,537,966)
Purchase of fixed assets	(110,729)	(456,881)	(106,082)	(437,709)
Decrease (increase) in other assets	(818,641)	2,244,282	(784,289)	2,150,107
Net cash provided by (used in) investing activities	832,405	(3,504,967)	797,476	(3,357,891)
Cash flows from financing activities:				
Issuance of common stock	-	1,075,000	-	1,029,891
Increase (decrease) in deposits	(4,159,579)	2,938,324	(3,985,035)	2,815,026
Repayment of borrowings, net	(832,434)	(139,544)	(797,503)	(133,688)
Increase (decrease) in debentures	212,304	(679,244)	203,395	(650,742)
Payment of dividend	-	(1,620)	-	(1,552)
Increase (decrease) in other liabilities	64,253	(166,139)	61,557	(159,168)
Payment of stock issuance costs	(19)	(16,604)	(18)	(15,907)
Net cash provided by (used in) financing activities	(4,715,475)	3,010,173	(4,517,604)	2,883,860
Decrease in cash due to change of consolidated subsidiaries	(30,291)	(29,128)	(29,020)	(27,906)
Net increase (decrease) in cash and cash equivalents	(2,304,145)	1,026,811	(2,207,458)	983,724
Cash and cash equivalents at the beginning of the year	5,156,566	4,129,755	4,940,186	3,956,462
Cash and cash equivalents at the end of the year (note 26)	₩ 2,852,421	5,156,566	\$ 2,732,728	4,940,186

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(1) Organization and Description of Subsidiaries

The accompanying consolidated financial statements of Korea Exchange Bank (the "Bank") and its consolidated subsidiaries including certain trust accounts are prepared in accordance with accounting principles generally accepted in the Republic of Korea. General information of the Bank, its consolidated subsidiaries, its non-consolidated subsidiaries and equity-method investees are described below.

(a) The 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 merger between the Bank and Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") was finalized on February 28, 2004. (see note 29)

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 122 million new shares of preferred stock at par value of ₩5,000 per share 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 an extraordinary shareholders' meeting on September 16, 2003. The amount that was less than 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 and 26 million shares of preferred stock were converted to common stock on December 22, 2003 and April 22, 2004, respectively

In addition, the Bank issued 5,981,895 shares of common stock of the Bank to the shareholders listed in the stockholders' list of KEBCS as of February 28, 2004 according to the merger agreement.

As of December 31, 2004, the total number of authorized stock of the Bank is 1,000 million (par value ₩5,000) while the paid-in capital amounts to ₩3,224,534 million (with 644,907 thousand shares of common stock outstanding with par value of ₩5,000).

The Bank's shareholders as of December 31, 2004 and 2003 are as follows:

	Number of shares owned						Ownership (%)	
	2004			2003			2004	2003
	Common stock	Preferred stock	Total	Common stock	Preferred stock	Total		
LSF-KEB Holdings, SCA	325,851,715	-	325,851,715	325,851,715	-	325,851,715	50.53	51.00
Commerz Bank AG	94,247,389	-	94,247,389	68,247,389	26,000,000	94,247,389	14.61	14.75
Export-Import Bank of Korea	89,448,595	-	89,448,595	89,448,595	-	89,448,595	13.87	14.00
Bank of Korea	39,500,000	-	39,500,000	39,500,000	-	39,500,000	6.12	6.18
Others	95,859,127	-	95,859,127	89,877,232	-	89,877,232	14.87	14.07
	644,906,826	-	644,906,826	612,924,931	26,000,000	638,924,931	100.00	100.00

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As of December 31, 2004, the Bank has 334 branches, agencies and offices in total over both domestic and overseas market. The Bank closed or sold 11 domestic branches and 4 overseas branches while opening 6 domestic branches and 1 overseas branch during 2004. In addition, the Bank established 3 new overseas subsidiaries (KEB NY Financial Corp., KEB LA Financial Corp. and KEB USA International Corp.), and sold Pacific Union Bank and liquidated KEB Ireland Ltd. during 2004.

(b) Domestic Subsidiaries

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

KEBC was incorporated on September 11, 1989 to engage in leasing industrial equipment and registered in Korea Securities Dealers Automated Quotation ("KOSDAQ") on January 15, 1995.

As KEBC continued to experience negative capital until March 31, 2001, its registration with KOSDAQ was canceled by KOSDAQ Committee on July 11, 2001 and withdrawn from KOSDAQ market on August 24, 2001. As of December 31, 2004, 99.3% of the total shares of KEBC are owned by the Bank.

KEBC implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction, or execution of stock selling option 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 which was used to recover negative capital.

In addition, on November 9, 2001, KEBC issued 14,805 thousand shares of common stock for cash at par value to the Bank, in accordance with the resolution of the board of directors on October 26, 2001. The proceeds of the new stock issuance were used for the repayment of borrowings amounting to ₩74,024 million from the Bank. As of December 31, 2004, the total paid-in-capital amounts to ₩75,400 million.

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

KEBFC was incorporated on September 24, 1997 as the integrated futures brokerage of the Bank. In 1998, KEBFC was granted a futures trading license for overseas markets and domestic operations from the Ministry of Economy and Finance. As of December 31, 2004, 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 and residents in Sydney and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2004, 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 and the surrounding area. The Bank retains 100% equity ownership as of December 31, 2004, and the total paid-in-capital of KEBOC amounts to CAD33.4 million.

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 and the surrounding area. KEB retains 85% equity ownership as of December 31, 2004, and the total paid-in-capital of KEBD amounts to IDR150,000 million.

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 and the surrounding area. KEB retains 100% equity ownership as of December 31, 2004, and the total paid-in-capital of KEBD AG amounts to EUR15,339 thousand.

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KEB NY Financial Corp. ("NYF")

KEB NY Financial Corp. ("NYF") was established in New York in the U.S.A. on April 8, 2004 to provide financial services to Korean companies and residents in New York and the surrounding area. KEB retains 100% equity ownership as of December 31, 2004, and the total paid-in-capital of NYF amounts to US\$1.

KEB LA Financial Corp. ("LAF")

KEB LA Financial Corp. ("NYF") was established in Los Angeles in the U.S.A. on April 8, 2004 to provide financial services to Korean companies and residents in Los Angeles and the surrounding area. KEB retains 100% equity ownership as of December 31, 2004, and the total paid-in-capital of NYF amounts to US\$1.

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 to KEB Investment Trust Management Co., Ltd. on July 8, 1997, and finally to KEB Commerz Investment Trust Management Co., Ltd. on May 28, 1999. As of December 31, 2004, the total paid-in-capital amounts to W30,000 million. The Bank entered into a contract with Landmark Investment Trust Management Co., Ltd. in order to sell its shares of KEBIT. The contract became effective on January 21, 2005 upon receiving the approval from Korea Financial Supervisory Commission and will be finalized on February 18, 2005.

(d) Equity Method Investees*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, 2004 and total paid-in-capital of CFEB amounts to US\$10,169 thousand.

(e) Condensed Financial Statements of Significant Subsidiaries

Condensed financial statements of significant subsidiaries as of December 31, 2004 and for the year then ended are as follows:

	KEBOC	KEBD AG	KEBD	KEBCS(*)	Trusts	Others	Total
Balance sheets:							
Assets:							
Cash and deposits	₩ 42,220	105,875	7,450	-	147	106,663	262,355
Trading securities	-	-	-	-	1,006,727	2,085	1,008,812
Available-for-sale securities	-	-	57,063	-	-	23,826	80,889
Held-to-maturity securities	-	712	-	-	-	22,805	23,517
Loans	432,663	308,964	186,380	-	166,591	425,401	1,519,999
Fixed assets	1,482	217	174	-	-	39,840	41,713
Other assts	2,215	4,235	2,836	-	14,286	22,181	45,753
Total assets	₩ 478,580	420,003	253,903	-	1,187,751	642,801	2,983,038
Liabilities and shareholders' equity:							
Deposits	₩ 403,755	97,408	111,950	-	1,110,928	89,459	1,813,500
Borrowings	21,716	207,455	84,376	-	1,900	329,747	645,194
Debentures	-	69,573	-	-	-	21,524	91,097
Other liabilities	2,242	1,398	4,694	-	55,563	43,230	107,127
Total liabilities	427,713	375,834	201,020	-	1,168,391	483,960	2,656,918

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	KEBOC	KEBD AG	KEBD	KEBCS(*)	Trusts	Others	Total
Capital stock	28,953	21,826	16,800	-	-	148,391	215,970
Capital surplus	-	3,638	-	-	-	41,752	45,390
Retained earnings (deficit)	21,914	18,705	36,083	-	19,360	(36,106)	59,956
Capital adjustments	-	-	-	-	-	4,804	4,804
Total shareholders' equity	50,867	44,169	52,883	-	19,360	158,841	326,120
Total liabilities and shareholders' equity	₩ 478,580	420,003	253,903	-	1,187,751	642,801	2,983,038
Statement of operations:							
Operating revenue	₩ 27,068	42,303	19,177	116,905	116,253	87,744	409,450
Operating expenses	16,532	36,508	9,926	255,185	101,833	69,138	489,122
Operating income (loss)	10,536	5,795	9,251	(138,280)	14,420	18,606	(79,672)
Non-operating income	64	279	49	2,179	-	466	3,037
Non-operating expenses	29	2,465	264	3,913	14,420	4,359	25,450
Ordinary income (loss)	10,571	3,609	9,036	(140,014)	-	14,713	(102,085)
Extraordinary income	-	-	-	-	-	-	-
Extraordinary loss	-	-	-	-	-	-	-
Net earnings (loss) before income tax	10,571	3,609	9,036	(140,014)	-	14,713	(102,085)
Corporate income tax	4,007	1,477	3,231	-	-	2,605	11,320
Net earnings (loss)	₩ 6,564	2,132	5,805	(140,014)	-	12,108	(113,405)

(*) As described in note 29, the Bank acquired KEBCS on February 28, 2004. As required by Korean GAAP, the results of operation of KEBCS are included in the accompanying consolidated statements of operation for the two-month period ended February 28, 2004. Subsequent to February 28, 2004, the results of KEBCS are included as part of the Bank's stand-alone results.

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 consolidated guaranteed trust accounts and other foreign consolidated subsidiaries. KEBCS's financial performance from January 1, 2004 to February 28, 2004 is included in the "others".

(2) 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, 2004 and 2003 are as follows:

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(a) Subsidiaries Included in the Consolidated Financial Statements

	No. of shares held (In thousands)		Ownership (%)	
	2004	2003	2004	2003
Domestic:				
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS") (*1)	-	43,839	-	68.6
KEB Capital Co., Ltd. ("KEBC")	14,976	14,976	99.3	99.3
KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT") (*2)	2,760	2,760	46.0	46.0
KEB Futures Co., Ltd. ("KEBFC")	3,000	3,000	100.0	100.0
Foreign:				
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 AG ("KEBD AG")	20	20	100.0	100.0
P.T. KEB Danamon ("KEBD")	1	1	85.0	85.0
KEB Ireland Ltd. ("KEB Ire") (*3)	-	3,000	-	100.0
Banco KEB do Brazil S.A. ("KEBB")	33,726	24,726	100.0	100.0
KEB NY Financial Corp. ("NYF") (*4)	0.1	-	100.0	-
KEB LA Financial Corp. ("LAF") (*4)	0.1	-	100.0	-

(*1) KEBCS was merged into the Bank on February 28, 2004 as described in note 29.

(*2) The Bank entered into a contract with Landmark Investment Trust Management Co. in order to sell its 2,760 thousand shares of KEB Commerz Investment Trust Co., a domestic subsidiary of the bank, with the book value of ₩15,600 per share, at ₩28,043 million on December 14, 2004. The contract became effective on January 21, 2005 upon an approval from Financial Supervisory Commission.

