



***Innovating
to Serve You Better***

2004
Annual Report

New & Better Ways of Banking

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Proud History

In 2004, the Bank commemorated its 75th anniversary and is the seventh largest commercial bank in Korea, serving 3.2 million retail and 67,900 public and private corporate customers nationwide and providing consumer and corporate banking services, trust and investment services, bancassurance products and other banking services. With assets of KRW 42 trillion and a network of 406 branches nationwide, the Bank is well positioned for 2005 and beyond with a strong balance sheet and growing profitability.

Always Innovating

The Bank is one of the most innovative banks in Korea. The Bank has introduced global best practices and disciplined risk management techniques, as well as convenient and advanced products and services, into the banking culture. Always meeting customer needs and innovating to serve customers better, Korea First Bank promises a better future for all of its valued customers.

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Yesterday

Korea First Bank got its start in 1929 and grew to be Korea's largest bank in the 1990s, while continuing to respect its traditions and its people. Throughout its history, the Bank has remained true to its principle of better serving customers, communities and the nation.



한국농협회 권설팀 선정
2003년 고객만족 경영대상
〈고객서비스 혁신부문 최우수상〉 수상

70주년
주최금융공사 모기지팀



Today

Korea First Bank has recovered remarkably in recent years and has shown a marked determination to improve the lives of its customers by developing innovative new techniques for improving convenience and banking excellence.





www.kfb.co.kr 재입은행

YTN

www.kfb.co.kr

Tomorrow

Korea First Bank looks forward to continuing its tradition of excellence, which began in 1929. With a solid history of innovation and distinction, the Bank will lead the future in banking while continuing to serve its customers, the community and the nation.

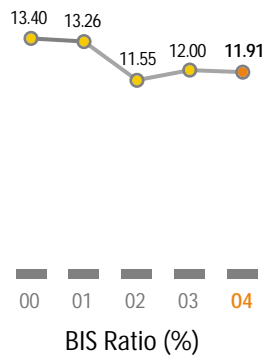
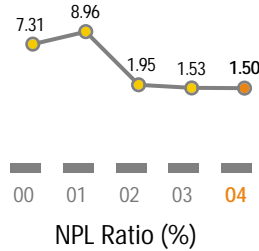
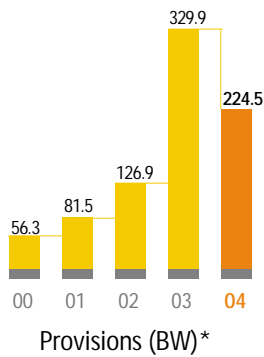
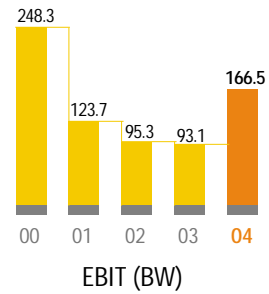
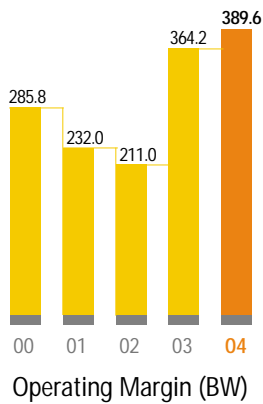
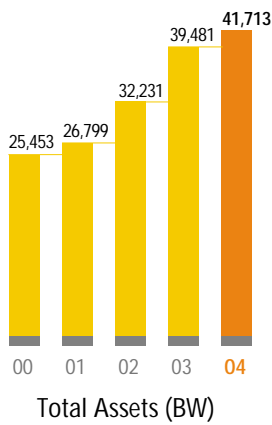


Financial Highlights

December 31, 2004 and 2003	(In billions of Korean Won)		(%)
	2004	2003	Change
BANKING ACCOUNTS			
At Year-End			
Total loans	30,805	27,218	13.2
Securities	7,051	7,072	(0.3)
Total assets	41,713	39,481	5.7
Deposits	27,488	27,197	1.1
Borrowings	1,555	1,892	(17.8)
Financial debentures	8,825	5,695	55.0
Total liabilities	39,873	37,833	5.4
Common stock	1,030	1,030	0.0
Total shareholders' equity	1,840	1,648	11.6
For the Year			
Net interest revenue	831	765	8.6
Fees, commissions and other revenue, net	217	223	(2.9)
Total revenue	1,048	988	6.0
Operating expense	658	624	5.4
Operating margin	390	364	7.0
* Provisions for credit losses	225	330	(31.9)
Operating income	165	34	382.5
Net non-operating income	1	59	(97.6)
Income before tax	166	93	78.7
Income tax	47	107	(56.4)
Deferred tax amortization	45	106	(57.6)
Net income	120	(14)	N/M
Credit Quality			
Non-performing credits	466	416	11.9
Reserve for loan losses	383	424	(9.6)
NPL ratio	1.50%	1.53%	(0.03%p)
TRUST ACCOUNTS			
At year-end			
Total assets	3,594	2,440	47.3
Money trust	862	950	(9.3)
CONSOLIDATED FINANCIAL DATA			
BIS Capital Ratios			<u>%p Change</u>
Tier 1 capital	7.09%	6.18%	0.91%p
Tier 2 capital	4.82%	5.87%	(1.05%p)
Total capital	11.91%	12.00%	(0.09%p)

* Before change of GAAP in 2004

Korea First Bank continued to build a foundation for sustainable profitability with an operating margin of KRW 389.6 billion, up by 7.0% over 2003. As of December 31, 2004, the Bank's total assets had reached KRW 41,713 billion, with loans to clients reaching KRW 30,805 billion, up by 5.7% and 14.9%, respectively. The Bank's Capital Adequacy Ratio was 11.91% in 2004, one of the highest in Korea.



* Before change of GAAP in 2004

Letter to the Shareholders and Customers



Korea First Bank has made significant progress in 2004 and everyone involved can be very proud of their achievements.

Each year I have the pleasure amongst other duties to thank those responsible for delivering on our goals in rebuilding the Korea First Bank franchise. This year marks an evolution in our plans as an agreement was signed in early January 2005 for Standard Chartered Bank to acquire the shares of the Bank. Standard Chartered Bank is one of the world's largest international banks with more than \$140 billion in assets.

Strong interest from several of the world's leading international banks in acquiring Korea First Bank is a testament to the hard work of the Bank's employees and management, and the loyalty of both our existing customers and those who are also new to the Bank. For this, I want to especially thank everyone for their efforts and consideration in achieving this milestone.

Much has happened in the last five years to restructure the Bank, to create a sound platform for expansion, to build a balance sheet that is very strong, and a culture focused on the long term. The Bank has made significant progress over this period and everyone involved can be very proud of their achievements. The Bank may not be the biggest, but it is the best in several measures for which we are all very proud - the high quality loan portfolio, the strong capital base, the development of a mortgage franchise, the dedication of our employees and the loyalty of our customers.

Critically important is the value we place on our most important partner - our customers - and the recognition by several external Banks wishing to acquire Korea First Bank of the high quality of service we provide them. We look forward to continuing to provide these high service levels well into the future, in addition to bringing Standard Chartered's global suite of products, both commercial and consumer, into our customers' homes and businesses to meet their financial needs.

As we enter 2005, I would like to thank all of you for your loyalty and dedication as we embark on a new era for our Bank.

Robert T. Barnum
Chairman, Board of Directors

Korea First Bank is one of the fastest growing banks in Korea, both in consumer loans and loans to corporations.



At the end of 2001, Korea First Bank's assets were KRW 26.8 trillion and the loans to clients were only KRW 11.8 trillion. These low levels were the result of the 1997 crisis and were disproportionate to Korea First Bank's capital and human structure... At the end of 2001, we defined publicly a very aggressive goal: KRW 40 trillion of assets of which KRW 25 trillion should be loans to clients, providing for a 25% Return on Equity before tax... all to be reached by the end of 2004.

A remarkable, safe, growth...

And at the end of 2004, Korea First Bank surpassed its goal with assets reaching KRW 42 trillion and loans to clients reaching KRW 31 trillion, even after securitizing part of our mortgage portfolio. This growth in loans to clients, averaging about 38% each year, made Korea First Bank the fastest growing bank in Korea for the last 3 years, both in consumer loans and loans to corporations.

This remarkable growth in assets, while holding the staff level flat, was only made possible by optimizing our processes (centralization, automation, rationalization...) focusing more than 1000 employees on client relations and sales.... But even more so, it was the motivation and hard work of our employees, which allowed us to increase our market share in such a short time. The best measure of this success was the growth in "productivity per employee" (loans to clients per employee, in Won). It jumped from KRW 2.6 billion in December 2001 to KRW 7.8 billion at the end of 2004, from the very last place among local banks to the leading group among them, surpassed only by banks whose loan portfolio is mostly corporate.

In banking, growth increases risk. This is especially true in Korea where the competition is strong and the economy follows accelerated cycles (e.g., the credit card crisis gave way to a high SME delinquency rate...). But this has not been the case for Korea First Bank; our growth has not come from few very large credits but rather from hundreds of thousands of small loans with very little concentration of risk. Korea First Bank's non-performing loan (NPL) ratio has consistently remained at the lowest level in Korea (around 1.5%) since 2001, without any re-aging of loans.

Our credit decision process is strictly centralized through two departments: the first one, in charge of corporate loans and large loans, applies advanced risk analysis and has allowed us to avoid most of the troubles with SME as well as large corporate loan defaults. The other department, specialized in statistical risk for consumers, builds and uses the most advanced modeling methodologies, allowing us to have by far the lowest delinquency level in credit cards and consumer loans.

The ROE target is improving quickly... Korea First Bank nearly doubled its profits before tax in 2004 resulting in an ROE of about 10%, but the unanticipated continuous reduction of market interest rates in Korea made the 25% goal too ambitious for our low risk profile. Korean regulators are exceptionally demanding in provisioning requirements for residential mortgages: if we applied Basel II Rules in our accounting, our provision on mortgages would have been much lower (but still higher than needed for this very low risk portfolio) and thus our profitability would have been much closer to the 25% ROE target...

Rebuilt with the best and most advanced international techniques...

Unlike the consumer product industry, it is difficult for an industry as abstract as banking to “showcase” advanced techniques... Outstanding and recurring results are proof of the existence of the best and most advanced techniques and processes. These are the building blocks to support the main motor of any service industry: a dedicated, trained and eager work force.

Korea First Bank exhibited outstanding and recurring results...

- a market share among national banks in mortgage lending that grew from 1.5% to 11.7% in three years,
- the de facto introduction to Korea of the fully amortizing long term mortgage product, offered in a range of maturities up to 30 years,
- the capability to process centrally and professionally 15,000 mortgages per month without an increase in staff. The success of our international mortgage securitizations serves as proof that international best practices were used...
- a consumer risk level that has consistently remained the lowest in Korea due to state of the art risk models and processes,
- a totally renovated network and state of the art private banking service,
- a modern, centralized collection system which allows the branches to focus on clients, not on debt recovery,
- an increase in SME loans of 23.6%, in 2004, the only bank to do this,
- the consistency of having the lowest level of new troubled loans, in spite of faster growth in corporate and SME loans than any other bank,
- highly sophisticated structured financing to support our corporate clients, and
- a very large range of products and services made possible by modern and flexible information technology.

These achievements were recognized by various organizations in 2004... Korea First Bank received in the last few months a stream of awards from both Korean and international juries, among them...

- the Korea Management Association (KMA) Grand Prize for Management (the only bank awarded this honor),
- the KMA Gold Award for customer satisfaction,
- Finance Asia's “Best Cross Border Securitization,”
- Euroweek-Investors Poll's “Best Asian Subordinated Bond” award for Korea First Bank's Hybrid Tier I issue, and
- ISO 9001 certification of the Bank's centralized operations.

Korea First Bank, a responsible citizen...

A bank should also thrive in its community... Korea First Bank has developed a very strong culture of solidarity. For the last four years, Korea First Bank's employees and executives have been giving from their payroll to the Hansarang Campaign of Community Chest of Korea and the Bank “matches” their donations, introducing to Korea this new incentive for individual contribution. As a result of the last campaign, a majority of our employees decided to participate. This initiative is one of many examples of Korea First Bank's solidarity in action... In 2004, we were proud to receive from Hankyung Economic Daily the Grand Prize for Corporate Social Responsibility.

A new beginning...

The complete reconstruction of Korea First Bank has attracted significant attention from international banks wanting to enter the Korean market. Standard Chartered Bank recently signed with our main shareholder an agreement to acquire the bank. This acquisition is currently awaiting regulatory approval.

The acquisition by Standard Chartered Bank is very positive for Korea First Bank, its employees, its clients and Korea. Standard Chartered Bank brings with it a very long history, a strategic viewpoint, arguably the strongest network in Asia, a strong rating, and international products and services which will complement the already large range of services and products offered by Korea First Bank... For our employees it will bring international career opportunities and I have no doubt, knowing the quality of our employees, that they will soon be occupying top positions at Standard Chartered Bank.

Lastly, I wish to warmly thank our shareholders, our clients and our employees...


Our shareholders trusted Korea First Bank from the beginning and enabled the Bank to invest in rebuilding the franchise while foregoing any dividend distribution for five years.

Our clients remained faithful to "Cheil Eunhaeng" (the historical Korean name which is translated as Korea First Bank) through the difficult times in the late 90's. Many who left during this period are coming now back to us having recognized our efforts to rebuild the bank and to serve them better.

Our employees were and are remarkable, showing during the last years absolute dedication, hard work and enthusiasm towards meeting our goals. I am sure they will continue to give the best service and bring Korea First Bank to new heights.

Korea First Bank has demonstrated its dynamism, its strength, its professionalism, its social responsibility...
It is soon going to add a worldwide dimension!

Thank You.



Robert A. Cohen
President & CEO

Executive Officers



From Left to Right

- 1 Keith M. Schachat**
Executive Vice President & Chief Consumer Risk Officer
- 2 Ranvir Dewan**
Executive Vice President & Chief Financial Officer
- 3 Jae Myung Hyun**
Executive Vice President & Chief Information Officer
- 4 WonKyu Choi**
Executive Vice President & Chief of International Business
- 5 Si Chin Kang**
Acting Standing Auditor



6 Robert A. Cohen
President & Chief Executive Officer

7 Seung Yeal Yang
Executive Vice President & Chief Branch Officer

8 Jin Ho Kim
Executive Vice President

9 Duncan W. Barker
Executive Vice President & Chief Operating Officer

10 Soo Ho Lee
*Executive Vice President & Chief Credit Officer
Chief Risk Management Officer*

2004 At a Glance

Introduced 'First BankON' Service

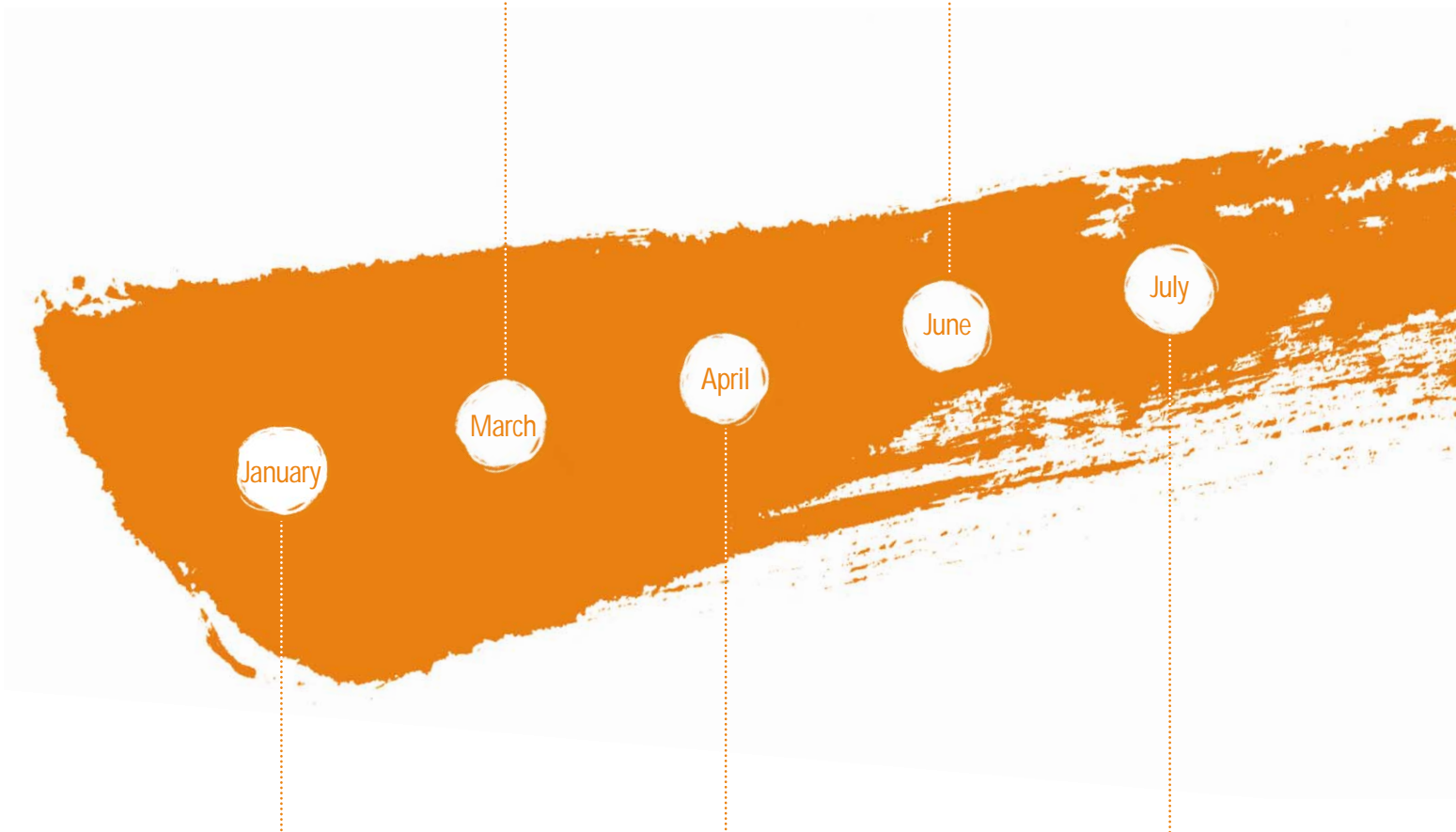


This mobile banking service was introduced, in alliance with LG Telecom, to allow customers to perform banking transactions using an IC chip mounted mobile phone.

Commenced KFB's 75th Anniversary Celebration



We commemorated KFB's 75th anniversary with a customer celebration and 'Concerts at Noon' at the HQ building.



The 3rd annual 'Hansarang Campaign,' a fund-raising program with voluntary participation by employees, was commenced.



These results, published in the April issue of Finance Asia, came from a survey of over 400 fund managers, portfolio managers, analysts, etc. in Asia.



In celebrating Korea First Bank's 75th Anniversary, the Bank hosted the 'KFB Family Hanmaum Festival 2004' on June 26th at Ever Land, Yongin City for over 14,000 employees and members of families.

2004 'Hansarang Campaign'

Ranked 7th as 'Best Managed Company' and 8th for 'Best Corporate Governance' by Finance Asia
The Bank's CFO ranked 2nd in 'Best CFO' category

Held 'KFB Family Hanmaum Festival 2004'

Rating of 'World Best Service (AAA)' received by Customer Service Center in '2004 Service Quality Level Certification' by Korea Management Association

Received '2004 Korea Customer Satisfaction Management Grand Award' by Korea Management Association Consulting

Established first 'BCP Center' in Korea



As further evidence of the Bank's leading and expanding role in the centralized financial services sector, this new rating exceeded 2003's 'Korea Best Service (AA+)' rating.



Bestowed on the Bank's Customer Service Center was a 'Grand Award in Customer Value Innovation,' following 2003's award for 'Customer Service Innovation' and reaffirming its leadership in serving customers better.



The Bank opened the first Business Continuity Planning (BCP) Center in Korea at Yongdu-dong dormitory as a testing operation.



This award honored the Bank's social contributions, such as its three-year long 'Hansarang Campaign,' its 'Group Home Support Business' program and its various other community activities.



The Bank received this award for adhering to and successfully utilizing customer relationship management (CRM) practices for customer satisfaction management, thereby enhancing company competitiveness, while making the Bank an exemplary case for the entire industry.



The Bank's Customer Service Centers (CSCs) received ISO certification for its standardized customer consulting, sales activities, arrears management and loan transactions and for its systematic services and processes.

'2004 Social Contribution Company Grand Award' from the Korea Economic Daily

Received '2004 CRM Grand Award in Finance' by Korea CRM Association

ISO 9001 Certification for CSC





Review of Operations

Outstanding and recurring results are proof of advanced techniques and processes and are the building blocks that support our greatest asset: our dedicated, trained and eager work force.



*Corporate
Banking*

We aim to cement close relationships with our large corporate and SME clients by providing a full range of services designed to meet the changing needs of our clients.

A Year of Sound Growth

The Wholesale Bank

Considerable progress was made in 2004 in both the SME and large corporate areas, while solid growth in both receivables, which result in interest income, and fee revenue strengthened the business mix of the Bank. SME assets grew by 23.6 %, one of the biggest growth rates in the industry, and this growth was especially important in assisting the Korean economy to maintain its continued growth while it recovered from the consumer binge of the past few years. Even with this growth, our risk disciplines remained strong, as can be seen in our low level of NPLs, the lowest level among all Korean banks. We pride ourselves on the objective analysis of risk, despite the pressures of a highly competitive and politicized market.

Our structured finance group had a banner year, bringing in over KRW 2.4 trillion in deals. These transactions drove both fee and interest income, and provided a strong boost to this group's profitability. We continue to be very selective in our project finance area, where our primary emphasis is in supporting our Korean customers. A recent transaction involving a Korean customer has been nominated as the 'Korean loan deal of the year' by the *International Finance Review*.

As our large corporate customers start returning to the capital markets, our emphasis has been on developing our non-loan asset business to cement our close relationships with such customers. As an example, we participated in Samsung Card's rights offering. We were the only bank to do so, and this was as a direct result of the importance we place on this relationship, as well as the high regard we have for their management. We continue to manage our large exposures within acceptable and prudent risk limits, to not overly expose ourselves to unexpected events.

We are expanding our foreign exchange and derivatives capability to meet the needs of our customers. We will do this either by increasing our in-house capability in the case of foreign exchange, or by linking up with a professional firm in the case of derivatives. In the past, these capabilities have represented a weakness in our fee income, and we look forward to filling this gap.

Focusing on our foreign exchange business has led to a gradual recovery in our trade finance business, an area that continues to be important to the Bank, as well as to providing solutions for our clients.

Although we continue to use the physical branch network of corporate branches and relationship managers, we expanded our web-based services for corporate clients in 2004 by adding multi-bank sweeping services to our existing product array. We now have a full range of trade, collection, cash, and other services available for large volume customers, as well as for small- to medium-size businesses. Flexibility and choice of delivery medium remain uppermost in our minds as we compete for the business of existing and prospective clients.

A photograph of two men in dark suits sitting at a table in an office. The man on the right is smiling and looking at the man on the left, who is holding a document. The background shows a modern office interior with large windows and a plant. An orange brushstroke graphic is in the top right corner.

*Consumer
Banking*

We work continually to provide opportunities for Korean consumers to enjoy the fruits of their hard work and build enduring value in their households.

Placing Customers First

A Remarkable Year in Consumer Banking

The consumer bank had a remarkable year in 2004 across all sectors. The quick action taken in 2003 to stem the impact of the credit card crisis and to aggressively charge-off and sell non-performing card and consumer loan assets allowed post provision profitability to return to more normal levels in 2004. Although we experienced a reduction in total card volumes and receivables, these decreases were smaller than the market in general, with our customers continuing to privilege us by using our plastic. Our conservative approach to the crisis allowed us to improve and carefully manage our risk management strategies, to capture the growth market at the appropriate time. We also launched a new Check Card with an IC chip embedded, to support our leadership in this service offering, and we look forward to each customer owning one of these cards by the end of 2005. While the card industry as a whole continues to struggle with slow consumption and the drag of re-aged credits, we enter 2005 in an excellent position to prudently grow back our card volumes and receivables.

In the mortgage area we continued to be a leader, not only in volumes but also in innovation. As we were the first to pioneer the long term fully amortizing mortgage in 2000, the average maturity of our portfolio has remained at over 11 years, with record volumes again in 2004. We produced net growth during 2004 of KRW 5.0 trillion (45.2%), bringing our portfolio to over KRW 16.0 trillion, and we were very successful in concluding three securitizations of the portfolio, leaving us with net loan receivables of KRW 13.4 trillion, or an 11.7% market share. In keeping with our conservative nature, the average loan to value (LTV) of our portfolio remained at around 50%, which will provide opportunities to up-sell and cross-sell into this customer base as domestic consumption and individual debt levels return to more normal levels.

The Bank was among the first banks in Korea to support the launching of Korea Housing Finance Corporation. This new vehicle introduces a new element to the market and provides longer term funding for customers in Korea.

Securing Customer Loyalty

Despite the record low level of interest rates for bank deposits, we were able to maintain our market share and add to our core customer base. Our primary focus in 2004 was to activate low volume customers with targeted offerings throughout the year, building loyalty while promoting off-balance sheet investment products. We have seen very positive signs with sales of third party products to our retail customers more than tripling, and sales of bancassurance picking up after a slow start earlier in the year. Increasing our customer base remains key to our growth strategy, as this will allow us to cross-sell other bank services to an increasingly discerning general public.

Our provision of services to the small business community was reinforced in 2004 with the creation of a dedicated team to service those customers in the direct vicinity of our branch network. We see these services as an integral part of our role in the business community. Despite growing receivables (up 29.08% during 2004), we were fortunate to avoid much of the problem lending that is impacting the banking industry, due to our risk disciplines, which remain strong despite growing pressure from a highly competitive market.

KFB Private Banking

Wisdom, Advice and Guidance

Korea First Bank also had a tremendous year with rapid progress in Private Banking (PB). With the launch of two PB Centers, and two more scheduled for 2005, we can now offer highly sophisticated products and specialized services to our wealthier customers including tax-related consulting services. In a first for the local financial market, the Bank's asset management program, the 'Wealth Management System,' enables our consultants to customize portfolios from a wide selection of financial products, map out efficient tax plans and analyze investment-related risks. We also offer tailored services for our platinum customers through 90 of our 406 branch network.

The PB Centers offer several specialized investment products, including hedge funds, which are not available at other banks. Such specialized products saw large increases in sales in 2004, with total revenues for 2004 more than tripling. We started with platinum banking services in 19 of our branches and have extended these offerings to 90 of our branches by year-end, while increasing our client base considerably in 2004.

The PB business is expected to also see continued strong growth in FY 2005. With the opening of a new PB Center in Busan in February of 2005 and an increase in branches with platinum banking services to 114, the Bank's delivery of specialized services will effectively be located nationwide.

Going Forward

We continue to actively manage the locations of our branch network. We relocated or opened new branches in 2004; and with our new Geographic Information System to analyze customer demographics and the shifting patterns of our consumers, we will continue to reposition our physical network to meet those changing demographics. We do not anticipate changing the total number of branches in 2005.





*Solid
Platforms*

Innovation enables us to provide customers with reliable and convenient products, as well as excellent customer service.

Centralized Operations

The centerpiece of the Bank's reengineering of operations in late 2001 was the creation of two centralized operations located in Seoul and Busan. The project included consolidation of several processing and customer contact functions plus centralization of critical back-office branch functions. These CSCs have significantly improved controls and loan underwriting standards, reduced unit costs, and increased service quality for the Bank. The reengineering of bank processes permitted our branch sales efforts to be refocused, reduced turnaround times on mortgage processing, and provided a scaleable platform which has supported our aggressive asset growth over the past three years. The CSCs are recognized as "best in class" in Korea and have earned national and international recognition for service quality, workflow and technology management.

Our centralized services stretch far beyond a typical call center. Primary functions include loan processing and underwriting, collections, customer service, telemarketing and check processing. The unique feature of the Bank's centralized facilities is the full integration of these functions. Within minutes, telemarketers can answer inbound customer calls, customer service agents can telemarket, and so forth. This optimizes resource allocation and maintains focus on clients' specific needs. Over 5% of our inbound customer service calls result in the successful cross-sale of a new product to the client.

Effective use of technology is critical in large volume, sophisticated operations, as typified in a number of our offerings: "*SellStation*," our end-to-end loan processing system, provides branch loan applicants with conditional approval within seconds and loan decisioning is automated and supported by an experienced underwriting team; "*CallStation*," our proprietary system, which supports customer service, telemarketing and collections, provides all necessary information in a simple format and captures contact history for managing client relationships in the future; "*Relationship Optimizer*," our customer relationship management system (CRMS), targets clients

for inbound and outbound specific offers tailored to their specific qualifications and needs; and "*Debt Manager*," our back-end collections system, collates and prioritizes delinquent borrowers by risk factors such as historical behavior, loan type and delinquency status. In a typical month, the CSC processes 15,000 loan transactions and handles 1.4 million calls.


Finally, the CSCs human resource organizational development has proven to be the key to our success. Effective staff recruitment, training, compensation, recognition and succession planning using global best practices has created a culture of excellence that permeates throughout every task. There is a strong sense of employee pride at the CSCs seldom found in similar high volume operations. Ideas for process and service improvements come from the frontline staff and are reviewed regularly by management for implementation. Concepts born in the CSC, such as service quality management, have now been exported throughout the Bank via the bank-wide "Service Quality Council."

The functionality of our centralized operations continues to expand as we identify new ways to capitalize on core competencies. "Constant improvement" is our basic mantra, as we continuously focus on reducing unit costs.

IT Investment

The year 2004 was no exception to our continued investment in information technology since 2000. Information technology (IT) has been a key component in our drive to innovate all aspects of our bank, and a key aspect of our continued success. In line with our IT vision of providing customers with the most reliable and convenient services at the best possible prices, and in order to add to our world-class IT infrastructure, the Bank implemented a number of new projects in the past year.

In December 2004, the Bank established the Business Continuity



Planning (BCP) Disaster Recovery System, a first in the banking industry for Korea. This IT disaster recovery system, which uses an enterprise BCP, provides continuity for business operations in the event of disasters. The system allows users to manage/change/maintain the system over extended periods. IT overcomes limitations in existing disaster recovery systems in terms of the goals and scope of recovery, greatly increases the odds for company survival and administers responsibility for protecting customer assets. This system is also expected to decrease the extent of business losses, recovery expenses and customer attrition. In introducing this advanced system at this time, the Bank is seeking to enhance its image as a prudent and cautious operator by showing that its competitiveness remains intact in the event of a natural disaster. This system also addresses concerns over increased regulation, such as the coming BASEL II requirements.

This past year, the Bank also established the Mainframe Parallel SYSPLEX, a combination of "system" and "complex," to deal with potential failures in the bank's mainframe computer system. In the SYSPLEX system, multiple hardware and software programs (system software and business programs) are combined to provide users with an image of a single system, while automatically distributing the system load to cover all components (hardware and software). This parallel-processing system remains in operation in the event of component failure, without affecting regular business programs. The system is designed to operate as a parallel system to maximize system availability and to minimize failures in the mainframe. It also provides continuous service for customers and a base for development of 24-hour/365-day operations.

As part of our IT investment, the Bank has designed an Audit Information System, which will enhance the flexibility and productivity of the regular audit system currently in operation. A division and branch risk evaluation system, an Audit Knowledge Management System and a system to support new branch inspections are built-in, and all audit information is managed using this IT system, which also reinforces our regular online audit. When risk factors are identified,

quick responses will be possible and productivity is expected to increase due to reductions in our regular audit follow-up management. This system also streamlines the risk evaluation business at branches and through regular monitoring of risk evaluations allows for early detection of risk areas. Overall, it provides efficient audit resource management with a concentration on high-risk areas. With the establishment of the Audit Knowledge Management System, audit information is now easily accumulated and utilized through our internal process computerization.

The integrated circuit (IC) card system was built to prevent magnetic stripe card fabrication and forgery and to lay the foundation for secure financial transactions. The system requires that all Bank-issued cards (cash cards, electronic cash, credit cards and check cards) be converted to IC cards. With improvements in security and a decrease in losses while adding additional services, this system is expected to meet the needs and increasing demands of customers for services that are secure and yet ever more convenient to use.

As part of our move towards a mobile society, the Bank introduced the First BankOn service in early 2004. This service uses a mobile phone with an embedded IC Card to provide speedy, easy and secure financial transactions anytime and anywhere. The system facilitates mobile financial transactions and upgrades financial services by saving customer information and account information onto an IC Chip. It also allows for profit generation, leaving branch staff free to focus on core business, and provides a secure new source of income while cementing loyalty. In being able to provide a wide range of financial services via mobile phone, the Bank is enhancing its image as a leading, innovative bank.

Also in the past year, we established the Wealth Management System. Targeting wealthy clients, this comprehensive asset management and financial planning service provides new solutions to customers and will allow us to build a differentiated private banking business.



*Sound
Principles*

We seek the best for shareholders and customers alike by adhering to global standards in risk management and reporting.

Risk Management

The Bank's core goal in risk management is to enhance profitability in ways that promise sufficient reward for understood and controlled risk. Opportunities for added shareholder value are evaluated for their risk potential and the ability to hedge and control risk.

The Bank's overall risk management policy is set by the Risk Management & Financial Control Committee (the "Risk Management Committee"), which is composed of at least three directors.

The Bank's asset/liability management policy addresses several complementary goals: assuring adequate liquidity, maintaining an appropriate balance between interest sensitive assets and liabilities, and maximizing net interest revenue. The responsibility for attaining these goals rests with the Asset-Liability Committee.

Market risk exposure refers to possibilities for loss resulting from the Bank's participation in the capital markets caused by the movement of market prices in on and off-balance sheet positions. The Bank's priorities in this area are to prevent over-exposure to any single investment instrument and to be responsive to changes in the business environment. Guided by these directives, the Bank aligns resources on an ongoing basis with the goal of achieving an appropriate balance of stability, liquidity and profitability.

The Bank's commitment to implementing better risk management policies in relation to both individual and corporate customers is one of its greatest strengths. The FSS-compliant delinquency ratio improved to 1.32% as of December 31, 2004 from 1.81% as of December 31, 2003 and the NPL ratio was the lowest among Korean banks, standing at 1.50% as of December 31, 2004, improved from 1.53% as of December 31, 2003. Despite Korea's turbulent credit card

environment, the Bank's scientific risk management approach and vigilance kept the delinquency rate well below those of the Bank's competitors.

The largest issue in consumer credit last year was the credit card crisis. Through the use of aggressive credit line management to both high risk and low risk customers, improvements in our underwriting and by not re-aging delinquent customers, Korea First Bank fully recovered from the card crisis in the 3rd quarter. We started the year with a delinquency rate of 13.17% and finished the year at 3.66%. We consider this to be a low level of delinquency for this business.

We continued our strategy of selling all NPL credit cards and unsecured loans throughout 2004. This strategy allows us to minimize the negative financial impact from the government programs created to alleviate the debt problems of consumers. The government implemented a "bad bank" program where consumers could have their delinquent interest and even some of their principal waived. Our quick disposition of NPL assets led to recoveries of KRW 38 billion.

Our mortgage portfolio continues both its strong growth and improvement in credit quality. We started the year with a delinquency rate of 0.96% and finished the year with just 0.59% in delinquency. While the portfolio grew more than KRW 4.4 trillion, our delinquency decreased KRW 16 billion. Our recoveries of principal for properties at auction remained consistently above 97% throughout the year.

In corporate loans, the CRMS implemented in August 2002, that both incorporated and conformed to BASEL II recommendations, is the core of corporate credit risk management. In this regard, the Bank has been an industry leader as one of the first players to implement such a comprehensive system. While the focus since 2000 has always been on cash flow-based lending, the importance of this focus increased

even more after the introduction of the CRMS methodology. As a result of rigorous credit risk management through CRMS, the Bank's NPL ratio for corporate loan is 1.71 % as of December 31, 2004, the lowest in Korea. Also, the Bank had the lowest level by far of new problem assets - a fraction of the next best performer in the banking industry.

Maintenance of these disciplines is pivotal to the Bank's overall growth and profitability strategy.

Corporate Governance

Exemplary Structure

Governance and management of the Bank is the responsibility of the Board of Directors. The Bank has adopted an international standard corporate governance structure and the Board oversees the operations of the Bank through several committees. Ensuring that the Bank is always operating in the best interests of its shareholders, the Board meets quarterly, is responsible for policy and strategic planning and holds the ultimate responsibility for the administration of the affairs of the Bank. It also monitors the management from a shareholder's perspective, ensuring not only superior performance but also accountability and transparency with a view to protecting investor interests.

The Board comprises one standing director and fifteen non-standing directors. The non-standing directors monitor governance of the Bank.

Committees and Their Roles

Currently, the Board has established four committees: Executive, Compensation, Risk Management & Financial Control, and Audit.

The Executive Committee of the Board comprises five directors including the President and CEO of the Bank. Its major functions include setting and reviewing the policies of the Bank, reviewing the capital structure of the Bank and authorizing required changes to the capital structure, reviewing matters delegated to it by the Board and reviewing any other matters deemed necessary in the opinion of the Chairman of the Executive Committee or the President and CEO.

The Compensation Committee is composed of four directors, all non-standing. The Compensation Committee's main job is to evaluate the performance and compensation of executive officers. It is also responsible for approving stock option programs and granting stock options, reviewing and monitoring the Bank's labor relations, and discussing any other matters deemed necessary by the Committee.

The Risk Management and Financial Control Committee is composed of five directors. Its duties include supervising matters relating to the principal risk management guidelines for the Bank in accordance with the Bank's business strategies, and managing the Bank's risk positions, including credit, liquidity, currency and interest rate risk, as well as the use of derivative products in risk management. It is also responsible for establishing investment limits and loss-cut limits, supervising matters regarding risk-based capital allocation, reviewing the details of the financial situation of the Bank, supervising matters delegated by the Board and other matters approved by the Chairman of the committee or the President and CEO.

The Audit Committee, to whom the internal auditor reports, comprises four directors, two-thirds of whom must be non-standing directors. The Audit Committee meets regularly with management, the internal auditor of the Bank, and the independent auditors, Ernst & Young, to assess the scope of the annual audit plan, review the status and results of audits, and review the financial statements, to discuss other matters affecting the Bank's internal accounting controls and financial reporting, including major changes in accounting policies and reporting practices, and to approve non-audit services rendered by the independent auditors.

Ernst & Young also meets with the Audit Committee, without management present, to afford the Committee the opportunity to express its opinion on the adequacy of compliance with established corporate policies and procedures and the quality of financial reporting.

Standard for Financial Reporting

The Management of the Bank has prepared the accompanying financial statements and is responsible for their integrity and objectivity. The statements, which include amounts that are based on management's best estimates and judgments, have been prepared in conformity with accounting principles generally accepted in Korea. Responsibility for the accuracy and consistency of the related financial information presented in the annual report also rests with the Bank's management.

In meeting its responsibilities for the reliability of the financial statements, the Bank depends on its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with the appropriate corporate authorization and recorded properly to permit the preparation of financial statements

in accordance with accounting principles generally accepted in Korea. Internal accounting controls are augmented by written policies covering standards of personal and business conduct and an organizational structure providing for the division of responsibility and authority.

The effectiveness of and compliance with established control systems is monitored through a continuous program of internal audit and credit examinations. In recognition of cost-benefit relationships and inherent limitations on controls, some features of the control systems are designed to detect rather than prevent errors, irregularities and departures from approved policies and practices. Management believes the system of controls has prevented or detected, on a timely basis, any occurrences that could be material to the financial statements and that timely corrective actions have been initiated when appropriate.



Community & Employees

The Bank embraces not only customers, but all constituents of our shared communities, by contributing to those in need. Furthermore, we are dedicated to fostering high-caliber employees.



A Dynamic Bank Sharing with the Community

Vision

Our motto for the Bank's social contribution activities is 'A Dynamic Bank Sharing with the Community.' The Bank embraces not only customers, but all constituents of our shared communities, by contributing to those in need. Our spirit and civic-minded duty to the community act to encourage others to play a part in making our communities and society a better place for all inhabitants.

Directions of Our Social Contribution Activities

What makes the Bank's social contributions distinctive is that our activities are focused on providing ongoing support the whole year round rather than on one-time donations. We also encourage employees to contribute financially and to volunteer their time, if they so choose. In addition, we initiated the 'Hansarang Campaign' in 2002, in cooperation with the 'Community Chest of Korea' and started supporting 'Group Homes' in 2004, enabling us to make a difference to our needy neighbors. Such initiatives have made the Bank an example of business coexisting beneficially with the community.

Hansarang Campaign

The Bank was a leader in helping to make a corporate donation culture take root in Korea, beginning with our Hansarang Campaign, started in Feb. 2002 in cooperation with the Community Chest of Korea. The Hansarang Campaign differs from one-time donations in that employees deduct a certain amount from their salaries and donate the money to social welfare facilities on a regular basis. The Bank uses a 'matching donation' system to donate an equal amount to that given by employees. This Campaign has served to greatly increase the overall amount given, while enhancing employer-employee relations.

From 2002 to the present, over 10,000 employees have participated in this Campaign and a total of over KRW 1.8 billion has been donated. Furthermore, the program has seen a steady increase in the number of participants and the amount of donations.

Corporate Social Responsibility (CSR) Campaign

To commemorate the Bank's 75th anniversary and to show our firm resolve to provide dynamic leadership in the Korean economy as exemplified in the slogan 'Dynamic First,' the Bank initiated a 'CSR Campaign' on July 1, 2004. Corporate social responsibility (CSR) is a



commitment made by corporations to contribute profits and other services to improve people's lives by aiding communities and society.

