

KOOKMIN BANK  
Form 20-F  
June 28, 2005  
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As filed with the Securities and Exchange Commission on June 28, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 001-15258**

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**Kookmin Bank**

(Exact name of Registrant as specified in its charter)

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**Kookmin Bank**

(Translation of Registrant's name into English)

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**The Republic of Korea**

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(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

**American Depositary Shares, each representing**

**New York Stock Exchange Inc.**

**one share of Common Stock**

**Common Stock, par value (Won)5,000 per share**

**New York Stock Exchange Inc.\***

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**306,497,907 shares of Common Stock, par value (Won)5,000 per share**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes     No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17     Item 18

**(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

As of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, we have prepared financial information in accordance with United States generally accepted accounting principles, or U.S. GAAP. Unless indicated otherwise, the financial information in this annual report as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 has been prepared in accordance with U.S. GAAP.

We were formed through a merger between the former Kookmin Bank and H&CB, which merged into a new corporation named Kookmin Bank effective November 1, 2001. Accordingly, financial information in this document as of and for the year ended December 31, 2001 reflects the impact of the merger. Under U.S. GAAP, the former Kookmin Bank is deemed the accounting acquiror of H&CB in the merger, and we have accounted for the acquisition using the purchase method of accounting.

In this annual report:

references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger with H&CB, the former Kookmin Bank;

references to Korea are to the Republic of Korea;

references to the government are to the government of the Republic of Korea;

references to Won or (Won) are to the currency of Korea; and

references to U.S. dollars, \$ or US\$ are to United States dollars.

Discrepancies between totals and the sums of the amounts contained in any table may be as a result of rounding.

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2004, which was (Won)1,035.1 = US\$1.00.



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**FORWARD-LOOKING STATEMENTS**

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report contains forward-looking statements.

Words and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, future, goal, intend, predict, positioned, project, risk, seek to, shall, should, will, will likely result, will pursue, plan and words and terms of similar nature in connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 4B. Business Overview regarding our financial condition and other future events or prospects are 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.

In addition to the risks related to our business discussed under Item 3D. Risk Factors, other factors could cause actual results to differ materially from those described in the forwarding-looking statements. These factors include, but are not limited to:

our ability to successfully implement our strategy;

future levels of non-performing loans;

our growth and expansion;

the adequacy of allowance for credit and investment losses;

technological changes;

interest rates;

investment income;

availability of funding and liquidity;

cash flow projections;

our exposure to market risks; and

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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 our income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this annual report could include, but are not limited to:

general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;

the monetary and interest rate policies of Korea;

inflation or deflation;

foreign exchange rates;

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prices and yields of equity and debt securities;

the 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.

For further discussion of the factors that could cause actual results to differ, see the discussion under Item 3D. Risk Factors contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. 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 us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this annual report.

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS**

**Not applicable**

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

**Not applicable**

**Table of Contents****Item 3. KEY INFORMATION****Item 3A. Selected Financial Data**

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm.

You should read the following data together with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included elsewhere in this annual report. Historical results do not necessarily predict future results.

**Consolidated income statement data**

	Year ended December 31,					
	2000	2001 (1)	2002	2003	2004	2004 (2)
	(in billions of Won, except common share data)					(in millions of US\$, except common share data)
Interest and dividend income	(Won) 7,263	(Won) 8,895	(Won) 13,450	(Won) 13,755	(Won) 12,092	\$ 11,682
Interest expense	4,505	5,317	6,734	6,462	5,516	5,329
Net interest income	2,758	3,578	6,716	7,293	6,576	6,353
Provision for loan losses, guarantees and acceptances	67	1,261	3,886	7,167	3,861	3,730
Non-interest income	927	1,765	3,098	2,914	2,800	2,704
Non-interest expense	1,614	2,354	4,387	4,406	4,032	3,895
Income tax expense (benefit)	746	647	597	(367)	448	433
Minority interest	81	84	(211)	(52)	3	2
Net income (loss) from continuing operations	1,177	997	1,155	(947)	1,032	997
Net (loss) income from discontinued operations after income taxes	(249)	8	97			
Cumulative effect of accounting change, net of tax		(13)				
Net income (loss)	(Won) 928	(Won) 992	(Won) 1,252	(Won) (947)	(Won) 1,032	\$ 997
Net income (loss) from continuing operations per common share						
Net income (loss)-basic	(Won) 6,257	(Won) 4,724	(Won) 3,635	(Won) (2,905)	(Won) 3,367	\$ 3.25
Net income (loss)-diluted (4)	5,355	4,251	3,520	(2,905)	3,365	3.25
Net income (loss) per common share (3)						
Net income (loss)-basic	(Won) 4,931	(Won) 4,700	(Won) 3,939	(Won) (2,905)	(Won) 3,367	\$ 3.25
Net income (loss)-diluted (4)	4,243	4,256	3,831	(2,905)	3,365	3.25