(*3) KEB Ire was liquidated during 2004.

(*4) NYF and LAF were incorporated during 2004.

(b) Subsidiaries Using Equity Accounting Method

KEB Commerz Investment Trust ("KEBIT"), Cairo Far East Bank S.A.E. ("CFEB") and KEB USA International Corp. ("USAI") which the Bank owns 2,760,000 shares (46.0%), 8,000 shares (31.5%) and 100 shares (100.00%), respectively, were accounted for using the equity method of accounting in accordance with the Bank Act and other related standards.

Meta Payment & Trust and KEB Fund Investor Service ("KEBFIS"), which the Bank owns 170,000 shares (38.1%) and 510,000 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.

The Bank sold 4,000,000 shares (out of 16,400,000 shares) of Doosan Heavy Industries & Construction Co., Ltd. at ₩49,566 million on December 17, 2004. As its ownership declined to 11.9%, the remaining 12,400,000 shares with book value of ₩198,173 million were excluded from the application of the equity method and reclassified into available-for-sale securities. The Bank recorded a gain on disposal of available-for-sale securities of ₩593 million during 2004.

(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 accounting records in Korean Won and prepare statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated from the Korean language consolidated financial statements. Certain information included in 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Effective from January 1, 2004, the Bank adopted Statements of Korea Accounting Standard No. 13 "Troubled Debt Restructuring". The adoption of this standard did not have a significant impact on net earnings of accompanying consolidated financial statements. 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 fiscal year-end dates of most subsidiaries accord with that of the Bank, except for KEBC and KEBFC. Financial statements for the twelve-month period ended December 31, 2004 were used for consolidation of these two subsidiaries with fiscal year end on March 31.

Certain accounts of prior year's financial statements, presented herein for comparative purposes, were reclassified to conform to the current year's presentation. These reclassifications did not result in any change to reported net earnings (losses) or shareholders' equity.

(b) Basis of Translating Financial Statements

The financial statements as of and for the years ended December 31, 2004 and 2003, are expressed in Korean Won and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩1,043.80 to US\$1, the basic exchange rate on December 31, 2004. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

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

If the Bank's investment account is greater than the corresponding capital account of subsidiaries, such excess is amortized over five years using the straight-line method from the date of the acquisition of the investment. If the Bank's investment account is smaller than the corresponding capital account of subsidiaries, then the portion of the difference caused by the subsidiaries' amortizable non-currency assets is reversed over the weighted-average useful lives of such assets using the straight-line method, and the remaining resulted from the subsidiaries' unamortizable assets is reversed at the point when expensed. If the difference between the Bank's acquisition cost over its share in the subsidiaries' net asset value is due to the investee's specific assets and liabilities which are evaluated using their fair market values, such difference is accounted for using those subsidiaries' accounting treatments applied for such assets and liabilities.

All significant intercompany 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 defaulted loans, not secured by guarantees from financial institutions or collateral deposits, is recognized on a cash basis. As of December 31, 2004 and 2003, the amount of interest not recognized due to such policy approximates ₩156,037 million and ₩57,191 million, respectively.

All additional gains during the process of handling loans are deferred and recorded as deduction from the loan amount. Additional expenses with the future economic profits, which can be classified by individual loans, are also deferred and expressed as addition to the loan amount. Such gains and expenses are reversed or amortized using effective interest rates and expressed as addition to or deduction from the interest income.

(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 repayment 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, retail loan customers and credit card accounts are classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses as of as of December 31, 2004 and 2003 were determined by applying the following minimum percentages to each credit risk classification:

Classification	Corporate loans	Retail loans	Credit card loans and receivables
Normal	0.50%	0.75%	1.0%
Precautionary	2.0%	8.0%	12.0%
Substandard	20.0%	20.0%	20.0%
Doubtful	50.0%	55.0%	60.0%
Loss	100.0%	100.0%	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Subsidiaries of the Bank also apply similar accounting treatments and the criteria for loan classification and the provision of allowance as the Bank based on the borrowers' future debt repayment capacity and the historical delinquency rates.

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.

(f) Securities

Upon acquisition, the Bank classifies certain debt and equity securities into one of the three categories of held-to-maturity, available-for-sale, or trading securities and such determination should be reassessed at each balance sheet date. Investments in 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. Investments 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 income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in 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. Investments in 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. Recognition of unrealized gains and losses is summarized as follows:

Classification	Valuation method	Recognition of unrealized gains and losses
Trading	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 earnings (losses)
Held-to-maturity	Cost	Amortized cost
Investments in associates	Equity	Current operations, retained earnings (accumulated deficit), or capital adjustments, depending on the source of the gain or loss

The private placement fund held by the Bank consists of deposits, call loans, securities and others. The valuation of such assets is reflected to the balance sheet by classifying them for their purposes. The result including interest income, valuation gain/loss, disposal gain/loss and etc. is presented in the statement of operation as a net income.

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(g) Investment Securities under the Equity Method of Accounting

Equity securities held for investment in which the Bank is able to exercise significant influence over the investees, are accounted for using the equity method. The Bank's share in net income or net loss of the investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of the investees are accounted for as an adjustment to retained earnings or to capital adjustments.

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.

Any excess in the Bank's acquisition cost over its share in the investee's identifiable net assets is considered as goodwill and amortized using the straight-line method over 5 years of estimated useful life. If the Bank's acquisition cost is less than its share in the investee's net asset value, then the portion of difference caused by the investee's amortizable non-currency assets is reversed over the weighted average useful lives of such assets using the straight-line method, and the remaining resulted from the investee's unamortizable assets is reversed at the point when expensed. If the difference between the Bank's acquisition cost over its share in the investee's net asset value is resulted due to the specific assets and liabilities which are evaluated using their fair market values, such difference is accounted for using the investee's accounting treatments applied for such assets and liabilities.

Upon the sale to the investee, the Bank fully eliminates the unrealized gain, whereas in the sale to the Bank, the Bank proportionately eliminates the unrealized gain based on its 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.

(h) 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	25~40 years
Equipment	4~5 years
Leasehold improvements	5~10 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.

(i) Intangible Assets

Intangible asset consist of primarily of software development costs related to the office automation and productivity enhancement. Amounts capitalized were ₩26,409 million and ₩12,505 million in 2004 and 2003, respectively while the amortization costs were ₩8,403 million and ₩5,852 million in 2004 and 2003, 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.

(j) 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 in installment sales, in conformity with accounting standard for the Korean Banking Industry, the proceeds and the sale gain/loss are recognized as receivable-disposition of asset and gain/loss-disposition of asset, respectively.

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(k) 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.

(l) Retirement and Severance Benefits

Employees and executives who have been with the Bank for more than one year are entitled to lump-sum payment based on the current rate of pay and the length of service when they leave the Bank and subsidiaries. Retirement and severance benefits of ₩124,005 million and ₩110,215 million represent the amount, which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2004 and 2003, respectively. The Bank and subsidiaries' actual payments of severance benefits were ₩41,933 million and ₩19,859 million in 2003 and 2004, respectively.

As for 71.54% of the severance benefit provision as of December 31, 2004, the Bank and subsidiaries are under coverage by the employee retirement insurance policies purchased from insurance companies including Samsung Life Insurance Co., Ltd. in which the employees are the beneficiaries as well as the Retirement Trust provided by Chohung Bank and other financial institutions.

Through March 1999, under the National Pension Scheme of Korea, the Bank and subsidiaries 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 subsidiaries 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.

(m) Restructuring of Troubled Loans

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. Allowance for loan losses is calculated based on the nominal amount, net of present value discount. Up to the fiscal year ended December 31, 2003, the difference between the nominal amount and the present value had been accounted for as present value discount and amortized using effective interest rate. However, in accordance with Statement of Korea Accounting Standard No. 13 "Troubled Debt Restructuring", the remaining balance of present value discount has been accounted for as allowance for loan losses.

(n) 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 as of December 31, 2004 and 2003, there has been no related amortization for the years then ended.

(o) 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 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 foreign branches and subsidiaries are included in other assets and liabilities, and corresponding income tax benefits and expenses are recorded as non-operating income and expenses.

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(p) 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.

(q) 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 balances sheet dates in accordance with the financial accounting standards. The exchange rate used to translate U.S. Dollar into Korean Won at December 31, 2004 was ₩1,043.8:US\$1.

(r) 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 (under the fair value method as for the stock options granted after December 31, 2003) 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.

In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank. All stock options granted prior to December 31, 2003 were accounted for using minimum value method using the Black-Scholes model. Effective January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

(s) 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 for 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 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.

(t) 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 Korea International Merchant Bank 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(u) 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 prior to the assets being ready for lease.

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.

(v) Accounting for Trust Accounts

The Bank has engaged in investment trust operations, which includes unrestricted money trusts, household money trusts and development money trusts and other 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

The trust accounts record the amount of the trust revenue less all expenses and trust fees as the dividends of trust profits to beneficiaries (including the guaranteed principal and minimum rate of return). The trust fees are recorded in the bank's accounts as a part of other operating income.

- 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.

- 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

- Loans to Bank 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.

- Special Reserve

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.

- 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.

Estimated loan losses as of as of December 31, 2004 and 2003 were determined by applying the following minimum percentages to each credit risk classification:

Classification	Trust Account Assets	Retail Loans
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, 2004 and 2003 amounts to ₩5,696 million and ₩8,854 million, respectively, and the charge-offs recorded by the trust accounts of the Bank in 2004 and 2003 amount to ₩272,976 million and ₩284,498 million, respectively.

- 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 2004 and 2003.

(w) 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 CONSOLIDATED FINANCIAL STATEMENTS

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(x) Contingent Liabilities

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

(y) Change in Accounting Treatment for Gain/Loss on Disposal of Loans

In connection to the disposal of loans, accounting treatment to recognize gain or loss resulting from disposal of loans was changed and that such gain and loss are no longer adjusted in the allowances but recorded as gain or loss on disposal of loans. Due to the above changes in accounting treatment, gain on disposal of loans increased by ₩78,938 million, while provision for loan losses increased by ₩78,938 million for the year ended December 31, 2004. For the comparison purpose, gain on disposal of loans and the provision for loan losses in the prior year financial statements were each increased by ₩24,488 million. Such changes in accounting treatment have no effect to the net asset value, ordinary income or the net income for the years ended December 31, 2004 and 2003, respectively.

(4) Cash and Due from Banks**(a) Cash and due from banks as of December 31, 2004 and 2003 are as follows:**

(In Millions of Won)

	2004	2003
Cash on hand	₩ 1,266,966	1,620,908
Foreign currencies	242,356	260,614
Due from banks in Won	469,783	1,568,913
Due from banks in foreign currencies	863,986	1,387,443
	₩ 2,843,091	4,837,878

(b) Cash and due from banks which are restricted from withdrawal as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Reserve deposits with the Bank of Korea:		
In Won	₩ 237,045	906,142
In Foreign Currency	226,344	553,746
Won currency deposit	70,674	57,288
Foreign currency deposit	15,617	12,049
	₩ 549,680	1,529,225

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 and other deposits. Foreign currency deposits consist of deposits provided by the Bank in connection with derivative transactions, deposits made by Banco KEB do Brazil S.A. to the Central Bank of Brazil in accordance with the related regulations and other deposits.