For its first project in the CSR Campaign, the Bank began its support of group homes. The group homes, run by religious groups or social workers, provide a safe and stable communal family living arrangement for children from families broken by divorce or in economic difficulty. The Bank also provides scholarships to students living in these group homes.

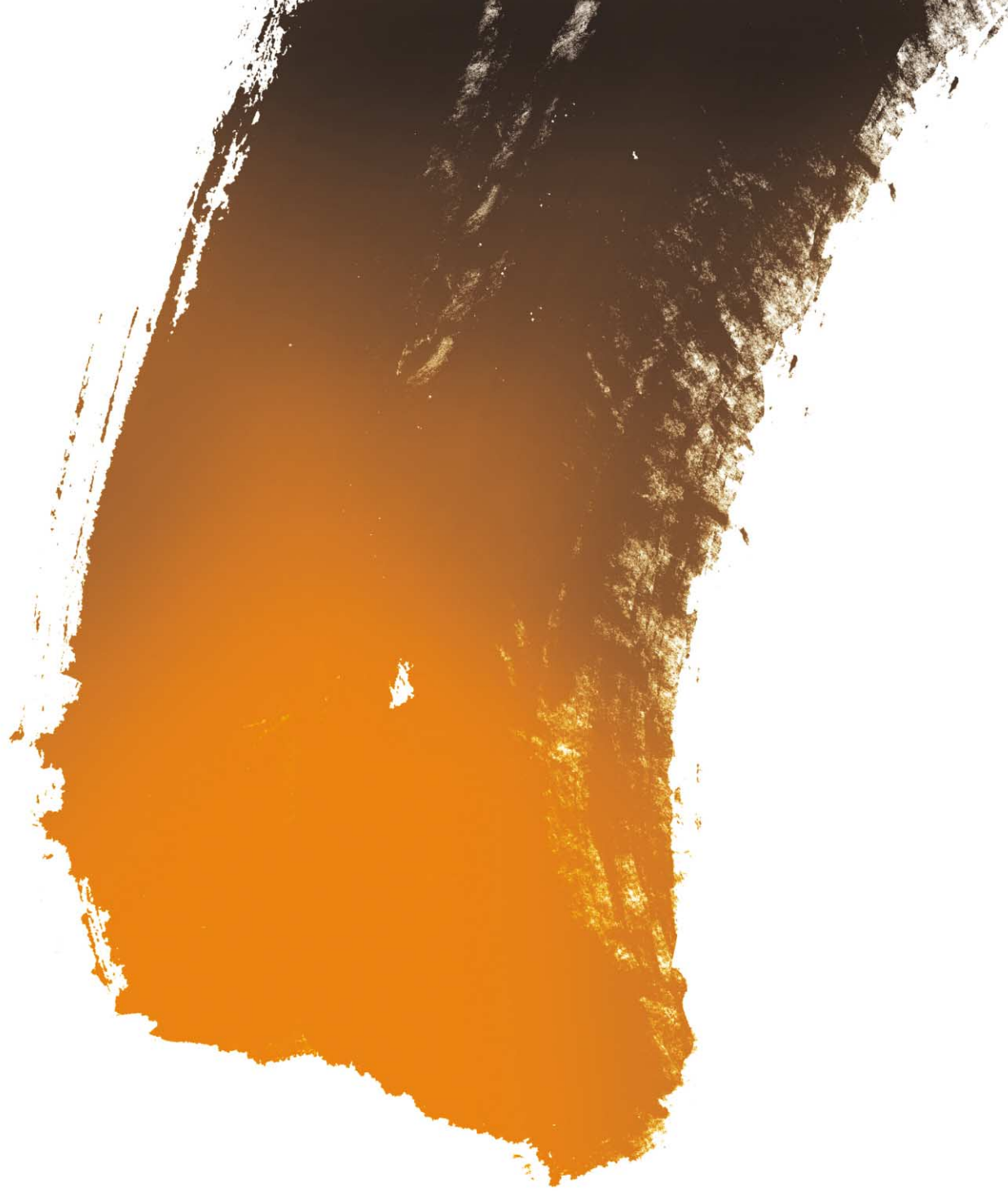
Fostering High-Caliber Employees

Under the motto 'Fostering Future-Oriented Employees,' we encourage and train employees to harness passion and innovative thinking to find better solutions for customers.

With new and innovative systems and environments, employees are now able to actively participate in a flexible and responsive management environment. All employees play a part in enhancing the Bank's corporate value and are encouraged to do their best to increase their skills and professionalism, ultimately resulting in quality enhancements in customer services and in corporate value.

With the implementation of an e-learning system, the Bank gives employees opportunities to improve their capabilities through an in-house cyber training system, and also provides training to develop such core capabilities as leadership and communication skills. We have also enhanced our financial education system and encourage employees to further their professional skills with the acquisition of financial licenses and accreditations. This kind of training makes better banking possible with knowledgeable and professional employees acting as financial consultants to customers.

Our employees' passionate efforts in self-development and the Bank's active support of employees are the forces that are driving the Bank forward. The Bank is fully committed to fostering high-caliber employees, while returning profits to the community, in order to enhance the lives of employees and their families, our customers and Korean society in general.



Financial Section

Our asset growth of about 55.6% for the last 3 years has made KFB one of the fastest growing banks in Korea, both in consumer loans and loans to corporations.

Management's Discussion & Analysis

The financial information and related discussion is presented on a non-consolidated basis, except where noted otherwise, and has been classified in accordance with accounting principles generally accepted in Korea. Amounts are presented in billions of Won, except where otherwise stated. Certain financial data relating to 2003 have been restated in accordance with Korean GAAP.

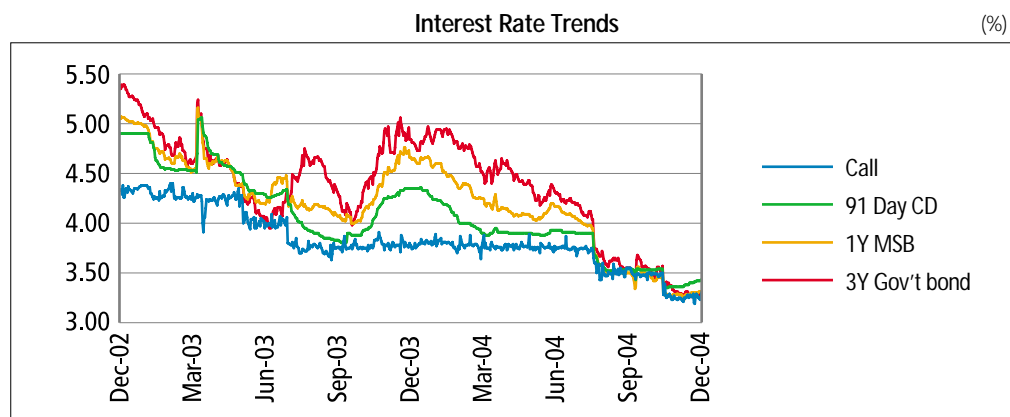
Selected Financial Data

Years ended December 31

	2004	2003
	Won in Billions	
BANKING ACCOUNTS		
Operating Results		
Net interest income	830.8	765.0
Net fees and commissions	216.8	223.3
Total revenue	1,047.7	988.3
Operating expense	658.1	624.2
Operating margin	389.6	364.2
Provisions for credit losses	150.3	113.9
Net operating income	239.3	250.3
Net non-operating income/(expense)	(72.8)	(157.2)
Income before income tax	166.5	93.1
Current income tax expense	1.1	0.4
Deferred income tax expense/(benefit)	45.4	106.2
Income tax expense/(benefit)	46.5	106.6
Net income	120.0	(13.5)
Balance Sheet		
Loans net of loan provisions	30,419.0	26,790.7
Investment securities	7,050.7	7,072.0
Other interest-earning assets	1,445.3	2,203.4
Non-interest-earning assets	2,797.7	3,414.6
Total assets	41,712.7	39,480.7
Deposits	27,488.1	27,196.9
Borrowings	1,554.6	1,892.3
Finance debentures	8,824.6	5,695.0
Other interest-bearing liabilities	687.6	1,420.7
Non-interest-bearing liabilities	1,318.0	1,627.7
Total liabilities	39,872.9	37,832.6
Total shareholders' equity	1,839.8	1,648.1
Total liabilities and shareholders' equity	41,712.7	39,480.7
TRUST ACCOUNTS		
Principal-guaranteed performance trust	441.3	432.4
Performance trust	419.4	516.6
Principal and yield-guaranteed trust	1.0	1.1
Total money trust	861.7	950.1
Property trust	2,696.4	1,450.1
CREDIT QUALITY		Won in Billions, %
Reserve for loan losses	382.6	423.8
Reserve as a percentage of gross loans	1.24%	1.56%
NPL ratio	1.50%	1.53%
KEY FINANCIAL RATIOS - BANKING ACCOUNTS		
Net interest margin	2.24%	2.45%
Efficiency ratio	62.81%	63.15%
Return on Average Assets	0.28%	-0.04%
Return on Average Equity	6.87%	-0.82%
BIS CAPITAL - CONSOLIDATED ACCOUNTS		
Tier 1 capital	7.09%	6.18%
Tier 2 capital	4.82%	5.87%
Total capital	11.91%	12.00%
Headcount		Number
Full Time Employees	4,205	4,180
Total Employees	5,147	5,089

Management's Discussion & Analysis (continued)

The following graph is presented for the purposes of understanding the interest rate trends in Korea over the period under review:



Overview

The Bank recorded net income of W120.0 billion in 2004, an improvement of W133.5 billion from the net loss of W13.5 billion in 2003. The 2004 results reflect an improvement in the credit environment in Korea from 2003 with the total credit charges improving W116.9 billion (see "Provisions for Loan Losses" below), and further growth in the loan portfolio, which drove an increase in interest income of W65.8 billion.

Loan growth continued to be strong in 2004 despite the increased competition in the banking sector coupled with a relatively weak economic environment. The declining interest rate environment during the year put interest margins under pressure as the Bank's assets reprice at a faster rate than its liabilities. However, with the advanced corporate and consumer credit risk management methodologies, which include focusing on pricing for risk, the Bank is well-positioned to withstand the current economic weakness and realize benefits expected from a rising interest rate environment with the predicted gradual economic improvement.

The Bank has continued its focus on mortgage lending with total mortgage loans increasing by more than 55% in 2004 (including loans securitized in the Bank's three mortgage-backed securities issuances during the year). This growth has built a strong foundation for growth in profitability into the future. Minimum loan loss reserves of 75 basis points are required to be booked in the year of origination of mortgage loans, and the Bank's loss experience on this product has been significantly lower than this. The Bank has continued the innovation of its mortgage product with a view of focusing on customer needs and providing appropriate products.

The consolidated Capital Adequacy Ratio ("CAR") of 11.91% remains one of the highest of any financial institution in Korea, and appreciably higher than the regulatory requirements for well-capitalized institutions, notwithstanding the strong asset growth during the year. The maintenance of appropriate levels of capital is a management priority, particularly in these uncertain economic times, as capital provides a solid foundation for the future anticipated asset growth and promotes depositor and investor confidence.

Net Interest Income

Net interest income increased by W65.8 billion, or 8.6%, to W830.8 billion in 2004 from W765.0 billion in 2003. The increase in net interest income was principally a result of an increase in the average balance of interest earning assets of W5,793.5 billion, or 18.5%, to W37,045.1 billion in 2004 from W31,251.6 billion in 2003, with increases in both consumer and corporate loans as the Bank continued to implement its strategy of increasing consumer assets while maintaining a strong base of corporate assets. This increase was partially offset by a decrease in the net interest margin (defined as net interest income as a percentage of the average balance of interest earning assets, calculated on the basis of daily balances), which decreased by 21 basis points, to 2.24% in 2004 from 2.45% in 2003. The decrease in net interest margin resulted primarily from a decrease in overall interest rates, coupled with the fact that the cost of funds decreased at a slower rate than the decrease in yield on assets.

Management's Discussion & Analysis (continued)

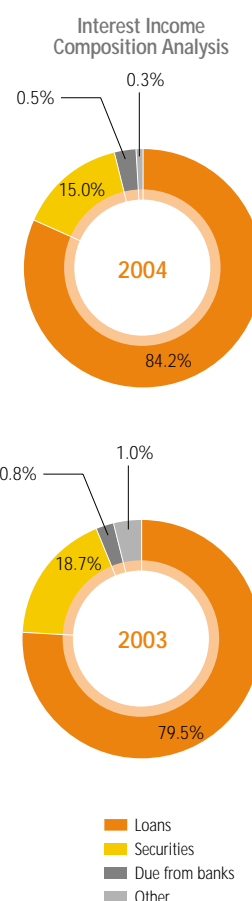
Interest Income Analysis

	2004				2003				Won in Billions / %
	Average		Interest		Average		Interest		
	Balance	Rate	Total	%	Balance	Rate	Total	%	
Interest-Earning Assets									
Loans	28,554.2	6.29%	1,796.2	84.2%	23,070.3	6.69%	1,544.1	79.5%	
Securities	7,538.3	4.26%	320.8	15.0%	7,167.4	5.06%	362.8	18.7%	
Due from banks	952.6	1.12%	10.7	0.5%	929.2	1.68%	15.6	0.8%	
Other	0.0	N/M	6.6	0.3%	84.7	22.20%	18.8	1.0%	
Total	37,045.1	5.76%	2,134.3	100.0%	31,251.5	6.21%	1,941.3	100.0%	

Interest income increased by W193.0 billion, or 9.9%, to W2,134.3 billion in 2004 from W1,941.3 billion in 2003. This increase was due to a significant increase in the average balance of interest earning assets, which was partially offset by a decrease in the yield on interest earning assets. The average balance of total interest earning assets increased by W5,793.6 billion, or 18.5%, to W37,045.1 billion in 2004 from W31,251.5 billion in 2003 with the Bank continuing its strategy to increase its consumer lending, particularly mortgage loans, and building on its core corporate relationships with a particular focus on structured finance products. The yield on interest earning assets declined by 45 basis points to 5.76% in 2004 from 6.21% in 2003, primarily due to a decrease in average market rates, which resulted in lower overall rates on the Bank's interest earning assets.

The average balance of the Bank's consumer loan portfolio increased by W3,637.1 billion, or 27.3%, to W16,981.2 billion in 2004 from W13,344.1 billion in 2003. Mortgage loans, which comprised wholesale mortgage loans and First Home Loans, were the largest contributors to this increase, growing W5,132.4 billion, or 62.9%, to an average balance of W13,292.1 billion in 2004 from W8,159.7 billion in 2003. This increase was despite the fact that the Bank completed three mortgage-backed securities issuances during 2004, transferring First Home Loans with a total average balance of W706.1 billion as the collateral assets to the securitizations. Wholesale mortgage loans are loans, which are initially unsecured and are originated by the Bank in conjunction with qualified real estate developers, to purchasers of apartments under construction. Liens are registered once construction is completed and title passes to the residents. The average balance of these types of loans, which were first introduced in late 2002, grew by W3,048.3 billion, or 133.4% to W5,336.0 billion in 2004 from W2,287.7 billion in 2003. The average balance of First Home Loans, the Bank's consumer home loan product, increased by W2,084.0 billion, or 35.5%, to W7,956.1 billion in 2004 from W5,872.1 billion in 2003. The average balance of unsecured and other consumer loans, which include overdrafts, general loans secured by installment savings accounts and other secured (including loans secured by property) and unsecured loans decreased by W1,495.3 billion, or 28.3%, to W3,689.0 billion in 2004 from W5,184.3 billion in 2003. Yields on consumer loans fell by 75 basis points to 6.46% in 2004 from 7.21% in 2003, reflecting a further general decrease in prevailing market rates. Driven by the significant growth in average balances, interest earned on consumer loans increased by W135.6 billion, or 14.1%, to W1,097.5 billion in 2004 from W961.9 billion in 2003 despite the decline in rates.

Interest earned on corporate loans increased by W116.6 billion, or 20.0%, to W698.7 billion in 2004 from W582.1 billion in 2003. This increase was primarily due to an increase in the average balance of corporate loans of W1,846.8 billion, or 19.0%, to W11,573.0 billion from W9,726.2 billion as a result of the Bank's efforts to build on its strong corporate base and maintain a balanced portfolio of assets and products. Management believes that the Bank's focus on core corporate accounts and its promotion of innovative



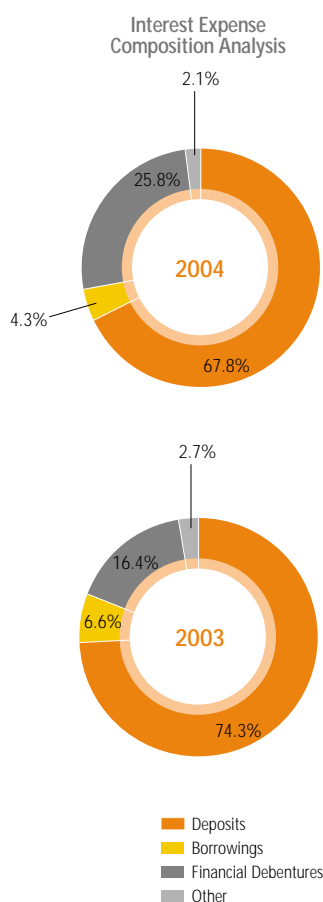
Management's Discussion & Analysis (continued)

structured finance products have been central to this growth in volume. An increase in the average interest rates for corporate loans, which increased by 5 basis points to 6.04% in 2004 from 5.99% in 2003, contributed to the increase in interest income on corporate loans, in contrast to a general decline in prevailing market rates, and was driven by a growth in higher-yielding products.

Interest earned on securities decreased by W42.0 billion, or 11.6%, to W320.8 billion in 2004 from W362.8 billion in 2003. This was due to a decrease in the average rate earned, which fell by 80 basis points from 5.06% to 4.26%, which was partially offset by an increase in the average balance of securities, which increased by W370.9 billion, or 5.2%, to W7,538.3 billion in 2004 from W7,167.4 billion in 2003. The decrease in yields on securities also resulted from the Bank's strategy of investing in mostly shorter-term monetary stabilization bonds issued by the Government ("MSBs") with a view to investing in government bonds having longer maturities when interest rates increase. Management believes that strategy will be effective as it appears that rates have stopped falling and are on a gradual upward trend, and the Bank is in a position to move to longer-term investments.

Interest earned on balances due from banks decreased by W4.9 billion, or 31.4%, to W10.7 billion in 2004 from W15.6 billion in 2003. This decrease resulted primarily from a decrease in the average balance of other balances due from banks in Won which decreased by W134.7 billion, or 94.1%, to W8.5 billion in 2004 from W143.2 billion in 2003. Other balances consisted primarily of staff retirement allowance balances placed with other banks in 2003 which have substantially been paid out to employees. This decrease was partially offset by an increase in interest from certificates of deposit ("CDs") issued by other banks of W2.5 billion. This increase was driven by growth of W82.9 billion in the average balance with a decrease in the yield of 60 basis points, which was in line with the decline in market rates. The balance of reserves maintained with the Bank of Korea ("BOK") increased by W46.5 billion, or 8.9%, to W570.1 billion in 2004 from W523.6 billion in 2003. These reserves do not accrue interest and therefore do not contribute to the yield on balances due from banks. Overall, the yield on balances due from banks decreased by 56 basis points to 1.12% in 2004 from 1.6% in 2003.

Interest earned on other balances, including amounts loaned to the trust business, decreased by W12.2 billion, or 65.1%, to W6.6 billion in 2004 from W18.8 billion in 2003. Interest income in 2003 included interest received from the Korea Deposit Insurance Corporation ("KDIC") as part of the settlement of certain claims under the Assistance Agreement of W9.9 billion compared with W5.1 billion in 2004. No average balance receivable was included in the average balances for either 2003 or 2004 in respect of this interest income. Interest of W3.9 billion was earned on an average balance receivable of W63.2 billion from the Hynix Semiconductor creditor group in 2003. There were no corresponding amounts in 2004.



Interest Expense Analysis

	2004				2003			
	Average Balance	Rate	Interest Total	%	Average Balance	Rate	Interest Total	%
Won in Billions / %								
Interest-Bearing Liabilities								
Deposits	27,315.5	3.23%	883.2	67.8%	24,627.0	3.55%	873.5	74.3%
Borrowings	1,854.5	3.03%	56.2	4.3%	2,552.2	3.04%	77.6	6.6%
Financial Debentures	7,256.1	4.64%	336.5	25.8%	3,787.5	5.10%	193.2	16.4%
Other	777.2	3.55%	27.6	2.1%	797.0	4.00%	31.9	2.7%
Total	37,203.3	3.50%	1,303.5	100.0%	31,763.7	3.70%	1,176.2	100.0%

Management's Discussion & Analysis (continued)

The Bank's interest expense increased by W127.3 billion, or 10.8%, to W1,303.5 billion in 2004 from W1,176.2 billion in 2003. This increase resulted from an increase in the average balance of interest bearing liabilities of W5,439.6 billion, or 17.1%, to W37,203.3 billion in 2004 from W31,763.7 billion in 2003. The impact of the increase in the average balance of interest bearing liabilities was partially offset by a decrease in the average cost of funding of 20 basis points to 3.50% in 2004 from 3.70% in 2003. The reduction in the rate paid on the Bank's interest bearing liabilities reflected the general decline in prevailing market rates. However, because the Bank's interest earning assets reprice at a faster rate than the Bank's interest bearing liabilities, the decline in the interest rates of the Bank's liabilities was smaller than the decline in the yield on its assets in the falling interest rate environment.

The interest expense on deposits increased by W9.7 billion, or 1.1%, to W883.2 billion in 2004 from W873.5 billion in 2003 as a result of the increase in the average balance of deposits of W2,688.6 billion, or 10.9%, to W27,315.5 billion in 2004 from W24,627.0 billion in 2003. This increase in average balance was partially offset by a decrease in the average rate paid on deposits, which decreased by 32 basis points to 3.23% in 2004 from 3.55% in 2003. The increase in average balances was due to an increase of W1,712.7 billion in the average balance of time deposits, an increase of W532.0 billion in the average balance of CDs, an increase of W228.7 billion in the average of foreign currency deposits and an increase of W205.1 billion in the average balance of core deposits. The Bank has continued to seek and obtain additional funding from deposits to meet strong asset growth. Of the variety of deposit products offered by the Bank, time deposits and CDs are more readily available sources of deposits for the Bank as depositors generally are price-sensitive and thus actively seek out the slightly higher rates offered on those products. CDs are attractive to the Bank because, while their yield is relatively high, their tenor is generally longer and the Bank is not required to pay deposit insurance (which increased in January 2003 from 10 basis points to 20 basis points on other deposit products).

The interest paid on borrowings decreased by W21.4 billion, or 27.6%, to W56.2 billion in 2004 from W77.6 billion in 2003 as a result of the reduction in the average balance of borrowings, as well as the decline in rates paid on borrowings. The average balance of borrowings decreased by W697.8 billion, or 27.3%, to W1,854.5 billion in 2004 from W2,552.2 billion in 2003. This decrease was primarily as a result of a decline in borrowings in foreign currency of W375.5 billion, or 37.7%, to W620.3 billion in 2004 from W995.8 billion in 2003 and the continued reduction in the average balance of bonds sold pursuant to repurchase agreements ("RPs sold"). The average balance of RPs sold decreased by W253.6 billion, or 63.9%, to W143.3 billion in 2004 from W396.8 billion in 2003. RPs sold were offered to the Bank's retail customers and were treated by management as similar in nature to time deposits. The average rate paid on borrowings stayed flat at 3.03% in 2004 compared to 3.04% in 2003, primarily because the increase in interest paid on foreign currency offset the decrease in Won-denominated rates of borrowings in line with Korean Won market rates.

The interest paid on financial debentures issued by the Bank increased by W143.3 billion, or 74.2%, to W336.5 billion in 2004 from W193.2 billion in 2003 as a result of the increase of W3,468.6 billion, or 91.6%, in the average balance of outstanding financial debentures to W7,256.1 billion in 2004 from W3,787.5 billion in 2003. This increase was primarily due to an increase in the average balance of Won-denominated financial debentures which increased by W3,074.1 billion to W6,324.3 billion in 2004 from W3,250.2 billion in 2003 in order to meet the Bank's funding requirements. These financial debentures were used to provide funding with lower overall cost than time deposits of a similar maturity. Unlike time deposits, financial debentures are not subject to deposit insurance or reserve requirements by the BOK. The average balance of foreign currency-denominated financial debentures also increased by W394.5 billion, or 73.4%, to W931.8 billion in 2004 from W537.3 billion in 2003 as a result of issuances of US\$375 million in Upper Tier II debt in March 2003, US\$200 million in Lower Tier II debt in October 2003 and US\$300 million in Hybrid Tier I securities in March 2004. The effect of these increases was partially offset by a redemption of US\$200 million in Lower Tier II debt in June 2003 as well as a strengthening in the Korean Won exchange rate against the US dollar. Average interest rates paid on financial debentures decreased by 46 basis points to 4.64% in 2004 from 5.10% in 2003. The decrease in average rates was a result of a decrease in overall Korean Won market rates as well as a decrease in rates paid on foreign currency denominated financial debentures which includes the effect of a decrease in the Korean Won / US dollar exchange rate.

Interest paid on other interest bearing funding, which consisted of the interbank reconciliation account and balances due to the trust account, decreased by W4.3 billion, or 13.4%, to W27.6 billion in 2004 from W31.9 billion in 2003 as a result of a decrease of W19.8 billion in the average balances of other interest bearing funding as well as a decrease in the average rate paid of 45 basis points. The interbank reconciliation account is an interbank balance that is settled through the BOK, increased by the Bank's customers' withdrawals from other banks and decreased by other banks' customers' withdrawals from the Bank. The average balance of the interbank reconciliation account declined by W13.8 billion, or 2.1% to W659.0 billion in 2004 from W672.8 billion in 2003, with the average rate paid decreasing 43 basis points to 3.54% in 2004 from 3.97% in 2003. The average balance of the borrowings from the trust account decreased W6.0 billion while the average rate paid decreased by 24 basis points to 3.56% in 2004 from 3.80% in 2003.

Management's Discussion & Analysis (continued)

Net Fees and Commissions

	2004	2003	Won in Billions / % Better / (Worse)	
			Amt.	%
Credit Card Fees	139.3	172.4	(33.1)	(19.2)
Operation fees	46.8	43.2	3.6	8.3
Foreign exchange fees	34.8	31.0	3.8	12.3
Third party fees	18.6	11.8	6.8	57.6
Loan & guarantee fees	17.1	3.5	13.6	388.6
Trust account revenue	12.8	17.1	(4.3)	(25.1)
Securities	13.7	3.9	9.8	251.3
Other	(3.7)	(4.6)	0.9	(19.6)
Subtotal	279.4	278.3	1.1	0.4
Contribution to credit guarantee fund	24.1	20.0	(4.1)	(20.5)
Insurance expense of deposits	38.6	35.0	(3.6)	(10.3)
Total	216.8	223.3	(6.5)	(2.9)

Net fees and commissions decreased by W6.5 billion, or 2.9%, to W216.8 billion in 2004 from W223.3 billion in 2003. This resulted primarily from a significant decrease in credit card fees, with decreases in trust account revenue and increases in contributions to the credit guarantee fund and the insurance expense of deposits, which are set off against fee income, also contributing to the overall decrease in fees and commissions. The resulting decrease was largely offset by an increase in loan and guarantee fees, fees earned on securities, third party fees, foreign exchange fees, operation fees and other fees.

Credit card fees decreased by W33.1 billion, or 19.2%, to W139.3 billion in 2004 from W172.4 billion in 2003, primarily due to a decrease in card spending and cards-in-force brought about by the Bank's stricter approach to unsecured lending and the withdrawal of credit from delinquent and defaulting customers in 2003 and 2004. As a result of this, the average balance of card receivables dropped by W288.9 billion, or 29.1%, to W702.6 billion in 2004 from W991.5 billion in 2003; card spending dropped by W1,248.8 billion, or 20.9%, to W4,738.6 billion in 2004 from W5,987.4 billion in 2003 and the number of cards in force dropped by 367,687, or 24.9%, to 1,106,556 at December 31, 2004 from 1,474,243 at December 31, 2003. Trust account revenue fell W4.3 billion, or 25.1%, to W12.8 billion in 2004 from W17.1 billion in 2003 due to a reversal of excess credit reserves on trust accounts in 2003. After the effect of this, trust revenue improved by W1.4 billion, or 12.3%.

Loan and guarantee fees increased by W13.6 billion, or 389%, to W17.1 billion in 2004 from W3.5 billion in 2003, primarily as a result of a W11.0 billion increase in the fees earned on mortgage loans. This increase was partly attributable to the fact that, commencing in July 2003, Korean GAAP permitted origination costs on mortgage loans to be amortized over the life of the loans and no longer required such costs to be expensed upfront (such origination costs are netted against fees earned). Securities fee income increased by W9.8 billion to W13.7 billion in 2004 from W3.9 billion in 2003 with W9.9 billion of the increase occurring as a result of the Bank earning dividends on beneficiary certificates which are included in fee income, and the balance of the increase resulting from the Bank increasing its involvement in this line of business. Third party fees increased by W6.8 billion, or 57.6%, to W18.6 billion in 2004 from W11.8 billion in 2003, primarily as a result of fees earned on servicing the Bank's mortgage-backed securities issuances as well as fees earned on Bancassurance and asset management. Foreign currency and trade finance related fees increased by W3.8 billion, or 12.3%, to W34.8 billion in 2004 from W31.0 billion in 2003 with most of the improvement coming in the trade finance business. Operation fees increased by W3.6 billion, or 8.3%, to W46.8 billion in 2004 from W43.2 billion in 2003, primarily due to the improvement in home banking fees.

Contributions to the Korea Credit Guarantee Fund ("KCGF") and deposit insurance increased as a result of increased volume in corporate lending (which requires KCGF contributions) and customer deposits (which require contributions to the Korea Deposit Insurance Corporation). KCGF contributions increased by W4.1 billion, or 20.5%, to W24.1 billion in 2004 from W20.0 billion in 2003. Deposit insurance increased by W3.6 billion, or 10.3%, to W38.6 billion from W35.0 billion in 2003.

Management's Discussion & Analysis (continued)

Operating Expense

	2004	2003	Won in Billions / % Better / (Worse)	
			Amt.	%
Salary and labour-related expenses	375.3	344.8	(30.5)	(8.8%)
Administrative expenses	173.8	171.3	(2.5)	(1.5%)
Depreciation, amortization and other expenses	108.9	108.1	(0.8)	(0.7%)
Total operating expenses	658.1	624.2	(33.9)	(5.4%)

Operating expenses increased by W33.9 billion, or 5.4%, to W658.1 billion in 2004 from W624.2 billion in 2003, with most of the increase coming from an increase in salary and labor-related expenses. Salary and labor-related expenses increased by W30.5 billion, or 8.8%, to W375.3 billion in 2004 from W344.8 billion in 2003 driven by an increase in bonuses of W13.9 billion, which included a one-time bonus paid in relation to the Bank's 75th anniversary in July, the accrual of stock option costs of W11.4 billion as well as increases in staff welfare and perquisites. These increases in salary expenses were partially offset by a decrease of W7.2 billion in the retirement allowance expense as a result of the cancellation of the progressive severance scheme during 2003. The progressive severance scheme, which was based on accumulated seniority, was replaced with a linear severance scheme. The Bank believes that this new scheme will result in significant savings in the future.

Administrative expenses increased by W2.5 billion, or 1.5%, to W173.8 billion in 2004 from W171.3 billion in 2003. Expenses contributing to this increase were (i) an increase in computer service fees of W6.7 billion, or 18.6%, to W42.8 billion in 2004 from W36.1 billion in 2003, primarily due to service contract fees related to the upgrading of the Bank's information technology ("IT") function and equipment; (ii) an increase in other general administrative expenses of W3.7 billion, or 6.2%, to W63.2 billion in 2004 from W59.5 billion in 2003, including an increase of W3.1 billion in other service related fees, an increase of W1.8 billion in travel and conference expenses and an increase of W1.7 billion in training expenses which were partially offset by a reduction in business promotion expenses of W3.7 billion; and (iii) an increase in lease expenses for premises of W3.1 billion, or 10.2%, to W33.6 billion in 2004 from W30.5 billion in 2003. The increases were partially offset by a decrease in legal fees of W9.5 billion, or 99.0%, to W0.1 billion in 2004 from W9.6 billion in 2003, primarily because the legal fees in 2003 included the arbitration costs associated with the final disputed claims under the Assistance Agreement, and a decrease in consulting expenses of W2.4 billion, or 58.5%, to W1.7 billion in 2004 from W4.1 billion in 2003, as a result of the Bank using less consulting services.

Depreciation, amortization and other expenses increased by W0.8 billion, or 0.7%, to W108.9 billion in 2004 from W108.1 billion in 2003. This increase consisted of an increase in depreciation and amortization of W2.9 billion, or 3.8%, to W78.8 billion in 2004 from W75.9 billion in 2003, which was partially offset by a reduction in taxes and duties which decreased W2.1 billion, or 6.5%, to W30.1 billion in 2004 from W32.2 billion in 2003. The increase in depreciation included an increase in depreciation of capitalized intangible assets of W5.2 billion, or 37.1%, to W19.2 billion in 2004 from W14.0 billion in 2003, which includes software and capitalized development costs, and an increase in the depreciation of leasehold improvements of W1.7 billion, or 28.8%, to W7.6 billion in 2004 from W5.9 billion in 2003. These increases were partially offset by a reduction in depreciation on business property, including computer equipment, fixtures and fittings, of W2.9 billion, or 6.9%, to W39.3 billion in 2004 from W42.2 billion in 2003, and a reduction in depreciation of buildings of W1.1 billion, or 8.0%, to W12.7 billion in 2004 from W13.8 billion in 2003. Expenses related to taxes and duties improved as a result of a reduction in taxes on loans of W4.6 billion as a result of the amortization of these expenses which is now permitted under Korean GAAP. This improvement was partially offset by an increase in educational taxes of W1.5 billion payable on increased revenues.

Provisions for Loan Losses

Provisions for loan losses increased by W36.4 billion, or 32.0%, to W150.3 billion in 2004 from W113.9 billion in 2003 after reflecting a change in Korean GAAP in 2004 which effectively results in the reclassification of the current year's provisions for credit losses on NPLs sold, from provisions for credit losses to loss on sale of NPLs (which are included in non-operating expenses). The results for 2003 were also restated. It, therefore, is appropriate to aggregate profits and losses on loan sales with provisions for credit losses to analyze the Bank's credit performance for the periods under review. Using this method, total credit losses improved by W116.9 billion, or 32.0%, to W248.2 billion in 2004 from W365.1 billion in 2003, with most of the improvement in provisions for loan losses resulting from a decrease in provisions on credit card assets.

Provisions on corporate loans increased by W39.6 billion to W47.4 billion in 2004 from W7.8 billion in 2003 primarily as a result of a reversal of excess provisions on certain corporate loans and which took place in 2003 which led to abnormally low provisions for corporate loans in that year. The balance of provisions (including losses on sales) of W210.2 billion relates to consumer loans and reflects a reduction of W147.1 billion, or 41.2%, from 2003 of W357.3 billion, primarily due to delinquencies in unsecured consumer lending, primarily in the credit card sector, which peaked in 2003.

Management's Discussion & Analysis (continued)

Total credit performance is analyzed as follows:

	2004	2003	Won in Billions / % Better / (Worse)	
			Amt.	%
Provision for credit losses	150.3	113.9	(36.4)	(32.0)
Loss on sales of NPLs (included in non-operating expense)	98.6	251.2	152.6	60.7
Gain on sales of NPLs (included in non-operating income)	(0.7)	0.0	0.7	N/M
Total credit provisioning	248.2	365.1	116.9	32.0

The effect of the change in GAAP on provisions for credit losses is reflected as follows:

	2004	2003	Won in Billions / % Better / (Worse)	
			Amt.	%
Provision for credit losses before GAAP change	224.5	329.9	105.4	31.9
Adjustment required for change in GAAP	(74.2)	(216.0)		
Provision for credit losses	150.3	113.9	(36.4)	(32.0)

As of December 31, 2004, the allowance for loan losses as a percentage of Banking Total Loans was 1.24% and NPLs as a percentage of Banking Total Loans was 1.50%.

Net Non-operating Income / (Expense)

	2004	2003	Won in Billions / % Better / (Worse)	
			Amt.	%
Non operating income	50.4	129.8	(79.4)	(61.2)
Share of income of affiliates	2.0	2.3	(0.3)	(13.0)
Gain on the sale of investment securities	14.4	65.2	(50.8)	(77.9)
Rental fees received	11.7	11.2	0.5	4.5
Gain on sales of NPLs	0.7	0.0	0.7	N/M
Other	21.6	51.1	(29.5)	(57.7)
Non operating expenses	123.2	287.0	163.8	57.1
Early retirement plan	7.9	4.9	(3.0)	(61.2)
Loss on sales of loans	108.0	251.2	143.2	57.0
Loss on sale of fixed assets	0.5	0.3	(0.2)	(66.7)
Non-operating legal expenses	0.8	0.9	0.1	11.1
Other	6.0	29.7	23.7	79.8
Net non-operating income / (expenses)	(72.8)	(157.2)	84.4	53.7

The Bank recorded a net non-operating loss of W72.8 billion in 2004, an improvement of W84.4 billion, or 53.7%, compared to the net non-operating loss of W157.2 billion in 2003. This consisted of non-operating income of W50.4 billion and non-operating expenses of W123.2 billion in 2004, compared to non-operating income of W129.8 billion and non-operating expenses of W287.0 billion in 2003. Non-operating expenses in 2003 and 2004 included credit provisions against and losses on the sales of non-performing loans during the respective years. See "Provisions for Loan Losses" herein for further discussion.

Non-operating income in 2004 and 2003 primarily consisted of the following: (i) the Bank's share of the income of its affiliates under the equity method of W2.0 billion in 2004 compared to W2.3 billion in 2003; (ii) a profit on the sale of investment securities of W14.4 billion in 2004 compared to W65.2 billion in 2003, primarily resulting from the Bank realizing profit on the sale of bonds in a falling interest rate environment, with most of such bond sales taking place in 2003; (iii) rental income of W11.7 billion in 2004 compared to W11.2 billion in 2003 due to an increase in the amount of space rented as

Management's Discussion & Analysis (continued)

well as an increase in the rent payable by the tenants; and (iv) other non-operating income in 2004 of W21.6 billion compared to W51.1 billion in 2003. Other non-operating income in 2004 included the recognition of dormant accounts of W14.8 billion and income from a settlement of a claim which was pending for W1.7 billion and related to the sale of First Citi Leasing. Other non-operating income in 2003 included the recognition of dormant accounts of W39.2 billion and provisions for suspense accounts of W7.0 billion that are no longer required to be held. W36.0 billion of income recognized from the dormant accounts in 2003 was connected to the final KDIC arbitration settlement and resulting actions regarding balances that existed before the Acquisition.

Non-operating expenses in 2004 and 2003 primarily consisted of the following: (i) an expense in 2004 of W7.9 billion related to the early retirement program and which comprised early retirement incentives offered to reduce the Bank's headcount to more appropriate levels, compared with W4.9 billion in 2003; (ii) losses on the sales of NPLs, primarily credit card receivables, of W108.0 billion in 2004 compared with W251.2 billion in 2003; and (iii) other non-operating expenses in 2004 of W6.0 billion compared with W29.7 billion in 2003, which included amounts relating to the arbitration settlement of W10.0 billion and payments of W15.0 billion to the KDIC under the arbitration settlement in respect of dormant accounts recognized as income.

Taxation

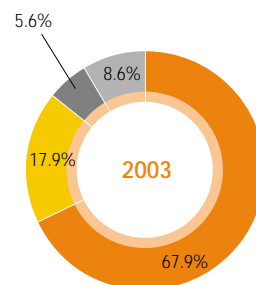
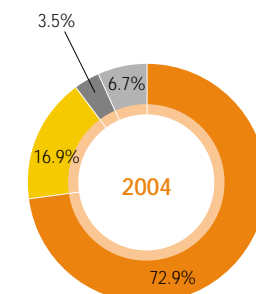
Because of losses incurred before 2000, the Bank had significant net operating loss carryforwards ("NOLs") available to set off against future taxable income. Therefore, the Bank did not pay income tax on its operations in Korea until the end of 2004. As a result, under Korean GAAP, the Bank recognized expected benefits from these NOLs of W169.6 billion from 2000 to 2002. The recognition of these non-cash benefits was based on the Bank's expected ability to utilize the NOLs based on the Bank's income forecasts. The Bank intended to start amortizing the deferred tax assets in 2003 so that they were fully amortized by the end of 2004. Because of the uncertain credit environment, however, the Bank determined that it would be prudent to reduce the amount of the deferred tax benefit to be realized over the remaining life of the NOLs. Accordingly, the Bank recorded a valuation allowance (non-cash) of W85.0 billion in 1Q 2003, thereby accelerating the drawdown of the deferred tax asset. This write-down had no impact on the Bank's capital ratio or cash profits. Since 1Q 2003, the Bank has amortized the balance of the deferred tax asset on a quarterly basis. In 2004, the Bank recorded an amortization charge of the deferred tax of W45.4 billion and a tax charge for foreign operations of W1.1 billion. These figures compare with the amortization of the deferred tax asset of W106.2 billion and tax charges of W0.4 billion in respect of the Bank's foreign operations in 2003.