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Weighted average common shares outstanding-basic (in thousands of common shares)	188,107	211,037	317,787	326,000	306,432	306,432
Weighted average common shares outstanding-diluted (in thousands of common shares)	219,797	234,541	328,107	326,000	306,650	306,650
Cash dividends paid per common share (3)(5)(6)	(Won) 84	(Won) 844	(Won) 100	(Won) 1,000	(Won)	\$

- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US\$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) For the purpose of calculating earnings per share, all historical per share and share amounts have been restated to reflect (a) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB, and (b) a 6% stock dividend approved on March 22, 2002.
- (4) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors and employees. In prior periods, we had two additional categories of potentially dilutive common shares, which were shares issuable on conversion of convertible debentures and shares issuable on conversion of preferred shares.
- (5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.
- (6) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to stockholders who were registered in our stockholder registry on December 31, 2001. No stock dividends were declared for the fiscal years ended December 31, 2000, 2002, 2003 or 2004.

**Table of Contents****Consolidated balance sheet data**

Year ended December 31,

	2000	2001 (1)	2002	2003	2004	2004 (2)
	(in billions of Won)					(in millions of US\$)
<b>Assets</b>						
Cash and cash equivalents	(Won) 1,701	(Won) 3,041	(Won) 3,328	(Won) 3,170	(Won) 2,818	\$ 2,722
Restricted cash	1,540	4,373	1,580	2,770	1,822	1,760
Interest-bearing deposits in other banks	1,587	592	564	563	597	577
Call loans and securities purchased under resale agreements	2,491	2,012	229	3,959	2,993	2,892
Trading assets	3,104	6,874	6,368	3,517	6,096	5,889
Investments (3)	17,702	26,231	24,223	22,427	23,095	22,312
Loans (net of allowance for loan losses of (Won)2,394 billion in 2000, (Won)3,508 billion in 2001, (Won)5,195 billion in 2002 and (Won)5,772 billion in 2003, (Won)4,461 billion in 2004)	57,041	117,452	140,756	140,213	133,794	129,257
Due from customers on acceptances	1,916	1,887	881	605	743	718
Premises and equipment, net	1,126	1,846	2,121	1,909	1,637	1,581
Accrued interest and dividends receivable	1,107	1,160	1,116	995	871	841
Security deposits	690	1,244	1,337	1,331	1,285	1,242
Goodwill	176	162	162	395	422	408
Other intangible assets	406	581	469	423	308	297
Other assets	204	697	965	1,702	1,055	1,020
<b>Total assets</b>	<b>(Won) 90,791</b>	<b>(Won) 168,152</b>	<b>(Won) 184,099</b>	<b>(Won) 183,979</b>	<b>(Won) 177,536</b>	<b>(Won) 171,516</b>
<b>Liabilities and Stockholders Equity</b>						
Deposits:						
Interest bearing	(Won) 54,201	(Won) 110,895	(Won) 118,654	(Won) 128,144	(Won) 123,203	\$ 119,026
Non-interest bearing	1,982	4,141	3,745	3,460	3,017	2,915
Call money	581	2,701	306	225	652	630
Trading liabilities	718	287	625	762	2,297	2,219
Acceptances outstanding	1,916	1,887	881	605	743	718
Other borrowed funds	6,369	10,812	15,856	12,895	9,514	9,192
Accrued interest payable	2,311	4,617	4,463	3,938	3,495	3,376
Secured borrowings	1,468	5,501	7,864	8,207	6,121	5,913
Long-term debt	14,797	16,626	20,165	16,607	17,899	17,292
Other liabilities	2,482	2,742	2,634	2,552	2,900	2,800
<b>Total liabilities</b>	<b>(Won) 86,825</b>	<b>(Won) 160,209</b>	<b>(Won) 175,193</b>	<b>(Won) 177,395</b>	<b>(Won) 169,841</b>	<b>\$ 164,081</b>
Minority interest	221	308	71	16	13	13
Common stock	1,498	1,588	1,641	1,682	1,682	1,625
Additional paid-in capital	1,242	4,960	5,146	5,393	5,400	5,217
Other	1,005	1,087	2,048	(507)	600	580

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Stockholders equity	3,745	7,635	8,835	6,568	7,682	7,422
Total liabilities, minority interest and stockholders equity	(Won) 90,791	(Won) 168,152	(Won) 184,099	(Won) 183,979	(Won) 177,536	\$ 171,516

- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US\$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