(c) The scheduled maturities of due from banks as of December 31, 2004 are as follows:

(In Millions of Won)

	Due in less than one year	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 152,019	-	317,764	469,783
Due from banks in foreign currencies	859,686	-	4,300	863,986
	₩ 1,011,705	-	322,064	1,333,769

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(5) Securities

(a) Securities as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004			2003		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Trading	₩ 1,697,644	59,943	1,757,587	996,441	51,554	1,047,995
Available-for-sale	8,083,634	1,567,031	9,650,665	10,285,808	1,028,523	11,314,331
Held-to-maturity	1,487,505	-	1,487,505	887,847	-	887,847
Investment in affiliates	-	25,994	25,994	-	341,058	341,058
	₩ 11,268,783	1,652,968	12,921,751	12,170,096	1,421,135	13,591,231

Foreign currency denominated securities lent to other financial institutions in 2004 and 2003 amount to ₩1,651 million and ₩182 million, respectively.

As of December 31, 2003 available-for-sale securities included in Cash Management Accounts ("CMA"), which are managed by the merchant banking division of the Bank amount to ₩90,725 million.

(b) 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, 2004 and 2003 are ₩17,628 million (₩19,433 million) and ₩10,680 million (₩12,320 million), respectively.

(c) Securities Provided as Collateral

As of December 31, 2004, securities provided as collateral for borrowings from the Bank of Korea and other financial institutions are as follows:

Guarantees	Pledge value	Reference
Other financial institutions	₩ 578,201	Bonds sold under repurchase agreements
Bank of Korea	986,726	Borrowings from the Bank of Korea (BOK)
Bank of Korea	220,823	Overdrafts from BOK
Bank of Korea	1,072,808	Bonds sold under repurchase agreements (BOK)
Bank of Korea	483,406	Inter-bank settlements
Korea Development Bank	36,100	Asset-backed settlements
Futures Companies, Bank	382,456	Futures transaction/Borrowings denominated in foreign currencies
Merrill Lynch	4,328	Credit default swap
Korea Futures Exchange	2,085	Futures transactions
Banco Central do Brazil	712	Collateral as emergency borrowings
	₩ 3,767,645	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(d) Foreign Currency Denominated Debt Securities by Country

Foreign currency denominated debt securities, classified by country, as of December 31, 2004 and 2003 are as follows:

Countries	2004			2003		
	In thousands of U.S.dollars	In millions of Won	Ratio (%)	In thousands of U.S.dollars	In millions of Won	Ratio (%)
Korea	\$ 860,751	₩ 898,452	84.85	\$ 363,514	₩ 435,417	73.04
USA	49,149	51,302	4.84	44,539	53,349	8.95
Philippines	7,675	8,011	0.76	9,980	11,954	2.01
Brazil	5,223	5,451	0.51	5,088	6,095	1.01
Others	91,697	95,713	9.04	74,589	89,343	14.99
	\$ 1,014,495	₩ 1,058,929	100.00	\$ 497,710	₩ 596,158	100.00

(e) Equity Securities Accounted for Using the Equity Method

As of December 31, 2004, details of investments in subsidiaries accounted for using the equity method are as follows:

(In Millions of Won)

	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	
KEBIT (*1)(*2)	₩ 13,800	14,971	-	-	1,086	(457)	-	15,600
Doosan Heavy Industries & Construction Co., Ltd. (*3)	82,000	250,085	(264,561)	-	18,396	384	(4,304)	-
KEB Investor Services Co., Ltd. (*4)	₩ 850	850	-	-	-	-	-	850
MP&T (*4)	2,550	2,550	-	-	-	-	-	2,550
PUB (*5)	38,493	82,869	(81,575)	(3,858)	2,821	-	(257)	-
KEB Ire. (*6)	3,436	7,019	(6,389)	(268)	(362)	-	-	-
CFEB (*7)	8,281	4,704	-	(605)	-	-	54	4,153
USAI (*7)	2,881	-	2,870	(261)	232	-	-	2,841
	₩ 152,291	363,048	(349,655)	(4,992)	22,173	(73)	(4,507)	25,994

(*1) Due to the difference in year-end closing dates of the investees, the most recent financial statements were used.

(*2) The investee is currently in the process of being sold as of December 31, 2004.

(*3) These were excluded from the applying equity method due to the partial disposal of investment. Investments in subsidiaries accounted for using the equity method amounting to ₩198,173 million were reclassified into available-for-sale securities.

(*4) 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.

(*5) The investee was sold during the current period.

(*6) The investee was liquidated during the current period.

(*7) Due to the delay in year-end closing of the investees, unaudited/unreviewed financial statements were used.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

(In Millions of Won)

	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	
Doosan Heavy Industries & Construction Co., Ltd. (*1)(*2)	₩ 82,000	262,015	(2,460)	-	3,982	-	(13,452)	250,085
KEB Investor Services Co., Ltd. (*3)	2,550	-	2,550	-	-	-	-	2,550
MP&T (*3)	850	-	850	-	-	-	-	850
PUB (*1)	38,493	75,691	(926)	(165)	9,137	(412)	(456)	82,869
CFEB (*1)	8,281	6,452	-	(14)	(1)	-	(1,733)	4,704
	₩ 132,174	344,158	14	(179)	13,118	(412)	(15,641)	341,058

(*1) Due to the delay in year-end closing of the investees, unaudited financial statements were used.

(*2) The price per share of Doosan Heavy Industries & Construction Co., Ltd. is ₩6,590.

(*3) 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.

(f) Sales and Liquidation of Overseas Subsidiaries

The Bank had entered into a contract to sell its investments in Pacific Union Bank ("PUB"), a U.S.-based subsidiary, to Hanmi Financial Corp., a holding company of Los Angeles-based Hanmi Bank. This sales transaction was finalized on April 30, 2004 upon the approval from Federal Reserve Bank of San Francisco on April 12, 2004. The total number of shares of PUB sold was 6,624,052 shares and the sales proceed received amounted to US\$195,924 thousand. The Bank recorded gain on disposal of available-for-sale securities amounting to ₩181,463 million.

KEB Ireland Ltd., a subsidiary of the Bank, was liquidated on September 30, 2004.

(g) Partial Sale of Investments Accounted for Using the Equity Method

On December 17, 2004, the Bank sold 4 million shares (out of 16.4 million shares) of Doosan Heavy Industries & Construction Co., Ltd. at ₩49,566 million. As its ownership declined to 11.9%, the remaining 12.4 million shares with book value of ₩198,173 million were excluded from the application of equity method and reclassified into available-for-sale securities. During 2004, the Bank recorded a gain on disposal of available-for-sale securities of ₩593 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(h) Impairment Loss

Impairment losses on equity securities for the year ended December 31, 2004 are as follows:

(In Millions of Won)

Equity securities	Issuer	Acquisition cost	Impairment loss	Book value
Marketable securities in Won	FOR-CS International, Inc.	₩ 396	99	297
	Digital Multimedia Technology Co., Ltd.	750	411	339
	Korea Industrial	1,110	238	872
	Daewoo Precision Industries Co., Ltd.	793	44	749
	Moohan Investment Co., Ltd.	1,229	853	376
	Saehan Inc.	665	263	402
	Saehan Media Co., Ltd.	661	67	594
	Shinwon Corporation	1,850	815	1,035
	Hyundai Corporation	7,378	24	7,354
		₩ 14,832	2,814	12,018
Non-marketable securities In Won	Prime Venture Capital Corp.	410	376	34
	Sourcetel Co., Ltd.	32	32	-
	SL Systems Co., Ltd.	151	151	-
	IO Telecom	247	247	-
	Inpro Network	500	500	-
	Oxy-Cure Co., Ltd.	500	500	-
	Korea Aerospace Industries, Ltd.	7,827	2,032	5,795
	Newcore Co., Ltd.	67	67	-
	Dasan Co., Ltd.	119	119	-
	Daewoo Electronics Corp.	36,143	3,173	32,970
	Daeil Industry Co., Ltd.	12	12	-
	Dongyang Ganchul Co., Ltd.	7	7	-
	Sammi Corporation	608	608	-
	Acorn	99	99	-
	Onse Telecom	175	175	-
	Inchon Oil Refinery Co., Ltd.	5,303	525	4,778
	Konics Co., Ltd.	55	55	-
	Poonghan Co., Ltd.	77	77	-
SKM Ltd.	203	203	-	
The Korea Economic Daily	262	136	126	
Badbank Harmony Ltd.	10,929	5,450	5,479	
VCash Company Ltd.	420	371	49	
		₩ 64,146	14,915	49,231
Non-marketable securities in foreign currencies	AFIC	1,741	1,078	663
Other	Contribution to non-performing asset management(*)	36,680	36,680	-
		₩ 117,399	55,487	61,912

(*) Contribution to non-performing asset management is classified in other assets.

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Impairment losses on debt securities for the year ended December 31, 2004 are as follows:

(In Millions of Won)

Debt securities	Issuer	Book value prior to adjustment	Impairment loss	Book value
Debt securities in Won	Hyundai Corporation	₩ 21,226	70	21,156
	LG Card Co., Ltd	5,212	212	5,000
	Beneficiary certificate of Daewoo Motors	46,908	5,422	41,486
	KEB 8th SPC Subordinated bond	37,705	260	37,445
	KEB 9th SPC Subordinated bond	70,000	25,093	44,907
	KEB 10th SPC Subordinated bond	45,000	18,336	26,664
		₩ 226,051	49,393	176,658

The recovery of impairment loss on available-for-sale equity securities for the year ended December 31, 2004 is follows:

(In Millions of Won)

Equity securities	Issuer	Book value prior to adjustment	Recovery of impairment loss	Book value
Non-marketable Securities in Won	Korea Housing Guarantee Co., Ltd	₩ 475	177	652

The recovery of impairment loss on debt securities for the year ended of December 31, 2004 is as follows:

(In Millions of Won)

Debt securities	Issuer	Book value prior to adjustment	Recovery of impairment loss	Book value(*)
Debt securities in Won	Il Shin Stone Co., Ltd.	₩ 14	1,254	-

(*) Entirely extinguished during the current period

The scheduled maturities of available-for-sale and held-to-maturity debt securities as of December 31, 2004 are as follows:

(In Millions of Won)

	Due in less than one year	Due after one year through three years	Due after three years	Total
Government bonds	₩ 810,384	2,421,184	725,842	3,957,410
Finance debentures	2,410,793	1,906,598	284,254	4,601,645
Corporate bonds	644,047	644,398	182,650	1,471,095
Other securities	136,242	492	42,970	179,704
Foreign currency denominated securities	185,442	147,832	702,825	1,036,099
Off-shore debt securities	-	-	22,830	22,830
	₩ 4,186,908	5,120,504	1,961,371	11,268,783

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(i) Private Placement Funds

Major assets for private placement funds held by the Bank and its result of operation as of December 31, 2004 are as follows:

(In Millions of Won)

		Forever 12M Private Bond 2	SAFE&PLUS Private Hybrid 5	KEB Core Best Private Bond 1	Total
Assets:					
Due from banks in Won	₩	53,380	-	406	53,786
Due from banks in foreign currencies		-	-	73	73
Call loans		21,371	737	2,797	24,905
Available-for-sale securities		755,908	29,369	46,043	831,320
Derivative instruments		-	-	478	478
Others		8,863	617	1,093	10,573
	₩	839,522	30,723	50,890	921,135
Revenue:					
Gain from operation of private placement funds	₩	46,350	3,062	2,092	51,504

During 2004, a loss from the ceased operation of private placement fund amounted to ₩2,321 million.