Balance Sheet in Brief

Asset Analysis

	2004	2003	Won in Billions / %	
			Better / (Worse) Amt.	%
Loans net of provisions	30,419.0	26,790.7	3,628.3	13.5%
Securities	7,050.7	7,072.0	(21.3)	(0.3%)
Other interest-earning assets	1,445.3	2,203.4	(758.1)	(34.4%)
Non-interest-earning assets	2,797.7	3,414.6	(616.9)	(18.1%)
Total assets	41,712.7	39,480.7	2,232.0	5.7%

Asset Composition Analysis



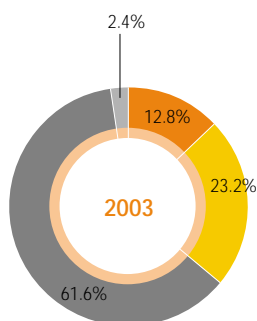
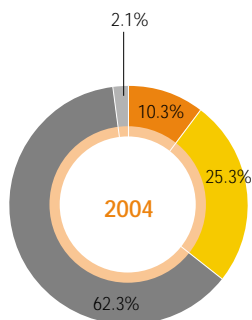
■ Loans net of provisions
■ Securities
■ Other interest-earning assets
■ Non-interest-earning assets

Management's Discussion & Analysis (continued)

Total assets increased by W2,232.0 billion, or 5.7%, to W41,712.7 billion as of December 31, 2004 from W39,480.7 billion as of December 31, 2003. The increase was primarily due to an increase in loans net of allowance for loan losses and present value discounts ("net loans") of W3,628.3 billion, or 13.5%, to W30,419.0 billion as of December 31, 2004, from W26,790.7 billion as of December 31, 2003. Securities decreased by W21.3 billion, or 0.3%, to W7,050.7 billion as of December 31, 2004, from W7,072.0 billion as of December 31, 2003, as a result of less attractive investment opportunities in the current low interest rate environment. Other interest earning assets decreased W758.1 billion, or 34.4%, to W1,445.3 billion as of December 31, 2004, from W2,203.4 billion as of December 31, 2003 primarily as a result of a decrease in balances due from Banks which was partially offset by an increase in other interest earning assets. Non-interest earning assets decreased W616.9 billion, or 18.1%, to W2,797.7 billion as of December 31, 2004 from W3,414.6 billion as of December 31, 2003 as a result of a decrease in the balance of cash and other non-interest earning assets.

During 2004, the Bank completed three mortgage-backed securitization deals, which together had a total outstanding balance of W1,796.7 billion as of December 31, 2004. When the related securitized assets are included in bank total assets, total assets equal W43,232.2 billion (after subordinated bonds are deducted to avoid double-counting), an increase of W3,751.5 billion, or 9.5%, with consumer loans growing by W4,212.6 billion, or 25.1%, to W20,975.2 billion.

Loan Composition Analysis



■ Corporations
■ SME
■ Consumers
■ Other

Loan Analysis

	Won in Billions / %		Better / (Worse)	
	2004	2003	Amt.	%
Corporations	3,174.3	3,477.2	(302.9)	(8.7%)
SME	7,801.4	6,313.3	1,488.1	23.6%
Consumers	19,178.5	16,762.6	2,415.9	14.4%
Other	650.6	665.0	(14.4)	(2.2%)
Banking Total Loans	30,804.8	27,218.1	3,586.7	13.2%
Trust Total Loans	43.9	36.4	7.5	20.6%
Total Loans	30,848.7	27,254.5	3,594.2	13.2%

In 2004, total loans (total of banking and trust loans) grew by W3,594.2 billion, or 13.2%, to W30,848.7 billion as of December 31, 2004, from W27,254.5 billion as of December 31, 2003, with an increase of W3,586.7 billion, or 13.2%, in Banking Total Loans to W30,804.8 billion in 2004, from W27,218.1 billion in 2003, and an increase of W7.5 billion, or 20.6% in trust loans, to W43.9 billion, as of December 31, 2004, from W36.4 billion as of December 31, 2003.

The increase in banking total loans came primarily from an increase of W2,415.9 billion, or 14.4%, in consumer loans, particularly from growth in mortgages of W4,417.5 billion, or 40.0%, to W15,468.6 billion as of December 31, 2004, from W11,051.1 billion as of December 31, 2003. This growth was partially offset by a decrease in general consumer loans of W1,251.5 billion, or 37.4%, to W2,093.6 billion as of December 31, 2004, from W3,345.1 billion as of December 31, 2003, and a decrease in consumer bulk loans of W382.0 billion, or 94.9%, to W20.4 billion as of December 31, 2004, from W402.4 billion as of December 2003. When the securitized loans are included in total consumer loans, consumer loans total W20,975.2 billion, an increase of W4,212.7 billion, or 25.1%, while mortgage loans grew by W6,214.2, or 56.2%.

Management's Discussion & Analysis (continued)

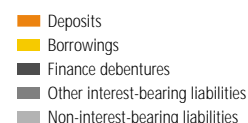
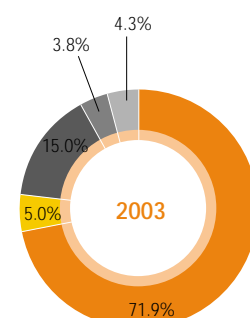
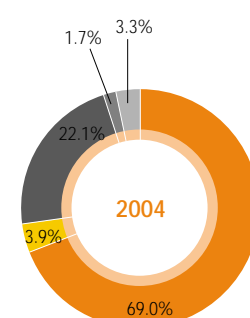
Loans to large corporations in the banking account decreased by W302.9 billion, or 8.7%, to W3,174.3 billion as of December 31, 2004, from W3,477.2 billion as of December 31, 2003. This decrease was due to competition and general economic weakness coupled with the Bank's selective lending and stringent credit standards. Loans to SMEs increased by W1,488.1 billion, or 23.6%, to W7,801.4 billion as of December 31, 2004 from W6,313.3 billion as of December 31, 2003 as a result of the Bank's increased focus on lending to this customer segment. Other loans in the Banking Account decreased by W14.4 billion, or 2.2%, to W650.6 billion as of December 31, 2004, from W665.0 billion as of December 31, 2003.

Funding Analysis

	2004	2003	Won in Billions / % Better / (Worse)	
			Amt.	%
Deposits	27,488.1	27,196.9	291.2	1.1%
Borrowings	1,554.6	1,892.3	(337.7)	(17.8%)
Finance debentures	8,824.6	5,695.0	3,129.6	55.0%
Other interest-bearing liabilities	687.6	1,420.7	(733.1)	(51.6%)
Non-interest-bearing liabilities	1,318.0	1,627.7	(309.7)	(19.0%)
Total liabilities	39,872.9	37,832.6	2,040.3	5.4%
Shareholders' equity	1,839.8	1,648.1	191.7	11.6%
Total funding	41,712.7	39,480.7	2,232.0	5.7%

Total deposits increased by W291.2 billion, or 1.1%, to W27,488.1 billion as of December 31, 2004 from W27,196.9 billion as of December 31, 2003, primarily due to an increase of W1,799.3 billion, or 37.3%, in certificates of deposit to W6,624.9 billion at December 31, 2004, from W4,825.6 at December 31, 2003, with this increase being largely offset by decrease in time deposits of W1,532.9 billion, or 13.5%, to W9,782.4 billion as of December 31, 2004, from W11,315.3 billion as of December 31, 2003. This increase was primarily due to the Bank offering competitive rates on certificates of deposits and partially due to an improvement in the Bank's perceived image assisted by the recent upgrade in the Bank's local rating and improved customer service. Borrowings decreased by W337.7 billion, or 17.8%, to W1,554.6 billion as of December 31, 2004, from W1,892.3 billion as of December 31, 2003 primarily due to the decline in RPs sold (which includes RPs sold to banking institutions, RPs sold to non-banking investors as well as foreign-currency RPs sold) which fell by W175.3 billion, or 89.3%, to W20.9 billion as of December 31, 2004 from W196.2 billion as of December 31, 2003 as the Bank reduced its use of customer RPs as a funding source. Call money borrowings decreased by W17.1 billion, Won-denominated borrowings decreased by W56.1 billion and foreign currency-denominated borrowings from banks decreased by W51.9 billion, which includes foreign currency-denominated borrowings from the BOK. Financial debentures increased by W3,129.6 billion to W8,824.6 billion as of December 31, 2004 from W5,695.0 billion as of December 31, 2003 primarily due to the issuance of Won-denominated financial debentures to fund growth in assets but also due to the issuance of US\$300 million in Hybrid Tier 1 securities in March 2004. Accrued severance and retirement benefits decreased by W147.7 billion as the majority of this was paid out to employees during the year. Other liabilities decreased by W796.3 billion primarily due to a decrease of W634.5 billion in the interbank reconciliation account and a decrease of W210.0 billion in the unsettled foreign exchange spot transaction liabilities.

Funding Composition Analysis



Management's Discussion & Analysis (continued)

Capital Adequacy

	Dec. 2004	Dec. 2003
Tier 1	7.09%	6.18%
Tier 2	4.82%	5.87%
Total Capital Adequacy Ratio	11.91%	12.00%
Risk Adjusted Capital	3,284.5	2,966.3
Risk Weighted Assets	27,567.9	24,718.2

As of December 31, 2004, the Bank's consolidated core capital (Tier I) and total capital ratios were 7.09% and 11.91%, respectively, considerably above the respective minimum required ratios of 4% and 8%. The level of the Bank's capital adequacy ratios as of December 31, 2004 also qualified it for the second highest of five grades of capital adequacy, which is one measure of management evaluation by the FSS.

The increase in the Bank's Tier 1 capital ratio at December 31, 2004 as compared to the Tier 1 capital ratio as of December 31, 2003 was due to the issuance of Hybrid Tier 1 debt in March 2004 and an increase in retained earnings. The decrease in the Tier 2 capital was due to the strengthening of the Korean Won against the US dollar coupled with the increase in risk-weighted assets. Overall, the total risk weighted capital ratio decreased by 9 basis points to 11.91% at December 31, 2004 from 12.00% at December 31, 2003 with the increases in capital as a result of the debt issuance and an increase in retained earnings being offset by the increase in risk-weighted assets as a result of the Bank's asset growth. The Bank's total risk-weighted assets increased by W2,849.7 billion, or 11.5%, to W27,567.9 billion as of December 31, 2004 from W24,718.2 billion as of December 31, 2003, which was a result of the increase in the amount of the Bank's loan portfolio, together with the decrease in the allowance for loan losses (which is deducted from risk-weighted assets to the extent not included in Tier I capital). Tier I capital increased by W429.3 billion, or 28.1%, to W1,955.9 billion as of December 31, 2004 from W1,526.6 billion as of December 31, 2003 as a result of the issuance of Hybrid Tier 1 debt, an increase in retained earnings as well as a decrease in the deduction from Tier I capital of other capital adjustments, primarily comprising the decrease in the Bank's deferred tax asset. Tier II capital decreased by W121.3 billion, or 8.4%, to W1,328.6 billion as of December 31, 2004 from W1,449.9 as of December 31, 2003 as a result of an increase in the portion of non-qualifying local-currency subordinated bonds and borrowings, an increase in the US dollar against the Korean Won which resulted in a decrease in the Korean Won equivalent value of US dollar-denominated debt issuances of subordinated debt and a decrease in the general allowance for loan losses on normal and precautionary loans which are included in the calculation. The decreases were partially offset by an increase in the capital gains on marketable investment securities and non-qualifying Hybrid Tier 1 capital which are included in the Tier 2 capital calculation.

Trust Business

	2004	2003	Won in Billions / %	
			Better / (Worse)	
			Amt.	%
Payment for guaranteed returns	0.0	0.0	0.0	N/M
Trust management fees	12.8	17.1	(4.3)	(25.1%)
Early termination fees	0.0	0.0	0.0	N/M
Total	12.8	17.1	(4.3)	(25.1%)

The Bank's trust services principally cover two types of trusts:

- money trusts, and
- property trusts.

As of December 31, 2004, the aggregate amount of money trust deposits with the Bank was W861.7 billion, and the aggregate amount of property trust deposits with the Bank was W2,696.4 billion. In Korea, a money trust is a discretionary trust that (except in the case of a specified money trust and certain other trust accounts) gives the trustee broad authority in investing the funds deposited by customers in the trust accounts. Such funds are invested by the Bank primarily in debt securities and loans.

Management's Discussion & Analysis (continued)

Prior to 1999, the Bank offered two general types of money trust products:

- Performance-based trusts. Under these trusts, the Bank receives a fixed trust fee, generally limited to an annual fee of 0.3% to 2.0% of the total amount deposited, and the customer is paid a variable return during the term of the trust based on the performance of the trust assets; and
- Guaranteed yield trusts. Under these trusts, the customer is paid dividends at a fixed rate during the trust term or has a guarantee for the return of principal and the Bank's income depends on the performance of the trust assets relative to such fixed dividend rate or required principal subsidies.

Since 1999, the Bank has only offered performance-based trust products. As of December 31, 2004, the aggregate balance of the Bank's performance-based trusts (which includes trusts where only principal is guaranteed) accounted for W860.7 billion, or 99.9% of the total balance of the Bank's money trusts, and the balance of guaranteed yield trusts amounted to W1.0 billion, or 0.1% of the total money trusts. Performance-based trusts where principal is guaranteed comprised W441.3 billion, or 51.2% of the total money trusts, performance-based trust where principal is not guaranteed comprised W419.4 billion, or 48.7% of the total money trusts.

Risk Management

The Bank's core goal in risk management is to enhance profitability in ways that promise sufficient reward for understood and controlled risk. Opportunities for added shareholder value are evaluated for their risk potential and the ability to hedge and control risk. In managing risk, the Bank operates not only within the parameters of its own internal policies but also in compliance with regulatory requirements imposed on the Bank by applicable regulatory authorities in the markets in which the Bank operates.

The Bank's overall risk management policy is set by the Risk Management/Financial Control Committee (the "Risk Management Committee"), which is composed of at least three directors. Detailed risk management procedures and guidelines are set and overseen by the Asset and Liabilities Management Committee ("ALCO") which is composed of the top management of the Bank and the general managers of the Treasury Department and the Asset and Liability Management Department (the "ALM Department").

ALCO

ALCO is required to meet at least once a month, but also meets as and when required. ALCO is responsible for (i) establishing risk management measurement standards and methodologies, (ii) reviewing liquidity positions and monitoring alternative funding sources, (iii) reviewing interest rate risk measurement reports, (iv) comparing exposures to policy limits and assessing the expected impact of anticipated major funding shifts or changes in overall investment and lending strategy, (v) reviewing regulatory capital levels to determine sufficiency in light of expected growth, risks, asset mix and quality, regulatory requirements and dividend policy, (vi) reviewing the outlook for interest rates and the economy, (vii) developing alternative strategies as deemed appropriate taking into account interest rate levels and trends, deposit and loan products and markets, banking regulation and monetary and fiscal policy, (viii) developing parameters for pricing and maturity distributions of deposits, loans and investments and (ix) determining the parameters for transfer pricing.

Credit Risk Management

The principal goal of the Bank's credit risk management policy is the prudent management and expansion of the Bank's credit exposure through rigorous and consistent application of credit underwriting standards with the following guidelines:

- New corporate borrowers must be BRR 6 or better under the Bank's BRR system.
- New consumer applications are evaluated on the probability of default together with the level of risk that the Bank is willing to accept in order to lend profitably.
- The measurement and decision making process is dynamic with probabilities changing on an ongoing basis based on all available information used in the measurement process.
- New borrowers are evaluated with greater emphasis on such borrower's cash flows and ability to repay.

In addition, the Bank has instituted new credit management methodologies for both its consumer credit risk management function as well as for its corporate credit risk management function as discussed below.

Management's Discussion & Analysis (continued)

Consumer Credit Risk Methodology

In April 2001, the Bank created a Decision Science Group whose objective is to manage the Bank's growth of consumer assets while controlling its related credit risk, thereby seeking to achieve more reliable and predictable revenue growth and credit quality through risk-based pricing.

Credit Risk Rating and Pricing. The Bank's Decision Science Group has developed its own consumer credit risk management system which uses data drawn from the prospective borrower's loan application and the Bank's customer data warehouse. An automated credit scoring module, the ARM, calculates the statistical probability of default and determines the approval/decline decision on a loan. The system then recommends a maximum loan amount and price based on a multi-dimensional matrix addressing the customer's risk as well as the value of the facility applied for.

To manage risk relating to an existing customer relationship, the Bank has developed the BRM models. Based on multiple sources of information, including the customer data warehouse, application data and payment history, the BRM models produce the statistical probability of default. BRM output is used in managing risk associated with the Bank's existing accounts, which includes managing loan extensions/ renewals, credit line adjustments, collections and cross-selling other loan products. These automated processes together with the statistical credit scoring model seek to ensure a timely response to customer applications and instill financial discipline in the fact-based decision making process.

While these methods are used to evaluate loan applications and manage credit risk of existing accounts, they are also used to estimate the allowances for consumer loan losses. The Bank records its reserves at the higher of the rate required by the FSS guidelines and the level calculated based on the Bank's consumer credit risk management system. FSS guidelines measure risk classification by the number of days a credit is delinquent.

Credit Approval Process Limits. As the consumer risk management decision process is largely automated, the approval/decline decision on loans is able to be made at the time the application is entered into the sell-station system which is linked to the consumer risk management system. Secured loans require documentary approval. The time involved in verifying the existence and value of the collateral securing the loan as well as the legal process required to confirm the existence and ownership of the collateral and to perfect the security interest determines the overall time for the decision and extension.

Application of Consumer Credit Risk Methodology. In 2003, the Bank applied its consumer credit risk methodology to its consumer loan and credit card portfolios. Nevertheless, the Bank experienced a significant increase in delinquencies in 2003 due to the scale of the consumer debt crisis in Korea. As a result of this increase in delinquencies, the Bank further tightened its credit risk methodology in its consumer loan and credit card portfolios in 2004.

Hanaro program. The Bank does not engage in loan restructuring practices for loans 90 days or more past due or without the payment of 20% of the principal outstanding. The Bank's "Hanaro" program was established before the date of the Acquisition for the purposes of rehabilitating overdue loans. In order to enter the program, a borrower must repay 20% of the outstanding principal amount of the overdue loan, all delinquent interest and the loan concerned cannot be more than 90 days past due.

Corporate Credit Risk Methodology

The Bank has a very sophisticated Credit Risk Management System (CRMS). The CRMS is made up of nine modules: Credit Rating; Asset Classification; Limits; Portfolio Management; Risk Measures; Pricing; Default & Delinquency; Collateral and the Early Warning System. The CRMS is designed to comply with the requirements of the Basel II accord on capital adequacy and credit risk rating comprises 10 grades measured from two aspects: BRR and FRR.

Credit Risk Rating. The BRR is based on the probability of default and is a hybrid credit rating model which evaluates the borrower risk based on three aspects/inputs: (i) actual financial condition, measured using the financial condition of the prospective or existing borrower from audited financial statements as well as other relevant financial information; (ii) evaluation of the business which includes assessing factors such as competitive market position, supply, management of the company and the market of the company; and (iii) cash flow forecast of the borrower, calculated using information from historical financial statements, and information such as industry position and economic forecasts.

Management's Discussion & Analysis (continued)

The FRR measures the magnitude of the loss expected from a facility granted to a prospective or existing borrower. This combines the probability of default with the Loss Given Default ("LGD"), which is the statistical expected loss based on the prospective or existing borrower's facility and the nature of the credit instrument.

Pricing. Each loan facility extended by the Bank is priced based on the credit risk presented, with the borrower's risk premium based on expected losses.

Credit Approval Process and Credit Limits. The Bank has strict limits on the size of credit facilities that can be granted by the various levels of the credit granting function of the Bank. Such limits are differentiated by the seniority of the person, credit team/group, as well as whether the prospective borrower is a new or existing customer based on the BRR and FRR ratings. According to the BRR, the Bank has established house limits to further control the exposure to a borrower based on the total facilities extended. Such limits are in addition to the regulatory limits.

Credit Review System. The Bank has established a system to review all existing corporate loans at intervals based on their risk rating. This function is performed by the Credit Review Department which reports to the CFO thereby providing necessary independence in the review of the credit function. Under that Bank's credit review policies, loans rated 4 or better are reviewed at least once a year, those rated 5 and 6 are reviewed at least twice a year and those rated 7 or worse are reviewed at least quarterly. New loans are reviewed promptly after approval. For both new and existing loans, a credit review officer assesses the appropriateness of the credit analysis done by the credit officer, the borrower's source of funds for repayment, the contents of the collateral evaluation and the justification for the borrower's rating. In addition, the rating for a borrower is regularly reviewed by the credit officer in charge as an ongoing credit management process. The credit review officer may disagree with the rating assigned by the credit officer. However, the credit officer has final authority for risk.

For purposes of confirming the appropriateness of the Bank's specific allowance for loan losses, credit review officers also review the allowance for loan losses assigned to credits of its borrowers with BRR ratings of 8 to 10 as part of its quarterly review process. Allowances for loan losses is calculated based on the present value of future available cash flow and disposable collateral. This review is done through the quarterly special assets report.

Credit Risk for Investment Securities and Derivatives Transactions. Under the Bank's policy for securities investment, before a security can be purchased, the credit (or default) risk of the obligor must be analyzed. All foreign government securities, foreign government agency securities and asset-backed securities must be rated investment grade, and financial debentures, corporate bonds and municipal bonds are subject to credit approval by the Chief Credit Officer, who may set a credit limit for an issuer. Thereafter, the investment officer is responsible for monitoring the credit status of the Bank's investment portfolio and closely coordinating with the Credit Risk Management Department to minimize credit risks. Under the Bank's policy for derivatives transactions, the credit risk is principally that of default by the counterparty to the transaction, The Chief Credit Officer is responsible for setting credit risk limits for each counterparty, and the Treasury Department may not enter into derivatives transactions with a particular counterparty without the approval of the Chief Credit Officer, who sets the limits for such counterparty and periodically reviews those limits, in much the same manner as the credit ratings of borrowers are reviewed.

Market Risk Management

Market risk exposure refers to possibilities for loss resulting from the Bank's participation in the capital markets caused by the movement of market prices in on and off-balance sheet positions. The Bank's priorities in this area are to prevent over-exposure to any single investment instrument and to be responsive to changes in the business environment. Guided by these directives, the Bank aligns resources on an ongoing basis with the goal of achieving an appropriate balance of stability, liquidity and profitability.

Securities

The Bank has adopted a policy for securities investment that makes the Risk Management Committee responsible for approval and review of the policy, provides that ALCO establish the risk measurement standards and methodology for securities investment and monitor compliance with the policy, places on the Chief Credit Officer the responsibility for assessing the Bank's credit risk to issuers of securities, and authorizes the general manager of the Treasury Department (or investment officers working under his supervision) to conduct investment activities under the direction of senior management.

Management's Discussion & Analysis (continued)

The ALM Department is responsible for monitoring compliance with the policy and objectives of ALCO and reporting activities to senior management and ALCO. The policy separates the back office, which is responsible for confirmations, accounting procedures and settlements (as well as evaluating, monitoring limits and reporting) from the investment officers. As of December 31, 2004, approximately 80.3% of the Bank's securities portfolio consisted of securities issued or guaranteed by the Government and Monetary Stabilization Bonds, 2.6% consisted of corporate bonds, 5.8% consisted of asset-backed securities and the balance consisted of equity investments in subsidiaries, securities issued by local governments and other securities. The Bank's policy on investments in securities sets position limits on securities investments generally and on investments in certain types of securities specifically. In addition, the Bank controls the market risk of its outstanding securities available for sale by requiring instances where the unrealized loss on the purchase price of a security exceeds 10% of the purchase price be reported to ALCO and Risk Management Committee with ALCO and Risk Management Committee directing loss limiting measures if considered necessary.

The Bank evaluates market interest rate sensitivity daily for a 1% change in the position of its marketable securities. Under the Bank's policy, the Bank's total investment in securities should not exceed 30% of its total assets. The Bank seeks to maintain more than 5% of deposits in investment securities held in liquidity.

Derivative Transactions. In accordance with the Bank's policies and procedures for derivative transactions, the Bank's derivative positions are for the purpose of hedging as the Bank's policy generally does not allow the Bank to take positions for speculative purposes.

All derivative transactions must be executed within their counterparties' credit limits and certain riskier nonstandard derivatives and credit derivatives may be entered only with the approval of ALCO. Specified large positions may not be traded without the approval of the Risk Management Committee and the general manager of the Treasury Department and the team head of Trading & Sales Team may terminate and restrict transactions at his discretion if market risk limits are exceeded or in unusually volatile markets.

Foreign Currency Exchange. Under the Bank's policy for derivatives transactions, the general manager of the Treasury Department and the team head of Trading & Sales Team are required to monitor and manage, within preset limits, the Bank's net open foreign exchange position. The Bank measures its open position daily and controls risk with position limits and loss-cut limits.

In addition, while the Bank is not required by the FSS to measure the capital charge for market risk due to its small trading position and trading volumes, it has developed a system that measures market Value at Risk ("VaR"). This system was implemented in April 2002 and the Bank uses this system for measuring the VaR of marketable positions held on a daily basis.

The VaR measures are provided for integrated risk management purposes and also used for normal internal management purposes.

Interest Rate Risk Management

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Changes in interest rates can impact a bank's earnings by affecting net interest revenue and the level of other interest sensitive income and operating expenses. Changes in interest rates also affect the underlying value of a bank's assets, liabilities and off-balance sheet positions, because the present value of future cash flow is impacted by changes in interest rates.

Interest rate risk principally results from timing differences in the maturity or repricing of an institution's assets, liabilities and off-balance sheet contracts. If more liabilities than assets reprice in a given period and market interest rates are declining, then the cost of the repriced liabilities will fall. This increases the interest rate spread and net interest revenue. Conversely, if more assets than liabilities reprice in a given period, a decline in market interest rates will reduce the interest rate spread and also reduce net interest revenue. Rising market interest rates will have the opposite effect in the foregoing situations. This risk is measured by the gap or difference between interest rate-sensitive assets and interest rate-sensitive liabilities over specified future periods. Other causes of interest rate risk are the effect of embedded options, such as call or convertible options, loan prepayments, interest rate caps and deposit withdrawals, unexpected shifts in the yield curve and differences in the behavior of lending and funding rates (for example when floating rate assets and liabilities with identical repricing characteristics are based on imperfectly correlated market indices).

Management's Discussion & Analysis (continued)

Given the potential types of interest rate risk, in its policy on interest rate risk management, the Bank recognizes the importance of maintaining an appropriate process and set of measurement tools that enable it to identify and quantify its primary sources of interest rate risk. The Bank also recognizes that effective management of interest rate risk requires an understanding of the way in which potential adverse changes in interest rates will affect its profit and loss statement. Accordingly, the Bank's interest rate risk management policy calls for the Bank to manage its position by monitoring its exposure to interest rate risk over both a one-year planning horizon and a longer term strategic horizon.

The Bank's primary tools in managing interest rate risk in this manner are net interest revenue simulation model, gap analysis and funding matrix. Net interest revenue simulation involves applying stochastic interest rate scenarios generated from a term structure model (Hull-White) and a customer behavior model to the assets and funding structure and measuring the effect of these on net interest revenue ("NII") and net portfolio value of which volatilities to interest rate movements are represented as Earning at Risk ("EaR") and VaR respectively. The types of customer behavior incorporated in EaR and VaR measurement include loan prepayment and deposit pre-termination which are analyzed through statistical analysis using the Bank's and market historical data. The funding matrix is similar to gap analysis but presents the maturity data graphically. Standard gap reports are also used to provide supporting detailed information. These tools are used to quantify the potential impact of changing interest rates on earnings and net portfolio value.

According to the Bank's policy, specific strategies for managing interest rate risk are the focal point of ALCO's monthly meetings. At each meeting, ALCO will review the Bank's overall position and related sources of risk and develop a plan covering the period up to the next ALCO meeting. The appropriateness of particular strategies will change as the balance sheet and current market conditions change. In general, the types of strategies that will be considered, depending on the structure of the Bank's then-current interest rate risk position, will typically include such cash market transactions as controlling loan pricing, promotion and product structure (e.g., fixed versus floating rate), controlling deposit pricing, promotion and structure, use of alternative funding sources such as repurchase agreements, rediscounting bills discounted and negotiable certificates of deposit and purchases and sales of securities. As appropriate, hedging transactions such as interest rate swaps, caps and floors will also be considered. In assessing the appropriateness of any strategy, ALCO will assess the expected risk-return results of alternative actions versus the risk-return of inaction.

As of December 31, 2004, the Bank's total interest rate-sensitive assets in the Banking Account amounted to W37.9 trillion, while total interest rate-sensitive liabilities in the Banking Account equalled W37.4 trillion. As of December 31, 2004, interest rate-sensitive assets within one year exceeded interest rate-sensitive liabilities during that period, which means the bank maintains an assets-sensitive re-pricing structure

Liquidity Management

The primary purpose of liquidity management is to be able to meet its depositors' demands for cash at all times and the requirements of its lending operations and unexpected business opportunities. The secondary purpose of liquidity management is to maximize earnings and return on equity within acceptable levels of liquidity risks. In addition, there are regulatory liquidity requirements.

The Board has authorized ALCO to formulate and administer the Bank's policy on liquidity and funds management. ALCO is responsible for establishing and monitoring liquidity targets as well as strategies for meeting these needs. The Treasury Department monitors and manages the day-to-day liquidity position of the Bank in consultation with the ALM Department, which prepares the liquidity monitoring measurements and also monitors compliance with the Bank's policy on liquidity.

Under its liquidity and funds management policy, the Bank measures liquidity first by calculating the "Basic Surplus/Deficit," the difference between liquid assets ("Total Liquid Assets") and short-term liabilities (30 days or fewer) that are vulnerable to non-replacement under abnormally stringent conditions ("Total Short-Term Liabilities"). In effect, the Basic Surplus measures the Bank's ability to raise cash quickly (within 30 days) at a reasonable cost. The second measure of liquidity is a cash-flow forecast expressed in terms of the relationship between identified funding needs (net new loans and repayments of liabilities) and the estimated level of cash inflows over a 60-day horizon. Calculating a liquidity gap (the differences between liquid assets and variable liabilities at both present and future dates) provides an additional measure of liquidity. All relevant indicators are monitored regularly to both ensure proper liquidity and in the event of a liquidity crisis, to initiate a contingency plan sufficiently early to avoid adversely impacting the Bank's

Management's Discussion & Analysis (continued)

business. Under the policy, the ALCO sets a target "Basic Surplus" (Total Liquid Assets minus Total Short-Term Liabilities) as a percentage of assets. As of December 31, 2004, the minimum Basic Surplus as a percentage of total Won-denominated assets, total foreign currency-denominated assets and total assets, respectively, was 5%. At that date, the actual Basic Surplus as a percentage of total assets was 11.9%.

The FSS requires each Korean bank to maintain a Won liquidity ratio (defined as Won-denominated assets due within three months (including marketable securities) divided by Won-denominated liabilities due within three months) in excess of 100% and to make quarterly reports to the FSS. The FSS also requires each Korean bank to (i) maintain a foreign currency liquidity ratio (defined as foreign currency denominated liquid assets due within three months divided by foreign currency denominated liabilities due within three months) in excess of 85% and to make monthly reports to the FSS, (ii) maintain foreign currency denominated liquid assets due within seven days less foreign currency denominated liabilities due within seven days divided by total foreign currency denominated assets above 0%, and (iii) maintain foreign currency denominated liquid assets due within a month less foreign currency denominated liabilities due within a month divided by total foreign currency denominated assets above negative 10%. The Monetary Board also requires banks to maintain certain reserves against their deposits.

The Bank prefers to meet liquidity requirements with cost-effective local market deposits. However, the Bank also seeks to have available other sources of on and off-balance sheet funds to supplement these sources of funds when necessary or appropriate, including credit lines with foreign and Korean correspondent banks and non-bank financial institutions and the BOK as lender of last resort, together with interbank repurchase agreements, interbank CDs and trade bills refinanced. Detailed contingency plans have also been established to prepare for liquidity deterioration. A 10-step plan has been developed for meeting liquidity requirements.

Independent Auditors' Report



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The Board of Directors and Shareholders of Korea First Bank

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea First Bank as of December 31, 2004 and 2003, and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in note 1, on January 10, 2005, KFB Newbridge Holdings (Private) Limited ("Newbridge"), the controlling shareholder of the Bank, entered into an agreement with Standard Chartered Bank ("SCB") whereby SCB agreed to purchase Newbridge's ownership in the Bank. In accordance with the agreement, SCB will purchase 99,999,956 shares (48.56%) held by Newbridge for W16,511 per share for a total of W1,651,099 million. The remaining shares held by Korea Deposit Insurance Corporation (99,853,167 shares or 48.49%) and Ministry of Finance and Economy (6,069,517 shares or 2.95%) will be purchased based on identical terms. As a result, SCB will own 100% of the Bank's shares for a total of W3,400,000 million after the transaction closes. The transaction is subject to approval from Financial Supervisory Service, with approval expected to occur by May 2005.

As discussed in note 2, due to a new accounting interpretation issued by Korea Accounting Standards Board, the Bank changed its accounting for gains or losses from the sale of loans. Previously, gains or losses from the sale of loans were computed by comparing the proceeds of the sale to the book value as of the effective sale date. Currently, gains or losses from the sale of loans are computed by comparing sale proceeds against the loans' book value as of the year end immediately preceding the date of sale. As a result of this change, losses on sale of loans increased by W71,836 million and gains on sale of loans and provision for loan losses decreased by W2,356 million and W74,192 million, respectively, for the year ended December 31, 2004. The statements of income and cash flows for the year ended December 31 2003, presented herein for comparative purpose, were restated to reflect the above change. As a result, losses on sale of loans increased by W214,633 million and gains on sale of loans and provision for loan losses decreased by W1,413 million and W216,046 million, respectively for the year ended December 31, 2003. Such change and restatement had no effect on net assets as of December 31, 2004 and 2003 and on net income (loss) for the years then ended.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations 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 financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

February 24, 2005

This audit report is effective as of February 24, 2005, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Balance Sheets (Banking Accounts)

December 31, 2004 and 2003

	In Millions of Korean Won	
	December 31, 2004	December 31, 2003
Assets:		
Cash & due from banks (Note 4)	W 1,714,597	W 3,061,229
Securities (Note 5)	7,050,652	7,071,976
Loans (Note 6)	30,804,819	27,218,082
Allowance for loan losses (Note 6)	(385,782)	(427,382)
Net deferred fees and expenses (Note 6)	19,094	10,705
	30,438,131	26,801,405
Receivable from KDIC (Note 3)	112,427	121,442
Fixed assets (Note 7)	1,206,468	1,228,179
Deferred income tax asset (Note 21)	18,000	63,425
Other assets (Note 8)	1,172,386	1,133,002
Total assets	W41,712,661	W39,480,658
Liabilities and Shareholders' Equity:		
Deposits (Note 9)	W27,488,106	W27,196,857
Borrowings (Note 10)	1,554,554	1,892,320
Financial debentures (Note 11)	8,824,561	5,695,014
Accrued severance and retirement benefits (Note 12)	24,319	30,357
Other liabilities (Note 14)	1,981,371	3,018,000
Total liabilities	39,872,911	37,832,548
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common stock (Note 17)	1,029,613	1,029,613
Capital surplus (Note 17)	17,111	17,111
Retained earnings (Note 18):		
Legal reserves	64,141	64,141
Voluntary reserve	11,000	11,000
Other statutory reserves	15,393	16,755
Retained earnings before appropriations	633,446	513,741
Total retained earnings	723,980	605,637
Capital adjustments	69,046	(4,251)
Total shareholders' equity	1,839,750	1,648,110
Total liabilities and shareholders' equity	W41,712,661	W39,480,658

See accompanying notes.

Statements of Income (Banking Accounts)

Years ended December 31, 2004 and 2003

In Millions of Korean Won

	2004	2003
Interest income (Note 15):		
Loans	W1,796,227	W1,544,111
Securities	320,802	362,790
Due from banks	10,712	15,555
Other	6,559	18,798
	2,134,300	1,941,254
Interest expense (Note 15):		
Deposits	883,150	873,548
Borrowings	56,232	77,636
Financial debentures	336,465	193,154
Other	27,611	31,903
	1,303,458	1,176,241
Net interest revenue	830,842	765,013
Fees, commissions, other revenue (expense), net:		
Operation fees	46,839	43,195
Foreign exchange	34,812	30,972
Third Party Fees	18,578	11,907
Trust Fees	12,781	17,066
Loan & Guarantee Fees	17,147	3,523
Credit card Fees	139,274	172,424
Securities & Others	10,023	(750)
	279,454	278,337
Contribution to credit guarantee fund	24,069	19,988
Deposit insurance expenses	38,573	35,018
Total revenue	1,047,654	988,344
Operating expense:		
Staff cost (Note 19)	375,342	344,799
Administration expense	173,794	171,252
Depreciation and other	108,946	108,113
	658,082	624,164
Operating margin	389,572	364,180
Provision for loan and other losses (Note 6)	150,316	113,877
Operating income	239,256	250,303
Non-operating revenue (Note 20)	50,415	129,810
Non-operating expense (Note 20)	123,215	286,980
Net non-operating loss	(72,800)	(157,170)
Income before taxes	166,456	93,133
Income tax expenses (Note 21)	46,477	106,603
Net income (loss)	W 119,979	W (13,470)
Ordinary earnings (loss) per share (Note 22)	W 583	W (67)
Net earnings (loss) per share (Note 22)	W 583	W (67)

(Korean Won in units)

See accompanying notes.

Statements of Appropriations of Unappropriated Retained Earnings (Banking Accounts)

Years ended December 31, 2004 and 2003

	In Millions of Korean Won	
	2004	2003
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	W 513,467	W 536,316
Cumulative effect of accounting changes	-	(9,105)
Net income (loss)	119,979	(13,470)
	633,446	513,741
Proposed (2004) and final (2003) appropriations of unappropriated retained earnings:		
Legal reserve	12,000	-
Voluntary reserve	12,000	-
Other statutory reserves	663	274
	24,663	274
Unappropriated retained earnings to be carried forward to the next year	W 608,783	W 513,467

See accompanying notes.

Statements of Cash Flows (Banking Accounts)

Years ended December 31, 2004 and 2003

In Millions of Korean Won

	2004	2003
<i>Cash flows from operating activities:</i>		
Net income (loss)	W 119,979	W (13,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan and other losses	150,316	113,280
Depreciation and amortization	78,842	75,912
Provision for severance and retirement benefits	22,160	29,383
Loss on sales of loans	107,985	251,187
Interest on KDIC receivables	-	(3,827)
Deferred income tax	45,425	106,200
Accrued expenses payable	87,953	32,779
Other, net	176,318	147,522
Changes in operating assets and liabilities, net	36,131	(5,501)
Net cash provided by operating activities	825,109	733,465
<i>Cash flows from investing activities:</i>		
Due from banks	1,556,602	(435,129)
Securities	(55,347)	367,059
KDIC bonds	-	91,076
Loans	(3,894,314)	(7,252,859)
Fixed assets	(56,956)	(79,087)
Account receivable	199,178	(174,494)
Unsettled exchange credit	(245,322)	(3,266)
Other, net	(55,590)	112,308
Net cash used in investing activities	(2,551,749)	(7,374,392)
<i>Cash flows from financing activities:</i>		
Deposits	291,249	3,925,158
Borrowings	(335,724)	(802,770)
Financial debentures	3,108,733	3,482,395
Borrowing (repayment) from (to) trust account	(98,643)	152,731
Domestic exchange obligation payable	(636,314)	(91,076)
Account payable	(219,246)	227,129
Agencies	(174,684)	99,061
Other, net	1,239	(81,318)
Net cash provided by financing activities	1,936,610	6,911,310
Net increase in cash and cash equivalents	209,970	270,383
Cash and cash equivalents at beginning of year	1,059,093	788,710
Cash and cash equivalents at end of year (Note 4)	W1,269,063	W1,059,093

See accompanying notes

1. Organization and Business

Korea First Bank (the "Bank") was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act in the Republic of Korea and operates through 406 local branches and 3 overseas networks as of December 31, 2004.

In March 1956, the Bank listed its shares on the Korea Exchange (formerly, the Korea Stock Exchange). However, in connection with recapitalization by the Korea Deposit Insurance Corporation ("KDIC") in July 1999, the Bank's shares were suspended from trading on the Korea Exchange. The par value of the Bank's common stock outstanding at December 31, 2004 is W1,029,613 million.

As of December 31, 2004, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the KDIC on December 30, 1999. On May 23, 2003, the KDIC exercised warrants and purchased additional shares so that as of December 31, 2004, the KDIC, Ministry of Finance and Economy ("MOFE") and Newbridge own 48.49%, 2.95% and 48.56%, respectively, of the Bank's common stock. The exercise does not impact control of the Bank as the KDIC must still allow Newbridge the ability to vote all of its shares, except for matters of fundamental governance.

On January 10, 2005, Newbridge, the controlling shareholder of the Bank, entered into an agreement with Standard Chartered Bank ("SCB") whereby SCB agreed to purchase Newbridge's ownership in the Bank. In accordance with the agreement, SCB will purchase 99,999,956 shares (48.56%) held by Newbridge for W16,511 per share for a total of W1,651,099 million. The remaining shares held by KDIC (99,853,167 shares or 48.49%) and MOFE (6,069,517 shares or 2.95%) will be purchased based on identical terms. As a result, SCB will own 100% of the Bank's shares for a total of W3,400,000 million after the transaction closes. The transaction is subject to approval from Financial Supervisory Service, with approval expected to occur by May 2005.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank in the preparation of its financial statements are summarized below.