**Table of Contents****Profitability ratios and other data**

	Year ended December 31,				
	2000	2001	(percentages)		
			2002	2003	
Net income as a percentage of:					
Average total assets (1)	1.15%	0.92%	0.71%	(0.49)%	0.56%
Average stockholders' equity (1)	29.42	20.59	13.50	(7.17)	13.36
Dividend payout ratio (2)	1.61	15.06	1.80		16.33
Net interest spread (3)	3.17	3.17	3.71	3.68	3.62
Net interest margin (4)	3.68	3.57	4.02	4.01	3.84
Efficiency ratio (5)	44.80	44.06	44.70	43.17	43.00
Cost-to-average assets ratio (6)	2.01	2.17	2.49	2.28	2.19
Won loans (gross) as a percentage of Won deposits	101.53	104.25	115.68	108.30	108.00
Total loans (gross) as a percentage of total deposits	105.72	105.09	119.14	110.83	109.43

- (1) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
- (2) Represents the ratio of total dividends declared on common stock as a percentage of net income.
- (3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
- (4) Represents the ratio of net interest income to average interest earning assets.
- (5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
- (6) Represents the ratio of non-interest expense to average total assets.

**Capital ratios**

	As of December 31,				
	2000	2001	(percentages)		
			2002(1)	2003(1)	
Total capital adequacy ratio (2)	11.18%	10.23%	10.41%	9.81%	11.01%
Tier I capital adequacy ratio (2)	6.82	7.09	6.62	6.03	6.67
Tier II capital adequacy ratio (2)	4.36	3.18	3.79	3.78	4.34
Average stockholders' equity as a percentage of average total assets	3.92	4.45	5.26	6.83	4.20

- (1) The method of calculating our capital and capital adequacy ratios changed from 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier I capital ratio would have been 6.66%, 6.09% and 6.73%, our Tier II capital ratio would have been 3.86%, 4.11% and 4.92% and our total capital adequacy ratio would have been 10.47%, 9.90% and 11.12% as of December 31, 2002, 2003 and 2004, respectively.
- (2) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP, which may differ in certain significant respects from U.S. GAAP. See Item 5B. Liquidity and Capital Resources - Financial Condition - Capital Adequacy.

**Credit portfolio ratios and other data**



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As of December 31,

	(in billions of Won, except percentages)				
	2000	2001	2002	2003	2004
Total loans	(Won) 59,397	(Won) 120,894	(Won) 145,832	(Won) 145,858	(Won) 138,124
Total non-performing loans (1)	1,762	3,376	3,912	4,116	3,175
Other impaired loans not included in non-performing loans	4,145	3,513	2,680	3,072	2,034
Total of non-performing loans and other impaired loans	5,907	6,889	6,592	7,188	5,209
Total allowance for loan losses	2,394	3,508	5,195	5,772	4,461
Non-performing loans as a percentage of total loans	2.97%	2.79%	2.68%	2.82%	2.30%
Non-performing loans as a percentage of total assets	1.94	2.01	2.13	2.24	1.79
Total of non-performing loans and other impaired loans as a percentage of total loans	9.94	5.70	4.52	4.93	3.77
Allowance for loan losses as a percentage of total loans	4.03	2.90	3.56	3.96	3.23

(1) Non-performing loans are defined as those loans, including corporate, retail and other loans, which are past due more than 90 days.

**Table of Contents****Selected Statistical Information***Average Balance Sheets and Related Interest*

The following table shows our average balances and interest rates for the past three years:

	Year ended December 31,								
	2002 (1)			2003			2004		
	Average balance (2)	Interest income (3)(4)(5)	Average yield	Average balance (2)	Interest income (3)(4)(5)	Average yield	Average balance (2)	Interest income (3)(4)(5)	Average yield
	(in billions of Won, except percentages)								
<b>Assets</b>									
Cash and interest-earning deposits in other banks	(Won) 1,734	(Won) 61	3.52%	(Won) 1,179	(Won) 14	1.19%	(Won) 1,188	(Won) 21	1.77%
Call loans and securities purchased under resale agreements	811	34	4.19	1,605	61	3.80	2,355	85	3.61
Trading securities	5,953	112	1.88	2,933	105	3.58	3,253	156	4.80
Investment securities (6)	25,090	1,419	5.66	29,431	1,513	5.14	20,030	1,004	5.01
<b>Loans:</b>									
Commercial and industrial	38,733	2,744	7.08	44,134	2,855	6.47	42,369	2,639	6.23
Construction loans	5,336	384	7.20	6,433	490	7.62	4,718	309	6.55
Other commercial	1,380	80	5.80	1,106	59	5.33	926	43	4.64
Mortgage and home equity	41,422	3,287	7.94	48,535	3,415	7.04	55,863	3,607	6.46
Other consumer	25,519	2,130	8.35	29,077	2,374	8.16	27,287	2,197	8.05
Credit cards (5)	19,840	3,166	15.96	16,498	2,846	17.25	12,049	1,978	16.42
Foreign commercial and industrial	1,255	33	2.63	1,079	23	2.13	1,342	53	3.95
<b>Loans (total)</b>	<b>133,485</b>	<b>11,824</b>	<b>8.86</b>	<b>146,862</b>	<b>12,062</b>	<b>8.21</b>	<b>144,554</b>	<b>10,826</b>	<b>7.49</b>
<b>Total average interest earning assets</b>	<b>167,073</b>	<b>13,450</b>	<b>8.05</b>	<b>182,010</b>	<b>13,755</b>	<b>7.56</b>	<b>171,380</b>	<b>12,092</b>	<b>7.06</b>