(6) Loans

(a) Loans as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

		2004	2003
Loans in Won	₩	25,760,946	25,994,629
Loans in foreign currencies		5,732,988	6,722,225
Bills bought in Won		2,017,030	2,643,093
Bills bought in foreign currencies		3,260,155	3,162,567
Call loans		858,255	2,498,388
Credit card accounts		2,619,986	2,890,631
Securities purchased under resale agreements		1,230,000	700,000
Other		628,512	864,240
		42,107,872	45,475,773
Less: allowance for loan losses		(912,467)	(2,441,778)
net deferred loan fees and costs		(1,271)	-
	₩	41,194,134	43,033,995

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December 31, 2004 and 2003

(b) Foreign Currency Loans By Country

As of December 31, 2004 and 2003, the Bank and the consolidated companies' loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2004			2003		
	In thousands of U.S.dollars	In millions of Won	Ratio (%)	In thousands of U.S.dollars	In millions of Won	Ratio (%)
Korea	\$ 3,999,277	₩ 4,174,445	72.8	\$ 3,302,043	₩ 3,955,187	58.8
Japan	225,521	235,399	4.1	255,792	306,388	4.6
Russia	-	-	-	99,000	118,582	1.8
Indonesia	59,372	61,973	1.1	41,840	50,116	0.7
Others	1,208,250	1,261,171	22.0	1,913,468	2,291,952	34.1
	\$ 5,492,420	₩ 5,732,988	100.00	\$ 5,612,143	₩ 6,722,225	100.0

(c) Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the years ended December 31, 2004 and 2003 is as follows:

(In Millions of Won)

	2004	2003
Balance at the beginning of the year	₩ 2,441,778	1,185,248
Provision for loan losses	1,001,057	2,866,032
Written-off	(2,894,081)	(1,768,500)
Transfer from repurchase of loans, recoveries and others	380,336	154,303
Foreign currency translation adjustments	(16,623)	4,695
Balance at the end of the year	₩ 912,467	2,441,778

Ratios of allowance for loan losses to total loans (net of present value discount) for the years ended December 31, 2004, 2003 and 2002 are 2.2%, 5.4% and 2.8%, respectively.

As of December 31, 2004 and 2003, 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 ₩3,435,014 million and ₩3,872,426 million, respectively.

The loans in Won in 2004 and 2003 amounting to ₩235,425 million and ₩117,000 million, respectively, are the discounted notes that are included in CMA operating assets of the Bank.

(d) 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. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2004, discounted using interest rates of 5.25% to 15.25%, is ₩600,669 million which is less than their nominal value of ₩669,129 million.

The changes in present value discount and net deferred loan fees and costs of the Bank's restructured loans for the year ended December 31, 2004 are as follows:

(In Millions of Won)

	Balance at January 1, 2004	Addition	Deduction	Balance at December 31, 2004
Allowance for loan losses (Present value discount)	₩ 80,831	1,454	13,825	68,460
Net deferred loan fees and costs	-	7,335	6,064	1,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(7) 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, 2004 and 2003 comprise the following:

(In Millions of Won)

	2004	2003
Notes discounted	₩ 235,425	117,000
Other securities	-	90,725
	₩ 235,425	207,725

(8) Fixed Assets

Fixed assets as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Investment assets	₩ 1,077	1,645
Tangible assets:		
Land	387,825	387,985
Buildings	459,823	452,092
Office facilities held on lease	65,267	63,720
Equipment	705,913	649,086
Construction in-progress	351	335
	1,619,179	1,553,218
Less: accumulated depreciation	(716,223)	(619,543)
	902,956	933,675
Intangible assets:		
Development costs	40,098	22,281
Others	3,133	2,462
	43,231	24,743
Foreclosed assets:		
Acquisition cost	70	1,449
Less: allowance for possible losses on foreclosed assets	-	(1,226)
	70	223
	₩ 947,334	960,286

As of December 31, 2004, the value of the Bank's domestic land as determined by the tax authorities for property tax assessment purpose amounted to ₩495,692 million (book value ₩387,579 million).

As of December 31, 2004, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses with a coverage amounting to ₩464,124 million. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

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(9) Other Assets

Other assets as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Guarantee deposits	₩ 501,826	521,913
Accounts receivable	2,757,882	1,684,802
Accrued interest	271,296	470,498
Prepaid expenses	101,755	103,253
Deferred tax assets (see note 24)	207,814	208,009
Derivative instrument assets	739,039	206,246
Others	648,641	938,271
	₩ 5,228,252	4,132,992

(10) Deposits

(a) Deposits as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004	2004	2003
Deposits in Won:			
Demand deposits	0.00~0.20	₩ 13,634,444	15,389,928
Savings and time deposits	0.00~3.70	16,092,724	17,534,410
Mutual installment saving	2.50~3.90	496,128	508,097
		30,223,296	33,432,435
Deposits in foreign currencies:			
Demand deposits	0.00~1.98	2,969,691	2,725,877
Savings and time deposits	0.00~6.66	4,871,885	7,225,922
		7,841,576	9,951,799
Certificates of deposits	2.40~3.00	3,327,713	2,184,105
		₩ 41,392,585	45,568,339

(b) The scheduled maturities of deposits as of December 31, 2004 are as follows:

(In Millions of Won)

	Due in less than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 26,659,843	1,682,546	1,880,907	30,223,296
Deposits in foreign currencies	5,614,512	2,224,435	2,629	7,841,576
Certificates of deposits	3,327,706	-	7	3,327,713
	₩ 35,602,061	3,906,981	1,883,543	41,392,585

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(11) Borrowings

(a) Borrowings as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004		2004	2003
Borrowings in Won:				
Borrowings from the Bank of Korea	2.00	₩	1,062,945	998,307
Borrowings from the governmental and public corporation	0.75~5.00		297,889	358,745
Borrowings from other banks	2.04~4.50		116,971	253,349
Borrowings from other financial institutions			-	417,134
Borrowings from others	2.38~4.20		501,574	446,775
			1,979,379	2,474,310
Borrowings in foreign currencies:				
Short-term borrowings	2.12~3.01		1,761,068	1,598,090
Medium and long-term borrowings	3ML+0.22~6ML+3.5		374,610	646,287
Refinance	2.40~2.97		156,570	110,227
Borrowings from banks for subordinated loans	2.35~2.84		16,404	13,997
Others	3ML+0.20~0.44		665,734	733,955
			2,974,386	3,102,556
Securities sold under repurchase agreements	3.65		435,909	510,530
Bills sold	2.40~4.762		130,256	324,044
Call money	2.19~2.54, 3ML+0.15~0.22		495,571	436,495
		₩	6,015,501	6,847,935

(b) Subordinated borrowings as of December 31, 2004 and 2003 are as follows:

(Millions of Won, Thousands of U.S. Dollars)

	Borrower	interest rate (%) at Dec. 31, 2004		2004	2003
Borrowings on foreign currencies	Commerz Bank	6ML+3.5	₩	36,533 (US\$35,000)	41,923 (US\$35,000)

As of December 31, 2004, 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).

(c) The scheduled maturities of borrowings as of December 31, 2004 are as follows:

(In Millions of Won)

		Due in less than one year	Due from one to three years	Due after three years	Total
Borrowings in Won	₩	1,148,916	304,102	526,361	1,979,379
Borrowings in foreign currencies		2,889,249	82,645	2,492	2,974,386
	₩	4,038,165	386,747	528,853	4,953,765

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(12) Debentures

(a) Debentures as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Interest rate (%) at Dec. 31, 2004		2004	2003
Debentures in Won:				
Debentures	3.34~7.73	₩	4,384,000	4,228,927
Subordinated debentures	4.90~10.50		1,442,504	1,192,504
Subordinated convertible debentures	-		-	200,000
Hybrid Tier 1(*)	8.50		250,000	250,000
Others	-		-	-
			6,076,504	5,871,431
Discounts on debentures			(13,052)	(6,257)
			6,063,452	5,865,174
Debentures in foreign currencies:				
Debentures	13.75~3ML+2.00		505,854	492,464
Discounts on debentures			(2,428)	(3,064)
			503,426	489,400
		₩	6,566,878	6,354,574

(b) Subordinated debentures as of December 31, 2004 and 2003 are as follows:

(Millions of Won, Thousands of U.S. Dollars)

	Borrower	interest rate (%) at Dec. 31, 2004		2004	2003
Sold to general public	Feb. 28, 2005 ~ Nov. 28, 2014	4.90~10.50	₩	1,442,504	1,192,504
Chase Manhattan Bank and Merrill Lynch	Nov. 18, 2006	3ML+2.0		208,760 (US\$200,000)	239,560 (US\$200,000)
Credit Suisse First Boston (CSFB)	June 30, 2010	13.75		210,997 (US\$202,143)	248,722 (US\$207,649)
			₩	1,862,261	1,680,786

Certain subordinated debentures are under swap contracts in order to hedge risks from changes in interest rates and exchange rates, and a gain on foreign currency transactions amounting to ₩6,925 million has been accounted for in connection to such contracts during the year ended December 31, 2004.

(c) Subordinated convertible debentures as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	Terms of debentures	Interest rate (%) at Dec. 31, 2004		2004(*)	2003
Subordinated convertible debentures (No.4)	12/6/99 ~12/6/09	4.00	₩	-	100,000
Subordinated convertible debentures (No.5)	12/27/99 ~12/27/09	4.00		-	100,000
			₩	-	200,000

(*) All of the above debentures were early extinguished during 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(d) The scheduled maturities of debentures as of December 31, 2004 are as follows:

(In Millions of Won)

		Due in less than one year	Due from one to three years	Due after three years	Total
Debentures in Won	₩	3,714,000	1,420,000	942,504	6,076,504
Debentures in foreign currencies		86,097	208,760	210,997	505,854
	₩	3,800,097	1,628,760	1,153,501	6,582,358

(13) Retirement and Severance Benefit

Retirement and severance benefits as of December 31, 2004 and 2003 are as following:

(In Millions of Won)

		2004	2003
Balance at the beginning of the year	₩	110,215	78,972
Provisions		55,990	50,977
Severance payments		(41,933)	(19,859)
Adjustments of foreign exchange transactions		(267)	125
		124,005	110,215
Deposits of insurance for retirement and severance benefits		(88,708)	(64,052)
Transfer to the National Pension Fund		(851)	(1,648)
Balance at the end of the year	₩	34,446	44,515

In addition to the above severance payments, employees electing voluntary early retirement plans received additional amounts of severance payments which were expensed amounting to ₩89,592 million and ₩2,844 million in 2004 and 2003, respectively.

(14) Other Liabilities

Other liabilities as of December 31, 2004 and 2003 consist of the following:

(In Millions of Won)

		2004	2003
Accrual for retirement and severance benefits (see note 13)	₩	34,446	44,515
Liability for acceptance and guarantees		19,750	54,247
Due to trust account		305,198	1,132,321
Foreign exchange remittance pending		253,514	283,304
Accounts payable		2,731,042	1,817,754
Accrued expenses		787,803	806,260
Unearned income		52,323	79,736
Deposits for letter of guarantees and others		160,006	183,093
Derivative instrument liabilities		831,403	214,546
Suspense receipt accrual		155,480	137,684
Liability for GIRO accounts		81,960	79,122
Agency receipt liability		564,844	556,447
Others		229,260	153,785
	₩	6,207,029	5,542,814

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
The Bank's ownership in capital surplus of consolidated subsidiaries	₩ -	24,965
The Bank's ownership in capital surplus of equity-method investees	-	131,840
	₩ -	156,805

(17) Accumulated Deficit

(a) Consolidated accumulated deficit as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Other statutory reserves	₩ 30,694	33,434
Accumulated deficit before disposition	(598,006)	(1,070,279)
	₩ (567,312)	(1,036,845)

(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 and Hanoi branches' statutory reserves are included in this reserve amount.