Basis of Presenting Financial Statements

The Bank maintains its official accounting records in Korean Won and prepares its statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP") and Accounting Standards applicable to the Korean Banking Industry. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain reclassifications and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year's presentation. Certain supplementary information attached to the statutory Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

The preparation of financial statements in conformity with financial accounting standards requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2004 and 2003. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

Recognition of Interest and Fee Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on other overdue and dishonored loans, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis.

Cash and Cash Equivalents

For purpose of determining cash flows, cash and cash equivalents include highly liquid deposits, and marketable securities with remaining maturities of three months or less from the date of acquisition, whose risk of fluctuation in value arising from changes of interest rates is insignificant. Deposits restricted in use are not included in cash and cash equivalents (see Note 4).

Equity Securities in Controlled Investees

Investments in equity securities of companies over which the Bank exerts significant control or influence, including Korea First Finance Ltd., are recorded using the equity method of accounting. Under the equity method, the Bank records changes in its proportionate ownership of the net book value of the investee as current operations, capital adjustments and or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Debt Securities and Equity Securities in Non-Controlled Investees

Debt securities having fixed maturities and pre-determined redemption amounts for which an entity has a positive intent and ability to hold to maturity are classified as held to maturity securities and carried at cost, adjusted for the amortization of discounts or premiums (amortized cost) using the effective interest method.

Debt and equity securities traded actively and frequently that are bought and held for the purpose of generating profits on short-term differences in price are classified as trading securities and stated at fair value, with unrealized gains and losses recorded in income.

Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and stated at fair value, with unrealized gains and losses accounted for in the capital adjustment account, a component of shareholders' equity. Non-marketable equity securities classified as available-for-sale securities and without measurable fair value are carried at cost.

If the net realizable value of held-to-maturity securities and available-for-sale securities is less than acquisition cost or carrying value, such securities are adjusted to net realizable value, with a valuation loss charged to current operations after eliminating any previous recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations to the extent of previously recorded valuation losses if such recoveries are attributable to events occurring subsequent to the recognition of the valuation loss.

Allowance for Loan Losses

For corporate loans, the Bank classifies loans by determining the Borrower's Risk Rating ("BRR"), which is based on the future debt service capacity of the borrower ("Forward Looking Criteria"), loan type, collateral, or guarantee. The loan loss reserve calculated according to the expected loss ratio for each BRR is compared to the loan loss reserve calculated according to the Financial Supervisory Service ("FSS")'s minimum loan loss reserve percentages for each classification category and the higher amount is recorded as the loan loss reserve.

The loan loss reserve calculation based on the Bank's expected loss ratio is as follows:

$$\begin{aligned} \text{Expected loss (required loan loss reserve)} &= \text{exposure at default} \times \text{expected loss ratio} \\ \text{Expected loss ratio} &= \text{probability of default by classification grade} \times (1 - \text{recovery rate}) \end{aligned}$$

Certain characteristics for the Bank's credit system are defined as follows:

Definition of Insolvent Company: Companies in which the BRR has declined to grade 10 due to default on payment of promissory notes, or initiation of court-receivership or court ordered composition.

Probability of Default for each BRR: An insolvent ratio based on the number of insolvent companies in Korea is calculated at the beginning of the year and applied as the probability of default. This ratio has been calculated since 2002 and a comparison analysis with the actual default rate of the Bank is conducted every year.

Exposure at Default: 75% of uncontrollable undrawn commitments (BASEL II recommendation) is added to the outstanding balance when calculating exposure at default.

The Bank calculates three different types of recovery rates, these are:

Product Recovery Rate: A product recovery rate for certain loans is determined by analyzing recoveries from bills discounted, bills bought, etc. secured by third parties occurring during January 1, 2001 to June 30, 2004 for companies that defaulted during January 1, 2001 to December 31, 2003.

Collateral Recovery Rate: A collateral recovery rate is determined by analyzing collateral type and liquidation value based on average bidding rates of local court auctions.

Unsecured Loan Recovery Rate: An unsecured loan recovery rate is determined by analyzing historical results for voluntary repayment by the borrower or guarantor during the 12 months after a company was deemed to become insolvent. The rate was developed based on insolvencies occurring during the period from January 1, 2001 to December 31, 2003.

The Bank reserves loss provisions for all loans with the exception of call loans, bonds purchased under resale agreements and loans originated to the Korean government or local government, which are classified as "Normal".

The minimum loan loss reserve percentage is as follows for each classification category.

BRR	Classification	Corporate loans and others	Household loans	Credit card accounts
1 ~ 6	Normal	0.5% or above	0.75% or above	1% or above
7	Precautionary	2% or above	8% or above	12% or above
8	Substandard	20% or above	20% or above	20% or above
9	Doubtful	50% or above	55% or above	60% or above
10	Estimated loss	100%	100%	100%

The Bank's classification criteria for credit rating of corporate loans are as follows:

Classification	Description
Normal	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose no risk to the Bank's ability to collect the full amount of principal and interest as they become due.
Precautionary	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to have potential weaknesses that may lead to an inability to repay the full principal and interest as they become due in the near future.
Substandard	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose a considerable risk to the Bank's ability to collect the full principal and interest due to revealed weaknesses that may have diminished the customers' capacity to repay the loans in a satisfactory manner.
Doubtful	Portion of assets in excess of the amount expected to be collected from customers who, in light of their management, financial position and future cash flows, are determined to pose a significant risk to the Bank's ability to collect principal and interest due to a considerably weakened capacity to repay the loans in a satisfactory manner.
Estimated Loss	Portion of assets in excess of the amount expected to be collected from customers whose credit must be accounted for as a loss, because, in light of their management, financial position and future cash flows, the Bank's collection of principal and interest is not probable in the foreseeable future due to a serious weakening of such customers' ability to repay the loan in a satisfactory manner.

For household and credit card loans, the Bank determines the loss percentages using historical migration loss models by loan type (credit card, card loans, FCL and Quick Cash Loan, general credit loans, home equity loans, general secured loans, Hanaro Loan, and workout loans). The loss provision derived from applying the ratio of expected loss (ratio of expected loss according to the historical migration loss model) calculated for each group of household loans, taking into account the roll rate for the past 18-24 months, vintage analysis, historical collection ratio, selling price and approval policies, is compared on a total basis to the loss provision based on the FSS's minimum provision percentage for each classification category. The Bank records the higher percentage of the two methods as its loss provision. Classification of household and credit card loans is based on the borrower's credit rating calculated by taking into account delinquency period, security value and the possibility of collection.

Loans which are deemed uncollectible are fully reserved by the allowance. However, charge-offs of actual loan balances may be delayed due to certain banking regulations governing the charge-offs of loan balances.

If the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference between present value and book value of the loan is recorded as allowance for loan losses. The difference recorded as allowance is amortized to current earnings over the related period using the effective interest rate method. The amortization is recorded as interest income.

When the number and type of securities to be received by the Bank from debt to equity swap agreements with restructured borrowers are determined, the loans are reclassified to loans for debt-equity swap. Any difference between the securities' fair value and the net carrying amount of the loans is recorded as a charge-off or recovery, as appropriate, through the allowance for loan losses.

Deferred Fees and Expenses

The Bank defers and amortizes certain fees and expenses associated with originating certain loans. Fees are primarily amounts received from the borrower and expenses are primarily amounts paid to third parties. Net fees or expenses are amortized over the life of the associated loan using the effective interest rate method.

Fixed Assets

Premises, equipment and intangible assets are recorded at cost. Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful life of the facilities involved are treated as additions to premises and equipment. Depreciation for construction in progress is deferred until transfer to appropriate fixed asset categories upon completion.

Depreciation is computed using the declining-balance method over the estimated useful lives of the assets except for structures and buildings acquired after January 1, 1995, which are depreciated using the straight-line method.

	Estimated useful lives
Buildings	40 ~ 60 years
Structures	5 years
Movable property	3 ~ 20 years

Intangible assets are amortized using the straight-line method over an estimated useful life of 3 to 5 years.

New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from paid-in capital in excess of par value (capital surplus) and the amounts of debenture issuance, respectively. Debenture issuance costs are amortized as interest expense over the redemption period using the effective interest rate method.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

Bonds purchased under resale agreements and bonds sold under repurchase agreements are included in assets and liabilities, respectively, in the accompanying balance sheets.

Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2004 and 2003 is sufficient to state the liability under the Bank's policies based on the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2004 and 2003. Funding of this liability is not required by Korean law. In January 2004, the Bank changed its severance and retirement benefits policy by eliminating the cumulative severance payment system and implementing the severance payment system based on the Korean Labor Standard Law. As a result, the Bank paid W168 billion for cumulative severance and retirement benefits during the year ended December 31, 2004. This amount had previously either been accrued or funded by deposits in insurance agreements.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W1,870 million at December 31, 2004. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2004, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

Reserve for Acceptances and Guarantees

Except for certain confirmed and outstanding domestic import usance bills originating from import L/Cs issued by the Bank, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides a minimum allowance percentage on confirmed guarantees of 0.5% for companies classified as "Normal", 2% for "Precautionary", 20% for "Substandard", 50% for "Doubtful" and 100% for "Estimated loss".

Reserve for Unused Cash Advance Commitments on Credit Cards

The Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months.

Income Tax Expense

Deferred income taxes are recognized for the tax consequences of differences between the tax and financial reporting amounts of assets and liabilities at each period-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense consists of income tax payable for the period and the change during the period in deferred tax assets and liabilities.

Derivative Financial Instruments

Derivative financial instruments include futures, forwards, option contracts and swap contracts, and are principally linked to interest rates and foreign exchange rates.

Derivative financial instruments, regardless of whether they are entered for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with gains and losses included in current operations. Derivative contracts qualifying for hedge accounting treatment have unrealized valuation gains and losses recorded as capital adjustments (cash-flow-hedge derivatives) or as other revenues and expenses in current operations in conjunction with recording unrealized gains and losses for underlying assets or liabilities (fair-value-hedge derivatives).

Contingent Liabilities

Guarantees of payment for money indebtedness, acceptances of trade bills (except banker's usance) related to import transactions, guarantees issued on opened letters of credit, etc. are classified as confirmed acceptances and guarantees. Both confirmed acceptances and guarantees and contingent acceptances and guarantees are presented as off-balance sheet items. The notional amount of derivative contracts, bills endorsed and commitments for which the Bank has promised to provide credit to borrowers, if the commitment period is over 1 year and the commitment is irrevocable by the Bank, are also presented as off-balance sheet items.

Investment Distribution Business

The Bank has a consignment contract for sale of beneficiary certificates and mutual funds with an investment trust company. Outstanding beneficiary certificates and mutual funds sold for an outside investment trust company at December 31, 2004 and 2003 amounted to W1,272 billion and W373 billion, respectively.

Trust Accounts

Under the Trust Business Act, fiduciary trust funds held by the Bank are accounted for and reported separately from the Bank's banking accounts. If income from a guaranteed trust account is insufficient to pay the guaranteed amount, the deficiency must be satisfied from either special reserves maintained in the trust accounts or funds transferred from the banking account.

Korean GAAP Revisions

The Korea Accounting Standards Board has issued new accounting standards with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards include changes in the areas of discontinued operations, equity method of accounting for investments, income taxes, and provisions, contingent liabilities and contingent assets. Korean companies should apply such revised accounting standards for the first fiscal year starting after December 31, 2004. Early adoption of the revised accounting standards is allowed, except accounting for discontinued operations which will be effective after December 31, 2005. The cumulative effect on prior years of the changes in accounting standards will be primarily charged or credited to opening retained earnings with disclosures made on the effect of the changes.

Accounting Change for Gain or Loss on Sale of Loans

Due to a new accounting interpretation issued by Korea Accounting Standards Board ("KASB"), the Bank changed its accounting for gains or losses from the sale of loans. Previously, gains or losses from the sale of loans were computed by comparing the proceeds of the sale to the book value as of the effective sale date. Currently, gains or losses from the sale of loans are computed by comparing sale proceeds against the loans' book value as of the year end immediately preceding the date of sale. As a result of this change, losses on sale of loans increased by W71,836 million and gains on sale of loans and provision for loan losses decreased by W2,356 million and W74,192 million, respectively, for the year ended December 31, 2004. The statements of income and cash flows for the year ended December 31 2003, presented herein for comparative purpose, were restated to reflect the above change. As a result, losses on sale of loans increased by W214,633 million and gains on sale of loans and provision for loan losses decreased by W1,413 million and W216,046 million, respectively for the year ended December 31, 2003. Such change and restatement had no effect on net assets as of December 31, 2004 and 2003 on net income (loss) for the years then ended (see Note 20).

3. KDIC Agreements

As discussed in Note 1, on December 30, 1999, Newbridge entered into an agreement with the Korean government whereby Newbridge acquired 50.99% of the outstanding common stock of the Bank from the Korea Deposit Insurance Corporation ("KDIC") effective December 31, 1999 ("Closing").

Receivables from the KDIC at December 31, 2004 and 2003 are W112,427 million and W121,442 million, respectively. Receivables are primarily for indemnification settlements resulting from various agreements between Newbridge and the KDIC.

4. Cash and Due from Banks

Cash and due from banks at December 31, 2004 and 2003 are summarized as follows:

	Millions of Won	
	December 31, 2004	December 31, 2003
Cash on hand	W 502,736	W 822,052
Foreign currencies	25,933	49,402
Due from banks in Korean Won	1,028,718	2,001,494
Due from banks in foreign currencies	157,210	188,281
	W1,714,597	W3,061,229

Due from banks denominated in Korean Won at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2004			
Checking accounts	-	Bank of Korea	W 364,221
CD purchased	3.52 ~ 3.58	Shinhan Bank, etc.	664,197
Other deposits	0.00 ~ 4.00	Korea Exchange, etc.	300
			W1,028,718
December 31, 2003			
Checking accounts	-	Bank of Korea	W 1,694,784
CD purchased	4.30 ~ 4.50	Shinhan Bank, etc.	306,478
Other deposits	0.00 ~ 4.00	Korea Exchange, etc.	232
			W2,001,494

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Due from banks denominated in foreign currencies at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2004			
Demand deposits	-	Bank of Korea, etc.	W 65,728
Time deposits	2.09 ~ 2.77	Korea First Finance, HK	91,437
Other deposits	T-bill(*) - 0.5	Prudential Securities	45
			W157,210
December 31, 2003			
Demand deposits	-	Bank of Korea, etc.	W 78,539
Time deposits	1.20 ~ 1.60	Korea First Finance, HK	109,722
Other deposits	T-bill(*) - 0.5	Prudential Securities	20
			W188,281

(*) 1 month US treasury bill

Restricted balances in due from banks at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Type	Depository	Total	Restriction
December 31, 2004			
Checking accounts	Bank of Korea	W 364,221	Reserve for payment of deposits
Demand deposits	Bank of Korea	18,407	Reserve for payment of deposits
Other deposits	Korea Exchange, etc.	278	Deposits for stock index futures, etc.
		W 382,906	
December 31, 2003			
Checking accounts	Bank of Korea	W 1,694,784	Reserve for payment of deposits
Demand deposits	Bank of Korea	57,800	Reserve for payment of deposits
Other deposits	Korea Exchange, etc.	249	Deposits for stock index futures, etc.
		W1,752,833	

Checking accounts and demand deposits deposited with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits.

The term structure of amounts due from banks at December 31, 2004 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2005	W1,028,718	W157,210	W1,185,928

The term structure of amounts due from banks at December 31, 2003 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2004	W2,001,494	W188,281	W2,189,775

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Major transactions not resulting in cash flows for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004	2003
Valuation gain(loss) of available-for-sale securities	W 73,297	W(63,971)
Loss reserve - KDIC Receivable	-	41,810
Warrant bond issued - paid in capital and capital in excess of par value	-	66,140

Cash and cash equivalents at December 31, 2004 and 2003 are comprised as follows (millions of Won):

	2004	2003
Cash on hand	W 502,736	W 822,052
Foreign currencies	25,933	49,402
Due from banks in Won	664,264	128,604
Due from banks in foreign currency	76,130	59,035
	W1,269,063	W1,059,093

5. Securities

Securities at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Trading securities		
Korean Won	W 112,593	W -
Equity securities held for investment		
Korean Won		
Affiliated companies	3,425	4,908
Listed companies	828	1,659
Unlisted companies	38,250	13,340
	42,503	19,907
Foreign currency		
Beneficiary certificates	264,218	119,466
Affiliated companies	48,315	61,866
	312,533	181,332
	355,036	201,239
Debt securities held for investment		
Bonds available-for-sale		
Korean Won	6,179,390	6,454,600
Foreign currencies	151,624	223,090
	6,331,014	6,677,690
Bonds held-to-maturity		
Korean Won	2,109	1,896
Foreign currencies	249,900	191,151
	252,009	193,047
	6,583,023	6,870,737
Total securities	W7,050,652	W7,071,976

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Trading securities

Trading securities as of December 31, 2004 (none at December 31, 2003) are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gains	Carrying value (*)
Government bonds	4.75 ~ 8.35	W 90,000	W 92,520	W 92,464	W -	W 92,464
Financial debentures	4.18	20,000	20,131	20,100	29	20,129
		W110,000	W112,651	W112,564	W29	W112,593

(*) The above carrying value is estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2004.

Equity Securities Held for Investment

Equity investments in affiliated companies, denominated in Korean Won, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2004						
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W3,425	W3,425	W3,425
December 31, 2003						
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W4,908	W4,908	W4,908

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. For the year ended December 31, 2004, W883 million of loss from affiliated companies is included in current operations. For the year ended December 31, 2003, W12 million of gain from affiliated companies is included in current operations. The Bank deducted W600 million and W700 million of cash dividends for the years ended December 31, 2004 and 2003, respectively.

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2004 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Korea Information Service, Inc. (*)	42,000	0.88	W828	W828

(*) A gain on valuation of securities of W389 million for Korea Information Service, Inc. was included in the capital adjustment account as of December 31, 2004.

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2003 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Korea Information Service, Inc. (*1)	42,000	0.88	W 1,659	W 1,659
Dong Yang Steel Pipe Co., Ltd. (*2)	1,180	0.00	-	-
	43,180		W1,659	W1,659

(*1) A gain on valuation of securities of W1,220 million for Korea Information Service, Inc. was included in the capital adjustment account as of December 31, 2003.

(*2) Equity securities of Dong Yang Steel Pipe Co., Ltd. were received when outstanding loans were converted to equity in connection with a court receivership.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Unlisted equity securities, denominated in Korean Won, as of December 31, 2004 and 2003 are as follows (millions of Won):

Company	Number of shares	Ownership(%)	Acquisition cost	Impairment loss	Capital adjustment	Fair value / Net asset value (*)	Book value
December 31, 2004							
Korea Securities Finance Co.	1,500,000	2.21	W 7,500	W -	W 663	W 8,163	W 8,163
BC Card	653,400	14.85	5,840	-	5,144	10,984	10,984
First Home Loan No.1 Ltd.	5	0.50	-	-	-	-	-
First Home Loan No.2 Ltd.	5	0.50	-	-	-	-	-
First Home Loan No.3 Ltd.	5	0.50	-	-	-	-	-
Samsung Card	2,415,772	0.92	19,326	-	(256)	19,070	19,070
Badbank Harmony	167	-	167	(134)	-	33	33
	4,569,354		W32,833	W(134)	W5,551	W38,250	W38,250
December 31, 2003							
Korea Securities Finance Co.	1,500,000	2.21	W 7,500	W -	W -	W 10,113	W 7,500
BC Card	653,400	14.85	5,840	-	-	22,889	5,840
	2,153,400		W13,340	W -	W -	W33,002	W13,340

(*) From January 1, 2004, the Bank recorded unlisted equity securities at fair value priced by external rating agencies while it recorded such investments at acquisition cost prior to 2004.

Beneficiary certificates, denominated in foreign currencies, as of December 31, 2004 and 2003 are as follows (millions of Won):

	Face value	Acquisition cost	Capital adjustment	Carrying value
December 31, 2004	W260,950	W260,950	W3,361	W264,218
December 31, 2003	W118,585	W118,585	W 881	W119,466

Beneficiary certificates are valued using the most recent redemption price available from the fund management company as of December 31, 2004 and 2003.

Equity securities, denominated in foreign currencies, at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Company	Number of shares	Owner-ship (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2004						
Korea First Finance Ltd, HK	7,000	100.00	W 3,131	W 48,315	W 48,315	W 48,315
December 31, 2003						
Qingdao International Bank	-	50.00	W 11,978	W 10,181	W 12,232	W 10,181
Korea First Finance Ltd, HK	7,000	100.00	3,593	51,685	51,685	51,685
	7,000		W15,571	W61,866	W63,917	W61,866

Equity securities in foreign currencies are valued by the equity method. For the years ended December 31, 2004 and 2003, income from affiliated companies (net) included in current operations amounted to W2,844 million and W2,295 million, respectively. Amounts credited to the capital adjustments account at December 31, 2004 amounted to W432 million and amounts debited to the capital adjustments account at December 31, 2003 amounted to W141 million, respectively.

For Qingdao International Bank ("Qingdao"), an additional loss of W2,051 million (reflected in W2,295 million of income from affiliated companies, net) was recorded in 2003 as the market value of Qingdao was deemed to be lower than its net asset value. The Bank's shares in Qingdao were sold to a third party during January 2004 for US\$8.5 million.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Debt Securities Held for Investment

Bonds available-for-sale, denominated in Korean Won, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Capital adjustment	Carrying value (*2)
December 31, 2004						
Government bonds	4.50 ~ 5.00	W 132,937	W 133,047	W 133,005	W 2,015	W 135,020
Financial debentures (*1)	3.21 ~ 5.67	5,480,000	5,453,824	5,466,527	44,196	5,512,287
Asset backed securities	11.46	365,000	431,394	396,144	12,051	408,195
Corporate debentures	4.48 ~ 7.20	120,000	124,008	122,959	929	123,888
		W6,097,937	W6,142,273	W6,118,635	W59,191	W6,179,390
December 31, 2003						
Government bonds	4.75 ~ 11.15	W 520,352	W 519,517	W 519,331	W 1,627	W 520,958
Financial debentures	3.83 ~ 6.42	5,040,000	4,940,595	4,925,846	(7,360)	4,918,486
Asset backed securities	6.20 ~ 13.44	825,000	956,394	925,770	3,865	929,635
Corporate debentures	5.18 ~ 7.00	86,000	85,058	84,982	539	85,521
		W6,471,352	W6,501,564	W6,455,929	W(1,329)	W6,454,600

(*1) The above carrying value of financial debentures includes valuation gains recorded in operating income of W1,612 million and losses of W48 million from fair value hedges.

(*2) The above carrying values are estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2004 and 2003.

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2004 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (*1)	Capital adjustment	Carrying value (*2)
USD	2.00 ~ 6.85	W 135,694	W 135,990	W 136,011	W 5,261	W 188	W 141,460
JPY	0.93	10,121	10,121	10,121	-	43	10,164
		W145,815	W146,111	W146,132	W5,261	W231	W151,624

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2003 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (*1)	Capital adjustment	Carrying value (*2)
USD	0.25 ~ 4.63	W198,867	W197,282	W209,832	W6,958	W(4,922)	W211,868
JPY	0.93	11,196	11,196	11,197	2	23	11,222
		W210,063	W208,478	W221,029	W6,960	W(4,899)	W223,090

(*1) Bonds hedged by asset swap contracts which offset valuation gains and losses on underlying assets as fair value hedges.

(*2) The above carrying values are estimated using broker's quotes, yields for bonds announced by quotation services, or estimates of amounts collectible.

As of December 31, 2003, US\$86 million of bonds available-for-sale, denominated in foreign currencies are pledged as collateral for interest rate swaps

Bonds held-to-maturity, denominated in Korean Won, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Carrying value (*)	Fair value
December 31, 2004					
Government bonds	2.50 ~ 6.00	W2,201	W1,168	W2,109	W2,197
December 31, 2003					
Government bonds	3.00 ~ 6.00	W2,255	W1,222	W1,896	W2,166

As of December 31, 2004 and 2003, W3,240 billion and W3,495 billion of bonds denominated in Korean Won (both available-for-sale and held-to-maturity bonds) are pledged as collateral for certain borrowings, settlement of accounts, repurchase agreements, key money deposits, etc., respectively.

Bonds held-to-maturity, denominated in foreign currencies, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Carrying value (*)	Fair value
December 31, 2004					
USD	5.20 ~ 8.25	W 245,293	W 244,787	W 244,839	W 247,120
JPY	0.10	5,060	5,061	5,061	5,061
		W250,353	W249,848	W249,900	W252,181
December 31, 2003					
USD	3.87 ~ 7.88	W 185,659	W 185,446	W 185,550	W 185,876
JPY	0.10	5,598	5,604	5,601	5,603
		W191,257	W191,050	W191,151	W191,479

As of December 31, 2004 and 2003, JPY500 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for settlement of accounts.

Structured Securities

Structured securities, denominated in foreign currencies, at December 31, 2004 are summarized as follows (millions of Won):

Account	Company	Annual interest rate (%)	Acquisition cost	Carrying value	Maturity date
December 31, 2004					
Exchangeable bonds (*1)	Momenta Cayman (SK Corp.)	2.50	W 10,716	W 10,582	08-01-2005
	Korea Deposit Insurance Corporation	2.25	20,745	26,043	10-11-2005
	DLIC Ltd.	2.00	20,876	20,636	02-18-2009
			52,337	57,261	
Credit linked notes (*2)	Lehman Brothers Treasury Co.	3ML+3.00	52,190	52,190	11-19-2007
	Granite Finance Ltd.	3ML+2.70	52,190	52,190	12-17-2007
	SPARC EM Ltd-AV1	6ML+3.15	52,190	52,190	02-08-2008
	Cosair (Jersey) Ltd.	3ML+3.35	52,190	52,190	04-22-2009
				208,760	208,760
			W261,097	W266,021	

(*1) The above exchangeable bonds are classified as available-for-sale securities. The Bank cannot convert the bonds into other securities in accordance with callable asset swap contracts.

(*2) The above credit linked notes are classified as held-to-maturity securities.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Structured securities, denominated in foreign currencies, at December 31, 2003 are summarized as follows (millions of Won):

Account	Company	Annual interest rate (%)	Acquisition cost	Carrying value	Maturity date
December 31, 2003					
Exchangeable bonds (*1)	Momenta Cayman (SK Corp.)	2.50	W 12,198	W 12,024	08-01-2007
	Korea Deposit Insurance Corporation	2.25	23,988	29,956	10-11-2005
	Korea Deposit Insurance Corporation	2.25	23,806	29,956	10-11-2005
			59,992	71,936	
Convertible bonds (*1)	Korea Telecom	0.25	7,636	7,760	01-04-2007
	LG Electronics	0.00	17,877	18,596	08-11-2006
			25,513	26,356	
Credit linked notes (*2)	Lehman Brothers Treasury Co.	3ML+3.00	59,890	59,890	11-19-2007
	Granite Finance Ltd.	3ML+2.70	59,890	59,890	12-17-2007
	SPARC EM Ltd-AV1	6ML+3.15	59,890	59,890	02-08-2008
			179,670	179,670	
			W265,175	W277,962	

(*1) The above exchangeable bonds and convertible bonds are classified as available-for-sale securities. The Bank cannot convert the bonds into other securities in accordance with callable asset swap contracts.

(*2) The above credit linked notes are classified as held-to-maturity securities.

Securities Concentrations

At December 31, 2004 and 2003, information about securities by geography, issuer, industry and character are summarized as follows (millions of Won):

By Geography	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Korea	W 6,336,595	W 136,800	W 6,473,395	91.82
USA	-	473,140	473,140	6.71
Switzerland	-	52,190	52,190	0.74
Netherlands	-	36,078	36,078	0.51
England	-	10,788	10,788	0.15
Japan	-	5,061	5,061	0.07
	W6,336,595	W714,057	W7,050,652	100.00
December 31, 2003				
Korea	W 6,476,403	W 220,735	W 6,697,138	94.70
USA	-	299,166	299,166	4.23
Switzerland	-	59,890	59,890	0.85
China	-	10,181	10,181	0.14
Japan	-	5,601	5,601	0.08
	W6,476,403	W595,573	W7,071,976	100.00

Notes to Financial Statements (continued)

December 31, 2004 and 2003

By Issuer	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Financial business	W 6,082,685	W 620,511	W 6,703,196	95.07
Public	229,593	41,268	270,861	3.84
Large corporate	20,064	52,278	72,342	1.03
Middle & small business	4,253	-	4,253	0.06
	W6,336,595	W714,057	W7,050,652	100.00
December 31, 2003				
Financial business	W 5,871,570	W 420,783	W 6,292,353	88.98
Public	522,854	53,483	576,337	8.15
Large corporate	75,412	121,307	196,719	2.78
Middle & small business	6,567	-	6,567	0.09
	W6,476,403	W595,573	W7,071,976	100.00
By Industry				
	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Financial business	W 6,082,685	W 620,511	W 6,703,196	95.07
Public	229,593	41,268	270,861	3.84
Manufacturing	24,317	31,642	55,959	0.79
Construction	-	20,636	20,636	0.30
	W6,336,595	W714,057	W7,050,652	100.00
December 31, 2003				
Financial business	W 5,871,570	W 420,783	W 6,292,353	88.98
Public	522,854	53,483	576,337	8.15
Manufacturing	62,523	121,307	183,830	2.60
Wholesale and retail	19,456	-	19,456	0.27
	W6,476,403	W595,573	W7,071,976	100.00
By Character				
	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Fixed rate bonds	W 6,294,092	W 171,703	W 6,465,795	91.70
Floating rate bonds	-	229,821	229,821	3.26
Beneficiary certificates	-	264,218	264,218	3.75
Stocks	42,503	48,315	90,818	1.29
	W6,336,595	W714,057	W7,050,652	100.00
December 31, 2003				
Fixed rate bonds	W 6,456,496	W 151,196	W 6,607,692	93.43
Floating rate bonds	-	263,045	263,045	3.72
Beneficiary certificates	-	119,466	119,466	1.69
Stocks	19,907	61,866	81,773	1.16
	W6,476,403	W595,573	W7,071,976	100.00

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Maturity Schedule

The maturities of securities, except equity securities, at December 31, 2004 are summarized as follows (millions of Won):

Year ending December 31,	Government bonds	Financial debentures	Corporate debentures	Asset backed securities	Securities in foreign currencies	Total
2005	W 52,338	W 2,130,909	W 61,466	W -	W 57,268	W 2,301,981
2006	176,851	3,401,507	62,422	-	5,061	3,645,841
2007	88	-	-	408,195	114,962	523,245
2008	275	-	-	-	52,190	52,465
2009	41	-	-	-	161,255	161,296
Thereafter	-	-	-	-	10,788	10,788
	W229,593	W5,532,416	W123,888	W408,195	W401,524	W6,695,616

The maturities of securities, except equity securities, at December 31, 2003 are summarized as follows (millions of Won):

Year ending December 31,	Government bonds	Financial debentures	Corporate debentures	Asset backed securities	Securities in foreign currencies	Total
2004	W 171,559	W 4,918,486	W 85,521	W 95,568	W 71,400	W 5,342,534
2005	1,135	-	-	-	132,391	133,526
2006	349,817	-	-	-	-	349,817
2007	88	-	-	834,067	119,780	953,935
2008	255	-	-	-	90,670	90,925
	W522,854	W4,918,486	W 85,521	W929,635	W414,241	W6,870,737

6. Loans

Loans at December 31, 2004 and 2003 are summarized as follows:

Account	December 31, 2004		December 31, 2003	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in Korean Won				
Corporate loans	3.30 ~ 10.46	W 7,055,766	4.60 ~ 11.17	W 6,725,391
Household loans	4.69 ~ 14.46	18,510,135	5.29 ~ 14.70	15,890,383
Loans to public sector	5.41 ~ 6.57	337,085	5.52 ~ 6.67	273,400
Other loans	4.36	107,944	4.50	117,981
Notes bought	4.78 ~ 9.09	618,903	5.92 ~ 10.95	436,592
Call loans (inter-bank settlement)	-	203	-	-
Advances to customers	-	6,061	-	6,671
Credit card accounts	-	668,399	-	872,182
Private placement corporate bonds	8.69	1,731,243	6.94	956,832
		<u>29,035,739</u>		<u>25,279,432</u>
Loans in foreign currencies				
Loans	1.57 ~ 2.61	856,893	1.68 ~ 3.14	902,167
Off-shore loans	3.08	56,552	2.39	80,852
Bills bought	3.81	855,635	2.61	955,631
		<u>1,769,080</u>		<u>1,938,650</u>
Total loans		W30,804,819		W27,218,082

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Loans made to financial institutions at December 31, 2004 and 2003 are summarized as follows:

	Account	Annual interest rate (%)	Millions of Won
December 31, 2004			
Domestic banks	Interbank loans	3.52	W 107,943
Overseas banks	Interbank loans in foreign currencies	2.52	62,628
	Loans in foreign currencies	2.74	14,613
Other	Private placement corporate bonds	10.42	1,026,662
	General loans	6.34	540,960
	Loans in foreign currencies	4.80	41,699
	Others	7.50	23,580
			W1,818,085
December 31, 2003			
Domestic banks	Interbank loans	4.50	W 117,981
Overseas banks	Loans in foreign currencies	1.49	16,769
	Interbank loans in foreign currencies	1.68	35,934
Other	General loans	7.48	533,780
	Private placement corporate bonds	7.29	440,736
	Loans in foreign currencies	4.01	48,961
	Overdrafts	6.25	93
	Others	8.29	80,852
			W1,275,106

Changes in the allowance for loan losses for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004		2003 (*)	
	Before GAAP change	After GAAP change	Before GAAP change	After GAAP change
Beginning balance	W 427,382	W 427,382	W 408,165	W 408,165
Decrease in reserves for protected loans	-	-	(41,665)	(41,665)
Provision for loan losses	224,508	150,316	329,923	113,877
Put and call to KDIC	-	-	(1,159)	(1,159)
Written off	(147,387)	(147,387)	(31,638)	(31,638)
Sale of non-performing loans	(121,929)	(47,737)	(236,964)	(20,918)
Other changes	3,208	3,208	720	720
Ending balance	W385,782	W385,782	W427,382	W427,382

(*) In accordance with revised accounting standards, restructuring losses amounting to W3,611 million and W6,144 million accounted for as present value discount at December 31, 2003 and January 1, 2003, respectively, were reclassified as allowance for loan losses.

The ratios of allowance for loan losses to total loans as of December 31, 2004, 2003 and 2002 are 1.24%, 1.56% and 2.01%, respectively.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

At December 31, 2004 and 2003, loans (excluding call loans and credit card accounts) by geography, borrower type and industry are summarized as follows (millions of Won):

By Geography	December 31, 2004		December 31, 2003	
Korea	W 29,835,866	99.00%	W 25,983,591	98.63%
Japan	82,479	0.28	159,422	0.61
China	23,658	0.08	27,398	0.10
USA	18,478	0.06	30,094	0.11
Other	175,736	0.58	145,395	0.55
	W30,136,217	100.00%	W26,345,900	100.00%

By Borrower Type	December 31, 2004		December 31, 2003	
Household	W18,510,799	61.42%	W15,890,474	60.31%
Corporate	11,180,389	37.10	10,064,045	38.20
Public and other	445,029	1.48	391,381	1.49
	W30,136,217	100.00%	W26,345,900	100.00%

By Industry	December 31, 2004		December 31, 2003	
Household	W18,510,799	61.42%	W15,890,475	60.31%
Manufacturing	3,182,405	10.56	3,678,247	13.96
Financial business	1,818,085	6.03	1,275,106	4.84
Lodging and restaurant	1,818,704	6.03	1,395,372	5.30
Real estate and rental	1,676,204	5.57	1,345,927	5.11
Wholesale and retail trade	907,425	3.01	977,419	3.71
Other	2,222,595	7.38	1,783,354	6.77
	W30,136,217	100.00%	W26,345,900	100.00%

The maturities of loans in Korean Won and foreign currencies at December 31, 2004 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2005	W 11,122,675	W 1,601,756	W 12,724,431
2006 ~ 2007	4,216,603	81,110	4,297,713
2008 ~ 2009	3,774,892	25,152	3,800,044
Thereafter	9,921,569	61,062	9,982,631
	W29,035,739	W1,769,080	W30,804,819

The maturities of loans in Korean Won and foreign currencies at December 31, 2003 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2004	W 10,337,185	W 1,634,635	W 11,971,820
2005 ~ 2006	4,877,353	167,662	5,045,015
2007 ~ 2008	4,268,912	84,660	4,353,572
Thereafter	5,795,982	51,693	5,847,675
	W25,279,432	W1,938,650	W27,218,082

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Changes in net deferred fees and expenses for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
December 31, 2004				
Deferred expenses	W 14,435	W 25,643	W 12,829	W 27,249
Deferred fees	3,730	8,498	4,073	8,155
Net balance	W10,705	W17,145	W 8,756	W19,094
December 31, 2003				
Deferred expenses	W -	W 16,313	W 1,878	W 14,435
Deferred fees	-	4,150	420	3,730
Net balance	W -	W12,163	W 1,458	W10,705

The classification and allowance for loan losses outstanding at December 31, 2004 are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*)	Allowance percentage
Loans in Won	W 26,748,859	W 568,516	W 358,373	W 49,277	W 38,974	W 27,763,999	
(Allowance)	(184,165)	(29,391)	(71,753)	(28,912)	(38,974)	(353,195)	1.27
Loans in foreign currencies	905,679	4,606	3,160	-	-	913,445	
(Allowance)	(4,529)	(219)	(632)	-	-	(5,380)	0.59
Notes bought	581,643	36,961	50	-	249	618,903	
(Allowance)	(2,908)	(739)	(10)	-	(249)	(3,906)	0.63
Bills bought	855,635	-	-	-	-	855,635	
(Allowance)	(4,278)	-	-	-	-	(4,278)	0.50
Advances to customers	5,887	54	64	-	56	6,061	
(Allowance)	(29)	(1)	(32)	-	(56)	(118)	1.95
Credit card	646,381	10,981	737	9,842	458	668,399	
(Allowance)	(7,077)	(1,610)	(202)	(6,403)	(458)	(15,750)	2.36
Total (*)	W29,744,084	W621,118	W362,384	W59,119	W39,737	W30,826,442	
(Allowance) (*)	(202,986)	(31,960)	(72,629)	(35,315)	(39,737)	(382,627)	1.24
Allowance percentage	0.68	5.15	20.04	59.74	100.00	1.24	

(*) Allowance related to restructuring losses amounting to W3,155 million was deducted from total loan balances and total allowance and net deferred fees and expenses for mortgage loans amounting to W24,778 million were added to total loan balances.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

The classification and allowance for loan losses outstanding at December 31, 2003 are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*)	Allowance percentage
Loans in Won	W 23,344,860	W 285,781	W 228,221	W 71,393	W 43,507	W 23,973,762	
(Allowance)	(175,090)	(19,546)	(45,966)	(53,985)	(43,507)	(338,094)	1.41
Loans in foreign currencies	951,414	23,467	8,138	-	-	983,019	
(Allowance)	(10,815)	(664)	(1,627)	-	-	(13,106)	1.33
Notes bought	432,482	3,451	81	61	517	436,592	
(Allowance)	(2,163)	(69)	(18)	(30)	(517)	(2,797)	0.64
Bills bought	955,510	119	-	2	-	955,631	
(Allowance)	(4,778)	(2)	-	(1)	-	(4,781)	0.50
Advances to customers	5,863	234	115	-	459	6,671	
(Allowance)	(29)	(5)	(23)	-	(459)	(516)	7.73
Credit card	770,890	37,488	882	44,321	18,601	872,182	
(Allowance)	(7,745)	(6,584)	(181)	(31,366)	(18,601)	(64,477)	7.39
Total (*)	W26,461,019	W350,540	W237,437	W115,777	W63,084	W27,227,857	
(Allowance) (*)	(200,620)	(26,870)	(47,815)	(85,382)	(63,084)	(423,771)	1.56
Allowance percentage	0.76	7.67	20.14	73.75	100.00	1.56	

(*) Allowance related to restructuring losses amounting to W3,611 million was deducted from total loan balance and total allowance and net deferred fees and expenses for mortgage loans amounting to W13,386 million were added to total loan balances.

Restructured loans at December 31, 2004 are summarized as follows (millions of Won):

	Corporations under liquidation	Industry rationalization	Total
Balance before restructuring	W 5,097	W 36,591	W 41,688
Interest rate reduction	5,097	36,591	41,688
Balance at end of year	3,361	29,862	33,223
Provision for loan losses for 2004	1,021	-	1,021
Amortization for 2004	115	1,084	1,199

Restructured loans at December 31, 2003 are summarized as follows (millions of Won):

	Corporations under liquidation	Industry rationalization	Total
Balance before restructuring	W 3,747	W 36,591	W 40,338
D/E swap stock	7	-	7
Interest rate reduction	3,740	36,591	40,331
Balance at end of year	2,225	28,779	31,004
Provision for loan losses for 2003	-	-	-
Amortization for 2003	732	929	1,661

The Bank has W36,378 million and W34,615 million of loans discounted to present value due to debt restructurings as of December 31, 2004 and 2003, respectively, and the differences in the present value and the book value of the loans amounting to W3,155 million and W3,611 million as of December 31, 2004 and 2003, respectively, are recorded as allowance for loan losses.

During the year ended December 31, 2004, the Bank sold without recourse charged-off and delinquent loans amounting to W226,571 million and US\$5,250 thousand (W5,480 million at W1,043.8:US\$1) out of non-performing consumer loans, credit card loans and corporate loans. As a result of these sales, the Bank recorded a gain on sale of loans amounting to W733 million and a loss on sale of loans amounting to W98,602 million (excluding transfer of performing mortgage loans discussed below) as non-operating revenue and non-operating expense.