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Cash and due from banks	4,697			5,461			5,062		
Foreign exchange spot contracts and derivatives	863			2,385			4,839		
Premises and equipment	2,033			2,207			2,052		
Due from customers on acceptance	322			701			532		
Loan loss allowance	(4,127)			(5,287)			(5,373)		
Assets of discontinued operations	679								
Other non-interest earning assets	4,837			5,798			5,610		
<b>Total average non-interest earning assets</b>	<b>9,304</b>			<b>11,265</b>			<b>12,722</b>		
<b>Total average assets</b>	<b>(Won) 176,377</b>	<b>(Won) 13,450</b>	<b>7.63%</b>	<b>(Won) 193,275</b>	<b>(Won) 13,755</b>	<b>7.12%</b>	<b>(Won) 184,102</b>	<b>(Won) 12,092</b>	<b>6.57%</b>

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Year ended December 31,

	2002 (1)			2003			2004								
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost						
	(2)			(2)			(2)								
(in billions of Won, except percentages)															
<b>Liabilities</b>															
Deposits:															
Demand deposits	(Won)	598	(Won)	4	0.67%	(Won)	667	(Won)	2	0.30%	(Won)	620	(Won)	1	0.16%
Certificates of deposit		2,120		102	4.81		4,068		181	4.45		6,107		248	4.06
Other time deposits		66,454		3,260	4.91		67,733		2,964	4.38		68,230		2,716	3.98
Savings deposits		35,206		413	1.17		38,368		348	0.91		39,042		309	0.79
Mutual installment deposits		12,235		764	6.24		11,946		642	5.37		12,105		560	4.63
Deposits (total)		116,613		4,543	3.90		122,782		4,137	3.37		126,104		3,834	3.04
Call money		1,803		71	3.94		1,802		65	3.61		1,267		42	3.31
Borrowings from the Bank of Korea		1,337		33	2.47		1,020		25	2.45		911		22	2.41
Other short-term borrowings		9,077		488	5.38		13,250		573	4.32		8,150		310	3.80
Secured borrowings		5,888		325	5.52		8,150		476	5.84		7,400		366	4.95
Long-term debt		20,260		1,274	6.29		19,678		1,186	6.03		16,749		942	5.62
<b>Total average interest bearing liabilities</b>		<b>154,978</b>		<b>6,734</b>	<b>4.35</b>		<b>166,682</b>		<b>6,462</b>	<b>3.88</b>		<b>160,581</b>		<b>5,516</b>	<b>3.44</b>
Demand deposits		2,934					2,961					2,832			
Foreign exchange spot contracts and derivatives		752					2,384					4,840			
Acceptances to customers		536					883					652			
Liabilities of discontinued operations		795													
Other non-interest bearing liabilities		7,110					7,161					7,472			
<b>Total average non-interest bearing liabilities</b>		<b>12,127</b>					<b>13,389</b>					<b>15,796</b>			
<b>Total average liabilities</b>		<b>167,105</b>		<b>6,734</b>	<b>4.03</b>		<b>180,071</b>		<b>6,462</b>	<b>3.59</b>		<b>176,377</b>		<b>5,516</b>	<b>3.13</b>
<b>Stockholders equity</b>		<b>9,272</b>					<b>13,204</b>					<b>7,725</b>			

<b>Total liabilities and stockholders equity</b>	(Won) 176,377	(Won) 6,734	3.82%	(Won) 193,275	(Won) 6,462	3.34%	(Won) 184,102	(Won) 5,516	3.00%
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- (1) Average balances and interest income and expenses for all periods have been restated to exclude the assets, liabilities and results of disposed subsidiaries that qualify for discontinued operations. See Note 4 to our consolidated financial statements.
- (2) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
- (3) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.
- (4) We do not invest in any tax-exempt securities.
- (5) Interest income from credit cards includes principally cash advance fees of (Won)1,719 billion, (Won)1,517 billion and (Won)1,148 billion and interest on credit card loans of (Won)830 billion, (Won)591 billion and (Won)430 billion for the years ended December 31, 2002, 2003 and 2004, respectively.
- (6) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders equity.