(18) Capital Adjustment

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

(In Millions of Won)

	2004	2003
Unrealized gain on available-for-sale securities	₩ 594,908	234,085
Unrealized loss on investments in associates	(1,457)	(30,930)
Stock option	7,649	14
Discounts on stock issued	(324,854)	(294,926)
Capital adjustment of consolidated subsidiaries	10,717	(6,936)
	₩ 286,963	(98,693)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(19) Stock Options

As of December 31, 2004, the stock options granted to the Bank's employees and executives are as follows:

(In Millions of Won)

Grant date	Shares granted	Shares expired to date	Shares exercised	Shares outstanding	Exercise price in Won per share	Exercise period
March 25, 2000	784,000	761,500	-	22,500	₩ 10,000	2003.3.26~2006.3.25
March 28, 2000(*)	53,369	-	-	53,369	15,927	2003.6.22~2006.3.28
May 18, 2000	400,000	377,500	-	22,500	10,000	2003.5.19~2006.5.18
September 14, 2000(*)	74,716	-	-	74,716	15,927	2003.9.15~2006.9.14
March 13, 2001	562,000	15,000	-	547,000	5,000	2004.3.14~2007.3.13
March 30, 2002(*)	32,020	24,015	-	8,005	70,715	2005.3.31~2008.3.30
August 26, 2002	725,000	421,850	-	303,150	6,300	2005.8.27~2008.8.26
March 31, 2003(*)	101,401	-	-	101,401	13,266	2006.4.1~2009.3.31
September 4, 2003(*)	53,369	-	-	53,369	15,533	2006.9.5~2009.9.4
September 16, 2003	120,000	54,400	-	65,600	5,000	2006.9.17~2009.9.16
February 13, 2004	2,450,000	-	-	2,450,000	7,000	2006.2.14~2009.2.13
	5,355,875	1,654,265	-	3,701,610		

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

In accordance with the agreement of the board of directors of the Bank, stock options were granted to the executives and the employees of the Bank. All stock options granted prior to December 31, 2003 were accounted for using minimum value method using the Black-Scholes model. Effective January 1, 2004, the Bank is required to use fair value method using the Black-Scholes model for all new stock options granted after December 31, 2003 in accordance with Korea Accounting Institute Interpretation 39-35. However, old options granted prior to December 31, 2003 are still allowed to be accounted for using minimum value method using the Black-Scholes model.

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

(In Millions of Won)

Grant date	Risk-free interest rate (%)	Expected exercise period (year)	Volatility of the underlying stock price (%)	Expected dividend rate (%)
March 25, 2000	6.35	6	90.01	0.0
March 28, 2000(*)	6.70	3.25	49.68	0.0
May 18, 2000	6.35	6	90.01	0.0
September 14, 2000(*)	6.70	3	61.29	0.0
March 13, 2001	6.35	6	90.01	0.0
March 30, 2002(*)	6.39	3	63.53	4.4
August 26, 2002	6.35	6	90.01	0.0
March 31, 2003(*)	4.62	3	58.35	0.0
September 4, 2003(*)	4.40	3	50.30	0.0
September 16, 2003	4.54	6	89.81	0.0
February 13, 2004	5.12	5	84.86	0.0

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Changes in stock options during the year ended December 31, 2004 are as follows:

(In Millions of Won)

	2004	
Beginning balance	₩	14
Compensation costs for the year ended December 31, 2004		6,492
Transfer from KEBCS due to the merger		1,142
Decrease due to the stock options exercised		-
Ending balance	₩	7,648

The difference between compensation costs calculated using minimum value method and those calculated using fair value method is as follows:

(In Millions of Won)

	Minimum value method	Fair value method
Total compensation costs	₩ 15,473	23,384
Compensation costs for the year ended December 31, 2004	6,492	7,020
Accumulated compensation costs as of December 31, 2003	14	1,660
Transfer from KEBCS due to the merger	1,142	6,482
Compensation costs to be recognized	7,825	8,222

If the Bank applies fair value method in calculating compensation costs, ordinary income, net income, ordinary earnings per share and net earnings per share for the year ended December 31, 2004 are as follows:

(In Millions of Won)

	As reported	Adjustment	Revised
Ordinary income	502,146	(528)	501,618
Net income	526,635	(528)	526,107
Ordinary earnings per share in Won	790	(1)	789
Net earnings per share in Won	818	(1)	817

(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, 2004 and 2003 are summarized as follows:

(In Millions of Won)

	2004		2003
Guarantees and acceptances in Won	₩	798,429	856,386
Guarantees and acceptances in foreign currencies		1,813,960	2,239,356
	₩	2,612,389	3,095,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2004 and 2003 are as follows:

	2004			2003		
	Thousands of U.S.dollars	Millions of Won	Ratio (%)	Thousands of U.S.dollars	Millions of Won	Ratio (%)
Korea	\$ 1,506,800	₩ 1,572,798	86.71	\$ 1,668,418	₩ 1,998,431	89.24
France	60,024	62,653	3.45	36,870	44,163	1.97
Germany	22,443	23,426	1.29	16,226	19,436	0.87
UK	7,723	8,061	0.44	7,464	8,940	0.40
U.S.A.	29,969	31,282	1.72	24,136	28,910	1.29
Japan	29,537	30,831	1.70	21,431	25,670	1.15
Others	81,346	84,909	4.69	95,012	113,806	5.08
	\$ 1,737,842	₩ 1,813,960	10.00	\$ 1,869,557	₩ 2,239,356	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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Letters of credit issued but not yet drawn	₩ 3,732,571	4,362,854
Other guarantees and acceptance	17,405	16,115
	₩ 3,749,976	4,378,969

The Bank and subsidiaries' loan commitments as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Commitments for loans in Won	₩ 605,206	397,464
Commitments for foreign currency loans	80,695	112,266
Securities purchase commitments in Won	50,000	-
Securities purchase commitments in foreign currency	-	1,198
Other commitments in foreign currency	74,632	46,714
	₩ 810,533	557,642

Loans written off amounted to ₩3,435,014 million and ₩3,872,426 million as of December 31, 2004 and 2003, respectively.

Government bonds sold over the counter as of December 31, 2004 and 2003 amounted to ₩24,781 million and ₩23,557 million, respectively.

Endorsed notes with collateral amount to ₩94,493 million and ₩83,986 million as of December 31, 2004 and 2003, respectively. Endorsed notes without collateral held at the merchant banking account amount to ₩1,479,383 million and ₩3,492,679 million as of December 31, 2004 and 2003, respectively.

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(b) Derivative Financial Instruments

The Bank has entered into various derivative financial instrument contracts for trading or hedging purposes, including futures contracts that are subject to exchange of 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, 2004 and 2003 are as follows:

(In Millions of Won)

2004	Outstanding		Valuation gains or losses (I/S)				Total		Valuation gains or losses (B/S)	
	Trading	Hedging	Total	Trading	Hedging	Total	Gains	Losses	Assets	Liabilities
Foreign currency related contracts										
Forward contracts	₩ 8,675,214	701,900	9,377,114							
Futures contracts										
Futures contracts purchased	162,624	-	162,624	-	-	-	-	-	-	-
Swap contracts	1,181,147	-	1,181,147	194,297	110,201	304,498	194,297	110,201	215,632	128,386
Option contracts										
Option contracts purchased	1,698,416	-	1,698,416	30,289	-	30,289	30,289	-	34,330	-
Option contracts sold	1,358,540	-	1,358,540	-	27,793	-	-	27,793	-	33,416
	13,075,941	701,900	13,777,841	472,774	567,861	1,040,635	472,774	567,861	641,660	717,388
Interest rate related contracts										
Futures contracts										
Futures contracts purchased	67,775	-	67,775	-	-	-	-	-	-	-
Futures contracts sold	1,445,254	-	1,445,254	-	-	-	-	-	-	-
Swap contracts	7,495,779	104,380	7,600,159	56,742	71,117	127,859	56,742	71,117	97,100	111,917
Option contracts										
Option contracts purchased	140,913	-	140,913	-	423	423	-	423	88	-
Option contracts sold	154,482	-	154,482	1,276	-	1,276	1,276	-	-	348
	9,304,203	104,380	9,408,583	58,018	71,540	129,558	58,018	71,540	97,188	112,265
Index option related contracts										
KOSPI200 futures	21,500	-	21,500	-	-	-	-	-	-	-
Option contracts										
Option contracts purchased	94,736	-	94,736	7,289	54	7,343	7,289	54	191	-
Option contracts sold	130,152	-	130,152	66	1,722	1,788	66	1,722	-	1,750
	246,388	-	246,388	7,355	1,776	9,131	7,355	1,776	191	1,750
	₩22,626,532	806,280	23,432,812	538,147	641,177	1,179,324	538,147	641,177	739,039	831,403

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(In Millions of Won)

2003	Outstanding			Valuation gains or losses (I/S)						Valuation gains or losses (B/S)	
	Trading	Hedging	Total	Trading		Hedging		Total		Assets	Liabilities
				Gains	Losses	Gains	Losses	Gains	Losses		
Foreign currency related contracts											
Forward contracts	₩ 8,052,020	418,965	8,470,985	39,308	(10,782)	10,089	27	49,397	(10,755)	131,284	128,444
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	418,965	9,790,564	28,729	8	10,089	27	38,818	35	156,660	152,252
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)	-	512	-
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	44,939	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	-	18,867
	613,659	-	613,659	2,245	7,381	-	-	2,245	7,381	4,647	18,867
	₩16,780,237	550,723	17,330,960	35,631	7,860	13,484	7,612	49,115	15,472	206,246	214,546

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(b) Derivative Financial Instruments, continued

The above transactions with respect to securities and bonds are for the purpose to hedge risks from changes in exchange rates or interest rates, and to generate profits from trading derivative instruments.

Outstanding hedging transactions above include both derivative transactions accounted for using hedge accounting treatment and those held for the purpose of risk hedge. As of December 31, 2004, hedged items consist of securities and bonds, and risks from change in fair values are hedged by interest rate swap. Based on the valuation of hedged items under fair value hedge accounting, gain and loss on valuation of securities amounting to ₩110 million and ₩476 million, respectively, and gain on valuation of bonds amounting to ₩6,925 million have been accounted for.

(c) Litigation

As of December 31, 2004, the Bank has 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\$9,935,822 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 Bank, but the ultimate effect as of balance sheet date cannot presently be determined.

The Bank has suspense receivables of ₩32,040 million in connection to the forged notes purchased from Kukdong City Gas which was accounted for as the commercial papers endorsed without recourse under merchant banking account. The Bank recorded allowance for losses of ₩32,040 million in 2004.

The Bank is also in litigation as the defendant or the plaintiff in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank were approximately ₩301,115 million and ₩78,271 million, respectively, as of December 31, 2004. The Bank believes that the outcome of these matters would not have a material impact to the Bank's financial position or operations.

(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. The difference between the book value and the proceed amounting to ₩165,823 was accounted for as loss on disposal of securities.

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. The difference between the book value and the sales price amounting to ₩616,622 million was adjusted from the allowance for loan losses. In relation to this asset backed securitization ("ABS"), the Bank provided deposits equivalent to ₩39,600 million as collateral to Kookmin Bank.

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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. Out of the difference between the book value and the sales price, ₩90,628 million was adjusted from allowance for loan losses and ₩20,200 million was accounted for as a loss. 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"). The difference between the book value and the sales price amounting to ₩24,488 million was recognized as a gain on disposal of loans. 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.

On May 14, 2004, the Bank sold certain non-performing loans amounting to ₩206,442 million to a Special Purpose Company ("9th SPC") and received ₩80,000 million and ₩70,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩27,052 million was recognized as a gain on disposal of loans. 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.

On August 10, 2004, the Bank sold certain non-performing loans amounting to ₩147,464 million to a Special Purpose Company ("10th SPC") and received ₩55,000 million and ₩45,000 million in cash and subordinated bonds, respectively, in relation to this asset-backed securitization ("ABS"). The difference between the book value and the sales price amounting to ₩19,520 million was recognized as a gain on disposal of loans. 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 ₩87,679 million), ₩130,000 million, and ₩26,000 million, respectively (27 percent, 34 percent, and 36 percent of the total proceeds, respectively).