The Bank entered into an asset transfer contract with First Home Loan No.1 Ltd., First Home Loan No.2 Ltd. and First Home Loan No.3 Ltd. (the "SPCs") on March 29, 2004, July 29, 2004 and December 6, 2004, respectively, in connection with securitization of its mortgage loans. The Bank transferred W2,017,009 million of mortgage loans to the SPCs, in exchange for cash and W277,325 million of subordinated private placement corporate bonds issued by the SPCs. For First Home Loan No.3 Ltd., the Bank also provided W10,438 million of cash reserve. In addition, the SPCs entered into swap contracts with ING Bank, Seoul branch, Merrill Lynch Capital Market Bank Limited and Calyon, Seoul branch (the "Counterparties"), respectively. For these swap contracts the Bank guaranteed to make up losses to be incurred due to future discrepancies between actual cash-flows and estimated cash-flows of the underlying mortgage loans to the Counterparties and W49 billion of bonds are pledged as collateral for these guarantees.

7. Fixed Assets

Changes in premises and equipment for the year ended December 31, 2004 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Premises and equipment				
Acquisition cost				
Land	W 796,524	W -	W 509	W 796,015
Buildings and structures	418,937	15,585	3,899	430,623
Movable property	251,612	29,013	11,758	268,867
	1,467,073	44,598	16,166	1,495,505
Accumulated depreciation				
Buildings and structures	131,756	20,267	2,390	149,633
Movable property	174,686	39,358	10,999	203,045
	306,442	59,625	13,389	352,678
Net	1,160,631			1,142,827
Intangible assets				
Acquisition cost	90,607	15,310	-	105,917
Accumulated amortization	23,059	19,217	-	42,276
Net	67,548			63,641
Total net book value	W1,228,179			W1,206,468

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2004 and 2003, the government-posted prices of the Bank's land used for tax assessment purposes are W789,495 million and W687,662 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Changes in premises and equipment for the year ended December 31, 2003 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Premises and equipment				
Acquisition cost				
Land	W 796,646	W -	W 122	W 796,524
Buildings and structures	403,978	17,180	2,221	418,937
Movable property	222,800	37,815	9,003	251,612
	<u>1,423,424</u>	<u>54,995</u>	<u>11,346</u>	<u>1,467,073</u>
Accumulated depreciation				
Buildings and structures	113,518	19,745	1,507	131,756
Movable property	141,089	42,217	8,620	174,686
	<u>254,607</u>	<u>61,962</u>	<u>10,127</u>	<u>306,442</u>
Net	<u>1,168,817</u>			<u>1,160,631</u>
Intangible assets				
Acquisition cost	66,515	24,092	-	90,607
Accumulated amortization	9,109	13,950	-	23,059
Net	<u>57,406</u>			<u>67,548</u>
Total net book value	W1,226,223			W1,228,179

8. Other Assets

Other assets at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Other accounts receivable	W 382,769	W 577,674
Guarantee money	297,350	295,658
Fees and interest receivable	133,602	200,878
Bills unsettled	15,035	5,717
Unsettled exchange	260,471	15,149
Prepaid expenses	7,855	7,256
Regulatory and legal deposits (*)	10,163	7,046
Credit loss reserves of other assets	(3,463)	(3,472)
Derivative valuation assets (Note 16)	61,343	21,999
Others	7,261	5,097
	<u>W1,172,386</u>	<u>W1,133,002</u>

(*) Regulatory and legal deposits include W7,057 million and W6,510 million of securities held in escrow at December 31, 2004 and 2003, respectively.

9. Deposits

Deposits at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	Banks	Other financial institutions	Others	Total
December 31, 2004				
Deposits in Korean Won				
Demand deposits	W 2,593	W 159,338	W 1,738,961	W 1,900,892
Time & saving deposits	447,672	2,091,301	15,931,595	18,470,568
	450,265	2,250,639	17,670,556	20,371,460
Deposits in foreign currencies				
Certificates of deposit	99	12,242	479,376	491,717
	21,849	1,350,709	5,252,371	6,624,929
	W472,213	W3,613,590	W23,402,303	W27,488,106
December 31, 2003				
Deposits in Korean Won				
Demand deposits	W 9,497	W 213,630	W 1,880,743	W 2,103,870
Time & saving deposits	242,142	2,533,797	17,055,142	19,831,081
	251,639	2,747,427	18,935,885	21,934,951
Deposits in foreign currencies				
Certificates of deposit	131	13,283	422,939	436,353
	264,539	2,867,081	1,693,933	4,825,553
	W 516,309	W 5,627,791	W 21,052,757	W 27,196,857

The maturities of deposits at December 31, 2004 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2005	W 19,313,384	W 490,394	W 6,624,929	W 26,428,707
2006	477,702	224	-	477,926
2007	172,872	1,099	-	173,971
2008	128,422	-	-	128,422
2009	37,124	-	-	37,124
Thereafter	241,956	-	-	241,956
	W20,371,460	W491,717	W6,624,929	W27,488,106

The maturities of deposits at December 31, 2003 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2004	W 20,942,614	W 436,341	W 4,825,553	W 26,204,508
2005	530,965	12	-	530,977
2006	203,014	-	-	203,014
2007	60,661	-	-	60,661
2008	111,695	-	-	111,695
Thereafter	86,002	-	-	86,002
	W21,934,951	W436,353	W4,825,553	W27,196,857

10. Borrowings

Borrowings at December 31, 2004 and 2003 are comprised of the following:

	December 31, 2004		December 31, 2003	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Borrowings in Korean Won:				
Aggregate limit borrowings	2.00	W 17,229	2.50	W 42,079
Call money	3.10 ~ 3.15	40,000	3.50 ~ 3.65	40,900
Other	0.75 ~ 6.00	281,967	1.20 ~ 6.30	329,414
		<u>339,196</u>		<u>412,393</u>
Borrowings in foreign currencies:				
Bank of Korea	1.88 ~ 2.63	606	1.11 ~ 1.26	6,926
Other borrowings	0.00 ~ 5.51	1,119,856	0.00 ~ 3.00	1,165,429
Off-shore borrowings	2.24 ~ 2.78	54,278	1.37 ~ 1.42	95,824
		<u>1,174,740</u>		<u>1,268,179</u>
Bonds sold under repurchase agreements	3.73	20,919	1.54 ~ 4.41	196,193
Bills sold	3.16	19,699	3.68	15,555
		<u>W1,554,554</u>		<u>W1,892,320</u>

At December 31, 2004 and 2003, borrowings by borrower type are summarized as follows (millions of Won):

December 31, 2004	Bank of Korea	Commercial banks	Other financial institutions	Others	Total (*)
Borrowings in Korean Won	W 17,229	W 27,551	W 245,600	W 48,816	W 339,196
Borrowings in foreign currencies	606	1,171,809	-	2,325	1,174,740
	<u>W17,835</u>	<u>W1,199,360</u>	<u>W245,600</u>	<u>W51,141</u>	<u>W1,513,936</u>
December 31, 2003	Bank of Korea	Commercial banks	Other financial institutions	Others	Total (*)
Borrowings in Korean Won	W 42,079	W 55,282	W 246,500	W 68,532	W 412,393
Borrowings in foreign currencies	6,926	1,258,103	-	3,150	1,268,179
Bonds sold under repurchase agreements	-	111,063	-	-	111,063
	<u>W49,005</u>	<u>W1,424,448</u>	<u>W246,500</u>	<u>W71,682</u>	<u>W1,791,635</u>

(*) W20,919 million and W85,130 million of bonds sold under repurchase agreements and W19,699 million and W15,555 million of bills sold to the public at December 31, 2004 and 2003, respectively, are not included.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

The maturities of borrowings at December 31, 2004 are as follows (millions of Won):

Year ending December 31,	Borrowings in Korean Won	Borrowings in foreign currencies	Bonds sold under repurchase agreements	Bills sold	Total
2005	W 61,529	W 1,172,415	W 20,919	W 19,699	W 1,274,562
2006	49,379	-	-	-	49,379
2007	153,143	-	-	-	153,143
2008	12,589	-	-	-	12,589
2009	15,096	-	-	-	15,096
Thereafter	47,460	2,325	-	-	49,785
	W339,196	W1,174,740	W20,919	W19,699	W1,554,554

The maturities of borrowings at December 31, 2003 are as follows (millions of Won):

Year ending December 31,	Borrowings in Korean Won	Borrowings in foreign currencies	Bonds sold under repurchase agreements	Bills sold	Total
2004	W 106,752	W 1,265,214	W 196,193	W 15,555	W 1,583,714
2005	15,516	-	-	-	15,516
2006	55,926	-	-	-	55,926
2007	158,845	-	-	-	158,845
2008	17,426	-	-	-	17,426
Thereafter	57,928	2,965	-	-	60,893
	W 412,393	W1,268,179	W196,193	W15,555	W1,892,320

The subordinated borrowings included in Korean Won borrowings as of December 31, 2004 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%) (*)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	3.94	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	3.94	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	5.18	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	3.94	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	3.94	20,000
				W205,600

Notes to Financial Statements (continued)

December 31, 2004 and 2003

The subordinated borrowings included in Korean Won borrowings as of December 31, 2003 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%) (*)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	5.68	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	5.68	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	6.30	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	5.68	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	5.68	20,000
				W205,600

(*) Floating based on average interest rates of 5 year government bonds and 3 year AA- corporate bonds as per loan agreements.

11. Financial Debentures

Financial Debentures at December 31, 2004 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Subordinated	9-28-2003	200,000	6.00 ~ 6.13	1-28-2011, etc.
General debentures (*1)	10-27-2003, etc.	7,580,203	3.27 ~ 6.60	12-20-2014, etc.
		8,056,470		
Discount on debentures		(134,765)		
		7,921,705		
Foreign currency				
Subordinated FRN (*2, *3)	3-10-2003	392,109	5.75	3-10-2013
Subordinated FRN (*2, *4)	10-02-2003	210,207	6.25	10-02-2013
Hybrid debentures (*5)	3-03-2004	312,976	7.27	3-03-2034
		915,292		
Discount on debentures		(12,436)		
		902,856		
		W8,824,561		

(*1) A portion of general debentures are hedged by interest rate swaps which offset valuation losses on the debentures of W18,480 million as fair value hedges.

(*2) The Bank has the right to redeem the note (call option) at the end of year 5.

(*3) The subordinated FRNs are hedged by interest rate swaps which offset valuation losses on the debentures of W683 million as fair value hedges.

(*4) The subordinated FRNs are hedged by interest rate swaps which offset valuation losses on the debentures of W1,447 million as fair value hedges.

(*5) The Bank has the right to redeem the note (call option) at the end of year 10. Hybrid debentures are hedged by interest rate swaps which offset valuation gain on the debenture of W164 million as fair value hedges.

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Financial Debentures at December 31, 2003 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Subordinated	9-28-2003	200,000	6.00 ~ 6.13	1-28-2011, etc.
General debentures	11-08-2002, etc.	4,619,990	4.04 ~ 5.08	12-28-2004, etc.
		5,096,257		
Discount on debentures		(88,421)		
		5,007,836		
Foreign currency				
Subordinated FRN (*1, *2)	3-10-2003	456,132	5.75	3-10-2013
Subordinated FRN (*1)	10-02-2003	239,560	6.25	10-02-2013
		695,692		
Discount on debentures		(8,514)		
		687,178		
		W5,695,014		

(*1) The Bank has the right to redeem the note (call option) at the end of year 5.

(*2) A portion of the subordinated FRNs are hedged by interest rate swaps which offset valuation losses on the debentures of W6,957 million as fair value hedges.

The maturities of debentures at December 31, 2004 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2005	W 5,658,761	W -	W 5,658,761
2006	1,591,281	-	1,591,281
2007	100,000	-	100,000
2008	176,267	-	176,267
2009	197,300	-	197,300
Thereafter	198,096	902,856	1,100,952
	W7,921,705	W902,856	W8,824,561

The maturities of debentures at December 31, 2003 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2004	W 3,761,643	W -	W 3,761,643
2005	239,966	-	239,966
2006	529,960	-	529,960
2007	100,000	-	100,000
2008	176,267	-	176,267
Thereafter	200,000	687,178	887,178
	W5,007,836	W687,178	W5,695,014

12. Accrued Severance and Retirement Benefits

Deposits for group severance and retirement benefits represent deposits made for a portion of the severance and retirement benefits obligation which are restricted in use for other than payment of severance and retirement benefits. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits, these amounts have been offset against the Bank's liability for severance and retirement benefits.

The changes in accrued severance and retirement benefits for the year ended December 31, 2004 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W 173,943	W 22,160	W 169,914	W 26,189
Prepayments to National Pension Corp.	(4,945)	-	(4,945)	-
Deposits for group severance and retirement benefits	(138,641)	(1,306)	(138,077)	(1,870)
	W 30,357	W20,854	W 26,892	W 24,319

The changes in accrued severance and retirement benefits for the year ended December 31, 2003 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W 172,981	W 29,383	W 28,421	W 173,943
Prepayments to National Pension Corp.	(5,853)	-	(908)	(4,945)
Deposits for group severance and retirement benefits	(145,558)	(17,592)	(24,509)	(138,641)
	W 21,570	W11,791	W 3,004	W 30,357

13. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Acceptances and guarantees in Korean Won		
Corporate debentures	W 2,118	W 1,088
Collateral for loans	24,448	27,307
Performance bonds	76,637	58,395
Other	15,058	10,808
	118,261	97,598
Acceptances and guarantees in foreign currencies		
Acceptances	25,150	16,398
Stand-by letters of credit	89,547	67,731
Letters of guarantee	13,012	10,965
Credit derivatives sold	208,760	179,670
Other	1,518	3,919
	337,987	278,683
	W456,248	W376,281

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Credit derivatives sold at December 31, 2004 and 2003 are comprised of the following (millions of Won):

Type	Counterparty	December 31, 2004	December 31, 2003	Reference entity
Credit linked notes	Lehman Brothers Treasury Co.	W 52,190	W 59,890	Woori Financial Holding Company, KT, Samsung Electronic Co., Ltd
	Granite Finance Ltd.	52,190	59,890	LG-Caltex Oil Corporation, Hyundai Motor Company, General Electric Capital Co.
	SPARC EM LTD-AV1	52,190	59,890	SK Corporation, GMAC
	Corsair (Jersey) Ltd.	52,190	-	Korea Electronic Power Corporation, POSCO, Kookmin Bank, Hutchison Whampoa Limited, Standard Life Assurance Company, Ford Motor Credit Company
		W208,760	W179,670	

The Bank is required to exchange the credit linked notes for the securities issued by the reference entities should a credit event such as default occur prior to maturity.

The Bank classified these as "Normal" and provided an allowance of 0.5% of guaranteed amounts for credit derivatives sold as of December 31, 2004 and 2003.

Contingent acceptances and guarantees outstanding at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Import L/C	W 481,348	W 333,736
Local L/C	141,838	172,039
	W623,186	W505,775

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2004 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W 117,666	W 595	W -	W -	W -	W 118,261	
(Allowance)	(588)	(12)	-	-	-	(600)	0.51
Acceptances & guarantees in foreign currencies	337,987	-	-	-	-	337,987	
(Allowance)	(1,690)	-	-	-	-	(1,690)	0.50
Total	W455,653	W 595	W -	W -	W -	W456,248	
(Allowance)	(2,278)	(12)	-	-	-	(2,290)	0.50
Allowance percentage	0.50	2.02	-	-	-	0.50	

Notes to Financial Statements (continued)

December 31, 2004 and 2003

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2003 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W 96,548	W 1,050	W -	W -	W -	W 97,598	
(Allowance)	(483)	(21)	-	-	-	(504)	0.52
Acceptances & guarantees in foreign currencies	276,367	-	-	-	2,316	278,683	
(Allowance)	(1,381)	-	-	-	(2,316)	(3,697)	1.33
Total	W372,915	W1,050	W -	W -	W 2,316	W376,281	
(Allowance)	(1,864)	(21)	-	-	(2,316)	(4,201)	1.12
Allowance percentage	0.50	2.00	-	-	100.00	1.12	

The ratios of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2004, and December 31, 2003 and 2002 are 0.50%, 1.12% and 4.16%, respectively.

At December 31, 2004 and 2003, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

By Geography	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2004						
Korea	W 193,562	42.42%	W 623,186	100.00%	W 816,748	75.67%
USA	156,570	34.32	-	-	156,570	14.51
Switzerland	52,190	11.44	-	-	52,190	4.83
Hong Kong	23,562	5.16	-	-	23,562	2.18
Other	30,364	6.66	-	-	30,364	2.81
	W456,248	100.00%	W623,186	100.00%	W1,079,434	100.00%
December 31, 2003						
Korea	W 174,891	46.48%	W 505,775	100.00%	W 680,666	77.17%
USA	129,158	34.32	-	-	129,158	14.64
Switzerland	59,890	15.92	-	-	59,890	6.79
Thailand	12,342	3.28	-	-	12,342	1.40
	W376,281	100.00%	W505,775	100.00%	W 882,056	100.00%

Notes to Financial Statements (continued)

December 31, 2004 and 2003

By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2004						
Manufacturing	W 55,041	12.06%	W 481,028	77.19%	W 536,069	49.66%
Wholesale and retail	56,819	12.45	119,682	19.20	176,501	16.35
Financial business	291,313	63.85	-	-	291,313	26.99
Business service	41,406	9.08	22	-	41,428	3.84
Construction	8,900	1.95	1,778	0.29	10,678	0.99
Other	2,769	0.61	20,676	3.32	23,445	2.17
	W456,248	100.00%	W623,186	100.00%	W1,079,434	100.00%
December 31, 2003						
Manufacturing	W 68,080	18.09%	W 274,615	54.30%	W 342,695	38.85%
Wholesale and retail	61,439	16.33	171,931	33.99	233,370	26.46
Financial business	181,476	48.23	755	0.15	182,231	20.66
Business service	16,869	4.48	2,293	0.45	19,162	2.17
Construction	10,289	2.74	8,576	1.70	18,865	2.14
Other	38,128	10.13	47,605	9.41	85,733	9.72
	W376,281	100.00%	W505,775	100.00%	W 882,056	100.00%
By Borrower Type						
December 31, 2004						
Corporate	W456,248	100.00%	W623,186	100.00%	W1,079,434	100.00%
December 31, 2003						
Corporate	W376,281	100.00%	W505,775	100.00%	W 882,056	100.00%

14. Other Liabilities

Other liabilities at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Domestic exchange obligation payable	W 532,657	W 1,168,971
Accrued fees and interest	561,008	473,055
Accounts payable	300,873	520,119
Agency fees payable for tax settlement	185,397	360,081
Foreign exchange payable	40,331	42,081
Borrowing from trust account	167,880	266,523
Giro and other settlements	58,353	50,069
Derivative valuation liabilities (Note 16)	43,162	43,655
Unearned revenues	23,588	21,913
Agency deposit for securities transactions	6,750	2,182
Other reserve (Note 16)	8,795	5,000
Others	52,577	64,351
	W1,981,371	W3,018,000

15. Interest Bearing Assets and Liabilities

Interest bearing assets and liabilities (excluding other assets and other liabilities) at December 31, 2004 and 2003 are summarized as follows (millions of Won):

	2004		2003	
	Average amount of assets	Interest revenue	Average amount of assets	Interest revenue
<Assets>				
Loans in Won	W 25,071,765	W 1,638,238	W 20,205,829	W 1,421,288
Loans in foreign currencies	629,251	16,100	629,276	17,572
Call loans	411,503	13,078	273,325	9,652
Notes bought	8,492	861	9,651	1,007
Private placement corporate bond	1,471,259	95,621	925,274	61,081
Bills bought	849,637	28,074	856,660	25,898
Advances to customers	6,189	448	19,768	1,831
Bonds purchased on reselling agreements	106,057	3,807	150,466	5,782
	28,554,153	1,796,227	23,070,249	1,544,111
Securities	7,538,349	320,802	7,167,420	362,790
Due from banks in Won (*)	786,136	8,779	791,416	14,044
Due from banks in foreign currencies (*)	166,465	1,933	137,802	1,511
	952,601	10,712	929,218	15,555
	W37,045,103	W2,127,741	W31,166,887	W1,922,456

(*) Includes reserves required to be deposited with the Bank of Korea.

	2004		2003	
	Average amount of liabilities	Interest expense	Average amount of liabilities	Interest expense
<Liabilities>				
Deposits in Won	W 21,409,782	W 659,903	W 19,481,839	W 650,208
Deposits in foreign currencies	688,988	4,162	460,308	3,178
Certificate of deposits	5,216,777	219,085	4,684,823	220,162
	27,315,547	883,150	24,626,970	873,548
Borrowings in Won	362,537	15,713	409,954	18,769
Borrowings in foreign currencies	623,523	10,548	1,010,804	15,855
Call money	710,732	24,805	723,269	27,339
Bonds sold on repurchase agreements	143,257	4,649	396,827	15,202
Cover bills sold	14,407	517	11,364	471
	1,854,456	56,232	2,552,218	77,636
Debentures in Won	6,324,250	295,560	3,250,182	167,548
Debentures in foreign currencies	931,840	40,905	537,314	25,606
	7,256,090	336,465	3,787,496	193,154
	W36,426,093	W1,275,847	W30,966,684	W1,144,338

16. Commitments and Contingencies

Other Reserves

The allowance for unused cash advance commitments on credit cards at December 31, 2004 and 2003 are as follows (million of Won):

	Commitment	Outstanding balance	Unused commitment (*)	Allowance	Allowance percentage
December 31, 2004	W799,337	W152,256	W447,247	W4,472	1.00%
December 31, 2003	W932,158	W199,087	W500,031	W5,000	1.00%

(*) Commitment × 75% - outstanding balance

Reserves for credit card points and other credit card losses at December 31, 2004 (none at December 31, 2003) are as follows (millions of Won):

	December 31, 2004
Reserve for credit card points	W 3,523
Reserve for other credit card losses	300
	W3,823

The Bank also classified W500 million as other reserves at December 31, 2004 for certain contingent liabilities related to legal actions arising from certain loans.

Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts and interest rate futures contracts. As of December 31, 2004 and 2003, the Bank has derivative financial instruments for trading and hedging purposes, as follows (millions of Won):

	December 31, 2004	December 31, 2003
<Trading purposes>		
Currency forwards	W 843,322	W 283,046
Currency swap	177,446	-
Currency futures	2,870	-
Interest rate swaps	2,300,939	563,085
Interest rate futures sold	20,876	23,956
KTB futures	793	-
Stock index options purchased	186,741	66,237
Stock index options sold	185,979	66,082
	W3,718,966	W1,002,406
<Hedging purposes>		
Interest rate swaps	W 2,077,705	W 365,745
Interest rate option	180,000	-
	W2,257,705	W 365,745

Notes to Financial Statements (continued)

December 31, 2004 and 2003

For the years ended December 31, 2004 and 2003, W17,456 million and W10,072 million of gains and W23,000 million and W14,014 million of losses, respectively, on valuation of derivative contracts for trading purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2004				
Currency forwards	W 6,624	W 10,116	W 6,624	W 10,116
Currency swaps	1,808	2,859	1,808	2,859
Interest rate swaps	7,224	8,495	13,726	12,803
Stock index options	1,800	1,530	3,868	3,846
	W17,456	W23,000	W26,026	W29,624
December 31, 2003				
Currency forwards	W 884	W 2,399	W 884	W 2,399
Interest rate swaps	380	3,019	1,018	8,626
Stock index options	8,808	8,596	14,017	14,011
	W10,072	W14,014	W15,919	W25,036

For the years ended December 31, 2004 and 2003, W25,311 million and W6,910 million of gains and W14,763 million and W7,272 million of losses, respectively, on valuation of derivative contracts for hedging purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2004				
Interest rate swaps	W 25,311	W 10,369	W 35,317	W 9,144
Interest rate options	-	4,394	-	4,394
	W25,311	W14,763	W35,317	W13,538
December 31, 2003				
Interest rate swaps	W 6,910	W 7,272	W 6,080	W18,619

The difference between valuation losses and gains of derivative contracts and underlying assets and liabilities being hedged is W1,990 million and W1,253 million as of December 31, 2004 and 2003, respectively.

Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2004, commitments and endorsed notes aggregated W52,247 million and W16,145 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2004, total loan commitments are W16,110 billion and unused commitments are W10,431 billion.

The Bank has been named as defendant in 39 legal actions amounting to W55,945 million, W26,101 million of which the Bank believes is protected by the KDIC, and is plaintiff in 194 legal actions amounting to W137,731 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

17. Common Stock and Capital Surplus

As of December 31, 2004 and 2003, the authorized common shares are 1,600 million shares and the outstanding common shares are 205,922,640 shares (at a par value of W5,000). The Bank's paid in capital is W1,029,613 million as of December 31, 2004 and 2003 (see Note 1).

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. On May 23, 2003 the warrants were exercised and converted to 9,805,840 shares of the Bank's common stock at a price of W6,749 per share. The exercise resulted in capital surplus of W17,111 million.

18. Retained Earnings

The Bank should reserve as a minimum 10% of its annual net income as a legal reserve in accordance with the Korean Banking Act. The Bank also reserves 10% of its annual net income as a voluntary reserve until ratio of net equity to total assets (including guaranteed trusts) reaches 5.5% in accordance with recommendation by the Financial Supervisory Commission. The Tokyo branch also should reserve up to 10% of its annual net income as other reserves until the amount reaches 2 billion Yen in accordance with Japanese Banking Regulations. These reserves cannot be used to pay dividends.

19. Long-Term Compensation Plan and Stock Options

The Bank has granted stock options to executives and directors which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2004 are as follows:

	First	Second
Grant date	March 30, 2000	October 19, 2001
Options originally granted	5,273,217 shares	1,171,531 shares
Options terminated	4,217,663 shares	82,134 shares
Options exercised	0 shares	0 shares
Options outstanding	1,055,554 shares	1,089,397 shares
Exercise price	W9,834	W12,497
Exercise period	From March 30, 2003 until March 30, 2010	From October 19, 2004 until October 19, 2011

The Bank calculated compensation cost for stock options by the Fair Value approach and details are as follows:

	First	Second
Stock price at grant date (*)	W 6,791	W 6,791
Risk free rate	4.96%	5.73%
Expected exercisable period	5 years	5 years
Expected stock price volatility	0%	0%
Expected dividend ratio	0%	0%
Compensation cost per share	-	-
Total compensation cost	-	-

(*) Stock price based on net book value adjusted by the average premium in excess of book value for the industry, as there was no quoted market value at the grant date. Should the Bank's stock become quoted or traded, compensation cost should be recalculated.

On January 10, 2005, the Bank and SCB entered into a Transition Agreement. In accordance with this agreement, stock options granted to the Bank's executives and directors will be terminated and cash settled at the closing date of SCB's acquisition. Cash settlement is expected to be determined based on the share purchase price less the option exercise prices (W16,511 per share less an exercise price of W9,834 for the 1st option grant or W12,497 for the 2nd option grant). The Bank expects to incur settlement payments of approximately W11.4 billion upon termination of the options outstanding. Of this amount, W9.4 billion was for the Bank's executives while W2.0 billion was for directors. For the year ending December 31, 2004, the above amount was accounted as compensation cost and accrued liability due to termination and cash settlement being required by the agreement with SCB.

The directors and the executive officers of the Bank are vested with the right to receive certain additional remuneration pursuant to the Long-Term Compensation Plan (the "LTCP"), which is subject to the satisfaction of certain conditions, such as the achievement of the bank's financial targets. The timing for the actual payments under the LTCP is either on maturity in year 2010 or on the occurrence of certain triggering events provided under the LTCP, including, such as, a change in control, merger or qualified initial public offering, of the Bank. As of December 31, 2004, the Bank has accrued W24.6 billion for additional remuneration under the LTCP payable to the directors and the executives of the Bank. Of this amount, W11.6 billion was for the Bank's executives while W13.0 billion was for directors. It is currently expected that the timing for the payments under the LTCP will take place within 2005.

20. Non-operating Revenue and Expense

Non-operating revenue and expense for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004	2003
Non-operating revenue		
Rental income	W 11,695	W 11,179
Gain on equity method	1,961	2,307
Gain on sale of securities	14,380	65,277
Gain on sale of loans	733	-
Other non-operating revenue	21,646	51,047
	W 50,415	W129,810
Non-operating expense		
Loss on sale of loans	W 107,985	W 251,187
Expenses for early retirement	7,892	4,853
Other non-operating expense	7,338	30,940
	W123,215	W286,980

21. Income Tax Expense

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 16.5% on taxable income up to W100 million and 29.7% on taxable income in excess of W100 million. Effective from 2005, the aggregate tax rates will be reduced to 14.3% on taxable income up to W100 million and 27.5% on taxable income in excess of W100 million. The income tax expense for the years ended December 31, 2004 and 2003 is comprised of the following (millions of Won):

	2004	2003
Income tax expense	W 1,052	W 403
Changes in deferred income taxes due to temporary differences and loss carryforwards	45,425	106,200
Income tax expense	W 46,477	W 106,603
Deferred income tax asset at December 31, 2004 and 2003	W 18,000	W 63,425
Deferred income tax asset at January 1, 2004 and 2003	63,425	169,625
Changes in deferred income tax asset	W(45,425)	W(106,200)

The Bank's remaining net operating loss carryforwards ("NOLs") expired as of December 31, 2004.

Adjustments of income before income taxes to taxable income for the years ended December 31, 2004 and 2003 are comprised of the following (millions of Won):

	2004	2003
Income before income tax expense	W 166,456	W 93,133
Adjustment to increase taxable income		
Permanent differences	14,003	16,506
Temporary differences	478,902	275,766
	492,905	292,272
Adjustment to decrease taxable income		
Permanent differences	2,060	44,931
Temporary differences	440,668	222,560
	442,728	267,491
Taxable income	W216,633	W117,914

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Deferred income taxes reflect the net tax effects of the tax loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforwards for the year ended December 31, 2004 are comprised of the following (millions of Won):

	January 1, 2004 (*)	Increase	Decrease	December 31, 2004
Interest receivable on securities	W (75,126)	W(43,450)	W (75,126)	W(43,450)
Profit from valuation of equity method	(47,138)	(1,961)	1,587	(50,686)
Gain on valuation of derivatives	(21,999)	(61,343)	(21,999)	(61,343)
Loan loss reserve	14,828	18,632	14,828	18,632
Premium amortization on securities, net	44,960	5,908	27,706	23,162
Loss on valuation of derivatives	43,655	43,162	43,655	43,162
Depreciation	36,312	4,898	143	41,067
Deemed dividends	17,403	4,261	-	21,664
Loss on valuation of debentures	6,957	1,447	-	8,404
Retirement benefits	500	14,005	500	14,005
Other	6,942	48,969	5,000	50,911
Tax loss carryforwards	879,849	-	879,849	-
Total	907,143	W 34,528	W876,143	65,528
Tax rate	29.7%			27.5%
Deferred income tax asset	269,421			18,020
Allowance	(205,996)			(20)
Net deferred income tax asset	W 63,425			W 18,000

(*) The amounts are different from those in the prior year's audit report to reflect the 2003 final tax return filed in March 2004.

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income and therefore the Bank's net deferred tax asset is based on the Bank's forecast of future income.

Significant changes in cumulative temporary differences and tax loss carryforwards for the year ended December 31, 2003 are comprised of the following (millions of Won):

	January 1, 2003	Increase	Decrease	December 31, 2003
Interest receivable on securities	W (83,312)	W(75,126)	W (83,312)	W (75,126)
Profit from valuation of equity method	(44,830)	(2,308)	-	(47,138)
Gain on valuation of derivatives	(3,411)	(21,999)	(3,411)	(21,999)
Discount amortization on securities	(13,497)	(1,331)	(11,867)	(2,961)
Present value discounts	4,003	2,987	4,003	2,987
Loss on valuation of derivatives	17,221	43,655	17,221	43,655
Depreciation	29,875	6,488	51	36,312
Deemed dividends	14,550	2,853	-	17,403
Retirement benefits	4,600	(4,108)	(8)	500
Other	28,274	48,317	23,545	53,046
Tax loss carryforwards	3,713,010	-	2,833,161	879,849
Total	3,666,483	W (572)	W2,779,383	886,528
Tax rate	29.7%			29.7%
Deferred income tax asset	1,088,945			263,299
Allowance	(919,320)			(199,874)
Net deferred income tax asset	W 169,625			W 63,425

22. Per Share Amounts

Per share amounts for the years ended December 31, 2004 and 2003 are calculated as follows (in Korean Won):

Ordinary earnings (loss) per share	2004	2003
Ordinary earnings before income tax expenses	W166,456,141,564	W 93,132,749,665
Income tax expenses related to ordinary earnings	46,477,552,800	106,603,056,000
	119,978,588,764	(13,470,306,335)
Weighted average number of common shares (*)	205,922,640	202,107,765
Ordinary earnings (loss) per share	W 583	W (67)

Net earnings (loss) per share	2004	2003
Net earnings (loss) after income tax expenses	W119,978,588,764	W(13,470,306,335)
Weighted average number of common shares (*)	205,922,640	202,107,765
Net earnings (loss) per share	W 583	W (67)

(*) The weighted average number of common shares outstanding at December 31, 2004 and 2003 were 205,922,640 and 202,107,765, respectively. On May 23, 2003, 9,805,840 additional shares were issued as a result of the KDIC's exercise of warrants (Note 1).

In July 1999, the Bank's shares were suspended from trading on the Korea Exchange. As the Bank's options will be terminated and cash settled, the diluted impact on earnings (loss) per share from stock options has not been calculated (see Note 17).

23. Application of the Equity-method

Equity investments at December 31, 2004 and 2003 are as follows (millions of Won):

	Korea First Finance Ltd., HK	Qingdao International Bank (*)	Korea First Data System Co., Ltd.
January 1, 2003	W 47,582	W12,258	W 5,596
Equity in net income (loss) of affiliates	4,346	(2,051)	12
Exchange rate fluctuation	(102)	(26)	-
Dividends received	-	-	(700)
Capital adjustment	(141)	-	-
December 31, 2003	W 51,685	W10,181	W 4,908
Equity in net income (loss) of affiliates	2,844	-	(883)
Exchange rate fluctuation	(6,646)	-	-
Dividends received	-	-	(600)
Capital adjustment	432	-	-
Sold	-	(10,181)	-
December 31, 2004	W48,315	W -	W3,425

(*) For Qingdao International Bank, an additional loss of W2,051 million was recorded in 2003 as the market value of Qingdao was deemed to be lower than its net asset value. The Bank's shares in Qingdao were sold to a third party during January 2004 for W10,181 million.

24. Related Party Transactions

Significant transactions between the Bank, its controlled subsidiaries, and equity-method investees for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
<2004>				
Korea First Finance Ltd., Hong Kong	Interest income	W 2,929	Due from banks	W 91,950
	Interest expense	9	Loans	77,241
			Other assets	680
			Borrowings	63,398
Korea First Data System Co., Ltd.	Other revenue	42	Other assets	1,522
	Interest expense	83	Deposits	3,962
	Other expense	11,842	Other liabilities	309
	Revenue Transactions	W 2,971	Receivables	W171,393
	Expense Transactions	W11,934	Payables	W 67,669
<2003>				
Korea First Finance Ltd., Hong Kong	Interest income	W 2,198	Due from banks	W110,967
	Interest expense	16	Loans	52,703
			Other assets	292
			Borrowings	53,395
Qingdao International Bank	Interest income	122	Deposits	175
	Interest expense	123		
Korea First Data System Co., Ltd.	Other revenue	42	Other assets	869
	Interest income	1	Deposits	3,609
	Interest expense	125	Other liabilities	249
	Other expense	10,152		
	Revenue transactions	W 2,363	Receivables	W164,831
	Expense transactions	W10,416	Payables	W 57,428

Significant acceptances and guarantees between the Bank, its controlled subsidiaries and equity-method investees at December 31, 2004 and 2003 are as follows (millions of Won):

	2004		2003	
	Account	Amount	Account	Amount
Korea First Data Systems Co., Ltd.	Guarantees in Korean Won	W 60	Guarantees in Korean Won	W 107
Korea First Finance Ltd., Hong Kong	Guarantees in foreign currency	44,392		
	Interest Rate Swap	5,219		

Korea First Data system provided a W1.0 billion time deposit to the Bank as collateral for line of credit amounted to W1.0 billion from the Bank as of December 31, 2004.

25. Employee Welfare

The Bank provides diverse employee benefits, including housing loans, scholarships, accident disability, paid leave, etc., for its employees.

Expenditures for the training of specialists for the years ended December 31, 2004, 2003 and 2002 are as follows (millions of Won):

Type	2004	2003	2002
Korea Banking Institute	W 319	W 134	W 178
Special skill training	822	498	443
Foreign language training	8	16	11
Overseas service training	163	39	141
IT & CS training	115	179	-
	W1,427	W 866	W 773

26. Segment Information

The Bank is organized into five major business segments: retail banking, corporate banking, capital markets, credit card operations and others. These business segments are based on the nature of the products and services provided, the type or class of customer and the Bank's management organization.

Detail of the Bank's operations by business segment at December 31, 2004 is as follows (millions of Won):

	Retail banking	Corporate banking	Capital markets	Credit card operations	Others	Total
Loans	W18,342,517	W 11,481,632	W 203	W 613,779	W -	W 30,438,131
Securities	-	254,229	6,796,423	-	-	7,050,652
Fixed assets	-	-	-	-	1,206,468	1,206,468
Other assets	-	-	-	-	3,017,410	3,017,410
	W18,342,517	W11,735,861	W6,796,626	W613,779	W4,223,878	W41,712,661

Detail of the Bank's operations by business segment at December 31, 2003 is as follows (millions of Won):

	Retail banking	Corporate banking	Capital markets	Credit card operations	Others	Total
Loans	W15,746,266	W 10,334,071	W -	W 721,068	W -	W 26,801,405
Securities	-	284,378	6,787,598	-	-	7,071,976
Fixed assets	-	-	-	-	1,228,179	1,228,179
Other assets	-	-	-	-	4,379,098	4,379,098
	W15,746,266	W10,618,449	W6,787,598	W721,068	W5,607,277	W39,480,658

Notes to Financial Statements (continued)

December 31, 2004 and 2003

The Bank principally operates in Korea. Secondary segments are geographically oriented and are segregated into two segments: domestic and overseas operations.

The distribution of the Bank's operations by geographical markets at December 31, 2004 is as follows (millions of Won):

	Domestic	Overseas	Total
Loans	W 30,184,360	W 253,771	W 30,438,131
Securities	6,837,547	213,105	7,050,652
Fixed assets	1,205,343	1,125	1,206,468
Other assets	2,999,286	18,124	3,017,410
	W41,226,536	W486,125	W41,712,661

The distribution of the Bank's operations by geographical markets at December 31, 2003 is as follows (millions of Won):

	Domestic	Overseas	Total
Loans	W 26,496,328	W 305,077	W 26,801,405
Securities	6,926,660	145,316	7,071,976
Fixed assets	1,227,414	765	1,228,179
Other assets	4,372,942	6,156	4,379,098
	W39,023,344	W457,314	W39,480,658

27. Added Value Information

The accounts and amounts which are required to be disclosed in connection with the calculation of added value from the Bank's operations for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004	2003
Salaries and wages	W 287,840	W 257,578
Retirement benefit	22,160	29,383
Other employee benefit	65,342	57,838
Rent	25,546	22,498
Depreciation	59,625	61,962
Amortization	19,217	13,950
Other taxes and dues	30,105	32,201
	W 509,835	W 475,410

28. Operating Result for the Fourth Quarter of 2004 and 2003

During the fourth quarter of 2004, there was no change in accounting estimation policies. Major operating results for the fourth quarter of 2004 and 2003 are as follows (millions of Won):

	2004	2003
Total revenue	W 263,140	W 266,972
Operating margin	83,880	96,557
Operating income	114,394	24,450
Net income	34,732	19,770
Earnings per share (Korean Won in units)	169	96

29. Book Value and Fair Value of Trust Accounts

Book value and fair value of principal or dividend guaranteed trust accounts as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

	Book value	Provisions	Fair value	Charge on Bank accounts
December 31, 2004				
Principal guaranteed trust accounts	W 454,943	W 11,180	W 483,822	W -
Principal and dividend guaranteed trust accounts	1,219	90	1,219	-
	W456,162	W11,270	W485,041	W -
December 31, 2003				
Principal guaranteed trust accounts	W 426,610	W 11,274	W 448,815	W -
Principal and dividend guaranteed trust accounts	2,698	411	2,715	-
	W429,308	W11,685	W451,530	W -

30. Approval of Financial Statements

The Bank's financial statements for the year ended December 31, 2004 will be submitted for approval by the Board of Directors in a meeting on March 9, 2005.