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The following table presents our net interest spread, net interest margin, and asset liability ratio for the past three years:

	Year ended December 31,		
	2002	2003	2004
	(percentage)		
Net interest spread (1)	3.71%	3.68%	3.62%
Net interest margin (2)	4.02	4.01	3.84
Average asset liability ratio (3)	107.80	109.20	106.72

- (1) The difference between the average rate of interest earned on interest earning assets and the average rate of interest paid on interest bearing liabilities.
- (2) The ratio of net interest income to average interest earning assets.
- (3) The ratio of average interest earning assets to average interest bearing liabilities.

**Analysis of Changes in Net Interest Income Volume and Rate Analysis**

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2003 compared to 2002 and 2004 compared to 2003. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	Fiscal 2003 vs. Fiscal 2002 Increase/(decrease)			Fiscal 2004 vs. Fiscal 2003 Increase/(decrease)		
	due to change in			due to change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
<b>Interest earning assets</b>						
Cash and interest earning deposits in other banks	(Won) (15)	(Won) (32)	(Won) (47)	(Won) 0	(Won) 7	(Won) 7
Call loans and securities purchased under resale agreements	30	(3)	27	27	(3)	24
Trading securities	(75)	68	(7)	12	39	51
Investment securities	231	(137)	94	(472)	(37)	(509)
Loans						
Commercial and industrial	362	(251)	111	(112)	(104)	(216)
Construction loans	83	23	106	(119)	(62)	(181)
Other commercial	(15)	(6)	(21)	(9)	(7)	(16)
Mortgage and home equity	526	(398)	128	488	(296)	192
Other consumer	291	(47)	244	(144)	(33)	(177)
Credit cards	(562)	242	(320)	(736)	(132)	(868)
Foreign commercial and industrial	(4)	(6)	(10)	7	23	30

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Total interest income	852	(547)	305	(1,058)	(605)	(1,663)
<b>Interest bearing liabilities</b>						
Deposits						
Demand deposits	0	(2)	(2)	0	(1)	(1)
Certificates of deposit	87	(8)	79	84	(17)	67
Other time deposits	62	(358)	(296)	22	(270)	(248)
Savings deposits	35	(100)	(65)	6	(45)	(39)
Mutual installment deposits	(18)	(104)	(122)	8	(90)	(82)
Call money	0	(6)	(6)	(18)	(5)	(23)
Borrowings from the Bank of Korea	(8)	0	(8)	(3)	0	(3)
Other short-term borrowings	194	(109)	85	(200)	(63)	(263)
Secured borrowings	131	20	151	(41)	(69)	(110)
Long-term debt	(36)	(52)	(88)	(168)	(76)	(244)
Total interest expense	447	(719)	(272)	(310)	(636)	(946)
Total net interest income	405	172	577	(748)	31	(717)

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The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2004, which was (Won)1,035.1 to US\$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 27, 2005, the noon buying rate was (Won)1,013.5 = US\$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average (1)	Period- End
2000	1,105.5	1,267.0	1,140.0	1,267.0
2001	1,234.0	1,369.0	1,293.4	1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004	1,035.1	1,195.1	1,139.3	1,035.1
2005 (through June 27)	997.0	1,058.0	1,014.8	1,013.5
January	1,024.0	1,058.0	1,038.0	1,026.9
February	1,000.9	1,044.0	1,023.1	1,000.9
March	997.5	1,023.9	1,007.8	1,015.4
April	997.0	1,019.0	1,010.1	997.0
May	997.0	1,009.0	1,001.8	1,005.0
June (through June 27)	1,003.0	1,016.0	1,009.8	1,013.5

Source: Federal Reserve Bank of New York.

(1) The average of the daily noon buying rates of the Federal Reserve Bank in effect during the relevant period (or portion thereof).

**Item 3B. Capitalization and Indebtedness**

Not Applicable

**Item 3C. Reasons for the Offer and Use of Proceeds**

Not Applicable

**Item 3D. Risk Factors**



**Risks relating to our retail credit portfolio**

*We have been experiencing, and may continue to experience, increases in delinquencies in our retail loan portfolio, including, in particular, our credit card-related loans.*

In recent years, consumer debt has increased rapidly in Korea. This has also resulted in increased delinquencies. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, and the aggregate outstanding balance of our credit card accounts (particularly cash advances and credit card loans) have grown from (Won)16,219 billion and (Won)8,321 billion, respectively, as of December 31, 2000

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to (Won)83,928 billion and (Won)9,421 billion, respectively, as of December 31, 2004, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2004, our retail loans and credit card accounts represented 60.8% and 6.8% of our total lending, respectively. Within our retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans is often unsecured and therefore tends to carry a higher credit risk, has increased from (Won)8,151 billion, or 33.2% of our total outstanding retail loans, as of December 31, 2000 to (Won)25,963 billion, or 27.8% of our total outstanding retail loans, as of December 31, 2004. The growth of our retail lending and credit card businesses offered higher margins than other lending activities and contributed significantly to the increase in our interest income and our profitability. However, in 2003 and 2004, we were generally unable to sustain this growth due to increasing delinquencies, market saturation, competition and government regulation in the retail and credit card segments and other factors, and we may not be able to achieve such growth in the future, which may hurt our future performance and prospects. In particular, the outstanding balance of our credit card accounts decreased significantly in 2003 and 2004 after reaching (Won)22,643 billion as of December 31, 2002.