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(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, 2004, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩308,494 million. An additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their repurchase agreement.

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

The Bank's outstanding loans (including payment guarantees) and available-for-sale securities including debt-to-equity securities with respect to Hynix Semiconductor Inc. amount to ₩36,497 million and ₩624,080 million, respectively, as of December 31, 2004. 18,416,307 shares of debt-to-equity securities amounting to the book value of ₩187,699 million may 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 42,816,000 shares amounting to the book value of ₩436,381 million are restricted from being sold until December 31, 2006. The allowance for loan losses and acceptances and guarantees of ₩13,542 million was recorded with respect to these loans including payment guarantees. However, the actual loss may differ from the allowance for loan losses and acceptances and guarantees depending on the result of restructuring of Hynix Semiconductor Inc.

KEB Capital Co., Ltd. ("KEBC"), the Bank's consolidated subsidiary, has available-for-sale securities, including debt-to-equity securities, amounting to ₩6,961 million with respect to Hynix Semiconductor Inc. 666,771 shares out of the total debt-to-equity securities, with the book value of ₩6,796 million are restricted from disposition until December 31, 2006.

(g) Loans to Workout Companies

As of December 31, 2004, the Bank's outstanding loans and guarantees to the companies under workout programs amounted to ₩828,653 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.

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

As of December 31, 2004, the Bank has loans of ₩92,361 million and available-for-sale securities of ₩157,509 million with respect to SK Networks Co., Ltd. and set allowance for loan losses of ₩10,776 in association with these loans. The actual loss may differ from the allowance for loan losses and impairment loss upon the result of the restructuring of SK Networks Co., Ltd.

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

As of December 31, 2004, the Bank has CP and loans with respect to LG Card Co., Ltd. which is going through liquidity crisis, amounting to ₩50,721 million (including those held at private placement fund amounting to ₩45,721 million) and ₩3,770 million, respectively. The actual loss may differ from the allowance for loan losses set by the Bank depending on the result of restructuring of LG Card Co., Ltd.

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(j) Commitments Related to Credit Card Business

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

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

(k) Asset Backed Securitization Related to Credit Card Business

Dues and receivables from cardholders provided to SPCs as of December 31, 2004 are summarized as follows:

(In Millions of Won)

SPC	Assets provided	Transferred (entrusted) amount	Date of transfer (entrusted)	Remaining balance
KEBCS Securitization 2001-1, L.L.C. (the "SPC 2") (*1)	Credit card receivables	496,399	2001.7.2	-
KEBCS Securitization 2001-3, L.L.C. (the "SPC 3")(*2)	Cash advances	408,399	2001.7.2	-
KEBCS Securitization 2001-4, L.L.C. (the "SPC 4")(*3)	Credit card loans	475,161	2001.12.1	-
KEB Card International ABS 2002-5 Limited (the "SPC 5") (*4)	Credit card receivables	845,771	2002.8.8	-
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	Cash advances and revolving purchases	403,804	2003.1.13	325,442
KEBCS Securitization 2003-8, L.L.C. (the "SPC 8")(*5)	Credit card receivables	570,730	2003.4.2	-
		₩ 3,200,264		325,442

(*1) The entire amount of senior and subordinated bonds were extinguished on March 29, 2004. The registration of SPC was terminated and was liquidated on April 9, 2004 and April 30, 2004, respectively.

(*2) The entire amount of senior and subordinated bonds were extinguished on July 27, 2004. The registration of SPC was terminated and was liquidated on August 10, 2004 and December 16, 2004, respectively.

(*3) The entire amount of senior and subordinated bonds were extinguished on May 20, 2004. The registration of SPC was terminated and was liquidated on June 2, 2004 and September 22, 2004, respectively.

(*4) Due to the merger with KEBCS, the early redemption of the securitized bonds was made based on the agreement with Financial Security Assurance Inc. ("FSA"), the guarantor of the SPC. The Bank recognized a loss of ₩35,025 million during the current period because of the early redemption.

(*5) Early redemption of ₩300,000 million was made on December 27, 2004.

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The Bank is responsible for possible delinquencies in the underlined assets of the SPCs and additional assets should be provided to the SPCs if the remaining balances of the underlined assets fall below the stipulated amounts.

Additional assets which had been transferred or entrusted to the SPCs up to December 31, 2004 are summarized as follows:

(In Millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2001-3, L.L.C. (the "SPC 3")	2001.8.1~2004.4.29	11	322,429	₩ 443,888	Trust type
KEBCS Securitization 2001-4, L.L.C. (the "SPC 4")	2001.12.15~2004.4.19	26	471,173	1,214,814	
KEB Card International ABS 2002-5 Limited (the "SPC 5")	2003.3.18~2003.7.31	2	128,644	158,204	Trust type
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2003.5.19~2004.7.30	8	125,874	301,348	Trust type
KEBCS Securitization 2003-8, L.L.C. (the "SPC 8")	2003.5.23~2004.9.30	8	457,869	383,838	Trust type
			1,505,989	₩ 2,502,092	

Assets which had been extracted from SPC and transferred back to or repurchased by the Bank up to December 31, 2004 are summarized as follows:

(In Millions of Won)

SPC	Period	Frequency	No. of cardholders	Amount	Type
KEBCS Securitization 2001-3, L.L.C. (the "SPC 3")	2001.8.1~2003.3.10	6	115,796	₩ 132,131	Trust type
KEBCS Securitization 2001-4, L.L.C. (the "SPC 4")	2002.10.31~2003.5.2	3	12,458	10,193	
KEBCS Securitization 2002-7, L.L.C. (the "SPC 7")	2004.3.29	1	31,913	33,458	Trust type
			160,167	₩ 175,782	

The Bank receives service fees from the SPC 4 calculated by multiplying the asset balances 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 the Trustee company, and divided by twelve. Also, profits from the SPC 3, the SPC 5, the SPC 7 and the SPC 8, net of the expenses of the Trust for each settlement period, are accounted for as interest income by the Bank.

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(1) 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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Commissions received	₩ 750,391	1,007,393
Guarantee fees	24,110	23,119
Early termination penalty fees	237	145
Others	103	110
	₩ 774,841	1,030,767

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(22) Commission Charges

Commission charges for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

		2004	2003
Service fees	₩	226,302	243,728
Others		13,905	7,473
	₩	240,207	251,201

(23) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

		2004	2003
Salaries	₩	418,512	368,820
Employee benefits		102,122	103,913
Provision for retirement and severance benefits		55,990	50,977
Depreciation		112,434	126,387
Amortization		9,445	9,599
Tax and dues		33,378	27,886
Rent		37,950	39,461
Entertainment		10,705	11,997
Advertising		17,782	23,930
Others		155,719	146,510
	₩	954,037	909,480

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(24) Income Taxes

The details of tax effect on accumulated temporary differences and loss carry forward as of December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Deferred tax assets (liabilities):		
Loss on valuation of securities	₩ 167,426	236,726
Gain on valuation of Held-to-maturity securities	8,952	4,236
Accrued interest	(27,654)	(28,755)
Allowance for loan losses	18,209	116,436
Loans charged off	115,845	18,209
Allowance for losses from guarantees and acceptances	5,220	16,097
Present value discount	17,357	21,734
Gain on valuation of derivative financial instruments	25,945	4,669
Others, net	57,437	158,189
	388,737	547,541
Loss carry-forward	594,820	251,354
Total deferred tax assets	983,557	798,895
Allowance for deferred tax assets	(779,637)	(598,895)
Deferred tax assets (Domestic)	203,920	200,000
Deferred tax assets (Foreign)	530	584
Deferred tax assets (The Bank total)	204,450	200,584
Deferred tax assets (Subsidiaries)	3,364	7,425
Deferred tax assets, net	₩ 207,814	208,009

Expiration dates allowed for tax loss carry forwards of the Bank in accordance with Korean corporate income tax law to reduce the future taxable income are as follows:

(In Millions of Won)

Year incurred	Amount	Expiration date
2000	₩ 728,443	December 31, 2005
2001	75,318	December 31, 2006
2004	1,359,221	December 31, 2009
	₩ 2,162,982	

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The Bank concluded that it was not probable that it would be able to realize the tax benefit of loss carry forwards and temporary differences and therefore did not recognize deferred income tax assets amounting to ₩779,637 million and ₩598,895 million for 2004 and 2003, respectively.

As of December 31, 2004, KEBC has tax loss carry forwards amounting to ₩65,787 million. As of December 31, 2004, KEBC concluded that it was not probable that it would be able to realize the tax benefit of loss carry forwards; accordingly, the Bank did not recognize deferred income tax assets amounting to ₩18,091 million. The expiration dates allowed for tax loss carry forwards of KEBC amounting to ₩32,866 million and ₩32,921 million are March 31, 2006 and 2007, respectively.

(25) Earnings (Loss) Per Share and Ordinary Earnings (Loss) Per Share

Basic earnings (loss) per share and ordinary earnings (loss) per share for the years ended December 31, 2004 and 2003 are calculated as follows:

(a) Earnings (Loss) Per Share

	2004	2003
Net earnings (loss)	₩ 526,635,474,514	(868,576,739,264)
Preferred stock dividends	-	-
Net earnings allocated to common stock	526,635,474,514	(868,576,739,264)
Weighted average number of common shares outstanding (in share)	643,939,890	425,888,100
Basic net earnings per share (in Won)	₩ 818	(2,039)

(b) Basic Ordinary Earnings (Loss) Per Share

	2004	2003
Net earnings (loss)	₩ 526,635,474,514	(868,576,739,264)
Extraordinary gain	(17,674,366,459)	(13,038,297,047)
Extraordinary loss	-	7,521,573,594
Income tax related to extraordinary income	-	20,851,674
Ordinary income allocated to common stock	508,961,108,055	(874,072,611,043)
Weighted average number of common shares outstanding (in shares)	643,939,890	425,888,100
Basic ordinary earnings per share (in Won)	₩ 790	(2,052)

Diluted earnings per shares and diluted ordinary earnings per share for the years ended December 31, 2004 and 2003 are calculated as follows:

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(c) Diluted Earnings (Loss) Per Share

	2004	2003
Net income (loss) allocated to common stock	₩ 526,635,474,514	(868,576,739,264)
Preferred stock dividends	-	-
Diluted net earnings (loss)	526,635,474,514	(868,576,739,264)
Weighted average number of common shares before diluted (in shares)	643,939,890	425,888,100
Diluted shares(*)	143,322	-
Diluted weighted average number of common shares outstanding (in shares)	644,083,212	425,888,100
Diluted earnings (loss) per share (in Won)	₩ 818	(2,039)

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

(d) Diluted Ordinary Earnings (Loss) Per Share

	2004	2003
Ordinary income (loss) allocated to common stock	₩ 526,635,474,514	(868,576,739,264)
Extraordinary gain	(17,674,366,459)	(13,038,297,047)
Extraordinary loss	-	7,521,573,594
Income tax related to extraordinary income	-	20,851,674
Diluted ordinary income (loss) allocated to common stock	508,961,108,055	(874,072,611,043)
Weighted average number of common shares before diluted (in shares)	643,939,890	425,888,100
Dilutive shares(*)	143,322	-
Diluted weighted average number of common shares outstanding (in shares)	644,083,212	425,888,100
Diluted ordinary income (loss) per share (in Won)	₩ 790	(2,052)

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

(e) Potential common share information as of December 31, 2004 is as follows;

	Exercise period	Number of common share to be issued upon conversion
Stock options	From March 26, 2003 to September 16, 2009	3,701,610

