



We are KB

The Convenient, Sound and Wise *STAR*





I Profile

KB is the largest bank in Korea with total assets of KRW 180 trillion, serving over 25 million customers through an unrivalled distribution network of 1,124 branches nationwide. Headquartered in Seoul, with offices in New York, Hong Kong, Tokyo, London, Auckland, and a representative office in Guangzhou, KB offers a broad range of financial products and services from retail banking, corporate banking, credit card, trust to private banking, asset management, international banking, investment banking, online banking and Bancassurance.

I Vision

“Korea’s Leading Bank”

Since the merger between Kookmin Bank and Housing & Commercial Bank in 2001 to form KB, KB has recently gone through a new phase in its history with the election of new management in November 2004. Over the years, as the largest bank in Korea with an overwhelming customer base and branch network, KB took the leading role in the domestic financial markets by introducing advanced financial systems and implementing continuous management innovations. However, with the recession in the household sector due to the credit card crisis, KB experienced delays in its organizational restructuring efforts, while also facing difficulties in operational management.

To overcome these difficulties and challenges, management established a new vision: **Korea’s Leading Bank**. The new vision not only embodies KB’s aspirations to become the largest bank in Korea in terms of asset size, but also to become Korea’s “truly” leading bank in terms of profitability and sustainability. This encompasses management’s and employees’ goal of becoming the “standard” for all financial institutions to follow, and the eagerness to fully utilize its core competencies to become a significant contributor to the growth of Korea’s financial industry.

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I Strategy

Profitable Mass & Universal Banking

“Profitable Mass” is a marketing strategy targeted towards customers in the retail and corporate banking sectors. In the retail banking sector, rather than acquiring new customers, the strategy’s main focus is to encourage existing customers that have had little or no transactions with the Bank, to continue and/or increase their relationship with the Bank. KB’s target is to increase the profitability per customer, while providing enhanced customer satisfaction. In the corporate banking sector, the main focus is to actively seek and secure many large corporate customers with high credit ratings that have a strong cash flow and sound balance sheet.

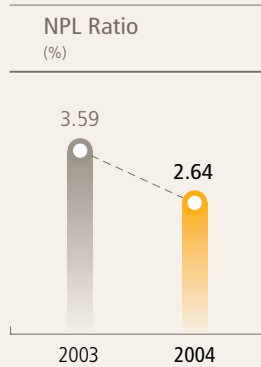
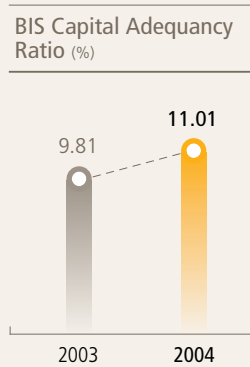
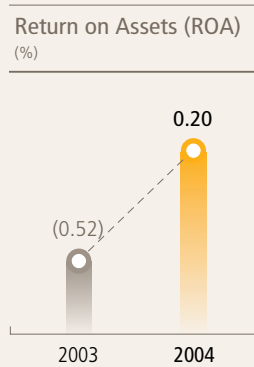
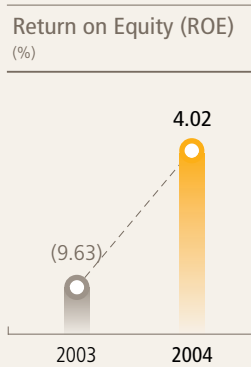
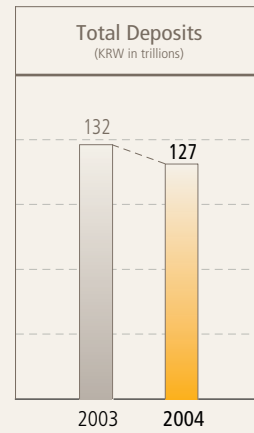
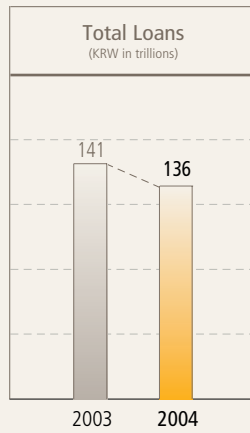
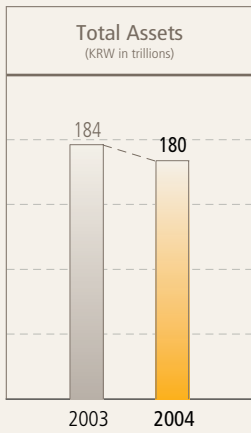
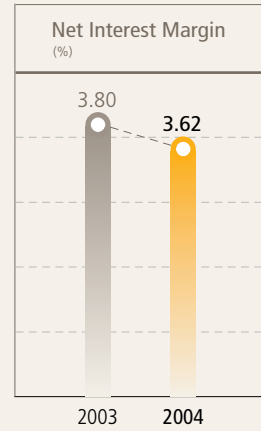
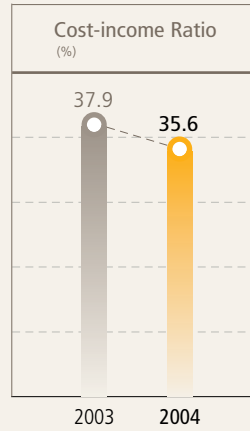
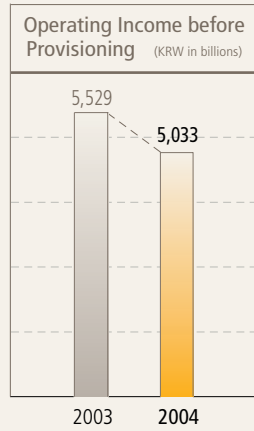
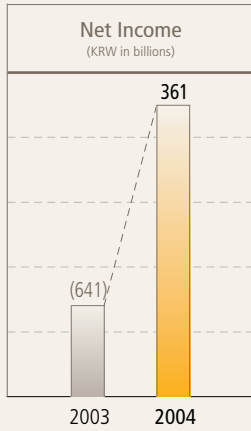
“Universal Banking” refers to a business strategy that embodies KB’s aspirations to become “Korea’s Leading Bank,” by providing a vast array of services and products that generate a stable stream of profits. To enhance competitiveness, KB plans to expand and diversify its business scope to focus on a range of complex products, including derivatives, foreign exchange, and interest linked transactions.



Financial Highlights

	2004 ¹⁾	2003 ²⁾	2004 ^{1) 3)}	2003 ^{1) 2) 3)}
Key income statement figures	(KRW in billions)		(USD in millions)	
Net interest income	6,029	6,476	5,776	5,395
Non-interest income	1,763	2,012	1,689	1,676
Operating income before provisioning	5,033	5,529 ⁴⁾	4,822	4,606
Operating income	415	(1,175)	397	(979)
Non-operating income	215	201	206	167
Net income	361	(641)	345	(534)
Cost-income ratio	35.6	37.9		
Net interest margin (NIM)	3.62	3.80		
Key balance sheet figures	(KRW in trillions)		(USD in millions)	
Total assets	180	184	172	153
Total loans	136	141	130	117
Total liabilities	171	176	163	147
Total deposits	127	132	122	110
Total shareholders' equity	9	8	9	7
Shareholder return	(KRW)		(USD)	
Diluted Earning per share (EPS)	1,176	(2,854) ⁵⁾	1.13	(2.38)
Book value per share (BPS)	28,416	25,094	27.22	20.90
Return on equity (ROE, %)	4.02	(9.63)		
Return on assets (ROA, %)	0.20	(0.52)		
Dividend per share (DPS)	550	-	0.53	-
Financial strength & ratings	(%)			
BIS capital adequacy ratio (CAR)	11.01	9.81		
Tier I capital ratio	6.67	6.03		
Moody's	A3	A3		
Standard & Poor's	BBB+	BBB+		
Fitch	A-	A-		
Key asset quality figures	(%)			
NPL ratio	2.64	3.59		
Delinquency ratio	2.67	3.22		
NPL coverage ratio	87.6	73.4		

- 1) Accounting policy with respect to the private funds in which KB holds interest in the form of wholly-owned beneficiary certificates, or WOBCs, was changed in April 2005. Unrealized gain or loss on WOBCs should be recognized as a capital adjustment in the owner's equity section of the balance sheet, whereas non-interest income from beneficiary certificates was recognized in the income statement prior to the change. The figures are subject to change as the result of review by the independent auditor.
- 2) For comparison purposes, financial figures are pro-forma based records assuming that the merger with KCC occurred on December 31, 2002. KB merged with Kookmin Credit Card (KCC) on September 30, 2003.
- 3) Figures for 2004 and 2003 have been converted to USD using year-end exchange rates of KRW 1,043.8 and KRW 1,200.4 to the dollar, respectively.
- 4) For comparison purposes, the figures stated assuming no accounting policy change in the loss on sales of loans, despite actual changes in K-GAAP which occurred in third quarter 2004.
- 5) The figures are based on a net loss of KRW 930 billion in 2003, which has been reported to the Financial Supervisory Service.



| Letter to the Stakeholders

2004 was an eventful year for KB as we laid the foundations for an exciting future. Our principal objectives of improving asset quality and fostering harmonious labor relations were achieved. Operating income before provisioning remained strong at KRW 5,033 billion. Due mostly to efforts to improve asset quality, however, net income recorded only KRW 361 billion, and fully-diluted earnings per share recorded KRW 1,176.

The most formidable challenge in 2004 was improving our asset quality and adhering to a more disciplined risk management policy. This was largely successful. Total assets contracted by 2.4% to KRW 180 trillion after we sold and wrote-off non-performing assets as part of our business strategy that focused on restoring profitability via asset quality improvement. As a result, return on shareholders' equity (ROE) and return on assets (ROA) fell short of expectations at 4.02% and 0.20%, respectively.

Our efforts to strengthen asset quality resulted in lower delinquency ratio (2.67% in 2004, compared to 3.22% in 2003) and lower non-performing loans ratio (2.64% from 3.59% in 2003). NPL coverage ratio also rose to 87.6% in 2004 from 73.4% in 2003. Delinquency ratios for new credit card and retail banking loans declined steadily, which will reduce earnings volatility in coming years.

In our traditional banking operations, net interest income decreased by 6.9% to KRW 6,029 billion in 2004 from KRW 6,476 billion the previous year amid falling market interest rate environment and pullback in new loan origination under tighter credit management policy. Despite lower net interest income, the focus on fee income products proved rewarding with commissions in won rising by 6.0% to KRW 706 billion from KRW 666 billion in 2003. This trend is likely to continue as a good portion of fee income comes from the growing sales of investment products such as Bancassurance and investment trust funds.

1) Due to the accounting policy change regarding investment in private funds, for which we hold interest in the form of beneficiary certificates, promulgated by the Financial Supervisory Services as of April 2005, net income has been reduced down to KRW 361 billion from previous KRW 555 billion.





President & CEO_Chung Won Kang

I believe that the foregoing efforts, when successfully carried out throughout 2005, will provide a strong base for sustainable growth in retail banking and prepare the Bank to invest in newer businesses for future growth.

| Letter to the Stakeholders

During the last fiscal year, we prevailed over major internal and external obstacles and paved the way for a new beginning. Throughout the year, we diverted a meaningful amount of resources to provide for adequate loan loss provisions; improving asset quality; and creating a sound labor relationship based on renewed trust and commitment to the Bank's future.

In 2005, we will focus on the following key areas in order to strengthen the Bank's foundation, particularly for the already-dominant retail businesses:

- 1) complete the consolidation of HR systems, including training programs, and address the head count issue;
- 2) refine and systemize credit risk management systems and procedures;
- 3) improve customer service through implementation of vigorous Customer Satisfaction programs, sales skill training, and launching a bank-wide CRM system;
- 4) consolidate product management systems and procedures; and
- 5) strengthen internal control systems and procedures

I believe that the foregoing efforts, when successfully carried out throughout 2005, will provide a strong base for sustainable growth in retail banking and prepare the Bank to invest in newer businesses for future growth.

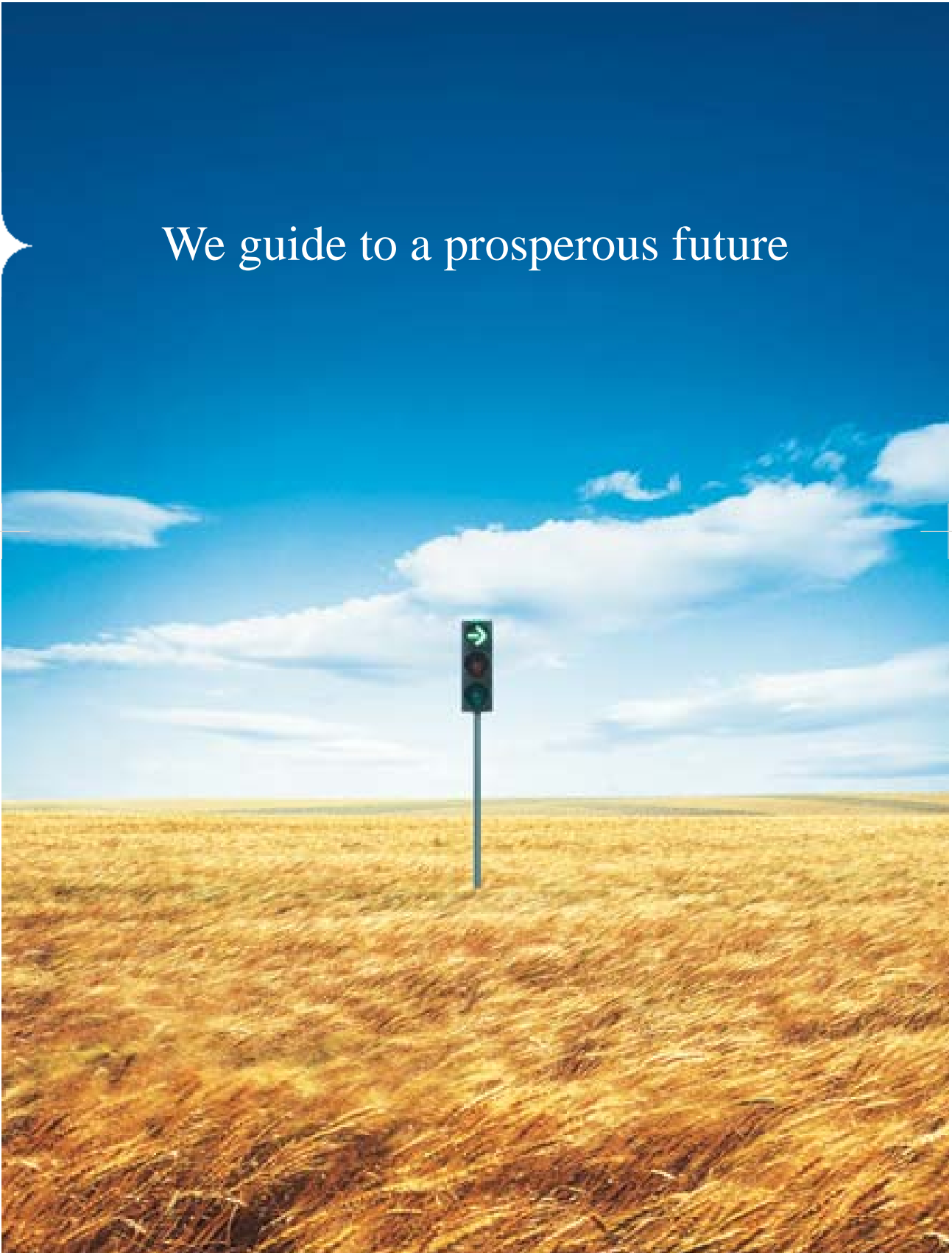
I trust you will continue to support our endeavors.

Sincerely yours,



Chung Won Kang
President & Chief Executive Officer

We guide to a prosperous future





• Awards and Recognition in 2004 •

January

- Best IR Website in the Asian/Pacific/African Region (MZ Consult, Jan. 22)
- 8th on a global basis in the Shareholder Performance Index (SPI) (Mercer Oliver Wimon, Jan. 22)

March

- No. 1 in brand value within the Korean banking industry (Korea Management Association Consulting, Mar. 18)
- 154th within the world's top 2,000 firms (Forbes, Mar. 26)

April

- Best brand in Korea for the first half of 2004 (Seoul Economic Daily, Apr. 26)

May

- Best retail bank in Korea for 2003 for second consecutive year (The Asian Banker, May 20)
- 392nd among the world's top 500 firms in market capitalization (Financial Times, May 27)

June

- Most trusted firm by consumers in 2004 (Korea Daily & Korea Consumer Forum, Jun. 3)
- Best bank in Internet banking services in Korea (Stockpia, Jun. 3)
- 1st among 30 respected Korean firms by shareholders (Dong-A Ilbo & Korea IBM BCS, Jun. 22)
- 1st based on the Global Brand Capability Index in 2004 (Japan Management Association Consulting, Jun. 29)

July

- First domestic company to receive "Bronze" award in the 「2004 International ARC Awards」 annual report section in banking and financial services (MerComm, Jul. 13)
- Best Bank in Korea for four consecutive years (Euromoney, Jul. 19)
- 79th in terms of Tier I capital and 75th based on total assets (The Banker, Jul. 25)

August

- Best Brand in Korea for 2003 (Seoul Daily, Aug. 23)

September

- 5th in Asia and best in Korea in terms of corporate governance (CLSA, Sep. 15)

November

- 1st in banking sector based on Country Brand Competitive Index (Korea Productivity Center, Nov. 3)
- 1st in the banking sector in terms of brand value (KRW 2 trillion) (The Institute for Industrial Policy Studies, Nov. 10)
- Best credit award in the corporate sector (Munhwa Daily, National Information and Credit Evaluation, Nov. 22)

December

- Award for "Life Long Education" in the corporate sector (Ministry of Education and Human Resource Development, Korea Chamber of Commerce and Industry, Korea Educational Development Institute, Joong-Ang Daily, Dec. 15)
- Best fund sales company (Money Today, Dec. 22)
- Korea's top brand (Seoul Economic Daily, Dec. 31)

• Snapshots in 2004 •

February

25th Set up the first domestic apartment price trend analysis system

March

2th Launched 'K-bank', a mobile banking service with KTF

8th Rolled-out the first domestic electronic bank book, 'KB Banking IC Credit Card'

12th Fully launched the first ATM general management system in the financial sector

April

29th Established KB Life Insurance

30th First financial institution in Korea to accept and sign the UNEP for environment and continuous development

May

15th Initiated the banks foreign exchange internet portal site

June

4th Launched the first domestic real estate fund

11th Upgraded Moody's credit outlook from A3, Negative to A3, Stable

14th Signed MOU with Indonesia's BII Bank for IT technology exchange and joint development of advanced banking solution

July

22th Signed agreement with the Construction Bank of China regarding foreign currency business

August

31th KB Life Insurance and ING Group signed agreement for joint investment

September

6th Integrated the electronic system and service of KB Card and KB BC Card

October

16th Initiated 'MBank' mobile banking service with SK Telecom

7th Signed cooperation agreement with Nara Bank, a Korean-American managed bank

8th Opened Korea's largest call center

29th Held Extraordinary Shareholders' Meeting (Chung Won Kang elected as the new CEO)

November

1th Launched the first domestic KB Electronic Deposit' nationwide

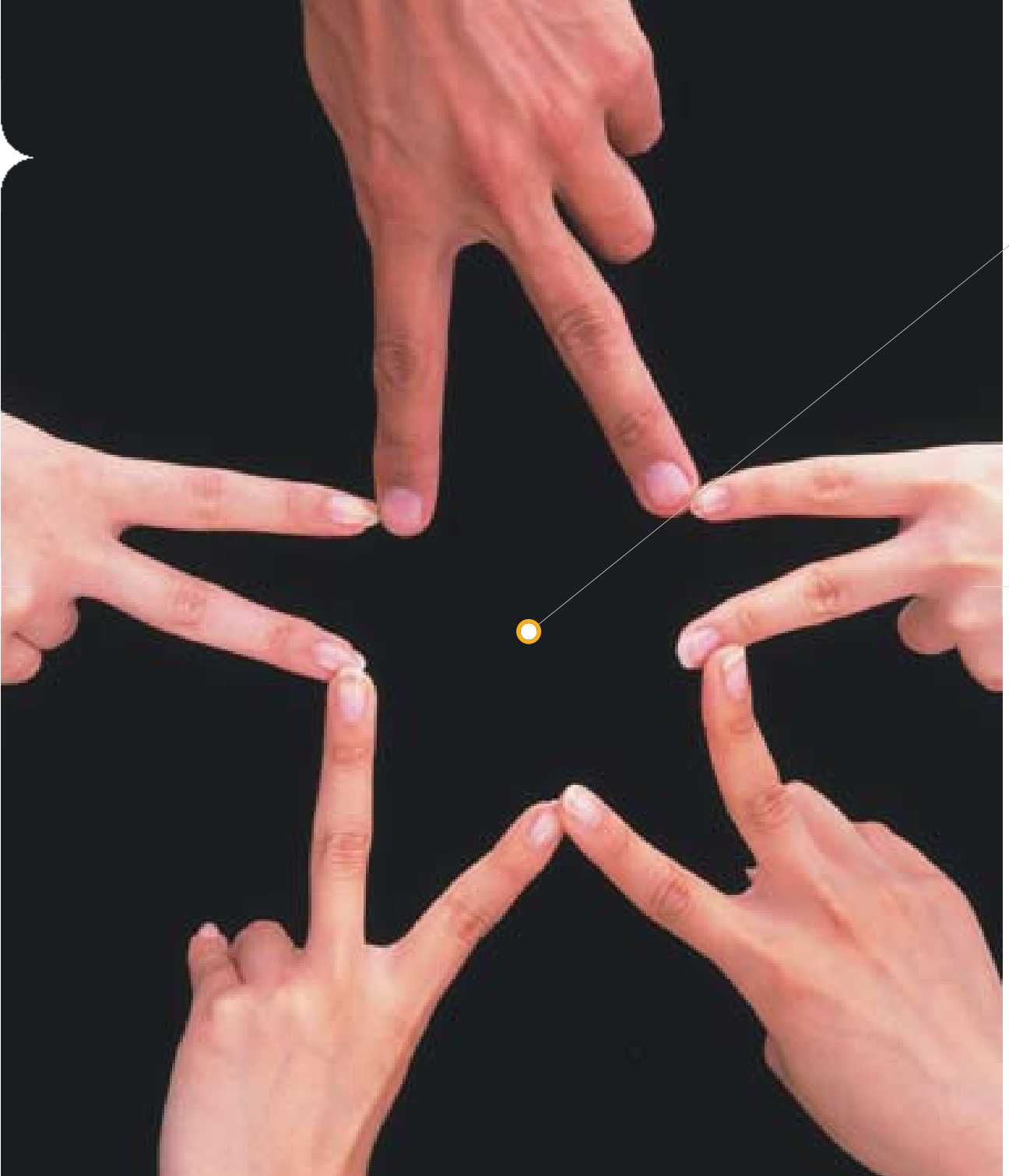
9th Held signing ceremony for integrating the 3 labor unions into one (Former Kookmin Bank, H&CB, and Kookmin Credit Card)

December

6th Initiated Continuous Linked Settlement (CLS) service

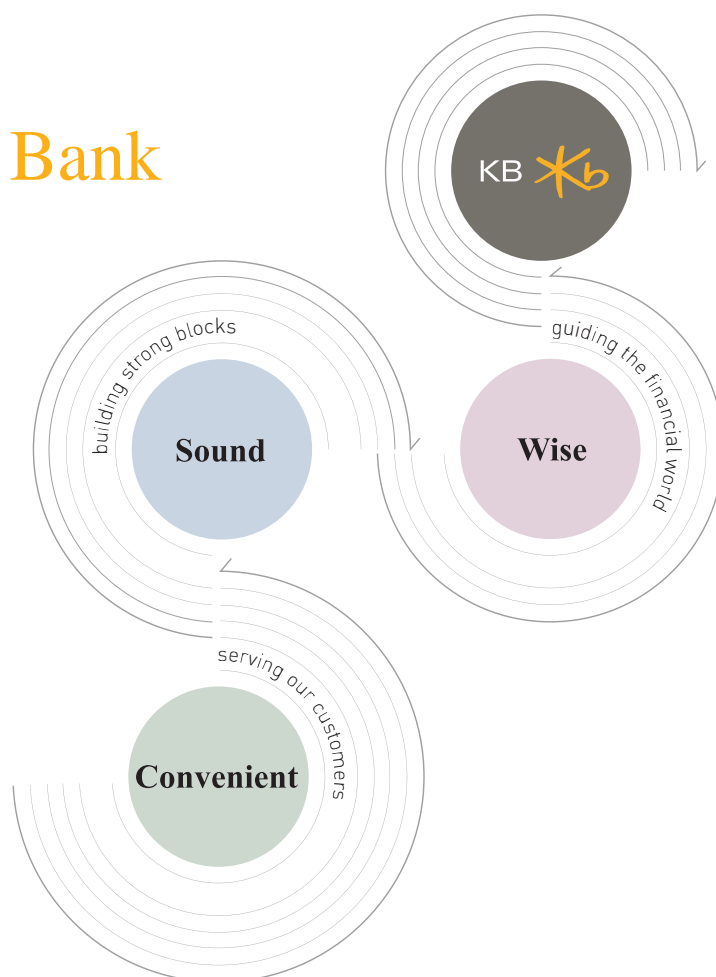


| Management Philosophy



This is KB way

The Convenient, Sound and Wise Bank



- **Convenient Bank**
enhances customer satisfaction and promote a long-term partnership.
- **Sound Bank**
improves asset quality and establishes a dynamic organizational culture.
- **Wise Bank**
maximizes profitability and sustains continued growth.



The Convenient Bank

serving our customers



KB strives to enhance customer satisfaction and promote a long-term partnership by providing a broad range of convenient and satisfactory financial products and services that support the financial success of its customers.

Reinforcement of Customer Management

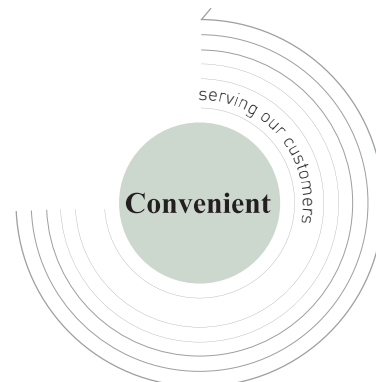
Secure a loyal customer base by increasing customer asset value and actively providing prompt solutions to customer needs and requirements with diversified and differentiated financial products, services and channels.

Enhancement of Sales Competencies to Achieve Maximum Profitability

Establish product sales system focused on maximizing customer satisfaction, while optimizing profitability opportunities for the Bank through effective management and training of financial experts assigned to operate and manage customers' assets.

Establishment of Optimal Channels for Customer Convenience

Maximize customer satisfaction by customizing Korea's largest branch network and online channels, to meet the diverse financial needs of KB's customers in an expedient and effective manner.



Customer Satisfaction

KB Customer Satisfaction Charter



In January 3, 2005, KB announced the “KB Customer Satisfaction Charter” to convey KB’s renewed determination to maximizing customer satisfaction (CS), and the “Internal KB Customer Satisfaction Charter for Head Office” to encourage respect for KB members located in each branch.

Since the announcement of the Charter, KB has committed itself to significantly improving service quality of all its employees by assigning tasks from the Charter and monitoring these tasks on a monthly basis. In addition to the Charter, 5 Codes of Behavior were also provided to the employees and monitored on a monthly basis. KB has also been actively publicizing the Charter to its customers and shareholders through the website (www.kbstar.com).

The commitments stated in the Customer Satisfaction Charter contain details of customer needs and requirements in terms of service improvements and are used as key elements to CS management. The KB Customer Satisfaction Charter portrays the determination of all employees to do their best in enhancing the CS index to strengthen KB’s market status as a leading bank.

Retail Customer Satisfaction Index Survey and Customer Service Consulting Survey

As a way to enhancing CS, the Customer Satisfaction Team has been conducting two surveys simultaneously on a regular basis since early 2004: Retail Customer Satisfaction Index Survey and Customer Service Consulting Survey.

Retail Customer Satisfaction Index Survey measures the level of satisfaction of customers with the branches they have transacted with, through direct phone calls to the customers, while the Customer Service Consulting Survey examines the quality of customer service provided by the branch staff during business hours via mystery shopping by surveyors (i.e., surveyors acting as customers). To enhance CS on a bank-wide basis, Retail Customer Satisfaction Index Surveys have been conducted in all areas of the Bank that are in daily contact with customers, including RM (Relationship Manager) branches, PB centers, call centers and the Internet. Utilizing the results of these surveys, KB is constantly searching for ways to improve services offered by the window tellers in each branch. Starting in 2004, the Customer Service Consulting Survey was initiated bank-wide to enhance the service level of the sales personnel towards customers. From 2005, the survey is being carried out monthly, providing the sales personnel with immediate feedback in order to continuously enhance the level of CS and strengthen sales competency. To further promote CS, the Bank selects and awards excellent CS employees. On a monthly basis, a “CS Star” is selected from a pool of excellent CS employees through the Customer Service Consulting Survey, and is given various awards and incentives.

Bank-wide Customer Satisfaction Training

KB initiated “Cyber CS” courses starting in early 2004 to all its employees as part of the Bank’s effort to train and educate employees on customer satisfaction and to renew employees’ commitment to



providing optimal customer satisfaction and enhanced sales performance. In a total of 9 sessions, each session lasting 4 weeks, there are currently 3,000 employees participating in the "Cyber CS" course. The Bank has also continuously provided online educational materials to its employees through the intranet (CS Plaza) in order to raise the service quality targeted towards the customers.

Off-line branch managers, CS performance managers, CS leaders and temporary employees are systematically and collectively educated in training centers, while the CS manager frequently checks on the service level of branches, immediately providing feedback to ensure continuous enhancement of service by the branches.



Strengthening Communication Network between Headquarters & Branches

With the announcement of the KB Customer Satisfaction Charter in 2005, all of its branches and headquarters are striving to improve CS through the new Customer Satisfaction Management System.

KB plans to further enhance CS by improving the level of its customer services through the expansion and reinforcement of both Retail Customer Satisfaction Index Survey and the Customer Service Consulting Survey. KB will also promote two-way communication between its head office and branch employees through the establishment of an inter-employee Voice of Customers (VOC) channel, where problems and comments from branches are actively reflected and improved.

Consumer Protection Activities

On July 1, 2004, KB streamlined the existing consumer protection activities of the Bank and credit card business by integrating the credit card consumer protection activities of the Credit Card Customer Service Team into the Customer Complaint Center of the Customer Satisfaction Team to improve the quality and facilitate the processing of consumer protection activities.

As a means to providing effective consumer protection training, the Customer Complaint Center published the Consumer Protection Manual in December 2004 and distributed it bank-wide to conduct consumer protection activities. As a first in the financial industry's history, KB produced an animation videotape to help prevent customer complaints from arising. The videotape is currently being televised throughout the Bank. As another first in the banking industry's history, KB completed development of a customer complaint IT system and database during the 1st half of 2004. With full operation of the system since the 2nd half of 2004, KB has been able to increase the efficiency of its customer complaint management system.

In 2005, KB will promptly respond to complex and diverse customer complaints by (1) actively operating an improved system for consumer damage compensation and (2) newly incorporating system improvement recommendations in processing customer dissatisfactions to effectively prevent and reduce customer complaints.

Customer Relationship Management (CRM) and marketing strategies are established at the bank-wide level to increase its profits through strengthened customer relationships and establishment of long-term and stable revenue structures by increasing value towards its customers. KB's objective is to maintain its current high value customers, while continuously striving to acquire new customers through customer-oriented CRM and marketing promotions to maintain a customer base focused on life-long values. KB will enhance customer satisfaction through a well formulated marketing strategy, brand management, sales promotion and alliance marketing.

KB operates the KB Star Club program, an upgraded version of the existing KB Priority Customer program, to segment customers based on value contribution to the Bank. KB provides preferential services to these customers, while focusing on expanding its high value customer base. KB also provides support for branch-level marketing activities to increase customer loyalty and maximize operating profits through campaigns that provide customers with products and services that add value.

In addition, KB's Analytical CRM Mart promptly provides KB with detailed information on customers, while various customer evaluation models such as the Customer Value Management (CVM) model [loyalty model, deposit forecast model, profitability forecast model, Loans Needs Score (LNS) model] and the income estimation model enables KB to forecast customer behavior and identify potential value in customers. In order to manage KB's customers according to customer value and characteristics, all customers have been classified into 15 master segments based on revenue contribution, loyalty and risk.

Meanwhile, to utilize and manage key customer information, KB established an integrated Customer Information Management Guideline that allows access to all the branches. KB also set up the foundations for reinforcing its internal control system by establishing the Customer Information Management Manual. KB also incorporated a "customer information category" into its branch performance evaluation in order to improve the quality of information regarding major customers, while continuously promoting campaigns for updating and upgrading customer information.

Expansion of High Value Customer Base and Customer-oriented Marketing Activities

The domestic economy in 2005 is expected to continue its stagnant trend, with sluggish consumption and investment, and continued low interest rates. The competition in the retail banking sector is expected to intensify due to challenges from other major banks such as Shinhan Financial Group, Hana Bank and Woori Financial Group, and from the aggressive market penetration of foreign banks through acquisition of domestic banks. As an outcome, differentiated and customized marketing strategies catered towards high value customers and, loan policies centered on asset quality and expansion of fee income have become critical.



Marketing strategy for KB in 2005 aims to secure competitive advantage, despite the fierce competition, by providing value added products and services to high value customers, while improving product and service competitiveness, asset profitability and sales efficiencies. KB will focus on introducing various programs catered towards managing high value customers and VIP lounge exclusive customers, in order to secure a competitive advantage within the global financial community.

KB plans to promote a comprehensive package oriented towards customers as part of its marketing strategy, while strengthening “cultural marketing” through alliances with film producers, movie distributors and concert promoters so as to facilitate customer satisfaction and, accordingly, increase its revenue. KB will also continue market surveys for enhancing its understanding of customers and market conditions.



With respect to high value customer management, KB plans to provide improved high value customer services through differentiation and quality reinforcement of VIP lounges at branches. In addition, KB is currently devising an advanced asset management training program to provide qualified and customized services to high value customers by upgrading and training the professional staffs.

Separately, in order to improve the quality of KB's customer database, KB plans to establish a set of standard guidelines to collect, handle and manage customer information. For enhancing the understanding of KB's customers, KB plans to provide customer information to its regional headquarters and branches through an “Accurate Understanding of KB Customers” program while reinforcing its customer analysis functions by upgrading personnel skills.

Channel Network

To solidify KB's position as the Korea's leading bank, KB strives to continuously strengthen the advantages of its channel network and to provide the most convenient channel for its customers. KB is developing and applying new services and systems to reduce the branch window workload, minimize customer waiting time and create an environment for branch marketing through improved branch work processes. KB is also enhancing customer convenience by introducing various forms of automation equipment with improved functions.

Establishment, Relocation and Integration of Branches

During 2004, KB established 8 new branches in newly emerging commercial centers and areas concentrated on large apartment complexes to provide customers with convenient access to its channel network. 41 branches in areas with sluggish commercial activities and marginal growth have been relocated to other regions. KB has also attained management efficiencies through the integration of 20 branches suffering from low productivity, stagnant growth and marginal operations due to the slowdown in regional economic activity.

Development of Payment Service System

To maximize business capabilities by reducing the branch window workload, KB is continuously enhancing the work processes related to deposit withdrawal and payment services, while developing and applying new services in each of its branches.

Accordingly, payment of cashier's checks and notes presented for clearance is now centralized and processed at KB's business support center rather than its branches. For the first time in the domestic financial industry, KB introduced a payment method in which the actual GIRO slips taken at Paywell machines are electronically transmitted in the form of an image data file to the Korea Financial Telecommunications & Clearings Institute (KFTC) rather than being submitted.

KB is also leading the paradigm changes in IC cards by introducing Korea's first "KB Electronic Deposit." This new form of deposit replaces existing passbook accounts and is able to store up to 30 separate accounts. It is equipped with reinforced security features and can function as both cash and debit cards.

Operation of Automated Machines

In addition to the existing CDs and ATMs, KB operates a diverse range of new concept automated machines, including Korea's first automated utility bill payment machine and automated deposit/withdrawal machine. As of the end of 2004, CDs and ATMs have replaced approximately 83.7% of the window teller's work, while Paywell machines processes 76.8% of all utility bill payments.

During 2004, KB expanded the off-branch automated machine network to 108 sites through strategic alliances with VAN service providers. This, in turn, has enabled KB to benefit from the substitution of branch window teller work to low cost channels and has substantially reduced KB's operational costs, while simultaneously providing all of the idiosyncratic functions of an automated machine channel. KB has further increased the efficiency of its assets through the relocation of automated machines that have not achieved its break-even point in approximately 280 sites.



With the objective to “grow into a high-tech global IT based innovative financial IT services group,” KB continues to pursue the Great IT Transformation for Global Bank (GTGB) project that seeks to convert its IT services into open systems through “business-oriented IT services improvement,” “system usability and stability reinforcement,” and “IT internal work process innovation.” GTGB is a large-scale multi-project for establishing a future banking system based on new technologies. With the system launch expected for December 2006, the project is attracting the attention of the financial industry and IT companies both at home and abroad.

KB was able to display its high standards IT system and demonstrate the banks endurance during times of distress by launching the online Disaster Recovery System online for the first time in the domestic financial industry. KB was also able to minimize system development errors and enhance system error response capabilities by establishing a test system identical to its online system. KB also operates the largest online system in the financial sector with the capability to process 540 million cases per month, enabling the Bank to provide stable and safe quality services to its customers.

Separately, KB was able to increase the reusability of its resources, reduce management costs and minimize maintenance personnel by successfully integrating the dual credit card and bank systems from the merger with KB Credit Card in September 2004 and centralizing IT assets and organizations dispersed in various locations. KB also established the IT investment management decision-making and evaluation support system by measuring and analyzing each business unit's IT costs and benefits and conducting the IT cost analysis project to achieve cost reduction of approximately KRW 10 billion.

Starting in 2005, KB plans to enhance its capability to provide financial information on a timely basis by continuing to develop applications and a data mart for establishing the foundations for BASEL II and by developing a credit card profit & loss management system. The Bank will also actively conduct IT investments in its IC card business. In addition to the development of human resource management system (e-HR) and human resource development system (e-HRD), KB plans to reorganize and expand its knowledge management portal system for systematically managing intangible assets.

Through innovations in IT, KB is committed to improving the internal work process and communications flow by enhancing the efficiency and effectiveness of its organization to be able to maximize its 'Convenient' support towards customers.



The Sound Bank

building strong blocks



Establish a Dynamic Organizational Culture

Foster a voluntary and active organizational culture based on respect and service for the branches through the implementation of International Best Practices across the Bank and successful integration of the labor unions.

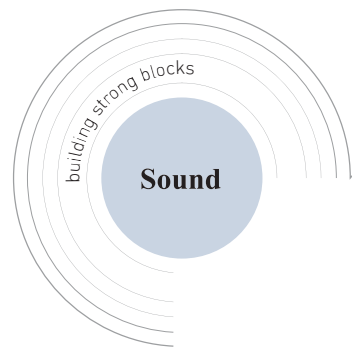
Initiate Effective Human Resources Management Focused on Customer Service and Sales

Enhance marketing strategies and organizational efficiencies through human resources reallocation oriented towards customer service and performance based management.

Enhance Financial Soundness

Establish sound and stable asset structure by continuously upgrading risk management systems, while restructuring asset portfolio by placing more emphasis on highly qualified customers.

KB strives to improve asset quality and establish and a dynamic organizational culture to secure high value customers.



Organization and Structure

Senior Management



1. Donald H. MacKenzie

Director & Senior Executive Vice President
Risk Management Group

2. Yong Kook Oh

Senior Executive Vice President
Corporate Banking Group

3. Jun Bo Cho

Senior Executive Vice President
Information Technology Group

4. Seong Kyu Lee

Senior Executive Vice President
Sales Supporting Group

5. Dong Soo Choe

Senior Executive Vice President
Credit Management Group

6. Chung Won Kang

President & CEO

7. Sang Jin Lee

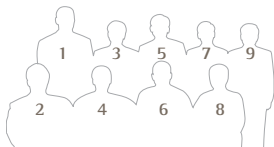
Senior Executive Vice President
Credit Card Group

8. Ahn Sook Koo

Senior Executive Vice President
PB/Asset Management Group

9. Young Han Choi

Senior Executive Vice President
Capital Markets/Treasury Group





10. Nam Sik Yang

Senior Executive Vice President
Consumer Banking Group II

11. Kap Shin

Director & Senior Executive Vice President
Finance Group

12. Jung Young Kang

Senior Executive Vice President
Trust/NHF Management Group

13. Hyung Duk Chang

Auditor & Executive Director

14. Hyo Sung Won

Senior Executive Vice President
Consumer Marketing Group

15. Dong Won Kim

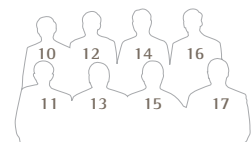
Senior Executive Vice President
Strategic Planning Group

16. Jeong Min Kim

Senior Executive Vice President
Human Resources Group

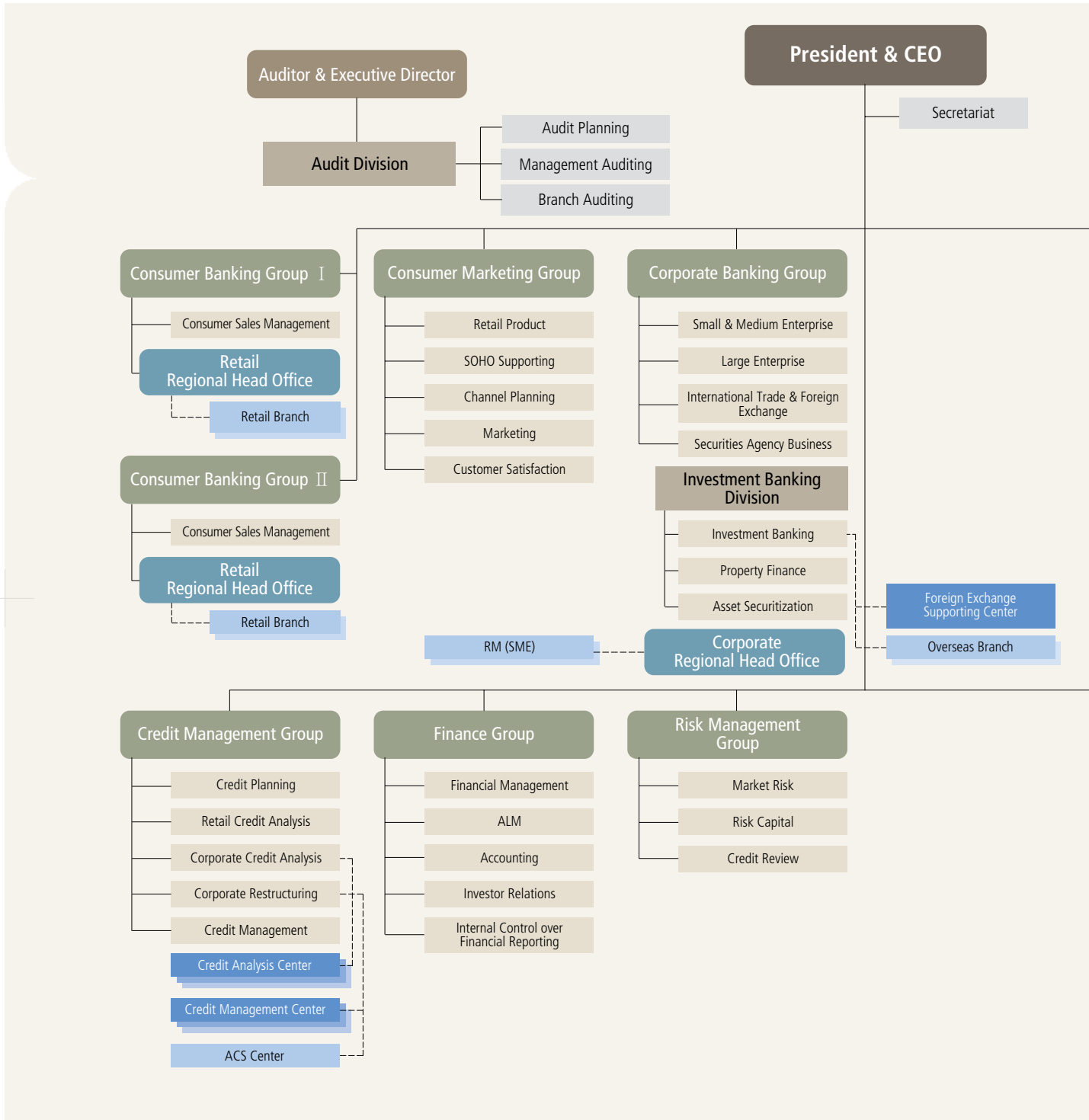
17. Yun Keun Jung

Senior Executive Vice President
Consumer Banking Group I



Organization and Structure

Organization Chart (as of Apr. 8, 2005)



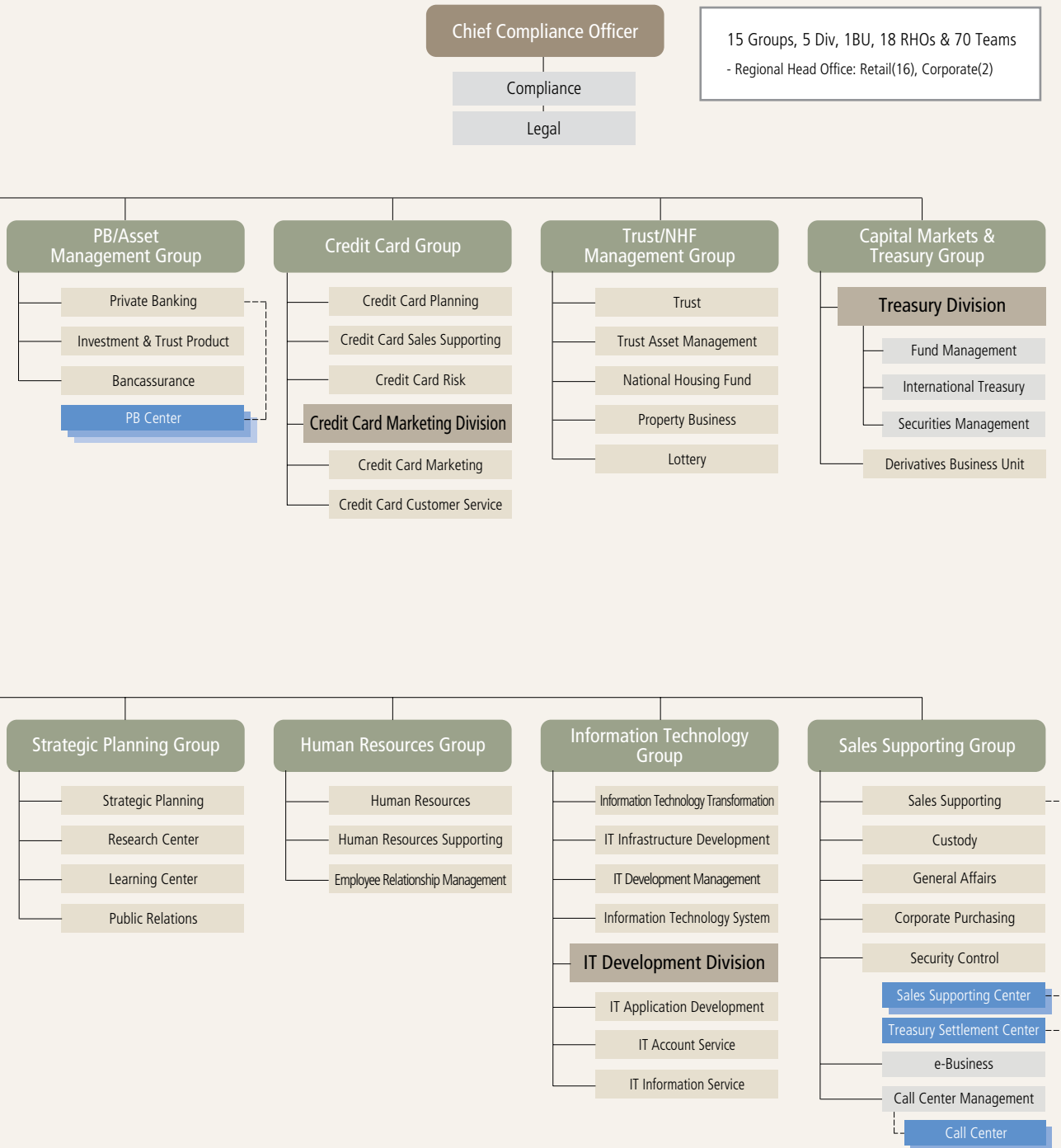
Introduction_01 Management Philosophy_12 The Convenience Bank_14 The Sound Bank Organization and Structure_24 New KB Culture_28
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In the wake of new management, KB established and announced a new business strategy aimed at establishing a universal banking system. A comprehensive reorganization was initiated to effectively execute and support the new strategy. The key factors of the reorganization are summarized as follows:

First, to improve asset quality and risk management, functions such as the credit evaluation policy, analysis, modeling, and post credit management that were scattered across respective business units, have

been centralized and integrated into the Credit Management Group. This has resulted in achieving coordination and control based on consistency.

Second, the operational, financial and human resources related functions that were once managed by a single senior executive vice president, have been delegated to each of the senior executive vice presidents heading the independent business groups, ensuring full accountability in managing their respective business units.



Third, the fund operations were separated from the middle and back office operations to enhance the performance & risk management capabilities in managing funds.

Fourth, new Internal Control over the Financial Reporting Team was established under the control of the Chief Financial Officer to secure financial reporting credibility and, efficient and effective internal control over reporting based on the Sarbanes-Oxley Act and Public Company Accounting Oversight Board standards.

Fifth, the senior executive vice president's control over the sales channel has been restructured to reflect a more focused and effective approach to management. The functions of the development of individual customer products and management of the sales channel, once managed by one business unit, have been separated, while the sales channel in turn has been divided into two, based on regional factors.

New KB Culture

To achieve KB's business objectives and values, it has defined "the desirable code of behavior," so called the "KB-way," which is shared by all members of the staff, as International Best Practices. KB is committed to carrying forward the KB-way into a continued and systematic "cultural revolution program" beyond a mere display of slogans or on-off events.

With respect to case examples of successful cultural transformations amongst the global leading companies, KB's program simultaneously supports both clear and systematic communication with the external environment & organizations, and voluntary transformation of each individual employee to meet the standards and norms established by the Bank.

Inside-out Program (changes from the inside): Provides opportunities for insight and awareness to support voluntary changes within individual employees' mind-set and actions

Outside-in Program (changes from the outside): Expand opportunities to comprehensively communicate with the external environment and organizations



The "KB-way" will be developed further through the IBP Education Program by integrating "the desirable code of behavior" to international best practices.

IBP Education Program

"International Best Practices" (IBP) is the fundamental management principle outlining detailed behavioral norms commonly adopted by leading global companies focused on establishing an appropriate corporate culture. The IBP education program helps employees practice behavioral guidelines by providing education and training on common organizational structure, work system and organization culture of leading companies and, most of all, an understanding of KB's new future vision and management philosophy.



Credit Policy

Credit risk refers to the potential loss in the event that a borrower or counterparty defaults. Due to the credit risks faced by financial institutions, the need for effective and efficient credit risk management has steadily increased in importance as a core competitive factor required for sustained growth. Credit risk currently represents over two thirds of KB's total risk exposure.

By carrying out separate credit risk management procedures, business groups have actively undertaken divergent and complicated credit risks to increase the Bank's profitability. This has led KB to realize the need to achieve consistency and uniformity in its credit risk management implementation and policies.



As a result, at the end of 2004, KB newly established the Credit Management Group to advance its corporate values through optimal credit risk management. The credit policy & regulation, credit analysis & approval task and post-loan management were separated from the business lines and integrated into the Credit Management Group. Through this consolidation and integration, KB was able to significantly improve the effectiveness and efficiencies of credit risk management within the organization and to secure a sustainable competitive position going forward.

The role of the Credit Management Group includes, (1) General credit risk management at the bank wide level, overlooking credit policy, regulations, procedures and management, (2) Credit portfolio management, (3) Allocation of total exposure limits for individual companies, Chaebols and industries (4) Credit rating and analysis, (5) Operation of the credit evaluation models which include the Credit Rating System (CRS), and the Credit Scoring System (CSS, household-type SOHO model), (6) Asset quality management and loan loss provisioning, (7) Post-loan management and monitoring, and (8) Workout and NPL management.

Strengthening Credit Risk Management

Concentrated Credit Risk Management

KB separated the credit risk management function from the marketing business line into the Credit Management Group in order to efficiently manage diversified and complicated credit risks.

The key objective of credit risk management is in securing stable profitability and growth momentum through optimal portfolio management based on credit policies. The functions laid down in the credit policy that were previously dispersed throughout the business units, including the household, SOHO and corporate divisions, have been centralized to the Credit Management Group which controls the bank-wide credit policy. This centralization allows KB to pre-manage risks through careful monitoring of various risk components, to limit the spread of risk.

As an outcome, the functions of the Credit Management Group and the business group were better defined to provide for consistency and specialization, creating significant inroads into effectively managing credit risk. Through the separation of functions, the Bank has been able to establish a foundation for enhanced profitability through appropriate checks and balances between risk management and sales.

Reallocation of Capability in Proportion to Risks

Right after the credit business integration, KB appropriately reallocated its resources based on asset size and risk amount for efficiently managing portfolio.



Priority was given to managing retail exposure which is about 70% of KB's total risk exposure (including household type SOHO). KB took measures to rate all loan customers through the upgraded CSS model regardless of whether the loans were collateralized. Meanwhile KB established a daily monitoring and regular review system by using the Behavior Scoring System (BSS).

To improve credit analysis capabilities on volatile SME loans, KB increased the number of competent credit analysts in the Regional Credit Analysis Center, where unsound SME loans are concentrated.

Establishment of 'One Credit Officer System'

In order to alleviate the negative effects from a prolonged credit screening period, KB currently operates a 'one credit officer system', in which the duties of credit evaluation, loan approval and regular monitoring are allocated to an exclusive credit officer.

Reorganization of 'Loan Approval Framework'

The Senior Credit Officer Committee was established to oversee final credit rating and credit approval. This is to enhance the consistency and appropriateness of credit rating, and efficiency of loan screening. Previously the Senior Credit Officer Committee and the Loan Committee had been responsible only for corporate loan approval. Their responsibility was expanded to mass housing loan approval, workout plan and restructuring loan approval, NPL transfer approval, total exposure limit approval, major decision making related to credit policy, and so forth.

The Retail Credit Officer Committee undertook the duties of retail loan approval, including mass housing loans, which had previously been the responsibility of the heads of each team and two retail credit officers. The retail loan approval system remarkably improved in terms of specialization and risk management functions. Depending on the credit risk amount and difficulty in processing, the approval is carried out by the Credit Officer, the Credit Officer Council, or the Loan Committee.



Portfolio Improvement

While exposure on individual companies, large groups and industries is actively reflected in the credit policy, KB has taken prompt measures, such as exposure reduction plans, loan collections and additional loan securities, when any negative factor affects KB's portfolio in the market. Meanwhile, to prevent potential risks to the Bank, credit risk management tools are applied to long term credit policies.

Upgrade of Credit Rating Models and Enhancement of Daily Monitoring

All retail loan customers are rated by the upgraded CSS model regardless of whether the loans are collateralized, enabling KB to reduce customers with deteriorated credit. KB also enhanced daily monitoring capabilities, while performing regular reviews on assets through the BSS model and early warning systems to prevent outstanding loans from deterioration in the early stage.

As for corporate loans, KB has maintained adequate credit ratings through continuous improvement of its corporate CRS model. The interaction between the early warning system and CRS model was strengthened through the Rating Adjustment System.

Increased Loan and Credit Risk Authorization Standards to Bar Customers with Deteriorated Credit

KB has discouraged customers with deteriorated credit as much as possible. As a basic step, KB limited the scope of branch managers' discretion on credit rating and from issuing new loans for companies rated 'B' or below.

Designating Precautionary Industries

KB designated precautionary industries which required intensive management in consideration of sensitivity to economy fluctuation, delinquency ratio, total exposure limit, industry trend, etc. As for those industries, the Bank applies stricter credit policy for new loans.

Change of Provisioning Policy

Inspection on Adequacy of Credit Rating, Re-rating and Additional Provision

KB performed re-rating on about 2,500 companies such as companies that regular rating was not assessed for, companies that were designated as having deterioration symptoms by the Rating Adjustment System, B ~ BB(-) rated companies by branches and the Regional Credit Analysis Center, and so forth.

Especially KB modified classification of gray zone (precautionary B-, CCC) in detail, classifying 3 stages and changing provision policy from all 2% to 2%, 10% and 19% each, accordingly KB enhanced adequacy of provision by additional provision for relatively high risk loans.

Enhancement of Provisioning for Retail Bad Customers with Unsecured Loans

Unsecured retail loans to bad customers could be regarded as potentially deteriorated asset.

Therefore KB changed provisioning policy reflecting actual empirical loss, as changing 8% to 19% for 'precautionary' and 55% to 94% for 'doubtful'.

Additional Provisions for High Risk Loans

KB set aside additional provisions for high risk customers. These customers include early warned companies, companies in fluctuating industries, companies on court receivership/workout, etc., through appropriate projection of cash flow.

Future Tasks

The objective of credit risk management lies in the maximization of corporate value through stable profit generation. As such, KB plans to focus its efforts on credit risk management centered on "improvement of loan process," "formulation of stable portfolio," "enhancement of provisioning policy" and "strengthening credit officer's capabilities."

Continuous Process Improvement

Through daily monitoring and regular review, KB will improve credit policy for the purpose of efficient credit management; furthermore KB will concentrate its credit risk management competency on divisions with high risks compared with their asset size.

KB will maintain appropriate checks and balances between risk management and sales. Keeping in line with the harmonization, the Credit Management Group will actively accommodate demands from business groups for marketing, while trying to transmit bank-wide credit policy and changing regulations to the groups.

Formulation of Stable Portfolio

The domestic economy in 2005 is expected to be unfavorable due to the potential delay in recovery and the burden of excessive household debts. However, KB plans to continue to generate stable revenues by structuring asset portfolios that can respond to changes in the economy through (1) applying credit evaluation models to all retail loans, (2) reinforcing the supervision of SMEs classified into the less competitive industry group, and (3) concentrating its sales efforts to focus on high value large corporates. KB plans to maintain a balanced portfolio, while closely monitoring market and industry trends.

KB plans to establish and implement support measures for borrowers with high potential for normalization through a corporate recovery system. The implementation enables preventing occurrence of deteriorated asset in advance, accordingly KB will guide existing unsound asset to make a soft landing.

KB will try to maintain optimal portfolio through utilizing internal/external information such as exposure concentration on specified industry, economy trend, overdue loan trend in each business sector, etc.



Enhancement of Provisioning Policy

KB plans to make additional provision for relatively high risk loans among precautionary loans through quarterly inspection on credit rating adequacy. KB will make additional provisions for companies with high risk, thereby KB will maintain stable portfolio even in the economy depression.

Enhancing Capabilities of Credit Officer and Career Management

KB plans to provide credit officers with on-the-job training on overall loan management, including industry and credit analysis, and post loan screening. KB will also support and assist credit officers to develop a strong career path within the Bank.

Financial Soundness**Asset Quality Management**

KB maintains quality loan assets through adequate provisioning for expected loan losses, which, in turn, contributes to generating stable profits. Amidst the recent increase in importance of asset quality management due to the deterioration in debt service capability in the household and SME sectors, KB is improving its asset quality management functions by steadily expanding the scope of its work duties to cover preliminary prevention of non-performing assets and stimulation of early normalization of outstanding non-performing assets.

The role of asset quality management includes, (1) Supervision of asset quality management activities, (2) Allocation and management of loan loss provisions, (3) Formulation, analysis and monitoring of assets quality and loan loss provision plan, (4) Supervision and management of bank-wide delinquency management activities, (5) Analysis of delinquent loans and improvement of management processes, and (6) Activities related to the establishment of delinquency management organization.

Despite the delay in economic recovery in 2004, the size of KB's delinquent loans declined by KRW 892 billion over 2003 year-end levels as a result of (1) significant re-adjustment of non-performing loans (NPLs) through continued write-offs and ABS issuances, (2) stabilization of the size of new delinquencies subsequent to January 2004, and (3) improvement of migration in delinquent loan (new delinquency formation). KB's NPL ratio also improved substantially to 2.64% at the end of 2004 as a result of the decrease in NPLs by KRW 1,458 billion over 2003 year-end levels.

KB will continue to focus on optimizing assets portfolio through consistent efforts to minimize non-performing assets with the advanced credit risk management in 2005.

Credit Information Management

Credit information management at KB is performed according to its internal 'Credit Information Work Handling Guidelines' and pertinent laws and regulations. Credit information includes items such as personal loans and guarantees, credit card and checking accounts, corporate credit exposure, corporate credit ratings, and credit delinquency.

KB actively utilizes its own information and the data aggregated at the Korea Federation of Banks in order to carry out its loan handling and screening, asset quality classification and current account opening screening activities.

Delinquency Management

KB provides sufficient support to facilitate delinquency management in branches and back offices. When delinquencies occur, short-term delinquency management is performed at the branch level in accordance with the level of normalization. If branch management is deemed not to be effective, delinquency management is centralized to the credit management center in order to minimize losses and achieve early recovery of delinquent loans through legal actions or sell-offs.

KB plans to continuously reorganize its systems and organization within the Bank in 2005 to focus on bank-wide asset quality and delinquency management.



In 2004, despite the continued low market interest rate and reduction of assets from the decrease in bad assets, net interest income fell slightly compared to the previous year through flexible interest rate control. To secure a stable interest income platform, KB continues to readjust its asset portfolio by reducing the portion of volatile assets while increasing the portion of stable assets.

Since household loans are not expected to see significant growth, the basic policy regarding interest income in 2005 is to maintain household loans at the current level, while focusing on increasing profitability. On the corporate sector, KB will focus on loans to corporates based on strict credit management policies. Simultaneously, the Bank will concentrate its efforts on selecting high value customers. KB will improve asset quality through reduction in non-performing assets.

In the non-interest income sector, KB strengthened its product competitiveness through developing customized products based on profitability and characteristics of its sales channel. KB also initiated aggressive and flexible product strategies to utilize the opportunities stemming from the changing market environment, such as increased demand for diverse indirect investment products, and expansion and liberalization of the Bancassurance market, resulting in significant performance. Although the portion of non-interest income is steadily increasing, KB continues to search for realistic fee generating sources through new profit opportunities, new fee income sources and cost analysis, to achieve a more stable source of income.

KB's business strategy towards the non-interest income business in 2005 is directed towards facilitating the growth in fee income by reinforcing its product competitiveness and promotion, and expanding sales capabilities in the credit card business which has improved the asset quality. KB also plans to support its branches to expand sales of fee income products through various promotional activities such as investment conferences and sales events.

In 2004, KB significantly decreased the year-end non-performing loans ratio to under 2.64% and improved its coverage ratio to 87.6% as a result of the Bank's efforts to improve asset quality despite continued deteriorations in the domestic economy. The provision for loan losses in the credit card sector fell by 52.8% from that of 2003. In 2005, KB will focus on strengthening risk management to further improve asset quality. Loan loss provisions will be minimized by managing non-performing assets and increasing sound assets.

In terms of general and administrative expenses, KB achieved significant results by reducing and freezing budgets through the reduction of non-essential budget items and through prioritization. This has resulted in a significant decrease in expenditures compared to the projected cost figures in 2004's business plan, contributing to enhanced profitability. All large-scale projects, including essential projects, have been required to undergo feasibility studies by calculating its net present value.

Foundations for long-term sustainable growth are being established by improving productivity on a bank-wide level through reduction of labor costs via organizational restructuring, which was agreed upon by labor and management, and improvement of organizational efficiencies in 2005.

Overview

As a financial service provider, KB is exposed to various risks related to its lending and trading businesses, its funding activities and its operating environment. KB's goal in risk management is to ensure that it identifies, measures, monitors and controls the various risks that arise, and that its organization adheres strictly to the policies and procedures which it establishes to address these risks. The principal risks to which KB is exposed are credit risk, market risk, liquidity risk, and operational risk, and KB strives to manage these risks within acceptable limits.

Risk Management Framework

Risk management activities at KB are conducted by the Risk Management Group and the Credit Management Group at the bank-wide level, and within its individual business groups. The activities are carried out in accordance with the policies and procedures set forth by the Risk Management Committee and Risk Management Council based on the following risk management objectives and principles as stipulated by KB's Regulations on Comprehensive Risk Management.

Objectives	Principles
<ul style="list-style-type: none"> • Maximize shareholder value creation and preserve capital of the Bank • Facilitate the Bank's strategic businesses and financial objectives • Ensure continued and stable growth of the Bank through the generation of sound earnings, adequate capital levels, and optimization of returns relative to risk assumed • Maintain fair credit rating levels • Ensure proper risk diversification • Ensure explicit accountability for risk management, and support risk-adjusted performance measurement 	<ul style="list-style-type: none"> • Risks should be managed comprehensively including risk of subsidiaries • Risk management functions and reporting lines should be independent from business lines in order to ensure a proper degree of "Check & Balance" • Acceptable risk limits should be set in consideration of the Bank's capital and its ability to generate profits, and these limits should be managed adequately • Risk measurement, evaluation, and reporting should incorporate common measures and maintain consistency • Risks should be adequately diversified to prevent excessive exposure in a specific area • Risk technology should be managed on an integrated basis in order to achieve comprehensive risk management

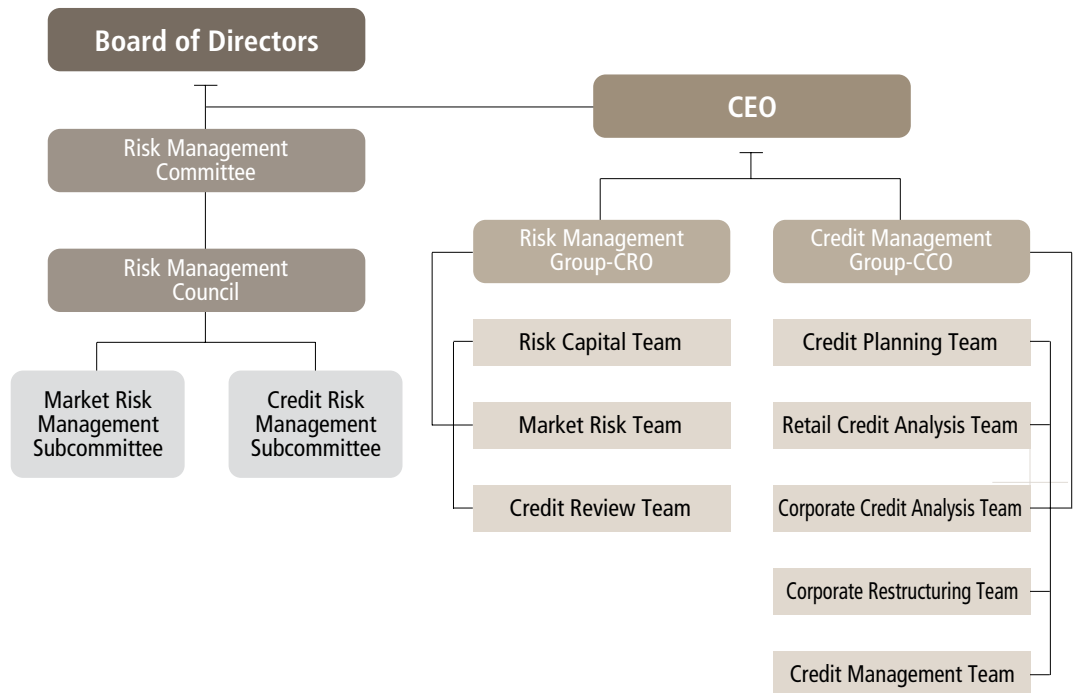
Risk Management Organization

KB has established a strong hierarchical risk management governance structure. The highest decision making body is the Risk Management Committee, which provides Board level direction



to the bodies below it. At the operational level, the Risk Management Group and the Credit Management Group work closely together, in coordination with other business groups to implement risk management strategies, policies, and procedures. The following chart provides an overview of KB's risk management organization:

●● Risk Management Organizational Structure - as of March 2005 ●●



Risk Management Committee

The Risk Management Committee is a board level committee that is responsible for overseeing all risks of the Bank and advising the Board of Directors on risk management related issues. It has the CEO and six non-executive directors as members, with the CRO acting as secretary. Its major roles include:

- establishing risk management strategies in accordance with the directives of the Board of Directors;
- determining the Bank's risk tolerance; and
- reviewing the level of risks KB is exposed to and the status of its risk management operations.