The growth of our retail loan and credit card portfolios in prior years has led to increasing delinquencies, which has required us to increase our loan loss provisions and charge-offs and has adversely affected our financial condition and results of operations. Our non-performing retail loans (defined as those that are over 90 days past due) increased from (Won)166 billion as of December 31, 2000 to (Won)1,329 billion as of December 31, 2004, as a result of both the merger with H&CB and higher delinquencies. In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)227 billion as of December 31, 2000 to (Won)291 billion as of December 31, 2004. Our charge-offs, net of recoveries, increased from (Won)7 billion in 2000 to (Won)2,759 billion in 2004. Our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) with respect to our credit card portfolio was 13.7%, 7.8%, 20.6%, 21.6% and 8.42% as of December 31, 2000, 2001, 2002, 2003 and 2004, respectively. Credit card delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea and the inability of Korean consumers to manage increased household debt, as reflected in the continuing practice among some credit cardholders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

In addition, in line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We have discontinued the practice of providing substituted cash advances from January 2004. As of December 31, 2004, these restructured loans outstanding amounted to (Won)637 billion. Because these loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans, outstanding balances overdue by one day or more accounted for 12.7% of our credit card receivables (including credit card loans) as of December 31, 2004.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that have a significant adverse effect on Korean consumers could result in reduced growth and further deterioration in the credit quality of our retail loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates in Korea, which have been at historically low levels in recent years, could have an adverse impact on the ability of retail borrowers and credit cardholders to make payments and increase the likelihood of potential defaults, while reducing demand for retail loans and credit cards. In addition, there is a risk that our credit card risk evaluation procedures may not identify significant credit quality deterioration on a timely basis.

***Until 2004, our credit card operations recorded losses, and may again generate losses in the future, which could hurt our financial condition and results of operations.***

In September 2003, we merged Kookmin Credit Card, our credit card subsidiary, into us in response to its liquidity problems stemming from the deteriorating asset quality of its credit card portfolio. The acquisition of



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minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill. Following the merger, our credit card operations continued to record significant additional net losses through the first three quarters of 2004. This was primarily due to high delinquency levels and substantial charge-offs and loan loss provisions. Despite our recent successful efforts to improve our credit card asset quality and performance, we may again experience losses on our credit card operations in the future, which may adversely affect our overall financial condition and results of operations.

**Risk relating to our small- and medium-sized enterprise loan portfolio**

*We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.*

One of our core businesses is lending to small- and medium-sized enterprises (as defined under Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking ). We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)30,498 billion as of December 31, 2001 to (Won)38,240 billion as of December 31, 2004. During that period, we estimate that non-performing loans to small- and medium-sized enterprises also increased from (Won)1,108 billion to (Won)1,689 billion, representing an increase in the non-performing loan ratio from 3.63% as of December 31, 2001 to 4.42% as of December 31, 2004. According to data compiled by the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean banks to small- and medium-sized enterprises was 2.1% as of December 31, 2004. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such Won-currency loans on a Korean GAAP basis decreased from 3.3% as of December 31, 2001 to 2.94% as of December 31, 2004 but may rise in 2005 compared to prior years. Accordingly, we may be required to take measures to decrease our exposures to these customers. For example, in order to stem rising delinquencies, we decided in 2004 to review loan applications more intensively with respect to small- and medium-sized enterprises in certain industry sectors, such as construction, hotels, restaurants and real estate.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, continued weakness in the Korean economy, as well as aggressive marketing and intense competition among banks to lend to this segment, have led and may continue to lead to a deterioration in profitability and in the asset quality of our loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have a material adverse impact on our financial condition and results of operations. In addition, many small- and medium-sized enterprises have close business relationships with *chaebols*, primarily as suppliers. Any difficulties encountered by those *chaebols* would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans.

A substantial part of our small- and medium-enterprise lending comprises loans to small office/home office customers, or SOHOs. Many of these SOHOs represent sole proprietorships, individual business interests or very small corporations and are usually dependent on a limited number of suppliers or customers. SOHOs constitute a relatively new customer base within the small- and medium-sized enterprise segment. However,

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SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. Although we use our internally developed credit rating systems to rate potential borrowers, we do not have a substantial history of experience with SOHOs and are less able to judge the level of risk inherent in these customers. Accordingly, although we intend to manage our exposure to these borrowers closely in order to prevent any deterioration in the asset quality of our loans to this segment, we may not be able to do so.