Independent Auditors' Report



Ahn Young Ernst & Young

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Chief Executive Officer and Trust Beneficiaries of Korea First Bank

We have audited the accompanying balance sheets of Korea First Bank's trust accounts (the "Trust") as of December 31, 2004 and 2003, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Korea First Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust at December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations 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 financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

February 24, 2004

This audit report is effective as of February 24, 2004, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Balance Sheets (Trust Accounts)

December 31, 2004 and 2003

	In Millions of Korean Won	
	2004	2003
Assets		
Securities (Notes 4 and 5)	W 717,948	W 862,729
Loans (Notes 5 and 6)	44,583	26,747
Allowance for possible loan and securities losses (Note 5)	(2,960)	(7,834)
Entrusted accounts receivable	1,695,193	1,294,904
Movable property and real estate	975,176	155,152
Amounts due from the Bank	122,781	67,546
Accrued income	39,934	39,622
Other assets	1,553	1,137
	W3,594,208	W2,440,003
Liabilities		
Money trusts (Note 1)	W 861,717	W 950,089
Property trusts (Note 1)	2,696,369	1,450,056
Other liabilities	25,106	30,386
Reserve for future trust losses	11,016	9,472
	W3,594,208	W2,440,003

See accompanying notes

Statements of Operations (Trust Accounts)

Years ended December 31, 2004 and 2003

In Millions of Korean Won

	2004	2003
Revenues		
Interest on securities	W48,208	W65,009
Interest on loans	1,686	2,231
Interest on call loans	150	-
Interest on amounts due from the Bank	3,187	2,757
Gain on securities valuation and transactions	8,148	3,637
Reverse of allowance for possible loan and securities losses	4,795	8,314
Other income	749	4,234
	W66,923	W86,182
Expenses		
Interest on borrowings	W -	W 3,948
Trust fees to the Bank	11,447	15,652
Loss on securities valuation and transactions	3,409	5,619
Other expenses	986	4,176
Provision for future trust losses	1,560	2,769
	17,402	32,164
Dividends of trust profit to beneficiaries	W49,521	W54,018

See accompanying notes

Statements of Cash Flows (Trust Accounts)

Years ended December 31, 2004 and 2003

	In Millions of Korean Won	
	2004	2003
Cash flows from operating activities:		
Loss (gain) on securities transactions, net	W (4,669)	W 1,198
Unrealized loss on securities, net	(70)	784
Reversal of allowance for possible loan and securities losses	(4,795)	(8,314)
Other, net	1,543	2,769
Changes in operating assets and liabilities, net	(5,211)	4,054
Net cash provided by (used in) operating activities	(13,202)	491
Cash flows from investment activities:		
Decrease (increase) in securities	176,597	340,827
Decrease (increase) in loans and discounts	(17,915)	2,371
Decrease in accounts receivable	308	38,037
Other, net	-	(900)
Net cash provided by investment activities	158,990	380,335
Cash flows from financing activities:		
Increase in money trust	(88,372)	(257,811)
Decrease in borrowings	-	(134,800)
Other, net	(2,181)	(2,083)
Net cash used in financing activities	(90,553)	(394,694)
Net Increase(decrease) in cash and cash equivalents	55,235	(13,868)
Cash equivalents at beginning of year	67,546	81,414
Cash equivalents at end of year	W122,781	W 67,546

See accompanying notes

1. Trust Accounts

Money Trusts

Key characteristics of each fund within Korea First Bank's (the "Bank") money trust accounts are as follows:

	Minimum contract period (year)	Type of dividend	Type of principal
General Unspecified Money Trust	1	Guaranteed	Guaranteed
Reserving Objective Money Trust (Guaranteed)	1	Guaranteed	Guaranteed
Reserving Objective Money Trust (Performance)	1.5	Performance	Mixed
House Money Trust	1.5	Performance	Mixed
Development Trust	2 or 3	Guaranteed	Guaranteed
Old Age Pension Trust	5	Performance	Guaranteed
Business Money Trust	1.5	Performance	Mixed
National Stock Trust	3	Performance	Non-guaranteed
Personal Pension Trust	15	Performance	Guaranteed
Long-Term House Trust	3 ~ 5	Performance	Non-guaranteed
Workers Preferential Trust	3 ~ 5	Performance	Non-guaranteed
New Reserving Trust	1.5	Performance	Non-guaranteed
Retirement Trust	none	Performance	Guaranteed
Specified Money Trust	as per contract	Performance	Non-guaranteed
Unit Type Money Trust	5	Performance	Non-guaranteed
Open Type Money Trust	1	Performance	Non-guaranteed
New Personal Pension Trust	15	Performance	Guaranteed
Pension Trust	15	Performance	Guaranteed

Mixed: Principal guaranteed for certain trust beneficiaries

Property Trusts

Property trusts are created when non-cash assets are given to the Bank as Trustee. As Trustee, the Bank manages three property trusts, Securities Trusts, Accounts Receivable Trusts and Movable Property and Real Estate Trusts as of December 31, 2004.

A Securities Trust is a trust in which the Trustee manages and operates securities consisting of Government and public bonds, debentures, equity securities and so on, and distributes the principal and income to the Trustor when settling such trusts. The Bank does not guarantee the principal and income regarding beneficiary certificates issued by such trusts.

An Accounts Receivable Trust is a trust in which the Trustee collects, manages, and disposes of accounts receivable and distributes the income to the Trustor. The Bank does not guarantee the principal and income regarding beneficiary certificates issued by such trusts.

A Movable Property and Real Estate Trust is a collateralized trust in which the Trustor deposits property to guarantee the performance of his liabilities and responsibilities. The Trustee preserves the ownership right and collateral value, and disposes of the entrusted property to settle the trust for the Beneficiary when the Trustor does not perform as promised. The Bank does not guarantee the principal and income regarding beneficiary certificates issued by such trusts.

2. Summary of Significant Accounting Policies

Under the Korean Trust Business Act, trust funds held by the Bank in fiduciary role are accounted for and reported separately from the Bank's books and financial statements (the "Bank"). The significant accounting policies applied in preparation of the accompanying financial statements of the Bank's trust accounts are summarized as follows:

Basis of Presenting Financial Statements

The Trust maintains its official accounting records in Korean Won and prepares its statutory financial statements in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Trust 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.

For the convenience of the reader, in preparing the accompanying financial statements, certain reclassifications and changes in statement format and extent of disclosures have been made to the financial statements issued in the Korean language for domestic statutory purposes. Certain reclassification, changes in statement format and extent of disclosures have also been made for the prior year financial statements and footnotes to conform to the current year's presentation.

Certain supplementary information attached to the statutory Korean language financial statements, but not required for a fair presentation of the Trust's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

The preparation of financial statements in conformity with applicable regulations and financial accounting standards requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Equity Securities

Listed equity securities, including those registered in secondary markets such as KOSDAQ, are valued at market value. Unlisted equity securities are carried at cost. Equity securities held in the Specified Money Trust are recorded at cost until termination, when they are then valued at market value.

Debt Securities

Listed debt securities, for which market prices were quoted for more than 10 days a month during the 3 consecutive months prior to period end, are valued at the closing market price as of the valuation date. However, unlisted debt securities are valued using an average of yields for bonds announced by external rating agencies. These adjustment yields reflect remaining time, credit risk, and current interest rates. Debt securities for which adjustment yield ratios cannot be applied, are valued at fair value as calculated by the Trust's valuation committee.

In accordance with Korean Trust Business Supervisory Regulations, debt securities in non-specified money trusts established prior to November 15, 1998, are recorded at cost plus accrued interest.

The Trust calculates an allowance for possible losses on those debt securities, except for those issued by the Korean Government and local governments, based on the issuers' future debt service capacity, using the same credit rating and FSS minimum reserve percentage as it uses for corporate loans (See "Allowance for Possible Loan Losses" below). Provisions are determined by applying the following percentages to the various credit ratings: Normal: 0% (0.5% for the trusts for which dividends are guaranteed) or above, Precautionary: 2% or above, Substandard: 20% or above, Doubtful: 50% or above, Estimated loss: 100%.

Debt securities held in the Specified Money Trust are recorded at cost until termination, when they are then valued by market prices or adjustment yields, as previously described.

Beneficiary Certificates

Beneficiary certificates are valued at the standard price announced by the issuing company as of the valuation date. Beneficiary certificates in the Specified Money Trust are recorded at cost until termination, when they are then valued at the standard price announced by the issuing company.

Allowance for Possible Loan Losses

The Trust calculates the allowance for possible loan losses of corporate loans and certain debt securities based on, borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"). This credit rating model includes financial and non-financial factors of borrowers.

Household loans are classified based on the number of delinquent periods, value of collateral and reasonably estimated collectability.

Provisions are determined by applying the following minimum percentages to the various credit ratings:

Credit ratings	Loan classifications	Provision percentages
1 ~ 6	Normal	0% (*) or above
7	Precautionary	2% or above
8	Substandard	20% or above
9	Doubtful	50% or above
10	Estimated loss	100%

(*) 0.5% for trusts in which dividends are guaranteed

Loans that are deemed uncollectible are fully reserved by the allowance. However, charge-offs of actual loan balances may be delayed due to certain banking regulations governing actual charge-offs of loan balances.

Present Value Discounts

If the present value of a loan is different from its book value, due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference in present value and book value of the loan is recorded as an allowance for possible loan losses. The difference, recorded as an allowance, is amortized to current earnings over the related period using the effective interest rate method. The amortization is recorded as interest income.

Due from the Bank Account

The Trust makes certain loans to the Bank for short-term cash management purposes. These are recorded as loans to the Bank by the Trust. These amounts are considered as cash equivalents.

Recognition of Interest Income

Interest income on loans and securities is recognized on an accrual basis, while interest income on overdue and dishonoured loans or securities, except for those secured or guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonoured loans or securities, which was not recognized, amounted to W32 million and W89 million as of December 31, 2004 and 2003, respectively.

Income Taxes

The Trust does not have any tax liability for income resulting from operations. However when paying trust profits to beneficiaries, the Trust is responsible for withholding appropriate taxes.

Compensation from the Bank

Certain money trust agreements provide that the Bank guarantees a principal amount of trust deposits or principal plus a guaranteed rate of return.

In relation to such guarantees, the Trust is required to set up a special reserve equal to 25% or more of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the guaranteed rate of return, the deficiency will be recovered from previously established special reserves and trust fees paid to the Bank, and then compensated by the Bank if special reserves or previously paid fees are insufficient.

Calculation of Trust Profits

Trust profits are calculated under one of the three following methods depending on the trust agreements: yield calculation method, closing method, and standard price method.

Under the yield calculation method, trust profits are calculated using the following formulas:

Trust profits = Trust deposit balance × Average yield rate

*Average yield rate = $\frac{\text{Accumulated daily yield rate}}{\text{Number of days}}$ for a calculation period

*Daily yield rate = $\frac{\text{Daily profit calculated}^{2})}{\text{Outstanding interest bearing asset balance}^{1})}$ – Predetermined trust management fee

¹⁾ Allowance for possible loan and securities losses and reserve for future trust losses are deducted from the outstanding interest bearing asset balance when calculating the daily yield rate.

²⁾ Daily profit calculated = Interest revenue ± Realized gain (loss) from securities transactions - Provision for loan and securities losses - Other expenses

Trust profits, net of withholding taxes, are periodically (every six months or one and a half years, or at termination) distributed to depositors by adding to the depositors' principal balances.

Under the closing method, trust profits are calculated by closing the books at the date of maturity or at the designated date.

Under the standard price method, depositors are entitled to the standard price per share which is calculated daily as follows:

Standard price = Net assets ÷ Total number of shares of each trust

Trust Fees to the Bank

The Bank receives trust fees from the trust accounts for its management of trust assets and operations and is entitled to receive special trust fees from certain trust accounts in accordance with relevant laws and regulations applicable to trust operations.

Securities Investment Trusts

Investment trust amounts being in custody of the Bank under a trust agreement with asset management companies are accounted for as off-balance items of the Bank's trust accounts.

3. Classification of Trust Accounts

Assets and liabilities of trust accounts at December 31, 2004 and 2003 are classified into principal or dividends guaranteed trusts, mixed guaranteed trusts, and non-guaranteed trusts as follows (millions of Won):

December 31, 2004	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Securities	W 315,600	W 23,284	W 379,064	W 717,948
Loans	43,880	362	341	44,583
Entrusted accounts receivable	-	-	1,695,193	1,695,193
Movable property and real estate	-	-	975,176	975,176
Other assets	24,116	1,462	15,909	41,487
Amounts due from the Bank	58,683	10,179	53,919	122,781
Allowance for possible loan and securities losses	(75)	(601)	(2,284)	(2,960)
Total Assets	W442,204	W34,686	W3,117,318	W3,594,208
Money trust	W 430,687	W 32,070	W 398,960	W 861,717
Property trust	-	-	2,696,369	2,696,369
Other liabilities	2,325	792	21,989	25,106
Reserve for future trust losses	9,192	1,824	-	11,016
Total Liabilities	W442,204	W34,686	W3,117,318	W3,594,208
December 31, 2003	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Securities	W 377,922	W 36,985	W 447,822	W 862,729
Loans	25,147	779	821	26,747
Entrusted accounts receivable	-	-	1,294,904	1,294,904
Movable property and real estate	-	-	155,152	155,152
Other assets	18,733	1,424	20,602	40,759
Amounts due from the Bank	10,740	2,703	54,103	67,546
Allowance for possible loan and securities losses	(1,412)	(2,597)	(3,825)	(7,834)
Total Assets	W431,130	W39,294	W1,969,579	W2,440,003
Money trust	W 420,674	W 35,595	W 493,820	W 950,089
Property trust	-	-	1,450,056	1,450,056
Other liabilities	2,808	1,875	25,703	30,386
Reserve for future trust losses	7,648	1,824	-	9,472
Total Liabilities	W431,130	W39,294	W1,969,579	W2,440,003

General Unspecified Money Trusts, Reserving Objective Money Trusts (Guaranteed), Development Trusts, Old Age Pension Trusts, Personal Pension Trusts, Retirement Trusts, New Personal Pension Trusts, and Pension Trusts are classified as principal or dividends guaranteed trusts.

Mixed guaranteed trusts represent trusts for which principal is guaranteed only for certain beneficiaries who entered into the trust agreements prior to May 1, 1996. House Money Trusts, Business Money Trusts and Reserving Objective Money Trusts (Performance) are classified as mixed guaranteed trusts.

National Stock Trusts, Long-Term House Trusts, Workers Preferential Trusts, New Reserving Trusts, Specified Money Trusts, Unit Type Money Trusts, and Open Type Money Trusts are classified as non-guaranteed trusts.

4. Securities

Equity Securities

Equity securities as of December 31, 2004 and 2003 are as follows (millions of Won):

<2004>			
Company	Number of shares	Acquisition cost	Book value
Doosan Corp.	811,082	W 6,000	W 6,000
DPC Co., Ltd.	1,055,970	2,496	2,496
Korea Logistics Network Corp.	206,393	1,640	1,639
Kyung Nong Corp.	128,710	1,499	1,499
Heehoon D&G Co., Ltd.	1,180,584	1,267	1,267
Daeho AL Co., Ltd.	1,868,000	1,000	1,000
MBN Partners Inc.	40,795	998	998
Dong Won Corp.	55,000	584	584
The Korea Express Co., Ltd.	16,100	360	360
Other	13,090	399	407
	5,375,724	W 16,243	W 16,250
<2003>			
Company	Number of shares	Acquisition cost	Book value
Doosan Corp.	811,082	W 6,000	W 6,000
DPC Co., Ltd.	1,055,970	2,496	2,496
Kyung Nong Corp.	128,710	1,499	1,499
Korea Logistics Network Corp.	160,444	1,478	1,478
Korea Flange Co., Ltd.	134,600	1,474	1,474
Heehoon Co., Ltd.	1,180,584	1,267	1,267
The Korea Express Co., Ltd.	46,364	1,117	1,117
Daeho AL Co., Ltd.	1,868,000	1,000	1,000
Ilryung Telesys. Inc	407,958	998	998
Deesys Co., Ltd.	580,479	936	936
Konictch Co., Ltd.	178,921	174	174
Other	26,029	269	280
	6,579,141	W 18,708	W 18,719

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Debt Securities

Debt securities as of December 31, 2004 and 2003 are as follows (millions of Won):

<2004>			
Type	Face value	Acquisition cost	Book value
Government bonds			
Korea treasury bonds	W 50,000	W 51,138	W 51,044
Korea housing bonds	153,666	146,040	146,849
Foreign exchange stabilization bonds	40,000	41,319	40,183
	243,666	238,497	238,076
Financial debentures			
Monetary stabilization bonds	90,000	88,652	88,613
Others	1,493	1,355	1,355
	91,493	90,007	89,968
Local government bonds	37,999	36,423	36,893
Corporate bonds	104,603	103,805	103,837
	W477,761	W468,732	W468,774
<2003>			
Type	Face value	Acquisition cost	Book value
Government bonds			
Korea treasury bonds	W 30,500	W 31,512	W 30,934
Korea housing bonds	139,797	131,352	132,229
Foreign exchange stabilization bonds	40,000	42,484	41,319
	210,297	205,348	204,482
Financial debentures			
Monetary stabilization bonds	120,000	119,257	118,924
Others	20,793	18,894	18,894
	140,793	138,151	137,818
Local government bonds	32,163	30,178	30,534
Corporate bonds	189,835	186,208	186,173
	W573,088	W559,885	W559,007

Debt securities, denominated in foreign currencies

Debt securities, denominated in foreign currencies, as of December 31, 2004 (none at December 31, 2003) are summarized as follows (millions of Won):

Type	Face value	Acquisition cost	Book value
Government bonds			
Foreign exchange stabilization bonds	W17,047	W19,813	W19,813

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Bills Bought

Bills bought as of December 31, 2004 and 2003 are as follows (millions of Won):

December 31, 2004	Face value	Acquisition cost	Book value
Bills issued	W 543	W 543	W 543
Commercial paper	184,400	184,400	184,400
	W184,943	W184,943	W184,943

December 31, 2003	Face value	Acquisition cost	Book value
Bills issued	W 567	W 567	W 567
Commercial paper	248,838	248,838	248,838
	W249,405	W249,405	W249,405

Other Securities

Other securities as of December 31, 2004 and 2003 are as follows (millions of Won):

December 31, 2004	Face value	Acquisition cost	Book value
Beneficiary certificates of bond type trusts	W 197	W 204	W 224
Others	27,944	27,944	27,944
	W 28,141	W 28,148	W 28,168

December 31, 2003	Face value	Acquisition cost	Book value
Beneficiary certificates of bond type trusts	W 35,026	W 33,641	W 33,687
Others	1,911	1,911	1,911
	W 36,937	W 35,552	W 35,598

5. Asset Classification and Allowance for Possible Loan and Securities Losses

The classification of loans and securities at December 31, 2004 and 2003 is as follows (millions of Won):

December 31, 2004	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans	W 44,572	W 7	W -	W -	W 4	W 44,583
Corporate bonds	99,787	4,050	-	-	-	103,837
Bills bought	98,229	67,838	18,333	-	543	184,943
	W242,588	W 71,895	W18,333	W -	W 547	W333,363

December 31, 2003	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans	W 26,550	W 7	W 108	W 1	W 81	W 26,747
Corporate bonds	180,789	5,384	-	-	-	186,173
Bills bought	128,538	96,454	22,261	-	2,152	249,405
	W335,877	W101,845	W22,369	W 1	W2,233	W462,325

Notes to Financial Statements (continued)

December 31, 2004 and 2003

Specified Money Trust assets were excluded from recording an allowance for possible loan and securities losses and are maintained at book value in accordance with Korean Trust Business Supervisory Regulations. Details of Specified Money Trust assets at December 31, 2004 and 2003 are as follows (millions of Won):

December 31, 2004	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Corporate bonds	W 58,374	W 4,050	W -	W -	W -	W 62,424
Bills bought	98,229	67,838	18,333	-	-	184,400
	W156,603	W 71,888	W18,333	W -	W -	W246,824

December 31, 2003	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Corporate bonds	W 50,372	W 5,384	W -	W -	W -	W 55,756
Bills bought	114,038	96,454	22,261	-	1,585	234,338
	W164,410	W101,838	W22,261	W -	W1,585	W290,094

The allowance for possible loan and securities losses as of December 31, 2004 and 2003 is as follows (millions of Won):

December 31, 2004	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Allowance	W 75	W 601	W2,284	W2,960

December 31, 2003	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Allowance	W1,412	W2,597	W3,825	W7,834

6. Restructured Assets

Restructured assets at December 31, 2004 and 2003 are as follows (millions of Won):

	Corporations under liquidation	
	December 31, 2004	December 31, 2003
Balance before restructured	W21,314	W34,244
D/E swap stock	360	1,117
D/E swap CB	50	50
CP	20,904	33,077
Balance at end of year	W21,314	W34,244
Restructuring loss	W -	W -

(*) Restructured assets consist of loans and securities.

7. Income Statement for Management of the Trust Accounts

Pro forma income statements for Bank operations related to management of the trust accounts for the years ended December 31, 2004 and 2003, which are prepared and disclosed in accordance with the Korean Trust Business Supervisory Regulations, are as follows (millions of Won):

	2004	2003
Operating income		
Trust fees, net of subsidy for trust deficiencies	W 12,783	W 17,078
Commissions received from early redemptions	42	48
	12,825	17,126
Operating expenses (*)		
Salaries and employee benefits	3,674	3,174
Administration expenses	1,868	1,727
Taxes and dues	772	879
Amortization	847	765
Provision for severance and retirement benefits	238	298
	7,399	6,843
Net income	W 5,426	W10,283

(*) Operating expenses are derived by allocating the Bank's operating expenses to the Trust according to the activity of the Trust, which is based on amount of each account and number of transactions of the Trust. These expenses are not charged to the Trust, but calculated to determine the Bank's internal costs related to management of the Trust.

Independent Auditors' Report



Ahn Young Ernst & Young

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The Board of Directors and Shareholders of Korea First Bank

We have audited the accompanying consolidated balance sheets of Korea First Bank and subsidiaries (the "Bank") as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in capital surplus and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea First Bank and subsidiaries as of December 31, 2004 and 2003, and the consolidated results of its operations, changes in capital surplus and retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

As discussed in note 1, on January 10, 2005, KFB Newbridge Holdings (Private) Limited ("Newbridge"), the controlling shareholder of the Bank, entered into an agreement with Standard Chartered Bank ("SCB") whereby SCB agreed to purchase Newbridge's ownership in the Bank. In accordance with the agreement, SCB will purchase 99,999,956 shares (48.56%) held by Newbridge for W16,511 per share for a total of W1,651,099 million. The remaining shares held by Korea Deposit Insurance Corporation (99,853,167 shares or 48.49%) and Ministry of Finance and Economy (6,069,517 shares or 2.95%) will be purchased based on identical terms. As a result, SCB will own 100% of the Bank's shares for a total of W3,400,000 million after the transaction closes. The transaction is subject to approval from Financial Supervisory Service, with approval expected to occur by May 2005.

As discussed in note 2, due to a new accounting interpretation issued by Korea Accounting Standards Board, the Bank changed its accounting for gains or losses from the sale of loans. Previously, gains or losses from the sale of loans were computed by comparing the proceeds of the sale to the book value as of the effective sale date. Currently, gains or losses from the sale of loans are computed by comparing sale proceeds against the loans' book value as of the year end immediately preceding the date of sale. As a result of this change, losses on sale of loans increased by W71,836 million and gains on sale of loans and provision for loan losses decreased by W2,356 million and W74,192 million, respectively, for the year ended December 31, 2004. The statements of income and cash flows for the year ended December 31 2003, presented herein for comparative purpose, were restated to reflect the above change. As a result, losses on sale of loans increased by W214,633 million and gains on sale of loans and provision for loan losses decreased by W1,413 million and W216,046 million, respectively for the year ended December 31, 2003. Such change and restatement had no effect on net assets as of December 31, 2004 and 2003 and on net income (loss) for the years then ended.

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 who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

A handwritten signature in black ink, appearing to read 'Ahn Young', written in a cursive style.

February 24, 2005

This audit report is effective as of February 24, 2005, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Consolidated Balance Sheets

December 31, 2004 and 2003

	In Millions of Korean Won	
	2004	2003
Assets		
Cash & due from banks (Note 4)	W 1,623,358	W 2,951,184
Securities (Note 5)	7,098,050	7,103,154
Trust securities	324,724	379,208
Loans (Note 6)	30,912,220	27,332,789
Allowance for loan losses (Note 6)	(387,329)	(430,904)
Net deferred fees and expenses (Note 6)	18,002	10,705
	30,542,893	26,912,590
Receivable from KDIC (Note 3)	112,427	121,442
Fixed assets (Note 7)	1,206,293	1,228,734
Deferred income tax asset (Note 21)	18,000	63,427
Other assets (Note 8)	1,199,943	1,156,595
Total assets	W42,125,688	W39,916,334
Liabilities and Shareholders' Equity:		
Deposits (Note 9)	W27,999,574	W27,669,036
Borrowings (Note 10)	1,501,997	1,850,903
Financial debentures (Note 11)	8,824,561	5,695,014
Accrued severance and retirement benefits (Note 12)	24,581	30,819
Other liabilities (Note 14)	1,924,209	3,012,980
Total liabilities	40,274,922	38,258,752
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common stock (Note 17)	1,029,613	1,029,613
Capital surplus (Note 17)	17,111	17,111
Retained earnings (Note 18)	734,996	615,109
Capital adjustments	69,046	(4,251)
Total shareholders' equity	1,850,766	1,657,582
Total liabilities and shareholders' equity	W42,125,688	W39,916,334

See accompanying notes.

Consolidated Statements of Incomes

Years ended December 31, 2004 and 2003

In Millions of Korean Won

	2004	2003
Interest income (Note 15):		
Loans	W1,800,944	W1,549,782
Securities	324,131	364,852
Trust securities	21,179	26,700
Due from banks	8,933	14,319
Other	6,654	15,032
	2,161,841	1,970,685
Interest expense (Note 15):		
Deposits	902,116	892,024
Borrowings	56,401	77,845
Financial debentures	336,465	193,154
Other	25,723	30,657
	1,320,705	1,193,680
Net interest revenue	841,136	777,005
Fees, commissions, other revenue (expense), net:		
Operation Fees	46,839	43,195
Foreign Exchange	35,705	31,841
Third Party Fees	18,579	11,907
Trust Fees	3,421	3,928
Loan & Guarantee Fees	17,469	3,521
Credit card Fees	139,274	172,424
Securities & Others	2,025	(9,913)
	263,312	256,903
Contribution to credit guarantee fund	24,071	19,991
Deposit insurance expense	39,417	35,838
Total revenue	1,040,960	978,079
Operating expense:		
Staff cost (Note 19)	378,172	347,782
Administration expense	163,193	162,440
Depreciation and other	108,916	108,214
	650,281	618,436
Operating margin	390,679	359,643
Provision for loan losses (Note 6)	148,442	105,109
Operating income	242,237	254,534
Non-operating revenue (Note 20)	48,459	127,644
Non-operating expense (Note 20)	123,823	289,031
Net non-operating loss	(75,364)	(161,387)
Income before taxes	166,873	93,147
Income tax expenses (Note 21)	46,894	106,617
Net income (loss)	W 119,979	W (13,470)
Ordinary earnings (loss) per share (Note 22)	W 583	W (67)
Net earnings (loss) per share (Note 22)	W 583	W (67)

(Korean Won in units)

See accompanying notes.

Consolidated Statements of Changes in Capital Surplus and Retained Earnings

Years ended December 31, 2004 and 2003

(In Millions of Korean Won)

	Capital stock	Capital surplus	Retained earnings	Capital adjustment	Total
Beginning balances at January 1, 2003	W 980,584	W -	W 633,319	W 59,540	W 1,673,443
Increase in capital by exercise of warrants	49,029	17,111	-	-	66,140
Consolidated net loss	-	-	(13,470)	-	(13,470)
Increase in other reserves	-	-	2,768	-	2,768
Cumulative effect of accounting changes	-	-	(9,105)	-	(9,105)
Loss on valuation of investment securities	-	-	-	(63,791)	(63,791)
Increase due to foreign currency translation	-	-	1,597	-	1,597
Ending balances at December 31, 2003	W1,029,613	W17,111	W615,109	W(4,251)	W1,657,582

(In Millions of Korean Won)

	Capital stock	Capital surplus	Retained earnings	Capital adjustment	Total
Beginning balances at January 1, 2004	W 1,029,613	W 17,111	W 615,109	W (4,251)	W 1,657,582
Consolidated net income	-	-	119,979	-	119,979
Increase in other reserves	-	-	1,543	-	1,543
Gain on valuation of investment securities	-	-	-	73,297	73,297
Increase due to foreign currency translation	-	-	(1,635)	-	(1,635)
Ending balances at December 31, 2004	W1,029,613	W17,111	W734,996	W69,046	W1,850,766

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31, 2004 and 2003

In Millions of Korean Won

	2004	2003
<i>Cash flows from operating activities:</i>		
Consolidated net income (loss)	W 119,979	W (13,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan and other losses	148,442	105,109
Depreciation and amortization	78,867	75,935
Provision for severance and retirement benefits	23,013	29,517
Loss on sales of loans	107,985	251,187
Interest on KDIC receivables	-	(5,601)
Deferred income tax	45,427	106,200
Accrued expenses payable	88,646	28,245
Other, net	183,848	174,282
Changes in operating assets and liabilities, net	27,427	(10,176)
Net cash provided by operating activities	823,634	741,228
<i>Cash flows from investing activities:</i>		
Due from banks	1,547,805	(398,995)
Securities	(22,968)	347,330
KDIC bonds	-	91,076
Loans	(3,896,405)	(7,138,209)
Fixed assets	(56,567)	(79,982)
Account receivable	202,814	(134,870)
Unsettled exchange	(245,322)	(3,266)
Other, net	(54,772)	(22,525)
Net cash used in investing activities	(2,525,415)	(7,339,441)
<i>Cash flows from financing activities:</i>		
Deposits	330,538	3,886,275
Borrowings	(336,861)	(796,510)
Financial debentures	3,108,733	3,482,395
Borrowing (repayment) from (to) trust account Agencies	(148,673)	172,550
Account payable	(174,684)	99,061
Domestic exchange obligation payable	(221,980)	225,089
Other, net	(636,314)	(91,076)
Other, net	1,001	(81,322)
Net cash provided by financing activities	1,921,760	6,896,462
Cash flows due to change of consolidation scope	-	8
Net increase in cash and cash equivalents	219,979	298,257
Cash and cash equivalents at beginning of year	1,020,473	722,216
Cash and cash equivalents at end of year (Note 4)	W1,240,452	W1,020,473

See accompanying notes.

1. Organization and Business

Korea First Bank ("the Bank") was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act in the Republic of Korea and operates through 406 local branches and 3 overseas networks as of December 31, 2004.

In March 1956, the Bank listed its shares on the Korea Exchange (formerly, the Korea Stock Exchange). However, in connection with recapitalization by the Korea Deposit Insurance Corporation ("KDIC") in July 1999, the Bank's shares were suspended from trading on the Korea Exchange. The par value of the Bank's common stock outstanding at December 31, 2004 is W1,029,613 million.

As of December 31, 2004, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the KDIC on December 30, 1999. On May 23, 2003, the KDIC exercised warrants and purchased additional shares so that as of December 31, 2004, the KDIC, Ministry of Finance and Economy ("MOFE"), and Newbridge own 48.49%, 2.95% and 48.56%, respectively, of the Bank's common stock. The exercise does not impact control of the Bank as the KDIC must still allow Newbridge the ability to vote all of its shares, except for matters of fundamental governance.

On January 10, 2005, Newbridge, the controlling shareholder of the Bank, entered into an agreement with Standard Chartered Bank ("SCB") whereby SCB agreed to purchase Newbridge's ownership in the Bank. In accordance with the agreement, SCB will purchase 99,999,956 shares (48.56%) held by Newbridge for W16,511 per share for a total of W1,651,099 million. The remaining shares held by KDIC (99,853,167 shares or 48.49%) and MOFE (6,069,517 shares or 2.95%) will be purchased based on identical terms. As a result, SCB will own 100% of the Bank's shares for a total of W3,400,000 million after the transaction closes. The transaction is subject to approval from Financial Supervisory Service, with approval expected to occur by May 2005.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Bank in the preparation of its consolidated financial statements are summarized below.

Basis of Presenting Consolidated Financial Statements

The Bank maintains its official accounting records in Korean Won and prepares its statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP") and Accounting Standards applicable to the Korean Banking Industry. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain reclassifications and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year's presentation. Certain supplementary information attached to the statutory Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations and cash flows, is not presented in the accompanying financial statements.

The preparation of financial statements in conformity with financial accounting standards requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Scope of Consolidation

The accompanying consolidated financial statements include the Bank's accounts and certain trust accounts (money trusts which are subject to a guaranteed principal repayment or a fixed rate of return) of the Bank and its controlled subsidiaries. General information describing the Bank's controlled subsidiaries and equity-method investee are provided below.

A summary of the Bank's controlled subsidiaries as of December 31, 2004 is as follows:

Subsidiaries	Number of invested shares	Percentage of ownership
Korea First Finance Ltd., Hong Kong	7,000	100.00
Korea First Data System Co., Ltd.	400,000	100.00

Korea First Finance Ltd., Hong Kong ("KFF") was established on May 23, 1980. KFF is engaged in the banking business according to the provisions of the local general banking act. KFF's common stock outstanding at December 31, 2004 is US\$7 million.

Korea First Data System Co., Ltd was established on May 1, 1990 for the purpose of offering services and developing computer software for the Bank. Korea First Data System Co., Ltd.'s total common stock outstanding at December 31, 2004 is W2 billion. Prior to 2003, Korea First Data System Co., Ltd. was accounted for as an equity-method investee since the company's total assets were less than W7 billion. Due to total assets increasing to W8 billion as of December 31, 2002, the company is subject to consolidation under Korean GAAP starting in 2003.

The Bank owned 50% of ownership of Qingdao International Bank which is, in Qingdao China, engaged in banking business according to the provisions of the local general banking act. Qingdao International Bank, an equity method investee at December 31, 2003, was sold to a third party during January 2004 (see Note 22).

In the normal course of business, the Bank transacts loans, deposits, commissions, guarantees and other transactions with its controlled subsidiaries and equity-method investee.

Accounting Standards for Consolidated Financial Statements

Inter-company transactions and balances

The Bank's investment account and corresponding capital accounts of its subsidiaries have been eliminated in the accompanying consolidated financial statements.

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

Translation of foreign subsidiary financial statements

The financial statements and accounting records of KFF are maintained in foreign currencies. In translating the financial statements of KFF, the Bank applies the appropriate rate of exchange at the balance sheet date.

Accounting for trust accounts

The Bank receives fees from the trust accounts for its management or custodian of trust assets and operations, and is entitled to receive special fees from certain trust accounts in accordance with relevant laws and regulations applicable to trust operations.

Certain money trust agreements provide that the Bank guarantees a principal amount of trusts or a minimum rate of return. In relation to such guarantees, the Bank's trust accounts are required to set up a special reserve equal to 25% of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the required principal amount or minimum rate of return, the deficiency may be either recovered from previously established special reserves or compensated by the banking accounts, in accordance with the relevant laws and regulations applicable to the trust business.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2004 and 2003. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

Recognition of Interest and Fee Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on other overdue and unrealised loans, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis.

Cash and Cash Equivalents

For purpose of determining cash flows, cash and cash equivalents include highly liquid deposits, and marketable securities with remaining maturities of three months or less from the date of acquisition, whose risk of fluctuation in value arising from changes of interest rates is insignificant. Deposits restricted in use are not included in cash and cash equivalents (see Note 4).

Debt and Equity Securities

Debt securities having fixed maturities and pre-determined redemption amounts for which an entity has a positive intent and ability to hold to maturity are classified as held-to-maturity securities and carried at cost, adjusted for the amortization of discounts or premiums (amortized cost) using the effective interest method.

Debt and equity securities traded actively and frequently that are bought and held for the purpose of generating profits on short-term differences in price are classified as trading securities and stated at fair value, with unrealised gains and losses recorded in income.

Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and stated at fair value, with unrealised gains and losses accounted for in the capital adjustment account, a component of shareholders' equity. Non-marketable equity securities classified as available-for-sale securities and without measurable fair value are carried at cost.

If the net realizable value of held-to-maturity securities and available-for-sale securities is less than acquisition cost or carrying value, such securities are adjusted to net realizable value, with a valuation loss charged to current operations after eliminating any previous recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations to the extent of previously recorded valuation losses if such recoveries are attributable to events occurring subsequent to the recognition of the valuation loss.

Allowance for Loan Losses

For corporate loans, the Bank classifies loans by determining the Borrower's Risk Rating ("BRR"), which is based on the future debt service capacity of the borrower ("Forward Looking Criteria"), loan type, collateral, or guarantee. The loan loss reserve calculated according to the expected loss ratio for each BRR is compared to the loan loss reserve calculated according to the Financial Supervisory Service ("FSS")'s minimum loan loss reserve percentages for each classification category and the higher amount is recorded as the loan loss reserve.

The loan loss reserve calculation based on the Bank's expected loss ratio is as follows:

Expected loss (required loan loss reserve) = exposure at default × expected loss ratio

Expected loss ratio = probability of default by classification grade × (1 - recovery rate)

Certain characteristics for the Bank's credit system are defined as follows:

Definition of Insolvent Company: Companies in which the BRR has declined to grade 10 due to default on payment of promissory notes, or initiation of court-receivership or court ordered composition.

Probability of Default for each BRR: An insolvent ratio based on the number of insolvent companies in Korea is calculated at the beginning of the year and applied as the probability of default. This ratio has been calculated since 2002 and a comparison analysis with the actual default rate of the Bank is conducted every year.

Exposure at Default: 75% of uncontrollable undrawn commitments (BASEL II recommendation) is added to the outstanding balance when calculating exposure at default.

The Bank calculates three different types of recovery rates, these are:

Product Recovery Rate: A product recovery rate for certain loans is determined by analyzing recoveries from bills discounted, bills bought, etc. secured by third parties occurring during January 1, 2001 to June 30, 2004 for companies that defaulted during January 1, 2001 to December 31, 2003.

Collateral Recovery Rate: A collateral recovery rate is determined by analyzing collateral type and liquidation value based on average bidding rates of local court auctions.

Unsecured Loan Recovery Rate: An unsecured loan recovery rate is determined by analyzing historical results for voluntary repayment by the borrower or guarantor during the 12 months after a company was deemed to become insolvent. The rate was developed based on insolvencies occurring during the period from January 1, 2001 to December 31, 2003.

The Bank reserves loss provisions for all loans with the exception of call loans, bonds purchased under resale agreements and loans originated to the Korean government or local government, which are classified as "Normal".

The minimum loan loss reserve percentage is as follows for each classification category.

BRR	Classification	Corporate loans and others	Household loans	Credit card accounts
1 ~ 6	Normal	0.5% or above	0.75% or above	1% or above
7	Precautionary	2% or above	8% or above	12% or above
8	Substandard	20% or above	20% or above	20% or above
9	Doubtful	50% or above	55% or above	60% or above
10	Estimated loss	100%	100%	100%

The Bank's classification criteria for credit rating of corporate loans are as follows:

Classification	Description
Normal	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose no risk to the Bank's ability to collect the full amount of principal and interest as they become due.
Precautionary	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to have potential weaknesses that may lead to an inability to repay the full principal and interest as they become due in the near future.
Substandard	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose a considerable risk to the Bank's ability to collect the full principal and interest due to revealed weaknesses that may have diminished the customers' capacity to repay the loans in a satisfactory manner.
Doubtful	Portion of assets in excess of the amount expected to be collected from customers who, in light of their management, financial position and future cash flows, are determined to pose a significant risk to the Bank's ability to collect principal and interest due to a considerably weakened capacity to repay the loans in a satisfactory manner.
Estimated Loss	Portion of assets in excess of the amount expected to be collected from customers whose credit must be accounted for as a loss, because, in light of their management, financial position and future cash flows, the Bank's collection of principal and interest is not probable in the foreseeable future due to a serious weakening of such customers' ability to repay the loan in a satisfactory manner.

For household and credit card loans, the Bank determines the loss percentages using historical migration loss models by loan type (credit card, card loans, FCL and Quick Cash Loan, general credit loans, home equity loans, general secured loans, Hanaro Loan, and workout loans). The loss provision derived from applying the ratio of expected loss (ratio of expected loss according to the historical migration loss model) calculated for each group of household loans, taking into account the roll rate for the past 18-24 months, vintage analysis, historical collection ratio, selling price and approval policies, is compared on a total basis to the loss provision based on the FSS's minimum provision percentage for each classification category. The Bank records the higher percentage of the two methods as its loss provision. Classification of household and credit card loans is based on the borrower's credit rating calculated by taking into account delinquency period, security value and the possibility of collection.

Loans which are deemed uncollectible are fully reserved by the allowance. However, charge-offs of actual loan balances may be delayed due to certain banking regulations governing the charge-offs of loan balances.

If the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference between present value and book value of the loan is recorded as allowance for loan losses. The difference recorded as allowance is amortized to current earnings over the related period using the effective interest rate method. The amortization is recorded as interest income.

When the number and type of securities to be received by the Bank from debt to equity swap agreements with restructured borrowers are determined, the loans are reclassified to loans for debt-equity swap. Any difference between the securities' fair value and the net carrying amount of the loans is recorded as a charge-off or recovery, as appropriate, through the allowance for loan losses.

Deferred Fees and Expenses

The Bank defers and amortizes certain fees and expenses associated with originating certain loans. Fees are primarily amounts received from the borrower and expenses are primarily amounts paid to third parties. Net fees or expenses are amortized over the life of the associated loan using the effective interest rate method.

Fixed Assets

Premises, equipment and intangible assets are recorded at cost. Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful life of the facilities involved are treated as additions to premises and equipment. Depreciation for construction in progress is deferred until transfer to appropriate fixed asset categories upon completion.

Depreciation is computed using the declining-balance method over the estimated useful lives of the assets except for structures and buildings acquired after January 1, 1995, which are depreciated using the straight-line method.

	Estimated useful lives
Buildings	40 ~ 60 years
Structures	5 years
Movable property	3 ~ 20 years

Intangible assets are amortized using the straight-line method over an estimated useful life of 3 to 5 years.