The Risk Management Committee convened meetings six times in 2004, at which time it passed resolutions to revise certain risk related regulations and set the Risk Appetite level for 2005. The Committee also reviewed and provided input on the Risk Management Group's business plan for 2005, its BASEL II implementation projects, and ways to upgrade the current practice of bank-wide stress testing.

Risk Management Council

The Risk Management Council is the executive decision making body for KB's risk management

operations. It consists of eight senior executive vice presidents including the CRO as Chairman. Its responsibilities include:

- determining basic principles and major policies for risk management;
- creating and amending the regulations for risk management activities;
- setting economic capital limits for each business group;
- setting limits for each type of risk, and for integrated risk levels;
- reviewing the key decisions related to operational risk; and
- performing any other duties delegated by the Risk Management Committee.

The Risk Management Council held ten meetings in 2004, during which it set the semiannual economic capital limits by business group and discussed various risk management related issues. The Council also reviewed regular reports on the risk status of the Bank and analyzed current risk management practices.

Risk Management Subcommittees

KB's Risk Management Subcommittees execute the decisions made by the Risk Management Council and make operational decisions regarding risk management policies and procedures.

The Credit Risk Management Subcommittee, chaired by KB's CCO, approves the criteria to set total exposure limits which are implemented by its business groups, and resolves certain working level issues relating to credit risk management. It is composed of eleven members, including the CCO and ten general managers.

The Market Risk Management Subcommittee, chaired by KB's CRO, sets market risk related limits, approves new derivative instruments which can be traded, and resolves certain working level issues relating to market risk management. In particular, the Market Risk Management Subcommittee sets the Value at Risk (VaR) limits, position limits and stop loss limits for KB's fixed income, equity, foreign exchange and derivative portfolios. It is composed of nine members, including the CRO and eight general managers.

Risk Management Group

KB's Risk Management Group is responsible for identifying, measuring, monitoring, reporting on risks and initiating actions that may be required by other groups within the Bank. The CRO is responsible for the Risk Management Group, and is a member of the Management Council, Loan Committee and the Board of Directors. The Risk Management Group is divided into three teams:

Risk Capital Team manages KB's RAROC system, and is responsible for the regular reporting of Risk Adjusted Return on Capital (RAROC), Economic Value Added (EVA), and Economic Capital (EC) at the bank wide level and by business group. It is also responsible for the bank wide



implementation of the new BASEL capital accord (BASEL II) for credit risk, validates internal rating systems, and operates KB's comprehensive portfolio monitoring system;

Market Risk Team measures, monitors, controls and reports on the status of market risks including interest rate, foreign exchange, equity and derivative related risks. It is also responsible for the development of the Bank's operational risk measurement methodology required by BASEL II, and monitors and reports on the overall risk management profile with respect to all subsidiaries and overseas branches;

Credit Review Team is responsible for regular credit review on the credit status for borrowers, corporate groups and industries.

Credit Management Group

KB's Credit Management Group is responsible for controlling, managing and reporting on bank-wide credit risk. The CCO is responsible for the Credit Management Group, and is a member of the Management Council and is Chairman of the Loan Committee. The Credit Management Group is divided into five teams:

Credit Planning Team manages the overall credit risk inherent in KB's loan portfolios and controls bank wide asset quality. It is also responsible for provisioning for loan losses of the Bank and for setting total exposure limits for corporate customers. It maintains and upgrades the Bank's credit scoring systems for corporate customers;

Retail Credit Analysis Team maintains and upgrades the Bank's credit scoring systems for retail customers. It is also responsible for improving KB's retail loan approval process;

Corporate Credit Analysis Team maintains and improves the Bank's credit approval processes. It is also responsible for conducting industry analysis and for the management of pre-workout corporate customers;

Corporate Restructuring Team is responsible for the management of KB's corporate workout customers, **Credit Management Team** develops and maintains the procedures and processes for delinquent loans of the Bank. It is also responsible for the management of bank-wide non-performing credits including loan sales and securitization.

Major Achievements in 2004

In order to strengthen the Bank's overall risk management, a number of fundamental changes were initiated in 2004, as follows:

Establishment of a Separate Credit Management Group

In November 2004, KB established the Credit Management Group as a fully independent, integrated credit risk management group in order to enhance the effectiveness of its credit policies.

Development of New Retail Credit Scoring System

In September 2004, KB completed the development of the first phase of its upgraded CSS for

retail customers. The revised CSS, initially consisting of four new scorecards for unsecured loans, determines the credit rating of each loan applicant based on his/her risk characteristics, past transaction history and external credit information. With the implementation of this system, KB is able to establish more risk sensitive cut-off strategies and retail loan pricing strategies. Additional application and behavioral score cards will be included in the CSS in 2005.

Continued Improvement of Risk-based Management System

KB established the foundations for risk-adjusted performance evaluation system that links the economic capital limits with business group performance evaluations. KB also improved the effectiveness of its EC/RAROC/EVA reports by reducing the calculation period of those measures from quarterly to monthly and by improving its measurement system to allow for more effective reporting of EC limit utilization, RAROC and EVA. In addition, KB established operation guidelines for its risk-adjusted pricing system and expanded its application to all large company loans.

Regarding operational risk, KB continued to implement and improve Control Self-Assessments (CSA) from April to October 2004. In particular, KB upgraded and fully implemented over 3,600 CSA items for all departments and branches within the Bank. In addition, the Bank identified key risk indicators, and created an operational risk loss data collection system to establish the basis for efficient loss data management.

In June 2004, KB expanded the bank-wide monitoring of loan assets by including the credit card portfolio. KB also developed formal principles and guidelines for the validation of its rating/scoring models.

Risk Monitoring and Control

KB strengthened its foundation for stable growth through the operation of an asset quality task force team established to reduce non-performing loans (NPLs) and potential bad debts. In addition, the Bank stabilized its pre-NPL management system by enhancing the management of high-risk companies.

KB continued to update and refine its credit risk parameters such as PD, EAD, LGD and corporate asset correlation coefficients so as to improve the reliability of its credit risk measurements.

Credit Risk Management ²⁾

Credit risk is the risk of loss in the event that a borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. The creditworthiness of each type of borrower or counterparty is determined by credit experts and credit rating systems, and a credit limit is set for each borrower or counterparty.

²⁾ Detailed figures and analysis on KB's loan portfolio, capital adequacy, and asset quality including delinquencies and provisions are contained in the 'Management's Discussion & Analysis' section. (page 104 ~ 109)



All credit exposures, whether on or off the balance sheet, are assessed. These exposures include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. Profiles of credit risk at a bank wide level and by business group, industry and account are measured and reported regularly to relevant business groups, senior management including the Risk Management Council, and the Risk Management Committee.

Expected default rates and recovery rates are used to determine the expected loss rate of a borrower or counterparty, and the expected loss rate is used for credit related decisions including pricing, loan approval and establishment of standards to be followed at each level of decision making.

Our credit risk management processes include:

- credit evaluation
- credit analysis and loan approval
- total exposure management
- collateral evaluation and monitoring
- credit review and monitoring.



Credit Evaluation

KB assigns each borrower or guarantor a credit rating based on the judgment of its experts and scores calculated using the appropriate credit rating system. Factors that KB considers in assigning credit ratings include both financial factors and non-financial factors, such as its perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry. The credit rating process differs according to the type, size and characteristics of a borrower.

KB uses its internally developed credit rating systems to rate potential borrowers. As the characteristics of each customer segment differ, KB uses several credit rating systems for its customers. The nature of the credit rating system used for a particular borrower depends on whether the borrower is an individual, a small-sized enterprise, medium-sized enterprise or a large company. For large companies, KB has 12 credit ratings, ranging from AAA to D. For small and medium-sized enterprises, KB has 11 credit ratings ranging from AA to D. For retail customers, including credit card customers, KB has 10 credit ratings ranging from grade 1 to grade 10.

Based on the credit rating of a borrower, KB applies different credit policies, which affect factors such as credit limit, loan period, loan pricing, loan classification and provisioning. KB also uses these credit ratings in evaluating its bank-wide risk management strategy. Factors that KB considers in making this evaluation include the profitability of each company or transaction, performance of each business group and portfolio management. KB monitors the credit status of borrowers and collects information to adjust its ratings appropriately.

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans. KB's processing center staff approves mortgage loans and retail loans secured by real estate or guarantees, while its branch staff approves those loans secured by deposits. KB makes lending decisions based on its assessment of the value of the collateral and debt service capability of the applicants.

For mortgage loans and loans secured by real estate, KB determines the value of the real estate offered as collateral using a database KB has developed that contains information about real estate prices throughout Korea. KB also uses information from a third party provider which gives KB up-to-date market values on Korean real estate. In addition, KB's processing center staff employees review the value of real estate provided by the evaluation system to ensure there are no significant discrepancies.

For loans secured by deposits, KB will grant loans up to 100% of the deposit amount if KB holds the deposit, or, if the deposits are with another financial institution, an amount that is determined based on the credit rating of that institution. KB also requires borrowers to observe specified collateral ratios in respect of secured obligations.

In April 2005, KB plans to expand its CSS by adding four score cards for secured loans. The score cards to be introduced will utilize both internal information within KB (personal and performance information of customers) and external credit bureau and behavioral scoring information from credit card companies. Accordingly, KB will reinforce its credit risk in the household sector through evaluations based on repayment ability of customers.

Unsecured Retail Loans. KB reviews applications for unsecured retail loans in accordance with its credit scoring systems. These automated systems evaluate loan applications and determine an appropriate pricing for the loan. The major benefits of using a credit scoring system are that it yields uniform results regardless of the user, that it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation and that it can be updated easily to reflect changing market conditions by adjusting how each factor is weighted. The staff of KB's processing centers approves loans after checking the results of the credit scoring system, which are based on information input by its branch staff.

KB's credit scoring systems take into account factors including borrower's income, assets, profession, age, transaction history (with both KB and other financial institutions) and other relevant credit information. The systems rank each borrower in an appropriate class, and that class is used to decide whether to approve loans as well as to determine loan amounts.



Corporate Loan Approval Process

KB evaluates all of its corporate borrowers by using credit rating systems, except for applicants whose borrowings are fully secured by deposits or applicants who have obtained third-party guarantees from the government or certain other very highly rated guarantors.

For companies with sales less than KRW 2 billion, and (1) not subject to double entry book keeping, with total loans equal to or less than KRW 300 million, or (2) subject to double entry book keeping with total loans under KRW 100 million, a customer credit rating is determined by KB's SOHO credit rating system. This system consists of a scoring model, a Qualitative Credit Assessment (QCA) model and a preliminary examination checklist. The scoring model analyzes information with respect to the customer's personal information and bank transaction history. The QCA model analyzes information about business capability, operating capability, management capability, transaction reliability, documentary reliability and financial stability. The preliminary examination checklist is based on information regarding the customer's credit delinquencies, loans and outstanding credit card debt. This system classifies customers into ten possible credit ratings.

For other small and medium-sized enterprises, KB has a credit rating system known as CRS. The CRS model consists of three parts: a financial model, a QCA model and a default signal check model.

- **Financial Model.** The financial model uses the borrower's current status and trend of financial ratios calculated using its financial statements. The financial model classifies potential borrowers into one of three size categories and one of five types of industry. This model incorporates logistic regression and statistical methods, which use financial ratios such as stability ratio, cash flow ratio, profitability ratio and debt to equity ratio to make credit determinations.
- **QCA Model.** The QCA model uses various qualitative factors, such as future repayment capability, market prospects, management capability and business capability, to evaluate borrowers. The factors that are evaluated and the weighting given to each factor vary by type of industry and size of company.
- **Default Signal Check Model.** The default signal check model confirms the consistency of the preliminary rating. This model checks various factors, including financial ratios with low scores, any non-quantitative factors that may cause a corporate default and any information arising from past experience, to determine the likelihood of a future default. The results of the default signal check model may be used to cap a borrower's credit grade.

Large corporations, financial institutions and certain non-profit organizations such as educational foundations and medical organizations cannot be effectively rated by KB's CRS model only.

Accordingly, KB relies more on the judgment of its expert credit officers with respect to these entities. The relative importance of the factors KB uses to evaluate these entities varies, and accordingly the process largely depends on the experience and expertise of its Credit Management Group credit officers. These officers primarily base their decisions on the historical financial data and financial prospects of the prospective borrower and the prospects of its industry. KB may also consider other factors, including management experience and competence, ownership structure, reputation, quality of financial information provided and the purpose of the loan. The responsible credit officer analyzes this data using his or her discretion, makes reference to KB's large corporate ratings template, and then drafts a report relating to the potential borrower, which includes a tentative credit rating determination. This report is submitted to a credit rating council for its review and final approval of the borrower's rating. This council consists of five credit officers from KB's Credit Management Group.

KB often refers to corporate information gathered or ratings assigned by external credit rating agencies, such as Korea Information Service, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation, in order to improve the accuracy of its credit ratings.

Credit Card Approval Process

KB's credit card application scoring system considers a diverse range of information including basic customer information (job, title, annual salary, credit history, etc.), transaction history with KB, delinquency history, information from other credit card companies, information from the Korea Federation of Banks and information from external credit institutions. In addition, this scoring system takes into account repayment ability, total assets, and transaction period with KB and past revenue contribution. KB determines the valid period of newly approved credit cards, grants initial credit limits and differentiates fee rates based on the credit scores calculated by the application scoring system.

KB approves all new credit card applicants through the application scoring system. Based on the system, all credit card applicants are classified as approved customers, rejected customers, or customers requiring detailed credit screening. The initial credit card limits of new customers are calculated based on monthly salaries estimated according to job and personal assets. Initial fee rates are computed differently based on risk premium and profitability of customers.

In addition, KB credit card is currently establishing a New Business Strategy Management system. This system will allow KB to implement an optimal strategy for new approvals, credit card limits and fee rates amidst the rapidly changing environment by reinforcing KB's monitoring capabilities for new approval procedures.



Total Exposure Management

KB establishes and manages total exposure limits for corporations, Korean conglomerates, or Chaebols, and industries in order to optimize the use of credit availability and avoid excessive risk concentration. KB establishes total exposure limits for large corporations and conglomerates by reviewing factors such as their industry, size, cash flows, financial ratios and credit ratings, while establishing exposure limits for industries by reviewing gross domestic product, industry ratings and its total exposure. SME limits are set by referring to the results from KB's credit rating system. The guidelines used to set these total exposure limits are approved by KB's Credit Risk Management Subcommittee. In certain exceptional cases, KB may extend loans that are secured by sufficient collateral or pose a low credit risk on a case-by-case basis even if the applicable limit is exceeded. KB's Loan Committee must also approve all cases where established limits are to be exceeded.

KB's maximum exposure limit is within 20% of our Tier I and Tier II capital for a single conglomerate, and within 10% of our Tier I and Tier II capital for an individual large corporation. These limits are lower than the regulatory limits that Korean banks are required by law to follow. In practice, the total exposure limits that KB sets for corporations and groups are normally much lower than these levels.

KB manages and controls exposure limits on a daily basis. The principal system that KB uses for this purpose is the Total Exposure Management System. This system allows KB to monitor and control its total exposure to large corporations, conglomerates and industries. KB monitors its exposure to large corporations, its exposure to the 34 largest conglomerates in Korea designated by the Financial Supervisory Commission based on their outstanding exposures, and its exposure to 144 industry groups. KB's Total Exposure Management System integrates all of its credit-related risk including credit extended by its overseas branches and affiliates. The assets subject to the system include all Won-denominated and foreign currency-denominated loans, all assets in trust accounts except specified money trusts, guarantees, trade-related credits, commercial paper and corporate bonds. With respect to small and medium-sized enterprises to which KB has an exposure of less than KRW 30 billion, KB manages and controls exposure limits through a system that measures the "client exposure limit" and "transaction limit" with respect to these entities.

Collateral Evaluation and Monitoring System

KB uses the Collateral Evaluation and Monitoring System to manage the liquidation value of collateral KB holds. The Collateral Evaluation and Monitoring System is a computerized collateral management system that can be accessed from KB's headquarters and its branches. Using this system, KB can more accurately assess the actual liquidation value of collateral, determine the recovery rate on its loans and use this information in setting its credit risk management and loan policies. When appraising the value of real estate, which makes up the largest part of KB's collateral, KB consults its regularly updated database that reflects the prices at which various

types of real estate in the different regions of Korea are sold. KB appraises the value of collateral when it makes a loan, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Review and Monitoring

KB performs its credit review function independently from business groups which manage the day-to-day operations relating to loans after they have been approved and disbursed to the borrower, including monitoring and reviewing the existing credit risk of its borrowers. A borrower will be reviewed if it is selected by KB's early warning system, or if its total exposure to a borrower exceeds a certain threshold.

KB reviews the borrower's condition with respect to its current debt, collateral, business, transactions with related parties and debt service capability. Based on KB's review, KB may adjust the borrower's credit rating, its borrowing policy or asset quality classification of the loan provided to the borrower. KB also regularly reviews other aspects of the lending process, including industries in which borrowers operate in, loan quality of the portfolios held by asset operating teams, and the quality of its domestic and overseas assets. When a review takes place, KB may adjust not only credit ratings of its borrowers based on a variety of factors, but also asset quality classification, credit limits and applied interest rates or its credit policies.



KB has developed an early warning system, which monitors roughly 30 different factors, including the financial status, financial transaction status, industry rating and management status of borrowers. The system also keeps track of information on the credit status of borrowers. Some information is fed automatically from internal and external sources while some other data is gathered and updated manually. The system automatically updates data including:

- financial data relating to the borrower supplied by Korea Information Service
- KB's internal credit rating systems
- the estimated recovery rate of collateral
- whether the borrower has defaulted on any payments owed to KB.

Market Risk Management

Market risk refers to the potential loss in a portfolio that may arise from unfavorable fluctuations in market variables including interest rates, stock prices and exchange rates. In order to efficiently manage such market risks, KB has established a strict control system for identifying, measuring, monitoring and reporting risks.

The principal market risk to which KB is exposed is interest rate risk. To a much lesser extent, KB is also exposed to risk in the equity markets and foreign exchange markets, and risk in its derivative positions. KB manages its market risk at the portfolio level, and controls its exposures by way of position limits, VaR limits, and stop loss limits approved by the Risk Management



Council and the Market Risk Management Subcommittee.

In September 2004, KB requested approval from the Financial Supervisory Service (FSS) to use an internal market risk calculation model. As of the end of 2004, the FSS completed its initial due diligence and is expected to conduct a secondary due diligence review in early 2005.

Value-at-Risk (VaR)

KB utilizes VaR as a quantitative market risk measure to control risks inherent in its trading account and its available for sale account. VaR represents the expected maximum loss of a portfolio during a fixed period within a certain confidence level under normal market conditions.

In order to calculate the VaR, KB employs the variance-covariance approach to measure the value changes of trading and available for sale assets by estimating its correlation with the volatility of market variables (interest rates, equity prices and exchange rates) based on past historical data. KB manages market risks exposure at the overall portfolio level.

Daily VaR measurements serve as a unified risk indicator, which, in turn, provides a consistent measure of KB's risk profile and risk diversification level. Furthermore, Market Risk VaR is one of the components used in the determination of bank-wide economic capital.

Stress Testing

KB utilizes stress testing to create and analyze the impact of extreme financial scenarios that are not reflected in VaR, as a measure to determine whether KB will be able to endure extreme external shocks. In particular, stress testing of hypothetical crisis situations is employed to (1) identify abnormal market conditions, (2) analyze risk profiles, (3) estimate expected losses to KB from future deterioration in market conditions, (4) assess the adequacy of capital size, and (5) implement contingency plans for actual crisis situations.

KB performs stress testing on its trading and Available for Sale (AFS) portfolios by reflecting the changes in individual risk factors that materially affect value changes in its portfolio including intrinsic volatilities of interest rates, equity prices, foreign exchange rates and options during crisis scenarios. Stress testing is conducted periodically, at least once every quarter. In case drastic changes in market conditions or signs of potential crisis situations are detected, KB conducts stress testing and reports its results to the CRO, Risk Management Council, Risk Management Committee and other members of management as appropriate.

At KB, historical scenario analysis is used as the basic underlying methodology for stress testing with hypothetical scenario and yield curve scenario analyses as supplementary measures. The crisis situation scenarios employed by KB's stress testing are as follows:

Historical Scenario

Crisis situation scenarios are defined as the largest changes in risk factors that have occurred during the IMF crisis, historically Korea's worst financial crisis, and other abnormal market conditions subsequent to the IMF financial crisis to date (e.g., 9/11 terrorist attack).

Hypothetical Scenario

Crisis scenarios are defined by estimating the volatility of risk factors that are expected during structural changes in the financial markets arising from the future occurrence of crisis situations. Market structure changes are also estimated and applied to the crisis scenario for periods of structural changes in the financial markets from the IMF crisis to date.

Yield Curve Scenario

Crisis scenarios are defined for various hypothetical changes (yield curve steepening, flattening, and inversion twisting) in term structures of yield curves during crisis periods.

If signs of an actual crisis are detected and there is any concern that estimated risks may impact KB's capital, it is immediately reported to the CRO who in turn relays the risk signal to related teams across the Bank, which are directed to reduce risk exposure positions or devise risk-hedging measures. The results of the measures taken are then reported back to the CRO. KB has devised crisis management plans by stages (normal situation → cautionary situation → crisis situation) and is prepared to activate these immediately, depending on the circumstances.

ALM & Liquidity Risk Management

Interest Rate Risk for Non-trading Activities

KB measures interest rate risk for Won and foreign currency assets and liabilities in its bank book, including derivatives positions and its principal guaranteed trust accounts. Most of KB's interest-earning assets and interest-bearing liabilities are denominated in Won and its foreign currency-denominated assets and liabilities are primarily denominated in U.S. dollars.

KB's principal interest rate risk management objectives are to generate stable net interest revenues and to protect our banking book against interest rate fluctuations. KB principally manages this risk for its non-trading activities by analyzing and managing maturity and duration gaps between its interest-earning assets and interest-bearing liabilities.

KB sets interest rate risk limits using historical interest rate volatilities of financial bonds and duration gaps with respect to expected asset and liability positions based on its annual business plans. KB's Market Risk Team independently calculates and monitors these positions on a weekly basis. Furthermore, the ALM Team in KB's Finance Group submits interest rate gap analysis reports, duration gap analysis reports, sensitivity reports and interest rate limit compliance reports monthly to its Financial Strategy Subcommittee and quarterly to the Risk Management Committee.



Liquidity Risk Management

KB manages its liquidity in order to meet its financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. KB also requires sufficient liquidity to fund loans, to extend other credits and to invest in securities. KB's liquidity management goal is to meet all our liability repayments on time and fund all investment opportunities even under adverse conditions.

KB maintains liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. KB also manages liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds KB believes it could raise by issuing securities. KB seeks to minimize its liquidity costs by managing its liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest earning assets or securities.

KB manages liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the FSS. The FSS requires Korean banks to maintain a Won liquidity ratio of at least 100%.

Operational Risk Management

To effectively manage its operational risks, KB has established the foundation for operational risk management throughout the Bank. Internally, operational risk is broadly defined to include all financial and non-financial risks that may arise from the Bank's operations that could negatively impact the Bank's capital, including not only the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events as defined under BASEL II, but also legal risks, reputational risk and strategic risk. Accordingly, the objective of KB's operational risk management lies not only in satisfying regulatory requirements, but also in providing internal support through the growth of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the Bank.

KB has a dedicated unit within the Risk Management Group to oversee the operational risk management activities at the bank-wide level. In addition, KB also has operational risk support staff in all teams and branches across the Bank so as to ensure proper monitoring and management of operational risk in each of our business groups. The roles and responsibilities of these operational risk managers are set forth in written guidelines. Furthermore, KB is also contributing to the establishment of Advanced Measurement Approach (AMA) standards for operational risk in Korea by participating in the Financial Supervisory Service's AMA Task Force Team.

Control Self Assessment and Key Risk Indicators

Based on the results of KB's regular CSA updates, its business groups are required to formulate short and long-term response measures for high-risk profiles so as to continuously control and reduce operational risk exposures. While in the initial stages, KB has also devised key risk indicators for quantifying operational risk.

Loss Data Management

KB has now defined its internal loss data management process and collected loss data from its business groups from the beginning of January 2002. In addition, KB has recently completed the development of its internal loss data warehouse in order to comply with the Financial Supervisory Service's data collection requirements.

Measurement

On a test basis, KB is now able to calculate operational risk VaR using the "scenario-based loss distribution approach." During the process, KB is able to simultaneously generate and evaluate scenarios. In addition, insurance data was collected and analyzed to reflect risk mitigation effects in the process of computing our VaR measurements.

Implementation of BASEL II

Objective of BASEL II Implementation

KB aims to align its risk management processes with international best practice as contemplated by the BASEL II standards.

Goal and Timing of BASEL II Implementation

KB will adopt the most advanced approaches among the various methods proposed by BASEL II. Accordingly, KB is currently entering the final phase of projects leading to the implementation of Advanced IRB for credit risk, and AMA for operational risk. KB's Internal VaR Model for market risk is currently being reviewed for approval by the FSS.

KB's target date for full implementation and compliance with BASEL II is December 31 2007, in line with the deadline established by the FSS.

BASEL II Implementation Infrastructure Establishment Project

Credit Risk

KB has embarked upon the establishment of a risk-weighted asset calculation system, based on its BASEL II credit risk data mart. Upon its successful completion during 2005, KB will be able to compute the new BIS capital ratios starting in the 4th quarter of 2005. Moreover, the system will allow KB to prepare for the Expected Loss (EL) based provisioning policy that is expected to be adopted by the FSS in the second half of 2006. KB has also initiated a separate project that will lead to the automated computation of EC, and improved analytical capabilities in this regard, by 4th quarter 2005.



Market Risk

The FSS review and deliberation on KB's request for use of its internal model for market risk is expected to continue until the 2nd quarter 2005. Upon receipt of FSS approval, KB plans to begin calculating market risk capital requirements using this model.

Operational Risk

Following the completion and implementation of an integrated system that will automatically collect and analyze operational risk related data generated throughout the Bank, KB will be able to accurately calculate operational risk VaR based on its internal data by the end of 4th quarter 2005.

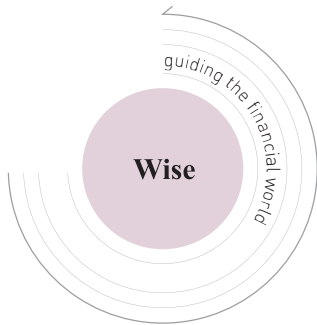




The Wise Bank •

guiding the financial world





Reinforcement of Competitive Product Development and Management Capabilities

Enhance development and management capabilities for customized hybrid financial products that cater to the needs of the customers.

Proliferation of Genuine Knowledge Management

Improve internal efficiencies and generate new sources of revenue by identifying, organizing and sharing on-the-job experiences and knowledge that is dispersed across the Bank.

Improvement of Cost Efficiency through Cost Reduction

Establish the basis for a cost-efficient structure through various means such as organizational restructuring, continued process innovations, elimination of low value-added services and identification of outsourcing opportunities.

KB simultaneously strives to maximize profitability and sustain continued growth by providing customized financial products and services to retail and corporate customers with diverse needs and requirements.

Board of Directors

●● Executive Directors



Chung Won Kang

President & CEO
Member of Board Steering Committee,
Management Strategy Committee, and
Risk Management Committee

Hyung Duk Chang

Auditor & Executive Director
Member of Audit Committee



Kap Shin

Director & Senior Executive Vice President
Finance Group

Donald H. MacKenzie

Director & Senior Executive Vice President
Risk Management Group

●● Non-Executive Directors



Doo Hwan Song

Representative Partner, Hankyul Law Firm
Member of Management Strategy Committee and
Compensation Committee

Young Soon Cheon

Professor, Chungang Univ.
Chairwoman of Audit Committee
Member of Board Steering Committee and
Risk Management Committee

Ki Hong Kim

Professor, Chungbuk National Univ.
Chairman of Compensation Committee
Member of Board Steering Committee and
Audit Committee





Chang Kyu Lee

CEO, Joonang Ilbo News Magazines
Chairman of Management Strategy Committee
Member of Board Steering Committee and
Compensation Committee



Dam Cho

Professor, Jeonnam National Univ.
Member of Management Strategy Committee and
Risk Management Committee



Nobuya Takasugi

Executive Advisor, Fuji Xerox
Member of Management Strategy Committee and
Risk Management Committee

Suk Yong Cha

President & CEO, LG Household & Health Care Ltd
Chairman of Risk Management Committee
Member of Board Steering Committee and
Audit Committee

Hoon Namkoong

Professor, Myungji Univ.
Member of Risk Management Committee and
Audit Committee

Dong Soo Chung

Chairman of the Board of Directors
Professor, Sangmyung Univ.
Chairman of Board Steering Committee
Member of Management Strategy Committee and
Compensation Committee



Board Mission

KB's Board of Directors (the "Board") aspires to faithfully fulfill the roles of protecting the overall interests of KB's shareholders and securing a sound bank management. The Board devotes its efforts to establishing and maintaining an independent and transparent governance structure. It also adheres to the IBP of corporate governance including separation of Board Chairman and President & CEO, operation of the Board and management committees centering on independent non-executive directors, and establishment of the Audit Committee that includes financial experts and the Compensation Committee comprised solely of independent directors.

Board Members

KB's Board of Directors is comprised of four executive directors and nine non-executive directors as of the end of March 2005. All Board member appointments are carried out at the General Shareholders' Meeting and implemented within the parameters of KB's Articles of Incorporation. Executive directors are appointed for a three-year term of office. Non-executive directors are appointed for a renewable one-year term. Each board member is a professional in their respective fields with abundant experience in areas such as finance, economics, business management, law, accounting and journalism. In order to appoint relevant members, nominees for non-executive directors are recommended by the Non-executive Director Nominating Committee, which is assisted by the Council for the Selection of Candidates for Non-executive Director, comprised of outside independent experts. To ensure greater independence of the Board, the Chairman presiding over the Board meeting is required to be an independent director.

Board Operation

The Board of Directors holds meetings on a regular basis to review KB's major business activities including management performance, risk management and internal control systems. Extraordinary Shareholders' Meetings are also convened at the request of any director or any one of the six committee members under the Board's authority.

Non-executive directors may receive support or counsel from officers, employees or independent consultants, if necessary, in performing their roles, at the expense of the Bank, and are required to periodically communicate with KB's management. In addition, the directors must exclusively convene at least two times per year to facilitate their job duties. During fiscal year 2004, the directors conducted three outside director sessions and meetings to discuss various issues related to the Bank management.

KB's Board of Directors conducts orientations for newly appointed non-executive directors to increase their understanding of the Bank and familiarize them with various management issues and strategies. In 2004, KB provided education on its financial status, strategic direction and risk exposures to the new directors.



Board Responsibility and Authority

The directors of the Board participate in Board meetings and committee meetings in their capacities as KB's senior management. Each Board member makes independent decisions that serve KB's best interests based on a thorough review and understanding of the agenda. Accordingly, each Board member collects needed information and conducts separate examinations and studies for use. They also conduct rational examination and monitoring activities according to the priority of importance of multiple issues. All members of the Board are subject to (1) damage liability and capital replenishment responsibilities with respect to the Bank as set forth in the Commercial Act of the Republic of Korea, and (2) responsibilities to third parties stipulated by the Commercial Act and Securities & Exchange Act of the Republic of Korea. The Board's distinctive responsibilities and authority are as follows:

Matters related to General Meeting of Shareholders

- Convening of the General Shareholders' Meeting and setting of agenda
- Approval of financial statements and operation reports
- Decision on the amount of dividends and method of payment

Matters related to General Management

- Formulation of management objectives and performance evaluations
- Approval of budgets including remuneration scheme for directors and employees
- Review of material contracts, lawsuits and borrowings

Matters related to Organization and Officers

- Establishment, revision and rescission of major regulations and standards prescribed in the Articles of Incorporation
- Decisions related to important organizational changes such as dissolutions, business transfers and mergers
- Election of the Chairman of the Board of Directors, president, senior executive vice presidents and Audit Committee members by mutual vote
- Appointment and dismissal of committee members
- Decision on remuneration of directors and other compensation delegated by the General Shareholders' Meeting

Matters related to Financing and Capital Share

- Approval of issuance of shares and bonds
- Decisions on changes in capital shares and capitalization of reserves
- Revaluation of assets

Miscellaneous

- Approval of transactions between KB and directors
- Grant and cancellation of stock options
- Matters related to internal control criteria
- Appointment of compliance officer
- Relocation of head office
- Acquisition of treasury stock
- Establishment and sale of subsidiary
- Other matters required by related laws and regulations



Major Activities of the Board of Directors in 2004

In 2004, the Board of Directors held a total of seventeen regular and extraordinary meetings. Starting with the resolution on the debt-to-equity swap of LG Card Co., the Board approved the acquisition scheme of Hanil Life Insurance Co. and the revised financial statements and operation reports for the fiscal year 2003. The Board also amended the Regulations on Board of Directors to appoint a Board chairman from the non-executive directors and concluded the composition of new members of the management committee. Accordingly, non-executive director Moon Soul Chung was appointed as the Chairman of the Board, while establishing a permanent President Nominating Committee with reinforced authorities and roles. Meanwhile, the Board approved the recommendation by the President Nominating Committee to appoint Chung Won Kang as the new president & CEO of KB subsequent to his appointment as an executive director at the General Shareholders' Meeting. Recently, the Board appointed the new compliance officer and approved the 2005 Business Plan.

Board Committees

KB currently has six committees that serve under the Board. Each committee member is appointed by the Board of Directors, except for members of the Audit Committee, who are elected at the General Shareholders' Meeting. All committees are chaired by non-executive directors and each non-executive member of the committees plays an active role in the committee.

Board Steering Committee

The Board Steering Committee consists of KB's President & CEO, Chairman of the Board of Directors and the Chairpersons of each committee under the Board of Directors, and is chaired by the Chairman of the Board. It is responsible for carrying out overall research and discussions with respect to the governance of the Bank, seeking ways to promote the efficiency and functions of the Board and each committee, and coordinating the opinions between the Board and the President of the Bank. In order to perform such functions, the committee supplements the members of each sub-committee, reviews the structure of the Board and committees, and recommends directors to undergo training on enhancing the understanding of Board functions



and management process. The Board Steering Committee convenes once every six months, consisting of five non-executive directors and one executive director.

Management Strategy Committee

The Management Strategy Committee establishes the Bank's management objectives, sets management strategies, performs ex-post implementation supervisions, and reviews strategic goals. As such, it conducts such duties as reviewing formulated management strategies, new strategic businesses and strategy reinforcement plans. The committee consists of five non-executive directors and one executive director. In 2004, it held five meetings.

Risk Management Committee

The Risk Management Committee establishes a risk management strategy conforming to the management strategies of the Bank. In this respect, the committee identifies various risks of the Bank and formulates a risk management policy linked to overall management objectives and business strategies. The committee also determines the total level of risks that can be taken by the Bank with respect to capital. It also oversees the adequacy of risk management policies and its implementation according to risk management strategies. Furthermore, it continuously reviews whether risk management strategies have been adequately reflected in the formulation and implementation of the Bank's long-term business strategies and investment decisions. The committee consists of five non-executive directors and one executive director. In 2004, it held 6 meetings.

Audit Committee

The Audit Committee performs the following roles: (1) establish a plan for internal audits that is subdivided into financial audit, compliance audit, operational audit, management audit, IT audit, etc; (2) execute auditing; (3) evaluate the results of the audit; (4) take ex post facto action; (5) suggest plans for improvement; (6) evaluate the overall internal control system of the Bank and suggest a plan for improvement; (7) exercise general control over internal audit; (8) provide its consent to the appointment and dismissal of the General Manager of the Internal Audit Team; (9) approve the appointment and dismissal of an external auditor; and (10) provide prior approval on contracts entered into with external auditors. In order to carry out such responsibilities, the committee has the authority to demand the submission of all information on the Bank and its subsidiary, to demand attendance and explanation from person(s) concerned, to collect relevant materials for the examination of customers related to accounting, and to demand the submission of related documents, books, documentary evidence, articles, etc. The committee is prohibited from revealing information obtained during its performance of duties and is required to perform fair audits and duties on the basis of facts and evidence in accordance with related laws. Its duties are performed independently from the deliberative assembly and the executive body of the Bank.

Currently the Audit Committee consists of four non-executive directors and one executive director. Members of the committee are required to possess the qualifications set forth in KB's Articles of

Incorporation and regulations. The committee must also have at least one financial expert qualified by the relevant laws, KB's Articles of Incorporation and the Sarbanes-Oxley Act (SOA).

Compensation Committee

The Compensation Committee oversees the overall compensation strategy of the Bank. Its functions include (1) examination of the level and details of executive compensations; (2) evaluation of the management performance and approval of performance-based annual salary of the President & CEO and Auditor & Executive Directors; (3) examination of overall succession plan for officers, and (4) examination of executive welfare plan. Currently, all four members of the committee are comprised of non-executive directors. In 2004, the committee held 6 meetings.

Non-Executive Director Nominating Committee

The Non-Executive Director Nominating Committee is responsible for recommending outside directors to be appointed at the General Shareholders' Meeting and consists of one executive director (President & CEO) and three non-executive directors. The committee operates the "Council for the Selection of Candidates for Non-Executive Director," composed of external experts for the impartial recommendation of competent outside director candidates. The council supports the Non-Executive Director Nominating Committee to select and recommend relevant outside directors transparently.



Audit Committee and Internal Audit

Transparent management has become a top priority for all stakeholders and the corporate itself, since the domestic and overseas accounting fraud incidents. With this, the role of KB's Audit Committee and Internal Audit Department in transparent management has become even more important. By securing corporate transparency and effective internal control systems through the internal audit activities of KB's Internal Audit Department under the independent and specialized Audit Committee, KB strives to meet the changing demands of the market and maximizing shareholder value.

As of the end of 2004, KB's Audit Committee consists of one executive director and four non-executive directors with expertise in areas as required by relevant regulations and laws. One financial expert is also included to ensure the audits are properly carried out. To ensure its independence, the members of the Audit Committee are appointed according to strict qualification requirements.

The role, authority and principles of independence of the Audit Committee are specified in detail in KB's Regulations on Audit Committee. The committee performs specialized roles of improving KB's transparency by establishing independent plans and scopes for internal audits, and accordingly executing these audit activities. The Audit Committee reports the results directly to the Board of Director.

The committee performs quarterly reviews of KB's accounting practices, conducts evaluations of the status of actual operations of the internal accounting management system and reports its findings to the Board. The committee also (1) approves the appointment and dismissal of the independent auditor, (2) provides periodical reports on the annual audit plans, audit findings, audit progresses and problems of the independent auditor, and (3) if deemed necessary, supervises the independent auditor through regular communications and modification requests.

The independent auditor provides non-audit service only by obtaining prior approval from the Audit Committee. The Audit Committee approves the non-audit services only in cases where the external auditor's independence would not be considered impaired. However, non-audit services of independent auditors, prohibited by section 201 of the Sarbanes-Oxley Act (SOA), shall be excluded from subject for prior approval of the Audit Committee. In addition, the Audit Committee contributes to the transparency of KB's consolidated financial statement by pre-approving contracts to be signed between subsidiaries and its external auditors, regarding whether the contract is being independently and efficiently carried out, and whether there were any violations of domestic and overseas laws and regulations.

In order to complement the Audit Committee's difficulties in performing regular audits on individual matters due to the nature of its non-executive-oriented operation, a certain portion of the Audit Committee's duties are delegated to and performed by the standing member of the committee who is the Auditor & Executive Director. By doing this the committee can execute its role with efficiency, expediency and effectiveness. The Auditor & Executive Director also conducts pre and post auditing of the everyday duties executed by the management and presents his or her opinion if it is deemed that risk is high. The auditor performs the role of securing credibility of financial reporting by evaluating the propriety of the internal control system and the actual operation

Transparency



status of the internal accounting management system, and reports the results of such evaluation to the Board of Directors.

Furthermore, the Auditor & Executive Director controls, directs and supervises the Audit Division, an independent exclusive supporting organization of the Audit Committee. In this respect the Auditor & Executive Director performs prompt and efficient audit duties and secures the independent job performances of the supporting organization.

The internal audits (control & evaluation) are conducted for all activities of KB at a certain point in time from the perspective of shareholders. KB's audit division consists of 152 audit staffs equipped with vast experiences and professional knowledge. With a vision of "realizing top class audit quality," the division performs internal audit duties and assists the auditing activities of the Audit Committee under the supervision of the Auditor & Executive Director in order to increase effectiveness and efficiency of the committee's activities.

The Audit Division goes beyond performing compliance audits to evaluate and present improvement measures on the adequacy of internal control systems established and operated by management from an objective and independent view point based on its analysis of risk by work processes. By performing such activities, the division improves the efficiency of internal controls and conducts the role as a supporter of the Bank management activities.

Based on the reinforcement of advanced auditing techniques such as Business Measurement Process (BMP) audit methodology and Risk Analysis System (RAS) introduced in 2002~2004, KB plans to reinforce the risk-oriented precautionary auditing functions, while expanding the management support functions centered on internal control evaluations so as to provide high quality audit services. KB also plans to conduct audit activities that contribute to the management activities for maximizing shareholder value by reinforcing both the audits of internal control system over financial reporting related to the SOA and the supervision of independent auditor's activities.

In accordance with increased influence that head office's policies have on business risk, KB plans to concentrate internal audit resources on management audit and to increase the efficiency of KB's auditing activities. KB will select high risk priority areas as audit targets and distribute audit resources based on risk analysis system.

Furthermore, KB will improve its audit capacities by conducting in-house evaluation of the quality of internal audits through the early implementation of the Institute of Internal Auditors' (IIA) frameworks and guidelines. Moreover, KB will devote its effort to exploiting the opportunities to upgrade its internal audits by securing credibility of its auditing activities.



Internal Control

Internal control for financial institutions refers to all systems and procedures that employees must continuously perform in order to comply with related laws and regulations, and to enhance the soundness of asset management and protect depositors. KB's internal control system is conducted in three areas; (1) compliance, (2) financial reporting, and (3) risk management ³⁾.

With the endorsement of management, Compliance controls and manages, in advance and in a regular manner, the observance by employees to the laws and regulations. KB manages regulations such as Regulations on Internal Control, Regulation on Compliance Activities, Code of Ethics, and Behavioral Guidelines for Employee Compliance and Regulation on Money Laundering Prevention Duties. In addition, KB provides its employees with compliance standards through regular revisions of related programs including compliance manual, list of key laws and regulations for compliance and checklist by work activities.

KB provides education on compliance, employee behavioral guidelines on compliance, money laundering prevention duties and financial fraud prevention through group training courses provided at its Training Center. KB also provides training to compliance officers in all branches and departments semi-annually, while also offering in-house education materials to all branches and departments of the Bank.

KB deliberates and reviews in advance the adequacy of business activities pursued by business units and departments based on compliance. To manage and reduce risk, the contents related to management disclosures and financial product disclosures undergo pre-deliberation.

In order to prevent indiscrete activities by its employees using information obtained in the course of carrying out bank duties, KB examines the securities trading statements of employees subject to "Impropriety Prevention Contracts" To prevent the indiscrete use of "important undisclosed information" of corporate customers for securities trading, KB established and implemented the "information blocking measure" between securities trading departments and departments with easy information access. With regard to preventing money laundering, KB established the "suspicious transaction daily inspection system" to automatically check suspected money laundering transactions at its branches. Suspicious transactions examined and reported by branch staff are immediately reported to the Korea Financial Intelligence Unit upon deliberation by the Compliance Team. KB regularly notifies cases and attentive matters related to money laundering suspected transactions to its branches, while also examining the status of money launderings and providing education.

KB also inspects the compliance status of each business unit department and branches by monitoring highly probable non-compliance cases. KB devotes its effort to reducing the occurrence of similar violations through feedback to its branches and departments, while evaluating the findings from its monitoring activities.

KB operates an Internal Accounting Management System as part of its effort to enhance the accounting transparency to protect its assets and external stakeholders. The system consists of the Regulation on Internal Accounting Management, which includes

³⁾ For details, please refer to the Risk Management section.

Transparency



various rules on preparing and disclosing credible accounting information. It also consists of periodic inspection and evaluation of operation results from the internal accounting management system and organization.

The enactment and revision of the Internal Accounting Management System is authorized by the deliberation of the Audit Committee and decision by the Board of Directors. This provides for a pre-screening of a possible inclusion of inappropriate accounting policies when revising the

Internal Accounting Management System by management. The result from examination of implementing the Internal Accounting Management System is reported to the Audit Committee and Board of Directors semi-annually. The Audit Committee then appraises the operations of the Internal Accounting Management System and reports the contents of the appraisal to the Board of Directors at the end of each fiscal year. The CEO is ultimately responsible for the management and operation of the internal accounting management system.

On the other hand, KB operates the "Accounting Fraud Whistle-Blower Protection Program" as part of the policy adopted by the Audit Committee for prior prevention of accounting frauds. This program establishes a window for reporting accounting frauds, protects the identity of and offers rewards to whistle-blowers.

Influenced by the SOA, the Korean government is planning to revise the domestic internal accounting management system to levels required by section 404 of the SOA, related to the U.S. Securities and Exchange Commission rules and Public Company Accounting Oversight Board (PCAOB) auditing standards. As a result, future regulations on the internal accounting management system are expected to be revised in accordance with the internal controls for financial reporting mandated by section 404 of the SOA. As such, KB plans to improve the efficiency of its internal accounting management system through integrating the operations of the internal accounting management system and the internal controls for financial reporting.

The SOA was enacted in July 2002, requiring all companies listed on U.S. stock exchanges to comply with the Act, to improve the damaged financial reporting system in the U.S. due to the accounting fraud of Enron, Adelphia and WorldCom. As a company listed in the U.S., KB is responsible for establishing an internal control system for financial reporting.

Section 404 of SOA sets forth the "responsibility of management related to internal controls for financial reporting," requiring management to establish and maintain an adequate internal control structure and procedures for financial reporting. Section 404 of SOA also requires the effectiveness of internal control structures and procedures for financial reporting to be assessed every year for inclusion of financial reporting internal control evaluation reports, including the results of such assessment in Form 20-F annual reports.

Financial reporting transparency is being strictly required as ever before both at home and abroad. Recognizing that only companies complying with such demands will be able to secure competitiveness for sustained growth, KB has actively supported activities for enhancing financial



reporting transparency including the establishment of a separate internal control organization for devising an internal control structure and procedures of International Best Practices and enhancing the awareness of the importance of internal controls for financial reporting to all employees.

In order to improve the transparency of financial reporting, efficiency in operation of internal controls and objectivity of internal control evaluations, KB formed an exclusive organization for internal control of financial reporting.

In addition, KB develops and provides internal control educational programs semi-annually to all its employees to increase awareness on the importance of internal controls and solidify a self-control culture that stipulates internal control responsibility on each individual employee. Furthermore, KB is also actively considering the introduction of an incentive & penalty system based on results from the internal control evaluation. Moreover, KB plans to solidify internal controls by operating internal control policies centered on business groups.

Disclosure

In July 2003, KB established and continues to improve the disclosure system through external consulting in response to the enforcement of the SOA in the U.S., as follows:

First, disclosure control systems were established by revising internal disclosure regulations, disclosure guidelines and the Charter on the Disclosure Committee. Internal disclosure regulations and disclosure guidelines reflect the revisions in the Regulation on Supervisory Service. In addition, the composition and operation of the Disclosure Committee has been upgraded to the highest level in Korea.

The Disclosure Committee is chaired by the Chief Financial Officer and includes the senior executive vice presidents of the Strategic Planning Group, the Risk Management Group, the Credit Management Group, and Chief Compliance Officer. In addition, the head of the IR Team performs the administrative role of operating the Disclosure Committee. Accuracy of disclosures are facilitated through preemptive deliberation of the Business Report and Quarterly Reports, which also identifies the current status of disclosure execution procedures and measures for minimizing risks related to the disclosure.

During the fiscal year 2004, the members of the Disclosure Committee were upgraded from head of departments to senior executive vice presidents so as to establish world-class disclosure control procedures. The committee also devised measures for establishing a bank-wide system for organizational exchange of disclosure information among related teams. By designating disclosure officers in each team, the committee also minimized possibilities of occurring risks caused by inadequate disclosures.

Meanwhile, in order to improve the accuracy of disclosure information, we introduced a system where each department manager and senior vice president have to sign-off on any disclosure documents guaranteeing the accuracy of disclosure information provided in business reports and form 20-F annual report.

Simultaneously, to share disclosure knowledge at the bank wide level, KB held 'internal disclosure activity seminars for employees' semi-annually. Furthermore, risks caused by inadequate disclosure were minimized through facilitated communication with disclosure officers.

Shareholder Relations

KB complies with related regulations and implements a diverse range of programs for maximizing shareholders' value.

KB's major activities for protecting shareholders' rights with respect to the General Shareholders' Meeting are as follows:

First, KB operates a written absentee voting system for shareholders who are not able to attend the shareholders' meeting. While there are only a few listed companies with numerous shareholders and outstanding shares that implement written absentee voting systems, KB always allows for such voting so as to respect the rights of its shareholders to exercise their voting rights. In order to implement such system, KB sends written voting ballots to all of its shareholders and includes the returned exercised ballots in the aggregate voting rights of the General Shareholders' Meeting.



Second, KB mails reference materials related to the agenda, and in case of director appointments, name, career background and recommender of the pertinent director to all of its shareholders two weeks prior to the general meeting. KB provided information needed for its shareholders to exercise their voting rights by sending a letter of participation along with reference materials related to the agenda to all of its approximately 100,000 shareholders.

Third, in line with the Commercial Act and Securities and Exchange Act, KB notified the convocation of the General Shareholders' Meeting to its shareholders two weeks prior to the meeting more than twice in two daily newspapers. In addition, KB publicized the holding of the General Shareholders' Meeting via its Internet homepage.

Fourth, KB conducts General Shareholders' Meeting to allow its shareholders to express their thoughts freely, while also providing information to shareholders unable to attend the meeting by uploading the video of the shareholders' meeting on its Internet homepage.

Fifth, KB allows its shareholders access to business reference materials related to shareholders' meeting agendas and non-executive director activities two weeks prior to the actual meeting at all the branches. Subsequent to the General Shareholders' Meeting, the minutes of the proceedings can be accessed at all of KB's branches in its effort to satisfy its shareholders' right to know.

Sixth, KB serves as the model in improving the rights and interests of minority shareholders by not specifying exclusion clauses on concentration voting in its Articles of Incorporation.



Finally, KB listens to the opinions of its shareholders at all times by establishing a shareholder chat room in its Internet homepage to satisfy the interests and information needs of its shareholders on the bank through feedback on their questions.

KB has always strived to protect and enhance the rights of its shareholders. In particular, while KB was not able to payout dividends desired by its shareholders in 2003 due to net losses, KB was able to maximize shareholder value in 2004 by executing a dividend payout of 11%.

Dividend (Common Share)

Year	Dividend Type/ Face Value	Dividend per Share (KRW)	Dividend Payout Ratio	Dividend Yield	Net Income (KRW in millions)
2004	Cash 11%	550	30.36%	1.36%	360,454
2003	-	-	-	-	(930,356) ⁴⁾
2002	Cash 20%	1,000	24.82%	2.38%	1,310,291
2001	Cash 2% / Stock 6%	100	16.19%	0.80%	740,565

In 2005, KB plans to establish a tentative "General Shareholders' Meeting Operation Guidelines" to further improve the transparency of shareholders' meetings. By enhancing the transparency of General Shareholders' Meeting and stipulating various related regulations and processes, KB strives to further enhance the quality of the meetings. In particular, KB plans to improve the transparency and efficiency of its General Shareholders' Meetings by establishing guidelines for and systemizing procedures related to the exercise of voting rights.

4) For audited purpose, the net income in 2003 reflects the financial impact of the merger with KCC on September 30, 2003.

Labor & Management Relations

KB maintains good relationships with its employees and labor union. Around May of every year, labor and management conduct negotiations on the labor collective agreement and wages. In 2004, a common wage and collective labor agreement for the financial sector was concluded in July, while the supplementary agreement of the KB chapter was signed in November.

Through supplementary 2004 wage negotiations with the labor union, KB adequately adjusted the employee wage level to incorporate the improvements in working conditions in line with the modifications related to the leave of absence by conforming to the objectives of the revised Labor Standards Act in regards to the 5-day workweek system. In turn, both productivity and welfare of employees have been improved to increase employee satisfaction. Through such efficient negotiations with labor, KB has contributed to the development of stability in labor-management relations and, ultimately, the development of the financial industry.

Subsequent to KB's merger with Kookmin Credit Card Co. in September 2003, KB was able to reach an agreement on the consolidation of personnel, compensation and welfare benefits of the two organizations through labor-management dialogues on March 2004. In 2004, three labor unions existed within KB as a result of a series of corporate mergers. Accordingly, KB has provided a variety of assistances and support in integrating the labor unions so as to eliminate unnecessary factors arising from collective negotiations with all three groups. Resulting from these efforts, following a joint agreement by the three unions in November 2004, an integrated labor union was launched in 2005. This is expected to contribute to creating a new labor-management culture through increased employee unity, matured organizational culture, formation of a labor union integration model, reduction of unnecessary human resources and labor management costs, and rationalization of labor management systems.

KB is currently devoting its efforts to establishing regular communication channels with the labor union through active support of various legitimate events based on relevant bank regulations. KB is also rationally responding to the demands of the labor union according to the fundamentals and principles set forth in the Labor Standards Act and labor collective agreements. When major management issues of the Bank arise, the management encourages legitimate labor union activities that comply with relevant laws and regulations through sincere discussions and presentation of important business information.

To stabilize the new labor union at the earliest time, KB plans to conduct various support activities. KB will also strive to establish a participatory labor-management culture by encouraging participation and exchanging opinions with the labor union on key management issues and businesses of the Bank.

KB operates a variety of programs to improve the welfare and health of its employees. The programs include health insurance, unemployment insurance, industrial accident compensation



insurance, group accident insurance (including spouse), employee medical checkup, in-house club activity support, congratulatory and condolence expense support, children's tuition support, preschool children education expense support, provision of company housing, accident compensation, and accident condolence cash support. Furthermore, KB operates an Employee Stock Ownership Plan (ESOP) to enhance the welfare of its employees and to motivate improvement in business performance through stock ownership. In 2003, KB contributed 1 million shares without consideration to the ESOP union, while an additional 970 thousand shares were subscribed by its employees in 2004.

On top of the various programs KB provides to its employees, KB's management is committed to upgrading the skill level of each employee for enhancing self motivation and helping in career development through several educational and training support measures. Management believes that this will not only help the individual employee, but will also help in labor management relations and eventually provide for a better working environment to achieve the Bank's objective of becoming "Korea's Leading Bank."

KB also strives to build the cultural foundations for emerging into a world-class bank through the sharing and implementation of "KB's New Vision and Strategy" and "Management Philosophy" by all employees from its CEO to the employees at the front lines of the Bank. As part of this shared effort, from February to April 2005, KB plans to provide International Best Practice (IBP) training to all employees. IBP refers to the detailed behavioral norms and guidelines commonly adopted by leading global companies.

Education Program

Securing the competitiveness of each individual employees based on professionalism is one of the most important factors in the sustained growth of KB. In this respect, continued efforts for reinforcing professionalism are needed to enhance KB's position as the leading bank.

KB allocates and operates an education and training budget of USD 1,000 per employee every year. KB also provides various education and training programs and learning assistance systems including job training, leadership training and professional qualification acquisition support. As a result, the number of employees participating in trainings is increasing over 30% every year subsequent to KB's consolidation. KB is also diffusing the learning culture throughout the Bank by maintaining an annual education time per employee of over 200 hours and training participation rate of 90%. In particular, over 80,000 employees participated in educational programs during 2004 to contribute to enhancing bank-wide competencies.

KB has been able to improve its image as a life-long learning organization in order to become the case model for other companies by being selected as a "distinguished" company in the corporate sector of the First Life-long Learning Company Awards, supervised by Korea Educational

Development Institute and JoongAng Ilbo and sponsored by the Ministry of Human Resources Development.

IBP Education Program

From March to May 2005, KB plans to provide IBP program to all employees. IBP refers to the detailed behavioral norms and guidelines commonly adopted by leading global companies. This program was developed with the objective of (1) providing an understanding of the business environment surrounding KB, (2) sharing the new management philosophy, values and behavioral guidelines, and (3) affirming the decisive will of our top management as Korea's Leading Bank. In this respect, KB plans to provide education on the IBP core elements of leading global companies oriented towards customers, shareholders, employee, and social & environment values, using case studies, while also offering training on the detailed practice guidelines conforming to KB's new vision, strategy and management philosophy.





Today's domestic and international business environment calls for economic growth based on fair and transparent competition and social responsibilities such as ethical management and social contribution. It also demands a new economic order that requires financial institutions to adopt management practices based on social responsibility, which includes environmental protection and environment-conscious decision-making when providing loans to corporate customers.

Ethical Management

KB strives to fulfill its corporate social responsibilities by providing opportunities for KB business partners, corporate customers and other companies to participate in ethical and social responsibility management. This will be carried out by providing preferential treatment to those practicing ethical management.

KB has practiced a diverse range of programs for continued implementation of ethical management including (1) the establishment and implementation of KB Code of Ethics, and development of ethics programs to allow corporate ethics to evolve into an organizational culture; (2) consensus-building on ethical management through continued employee education; and (3) establishment of prevention measures against unethical activities.

As a result of KB's efforts, KB was the first private sector company to receive the Anti-corruption Award from the Korea Chapter of Transparency International. In addition, KB has been receiving favorable opinions from ethical management related organizations.

KB Code of Ethics

KB established and announced the KB Code of Ethics, which represents the Bank's fundamental values and commitments. It also provides Compliance Guidelines which outline ethical behavioral principles that officers and employees are required to comply with. KB has been acting on its commitment to ethical management by establishing and practicing ethical management strategies and programs. KB also provides counseling, guidance and education on ethical judgment to employees. Furthermore, KB has opened "KB Ethical Management" to the public through its website to display its strong commitment towards ethical management.

The followings are excerpts from the KB Code of Ethics.

Chapter 01 Fundamental Principles

1. We shall regard the maximization of shareholder value and customer satisfaction as the main criteria for judging our values and conduct.
2. We shall establish ethical values and approach our responsibilities in pursuance to KB's vision and policies.
3. We shall establish a healthy financial order and pursue mutual prosperity with interested parties.
4. We shall contribute to the development of the country and local communities.

Socially Responsible Management

Chapter 02 KB Management

1. Maximization of shareholder value

Our bank belongs to the shareholders. Our officers and employees will provide stable, long-term profits to the shareholders through rational and just decisions and transparent management.

2. Customer satisfaction

We shall always think and behave from a customer's point of view and fully endeavor to achieve total customer satisfaction by providing the highest quality products and services.

3. Enhancement of the Bank officers' and employees' quality of life

We respect the officer's and employees' autonomy and creativeness, and we will work to improve their quality of life.

Chapter 03 Social Responsibility of KB

1. Compliance with laws and regulations

We respect proper social norms as a corporation, and comply with all state and local laws and regulations.

2. Contribution to social growth

We shall contribute to social growth by participating in social service activities that will enrich our society more.

Chapter 04 Work Ethics for Officers and Employees

1. General requirements

Bank officers and employees shall consider honesty and trustworthiness as their cardinal virtues, and shall pursue individual growth as well as the Bank's development through continuous self-development and proper implementation of the Bank's businesses.

2. Proper execution of the bank business

Bank officers and employees shall not get involved in any action that might hinder the proper execution of the Bank's businesses.

3. Prohibition against conflict of interest

Bank officers and employees shall protect Bank assets, and when conflict of interest exists, they shall take action to protect the Bank's interest first, over any other interests.

4. Mutual respect among the officers and employees

Bank officers and employees shall respect each other and work together towards developing smooth and effective communications and towards building positive business cooperation for the growth and development of the Bank.

5. Management of information

Bank officers and employees shall safe-keep and manage information of the Bank as precious Bank assets.

The principles and contents of KB Code of Ethics are applied to all of the Bank's management activities. All KB officers and employees, regardless of rank or position, are required to comply



with this code. They must also adopt the code as standards for moral judgment and behavior and voluntarily practice the code in all of their internal and external activities.

Compliance Guidelines

KB established and practices a set of compliance guidelines for resolving various ethical issues that officers and employees may face in the course of conducting their bank duties.

Prohibitions Outlawing the Acceptance of Bribery and Gifts

Officers and employees must not accept any valuables such as cash, entertainment and other items deemed unlawful, either directly or indirectly, from an interested party, and should not encourage or conspire to accept such valuables by other officers or employees.

Standards and Procedures for External Activities

All officers and employees must obtain prior authorization from the human resources development team, whenever they desire to engage, during working or non-working hours, in external activities such as giving a speech or lecture, contributing to a media column or interview, etc.

Prohibitions Governing Investment Activities

Officers and employees are prohibited from conducting investment activities in securities, stocks, etc., via information, either internal or external, obtained in the course of carrying-out bank duties.

Guidelines in Case of Conflict of Interest

Officers and employees are required to place priority on the interests of the bank over private interests in the course of carrying-out bank duties. Officers and employees must also consult with the compliance team, if their private interests are at odds with the interests of a customer or bank, or if they are likely to work in a situation that may create a conflict of interest.

Integrity Contract Policy for Greater Transparency

KB implemented an integrity contract policy for the first time in the domestic financial sector to strengthen transparency and impartiality in contract works and duties by preventing solicitation from an outside person at the source.

Management of Important Information

This guideline describes in detail what is deemed to be important information including internal and customer information, how to manage such information, and what the proper procedures are for providing information to external parties.

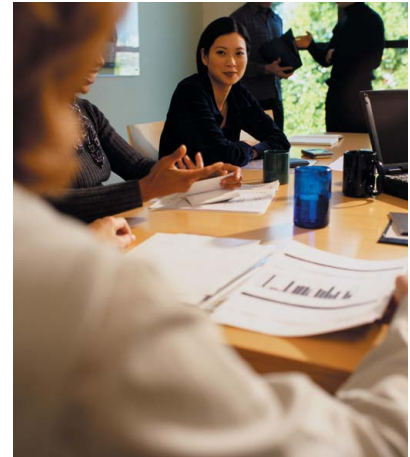
Socially Responsible Management

Guidelines for Internet Use

Access to improper Internet chatting, gambling, pornographic sites etc. is prohibited. Proper security measures must be devised to prevent leakage whenever documents or materials are transferred outside the Bank through the Internet. Use of Illegal software is also prohibited.

Money Laundering Prohibitions & Reporting Procedure Fulfillment

Officers and employees must exercise caution to prevent involvement in money laundering processes and to ensure that the Bank is not used for money laundering. All officers and employees are required to report any suspected cases of money laundering to the Bank through proper processes and procedures set forth by related laws and regulations.



Ethical Management Programs in Action

Whistle-blower Protection Program

KB believes that informers (whistle-blowers) of illegal or unethical activities occurring within the Bank's organization should be protected in order for an ethical management system to function practically and effectively. Accordingly, KB runs a set of "Whistle-Blower Protection Program Operation Guidelines" to prevent financial malpractices in advance or contain the expansion of an impropriety in progress through checks and balances among employees, and protect informers reporting violations of KB Code of Ethics, Korean laws and Internal Control Guidelines.

Activities subject to this program cover all violations of the Bank's Internal Control Guidelines including (1) criminal activities; (2) activities resulting in disadvantages to KB either intentionally or coincidentally; (3) sexual misconducts; and (4) improper discharge of bank duties resulting in damages to the public trust of KB. KB has established and operates various channels for whistle blowing, including a hot-line, fax, Internet and Intranet. Information providers are guaranteed complete confidentiality, including contents of allegations and informer identity. They are also offered awards and cash rewards for disclosures that benefit the Bank, including prevention of financial malpractices.

Ethical Management on KB's Website

KB operates the "ethical management website" within KB's Internet homepage to publicly and internally communicate various programs and activities related to ethical management. The website contains KB's ethical management background and history, Code of Ethics, Compliance Guidelines, Whistle-blower Protection Program, Ethical Management Practice Program, Customer Involved Ethical Management Program, ethical management news, social contribution activities, and video.

Reflection of Ethical Management in Performance Evaluations

KB adopts ethical management as one of its core standards of judgment for performance



evaluations. If a branch violates the Code of Conduct or Compliance Guidelines, or conducts branch operations in an unethical manner to increase the branch's performance, the branch will receive a deduction of 10% from the highest total Key Performance Index score (KPI) and will not be able to receive a final evaluation higher than "Average" despite good scores in other areas.

Preference Given to Corporate Customers Practicing Ethical Management in KB's Credit Rating Evaluation

KB concluded by reflecting ethical management in KB's corporate credit rating evaluations and by offering preferential treatment, through favorable interest rates and credit limits to corporate customers practicing ethical management, could encourage ethical management and improve the soundness of KB's loans. This program resulted in outstanding ethical management companies having higher corporate credit ratings, while unsatisfactory ethical management companies ending up with lower credit ratings. Such positive correlation is a testament of the program in promoting ethical management and social responsibility management of Korean companies.