### **Risks relating to our strategy**

*Although increasing our fee income is an important part of our strategy, we may not be able to do so.*

We have historically relied on interest income as our primary revenue source. While we have developed new sources of fee income as part of our business strategy, our ability to increase our fee income and thereby reduce our dependence on interest income will be affected by the extent to which our customers generally accept the concept of fee-based services. The willingness of customers to pay fees in return for value-added financial services has not been broadly tested in the Korean market and their reluctance to do so will adversely affect the implementation of this aspect of our strategy.

*We may suffer customer attrition or our net interest margin may decrease as a result of our competition strategy.*

We have been pursuing, and intend to continue to pursue, a strategy of maintaining or enhancing our margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy we will need to maintain relatively low interest rates on our deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, we may suffer customer attrition due to rate sensitivity. In addition, we may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in our net interest margins. Any future decline in our customer base or our net interest margins as a result of our future competition strategy could have an adverse effect on our results of operations and financial condition.

### **Risks relating to competition**

*Competition in the Korean banking industry is intense, and we may experience declining market share as a result.*

We compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been targeting retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers, contributing to some extent to the asset quality deterioration in consumer and small- and medium-sized enterprise loans, and they are engaged in aggressive marketing campaigns and making significant investments in these segments. In addition, the profitability of our retail and credit card operations may decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in

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providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, as well as Standard Chartered Bank's acquisition of Korea First Bank in April 2005. We expect that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

*We face full competition with respect to our mortgage business, which may result in a further decrease of our market share and adversely affect our margins.*

Until 1997, by law, H&CB was the only financial institution in Korea that could offer a full range of mortgage products. Among other things, it had the exclusive ability to offer mortgages with terms longer than ten years, provide housing-related deposit accounts and offer preferential rights to subscribe for newly built apartments.

In 1997, the laws giving H&CB exclusive rights to offer these mortgage-related products began to be repealed. By March 2000, all commercial banks in Korea could offer a full range of mortgage products, and H&CB began to lose market share. The increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. While we continue to hold the largest share of this market, we may not be able to maintain our market share or margins with respect to mortgage lending in the face of increased competition. Any decrease in such market share or margins may adversely affect our financial condition and results of operations.

### **Risks relating to our large corporate loan portfolio**

*We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, recent and any future financial difficulties of *chaebols* may have an adverse impact on us.*

Of our 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of December 31, 2004, eight were to companies that were members of the 25 largest *chaebols* in Korea. As of that date, the total amount of our exposures to the 25 largest *chaebols* was (Won)4,897 billion, or 2.92% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could require substantial additional loan loss provisions, which would hurt our results of operations and financial condition.

In particular, we have significant exposure to several former Hyundai Group companies, former Daewoo Group companies, former and current Ssangyong Group companies and LG Group companies, a number of which have been experiencing financial difficulties. For example:

As a result of their deteriorating financial condition, several former Hyundai Group companies, including Hynix Semiconductor, Hyundai Engineering and Construction, Hyundai Petrochemical and Hyundai Merchant Marine, have required assistance in recent years from their creditor financial institutions, in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-for-equity swap transactions, guarantees of overseas borrowings and injections of additional capital.





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In 1999, the principal creditor banks of the Daewoo Group companies began formal workout procedures with respect to 12 member companies of that group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Many of these former Daewoo Group companies are currently subject to liquidation proceedings or have been liquidated or sold, are under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers.

Several Ssangyong Group companies have been experiencing significant financial difficulties and liquidity problems. In particular, the principal creditor banks of each of Ssangyong Cement Industrial and Ssangyong Corporation, including us, commenced corporate restructuring procedures against these companies in November 2000 and February 2002, respectively.

Although no workouts or reorganization proceedings have begun against any other significant LG Group companies, LG Card, one of Korea's largest credit card companies and formerly a member company of the LG Group, has experienced significant liquidity and asset quality problems. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio 20 Largest Exposures by Borrower.