New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from paid-in capital in excess of par value (capital surplus) and the amounts of debenture issuance, respectively. Debenture issuance costs are amortized as interest expense over the redemption period using the effective interest rate method.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

Bonds purchased under resale agreements and bonds sold under repurchase agreements are included in assets and liabilities, respectively, in the accompanying balance sheets.

Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standard Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2004 and 2003 is sufficient to state the liability under the Bank's policies based on the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2004 and 2003. Funding of this liability is not required by Korean law. In January 2004, the Bank changed its severance and retirement benefits policy by eliminating the cumulative severance payment system and implementing the severance payment system based on the Korean Labor Standard Law. As a result, the Bank paid W170 billion for cumulative severance and retirement benefits during the year ended December 31, 2004. This amount had previously either been accrued or funded by deposits in insurance agreements.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W2,933 million at December 31, 2004. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2004, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

Reserve for Acceptances and Guarantees

Except for certain confirmed and outstanding domestic import usance bills originating from import L/Cs issued by the Bank, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides a minimum allowance percentage on confirmed guarantees of 0.5% for companies classified as "normal", 2% for "precautionary", 20% for "substandard", 50% for "doubtful" and 100% for "estimated loss".

Reserve for Unused Cash Advance Commitments on Credit Cards

The Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months.

Income Tax Expense

Deferred income taxes are recognized for the tax consequences of differences between the tax and financial reporting amounts of assets and liabilities at each period-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense consists of income tax payable for the period and the change during the period in deferred tax assets and liabilities.

Derivative Financial Instruments

Derivative financial instruments include futures, forwards, option contracts and swap contracts, and are principally linked to interest rates and foreign exchange rates.

Derivative financial instruments, regardless of whether they are entered for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with gains and losses included in current operations. Derivative contracts qualifying for hedge accounting treatment have unrealized valuation gains and losses recorded as capital adjustments (cash-flow-hedge derivatives) or as other revenues and expenses in current operations in conjunction with recording unrealized gains and losses for underlying assets or liabilities (fair-value-hedge derivatives).

Contingent Liabilities

Guarantees of payment for money indebtedness, acceptances of trade bills (except banker's usance) related to import transactions, guarantees issued on opened letters of credit, etc. are classified as confirmed acceptances and guarantees. Both confirmed acceptances and guarantees and contingent acceptances and guarantees are presented as off-balance sheet items. The notional amount of derivative contracts, bills endorsed and commitments for which the Bank has promised to provide credit to borrowers, if the commitment period is over 1 year and the commitment is irrevocable by the Bank, are also presented as off-balance sheet items.

Investment Distribution Business

The Bank has a consignment contract for sale of beneficiary certificates and mutual funds with an investment trust company. Outstanding beneficiary certificates and mutual funds sold for an outside investment trust company at December 31, 2004 and 2003 amounted to W1,272 billion and W373 billion, respectively.

Korean GAAP Revisions

The Korea Accounting Standards Board has issued new accounting standards with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards include changes in the areas of discontinued operations, equity method of accounting for investments, income taxes, and provisions, contingent liabilities and contingent assets. Korean companies should apply such revised accounting standards for the first fiscal year starting after December 31, 2004. Early adoption of the revised accounting standards is allowed, except accounting for discontinued operations which will be effective after December 31, 2005. The cumulative effect on prior years of the changes in accounting standards will be primarily charged or credited to opening retained earnings with disclosures made on the effect of the changes.

Accounting Change for Gain or Loss on Sale of Loans

Due to a new accounting interpretation issued by Korea Accounting Standards Board ("KASB"), the Bank changed its accounting for gains or losses from the sale of loans. Previously, gains or losses from the sale of loans were computed by comparing the proceeds of the sale to the book value as of the effective sale date. Currently, gains or losses from the sale of loans are computed by comparing sale proceeds against the loans' book value as of the year end immediately preceding the date of sale. As a result of this change, losses on sale of loans increased by W71,836 million and gains on sale of loans

and provision for loan losses decreased by W2,356 million and W74,192 million, respectively, for the year ended December 31, 2004. The statements of income and cash flows for the year ended December 31 2003, presented herein for comparative purpose, were restated to reflect the above change. As a result, losses on sale of loans increased by W214,633 million and gains on sale of loans and provision for loan losses decreased by W1,413 million and W216,046 million, respectively for the year ended December 31, 2003. Such change and restatement had no effect on net assets as of December 31, 2004 and 2003 on net income (loss) for the years then ended (see Note 20).

3. KDIC Agreements

As discussed in Note 1, on December 30, 1999, Newbridge entered into an agreement with the Korean government whereby Newbridge acquired 50.99% of the outstanding common stock of the Bank from the Korea Deposit Insurance Corporation ("KDIC") effective December 31, 1999 ("Closing").

Receivables from the KDIC at December 31, 2004 and 2003 are W112,427 million and W121,442 million, respectively. Receivables are primarily for indemnification settlements resulting from various agreements between Newbridge and the KDIC.

4. Cash and Due from Banks

Cash and due from banks at December 31, 2004 and 2003 are summarized as follows:

	Millions of Won	
	December 31, 2004	December 31, 2003
Cash on hand	W 502,737	W 822,053
Foreign currencies	25,937	49,406
Due from banks in Korean Won	1,028,718	2,001,501
Due from banks in foreign currencies	65,966	78,224
	W1,623,358	W2,951,184

Due from banks denominated in Korean Won at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2004			
Checking accounts	-	Bank of Korea	W 364,221
CD purchased	3.52 ~ 3.58	Shinhan Bank, etc.	664,197
Other deposits	0.00 ~ 4.00	Korea Exchange, etc.	300
			W1,028,718
December 31, 2003			
Checking accounts	-	Bank of Korea	W 1,694,784
CD purchased	4.30 ~ 4.50	Industrial Bank of Korea, etc.	306,478
Other deposits	0.00 ~ 4.00	Korea Exchange, etc.	239
			W2,001,501

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Due from banks denominated in foreign currencies at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2004			
Demand deposits	-	Bank of Korea, etc.	W 65,921
Other deposits	T-bill(*) - 0.5	Prudential Securities	45
			W65,966
December 31, 2003			
Demand deposits	-	Bank of Korea, etc.	W 78,204
Other deposits	T-bill(*) - 0.5	Prudential Securities	20
			W78,224

(*) 1 month US treasury bill

Restricted balances in due from banks at December 31, 2004 and 2003 are summarized as follows (millions of Won):

Type	Depository	Total	Restriction
December 31, 2004			
Checking accounts	Bank of Korea	W 364,221	Reserve for payment of deposits
Demand deposits	Bank of Korea	18,407	Reserve for payment of deposits
Other deposits	Korea Exchange, etc.	278	Deposits for stock index futures, etc.
		W 382,906	
December 31, 2003			
Checking accounts	Bank of Korea	W 1,694,784	Reserve for payment of deposits
Demand deposits	Bank of Korea	57,800	Reserve for payment of deposits
Other deposits	Korea Exchange, etc.	249	Deposits for stock index futures, etc.
		W1,752,833	

Checking accounts and demand deposits deposited with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits.

The term structure of amounts due from banks at December 31, 2004 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2005	W1,028,718	W65,966	W1,094,684

The term structure of amounts due from banks at December 31, 2003 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2004	W2,001,501	W78,224	W2,079,725

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Major transactions not resulting in cash flows for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004	2003
Valuation gain(loss) of available-for-sale securities	73,297	W(63,791)
Loss reserve - KDIC Receivable	-	41,810
Warrant bond issued - paid in capital and capital in excess of par value	-	66,140

Cash and cash equivalents at December 31, 2004 and 2003 are comprised as follows (millions of Won):

	2004	2003
Cash on hand	W 502,737	W 822,053
Foreign currencies	25,937	49,406
Due from banks in Won	664,264	128,610
Due from banks in foreign currency	47,514	20,404
	W1,240,452	W1,020,473

5. Securities

Securities at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Trading securities		
Korean Won	W 112,593	W -
Equity securities held for investment		
Korean Won		
Listed companies	828	1,659
Unlisted companies	38,250	13,340
	39,078	14,999
Foreign currency		
Beneficiary certificates	264,218	119,466
Affiliated companies	-	10,181
	264,218	129,647
	303,296	144,646
Debt securities held for investment		
Bonds available-for-sale		
Korean Won	6,179,390	6,454,600
Foreign currencies	215,147	286,482
	6,394,537	6,741,082
Bonds held-to-maturity		
Korean Won	2,117	1,906
Foreign currencies	285,507	215,520
	287,624	217,426
	6,682,161	6,958,508
Total Securities	W7,098,050	W7,103,154

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Trading Securities

There were no trading securities at December 31, 2003. Trading securities as of December 31, 2004 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gains	Carrying value (*)
Government bonds	4.75 ~ 8.35	W 90,000	W 92,520	W 92,464	W -	W 92,464
Financial debentures	4.18	20,000	20,131	20,100	29	20,129
		W110,000	W112,651	W112,564	W29	W112,593

(*) The above carrying value is estimated using the conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2004.

Equity Securities Held for Investment

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2004 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Korea Information Service, Inc. (*)	42,000	0.88	W828	W828

(*) A gain on valuation of securities of W389 million for Korea Information Service, Inc. was included in the capital adjustment account as of December 31, 2004.

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2003 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Korea Information Service, Inc. (*1)	42,000	0.88	W 1,659	W 1,659
Dong Yang Steel Pipe Co., Ltd. (*2)	1,180	0.00	-	-
	43,180		W1,659	W1,659

(*1) A gain on valuation of securities of W1,220 million for Korea Information Service Inc. was included in the capital adjustment account as of December 31, 2003.

(*2) Equity securities of Dong Yang Steel Pipe Co., Ltd. were received when outstanding loans were converted to equity in connection with a court receivership.

Unlisted equity securities, denominated in Korean Won, as of December 31, 2004 and 2003 are as follows (millions of Won):

Company	Number of shares	Ownership(%)	Acquisition cost	Impairment loss	Capital adjustment	Fair value / Net asset value (*)	Book value
December 31, 2004							
Korea Securities Finance Co.	1,500,000	2.21	W 7,500	W -	W 663	W 8,163	W 8,163
BC Card	653,400	14.85	5,840	-	5,144	10,984	10,984
First Home Loan No.1 Ltd.	5	0.50	-	-	-	-	-
First Home Loan No.2 Ltd.	5	0.50	-	-	-	-	-
First Home Loan No.3 Ltd.	5	0.50	-	-	-	-	-
Samsung Card	2,415,772	0.92	19,326	-	(256)	19,070	19,070
Badbank Harmony	167	-	167	(134)	-	33	33
	4,569,354		W32,833	W(134)	W5,551	W38,250	W38,250
December 31, 2003							
Korea Securities Finance Co.	1,500,000	2.21	W 7,500	W -	W -	W 10,113	W 7,500
BC Card	653,400	14.85	5,840	-	-	22,889	5,840
	2,153,400		W13,340	W -	W -	W33,002	W13,340

(*) From January 1, 2004, the Bank recorded unlisted equity securities at fair value priced by external rating agencies while it recorded such investments at acquisition cost prior to 2004.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Beneficiary certificates, denominated in foreign currencies, as of December 31, 2004 and 2003 are as follows (millions of Won):

	Face value	Acquisition cost	Capital adjustment	Carrying value
December 31, 2004	W260,950	W260,950	W3,361	W264,218
December 31, 2003	W118,585	W118,585	W 881	W119,466

Beneficiary certificates are valued using the most recent redemption price available from the fund management company as of December 31, 2004 and 2003.

Equity securities, denominated in foreign currencies, as of December 31, 2003 (none as of December 31, 2004) are summarized as follows (millions of Won):

Company	Ownership (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2003					
Qingdao International Bank	50.00	W11,978	W10,181	W12,232	W10,181

For Qingdao International Bank ("Qingdao"), an additional loss of W2,051 million (reflected in W2,295 million of income from affiliated companies, net) was recorded in 2003 as the market value of Qingdao was deemed to be lower than its net asset value. The Bank's shares in Qingdao were sold to a third party during January 2004 for US\$8.5 million.

Debt Securities Held for Investment

Bonds available-for-sale, denominated in Korean Won, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Capital adjustment	Carrying value (*2)
December 31, 2004						
Government bonds	4.50 ~ 5.00	W 132,937	W 133,047	W 133,005	W 2,015	W 135,020
Financial debentures (*1)	3.21 ~ 5.67	5,480,000	5,453,824	5,466,527	44,196	5,512,287
Asset backed securities	11.46	365,000	431,394	396,144	12,051	408,195
Corporate debentures	4.48 ~ 7.20	120,000	124,008	122,959	929	123,888
		W6,097,937	W6,142,273	W6,118,635	W59,191	W6,179,390
December 31, 2003						
Government bonds	4.75 ~ 11.15	W 520,352	W 519,517	W 519,331	W 1,627	W 520,958
Financial debentures	3.83 ~ 6.42	5,040,000	4,940,595	4,925,846	(7,360)	4,918,486
Asset backed securities	6.20 ~ 13.44	825,000	956,394	925,770	3,865	929,635
Corporate debentures	5.18 ~ 7.00	86,000	85,058	84,982	539	85,521
		W6,471,352	W6,501,564	W6,455,929	W(1,329)	W6,454,600

(*1) The above carrying value of financial debentures includes valuation gains recorded in operating income of W1,612 million and losses of W48 million from fair value hedges.

(*2) The above carrying values are estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2004 and 2003.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Bonds available-for-sale, denominated in foreign currencies, as of December 31, 2004 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (*1)	Capital adjustment	Carrying value (*2)
USD	1.50 ~ 7.63	W 198,844	W 199,193	W 199,211	W 5,261	W 511	W 204,983
JPY	0.93	10,121	10,121	10,121	-	43	10,164
		W208,965	W209,314	W209,332	W5,261	W 554	W215,147

Bonds available-for-sale, denominated in foreign currencies, as of December 31, 2003 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (*1)	Capital adjustment	Carrying value (*2)
USD	0.25 ~ 4.63	W 262,350	W 260,810	W 273,348	W 6,958	W (5,046)	W 275,260
JPY	0.93	11,196	11,196	11,197	2	23	11,222
		W273,546	W272,006	W284,545	W6,960	W(5,023)	W286,482

(*1) Bonds hedged by asset swap contracts which offset valuation gains and losses on underlying assets as fair value hedges.

(*2) The above carrying values are estimated using broker's quotes, yields for bonds announced by quotation services, or estimates of amounts collectible.

As of December 31, 2003, US\$86 million of bonds available-for-sale, denominated in foreign currencies are pledged as collateral for interest rate swaps.

Bonds held-to-maturity, denominated in Korean Won, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Carrying value	Fair value
December 31, 2004					
Government bonds	2.50 ~ 6.00	W2,209	W1,176	W2,117	W2,205
December 31, 2003					
Government bonds	3.00 ~ 6.00	W2,270	W1,237	W1,906	W2,176

As of December 31, 2004 and 2003, W3,240 billion and W3,495 billion of bonds denominated in Korean Won (both available-for-sale and held-to-maturity bonds) are pledged as collateral for certain borrowings, settlement of accounts, repurchase agreement, key money deposits, etc., respectively.

Bonds held-to-maturity, denominated in foreign currencies, as of December 31, 2004 and 2003 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Carrying value	Fair value
December 31, 2004					
USD	1.50 ~ 8.25	W 281,102	W 280,792	W 280,446	W 282,727
JPY	0.10	5,060	5,061	5,061	5,061
		W286,162	W285,853	W285,507	W287,788
December 31, 2003					
USD	3.87 ~ 7.25	W 209,644	W 210,108	W 209,919	W 210,245
JPY	0.10	5,598	5,604	5,601	5,603
		W215,242	W215,712	W215,520	W215,848

As of December 31, 2004 and 2003, JPY500 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for settlement of accounts.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Structured Securities

Structured securities, denominated in foreign currencies, as of December 31, 2004 are summarized as follows (millions of Won):

Account	Company	Annual interest rate (%)	Acquisition cost	Carrying value	Maturity date
December 31, 2004					
Exchangeable Bonds (*1)	Momenta Cayman (SK Corp.)	2.50	W 10,716	W 10,582	08-01-2007
	Korea Deposit Insurance Corporation	2.25	20,745	26,043	10-11-2005
	DLIC Ltd.	2.00	20,876	20,636	02-18-2009
			52,337	57,261	
Bond with warrant	Oriental Precision	1.50	3,131	3,155	09-07-2006
	Dongwon Co.	1.50	2,082	2,085	02-20-2006
			5,213	5,240	
Credit linked notes (*2)	Lehman Brothers Treasury Co.	3ML+3.00	52,190	52,190	11-19-2007
	Granite Finance Ltd.	3ML+2.70	52,190	52,190	12-17-2007
	SPARC EM Ltd-AV1	6ML+3.15	52,190	52,190	02-08-2008
	Cosair (Jersey) Ltd.	3ML+3.35	52,190	52,190	04-22-2009
			208,760	208,760	
			W266,310	W271,261	

(*1) The above exchangeable bonds are classified as available-for-sale securities. The Bank cannot convert the bonds into other securities in accordance with callable asset swap contracts.

(*2) The above credit linked notes are classified as held-to-maturity securities.

Structured securities, denominated in foreign currencies, as of December 31, 2003 are summarized as follows (millions of Won):

Account	Company	Annual interest rate (%)	Acquisition cost	Carrying value	Maturity date
December 31, 2003					
Exchangeable Bonds (*1)	Momenta Cayman (SK Corp.)	2.50	W 12,198	W 12,024	08-01-2007
	Korea Deposit Insurance Corporation	2.25	23,988	29,956	10-11-2005
	Korea Deposit Insurance Corporation	2.25	23,806	29,956	10-11-2005
			59,992	71,936	
Convertible Bonds (*1)	Korea Telecom	0.25	7,636	7,760	01-04-2007
	LG Electronics	0.00	17,877	18,596	08-11-2006
			25,513	26,356	
Credit linked notes (*2)	Lehman Brothers Treasury Co.	3ML+3.00	59,890	59,890	11-19-2007
	Granite Finance Ltd.	3ML+2.70	59,890	59,890	12-17-2007
	SPARC EM Ltd-AV1	6ML+3.15	59,890	59,890	02-08-2008
			179,670	179,670	
			W265,175	W277,962	

(*1) The above exchangeable bonds and convertible bonds are classified as available-for-sale securities. The Bank cannot convert the bonds into other securities in accordance with callable asset swap contracts.

(*2) The above credit linked notes are classified as held-to-maturity securities.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Securities Concentrations

At December 31, 2004 and 2003, information about securities by geography, issuer, industry and character are summarized as follows (millions of Won):

By Geography	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Korea	W 6,333,178	W 166,937	W 6,500,115	91.58
USA	-	473,140	473,140	6.67
Switzerland	-	52,190	52,190	0.73
Netherlands	-	51,391	51,391	0.72
England	-	10,788	10,788	0.15
China	-	5,365	5,365	0.08
Japan	-	5,061	5,061	0.07
	W6,333,178	W764,872	W7,098,050	100.00
December 31, 2003				
Korea	W 6,471,505	W 250,432	W 6,721,937	94.63
USA	-	299,166	299,166	4.21
Switzerland	-	59,890	59,890	0.85
China	-	16,560	16,560	0.23
Japan	-	5,601	5,601	0.08
	W6,471,505	W631,649	W7,103,154	100.00
By Issuer				
	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Financial business	W 6,082,685	W 587,509	W 6,670,194	93.97
Public	229,601	59,515	289,116	4.08
Large corporate	20,064	117,848	137,912	1.94
Middle & small business	828	-	828	0.01
	W6,333,178	W764,872	W7,098,050	100.00
December 31, 2003				
Financial business	W 5,866,662	W 397,248	W 6,263,910	88.19
Public	522,864	59,862	582,726	8.20
Large corporate	75,412	174,539	249,951	3.52
Middle & small business	6,567	-	6,567	0.09
	W6,471,505	W631,649	W7,103,154	100.00

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

By Industry	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Financial business	W 6,082,685	W 587,509	W 6,670,194	93.97
Public	229,601	59,515	289,116	4.08
Manufacturing	20,892	81,516	102,408	1.44
Construction	-	20,636	20,636	0.29
Wholesale & retail	-	7,870	7,870	0.11
Transportation	-	5,741	5,741	0.08
Other	-	2,085	2,085	0.03
	W6,333,178	W764,872	W7,098,050	100.00
December 31, 2003				
Financial business	W 5,866,662	W 397,248	W 6,263,910	88.19
Public	522,864	59,862	582,726	8.20
Manufacturing	62,523	174,539	237,062	3.34
Wholesale and retail	19,456	-	19,456	0.27
	W6,471,505	W631,649	W7,103,154	100.00

By Character	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2004				
Fixed rate bonds	W 6,294,100	W 203,005	W 6,497,105	91.54
Floating rate bonds	-	297,649	297,649	4.19
Beneficiary certificates	-	264,218	264,218	3.72
Stocks	39,078	-	39,078	0.55
	W6,333,178	W764,872	W7,098,050	100.00
December 31, 2003				
Fixed rate bonds	W 6,456,506	W 157,575	W 6,614,081	93.12
Floating rate bonds	-	344,427	344,427	4.85
Beneficiary certificates	-	119,466	119,466	1.68
Stocks	14,999	10,181	25,180	0.35
	W6,471,505	W631,649	W7,103,154	100.00

Maturity Schedule

The maturities of securities, except equity securities, at December 31, 2004 are summarized as follows (millions of Won):

Year ending December 31,	Government bonds	Financial debentures	Corporate debentures	Asset backed securities	Securities in foreign currencies	Total
2005	W 52,338	W 2,130,909	W 61,466	W -	W 121,386	W 2,366,099
2006	176,857	3,401,507	62,422	-	23,380	3,664,166
2007	88	-	-	408,195	125,950	534,233
2008	275	-	-	-	57,576	57,851
2009	43	-	-	-	161,574	161,617
Thereafter	-	-	-	-	10,788	10,788
	W229,601	W5,532,416	W123,888	W408,195	W500,654	W6,794,754

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

The maturities of securities, except equity securities, at December 31, 2003 are summarized as follows (millions of Won):

Year ending December 31,	Government bonds	Financial debentures	Corporate debentures	Asset backed securities	Securities in foreign currencies	Total
2004	W 171,561	W 4,918,486	W 85,521	W 95,568	W 74,374	W 5,345,510
2005	1,135	-	-	-	192,128	193,263
2006	349,823	-	-	-	14,885	364,708
2007	88	-	-	834,067	128,719	962,874
2008	255	-	-	-	90,670	90,925
Thereafter	2	-	-	-	1,226	1,228
	W522,864	W4,918,486	W85,521	W929,635	W502,002	W6,958,508

6. Loans

Loans at December 31, 2004 and 2003 are summarized as follows:

	December 31, 2004		December 31, 2003	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in Korean Won				
Corporate loans	3.30 ~ 10.46	W 7,055,766	4.60 ~ 11.17	W 6,725,391
Household loans	4.69 ~ 14.46	18,510,595	5.29 ~ 14.70	15,890,987
Loans to public sector	5.41 ~ 6.57	337,085	5.52 ~ 6.67	273,400
Trust loans	5.03	44,017	5.26	37,408
Other loans	4.36	107,944	4.50	117,981
Notes bought	4.78 ~ 9.09	618,903	5.92 ~ 10.95	436,592
Call loans (inter-bank settlement)	-	203	-	-
Advances to customers	-	6,061	-	6,671
Credit card accounts	-	668,399	-	872,182
Private placement corporate bonds-bank	8.69	1,731,243	6.94	956,832
		<u>29,080,216</u>		<u>25,317,444</u>
Loans in foreign currencies				
Loans	1.57 ~ 2.61	928,810	2.01 ~ 3.14	995,309
Call loans	-	5,219	-	-
Off-shore loans	3.08	41,938	2.39	64,083
Bills bought	3.81	856,037	2.61	955,953
		<u>1,832,004</u>		<u>2,015,345</u>
Total loans		W30,912,220		W27,332,789

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Loans made to financial institutions at December 31, 2004 and 2003 are summarized as follows:

	Account	Annual interest rate (%)	Millions of Won
December 31, 2004			
Domestic banks	Interbank loans	3.52	W 107,943
Overseas banks	Loans in foreign currencies	2.74	14,613
Other	Private placement corporate bonds	10.42	1,026,662
	General loans	6.34	540,960
	Loans in foreign currencies	4.80	27,086
	Others	7.50	23,580
			W1,740,844
December 31, 2003			
Domestic banks	Interbank loans	4.50	W 117,981
Other	General loans	7.48	533,780
	Private placement corporate bonds	7.29	440,736
	Loans in foreign currencies	4.01	48,961
	Overdrafts	6.25	93
	Others	8.29	80,852
			W1,222,403

Changes in the allowance for loan losses for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004		2003 (*)	
	Before GAAP change	After GAAP change	Before GAAP change	After GAAP change
Beginning balance	W 430,904	W 430,904	W 421,091	W 421,091
Decrease in reserves for protected loans	-	-	(41,665)	(41,665)
Provision for loan losses	222,634	148,442	321,155	105,109
Put and call to KDIC	-	-	(1,159)	(1,159)
Written off	(147,413)	(147,413)	(31,660)	(31,660)
Sale of non-performing loans	(121,929)	(47,737)	(236,964)	(20,918)
Other changes	3,133	3,133	106	106
Ending balance	W387,329	W387,329	W430,904	W430,904

(*) In accordance with revised accounting standards, restructuring losses amounting to W3,611 million and W6,144 million accounted for as present value discount at December 31, 2003 and January 1, 2003, respectively, were reclassified as allowance for loan losses.

The ratios of the allowance for loan losses to total loans (excluding trust loans) as of December 31, 2004, 2003 and 2002 are 1.24%, 1.56% and 2.01%, respectively.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

At December 31, 2004 and 2003, loans (excluding call loans, credit card accounts and trust loans) by geography, borrower type and industry are summarized as follows (millions of Won):

By Geography	December 31, 2004		December 31, 2003	
Korea	W 29,866,466	98.91%	W 26,049,145	98.59%
Japan	82,479	0.27	159,422	0.60
USA	23,697	0.08	30,094	0.11
China	23,658	0.08	27,398	0.10
Other	198,082	0.66	157,140	0.60
	W30,194,382	100.00%	W26,423,199	100.00%

By Borrower Type	December 31, 2004		December 31, 2003	
Household	W 18,511,344	61.31%	W 15,891,197	60.14%
Corporate	11,208,398	37.12	10,101,445	38.23
Public and other	474,640	1.57	430,557	1.63
	W30,194,382	100.00%	W26,423,199	100.00%

By Industry	December 31, 2004		December 31, 2003	
Household	W 18,511,344	61.31%	W 15,891,198	60.14%
Manufacturing	3,231,039	10.70	3,709,989	14.04
Financial business	1,740,844	5.77	1,222,403	4.63
Lodging and restaurant	1,818,704	6.02	1,395,372	5.28
Real estate and rental	1,688,730	5.59	1,363,894	5.16
Wholesale and retail trade	937,343	3.10	997,835	3.78
Other	2,266,378	7.51	1,842,508	6.97
	W30,194,382	100.00%	W26,423,199	100.00%

The maturities of loans in Korean Won and foreign currencies (excluding trust loans) at December 31, 2004 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2005	W 11,122,704	W 1,595,225	W 12,717,929
2006 ~ 2007	4,216,879	94,810	4,311,689
2008 ~ 2009	3,775,047	75,189	3,850,236
Thereafter	9,921,569	66,780	9,988,349
	W29,036,199	W1,832,004	W30,868,203

The maturities of loans in Korean Won and foreign currencies (excluding trust loans) at December 31, 2003 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2004	W 10,337,284	W 1,642,377	W 11,979,661
2005 ~ 2006	4,877,551	219,860	5,097,411
2007 ~ 2008	4,269,219	101,415	4,370,634
Thereafter	5,795,982	51,693	5,847,675
	W25,280,036	W2,015,345	W27,295,381

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Changes in net deferred fees and expenses for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
December 31, 2004				
Deferred expenses	W 14,435	W 25,643	W12,829	W 27,249
Deferred fees	3,730	9,590	4,073	9,247
Net balance	W10,705	W16,053	W 8,756	W18,002
December 31, 2003				
Deferred expenses	W -	W 16,313	W 1,878	W 14,435
Deferred fees	-	4,150	420	3,730
Net balance	W -	W12,163	W 1,458	W10,705

The classification and allowance for loan losses outstanding at December 31, 2004 (excluding trust loans) are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*)	Allowance percentage
Loans in Won	W 26,749,319	W 568,516	W 358,373	W 49,277	W 38,974	W 27,764,459	
(Allowance)	(184,165)	(29,391)	(71,753)	(28,912)	(38,974)	(353,195)	1.27
Loans in foreign currencies	968,201	4,606	3,160	-	-	975,967	
(Allowance)	(5,818)	(219)	(632)	-	-	(6,669)	0.68
Notes bought	581,643	36,961	50	-	249	618,903	
(Allowance)	(2,908)	(739)	(10)	-	(249)	(3,906)	0.63
Bills bought	856,037	-	-	-	-	856,037	
(Allowance)	(4,282)	-	-	-	-	(4,282)	0.50
Advance to customers	5,887	54	64	-	56	6,061	
(Allowance)	(29)	(1)	(32)	-	(56)	(118)	1.95
Credit card	646,381	10,981	737	9,842	458	668,399	
(Allowance)	(7,077)	(1,610)	(202)	(6,403)	(458)	(15,750)	2.36
Total (*1)	W29,807,468	W621,118	W362,384	W59,119	W39,737	W30,889,826	
(Allowance) (*2)	(204,279)	(31,960)	(72,629)	(35,315)	(39,737)	(383,920)	1.24
Allowance percentage	0.69	5.15	20.04	59.74	100.00	1.24	

(*1) Allowance related to restructuring losses amounting to W3,155 million was deducted from total loan balances, and net deferred fees and expenses for mortgage loans amounting to W24,778 million were added to total loan balances.

(*2) Net of allowance for trust loans amounting to W254 million and allowance related to restructuring losses amounting to W3,155 million.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

The classification and allowance for loan losses outstanding at December 31, 2003 (excluding trust loans) are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*)	Allowance percentage
Loans in Won	W 23,345,464	W 285,781	W 228,221	W 71,393	W 43,507	W 23,974,366	
(Allowance)	(175,090)	(19,546)	(45,966)	(53,985)	(43,507)	(338,094)	1.41
Loans in foreign currencies	1,027,787	23,467	8,138	-	-	1,059,392	
(Allowance)	(12,122)	(664)	(1,627)	-	-	(14,413)	1.36
Notes bought	432,482	3,451	81	61	517	436,592	
(Allowance)	(2,163)	(69)	(18)	(30)	(517)	(2,797)	0.64
Bills bought	955,832	119	-	2	-	955,953	
(Allowance)	(4,781)	(2)	-	(1)	-	(4,784)	0.50
Advances to customers	5,863	234	115	-	459	6,671	
(Allowance)	(29)	(5)	(23)	-	(459)	(516)	7.73
Credit card	770,890	37,488	882	44,321	18,601	872,182	
(Allowance)	(7,745)	(6,584)	(181)	(31,366)	(18,601)	(64,477)	7.39
Total (*1)	W26,538,318	W350,540	W237,437	W115,777	W63,084	W27,305,156	
(Allowance) (*2)	(201,930)	(26,870)	(47,815)	(85,382)	(63,084)	(425,081)	1.56
Allowance percentage	0.76	7.67	20.14	73.75	100.00	1.56	

(*1) Allowance related to restructuring losses amounting to W3,611 million were deducted from total loan balances, and net deferred fees and expenses for first home loans amounting to W13,386 million were added to total loan balances.

(*2) Net of allowance for trust loans amounting to W2,212 million and allowance related to restructuring losses amounting to W3,611 million.

Restructured loans at December 31, 2004 are summarized as follows (millions of Won):

	Corporations under liquidation	Industry rationalization	Total
Balance before restructuring	W5,097	W36,591	W41,688
Interest rate reduction	5,097	36,591	41,688
Balance at end of year	W3,361	W29,862	W33,223
Provision for loan loss for 2004	1,021	-	1,021
Amortization for 2004	115	1,084	1,199

Restructured loans at December 31, 2003 are summarized as follows (millions of Won):

	Corporations under liquidation	Industry rationalization	Total
Balance before restructuring	W3,747	W36,591	W40,338
D/E swap stock	7	-	7
Interest rate reduction	3,740	36,591	40,331
Balance at end of year	W2,225	W28,779	W31,004
Provision for loan loss for 2003	-	-	-
Amortization for 2003	732	929	1,661

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

The Bank has W36,378 million and W34,615 million of loans discounted to present value due to debt restructurings as of December 31, 2004 and 2003, respectively, and the differences between the present value and the book value of the loans amounting to W3,155 million and W3,611 million as of December 31, 2004 and 2003, respectively, are recorded as allowance for loan losses.

During the years ended December 31, 2004, the Bank sold without recourse charged-off and delinquent loans amounting to W226,571 million and US\$5,250 thousand (W5,480 million at W1,043.8:US\$1) out of non-performing consumer loans, credit card loans and corporate loans. As a result of these sales, the Bank recorded a gain on sale of loans amounting to W733 million and a loss on sale of loans amounting to W98,602 million (excluding transfer of performing mortgage loans discussed below) as non-operating revenue and non-operating expense.

The Bank entered into an asset transfer contract with First Home Loan No.1 Ltd., First Home Loan No.2 Ltd. and First Home Loan No.3 Ltd. (the "SPCs") on March 29, 2004, July 29, 2004 and December 6, 2004, respectively, in connection with securitization of its mortgage loans. The Bank transferred W2,017,009 million of mortgage loans to the SPCs, in exchange for cash and W277,325 million of subordinated private placement corporate bonds issued by the SPCs. For First Home Loan No.3 Ltd., the Bank also provided W10,438 million of cash reserve. In addition, the SPCs entered into swap contracts with ING Bank, Seoul branch, Merrill Lynch Capital Markets Bank Limited and Calyon, Seoul branch (the "Counterparties"), respectively. For these swap contracts the Bank guaranteed to make up losses to be incurred due to future discrepancies between actual cash-flows and estimated cash-flows of the underlying mortgage loans to the Counterparties and W49 billion of bonds are pledged as collateral for these guarantees.

7. Fixed Assets

Changes in premises and equipment for the year ended December 31, 2004 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Premises and equipment				
Acquisition cost				
Land	W 796,524	W -	W 509	W 796,015
Buildings and structures	419,069	15,585	3,901	430,753
Movable property	253,858	29,387	11,989	271,256
	1,469,451	44,972	16,399	1,498,024
Accumulated depreciation				
Buildings and structures	131,867	20,271	2,388	149,750
Movable property	176,402	39,417	10,916	204,903
	308,269	59,688	13,304	354,653
Net	1,161,182			1,143,371
Intangible assets				
Acquisition cost	90,836	14,549	-	105,385
Accumulated amortization	23,284	19,179	-	42,463
Net	67,552			62,922
Total net book value	W1,228,734			W1,206,293

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2004 and 2003, the government-posted prices of the Bank's land used for tax assessment purposes are W789,495 million and W687,662 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Changes in premises and equipment for the year ended December 31, 2003 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Increase (decrease) by change of scope of consolidation	Ending balance
Premises and equipment					
Acquisition cost					
Land	W 796,646	W -	W 122	W -	W 796,524
Buildings and structures	403,978	17,180	2,199	110	419,069
Movable property	222,854	38,710	9,048	1,342	253,858
	<u>1,423,478</u>	<u>55,890</u>	<u>11,369</u>	<u>1,452</u>	<u>1,469,451</u>
Accumulated depreciation					
Buildings and structures	113,518	19,750	1,471	70	131,867
Movable property	141,089	42,304	7,347	356	176,402
	<u>254,607</u>	<u>62,054</u>	<u>8,818</u>	<u>426</u>	<u>308,269</u>
Net	<u>1,168,871</u>				<u>1,161,182</u>
Intangible assets					
Acquisition cost	66,515	24,390	-	(69)	90,836
Accumulated amortization	9,109	13,958	-	217	23,284
Net	<u>57,406</u>				<u>67,552</u>
Total net book value	W1,226,277				W1,228,734

8. Other Assets

Other assets at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Other accounts receivable	W 383,198	W 582,039
Guarantee money	297,620	295,979
Fee and interest receivable	159,583	219,731
Bills unsettled	15,035	5,717
Unsettled exchange	260,471	15,149
Prepaid expenses	8,619	7,330
Regulatory and legal deposits (*)	10,163	7,046
Present value discount of other assets	-	(85)
Credit loss reserves of other assets	(3,469)	(3,525)
Derivative valuation assets (Note 16)	61,343	21,999
Others	7,380	5,215
	W1,199,943	W1,156,595

(*) Regulatory and legal deposits include W7,057 million and W6,510 million of securities held in escrow at December 31, 2004 and 2003, respectively.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

9. Deposits

Deposits at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	Banks	Other financial institutions	Others	Total
December 31, 2004				
Deposits in Korean Won				
Demand deposits	W 2,593	W 159,338	W 1,738,961	W 1,900,892
Money trust	-	-	442,324	442,324
Time & saving deposits	447,672	2,091,301	15,927,633	18,466,606
	<u>450,265</u>	<u>2,250,639</u>	<u>18,108,918</u>	<u>20,809,822</u>
Deposits in foreign currencies	71,236	12,242	481,345	564,823
Certificates of deposit	21,849	1,350,709	5,252,371	6,624,929
	<u>W543,350</u>	<u>W3,613,590</u>	<u>W23,842,636</u>	<u>W27,999,574</u>
December 31, 2003				
Deposits in Korean Won				
Demand deposits	W 9,497	W 213,630	W 1,880,743	W 2,103,870
Money trust	-	-	433,526	433,526
Time & saving deposits	242,142	2,533,797	17,051,533	19,827,472
	<u>251,639</u>	<u>2,747,427</u>	<u>19,365,802</u>	<u>22,364,868</u>
Deposits in foreign currencies	38,628	13,283	426,704	478,615
Certificates of deposit	264,539	2,867,081	1,693,933	4,825,553
	<u>W554,806</u>	<u>W5,627,791</u>	<u>W21,486,439</u>	<u>W27,669,036</u>

The maturities of deposits (excluding money trust deposits) at December 31, 2004 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2005	W 19,309,423	W 563,500	W 6,624,929	W 26,497,852
2006	477,701	224	-	477,925
2007	172,871	1,099	-	173,970
2008	128,423	-	-	128,423
2009	37,124	-	-	37,124
Thereafter	241,956	-	-	241,956
	<u>W20,367,498</u>	<u>W564,823</u>	<u>W6,624,929</u>	<u>W27,557,250</u>

The maturities of deposits (excluding money trust deposits) at December 31, 2003 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2004	W 20,939,005	W 478,603	W 4,825,553	W 26,243,161
2005	530,965	12	-	530,977
2006	203,014	-	-	203,014
2007	60,661	-	-	60,661
2008	111,695	-	-	111,695
Thereafter	86,002	-	-	86,002
	<u>W21,931,342</u>	<u>W478,615</u>	<u>W4,825,553</u>	<u>W27,235,510</u>

10. Borrowings

Borrowings at December 31, 2004 and 2003 are comprised of the following:

	December 31, 2004		December 31, 2003	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Borrowings in Korean Won				
Aggregate limit borrowings	2.00	W 17,229	2.50	W 42,079
Call money	3.10 ~ 3.15	40,000	3.50 ~ 3.65	40,900
Other	0.75 ~ 6.00	281,967	1.20 ~ 6.30	329,414
		339,196		412,393
Borrowings in foreign currencies				
Bank of Korea	1.88 ~ 2.63	606	1.11 ~ 1.26	6,926
Other borrowings	0.00 ~ 5.51	1,066,896	0.00 ~ 3.00	1,124,012
Off-shore borrowings	2.24 ~ 2.78	54,278	1.37 ~ 1.42	95,824
Call money	0.45	403	-	-
		1,122,183		1,226,762
Bonds sold under repurchase agreements	3.73	20,919	1.54 ~ 4.41	196,193
Bills sold	3.16	19,699	3.68	15,555
		W1,501,997		W1,850,903

At December 31, 2004 and 2003, borrowings by borrower type are summarized as follows (millions of Won):

December 31, 2004	Bank of Korea	Commercial banks	Other financial institutions	Others	Total (*)
Borrowings in Korean Won	W 17,229	W 27,551	W 245,600	W 48,816	W 339,196
Borrowings in foreign currencies	606	1,119,252	-	2,325	1,122,183
	W17,835	W1,146,803	W245,600	W51,141	W1,461,379
December 31, 2003	Bank of Korea	Commercial banks	Other financial institutions	Others	Total (*)
Borrowings in Korean Won	W 42,079	W 55,282	W 246,500	W 68,532	W 412,393
Borrowings in foreign currencies	6,926	1,216,686	-	3,150	1,226,762
Bonds sold under repurchase agreements	-	111,063	-	-	111,063
	W49,005	W1,383,031	W246,500	W71,682	W1,750,218

(*) W20,919 million and W85,130 million of bonds sold under repurchase agreements and W19,699 million and W15,555 million of bills sold to the public at December 31, 2004 and 2003, respectively, are not included.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

The maturities of borrowings at December 31, 2004 are as follows (millions of Won):

Year ending December 31,	Borrowings in Korean Won	Borrowings in foreign currencies	Bonds sold under repurchase agreements	Bills sold	Total
2005	W 61,529	W 1,119,858	W 20,919	W 19,699	W 1,222,005
2006	49,379	-	-	-	49,379
2007	153,143	-	-	-	153,143
2008	12,589	-	-	-	12,589
2009	15,096	-	-	-	15,096
Thereafter	47,460	2,325	-	-	49,785
	W339,196	W1,122,183	W 20,919	W19,699	W1,501,997

The maturities of borrowings at December 31, 2003 are as follows (millions of Won):

Year ending December 31,	Borrowings in Korean Won	Borrowings in foreign currencies	Bonds sold under repurchase agreements	Bills sold	Total
2004	W 106,752	W 1,223,797	W 196,193	W 15,555	W 1,542,297
2005	15,516	-	-	-	15,516
2006	55,926	-	-	-	55,926
2007	158,845	-	-	-	158,845
2008	17,426	-	-	-	17,426
Thereafter	57,928	2,965	-	-	60,893
	W412,393	W1,226,762	W196,193	W15,555	W1,850,903

The subordinated borrowings included in Korean Won borrowings as of December 31, 2004 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%) (*)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	3.94	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	3.94	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	5.18	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	3.94	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	3.94	20,000
				W205,600

The subordinated borrowings included in Korean Won borrowings as of December 31, 2003 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%) (*)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	5.68	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	5.68	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	6.30	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	5.68	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	5.68	20,000
				W205,600

(*) Floating based on average interest rates of 5 year government bonds and 3 year AA- corporate bonds as per loan agreements.