Consensus-building through Educational Programs

KB provides educational programs and materials based on job positions and descriptions in order to implement its ethical program and form a consensus on ethical management. Using the programs and materials, the designated compliance staff member within the branch educates branch members on a monthly basis and maintains a record of results, so as to cultivate a sense of ethics and compliance in all of its employees. KB also utilizes various other means, including group training and training academy lectures, for the compliance staff, long-standing employees and new employees.

Surveys for Evaluating and Improving Ethical Management Standards

KB continuously surveys its current ethical management practices and ideas for improvement, and uses the results to establish an optimal ethical management system for KB. Through the surveys, KB diagnoses employees' mindset and commitment toward its ethical management, as well as seeking better ways to improve the program.

Monitoring for Feedback

The compliance staff members in each branch and headquarter check the status of the employee's ethical behavior as it relates to work through a checklist. The checklist which includes ethical rules and other key regulations is continuously monitored by the compliance team at the headquarters level.

Awards to Employees with Outstanding Work Ethics

KB developed the Ethical Management Practice Case Reporting System to allow teams responsible for ethics to identify bank-wide ethics related activities, including cases of ethical management practices and social contribution activities. The system motivates ethics and social contribution of officers and employees by selecting and awarding employees for outstanding social and ethical behaviors, which are evaluated at the end of each year.

Socially Responsible Management

Corporate Social Responsibility

KB, the largest bank in Korea, is obligated to contributing certain portions of its profits to building a better society.

Social Contribution Activities

KB's employees voluntarily organized 18 social service groups by region, to provide social welfare activities in areas requiring their support, such as elderly homes and orphanages. Over 8,000 employees, who are unable to directly participate in volunteer activities but wish to become sponsors, donate a portion of their monthly salaries as financial contributions. KB also awards and provides needed articles, including uniforms to employees participating in social services activities to fulfill the Bank's corporate social responsibilities and contribute to the internal proliferation of a culture based on social contribution.

KB operates the KB Social Services Corps, formed through the voluntary participation of its employees to provide social services for social welfare facilities. The various activities of KB Social Services Corps cover (1) disaster relief for typhoons, forest fires in the Gangwon-do area and the Daegu subway tragedy, (2) social welfare activities in elderly homes, orphanages and childcare centers, (3) visits to youth headed households and solitary senior citizens, (4) volunteer activities at sister social welfare organizations, (5) free meal volunteer services for the homeless, and (6) volunteer services for free meals on New Years.

Voluntary social service activities of employees are also encouraged through a system where their social services activities are reflected on their final performance evaluations. KB also provides opportunities for its employees and their families to participate in external activities. In 2004, KB's employees participated in the habitat home construction event conducted by the Habitat for Humanity Korea.

Each branch conducts nationwide consultation and social service activities for the less fortunate people by supporting the Habitat for Humanity International campaigns, assisting livestock farmhouses in economic difficulties due to the bird flu virus and hosting the "Great Bank, Greater Love Sharing" events.

KB not only donated KRW 7 billion to the fund-raising event conducted by the Community Chest of Korea in 2004, but also encouraged its customers to take part in community chest drive campaigns by installing donation collection boxes at all branches. In an effort to provide a brighter future for children, KRW 2 billion and KRW 200 million out of the total KRW 7 billion entrusted to the Community Chest of Korea was designated for construction of a children's library and youth organizations, respectively.

Through KB's Internet homepage, KB conducts a year-round campaign to find missing children in connection with the Korea Welfare Foundation's Center for Missing Children. KB also launched "KB Love Giving Deposits," an exclusive fund-raising product for promoting a donation culture.

In the future, KB plans to solidify its position as a social contributor and expand the foundations of its social service activities. KB plans to encourage voluntary participation of its employees by regularly providing information on social service activities and promoting participation programs through the social contribution information website established in KB's intra-bank information network. KB will also reinforce the status of KB Social Services Corps to motivate the social service activities of both the volunteers and financial supporters.



Environmental Care

Environmental Investment

KB provided financial consulting to the metropolitan landfill site, the landfill gas reuse project, the sewage treatment facilities and the incineration plant facilities. KB is also expanding its investments in the environmental sector, such as contributions to the Environment Venture Investment Fund, established to promote and foster prominent environment related venture businesses.



Cooperation with International Organizations for Socially Responsible Investments and Socially Responsible Management

KB was the first bank in Korea to adopt the United Nations Environment Programme's (UNEP) financial institution statement on environment and sustainable development on April 30, 2004 in Seoul under the auspices of a UNEP/FI officer. KB will work towards incorporating risk assessment and risk management as part of its regular credit grant process by identifying and quantifying environmental risks.

Financially Educating the Younger Generation

KB believes that financial knowledge plays a decisive role in wise life-long management of personal finances. For the first time in Korea, as an extension of its main business, KB instituted the financial education project in 2002 with the initial launch of its "Kid Bank Program," a financial education program for children and teenagers. KB's commitment to financial education has publicly been recognized with such achievements as being selected as the "New Knowledge intellectual" in the financial industry and Grand Prize in the corporate sector of the Credit Awards.

KB's offline education activities include book publications, lectures and finance camps for children and youths. At the same time, KB's online financial education has been reinforced with the addition of children's flash animations and parent guideline contents on its financial education website. KB's Youth Financial Education Guidebook and children's books have contributed to the financial education in the Asian region, while enhancing KB's global recognition by distributing these books to China and Taiwan. KB also provided financial education to children of low-income families through support to regional social welfare centers and NGOs as part of its socially responsible investment efforts.

In 2004, KB was at the forefront of resolving the credit card issues latent in Korean society. In recognition of KB's industry-leading activities for credit recovery assistance, credit education, and credit delinquency support activities, KB was awarded the Grand Prize in the corporate sector of the Credit Awards, jointly sponsored by the Credit Counseling & Recover Service, National Information & Credit Evaluation Inc. and Munhwa Ilbo. KB also provided credit education to over 22,000 students in 16 high schools with the Small and Medium Business Administration.

KB will continue to strengthen its educational activities by providing necessary educational and training programs as required by the ever-changing economic environment.



Review of Operations

“We will continuously channel our energies towards building performance measurement tools that encourage our employees to deliver customer satisfaction.”

Overview

In 2004, international confidence of the domestic economy improved as foreign exchange reserves increased to levels above USD 200 billion as a result of increased exports. However, the business environment surrounding the financial industry remained unfavorable due to depressed domestic demand, increase in unemployment rate and slowdown in GDP growth. Household loans decreased compared to that of 2003, as a result of the sluggish housing market and contraction in consumption expenditures despite continued decline in interest rates. KB's total assets decreased by KRW 4.3 trillion over the previous year with corporate loans falling by KRW 3.9 trillion due to sluggish facilities investments by corporations.

Amidst such adverse market conditions, 2004 was a meaningful year for KB, since KB was able to enhance asset quality and increase profitability, simultaneously through sound internal management. KB focused more on maintaining a stable asset management strategy and generating fee income rather than on asset growth. By maintaining a dominant market share in new products such as Bancassurance and installment-type funds through KB's extensive branch network, KB was able to maintain its leadership in Korea's financial industry. KB was also able to establish a foundation of stable growth through expanding its market dominance in project financing and by developing the next generation electronic pass book, the first in the Korean financial industry.

As a result of sound internal management focused on improving asset quality and reducing costs, KB has been able to realize a net income of KRW 361 billion in 2004 due to provision expenses and general & administrative expenses declining by 31% and 7%, respectively. Accordingly, ROA, ROE and BIS CAR also improved to 0.20%, 4.02% and 11.01% in 2004, respectively.

To prepare for the upcoming future, KB initiated strategies to expand its fee income through development and sales of diverse services and products, including investment trust and Bancassurance products. However, due to reflection of changes in accounting treatment of wholly-owned beneficiary certificates, non-interest income decreased 12.4% over 2003 to KRW 1,763 trillion in 2004.

For corporate banking, KB focused on sound internal management through the reinforcement of RM sales capabilities, rather than external growth. As for the household sector, in response to the reduction in the size of the credit card market, KB focused on providing high value customers with its KB Card, resulting in significantly improving its delinquency ratio and profitability.

In terms of asset quality, by effectively managing sales of provisions for loss and NPLs, KB improved its NPL ratio and delinquency ratio to under 3%, falling to 2.64% and 2.67%, respectively. In addition, NPL coverage ratio, an indicator for allowances for expected losses of future non-performing assets, enhanced from 73.4% at the end of 2003 to 87.6% as a result of KB's sound internal management. Credit card NPL ratio improved to 4.6% from a two digit figure, while provisions for loan losses significantly declined from KRW 4 trillion in 2003 to KRW 2 trillion, showing positive signs of maintaining a stable asset quality, going forward.

In 2005, the domestic financial industry is expected to witness intense competition to secure high value customers through products and services between global and domestic banks. With the second phase of the Bancassurance deregulation and the expansion of the securities business stemming from deregulation of the securities industry, full-scale competition beyond the existing business scope, is expected in securing asset management capabilities and customer confidence.

Despite the increasing uncertainties surrounding the global economy, there is high potential for a turnaround in the domestic economy, centered on increasing domestic demand in the second half of 2005. In the household sector, KB plans to expand its revenue sources by strengthening its management of its existing customers rather than expanding its customer base and providing tailored products and services. With respect to corporate banking, KB plans to focus on creating stable profits, centered on cross-selling and attracting high value large corporate customers. KB will continue to diversify its revenue sources through the expansion of Bancassurance and investment trust products, and sales of foreign exchange, structured and derivative products.



Retail Banking

KB's extensive nationwide branch network enables it to serve the largest number of retail customers in Korea. In order to expand KB's "Convenient" channel network, KB established 8 new branches in newly emerging commercial centers and large apartment complexes in 2004. KB achieved branch operation efficiencies through relocating 41 branches and consolidating 20 branches. Branches that were relocated or consolidated were either low performing or were negatively affected by the regional economic environment.

Lending Activities

KB offers a diverse range of loan products that caters to the financial transactional needs and requirements of consumers. As of the end of 2004, KB's total household loans reached KRW 84 trillion. Household loans are composed of mortgage loans, including home equity loans, and other consumer loans, which account for 70.4% and 29.6%, respectively.

To improve the household loan service, KB strengthened its business alliance with real estate agencies, by establishing an online loan intermediation system and enhancing KB HOUSTAR's loan service marketing. The efficiency of post loan management was also improved through the implementation of replacement loans for customers that have household trust loans, and management of customers by priority. Additionally, KB provided opportunities to credit delinquents to recover their credit by converting delinquent loans to long-term loans through its household loan repayment program.

Deposit-taking Activities

KB provides various deposit products that effectively meet the diverse needs of its customers, including demand deposits, time deposits and installment deposits. KB also continues to develop and present new products. Total deposit balance as of the end of 2004 was KRW 127 trillion, demonstrating KB's overwhelming market dominance.

KB continues to develop and offer a variety of new products that effectively satisfy customer needs in order to counter the prolonged

low-interest-rate trend in 2004. These include Market -index Linked Products (MLP) that link interest rates with stock price indexes and foreign exchange rates such as the KB Leaders Time Savings Deposit KOSPI 200, Nikkei 225 and won-dollar exchange rates. These products were designed to provide maximum annual returns of 17.1%. KB also developed and sold new products; such as the Fortune Saving Deposit, the Happy Dream Savings Deposit and Happy Dream Installment Savings Deposit.

Optimization of Branch Network

To establish an optimal branch network, KB is currently differentiating its branches to serve regional characteristics and customer needs. This includes establishment of new branches in regions with high market attractiveness and relocation or shutdown of branches in slow growth regions. KB is also increasing the productivity of its branches by improving processes through centralization and automation of simple routine branch activities. KB is devoting its efforts to improving the capabilities of the private banking employees, by providing training for VIP department managers at PB branches to enhance the consulting services for net wealth customers.

Business Plan for 2005

Increase Out-bound Sales of Credit Based Loans to Customers Working in Professional Jobs

Breaking away from CSS-based in-bound sales, KB plans to increase its quality loans by expanding its out-bound sales, which provides for relative low risks and high returns, through developing specialized products catered towards segmented net wealth customers such as professionals working in the legal, medical and accounting sector.

Expansion of Individual Home Mortgage Loans and Group Residence Market Loans

KB will strengthen the competitiveness of its consumer loan products through (1) reinforcement of KB HOUSTAR marketing by restructuring the designated staff and organization, (2) promotion of mortgage loan product brands, (3) top-up sales that provide additional loan equivalents to the repayment amount, and (4) sales of mortgage shield loans. KB will actively

penetrate the apartment residence market and market for loans served during construction-in-process by improving products competitiveness and systemizing marketing activities.

Development of MLP Utilizing Various Underlying Assets

KB will effectively meet the needs of customers preferring low risk and high return products through the development and sales of MLPs linked with various underlying assets such as overseas stock indexes (Nikkei, S&P 500, etc.) and single or multiple stocks. KB will also improve customer satisfaction through marketing activities utilizing its call center, and educating sales personnel and Happy Call services.

Development of Differentiated New Products through Market Segmentation

KB plans to develop and offer credit card related products, savings deposits for foreign workers, pension-type savings deposits for the elderly, and salary savings deposits for enlisted army soldiers through analysis of customer needs and market segmentation. KB will develop innovative products for interest rate sensitive customers, silver generation and high value customers through business alliance with various financial institutions. KB will also establish a customer-oriented marketing system through the reinforcement of market research, product development, CRM marketing and customer management process. As a result, KB will substantially improve its customer services by enhancing its bank-wide sales skills and marketing know-how.

Optimization of Branch Network and Marketing Support

KB plans to (1) establish 20 new branches in regions with high financial demand and growth potential, (2) relocate 30 branches in areas of marginal growth, (3) close or downscale 38 branches with poor operational efficiency due to the deterioration of regional economies, and (4) establish new small branches focused on highly attractive markets with limited commercial capacity. In addition, KB will increase the efficiency of asset management by improving the automated teller functions and relocating some of the teller machines that perform below the break even point.

Corporate Banking

With the vision as the "True Financial Partner Growing Together with Corporate Customers towards the Future," KB's corporate banking embodies a wide range of businesses including basic services such as savings & loans for corporate customers, corporate money management service, Cash Management Service (CMS), foreign exchange transactions and fee income transactions.

In 2004, private consumption and corporate facilities investment declined as a result of the continued slowdown in the Korean economy and sluggish domestic demand. Credit ratings of companies also fell due to the continued deterioration in business conditions, and the intensified competition by the entry of foreign banks. These changes in business environment rendered significant impediments to KB's corporate banking operations.

Amidst such an adverse environment in 2004, KB has been focusing its efforts on improving its asset portfolio by maintaining and attracting high value corporate customers and also by enhancing the quality of existing loans. In 2004, total corporate loans amounted to KRW 39 trillion, accounting for 31.5% of total loans in Won.

Beyond its traditional revenue structure based on interest spread, KB is devoting its efforts on creating diverse revenue sources by identifying new fee income sources, such as corporate cash management services (Cyber CFO, Cyber Branch), and promoting CMS products.

Small & Medium Enterprise Banking

As of the end of 2004, total Small & Medium Enterprise (SME) loans reached KRW 35 trillion, comprising 90.8% of total corporate loans in Won. In this respect, SME loans constitute an important position at KB. Its importance will increase as KB aims to become Korea's Leading Bank.

With KB's focus on high value SMEs, KB is converting from a credit rating system based on borrower's collateral to a rating



system based on borrower's credit. Based on this process and marketing targeted towards high value customers, KB has been able to attract 1,658 new quality SME customers and KRW 1.6 trillion in new loans. Through continuous decrease in non-performing assets and improvement in its asset portfolio, SME's portion in credit ratings above B increased to 72.3% in 2004 from 68.9% in 2003. KB is also focusing its efforts to improving corporate loan processes, reflecting the BASEL II requirements expected to be implemented in 2007.

Beyond KB's traditional loans for operating capital and facilities investment to SMEs, KB introduced a diverse range of products such as KB-Hedge Loan for SME's vulnerable to foreign exchange risks and KB-Free Loans for SME's with diverse financial needs. KB also expanded its fee-based income by establishing premium banking and "Cyber Branch/Cyber CFO," to establish an integrated CMS and to strengthen cross selling.

The targeted SMEs have sales of KRW 5 billion and credit rating of BB and above and those that can accommodate KB's Transactional Banking⁵⁾. As a result, KB's asset portfolio will further improve and will be able to secure a stable source of income from blue chip SMEs.

KB aims to become an advanced investment bank by expanding the diversity of products for SMEs by developing standardized SME-type investment banking products, including future receivables securitization finance (ABL and ABS) and real estate development finance products.

KB plans to increase quality loans up to KRW 2.5 trillion by attracting 900 new quality SME customers in 2005. Furthermore, KB plans to continue restructuring loan assets in order to reduce bad loans, while changing its sales structure towards transactional banking through the development of stable and diverse revenue sources to transform itself into a world-class bank.

Moving forward, the SME Banking will continue its commitment to becoming a Bank catered towards the needs of quality SMEs

by providing existing customers with the customized products and services to their needs and requirements in order to make KB the SMEs most trusted and wanted bank.

Large Corporate Banking

KB's large corporate banking business targets public corporations and corporations not falling under the category of "SMEs" as provided in the Framework Act on Small and Medium Enterprises. KB's major business scope covers general deposits, loans, foreign exchange services and transactional banking services that support corporate large-scale cash/treasury management.

With the aggressive risk management policy, KB's corporate loan for large enterprises at the end of 2004 was KRW 3.6 trillion which decreased by KRW 450 billion compared with that of the previous year.

Several major changes in the large corporate banking environment have emerged since 2004. First, credit risk of large corporations has decreased as industry restructuring has entered into its final stage. Large corporations have recorded capital surplus as a result of constraints in investments due to the recession in the domestic economy. Second, new business opportunities with large corporations, through cash/treasury management and corporate pensions are expanding. Demand for large-scale loans by large corporations is decreasing due to their strong liquidity position, while the demand for financial services to effectively manage such liquidity is rising. Third, a new competitive paradigm is forming as a result of acquisitions of domestic financial institutions by foreign investors and replacement of CEOs of domestic financial institutions. Such competition is expected to further intensify throughout the corporate and banking industry.

Based on the changing financial environment, KB's business strategy in the large corporate banking sector will require a more aggressive strategy in 2005. As part of KB's strategy, KB will focus on strengthening its businesses relationship with financially sound large corporations in order to predominate the

5) Fee based business supporting corporates in cash payment, liquidity management and loans utilizing

transactional banking market in Korea. In addition, KB will concentrate on marketing new products related to the transaction banking service and customized Business to Business (B2B) products for comprehensive cash management services, while expanding the foreign exchange business with large corporations.

KB plans to expand its sales activities to large corporations by resuming loans to subsidiaries of conglomerates and large corporations with improved credit ratings, as a result of restructured and improved financial structure. Resuming loans to large corporations will secure KB's dominant position in the transactional banking market as well as improve KB's profitability on the loan business.

KB aims to emerge as Korea's largest specialized bank in transactional banking. KB will strive to establish a stable source of sales through linked transactions by developing various products such as "Cash & Trade" and "CMS + B2B" products that provide both existing CMS and import-export finance services and CMS products such as "Cyber CFO" and "Cyber Branch" so as to solidify transactional banking.

Finally, through KB's Investment Banking and Derivatives Business unit, KB will aggressively handle market-structured products catered towards the needs of the conglomerates and large companies. By expanding KB's presence in the large corporate banking sector, KB will achieve a balanced loan portfolio covering all segments of the industry, including retail and large corporations.

Cash Management Services (CMS)

KB recognizes that the financial needs of corporations are changing from debt financing requirements to effective treasury and liquidity investment management, due to the increasing cash on their balance sheet. To take advantage of the changes in needs, KB is developing various and innovative CMS products that meet the diverse needs of the corporate client.

Global leading banks are placing priority on fee income businesses since traditional loan-oriented portfolios possess high potential risks due to the increasing credit risk generated by the rapidly changing business environment. As such, KB is striving to increase its fee income by providing CMS products to support corporate financial operations such as cash collection and payment, liquidity management, and debt financing. KB is also seeking to expand its business scope into B2B finance, import-export transactions, trade finance, invisible trade and investment banking products.

In 2004, KB completed the development of the "Cyber Branch," targeted towards large corporations, and the "Cyber CFO," an integrated cash management software for SMEs. These were part of KB's strategy to actively pursue new banking products and initiatives to meet the demands of both customers and the changing of business and banking environment.

"Cyber Branch" is an exclusive online branch that was established by linking to the company's Enterprise Resource Planning (ERP) system, and is customized according to the needs and requirements of the customer. Through "Cyber Branch," companies can increase cash management efficiencies by minimizing idle cash dormant at various bank accounts and achieve cost reductions with Straight Through Processing (STP). The "Cyber Branch" also provides opportunities for companies to simplify internal work processes through reduction of paper work, automation of financial reports, and prevention of financial frauds by connecting the work process with internal systems, self-auditing functions and strict management of authority.

"Cyber CFO" is an integrated cash management software for SMEs without an in-house ERP. It is an automated cash management system that provides various services by linking financial operations of companies with KB's banking system. Through this system, companies are able to integrate cash flow projections and real time financial information, while providing for convenient cash management through automatic links with KB's banking system.



Through corporate cash management services, KB has been able to focus on expanding the fee income generating business and on dominating the corporate banking market. The marketability and profitability of "Cyber Branch" and "Cyber CFO" have proven to be successful through the number of corporate customers reaching approximately 10 and 1,500, respectively.

In 2005, KB plans to continuously expand its CMS market share by upgrading its CMS products. At the same time, KB will develop its corporate banking business towards comprehensive transaction services through gradual expansion of its service scopes. KB will add B2B finance functions, import-export transactions, trade finance, invisible trade, investment banking products and global settlement services. KB plans to expand its sales of CMS products to branch offices, subsidiaries and customers' business partners.

Credit Card

The environment surrounding the credit card business in 2004 was not particularly favorable due to continued debt restructuring of household debt and the depressed domestic economy since the end of 2002. Meanwhile, late comers to the industry, utilizing a strong balance sheet with a relatively low delinquency burden, rapidly moved forward by expanding their market share through aggressive marketing activities.

During that period, Kookmin Credit Card (KCC) merged with KB and KEB Credit Service merged with Korea Exchange Bank. In addition, conglomerate affiliated monoliners experienced a series of liquidity crisis in 2003, and thus significantly reduced the size of their operations. As a consequence, the structure of the credit card market changed from monoliner-centered to a bank-centered market.

Operations in 2004

As a result of continued demarketing of delinquent members, the number of cardholders decreased from 12.5 million in 2003 to 11.4 million in 2004, a decline of 9%. Accordingly, the credit card transaction volume fell by 28% over the previous year to KRW 64 trillion.

However, KB has been able to significantly improve the quality of its credit card assets. In particular, NPL ratio declined by 8.9%p from 13.5% in 2003 to 4.6% in 2004. Also, the one day average delinquency ratio improved by 9.9%p from 15.1% to 5.2% in 2003. NPL coverage ratio exceeded 100%, allowing the bank to prepare for future losses. New delinquencies were stabilized considerably, and the delinquency recovery rate improved substantially. As a result, KB's credit card business was able to recover from the deficit that occurred in the 4th quarter of 2004.

After the merger of Kookmin Credit Card (KCC) and KB, KB reinforced its marketing efforts to improve the quality of its credit card asset portfolio. Various efforts to successfully conclude the post merger integration were aimed at creating operational synergies and achieving a turnaround in profitability. After the successful merger with KCC, the introduction of KB Card enabled KB to secure over 1 million card members. KB also featured credit card related savings and installment deposit products, which have received favorable responses from customers. By developing KB Mile Bank and KB-LG Gas Smart Cards, KB also took the initiative in new product development that meet our customer needs. Meanwhile, KB is currently developing the KB Star Card, an upgraded version of KB Card that allows its customers to select various living convenience



services, including mileage, gas, shopping and performances. KB is also preparing to feature revolving-purposed cards.

In order to mitigate credit risk, KB focused on managing credit limits of multi-card users and high credit limit cardholders. This has resulted in the total credit limit decreasing by approximately 23% over 2004. Furthermore, KB approved card applicants with a credit rating of ASS 5 or above in accordance with its approval standards of the new members. By doing so, the percentage of credit card assets with high credit ratings increased from 43% to 60% over the previous year.

The successful integration between the delinquency management system of the former Kookmin Credit Card and KB BC card enhanced KB's competence in managing delinquencies. KB has been able to significantly improve its recovery rate of overdue accounts compared with the previous year. KB applied different delinquency recovery strategies according to the degree of difficulty in recovery through the introduction of delinquency management work models.

With regard to the risk management system, KB devised a scheme for applying risk parameters calculated for the credit card business to prepare for the implementation of BASEL II. KB also reinforced its ability to precisely identify credit risk by upgrading the existing credit card CSS models and developing new models. New models which developed in 2004 include corporate card ASS and BSS, merchant score, reaged loan score and CB score models.

KB's credit card business IT systems were integrated by combining KB BC card data into the former Kookmin Credit Card system platform. KB also established the foundations for collectively utilizing customer information acquired in its existing banking activities and in its credit card business, allowing for effective marketing activities and elaborate risk management.

Business Plan for 2005

In 2005, competition will intensify as a result of full-scale market entrance of late comers and foreign financial institutions.

As such, existing credit card companies are expected to retain their high value customers. However, aggressive marketing competition is not likely to be implemented for the time being due to the delay in the recovery of the domestic economy and ongoing debt restructuring of households.

For KB, 2005 will be a year for reinforcing the core competencies of its credit card business in preparation for the increased competition. In order to generate full-scale merger synergies, KB plans to secure high value cardholders through the cross-selling of credit cards to customers in its deposit and loan sectors. To this end, KB will introduce new credit card products with significantly improved competitiveness. If KB successfully enters the revolving payment credit card market and, also concentrates on the debit card market, KB will be able to obtain new revenue sources. Furthermore, KB plans to improve its end user-oriented electronic IT system by actively expanding automated procedures.

In 2005, KB also plans to upgrade its credit risk management to IBP standards. KB will minimize risk factors at each stage of its business process by establishing a full-modeling structure and will enhance its ability to forecast risk through upgrading models. KB will also be able to select potential delinquents through the overhaul of the Early Warning System. KB believes this pre-risk management and post-risk management on all levels of the work process will result in enhancing its ability to improve the risk management efforts.

Capital Market

In 2004 KB focused on improving profitability and diversifying revenue sources through active securities related to transaction using interest rate and stock price volatility. At the same time, KB strived to improve asset quality by establishing a real-time securities risk monitoring system and enhancing business processes. KB also focused on improving the effectiveness and efficiency of capital management by systematically responding to volatilities inherent in capital, while securing an adequate level of capital liquidity. Furthermore, KB devoted its effort to strengthening its



position as the market leader in both the foreign currency and derivatives markets in Korea by reinforcing marketing activities and establishing an advanced derivative product infrastructure. Moreover, KB strived to become the number one domestic bank in the foreign exchange business by strengthening its market dominance through the expansion of high quality import-export SME customers, reinforcement of foreign exchange marketing activities and improvement of its image as the leading bank.

2004 Business Performance

KB minimized idle cash by developing a computer program to report capital changes regularly. KB also improved its capital management system to allow for timely and efficient capital management according to monthly and daily characteristics of each type of capital by establishing a DB related to capital raising and operations. By reinforcing capital forecast functions, KB achieved stable liquidity management of capital in Korean won denominated currencies. Furthermore, KB was able to reduce financing costs and duration gaps in issuing financial bonds by linking derivative products through structured bond issuances. Moreover, KB was able to minimize risks stemming from time gaps in refunding bond issuances and refinancing through diversification of maturity structures.

Issuances of Financial Bonds in 2004

(KRW in billions)

Senior	Subordinated	Hybrid	Total
14,164	6,222	904	21,289

KB focused on generating capital gains of KRW 99 billion (KRW 67 billion in bonds and KRW 30 billion in equity) by increasing short-term trading securities dealings and adjusting the securities investment in tandem with capital market conditions. By pursuing a preemptive investment strategy according to interest rate scenarios and capital market conditions, KB was able to reduce losses during periods of increasing interest rate. By strengthening risk management KB was able to achieve securities investment returns of 6.5%.

In foreign exchange (FX) marketing, KB held seminars on the FX market and foreign exchange risks and provided various publicity related material to high quality customers. KB also expanded the number of securities companies it was doing business with from 8 companies to 13 companies. Through this, KB has been able to increase its revenues and expand the size of foreign exchange transactions by promoting forward exchange dealings related to foreign currency beneficiary certificates. As a result, KB achieved revenues of KRW 49 billion during 2004. KB successfully borrowed USD 604 million through a series of syndicated loans, while reducing borrowing costs through loan refinancing by 13 basis points compared to existing borrowings.

KB significantly improved its services in foreign exchange by developing and offering tailored products based on type of customers and channels such as mobile FX remittances, free big hit FX remittances, KB FX Plus Foreign Currency Savings Deposit, KB Travelers' Card and installment-type foreign currency deposit. KB also developed various online products such as customized money exchange and remittance services and payment settlement services so as to upgrade online FX services. KB expanded its foreign exchange customer base and increased FX transactions by actively attracting high quality SME customers, money exchange and remittance customers, and foreign worker customers.

With regard to derivative products, KB increased transaction revenues by attracting interest rate swap transactions with public enterprises related to SOC projects including the Machang Bridge construction and Yongin Light Railway project. KB also created new revenue sources by developing and offering derivative linked structured products including time deposits in Won savings deposits linked with foreign exchange rates and hedge funds.

In 2005, the business environment surrounding capital markets is expected to deteriorate as a result of slowdown in exports and delay in economic recovery, potential increase in interest rate risk, and intensified competition within the capital markets. Nonetheless, KB plans to focus on identification of new customers and creation of new profit sources in the capital

markets by utilizing its market dominance as the leading bank and market maker. In addition, KB plans to solidify the foundations for its stable profit sources by restructuring related product portfolios through (1) reinforcement of derivative product marketing, (2) establishment of a non-linear derivative product book, (3) establishment of a flow-oriented trading system, and (4) establishment of relative value trading and arbitrage trading positions.

KB will diversify low cost domestic and foreign financing vehicles by utilizing the structured note market, while creating new revenue sources through the promotion of money market books. KB will also increase transaction income through participation in Non-deliverable Forward (NDF) transaction markets in London and New York. Moreover, KB plans to secure a stable revenue stream through the diversification of foreign exchange corporate customers and solidification of exclusive business relationships.

Simultaneously, KB plans to improve the soundness of its asset management through (1) reinforcement of its treasury operations via prior and dynamic money management, (2) selection of debt financing means and period, taking into account duration and liquidity, (3) improvement of efficiencies in issuing financial bonds via diversification of issuance methods and maturity structures, (4) improvement of internal control systems, and (5) improvement of risk management system and risk reporting processes related to trading.

Private Banking



GOLD & WISE
PRIVATE BANKING FOR THE WISE

"Gold & Wise" is KB's exclusive Private Banking (PB) brand, established to provide customized services catered towards high

net wealth individuals demanding a diversified and differentiated product portfolio. In 2004, KB expanded the PB business network to a total of 16 centers, from its existing 8. As of end of December 2004, the PB Group managed a total of KRW 2.5 trillion in assets, mainly consisting of investment trust and Bancassurance products, comprising 40% of total assets, or KRW 1 trillion. Some of the investment products that are exclusive only to KB's PB Group, include 12 types of on-shore funds and 22 types of off-shore funds.

To effectively expand the customer base and increase the size of assets managed by the PB Group, KB launched a Member Get Members (MGM) program in 2004. Other marketing efforts by the PB group included hosting various events such as real estate & tax seminars and cultural lectures by inviting professionals to provide knowledge and professional advice on various tax and real estate issues. By conducting co-marketing programs and hosting special events on a timely basis for existing and potential new customers, the PB Group was able to further enhance customer satisfaction and the Gold & Wise brand image.

Establishing a Strong and Sustainable Foundation for Private Banking and Wealth Management

KB's objective in 2005 is to reinforce a stronger Gold & Wise brand image and to establish a solid sustainable foundation for the private banking and wealth management business sector. To achieve these objectives, KB is committed to enhancing the competencies of four core areas: sales personnel, product & services, IT Systems, and marketing programs.

Enhancing the expertise and skill-sets of its sales personnel, through a strenuous and systematic training program, will be critical to reinforcing the competitiveness of KB's private banking and wealth management. Other than having significant marketing and sales experience, private bankers must be equipped with an in-depth knowledge of asset management, which is critical to being able to fully communicate with the customers. Since understanding asset management requires specialized financial training, KB plans to provide an in-depth



training program for private bankers that offers key qualifications related to asset management and other training programs focused on portfolio theory, investment products, law, tax, real estate, etc. Through these training programs, KB hopes to standardize and upgrade the expertise and skill levels of all involved in the private banking sector.

In addition, KB provides a diverse range of high profitability structured products, including investment and insurance products that catered to the needs and requirements of private banking customers. KB also provides life planning consulting services to its customers by organizing an advisory team of legal, real estate, investment and tax experts. Gold & Wise plans to roll-out new services: testamentary trust business, supporting the establishment of foundations, etc.

As for Gold & Wise's financial management IT solution, the "One Wealth" IT solution will be upgraded to effectively support the objectives of the PB business through the integration of the Bancassurance business, improvement of the portfolio performance management and rebalancing, and improvement of CRM in 2005.

To expand KB's customer base and enhance customer satisfaction, KB plans to substantially strengthen its marketing efforts through programs such as the 'Leader's Club' and 'Gold & Wise 100 Customer Club' which mostly comprises of renowned figures and opinion leaders amongst the customers, and other activities such as investment seminars and charity bazaars. KB will additionally reinforce its advertisement and public relations activities in order to solidify Gold & Wise's position as a specialized brand in asset management.

In order to reinforce bank-wide competitiveness, KB plans to expand its marketing support activities for retail branch MVP customers by promoting information exchange and cooperation among consumer branches through seminars in conjunction with PB centers, and by sharing case studies related to marketing and asset management consulting.

Asset Management

Investment Trust

In January 1999, KB launched the beneficiary certificate sales business to increase non-interest income through the sales of fee-based products for the first time in the Korean banking industry. KB has led the investment trust market by constantly improving its business processes. KB aims to go beyond leading the beneficiary certificate market with a mission to contribute to the sound development of the capital markets. KB offers a diverse range of products and services through its 1,124 branches nationwide, including 10 types of installment-type equity funds, 9 types of equity funds, 6 types of bond funds, 9 types of mixed funds, 7 types of off-shore funds and money market funds, etc.

Major Performances in 2004

KB introduced a variety of equity linked securities (ELS) investment trusts based on customer preferences with sales amounting to KRW 2,541 billion, comprising 38.5% of the domestic market. KB also introduced installment-type funds, a representative product for asset management, and recorded sales of KRW 1,083 billion as of the end of 2004. During the same period, KB expanded its customer base by increasing the number of investment trust accounts by 340 thousands compared to that of the end of 2003.

To enhance consulting capabilities, KB provided cyber training to investment trust sales officers. KB developed the Sales Total System (STS) that comprehensively supports the investment trust product consulting, sales and post-management of its branches so as to provide systematic and standardized consulting services to both branch sales staffs and investors.

As a result of such efforts, total investment trust sales reached KRW 15.7 trillion as of the end of 2004. In recognition for KB's sales performance, KB received the Fund Marketing Grand Prize from MoneyToday and the Fund Marketing Special Prize from E-daily. As of the end of 2004, sales balance recorded KRW 15.7 trillion, an increase of KRW 7.4 trillion over 2003, while fee income reached KRW 66.6 billion, an increase of KRW 26.1

billion over 2003. KB's market share of the total investment trust market increased 2.6%p from 5.7% in 2003 to 8.3% in 2004.

Business Plan for 2005

In 2005, KB plans to reinforce the sales of long-term investment products to increase stable fee income since the competition in the investment trust product sales market is expected to further intensify. At the same time, KB will systematically manage its investment trust sales staffs and initiate the asset management specialist fostering program.

In order to strengthen KB's product competitiveness, it plans to devise and implement a master plan for installment-type products, develop new products, provide diverse portfolios and strengthen the sales of its off-shore funds. KB will also enhance customer management through sales process improvements, sales channel diversification and cross selling.

Bancassurance

The Bancassurance market, focused on savings insurance, was initiated in September 2003. Bancassurance products market is expected to expand with the second phase of deregulations, which cover protection products which have no returns and lose the ability to recover the principle amount. Accordingly, KB is focusing its efforts on enhancing its competencies in Bancassurance by reinforcing product competitiveness, sales capabilities and compliance activities

Currently, KB's Bancassurance has alliances with seven life insurance companies and four non-life insurance companies, which provide for 32 products, such as 17 types of pension and savings insurances and 15 types of other non-life insurance products. As of the end of December 2004, 65% or 13,022 of KB's total branch staffs obtained insurance agency certifications or consultant licenses.

Major Performances in 2004

KB reinforced its dominance in the Bancassurance market by developing price competitive products. The development was

possible by developing new products which satisfy customer needs. KB further strengthened its market dominance by inducing product development of highly competitive products, through upgrading products.

With the increased competition among insurance companies and banks, customer benefits increased, while protective clauses strengthened. KB significantly increased product sales by introducing differentiated savings-type insurance products through its subsidiary, KB Life Insurance and by developing specialized products through sales channels and customer characteristics. In 2004, insurance premiums and commission income amounted to KRW 1,188 billion, an increase of KRW 692 billion over 2003 and KRW 117 billion, an increase of KRW 94 billion over 2003, respectively, and achieved a 38.1% market share in total insurance premium.



Business Plan for 2005

In 2005, KB plans to strengthen Bancassurance sales capabilities and expand the source of its commission income as follows: First, KB will increase its income by selling more regular products compared to single products in order to strengthen its Bancassurance profit structure. KB will simplify product contents through improvement of portfolio, such as the combination of bank and insurance products, and differentiated products by customer needs. Second, in order to significantly strengthen sales capabilities, KB plans to encourage its branch staffs to obtain the certification of insurance agency, and provide sales skill training. KB will also reinforce institutional regulation observance and compliance training to minimize cancellation of Bancassurance products.

International Banking

Business Environment in 2004

Amidst a slowdown in the world economy and continued sluggish domestic economy, companies either avoided or deferred making new investments and even repaid existing loans with solid operating cash flows. Due to such business



environment, the demand for new foreign currency capital declined significantly. In turn, the competition among banks in the foreign currency loan brokerage business intensified with the overall contraction of the Korean debt market. However, the demand for large-scale SOC project financing and ship financing steadily increased with the growth in the shipping and shipbuilding sectors.

Meanwhile, the demand for structured financial products linked to interest rates, foreign exchange rates and stock prices and derivative products such as foreign currency bond investment, options and swaps rose steadily due to the ongoing low interest rate policy of the Korean Government.

Major Business Performances in 2004

Despite the adverse business conditions in 2004, KB solidified its leading position in the international underwriting and financing business. In particular, KB has been able to achieve significant results, such as the development and sales of structured financial products to respond to customer needs, reinforcement of marketing activities in its domestic and international branches, establishment of advanced IT infrastructure and successful launch of its Continuous Linked Settlement (CLS) business.

Amidst the economic recession and fierce competition in the international financial markets, among the many domestic and foreign based banks, KB was awarded the second and third position by "Basis Point" in the underwriting category based on the number of transactions and total value of the transactions, respectively. This is mainly due to consistent marketing efforts, such as the enhancement of its corporate relationships. During 2004, KB financed a total of USD 600 million in capital including two public syndications. KB became the benchmark of other banks in Korea by lowering its one-year loan spread to the 0.1% level for the first time as a private bank subsequent to the financial crisis.

KB became a member of the CLS Bank in November 2004, followed by the successful launch of corresponding services

subsequent to December 6, 2004. As a result, the Korean Won was officially included in the CLS settlement currency. As such, KB provides related services including settlement risk minimization and liquidity supply for its own and other bank's foreign exchange transactions.

With respect to KB's derivative product business in 2004, it increased its market share and significantly expanded its use in line with the explosive growth in the development and sales of new products. These include structured deposits in Won that combine time deposits in Won and time deposits in foreign currency with currency options, KB FX PLUS time deposits in foreign currency, and structured products linked with the KOSPI 200 Index and overseas hedge funds. KB also actively utilized derivatives in lowering financing cost and Asset Liability Management (ALM) risk management. In July 2004, KB initiated development of an in-house system (front system), expected to be completed during the fiscal year 2005, to flexibly respond to the rapidly changing derivatives market environment and accommodate complex and diverse needs of customers.

Business Plan for 2005

KB will continue to expand its international investment banking business to solidify its current status as Korea's Leading Bank. In this respect, KB will focus on the underwriting business, while further strengthening its foreign currency project financing and structured finance activities.

The Bank continued to secure the leading position in the derivatives market through improvement of product competitiveness and establishment of a solid sales infrastructure. Accordingly, KB plans to continue to develop and offer various structured products including stock price index derivative products and currency options, while securing professional staff, so as to meet the diverse needs of its customers. In addition, KB will foster cooperation with other business units within the Bank to increase the use of derivatives at the bank-wide level. Moreover, KB plans to systematically backup its front system for derivative products, currently under development.

KB will establish solid business relations with financial institutions and enhance the sales capabilities of its overseas branches. As such, KB will strengthen its marketing activities linked with CLS and Kookmin Inter-bank Payment System (KIPS). Furthermore, KB will convert its Guangzhou office in China into a branch, upgrading its services to domestic and local customers operating business in China.

Other Businesses

Trust

Business Performance in 2004

The breadth of opportunities in the trust business significantly curtailed for domestic banks due to various regulatory and competitive factors. On the regulatory side, the enforcement of the Indirect Investment Asset Management Business Act in January 2004, banned the sales of unspecified trust products, which was KB's core product in the trust business. While on the competitive side, competition in the investment trust business intensified and the Bancassurance business expanded through banking channels.

As of the end 2004, with the discontinuance of sales of unspecified money trusts and the termination of matured trust accounts, the money trust balance declined 31.6% over 2003 to KRW 7 trillion. Trust income and fees decreased by KRW 130 billion over 2003 to KRW 102 billion as a result of the decline in the balance of unspecified money trusts, which provided high management fees. Despite the overall fall in trust balances, the outstanding balance for installment trusts such as pension type trusts is showing signs of continued growth, increasing 13.4% over 2003 to KRW 3 trillion. Property trusts also dropped 41.6% over 2003 to KRW 12.5 trillion. This was caused by the contraction in ABS issuances for credit card receivables due to the substantial decline in the sales of credit card companies.

However, both the ratification of the Employee Retirement Income Security Act (ERISA) and revision of the Trust Business Act by the Korean National Assembly in December 2004, allowed for the introduction of retirement pensions and

comprehensive property trusts. This provides new opportunities for KB in the trust business. To strengthen KB's position as the leading long-term asset management financial institution in Korea, it initiated the following: (1) established a business structure to actively respond to the changes in business environment, including the enactment and revision of trust related laws, (2) prepared for KB's entry into new business areas, (3) managed trust balances through product and service specialization, and (4) enhanced investor confidence through stable dividends.

To effectively pursue new businesses, KB established a special unit and secured the necessary professional staffs to implement businesses related to retirement pensions and comprehensive property trusts. In 2004, KB launched a diverse range of specified money trusts based on a range of concepts, such as, 'KB Riding Wave System Trust,' an equity-type specified money trust product. In response to the nation's entry into the aging society and to expand KB's market share in the pension market, it introduced the 'KB Silver Well-Being Pension Trust' along with insurance services, targeting well-over 14,600 accounts during 2004.

KB completed the development of the trust asset operation & management system to increase its fund operation efficiencies and establish an advanced risk management system. KB also implemented various schemes that focused on long-term asset management, including organizational restructuring and establishing operation principles suitable to the characteristics of long-term products. This was to position itself as a competitive long-term asset management institution in preparation for the introduction of retirement pensions.

In 2005, the trust business is expected to expand with the implementation of retirement pensions and comprehensive property trusts. However, outstanding balance of trust account and trust income and fees are expected to continue declining due to the government's ban on the sales of unspecified money trusts products by banks.



KB plans to firmly establish its position as a long-term asset management financial institution by enhancing returns on long-term pension fund operations through diversification of assets, including investment in project financing and loans. KB will also secure first mover's advantage in the retirement pension and comprehensive property trust businesses. KB plans to devote its efforts to increasing fee income through (1) trust balance management via improvement of marketability of specified money trust and satisfaction of customer needs, and (2) expansion of additional trust services such as property trust and cash management agency administrative agent businesses.

National Housing Fund (NHF) Management

KB is contributing to the policies of the government by implementing government-funded public projects including the National Housing Fund, Housing Lotteries and housing price index surveys. KB, in return, receives direct commissions from managing NHF. By managing NHF, KB has the opportunity to cross sell to its customers, while having certain portions of the NHF deposited into the Bank.

NHF Business

NHF was established in July 1981 with the objective of providing mortgages to individual consumers purchasing or renting houses and loans to construction companies to perform national housing projects for low-income families so as to resolve housing shortages and promote national housing prosperity. As of the end of 2004, the fund's assets totaled approximately KRW 51 trillion. KB was selected as the exclusive trustee of the fund at the time of its establishment and has carried out operations and management of NHF including issuance of National Housing Bonds, opening and collection of subscription savings deposits, screening and operation of NHF loans, and post-management of loans. Since 2003, KB has managed the fund with two other financial institutions additionally selected to handle subscription savings deposits and NHF loans.

Despite changes in the business environment including the emergence of new competing products such as long-term housing mortgage loans and various marketing activities of NHF

managing banks, KB generated KRW 159 billion in fee income, 86.8% of total fee income for the three trustee banks, from the NHF management business in 2004 as a result of active promotional activities for expanding its NHF business obligations and preserving its dominant position in the NHF market. KB also integrated and reduced the variety of NHF loans from 25 to 15 for operating efficiency and cost savings reasons, while converting the issuance of physical National Housing Bonds to electronic registration issuance.

In the housing subscription business, despite the decrease in pre-sales of new homes due to the slowdown in the housing business, and fierce competition among banks, KB was able to maintain its leading position. KB recorded a 25.8% increase in pre-sales receipts to KRW 900 billion. With continued updates and quality upgrades in real estate information, the KB real estate information service, which is provided on-line, has witnessed a continuous increase in hits, surpassing the three major real estate portals in terms of the growth in the number of hits. The 'KB HOUSTAR' sales significantly increased by linking up with realtors that provide real estate price trends, to provide on-line collateralized loans. KB receives government subsidies to carry out housing price trend surveys. KB has also initiated the sales of the housing trend database to other financial institutions.

In 2005, the NHF market is expected to contract due to the sluggish real estate market, while competition is expected to intensify. KB plans to focus on maintaining its leading position by expanding its market share through enhancing marketing activities targeted towards new customers. KB will also raise its productivity by enhancing operating efficiencies, including the improvement of NHF loan monitoring evaluation standards and loan approval system. Furthermore, KB will continue to devote its efforts to enhancing customer services including issuance of National Housing Bonds over the Internet.

Investment Banking

In 2004, KB was able to continue expansion of its fee-based income and diversify profit sources by providing a wide range

of investment banking services, including financial advisory, syndication and underwriting for infrastructure and real estate, and securitization businesses. KB generated investment banking income of KRW 116 billion, consisting of KRW 91 billion in interest income and KRW 25 billion in fee income. The main focus of KB's investment banking activities has been on infrastructure project financing in projects such as highway construction, harbor/port construction, railroad construction and real estate development.

Infrastructure and Utility Project Finance

KB provides a diverse range of financial advisory services and plays a significant role in loan arrangements for infrastructure and utility projects. With a 38% market share in the domestic infrastructure project finance market, KB will continue to provide value-added services to maintain its leadership position.

As mandated lead arranger, KB ranked 16th worldwide and 3rd in Asia-Pacific according to 'Project Finance International' (Issue 305) in 2004 with an aggregate facility value amounting to approximately USD 2,320 million. KB arranged 7 transactions, including the Machang Bridge Project, Seoul to Chunchon Expressway Project, Ulsan New Port Project, Yongin Light Rail Transit (LRT) Project, and Busan Jungkwan Energy Project. The Yongin LRT Project was the first project to design, build, and operate a light rail transit system in Korea. From the total project cost of KRW 7 trillion, KB was able to arrange a senior loan facility amounting to KRW 515 billion.

Real Estate Finance

KB structures and finances a diverse range of real estate projects, including commercial, residential, etc. KB is committed to providing optimal solutions, utilizing creative tools and methodologies, to assure project success.

In 2004, due to the staggering domestic economy and strict real estate regulations, KB's real estate finance business faced limited growth with KRW 10 billion in arrangement and other related fees. In terms of number of deals executed, KB executed 23 deals as an advisor and 14 deals as an arranger, amounting

to KRW 857 billion in aggregate. One of KB's achievements in the real estate finance sector in 2004 was the launch of the first Real Estate Investment Fund in Korea. In cooperation with its partners, KB successfully arranged KRW 150 billion through Real Estate Investment Funds and Syndicated Loans. This project established KB as the most creative player in the real estate finance market.

KB is committed to maintaining and enhancing its position in the real estate financing market through new creative products and active participation in national undertaking projects.

M&A and Structured Finance

KB offers a wide variety of structured products and corporate finance services for Leverage Buyout (LBO), restructuring, securitization and distressed asset businesses. For 2004, KB continued to maintain its leading position in terms of product diversification and quality of service. The total amount arranged through M&A activities amounted to KRW 480 billion, generating KRW 4 billion in fee income.

KB strives to take full advantage of the synergies the bank as a whole offers in terms of providing a vast source of potential transactions. KB continues to strengthen deal-sourcing efforts aimed at existing loan clients, by providing underwriting and advisory services, investing through private-placement M&A funds, and cultivating promising long-term relationships. Using the nationwide branch network, KB also looks for opportunities to search and execute M&A transactions among SMEs that have transactions with KB. Taking advantages of KB's nationwide branch network, KB will actively search for opportunities to provide diversified structured financing transactions for SMEs.

Asset Securitization

Amidst the economic slowdown, the Asset Backed Securities (ABS) market was adversely affected by the decrease in the size of ABS issuances and intensified competition arising from increased market participants. In addition, risk management of the credit card ABS, which has previously led the overall ABS market, has been strengthened. Under those conditions in the



market environment, backed by KB's high credibility and superior network with related institutions, KB has maintained market dominance by achieving KRW 27 trillion in outstanding balance as of the end of 2004 and, accordingly, has posted a net profit of KRW 59 billion.

KB maintained its number one position with a market share of 34% in a KRW 16 trillion domestic market, attracting KRW 5 trillion in new offerings in the ABS market based on its product development and management capabilities in asset backed securities. To further enhance KB's competitiveness, KB developed structured ABS products to meet the changing market conditions, while securing revenue sources using bridge loans.

In 2005, KB plans to maintain its firm position as the leader in the ABS market, developing standardized ABS/ABL (Asset Backed Liabilities) products targeted at SMEs. Accordingly, KB will establish the foundations for providing ABS product services at RM branches, while offering a diverse range of financial products to its customers in order to reinforce its role as the main bank for high value customers.

Agent Banking Services

KB also provides agent banking services such as security agent, facility agent, and administration agent for projects KB has arranged. Such agent banking services allows KB to not only directly manage and control operational risk of the projects but also generate fee income through agency services in the long-run. As of year-end 2004, KB conducted agent services for 51 projects.

Online Banking

Internet Banking

KB's Internet Homepage is a comprehensive financial portal which includes Internet banking, corporate banking, foreign exchange, real estate, lottery and Bancassurance services under a unified Kbstar.com brand.

As of the end of 2004, Kbstar.com has grown into the largest financial website in Korea with approximately 6 million registered members (including 3 million Internet banking

customers), while page views averaged over 10 million monthly. The purpose of website visits is mainly focused on Internet banking services (approximately 40%) as an alternate means of offline bank window services such as deposit balance inquiries and money transfers. To further strengthen Kbstar.com as the e-Business leader, KB integrated its website with former Kookmin Credit Card's e-CRM system on September 6, 2004. The integration allowed KB to provide one-stop services covering the entire scope of financial services, including Internet banking, credit card, affiliated merchant banking, real estate and foreign exchange services. KB has been able to further strengthen the competitiveness of its financial portal through the consolidation of Kookmin Credit Card's customer community.

To meet the demands of a diverse customer base demanding more customization, KB opened a new exclusive website for high quality private banking services (Gold & Wise) that provides asset management know-how and related financial information. KB has also significantly expanded its exclusive services for foreign exchange customers, including customized foreign exchange and various related services. Other new additions will include a two-way communications interface, a multidimensional virtual product display section, and a real-time inquiry service.

In 2005, KB's goal is to establish its Internet banking operations as a profit center by strengthening online marketing and e-CRM, and developing new channels for business. Kbstar.com is expected to generate new sales opportunities by complementing the limitations of an online sales channel through links with specialized call center personnel, and will strive to become KB's independent marketing channel.

Mobile Banking

KB mobile is a new mobile banking service that provides customers with convenient access to banking transaction inquiries or money transfers through built-in banking chips (SIM Type IC Smart Chip) to be placed in their personal mobile phones. The banking chips with built-in personal financial information are issued and distributed by KB to allow customers to conduct financial transaction over mobile phones.

KB was the first to align itself with wireless service providers to provide smart chip based mobile banking service to customers. Although most of the major banks currently provide similar services, KB has the largest market share in Korea. KB mobile service allows KB's customers to conduct various banking transactions such as money transfer to KB and other bank accounts, balance inquiry and deposit saving, loan inquiry and repayment, cashier's check inquiry, GIRO & utilities bill inquiry and payment, and international fund transfers. Other available services include, cash withdrawal through KB's ATMs, credit card settlements and public transportation payment service.

Call Center

KB was the first financial institution to establish a call center in Korea in 1999 catered towards providing easy access to a wide range of services over telephone lines. The center responds directly to customer calls to over 1,000 branches nationwide and provides various financial services including balance inquires, money transfers, loans and credit card services, online product sales, and telemarketing. It processes 70% of all call responses of KB's branches so as to increase the efficiency of its services. The call center provides fast, convenient and high quality financial services 24 hours a day and 365 days a year through the largest number of telephone circuit lines in Korea that can handle over 8,000 simultaneous calls. In addition to the call center located in Seoul, KB opened a new call center in Daejeon in 2004, to provide for easy and fast access by customers.

The call center's main services include branch telephone call inquiries, Internet inquiry, phone banking services and telemarketing campaigns. The center's telemarketing campaigns focus on product sales and customer satisfaction based on KB's extensive customer base and network. The call center promptly files and processes a daily average of 1.3 million calls and 300 million calls yearly via ARS (phone banking) and specialized call center personnel. The center also generates new revenue sources through telemarketing activities including customer management, product sales, market research and business alliances.

Some of the major milestones in 2004 include (1) the integration

of the bank and credit card call centers resulting in annual cost savings of KRW 17.0 billion through reduction of 960 personnel (32%) vis-a-vis the end of 2003 and higher productivity, (2) opening of the Daejeon Call Center, and (3) reinforcement of profit generating capabilities through CRM-based telemarketing resulting in an annual telemarketing sales performance of KRW 3.6 trillion through strengthening mass marketing via customer segmentation and year-round profitability campaigns.

The key business goals for the KB call center in 2005 lies in the maximization of customer satisfaction and reinforcement of marketing functions so as to fulfill its role and responsibilities as a critical strategic channel for achieving KB's vision and competitive edge within the financial industry. Accordingly, KB plans to focus its main implementation strategies on enhancing the competitiveness of its call center services by (1) securing independent profit sources through strengthened marketing functions and active telemarketing, (2) improving service quality, (3) maximizing customer satisfaction, and (4) fostering superior human resources.

Lottery Businesses

As a lottery issuer entrusted by the government to conduct ticket sales, marketing, advertisement and sales network management related to the issuance of Lotto and Housing Lottery, KB maintains the leadership position in the domestic lottery industry. The Housing Lottery, Internet electronic lottery, and Lotto were initiated in September 1969, September 2001 and December 2002, respectively.

In response to the changes in the environment surrounding the lottery business in Korea, including lowering of Lotto ticket prices (from KRW 2,000 to KRW 1,000 per ticket) and trust fee rates (from 2.0% to 1.6% of sales amount) based on government policies pursuant to the enforcement of the Lottery and Lottery Fund Act in April 2004, KB has expanded the sales network and promotional activities as part of KB's project to establish the foundations for a stable growth of its Lotto business. This has resulted in KB being able to achieve sales of KRW 3.3 trillion in Lotto ticket sales and to expand its domestic market share from 90% in 2003 to 95% in 2004.



With tighter government regulations, including the prohibition of Lotto ticket sales in KB branches and the readjustment of management fees, KB plans to pursue capacity strengthening projects for renewed growth based on its prominent know-how in the lottery business by actively responding to such changes in the market environment. As part of these projects, KB will establish an Internet lottery ticket issuance system for securing low cost sales channels. KB also plans to pursue simplified work projects for non-core work scopes so as to overcome the high cost structure of managing the housing lottery business.

Custody

KB manages the largest trustee business in Korea, managing over 1,700 funds from 150 customers, including asset management companies and various outsourcing companies. KB solidified its position as the leading custody bank in Korea in the investment trust business with a trust asset of KRW 55 trillion, which represents 30% of market share as of the end of 2004. Furthermore, KB established itself as a leading investor's service bank with assets of approximately KRW 20 trillion in the fund administration business, a KRW 9 trillion increase from 2003.

In 2004, a new milestone in the development of the capital market in Korea was established with the full enforcement of the new Indirect Investment Asset Management Business Act. In direct response to the new Act, KB initiated various activities to become a world-class custody bank. First, in order to secure KB's competitiveness as the market leader and to achieve market recognition and trust through enhanced business efficiencies, KB successfully met necessary human resources and physical requirements stipulated by the law and established the latest computerized system. KB has also systematically restructured the operation process of its trust business to global standards by (1) reacquiring the ISO 9001 certification from Societe Generale Surveillance (SGS), a world-renowned certification organization in the U.K., (2) applying the best practice concept in the investment trust

business, and (3) reinforcing its internal control system.

Second, as a new growth momentum, KB expanded its share in the new products and business areas, by making timely analysis and strategic marketing activities including, variable insurance funds, funds of funds and funds for special assets, as well as continuously upgrading its trust management system. As a result, KB was able to achieve excellent performance in the new trust product market area. KB achieved approximately KRW 1.3 trillion in new product and new market trusts that constitute 40~65% of the total custody market by considerable expansion in various insurances, overseas investments, and fund of trust funds.

Third, to advance into the global custody market, KB organized a global network with prominent global banks, and through this global network, KB was able to act as the No. 1. custodian bank in a diverse number of overseas investment assets like the U.S., Japan, Europe and China. As of the end of 2004, KB recorded a 35% market share of the overseas custody market. The good reputation is built on KB's experienced professionals and improved customer services with its unique IT system (Referred to as "Star Focs").

As KB set up a strong foundation as a leading player in the custody industry, by achieving its outstanding competitiveness, and successfully maintaining market dominance, its custody business has been recognized widely as a promising profit center within the Bank.

To further develop the custody business, KB will implement strategic marketing activities based on a mid-to-long-term plan. The key business strategy for 2005 is to further solidify KB's dominant position as the market leader through (1) a significant increase in asset size under its trust, and (2) an aggressive acceptance of new corporate pension trusts when its market opens in the second half, and (3) continued expansion of fund administration business through enhanced competitiveness.

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Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

EXECUTIVE SUMMARY

On September 30, 2003, Kookmin Bank (KB) merged with Kookmin Credit Card Co., one of its major subsidiaries. However, for comparative purposes only, KB has included the pro-forma figures for the year 2003 that have been derived from pro-forma financial statements.

Accounting policy with respect to the gain or loss on the sale of loans was changed in 2004. According to such policy, the gain or loss on the sale of loans is computed by comparing the sale proceeds against its book value as of the year end immediately preceding the date of sale. However, in this presentation, we did not reflect the policy change in order to ease the reader's comparative analysis.

Accounting policy with respect to the private funds in which KB holds interest in the form of wholly-owned beneficiary certificates, or WOBCs, was changed in April 2005. Before the change, unrealized gain or loss on WOBCs was recognized as non-interest income from beneficiary certificates in the income statement. However, it should be recognized as a capital adjustment in the owner's equity section of the balance sheet after the change. Therefore, KB adjusted the related figures in the financial statements of 2004 according to the changed accounting policy, and such figures are subject to change as the result of review by KB's independent auditor. The financial statements for the years 2002 and 2003, respectively, do not require adjustment because unrealized gain or loss on WOBCs was already reflected as a capital adjustment for those periods.

KB achieved a turnaround in profit in 2004, mainly due to the diversification in profit sources and improvement in asset quality. This was a major achievement despite the decline in interest rates and deposits & loans, and unstable economic conditions. Provision for loan losses declined with the improvement in asset quality through strict credit management and stable fund operations. This significantly added to the turnaround in profits.

Net interest income decreased 6.9% from KRW 6,476 billion to KRW 6,029 billion in 2004 as interest rates had declined. Even with the decline in market interest rates, KB was able to maintain a net interest margin of 3.62%, a marginal decline of 18 basis points from 3.80% in 2003 as appropriately respond to the changing financial market environment. On the other hand, non-interest income fell by 12.4% or KRW 249 billion from KRW 2,012 billion in 2003 to KRW 1,763 billion in 2004. General & administrative expenses fell for the second consecutive year on the back of bank-wide efforts to reduce costs. This resulted in enhanced cost efficiencies with cost-income ratio improving from 37.9% in 2003 to 35.6% in 2004. More significant is that KB posted positive operating income of KRW 415 billion in comparison with operating loss of KRW 1,175 billion in 2003, since provision expenses decreased by KRW 2,086 billion or 31.1%. This stems from KB's continued efforts in strengthening asset quality. In turn, net income increased to KRW 361 billion from a net loss in 2003.

KB focused on enhancing profitability and improving asset quality and thus total loans and assets decreased by 3.8% and 2.3% from 2003 to KRW 136 trillion and KRW 180 trillion in 2004, respectively. Total deposit recorded KRW 127 trillion down by 3.9% over the previous year due to market interest rate decrease. Total shareholders' equity increased approximately KRW 1 trillion to KRW 9 trillion in 2004 mainly from a substantial profit turnaround.

Net income totaled KRW 361 billion on the back of the successful turnaround in operating profitability caused by the reduction in general & administrative expenses and fall in provision expenses. In accordance with profit turnaround, ROE and ROA recorded 4.02% and 0.20% in 2004, respectively.

BIS capital adequacy ratio (CAR) was 11.01% in 2004, an increase of 1.20%p from 9.81% in 2003. Tier I capital ratio increased to 6.67% in 2004 from 6.03 % in 2003. The rise of BIS CAR in 2004 mainly stems from stable asset management efforts, net income of KRW 361 billion and increase in subordinated debts of KRW 447 billion. In addition, KB continued to maintain the superior credit ratings within the Korean financial industry; Moody's A3 (Stable), Standard & Poor's BBB+ (Stable) and Fitch A- (Stable).



Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

Non-performing loans ratio (NPL ratio) improved to 2.64% in 2004 from 3.59% in 2003 by significantly enhancing credit management. NPL coverage ratio increased to 87.6% in 2004 from 73.4% in the previous year, enhancing KB's future profit generating platform.

OPERATING RESULTS

Income Statement Summary

(KRW in billions)	2004	2003	Change	
			Amounts	%
Net interest income	6,029	6,476	(447)	-6.9%
Non-interest income	1,763	2,012	(249)	-12.4%
General & administrative expenses	2,759	2,960	(201)	-6.8%
Operating income before provisioning	5,033	5,529	(496)	-9.0%
Provision expenses	4,618	6,704	(2,086)	-31.1%
(Provision for loan losses)	4,394	6,004	(1,610)	-26.8%
Operating income	415	(1,175)	1,590	n.a.
Non-operating income	215	201	14	7.0%
Net income before taxes	630	(975)	1,605	n.a.
Taxes	269	(334)	603	n.a.
Net income	361	(641)	1,002	n.a.

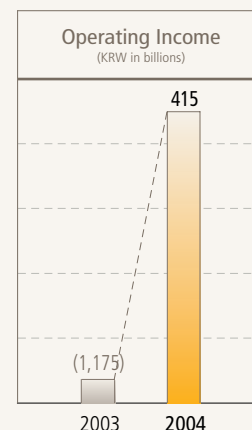
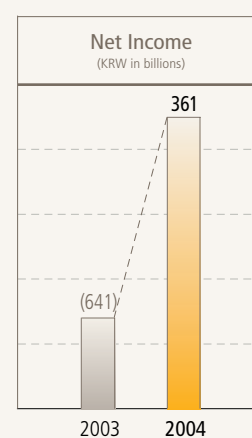
Note: Assuming the accounting policy change in the loss on sales of loans for 2004, K-GAAP figures are as follows: provision expenses KRW 3,292 billion, provision for loan losses KRW 3,068 billion, operating income KRW 1,740 billion, negative non-operating income KRW 1,110 billion

Net income turned positive at KRW 361 billion over the previous year's negative figure. This was mainly due to the decrease in provision expenses, as a result of continued efforts in asset quality improvements.

Net interest income in 2004 fell slightly over the previous year by 6.9% to KRW 6,029 billion due to the decrease in loan assets and downward pressure in net interest margin (NIM). Non-interest income decreased 12.4% to KRW 1,763 billion mainly due to reflection of changes in accounting treatment of wholly-owned beneficiary certificates. However, fee income related to Bancassurance and beneficiary certificates significantly increased compared to 2003.

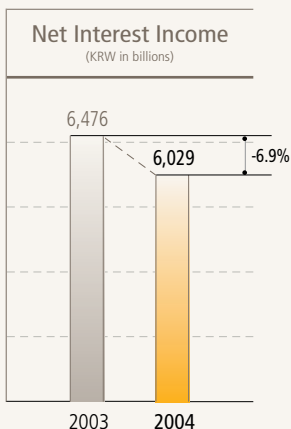
Bank-wide restructuring and cost reduction measures allowed general and administrative expenses fall by 6.8%, resulting in improved operating and cost efficiencies. Nonetheless, operating income before provisioning decreased 9.0% to KRW 5,033 billion in 2004 over the previous year due to decrease in net interest income.

Since provision expenses decreased by KRW 2,086 billion, a 31.1% decrease over the previous year, KB posted operating income of KRW 415 billion in 2004.



Management's Discussion & Analysis

Year ended December 31, 2004 and 2003



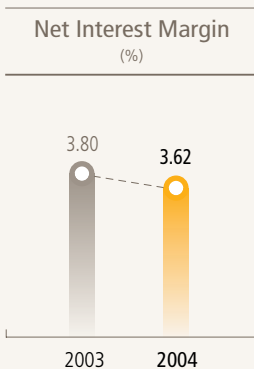
Net Interest Income

(KRW in billions)	2004	2003	Change	
			Amounts	%
Interest income	11,441	12,848	(1,407)	-11.0%
Interest on loans	10,280	11,221	(941)	-8.4%
Interest on securities	1,046	1,517	(471)	-31.0%
Interest on due from bank, etc.	115	110	5	4.1%
Interest expenses	5,412	6,372	(960)	-15.1%
Interest on deposits	3,909	4,280	(371)	-8.7%
Interest on debentures	1,116	1,436	(320)	-22.3%
Interest on borrowings, etc.	387	656	(269)	-41.0%
Net interest income	6,029	6,476	(447)	-6.9%
Net interest margin (NIM, %)	3.62	3.80		-0.18%p

Net interest income decreased 6.9% from KRW 6,476 billion to KRW 6,029 billion. Although both interest income and interest expenses decreased due to the prolonged low interest rate, interest income was affected more due to decrease in new loans as a result of KB's strategic focus on asset quality through stricter credit management.