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(26) Statements of Cash Flows

The Bank and subsidiaries consider 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, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Cash on hand	₩ 1,266,966	1,620,908
Cash on hand in foreign currencies	242,356	260,614
Deposits in Won	469,783	1,568,913
Deposits in foreign currencies	863,986	1,387,443
Marketable securities	9,330	318,688
	₩ 2,852,421	5,156,566

Significant non-cash flow transactions for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Decrease in loans by charge-off	₩ 2,894,081	1,768,500
Gain/loss on available-for-sale securities (capital adjustment)	323,044	358,758
Domestic exchange settlement	2,507,072	1,433,976

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(27) Significant Transactions Between the Bank and Subsidiaries

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2004 and related account balances as of December 31, 2004 are summarized as follows:

	(In Millions of Won)									
	KEBA	KEBOC	KEBIT	KEBC	KEBD AG	KEBD	KEBFC	Trust	Others	Total
Assets:										
Due from banks in foreign currency	₩ 4,425	398	-	-	4,203	7,770	-	-	-	16,796
Loan from banks in Won	10,846	626	-	40,041	78,051	37,624	-	-	167,008	334,196
Loans in Won	-	-	-	4,200	-	-	5,000	-	335	9,535
Others	49,764	-	-	167	443	38,621	-	1,907	5,428	96,330
	₩ 65,035	1,024	-	44,408	82,697	84,015	5,000	1,907	172,771	456,857
Liabilities:										
Deposits in Won	₩ -	-	9,193	494	-	-	30	-	-	9,717
Deposits in foreign currency	-	-	-	-	982	310	5,026	-	2,252	8,570
Borrowings in foreign currency	61,593	82	-	-	151,075	455	-	-	-	213,205
Others	-	-	146	2,026	28,422	44,883	4	97,236	1,312	174,029
	₩ 61,593	82	9,339	2,520	180,479	45,648	5,060	97,236	3,564	405,521
Revenues:										
Interest income in Won	₩ -	-	-	1,060	-	-	311	383	17	1,771
Interest income in foreign currency	31	22	-	978	1,506	1,359	-	-	2,564	6,460
Fees and commissions	-	-	-	-	-	-	638	14,428	-	15,066
Others	-	-	-	146	-	-	-	-	57	203
	₩ 31	22	-	2,184	1,506	1,359	949	14,811	2,638	23,500
Expenses:										
Interest in Won	₩ -	-	960	1	-	-	9	1,707	-	2,677
Interest in foreign currency	629	16	-	-	3,471	286	-	-	-	4,402
Commission charges	-	-	-	-	206	-	1,481	-	3,259	4,946
Others	-	-	-	-	-	-	-	-	-	-
	₩ 629	16	960	1	3,677	286	1,490	1,707	3,259	12,025

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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 of Won)											
	KEBA	KEBOC	KEBIT	KEBC	KEBCS	KEBD AG	KEBD	KEB Ire	KEBFC	Trust	Others	Total
Assets:												
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
Loans in Won	-	-	-	19,700	390,666	-	-	-	5,000	-	-	415,366
Others	-	-	-	111	2,570	226	-	2,529	-	18,125	-	23,561
	₩ 22,150	2,674	-	91,592	396,303	97,685	96,588	14,461	5,000	18,125	1,442	746,020
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
	₩ -	159	26,512	2,592	17,982	15,390	18,370	13,828	4,782	128,094	260	227,969
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
	₩ 87	34	-	2,794	39,912	1,592	1,564	749	890	12,571	-	60,193
Expenses:												
Interest in Won	₩ -	-	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
	₩ 23	20	1,300	6	12,301	2,906	149	31	1,594	3,109	-	21,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

Details of significant receivables and payables among subsidiaries as of December 31, 2004 are as follows:

(In Millions of Won)

Subsidiaries	Account	Amount	Counter party subsidiary	Account	Amount
KEBA	Due from banks in foreign currencies	13	KEBD AG	Deposit in foreign currencies	13
KEBD	Due from banks in foreign currencies	118	KEBD AG	Deposit in foreign currencies	118
KEBFIS	Other asset	157	KEBIT	Other liabilities	157
KEBFIS	Other asset	12	Trust	Other liabilities	12
		₩ 300			₩ 300

Details of significant transactions among subsidiaries for the year ended December 31, 2004 are as follows:

(In Millions of Won)

Subsidiaries	Account	Amount	Counter party subsidiary	Account	Amount
KEBA	Interest expenses in foreign currencies	₩ 11	KEBD	Interest income in foreign currencies	₩ 11
KEBA	Interest expenses in foreign currencies	102	KEBD AG	Interest income in foreign currencies	102
KEBFC	Commission charges in Won	8	Trust account	Fees and commissions in Won	8
KEBLAFINCO	Interest expenses in foreign currencies	1	KEBOC	Interest income in foreign currencies	1
KEBNYFINCO	Interest expenses in foreign currencies	86	KEBA	Interest income in foreign currencies	86
KEBNYFINCO	Interest expenses in foreign currencies	46	KEBD AG	Interest income in foreign currencies	46
KEBNYFINCO	Interest expenses in foreign currencies	13	KEBLAFINCO	Interest income in foreign currencies	13
KEBNYFINCO	Interest expenses in foreign currencies	6	KEBOC	Interest income in foreign currencies	6
Trust account	Commission charges in Won	67	KEBFC	Interest expenses in foreign currencies	67
Trust account	Commission charges in Won	324	KEBFIS	Fees and commissions in Won	324
KEBIT	Commission charges in Won	592	KEBFIS	Fees and commissions in Won	592
KEBUSAI	Other expenses	491	KEBNYFINCO	Other income	491
		₩ 1,747			₩ 1,747

(28) Added Value

The details of costs constituting value added expenses for the years ended December 31, 2004 and 2003 are as follows:

(In Millions of Won)

	2004	2003
Salaries	₩ 418,512	368,820
Employee benefit	102,122	103,913
Provision for severance benefits	55,990	50,977
Severance for early retirements	89,592	2,844
Depreciation	112,434	126,387
Amortization	9,445	9,599
Taxes and dues	33,378	27,886
Rent	37,950	39,461
	₩ 859,423	729,887

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

(29) Merger with Korea Exchange Bank Credit Service

As decided at the Board of Directors' meeting held on November 28, 2003, the Bank has determined to acquire Korea Exchange Bank Credit Service Co., Ltd. (KEBCS) on February 28, 2004, in which the Bank has a 68.6% of ownership interest.

The Bank issued 0.533689 share of common stock of the Bank per the share of KEBCS to the KEBCS shareholders who were included in the shareholders list as of February 28, 2004, according to the merger agreement. The total number of shares distributed to such KEBCS shareholders amounted to 5,981,895 shares.

Prior to acquisition of the remaining 31.4% of KEBCS, the Bank consolidated the financial statements of KEBCS and recorded a minority interest for the portion not owned by the Bank. Due to the acquisition of remaining shares of KEBCS, the minority interest amounting to ₩35,445 million was reflected to the accumulated deficit for 2004. The par value of common shares of the Bank was ₩29,909 million and reflected as a capital adjustment.

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 with the objective 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 had 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 February 28, 2004, the Bank was the largest shareholder of KEBCS and owned 43,838,938 shares amounting to 68.6% of total equity.

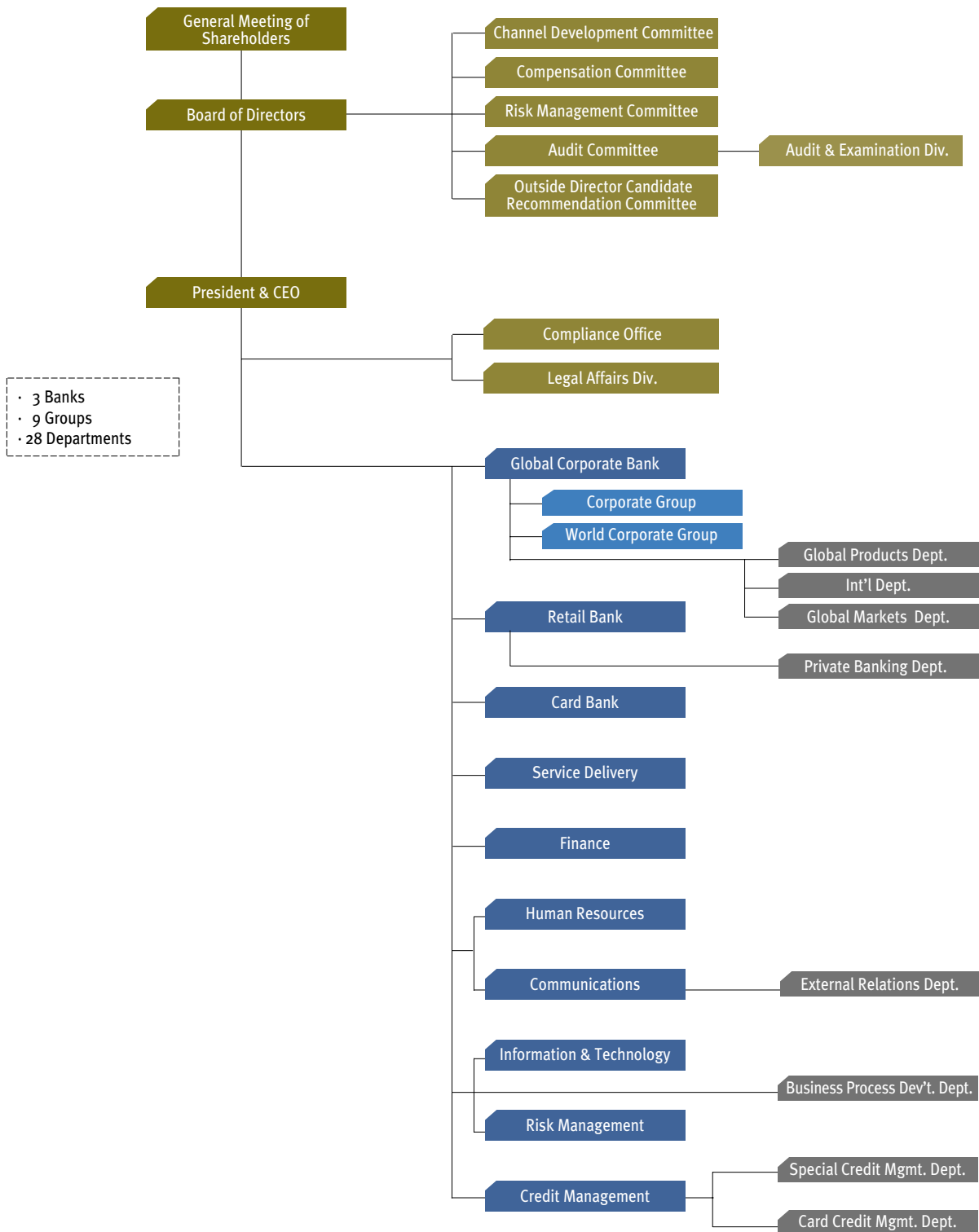
Total assets and liabilities of KEBCS as of February 28, 2004 were ₩3,063,203 million and ₩3,982,986 million, respectively.

(30) Subsequent Event

The Bank entered into a contract with Landmark Investment Trust Management Co., Ltd. in order to sell its 2,760,000 shares of KEB Commerz Investment Trust Co., Ltd., a domestic subsidiary of the Bank, with the book value of ₩15,600, at ₩28,043 million. The contract became effective on January 21, 2005 upon an approval from Financial Supervisory Commission and was finalized on February 18, 2005.