11. Financial Debentures

Financial Debentures at December 31, 2004 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Subordinated	9-28-2003	200,000	6.00 ~ 6.13	1-28-2011, etc.
General debentures (*1)	10-27-2003, etc.	7,580,203	3.27 ~ 6.60	12-20-2014, etc.
		<u>8,056,470</u>		
Discount on debentures		<u>(134,765)</u>		
		7,921,705		
Foreign currency				
Subordinated FRN (*2, *3)	3-10-2003	392,109	5.75	3-10-2013
Subordinated FRN (*2, *4)	10-02-2003	210,207	6.25	10-02-2013
Hybrid debentures (*5)	3-03-2004	312,976	7.27	3-03-2034
		<u>915,292</u>		
Discount on debentures		<u>(12,436)</u>		
		<u>902,856</u>		
		W8,824,561		

(*1) A portion of general debentures are hedged by interest rate swaps which offset valuation losses on the debentures of W18,480 million as fair value hedges.

(*2) The Bank has the right to redeem the note (call option) at the end of year 5.

(*3) The subordinated FRNs are hedged by interest rate swaps which offset valuation losses on the debentures of W683 million as fair value hedges.

(*4) The subordinated FRNs are hedged by interest rate swaps which offset valuation losses on the debentures of W1,447 million as fair value hedges.

(*5) The Bank has the right to redeem the note (call option) at the end of year 10. Hybrid debentures are hedged by interest rate swaps which offset valuation gain on the debenture of W164 million as fair value hedges.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Financial Debentures at December 31, 2003 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Subordinated	9-28-2003	200,000	6.00 ~ 6.13	1-28-2011, etc.
General debentures	11-08-2002, etc.	4,619,990	4.04 ~ 5.08	12-28-2004, etc.
		5,096,257		
Discount on debenture		(88,421)		
		5,007,836		
Foreign currency				
Subordinated FRN (*1, *2)	3-10-2003	456,132	5.75	3-10-2013
Subordinated FRN (*1)	10-02-2003	239,560	6.25	10-02-2013
		695,692		
Discount on debenture		(8,514)		
		687,178		
		W5,695,014		

(*1) The Bank has the right to redeem the note (call option) at the end of year 5.

(*2) A portion of the subordinated FRNs are hedged by interest rate swaps which offset valuation losses on the debentures of W6,957 million as fair value hedges.

The maturities of debentures at December 31, 2004 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2005	W 5,658,761	W -	W 5,658,761
2006	1,591,281	-	1,591,281
2007	100,000	-	100,000
2008	176,267	-	176,267
2009	197,300	-	197,300
Thereafter	198,096	902,856	1,100,952
	W7,921,705	W902,856	W8,824,561

The maturities of debentures at December 31, 2003 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2004	W 3,761,643	W -	W 3,761,643
2005	239,966	-	239,966
2006	529,960	-	529,960
2007	100,000	-	100,000
2008	176,267	-	176,267
Thereafter	200,000	687,178	887,178
	W5,007,836	W687,178	W5,695,014

12. Accrued Severance and Retirement Benefits

Deposits for group severance and retirement benefits represent deposits made for a portion of the severance and retirement benefits obligation which are restricted in use for other than payment of severance and retirement benefits. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits, these amounts have been offset against the Bank's liability for severance and retirement benefits.

The changes in accrued severance and retirement benefits for the year ended December 31, 2004 are as follows (millions of Won):

	Beginning balance	Increase (*)	Decrease	Ending balance
Accrued severance and retirement benefits	W 176,666	W 23,013	W 172,165	W 27,514
Prepayments to National Pension Corp.	(5,007)	-	(5,007)	-
Deposits for group severance and retirement benefits	(140,840)	(1,892)	(139,799)	(2,933)
	W 30,819	W21,121	W 27,359	W24,581

(*) Included are accrued severance and retirement benefits of KFDS amounting to W680 million, which are classified as other expenses.

The changes in accrued severance and retirement benefits for the year ended December 31, 2003 are as follows (millions of Won):

	Beginning balance	Increase by change of scope of consolidation (*1)	Increase (*2)	Decrease	Ending balance
Accrued severance and retirement benefits	W 173,312	W 2,054	W 30,537	W 29,237	W 176,666
Prepayments to National Pension Corp.	(5,853)	(90)	-	(936)	(5,007)
Deposits for group severance and retirement benefits	(145,889)	(1,447)	(18,494)	(24,990)	(140,840)
	W 21,570	W 517	W 12,043	W 3,311	W 30,819

(*1) Represents Korea First Data System Co., Ltd. ("KFDS") which is newly included as a consolidated entity effective from January 1, 2003.

(*2) Included in the increase are accrued severance and retirement benefits for KFDS for the year ended December 31, 2003 in the amount of W1,020 million.

13. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Acceptances and guarantees in Won currency		
Corporate debentures	W 2,118	W 1,088
Collateral for loans	24,448	27,307
Performance bonds	76,697	58,395
Other	14,998	10,700
	118,261	97,490
Acceptances and guarantees in foreign currencies		
Acceptances	25,150	16,398
Stand-by letters of credit	42,063	68,730
Letters of guarantee	13,012	10,966
Credit derivatives sold	208,760	179,670
Other	1,519	3,919
	290,504	279,683
	W408,765	W377,173

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Credit derivatives sold at December 31, 2004 and 2003 are comprised of the following (millions of Won):

Type	Counterparty	December 31, 2004	December 31, 2003	Reference entity
Credit linked notes	Lehman Brothers Treasury Co.	W 52,190	W 59,890	Woori Financial Holding Company, KT, Samsung Electronic Co., Ltd
	Granite Finance Ltd.	52,190	59,890	LG-Caltex Oil Corporation, Hyundai Motor Company, General Electric Capital Co.
	SPARC EM LTD-AV1	52,190	59,890	SK Corporation, GMAC
	Corsair (Jersey) Ltd.	52,190	-	Korea Electronic Power Corporation, POSCO, Kookmin Bank, Hutchison Whampoa Limited, Standard Life Assurance Company, Ford Motor Credit Company
		W208,760	W179,670	

The Bank is required to exchange the credit linked notes for the securities issued by the reference entities should a credit event such as default occur prior to maturity.

The Bank classified these as "Normal" and provided an allowance of 0.5% of guaranteed amounts for credit derivatives sold as of December 31, 2004 and 2003.

Contingent acceptances and guarantees outstanding at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Import L/C	W 486,043	W 342,578
Local L/C	141,838	172,039
	W627,881	W514,617

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2004 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W 117,666	W 595	W -	W -	W -	W 118,261	
(Allowance)	(588)	(12)	-	-	-	(600)	0.51
Acceptances & guarantees in foreign currencies	290,504	-	-	-	-	290,504	
(Allowance)	(1,690)	-	-	-	-	(1,690)	0.58
Total	W408,170	W595	W -	W -	W -	W408,765	
(Allowance)	(2,278)	(12)	-	-	-	(2,290)	0.56
Allowance percentage	0.56	2.02	-	-	-	0.56	

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2003 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W 96,440	W 1,050	W -	W -	W -	W 97,490	
(Allowance)	(483)	(21)	-	-	-	(504)	0.52
Acceptances & guarantees in foreign currencies	277,367	-	-	-	2,316	279,683	
(Allowance)	(1,381)	-	-	-	(2,316)	(3,697)	1.32
Total	W373,807	W1,050	W -	W -	W 2,316	W377,173	
(Allowance)	(1,864)	(21)	-	-	(2,316)	(4,201)	1.11
Allowance percentage	0.50	2.00	-	-	100.00	1.11	

The ratios of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2004, 2003 and 2002 are 0.56%, 1.11% and 4.29%, respectively.

At December 31, 2004 and 2003, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

By Geography	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2004						
Korea	W 190,431	46.59%	W 623,186	99.25%	W 813,617	78.49%
USA	156,570	38.30	-	-	156,570	15.10
Switzerland	52,190	12.77	-	-	52,190	5.03
Hong Kong	86	0.02	4,695	0.75	4,781	0.46
Other	9,488	2.32	-	-	9,488	0.92
	W408,765	100.00%	W627,881	100.00%	W1,036,646	100.00%
December 31, 2003						
Korea	W 163,404	43.32%	W 514,617	100.00%	W 678,021	76.03%
USA	129,158	34.24	-	-	129,158	14.48
Switzerland	59,890	15.88	-	-	59,890	6.72
Thailand	24,721	6.56	-	-	24,721	2.77
	W377,173	100.00%	W514,617	100.00%	W 891,790	100.00%

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2004						
Manufacturing	W 51,910	12.70%	W 481,028	76.61%	W 532,938	51.41%
Wholesale and retail	56,819	13.90	124,377	19.81	181,196	17.48
Financial business	270,437	66.16	-	-	270,437	26.09
Business service	17,890	4.38	22	-	17,912	1.73
Construction	8,900	2.18	1,778	0.29	10,678	1.03
Other	2,809	0.68	20,676	3.29	23,485	2.26
	W408,765	100.00%	W627,881	100.00%	W1,036,646	100.00%
December 31, 2003						
Manufacturing	W 56,701	15.03%	W 274,615	53.36%	W 331,316	37.15%
Wholesale and retail	61,439	16.29	180,773	35.13	242,212	27.16
Financial business	181,368	48.09	755	0.14	182,123	20.42
Business service	16,869	4.47	2,293	0.45	19,162	2.15
Construction	10,289	2.73	8,576	1.67	18,865	2.12
Other	50,507	13.39	47,605	9.25	98,112	11.00
	W377,173	100.00%	W514,617	100.00%	W 891,790	100.00%
By Borrower Type						
December 31, 2004						
Corporate	W408,765	100.00%	W627,881	100.00%	W1,036,646	100.00%
December 31, 2003						
Corporate	W377,173	100.00%	W514,617	100.00%	W 891,790	100.00%

14. Other Liabilities

Other liabilities at December 31, 2004 and 2003 are comprised of the following (millions of Won):

	December 31, 2004	December 31, 2003
Domestic exchange obligation payable	W 532,657	W1,168,971
Accrued fees and interest	563,373	474,727
Accounts payable	302,809	524,789
Agency fees payable for tax settlement	185,397	360,081
Foreign exchange payable	40,331	42,081
Borrowing from trust account	105,158	253,831
Giro and other settlements	58,353	50,069
Derivative valuation liabilities (Note 16)	43,162	43,655
Unearned revenues	23,828	21,995
Agency deposit for securities transaction	6,750	2,182
Other reserve (Note 16)	8,795	5,000
Others	53,596	65,599
	W1,924,209	W3,012,980

15. Interest Bearing Assets and Liabilities

Interest bearing assets and liabilities (excluding other assets and other liabilities) at December 31, 2004 and 2003 are summarized as follows (millions of Won):

	2004		2003	
	Average amount of assets	Interest revenue	Average amount of assets	Interest revenue
<Assets>				
Loans in Won	W 25,072,328	W 1,638,244	W 20,206,465	W 1,421,294
Trust loans	26,069	1,537	31,378	1,857
Loans in foreign currencies	732,849	19,218	782,346	21,283
Call loans	411,874	13,088	271,465	9,631
Notes bought	8,809	874	9,651	1,007
Private placement corporate bonds	1,471,259	95,621	970,292	61,160
Bills bought	850,626	28,107	857,946	25,937
Advances to customers	6,189	448	19,768	1,831
Bonds purchased on reselling agreements	106,057	3,807	150,466	5,782
	28,686,060	1,800,944	23,299,777	1,549,782
Securities	7,631,037	324,131	7,245,844	364,852
Trust securities	352,993	21,179	386,565	26,700
Due from banks in Won (*)	786,683	8,805	791,417	14,111
Due from banks in foreign currencies (*)	61,276	128	52,478	208
	847,959	8,933	843,895	14,319
	W37,518,049	W2,155,187	W31,776,081	W1,955,653

(*) Include reserves required to be deposited with the Bank of Korea.

	2004		2003	
	Average amount of liabilities	Interest expense	Average amount of liabilities	Interest expense
<Liabilities>				
Deposits in Won	W 21,838,490	W 678,198	W 19,901,803	W 667,462
Deposits in foreign currencies	724,308	4,833	540,771	4,431
Certificate of deposits	5,216,777	219,085	4,684,170	220,131
	27,779,575	902,116	25,126,744	892,024
Borrowings in Won	362,537	15,713	409,956	18,769
Borrowings in foreign currencies	628,823	10,667	1,024,378	16,078
Call money	714,462	24,855	722,002	27,325
Bonds sold on repurchase agreements	143,257	4,649	396,827	15,202
Cover bills sold	14,407	517	11,364	471
	1,863,486	56,401	2,564,527	77,845
Debentures in Won	6,324,250	295,560	3,250,182	167,548
Debentures in foreign currencies	931,840	40,905	537,314	25,606
	7,256,090	336,465	3,787,496	193,154
	W36,899,151	W1,294,982	W31,478,767	W1,163,023

16. Commitments and Contingencies

Other Reserves

The allowance for unused cash advance commitments on credit cards at December 31, 2004 and 2003 are as follows (millions of Won):

	Commitment	Outstanding balance	Unused commitment (*)	Allowance	Allowance percentage
December 31, 2004	W799,337	W152,256	W447,247	W4,472	1.00%
December 31, 2003	W932,158	W199,087	W500,031	W5,000	1.00%

(*) Commitment × 75% - outstanding balance

Reserves for credit card points and other credit card losses at December 31, 2004 (none at December 31, 2003) are as follows (millions of Won):

	December 31, 2004
Reserve for credit card points	W 3,523
Reserve for other credit card losses	300
	W3,823

The Bank also classified W500 million as other reserves at December 31, 2004 for certain contingent liabilities related to legal actions arising from certain loans.

Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts and interest rate futures contracts. As of December 31, 2004 and 2003, the Bank has derivative financial instruments for trading and hedging purposes, as follows (millions of Won):

	December 31, 2004	December 31, 2003
<Trading purposes>		
Currency forwards	W 843,322	W 283,046
Currency swap	177,446	-
Currency Futures	2,870	-
Interest rate swaps	2,300,939	563,085
Interest rate futures sold	20,876	23,956
KTB Futures	793	-
Stock index options purchased	186,741	66,237
Stock index options sold	185,979	66,082
	W3,718,966	W1,002,406
<Hedging purposes>		
Interest rate swaps	W 2,077,705	W 365,745
Interest rate option	180,000	-
	W2,257,705	W 365,745

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

For the years ended December 31, 2004 and 2003, W17,456 million and W10,072 million of gains and W23,000 million and W14,014 million of losses, respectively, on valuation of derivative contracts for trading purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2004				
Currency forwards	W 6,624	W 10,116	W 6,624	W 10,116
Currency swap	1,808	2,859	1,808	2,859
Interest rate swaps	7,224	8,495	13,726	12,803
Stock index options	1,800	1,530	3,868	3,846
	W17,456	W23,000	W26,026	W29,624
December 31, 2003				
Currency forwards	W 884	W 2,399	W 884	W 2,399
Interest rate swaps	380	3,019	1,018	8,626
Stock index options	8,808	8,596	14,017	14,011
	W10,072	W14,014	W15,919	W25,036

For the years ended December 31, 2004 and 2003, W25,311 million and W6,910 million of gains and W14,763 million and W7,272 million of losses, respectively, on valuation of derivative contracts for hedging purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2004				
Interest rate swaps	W 25,311	W 10,369	W 35,317	W 9,144
Interest rate option	-	4,394	-	4,394
	W25,311	W14,763	W35,317	W13,538
December 31, 2003				
Interest rate swaps	W 6,910	W 7,272	W 6,080	W 18,619

The difference between valuation losses and gains of derivative contracts and underlying assets and liabilities being hedged is W1,990 million and W1,253 million as of December 31, 2004 and 2003, respectively.

Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2004, commitments and endorsed notes aggregated W87,788 million and W16,145 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2004, total loan commitments are W16,110 billion and unused commitments are W10,431 billion.

The Bank has been named as defendant in 39 legal actions amounting to W55,945 million, W26,101 million of which the Bank believes is protected by the KDIC, and is plaintiff in 194 legal actions amounting to W137,731 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

17. Common Stock and Capital Surplus

As of December 31, 2004 and 2003, the authorized common shares are 1,600 million shares and the outstanding common shares are 205,922,640 shares (at a par value of W5,000). The Bank's paid in capital is W1,029,613 million as of December 31, 2004 and 2003 (see Note 1).

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. On May 23, 2003 the warrants were exercised and converted to 9,805,840 shares of the Bank's common stock at a price of W6,749 per share. The exercise resulted in capital surplus of W17,111 million.

18. Retained Earnings

The Bank should reserve as a minimum 10% of its annual net income as a legal reserve in accordance with the Korean Banking Act. The Bank also reserves 10% of its annual net income as a voluntary reserve until ratio of net equity to total assets (including guaranteed trusts) reaches 5.5% in accordance with recommendation by the Financial Supervisory Commission. The Tokyo branch also should reserve up to 10% of its annual net income as other reserves until the amount reaches 2 billion Yen in accordance with Japanese Banking Regulations. These reserves cannot be used to pay dividends.

19. Long-Term Compensation Plan and Stock Options

The Bank has granted stock options to executives and directors which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2004 are as follows:

	First	Second
Grant date	March 30, 2000	October 19, 2001
Options originally granted	5,273,217 shares	1,171,531 shares
Options terminated	4,217,663 shares	82,134 shares
Options exercised	0 shares	0 shares
Options outstanding	1,055,554 shares	1,089,397 shares
Exercise price	W9,834	W12,497
Exercise period	From March 30, 2003 until March 30, 2010	From October 19, 2004 until October 19, 2011

The Bank calculated compensation cost for stock options by the Fair Value approach and details are as follows:

	First	Second
Stock price at grant date (*)	W 6,791	W 6,791
Risk free rate	4.96%	5.73%
Expected exercisable period	5 years	5 years
Expected stock price volatility	0%	0%
Expected dividend ratio	0%	0%
Compensation cost per share	-	-
Total compensation cost	-	-

(*) Stock price based on net book value adjusted by the average premium in excess of book value for the industry, as there was no quoted market value at the grant date. Should the Bank's stock become quoted or traded, compensation cost should be recalculated.

On January 10, 2005, the Bank and SCB entered into a Transition Agreement. In accordance with this agreement, stock options granted to the Bank's executives and directors will be terminated and cash settled at the closing date of SCB's acquisition. Cash settlement is expected to be determined based on the share purchase price less the option exercise prices (W16,511 per share less an exercise price of W9,834 for the 1st option grant or W12,497 for the 2nd option grant). The Bank expects to incur settlement payments of approximately W11.4 billion upon termination of the options outstanding. Of this amount, W9.4 billion was for the Bank's executives while W2.0 billion was for directors. For the year ending December 31, 2004, the above amount was accounted as compensation cost and accrued liability due to termination and cash settlement being required by the agreement with SCB.

The directors and the executive officers of the Bank are vested with the right to receive certain additional remuneration pursuant to the Long-Term Compensation Plan (the "LTCP"), which is subject to the satisfaction of certain conditions, such as the achievement of the bank's financial targets. The timing for the actual payments under the LTCP is either on maturity in year 2010 or on the occurrence of certain triggering events provided under the LTCP, including, such as, a change in control, merger or qualified initial public offering, of the Bank. As of December 31, 2004, the Bank has accrued W24.6 billion for additional remuneration under the LTCP payable to the directors and the executives of the Bank. Of this amount, W11.6 billion was for the Bank's executives while W13.0 billion was for directors. It is currently expected that the timing for the payments under the LTCP will take place within 2005.

20. Non-operating Revenue and Expense

Non-operating revenue and expense for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004	2003
Non-operating revenue		
Rental income	W 11,654	W 11,138
Gain on sale of securities	14,380	65,277
Gain on sale of loans	733	-
Other non-operating revenue	21,692	51,229
	W 48,459	W127,644
Non-operating expense		
Loss on equity method	W -	W 2,051
Loss on sale of loans	107,985	251,187
Expenses for early retirement	7,892	4,853
Other non-operating expense	7,946	30,940
	W123,823	W289,031

21. Income Tax Expense

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 16.5% on taxable income up to W100 million and 29.7% on taxable income in excess of W100 million. Effective from 2005, the aggregate tax rates will be reduced to 14.3% on taxable income up to W100 million and 27.5% on taxable income in excess of W100 million. The income tax expense for the years ended December 31, 2004 and 2003 is comprised of the following (millions of Won):

	2004	2003
Income tax expense	W 1,458	W 417
Changes in net deferred income taxes due to temporary differences and loss carryforwards	45,436	106,200
Income tax expense	W 46,894	W 106,617
Net deferred income tax asset at December 31, 2004 and 2003	W 17,991	W 63,427
Change from consolidation of Korea First Data System	-	2
Net deferred income tax asset at January 1, 2004 and 2003	63,427	169,625
Net changes in deferred income tax asset	W(45,436)	W(106,200)

The Bank's remaining net operating loss carryforwards ("NOLs") expired as of December 31, 2004.

Adjustments of income before income taxes to taxable income for the years ended December 31, 2004 and 2003 are comprised of the following (millions of Won):

	2004	2003
Income before income tax expense	W 166,873	W 93,147
Adjustment to increase taxable income		
Permanent differences	14,003	16,506
Temporary differences	478,902	275,952
	492,905	292,458
Adjustment to decrease taxable income		
Permanent differences	2,477	45,131
Temporary differences	440,668	222,560
	443,145	267,691
Taxable income	W216,633	W 117,914

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Deferred income taxes reflect the net tax effects of the tax loss carryforward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2004 are comprised of the following (millions of Won):

	January 1, 2004 (*1)	Increase	Decrease	December 31, 2004
Interest receivable on securities	W (75,126)	W (43,450)	W (75,126)	W (43,450)
Profit from valuation of equity method	(47,138)	(1,961)	1,587	(50,686)
Gain on valuation of derivatives	(21,999)	(61,343)	(21,999)	(61,343)
Loan loss reserve	14,828	18,632	14,828	18,632
Premium amortization on securities, net	44,960	5,908	27,706	23,162
Loss on valuation of derivatives	43,655	43,162	43,655	43,162
Depreciation	36,312	4,898	143	41,067
Deemed dividends	17,403	4,261	-	21,664
Loss on valuation of debentures	6,957	1,447	-	8,404
Retirement benefits	500	14,005	500	14,005
Other	6,942	48,969	5,000	50,911
Tax loss carryforward	879,849	-	879,849	-
Total	907,143	W 34,528	W876,143	65,528
Tax rate	29.7%			27.5%
Deferred income tax asset	269,421			18,020
Allowance	(205,994)			(29)
Net deferred income tax asset (*2)	W 63,427			W 17,991

(*1) The amounts are different from those in the prior year's audit report to reflect the 2003 final tax return filed in March 2004.

(*2) Net of deferred tax liability related to consolidation of subsidiary amounting to W9 million as of December 31, 2004.

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income and therefore the Bank's net deferred tax asset is based on the Bank's forecast of future income.

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2003 are comprised of the following (millions of Won):

	January 1, 2003	Increase	Decrease	December 31, 2003
Interest receivable on securities	W (83,312)	W (75,126)	W (83,312)	W (75,126)
Profit from valuation of equity method	(44,830)	(2,308)	-	(47,138)
Gain on valuation of derivatives	(3,411)	(21,999)	(3,411)	(21,999)
Discount amortization on securities	(13,497)	(1,331)	(11,867)	(2,961)
Present value discounts	4,003	2,987	4,003	2,987
Loss on valuation of derivatives	17,221	43,655	17,221	43,655
Depreciation	29,875	6,488	51	36,312
Deemed dividends	14,550	2,853	-	17,403
Retirement benefits	4,600	(4,108)	(8)	500
Other	28,274	48,503	23,545	53,232
Tax loss carryforward	3,713,010	-	2,833,161	879,849
Total	3,666,483	W (386)	W2,779,383	886,714
Tax rate	29.7%			29.7%
Deferred income tax asset	1,088,945			263,354
Allowance	(919,320)			(199,927)
Net deferred income tax asset	W169,625			W 63,427

22. Consolidated Per Share Amounts

Consolidated per share amounts for the years ended December 31, 2004 and 2003 are calculated as follows (in Korean Won):

Consolidated ordinary earnings (loss) per share	2004	2003
Consolidated ordinary earnings before income tax expenses	W166,873,291,014	W 93,147,213,911
Income tax expenses related to ordinary earnings	46,894,702,250	106,617,520,246
	119,978,588,764	(13,470,306,335)
Weighted average number of common shares (*)	205,922,640	202,107,765
Consolidated ordinary earnings (loss) per share	W 583	W (67)
Consolidated net earnings (loss) per share	2004	2003
Consolidated net earnings (loss) after income tax expenses	W119,978,588,764	W(13,470,306,335)
Weighted average number of common shares (*)	205,922,640	202,107,765
Consolidated net earnings (loss) per share	W 583	W (67)

(*) The weighted average number of common shares outstanding at December 31, 2004 and 2003 were 205,922,640 and 202,107,765, respectively. On May 23, 2003, 9,805,840 additional shares were issued as a result of the KDIC's exercise of warrants (Note 1).

In July 1999, the Bank's shares were suspended from trading on the Korea Exchange. As the Bank's options will be terminated and cash settled, the diluted impact on earnings (loss) per share from stock options has not been calculated (see Note 17).

23. Application of the Equity-method

Equity investments at December 31, 2004 and 2003 are as follows (millions of Won):

	Qingdao International Bank (*)
January 1, 2003	W 12,258
Equity in net loss of affiliates	(2,051)
Exchange rate fluctuation	(26)
December 31, 2003	W 10,181
Equity in net income (loss) of affiliates	-
Exchange rate fluctuation	-
Sold	(10,181)
December 31, 2004	W -

(*) For Qingdao International Bank, an additional loss of W2,051 million was recorded in 2003 as the market value of Qingdao was deemed to be lower than its net asset value. The Bank's shares in Qingdao were sold to a third party during January 2004 for W10,181 million.

24. Related Party Transactions

Significant transactions between the Bank, its controlled subsidiaries, equity method investee and the trust department for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

<2004>	Transactions		Account balances	
	Account	Amount	Account	Amount
Trust accounts	Trust fees & commissions	W 7,817	Other liabilities	W 62,722
	Interest expense	1,888	Due from banks	91,950
Korea First Finance Ltd. Hong Kong	Interest income	2,929	Loans	77,241
	Interest expense	9	Other assets	680
Korea First Data System Co., Ltd.			Borrowings	63,398
	Other revenue	42	Other assets	1,521
	Interest expense	83	Deposits	3,961
	Other expense	11,842	Other liabilities	309
	Revenue transactions	W10,788	Receivables	W171,392
Expense transactions	W13,822	Payables	W130,390	

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

<2003>	Transactions		Account balances	
	Account	Amount	Account	Amount
Trust accounts	Interest income	W 3,947	Other assets	W 1,321
	Commissions received	10,352	Other liabilities	12,692
	Trust fees & commissions	18		
	Interest expense	1,388		
Korea First Finance Ltd., Hong Kong	Interest income	2,198	Due from banks	110,967
	Interest expense	16	Loans	52,703
			Other assets	292
Korea First Data System Co., Ltd.			Borrowings	53,395
	Interest income	1	Other assets	869
	Other revenue	42	Deposits	3,609
	Interest expense	125	Other liabilities	249
	Other expense	10,152		
	Revenue transactions	W16,558	Receivables	W166,152
	Expense transactions	W11,681	Payables	W 69,945

Significant acceptances and guarantees between the Bank, its controlled subsidiaries and equity method investee at December 31, 2004 and 2003 are as follows (millions of Won):

	2004		2003	
	Account	Amount	Account	Amount
Korea First Data Systems Co., Ltd.	Guarantees in Korean Won	W 60	Guarantees in Korean Won	W107
Korea First Finance Ltd., Hong Kong	Guarantees in foreign currency	44,392		
	Interest Rate Swap	5,219		

Korea First Data System provided a W1.0 billion time deposit to the Bank as collateral for line of credit amounted to W1.0 billion from the Bank as of December 31, 2004.

25. Employee Welfare

The Bank provides diverse employee benefits, including housing loans, scholarships, accident disability, paid leave, etc., for its employees.

Expenditures for the training of specialists for the years ended December 31, 2004, 2003, and 2002 are as follows (millions of Won):

Type	2004	2003	2002
Korea Banking Institute	W 319	W 134	W 178
Special skill training	822	498	443
Foreign language training	8	16	11
Overseas service training	163	39	141
IT & CS trainings	115	179	-
	W1,427	W866	W773

26. Segment Information

The Bank is organized into five major business segments: retail banking, corporate banking, capital markets, credit card operations and others. These business segments are based on the nature of the products and services provided, the type or class of customer and the Bank's management organization.

Detail of the Bank's operations by business segment at December 31, 2004 is as follows (millions of Won):

	Retail banking	Corporate banking	Capital markets	Credit card operations	Others	Total
Loans	W 18,342,977	W 11,542,171	W 203	W 613,779	W 43,763	W 30,542,893
Securities	-	254,229	6,843,821	-	324,724	7,422,774
Fixed assets	-	-	-	-	1,206,293	1,206,293
Other assets	-	-	-	-	2,953,728	2,953,728
	W18,342,977	W11,796,400	W6,844,024	W613,779	W4,528,508	W42,125,688

Detail of the Bank's operations by business segment at December 31, 2003 is as follows (millions of Won):

	Retail banking	Corporate banking	Capital markets	Credit card operations	Others	Total
Loans	W 15,746,870	W 10,409,456	W -	W 721,068	W 35,196	W 26,912,590
Securities	-	284,378	6,818,776	-	379,208	7,482,362
Fixed assets	-	-	-	-	1,228,734	1,228,734
Other assets	-	-	-	-	4,292,648	4,292,648
	W15,746,870	W10,693,834	W6,818,776	W721,068	W5,935,786	W39,916,334

The Bank principally operates in Korea. Secondary segments are geographically oriented and are segregated into two segments: domestic and overseas operations.

The distribution of the Bank's operations by geographical markets at December 31, 2004 is as follows (millions of Won):

	Domestic	Overseas	Total
Loans	W 30,228,583	W 314,310	W 30,542,893
Securities	7,110,539	312,235	7,422,774
Fixed assets	1,204,970	1,323	1,206,293
Other assets	2,932,305	21,423	2,953,728
	W41,476,397	W649,291	W42,125,688

Notes to Consolidated Financial Statements (continued)

December 31, 2004 and 2003

The distribution of the Bank's operations by geographical markets at December 31, 2003 is as follows (millions of Won):

	Domestic	Overseas	Total
Loans	W 26,479,688	W 432,902	W 26,912,590
Securities	7,249,285	233,077	7,482,362
Fixed assets	1,227,922	812	1,228,734
Other assets	4,271,473	21,175	4,292,648
	W39,228,368	W687,966	W39,916,334

27. Added Value Information

The accounts and amounts which are required to be disclosed in connection with the calculation of added value from the Bank's operations for the years ended December 31, 2004 and 2003 are as follows (millions of Won):

	2004	2003
Salaries and wages	W290,112	W259,837
Retirement benefit	22,333	29,735
Other employee benefit	65,727	58,210
Rent	26,017	23,050
Depreciation	59,688	62,054
Amortization	19,125	13,958
Other taxes and dues	30,104	32,201
	W513,106	W479,045

Board of Directors

As of December 31, 2004

Robert T. Barnum

Chairman, Board of Directors
Non-Standing Director, Executive Committee
Risk Management & Financial Control Committee

Robert A. Cohen

President, Chief Executive Officer
Executive Committee

Thomas J. Barrack, Jr.

Non-Standing Director

Richard C. Blum

Non-Standing Director, Executive Committee

David Bonderman

Non-Standing Director

Daniel A. Carroll

Non-Standing Director, Compensation Committee

Paul Huan Piao Chen

Non-Standing Director, Audit Committee

Michael O' Hanlon

Non-Standing Director, Audit Committee

Edward G. Harshfield

Non-Standing Director, Audit Committee
Risk Management & Financial Control Committee

Michael "Mickey" Kantor

Non-Standing Director, Compensation Committee

Jong Tae Kim

Non-Standing Director, Audit Committee

YoonJae Lee

Non-Standing Director, Executive Committee
Compensation Committee

Frank N. Newman

Non-Standing Director, Executive Committee
Compensation Committee
Risk Management & Financial Control Committee

Shee Yul Ryoo

Non-Standing Director
Risk Management & Financial Control Committee

Weijian Shan

Non-Standing Director, Executive Committee
Risk Management & Financial Control Committee

Francis Yeo Teng Yang

Non-Standing Director, Audit Committee

Business Network

As of February 1, 2005

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E-mail: ir@kfb.co.kr

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International Business- Related Departments

Trade Banking Department

Foreign Exchange Information Center
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Foreign Investment Service Center
(Ext: 3913)
Export Section (Ext: 3892)
Import Section (Ext: 3887)
Remittance (Ext: 3879)
L/C Advising (Ext: 3912)
Reconciliation (Ext: 3912)
SWIFT/Telex (Ext: 3912)
Marketing (Ext: 3825)
Telex: K23685, K24249 FIRSTBK
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International Department

Correspondent Banking (Ext : 3844, 3831)
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Trading & Sales Team

Won/Dollar Dealing (Ext: 4404)
Marketing (Ext: 4410)
FX Dealing (Ext: 4408)
Derivatives & Structured Products
(Ext: 4412)
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Treasury Department

Term Borrowing (Ext: 4401, 3424)
Money Market (Ext: 4403)
Securities Investment(Ext: 4432)
Fax: 82-2-3702-4943~4

Overseas Network

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1-7-1 Yurakucho, Chiyoda-ku
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Telex: J23329 KOFIRST
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Fax: 81-3-3201-4558

London Branch

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Telex: 8956724 KFIRST G
Tel: 44-20-7392-2800
Fax: 44-20-7392-2819

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71933 KOFST HK
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Domestic Network

Customer Service Center

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84-11 Namdaemunro-5ga, Jung-gu
Seoul, 100-753, Korea
Tel: 82-2-730-5442
82-1588-1599
Fax: 82-2-2129-6131

Busan

18-1 Jungang-dong 3ga, Jung-gu, Busan
600-013, Korea
Tel: 82-51-661-7114, 82-1588-1599
Fax: 82-51-661-7143

PB Center

Gangbuk

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Jongno-gu, Seoul, 110-121, Korea
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Fax: 82-2-732-7296

Gangnam

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Gangnam-gu, Seoul, 135-284, Korea
Tel: 82-2-552-9125
Fax: 82-2-3452-2862

Busan

Korea First Bank 14F, 163-1 Bujeon-2 dong
Jin-gu, Busan, 614-032, Korea
Tel: 82-51-816-8100
Fax: 82-51-809-0220

Domestic Subsidiary

Korea First Data Systems Corp.. Ltd.

7-11 Shinchun-dong, Songpa-gu
Seoul, 138-240, Korea
Tel: 82-2-3433-2955
Fax: 82-2-2202-2441

Corporate Data

As of December 31, 2004



Head Office

100 Gongpyung-dong, Jongno-gu
Seoul, 110-702, Korea
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SWIFT: KOFB KR SE
Telex: K23685, K24249 FIRSTBK
Tel: 82-2-3702-3114
Fax: 82-2-3702-4901/4903
Internet: www.kfb.co.kr
E-mail: ir@kfb.co.kr

Date Of Establishment

July 1, 1929

Paid-In Capital

₩1,029.6 Billion

Number Of Employees

4,205

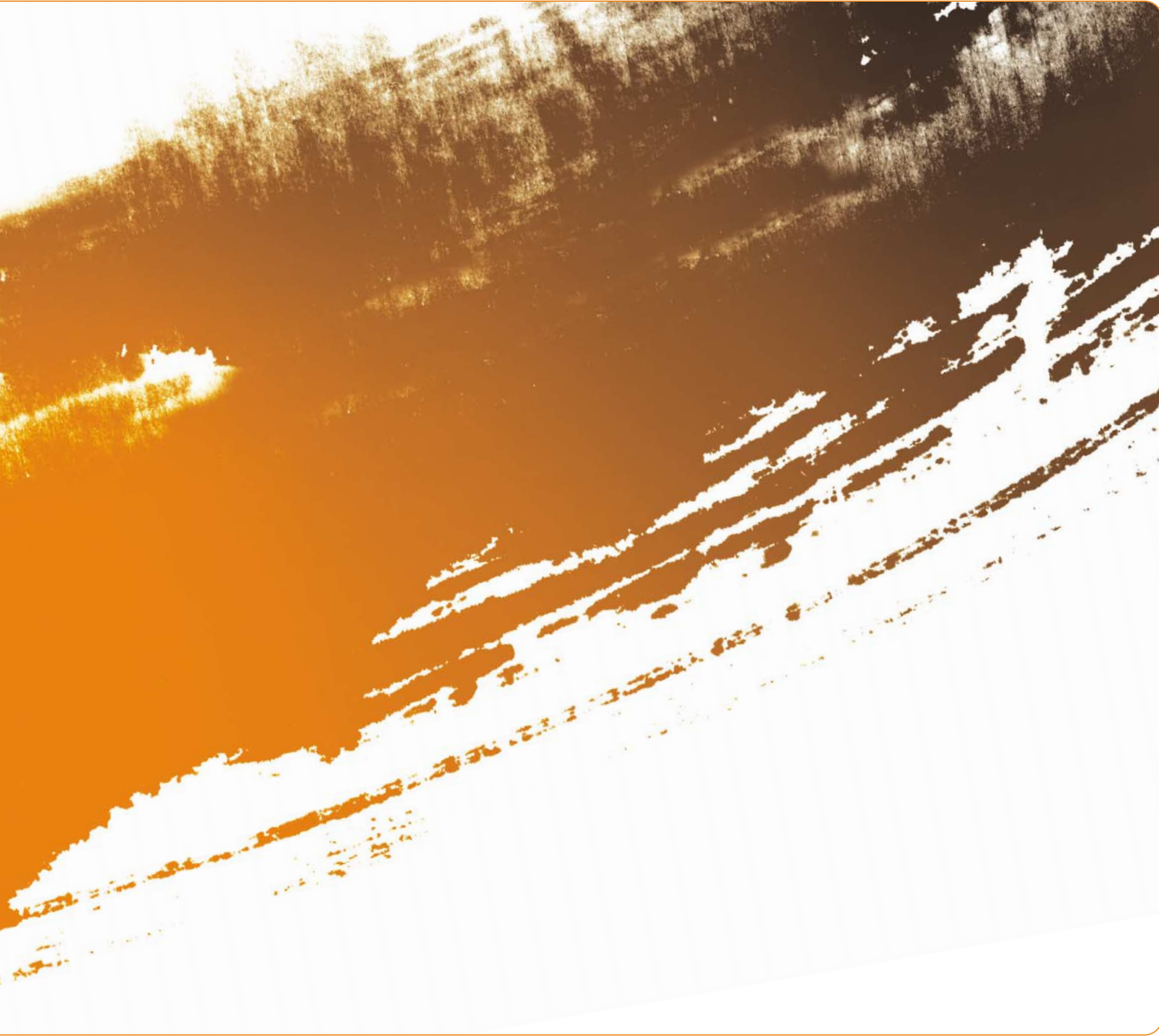
Number Of Offices

Domestic: 406

Overseas: 3

Distribution Of Shareholders

KFB Newbridge Holdings (private) Ltd.	48.56%
Korea Deposit Insurance Corp.	48.49%
Ministry of Finance & Economy	2.95%

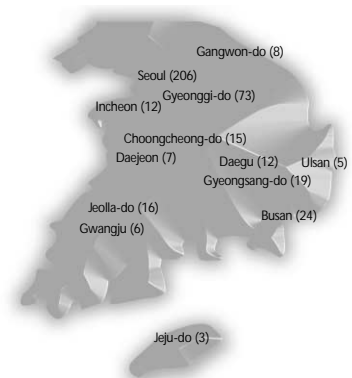


Number of Domestic Offices

Retail Branches	361
Corporate Branches	45
Total	406

Distribution of Domestic Branches

Seoul	206	Ulsan	5
Busan	24	Gyeonggi-do	73
Daegu	12	Gangwon-do	8
Incheon	12	Choongcheong-do	15
Gwangju	6	Jeolla-do	16
Daejeon	7	Gyeongsang-do	19
		Jeju-do	3
		Total	406





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