Interest income fell by 11.0% or KRW 1,407 billion over 2003, posting KRW 11,441 billion. Compared to 2003, interest on loans, which comprises most of the interest income, declined 8.4% to KRW 10,280 billion due to decrease in interest rates and decrease in loans. Interest on securities also dropped 31.0% to KRW 1,046 billion.

On the other hand, interest expenses declined by 15.1% or KRW 960 billion from 2003, reaching KRW 5,412 billion. Interest on deposits, accounting for the largest portion of interest expenses, recorded KRW 3,909 billion, a decrease of 8.7% over 2003 as a result of a fall in interest rates and decrease in deposits. In addition, interest on debentures also fell by 22.3% to KRW 1,116 billion in 2004 due to lower interest rates, while interest on borrowings decreased by 41.0% to KRW 387 billion. Affected by the decline in market interest rates and decrease in credit card receivables, net interest margin decreased by a mere 18 basis points to 3.62% in 2004 from 3.80% in 2003.

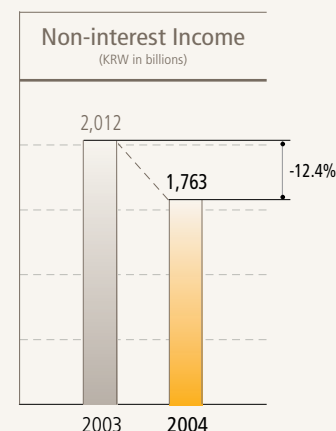


Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

Non-interest Income

(KRW in billions)	2004	2003	Change	
			Amounts	%
Trust income	118	248	(130)	-52.4%
Commissions on credit card	813	915	(102)	-11.1%
Commissions from NHF management	161	175	(14)	-8.0%
Commissions in Won	706	666	40	6.0%
Commissions in foreign currencies	55	41	14	35.0%
Other income	(90)	(31)	(59)	n.a.
Gain on securities	158	228	(70)	-30.6%
Gain (loss) on trading of foreign exchange	(48)	97	(145)	-150.1%
Gain on derivatives	214	63	151	239.7%
Deposit insurance premium & others	(414)	(419)	5	n.a.
Non-interest income	1,763	2,012	(249)	-12.4%



Non-interest income fell by 12.4% or KRW 249 billion from KRW 2,012 billion in 2003 to KRW 1,763 billion. This can mainly be attributed to the decline in trust income, commissions on credit card, and other income, despite the rise of commissions in Won and foreign currencies.

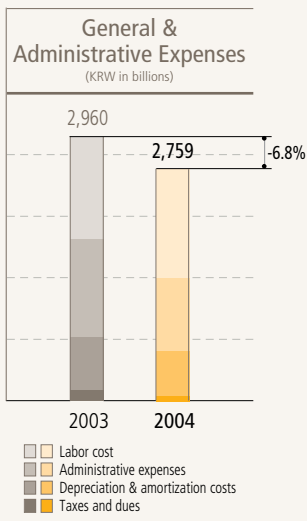
Trust income halved, declining to KRW 118 billion as a result of the revised laws and regulations related to trust business of banks. Commissions on credit card also were decreased by 11.1% to KRW 813 billion owing to the sluggish domestic economy and reduction of credit card assets in an effort to enhance asset quality. In addition, commissions from NHF management showed a downward trend due to two new market entrants, the National Agricultural Cooperative Federation and Woori Bank. However, since KB still holds the dominant position, the rate of decline has slowed down, allowing for an 8.0% decrease in 2004 to KRW 161 billion in commissions from NHF management.

Commissions in Won totaled KRW 706 billion, increasing 6.0%, due to the significant rise in commissions related to Bancassurances and beneficiary certificates. KB solidified its position as the No. 1 financial institution in Korean Bancassurance market, utilizing its nationwide branch network and marketing capabilities. KB also significantly led other financial institutions in beneficiary certificate sales. Commissions in foreign currencies increased 35.0% to KRW 55 billion, while other non-interest income posted a negative KRW 90 billion, as gain on securities and trading of foreign exchange decreases considerably.

Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

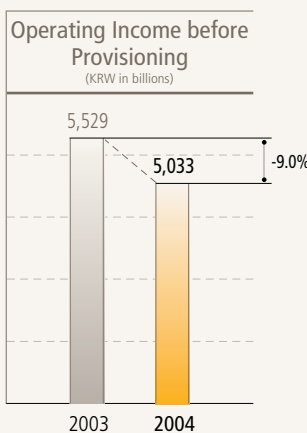
General & Administrative Expenses



(KRW in billions)	2004	2003	Change	
			Amounts	%
General and administrative expenses	2,759	2,960	(201)	-6.8%
Labor cost	1,322	1,341	(20)	-1.5%
Administrative expenses	919	986	(66)	-6.7%
Depreciation and amortization cost	415	517	(102)	-19.7%
Taxes and dues	102	116	(14)	-11.8%
Cost-income ratio (%)	35.6%	37.9%	-2.3%p	

General and administrative expenses fell for the second consecutive year on the back of bank-wide efforts to reduce costs. Labor cost edged down by 1.5% to KRW 1,322 billion, while administrative expenses fell 6.7% to KRW 919 billion as a result of the improvement in management efficiencies. General and administrative expenses decreased 6.8% or KRW 201 billion over the previous year from KRW 2,960 billion in 2003 to KRW 2,759 billion in 2004 as depreciation and amortization cost, and taxes and dues decreased by 19.7% and 11.8%, respectively. Cost-income ratio also improved, falling 2.3%p over 2003 to 35.6%, through diversification of revenue sources and improvement of operating and cost efficiencies.

Operating Income before Provisioning



(KRW in billions)	2004	2003	Change	
			Amounts	%
Operating income before provisioning	5,033	5,529	(496)	-9.0%
Provision expenses	4,618	6,704	(2,086)	-31.1%
Provision for loan losses	4,394	6,004	(1,610)	-26.8%
Household	1,451	1,012	438	43.3%
Credit card	1,895	4,014	(2,119)	-52.8%
Corporate	1,049	978	71	7.2%
Others	224	700	(476)	-68.0%
Operating income	415	(1,175)	1,590	n.a.

Operating income before provisioning remained stable at KRW 5,033 billion in 2004, with a decrease of 9.0% over the previous year due to the fall in net interest income. Provision expenses declined by 31.1% from the previous year to KRW 4,618 billion in 2004 as a result of credit card provision expenses falling by 52.8%, despite increases in household and corporate provisions from 2003. Accordingly, we have been able to achieve a turnaround in operating income.

In 2004, KB took a prudent stance towards its provisioning so as to improve asset quality. In particular, household and corporate provision expenses increased 43.3% and 7.2%, respectively, to KRW 1,451 billion and KRW 1,049 billion despite the decrease in NPLs. Meanwhile, credit card provision expenses plummeted by 52.8% or KRW 2,119 billion over 2003 to KRW 1,895 billion due to the reduction of credit card NPLs. Accordingly, provision for loan losses decreased by 26.8% to KRW 4,394 billion in 2004 from KRW 6,004 billion in 2003.

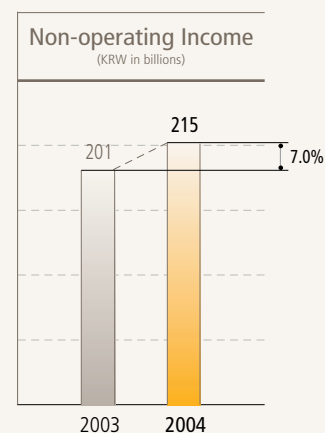
Management's Discussion & Analysis

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As a result, operating income in 2004 recorded a profit of KRW 415 billion from a loss of KRW 1,175 billion in the previous year. KB improved the NPL coverage ratio by significantly enhancing credit management capabilities, while also reinforcing overall asset quality and future profit momentum through increased coverage ratio.

Non-operating Income

(KRW in billions)	2004	2003	Change	
			Amounts	%
Non-operating income	215	201	14	7.0%
Gain or loss on disposal of fixed assets	13	(33)	46	n.a.
Gain or loss on sale of loans	166	(31)	197	n.a.
Gain on investment securities	49	388	(339)	-87.3%
Subsidiaries	(5)	30	(35)	-116.9%
Disposal of investment securities	136	494	(358)	-72.5%
Impairment loss on investment securities	(82)	(135)	53	n.a.
Others	(13)	(124)	111	n.a.



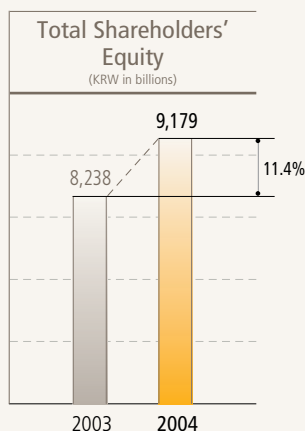
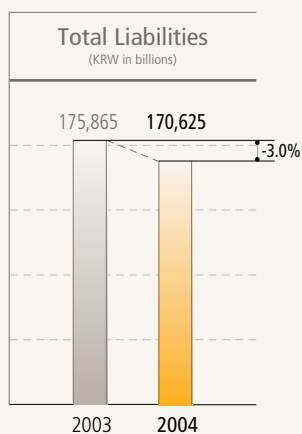
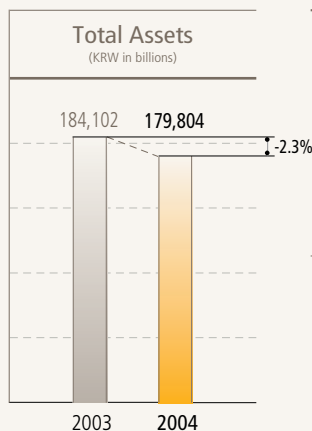
Non-operating income totaled KRW 215 billion, an increase of 7.0% over 2003, as gain on sales of loans and disposal of fixed assets increased significantly. Gain on sales of loans and disposal of fixed assets turned positive to KRW 166 billion and KRW 13 billion in 2004 from a loss of KRW 31 billion and KRW 33 billion in 2003, respectively. Despite the reduction in gain on investment securities from KRW 494 billion in 2003 to KRW 136 billion in 2004, non-operating income increased by KRW 14 billion.

Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

FINANCIAL STATUS

Balance Sheet Summary



(KRW in billions)	2004	2003	Change	
			Amounts	%
Total assets	179,804	184,102	(4,298)	-2.3%
Cash & due from banks	5,140	6,526	(1,386)	-21.2%
Securities	27,965	26,909	1,056	3.9%
Loans	135,769	141,139	(5,370)	-3.8%
Fixed assets	2,633	3,020	(387)	-12.8%
Other assets	8,297	6,509	1,788	27.5%
Total liabilities	170,625	175,865	(5,240)	-3.0%
Deposits	127,011	132,180	(5,169)	-3.9%
Borrowings	9,634	10,903	(1,269)	-11.6%
Debentures	21,875	19,193	2,682	14.0%
Other liabilities	12,105	13,589	(1,484)	-10.9%
Total shareholders' equity	9,179	8,238	941	11.4%
Total liabilities & shareholders' equity	179,804	184,102	(4,298)	-2.3%

Total assets declined by 2.3% to KRW 179,804 billion as a result of decrease in loans due to prudent fund management for asset quality improvement. KB diversified its funding sources by issuing bank debentures to actively respond to market environment changes, such as the deposit decrease due to falling market interest rates. Total liabilities decreased by 3.0% to post KRW 170,625 billion. Meanwhile, total shareholders' equity increased by 11.4% mainly on the back of a turnaround in net income and increase in subordinated bonds.

Loan Portfolio

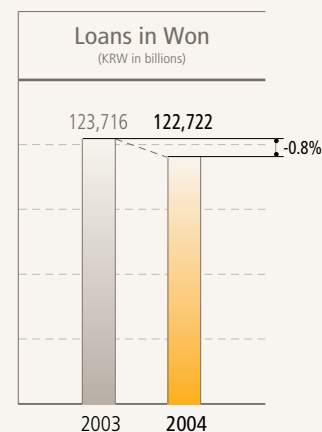
(KRW in billions)	2004	2003	Change	
			Amounts	%
Loans in Won	122,722	123,716	(994)	-0.8%
Household loans	84,037	81,151	2,887	3.6%
Mortgage loans	41,339	38,324	3,015	7.9%
General loans	42,698	42,827	(129)	-0.3%
Corporate loans	38,685	42,565	(3,880)	-9.1%
SME loans	35,128	38,250	(3,122)	-8.2%
Large loans & etc.	3,557	4,315	(758)	-17.6%
Loans in foreign currency	3,861	4,020	(159)	-4.0%
Credit card receivables	7,644	11,665	(4,021)	-34.5%
Credit sales	2,895	3,982	(1,087)	-27.3%
Cash advance	2,605	3,064	(459)	-15.0%
Card loan	1,375	3,158	(1,783)	-56.5%
Others	770	1,462	(692)	-47.4%
Other loans	1,543	1,738	(196)	-11.2%
Total loans	135,769	141,139	(5,370)	-3.8%

Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

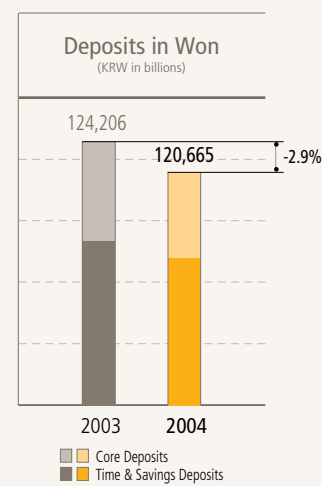
Total loans in 2004 decreased 3.8% to KRW 135,769 billion from KRW 141,139 billion in 2003 due to the curtailment in corporate loans as well as credit card receivables.

Corporate loans recorded KRW 38,685 billion, decreasing by 9.1% over the previous year to focus on the improvement of its asset quality through readjustment of loan portfolio. SME and large corporate loans decreased by 8.2% and 17.6% from 2003, respectively. Meanwhile, household loans increased by 3.6% from the previous year to KRW 84,037 billion on the back of growth in Mortgage Loans of 7.9%. Accordingly, loans in Won remained relatively stable, decreasing only slightly to KRW 122,722 billion amidst continued increase in the portion of household loans. Loans in foreign currency totaled KRW 3,861 billion, a decrease of 4.0% over 2003. Affected by the sluggish domestic consumption and decline in credit card sales and loans, credit card receivables fell by 34.5% or KRW 4,021 billion over 2003 to post KRW 7,644 billion in 2004.



Deposit Composition

(KRW in billions)	2004	2003	Change	
			Amounts	%
Deposits in Won	120,665	124,206	(3,541)	-2.9%
Core deposits	40,818	43,554	(2,737)	-6.3%
Pass book deposits	10,768	10,001	767	7.7%
General savings deposits	19,121	21,644	(2,523)	-11.7%
Corporate free savings deposits	7,358	7,800	(442)	-5.7%
Others	3,571	4,109	(538)	-13.1%
Time & savings deposits	79,847	80,651	(804)	-1.0%
Time deposits	62,835	62,248	587	0.9%
Mutual installment deposits	11,602	12,479	(876)	-7.0%
Others	5,410	5,925	(515)	-8.7%
Deposits in foreign currency	1,434	1,475	(41)	-2.8%
Certificates of deposit	4,912	6,499	(1,587)	-24.4%
Total deposits	127,011	132,180	(5,170)	-3.9%
Total debentures	21,875	19,193	2,682	14.0%



Deposits in Won recorded KRW 120,665 billion, falling 2.9% in comparison to 2003, as a result of the depositors' preference towards other financial products which offer higher returns. In particular, core deposits decreased by 6.3% to KRW 40,818 billion, which was the primary factor in the overall decline in deposits. However, time and savings deposits remained relatively stable at KRW 79,847 billion in 2004. Deposits in foreign currency fell by 2.8% to KRW 1,434 billion, while certificates of deposit balance decreased by 24.4% to record KRW 4,912 billion. Accordingly, total deposits in 2004 decreased 3.9% to KRW 127,011 billion.

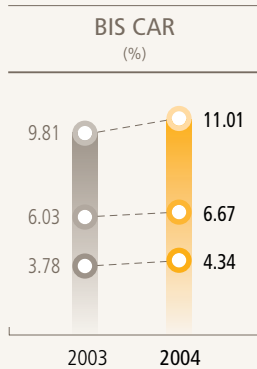
Meanwhile, to diversify the funding source, KB increased its debentures by KRW 2,682 billion, or 14.0%, to KRW 21,875 billion compared to 2003.

Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

CAPITAL ADEQUACY

BIS Capital Adequacy Ratio (CAR)



(KRW in billions)	2004	2003	Change	
			Amounts	%
Tier I capital	8,077	7,681	395	5.1%
Paid in capital	1,682	1,682	0	-
Capital reserves	6,061	6,060	1	-
Retained earnings	1,897	1,536	362	23.5%
Treasury stock	(1,322)	(1,328)	6	n.a.
others	(241)	(268)	27	n.a.
Supplementary (Tier II capital)	5,901	5,187	714	13.8%
Revaluation reserves	177	177	0	-
Provisions	1,435	1,468	(33)	-2.3%
45% of securities revaluation gain	270	68	201	294.4%
Subordinated term debt	3,481	3,034	447	14.7%
others	537	439	98	22.3%
(Adjusting item on Tier II capital)	(643)	(369)	(274)	n.a.
Total BIS capital	13,335	12,500	835	6.7%
Risk weighted assets	121,082	127,370	(6,289)	-4.9%
Balance sheet assets	115,969	122,054	(6,085)	-5.0%
Off-balance sheet assets	5,113	5,316	(204)	-3.8%
BIS CAR	11.01%	9.81%	1.20%p	
Tier I	6.67%	6.03%	0.64%p	
Tier II	4.34%	3.78%	0.56%p	

The BIS capital adequacy ratio (CAR) at the end of 2004 was 11.01%, an increase of 1.20%p over the previous year. Through KB's efforts for stable asset management, its asset quality improved in line with a net income of KRW 361 billion and an increase in subordinated debts of KRW 447 billion.

KB's risk weighted asset in 2004 recorded KRW 121,079 billion, a 4.9% decrease of KRW 6,291 billion, from KRW 127,370 billion in 2003. Main reason for the decrease is the reduction of credit lines for investment securities, credit cards, corporate loans, and ABS.

As of the end of 2004, KB's Tier I capital ratio and Tier II capital ratio recorded a 0.64%p and 0.56%p increase from 6.03% and 3.78% in 2003 to 6.67% and 4.34%, respectively.



Management's Discussion & Analysis

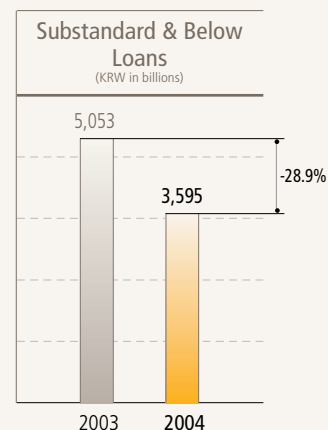
Year ended December 31, 2004 and 2003

ASSET QUALITY

Overview

(KRW in billions)	2004	2003	Change	
			Amounts	%
Total loans for NPL management	136,318	140,769	(4,451)	-3.2%
Normal	126,597	127,905	(1,308)	-1.0%
Precautionary	6,126	7,810	(1,684)	-21.6%
Substandard	1,776	2,427	(650)	-26.8%
Doubtful	1,399	2,161	(762)	-35.3%
Estimated loss	420	466	(46)	-9.9%
Substandard & below loans	3,595	5,053	(1,458)	-28.9%
Substandard & below loans ratio (NPL ratio)	2.64%	3.59%	-0.95%p	
Loan loss reserves (LLR)	3,150	3,707	(557)	-15.0%
NPL coverage ratio	87.6%	73.4%	14.2%p	
Delinquency ratio	2.67%	3.22%	-0.55%p	
Write-offs	5,268	6,386 ¹⁾	(1,118)	-17.5%

1) Includes KCC figures



Along the Financial Supervisory Service (FSS) guidelines, KB classified its credit exposures into five categories on the basis of financial transaction records and its management policies: normal, precautionary, substandard, doubtful, and estimated loss.

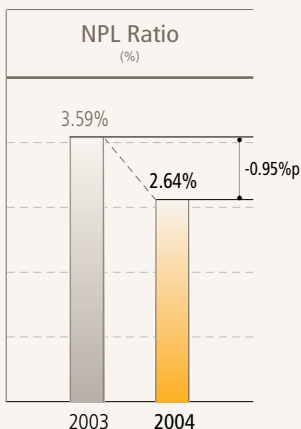
KB's credit policy in 2004 focused on asset quality improvements rather than increasing assets. Total loans for NPL management in 2004 decreased 3.2%, while normal loans slightly fell by 1.0% to KRW 126,597 billion. Precautionary loans, substandard loans, doubtful loans and estimated loss all declined by 21.6%, 26.8%, 35.3% and 9.9% over the previous year, respectively, to KRW 6,126 billion, KRW 1,776 billion, KRW 1,399 billion and KRW 420 billion. As a result, substandard and below loans fell by 28.9% to KRW 3,595 billion, while the NPL ratio improved 95 basis points to 2.64% from 3.59% in 2003.

With the decrease in substandard and below loans and prudent provisioning, loan loss reserves decreased by 15.0% to KRW 3,150 billion and NPL coverage ratio reached 87.6%, increasing 14.2%p over 2003. Meanwhile, delinquency ratio improved by 55 basis points from 3.22% in 2003 to 2.67% in 2004, while the amount of write-offs decreased 17.5% or KRW 1,118 billion from KRW 6,386 billion in 2003 to KRW 5,268 billion in 2004.

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NPL by Segment

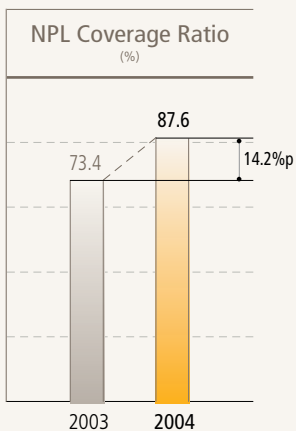


(KRW in billions)	2004		2003		Change	
		NPL Ratio (a)		NPL Ratio (b)		a-b
Household	1,633	1.94%	1,763	2.17%	-7.4%	-0.23%p
General	778	1.81%	1,041	2.42%	-25.3%	-0.61%p
Mortgage	855	2.07%	722	1.88%	18.4%	0.18%p
Corporate	1,615	3.64%	1,906	3.87%	-15.3%	-0.24%p
SME	1,508	3.94%	1,695	4.06%	-11.0%	-0.12%p
Large	107	1.75%	212	2.83%	-49.6%	-1.08%p
Credit card	348	4.55%	1,384	13.50%	-74.9%	-8.95%p
Total	3,595	2.64%	5,053	3.59%	-28.9%	-0.95%p

With the readjustment of the credit management system for enhancing asset quality, non-performing loans (NPLs) decreased in the overall loan sector, excluding household mortgage loans. Alongside the decrease, NPL ratio significantly improved. NPLs decline trends in the credit card sector were notable.

In the household sector, NPLs dropped 7.4% over 2003 to KRW 1,633 billion, while NPL ratio improved by 23 basis points to 1.94%. Corporate NPLs decreased by 15.3% over 2003 to KRW 1,615 billion with NPL ratio improving by 24 basis points to 3.64%. In particular, large corporate NPLs almost halved so as to record a NPL ratio of 1.75%, a decrease of 1.08%p from the previous year. In addition, credit card NPLs decreased by 74.9% to KRW 348 billion, which, in turn, significantly improved credit card NPL ratio by 8.95%p from 13.50% in 2003 to 4.55% in 2004.

Provisions



(KRW in billions)	2004		2003		Change	
		Coverage Ratio (a)		Coverage Ratio (b)		a-b
Household	1,539	94.3%	1,354	76.8%	13.7%	17.5%p
General	867	111.4%	838	80.5%	3.4%	30.9%p
Mortgage	672	78.7%	516	71.5%	30.3%	7.2%p
Corporate	1,218	75.4%	1,165	61.1%	4.5%	14.3%p
SME	1,065	70.7%	859	50.7%	24.0%	19.9%p
Large	153	143.1%	306	144.5%	-50.1%	-1.5%p
Credit card	393	113.0%	1,188	85.8%	-66.9%	27.2%p
Total	3,150	87.6%	3,707	73.4%	-15.0%	14.2%p

KB's provisions fell by 15.0% due to the significant decrease in NPLs of the credit card sector. Credit card NPL coverage ratio increased by 27.2%p from 2003 to 113.0% in 2004. Household and corporate NPL coverage ratio improved from 76.8% and 61.1% in 2003 to 94.3% and 75.4% in 2004, respectively. With this, overall NPL coverage ratio increased

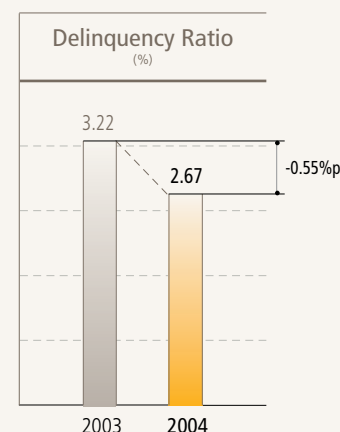
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by 14.2%p over the previous year to 87.6% in 2004. KB solidified future earnings momentum through substantial improvement of NPL coverage ratios in most sectors such as credit card, general household and SME loans.

Delinquency

(KRW in billions)	2004		2003		Change	
	Delinquency Ratio (a)	Delinquency Ratio (b)	Delinquency Ratio (a)	Delinquency Ratio (b)	a-b	
Household	2,118	2.51%	1,905	2.34%	11.2%	0.17%p
General	609	1.42%	752	1.75%	-19.0%	-0.33%p
Mortgage	1,509	3.65%	1,153	3.01%	30.8%	0.64%p
Corporate	1,102	2.54%	1,349	2.79%	-18.4%	-0.25%p
SME	1,094	2.91%	1,330	3.23%	-17.7%	-0.32%p
Large	8	0.13%	19	0.26%	-60.9%	-0.14%p
Credit card	397	5.19%	1,255	12.24%	-68.3%	-7.04%p
Total	3,617	2.67%	4,509	3.22%	-19.8%	-0.55%p



Delinquent loans in the household sector increased 11.2% to KRW 2,118 billion in 2004, resulting in the rise in delinquency ratio by 17 basis points to 2.51% due to continued workout programs. However, the delinquency ratio in both the corporate and credit card sectors improved considerably. In the corporate sector, delinquent loans fell by 18.4% to KRW 1,102 billion over the previous year, and delinquency ratio improved by 25 basis points to 2.54%. The credit card delinquency ratio decreased significantly by 7.04%p to 5.19% in 2004 from 12.24% in 2003. As a result, KB's delinquent loans fell by 19.8% to KRW 3,617 billion, while delinquency ratio improved by 55 basis points to record 2.67% over the previous year. Such improvements are the result of KB's continued loan collection efforts.

ACCOUNTING POLICY CHANGES FOR THE TREATMENT OF WOBC

Income Statement Summary

(KRW in billions)	2004 (after)	2003 (before)	Change	
			Amounts	%
Net interest income	6,029	6,030	(1)	-
Non-interest income	1,763	2,110	(348)	-16.5%
General & administrative Expenses	2,759	2,759	-	-
Operating income before provisioning	5,033	5,382	(349)	-6.5%
Provision expenses	4,618	4,618	-	-
Operating income	415	763	(348)	-45.7%
Non-operating income	(215)	(135)	80	59.3%
Net income before taxes	630	899	(269)	-29.9%
Taxes	269	343	(74)	-21.5%
Net income	361	555	(195)	-35.1%

Management's Discussion & Analysis

Year ended December 31, 2004 and 2003

Balance Sheet Summary

(KRW in billions)	2004 (after)	2003 (before)	Change	
			Amounts	%
Total assets	179,804	179,727	77	-
Cash & due from banks	5,140	5,178	(38)	-0.7%
Securities	27,965	27,599	367	1.3%
Loans	135,769	136,034	(265)	-0.2%
Fixed assets	2,633	2,633	-	-
Other assets	8,296	8,283	13	0.2%
Total liabilities	170,625	170,623	3	-
Deposits	127,011	127,011	-	-
Borrowings	9,634	9,634	-	-
Debentures	21,875	21,868	7	-
Other liabilities	12,106	12,110	(4)	-
Total shareholders' equity	9,179	9,105	74	0.8%
Total liabilities & shareholders' equity	179,804	179,727	77	-

Shareholders' Equity

(KRW in billions)	2004 (after)	2003 (before)	Change	
			Amounts	%
Paid-in capital	1,682	1,682	-	-
Capital surplus	6,231	6,231	-	-
Retained earnings	1,847	2,042	(195)	-9.5%
Reserves	1,662	1,662	-	-
Unappropriated retained earnings	185	380	(195)	-51.3%
(Net income)	361	555	(195)	-35.1%
Capital adjustment	(581)	(850)	269	n.a.
Treasury stock	(1,322)	(1,322)	-	-
Gain on valuation of investment securities	713	445	269	60.4%
Stock option	28	28	-	-
Total shareholders' equity	9,179	9,105	74	0.8%

Report of Independent Auditors

December 31, 2004 and 2003

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS 

Samil PricewaterhouseCoopers

Kukje Center Building
191 Hankangro 2ga, Yongsangu
Seoul 140-702, KOREA
(Yongsan P.O. Box 266, 140-600)

To the Board of Directors and Shareholders of Kookmin Bank

We have audited the accompanying non-consolidated balance sheets of Kookmin Bank ("the Bank") as of December 31, 2004 and 2003, and the related non-consolidated statements of operations, appropriations of retained earnings (dispositions of accumulated deficit) and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company'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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kookmin Bank as of December 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings (accumulated deficit), and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 38 to the non-consolidated financial statements, the Bank restated its non-consolidated financial statements as of and for the year ended December 31, 2003 to correct, as instructed by the Securities and Futures Commission, the overstatement of unrealized loss on investment in associates amounting to 27,159 million, the understatement of provision for other allowances amounting to 213,157 million and the overstatement of income tax expenses amounting to 63,308 million. Accordingly, the financial statements as of and for the year ended December 31, 2003 included in the audit report dated March 3, 2004, are no longer effective, as they do not reflect the above restatements.

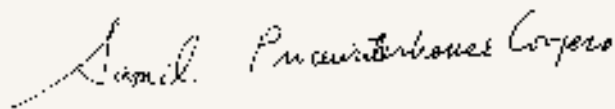
As discussed in Note 33 to the non-consolidated financial statements, on May 30, 2003, the Bank obtained approval from the Board of Directors to enter into a merger agreement with Kookmin Credit Card Co., Ltd. (the "Subsidiary"), its majority-owned subsidiary. According to the resolution of the Board of Directors, the Bank merged with the Subsidiary on September 30, 2003. The merger was effected through an exchange of shares with the minority shareholders of the Subsidiary as of July 24, 2003 receiving 0.442983 share of the Bank's common stock for each share of the Subsidiary.

As discussed in Note 20 to the non-consolidated financial statements, in accordance with the resolution made by the Board of Directors on December 17, 2003, the Bank acquired 27,423,761 of its own shares previously owned by the Korean government at 43,700 per share through public bidding and intends to sell these shares of treasury stock depending on certain market conditions.

As discussed in Note 4 and Note 38 to the non-consolidated financial statements, on April 29, 2004, as a means to venture into the insurance business for diversification of revenues, the Bank invested 30,246 million (including acquisition costs) to acquire a 100% ownership of KB Life Insurance Co., Ltd., which was founded to acquire the assets and the liabilities of Hanil Life Insurance Co., Ltd. On January 25, 2005, the Bank sold 49% of its ownership of KB Life Insurance Co., Ltd. to ING Insurance International B.V. at 14,821 million.

As discussed in Note 2 to the non-consolidated financial statements, the Bank changed its accounting on its sale of loans. Previously, the sale proceed of written-off loans was recorded as an adjustment to related allowances and the gain or loss on sale of loans was recognized for non written-off loans for the difference of the book value at the date of sale and the proceeds of the sale. Currently, the sale proceed of written-off loans is not recorded as an adjustment to related allowances but is recorded as the gain or loss on sale of loans and the all gain or loss on sale of loans is calculated by comparing the sale proceeds against its book value on the year end immediately preceding the date of sale. Due to this change, loss on sale of loans increased by 1,183,119 million and gain on sale of loans and allowance for loan losses decreased by 142,531 million and 1,325,650 million, respectively, for the year ended December 31, 2004. The financial statements as of and for the year ended December 31, 2003, presented herein for comparative purposes, were restated to reflect the above changes resulting in an increase in loss on sale of loans by 2,586,725 million, a decrease in gain on sale of loans by 55,216 million and a decrease in allowance for loans losses by 2,641,941 million. Such restatement has no effect on the net assets and the net income (loss) as of and for the year ended December 31, 2003.

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 conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.



Seoul, Korea
February 4, 2005

This report is effective as of February 4, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



Non-Consolidated Balance Sheets

December 31, 2004 and 2003

	(in Millions of Korean won)	
	2004	2003
Assets		
Cash and due from banks (Note 3)	5,177,758	6,526,345
Securities, net (Note 4)	27,598,737	26,908,462
Loans, net (Notes 5 and 6)	136,034,323	141,138,972
Fixed assets, net (Note 7)	2,633,218	3,019,556
Other assets (Note 8)	8,283,148	6,508,855
Total assets	179,727,184	184,102,190
Liabilities and Shareholders' Equity		
Deposits (Note 9)	127,010,534	132,180,272
Borrowings (Note 10)	9,634,296	10,902,800
Debentures (Note 11)	21,867,820	19,192,581
Other liabilities (Note 13)	12,109,893	13,589,031
Total liabilities	170,622,543	175,864,684
Commitments and contingencies (Notes 14 and 16)		
Common stock (5,000 Won par value per share, authorized 1 billion shares and 336,379,116 shares outstanding in 2004) (Notes 1 and 17)	1,681,896	1,681,896
Capital surplus (Note 18)	6,230,738	6,230,738
Retained earnings (Note 19)	2,041,691	1,485,111
Capital adjustments (Note 20)	(849,684)	(1,160,239)
Total shareholders' equity	9,104,641	8,237,506
Total liabilities and shareholders' equity	179,727,184	184,102,190

Non-Consolidated Statements of Operations

Year ended December 31, 2004 and 2003

(in Millions of Korean won
except per share amounts)

	2004	2003
Interest income		
Interest on due from banks	9,995	10,433
Interest on trading securities	151,349	116,142
Interest on available-for-sale securities	534,410	754,605
Interest on held-to-maturity securities	360,188	626,552
Interest on loans	10,279,924	10,018,895
Other interest income	104,967	98,923
	11,440,833	11,625,550
Interest expenses		
Interest on deposits	3,909,204	4,280,290
Interest on borrowings	326,586	410,746
Interest on debentures	1,116,110	1,143,228
Other interest expenses	59,202	68,570
	5,411,102	5,902,834
Net interest income	6,029,731	5,722,716
Provision for loan losses (Note 6)	3,068,248	1,431,181
Net interest income after provision for loan losses	2,961,483	4,291,535
Non-interest income		
Fees & commission income	2,186,741	1,636,171
Dividends on trading securities	3,289	1,633
Dividends on available-for-sale securities	13,452	5,580
Gain on foreign currency transactions	257,039	287,501
Gain on derivatives transactions	4,057,392	1,131,711
Others (Note 22)	2,921,114	882,459
	9,439,027	3,945,055
Non-interest expenses		
Fees and commission expenses	452,174	270,405
General and administrative expenses (Note 23)	2,758,514	2,704,148
Loss on foreign currency transactions	305,448	200,109
Loss on derivatives transactions	3,990,483	1,053,990
Others (Note 22)	2,804,723	1,522,037
	10,311,342	5,750,689
Operating income	2,089,168	2,485,901
Non-operating expenses, net (Note 24)	(1,190,570)	(3,872,661)
Net (loss) income before income tax expense	898,598	(1,386,760)
Income tax (benefit) expense (Note 25)	343,348	(456,404)
Net (loss) income	555,250	(930,356)
Basic (loss) earnings per share (In Korean Won) (Note 26)	1,812	(2,854)
Diluted (loss) earnings per share (In Korean Won) (Note 26)	1,811	(2,854)

Non-Consolidated Statements of Appropriations of Retained Earnings (Dispositions of Accumulated Deficit)

Year ended December 31, 2004 and 2003

(Date of Appropriation : March 18, 2005 for the year ended December 31, 2004 / Date of Disposition : March 23, 2004 for the year ended December 31, 2003)

(in Millions of Korean won)

	2004	2003
Retained earnings (accumulated deficit) before appropriations (dispositions)		
Unappropriated retained earnings carried over from prior year	(176,963)	410
Adjustment on investment in associates (Note 19)	1,614	(1,917)
Net income (loss)	555,250	(930,356)
	379,901	(931,863)
Transfers from voluntary reserve (Note 19)		
Discretionary appropriated retained earnings	220,100	754,900
Appropriated retained earnings for business stabilization	40,760	-
	260,860	754,900
Appropriations (Note 19)		
Legal appropriated retained earnings	55,600	-
Appropriated retained earnings for financial structure improvement	55,600	-
Reserve for losses on sale of treasury stock	359,525	-
Other reserves	1,438	-
Cash dividends (11.0% for common stock in 2004)	168,574	-
	640,737	-
Unappropriated retained earnings carried over to the subsequent year	24	(176,963)

Non-Consolidated Statements of Cash Flows

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Cash flows from operating activities		
Net (loss) income	555,250	(930,356)
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Realized gain on trading securities, net	(78,417)	(71,899)
Unrealized gain on trading securities, net	(26,745)	(70,976)
Gain (loss) on foreign currency transactions, net	48,409	(87,392)
Provision for loan losses	3,068,248	1,431,181
Reversal of losses from guarantees and acceptances	-	(1,209)
Gain on derivatives transactions, net	(66,909)	(77,721)
Gain (loss) on valuation of derivatives, net	(145,561)	18,788
Gain on fair value hedged items, net	(2,175)	(10,715)
Retirement benefits	124,608	109,766
Stock compensation expense	5,101	12,130
Depreciation and amortization	415,289	466,856
Gain (loss) on disposal of fixed assets, net	(12,810)	33,058
Impairment loss on fixed assets, net	19,384	22,228
Realized gain on available-for-sale securities, net	(53,473)	(493,993)
Impairment loss on available-for-sale securities, net	82,272	114,787
Realized gain on held-to-maturity securities, net	(1,514)	(2,771)
Unrealized gain (loss) on investment in associates, net	5,014	(240,711)
Gain on disposal of investment in associates	(1,146)	-
Loss on sale of loans, net	1,159,561	2,673,281
Provision for guarantee allowance	206	-
Provision for other allowance	235,911	213,157
Reversal of loan losses due to merger	-	1,652,264
Gain on operation of beneficiary certificates, net	(384,747)	-
Others, net	(11,886)	22,755
Changes in assets and liabilities resulting from operations		
Accrued income	60,340	118,796
Prepaid expenses	96,625	(255,957)
Deferred tax assets	186,286	(462,618)
Other assets	(2,810)	(166)
Accrued expenses	(138,302)	(593,967)
Unearned income	(33,509)	(28,019)
Withholding taxes	(116,164)	36,095
Other liabilities	(135,243)	587,179
Payment of retirement benefits	(39,107)	(18,637)
Retirement pension funds	(29,975)	(66,349)
Account for agency business	(131,093)	(35,111)
Net cash provided by operating activities	4,650,918	4,063,754

continued;



Non-Consolidated Statements of Cash Flows

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Cash flows from investing activities		
Decrease (increase) in due from banks	947,422	(1,247,467)
Decrease in trading securities	1,337,347	1,336,940
Increase in available-for-sale securities	(841,048)	(1,179,456)
Increase (decrease) in held-to-maturity securities	(248,579)	5,119,423
Acquisition of investment in associates	5,894	(71,295)
Dividend from investment in associates	-	11,392
Decrease (increase) in loans granted, net	337,617	(12,613,037)
Proceeds from disposal of fixed assets	184,885	101,599
Acquisition of fixed assets	(216,150)	(316,890)
Acquisition of intangible assets	(1,801)	(705)
Proceeds from disposal of foreclosed assets	545	162
Acquisition of foreclosed assets	(128)	(166)
Decrease (increase) in guarantee deposits	45,748	(8,865)
Increase (decrease) in other accounts receivable	(636,240)	166,101
Increase in payments in advance	(4,731)	(28,328)
Decrease in derivative assets, net	107,270	145,924
Collection of domestic exchange receivables	91,980	474,995
Collection of loans to trust accounts	-	37,882
Increase in provision for other allowances	28,627	-
Net cash provided by (used in) investing activities	1,138,658	(8,071,791)

continued;

Non-Consolidated Statements of Cash Flows

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Cash flows from financing activities		
Decrease (increase) in deposits, net	(5,169,738)	9,076,415
Decrease in borrowings, net	(1,268,504)	(2,248,706)
Increase (decrease) in debentures, net	2,675,238	(3,278,588)
Decrease (increase) in borrowings from trust accounts	(3,184,632)	3,248,649
Decrease in dividend payable	-	(325,188)
Increase (decrease) in other accounts payable	848,452	(273,080)
Increase in advances received from customers	81,956	19,325
Decrease in guarantee deposits received	(8,714)	(623)
Decrease in domestic exchange payables	(142,425)	(173,865)
Decrease in liabilities incurred by agency relationships	(34,672)	(171,172)
Acquisition of treasury stock	-	(1,227,876)
Sale of treasury stock	-	826
Stock options exercised	3,238	(35)
Increase in stock issuance cost	-	(212)
Net cash (used in) provided by financing activities	(6,199,801)	4,645,870
Net (decrease) increase in cash and cash equivalents	(410,225)	637,833
Increase due to merger	-	33,343
Cash and cash equivalents, Beginning of year	3,771,757	3,100,581
End of year (Note 34)	3,361,532	3,771,757



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

1. THE BANK

Kookmin Bank ("the Bank") was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act, effective January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act.

The Bank merged with Korea Long Term Credit Bank ("KLB") on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Structural Improvement of the Financial Industry Act, the Bank purchased certain assets, including loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. Also, the Bank completed the legal consolidation with Housing and Commercial Bank ("H&CB") as of October 31, 2001 (Note 32) and merged with Kookmin Credit Card Co., Ltd. (the "Subsidiary"), its majority-owned subsidiary, on September 30, 2003 (Note 33).

The Bank has its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. As of December 31, 2004, the Bank's paid-in capital amounts to 1,681,896 million and its 47,503,730 shares are listed on the New York Stock Exchange as American Depositary Shares ("ADSs").

The Bank engages in the banking and trust businesses according to the provisions of the General Banking Act and the Trust Business Act, and operates through 1,124 domestic branches and offices (excluding automated teller machines of 204) and three overseas branches as of December 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- Basis of Financial Statement Presentation

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

- Application of the Statements of Korean Financial Accounting Standards

The Bank has adopted Statements of Korean Financial Accounting Standards ("SKFAS") Nos. 1~10, 12 and 13 (SKFAS Nos.10, 12 and 13 have been effective as of January 1, 2004) in the preparation of its financial statements. Except for the adoption of these SKFAS, the same accounting policies are applied for the financial statements as of and for the year ended December 31, 2004 and as of and for the year ended December 31, 2003.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

- Recognition of Interest Income

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans and debt securities, other than those collateralized with security deposits or guaranteed by financial institutions, is recognized on a cash basis. As of December 31, 2004, the Bank has non-accrual loans and securities of 8,067,271 million and 532,904 million, respectively, with related foregone interest of 469,089 million and 82,594 million, respectively.

- Securities

Securities that are bought and held principally for the purpose of generating profits on short-term differences in price, and which are actively and frequently bought and sold, are classified as trading securities. Debt securities with fixed or determinable payments and fixed maturity, and which the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Investments neither classified as trading securities nor held-to-maturity securities are classified as available-for-sale securities.

Securities are recognized initially at their fair value plus transaction costs that are directly attributable to the acquisition. The Bank uses the moving average method and specific identification method for determining the carrying value of equity securities and debt securities, respectively.

Trading and available-for-sale debt securities are carried at fair value using the average of quoted prices provided by bond pricing service institutions. Held-to-maturity debt securities are carried at amortized cost.

Marketable equity securities are carried at market prices and beneficiary certificates are carried at quoted prices provided by the beneficiary certificate dealers. However, non-marketable equity securities are carried at fair value only if the fair value is reasonably measurable. Otherwise, they are carried at cost.

Unrealized gains or losses on trading securities are charged to current operations and those resulting from available-for-sale securities are recorded as capital adjustments. Premiums and discounts on debt securities are amortized over the maturity period of the debt securities using the effective interest method. Impairment losses are recognized in the current operations when there is evidence of impairment and recoverable amounts of available-for-sale securities or held-to-maturity securities are less than either the acquisition cost of equity securities or the amortized cost of debt securities. Unrealized gains or losses on available-for-sale or held-to-maturity securities that had not been recognized through income are realized when the related securities are disposed of.

The assets of the wholly owned beneficiary certificates are classified based on the Bank's intention on the balance sheet. The fund assets of these wholly owned beneficiary certificates are comprised of deposits, call loans and securities, and the fund income is comprised of interest income, realized gains and losses, and valuation gains and losses. The Bank recorded all gains and losses from these wholly owned beneficiary certificates as income from beneficiary certificates.

- Investments in Associates

Investments in associates, over which the Bank exercises significant control or influence, are accounted for using the equity method. Under the equity method, the Bank records changes in its proportionate ownership of the associate in the current operations either as capital adjustments, adjustments to retained earnings or charges to net income(loss), depending on the nature of the underlying change in the book value of the investment in associate.



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The Bank discontinues the equity method of accounting for investments in associates when the Bank's share of accumulated losses of the associates equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the associate equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the associate are amortized or accreted using an appropriate method and the resulting amortization is charged to current operations.

Gains and losses recorded by the Bank from inter-company transactions with associates are fully eliminated. Gains and losses recorded by the associates from these transactions are proportionately eliminated, based on the Bank's percentage of ownership.

- Deferred Loan Origination Fees and Costs

The Bank defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

- Allowances for Loan Losses

The Bank provides allowance for loan losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines if the amounts are larger than allowances for loan losses based on historical loss rate of the Bank's lending portfolios.

As of December 31, 2004, the Bank provided allowance for loan losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines.

- Allowance for loan losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines

The Bank determines the credit risk classification of corporate loans using a certain scale based on the Banks internal credit rating system, the Forward Looking Criteria (FLC), and other factors such as days in arrears, insolvency and result of financial transactions. Allowances are determined by applying the rates of each credit risk classification. The FLC credit rating criteria are divided into 12 categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D) and credit risk classification are as follows:

Credit Risk Classification	Credit Ratings
Normal	AAA ~ B
Precautionary	B- ~ CCC
Sub-standard	CC
Doubtful	C
Estimated loss	D

However, the Bank classifies corporate loans, consumer loans, and credit card loans by considering the recoverable amounts of loans including delinquencies, bankruptcies. The rates used for determining the allowances for losses from corporate loans, consumer loans and credit card loans are as follows:

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Credit Risk Classification	Allowance Rates		
	Consumer	Credit Card	Corporate
Normal	0.75%	1.00%	0.50%
Precautionary	8.00%	12.00%	2.00%
Sub-standard	20.00%	20.00%	20.00%
Doubtful	55.00%	60.00%	50.00%
Estimated loss	100.00%	100.00%	100.00%

Also, the Bank provides additional allowance for relatively high-risk borrowers and their assets based on estimated recovery amount, liquidation amount, within the maximum allowance rate for each classification.

-Allowance for loan losses based historical loss rate

The rates used for determining the allowances for losses based on historical loss rate by Bank's lending portfolios is determined as follows:

Lending Portfolios	Methodology	Period of Historical Loss Rate	Period of Recovery Ratio
Impaired corporate loans	Discounted Cash Flows	N/A	N/A
Non-impaired corporate loans	Migration Analysis	1-year	5-year
Consumer loans	Migration Analysis	2-year	5-year
Credit card loans	Roll-rate Analysis	1-year	5-year

Based on Bank's lending portfolios' nature, loan period, referrer period and other economic factors, the Bank determined the appropriate data period to be used in assessing its historical loss rate and recovery ratio.

- Guarantees and Acceptances

The Bank applies the credit risk classification used for loans to outstanding guarantees and acceptances, and provides allowances for losses of 20%, 50% and 100% of the outstanding guarantees and acceptances classified as sub-standard, doubtful, and estimated loss, respectively.

- Troubled Debt Structuring

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Bank's loans, collected through reorganization proceedings, court mediation, or debt restructuring agreements of parties concerned, are recorded at their fair value at the time of the restructuring. In cases where the fair value of the assets received are less than the book value of the loan (book value before allowances), the Bank offsets the book value against allowances for loans first and then recognizes provisions for loans. Impairment losses for loans, that were restructured in a troubled debt restructuring involving a modification of terms, are computed by getting the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated, and the book value before allowances for loans. If the amount of allowances already established is less than the impairment losses under the workout plans, the Bank establishes additional allowances for the difference. Otherwise, the Bank reverses the allowances for loan losses.



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After the above adjustments to loans from troubled debt structuring, the Bank separately establishes additional allowances for its loans on related present value, based on the credit status of the borrower.

Before the adoption of SKFAS No.13, *Troubled Debt Structuring*, the difference between the nominal value and the present value of loan under troubled debt structuring agreements was recorded as present value discounts and was presented separately as a deduction from the loan nominal value. However, in accordance with the Bank's adoption of SKFAS No.13, unamortized present value discounts as of the beginning of the current period are classified as allowances for loan losses.

- Fixed Assets and Related Depreciation

Tangible assets are recorded at cost, except for upward revaluation of certain assets in accordance with the Korean Asset Revaluation Law. Depreciation is calculated based on the estimated average useful lives of the assets and the accumulated depreciation is presented as a contra account of tangible assets in the financial statements. In addition, impairment loss is recognized based on the difference between the recoverable amount and the book value. The accumulated impairment loss is presented as a contra account of tangible assets in the financial statements.

The estimated useful lives and depreciation methods of the tangible assets are as follows:

Tangible Assets	Depreciation Method	Estimated Useful Life
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining balance	4-5 years
Equipment and vehicles	Declining balance	4-5 years

Expenditures that enhance the value or extend the useful life of the related assets are capitalized as additions to tangible assets. Routine maintenance and repairs are recognized as expenses when incurred.

Foreclosed assets acquired through, or in lieu of, loan redemption are stated at cost and are not depreciated. A valuation allowance is recorded when the latest bidding price at a public auction is below the book value, and is presented as a contra account of foreclosed assets in the financial statements.

Intangible assets are amortized based on the following estimated average useful lives and are presented in the financial statements net of accumulated amortization:

Intangible Assets	Amortization Method	Estimated Useful Life
Goodwill	Straight-line	9 years
Development costs	Straight-line	5 years
Trademarks	Straight-line	1-10 years
Others	Straight-line	5-30 years

The Bank estimates the useful life of endowment assets, that are beneficial upon usage and are classified under other intangible assets, to be 30 years based on the term of the contract. The Bank records goodwill as a result of the merger with H&CB as the cost of the merger exceeded the fair value of the net assets acquired.

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Development costs directly related to new technology or new products, including costs related to software development, are capitalized as intangible assets to the extent that the estimated future benefits are probable.

The Bank adjusts the book value of a fixed asset to its recoverable amount and recognizes the difference as an impairment loss when the recoverable amount is significantly below the book value due to obsolescence or decline in market value. The subsequent increase in recoverable amount in excess of the impaired book value is recognized, to the extent of the original book value before impairment, as a reversal of fixed asset impairment losses.

- Stock Issuance Costs and Debenture Issuance Costs

Stock issuance costs are deducted from paid-in capital in excess of par value. Debenture issuance costs are recorded as discounts on debentures and amortized over the maturity period of the debentures using the effective interest method.

- Accrued Retirement Benefits

Employees and directors with at least one year of service and temporary employees with at least a one-year contract, as of December 31, 2004, are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination.

Additionally, the Bank records the contributions to pension funds, which grant the payment rights to its employees, as contra accounts of accrued retirement benefits.

- Deferred Income Taxes

The Bank recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. By directly adjusting of retained earnings, the Bank records the tax effects of temporary differences arising from the cumulative effects of accounting changes or that arising from adjusting losses and profits on prior period to prior year's unappropriated retained earnings. Deferred tax assets are recognized when it is more likely that such deferred tax assets will be realized.

- Bonds under Repurchase/Resale Agreements

Securities bought under resale agreements are recorded under loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded under borrowings as bonds sold under repurchase agreements. Interest from bonds purchased under resale agreements and bonds sold under repurchase agreements are recognized as interest income on loans and interest expense on borrowings, respectively.

- Derivative Instruments

Derivative instruments for trading or hedging purpose are recorded at fair value and the resulting unrealized gains and losses are recognized in the current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Fair value hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The gain or loss, both on the hedging derivative instrument and on the hedged item attributable to the hedged risk, is reflected in the current operations.

Cash flow hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recognized in the current



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

- Stock Options

Compensation costs for stock options granted to employees and executives are recognized using the fair value method. Under the fair value method, compensation costs for stock option plans are determined using an option-pricing model and are recognized over the vesting period.

- National Housing Fund

The Bank, as designated by the Korean Government under the Housing Law (former Housing Construction Promotion Law), manages the sources and uses of funds of the National Housing Fund (the "NHF") and records the related NHF account in other liabilities. In addition, the Bank pays NHF the interest, which is computed by multiplying the average balance of the NHF account by the passbook deposit interest rate.

- Transactions with the Trust Accounts

Under the Trust Business Act, the Bank recognize trust accounts ("the Trust Accounts") as a separate one. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Bank's banking accounts receive trust fees from the trust accounts for its management of trust assets and operations.

The reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensated by the Bank. Accordingly, the banking accounts recognize the compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts. No compensation was recorded for the years ended December 31, 2004 and 2003.

- Foreign Currency Translation

All assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date (2004: 1,043.8:US\$1, 2003: 1,197.8:US\$1), and resulting translation gains and losses are recognized in the current period.

Accounting records of the overseas branches are maintained in the foreign currency prevailing in their respective countries. For the purpose of presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Seoul Money Brokerage Services, Ltd. as of the balance sheet dates.

- Statement of Cash Flows

In the preparation of the statement of cash flows, the Bank has presented net amounts of cash inflows and cash outflows for items where the turnover is quick and the amounts are large

- Restatement of Prior Period Financial Statements

During the year ended December 31, 2004, the Bank changed its accounting on its sale of loans. Previously, the gain or loss on sale of written-off loans is computed by adjusting the loan's related allowance. The gain or loss on sale of loans other than written-loans is computed by comparing the book value at the date of sale against the proceeds of the sale. Currently, the gain or loss on sale of both kinds of loans is now computed by comparing the sale proceeds against its book value on the year end immediately preceding the date of sale. Due to this change, loss on sale of

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

loans increased by 1,183,119 million and gain on sale of loans and allowance for loan losses decreased by 142,531 million and 1,325,650 million, respectively, for the year ended December 31, 2004. The income statement for the year December 31, 2003, presented herein for comparative purposes, were restated to reflect the changes in calculation of gain or loss on sales of loans loss resulting in an increase in loss on sale of loans 2,586,725 million and decrease in gain on sale of loans and allowance for loans losses by 55,216 million and 2,641,941 million, respectively. Such restatement has no effect on the current period's net income (loss) and net assets.

The Bank reclassified the subordinated retained interests received from securitization transactions from available-for-sale securities to loans. Such reclassification has no effect on prior year's net loss and net assets. The prior year financial statements presented herein for comparative purposes were also reclassified to conform to the current year financial statement presentation.

As explained in Note 38, the Bank restated its financial statements as of and for the year ended December 31, 2003 to comply with Securities and Futures Commission's instructions.

3. CASH AND DUE FROM BANKS

Cash and due from banks as of December 31, 2004 and 2003 consist of:

		(in Millions of Korean won)	
		2004	2003
Cash on hand			
	Cash in Won	2,380,578	2,945,921
	Cash in foreign currencies	124,735	228,153
		2,505,313	3,174,074
Due from banks in Won			
Bank of Korea	Reserve deposits in the Bank of Korea	1,685,105	2,612,248
Other banks	Time deposits	-	810
	Passbook deposits	13,277	8,185
	Certificate of deposit	262,905	-
		276,182	8,995
Other financial institutions	Deposits at Hansol Mutual Savings & Finance Co., Ltd	90,000	140,000
	Time deposits at Ministry of Information and Communication	14,700	-
Others	Futures margin accounts	3	1,560
	Market participation margin	463	454
	Due from Banking accounts	1,806	-
	KOSPI futures margin accounts	490	200
		2,762	2,214
		2,068,749	2,763,457
	Present value discounts ¹	(3,751)	(12,810)
		2,064,998	2,750,647
Due from banks in foreign currencies			
Bank of Korea	Demand deposits	43,631	12,415
Other banks	Demand deposits	54,048	71,879
	Time deposits	15,181	

continued;

Notes to Non-Consolidated Financial Statements

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(in Millions of Korean won)

Due from banks in foreign currencies		2004	2003
Others	Other deposits	5,045	3,354
Off-shore	Demand deposits	489,542	513,976
		607,447	601,624
		5,177,758	6,526,345

continued;

1 Present value discounts are related to the 90,000 million of time deposits (1% interest, scheduled in installments by the end of 2005) placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.) during 1999.

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

(in Millions of Korean won)

	Due from Banks in Won	Due from Banks in Foreign Currencies	Total
Due in 3 months or less	1,732,359	484,754	2,217,113
Due after 3 months through 6 months	280,261	122,693	402,954
Due after 6 months through 1 year	52,100	-	52,100
Due after 1 year through 2 years	-	-	-
Due after 2 years through 3 years	4,029	-	4,029
	2,068,749	607,447	2,676,196

Included in cash and due from banks as of December 31, 2004 and 2003 are the following restricted deposits:

(in Millions of Korean won)

	Place of Deposit	2004	2003	Restrictions
Reserve deposits	Bank of Korea	1,685,105	2,612,248	General Banking Act
Time deposits	Hansol Mutual Savings. & Finance Co., Ltd	90,000	140,000	Withdrawal at maturity
Due from banks in foreign currency	Bank of Korea	43,631	12,415	General Banking Act
Other deposits	JP MORGAN, etc.	1,241	2,735	Futures guarantee deposits
		1,819,977	2,767,398	

4. SECURITIES

Securities as of December 31, 2004 and 2003 consist of:

(in Millions of Korean won)

	2004	2003
Trading	3,635,510	4,482,948
Available-for-sale	17,189,060	15,894,974
Held-to-maturity	6,229,435	5,979,341
Investment in associates	544,732	551,199
	27,598,737	26,908,462

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Trading, available-for-sale, and held-to-maturity securities as of December 31, 2004 consist of:

(in Millions of Korean won)

Trading	Unrealized		Book Value	
	Gain	Loss	2004	2003
Equity securities	9,304	950	184,544	113,171
Beneficiary certificates	2	1	10,884	1,686,754
Government and municipal bonds	4,790	27	756,658	1,076,427
Corporate bonds	14,081	569	2,539,819	1,365,060
Asset-backed securities	103	-	44,963	241,536
Other debt securities	12	-	98,642	-
	28,292	1,547	3,635,510	4,482,948

(in Millions of Korean won)

Available-for-Sale	Impairment		Capital Adjustments		Book Value	
	Reversal of	Loss	Gain	Loss	2004	2003 ¹
Equity securities	-	14,912	280,412	2,429	805,799	439,791
Investment in funds	-	3	3,203	-	3,711	30,872
Beneficiary certificates	-	-	160	14	157,277	4,375,817
Government and municipal bonds	-	-	18,995	-	2,222,531	2,322,889
Foreign government bonds	-	-	1,318	104	32,639	28,153
Corporate bonds	-	2,317	68,906	3,744	12,918,924	8,228,640
Asset-backed securities	-	65,040	72,054	-	852,659	468,669
Other debt securities	-	-	33	-	195,520	143
	-	82,272	445,081	6,291	17,189,060	15,894,974

(in Millions of Korean won)

Held-to-Maturity	Impairment		Unrealized		Book Value	
	Reversal of	Loss	Gain	Loss	2004	2003
Government and municipal bonds	-	-	133,510	18	3,080,549	2,489,998
Corporate bonds	-	-	78,371	39	2,949,730	3,163,020
Asset-backed securities	-	-	9,936	-	180,000	326,323
Other debt securities	-	-	-	-	19,156	-
	-	-	221,817	57	6,229,435	5,979,341

¹ Subordinated retained interest received from securitization transaction amounting to 1,193,383 million as of December 31, 2003 has been reclassified from beneficiary certificates in securities to credit card receivables in loans (Note 2).

Available-for-sale securities include structured securities related to stocks, such as convertible bonds, exchangeable bonds, bonds with stock warrants, and bonds linked with stock index amounting to 15,321 million, 153,525 million, 762 million, and 49,721 million, respectively. In addition, available-for-sale securities include structured securities related to interest rates such as dual index variable interest rate bonds, and reverse variable interest rate bonds amounting to 50,140 million, and 22,533 million, respectively. Moreover, available-for-sale securities include credit risk related securities, such as credit risk linked bonds amounting to 41,544 million.

Notes to Non-Consolidated Financial Statements

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As of December 31, 2004 and 2003, investments in associates are as follows:

(in Millions of Korean won)

Domestic Associates	Owner-ship (%)	Acquisition Cost	Beginning Balance ¹	Equity Method			Book Value	
				N/I	R/E	C/A	2004	2003
KB Investment Co., Ltd. ³	99.89	155,311	75,932	1,707	-	1,056	78,695	77,273
KB Data Systems Co., Ltd. ⁴	99.98	7,998	14,247	1,583	-	(3)	15,827	14,647
KB Futures Co., Ltd. ⁵	99.98	19,996	25,121	889	-	-	26,010	25,521
KLB Securities	36.41	10,316	-	-	-	-	-	-
KB Asset Management ⁶	80.00	39,015	38,918	8,609	-	(239)	47,288	45,051
Jooeun Industrial	99.99	23,994	-	-	-	-	-	-
KB Real Estate Trust	99.99	76,103	98,129	(40,058)	(336)	336	58,071	98,129
KB Credit Information	93.71	12,553	15,556	1,770	-	1,344	18,670	11,863
ING Life Korea	20.00	21,769	41,845	23,576	-	3,724	69,145	43,845
Korea Mortgage ⁸	26.67	30,629	-	-	-	-	-	35,788
KICO No. 2 Venture								
Investment Partnership ²	55.56	-	-	213	-	-	213	-
KICO No. 3 Venture								
Investment Partnership ²	69.23	-	-	149	-	-	149	-
Pacific IT Investment Partnership ²	50.00	7,000	7,000	(41)	-	-	6,959	-
NPC02-4 Kookmin Venture Fund ²	33.33	10,000	10,000	179	-	-	10,179	-
KB Life Insurance Co., Ltd.	100.00	30,246	30,246	(22,455)	-	781	8,572	-
		444,930	356,994	(23,879)	(336)	6,999	339,778	352,117
Foreign Associates								
Kookmin Bank Int'l Ltd. (London)	100.00	40,180	53,550	2,012	-	145	55,707	56,755
Kookmin Bank Luxembourg S.A. ⁹	100.00	24,679	5,257	(1,206)	-	-	-	5,950
Kookmin Singapore Ltd.	100.00	20,926	1,812	-	-	-	1,812	2,080
Kookmin Finance Asia Ltd.(HK)	100.00	7,307	249	5	-	-	254	286
Kookmin Bank Hong Kong Ltd. ⁷	100.00	20,876	54,653	8,236	2,563	(424)	65,028	62,716
Sorak Financial Holdings PTE Ltd.	25.00	76,928	76,928	9,818	-	(4,593)	82,153	71,295
		190,896	192,449	18,865	2,563	(4,872)	204,954	199,082
		635,826	549,443	(5,014)	2,227	2,127	544,732	551,199

1 The beginning balance is the prior year's book value adjusted by dividends, changes in foreign exchange rates, and all the transactions during current year.

2 The investments in funds which had been classified as available-for-sale for the prior years are reclassified as investments in associates as of January 1, 2004.

3 Kookmin Investment Co., Ltd. has changed its name to KB Investment Co., Ltd. on April 30, 2004.

4 Kookmin Data Systems Corp. has changed its name to KB Data Systems Co., Ltd., on April 30, 2004.

5 Kookmin Futures Co., Ltd. has changed its name to KB Futures Co., Ltd., on April 30, 2004.

6 KB Investment Trust Management has changed its name to KB Asset Management, on April 29, 2004.

7 Kookmin Finance HK Ltd. has changed its name to Kookmin Bank HongKong Ltd., on January 2, 2004.

8 All equity securities of Korea Mortgage have been sold on June 4, 2004.

9 The Bank collected capitals from Kookmin Bank Luxembourg S.A. which completed liquidation process on November 30, 2004.

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KLB Securities Co., Ltd., Jooeun Industrial Co., Ltd., KICO No. 2 Venture Investment Partnership, KICO No.3 Venture Investment Partnership, Kookmin Singapore, Ltd. and Kookmin Finance Asia, Ltd. (HK) are all in the process of liquidation. Consequently, accounting under the equity method is no longer applied to investments in KLB Securities Co., Ltd. and Jooeun Industrial Co., Ltd. due to accumulated deficits resulting to a decrease of the investment value below zero. Accordingly, the total accumulated estimated loss that has not been recognized by the Bank arising from the securities amounts to 58,875 million.

Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of KB Credit Information amounting to 1,128 million, for the 342,844 shares which the Bank acquired on October 22, 2004, are accreted for 5 years to unrealized gain or loss on investment in associates.

The Bank applies the equity method accounting to subsidiaries based on unaudited financial statements as of December 31, 2004. In the case of Sorak Financial Holdings PTE Ltd. and ING Life Korea Co., Ltd., the Bank applies the equity method based on the most recent available unaudited financial statements that are adjusted for changes in net assets for the period ended December 31, 2004.

On April 29, 2004, as a means to venture into the insurance business for diversification of revenues, the Bank invested 30,246 million (including acquisition costs) to acquire a 100% ownership of KB Life Insurance Co., Ltd., which was founded to acquire the assets and the liabilities of Hanil Life Insurance Co., Ltd. The Bank eliminated unrealized gain for inter-company transactions with KB Life Insurance Co., Ltd amounting to 15,816 million.