Organization Chart

(as of April 13, 2005)



Board of Directors & Managing Directors

Board of Directors

Standing Directors

Robert E. Fallon

Chairman

Richard F. Wacker

President & CEO

Jang, Myoung-Kee

Deputy President & CCO

Outside Directors

Ellis Short

Vice President, 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, Gyu

Former Deputy
President of KEXIM

Lee, Soo-Gil

Former General Manager of
Research Dept. of BOK

Managing Directors

William H. Roelle

Senior Managing Director

Kim, Hyoung-Min

Managing Director

Hyun, Yong-Goo

Managing Director

Kevin W. Kneebone

Managing Director

Lee, Nak-Keun

Managing Director

Suh, Choong-Suk

Managing Director

Lee, Seung-Yon

Managing Director

Christopher Y. Shin

Managing Director

Global Directory

(as of March 31, 2005)

Financial Institutions Division

Head of Financial Institutions :
Shin, Dong-Hoon
Tel : 82-2- 729-0432
Fax : 82-2- 775-2565,8323

The Americas

Senior Manager : Yoon, Jong-Seon
Tel : 82-2- 729-0448

Asia

Senior Manager : Kim, Sang-Sup
Tel : 82-2- 729-8538

Western Europe & Africa

Senior Manager : Lee, Joo-Yun
Tel : 82-2- 729-0464

Middle East & Eastern Europe

Manager : Choi, Sung-Ho
Tel : 82-2- 729-0465

Oceania

Assistant Manager : Kim, Ji-Young
Tel : 82-2- 729-0456

Korean Banks

Senior Manager : Jung, Chang-Goo
Tel : 82-2- 729-8916

Multi-national Corporate Division

General Manager : Kim, Dae-Hwan
82-2-729-0266

German, Swiss, Denmark, Norway

Marketing Manager : Cho, Jin-Je
Tel : 82-2-729-0255

U.S.A., Asia, U.K.

Marketing Manager : Han, Sang-Kwa
Tel : 82-2-729-0919

Europe II

Marketing Manager : Cho, Yong-Sung
Tel : 82-2-729-0920

FDI Consulting Desk

Senior Manager : Cho, Sung-Goo
Tel : 82-2-729-0291

Manager : Kim, Hyun-Sik
Tel : 82-2-729-0834

FDI Consultant : Kim, Sung-Won
Tel : 82-2-729-0285

Investment Banking Division

Head of Investment Banking Division :
Moon, Byung-Sung
Tel : 82-2-729-8882

P/F, S/F, M&A

Head of Dept. Capital Market :
Cho, In-kyun
Tel : 82-2-729-0557

Project Finance

Chief Manager of Project Finance Team :
Park, Seung-Kil
Tel : 82-2-729-0622

Structured Finance

Chief Manager of Structured Finance
Team : Lee, Hoa-Sun
Tel : 82-2-729-0547

M&A

Chief Manager of M&A Team :
Stan S.H. Lee
Tel : 82-2-729-0082

C/F, SOC, R/E

Head of Corporate Finance/SOC/Real
Estate Team : Lee, Jae-Hak
Tel : 82-2-729-0292

Corporate Finance

Chief Manager of Corporate Finance
Team : Park, Hyung-Kook
Tel : 82-2-729-0556

SOC

Chief Manager of SOC Team :
Han, Sang-Han
Tel : 82-2-729-0542

Real Estate

Chief Manager of Real Estate Team :
Choi, Yun-Hyun
Tel : 82-2-729-0546

FX Trading

Head of FX Trading Team :
Yang, Jin-Young
Tel : 82-2-729-0472

Chief Dealer : Ha, Jong-Soo
Tel : 82-2-729-8770

Chief Dealer : Lee, Sang-Bae
Tel : 82-2-729-0476

Treasury Division

General Manager : Lee, Hyung-Soo
Tel : 82-2-729-0531

Medium- & Long-Term Financing

Head of Foreign Currency Treasury Team
: Ki, Sung-Keun
Tel : 82-2-729-0622

Manager : Kim, Jee-Soo
Tel : 82-2-729-0520

Overseas Network

(as of March 31, 2005)

>> Branches & Representative Offices

AMERICAS

Panama Branch

General Manager : Seo, Gil-Weon
Calle 50, Edificio Torre Global Bank Planta
Baja Apartado 8358, Panama 7, Panama
Tel : 507-269-9966
Fax : 507-264-4224
koexpa@cwpa.net.pa

EUROPE

London Branch

General Manager : Ko, Youn-Wook
30 Old Jewry, London EC2R 8EB, U.K
Tel : 44-20-7606-0191
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gaf@keblon.co.uk

Paris Branch

General Manager : Yoo, Jae-Hoo
17-19 Avenue Montaigne, 75008 Paris, France
Tel : 33-1-5367-1200
Fax : 33-1-5367-1234
kebparis@wanadoo.fr

Amsterdam Branch

General Manager : Kim, Hyo-Sang
Dr. Willem Dreesweg 2, 1185VB, Amstelveen,
The Netherlands
Tel : 31-20-546-9377
Fax : 31-20-546-9399
kebnl@xs4all.nl

MIDDLE EAST ASIA

Bahrain Branch

General Manager : Oh, Chang-Han
5th Floor, Yateem Center Bldg.,
P.O. Box 5767, Manama, Bahrain
Tel : 973-17-229-333
Fax : 973-17-210-063
bahrain@keb.co.kr

Dubai Representative Office

Chief Representative : Kim, Ki-Hyoung
Office No. 202 (BlockA) Concorde Complex
Bldg., Plot 125-130, P.O.Box 14535, Dubai, U.A.E
Tel : 971-4-2281133
Fax : 971-4-2281132
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Arbil Branch

General Manager : Lee, Sang-Sik
ROK Army Camp, Arbil, Iraq
Tel : 82-2-723-4204
Fax : 82-2-723-4205
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SOUTHEAST ASIA

Singapore Branch

General Manager : Yun, Ho-Sun
30 Cecil St., #24-03 / 08 Prudential Tower
Singapore 049712
Tel : 65-6536-1633
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kebspore@keb.co.kr

Manila Branch

General Manager : Kim, Seung-Kwon
33rd Floor, Citi Bank Tower 8741 Paseo de Roxas
St. Makati City Metro Manila, Philippines
Tel : 63-2-848-1988
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koexbank@eastern.com.ph

Hanoi Branch

General Manager : Lee, In-Seok
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Ho Chi Minh City Representative Office

General Manager : Lee, In-Seok
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34 Le Duan St. Dist.1, Ho Chi Minh City, Vietnam
Tel : 84-8-827-4273
Fax : 84-8-827-4281
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CHINA

Hong Kong Branch

General Manager : Sohn, Chang-Sup
32Fl., Far East Finance Centre, 16 Harcourt
Road, Hong Kong, China
Tel : 852-2520-1221
Fax : 852-2861-2379
kebhk@pacific.net.hk

Kowloon

(Hong Kong Sub-Branch)

General Manager : Sohn, Chang-Sup
Room 803, Energy Plaza Bldg., 92 Grandville
Road, Tsim Sha Tsui East, Kowloon, Hong Kong
Tel : 852-2369-2131
Fax : 852-2311-0390

Beijing Branch

General Manager : Kim, Hoi-Heon
#510, Henderson Center, Office Tower 2,
18 Jianguomennei Avenue, Beijing 100005,
China
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Fax : 8610-6518-3106
koexcnbj@mx.cei.gov.cn

Tianjin Branch

General Manager : Lee, Byung-Suk
No.122 Astor Hotel, 33 Taierzhuang Road,
Tianjin 300040 China
Tel : 86-22-2319-2595
Fax : 86-22-2319-2594
kebcntj@public.tpt.tj.cn

Dalian Branch

General Manager : Park, Tae-Hyeong
25th Fl., World Trade Center, No.25 Tongxing
Road, Zhongshan District, Dalian, China
Tel : 86411-8253-1988
Fax : 86411-8281-6150
kebdln@mail.dlptt.ln.cn

Shanghai Branch

General Manager : Seo, Kyu-Tae
17F. Pufa Tower, No 588 Pudong South Road,
Pudong New District, Shanghai 200120 China
Tel : 86-21-5882-5998
Fax : 86-21-5882-8743
kebcnsh@mail.online.sh.cn

JAPAN & OTHERS

Tokyo Branch

General Manager : Cha, Soon-Kwan
The Shinkokusai Bldg., 4-1, Marunouchi,
3-Chome, Chiyoda-ku, Tokyo, Japan
Tel : 81-3-3216-3561
Fax : 81-3-3214-4491
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Domestic Network

(as of March 31, 2005)

Osaka Branch

General Manager : Lee, Yong-Woon
Namba Plaza Bldg., 5-7, Motomachi
1-Chome, Naniwa-ku, Osaka, Japan
Tel : 81-6-6630-2600
Fax : 81-6-6630-2806
kebosaka@helen.ocn.ne.jp

Kumho Representative Office

General Manager : Shin, Hwan-Cheol
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Hamkyung-Nam-Do, D.P.R.K.
Tel : 850-4640/4642(Domestic),
850-0549-20408(Overseas)
Fax : 850-4649(Domestic)

>> Subsidiaries

KEB NY Financial Corp.

President : Kim, Jong-Hyon
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Tel : 1-212-838-4949
Fax : 1-212-371-5290
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KEB USA International Corp.

President : Kwon, In-Tae
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Tel : 1-212-838-4949
Fax : 1-212-752-8551
junghkim@kebus.com

KEB LA Financial Corp.

President : Kim, Yong-Koo
777 South Figueroa Street, Suite 3000,
Los Angeles, CA.90017 U.S.A
Tel : 1-213-683-0830
Fax : 1-213-622-5378
kebla@kebus.com

Korea Exchange Bank of Canada (H.O.)

President : Choi, Yoon-Chul
Madison Centre Suite 1101, 4950 Yonge St.
Toronto, Ontario M2N 6K1, Canada
Tel : 1-416-222-5200
Fax : 1-416-222-5822
keboc@interlog.com

Banco KEB do Brasil S.A.

President : Hwang, Sun-Gap
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Sao Paulo, SP, Brasil
Tel : 55-11-3171-1122
Fax : 55-11-3171-1100
kebsp@sagesse.com.br

Korea Exchange Bank (Deutschland) A.G.

Managing Director : Song, Jae-Yong
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Frankfurt/Main Germany
Tel : 49-69-7129-0
Fax : 49-69-7129-122
mail@koexbank.de

P.T. Korea Exchange Bank Danamon

President : Kang, In-Koo
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kebd@cbn.net.id

KEB Australia Ltd.

Managing Director : Oh, Hee-Cheon
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>> Affiliate

Cairo Far East Bank S.A.E.

Managing Director : Moon, Seung-Chan
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scmoon@keb.co.kr

Head Office

181, Euljiro 2-ga, Jung-gu, C.P.O. Box 2924,
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Tel : 82-2-729-8000
Tlx : K23141

Number of Branches : 315

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President : Park, Jong-Min
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Tel : 82-2-3708-2100
Fax : 82-2-756-5269

KEB Futures Co., Ltd.

President : Min, Seung-Ki
11F Yuhwa Bldg. 23-7 Youido-dong,
Youngdungpo-gu, Seoul 150-738, Korea
Tel : 82-2-3770-4100
Fax : 82-2-3770-4147

KEB Fund Service Co., Ltd.

President : An, Joong-Seok
23F KEB Head Office, 181 Eulji-ro 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
240 Nonhyun-dong, Kangnam-ku, Seoul
135-010, Korea
Tel : 82-2-516-0063

Corporate Data

(as of December 31, 2004)

Established	January 30, 1967
Paid-In Capital	KRW 3,224,534 Million
Total Issued & Outstanding Stocks (Common Stock)	644,906,826
Stock Exchange Listing	Korea Stock Exchange
Number of Employees	4,810



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