The maturities of the available-for-sale and held-to-maturity debt securities, excluding equity investments, as of December 31, 2004 are summarized as follows:

(in Millions of Korean won)

Maturities	Available-for-sale		Held-to-maturity	
	Book Value	Fair value	Book Value	Fair value
Due in 1 year or less	7,735,564	7,735,564	1,966,856	2,001,180
Due after 1 year through 5 years	7,968,047	7,968,047	3,874,386	4,019,397
Due after 5 years through 10 years	675,422	675,422	388,193	430,617
After 10 years	517	517	-	-
	16,379,550	16,379,550	6,229,435	6,451,194



Notes to Non-Consolidated Financial Statements

Year ended December 31, 2004 and 2003

Investment securities risk concentrations as of December 31, 2004 are as follows:

(in Millions of Korean won, except ratio)

By Country	Book Value	Ratio (%)
Korea	27,381,913	99.21
Singapore	82,178	0.30
USA	50,284	0.18
Philippines	25,703	0.09
Indonesia	13,516	0.05
Mexico	11,693	0.04
Others	33,450	0.13
	27,598,737	100.00

(in Millions of Korean won, except ratio)

By Type	Book Value	Ratio (%)
Fixed rate bonds	23,393,496	84.76
Floating rate bonds	1,485,279	5.38
Subordinated bonds	981,947	3.56
Convertible bonds	30,976	0.11
Beneficiary certificates	168,161	0.61
Equity securities	1,517,575	5.50
Others	21,303	0.08
	27,598,737	100.00

(in Millions of Korean won, except ratio)

By Type	Book Value	Ratio (%)
Government and government-invested Public companies	9,349,587	33.88
Financial institutions	17,119,674	62.03
Manufacturing industries	444,310	1.61
Others	685,166	2.48
	27,598,737	100.00

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Available-for-sale equity securities of which the fair value cannot be reasonably measured as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Book Value
Arirang Restructuring Fund	18,163
Mugunghwa Restructuring Fund	14,606
Seoul Restructuring Fund	12,540
Bad Bank Harmony	12,267
Mastercard, Inc. Korea	7,900
Korea Asset Management Corp.	7,827
Samsung Life Insurance Co., Ltd.	7,479
Korea Highway Corp.	6,248
Continuous Linked Settlement System	6,211
Kyobo Investment Trust Management Co., Ltd.	2,100
Baring Communications Equity	1,957
Pan Asia Paper	1,642
Korea Smart Card	1,628
Korea Money Broker Corp.	1,291
Mercury	1,088
Tianjin Samsung Opto Electronics	1,020
Others	17,019
	120,986

As of December 31, 2004, the following investment securities are pledged at various institutions:

(in Millions of Korean won)

Restrictions		Restricted securities	
Related Transactions	Placed with	Book Value	Pledge Value
Bonds sold under REPO agreements	Customers	3,791,977	3,795,600
Borrowings from the Bank of Korea	Bank of Korea	1,024,167	1,015,000
Bank of Korea settlements	Bank of Korea	170,535	170,200
Derivative transactions	Samsung Futures, others	175,447	184,000
Other	Standard Chartered Bank, others	80,538	84,000
		5,242,664	5,248,800



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5. LOANS

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

(in Millions of Korean won)

		2004	2003
Loans in Won			
Corporate loans	Operation loans		
	General operation loans	25,475,710	28,884,554
	Notes discounted	1,197,606	1,415,445
	Overdraft accounts	401,369	447,992
	Trading notes	740,580	809,921
	Other operation loans	3,862,852	3,793,594
		31,678,117	35,351,506
	Facility loans		
	General facility loans	5,139,091	5,413,333
	Other facility loans	1,147,656	1,218,370
		6,286,747	6,631,703
		37,964,864	41,983,209
Consumer loans	General consumer loans	41,957,690	41,951,219
	Consumer housing loans	41,234,086	38,199,290
	Remunerations on mutual installment savings	300,032	297,868
	Other consumer loans	532,615	635,218
		84,024,423	81,083,595
Public loans	Public operation loans	673,456	526,227
	Public facility loans	40,383	42,473
		713,839	568,700
Other loans	Property formation loans	9,719	62,963
	Inter-bank loans	6,114	12,815
	Others	2,939	3,962
		18,772	79,740
		122,721,898	123,715,244
Loans in foreign currencies	Domestic funding loans	1,000,004	1,165,988
	Overseas funding loans	489,437	887,018
	Inter-bank loans	1,092,174	767,884
	Domestic usance bills	1,278,793	1,197,563
	Government funding loans	420	1,477
		3,860,828	4,019,930
Call loans	In Won	2,814,996	1,640,000
	In foreign currencies	191,784	5,351
		3,006,780	1,645,351
Privately placed debentures		1,203,631	1,787,131
Other loans		8,311,072	13,872,793
Allowances for loan losses (Note 6)		(3,118,775)	(3,910,044)
Net deferred loan origination fees and costs		48,889	8,567
		136,034,323	141,138,972

Notes to Non-Consolidated Financial Statements

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As of December 31, 2004, restructured loans due to workout plans or other similar restructuring programs are as follows:

(in Millions of Korean won)

	Workout	Court Receivership	Court Mediation	Others	Total
Period (in years)	1~9	6~10	4~10	4~7	
Adjusted interest rate (%)	5.96~22.22	5.93~14.80	4.90~17.00	9.50	
Balances before restructuring	120,177	26,026	43,526	612,235	801,964
Loans swapped to equity	3,700	4,090	-	494,314	502,104
Loans due for equity conversion	-	746	-	-	746
Loans to be restructured	116,477	21,190	43,526	117,921	299,114
Balances after restructuring	109,916	15,064	40,326	111,698	277,004
Allowances for loan losses (present value discounts)	6,561	6,126	3,200	6,223	22,110

The loans, or portions thereof, that are approved for debt restructuring by issuance or grant of equity are separately classified as loans due for equity conversion as of the agreement date. The loans due for equity conversion are stated at the lower of nominal amount or the fair value of the to-be-converted equity. The difference between the nominal amount and the fair value of the equity is adjusted in the related allowance for loan losses.

The movements in allowance for loan losses (present value discounts) related restructured loans and deferred loan origination fees and costs to for the year ended December 31, 2004 are as follows :

(in Millions of Korean won)

	Beginning Balance	Increase	Decrease	Ending Balance
Allowance for loan losses (present value discounts)	22,780	12,283	12,953	22,110
Deferred loan origination fees and costs	8,567	44,766	4,444	48,889



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of loans as of December, 2004 are as follows:

(in Millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Bills Bought	Credit Card	Call Loans	Privately-placed Debentures	Others	Total
Due in 3 months or less	19,085,485	874,100	505,391	5,329,240	3,006,780	38,168	33,653	28,872,817
Due after 3 months through 6 months	17,430,180	1,047,044	82,255	623,768	-	110,500	746	19,294,493
Due after 6 months through 1 year	35,029,206	906,882	8,839	835,722	-	622,982	-	37,403,631
Due after 1 year through 2 years	19,972,984	181,903	5,396	386,655	-	237,900	-	20,784,838
Due after 2 years through 3 years	11,900,101	190,361	-	386,614	-	94,081	-	12,571,157
Due after 3 years through 4 years	2,637,763	85,984	-	63,633	-	-	-	2,787,380
Due after 4 years through 5 years	3,956,310	67,973	-	18,358	-	-	30,802	4,073,443
Thereafter	12,709,869	506,581	-	-	-	100,000	-	13,316,450
	122,721,898	3,860,828	601,881	7,643,990	3,006,780	1,203,631	65,201	139,104,209

Loan risk concentrations by country as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
Korea	122,721,898	2,622,653	12,325,575	137,670,126	98.97
Southeast Asia	-	700,600	186,753	887,353	0.64
Central and South America	-	53,452	45	53,497	0.04
China	-	135,118	-	135,118	0.09
Japan	-	278,971	-	278,971	0.20
Others	-	70,034	9,110	79,144	0.06
	122,721,898	3,860,828	12,521,483	139,104,209	100.00%

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Loan risk concentrations by industry as of December 30, 2004 are as follows:

(in Millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
Industrial loans					
Financial institutions	689,007	1,150,426	4,102,497	5,941,930	4.27
Manufacturing companies	12,315,767	1,146,217	1,721,775	15,183,759	10.92
Service companies	21,240,715	1,422,823	487,968	23,151,506	16.64
Others	4,114,249	71,921	94,863	4,281,033	3.08
	38,359,738	3,791,387	6,407,103	48,558,228	34.91
Household loans	84,037,082	69,441	6,114,380	90,220,903	64.86
Public and other loans	325,078	-	-	325,078	0.23
	122,721,898	3,860,828	12,521,483	139,104,209	100.00%

As of March 30, 2004, the Bank recognized loss on sale of loans of 186,666 million for loans sold to KB Star Card 3rd Securitization Specialty Company, Limited that amounts to 1,032,297 million. As of June 17, 2004, the Bank recognized gain on sale of loans of 21,450 million for loans sold to KB 2nd Securitization Specialty Company, Limited that amounts to 606,850 million. As of June 30, 2004, the Bank recognized loss on sale of loans of 324,445 million for loans sold to Jinheung Savings Bank, Solomon Mutual Saving Bank and Solomon AMC that amounts to 1,074,110 million. As of September 30, 2004, the Bank recognized loss on sale of loans of 353,333 million for loans sold to Hyundai Swiss Savings Bank, Solomon Mutual Saving Bank and Solomon AMC that amounts to 430,240 million. As of December 7, 2004, the Bank recognized loss on sale of loans of 12,866 million for loans sold to Solomon Mutual Saving Bank that amounts to 625,767 million. As of December 17, 2004, the Bank recognized loss on sale of loans of 64,807 million for loans sold to KB 3rd Securitization Specialty Company, Limited that amounts to 532,600 million. As of December 31, 2004, the Bank recognized loss on sale of loans of 256,249 million for loans sold to Jinheung Savings Bank, that amounts to 317,234 million. As of December 31, 2004, the credit card accounts amounting to 713,792 million (before allowance) are provided as collateral for asset-backed securities transactions.

6. ALLOWANCES FOR LOAN LOSSES

As of December 31, 2004 and 2003, allowances for loan losses are as follows:

(in Millions of Korean won)

	2004	2003
Loans in Won	2,622,509	2,289,661
Loans in foreign currencies	55,111	70,983
Bills bought in Won and foreign currencies	8,480	16,928
Payments on guarantees	26,301	20,193
Factoring receivable	1,695	17,603
Credit card accounts	392,722	1,407,127
Privately placed debentures	11,211	87,549
Loans due for equity conversion	746	-
Total allowance for loan losses	3,118,775	3,910,044
Others ¹	67,320	38,692
Total allowance	3,186,095	3,948,736

¹ Other allowances as of December 31, 2004 include:

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

	(in Millions of Korean won)	
	2004	2003
Suspense receivables as credit	38,952	17,186
Kookmin Card's other loans	274	3,749
Derivative instruments	3,209	1,654
Suspense receivables ²	15,495	7,249
Uncollected leasehold deposits	9,295	8,854
Other receivables	95	-
Total	67,320	38,692

² Suspense receivables includes allowances for frauds/accidents by directors and employees which 73 events took place as of December 31, 2004 amounting to 12,455 million which the Bank provides allowances for the whole amount.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, allowances for loan losses by credit risk classification are as follows:

(in Millions of Korean won)

		Normal	Pre-cautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in won	Balance	114,439,619	5,222,736	1,710,889	1,019,763	328,891	122,721,898
	Allowances	781,650	476,391	357,321	678,256	328,891	2,622,509
	Ratio (%)	0.68	9.12	20.89	66.51	100.00	2.14
Loans in foreign currencies	Balance	3,645,049	158,672	25,015	30,199	1,893	3,860,828
	Allowances	13,061	13,316	8,428	18,413	1,893	55,111
	Ratio (%)	0.36	8.39	33.69	60.97	100.00	1.43
Bills bought	Balance	585,927	9,569	650	2,698	3,037	601,881
	Allowances	2,930	393	130	1,990	3,037	8,480
	Ratio (%)	0.50	4.11	20.00	73.75	100.00	1.41
Payments on guarantees	Balance	964	2,978	883	6,669	20,626	32,120
	Allowances	5	621	176	4,873	20,626	26,301
	Ratio (%)	0.50	20.85	20.00	73.08	100.00	81.88
Credit card accounts	Balance	6,609,976	686,457	539	298,093	48,925	7,643,990
	Allowances	66,100	82,375	108	195,214	48,925	392,722
	Ratio (%)	1.00	12.00	20.00	65.49	100.00	5.14
Call loans	Balance	3,006,780	-	-	-	-	3,006,780
	Allowances	-	-	-	-	-	-
	Ratio (%)	-	-	-	-	-	-
Privately placed debentures	Balance	1,195,825	826	3,076	3,836	68	1,203,631
	Allowances	5,979	189	1,159	3,816	68	11,211
	Ratio (%)	0.50	22.95	37.66	99.46	100.00	0.93
Factoring receivables	Balance	30,802	-	516	992	25	32,335
	Allowances	585	-	103	982	25	1,695
	Ratio (%)	1.90	-	20.00	99.00	100.00	5.24
Loans due for equity conversion	Balance	-	-	-	746	-	746
	Allowances	-	-	-	746	-	746
	Ratio (%)	-	-	-	100.00	-	100.00
Total	Balance	129,514,942	6,081,238	1,741,568	1,362,996	403,465	139,104,209
	Allowances	870,310	573,285	367,425	904,290	403,465	3,118,775
	Ratio (%)	0.67	9.43	21.10	66.35	100.00	2.24



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

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

(in Millions of Korean won)

	2004	2003
Beginning balance ¹	3,948,736	2,420,410
Provision for loan losses ²	3,080,256	1,436,013
Increase due to merger with Kookmin Credit Card Co., Ltd.	-	1,388,854
Reclassification of ABS 2nd beneficiary certificate	-	159,635
Reclassification from other allowances ³	289,919	27,291
Collection of written-off loans	286,464	270,422
Repurchase of loans sold	40,571	327,921
Sale of loans	(685,161)	(597,207)
Write-off of loans	(5,260,962)	(4,509,979)
Reversal of write-off due to loan sale of loans	1,878,832	3,348,122
Conversion of loans into equity securities	(327,816)	(43,996)
Exemption of loans	(32,847)	(263,233)
Changes in exchange rates and others	(31,897)	(15,517)
Ending balance	3,186,095	3,948,736

1 Includes present value discounts on allowances for loans, allowances for ABS 2nd beneficiary certificate reclassified into credit card receivables, allowances related to credit card claimed assets and allowance for other assets amounting to 22,780 million, 192,221 million, 27,291 million and 16,103 million, respectively, that had been recorded as of December 31, 2003

2 Includes other allowances for other asset amounting to 12,008 million as of December 31, 2004 (4,832 million: December 31, 2003)

3 Other allowances for loans receivable from LG Card Company, Limited, credit lines to Kookmin Credit Card 16th ABS Specialty Company, Limited and commercial papers from Jooeun 2nd ABS Specialty Company, Limited amounting to 221,377 million, 68,505 million and 37 million, respectively, that had been recorded as of December 31, 2003 were transferred to allowances for loan losses.

As of December 31, 2004, 2003 and 2002, the ratios of allowances for loan losses to loans are as follows:

	2004	2003	2002
Loans	139,104,209	145,040,449	129,139,699
Allowances for loan losses ¹	3,118,775	3,910,044	2,396,157
Ratio (%)	2.24	2.70	1.86

1 The above amounts of allowances for loan losses include present value discounts.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

7. FIXED ASSETS

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

	2004	2003
Tangible assets	2,164,021	2,469,353
Intangible assets	468,958	549,427
Foreclosed and other properties	239	776
	2,633,218	3,019,556

(in Millions of Korean won)

Movements in tangible assets for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Land	Buildings and structures	Leasehold improvements	Equipment and vehicles	Construction-in-progress	Total
Acquisition cost						
Beginning balances	1,105,869	963,296	157,231	1,449,062	12,324	3,687,782
Acquisition	-	20	3	130,046	86,081	216,150
Transfer	-	69,637	27,526	-	(97,163)	-
Disposal	(106,848)	(117,985)	(10,335)	(73,861)	-	(309,029)
Ending balances	999,021	914,968	174,425	1,505,247	1,242	3,594,903
Accumulated depreciation						
Beginning balances	-	142,103	90,808	963,290	-	1,196,201
Depreciation expense	-	20,916	41,185	270,918	-	333,019
Disposal	-	(22,905)	(8,086)	(69,643)	-	(100,634)
Ending balances	-	140,114	123,907	1,164,565	-	1,428,586
Impairment	1,306	990	-	-	-	2,296
Book Value	997,715	773,864	50,518	340,682	1,242	2,164,021



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Movements in tangible assets for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Land	Buildings and structures	Leasehold improvements	Equipment and vehicles	Construction-in-progress	Total
Acquisition cost						
Beginning balances	1,175,682	848,746	98,117	1,043,969	1,195	3,167,709
Acquisition	3,350	8,898	6,898	201,254	97,112	317,512
Transfer	-	37,466	48,517	-	(85,983)	-
Increase due to merger	55,529	71,024	4,805	263,897	-	395,255
Disposal	(128,692)	(2,838)	(1,106)	(60,058)	-	(192,694)
Ending balances	1,105,869	963,296	157,231	1,449,062	12,324	3,687,782
Accumulated depreciation						
Beginning balances	-	108,723	48,164	533,675	-	690,562
Depreciation expense	-	20,583	40,594	326,248	-	387,425
Increase due to merger	-	12,976	2,786	160,380	-	176,142
Disposal	-	(179)	(736)	(57,013)	-	(57,928)
Ending balances	-	142,103	90,808	963,290	-	1,196,201
Impairment	12,673	9,555	-	-	-	22,228
Book Value	1,093,196	811,638	66,423	485,772	12,324	2,469,353

Tangible assets covered by insurance policies as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Amount Insured	Insurance Company	Type of Insurance
Buildings and structures	620,234	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Leasehold improvements	42,516	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Equipment and vehicles	165,554	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Construction-in-progress	994	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
	829,298		

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Movements in intangible assets for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Goodwill	Development Costs	Rights to Income on Donated Asset	Store Possessory Right	Trademarks	Others	Total
Beginning balances	535,360	12,762	102	139	150	914	549,427
Acquisition	-	-	-	-	49	1,752	1,801
Amortization	78,345	3,488	8	21	54	354	82,270
Ending balances	457,015	9,274	94	118	145	2,312	468,958

Movements in intangible assets for the year ended December 31, 2003 are as follows:

(in Millions of Korean won)

	Goodwill	Development Costs	Rights to Income on Donated Asset	Store Possessory Right	Trademarks	Others	Total
Beginning balances	613,705	-	110	161	11	470	614,457
Acquisition	-	-	-	-	96	609	705
Increase due to merger	-	13,634	-	-	62	-	13,696
Amortization	78,345	872	8	22	19	165	79,431
Ending balances	535,360	12,762	102	139	150	914	549,427

The Bank recorded 134,300 million and 106,844 million of current development costs under general and administrative expenses for the year ended December 31, 2004 and 2003, respectively.

The total government-posted prices of land, used for tax imposition and compensation for confiscation, as of December 31, 2004 and 2003 are as follows:

(in Millions of Korean won)

	2004		2003	
	Book Value	Appraisal Value	Book Value	Appraisal Value
Lands included in tangible assets	997,715	904,658	1,093,196	986,382
Lands included in foreclosed assets	287	239	1,315	591
	998,002	904,897	1,094,511	986,973

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

8. OTHER ASSETS

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

	(in Millions of Korean won)	
	2004	2003
Guarantee deposits paid	1,290,891	1,336,639
Accounts receivable	2,351,340	1,715,100
Accrued income	1,019,717	1,080,057
Payments in advance	29,629	53,525
Prepaid expenses	210,529	307,154
Deferred tax assets (Note 25)	429,045	615,944
Derivative assets (Note 15)	2,391,984	751,252
Unsettled domestic exchange assets	520,612	612,592
Others	39,401	36,592
	8,283,148	6,508,855

9. DEPOSITS

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

	Annual Interest (%) December 31, 2004	(in Millions of Korean won)	
		2004	2003
Deposits in Won			
Demand deposits			
Checking deposits	-	110,967	125,533
Household checking deposits	0.10	417,443	476,132
Passbook deposits	0.10	10,767,705	10,001,043
Temporary deposits	-	2,858,688	3,292,770
Public fund deposits	0.10	157,840	190,593
Others	0.10	26,141	24,218
		14,338,784	14,110,289
Time deposits and savings deposits			
Time deposits	2.20~3.60	62,835,217	62,247,870
Installment savings deposits	2.95~3.50	1,249,939	1,306,793
Property formation savings	8.50	1,516	1,870
Time and savings deposits of non residents in Won	2.20~3.60	263,671	340,388
General savings deposits	0.10~2.70	19,120,739	21,644,066
Corporate savings deposits	0.10~2.60	7,358,107	7,800,122
Long-term savings deposits for workers	11.50~12.00	39,104	69,031

continued;

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

	Annual Interest (%) December 31, 2004	2004		2003	
		2004	2004	2003	2003
(in Millions of Korean won)					
Deposits in Won					
Long-term housing savings deposits	4.10	1,663,366		983,684	
Long-term savings for households	11.00	20,108		494,606	
Workers' preferential savings deposits	5.35	2,171,785		2,728,236	
Workers' savings for housing	8.50~11.50	49		81	
Mutual installment deposits	2.65~3.50	6,306,923		7,054,752	
Mutual installment for housing	2.20~3.40	5,295,274		5,423,853	
		106,325,798		110,095,352	
Total deposits in Won		120,664,582		124,205,641	
Deposits in foreign currencies					
Demand deposits					
Checking deposits	0.00~0.82	37,137		40,778	
Passbook deposits	0.09	663,261		787,798	
Notice deposits	0.00~0.16	276		410	
Temporary deposits	-	1,315		1,049	
		701,989		830,035	
Time deposits and savings deposits					
Time deposits	1.03	729,950		642,039	
Others	0.00~4.45	2,122		3,299	
		732,072		645,338	
Total deposits in foreign currencies		1,434,061		1,475,373	
Certificates of deposit	3.00~3.15	4,911,891		6,499,258	
		127,010,534		132,180,272	

The maturities of deposits as of December 31, 2004 are as follows:

	(in Millions of Korean won)			
	Deposits in Won	Deposits in Foreign Currencies	Certificates of Deposit	Total
Due in 3 months or less	66,822,353	1,239,418	2,820,472	70,882,243
Due after 3 months through 6 months	11,822,721	103,087	1,799,846	13,725,654
Due after 6 months through 1 year	31,245,947	84,301	291,462	31,621,710
Due after 1 year through 2 years	5,578,733	5,223	111	5,584,067
Due after 2 years through 3 years	3,232,364	2,032	-	3,234,396
Due after 3 years through 4 years	177,936	-	-	177,936
Due after 4 years through 5 years	132,309	-	-	132,309
Thereafter	1,652,219	-	-	1,652,219
	120,664,582	1,434,061	4,911,891	127,010,534

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

10. BORROWINGS

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

	Annual Interest (%) December 31, 2004	(in Millions of Korean won)	
		2004	2003
Borrowings in Won			
Borrowings from the Bank of Korea	2.00	920,144	992,433
Borrowings from the Korean government	0.00~8.00	697,772	920,589
Borrowings from banking institutions	2.79~6.00	158,245	253,822
Borrowings from National Housing Fund	8.00	2,986	8,553
Borrowings from other financial institutions	1.84~4.00	5,227	5,688
Other borrowings	1.25~7.00	1,160,863	1,173,284
		2,945,237	3,354,369
Borrowings in foreign currencies			
Due to banks	-	27,463	189,976
Borrowings from domestic banks	0.05~5.06	1,657,515	2,360,652
Borrowings from other financial institutions	1.50	13,882	19,486
Borrowings from foreign banks	-	841,400	752,803
		2,540,260	3,322,917
Bonds sold under repurchase agreements			
In won	2.50~3.25	3,449,445	3,613,505
In foreign currencies	-	-	9,651
		3,449,445	3,623,156
Bills sold	2.90~3.15	41,988	44,239
Due to the Bank of Korea in foreign currencies	1.86~2.69	2,007	12,608
Call money			
In won	2.75~3.15	638,500	55,800
In foreign currencies	0.27~6.85	13,685	193,700
Inter-bank borrowings		3,174	296,011
		655,359	545,511
		9,634,296	10,902,800

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of borrowings as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Borrowings in Won	Borrowings in Foreign Currencies	Others	Total
Due in 3 months or less	989,046	1,060,222	2,683,011	4,732,279
Due after 3 months through 6 months	77,093	586,642	820,278	1,484,013
Due after 6 months through 1 year	169,566	464,065	624,939	1,258,570
Due after 1 year through 2 years	347,295	355,702	20,077	723,074
Due after 2 years through 3 years	355,194	3,099	494	358,787
Due after 3 years through 4 years	318,242	69,042	-	387,284
Due after 4 years through 5 years	260,711	1,488	-	262,199
Thereafter	428,090	-	-	428,090
	2,945,237	2,540,260	4,148,799	9,634,296

11. DEBENTURES

Debentures as of December 31, 2004 and 2003 include:

(in Millions of Korean won)

		Annual Interest (%) December 31, 2004	2004	2003
In Won	Hybrid debentures ¹	6.00~7.00	903,668	903,668
	Structured debentures	4.29	80,000	-
	Subordinated fixed rate debentures	4.19~15.66	6,020,845	4,896,072
	KCC ² subordinated fixed rate debentures	7.10~8.00	205,000	205,000
	KCC ² fixed rate debentures	5.43~7.80	930,000	2,895,000
	KCC ² floating rate debentures	0.00~8.48	610,000	870,000
	Floating rates debentures	3.14~8.71	12,536,566	8,609,663
			21,286,079	18,379,403
	Discounts on debentures		(120,271)	(83,443)
			21,165,808	18,295,960
In foreign currencies	Floating rates debentures	0.92~3.19	110,810	196,211
	Fixed rates debentures	2.37~4.63	525,485	613,549
	KCC ² floating rate debentures	3.46	60,227	78,695
			696,522	888,455
	Premiums on debentures		6,336	9,639
	Discounts on debentures		(846)	(1,473)
			702,012	896,621
			21,867,820	19,192,581

1 The hybrid debentures are perpetual type debts in which the Bank retains the early redemption option after 5 years from issuance date and the term extending option on maturity date.
Hybrid debentures are superior to common stock but subordinate to other subordinated debentures.

2 Kookmin Credit Card Co., Ltd.



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, subordinated debentures and hybrid debentures consist of the following:

(in Millions of Korean won)

Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	98.01.27 - 98.11.15	133,477	14.67~ 15.66	03.01.27 ~ 09.11.15
	2000.03.27	200,000	9.65	2005.03.27
	2000.06.28	253,975	9.04 ~ 9.10	2006.01.28
	2000.09.27	300,000	8.99	2006.01.27
	2000.09.28	150,000	8.79 ~ 8.85	2006.01.28
	2000.11.20	66	9.57	2010.01.28
	2000.11.21	33	9.57	2010.01.28
	2000.11.28	100,000	8.65 ~ 8.71	2006.02.28
	2000.11.28	150,721	9.57 ~ 9.65	2010.11.28
	2000.11.28	11,330	9.65	2010.12.28
	2000.12.27	200,000	8.71	2006.01.27
	2001.05.28	200,000	7.60 ~ 7.65	2007.02.28
	2001.06.27	160,000	7.68	2008.03.27
	2001.06.27	217,529	7.86	2009.03.27
	2001.08.28	100,000	6.69 ~ 6.73	2007.08.28
	2001.09.28	150,000	6.69 ~ 6.73	2008.03.28
	2002.03.27	241,684	7.06 ~ 7.10	2008.01.27
	2002.07.15	415	7.00	2008.01.27
	2002.07.27	302,399	6.96 ~ 7.00	2008.01.27
	2002.09.27	257,363	6.27 ~ 6.30	2008.03.27
	2002.09.27	150,000	6.51 ~ 6.55	2010.03.27
	2002.09.27	92,637	6.66 ~ 6.70	2013.03.27
	2002.11.14	611	6.30	2010.05.27
	2002.11.27	400,673	6.07 ~ 6.10	2008.05.27
	2002.11.27	57,846	6.27 ~ 6.30	2010.05.27
	2002.11.27	100,256	6.51 ~ 6.55	2013.05.27
	2002.12.18	341	8.00	2008.01.18
	2002.12.18	110,000	8.00	2008.01.18
	2002.12.27	10,000	6.20	2008.06.27
	2002.12.27	90,000	6.40	2010.06.27
	2002.12.27	50,302	6.65	2013.06.27
	2002.12.27	30,370	6.55	2014.12.27
2003.01.21	184	7.65	2008.02.21	
2003.01.21	50,000	7.65	2008.02.21	
2003.03.10	45,000	7.10	2008.04.10	
2003.03.10	182	7.10	2008.04.10	
2003.10.09	519	5.20	2009.10.27	

continued;

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

(in Millions of Korean won)

Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	2003.10.09	77	5.35	2011.01.27
	2003.10.15	39	5.35	2011.01.27
	2003.10.27	356,561	5.18 ~ 5.20	2009.01.27
	2003.10.27	88,769	5.33 ~ 5.35	2011.01.27
	2003.10.27	3,721	5.58 ~ 5.60	2014.01.27
	2004.02.10	174	5.68	2009.08.27
	2004.02.12	85	5.87	2011.08.27
	2004.02.13	174	5.68	2009.08.27
	2004.02.17	548	5.68	2009.08.27
	2004.02.27	636,798	5.65 ~ 5.68	2009.08.27
	2004.02.27	22,895	5.84 ~ 5.87	2011.08.27
	2004.02.27	40,307	6.13 ~ 6.16	2014.08.27
	2004.09.30	57,784	5.12	2018.12.30
	2004.12.27	700,000	4.19 ~ 4.20	2010.06.27
			6,225,845	
Hybrid debentures	2003.06.27	105,145	6.00	2033.06.27
	2003.08.27	533,355	7.00	2033.08.27
	2003.10.27	265,168	6.80	2033.10.27
			903,668	
		7,129,513		

The maturities of debentures as of December 31, 2004 are as follows:

(in Millions of Korean won)

	In Won	In Foreign Currencies	Total
Due in 3 months or less	1,849,407	16,108	1,865,515
Due after 3 months through 6 months	4,074,904	-	4,074,904
Due after 6 months through 1 year	3,264,691	60,227	3,324,918
Due after 1 year through 2 years	5,670,861	-	5,670,861
Due after 2 years through 3 years	420,192	587,230	1,007,422
Due after 3 years through 4 years	2,022,335	32,957	2,055,292
Due after 4 years through 5 years	1,352,172	-	1,352,172
Thereafter	2,631,517	-	2,631,517
	21,286,079	696,522	21,982,601



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

12. ACCRUED RETIREMENT BENEFITS

The movements in accrued retirement benefits for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning Balance	Amounts Provided	Amounts Paid Out	Ending Balance
Accrued retirement benefits	71,083	79,608	24,069	126,622
Contributed retirement benefits	163,349	45,000	15,024	193,325
Total accrued retirement benefits	234,432	124,608	39,093	319,947
Contribution to pension funds	(163,349)	(45,000)	(15,024)	(193,325)
	71,083	79,608	24,069	126,622

As of December 31, 2004, approximately 60.42% of total accrued retirement benefits is contributed to pension funds, over which the Bank's employees hold the right of payment and is placed at two insurance companies, including Korea Life Insurance Co., Ltd. The total retirement benefits paid for the year ended December 31, 2004 amount to 89,109 million, including the additional early retirement benefits paid in February 2004 of 50,029 million.

13. OTHER LIABILITIES

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

(in Millions of Korean won)

	2004	2003
Accrued retirement benefits (Note 12)	126,622	71,083
Allowance for losses on guarantees and acceptances (Note 14)	1,150	1,074
Due to trust accounts	798,662	3,983,295
Accounts payable	2,734,897	1,886,446
Accrued expenses	4,280,637	4,418,940
Advances from customers	191,642	109,685
Unearned income	97,269	130,778
Withholding taxes	7,291	123,455
Guarantee deposits received	111,723	120,437
Derivative liabilities (Note 15)	2,219,630	686,271
Unsettled domestic exchange liabilities	258,020	400,445
Accounts for agency business	233,690	364,783
Other allowances ¹	611,120	846,916
Liabilities incurred by agency relationship	280,569	315,241
Others	156,971	130,182
	12,109,893	13,589,031

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

1 Other allowances as of December 31, 2004 include:

(in Millions of Korean won)

Allowances for	Amounts	Remarks
LG Card	23,812	Allowances for Contingency on LG Card
KP chemical loans sold	4,029	Allowances for KP chemical loans sold
Dormant accounts	14,976	Allowances for dormant accounts written off
Cash advance service	45,234	Allowances for unused cash advance credit lines
Mileage rewards	80,676	Allowances for mileage on credit cards and currency exchange rates
Claimed assets	3	Allowances for credit card claimed assets
Credit commitments to SPC	438,343	Allowances for the credit line commitment to SPC (Note 16)
Loss on branch closure	237	Allowances for closure of the Buenos Aires branch
KAMCO loans sold	217	Allowances for loans under repurchase agreements to KAMCO (Note 16)
Master Card share agreement	3,135	Allowances for the share settlement provision for Master Card shares
Allowances for tax deficiencies	458	Allowances for tax deficiencies (Note 16)
	611,120	

14. GUARANTEES AND ACCEPTANCES

Guarantees and acceptances as of December 31, 2004 and 2003 are summarized as follows:

(in Millions of Korean won)

	2004	2003
Guarantees and acceptances outstanding in		
Won		
Guarantees on debentures	472	541
Guarantees on loan collateral	30,852	34,112
Others	260,497	235,843
	291,821	270,496
Foreign Currencies		
Acceptances on letters of credit	101,180	134,888
Acceptances for letters of guarantee for importers	62,829	88,743
Guarantees for performance of contracts	32,039	16,689
Guarantees for bids	2,606	1,067
Guarantees for borrowings	26,728	37,843
Guarantees for repayment of advances	23,213	10,004
Others	435,372	240,567
	683,967	529,801
	975,788	800,297
Contingent guarantees and acceptances		
Letters of credit	1,016,414	1,200,228
Others	295,360	81,290
	1,311,774	1,281,518
	2,287,562	2,081,815



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, the allowances for losses on guarantees and acceptances outstanding according to credit risk classifications are as follows:

(in Millions of Korean won)

Guarantees and Acceptances Outstanding In		Normal	Precautionary	Sub-standard	Doubtful	Estimated loss	Total
Won	Balance	280,910	8,614	2,042	225	30	291,821
	Allowance	-	-	408	113	30	551
	Ratio (%)	-	-	20.00	50.00	100.00	0.19
Foreign Currencies	Balance	672,484	10,312	1,024	142	5	683,967
	Allowance	-	-	496	98	5	599
	Ratio (%)	-	-	48.44	69.25	100.00	0.09
Total	Balance	953,394	18,926	3,066	367	35	975,788
	Allowance	-	-	904	211	35	1,150
	Ratio (%)	-	-	29.50	57.45	100.00	0.12

For the years ended December 31, 2004 and 2003, the changes in allowances for losses on guarantees and acceptances outstanding are as follows:

(in Millions of Korean won)

	2004	2003
Beginning balance	1,074	2,287
Loss from (reversal of) guarantees and acceptances	206	(1,209)
Changes in foreign exchange rates, etc.	(130)	(4)
Ending balance	1,150	1,074

The allowance ratios for guarantees and acceptances outstanding as of December 31, 2004, 2003 and 2002 are as follows

(in millions of Korean won)

	2004	2003	2002
Guarantees and acceptances outstanding	975,788	800,297	1,031,698
Allowance	1,150	1,074	2,287
Ratio (%)	0.12	0.13	0.22

The guarantees and acceptances risk concentration by country as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Korea	934,036	95.72	1,311,073	99.95	2,245,109	98.14
USA	41,752	4.28	701	0.05	42,453	1.86
	975,788	100.00	1,311,774	100.00	2,287,562	100.00

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The guarantees and acceptances risk concentration by industry as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Manufacturing	373,205	38.25	862,433	65.75	1,235,638	54.02
Service	265,714	27.23	346,398	26.41	612,112	26.76
Finance	242,520	24.85	911	0.07	243,431	10.64
Others	94,349	9.67	102,032	7.77	196,381	8.58
	975,788	100.00	1,311,774	100.00	2,287,562	100.00

15. DERIVATIVES

The Bank's derivative instruments are divided into hedge derivatives and trading derivatives, based on the nature of the transaction. The Bank enters into hedge transactions mainly for purposes of hedging fair value risks related to its assets and liabilities. Some hedging transactions do not qualify for hedge accounting and are thus accounted for as trading derivatives. These transactions include the hedge relationships where the hedged item is an asset or liability that is re-measured with the changes in fair value attributable to the hedged risk reported in the current operations, or where the hedged item cannot be specifically identified



Trading derivatives include future contracts, forward contracts, swaps, and options entered into by the Bank to meet the financing needs of its customers and to gain profit from arbitrage transactions between customers and other banks. The Bank also uses derivative instruments in managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange risks.

Hedge derivatives mainly consist of interest rate swaps to hedge the fair value changes of debentures arising from the interest rate fluctuations.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The notional amounts outstanding for derivative contracts as of December 31, 2004 and 2003 are as follows:

(in Millions of Korean won)

	2004			2003		
	Trading	Hedge	Total	Trading	Hedge	Total
Interest related						
Future	605,224	-	605,224	519,665	-	519,665
Swap	31,951,803	1,007,900	32,959,703	26,773,100	598,900	27,372,000
Option bought	354,190	-	354,190	810,000	-	810,000
Option sold	854,190	-	854,190	1,530,000	-	1,530,000
	33,765,407	1,007,900	34,773,307	29,632,765	598,900	30,231,665
Currency related						
Forward	53,943,197	-	53,943,197	25,870,850	-	25,870,850
Future	2,537,269	-	2,537,269	967,823	-	967,823
Swap	4,184,152	-	4,184,152	4,136,776	-	4,136,776
Option bought	245,387	-	245,387	28,148	-	28,148
Option sold	270,247	-	270,247	81,450	-	81,450
	61,180,252	-	61,180,252	31,085,047	-	31,085,047
Stock related						
Future	3,406	-	3,406	-	-	-
Option bought	1,743,480	-	1,743,480	1,964,870	-	1,964,870
Option sold	1,729,630	-	1,729,630	1,954,093	-	1,954,093
	3,476,516	-	3,476,516	3,918,963	-	3,918,963
	98,422,175	1,007,900	99,430,075	64,636,775	598,900	65,235,675

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Gains and losses on derivatives as of and for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

Gain on derivatives		
Gain on derivative transactions		4,057,392
Gain on valuation of derivatives		2,196,112
Gain on fair value hedged items		6,065
		6,259,569
Loss on derivatives		
Loss on derivative transactions		3,990,483
Loss on valuation of derivatives		2,050,551
Loss on fair value hedged items		3,890
		6,044,924

The summary of derivative transactions for the year ended December 31, 2004 and 2003 are as follows:

1) For the year ended December 31, 2004

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability
Interest related								
Option bought	4,234	-	4,234	3,192	-	3,192	6,202	-
Option sold	4,052	-	4,052	9,865	-	9,865	-	17,757
Swap	319,044	3,890	322,934	279,831	6,065	285,896	316,333	354,023
	327,330	3,890	331,220	292,888	6,065	298,953	322,535	371,780
Currency related								
Forward	1,519,740	-	1,519,740	1,480,920	-	1,480,920	1,519,636	1,486,626
Option bought	323	-	323	1,792	-	1,792	281	887
Option sold	2,683	-	2,683	379	-	379	827	379
Swap	321,802	-	321,802	250,158	-	250,158	476,703	287,203
	1,844,548	-	1,844,548	1,733,249	-	1,733,249	1,997,447	1,775,095
Stock related								
Option bought	10,554	-	10,554	8,718	-	8,718	72,002	-
Option sold	9,790	-	9,790	9,631	-	9,631	-	72,755
	20,344	-	20,344	18,349	-	18,349	72,002	72,755
	2,192,222	3,890	2,196,112	2,044,486	6,065	2,050,551	2,391,984	2,219,630



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

2) For the year ended December 31, 2003

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability
Interest related								
Option bought	770	-	770	1,705	-	1,705	6,487	-
Option sold	2,212	-	2,212	8,473	-	8,473	-	13,942
Swap	97,875	-	97,875	81,785	10,715	92,500	142,201	228,885
	100,857	-	100,857	91,963	10,715	102,678	148,688	242,827
Currency related								
Forward	149,056	-	149,056	156,773	-	156,773	152,104	178,064
Option bought	94	-	94	-	-	-	94	-
Option sold	358	-	358	581	-	581	130	615
Swap	31,005	-	31,005	50,423	-	50,423	258,136	82,827
	180,513	-	180,513	207,777	-	207,777	410,464	261,506
Stock related								
Option bought	105,536	-	105,536	15,184	-	15,184	192,100	-
Option sold	13,491	-	13,491	93,546	-	93,546	-	181,938
	119,027	-	119,027	108,730	-	108,730	192,100	181,938
	400,397	-	400,397	408,470	10,715	419,185	751,252	686,271

16. COMMITMENTS AND CONTINGENCIES

As of December 31, 2004, the Bank faces 192 pending legal actions involving aggregate amount of damages of 423,013 million. On the other hand, the Bank also filed 237 lawsuits, which are still pending, with an aggregate amount of claims of 129,598 million. Management believes that the actions against the Bank are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

Details of the pending material legal actions charged against the Bank are as follows:

(in Millions of Korean won)

Details	Exposure to possible loss	Results		
		1 st trial	2 nd trial	3 rd trial
Cancellation of a registered mortgage (12 cases)	6,696	closed	in progress	
Confirmation of obligations	14,722	closed	closed	in progress
Indemnification for damage etc.	19,303	closed	in progress	

As of December 31, 2004, the Bank has entered into commitments to provide a credit line of 5,226,756 million, and to purchase commercial papers amounting to 1,073,300 million, with several special purpose companies. Commitments to provide a credit line and to purchase commercial paper with a one year term amounted to 123,500 million and 972,000 million, respectively. Under these commitments, the Bank provides money, in case of a temporary fund shortage, for the principal and interest repayment of these companies' senior bonds and subordinated bonds within the contracted term and amounts.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, loans outstanding under the credit line commitment amounted to 196,858 million, and there is no outstanding balance for commercial papers under the purchase commitment. The Bank has arranged various methods to compensate for losses on these credit line commitments including payment guarantees, repurchase contracts, surety certificate guarantees, and cash reserves. As of December 31, 2004, the Bank provided 438,343 million in other allowances for its expected losses related to these commitments.

As of December 31, 2004, post settlements on the loan sales transactions with Korea Asset Management Corporation ("KAMCO") have been completed. Accordingly, the Bank provided allowances of 217 million for losses from possible future repurchase of loans from KAMCO under the repurchase agreement on loans amounting 692 million.

As of December 31, 2003, the Bank provided 142,021 million as allowances for tax deficiencies resulting from the tax investigations by the National Tax Administration ("NTA") for the fiscal years 1998 to 2001. In the current period, the NTA assessed the Bank 123,310 million in tax deficiencies, wherein the Bank actually paid 122,852 million and subsequently recording the difference between the accrued assessment and the actual assessment paid of 18,711 million as non-operating income. As of December 31, 2004, the unpaid tax deficiencies of 458 million still remain under other allowances.

As of December 31, 2004, the Bank still holds 6,629,858 million in unexpired rights to claim from borrowers or guarantors for loans in accordance with the relevant law. This amount, however, has been written off.

As of December 31, 2004, the Bank recorded receivables amounting to 1,162,161 million, and payables amounting to 1,468,528 million for unsettled foreign currency spot transactions.

The Bank entered into an alliance with Woori Credit Card, Citibank and Nonghyup for the operation of a credit card business. Accordingly, the Bank shares the related revenue from such business operation.

As of December 31, 2004, the Bank has provided one blank promissory note and one promissory note with face value of 2,000,000 million to Korea Securities Finance Corporation as collateral for borrowings and other obligations. Also, as of December 31, 2004, the Bank transferred endorsed bills amounting to 9,396 million.

In accordance with the November 24, 2003 agreement with the creditors' committee of LG Card Company, Limited ('LG Card'), which is experiencing a financial crisis, the Bank provided the said company loans totaling 437,000 million. And on January 9, 2004, the Bank agreed to also provide additional loans of 205,900 million, a debt-equity swap of 518,600 million, and an extension of maturities of loans maturing in 2004. On February 13, 2004, the Bank executed first debt-equity swap with LG Card for 156,350 million for loans amounting to 145,950 million and corporate debt securities amounting to 10,400 million. After the capital reduction in May 2004 at a rate of 43.4:1, a second debt-equity swap was executed in July 28, 2004 amounting to 362,250 million for loans of 348,364 million and corporate debt securities of 13,886 million. As of December 31, 2004, the Bank's total exposure related to LG Card includes loans and debt-equity swapped equity securities amounting to 237,900 million and 291,072 million, respectively. Also, in accordance with the agreement with the creditors' committee, the Bank participated in capital increase of LG Card by providing paid-in-capital of 75,800 million on January 28, 2005. Furthermore, as of December 31, 2004, asset backed debt securities amounting to 241,434 million, related with domestic credit card companies and capital companies, is included in the Bank's investment securities. The ultimate effect of these circumstances on the financial position of the Bank as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying non-consolidated financial statements.



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

17. CAPITAL STOCK

As of December 31, 2004, the Bank has 1 billion common shares authorized with a par value per share of 5,000 and 336,379,116 shares issued. EURO-PACIFIC GROWTH FUND owns 4.26% of the total issued shares. As of December 31, 2004, 47,503,730 common shares, equivalent to 14.12% of the total issued shares, are listed on the New York Stock Exchange as ADSs and are managed by the Bank of New York, the trustee of the Bank.

As a result of the legal consolidation with H&CB, the registered shareholders of both the Bank and H&CB, as of October 31, 2001, received 179,775,233 shares and 119,922,229 shares, respectively. The new shares were distributed based on an exchange ratio of one new Bank share each for 1.688346 old Bank shares, and one new Bank share for an H&CB share. The new shares were listed on the Korea Stock Exchange as of November 9, 2001. Further, as a result of the merger with Kookmin Credit Co., Ltd., the Bank issued 8,120,431 shares.

Under the General Banking Act, if a single entity, other than the government or a foreign investor, owns more than 4% of total outstanding voting shares, that entity's voting rights are limited to 4% shareholding.

The Bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of 2,500 billion and 500 billion, respectively by an appropriate resolution of the Bank's Board of Directors.

18. CAPITAL SURPLUS

The movements in capital surplus for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning Balance	Changes	Ending Balance
Paid-in capital in excess of par value	5,655,840	-	5,655,840
Gain on business combination	397,669	-	397,669
Revaluation increment	177,229	-	177,229
	6,230,738	-	6,230,738

The gain on business combination is due to the difference between the business combination consideration and the net asset value acquired from the merger with KLB on December 31, 1998.

19. RETAINED EARNINGS

The General Banking Act requires the Bank to appropriate as a legal reserve a minimum of 10% of annual net income until the legal reserve equals paid in capital. This reserve is only available for being transferred to capital stock or used to reduce accumulated deficit.

Under the guidance provided by Financial Supervisory Services, the Bank is required to appropriate, as a reserve for improvement of financial structure, a minimum of 10% of its annual income less carried over accumulated deficit, until its capital adequacy ratio equals 5.5%. This reserve is only available for being transferred to capital stock or used to reduce accumulated deficit.

Pursuant to the Tax Exemption and Reduction Control Law, the Bank was previously required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits up to December 31, 2001. However, as of January 1, 2002, the requirement was no longer effective.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The Bank, at its own option, also appropriated a portion of retained earnings as other reserves for the operations of overseas branches.

There were no dividends declared for the year ended December 31, 2003. For the year ended December 31, 2004, cash dividends were declared as follows:

	2004
Shares outstanding	336,379,116
Treasury stock	(29,881,209)
Shares entitled to dividends	306,497,907
Dividend rate(%)	11.00
Dividend amount (in millions of Won)	168,574
Dividend payout ratio(%)	30.36
Dividend profit ratio(%)	1.36

As approved by the shareholders on March 23, 2004, the Bank offset the discretionary reserves of 754,900 million against the prior year's undisposed deficit of 754,855million (which is the amount before reflecting restatement of prior period financial statements referred at Note 38).

20. CAPITAL ADJUSTMENTS

The movements in capital adjustments for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning Balance	Increase/ Decrease	Disposal/ Realization¹	Ending Balance
Treasury stock	(1,328,312)	-	5,992	(1,322,320)
Unrealized gain on available-for-sale securities	137,987	375,798	(74,995)	438,790
Unrealized gain on investment in associates	4,624	2,127	(1,059)	5,692
Stock options	26,211	5,101	(1,699)	29,613
Loss on disposal of treasury stock	(749)	(710)	-	(1,459)
	(1,160,239)	382,316	(71,761)	(849,684)

¹ Changes in foreign exchange rates from capital adjustments are included.

The Bank, with the approval of the Board of Directors on July 26, 2002, established an employee stock option plan for the welfare of the employees and purchased three million shares of treasury stock under the said plan. On July 26, 2002, the Bank contributed one million shares to the Employee Stock Ownership Association.

In accordance with the resolution of the Board of Directors on December 17, 2003, the Bank acquired 27,423,761 of its own shares previously owned by the Korean government at 43,700 per share through public bidding and intends to sell these shares depending on certain market conditions. As a result of the acquisition, the Bank holds 8.88% the total common stock issued as treasury stock as of December 31, 2004.



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21. EMPLOYEE STOCK OPTIONS

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

	Grant Date	Shares Granted	Forfeiture	Shares Exercised	Shares Outstanding	Exercise Price	Exercise Period
Series 1	00.03.18	233,940	121,411	71,641	40,888	23,469	03.03.19 - 05.03.18
Series 2	01.03.15	214,975	16,882	22,056	176,037	28,027	04.03.16 - 09.03.15
Series 3	98.10.31	400,000	-	400,000	-	5,000	01.11.01 - 04.10.31
Series 4	99.02.27	280,000	59,892	220,108	-	13,900	02.02.28 - 05.02.27
Series 5	00.02.28	267,000	65,218	41,784	159,998	27,600	03.03.01 - 06.02.28
Series 6	01.03.24	111,000	38,624	11,216	61,160	25,100	04.03.25 - 07.03.24
Series 7 ^{1,2}	01.11.16	850,000	200,000	-	650,000	51,200	04.11.17 - 09.11.16
Series 8-1 ²	02.03.22	132,000	89,753	-	42,247	57,100	05.03.23 - 10.03.22
Series 8-2 ³	02.03.22	490,000	166,466	-	323,534	57,100	05.03.23 - 10.03.22
Series 9 ³	02.07.26	30,000	-	-	30,000	58,800	05.07.27 - 10.07.26
Series 10-1 ²	03.03.21	140,000	59,947	-	80,053	35,500	06.03.22 - 11.03.21
Series 10-1 ³	03.03.21	180,000	64,090	-	115,910	35,500	06.03.22 - 11.03.21
Series 11 ³	03.08.27	30,000	24,909	-	5,091	40,500	06.08.28 - 11.08.27
Series 12 ³	04.02.09	85,000	-	-	85,000	46,100	07.02.10 - 12.02.09
Series 13-1 ²	04.03.23	20,000	-	-	20,000	47,200	07.03.22 - 12.03.23
Series 13-2 ³	04.03.23	10,000	-	-	10,000	47,200	07.03.22 - 12.03.23
Series 14	04.11.01	700,000	-	-	700,000	37,600	07.11.02 - 12.11.01
Increase due to merger-1 ⁴	01.03.22	22,146	-	-	22,146	71,538	04.03.23 - 11.03.22
Increase due to merger-2 ^{2,4}	02.03.29	9,990	-	-	9,990	129,100	04.03.30 - 11.03.29
		4,206,051	907,192	766,805	2,532,054		

1 The stock options excluded the 200,000 shares, which were to be additionally granted if the three-month weighted average stock price of the Bank prior to the exercise period is higher than that of any other listed banks and the Bank achieves total market value and ROE target, due to failure of target achievement.

2 The exercise prices are based on the increase rate of the stock price index in the banking industry. The exercise price of series 7, which was granted on November 16, 2001, is fixed at 51,200 based on the beginning exercise date.

3 The number of shares to be granted will be determined by the results of the evaluation of the grantees after 3 years from grant date. The number of shares is calculated under the assumption that the performance-based stock options have been fully granted.

4 The Bank took over the stock options granted by Kookmin Credit Card Co., Ltd. of which the exercise prices and number of shares have been adjusted in proportion to the merger ratio.

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Compensation costs for stock options granted to employees and executives are recognized on the basis of fair value. Assumptions used under the fair value basis method are summarized as follows:

	Stock price as of grant date (Won)	Risk free interest rate ¹ (%)	Expected exercise period (years) ²	Volatility of underlying stock price ³ (%)	Expected dividend rate ⁴ (%)	Compensation cost (Won)
Series 1	21,441	9.32	4.00	71.14	2.25	12,638
Series 2	25,156	6.06	5.50	70.30	2.47	15,987
Series 3	5,430	9.74	3.00	59.06	1.14	1,395
Series 4	33,750	4.74	0.33	73.30	1.93	19,850
Series 5	33,750	4.74	1.33	73.30	1.93	13,320
Series 6	33,750	4.74	2.42	73.30	1.93	17,117
Series 7	45,800	4.91	3.00	58.90	-	18,364
Series 8-1	58,000	6.14	3.00	53.56	-	24,494
Series 8-2	58,000	6.14	3.00	53.56	-	24,494
Series 9	53,900	5.73	3.00	43.09	-	17,333
Series 10-1	36,500	4.74	3.00	48.77	-	11,961
Series 10-2	36,500	4.74	3.00	48.77	-	14,073
Series 11	41,100	5.75	3.00	44.48	-	15,098
Series 12	47,000	4.90	3.00	42.74	-	16,430
Series 13-1	45,900	4.67	3.00	42.74	-	15,122
Series 13-2	45,900	4.67	3.00	42.74	-	15,120
Series 14	37,400	3.54	3.00	44.14	-	12,234
Increase due to merger-1	27,200	5.17	3.00	46.02	-	8,447
Increase due to merger-2	55,900	6.39	2.00	49.24	20	6,536

1 Interest rate of government bonds as of grant date.

2 The average of vesting period and exercise period was applied for series 11 and 12. Vesting period was applied for series 13-14 and stock options succeeded from Kookmin Credit Card Co., Ltd.

3 Annualized stock volatility for the past one-year period before the grant date was applied for series 11 and 12 and stock options succeeded from Kookmin Credit Card Co., Ltd., and the average of stock volatility of banking industries and the Bank was applied for series 13 and 14.

4 Average historical dividend rate for the past period from grant date that equals the expected exercise period, were assumed.

Notes to Non-Consolidated Financial Statements

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The compensation costs recognized and compensation costs to be recognized in the future as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Compensation cost recognized			Compensation cost to be recognized				Total compensation cost
	Prior period compensation cost	Current period compensation cost	Accumulated compensation cost	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	Total	
Series 1	517	-	517	-	-	-	-	517
Series 2	2,580	234	2,814	-	-	-	-	2,814
Series 5	2,131	-	2,131	-	-	-	-	2,131
Series 6	960	87	1,047	-	-	-	-	1,047
Series 7	10,840	1,097	11,937	-	-	-	-	11,937
Series 8-1	604	345	949	86	-	-	86	1,035
Series 8-2	5,296	1,968	7,264	660	-	-	660	7,924
Series 9	246	173	419	101	-	-	101	520
Series 10-1	427	131	558	319	80	-	399	957
Series 10-2	633	318	951	544	136	-	680	1,631
Series 11	50	(16)	34	26	17	-	43	77
Series 12	-	388	388	466	466	78	1,010	1,398
Series 13-1	-	76	76	101	101	24	226	302
Series 13-2	-	38	38	50	50	13	113	151
Series 14	-	238	238	2,855	2,855	2,616	8,326	8,564
Increase due to merger-1	171	16	187	-	-	-	-	187
Increase due to merger-2	57	8	65	-	-	-	-	65
	24,512	5,101	29,613	5,208	3,705	2,731	11,644	41,257

As of December 31, 2004, the weighted average exercise price per stock option granted is 43,632 and the weighted average compensation cost per stock option granted is 16,294.

Notes to Non-Consolidated Financial Statements

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22. OTHER NON-INTEREST INCOME (EXPENSES)

Other non-interest income and expenses for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Amount
Other non-interest income	
Realized gain on trading securities	147,631
Unrealized gain on trading securities	26,745
Income from beneficiary certificates	384,747
Gain on trust management	117,869
Gain on valuation of derivatives	2,196,112
Gain on fair value hedged items	6,065
Others	41,945
	2,921,114
Other non-interest expenses	
Realized loss on trading securities	69,214
Contributions to special funds	179,922
Loss on valuation of derivatives	2,050,551
Others	505,036
	2,804,723

23. GENERAL AND ADMINISTRATIVE EXPENSES

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

(in Millions of Korean won)

	Amount
Salaries and wages	1,196,981
Retirement benefits (Note 12)	124,608
Other employee benefits	335,764
Rent	79,139
Depreciation	333,019
Amortization	82,270
Taxes and dues	122,982
Advertising	43,869
Ordinary Research and Development	134,300
Fees and commissions	95,898
Others	209,684
	2,758,514



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

24. NON-OPERATING INCOME (EXPENSES)

Non-operating income (expenses) for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Amount
Non-operating income	
Gain on disposal of fixed assets	29,546
Rent income	3,171
Unrealized gain on investment in associates	-
Realized gain on available-for-sale securities	77,823
Realized gain on held-to-maturity securities	1,517
Realized gain on investment in associates	1,146
Reversal of impairment loss on tangible assets	3,281
Gain on sale of loans	23,770
Others	171,298
	311,552
Non-operating expenses	
Loss on disposal of fixed assets	16,736
Loss on impairment loss on tangible assets	19,384
Unrealized loss on investment in associates	5,014
Realized loss on available-for-sale securities	24,350
Realized loss on held-to-maturity securities	3
Impairment loss on available-for-sale securities	82,272
Early retirement benefits	50,029
Loss on sale of loans	1,183,331
Others	121,003
	1,502,122
	(1,190,570)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

25. INCOME TAX EXPENSE

Income tax expense for the year ended December 31, 2004 and 2003 are as follows:

	(in Millions of Korean won)	
	2004	2003
Income tax payable	178,871	23
Deferred income taxes from temporary differences	164,790	(285,864)
Deferred income taxes from accumulated deficit	-	(168,645)
Deferred tax credit	-	(3,951)
Retained earnings and other capital surplus adjustments ¹	(313)	2,033
Income tax expense(benefit)	343,348	(456,404)

¹ Income tax effect from the change in retained earnings by applying the equity method accounting to subsidiaries and from the loss on disposal of treasury stock.

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is 29.7% for the years ended December 31, 2004 and 2003. However, due to tax adjustments, the effective tax rate for the years ended December 31, 2004 and 2003 are 38.21% and 32.91%. The statutory income tax rate of 27.5% is applied for deferred income tax assets (liabilities) that will be realized after 2005, reflecting the 2% corporate tax rate cut from 2005. The basis for calculating the effective tax rate is as follows:

	(in Millions of Korean won)	
	2004	2003
Net income (loss) before income taxes	898,598	(1,386,760)
Income tax expense based on statutory tax rate(29.7%)	266,884	(411,868)
Tax effects on adjustments		
Adjustments to increase taxable income	110,844	97,458
Adjustments to decrease taxable income	(47,512)	(166,668)
Tax rate discount effect	13,132	24,674
Income tax expense (benefit) per statements of operations	343,348	(456,404)



Notes to Non-Consolidated Financial Statements

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The significant changes in accumulated temporary differences and deferred income taxes for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning balance	Increase	Decrease	Ending balance	Deferred tax asset (liability)
Allowance for loan losses	299,023	574,629	274,688	598,964	164,715
Accrued interest	(349,435)	(267,558)	(308,069)	(308,924)	(84,954)
Unrealized loss on securities	762,266	646,073	682,038	726,301	199,733
Unrealized gain on derivatives	(35,045)	(124,245)	(23,924)	(135,366)	(37,226)
Present value discounts	14,774	4,279	14,774	4,279	1,177
Allowance for losses on guarantees and acceptances	1,074	1,126	1,074	1,126	310
Stock options	26,211	29,613	26,211	29,613	8,143
Loss on fair value hedges	(1,502)	(2,176)	-	(3,678)	(1,011)
Accumulated depreciation	8,313	102	4,260	4,155	1,143
Other allowances	505,372	636,457	505,372	636,457	175,025
Others	104,471	232,281	329,516	7,236	1,990
Net operating loss carry-forward	567,825	-	567,825	-	-
	1,903,347	1,730,581	2,073,765	1,560,163	429,045
Deferred income tax deduction	3,951	-	3,951	-	-
					429,045

26. EARNINGS PER SHARE

The weighted average number of common shares outstanding for the years ended December 31, 2004 and 2003 are calculated as follows:

	2004	2003
Number of common shares outstanding-beginning balance	336,379,116	330,327,726
Weighted average number of treasury common shares	(29,947,507)	(4,327,815)
Weighted average number of common shares outstanding	306,431,609	325,999,911

Details of the computation of the basic earnings (loss) per share ("EPS") and basic ordinary income (loss) per share for the years ended December 31, 2004, and 2003 are shown below.

	2004	2003
Net income (loss) (in millions of Won)	555,250	(930,356)
Weighted average number of common shares outstanding	306,431,609	325,999,911
Basic earnings (loss) per share and basic ordinary income (loss) per share (in Won)	1,812	(2,854)

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

Details of the computation of the diluted EPS and diluted ordinary income per share for the years ended December 31, 2004, and 2003 are shown below.

	2004	2003
Net income (loss) (in millions of Korean won)	555,238	(930,356)
Weighted average number of common shares outstanding	306,529,707	325,999,911
Diluted earnings (loss) per share and ordinary income (loss) per share (in won)	1,811	(2,854)

Potential common shares as of December 31, 2004 are as follows:

	Exercise Period	Shares Outstanding	Exercise Price
Stock options	2001. 11. 01 - 2012. 11. 01	2,532,054	5,000 ~ 129,100

As discussed in Note 38, the Bank restated net loss and basic loss per share for the year ended December 31, 2003 from 753,348 million and 2,311 to 930,356 million and 2,854, respectively, to comply with the Securities and Futures Commission's announced the results of the investigation on Kookmin Bank's accounting treatments.



27. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Significant assets and liabilities denominated in foreign currencies as of December 31, 2004 are the following :

	Total Balances		Major Denomination Currencies		
	Millions of Korean Won	Thousands of US Dollars ¹	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	124,735	\$ 119,501	\$ 52,102	= 15,928	3,446,955
Due from banks	607,447	581,957	550,641	3,849	2,277,613
Securities	950,807	910,909	713,604	-	4,280,373
Loans	3,860,828	3,698,819	486,690	-	33,744,003
Bills bought	574,785	550,665	492,775	36,516	682,658
Call loans	191,784	183,736	163,600	-	500,000
Liabilities					
Deposits	1,434,061	1,373,885	862,896	46,339	33,911,574
Borrowings	2,540,260	2,433,665	1,859,413	40,051	46,777,477
Due to Bank of Korea	2,007	1,923	1,923	-	-
Call money	13,685	13,111	1,000	-	200,000
Debentures	696,522	667,294	570,752	-	-
Unsettled foreign exchange liabilities	21,395	20,497	16,305	596	120,366

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December 31, 2004 and 2003

Significant assets and liabilities denominated in foreign currencies as of December 31, 2003 are the following

	Total Balances		Major Denomination Currencies		
	Millions of Korean Won	Thousands of US Dollars ¹	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	228,153	\$ 190,476	\$ 76,612	= 22,070	7,223,564
Due from banks	601,624	502,275	478,539	3,015	1,798,015
Securities	1,350,145	1,127,187	969,825	3,960	3,674,314
Loans	4,019,930	3,356,094	2,464,055	37,850	79,081,632
Bills bought	533,294	445,228	415,863	15,003	817,496
Advances payments on acceptances and guarantees	4,593	3,835	3,835	-	-
Call loans	5,351	4,467	4,000	-	50,000
Liabilities					
Deposits	1,475,373	1,231,736	843,970	14,493	27,863,430
Borrowings	3,322,917	2,774,184	2,138,815	39,595	60,834,504
Due to Bank of Korea	12,608	10,526	10,526	-	-
Call money	193,700	161,713	157,600	-	300,000
Debentures	896,621	748,557	741,129	-	-
Unsettled foreign exchange liabilities	22,600	18,868	11,569	161	89,793

¹ Foreign currencies other than US dollars are converted into US dollar amounts using the exchange rates provided by Seoul Money Brokerage Services, Ltd. at the balance sheet date.

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28. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

The assets and liabilities arising from transactions with financial institutions for year ended December 31, 2004 are as follows:

(in Millions of Korean won)

Description		Bank of Korea	Other Banks	Other Financial Institutions	Total
Cash and due from banks	In Won	1,685,105	276,182	104,700	2,065,987
	In foreign currencies	43,631	558,771	5,045	607,447
		1,728,736	834,953	109,745	2,673,434
Loans	In Won	-	6,623	682,384	689,007
	In foreign currencies	-	809,978	340,448	1,150,426
	Others	-	2,991,017	1,111,480	4,102,497
		-	3,807,618	2,134,312	5,941,930
Deposits	In Won	-	1,683,255	5,240,889	6,924,144
	In foreign currencies	-	-	110,000	110,000
		-	1,683,255	5,350,889	7,034,144
Borrowings	In Won	920,144	158,245	5,227	1,083,616
	In foreign currencies	-	1,684,978	13,882	1,698,860
	Others	2,007	13,685	638,500	654,192
		922,151	1,856,908	657,609	3,436,668
Debentures	In Won	-	-	132,900	132,900
	In foreign currencies	-	696,522	-	696,522
		-	696,522	132,900	829,422



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29. RELATED PARTY TRANSACTIONS

Significant transactions with related parties for the year ended December 31, 2004 and 2003 are as follows:

		(in Millions of Korean won)			
		2004		2003	
	Account	Balances	Transactions	Balances	Transactions
KB Investment Co., Ltd.	Deposits	17,423	(432)	9,624	(484)
	Other liabilities	316	-	191	-
KB Data Systems Co., Ltd.	Fixed assets	13,318	-	13,780	-
	Other assets	98	-	34	-
	Deposits	12,047	(418)	5,582	(265)
	Other liabilities	5,596	(19,694)	2,832	(15,925)
	Borrowings	1,100	(19)	-	-
	Commissions income	-	-	-	53
KB Futures Co., Ltd.	Due from banks	-	1	40	3
	Other assets	22	82	26	77
	Deposits	4,410	(307)	9,793	(497)
	Borrowings	5,000	(122)	-	-
	Other liabilities	1,614	-	1,663	-
	Commissions income	-	11	-	9
Kookmin Bank Luxembourg S.A.	Due from banks	-	70	51,784	2,215
	Loans	-	184	76,659	739
	Other assets	-	-	176	2,900
	Borrowings	-	(178)	140,880	(193)
	Other liabilities	-	-	-	(1,352)
Kookmin Bank International Ltd.(London)	Due from banks	2,762	29	33,754	904
	Loans	242,005	3,142	95,824	1,765
	Other assets	1,005	637	405	477
	Borrowings	101,812	(547)	108,272	(501)
	Other liabilities	-	(2,190)	1,203	(4,011)
	Commissions expenses	-	(2,378)	-	(1,398)
Kookmin Bank Hong Kong Ltd.	Due from banks	619	61	372	857
	Loans	170,661	4,380	98,579	1,802
	Other assets	540	-	152	109
	Borrowings	12,145	(22)	173,121	(4)
	Commissions expenses	-	(1,802)	-	(1,777)
KB Asset Management	Deposits	25,729	(866)	46,244	(1,250)
	Other liabilities	524	-	234	(5)

continued;

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(in Millions of Korean won)

Account	2004		2003		
	Balances	Transactions	Balances	Transactions	
KB Real Estate Co., Ltd.	Loans	33,961	2,035	25,000	2,578
	Other assets	14	-	-	-
	Deposits	168	(43)	1,838	(27)
	Other liabilities	1,748	-	1,755	-
	Rent	-	152	-	-
Jooeun Industrial Co., Ltd.	Loans	70,808	-	139,425	-
KB Credit Information Co., Ltd.	Deposits	14,301	(385)	11,446	(457)
	Other liabilities	8,062	-	8,482	-
	Commissions expenses	-	32,938	-	(38,481)
KB Life Insurance Co., Ltd.	Other assets	3,037	-	-	-
	Deposits	4,622	(51)	-	-
	Other liabilities	2,581	-	-	-
	Commissions income	-	17,801	-	-
	Rent	-	54	-	-



30. INTEREST BEARING ASSETS AND LIABILITIES

Interest bearing assets and liabilities as of December 31, 2004 and the related interest income and interest expenses for the year then ended are as follows:

(in Millions of Korean won)

	Average Balance	Interest Income	Average Yield (%)
Assets			
Due from banks	829,905	9,995	1.20
Securities	23,818,203	1,045,947	4.39
Loans	139,533,481	10,279,924	7.37
	164,181,589	11,335,866	
Liabilities			
Deposits	129,654,719	3,909,204	3.02
Borrowings	10,891,248	326,586	3.00
Debentures	19,046,584	1,116,110	5.86
	159,592,551	5,351,900	

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31. OPERATIONS OF TRUST ACCOUNTS

The summarized statement of assets and liabilities of trust accounts as of December 31, 2004 are categorized into principal or dividend guaranteed money trusts, performance money trusts and property trusts, as follows:

(in Millions of Korean won)

	Guaranteed Money Trusts	Performance Money Trusts	Property Trusts	Total
Securities	2,874,475	3,676,741	1,041,021	7,592,237
Loans	211,489	150,416	-	361,905
Receivables	-	-	10,679,316	10,679,316
Due from banking accounts	116,824	210,916	101,729	429,469
Call loans	96,000	4,000	-	100,000
Allowance for loan losses	(33,710)	(13,482)	-	(47,192)
Other assets	50,216	73,015	927,079	1,050,310
Total assets	3,315,294	4,101,606	12,749,145	20,166,045
Trusts	3,108,612	3,920,223	12,534,329	19,563,164
Reserves for future losses	53,349	2,656	-	56,005
Other liabilities	153,333	178,727	214,816	546,876
Total liabilities	3,315,294	4,101,606	12,749,145	20,166,045

The Bank is liable as of December 31, 2004 for the following portion of the difference between the book value and fair value of principal and/or related profit guaranteed money trusts:

(in Millions of Korean won)

	Book Value	Fair Value	Liability
Principal guaranteed money trusts	3,233,059	3,255,108	-
Principal and dividend guaranteed money trusts	82,235	82,868	-
	3,315,294	3,337,976	-

The key results of operations from transactions between bank accounts and trust accounts, excluding securities investment trust, for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Trust Account Related Income		Trust Account Related Expenses
Gain on trust management	102,148	Interest expense on borrowings from	
Early withdrawal penalties	73	trust accounts	34,575
	102,221		34,575

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

32. BUSINESS COMBINATION WITH H&CB

The Bank entered into a business combination contract ("the Contract") with H&CB on April 23, 2001 and obtained approval from the shareholders for such combination on September 29, 2001. In accordance with the Contract, the Bank completed the legal consolidation with H&CB as of October 31, 2001. Under the Contract, the shareholders of the Bank and H&CB received 1 new common share of the Bank for every 1.688346 old shares of the Bank and 1 share of H&CB. The new common shares of the Bank were listed on the Korea Stock Exchange on November 9, 2001. Despite the legal form of consolidation, the business combination was accounted for as an acquisition with the Bank as acquirer of H&CB's total assets of 67,742,958 million and liabilities of 64,381,185 million.

33. MERGER WITH KOOKMIN CREDIT CARD CO., LTD.

The Bank obtained approval from its Board of Directors on May 30, 2003 to merge with Kookmin Credit Card Co., Ltd., (the "Subsidiary") of which the Bank previously owned 74.27%, and merged with the Subsidiary on September 30, 2003.

The merger was effected through the issuance of 8,120,431 common shares by the Bank to the shareholders of the Subsidiary as of July 24, 2003, at a ratio of 0.442983 share of the Bank's common stock for each share of the Subsidiary. The newly issued common shares due to this transaction constituted 2.4% of total outstanding shares of the Bank as of September 30, 2003.

34. STATEMENT OF CASH FLOWS

Cash and cash equivalents as of December 31, 2004 and 2003 as presented in the statements of cash flows are as follows:



	(in Millions of Korean won)	
	2004	2003
Cash on hand	2,380,578	2,945,921
Cash in foreign currencies	124,735	228,153
Due from banks in Won	2,068,749	2,763,457
Due from banks in foreign currencies	607,447	601,624
	5,181,509	6,539,155
Restricted deposits	(1,819,977)	(2,767,398)
	3,361,532	3,771,757

Major transactions that do not involve cash inflows and cash outflows for the year ended December 31, 2004, and 2003 are presented as follows:

	(in Millions of Korean won)	
	2004	2003
Change due to the merger with KB Credit Card Co., Ltd.	-	10,595,409
Unrealized gains on investment securities	300,802	(122,888)
Write-off of loans	5,293,809	4,773,212
Decrease in loan loss provision due to sales of non-performing loans	644,590	60,401
Conversion of loans into equity securities	181,034	33,415

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

35. BUSINESS SEGMENTS

The following table shows the general information and the distribution of the Bank's operations by business segment as of and for the year ended December 31, 2004:

(1) General information

	Business Scope
Retail Banking	Operation of loans to individual, household and related to it
Corporate Banking	Operation of loans to corporate and related to it
Capital Markets Activities	Operation of funds and securities
Credit Card Operations	Operation of credit card and card loan
Others	Others

(2) Financial information

(in Millions of Korean won)

	Retail Banking	Corporate Banking	Capital Markets Activities	Credit Card Operations	Others	Total
Loans	82,562,821	42,356,089	4,094,016	7,021,125	272	136,034,323
Securities	-	953,208	26,294,868	-	350,661	27,598,737
Fixed assets	1,662,848	151,660	12,944	55,448	750,318	2,633,218
Other assets	2,318,209	201,915	7,633,536	1,593,234	1,714,012	13,460,906
Total assets	86,543,878	43,662,872	38,035,364	8,669,807	2,815,263	179,727,184
Operating revenue	6,088,930	3,339,648	8,194,308	2,647,841	609,133	20,879,860

The following table shows the general information and the distribution of the Bank's operations by geographical market as of and for the year ended December 31, 2004:

(1) General information

The Bank's operations consist of domestic operations and overseas operations.

(2) Financial information

(in Millions of Korean won)

	Domestic	Overseas	Total
Loans	135,599,718	434,605	136,034,323
Securities	27,596,336	2,401	27,598,737
Fixed assets	2,630,151	3,067	2,633,218
Other assets	12,903,908	556,998	13,460,906
Total assets	178,730,113	997,071	179,727,184
Operating revenue	20,829,465	50,395	20,879,860

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

36. FINAL INTERIM PERIOD PERFORMANCE

Final interim performance for the three-month periods ended December 31, 2004 and 2003, are as follows:

(in Millions of Korean won)

	2004	2003
Operating income	7,013,515	3,114,173
Operating expense	6,782,350	1,600,139
Operating (loss) income	231,165	1,514,034
Net loss	(127,259)	(521,088)
Loss per share (in Won)	(415)	(1,587)

37. RECLASSIFICATION OF PRIOR YEAR FINANCIAL STATEMENT PRESENTATION

Certain accounts of prior year financial statements have been reclassified to conform to the current year financial statements presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

38. RESULTS OF SECURITIES AND FUTURES COMMISSION (SFC)'S INVESTIGATION AND RESTATEMENT OF PRIOR PERIODS' FINANCIAL STATEMENTS

On of August 25, 2004, the Securities and Futures Commission's ('SFC') announced the results of the investigation on Kookmin Bank's accounting treatments related to acquisition of Kookmin Credit Card and other transactions.

(1) Results of Securities and Futures Commission's investigation

- Accounting treatment in relation to the acquisition of Kookmin Credit Card ('KCC')

As discussed earlier, the Bank merged with KCC in September 2003. Relative to the merger, for the year ended September 30, 2003, KCC failed to recognize an allowance on loan loss of 1,266,405 million, which included other allowances of 15,442 million, resulting in the overstatement of the its net income. Consequently, the Bank recognized unrealized gain on investment in associates of 211,202 million in proportion to its 74.2692% interest in KCC which recorded a net income of 284,373 million for the same period. Regarding KCC's under-recording of the allowance of loan loss of 1,266,405 million and the additional allowance on loan losses due to the difference in accounting treatments on the Bank's consolidated financial statements of 389,980 million, both of which total 1,656,385 million, these were subsequently recorded by the Bank as allowance on loan loss due to merger of 1,652,264 million and impairment loss on investments available-for-sale of 4,121 million. To comply with the SFC's instructions, the Bank recorded unrealized loss on investment in associates of 1,018,982 million, proportionate to its 74.2692% interest in the sum of 1,372,012, which is the total of KCC's net loss of 982,032 million and the additional allowance on loan loss due to merger of 389,980 million; and deducted the minority interest of 309,559 million from additional paid in capital.



Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

- Accounting treatment in relation to asset securitization

The Bank is currently offering credit lines to the KCC 16th Special Purpose Co., Ltd ('SPC') and FN Star 3rd SPC amounting to 757,000 million (transferred value of 1,243,000 million, transfer gain of 488,000 million). However, the recovery rate of the assets transferred to the SPC's decreased dramatically between September 2003 and January 2004, before actual issuance of year-end financial status. As the present value of the underlying assets dropped below the SPC's liability amount, there is a high probability that the Bank would be liable to cover the difference up to the credit line limit. Even though the Bank could have reflected the probable contingency loss amount by estimating future cash flows based on the recovery rates available to the latest month and the fair valuation models used at the point of asset securitization, the Bank appropriated only 133,376 million for the estimable contingency loss of 346,533 million, understating other allowances (allowance for acceptances and guarantees outstanding) by 213,157 million and overstating net assets (understating net income) by the same amount.

- Accounting treatment in relation to Special Purpose Co., Ltd. currency swap

In relation to the early redemption of asset-backed securities ('ABS') by KCC 10th Special Purpose Co., Ltd on September 18, 2003, a settlement loss of 27,159 million was paid to ING Bank due to a decline in currency swap interest rate. Therefore, since KCC, the holder of the ABS, guaranteed the payment of the loss, KCC should have recognized the settlement payment as loss and the Bank should have recognized its equity share portion of 20,171 million and the excess amount over minority interest of 6,988 million as unrealized loss on investment in associates. However, KCC recognized the swap settlement payment as asset, ABS advance payment, and the Bank accounted for the amount as contra account amount of liabilities, agency fee. As a result, the Bank understated the liability by 27,159 million and overstated net assets by the same amount.

(2) Restatement of Prior periods' financial statements

To comply with SFC's instructions, the Bank restated its financial statements as of and for the year ended December 31, 2003 regarding the understatement of other allowance and overstatement of unrealized gain on investment in associates for the amount of 213,157million and 27,159 million, respectively, by reversing the understatement of other allowance by 213,157million in income statement for the year ended in December 31, 2003 and overstatement of unrealized gain on investment in associates by 27,159 million in income statement for the year ended in September 30, 2003. Therefore, the net income and retained earning before appropriation in the financial statements for the year ended in December 31, 2003 in the audit report dated March 3, 2004, were understated by 177,008 million due to tax effect of the understatement of other allowance by 213,157 million and the overstatement of unrealized gain on investment in associates by 27,159 million.

Notes to Non-Consolidated Financial Statements

December 31, 2004 and 2003

The balance sheet as December 31, 2003 and income statement for the year ended December 31, 2003, presented herein for comparative purposes, has been restated in accordance with above.

The following summarizes the adjustments made by the Bank and the effects on financial statements of December 31, 2003 are as follows:

(in Millions of Korean won)

	Before Adjustments	After Adjustments
Balance sheet (2003.12.31)		
Deferred income tax assets	552,636	615,944
Other allowances	647,393	860,550
Agency fee payable	337,624	364,783
Retained earnings	1,662,119	1,485,111
Income statement (2003.1.1-2003.12.31)		
Unrealized gain on investment in associates	267,870	240,711
Provision of other allowances	432,871	646,028
Income tax benefit	(393,096)	(456,404)

The following shows the recomputed ordinary loss, net loss, ordinary loss per share and net loss per share as of and for the year ended December 31, 2003:

(in Millions of Korean won)

	December 31, 2003	
	Before Adjustments	After Adjustments
Ordinary loss	(753,348)	(930,356)
Net loss	(753,348)	(930,356)
Ordinary loss per share(in Won)	(2,311)	(2,854)
Net loss per share(in won)	(2,311)	(2,854)

39. SUBSEQUENT EVENT

The Bank sold 49% of its ownership of KB Life Insurance Co., Ltd to ING Insurance International B.V. at 14,821 million on January 25, 2005.

The Bank participated in increasing the paid in capitals of LG Card Co., Ltd. amounting to 75,800 million on January 28, 2005, in accordance with the agreement with the creditors' committee.

On January 25, 2005, the Bank agreed with the Bank's labor union to implement an early retirement program to which about 2,200 employees applied as of February 2, 2005. Estimated cost for the said program is approximately 256 billion.

On February 3, 2005, the Bank, with the approval of the Board of Directors, decided to contribute 2 million treasury stocks to the Employee Stock Ownership Association for the welfare of the employees.

40. APPROVAL OF FINANCIAL STATEMENTS

The Bank's financial statements as of and for the year ended December 31, 2004, were approved by the board of directors on February 3, 2005.



Balance Sheets (Trust Accounts)

As of December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Assets		
Cash and due from banks	794,220	256,150
Securities (Note 4)	7,586,618	9,677,174
Loans (Note 5)	361,906	489,788
Trusted money receivables	10,679,316	20,228,649
Trusted estates	120,672	2,563
Real & personal property	95	177
Other assets	240,941	255,423
Due from banking accounts	429,469	1,567,943
Allowances for receivables losses (Note 6)	(47,192)	(140,540)
Total assets	20,166,045	32,337,327
Liabilities		
Money trusts (Note 8)	7,028,835	10,278,357
Property trusts (Note 8)	12,534,329	21,453,760
Accrued trust profit payable to beneficiaries(Note8)	450,324	418,599
Other liabilities	96,552	130,483
Reserves for future trust losses (Note 2)	56,005	56,128
Total Liabilities	20,166,045	32,337,327

Income statements (Trust Accounts)

For the years ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Revenue		
Interest and dividend income :		
Interest and dividends on securities	356,170	730,871
Interest on loans	33,251	51,484
Interest on call loans	2,524	
Interest on trusted money receivables	1,268,694	1,368,774
Interest on due from banking accounts	34,575	36,970
Other interest income	34,629	1,539
	1,729,843	2,189,638
Gains on derivatives	4,999	3,005
Gains on real & personal property	-	-
Gains on securities	121,625	253,296
Commissions income	768	1,068
Other revenues	18,843	39,242
Reversal of allowances for receivables losses	99,698	86,220
Reversal of reserves for future trust losses	9,503	1,527
	1,985,279	2,573,996
Expense		
Interest on borrowings	-	548
Fees and commission	1,641	2,161
Losses on derivatives	1,220	2,658
Losses on real & personal property	14	-
Losses on securities	95,774	109,826
Contribution to fund	6,693	7,680
Taxes	793	970
Trust fees to the Bank	102,148	232,361
Other expenses	2,438	7,832
Provision for future trust losses	9,381	11,966
Provision for receivables losses	3	50,240
	220,105	426,242
Dividends of trust profits to beneficiaries (Note 8)	1,765,174	2,147,754



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

1. THE TRUSTEE :

Kookmin Bank ("the Bank") was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act, effective January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Structural Improvement of the Financial Industry Act, the Bank purchased certain assets, including loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. Also, the Bank completed the legal consolidation with Housing and Commercial Bank ("H&CB") as of October 31, 2001 and merged with Kookmin Credit Card Co., Ltd., its majority-owned subsidiary, on September 30, 2003.

The Bank has its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. As of December 31, 2004, the Bank's paid-in capital amounts to 1,681,896 million and its 47,503,730 shares are listed on the New York Stock Exchange as American Depositary Shares.

Summarized financial status of the Bank is as follows. The net loss and accumulated deficit before appropriation in the financial statements for the year ended in December 31, 2003 in the audit report of the Bank dated March 3, 2004, were understated by 177,008 million due to tax effect of the understatement of other allowance by 213,157 million and the overstatement of unrealized gain on investment in associates by 27,159 million. Following financial status of the Bank has been restated in accordance with above:

	2004	2003
Cash and due from banks	5,177,758	6,526,345
Securities, net	27,598,737	26,908,462
Loans ,net	136,034,323	141,138,972
Other assets	10,916,366	9,528,411
Total assets	179,727,184	184,102,190
Deposits	127,010,534	132,180,272
Borrowings	9,634,296	10,902,800
Debentures	21,867,820	19,192,581
Other liabilities	12,109,893	13,589,031
Total liabilities	170,622,543	175,864,684
Total shareholders equity	9,104,641	8,237,506
Total liabilities and shareholders' equity	179,727,184	184,102,190
Operating revenues	20,879,860	15,556,986
Operating expenses	18,790,692	13,052,118
Net income	555,250	(930,356)

(in Millions of Korean won)

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

The Bank's trust accounts ("the Trust Accounts"), as the trustee acting as the legal fiduciary, manage and dispose of the entrusted rights of property for the benefit of the trustors.

Cash is entrusted for money trusts and cash is distributed to the trustees at trust maturity. There are specified money trust where the trustee specifically determines how the trust is to be managed and unspecified money trusts where the management is totally entrusted to the trustee. Property, including real estates, securities or other monetary receivables, are entrusted for property trusts and cash or property are distributed to the trustors according to the instructions of the trustor or beneficiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :

Under the Trust Business Act, the Trust Accounts are managed separately from the banking accounts. The financial statements of the Bank's Trust Accounts are prepared in accordance with the Trust Business Act and Trust Accounting Principles for the Bank Managing Trust Business of the Republic of Korea. Therefore, there may be material differences from what would have been prepared under financial accounting principles generally accepted in the Republic of Korea. The significant accounting policies applied in the preparation of the accompanying financial statements of the Trust Accounts are summarized below.

- Revenues and Expenses of Trust Accounts

The Trust Accounts record the amount of the trust revenue less all expenses and trust fees as the dividends of trust profits to beneficiaries. The trust fees are recorded in the Bank's banking accounts as a part of other operating income. Trust profit whose principal or minimum dividend is guaranteed is calculated by contractual dividend rate. Trust profit whose principal is not guaranteed or only principal is guaranteed is calculated by performance yield rate. However, when sum of principal guaranteed trust asset to be transferred to beneficiary is less than principal at termination of the trust period, principal should be guaranteed and no trust profit should be recognized.

- Interest Income Recognition

Interest income on loans and securities from the Trust Accounts' fund operations is recognized on an accrual basis, while interest income on overdue or dishonored loans and securities, except for those secured with deposits or guaranteed by financial institutions, is recognized on a cash basis. As of December 31, 2004 and 2003 the Trust accounts have related foregone interest of 26,964 million and 25,254 million, respectively.

- Securities

Acquisition costs are recorded at purchase cost added with related expenses. The Trust Accounts use the moving average method and specific identification method for determining the carrying value of equity securities and debt securities, respectively. The valuation methods used for securities are as follows :



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

	Valuation Methods
Marketable stocks and beneficial certificates	Market value
Non-marketable stocks	Carried at fair value only if the fair value is reasonably measurable. Otherwise, they are carried at cost.
Debt securities	Market value
Other securities	Market value

However, under the transition clause in the accounting and reporting guidelines prescribed by the trust regulatory authorities, the debt securities managed under the unspecified money trusts that were established before November 15, 1998 and suspended addition of new trust after July 1, 2000 are not recorded at market value. Instead, the loan classification criteria were applied to these securities and the related unrealized losses were charged to provision for receivables losses. When market value does not exist or does not reflect fair value, securities are valued by Market Value Appraisal Committee, which is managed by the trust company.

In addition, securities that are managed under specified money trusts or property trusts, other than beneficiary certificates, are recorded at cost.

- Allowances for Receivables Losses

The Trust accounts provide allowance for receivables losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines if the amounts are larger than allowances for receivables losses based on historical loss rate of the Trust Accounts' lending portfolios. As of December 31, 2004, the Trust Accounts provided allowance for receivables losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines.

- Allowance for receivables losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines

The Trust accounts determines the credit risk classification of corporate loans using a certain scale based on the Trust Accounts' internal credit rating system, the Forward Looking Criteria (FLC), and other factors such as days in arrears, insolvency and result of financial transactions. Allowances are determined by applying the rates of each credit risk classification. The FLC credit rating criteria are divided into 12 categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D) and credit risk classification are as follows.

Credit Risk Classification	Credit Ratings
Normal	AAA ~ B
Precautionary	B- ~ CCC
Sub-standard	CC
Doubtful	C
Estimated loss	D

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

However, the Trust accounts classify corporate loans, consumer loans, and credit card loans by considering the recoverable amounts of loans including delinquencies, bankruptcies. The rates used for determining the allowances for losses from corporate loans, consumer loans and credit card loans are as follows:

Credit Risk Classification	Consumer	Corporate
Normal(*)	0.75%	0.50%
Precautionary	8.00%	2.00%
Sub-standard	20.00%	20.00%
Doubtful	55.00%	50.00%
Estimated loss	100.00%	100.00%

(*) "Normal" is applied only to dividend guaranteed trust

Also, the Trust accounts provide additional allowance for relatively high-risk borrows based on estimated recovery amount, liquidation amount, within the maximum allowance rate for each classification.

-Allowance for receivables losses based on historical loss rate

The rates used for determining the allowances for losses based on historical loss rate by the Trust Accounts' lending portfolios is determined as follows:

Lending Portfolios	Methodology	Period of Historical Loss Rate	Period of Recovery Ratio
Impaired corporate loans	Discounted Cash Flows	N/A	N/A
Non-impaired corporate loans	Migration Analysis	1-year	5-year
Consumer loans	Migration Analysis	2-year	5-year
Credit card loans	Roll-rate Analysis	1-year	5-year

Based on the Trust Accounts' lending portfolios' nature, loan period, referrer period and other economic factors, the Trust Accounts determined the appropriate data period to be used in assessing its historical loss rate and recovery ratio.



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Trust accounts' loans, collected through reorganization proceedings, court mediation, or debt restructuring agreements of parties concerned, are recorded at their fair value at the time of the restructuring. In cases where the fair value of the assets received are less than the book value of the loan (book value before allowances), the Trust accounts offsets the book value against allowances for loans first and then recognizes provisions for loans. Impairment losses for loans, that were restructured in a troubled debt restructuring involving a modification of terms, are computed by getting the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated, and the book value before allowances for loans. If the amount of allowances already established is less than the impairment losses under the workout plans, the Trust Accounts establishes additional allowances for the difference. Otherwise, the Trust Accounts reverses the allowances for receivables losses.

After the above adjustments to loans from troubled debt structuring, the Trust Accounts separately establishes additional allowances for its loans on related present value, based on the credit status of the borrower.

Before the adoption of SKFAS No. 13, Troubled Debt Structuring, the difference between the nominal value and the present value of loan under troubled debt structuring agreements was recorded as present value discounts and was presented separately as a deduction from the loan nominal value. However, in accordance with the Trust Accounts' adoption of SKFAS No. 13, unamortized present value discounts as of the beginning of the current period are classified as allowances for receivables losses.

- Due from Banking Accounts

The surplus funds that result from the Trust Accounts' fund operations are loaned to the Bank's banking accounts and are recorded as due from banking accounts. Interest on loans to banking account is determined by applying call rate, announced by The Bank of Korea, to outstanding daily balance.

- Reserve for Future Trust Losses and Subsidies from Banking Accounts

Under the Trust Business Act, the Trust Accounts provide more than 25% of the trust fees as reserve for future trust losses up to 5% of invested capital for each type of money trusts with guarantees of principal or a minimum rate of return. When reserve for future losses are used to compensate principal or minimum rate of return, reversal of reserve for future trust losses are recorded and when there is excessive reserve for future trust losses, excessive reserves are transferred to trust fees. Provision for reserves was 9,381 million and 11,996 million for the year ended December 31, 2004 and 2003 respectively. Reversal of reserves was 9,503 million and 1,527 million for the year ended December 31, 2004 and 2003 respectively.

In cases where unspecified money trusts experience losses in excess of the guaranteed principal or a minimum rate of return, the losses are appropriated from reserve for future trust losses and trust fees. If losses are incurred in excess of the sum of reserve for future trust losses and trust fees, the Trust Accounts are provided the deficient amounts from the banking accounts. The banking accounts for this as loss on operating the Trust Accounts in other operating expenses and Trust Accounts account for this as subsidies from the banking accounts. No subsidies from Banking Accounts were recorded for the years ended December 31, 2004 and 2003.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

- Derivatives Instrument

The Trust Accounts trade KOSPI200 index futures and government bond futures for trading purposes. The Trust Accounts record gross gain/loss arising from each futures transaction. As of December 31, 2004, there is no outstanding derivative.

- Trust Fees

The Bank's banking accounts receive trust management fees from the Trust Accounts which consist of basic fees of 0.5% to 2.0% of invested capital, contingent fees and special fees. This amount is provided from the trust assets on day of trust closing or termination and expensed as trust fees.

- Performance Yield and Standard Price

Performance yield and standard price calculated by Trust Business Act are as follows:

(1) Performance yield

Performance yield is standard compound yield rate less the provision rate for provision for receivables losses and the trust management fee rate. Performance yield is the average of yields during the period of calculation of trust gain.

Standard compound yield rate is the sum of fund trust asset multiplied by its weighted average earnings rate divided by total trust assets.

The gains and losses on disposal of securities and other fees are reflected in the calculation of standard compound yield rate.

Daily gains and losses on disposal of securities and other fees are recognized over a one-month period from the date of occurrence.

However, weekly gains and losses on redemption or valuation of beneficial certificates are reflected in the following one-week's calculation of standard compound yield rate.

(2) Standard Price

The standard price(per 1,000 units) is calculated by dividing the net assets by the total number of beneficial certificate units. Net assets is defined as total assets less total liabilities, where total liabilities excludes money trusts and trust profit payable to beneficiaries.



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

3. SUMMARY OF TRUST ACCOUNTS :

As of December 31, 2004, condensed balance sheet is as follows (in Millions of Korean won) :

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Securities	2,874,475	52,189	3,618,933	1,041,021	7,586,618
Loans	211,490	7,869	142,547	-	361,906
Monetary receivables	-	-	-	10,679,316	10,679,316
Due from banking account	166,824	2,304	208,612	101,729	429,469
Allowance for receivables losses	(33,710)	(483)	(12,999)	-	(47,192)
Other assets	146,215	938	81,696	927,079	1,155,928
Total assets	3,315,294	62,817	4,038,789	12,749,145	20,166,045
Trust	3,018,612	53,124	3,867,999	12,534,329	19,563,164
Reserves for future trust losses	53,349	2,656	-	-	56,005
Other liabilities	153,333	7,037	171,690	214,816	546,876
Total liabilities	3,315,294	81,929	4,038,789	12,749,145	20,166,045

As of December 31, 2003, condensed balance sheet is as follows (in Millions of Korean won) :

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Securities	2,797,148	32,159	5,911,738	936,129	9,677,174
Loans	134,984	9,702	345,102	-	489,788
Monetary receivables	-	-	-	20,228,649	20,228,649
Due from banking account	470,647	41,322	872,302	183,672	1,567,943
Allowance for receivables losses	(70,610)	(2,500)	(67,430)	-	(140,540)
Other assets	73,047	1,246	177,967	262,053	514,313
Total assets	3,405,216	81,929	7,239,679	21,610,503	32,337,327
Trust	3,190,062	71,564	7,016,731	21,453,760	31,732,117
Reserves for future trust losses	52,566	3,562	-	-	56,128
Other liabilities	162,588	6,803	222,948	156,743	549,082
Total liabilities	3,405,216	81,929	7,239,679	21,610,503	32,337,327

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

Condensed income statement for the year ended December 31, 2004 is as follows (in Millions of Korean won) :

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Interest income	149,386	3,117	232,339	1,310,426	1,695,268
Gain on derivatives	83	-	4,916	-	4,999
Gain on securities	28,996	104	48,081	44,444	121,625
Interest on due from banking account	10,763	584	16,355	6,873	34,575
Reversal of allowance for receivables losses	38,645	3,127	57,926	-	99,698
Other income	11,802	1,396	14,535	1,381	29,114
Total revenues	239,675	8,328	374,152	1,363,124	1,985,279
Dividend of trust profits to beneficiaries	136,103	4,890	262,750	1,361,410	1,765,153
Loss on derivatives	399	-	821	-	1,220
Loss on securities	35,017	1,791	58,436	530	95,774
Trust fees	51,682	1,409	47,882	1,175	102,148
Provision for receivables losses	1	-	2	-	3
Other expenses	16,473	238	4,261	9	20,981
Total expenses	239,675	8,328	374,152	1,363,124	1,985,279

Condensed income statement for the year ended December 31, 2003 is as follows (in Millions of Korean won) :

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Interest income	201,981	5,827	572,470	1,372,390	2,152,668
Gain on derivatives	1,165	-	1,840	-	3,005
Gain on securities	28,963	382	72,241	151,710	253,296
Interest on due from banking account	7,897	811	22,180	6,082	36,970
Reversal of allowance for receivables losses	27,935	420	57,865	-	86,220
Other income	11,878	960	28,835	164	41,837
Total revenues	279,819	8,400	755,431	1,530,346	2,573,996
Dividend of trust profits to beneficiaries	107,837	4,193	508,886	1,526,838	2,147,754
Loss on derivatives	967	-	1,691	-	2,658
Loss on securities	45,516	1,192	60,988	2,130	109,826
Trust fees	84,389	2,223	144,389	1,360	232,361
Provision for receivables losses	16,803	454	32,983	-	50,240
Other expenses	24,307	338	6,494	18	31,157
Total expenses	279,819	8,400	755,431	1,530,346	2,573,996



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

4. SECURITIES :

Securities as of December 31, 2004 and 2003 comprise the following (in Millions of Korean won) :

	Par Value	Acquisition	Balance Sheet Amount	
		Cost	2004	2003
Equity securities	-	522,351	510,650	592,379
Government and municipal bonds				
Treasury bonds	477,300	455,960	455,961	633,371
Public housing bonds	242,355	234,400	236,624	404,809
Grain supply bonds	-	-	-	21,179
Foreign exchange stabilization bonds	120,000	121,700	121,218	138,263
Municipal bonds	24,214	23,257	23,277	54,798
		835,317	837,080	1,252,420
Finance debentures				
Monetary stabilization bond	1,170,000	1,150,969	1,152,621	878,077
Other finance debentures	1,199,654	1,173,094	1,174,289	706,286
		2,324,063	2,326,910	1,584,363
Corporate bonds				
Special bonds	993,276	1,008,270	999,465	1,240,448
General corporate bonds	919,603	914,283	915,724	2,284,154
ABS	396,570	397,000	397,270	555,760
		2,319,553	2,312,459	4,080,362
Commercial papers	629,078	179,663	179,663	563,432
Other securities				
Beneficiary certificates(bonds)	-	51,126	51,642	6,624
Beneficiary certificates(stocks)	-	769,567	811,919	772,200
Others	-	106,879	106,880	57,719
		927,572	970,441	836,543
Securities denominated in foreign currencies	449,415	449,415	449,415	767,675
		7,557,934	7,586,618	9,677,174

Securities subject to market value valuation are recorded at fair value using the average of yield rate provided by Korea Investors Service, Inc. and Korea Bond Pricing & KMCC Co.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

Investment securities risk concentrations as of December 31, 2004 and 2003 are as follows (in Millions of Korean won) :

	2004		2003	
	Amount	Ratio(%)	Amount	Ratio(%)
By country				
Korea	7,488,489	98.71	9,497,094	98.14
U.S.A	48,060	0.63	107,490	1.11
Others	50,069	0.66	72,590	0.75
	7,586,618	100.00	9,677,174	100.00
By Type				
Fixed rate bonds	5,468,179	72.08	6,948,477	71.81
Floating rate bonds	635,349	8.38	1,340,317	13.85
Convertible bonds	2,516	0.03	14,770	0.15
Equity securities	510,650	6.73	592,379	6.12
Beneficiary certificates	863,561	11.38	778,824	8.05
Stock warrant securities	-	-	1,019	0.01
Stock price linked securities	78,151	1.03	-	-
Investment in capital	26,824	0.35	-	-
Others	1,388	0.02	1,388	0.01
	7,586,618	100.00	9,677,174	100.00
By Industry				
Government and municipalities	840,401	11.08	1,252,419	12.94
Financial institutions	4,756,984	62.70	5,871,136	60.67
Manufacturing	491,702	6.48	963,555	9.96
Others	1,497,531	19.74	1,590,064	16.43
	7,586,618	100.00	9,677,174	100.00

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

The maturities of securities, except equity securities, as of December 31, 2004 and 2003 are summarized as follows (in Millions of Korean won) :

As of December 31, 2004

	Government & municipal Bonds	Finance Debentures	Corporate bonds	Commercial papers	Other securities	Securities in foreign currencies	Total
Due in 3 months or less	46,321	311,683	461,821	140,780	99,436	118,706	1,178,747
Due in 6 months or less	30,477	338,989	253,659	27,529	13,195	56,201	720,050
Due in 1 year or less	80,508	756,159	236,834	10,000	516	62,814	1,146,831
Due in 2 year or less	216,594	660,574	377,026	-	811,919	138,614	2,204,727
Due in 3 year or less	173,571	70,397	271,686	-	10,422	19,690	545,766
Due in 4 year or less	140,646	-	275,258	-	-	3,321	419,225
Due in 5 year or less	105,491	70,954	266,179	-	-	-	442,624
Thereafter	43,472	118,154	169,996	1,354	34,953	50,069	417,998
	837,080	2,326,910	2,312,459	179,663	970,441	449,415	7,075,968

As of December 31, 2003

	Government & municipal Bonds	Finance Debentures	Corporate bonds	Commercial papers	Other securities	Securities in foreign currencies	Total
Due in 3 months or less	65,594	207,020	526,349	538,687	45,981	-	1,383,631
Due in 6 months or less	82,138	153,882	400,713	6,000	9,946	78,644	731,323
Due in 1 year or less	241,188	585,845	701,494	16,550	403	240,569	1,786,049
Due in 2 year or less	344,681	547,141	1,480,548	-	-	237,138	2,609,508
Due in 3 year or less	307,728	20,000	632,972	-	769,567	132,644	1,862,911
Due in 4 year or less	3,306	-	82,248	-	-	13,530	99,084
Due in 5 year or less	207,785	40,105	248,600	-	-	-	496,490
Thereafter	-	30,370	7,438	2,195	10,646	65,150	115,799
	1,252,420	1,584,363	4,080,362	563,432	836,543	767,675	9,084,795

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

5. LOANS :

All loans as of December 31, 2004 and 2003 are Korean Won denominated loans generated in Korea.

Loan risk concentrations by industry as of December 31, 2004 and 2003 are as follows (in Millions of Korean won) :

	2004		2003	
	Amount	Ratio(%)	Amount	Ratio(%)
Corporate loans				
Financial institutions	426	0.12	942	0.19
Manufacturing	4,341	1.20	10,027	2.05
Services	29,723	8.21	111,104	22.68
Others	58,892	16.27	103,110	21.05
	93,382	25.80	225,183	45.97
Consumer loans	268,524	74.20	264,605	54.03
	361,906	100.00	489,788	100.00

The maturities of loans as of December 31, 2004 and 2003 are summarized as follows (in Millions of Korean won) :



As of December 31, 2004

	Secured by real estate	Secured by beneficiary right	Secured by guarantee	Secured by deposit	Secured by note	Others	Total
Due in 3 months or less	14,000	46,015	6	9,119	113	5,089	74,342
Due in 6 months or less	4,295	34,019	-	34,635	60	542	73,551
Due in 1 year or less	1,488	58,000	-	34,368	-	1,060	94,916
Due in 2 year or less	1,987	6,867	2	6,006	-	-	14,862
Due in 3 year or less	659	6,925	-	6	-	-	7,590
Due in 4 year or less	200	2,608	-	-	-	-	2,808
Due in 5 year or less	86	7,203	-	4	-	-	7,293
Thereafter	39,281	47,069	101	93	-	-	86,544
	61,996	208,706	109	84,231	173	6,691	361,906

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

As of December 31, 2003

	Secured by real estate	Secured by beneficiary right	Secured by guarantee	Secured by deposit	Secured by note	Others	Total
Due in 3 months or less	12,402	40,762	287	24,593	385	5,197	83,626
Due in 6 months or less	31,351	12,405	154	28,834	170	1,827	74,741
Due in 1 year or less	28,806	43,733	9	73,578	10,024	2,586	158,736
Due in 2 year or less	743	5,034	-	64,003	15,627	40	85,447
Due in 3 year or less	2,928	3,466	14	2,068	-	-	8,476
Due in 4 year or less	1,130	2,554	-	46	-	-	3,730
Due in 5 year or less	312	2,086	-	10	-	-	2,408
Thereafter	52,797	19,598	125	104	-	-	72,624
	130,469	129,638	589	193,236	26,206	9,650	489,788

The credit risk classifications of loans as of December 31, 2004 and 2003 are as follows (in Millions of Korean won) :

As of December 31, 2004

Secured by	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Real estate	37,248	8,560	12,835	152	3,201	61,996
Beneficiary right	208,695	-	6	3	2	208,706
Guarantee	92	-	13	-	4	109
Deposit	81,611	462	803	1,158	197	84,231
Note	-	24	142	7	-	173
Others	3,045	7	3,639	-	-	6,691
	330,691	9,053	17,438	1,320	1,554	391,906

As of December 31, 2003

Secured by	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Real estate	94,984	12,116	22,531	156	682	130,469
Beneficiary right	129,634	-	1	3	-	129,638
Guarantee	333	13	236	7	-	589
Deposit	148,019	40,170	2,437	1,831	779	193,236
Note	25,761	-	340	12	93	26,206
Others	5,865	47	3,738	-	-	9,650
	404,596	52,346	29,283	2,009	1,554	489,788

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

6. ALLOWANCES FOR RECEIVABLES LOSSES :

As of December 31, 2004 and 2003, allowances for receivables losses comprise follows (in Millions of Korean won) :

		2004	2003
Securities	Equity securities	23	7,499
	Corporate bonds	23,150	76,188
	Commercial papers	10,969	42,328
	Others	680	680
		34,822	126,695
Loans	Consumer loans	3,677	5,402
	Corporate loans	8,014	7,933
		11,691	13,335
Suspense receivables		502	431
Others	Real & personal property	16	79
	Unrealized gain on trading securities	161	-
		177	79
		47,192	140,540



Allowances for receivables losses and the related securities, loans and suspense receivables that need provision of allowances as of December 31, 2004 and 2003 are as follows (in Million of Korean won) :

As of December 31, 2004

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Securities						
Balance	134	37,129	18,918	22,019	6,204	84,404
Allowances	1	1,303	9,269	18,045	6,204	34,822
Provision rate(%)	0.75	3.51	49.00	81.95	100.00	41.26
Loans						
Balance	1,337	9,027	17,438	1,320	3,403	32,525
Allowances	10	859	6,608	811	3,403	11,691
Provision rate(%)	0.75	9.52	37.89	61.44	100.00	35.94
Suspense receivables						
Balance	-	-	230	181	357	768
Allowances	-	-	46	99	357	502
Provision rate(%)	0.00	0.00	20.00	54.70	100.00	65.36
Total						
Balance	1,471	46,156	36,586	23,520	9,964	117,697
Allowances(*)	11	2,162	15,923	18,955	9,964	47,015
Provision rate(%)	0.75	4.68	43.52	80.59	100.00	39.95

(*) Allowances provided for real estate and interest receivables amounting to 16million and 161million respectively are excluded

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

As of December 31, 2003

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Securities						
Balance	160	380,080	53,482	55,377	7,098	496,197
Allowances	1	59,319	17,483	42,794	7,098	126,695
Provision rate(%)	0.50	15.61	32.69	77.28	100.00	25.53
Loans						
Balance	1,831	14,346	29,282	2,010	1,554	49,023
Allowances	14	1,210	9,459	1,098	1,554	13,335
Provision rate(%)	0.76	8.43	32.30	54.63	100.00	27.20
Suspense receivables						
Balance	1	-	291	263	229	784
Allowances	-	-	58	144	229	431
Provision rate(%)	0.00	0.00	19.93	54.75	100.00	54.97
Total						
Balance	1,992	394,426	83,055	57,650	8,881	546,004
Allowances(*)	15	60,529	27,000	44,036	8,881	140,461
Provision rate(%)	0.74	15.35	32.51	76.39	100.00	25.73

(*) Allowances provided for real estate amounting to 79million are excluded

For the years ended December 31, 2004 and 2003, allowances for receivables losses changed as follows (in Millions of Korean won) :

		2004	2003
Beginning balance		140,540	190,417
Increase	Provision of allowance	3	50,240
	Others	8,907	13,829
		8,910	64,069
Decrease	Write off	2,560	27,726
	Reversal of allowance	99,698	86,220
		102,258	113,946
Ending balance		47,192	140,540

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

7. DERIVATIVES :

Derivatives of the Trust Accounts comprise KOSPI 200 index futures and government bond futures and the purpose of the transaction is to gain profit from short-term fluctuations of underlying variable of the instruments.

As of December 31, 2004 there is no outstanding derivatives contract and as of December 31, 2003 outstanding derivatives are as follows (in Millions of Korean won):

As of December 31, 2003

	Contract amount	Gain/Loss
Stock index related		
KOSPI200 index futures 0403	1,420	68

8. REVENUES AND EXPENSES :

Revenues and expenses of the Trust Accounts for the period ended December 31, 2004 and 2003 are as follows (in Millions of Korean won) :

As of December 31, 2004

	Revenue	Trust fees	Expense	Dividends
Money trusts				
Unspecified money trust	22	18	2	2
Installment money trust	22,157	6,170	1,742	14,245
Household money trust	12,856	1,946	4,790	6,120
Development trust	24,373	8,348	16,016	9
Money trust for old age living pension	4,149	2,116	176	1,857
Corporate money trust	1,055	163	12	880
National stock trust	2,104	58	849	1,197
Money trust for individual pension	141,371	22,377	28,089	90,905
Household long-term money trust	68,310	4,858	10,875	52,577
Money trust for employee	12,551	1,168	510	10,873
New installment money trust	70,298	21,297	9,793	39,208
Retirement trust	16,980	1,928	1,907	13,145
Specified money trust	114,625	3,122	16,200	95,303
Unit type money trust	27,197	3,304	14,020	9,873
Open type money trust	30,625	4,378	5,741	20,506
Real estate investments trust	15,931	1,782	620	13,529
New money trust for individual pension	3,397	600	403	2,394

continued;



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

	Revenue	Trust fees	Expense	Dividends
New money trust for old age living pension	37,546	14,214	3,880	19,452
New money trust for employee	4,771	1,045	398	3,328
Pension trust	11,837	2,082	1,416	8,339
	622,155	100,974	117,439	403,742
Property trusts				
Securities trust	52,866	122	539	52,215
Money receivables trust	1,309,719	689	-	1,309,030
Real & personal property trust	539	373	-	166
	1,363,124	1,174	539	1,361,411
	1,985,279	102,148	117,978	1,765,153
Money trusts				
Unspecified money trust	25	10	9	6
Installment money trust	41,505	14,040	2,618	24,847
Household money trust	13,109	3,281	5,435	4,393
Development trust	60,367	45,672	14,688	7
Money trust for old age living pension	6,517	2,322	448	3,747
Corporate money trust	1,683	185	135	1,363
National stock trust	2,302	62	952	1,288
Money trust for individual pension	125,835	20,643	35,945	69,247
Household long-term money trust	131,130	24,626	34,617	71,887
Money trust for employee	27,831	5,905	5,692	16,234
New installment money trust	181,793	78,679	9,392	93,722
Retirement trust	11,862	1,568	3,042	7,252
Specified money trust	256,668	5,589	23,841	227,238
Unit type money trust	34,761	4,084	6,298	24,379
Open type money trust	42,590	5,791	13,737	23,062
Real estate investments trust	27,707	3,795	764	23,148
New money trust for individual pension	2,579	471	1,004	1,104
New money trust for old age living pension	65,771	12,453	30,010	23,308
New money trust for employee	2,803	626	660	1,517
Pension trust	6,863	1,250	2,446	3,167
	1,043,701	231,052	191,733	620,916
Property trusts				
Securities trust	154,174	106	2,148	151,920
Money receivables trust	1,376,121	1,203	-	1,374,918
	1,530,295	1,309	2,148	1,526,838
	2,573,996	232,361	193,881	2,147,754

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

9. CHARACTERISTICS AND DIVIDEND RATE OF TRUST :

As of December 31, 2004 and 2003, the trust funds comprise 837,113 account units and 1,071,385 account units, respectively. The key terms and conditions of the trust funds are as follows (in Millions of Korean won) :

	Period (years)	Type of Dividends	Average Dividends Rate(%)	Guarantee
Money trust				
Unspecified money trust	over 1.5 years	Contracted	1.43	principal and interest
Installment money trust	over 1.5 years	Performance	4.90	- (*)
Household money trust	1.5 years	Performance	5.76	- (*)
Development trust	2,3 year	Contracted	3.78	principal and interest
Money trust for old age living pension	Over 5 years	Performance	3.48	principal
Corporate money trust	1.5 years	Performance	4.80	- (*)
National stock trust	Over 3 years	Performance	24.36	-
Money trust for individual pension	over 15 years	Performance	3.66	principal
Household long-term money trust	3-5 years	Performance	7.80	-
Money trust for employee	3-5 years	Performance	6.66	-
New installment money trust	over 1.5 years	Performance	5.19	-
Retirement trust	-	Performance	5.36	principal
Specified money trust	-	Performance	4.58	-
Unit type money trust	1 year	Performance	3.71	-
Open type money trust	1 year	Performance	5.23	-
Real estate investments trust	1-1.5 years	Performance	7.35	-
New money trust for individual pension	over 15 years	Performance	4.86	principal
New money trust for old age living pension	over 1 year	Performance	4.57	principal
New money trust for employee	3-5 years	Performance	4.63	-
Pension trust	over 15 years	Performance	4.76	principal
Property trust				
Securities trust	Over 1 year	Performance	6.46	-
Money receivables trust	-	Performance	8.49	-
Real & personal property trust	-	Performance	0.25	-

(*) Trust funds contracted prior to April 30, 1996 are guaranteed of their principal amounts.



Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

10. RELATED PARTY TRANSACTIONS :

Significant transactions with related parties for the year ended December 31, 2004 and 2003 are as follows (in Millions of Korean won) :

As of December 31, 2004

Balance sheet accounts		Income statement accounts	
Accounts	Amount	Accounts	Amount
Banking accounts			
Due from banking account	429,469	Interest income	1,912
Accrued payable trust fees	84,490	Loss on redemption of securities	44
		Gain on sale of securities	1,235
		Interest on due from banking account	34,575
		Commission on termination of commodity	73
		Trust fees	102,148

As of December 31, 2003

Balance sheet accounts		Income statement accounts	
Accounts	Amount	Accounts	Amount
Banking accounts			
Corporate bonds	146,660	Interest income	12,966
Commercial papers	35,900	Unrealized gain on securities	36
Due from banking account	1,567,943	Loss on redemption of securities	132
Accrued payable trust fees	111,363	Loss on sale of securities	6
		Interest on due from banking account	36,970
		Interest on borrowings	548
		Commission on termination of commodity	172
		Trust fees	232,361
Kookmin Credit Card Co.,Ltd.			
		Interest income	14,452
		Loss on redemption of securities	139
		Loss on sale of securities	90
Kookmin Investment Trust Mgt. Co., Ltd.			
		Interest income	1,202
		Gain on sale of securities	23

For the year ended December 31, 2004 and 2003, 31,533 million and 149,795 million of trust assets have been transferred from performance trusts to principal or dividends guaranteed trusts.

Notes to Financial Statements (Trust Accounts)

December 31, 2004 and 2003

11. UNCERTAINTIES DUE TO RECEIVABLES FROM DOMESTIC CREDIT CARD COMPANIES OR CAPITAL COMPANIES :

As of December 31, 2004, receivables amounting to 207,519 million, related with domestic credit card companies and capital companies, is included in the Trust accounts' securities. The ultimate effect of these circumstances on the financial position of the Trust accounts as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

12. BAN ON ADDITIONAL INSTALLMENT TO SOME TRUST:

Under the Laws on Operating Secondly Invested Assets legislated and enacted on January 5, 2004, establishment of new unspecified money trust, except for pension trust and retirement trust, is banned. Additional installment to trusts established prior to effective date of this law is also prohibited from July 5, 2004. Accordingly, as of December 31, 2004, additional installment to trusts other than specified money trust, property trust, public interest trust, and pension trust and retirement trust among unspecified money trust is prohibited and the trusted principals of these banned trust amount to 4,720,687million.



Report of Independent Auditors

December 31, 2004 and 2003

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS 

Samil PricewaterhouseCoopers

Kukje Center Building
191 Hankangro 2ga, Yongsangu
Seoul 140-702, KOREA
(Yongsan P.O. Box 266, 140-600)

To the Board of Directors and Shareholders of Kookmin Bank and subsidiaries

We have audited the accompanying consolidated balance sheets of Kookmin Bank and its subsidiaries ("the Consolidated Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of Kookmin Bank's ("the Bank") management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of KB Data Systems Co., Ltd., KB Futures Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Credit Information Co., Ltd. and Kookmin Bank HK Ltd., whose statements represent 0.35% of total assets as of December 31, 2004, and 0.87% of total revenues for the year then ended. Also, we did not audit the financial statements of KB Futures Co., Ltd., and Kookmin Bank HK Ltd., whose statements represent 0.13% of total assets as of December 31, 2003 and 0.15% of total revenues for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for KB Data Systems Co., Ltd., KB Futures Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Credit Information Co., Ltd. and Kookmin Bank HK Ltd., is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kookmin Bank and its subsidiaries as of December 31, 2004 and 2003, and the results of its operations, changes in shareholders' equity, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 37 to the consolidated financial statements, the Bank restated its consolidated financial statements as of and for the year ended December 31, 2003 to correct, as instructed by the Securities and Futures Commission, the overstatement of unrealized gain on investment in associates amounting to 27,159 million, presented as loss on derivatives transactions in the consolidated statement of operations, the understatement of provision for other allowances amounting to 213,157 million and the overstatement of income tax expenses amounting to

63,308 million. Accordingly, the financial statements as of and for the year ended December 31, 2003 included in the audit report dated March 3, 2004, are no longer effective, as they do not reflect the above restatements.

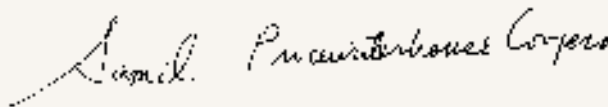
As discussed in Note 1 and Note 38 to the consolidated financial statements, on April 29, 2004, as a means to venture into the insurance business for diversification of revenues, the Bank invested 30,246 million (including acquisition costs) to acquire a 100% ownership of KB Life Insurance Co., Ltd., which was founded to acquire the assets and the liabilities of Hanil Life Insurance Co., Ltd. On January 25, 2005, the Bank sold 49% of its ownership of KB Life Insurance Co., Ltd. to ING Insurance International B.V. at 14,821 million.

As discussed in Note 1 to the consolidated financial statements, Pacific IT Investment Partnership and NPC02-4 Kookmin Venture Fund, which were equity method investees in the prior year, were included in the scope of consolidation.

As discussed in Note 20 to the consolidated financial statements, in accordance with the resolution made by the Board of Directors on December 17, 2003, the Bank's tender for 27,423,761 shares of treasury stock was accepted through public bidding on December 12, 2003 by the Korean government which previously owned 30,623,761 shares. The Bank acquired the said shares at 43,700 per share on December 17, 2003 and intends to sell these shares of treasury stock depending on certain market conditions.

As discussed in Note 2 to the consolidated financial statements, the Consolidated Company changed its accounting on its sale of loans. Previously, the sale proceed of written-off loans was recorded as an adjustment to related allowances and the gain or loss on sale of loans was recognized for non written-off loans for the difference of the book value at the date of sale and the proceeds of the sale. Currently, the sale proceed of written-off loans is not recorded as an adjustment to related allowances but is recorded as the gain or loss on sale of loans and the all gain or loss on sale of loans is calculated by comparing the sale proceeds against its book value on the year end immediately preceding the date of sale. Due to this change, loss on sale of loans increased by 1,183,119 million and gain on sale of loans and allowance for loan losses decreased by 142,531 million and 1,325,650 million, respectively, for the year ended December 31, 2004. The financial statements as of and for the year ended December 31, 2003, presented herein for comparative purposes, were restated to reflect the above changes resulting in an increase in loss on sale of loans by 2,586,725 million, a decrease in gain on sale of loans by 55,216 million and a decrease in provision for loans losses by 2,641,941 million. Such restatement has no effect on the net assets and the net loss as of and for the year ended December 31, 2003.

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 conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used 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 or auditing standards and their application in practice.



Seoul, Korea
February 18, 2005

This report is effective as of February 18, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Balance Sheets

December 31, 2004 and 2003

	(in Millions of Korean won)	
	2004	2003
Assets		
Cash and due from banks (Note 3)	5,251,217	6,560,651
Securities, net (Note 4)	30,303,215	29,337,684
Loans, net (Notes 5 and 6)	136,102,701	141,144,849
Fixed assets, net (Note 7)	2,637,118	3,024,948
Other assets, net (Note 8)	8,481,033	6,754,658
Total assets	182,775,284	186,822,790
Liabilities and Shareholders' Equity		
Deposits (Note 9)	130,133,873	135,373,286
Borrowings (Note 10)	9,359,595	10,750,820
Debentures (Note 11)	21,867,820	19,182,576
Other liabilities (Note 13)	12,226,696	13,205,072
Total liabilities	173,587,984	178,511,754
Commitments and contingencies (Notes 14 and 16)		
Common stock (5,000 par value per share, 1 billion authorized shares and 336,379,116 shares outstanding in 2004) (Notes 1 and 17)	1,681,896	1,681,896
Capital surplus (Note 18)	6,238,284	6,237,528
Retained earnings (Note 19)	2,091,960	1,535,656
Capital adjustments (Note 20)	(852,480)	(1,160,814)
Minority interest in consolidated subsidiaries (Note 21)	27,640	16,770
Total shareholders' equity	9,187,300	8,311,036
Total liabilities and shareholders' equity	182,775,284	186,822,790

Consolidated Statements of Operations

Year ended December 31, 2004 and 2003

(in Millions of Korean won
except per share amounts)

	2004	2003
Interest income		
Interest on due from banks	12,693	10,997
Interest on trading securities	289,393	303,743
Interest on available-for-sale securities	544,483	756,539
Interest on held-to-maturity securities	360,569	1,242,809
Interest on loans	9,862,381	10,647,859
Other interest income	120,980	122,955
	11,190,499	13,084,902
Interest expenses		
Interest on deposits	4,044,051	4,386,806
Interest on borrowings	330,690	591,830
Interest on debentures	1,116,557	1,436,234
Other interest expenses	48,562	60,891
	5,539,860	6,475,761
Net interest income	5,650,639	6,609,141
Provision for loan losses (Note 6)	3,064,528	2,028,696
Net interest income after provision for loan losses	2,586,111	4,580,445
Non-interest income		
Fees & commission income	2,651,130	2,566,553
Dividends on trading securities	3,378	79,121
Dividends on available-for-sale securities	6,883	5,986
Gain on foreign currency transactions	245,694	291,542
Gain on derivatives transactions (Note 15)	4,060,338	1,134,624
Insurance income	58,385	-
Others (Note 23)	2,976,927	857,192
	10,002,735	4,935,018
Non-interest expenses		
Fees and commission expenses	442,349	717,604
General and administrative expenses (Note 24)	2,844,108	3,027,164
Loss on foreign currency transactions	294,135	195,212
Loss on derivatives transactions (Note 15)	3,991,366	1,089,971
Insurance expense	43,672	-
Others (Note 23)	2,930,558	1,564,883
	10,546,188	6,594,834
Operating income	2,042,658	2,920,629
Non-operating expenses, net (Note 25)	(1,150,689)	(4,180,551)
Net income (loss) before income tax expense	891,969	(1,259,922)
Income tax (benefit) expense (Note 26)	338,105	(417,666)
Net income (loss) before consolidation adjustment	553,864	(842,256)
Minority interest in earnings of consolidated subsidiaries	(3,132)	(76,502)
Net income (loss)	550,732	(918,758)
Basic (loss) earnings per share (In Korean Won) (Note 27)	1,797	(2,818)
Diluted (loss) earnings per share (In Korean Won) (Note 27)	1,797	(2,818)

The accompanying notes are an integral part of these consolidated financial statements.



Consolidated Statements of Changes in Shareholder's Equity

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	Capital	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
Balance, January 1, 2003	1,641,293	5,968,401	2,787,469	30,817	252,355	10,680,335
Merger with Kookmin Credit Card Co.	40,603	271,274	-	-	(236,428)	75,449
Net loss	-	-	(918,758)	-	-	(918,758)
Dividend payment	-	-	(325,233)	-	(2,474)	(327,707)
Reserve for losses on sale of treasury stock	-	(2,147)	-	2,147	-	-
Changes in treasury stock	-	-	-	(1,182,235)	-	(1,182,235)
Unrealized gain on available-for-sale securities, net	-	-	-	(36,891)	(13)	(36,904)
Unrealized gain on investment in associates, net	-	-	-	881	-	881
Stock options	-	-	-	25,814	-	25,814
Unrealized gain on derivatives, net	-	-	-	(1,347)	-	(1,347)
Changes in minority interest	-	-	-	-	3,330	3,330
Changes in subsidiaries	-	-	(7,656)	-	-	(7,656)
Others	-	-	(166)	-	-	(166)
Balance, December 31, 2003	1,681,896	6,237,528	1,535,656	(1,160,814)	16,770	8,311,036

(in Millions of Korean won)

	Capital	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
Balance, January 1, 2004	1,681,896	6,237,528	1,535,656	(1,160,814)	16,770	8,311,036
Net income	-	-	550,732	-	-	550,732
Dividend payment	-	-	-	-	(1,929)	(1,929)
Reserve for losses on sale of treasury stock	-	-	-	(710)	-	(710)
Changes in treasury stock	-	-	-	5,992	-	5,992
Unrealized gain on available-for-sale securities, net	-	-	-	301,445	-	301,445
Unrealized gain on investment in associates, net	-	-	-	(1,795)	-	(1,795)
Stock options	-	-	-	3,402	-	3,402
Changes in minority interest	-	-	-	-	3,132	3,132
Changes in subsidiaries	-	756	5,856	-	9,667	16,279
Others	-	-	(284)	-	-	(284)
Balance, December 31, 2004	1,681,896	6,238,284	2,091,960	(852,480)	27,640	9,187,300

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Cash flows from operating activities		
Net income (loss)	550,732	(918,758)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Realized gain on trading securities, net	(111,450)	(60,783)
Unrealized gain on trading securities, net	(23,543)	(65,798)
Loss (gain) on foreign currency transactions, net	48,441	(96,330)
Provision for loan losses	3,064,528	2,028,696
Reversal of losses from guarantees and acceptances	-	(1,209)
Gain on derivatives transactions, net	(68,972)	(44,653)
Gain (loss) on valuation of derivatives, net	(145,482)	18,336
Loss on fair value hedged items, net	(2,175)	(10,715)
Retirement benefits	127,676	129,392
Stock compensation expense	5,101	12,130
Depreciation and amortization	438,184	519,356
Gain (loss) on disposal of fixed assets, net	(12,809)	34,416
Impairment loss on fixed assets, net	16,103	22,228
Realized gain on available-for-sale securities, net	(66,429)	(499,815)
Impairment loss on available-for-sale securities, net	91,312	107,886
Realized gain on held-to-maturity securities, net	(1,514)	(2,771)
Impairment loss on held-to-maturity securities, net	-	5,840
Unrealized gain on investment in associates, net	(32,507)	(22,675)
Gain on disposal of investment in associates	(1,146)	-
Loss on sale of loans, net	1,158,904	2,788,026
Minority interest in earnings of consolidated subsidiaries	3,132	76,502
Provision for guarantee allowance	206	-
Provision for other allowance	224,078	627,830
Reversal of loan losses due to merger	-	1,652,264
Gain on operation of beneficiary certificates, net	(384,747)	-
Contribution to insurance reserve	24,332	-
Others, net	(8,606)	22,755

continued;

Consolidated Statements of Cash Flows

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Changes in operating assets and liabilities		
Accrued income	58,041	215,068
Prepaid expenses	93,004	(165,084)
Deferred tax assets	169,580	(439,168)
Other assets	4,748	3,320
Accrued expenses	(124,702)	(761,806)
Unearned income	(33,161)	(15,988)
Withholding taxes	(116,050)	31,145
Other liabilities	(128,620)	161,197
Payment of retirement benefits	(41,525)	(39,045)
Retirement pension funds	(30,097)	(68,529)
Account for agency business	(131,017)	49,667
National pension funds	-	123
Deferred tax liabilities	235	-
	4,063,053	6,211,808
Net cash provided by operating activities	4,613,785	5,293,050

continued;

Consolidated Statements of Cash Flows

Year ended December 31, 2004 and 2003

(in Millions of Korean won)

	2004	2003
Cash flows from investing activities		
Decrease (increase) in due from banks	956,798	(1,178,162)
Decrease in trading securities	1,174,658	2,221,779
Increase in available-for-sale securities	(897,475)	(3,725,426)
(Increase) decrease in held-to-maturity securities	(246,271)	8,228,193
(Disposal) acquisition of investment in associates	33,315	(88,380)
Decrease (increase) in loans granted, net	299,812	(11,069,265)
Proceeds from disposal of fixed assets	188,418	105,902
Acquisition of fixed assets	(218,990)	(347,368)
Acquisition of intangible assets	(3,355)	(2,048)
Proceeds from disposal of foreclosed assets	545	2,830
Acquisition of foreclosed assets	(128)	(165)
Decrease (increase) in guarantee deposits	45,072	(3,528)
(Increase) decrease in other accounts receivable	(570,471)	170,286
Increase in payments in advance	(4,827)	(33,330)
Decrease in derivative assets, net	108,650	130,945
Collection of domestic exchange receivables	91,980	474,995
Collection of loans to trust accounts	16,381	26,060
Increase in provision for other allowances	85,072	-
Net cash provided by (used in) investing activities	1,059,184	(5,086,682)
Cash flows from financing activities		
(Decrease) increase in deposits, net	(5,239,412)	8,506,356
Increase in borrowings, net	(1,391,226)	(4,461,853)
(Decrease) increase in debentures, net	2,685,244	(4,269,961)
Increase (decrease) in borrowings from trust accounts	(2,830,810)	2,874,589
Increase in dividend payable	-	(325,233)
Decrease (increase) in other accounts payable	850,013	(181,195)
Decrease (increase) in advances received from customers	83,458	(142,668)
Increase (decrease) in guarantee deposits received	(11,967)	2,179
Decrease in domestic exchange payables	(142,425)	(141,312)
Increase in liabilities incurred by agency relationships	(34,672)	(171,172)
Acquisition of treasury stocks	-	(1,227,876)
Sale of treasury stocks	-	826
Stock options exercised	3,239	(35)
Increase in stock issuance cost	-	(212)
Net cash (used in) provided by financing activities	(6,028,558)	462,433
Decrease in cash due to change in scope of affiliates	(6,107)	(85,284)
Net increase (decrease) in cash and cash equivalents	(361,696)	583,517
Cash and cash equivalents, beginning of the year (Note 34)	3,790,765	3,207,248
Cash and cash equivalents, end of the year (Note 34)	3,429,069	3,790,765

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

1. THE CONSOLIDATED COMPANY

The accompanying consolidated financial statements have been prepared in accordance with financial accounting standards financial standards for consolidation of the Republic of Korea. The accompanying consolidated financial statements include the banking and trust accounts, subject to guaranteed fixed rates of return or principal repayment, of Kookmin Bank and its consolidated subsidiaries. General information on Kookmin Bank and its controlled subsidiaries is described below.

- The Bank

Kookmin Bank was established in 1963 under the Citizens National Bank Act to provide and administer funds for financing the general public and small businesses. Pursuant to the repeal of the Citizens National Bank Act effective January 5, 1995, the Bank has conducted its operations in accordance with the provisions of the General Banking Act.

The Bank merged with Korea Long Term Credit Bank ("KLB") on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. The Bank completed the legal consolidation with H&CB as of October 31, 2001 (Note 32) and Kookmin Credit Card as of September 30, 2003 (Note 33).

The Bank had its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. As of December 31, 2004, the Bank has 336,379,116 (amounting to 1,681,896) shares issued. Also, as of December 31, 2004, 47,503,730 shares of the Bank are listed on the New York Stock Exchange as American Depositary Shares ("ADS") (Note 17).

The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 1,124 domestic branches and offices (excluding automated teller machines of 204) and three overseas branches(excluding 2 local overseas branches and 1 overseas agency) as of December 31, 2004.

- Trust Accounts of the Bank

According to the accounting and reporting guidelines by the banking regulatory authorities, the accompanying consolidated financial statements include trusts subject to guaranteed fixed rates of return or principal repayment. Total assets of consolidated and non-consolidated trusts of the Consolidated Company as of December 31, 2004 and 2003 are as follows :

	2004	2003
Consolidated trusts	3,315,294	3,405,217
Non-consolidated trusts	16,850,751	28,932,110
	20,166,045	32,337,327

(in Millions of Korean won)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- Subsidiaries either consolidated or accounted for under the equity method

The subsidiaries of the Bank, either consolidated or accounted for under the equity method as of December 31, 2004 and 2003 are as follows:

Companies	Balance Sheet	2004		2003	
		Number of	Ownership	Number of	Ownership
Consolidated subsidiaries					
KB Data Systems Co., Ltd. ¹	December 31	799,800	99.98	799,800	99.98
KB Futures Co., Ltd. ²	March 31	3,999,200	99.98	3,999,200	99.98
KB Investment Co., Ltd. ³	December 31	8,941,587	99.89	8,941,587	99.89
KB Asset Management Co., Ltd. ⁴	March 31	6,134,040	80.00	6,134,040	80.00
KB Real Estate Trust Co., Ltd.	December 31	15,999,930	99.99	15,999,930	99.99
KB Credit Information Co., Ltd.	December 31	1,249,040	99.73	867,716	69.28
KB Life Insurance Co., Ltd.	March 31	6,000,000	100.00	-	-
Kookmin Bank HK Ltd. ⁵	December 31	2,000,000	100.00	2,000,000	100.00
Kookmin Bank Int'l. Ltd. (London)	December 31	20,000,000	100.00	20,000,000	100.00
Pacific IT Investment Partnership	December 31	-	60.00	-	60.00
NPC 02-4 Kookmin Venture Fund	December 31	-	50.00	-	50.00
Equity method investees					
ING Life Co., Ltd.	March 31	1,400,000	20.00	1,400,000	20.00
KLB Securities Co., Ltd.	December 31	4,854,713	36.41	4,854,713	36.41
Jeio Co., Ltd. ⁶	December 31	88,572	21.14	88,572	21.14
Joeun Industrial Co., Ltd.	December 31	1,999,910	99.99	1,999,910	99.99
KB Luxemburg S.A.	December 31	-	-	70,000	100.00
Kookmin Finance Asia Ltd. (HK)	December 31	2,000,000	100.00	2,000,000	100.00
Kookmin Singapore Ltd.	December 31	30,000,000	100.00	30,000,000	100.00
Sorak Financial Holdings	December 31	1,422,216	25.00	1,274,638	25.00
KIKO No.3 Venture Investment Partnership	June 30	-	80.38	-	80.38
Kookmin China Fund No. 1 ⁷	December 31	-	50.00	-	50.00
KTTC Kookmin Venture Fund No. 1 ⁷	December 31	-	20.00	-	20.00
Kookmin Investment Partnership No. 13 ⁷	April 30	-	-	-	33.33
Kookmin Investment Partnership No. 15 ⁷	June 30	-	34.00	-	34.00
Kookmin Investment Partnership No. 16 ⁷	July 31	-	20.00	-	20.00
KB 03-1 Venture Investment Fund ⁷	December 31	-	16.67	-	16.67
KIKO No.2 Venture Investment Partnership	June 30	-	68.89	-	68.89
KB 03-1 Corporate Restructuring Fund ⁷	December 31	-	29.00	-	29.00
Korea Asset Investment Co., Ltd.	December 31	-	-	6,000,000	26.67

1 Kookmin Data Systems Co., Ltd. was renamed KB Data Systems Co., Ltd. as of April 30, 2004.

2 Kookmin Futures Co., Ltd was renamed KB Futures Co., Ltd. as of April 30, 2004.

3 Kookmin Investment Co., Ltd. was renamed KB Investment Co., Ltd. as of April 30, 2004.

4 Kookmin Investment Trust Mgt. Co., Ltd. was renamed KB Asset Management Co., Ltd. as of April 29, 2004.

5 Kookmin Finance HK Ltd. was renamed Kookmin Bank HK Ltd. as of January 1, 2004.

6 Jeio Co., Ltd. was invested by KB Investment Co., Ltd., a subsidiary of the Bank.

7 These investment funds were invested by KB Investment Co., Ltd., a subsidiary of the Bank

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- Scope of Consolidation

On April 29, 2004, as a means to venture into the insurance business for diversification of revenues, the Bank invested 30,246 million (including acquisition costs) to acquire a 100% ownership of KB Life Insurance Co., Ltd. Therefore, KB Life Insurance Co., Ltd. was included in the scope of consolidation.

On September 30, 2003, the Bank merged with Kookmin Credit Card Co., Ltd, a subsidiary of the Bank of which the Bank formerly owned 74.27% in accordance with the resolution of Board of Director's on May 30, 2003. Thus, Kookmin Credit Card Co., Ltd was excluded from the scope of consolidation.

As of December 31, 2004, KLB Securities Co., Ltd., KIKO No.2 Venture Investment Partnership, KIKO No.3 Venture Investment Partnership, Kookmin Finance Asia Ltd. (HK) and Kookmin Singapore Ltd.and Joeeun Industrial Co., Ltd. are in the process of liquidation and were included in the scope of equity method investees.

Pacific IT Investment Partnership and NPC02-4 Kookmin Venture Fund, which were equity method investees in the prior year, were included in the scope of consolidation.

KIKO No.2 Venture Investment Partnership and KB03-1 Corporate Restructuring Fund, which were classified as available for sales securities in the prior year, were included in the scope of equity method investees.

As of February 18, 2004, KB Luxemburg S.A resolved to liquidate and completed liquidation process on November 30, 2004. Accordingly, it was no longer included in the scope of equity method investees.

As of November 18, 2004, KB 13 Investment Fund completed liquidation process and accordingly, it was no longer included in the scope of equity method investees.

Investments in Korea Asset Investment Co., Ltd. were fully sold on June 4, 2004. Accordingly it was no longer included in the scope of equity method investees.

- Operations of the subsidiaries either consolidated or accounted for under the equity method

Consolidated Subsidiaries:

(in Millions)

	Location	Outstanding Capital	Major Business
KB Data Systems Co., Ltd.	Korea	KRW 8,000	Software services for the Bank and other companies
KB Futures Co., Ltd.	Korea	20,000	Dealing and brokerage services for futures transactions
KB Investment Co., Ltd.	Korea	44,759	Investing and financing small and medium-sized enterprises
KB Asset Management Co., Ltd.	Korea	38,338	Providing security investment trust services and investment consulting services

Notes to Consolidated Financial Statements

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(in Millions)

	Location	Outstanding Capital	Major Business
KB Real Estate Trust Co., Ltd.	Korea	80,000	Development, management and brokerage services with regard to real estate and trust
KB Credit Information Co., Ltd.	Korea	6,262	Delinquent loan collecting service and credit checking services
KB Life Insurance Co., Ltd.	Korea	30,000	Insurance service
Kookmin Bank HK Ltd.	Hong Kong	USD 20 million	Commercial banking business and foreign exchange operation
Kookmin Bank Int'l. Ltd. (London)	U.K.	GBP 20 million	Commercial banking business and foreign exchange operation
Pacific IT Investment Partnership	Korea	14,000	Investing and financing small and medium-sized enterprises
NPC 02-4 Kookmin Venture Fund	Korea	30,000	Investing and financing small and medium-sized enterprises

- Equity Method Investees:

(in Millions)

	Location	Outstanding Capital	Major Business
ING Life Co., Ltd.	Korea	KRW 70,000	Insurance
KLB Securities Co., Ltd.	Korea	66,675	Securities related business
Jeio Co., Ltd	Korea	2,095	Inspecting materials, manufacturing measuring instruments
Joeeun Industrial Co., Ltd.	Korea	10,000	House construction, rent and management service with regard to real estate
Kookmin Finance Asia Ltd. (HK)	Hong Kong	USD 20 million	Commercial banking business and foreign exchange operation
Kookmin Singapore Ltd.	Singapore	SGD 30 million	Commercial banking business and foreign exchange operation
Sorak Financial Holdings	Singapore	SGD 6 million	Investment
KIKO No.3 Venture Investment Partnership	Korea	KRW -	Investment in venture capital
Kookmin China Fund No.1	Korea	6,000	Investment in venture capital
KTTC Kookmin Venture Fund No.1	Korea	10,000	Investment in venture capital
Kookmin Investment Partnership No. 15	Korea	5,000	Investment in venture capital
Kookmin Investment Partnership No. 16	Korea	2,000	Investment in venture capital
KB 03-1 Venture Investment Fund	Korea	7,500	Investment in venture capital
KIKO No.2 Venture Investment	Korea	450	Investment in venture capital
KB03-1 Corporate Restructuring Fund	Korea	20,000	Investment in venture capital



Notes to Consolidated Financial Statements

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- Significant Financial Data

A summary of significant financial data of the Bank and its subsidiaries, included in the accompanying consolidated financial statements is as follows:

(in Millions of Korean won)

	Total Assets	Shareholders' Equity	Operating Revenue	Net Income (Loss)
Bank accounts	179,727,184	9,104,641	20,879,860	555,250
Trust accounts	3,315,294	53,349	266,488	-
KB Data Systems Co., Ltd.	22,258	15,832	40,672	1,584
KB Futures Co., Ltd.	38,446	26,015	7,282	889
KB Investment Co., Ltd.	87,308	78,785	5,167	1,709
KB Asset Management Co., Ltd.	65,823	59,111	29,348	10,761
KB Real Estate Trust Co., Ltd.	201,267	58,117	52,033	(40,058)
KB Credit Information Co., Ltd.	28,589	21,067	39,364	2,405
KB Life Insurance Co., Ltd.	157,701	24,389	61,510	(6,392)
Kookmin Bank Hong Kong Ltd.	292,122	65,028	16,770	8,235
KB Int'l. Ltd. (London)	341,033	55,795	13,895	2,012
Pacific IT Investment Partnership	5,620	5,620	41	(1,613)
NPC 02-4 Kookmin Venture Fund	30,799	30,536	477	536
Elimination and equity pick-up	(1,538,160)	(410,985)	(219,673)	15,414
	182,775,284	9,187,300	21,193,234	550,732

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 Financial Statement Presentation

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

- Application of the Statements of Korean Financial Accounting Standards

The Bank has adopted Statements of Korean Financial Accounting Standards ("SKFAS") No. 1~13 (excluding SKFAS No.11) in the preparation of its financial statements. Except for SKFAS No. 10, 12 and 13 which have been effective as of January 1, 2004, the same accounting policies are applied for the financial statements as of and for the year ended December 31, 2004 and as of and for the year ended December 31, 2003.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- Accounting Policies of Consolidated Entities

The relevant laws and regulations applied to the consolidated entities are as follows:

	Relevant Laws and Regulations
The Bank and Trust Accounts	Accounting Standards of the Banking Industry, General Banking Act, and Trust Business Act
KB Futures Co., Ltd.	Supervisory Guidelines on Futures Trading
KB Investment Co., Ltd.	Act on support for foundation of small and medium-sized companies, and Loan Specialization Financial Business Act
KB Asset Management Co., Ltd..	Securities Investment Trust Business Act, and Accounting Standards for Securities Investment Trust Business
KB Real Estate Trust Co., Ltd.	Trust Business Act
KB Credit Information Co., Ltd.	Act on the use and protection of credit information
KB Life Insurance Co., Ltd.	Accounting Standards of the Insurance Business, General Insurance Business Act,

- Principles of Consolidation

The Consolidated Company eliminates the investment account of the controlling company and corresponding capital accounts of subsidiaries collectively. The Consolidated Company records the differences between the initial investment accounts and proportionate ownership of the fair value of the subsidiary's asset and liabilities as goodwill or negative goodwill, when the Consolidated Company has control over the subsidiary. In case that the Bank purchase additional shares after it obtained control over the subsidiary, the difference between the additional shares purchased and corresponding shareholder's equity is accounted as capital surplus. In case that the acquisition date of the subsidiaries differ from the fiscal year-end of subsidiaries, the acquisition date is regarded to be the nearest closing date.

All inter-company transactions and account balances between the consolidated entities are eliminated in consolidation. Unrealized gains and losses resulting from the sale from the Controlling Company to the subsidiaries are fully eliminated and charged to the equity of the Controlling Company while unrealized gains and losses resulting from the sale from the subsidiaries to the Controlling Company or from subsidiaries to subsidiaries are fully eliminated and charged to the equity of the Controlling Company and minority interest proportionately.

When net losses attributable to minority interests exceed the minority interest in the equity of the subsidiary, the excess is charged to the equity of the Controlling Company. When the subsidiaries report income, the minority interest portion of such income is allocated to the equity of the Controlling Company until the minority interest's share of net losses previously charged to the Controlling Company has been fully recovered.

If the fiscal year-end of subsidiaries is different from that of the Bank, the financial statements of such subsidiaries are prepared as of December 31 and for the year then ended for consolidation purposes.

- Recognition of Interest Income

The Consolidated Company recognizes interest income on due from banks, loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored due from banks, loans and debt securities, other than those collateralized with security deposits or guaranteed by financial institutions, is recognized on a cash basis. As of December 31, 2004, the Consolidated Company has non-accrual loans and securities of 8,137,825 million and 532,904 million, respectively, with related foregone interest of 489,698 million and 82,594 million, respectively. However, foregone interest related to securities of trust accounts was not included.



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- Securities

Securities that are bought and held principally for the purpose of generating profits on short-term differences in price, and which are actively and frequently bought and sold, are classified as trading securities. Debt securities with fixed or determinable payments and fixed maturity, and which the Consolidated Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Investments neither classified as trading securities nor held-to-maturity securities are classified as available-for-sale securities.

Securities are recognized initially at their fair value plus transaction costs that are directly attributable to the acquisition. Trading and available-for-sale securities are carried at fair value while held-to-maturity debt securities are carried at amortized cost.

Trading and available-for-sale debt securities are carried at fair value using the average of quoted prices provided by bond pricing service institutions while marketable equity securities are carried at market prices and beneficiary certificates are carried at quoted prices provided by the beneficiary certificate dealers. However, non-marketable equity securities are carried at fair value only if the fair value is reasonably measurable. Otherwise, they are carried at cost.

Unrealized gains or losses on trading securities are charged to current operations and those resulting from available-for-sale securities are recorded as capital adjustments and are realized when the related securities are disposed of. In case of available-for-sale securities, interest income reflecting premiums and discounts amortization should be included in current operations. Therefore interest income are recognized from premiums and discounts amortization using effective interest method over the maturity period and then the difference between the fair value and acquisition cost are charged to stockholder's equity. Impairment losses are recognized in the current operations when there is evidence of impairment and recoverable amounts of available-for-sale securities or held-to-maturity securities are less than either the acquisition cost of equity securities or the amortized cost of debt securities.

The assets of the wholly owned beneficiary certificates are classified based on the Consolidated Company's intention on the balance sheet. The fund assets of these wholly owned beneficiary certificates are comprised of deposits, call loans and securities, and the fund income is comprised of interest income, realized gains and losses, and valuation gains and losses. The Consolidated Company recorded all gains and losses from these wholly owned beneficiary certificates as income from beneficiary certificates.

- Investments in Associates

Investments in associates, over which the Consolidated Company exercises significant control or influence, are accounted for using the equity method. Under the equity method, the Consolidated Company records changes in its proportionate ownership of the associate in the current operations either as capital adjustments, adjustments to retained earnings or charges to net income(loss), depending on the nature of the underlying change in the book value of the investment in associate.

The Consolidated Company discontinues the equity method of accounting for investments in associates when the Consolidated Company's share of accumulated losses of the associates equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the associate equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Consolidated Company's initial proportionate ownership of the fair value of the net asset of the associate are amortized or accreted using an appropriate method and the resulting amortization is charged to current operations.

Notes to Consolidated Financial Statements

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Gains and losses recorded by the Consolidated Company from inter-company transactions with associates are fully eliminated. Gains and losses recorded by the associates from these transactions are proportionately eliminated, based on the Consolidated Company's percentage of ownership.

- Deferred Loan Origination Fees and Costs

The Consolidated Company defers loan origination fees associated with originating loans and loan origination costs that have future economic benefits. Loan balances are reported net of these loan origination fees and costs. The deferred loan origination fees and costs are amortized using the effective interest method with the amortization recognized as adjustments to other interest income.

- Allowances for Loan Losses

The Bank provides allowance for loan losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines if the amounts are larger than allowances for loan losses based on historical loss rate of the Bank's lending portfolios.

As of December 31, 2004, the Bank provided allowance for loan losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines.

- Allowance for loan losses based on the minimum reserve level provided by Financial Supervisory Service Guidelines

The Bank determines the credit risk classification of corporate loans using a certain scale based on the Bank's internal credit rating system, the Forward Looking Criteria (FLC), and other factors such as days in arrears, insolvency and result of financial transactions. Allowances are determined by applying the rates of each credit risk classification. The FLC credit rating criteria are divided into 12 categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D) and credit risk classification are as follows:

Credit Risk Classification	Credit Ratings
Normal	AAA ~ B
Precautionary	B- ~ CCC
Substandard	CC
Doubtful	C
Estimated loss	D

However, the Bank classifies corporate loans, consumer loans, and credit card loans by considering the recoverable amounts of loans including delinquencies, bankruptcies. The rates used for determining the allowances for losses from corporate loans, consumer loans and credit card loans are as follows:

Credit Risk Classification	Allowance Rates		
	Consumer	Credit Card	Corporate
Normal	0.75%	1.00%	0.50%
Precautionary	8.00%	12.00%	2.00%
Substandard	20.00%	20.00%	20.00%
Doubtful	55.00%	60.00%	50.00%
Estimated loss	100.00%	100.00%	100.00%



Notes to Consolidated Financial Statements

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Also, the Bank provides additional allowance for relatively high-risk borrowers and their assets based on estimated recovery amount, liquidation amount, within the maximum allowance rate for each classification.

-Allowance for loan losses based historical loss rate

The rates used for determining the allowances for losses based on historical loss rate by Bank's lending portfolios is determined as follows:

Lending Portfolios	Methodology	Period of Historical Loss Rate	Period of Recovery Ratio
Impaired corporate loans	Discounted Cash Flows	N/A	N/A
Non-impaired			
Corporate loans	Migration Analysis	1-year	5-year
Consumer loans	Migration Analysis	2-year	5-year
Credit card loans	Roll-rate Analysis	1-year	5-year

The Bank determined the appropriate data period to be used in assessing its historical loss rate and recovery ratio based on Bank's lending portfolios' nature, loan period, collection period, collection ratio, past trends and future market conditions, etc.

The subsidiaries determines allowances in conformity with generally accepted accounting principles in related industry and the relevant laws and regulations of the Republic of Korea. Additional allowances is provided if total allowances of subsidiaries is less than allowance determined by methodology of the Bank.

- Guarantees and Acceptances

The Consolidated Company applies the credit risk classification used for loans to outstanding guarantees and acceptances, and provides allowances for losses of 20%, 50% and 100% of the outstanding guarantees and acceptances classified as sub-standard, doubtful, and estimated loss, respectively.

- Troubled Debt Restructuring

The equity interest in the debtors, net of real estates and/or other assets received as full or partial satisfaction of the Consolidated Company's loans, collected through reorganization proceedings, court mediation, or debt restructuring agreements of parties concerned, are recorded at their fair value at the time of the restructuring. In cases where the fair value of the assets received are less than the book value of the loan (book value before allowances), the Consolidated Company offsets the book value against allowances for loans first and then recognizes provisions for loans. Impairment losses for loans, that were restructured in a troubled debt restructuring involving a modification of terms, are computed by getting the difference between the present value of future cash flows under debt restructuring agreements discounted at effective interest rates at the time when loans are originated, and the book value before allowances for loans. If the amount of allowances already established is less than the impairment losses under the workout plans, the Consolidated Company establishes additional allowances for the difference. Otherwise, the Consolidated Company reverses the allowances for loan losses.

After the above adjustments to loans from troubled debt restructuring, the Consolidated Company separately establishes additional allowances for its loans on related present value, based on the credit status of the borrower.

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Before the adoption of SKFAS No.13, Troubled Debt Structuring, the difference between the nominal value and the present value of loan under troubled debt structuring agreements was recorded as present value discounts and was presented separately as a deduction from the loan nominal value. However, in accordance with the Consolidated Company's adoption of SKFAS No.13, unamortized present value discounts as of the beginning of the current period are classified as allowances for loan losses.

- Fixed Assets and Related Depreciation

Cost of tangible assets are determined by cash, cash equivalents or fair value(or the revaluation amount of certain assets in accordance with the Korean Asset Revaluation Law) of other asset given in exchange. Depreciation is calculated based on the estimated average useful lives of the assets and is presented as accumulated depreciation, which is a contra account of tangible assets in the financial statements.

The estimated useful lives and depreciation methods of the tangible assets are as follows:

Tangible assets	Depreciation Method	Estimated Useful Life
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4-5 years
Equipment and vehicles	Declining balance method	4-5 years

Expenditures that enhance the capacity or increase the future economic benefit of the assets involved are capitalized as additions to tangible assets. However, routine maintenance or repairs are expensed as incurred.

Foreclosed assets acquired through, or in lieu of, loan redemption are stated at cost and are not depreciated. A valuation allowance is recorded when the latest bidding price at a public auction is below the book value, and is presented as a contra account of foreclosed assets in the financial statements.

Cost of intangible assets are determined by cash, cash equivalents or fair value of other asset given in exchange. Intangible assets are amortized based on the following estimated average useful lives and are presented in the financial statements, net of accumulated amortization:

Intangible assets	Amortization Method	Estimated Useful Life
Goodwill	Straight-line method	9 years
Negative goodwill	Straight-line method	5 years
Development costs	Straight-line method	5 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	5-30 years

The Consolidated Company estimated the useful life of endowment assets that are beneficial upon usage, classified under other intangible assets, to be 30 years based on the term of the contract. The Bank recorded goodwill as a result of the merger with H&CB for the cost of the merger exceeding the fair value of the net assets acquired.



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The Consolidated Company recorded negative goodwill as a result of the merger of KB Credit Information Co., Ltd. and KM Credit Information Co., Ltd for the fair value of net assets and liabilities exceeding the cost of merger equal to the purchase price. Negative goodwill is amortized for 5 years which is the average useful life of amortizable non-monetary assets.

Development costs directly related to a new technology or new products (including costs related to software development) are capitalized as intangible assets to the extent that the estimated future benefits are probable.

The Consolidated Company adjusts the book value of a fixed asset to its recoverable amount (expected sale price or appraisal value) and recognizes the difference as an impairment loss when the recoverable amount is significantly below the book value due to obsolescence or decline in market value. The subsequent increase in recoverable amount in excess of the impaired book value is recognized, to the extent of the book value (after accumulated depreciation) before impairment, as a reversal of fixed asset impairment losses.

- Stock Issuance Costs and Debenture Issuance Costs

Stock issuance costs are deducted from additional paid-in capital. Debenture issuance costs are recorded as discounts on debentures and amortized over the life of the debentures using the effective interest method.

- Accrued Retirement Benefits

Employees and directors with at least one year of service and temporary employees with at least a one-year contract are entitled to receive a lump-sum payment upon termination of their employment with the Consolidated Company, based on their length of service and rate of pay at the time of termination.

Additionally, the Consolidated Company records the contributions to pension funds, which grant the payment rights to its employees, as contra accounts of accrued retirement benefits.

- Insurance Reserve

The Company provides various Insurance reserves for payments, refunds, participating policyholders' dividends and related cost in the future as follows.

- Premium reserve is a net level premium reserve using interest and mortality assumptions used in computing cash surrender values.
- Reserve for outstanding claims represents refunds, dividends and claims reported and unpaid as of the balance sheet date.
- Unearned premium reserve represents the unearned portion of quarterly, semi-annual and annual premiums as of the balance sheet date.
- Dividends held on deposit for policyholders represent amounts payable to policyholders due to interest rate difference guarantee, mortality gains, excess interest, expense gains and long-term contracts in accordance with the regulations or agreements.

- Deferred Income Taxes

The Consolidated Company records the future tax effects of temporary differences between the financial and tax bases of assets and liabilities as deferred tax income assets or liabilities. The tax effects of temporary differences arising from the cumulative effects of accounting changes and prior period adjustments are adjusted in retained earnings. However, deferred tax income assets are recognized only when the possibility of income tax effect is high.

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- Bonds under Repurchase/Resale Agreements

Securities bought under resale agreements are recorded in loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded in borrowings as bonds sold under repurchase agreements. Interest from bonds purchased under resale agreements and bonds sold under repurchase agreements are recognized as interest income on loans and interest expense on borrowings, respectively.

- Derivative Instruments

Derivative financial instruments for trading or hedging purposes are valued at estimated market price and resulting unrealized gains or losses are recognized in current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Fair value hedge accounting is applied to a hedging transaction relationship entered into for hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss, both on the hedging derivative instrument and on the hedged item attributable to the hedged risk, are recognized in the same period.

The effective portion of the gain or loss for hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk is recorded as a capital adjustment and the ineffective portion as income or loss in current operations. The effective portion of the gain or loss recorded as a capital adjustment is reclassified into current operations in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss recorded in capital adjustment is added to or deducted from the asset or the liability.

- Stock Options

Compensation costs for stock options granted to employees and executives are recognized using the fair value method. Under the fair value method, compensation costs for stock option plans are determined using an option-pricing model and are recognized over the vesting period.

- National Housing Fund

The Consolidated Company, as designated by the Korean Government under the Housing Law (former Housing Construction Promotion Law), manages the sources and uses of funds of the National Housing Fund (the "NHF") and records the related NHF account in other liabilities. In addition, the Consolidated Company pays NHF the interest, which is computed by multiplying the average balance of the NHF account by the passbook deposit interest rate.

- Transactions with the Trust Accounts

The Bank's banking accounts receive trust fees from the trust accounts for its management of trust assets and operations. Under the Trust Business Act, the Bank recognize trust accounts separately from its won accounts. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts.

The reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensated by the



Notes to Consolidated Financial Statements

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Bank. Accordingly, the banking accounts recognize the compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts. No compensation was recorded for the years ended December 31, 2004 and 2003.

- Foreign Currency Translation

All assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date (2004: 1,043.8:US\$1, 2003: 1,197.8:US\$1), and resulting translation gains and losses are recognized in the current period.

Accounting records of the overseas branches are maintained in the foreign currency prevailing in their respective countries. For the purpose of presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Seoul Money Brokerage Services, Ltd. as of the balance sheet dates.

- Statement of Cash Flows

In the preparation of the statement of cash flows, the Consolidated Company has presented the net amounts of cash inflows and cash outflows for loans and deposits.

- Restatement of Prior Period Financial Statements

(1) Change of accounting policy on sale of loans

During the year ended December 31, 2004, the Consolidated Company changed its accounting on its sale of loans. Previously, the sale proceed of written-off loans was recorded as an adjustment to related allowances and the gain or loss on sale of loans was recognized for non written-off loans for the difference of the book value at the date of sale and the proceeds of the sale. Currently, the sale proceed of written-off loans is not recorded as an adjustment to related allowances but is recorded as the gain or loss on sale of loans and the all gain or loss on sale of loans is calculated by comparing the sale proceeds against its book value on the year end immediately preceding the date of sale. Due to this change, loss on sale of loans increased by 1,183,119 million and gain on sale of loans and allowance for loan losses decreased by 142,531 million and 1,325,650 million, respectively, for the year ended December 31, 2004. The financial statements as of and for the year ended December 31, 2003, presented herein for comparative purposes, were restated to reflect the above changes resulting in an increase in loss on sale of loans by 2,586,725 million, a decrease in gain on sale of loans by 55,216 million and a decrease in allowance for loans losses by 2,641,941 million. Such restatement has no effect on the net assets and the net loss as of and for the year ended December 31, 2003.

(2) Change of accounting policy on subordinated retained interests received from securitization transactions

The Consolidated Company reclassified the subordinated retained interests received from securitization transactions from available-for-sale securities to loans. Such reclassification has no effect on prior year's net loss and net assets. The prior year financial statements presented herein for comparative purposes were also reclassified to conform to the current year financial statement presentation.

(3) Results of Securities and Futures Commission (SFC)'s investigation and Restatement of prior periods' financial statements

As explained in Note 37, the Consolidated Company restated its financial statements as of and for the year ended December 31, 2003 to comply with Securities and Futures Commission's instructions.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

3. CASH AND DUE FROM BANKS

Cash and due from banks as of December 31, 2004 and 2003 consist of:

		(in Millions of Korean won)	
		2004	2003
Cash on hand			
	Cash in won	2,380,580	2,945,921
	Cash in foreign currencies	124,736	228,153
		2,505,316	3,174,074
Due from banks in Won			
Bank of Korea	Reserve deposits in the Bank of Korea	1,685,105	2,612,248
Other banks	Time deposits	-	14,901
	Passbook deposits	13,603	8,176
	Certificate of deposit	262,905	94
		276,508	23,171
Other financial institutions	Deposits at Mutual Savings & Finance Co., Ltd	90,005	140,094
	Time deposits at Ministry of Information and Communication	14,700	-
		104,705	140,094
Others	Futures margin accounts	5,890	6,602
	Market participation margin	463	454
	Due from Banking accounts	1,806	-
	KOSPI futures margin accounts	27,648	10,513
		35,807	17,569
		2,102,125	2,793,082
	Present value discounts ¹	(3,751)	(12,810)
		2,098,374	2,780,272
Due from banks in foreign currencies			
Bank of Korea	Demand deposits	43,631	12,415
Other banks	Demand deposits	38,910	76,142
	Time deposits	70,399	32,278
		109,309	108,420
Others	Other deposits	5,045	3,355
Off-shore	Demand deposits	489,542	482,115
		647,527	606,305
		5,251,217	6,560,651

¹ Present value discounts are related to the 90,000 million of time deposits (1% interest, scheduled in installments by the end of 2005) placed with Hansol Mutual Savings & Finance Co., Ltd. (formerly, Bukook Mutual Savings & Finance Co., Ltd.) during 1999.



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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

(in Millions of Korean won)

	Due from Banks in Won	Due from Banks in Foreign Currencies	Total
Due in 3 months or less	1,765,735	514,418	2,280,153
Due after 3 months through 6 months	280,261	133,109	413,370
Due after 6 months through 1 year	52,100	-	52,100
Due after 1 year through 2 years	-	-	-
Due after 2 years through 3 years	4,029	-	4,029
	2,102,125	647,527	2,749,652

Included in cash and due from banks as of December 31, 2004 and 2003 are the following restricted deposits:

(in Millions of Korean won)

	Place of Deposit	2004	2003	Restrictions
Reserve deposits	Bank of Korea	1,685,105	2,612,248	General Banking Act
Time deposits	Hansol Mutual Savings. & Finance Co., Ltd	90,000	140,000	Withdrawal at maturity
Due from banks in foreign currency	Bank of Korea	43,631	12,415	General Banking Act
Other deposits	JP MORGAN, etc.	7,163	18,033	Futures guarantee deposits
		1,825,899	2,782,696	

4. SECURITIES

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

(in Millions of Korean won)

	2004	2003
Trading	6,523,329	7,178,248
Available-for-sale	17,373,376	15,996,456
Held-to-maturity	6,239,716	5,991,930
Investment in associates	166,794	171,050
	30,303,215	29,337,684

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Trading, available-for-sale, and held-to-maturity securities as of December 31, 2004 and 2003 are as follows:

(in Millions of Korean won)

Trading	Unrealized		Book Value	
	Gain	Loss	2004	2003
Equity securities	9,446	16,503	206,432	139,285
Beneficiary certificates	106	1	53,443	1,689,388
Government and municipal bonds	6,129	30	1,127,307	1,610,359
Corporate bonds	23,506	1,400	4,803,068	3,354,929
Asset-backed securities	2,277	-	233,921	384,287
Other debt securities	13	-	99,158	-
	41,477	17,934	6,523,329	7,178,248

(in Millions of Korean won)

Available-for-Sale	Impairment		Capital Adjustments		Book Value	
	Reversal of	Loss	Gain	Loss	2004	2003 ¹
Equity securities	-	23,952	282,587	3,088	864,905	491,313
Investment in funds	-	3	3,203	-	7,773	41,723
Beneficiary certificates	-	-	160	14	157,277	4,375,817
Government and municipal bonds	-	-	19,372	-	2,242,856	2,323,106
Foreign government bonds	-	-	1,318	104	32,638	28,153
Corporate bonds	-	2,317	70,480	4,099	13,013,929	8,267,532
Asset-backed securities	-	65,040	72,116	-	857,770	468,669
Other debt securities	-	-	33	-	196,228	143
	-	91,312	449,269	7,305	17,373,376	15,996,456

(in Millions of Korean won)

Held-to-Maturity	Impairment		Unrealized		Book Value	
	Reversal of	Loss	Gain	Loss	2004	2003
Government and municipal bonds	-	-	133,514	18	3,080,601	2,490,063
Corporate bonds	-	-	78,719	39	2,959,959	3,175,544
Asset-backed securities	-	-	9,935	-	180,000	326,323
Other debt securities	-	-	-	-	19,156	-
	-	-	222,168	57	6,239,716	5,991,930

¹ Subordinated retained interest received from securitization transaction amounting to 1,193,383 million as of December 31, 2003 has been reclassified from beneficiary certificates in securities to credit card receivables in loans (Note 2).

Available-for-sale securities include structured securities related to stocks, such as convertible bonds, exchangeable bonds, bonds with stock warrants, and equity-indexed bonds amounting to 17,858 million, 153,525 million, 762 million, and 49,721 million, respectively. In addition, available-for-sale securities include structured securities related to interest rates such as dual indexed bonds, and inverse floater bonds amounting to 50,140 million, and 73,727 million, respectively. Moreover, available-for-sale securities include credit risk related securities, such as credit linked bonds amounting to 41,544 million.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004 and 2003, investments in associates are as follows:

(in Millions of Korean won)

Domestic Associates	Owner-ship (%)	Acquisition Cost	Beginning Balance ¹	Equity Method			Book Value	
				N/I	R/E	C/A	2004	2003
ING Life Co., Ltd.	20.00	21,769	41,845	23,576	-	3,724	69,145	43,845
KLB Securities Co., Ltd.	36.41	10,316	-	-	-	-	-	-
Jeio Co., Ltd.	21.14	750	544	92	-	-	636	544
Joeeun Industrial Co., Ltd.	99.99	23,994	-	-	-	-	-	-
KB Luxemburg S.A. ²	-	24,679	5,257	(1,206)	-	-	-	5,950
Kookmin Finance								
Asia Ltd. (HK)	100.00	7,307	249	5	-	-	254	286
Kookmin Singapore Ltd.	100.00	20,926	1,813	-	-	-	1,813	2,080
Sorak Financial Holdings	25.00	76,928	76,928	9,818	-	(4,593)	82,153	71,295
KIKO No.3 Venture								
Investment Partnership	80.38	-	-	149	-	-	149	341
Kookmin China Fund No.1	50.00	3,000	2,534	(178)	-	-	2,356	2,535
KTTC Kookmin Venture								
Fund No.1	20.00	2,000	1,330	95	-	-	1,425	1,329
Kookmin Investment								
Partnership No. 15	34.00	1,700	347	16	-	-	363	347
Kookmin Investment								
Partnership No. 16	20.00	214	-	-	-	-	-	-
KB 03-1 Venture								
Investment Fund	16.67	2,500	2,500	(91)	-	-	2,409	1,250
KIKO No.2 Venture Investment								
Partnership ³	68.89	60	60	213	-	-	273	-
Pacific IT Investment								
Partnership ⁴	60.00	8,400	-	-	-	-	-	-
NPC 02-4 Kookmin								
Venture Fund ⁴	50.00	15,000	-	-	-	-	-	5,090
KB03-1 Corporate								
Restructuring Fund ³	29.00	5,800	5,800	18	-	-	5,818	-
Korea Asset								
Management Co. Ltd. ⁵	-	30,629	-	-	-	-	-	35,788
Kookmin Investment								
Partnership No. 13 ⁶	-	1,000	-	-	-	-	-	370
		256,972	139,207	32,507	-	(869)	166,794	171,050

1 The beginning balance is the prior year's book value adjusted by dividends, changes in foreign exchange rates, and all the transactions during current year.

2 The Bank collected capitals from Kookmin Bank Luxembourg S.A. which completed liquidation process on November 30, 2004

3 The investments in funds which had been classified as available-for-sale for the prior years are reclassified as investments in associates as of January 1, 2004.

4 The investments in funds which were accounted as investments in associates had been included in the scope of consolidation as of January 1, 2004.

5 All equity securities of Korea Asset Management Co., Ltd. have been sold on June 4, 2004.

6 Kookmin Investment Partnership No. 13 completed liquidation process on October 18, 2004.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

KLB Securities Co., Ltd., Joeeun Industrial Co., Ltd., KIKO No.2 Venture Investment Partnership, KIKO No.3 Venture Investment Partnership, Kookmin Singapore, Ltd. and Kookmin Finance Asia, Ltd. (HK) are all in the process of liquidation. In addition, accounting under the equity method is no longer applied to investments in KLB Securities Co., Ltd. and Joeeun Industrial Co., Ltd. due to accumulated deficits resulting to a decrease of the investment value below zero. Accordingly, the total accumulated estimated loss that has not been recognized by the Consolidated Company arising from the securities amounts to 58,875 million.

The Consolidated Company applies the equity method accounting to subsidiaries based on unaudited financial statements as of December 31, 2004. In the case of Sorak Financial Holdings and ING Life Korea Co., Ltd., the Bank applies the equity method based on the most recent available unaudited financial statements that are adjusted for material changes in net assets for the period ended December 31, 2004.

The maturities of the available-for-sale(excluding equity securities and investment in funds) and held-to-maturity debt securities as of December 31, 2004 are summarized as follows:

(in Millions of Korean won)

Maturities	Available-for-sale		Held-to-maturity	
	Book Value	Fair Value	Book Value	Fair Value
Due in 1 year or less	7,804,867	7,804,867	1,966,865	2,001,190
Due after 1 year through 5 years	8,019,184	8,019,184	3,879,439	4,024,778
Due after 5 years through 10 years	675,422	675,422	393,412	435,859
Thereafter	1,225	1,225	-	-
	16,500,698	16,500,698	6,239,716	6,461,827

Investment securities risk concentrations as of December 31, 2004 are as follows:

(in Millions of Korean won, except ratio)

By Country	Book Value	Ratio (%)
Korea	30,079,563	99.26
Singapore	82,178	0.27
USA	50,514	0.17
Philippines	25,703	0.08
Indonesia	13,516	0.05
Others	51,741	0.17
	30,303,215	100.00



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(in Millions of Korean won, except ratio)

By Type	Book Value	Ratio (%)
Fixed rate bonds	26,154,533	86.31
Floating rate bonds	1,679,022	5.54
Subordinated bonds	981,947	3.24
Convertible bonds	30,996	0.10
Beneficiary certificates	210,721	0.70
Equity securities	1,225,338	4.04
Others	20,658	0.07
	30,303,215	100.00

(in Millions of Korean won, except ratio)

By Issuer	Book Value	Ratio (%)
Government and government-invested Public companies	9,878,441	32.60
Financial institutions	18,619,812	61.44
Manufacturing industries	557,196	1.84
Others	1,247,766	4.12
	30,303,215	100.00

Available-for-sale equity securities of which the fair value cannot be reasonably measured as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Book Value
Arirang Restructuring Fund	18,163
Mugunghwa Restructuring Fund	14,606
Seoul Restructuring Fund	12,540
Bad Bank Harmony	12,267
Mastercard, Inc.	7,900
Korea Asset Management Corp.	7,827
Samsung Life Insurance Co., Ltd.	7,479
Korea Highway Corp.	6,248
Continuous Linked Settlement System	6,211
Futures Market	3,000
Kyobo Investment Trust Management Co., Ltd.	2,100
Doum Co., Ltd.	1,987
Baring Communications Equity	1,957
Itswell Co., Ltd.	1,800
Innowireless Inc.	1,650
Pan Asia Paper	1,642
Korea Smart Card	1,628
BHflex Co., Ltd.	1,600

continued;

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(in Millions of Korean won)

	Book Value
Mobilink Telecom Co., Ltd.	1,400
Korea Money Broker Corp.	1,291
Miraetelecom Co., Ltd.	1,272
Future Communications IC Inc.	1,210
Digital & Optics Co., Ltd.	1,190
IntroMobile Co., Ltd.	1,100
Mercury	1,088
Tianjin Samsung Opto Electronics	1,020
Smart Card Laboratory Inc.	1,005
Others	58,495
	179,676

As of December 31, 2004, the following investment securities are pledged at various institutions:

(in Millions of Korean won)

Restrictions		Restricted securities	
Related Transactions	Placed with	Book Value	Pledge Value
Bonds sold under REPO agreements	Customers	3,791,977	3,795,600
Borrowings from the Bank of Korea	Bank of Korea	1,024,167	1,015,000
Bank of Korea settlements	Bank of Korea	170,535	170,200
Derivative transactions	Samsung Futures, others	175,447	184,000
Others	Standard Chartered Bank, others	92,409	92,048
		5,254,535	5,256,848

5. LOANS

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

(in Millions of Korean won)

		2004	2003
Loans in Won			
Corporate loans	Operation loans		
	General operation loans	25,445,435	28,863,025
	Notes discounted	1,197,606	1,415,445
	Overdraft accounts	401,369	447,992
	Trading notes	740,580	809,921
	Other operation loans	3,862,853	3,793,594
		31,647,843	35,329,977
	Facility loans		
	General facility loans	5,139,091	5,413,333
	Other facility loans	1,148,430	1,218,369

continued;



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(in Millions of Korean won)

		2004	2003
		6,287,521	6,631,702
		37,935,364	41,961,679
Consumer loans	General consumer loans	41,959,116	41,952,638
	Consumer housing loans	41,234,213	38,199,384
	Remunerations on mutual installment savings	300,032	297,868
	Other consumer loans	532,615	635,217
		84,025,976	81,085,107
Public loans	Public operation loans	673,456	526,227
	Public facility loans	40,383	42,473
		713,839	568,700
Trust accounts	Loans on real estate collateral	211,490	134,984
Insurance accounts	Policy loans	8,552	-
Other loans	Property formation loans	9,719	62,963
	Inter-bank loans	6,114	12,815
	Others	2,938	3,963
		18,771	79,741
		122,913,992	123,830,211
Loans in foreign currencies	Domestic funding loans	1,013,924	1,212,261
	Off-shore funding loans	468,560	863,062
	Inter-bank loans	886,283	623,683
	Domestic usance bills	1,290,566	1,200,385
	Government funding loans	420	1,477
		3,659,753	3,900,868
Call loans	In Won	2,910,996	1,640,000
	In foreign currencies	178,480	19,448
		3,089,476	1,659,448
Privately placed debentures		1,210,585	1,794,231
Other loans		8,311,105	13,873,738
Allowances for loan losses (Note 6)		(3,131,099)	(3,922,214)
Net deferred loan origination fees and costs		48,889	8,567
		136,102,701	141,144,849

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, restructured loans due to workout plans or other similar restructuring programs are as follows:

(in Millions of Korean won)

	Workout	Court Receivership	Court Mediation	Others	Total
Period (in years)	1~9	6~10	4~10	4~7	
Adjusted interest rate (%)	5.96~22.22	5.93~14.80	4.90~17.00	9.50	
Balances before restructuring	120,177	26,026	44,565	612,235	803,003
Loans swapped to equity	3,700	4,090	-	494,314	502,104
Loans due for equity conversion	-	746	-	-	746
Loans to be restructured	116,477	21,190	44,565	117,921	300,153
Balances after restructuring	109,916	15,064	41,338	111,698	278,016
Allowances for loan losses (present value discounts)	6,561	6,126	3,227	6,223	22,137

The loans, or portions thereof, that are approved for debt restructuring by issuance or grant of equity are separately classified as loans due for equity conversion as of the agreement date. The loans due for equity conversion are stated at the lower of nominal amount or the fair value of the to-be-converted equity. The difference between the nominal amount and the fair value of the equity is adjusted in the related allowance for loan losses.

The movements in allowance for loan losses(present value discounts) related restructured loans and deferred loan origination fees and costs for the year ended December 31, 2004 are as follows :

(in Millions of Korean won)

	Beginning Balance	Increase	Decrease	Ending Balance
Allowance for loan losses (present value discounts)	22,826	12,283	12,972	22,137
Deferred loan origination fees and costs	8,567	44,766	4,444	48,889



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of loans as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Bills Bought	Credit Card	Call Loans	Privately-placed Debentures	Others	Total
Due in 3 months or less	19,134,705	856,807	505,424	5,329,240	3,089,476	38,168	33,653	28,987,473
Due after 3 months through 6 months	17,463,859	880,489	82,255	623,768	-	110,900	746	19,294,493
Due after 6 months through 1 year	35,049,320	906,722	8,839	835,722	-	625,600	-	37,426,203
Due after 1 year through 2 years	19,982,218	161,027	5,396	386,655	-	238,866	-	20,774,162
Due after 2 years through 3 years	11,907,539	190,521	-	386,614	-	95,450	-	12,580,124
Due after 3 years through 4 years	2,640,890	85,984	-	63,633	-	250	-	2,790,757
Due after 4 years through 5 years	3,963,377	67,973	-	18,358	-	-	30,802	4,080,510
Thereafter	12,772,084	510,230	-	-	-	101,351	-	13,383,665
	122,913,992	3,659,753	601,914	7,643,990	3,089,476	1,210,585	65,201	139,184,911

Loan risk concentrations by country as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
Korea	122,913,992	2,245,059	12,393,457	137,552,508	98.82%
Southeast Asia	-	700,600	186,753	887,353	0.64%
Russia	-	53,452	45	53,497	0.04%
China	-	236,554	14,301	250,855	0.18%
Japan	-	278,971	-	278,971	0.20%
Others	-	145,117	16,610	161,727	0.12%
	122,913,992	3,659,753	12,611,166	139,184,911	100.00%

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Loan risk concentrations by country as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
Corporate loans					
Financial institutions	655,472	935,433	4,185,193	5,776,098	4.15%
Manufacturing companies	12,320,461	1,159,040	1,725,419	15,204,920	10.93%
Service companies	21,240,786	1,423,752	487,968	23,152,506	16.64%
Others	4,121,949	72,081	98,206	4,292,236	3.08%
	38,338,668	3,590,306	6,496,786	48,425,760	34.80%
Household loans	84,250,246	69,447	6,114,380	90,434,073	64.97%
Public and other loans	325,078	-	-	325,078	0.23%
	122,913,992	3,659,753	12,611,166	139,184,911	100.00%

On March 30, 2004, the Consolidated Company recognized loss on sale of loans of 186,666 million for loans sold to KB Star Card 3rd Securitization Specialty Company, Ltd. that amounts to 1,032,297 million. On June 17, 2004, the Consolidated Company recognized gain on sale of loans of 21,516 million for loans sold to KB 2nd Securitization Specialty Company, Ltd. that amounts to 607,000 million. On June 30, 2004, the Consolidated Company recognized loss on sale of loans of 324,445 million for loans sold to Jinheung Savings Bank, Solomon Mutual Saving Bank and Solomon AMC that amounts to 1,074,110 million. On September 30, 2004, the Consolidated Company recognized loss on sale of loans of 353,333 million for loans sold to Hyundai Swiss Savings Bank, Solomon Mutual Saving Bank and Solomon AMC that amounts to 430,240 million. On December 7, 2004, the Consolidated Company recognized loss on sale of loans of 12,866 million and gain on sale of loans of 586 million for loans sold to Solomon Mutual Saving Bank that amounts to 640,807 million. On December 17, 2004, the Consolidated Company recognized gain on sale of loans of 7 million and loss on sale of loans of 64,807 million for loans sold to KB 3rd Securitization Specialty Company, Ltd. that amounts to 532,628 million. On December 31, 2004, the Consolidated Company recognized loss on sale of loans of 256,249 million for loans sold to Jinheung Savings Bank, that amounts to 317,234 million.

As of December 31, 2004, the credit card accounts amounting to 713,792 million(before allowance) are provided as collateral for asset-backed securities transactions.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

6. ALLOWANCES FOR LOAN LOSSES

As of December 31, 2004 and 2003, allowances for loan losses are as follows:

	(in Millions of Korean won)	
	2004	2003
Loans in Won	2,631,203	2,297,152
Loans in foreign currencies	56,273	74,339
Bills bought in Won and foreign currencies	8,480	16,941
Payments on guarantees	26,301	20,193
Factoring receivable	1,695	17,603
Credit card accounts	392,722	1,407,128
Privately placed debentures	13,679	88,858
Loans due for equity conversion	746	-
Total allowance for loan losses	3,131,099	3,922,214
Others ¹	226,705	141,633
Total allowance	3,357,804	4,063,847

1 Other allowances as of December 31, 2004 and 2003 include:

	(in Millions of Korean won)	
	2004	2003
Suspense receivables as credit	39,231	17,376
Kookmin Card's other loans	274	3,749
Derivative instruments	3,209	1,654
Suspense receivables ²	15,495	7,249
Uncollected leasehold deposits	9,326	8,898
Other receivables	2,543	837
Account receivables	30	23
Trust account loans	156,597	101,847
Total	226,705	141,633

2 Suspense receivables includes allowances for frauds by directors and employees which 73 cases took place as of December 31, 2004 amounting to 12,455 million which the Bank provides allowances for the whole amount.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, allowances for loan losses by credit risk classification are as follows:

(in Millions of Korean won)

		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in won	Balance	114,616,259	5,224,961	1,716,220	1,021,191	335,361	122,913,992
	Allowances	781,412	476,678	358,603	679,149	335,361	2,631,203
	Ratio (%)	0.68	9.12	20.89	66.51	100.00	2.14
Loans in foreign currencies	Balance	3,443,447	158,672	25,017	30,724	1,893	3,659,753
	Allowances	13,776	13,316	8,428	18,860	1,893	56,273
	Ratio (%)	0.40	8.39	33.69	61.39	100.00	1.54
Bills bought	Balance	585,960	9,569	650	2,698	3,037	601,914
	Allowances	2,930	393	130	1,990	3,037	8,480
	Ratio (%)	0.50	4.11	20.00	73.76	100.00	1.41
Payments on guarantees	Balance	964	2,978	883	6,669	20,626	32,120
	Allowances	5	621	176	4,873	20,626	26,301
	Ratio (%)	0.52	20.85	19.93	73.07	100.00	81.88
Credit card accounts	Balance	6,609,976	686,457	539	298,093	48,925	7,643,990
	Allowances	66,100	82,375	108	195,214	48,925	392,722
	Ratio (%)	1.00	12.00	20.04	65.49	100.00	5.14
Call loans	Balance	3,089,476	-	-	-	-	3,089,476
	Allowances	-	-	-	-	-	-
	Ratio (%)	-	-	-	-	-	-
Privately placed debentures	Balance	1,200,227	826	3,076	4,086	2,370	1,210,585
	Allowances	5,979	189	1,159	3,982	2,370	13,679
	Ratio (%)	0.50	22.88	37.68	97.45	100.00	1.13
Factoring receivables	Balance	30,802	-	516	992	25	32,335
	Allowances	585	-	103	982	25	1,695
	Ratio (%)	1.90	-	19.96	98.99	100.00	5.24
Loans due for equity conversion	Balance	-	-	-	746	-	746
	Allowances	-	-	-	746	-	746
	Ratio (%)	-	-	-	100.00	-	100.00
Total	Balance	129,577,111	6,083,463	1,746,901	1,365,199	412,237	139,184,911
	Allowances	870,787	573,572	368,707	905,796	412,237	3,131,099
	Ratio (%)	0.67	9.43	21.11	66.35	100.00	2.25



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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

(in Millions of Korean won)

	2004	2003
Beginning balance (including other allowances)	4,063,847	3,446,907
Provision for loan losses ¹	3,165,287	2,033,526
Increase due to merger with Kookmin Credit Card Co., Ltd.	-	1,388,854
Reclassification of ABS 2nd beneficiary certificate	-	159,635
Reclassification from other allowances ²	289,919	27,291
Collection of written-off loans	290,283	845,118
Repurchase of loans sold	40,571	426,207
Sale of loans	(685,268)	(868,124)
Write-off of loans	(5,293,976)	(6,371,323)
Reversal of write-off due to loan sale of loans	1,878,832	3,348,122
Conversion of loans into equity securities	(327,816)	(43,996)
Exemption of loans	(32,847)	(272,576)
Changes in exchange rates and others	(31,028)	(55,120)
Change in scope of consolidation	-	(674)
Ending balance(including other allowances)	3,357,804	4,063,847

1 Includes other allowances for other asset amounting to 100,759 million as of December 31, 2004 (4,830 million: December 31, 2003)

2 Other allowances for loans receivable from LG Card Company, Ltd., credit lines to Kookmin Credit Card 16th ABS Specialty Company, Ltd. and commercial papers from Joeeun 2nd ABS Specialty Company, Ltd. amounting to 221,377 million, 68,505 million and 37 million, respectively, that had been recorded as of December 31, 2003 were transferred to allowances for loan losses.

As of December 31, 2004, 2003 and 2002, the ratios of allowances for loan losses to loans are as follows:

(in Millions of Korean won)

	2004	2003	2002
Loans	139,184,911	145,058,496	138,485,982
Allowances for loan losses ¹	3,131,099	3,922,214	3,319,747
Ratio (%)	2.25	2.70	2.40

1 The above amounts of allowances for loan losses include present value discounts.

7. FIXED ASSETS

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

(in Millions of Korean won)

	2004	2003
Tangible assets	2,165,541	2,472,816
Intangible assets	471,338	551,356
Foreclosed and other properties	239	776
	2,637,118	3,024,948

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Movements in tangible assets for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Land	Buildings and structures	Leasehold improvements	Equipment and vehicles	Construction-in-progress	Total
Acquisition cost						
Beginning balances	1,105,916	963,386	157,963	1,461,326	12,324	3,700,915
Acquisition	-	21	37	132,852	86,080	218,990
Transfer	-	69,637	27,526	-	(97,163)	-
Disposal	(106,848)	(117,985)	(10,335)	(77,541)	-	(312,709)
Ending balances	999,068	915,059	175,191	1,516,637	1,241	3,607,196
Accumulated depreciation						
Beginning balances	-	142,108	91,390	972,373	-	1,205,871
Depreciation expense	-	20,919	41,268	272,378	-	334,565
Disposal	-	(22,905)	(8,086)	(70,086)	-	(101,077)
Ending balances	-	140,122	124,572	1,174,665	-	1,439,359
Impairment	1,306	990	-	-	-	2,296
Book Value	997,762	773,947	50,619	341,972	1,241	2,165,541



Movements in tangible assets for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Land	Buildings and structures	Leasehold improvements	Equipment and vehicles	Construction-in-progress	Total
Acquisition cost						
Beginning balances	1,231,177	919,541	110,986	1,293,812	1,195	3,556,711
Acquisition	3,432	9,218	8,026	229,580	97,112	347,368
Transfer	-	37,466	48,517	-	(85,983)	-
Change in scope of consolidation	-	-	-	(448)	-	(448)
Disposal	(128,693)	(2,839)	(9,566)	(61,618)	-	(202,716)
Ending balances	1,105,916	963,386	157,963	1,461,326	12,324	3,700,915
Accumulated depreciation						
Beginning balances	-	120,353	52,629	659,366	-	832,348
Depreciation expense	-	21,603	41,354	373,592	-	436,549
Change in scope of consolidation	-	-	-	(388)	-	(388)
Disposal	-	152	(2,593)	(60,197)	-	(62,638)
Ending balances	-	142,108	91,390	972,373	-	1,205,871
Impairment	12,673	9,555	-	-	-	22,228
Book Value	1,093,243	811,723	66,573	488,953	12,324	2,472,816

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Tangible assets covered by insurance policies as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Amount Insured	Insurance Company	Type of Insurance
Buildings and structures	620,234	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Leasehold improvements	42,516	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Equipment and vehicles	168,645	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Construction-in-progress	994	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
	832,389		

Movements in intangible assets for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Goodwill	Negative Goodwill	Development Cost	Rights to Income on Donated Asset	Store Possessory Right	Trademarks	Others	Total
Beginning balances	535,360	(231)	13,266	102	139	150	2,570	551,356
Acquisition	20,357	-	336	-	-	49	2,790	23,532
Amortization	98,702	(69)	3,572	8	21	54	1,262	103,550
Ending balances	457,015	(162)	10,030	94	118	145	4,098	471,338

Movements in intangible assets for the year ended December 31, 2003 are as follows:

(in Millions of Korean won)

	Goodwill	Negative Goodwill	Development Cost	Rights to Income on Donated Asset	Store Possessory Right	Trademarks	Others	Total
Beginning balances	613,705	(300)	16,301	110	161	11	2,127	632,115
Acquisition	-	-	587	-	-	158	1,303	2,048
Amortization	78,345	(69)	3,622	8	22	19	860	82,807
Ending balances	535,360	(231)	13,266	102	139	150	2,570	551,356

The Bank recorded 115,407 million and 113,217 million of current development costs under general and administrative expenses for the years ended December 31, 2004 and 2003, respectively.

The total government-posted prices of land, used for tax imposition and compensation for confiscation, as of December 31, 2004 and 2003 are as follows:

(in Millions of Korean won)

	2004		2003	
	Book Value	Appraisal Value	Book Value	Appraisal Value
Lands included in tangible assets	997,762	904,659	1,093,243	986,383
Lands included in foreclosed assets	287	239	1,315	591
	998,049	904,898	1,094,558	986,974

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

8. OTHER ASSETS

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

	(in Millions of Korean won)	
	2004	2003
Guarantee deposits paid	1,300,643	1,345,715
Accounts receivable	2,359,806	1,717,666
Accrued income	994,029	1,051,818
Payments in advance	97,487	92,661
Prepaid expenses	220,380	313,383
Deferred tax assets (Note 26)	457,055	627,248
Derivative assets (Note 15)	2,392,086	752,523
Unsettled domestic exchange assets	520,612	612,592
Loans to Trust Accounts	319,003	335,384
Others	46,637	47,301
Allowances for other assets	(226,705)	(141,633)
	8,481,033	6,754,658

9. DEPOSITS

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

	Annual Interest (%) December 31, 2004	(in Millions of Korean won)	
		2004	2003
Deposits in Won			
Demand deposits			
Checking deposits	-	110,945	125,533
Household checking deposits	0.10	417,443	476,132
Passbook deposits	0.10	10,763,563	10,000,895
Temporary deposits	-	2,858,688	3,292,770
Public fund deposits	0.10	157,840	190,593
Trust deposits	2.00	11,357	10,180
Others	0.10	26,141	24,218
		14,345,977	14,120,321
Time deposits and savings deposits			
Time deposits	2.20~3.60	62,785,398	62,174,532
Installment savings deposits	2.95~3.50	1,249,939	1,306,793
Property formation savings	8.50	1,516	1,870
Time and savings deposits of non residents in won	2.20~3.60	263,671	338,971

continued;

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

	Annual Interest (%) December 31, 2004	(in Millions of Korean won)	
		2004	2003
General savings deposits	0.10~2.70	19,120,739	21,644,066
Corporate savings deposits	0.10~2.60	7,338,760	7,790,498
Long-term savings deposits for workers	11.50~12.00	39,104	69,031
Long-term housing savings deposits	4.10	1,663,366	983,684
Long-term savings for households	11.0	20,108	494,606
Workers' preferential savings deposits	5.35	2,171,785	2,728,236
Workers' savings for housing	8.50~11.50	49	81
Mutual installment deposits	2.65~3.50	6,304,494	7,054,752
Mutual installment for housing	2.20~3.40	5,295,274	5,423,853
Trust Accounts	0.00~7.80	3,108,612	3,190,062
		109,362,815	113,201,035
Total deposits in Won		123,708,792	127,321,356
Deposits in foreign currencies			
Demand deposits			
Checking deposits	0.00~0.82	37,137	40,778
Passbook deposits	0.09	663,261	787,798
Notice deposits	0.00~0.16	276	410
Temporary deposits	-	1,315	1,048
		701,989	830,034
Time deposits and savings deposits			
Time deposits	0.55~2.75	812,021	719,338
Installment savings deposits	-	-	758
Others	0.00~4.45	2,122	2,542
		814,143	722,638
Total deposits in foreign currencies		1,516,132	1,552,672
Certificates of deposit	3.00~3.15	4,908,949	6,499,258
		130,133,873	135,373,286

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The maturities of deposits as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Deposits in Won	Deposits in Foreign Currencies	Certificates of Deposit	Total
Due in 3 months or less	67,106,894	1,320,758	2,817,530	71,245,182
Due after 3 months through 6 months	11,872,165	103,609	1,799,846	13,775,620
Due after 6 months through 1 year	31,339,549	84,510	291,462	31,715,521
Due after 1 year through 2 years	5,777,657	5,223	111	5,782,991
Due after 2 years through 3 years	3,358,491	2,032	-	3,360,523
Due after 3 years through 4 years	315,286	-	-	315,286
Due after 4 years through 5 years	250,919	-	-	250,919
Thereafter	3,687,831	-	-	3,687,831
	123,708,792	1,516,132	4,908,949	130,133,873



10. BORROWINGS

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

(in Millions of Korean won)

	Annual Interest (%) December 31, 2004	2004		2003
		2004	2004	
Borrowings in Won				
Borrowings from the Bank of Korea	2.00	920,144		992,433
Borrowings from the Korean government	0.00~8.00	701,680		932,804
Borrowings from banking institutions	2.79~6.00	158,245		263,822
Borrowings from National Housing Fund	8.00	104,784		110,351
Borrowings from other financial institutions	1.84~4.00	5,227		5,688
Other borrowings	1.25~7.00	1,161,969		1,176,156
		3,052,049		3,481,254
Borrowings in foreign currencies				
Due to banks	-	27,463		180,493
Borrowings from domestic banks	0.05~5.06	1,280,145		2,360,652
Borrowings from other financial institutions	1.50	13,882		19,486
Borrowings from foreign banks	-	843,358		507,377
		2,164,848		3,068,008

continued;

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

	Annual Interest (%) December 31, 2004	2004	2003
(in Millions of Korean won)			
Bonds sold under repurchase agreements			
In won	2.50~3.25	3,443,344	3,613,505
In foreign currencies	-	-	9,651
		3,443,344	3,623,156
Bills sold	2.90~3.15	41,988	44,239
Due to the Bank of Korea in foreign currencies	1.86~2.69	2,007	12,608
Call money			
In won	2.75~3.15	638,500	55,800
In foreign currencies	0.27~6.85	13,685	169,744
Inter-bank borrowings		3,174	296,011
		655,359	521,555
		9,359,595	10,750,820

The maturities of borrowings as of December 31, 2004 are as follows:

	(in Millions of Korean won)			
	Borrowings in Won	Borrowings in Foreign Currencies	Others	Total
Due in 3 months or less	989,047	866,330	2,683,004	4,538,381
Due after 3 months through 6 months	77,093	407,397	820,145	1,304,635
Due after 6 months through 1 year	171,184	460,076	620,260	1,251,520
Due after 1 year through 2 years	348,575	355,947	19,289	723,811
Due after 2 years through 3 years	355,794	3,344	-	359,138
Due after 3 years through 4 years	318,472	69,287	-	387,759
Due after 4 years through 5 years	260,891	1,733	-	262,624
Thereafter	530,993	734	-	531,727
	3,052,049	2,164,848	4,142,698	9,359,595

11. DEBENTURES

Debentures as of December 31, 2004 and 2003 include:

	Annual Interest (%) December 31, 2004	2004	2003
(in Millions of Korean won)			
In Won			
Hybrid debentures ¹	6.00~7.00	903,668	903,668
Structured debentures	4.29	80,000	-
Subordinated fixed rate debentures	4.19~15.66	6,020,845	4,896,072
KCC ² subordinated fixed rate debentures	7.10~8.00	205,000	205,000

continued;

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

11. DEBENTURES

Debentures as of December 31, 2004 and 2003 include:

		Annual Interest (%) December 31, 2004	2004	2003
(in Millions of Korean won)				
In won	KCC ² fixed rate debentures	5.43~7.80	930,000	2,884,995
	KCC ² floating rate debentures	0.00~8.64	610,000	870,000
	Fixed rates debentures	3.28~8.71	12,536,566	8,609,663
	Discounts on debentures		(120,271)	(83,443)
			21,165,808	18,285,955
In foreign currencies	Floating rates debentures	0.92~3.19	110,810	196,211
	Fixed rates debentures	2.37~4.63	525,485	613,549
	KCC ² floating rate debentures	3.46	60,227	78,695
	Premiums on debentures		6,336	9,639
	Discounts on debentures		(846)	(1,473)
			702,012	896,621
			21,867,820	19,182,576



1 The hybrid debentures are perpetual type debts in which the Bank retains the early redemption option after 5 years from issuance date and the term extending option on maturity date. Hybrid debentures are superior to common stock but subordinate to other subordinated debentures.

2 Kookmin Credit Card Co., Ltd.

As of December 31, 2004, subordinated debentures and hybrid debentures consist of the following:

(in Millions of Korean won)				
Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	98.01.27 - 98.11.15	133,477	14.67~ 15.66	03.01.27 ~ 09.11.15
	2000.03.27	200,000	9.65	2005.03.27
	2000.06.28	253,975	9.04 ~ 9.10	2006.01.28
	2000.09.27	300,000	8.99	2006.01.27
	2000.09.28	150,000	8.79 ~ 8.85	2006.01.28
	2000.11.20	66	9.57	2010.01.28
	2000.11.21	33	9.57	2010.01.28
	2000.11.28	100,000	8.65 ~ 8.71	2006.02.28
	2000.11.28	150,721	9.57 ~ 9.65	2010.11.28
	2000.11.28	11,330	9.65	2010.12.28
	2000.12.27	200,000	8.71	2006.01.27
	2001.05.28	200,000	7.60 ~ 7.65	2007.02.28
	2001.06.27	160,000	7.68	2008.03.27
	2001.06.27	217,529	7.86	2009.03.27

continued;

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

As of December 31, 2004, subordinated debentures and hybrid debentures consist of the following:

(in Millions of Korean won)

Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	2001.08.28	100,000	6.69 ~ 6.73	2007.08.28
	2001.09.28	150,000	6.69 ~ 6.73	2008.03.28
	2002.03.27	241,684	7.06 ~ 7.10	2008.01.27
	2002.07.15	415	7.00	2008.01.27
	2002.07.27	302,399	6.96 ~ 7.00	2008.01.27
	2002.09.27	257,363	6.27 ~ 6.30	2008.03.27
	2002.09.27	150,000	6.51 ~ 6.55	2010.03.27
	2002.09.27	92,637	6.66 ~ 6.70	2013.03.27
	2002.11.14	611	6.30	2010.05.27
	2002.11.27	400,673	6.07 ~ 6.10	2008.05.27
	2002.11.27	57,846	6.27 ~ 6.30	2010.05.27
	2002.11.27	100,256	6.51 ~ 6.55	2013.05.27
	2002.12.18	341	8.00	2008.01.18
	2002.12.18	110,000	8.00	2008.01.18
	2002.12.27	10,000	6.20	2008.06.27
	2002.12.27	90,000	6.40	2010.06.27
	2002.12.27	50,302	6.65	2013.06.27
	2002.12.27	30,370	6.55	2014.12.27
	2003.01.21	184	7.65	2008.02.21
	2003.01.21	50,000	7.65	2008.02.21
	2003.03.10	45,000	7.10	2008.04.10
	2003.03.10	182	7.10	2008.04.10
	2003.10.09	519	5.20	2009.10.27
	2003.10.09	77	5.35	2011.01.27
	2003.10.15	39	5.35	2011.01.27
	2003.10.27	356,561	5.18 ~ 5.20	2009.01.27
	2003.10.27	88,769	5.33 ~ 5.35	2011.01.27
	2003.10.27	3,721	5.58 ~ 5.60	2014.01.27
	2004.02.10	174	5.68	2009.08.27
	2004.02.12	85	5.87	2011.08.27
	2004.02.13	174	5.68	2009.08.27
	2004.02.17	548	5.68	2009.08.27
	2004.02.27	636,798	5.65 ~ 5.68	2009.08.27
	2004.02.27	22,895	5.84 ~ 5.87	2011.08.27
2004.02.27	40,307	6.13 ~ 6.16	2014.08.27	
2004.09.30	57,784	5.12	2018.12.30	
2004.12.27	700,000	4.19 ~ 4.20	2010.06.27	
		6,225,845		

continued;

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(in Millions of Korean won)

Type	Issue Date	Amount	Annual Interest (%)	Maturity
Hybrid debentures	2003.06.27	105,145	6.00	2033.06.27
	2003.08.27	533,355	7.00	2033.08.27
	2003.10.27	265,168	6.80	2033.10.27
		903,668		
		7,129,513		

The maturities of debentures as of December 31, 2004 are as follows:

(in Millions of Korean won)

	In Won	In Foreign Currencies	Total
Due in 3 months or less	1,849,407	16,108	1,865,515
Due after 3 months through 6 months	4,074,904	-	4,074,904
Due after 6 months through 1 year	3,264,691	60,227	3,324,918
Due after 1 year through 2 years	5,670,861	-	5,670,861
Due after 2 years through 3 years	420,192	587,230	1,007,422
Due after 3 years through 4 years	2,022,335	32,957	2,055,292
Due after 4 years through 5 years	1,352,172	-	1,352,172
Thereafter	2,631,517	-	2,631,517
	21,286,079	696,522	21,982,601

12. ACCRUED RETIREMENT BENEFITS

The movements in accrued retirement benefits for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning Balance	Amounts Provided	Amounts Paid Out	Ending Balance
Accrued retirement benefits	73,154	81,881	25,814	129,221
Contributed retirement benefits	167,690	45,795	15,698	197,787
Total accrued retirement benefits	240,844	127,676	41,512	327,008
Contribution to the National Pension Fund	(83)	-	-	(83)
Contribution to pension funds	(167,690)	(45,795)	(15,698)	(197,787)
	73,071	81,881	25,814	129,138

As of December 31, 2004, approximately 60.48% of total accrued retirement benefits is contributed to pension funds, over which the Bank's employees hold the right of payment and is placed at five insurance companies, including Korea Life Insurance Co., Ltd. The total retirement benefits paid for the year ended December 31, 2004 amount to 91,528 million, including the additional early retirement benefits paid in February 2004 of 50,029 million.



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

13. OTHER LIABILITIES

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

(in Millions of Korean won)

	2004	2003
Accrued retirement benefits (Note 12)	129,138	73,071
Allowance for losses on guarantees and acceptances (Note 14)	1,150	1,074
Due to trust accounts	677,334	3,508,144
Accounts payable	2,758,891	1,908,765
Accrued expenses	4,354,998	4,479,084
Advances from customers	194,437	110,935
Unearned income	102,719	135,880
Withholding taxes	7,519	123,570
Guarantee deposits received	98,917	110,884
Deferred income tax liabilities	303	68
Derivative liabilities (Note 15)	2,219,630	688,045
Accounts for agency business	234,890	365,907
Unsettled domestic exchange liabilities	258,020	400,445
Liabilities incurred by agency relationship	280,569	315,241
Insurance reserve	126,995	-
Other allowances ¹	613,631	849,327
Others	167,555	134,632
	12,226,696	13,205,072

¹ Other allowances as of December 31, 2004 include:

(in Millions of Korean won)

Allowances for	Amounts	Remarks
LG Card	23,812	Allowances for Contingency on LG Card
KP chemical loans sold	4,029	Allowances for KP chemical loans sold
Dormant accounts	14,976	Allowances for dormant accounts written off
Cash advance service	45,234	Allowances for unused cash advance credit lines
Mileage rewards	80,676	Allowances for mileage on credit cards and currency exchange rates
Claimed assets	3	Allowances for credit card claimed assets
Credit commitments to SPC	438,343	Allowances for the credit line commitment to SPC (Note 16)
Loss on branch closure	237	Allowances for closure of the Buenos Aires branch
KAMCO loans sold	217	Allowances for loans under repurchase agreements to KAMCO (Note 16)
Master Card share agreement	3,135	Allowances for the share settlement provision for Master Card shares
Allowances for tax deficiencies	458	Allowances for tax deficiencies (Note 16)
Preparation for damages	1,754	Allowances for credit collection and research for lease
Trust risk	670	Allowances for operation related with trust in real estate
Others	87	
	613,631	

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

14. GUARANTEES AND ACCEPTANCES

Guarantees and acceptances as of December 31, 2004 and 2003 are summarized as follows:

(in Millions of Korean won)

	2004	2003
Guarantees and acceptances outstanding in		
Won		
Guarantees on debentures	472	541
Guarantees on loan collateral	30,852	44,932
Others	260,497	235,843
	291,821	281,316
Foreign Currencies		
Acceptances on letters of credit	101,222	134,888
Acceptances for letters of guarantee for importers	62,844	88,743
Guarantees for performance of contracts	32,039	16,689
Guarantees for bids	2,606	1,067
Guarantees for borrowings	26,728	37,843
Guarantees for repayment of advances	23,213	10,004
Others	435,439	240,613
	684,091	529,847
	975,912	811,163
Contingent guarantees and acceptances		
Letters of credit	1,017,379	1,209,556
Others	295,360	81,290
	1,312,739	1,290,846
	2,288,651	2,102,009

As of December 31, 2004, the allowances for losses on guarantees and acceptances outstanding according to credit risk classifications are as follows:

(in Millions of Korean won)

Guarantees and Acceptances Outstanding in		Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Won	Balance	280,910	8,614	2,042	225	30	291,821
	Allowance	-	-	408	113	30	551
	Ratio (%)	-	-	20.00	50.00	100.00	0.19
Foreign Currencies	Balance	672,608	10,312	1,024	142	5	684,091
	Allowance	-	-	496	98	5	599
	Ratio (%)	-	-	48.44	69.25	100.00	0.09
Total	Balance	953,518	18,926	3,066	367	35	975,912
	Allowance	-	-	904	211	35	1,150
	Ratio (%)	-	-	29.50	57.49	100.00	0.12

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

For the years ended December 31, 2004 and 2003, the changes in allowances for losses on guarantees and acceptances outstanding are as follows:

	(in Millions of Korean won)	
	2004	2003
Beginning balance	1,074	2,287
Loss from (reversal of) guarantees and acceptances	206	(1,209)
Changes in foreign exchange rates	(130)	(4)
Ending balance	1,150	1,074

The allowance ratios for guarantees and acceptances outstanding as of December 31, 2004, 2003 and 2002 are as follows:

	(in Millions of Korean won)		
	2004	2003	2002
Guarantees and acceptances outstanding	975,912	811,163	1,048,237
Allowance	1,150	1,074	2,304
Ratio (%)	0.12	0.13	0.22

The guarantees and acceptances risk concentration by country as of December 31, 2004 are as follows:

	(in Millions of Korean won)					
	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Korea	934,036	95.71	1,311,073	99.88	2,245,109	98.10
USA	41,752	4.28	701	0.05	42,453	1.85
Others	124	0.01	965	0.07	1,089	0.05
	975,912	100.00	1,312,739	100.00	2,288,651	100.00

The guarantees and acceptances risk concentration by industry as of December 31, 2004 are as follows:

	(in Millions of Korean won)					
	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Manufacturing	373,262	38.25	862,648	65.71	1,235,910	54.00
Service	265,781	27.23	347,148	26.44	612,929	26.78
Finance	242,520	24.85	911	0.07	243,431	10.64
Others	94,349	9.67	102,032	7.78	196,381	8.58
	975,912	100.00	1,312,739	100.00	2,288,651	100.00

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

15. DERIVATIVES

The Consolidated Company's derivative instruments are divided into hedge derivatives and trading derivatives, based on the nature of the transaction. The Consolidated Company enters into hedge transactions mainly for purposes of hedging fair value risks related to its assets and liabilities.

Trading derivatives include future contracts, forward contracts, swaps, and options entered into by the Consolidated Company to meet the financing needs of its customers and to gain profit from arbitrage transactions between customers and other Consolidated Companies.

Hedge derivatives mainly consist of interest rate swaps to hedge the fair value changes of debentures arising from the interest rate fluctuations. However, some hedging transactions do not qualify for hedge accounting and are thus accounted for as trading derivatives. These transactions include the hedge relationships where the hedged item is an asset or liability that is re-measured with the changes in fair value attributable to the hedged risk reported in the current operations, or where the hedged item cannot be specifically identified

The notional amounts outstanding for derivative contracts as of December 31, 2004 and 2003 are as follows

(in Millions of Korean won)

	2004			2003		
	Trading	Hedge	Total	Trading	Hedge	Total
Interest related						
Future	605,224	-	605,224	519,665	-	519,665
Swap	31,957,000	1,007,900	32,964,900	26,797,056	598,900	27,395,956
Option bought	354,190	-	354,190	810,000	-	810,000
Option sold	854,190	-	854,190	1,530,000	-	1,530,000
	33,770,604	1,007,900	34,778,504	29,656,721	598,900	30,255,621
Currency related						
Forward	53,943,197	-	53,943,197	25,899,637	-	25,899,637
Future	2,537,269	-	2,537,269	967,823	-	967,823
Swap	4,184,152	-	4,184,152	4,140,139	-	4,140,139
Option bought	245,387	-	245,387	28,148	-	28,148
Option sold	270,247	-	270,247	81,450	-	81,450
	61,180,252	-	61,180,252	31,117,197	-	31,117,197
Stock related						
Forward	3,406	-	3,406	-	-	-
Option bought	1,743,480	-	1,743,480	1,964,870	-	1,964,870
Option sold	1,729,630	-	1,729,630	1,954,093	-	1,954,093
	3,476,516	-	3,476,516	3,918,963	-	3,918,963
	98,427,372	1,007,900	99,435,272	64,692,881	598,900	65,291,781

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(in Millions of Korean won)

Gains and losses on derivatives as of and for the year ended December 31, 2004 are as follows:

Gain on derivatives		
Gain on derivative transactions		4,060,338
Gain on valuation of derivatives		2,196,112
Gain on fair value hedged items		6,065
		6,262,515
Loss on derivatives		
Loss on derivative transactions		3,991,366
Loss on valuation of derivatives		2,050,630
Loss on fair value hedged items		3,890
		6,045,886

The summary of derivative transactions for the year ended December 31, 2004 and 2003 are as follows:

1) For the year ended December 31, 2004

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability
Interest related								
Option bought	4,234	-	4,234	3,192	-	3,192	6,202	-
Option sold	4,052	-	4,052	9,865	-	9,865	-	17,757
Swap	319,044	3,890	322,934	279,910	6,065	285,975	316,435	354,023
	327,330	3,890	331,220	292,967	6,065	299,032	322,637	371,780
Currency related								
Forward	1,519,740	-	1,519,740	1,480,920	-	1,480,920	1,519,636	1,486,626
Option bought	323	-	323	1,792	-	1,792	281	887
Option sold	2,683	-	2,683	379	-	379	827	379
Swap	321,802	-	321,802	250,158	-	250,158	476,703	287,203
	1,844,548	-	1,844,548	1,733,249	-	1,733,249	1,997,447	1,775,095
Stock related								
Option bought	10,554	-	10,554	8,718	-	8,718	72,002	-
Option sold	9,790	-	9,790	9,631	-	9,631	-	72,755
	20,344	-	20,344	18,349	-	18,349	72,002	72,755
	2,192,222	3,890	2,196,112	2,044,565	6,065	2,050,630	2,392,086	2,219,630

Notes to Consolidated Financial Statements

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2) For the year ended December 31, 2003

(in Millions of Korean won)

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability
Interest related								
Option bought	770	-	770	1,705	-	1,705	6,487	-
Option sold	2,212	-	2,212	8,473	-	8,473	-	13,942
Swap	100,026	-	100,026	84,682	10,715	95,397	142,562	230,948
	103,008	-	103,008	94,860	10,715	105,575	149,049	244,890
Currency related								
Forward	149,965	-	149,965	156,484	-	156,484	153,014	177,060
Option bought	94	-	94	-	-	-	94	-
Option sold	358	-	358	581	-	581	130	615
Swap	31,005	-	31,005	50,423	-	50,423	258,136	83,542
	181,422	-	181,422	207,488	-	207,488	411,374	261,217
Stock related								
Option bought	105,536	-	105,536	15,184	-	15,184	192,100	-
Option sold	13,491	-	13,491	93,546	-	93,546	-	181,938
	119,027	-	119,027	108,730	-	108,730	192,100	181,938
	403,457	-	403,457	411,078	10,715	421,793	752,523	688,045

16. COMMITMENTS AND CONTINGENCIES

As of December 31, 2004, the Consolidated Company faces 205 pending legal actions involving aggregate amount of damages of 440,512 million. On the other hand, the Consolidated Company also filed 270 lawsuits, which are still pending, with an aggregate amount of claims of 162,527 million. Management believes that the actions against the Consolidated Company are without merit and that the ultimate liability, if any, will not materially affect its financial position.

Details of the pending material legal actions charged against the Consolidated Company are as follows:

(in Millions of Korean won)

Details	Exposure to possible loss	Results		
		1 st trial	2 nd trial	3 rd trial
Cancellation of a registered mortgage (3 cases)	6,696	closed	in progress	
Confirmation of obligations	14,722	closed	closed	in progress
Indemnification for damage etc.	19,303	closed	in progress	

As of December 31, 2004, the Consolidated Company has entered into commitments to provide a credit line of 5,226,756 million, and to purchase commercial papers amounting to 1,073,300 million, with several special purpose companies. Commitments to provide a credit line and to purchase commercial paper with a one year term amounted to 123,500 million and 972,000 million, respectively. Under these commitments, the Consolidated Company provides money, in case of a temporary fund shortage, for the principal and interest repayment of these companies' senior bonds and subordinated bonds within the contracted term and amounts.

Notes to Consolidated Financial Statements

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As of December 31, 2004, loans outstanding under the credit line commitment amounted to 196,858 million, and there is no outstanding balance for commercial papers under the purchase commitment. The Consolidated Company has arranged various methods to compensate for losses on these credit line commitments including payment guarantees, repurchase contracts, surety certificate guarantees, and cash reserves. As of December 31, 2004, the Consolidated Company provided 438,343 million in other allowances for its expected losses related to these commitments.

As of December 31, 2004, the Consolidated Company provided allowances of 217 million for losses from possible future repurchase of loans from Korea Asset Management Corporation ("KAMCO") under the repurchase agreement on loans amounting 692 million according to the post settlements on the non-performing loan sales transactions with KAMCO.

As of December 31, 2004, the Consolidated Company has outstanding commitments to Korea Exchange Bank and Tong Yang Investment Bank for the discounting of commercial paper, limited to 20,000 million and 10,000 million, respectively. There are no balances related to these commitments as of December 31, 2004.

As of December 31, 2003, the Consolidated Company provided 142,021 million as allowances for tax deficiencies resulting from the tax investigations by the National Tax Administration ("NTA") for the fiscal years 1998 to 2001. In the current period, the NTA assessed the Consolidated Company 123,310 million in tax deficiencies, wherein the Consolidated Company actually paid 122,852 million and subsequently recording the difference between the accrued assessment and the actual assessment paid of 458 million as non-operating income. As of December 31, 2004, the unpaid tax deficiencies of 458 million still remain under other allowances.

As of December 31, 2004, the Consolidated Company still holds 6,682,403 million in unexpired rights to claim from borrowers or guarantors for loans in accordance with the relevant law. This amount, however, has been written off.

As of December 31, 2004, the Consolidated Company recorded receivables amounting to 1,162,161 million, and payables amounting to 1,468,528 million for unsettled foreign currency spot transactions.

The Consolidated Company entered into an alliance with Woori Credit Card, Citibank and Nonghyup for the operation of a credit card business. Accordingly, the Consolidated Company shares the related revenue from such business operation.

As of December 31, 2004, the Consolidated Company has provided two blank promissory notes and one promissory note with face value of 2,000,000 million to Korea Securities Finance Corporation and Small Business Corporation as collateral for borrowings and other obligations. It has also provided one note with a face value of 64,390 million, to Korean Housing Guarantee Co., Ltd. as collateral for the performance guarantee related to the real estate trust operations. Also, as of December 31, 2004, the Consolidated Company transferred endorsed bills amounting to 9,396 million.

The Consolidated Company is liable for certain projects and is under guarantee agreement for a year after completion of the corresponding project. Seoul Guarantee Insurance guarantees 1,061 million for the above projects.

In accordance with the November 24, 2003 agreement with the creditors' committee of LG Card Company, Ltd. ('LG Card'), which is experiencing a financial crisis, the Consolidated Company provided the said company loans totaling 437,000 million. And on January 9, 2004, the Consolidated Company agreed to also provide additional loans of 205,900 million, a debt-equity swap of 518,600 million, and an extension of maturities of loans maturing in 2004. On February 13, 2004, the Consolidated Company executed first debt-equity swap with LG Card for 156,350 million for loans amounting to 145,950 million and corporate debt securities amounting to 10,400 million. After the capital reduction in May 2004 at a rate of 43.4:1, a second debt-equity swap was executed in July 28, 2004 amounting to 362,250 million for loans of 348,364 million and corporate debt securities of 13,886 million.

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As of December 31, 2004, the Consolidated Company's total exposure related to LG Card includes loans and debt-equity swapped equity securities amounting to 237,900 million and 291,072 million, respectively. Also, in accordance with the agreement with the creditors' committee, the Consolidated Company participated in capital increase of LG Card by providing paid-in-capital of 75,800 million on January 28, 2005. Furthermore, as of December 31, 2004, asset backed debt securities amounting to 250,568 million and corporate bonds amounting to 35,135 million, related with domestic credit card companies and capital companies, is included in the Consolidated Company's investment securities. The ultimate effect of these circumstances on the financial position of the Consolidated Company as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying consolidated financial statements.

17. CAPITAL STOCK

Under the General Banking Act, if a single entity, other than the government or a foreign investor, owns more than 4% of total outstanding voting shares, that entity's voting rights are limited to 4% shareholding.

As of December 31, 2004, the Bank has 1 billion common shares authorized with a par value per share of 5,000 and 336,379,116 shares issued. EURO-PACIFIC GROWTH FUND owns 4.26% of the total issued shares. As of December 31, 2004, 47,503,730 common shares, equivalent to 14.12% of the total issued shares, are listed on the New York Stock Exchange as ADSs and are managed by the Bank of New York, the trustee of the Bank.

As a result of the legal consolidation with H&CB, the registered shareholders of both the Bank and H&CB, as of October 31, 2001, received 179,775,233 shares and 119,922,229 shares, respectively. The new shares were distributed based on an exchange ratio of one new Bank share each for 1.688346 old Bank shares, and one new Bank share for an H&CB share. The new shares were listed on the Korea Stock Exchange as of November 9, 2001. Further, as a result of the merger with Kookmin Credit Co., Ltd., the Bank issued 8,120,431 shares.

The Bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of 2,500 billion and 500 billion, respectively by an appropriate resolution of the Bank's Board of Directors.

18. CONSOLIDATED CAPITAL SURPLUS

The movements in capital surplus for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning Balance	Changes	Ending Balance
Paid-in capital in excess of par value	5,655,840	-	5,655,840
Gain on business combination	397,669	-	397,669
Revaluation increment	177,229	-	177,229
Others	6,790	756	7,546
	6,237,528	756	6,238,284

The gain on business combination is due to the difference between the business combination consideration and the net asset value acquired from the merger with KLB on December 31, 1998.



Notes to Consolidated Financial Statements

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19. CONSOLIDATED RETAINED EARNINGS

The General Banking Act requires the Bank to appropriate as a legal reserve a minimum of 10% of annual net income until the legal reserve equals paid in capital. This reserve is only available for being transferred to capital stock or used to reduce accumulated deficit.

Under the guidance provided by Financial Supervisory Services, the Bank is required to appropriate, as a reserve for improvement of financial structure, a minimum of 10% of its annual income less carried over accumulated deficit, until its capital adequacy ratio equals 5.5%. This reserve is only available for being transferred to capital stock or used to reduce accumulated deficit.

Pursuant to the Tax Exemption and Reduction Control Law, the Bank was previously required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits up to December 31, 2001. However, as of January 1, 2002, the requirement was no longer effective.

The Bank, at its own option, also appropriated a portion of retained earnings as other reserves for the operations of overseas branches.

There were no dividends declared for the year ended December 31, 2003. For the year ended December 31, 2004, cash dividends were declared as follows:

	2004
Shares outstanding	336,379,116
Treasury stock	(29,881,209)
Shares entitled to dividends	306,497,907
Dividend rate(%)	11.00
Dividend amount (in Millions of Korean Won)	168,574
Dividend payout ratio(%)	30.36
Dividend profit ratio(%)	1.36

As approved by the shareholders on March 23, 2004, the Bank offset the discretionary reserves of 754,900 million against the prior year's undisposed deficit of 754,855million (which is the amount before reflecting restatement of prior period financial statements referred at Note 37).

20. CONSOLIDATED CAPITAL ADJUSTMENTS

The movements in capital adjustments for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning Balance	Increase/ Decrease	Disposal/ Realization¹	Ending Balance
Treasury stock	(1,328,312)	-	5,992	(1,322,320)
Unrealized gain on available-for-sale securities	141,155	376,827	(75,382)	442,600
Unrealized gain on investment in associates	881	(869)	(926)	(914)
Stock options	26,211	5,101	(1,699)	29,613
Loss on disposal of treasury stock	(749)	(710)	-	(1,459)
	(1,160,814)	380,349	(72,015)	(852,480)

¹ Changes in foreign exchange rates from capital adjustments are included.

Notes to Consolidated Financial Statements

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The Bank, with the approval of the Board of Directors on July 26, 2002, established an employee stock option plan for the welfare of the employees and purchased three million shares of treasury stock under the said plan. On July 26, 2002, the Bank contributed one million shares to the Employee Stock Ownership Association.

In accordance with the resolution made by the Board of Directors on December 17, 2003, the Bank's tender for 27,423,761 shares of treasury stock was accepted through public bidding on December 12, 2003 by the Korean government which previously owned 30,623,761 shares. The Bank acquired the said shares at 43,700 per share on December 17, 2003 and intends to sell these shares of treasury stock depending on certain market conditions.

As of December 31, 2004, the Bank holds 8.88% the total common stock issued as treasury stock.

21. MINORITY INTEREST

The movements in minority interest for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

Subsidiaries	Beginning Balance	Minority Interest Gains (Losses)	Increase ¹	Decrease ²	Ending Balance
KB Investment Co., Ltd.	88	2	-	-	90
KB Data Systems Co., Ltd.	4	-	-	-	4
KB Futures Co., Ltd.	6	-	-	-	6
KB Asset Management Co., Ltd.	11,254	2,152	-	1,581	11,825
KB Credit Information Co., Ltd.	5,418	710	-	5,681	447
Pacific IT Investment Partnership	-	-	-	-	-
NPC 02-4 Kookmin Venture fund	-	268	15,216	216	15,268
	16,770	3,132	15,216	7,478	27,640

1 Increase resulted from change in scope of consolidation.

2 Decrease resulted from dividend payments and purchase of minority interest.



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22. EMPLOYEE STOCK OPTIONS

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

	Grant Date	Shares Granted	Forfeiture	Shares Exercised	Shares Outstanding	Exercise Price (in Korean won)	Exercise Period
Series 1	00.03.18	233,940	121,411	71,641	40,888	23,469	03.03.19 - 05.03.18
Series 2	01.03.15	214,975	16,882	22,056	176,037	28,027	04.03.16 - 09.03.15
Series 3	98.10.31	400,000	-	400,000	-	5,000	01.11.01 - 04.10.31
Series 4	99.02.27	280,000	59,892	220,108	-	13,900	02.02.28 - 05.02.27
Series 5	00.02.28	267,000	65,218	41,784	159,998	27,600	03.03.01 - 06.02.28
Series 6	01.03.24	111,000	38,624	11,216	61,160	25,100	04.03.25 - 07.03.24
Series 7 ^{1,2}	01.11.16	850,000	200,000	-	650,000	51,200	04.11.17 - 09.11.16
Series 8-1 ²	02.03.22	132,000	89,753	-	42,247	57,100	05.03.23 - 10.03.22
Series 8-2 ³	02.03.22	490,000	166,466	-	323,534	57,100	05.03.23 - 10.03.22
Series 9 ³	02.07.26	30,000	-	-	30,000	58,800	05.07.27 - 10.07.26
Series 10-1 ²	03.03.21	140,000	59,947	-	80,053	35,500	06.03.22 - 11.03.21
Series 10-1 ³	03.03.21	180,000	64,090	-	115,910	35,500	06.03.22 - 11.03.21
Series 11 ³	03.08.27	30,000	24,909	-	5,091	40,500	06.08.28 - 11.08.27
Series 12 ³	04.02.09	85,000	-	-	85,000	46,100	07.02.10 - 12.02.09
Series 13-1 ²	04.03.23	20,000	-	-	20,000	47,200	07.03.24 - 12.03.23
Series 13-2 ³	04.03.23	10,000	-	-	10,000	47,200	07.03.24 - 12.03.23
Series 14 ^{2,3}	04.11.01	700,000	-	-	700,000	37,600	07.11.02 - 12.11.01
Increase due to merger-1 ⁴	01.03.22	22,146	-	-	22,146	71,538	04.03.23 - 11.03.22
Increase due to merger-2 ^{2,4}	02.03.29	9,990	-	-	9,990	129,100	04.03.30 - 11.03.29
		4,206,051	907,192	766,805	2,532,054		

1 The stock options excluded the 200,000 shares, which were to be additionally granted if the three-month weighted average stock price of the Bank prior to the exercise period is higher than that of any other listed banks and the Bank achieves total market value and ROE target, due to failure of target achievement.

2 The exercise prices are based on the increase rate of the stock price index in the banking industry. The exercise price of series 7, which was granted on November 16, 2001, is fixed at 51,200 based on the beginning exercise date.

3 The number of shares to be granted will be determined by the results of the evaluation of the grantees during service period. The number of shares is calculated under the assumption that the performance-based stock options have been fully granted.

4 The Bank took over the stock options granted by Kookmin Credit Card Co., Ltd. of which the exercise prices and number of shares have been adjusted in proportion to the merger ratio.

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Compensation costs for stock options granted to employees and executives are recognized on the basis of fair value. Assumptions used under the fair value basis method are summarized as follows:

(in Millions of Korean won)

	Stock price as of grant date (Won)	Risk free interest rate ¹ (%)	Expected exercise period ² (years)	Volatility of underlying stock price ³ (%)	Expected dividend rate ⁴ (%)	Compensation cost (Won)
Series 1	21,441	9.32	4.00	71.14	2.25	12,638
Series 2	25,156	6.06	5.50	70.30	2.47	15,987
Series 3	5,430	9.74	3.00	59.06	1.14	1,395
Series 4	33,750	4.74	0.33	73.30	1.93	19,850
Series 5	33,750	4.74	1.33	73.30	1.93	13,320
Series 6	33,750	4.74	2.42	73.30	1.93	17,117
Series 7	45,800	4.91	3.00	58.90	-	18,364
Series 8-1	58,000	6.14	3.00	53.56	-	24,494
Series 8-2	58,000	6.14	3.00	53.56	-	24,494
Series 9	53,900	5.73	3.00	43.09	-	17,333
Series 10-1	36,500	4.74	3.00	48.77	-	11,961
Series 10-2	36,500	4.74	3.00	48.77	-	14,073
Series 11	41,100	5.75	3.00	44.48	-	15,098
Series 12	47,000	4.90	3.00	42.74	-	16,430
Series 13-1	45,900	4.67	3.00	42.74	-	15,122
Series 13-2	45,900	4.67	3.00	42.74	-	15,120
Series 14	37,400	3.54	3.00	44.14	-	12,234
Increase due to merger-1	27,200	5.17	3.00	46.02	-	8,447
Increase due to merger-2	55,900	6.39	2.00	49.24	20	6,536

1 Interest rate of government bonds as of grant date.

2 The average of vesting period and exercise period was applied for series 11 and 12. Vesting period was applied for series 13-14 and stock options succeeded from Kookmin Credit Card Co., Ltd.

3 Annualized stock volatility for the past one-year period before the grant date was applied for series 11 and 12 and stock options succeeded from Kookmin Credit Card Co., Ltd., and the average of stock volatility of banking industries and the Bank was applied for series 13 and 14.

4 Average historical dividend rates for the past period from grant date that equals the expected exercise period, were assumed.



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The compensation costs recognized and compensation costs to be recognized in the future as of December 31, 2004 are as follows:

(in Millions of Korean won)

	Compensation cost recognized			Compensation cost to be recognized				Total compensation cost
	Prior period compensation cost	Current period compensation cost	Accumulated compensation cost	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	Total	
Series 1	517	-	517	-	-	-	-	517
Series 2	2,580	234	2,814	-	-	-	-	2,814
Series 5	2,131	-	2,131	-	-	-	-	2,131
Series 6	960	87	1,047	-	-	-	-	1,047
Series 7	10,840	1,097	11,937	-	-	-	-	11,937
Series 8-1	604	345	949	86	-	-	86	1,035
Series 8-2	5,296	1,968	7,264	660	-	-	660	7,924
Series 9	246	173	419	101	-	-	101	520
Series 10-1	427	131	558	319	80	-	399	957
Series 10-2	633	318	951	544	136	-	680	1,631
Series 11	50	(16)	34	26	17	-	43	77
Series 12	-	388	388	466	466	78	1,010	1,398
Series 13-1	-	76	76	101	101	24	226	302
Series 13-2	-	38	38	50	50	13	113	151
Series 14	-	238	238	2,855	2,855	2,616	8,326	8,564
Increase due to merger-1	171	16	187	-	-	-	-	187
Increase due to merger-2	57	8	65	-	-	-	-	65
	24,512	5,101	29,613	5,208	3,705	2,731	11,644	41,257

As of December 31, 2004, the weighted average exercise price per stock option granted is 43,632 and the weighted average fair value per stock option granted is 16,294.

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23. OTHER NON-INTEREST INCOME (EXPENSES)

Other non-interest income and expenses for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Amount
Other non-interest income	
Realized gain on trading securities	200,765
Unrealized gain on trading securities	23,543
Income from beneficiary certificates	384,747
Gain on trust management	119,908
Gain on valuation of derivatives	2,196,112
Gain on fair value hedged items	6,065
Others	45,787
	2,976,927
Other non-interest expenses	
Realized loss on trading securities	89,315
Contributions to special funds	179,962
Loss on valuation of derivatives	2,050,630
Others	610,651
	2,930,558

24. GENERAL AND ADMINISTRATIVE EXPENSES

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

(in Millions of Korean won)

	Amount
Salaries and wages	1,233,320
Retirement benefits (Note 12)	127,676
Other employee benefits	339,896
Rent	82,273
Depreciation	334,565
Amortization	103,619
Taxes and dues	125,416
Advertising	44,119
Ordinary Research and Development	115,407
Fees and commissions	117,739
Others	220,078
	2,844,108



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25. NON-OPERATING INCOME (EXPENSES)

Non-operating income (expenses) for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Amount
Non-operating income	
Gain on disposal of fixed assets	29,562
Reversal of impairment losses on fixed assets	3,281
Rent income	2,883
Unrealized gain on investment in associates	32,507
Realized gain on available-for-sale securities	95,880
Realized gain on held-to-maturity securities	1,517
Realized gain on investment in associates	1,146
Reversal of Impairment Losses on available-for-sale securities	-
Gain on sale of loans	24,428
Others	172,701
	363,905
Non-operating expenses	
Loss on disposal of fixed assets	16,753
Loss on impairment loss on fixed assets	19,384
Realized loss on available-for-sale securities	29,451
Realized loss on held-to-maturity securities	3
Impairment loss on available-for-sale securities	91,312
Impairment loss on held-to-maturity securities	-
Early retirement benefits	50,029
Loss on sale of loans	1,183,332
Others	124,330
	1,514,594
	(1,150,689)

Notes to Consolidated Financial Statements

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26. INCOME TAX EXPENSE

Income tax expense for the year ended December 31, 2004 and 2003 are as follows:

(in Millions of Korean won)

	2004	2003
Income tax payable	184,473	15,283
Deferred income taxes from temporary differences	150,688	(285,864)
Deferred income taxes from net operating loss carry-forward	-	(168,645)
Deferred tax credit	3,951	(3,951)
Change in temporary differences due to tax adjustments	-	(2,400)
Retained earnings and other capital surplus adjustments ¹	(313)	2,061
Unrealized holding gain (loss)	(694)	25,850
Income tax (benefit) expense	338,105	(417,666)

¹ Income tax effect from the change in retained earnings by applying the equity method accounting to subsidiaries and from the loss on disposal of treasury stock.

The statutory income tax rate applicable to the Consolidated Company, including resident tax surcharges, is 29.7% for the years ended December 31, 2004 and 2003. However, due to tax adjustments, the effective tax rate for the years ended December 31, 2004 and 2003 are 37.91% and 33.15%. The statutory income tax rate of 27.5% is applied for deferred income tax assets (liabilities) that will be realized after 2005, reflecting the 2% corporate tax rate cut from 2005. The basis for calculating the effective tax rate is as follows:

(in Millions of Korean won)

	2004	2003
Net income (loss) before income taxes	891,969	(1,259,922)
Income tax expense based on statutory tax rate(29.7%)	264,915	(374,197)
Tax effects on adjustments		
Adjustments to increase taxable income	133,402	104,084
Adjustments to decrease taxable income	(90,303)	(179,208)
Tax rate discount effect	13,132	16,607
Adjustments to Subsidiary Company with net loss	16,959	15,048
Income tax expense (benefit) per statements of operations	338,105	(417,666)

Notes to Consolidated Financial Statements

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The significant changes in accumulated temporary differences and deferred income taxes for the year ended December 31, 2004 are as follows:

(in Millions of Korean won)

	Beginning balance	Increase	Decrease	Ending balance	Deferred tax asset (liability)
Allowance for loan losses	320,903	639,940	294,795	666,048	178,913
Accrued interest	(344,088)	(267,697)	(308,528)	(303,257)	(85,246)
Unrealized loss on securities	847,844	646,073	682,038	811,879	209,890
Unrealized gain on derivatives	(36,547)	(126,421)	(23,924)	(139,044)	(38,237)
Present value discounts	14,774	4,279	14,774	4,279	1,177
Allowance for losses on guarantees and acceptances	1,074	1,126	1,074	1,126	310
Accrued retirement benefits	711	1,100	354	1,457	123
Stock options	26,211	29,613	26,211	29,613	8,143
Accumulated depreciation	8,404	109	4,301	4,212	1,149
Other allowances	505,372	636,457	505,372	636,457	175,025
Others	125,822	232,355	329,469	28,708	5,505
Net operating loss carry-forward	567,825	-	567,825	-	-
	2,038,305	1,796,934	2,093,761	1,741,478	456,752
Deferred income tax deduction	3,951	-	3,951	-	-
					456,752

27. EARNINGS PER SHARE

The weighted average number of common shares outstanding for the years ended December 31, 2004 and 2003 are calculated as follows:

	2004	2003
Weighted average number of common shares	336,379,116	330,327,726
Weighted average number of treasury common shares	(29,947,507)	(4,327,815)
Weighted average number of common shares outstanding	306,431,609	325,999,911

Details of the computation of the basic earnings (loss) per share ("EPS") and basic ordinary income (loss) per share for the years ended December 31, 2004, and 2003 are shown below.

	2004	2003
Net income (loss) (in millions of Korean won)	550,732	(918,758)
Weighted average number of common shares outstanding	306,431,609	325,999,911
Basic earnings (loss) per share and basic ordinary income (loss) per share (in Won)	1,797	(2,818)

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Details of the computation of the diluted EPS and diluted ordinary income(loss) per share for the years ended December 31, 2004, and 2003 are shown below.

	2004	2003
Diluted net income (loss) (in millions of Korean won)	550,720	(918,758)
Weighted average number of common shares outstanding	306,529,707	325,999,911
Diluted earnings (loss) per share and ordinary income (loss) per share (in won)	1,797	(2,818)

Potential common shares as of December 31, 2004 are as follows:

	Exercise Period	Shares Outstanding	Exercise Price
Stock options	2001.11.01 - 2012.11.01	2,532,054	5,000 ~ 129,100

As discussed in Note 37, the Bank restated net loss and basic loss per share for the year ended December 31, 2003 from 741,750 million and 2,275 to 918,758 million and 2,818, respectively, to comply with the Securities and Futures Commission's announced the results of the investigation on Kookmin Bank's accounting treatments.



28. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Significant assets and liabilities denominated in foreign currencies as of December 31, 2004 are the following :

	Total Balances		Major Denomination Currencies ¹		
	Millions of Korean Won	Thousands of US Dollars ¹	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	124,736	\$ 119,502	\$ 52,102	= 15,928	3,446,955
Due from banks	647,527	620,355	591,434	4,484	2,278,619
Securities	852,680	816,900	671,664	-	4,280,373
Loans	3,659,753	3,506,182	596,217	7,630	33,744,003
Bills bought	574,818	550,697	492,807	36,516	682,658
Call loans	178,480	170,990	147,500	-	500,000
Liabilities					
Deposits	1,516,132	1,452,512	912,016	65,339	33,911,574
Borrowings	2,164,848	2,074,006	1,584,953	24,045	46,777,477
Due to Bank of Korea	2,007	1,923	1,923	-	-
Call money	13,685	13,111	1,000	-	200,000
Debentures	696,522	667,294	570,752	-	-
Unsettled foreign exchange liabilities	21,395	20,497	16,305	596	120,366

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Significant assets and liabilities denominated in foreign currencies as of December 31, 2003 are the following :

	Total Balances		Major Denomination Currencies ¹		
	Millions of Korean Won	Thousands of US Dollars ¹	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	228,153	\$ 190,477	\$ 76,612	= 22,070	7,223,564
Due from banks	606,305	506,182	461,249	3,015	1,798,015
Securities	1,265,120	1,056,203	941,396	3,960	4,027,539
Loans	3,900,869	3,256,695	2,455,148	37,850	79,081,632
Bills bought	534,239	446,016	416,651	15,003	817,496
Advances payments on acceptances and guarantees	4,593	3,835	3,835	-	-
Call loans	19,448	16,237	5,800	-	50,000
Liabilities					
Deposits	1,552,672	1,296,270	880,821	14,493	27,863,430
Borrowings	3,068,008	2,561,369	1,942,770	37,210	60,834,504
Due to Bank of Korea	12,608	10,526	10,526	-	-
Call money	169,744	141,713	137,600	-	300,000
Debentures	888,455	741,739	741,739	-	-
Unsettled foreign exchange liabilities	22,600	18,868	11,569	161	89,793

¹ Foreign currencies other than US dollars are converted into US dollar amounts using the exchange rates provided by Seoul Money Brokerage Services, Ltd. at the balance sheet date.

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29. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

The assets and liabilities arising from transactions with financial institutions for year ended December 31, 2004 are as follows:

(in Millions of Korean won)

Description		Bank of Korea	Other Banks	Other Financial Institutions	Total
Cash and due from banks	In Won	1,685,105	276,509	104,705	2,066,319
	In foreign currencies	43,631	598,851	5,045	647,527
		1,728,736	875,360	109,750	2,713,846
Loans	In Won	-	6,623	648,849	655,472
	In foreign currencies	-	594,985	340,448	935,433
	Others	-	2,977,713	1,207,480	4,185,193
		-	3,579,321	2,196,777	5,776,098
Deposits	In Won	-	1,683,255	5,240,889	6,924,144
	Certificates of deposit	-	-	110,000	110,000
		-	1,683,255	5,350,889	7,034,144
Borrowings	In Won	920,144	158,245	5,227	1,083,616
	In foreign currencies	-	1,307,608	13,882	1,321,490
	Others	2,007	16,859	638,500	657,366
		922,151	1,482,712	657,609	3,062,472
Debentures	In Won	-	-	132,900	132,900
	In foreign currencies	-	696,522	-	696,522
		-	696,522	132,900	829,422

30. RELATED PARTY TRANSACTIONS

Significant transactions with related parties for the years ended December 31, 2004 and 2003 are as follows:

(in Millions of Korean won)

Account	2004		2003		
	Balances	Transactions	Balances	Transactions	
KB Investment Co., Ltd.	Deposits	17,423	(432)	9,624	(484)
	Other liabilities	316	-	191	-
KB Data Systems Co., Ltd.	Fixed assets	13,318	-	13,780	-
	Other assets	98	-	34	-
	Deposits	12,047	(418)	5,582	(265)
	Other liabilities	5,596	(19,694)	2,832	(15,925)
	Borrowings	1,100	(19)	-	-
	Commissions income	-	-	-	53
KB Futures Co., Ltd.	Due from banks	-	1	40	3
	Other assets	22	82	26	77
	Deposits	4,410	(307)	9,793	(497)
	Borrowings	5,000	(122)	-	-

continued;

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(in Millions of Korean won)

	Account	2004		2003	
		Balances	Transactions	Balances	Transactions
	Other liabilities	1,614	-	1,663	-
	Commissions income	-	11	-	9
	Commissions expenses	-	(523)	-	(187)
KB Luxembourg S.A.	Due from banks	-	70	51,784	2,215
	Loans	-	184	76,659	739
	Other assets	-	-	176	2,900
	Borrowings	-	(178)	140,880	(193)
	Other liabilities	-	-	-	(1,352)
KB Int'l Ltd.(London)	Due from banks	2,762	29	33,754	904
	Loans	242,005	3,142	95,824	1,765
	Other assets	1,005	637	405	477
	Borrowings	101,812	(547)	108,272	(501)
	Other liabilities	-	(2,190)	1,203	(4,011)
	Commissions expenses	-	(2,378)	-	(1,398)
Kookmin Bank HK Ltd.	Due from banks	619	61	372	857
	Loans	170,661	4,380	98,579	1,802
	Other assets	540	-	152	109
	Borrowings	12,145	(22)	173,121	(4)
	Commissions expenses	-	(1,802)	-	(1,777)
KB Asset Management Co., Ltd.	Deposits	25,729	(866)	46,244	(1,250)
	Other liabilities	524	-	234	(5)
KB Real Estate Trust Co., Ltd.	Loans	33,961	2,035	25,000	2,578
	Other assets	14	-	-	-
	Deposits	168	(43)	1,838	(27)
	Other liabilities	1,748	-	1,755	-
	Rent income	-	152	-	-
Joeeun Industrial Co., Ltd.	Loans	70,808	-	139,425	-
KB Credit Information Co., Ltd.	Deposits	14,301	(385)	11,446	(457)
	Other liabilities	8,062	-	8,482	-
	Commissions expenses	-	32,938	-	(38,481)
KB Life Insurance Co., Ltd.	Other assets	3,037	-	-	-
	Deposits	4,622	(51)	-	-
	Other liabilities	2,581	-	-	-
	Commissions income	-	17,801	-	-
	Rent income	-	54	-	-

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31. INTEREST BEARING ASSETS AND LIABILITIES

Interest bearing assets and liabilities as of December 31, 2004 and the related interest income and interest expenses for the year then ended are as follows:

(in Millions of Korean won)

	Average Balance	Interest Income	Average Yield (%)
Assets			
Due from banks	812,235	12,693	1.56%
Securities	26,182,773	1,194,445	4.56%
Loans	139,509,545	9,862,381	7.07%
	166,504,553	11,069,519	
Liabilities			
Deposits	132,626,242	4,044,051	3.05%
Borrowings	10,654,670	330,690	3.10%
Debentures	22,971,960	1,116,557	4.86%
	166,252,872	5,491,298	

32. BUSINESS COMBINATION WITH H&CB

The Bank entered into a business combination contract ("the Contract") with H&CB on April 23, 2001 and obtained approval from the shareholders for such combination on September 29, 2001. In accordance with the Contract, the Bank completed the legal consolidation with H&CB as of October 31, 2001. Under the Contract, the shareholders of the Bank and H&CB received 1 new common share of the Bank for every 1.688346 old shares of the Bank and 1 share of H&CB. The new common shares of the Bank were listed on the Korea Stock Exchange on November 9, 2001. Despite the legal form of consolidation, the business combination was accounted for as an acquisition with the Bank as acquirer of H&CB's total assets of 67,742,958 million and liabilities of 64,381,185 million.

33. MERGER WITH KOOKMIN CREDIT CARD CO., LTD.

The Bank obtained approval from its Board of Directors on May 30, 2003 to merge with Kookmin Credit Card Co., Ltd., (the "Subsidiary") of which the Bank previously owned 74.27%, and merged with the Subsidiary on September 30, 2003.

The merger was effected through the issuance of 8,120,431 common shares by the Bank to the shareholders of the Subsidiary as of July 24, 2003, at a ratio of 0.442983 share of the Bank's common stock for each share of the Subsidiary. The newly issued common shares due to this transaction constituted 2.4% of total outstanding shares of the Bank as of September 30, 2003.



Notes to Consolidated Financial Statements

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34. STATEMENT OF CASH FLOWS

Cash and cash equivalents as of December 31, 2004 and 2003 as presented in the statements of cash flows are as follows:

	(in Millions of Korean won)	
	2004	2003
Cash on hand	2,380,580	2,945,921
Cash in foreign currencies	124,736	228,153
Due from banks in Won	2,102,125	2,793,082
Due from banks in foreign currencies	647,527	606,305
	5,254,968	6,573,461
Restricted deposits	(1,825,899)	(2,782,696)
	3,429,069	3,790,765

Major transactions that do not involve cash inflows and cash outflows for the year ended December 31, 2004, and 2003 are presented as follows:

	(in Millions of Korean won)	
	2004	2003
Write-off of loans	5,326,823	6,643,899
Unrealized gains on investment securities	-	36,891
Decrease in loans due to troubled debt restructuring	-	7,482
Decrease in loan loss provision due to sales of non-performing loans	644,697	441,917
Conversion of loans into equity securities	181,034	33,415

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35. BUSINESS SEGMENTS

The following tables show the distribution of the Consolidated Company's operations by business segment as of and for the year ended December 31, 2004:

(in Millions of Korean won)

	Financing and Insurance	Non-Financing & Insurance	Adjustments for Consolidation	Total
Cash and due from banks	5,422,762	12,071	(183,616)	5,251,217
Securities	30,700,733	1	(397,519)	30,303,215
Loans	136,816,906	1,660	(715,865)	136,102,701
Fixed assets	2,639,284	358	(2,524)	2,637,118
Other assets	8,711,501	8,168	(238,636)	8,481,033
Total assets	184,291,186	22,258	(1,538,160)	182,775,284
Deposits	130,453,034	-	(319,161)	130,133,873
Borrowings	9,958,105	-	(598,510)	9,359,595
Debentures	21,867,820	-	-	21,867,820
Other liabilities	12,429,774	6,426	(209,504)	12,226,696
Total liabilities	174,708,733	6,426	(1,127,175)	173,587,984
Capital stock	2,006,311	8,000	(332,415)	1,681,896
Consolidated capital surplus	6,250,028	-	(11,744)	6,238,284
Consolidated retained earnings	2,172,624	7,835	(88,499)	2,091,960
Consolidated capital adjustments	(846,510)	(3)	(5,967)	(852,480)
Minority interest	-	-	27,640	27,640
Total shareholders' equity	9,582,453	15,832	(410,985)	9,187,300
Total liabilities and shareholders' equity	184,291,186	22,258	(1,538,160)	182,775,284
Operating revenue				
Interest revenue	11,213,562	589	(23,652)	11,190,499
Fees & commissions	2,690,729	40,076	(79,675)	2,651,130
Other revenue	7,467,944	7	(116,346)	7,351,605
	21,372,235	40,672	(219,673)	21,193,234
Operating expenses				
Interest expenses	5,563,198	-	(23,338)	5,539,860
Fees & commissions	455,333	25,449	(38,433)	442,349
Other expenses	10,442,322	57	(118,120)	10,324,259
General and administrative expenses	2,851,305	13,182	(20,379)	2,844,108
	19,312,158	38,688	(200,270)	19,150,576

continued;



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(in Millions of Korean won)

	Financing and Insurance	Non-Financing & Insurance	Adjustments for Consolidation	Total
Operating income	2,060,077	1,984	(19,403)	2,042,658
Non-operating income	366,749	5	(2,849)	363,905
Non-operating expenses	1,554,697	-	(40,103)	1,514,594
Income (loss) before income tax	872,129	1,989	17,851	891,969
Income tax expenses	338,395	405	(695)	338,105
Net income (loss) before consolidation	533,734	1,584	18,546	553,864
Minority interest income	-	-	(3,132)	(3,132)
Consolidated net income (loss)	533,734	1,584	15,414	550,732

The following table shows the distribution of the Consolidated Company's operations by industry:

(in Millions of Korean won)

	Bank	Trust	Others	Consolidation Adjustments	Total
Operating revenue	20,910,525	266,488	235,894	(219,673)	21,193,234
Intercompany transactions	(89,261)	(19,728)	(110,684)	219,673	-
Net operating revenue	20,821,264	246,760	125,210	-	21,193,234
Operating income (loss)	2,101,850	(655)	(39,134)	(19,403)	2,042,658
Cash and due from banks	5,322,731	-	112,102	(183,616)	5,251,217
Securities	27,619,758	2,845,946	235,030	(397,519)	30,303,215
Loans	136,495,174	302,309	21,083	(715,865)	136,102,701
Fixed assets	2,633,731	-	5,911	(2,524)	2,637,118
Other assets	8,288,945	167,039	263,685	(238,636)	8,481,033
Total assets	180,360,339	3,315,294	637,811	(1,538,160)	182,775,284

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The following table shows the distribution of the Consolidated Company's operations by geographical regions:

(in Millions of Korean won)

	Domestic	Overseas	Consolidation Adjustments	Total
Operating revenue	21,331,837	81,070	(219,673)	21,193,234
Intercompany transactions	(200,995)	(18,678)	219,673	-
Net operating revenue	21,130,842	62,392	-	21,193,234
Operating income (loss)	2,030,853	31,208	(19,403)	2,042,658
Cash and due from banks	5,289,861	144,972	(183,616)	5,251,217
Securities	30,677,311	23,423	(397,519)	30,303,215
Loans	135,923,390	895,176	(715,865)	136,102,701
Fixed assets	2,636,061	3,581	(2,524)	2,637,118
Other assets	8,156,595	563,074	(238,636)	8,481,033
Total assets	182,683,218	1,630,226	(1,538,160)	182,775,284



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36. RECLASSIFICATION OF PRIOR YEAR FINANCIAL STATEMENT PRESENTATION

Certain accounts of prior year financial statements have been reclassified to conform to the current year financial statements presentation. These reclassifications have no effect on previously reported net loss or shareholders' equity.

37. RESULTS OF SECURITIES AND FUTURES COMMISSION (SFC)'S INVESTIGATION AND RESTATEMENT OF PRIOR PERIODS' FINANCIAL STATEMENTS

On August 25, 2004, the Securities and Futures Commission's ("SFC") announced the results of the investigation on Kookmin Bank's accounting treatments related to acquisition of Kookmin Credit Card and other transactions.

(1) Results of Securities and Futures Commission's investigation

-Accounting treatment in relation to the acquisition of Kookmin Credit Card ("KCC")

As discussed earlier, the Bank merged with KCC in September 2003. Relative to the merger, for the year ended September 30, 2003, KCC failed to recognize an allowance on loan loss of 1,266,405 million, which included other allowances of 15,442 million, resulting in the overstatement of its net income. Consequently, the Bank recognized unrealized gain on investment in associates of 211,202 million in proportion to its 74.2692% interest in KCC which recorded a net income of 284,373 million for the same period. Regarding KCC's under-recording of the allowance of loan loss of 1,266,405 million and the additional allowance on loan losses due to the difference in accounting treatments on the Bank's consolidated financial statements of 389,980 million, both of which total 1,656,385 million, these were subsequently recorded by the Bank as allowance on loan loss due to merger of 1,652,264 million and impairment loss on investments available-for-sale of 4,121 million. To comply with the SFC's instructions, the Bank recorded unrealized loss on investment in associates of 1,018,982 million, proportionate to its 74.2692% interest in the sum of 1,372,012, which is the total of KCC's net loss of 982,032 million and the additional allowance on loan loss due to merger of 389,980 million; and deducted the minority interest of 309,559 million from additional paid in capital.

- Accounting treatment in relation to asset securitization

The Bank is currently offering credit lines to the KCC 16th Special Purpose Co., Ltd ("SPC") and FN Star 3rd SPC amounting to 757,000 million (transferred value of 1,243,000 million, transfer gain of 488,000 million). However, the recovery rate of the assets transferred to the SPCs decreased dramatically between September 2003 and January 2004, before actual issuance of year-end financial status. As the present value of the underlying assets dropped below the SPC's liability amount, there is a high probability that the Bank would be liable to cover the difference up to the credit line limit. Even though the Bank could have reflected the probable contingency loss amount by estimating future cash flows based on the recovery rates available to the latest month and the fair valuation models used at the point of asset securitization, the Bank appropriated only 133,376 million for the estimable contingency loss of 346,533 million, understating other allowances (allowance for acceptances and guarantees outstanding) by 213,157 million and overstating net assets (understating net income) by the same amount.

continued;

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- Accounting treatment in relation to Special Purpose Co., Ltd. currency swap

In relation to the early redemption of asset-backed securities ("ABS") by KCC 10th Special Purpose Co., Ltd on September 18, 2003, a settlement loss of 27,159 million was paid to ING Bank due to a decline in currency swap interest rate. Therefore, since KCC, the holder of the ABS, guaranteed the payment of the loss, KCC should have recognized the settlement payment as loss and the Bank should have recognized its equity share portion of 20,171 million and the excess amount over minority interest of 6,988 million as unrealized loss on investment in associates. However, KCC recognized the swap settlement payment as asset, ABS advance payment, and the Bank accounted for the amount as contra account amount of liabilities, agency fee. As a result, the Bank understated the liability by 27,159 million and overstated net assets by the same amount.

(2) Restatement of Prior periods' financial statements

To comply with SFC's instructions, the Bank restated its financial statements as of and for the year ended December 31, 2003 regarding the understatement of provision for other allowances amounting to 213,157million and overstatement of unrealized gain on investment in associates amounting to 27,159 million, presented as loss on derivatives transaction under the consolidated income statement. Therefore, the net loss and accumulated deficit before disposition in the financial statements for the year ended December 31, 2003 in the audit report dated March 3, 2004, were understated by 177,008 million due to tax effect of the understatement of other allowance by 213,157 million and the understatement of loss on derivatives transaction by 27,159 million.

The consolidated financial statements of the prior year, presented herein for comparative purposes, has been restated in accordance with above.

The following summarizes the adjustments made by the Bank and the effects on financial statements of December 31, 2003 are as follows:

(in Millions of Korean won)

	Before Adjustments	After Adjustments
Balance sheet (2003.12.31)		
Deferred income tax assets	563,940	627,248
Other allowances	649,804	849,327
Agency fee payable	338,748	365,907
Retained earnings	1,712,664	1,535,656
Income statement (2003.1.1-2003.12.31)		
Losses on Derivatives Transaction	1,062,812	1,089,971
Provision of other allowances	433,289	646,446
Income tax benefit	(354,358)	(417,666)



Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The following shows the recomputed ordinary loss, net loss, ordinary loss per share and net loss per share as of and for the year ended December 31, 2003:

(in Millions of Korean won)

	December 31, 2003	
	Before Adjustments	After Adjustments
Ordinary loss	(741,750)	(918,758)
Net loss	(741,750)	(918,758)
Ordinary loss per share(in Won)	(2,275)	(2,818)
Net loss per share(in Won)	(2,275)	(2,818)

38. SUBSEQUENT EVENTS

The Bank sold 49% of its ownership of KB Life Insurance Co., Ltd to ING Insurance International B.V. at 14,821 million on January 25, 2005.

The Consolidated Company participated in increasing the paid in capitals of LG Card Co., Ltd. amounting to 75,800 million on January 28, 2005, in accordance with the agreement with the creditors' committee.

On January 25, 2005, the Consolidated Company agreed with the labor union to implement an early retirement program to which about 2,200 employees applied. Estimated cost for the said program is approximately 256 billion.

On February 3, 2005, the Consolidated Company, with the approval of the Board of Directors, decided to contribute 2 million treasury stocks to the Employee Stock Ownership Association for the welfare of the employees.

39. APPROVAL OF FINANCIAL STATEMENTS

The Bank's financial statements as of and for the year ended December 31, 2004, were approved by the board of directors on February 3, 2005.

Company Information

History

Apr. 29, 2004	Established a new subsidiary, KB Life Co., Ltd.	Sep. 30, 2003	Merged with Kookmin Credit Card Co., Ltd.
Dec. 19, 2003	Fully privatized following the Korean government's disposal of its stake in KB	Dec. 4, 2002	Agreed to maintain strategic alliance with ING Group
Dec. 16, 2003	Completed the acquisition of 51% stake in Bank Internasional Indonesia through Sorak Financial Holdings Consortium, in which KB holds a 25% stake	Sep. 23, 2002	Completed information technology integration
		Nov. 9, 2002	Listed on the Korean Stock Exchange
		Nov. 1, 2001	Reestablished new KB and listed on the New York Stock Exchange

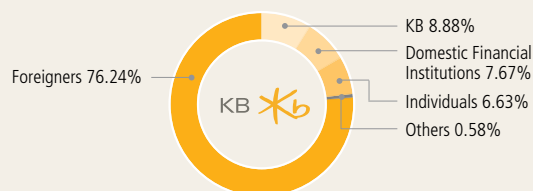
KB Shares Issued: 336,379,116

Date	Share Type	Total Shares	New Shares Issued	Capital (KRW in billions)	Remarks
Oct. 1, 2003	Common Shares	336,379,116	8,120,431	1,682	New issue due to merger with KCC
Nov. 30, 2002	Common Shares	328,258,685	10,581,269	1,641	Goldman Sachs converts convertible bonds to shares
Mar. 22, 2002	Common Shares	317,677,416	17,979,954	1,588	6% share dividend
Oct. 31, 2001	Common Shares	299,697,462	299,697,462	1,499	New issue due to merger with KCC

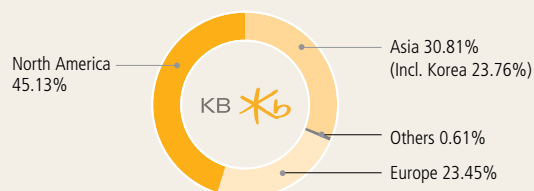
Major Shareholders (as of December 31, 2004)

Name	Shares Owned	
	No. of Shares	%
Bank of New York (ADRs)	47,503,730	14.12
KB (Treasury Stock)	29,881,209	8.88
Euro-Pacific Growth Fund	14,326,220	4.26
ING Bank N.V. Amsterdam	13,650,001	4.06

Shareholders by Type



Shareholders by Region



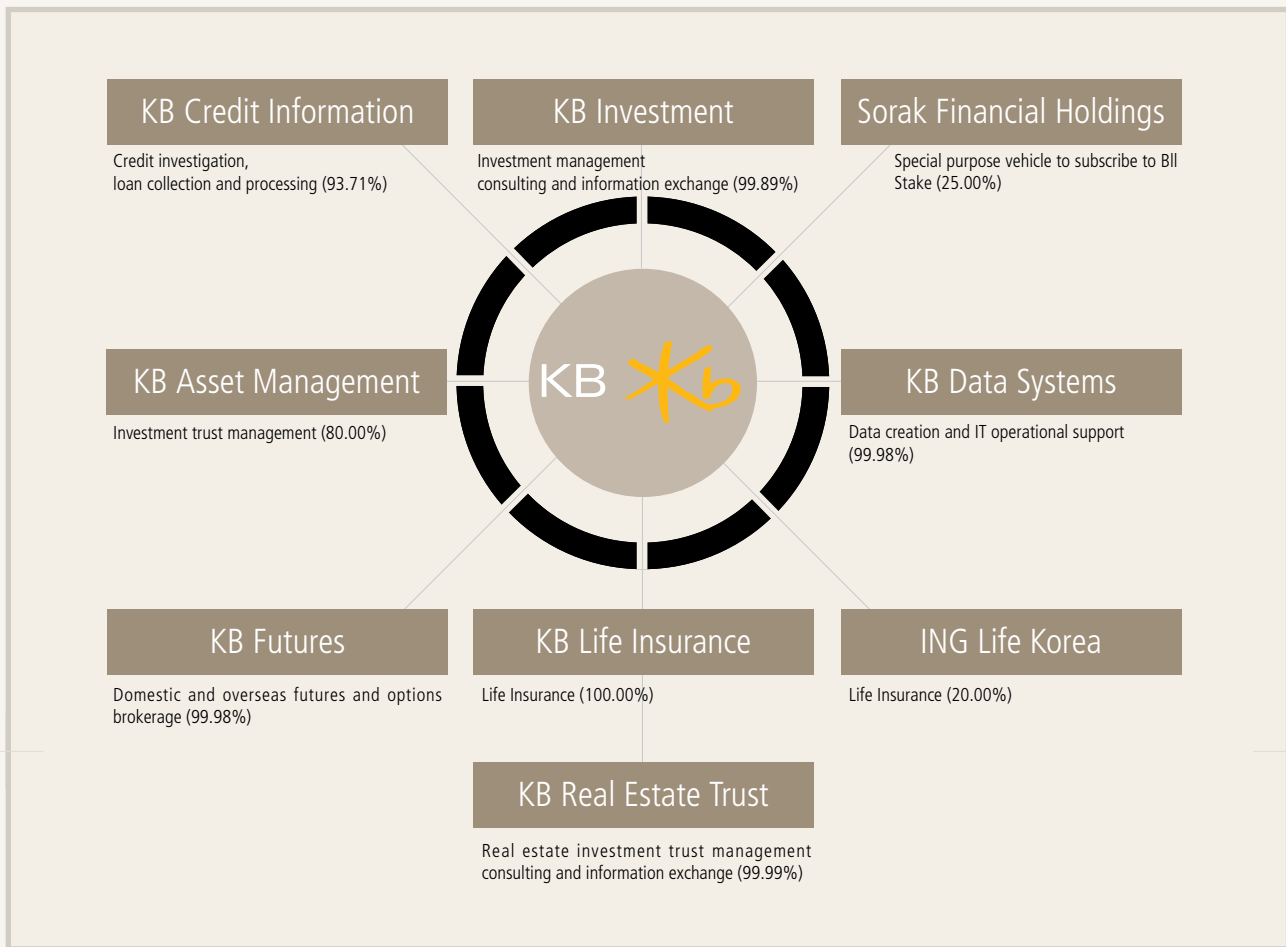
Securities Listings

- Korea Exchange : 060000, Kookmin Bank (KB) (Common Share)
- New York Stock Exchange : Kookmin Bank (ADRs)

Transfer Agent and Registrar

Common Share	American Depository Receipts (ADRs)
Kookmin Bank	Bank of New York
Securities Agency Business Team	ADR Division
34, Yoido-dong, Youngdeungpo-gu, Seoul 150-716, Korea	101 Barclay Street 22nd Floor, New York, NY 10286 U.S.A.
Tel: (822) 2073-8122	Tel: (1-212) 815-8161
Fax: (822) 2073-8111	Fax: (1-212) 571-3050

Affiliated Companies (as of December 31, 2004)



KB's subsidiaries provide another source of growth for its business model. KB merged with Kookmin Credit Card Co., Ltd. in September 2003. In addition, KB took a 25% stake in Sorak Financial Holdings Consortium, a special purpose vehicle to acquire 51% stake in Bank Internasional Indonesia in December 2003. Recently, KB established a new subsidiary, KB Life Co., Ltd. In total, KB has nine subsidiaries in operations.

With respect to the management of its subsidiaries, KB's basic principles are to support our subsidiaries in establishing a profitability-focused management, and in increasing mutual benefits among KB and its subsidiaries. To constantly create synergistic opportunities between KB and its subsidiaries, KB's management frequently meets with its subsidiaries' management.

Company Information

Company Directory

- **Corporate Headquarters**
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Telex: K23481, K26109
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Overseas Offices

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Telex: NZ60214
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Fax: (1-212) 697-1456
Swift Code: CZNBUS33
Telex: 49666583
ABA: 0260 1334 3

Major Subsidiaries

- **KB Real Estate Trust Co., Ltd.**
Tel: (822) 2190-9800~1
Fax: (822) 2190-9803
<http://www.kbret.co.kr>
- **KB Investment Co., Ltd.**
Tel: (822) 545-5091
Fax: (822) 545-5092
<http://www.kbic.co.kr>
- **KB Asset Management Co., Ltd.**
Tel: (822) 2167-8200
Fax: (822) 761-4114
<http://www.kbitm.co.kr>
- **KB Futures Co., Ltd.**
Tel: (822) 3786-0800
Fax: (822) 3786-0890
<http://www.kbfutures.co.kr>
- **KB Data Systems Corporation**
Tel: (822) 3700-5200
Fax: (822) 3700-5300
<http://www.kds.co.kr>
- **KB Credit Information Co., Ltd.**
Tel: (822) 768-2900
Fax: (822) 768-2907
<http://www.kbci.co.kr>
- **KB Life Insurance Korea Co., Ltd.**
Tel: (822) 398-6800
Fax: (822) 398-6842
<http://www.kbli.co.kr>
- **ING Life Insurance Korea Co., Ltd.**
Tel: (822) 3703-9500
Fax: (822) 734-3309
<http://www.inglife.co.kr>
- **Sorak Financial Holdings Pte. Ltd.**
Tel: (65) 6828-6828
Fax: (65) 6821-1170



Forward-Looking Statements

This document contains forward-looking statements. Words and phrases such as "will," "aim," "will likely result," "will continue," "contemplate," "seek to," "future," "objective," "goal," "should," "will pursue," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify with forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

The factors that could cause actual results to differ include, but are not limited to, the following:

- KB's ability to successfully implement its strategy;
- future levels of non-performing loans;
- KB's growth and expansion;
- adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- KB's exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on KB's income or results of operations could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document could include, but are not limited to:

- general economic and political conditions in Korea or other countries that have an impact on KB's business activities or investments;
- Korea's monetary and interest rate policies;
- inflation or deflation;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- performance of the financial markets in Korea and internationally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

KB cautions the reader not to place undue reliance on the forward-looking statements, which speak only as of the date of this document. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to KB or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this document.



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