As a result of these various difficulties, we have increased our allowance for loan losses for our loans to these companies in recent years. With respect to some borrowers, we have already charged off or sold our previous outstanding exposures. The table below summarizes our exposures to these groups and their significant member companies:

As of December 31, 2004

	<u>Outstanding exposure (1)</u>	<u>% of Total exposure</u>	<u>% of Exposure classified as impaired loans</u>	<u>Allowance for loan losses, guarantees and acceptances</u>	<u>Allowance for loan losses, guarantees and acceptances as a % of exposure</u>
(in billions of Won, except percentages)					
Former Hyundai Group (Total) (2)	(Won) 1,331	0.79%	2.10%	(Won) 20	1.50%
Hyundai Group (3)	102	0.06		1	0.98
Hyundai Engineering and Construction	80	0.05	36.25	2	2.50
Hyundai Heavy Industries	394	0.23		8	2.03
Former Daewoo Group (Total) (4)	337	0.20	20.47	9	2.67
Daewoo International	23	0.01			
Daewoo Electronics	23	0.01	69.57	1	4.35
Ssangyong Motors	98	0.06	54.08	6	6.12
Ssangyong Group (Total)	55	0.03	89.09	6	10.91
Ssangyong Cement Industrial	55	0.03	89.09	6	10.91
LG Group (Total) (5)	647	0.39	36.79	14	2.16
LG Card (6)	416	0.25	57.21	12	2.88

(1) Includes loans, debt and equity securities (including collateralized bond obligations) and guarantees and acceptances.

(2) Includes amounts from the former Hyundai Group, including Hyundai Engineering and Construction and Hyundai Heavy Industry.

(3) Recognized as the successor to the former Hyundai Group, which includes Hyundai Corporation and Hyundai Merchant Marine.

Substantially all of the outstanding exposure of Hyundai Merchant Marine relates to ship financing to a special purpose company guaranteed by Hyundai Heavy Industries.

(4) Includes our exposures to former Daewoo Group companies.

(5) Includes LG Electronics, LG International, LG Card and LG Chem.

(6) LG Card was disaffiliated from the LG Group in 2004.

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We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans.

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*We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.*

As of December 31, 2004, our loans and guarantees to companies that were in workout, corporate restructuring, composition or corporate reorganization, including companies in the former Daewoo Group, former Hyundai Group and the Ssangyong Group, amounted to (Won)1,050 billion or 0.7% of our total loans and guarantees, of which (Won)445 billion or 42.4% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for losses on these loans and guarantees amounted to (Won)322 billion, or 30.7% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Including such securities, our exposures as of December 31, 2004 to companies in workout, restructuring, corporate reorganization or composition amounted to (Won)319 billion, or 0.2% of our total exposures. In addition, in the case of borrowers that are or become subject to corporate restructuring procedures, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (as well as 75% or more of the total outstanding secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

*Our current allowances for losses on loans and guarantees to construction companies may not be sufficient to cover all future related losses.*

We have established allowances for losses on loans and guarantees to construction companies that we consider to have a greater likelihood of becoming non-performing. As of December 31, 2004, we had loans and guarantees outstanding to construction companies in the amount of (Won)4,528 billion, or 3.2% of our total loans and guarantees, of which (Won)551 billion or 12.2% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to (Won)373 billion, or 67.7% of the amount classified as substandard or below, and 8.2% of the total. Most of our exposure to construction companies consists of loans to small- and medium-sized enterprises. These allowances may not be sufficient to cover all future losses arising from our exposure to construction companies.

*A large portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.*

As of December 31, 2004, our loans and guarantees to our 20 largest borrowers totaled (Won)3,614 billion and accounted for 2.6% of our total loans and guarantees. As of that date, our single largest corporate credit exposure was to Hyundai Heavy Industries, to which we had outstanding credit exposures (substantially all of which was in the form of loans) of (Won)392 billion, representing 0.3% of our total loans and guarantees. Any further deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

### **Other risks relating to our business**

*We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.*

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are subject to certain corporate governance standards as mandated

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by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly

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made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

***A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.***

A substantial portion of our loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 40% to 60% of the appraised value of collateral (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices, including as a result of measures recently adopted by the Korean government to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realized with respect to such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to losses.

***The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold at the time of any sale of such securities.***

As of December 31, 2004, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) with a total book value of (Won)2,283 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur losses.

***We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have an adverse effect on our results of operations.***

We manage a number of monetary trust accounts. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank's general banking operations. Those assets are not



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available to satisfy the claims of a bank's depositors or other creditors of its general banking operations. For some of the trusts we manage, we have guaranteed the principal amount of the investor's investment and, in certain cases, we have also guaranteed a fixed rate of interest. In January 1999, new legislation prevented commercial banks in Korea from offering new trust accounts for which they guaranteed both the principal amount of the investment and a fixed rate of return. In addition, as a result of recent government announcements prohibiting banks from providing trust accounts that provide a principal guarantee, other than certain retirement trust and annuity trust products, we are phasing out such accounts. However, we will continue to provide guarantees with respect to existing accounts, which contain these guarantee provisions.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from the relevant trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2004, we had (Won)3,162 billion in trust account assets for which we provided guarantees of both the principal and interest or of the principal alone. Substantially all of these guarantees were principal-only guarantees. There were no transfers from general banking operations to cover deficiencies in guaranteed trust accounts in 2002, 2003 and 2004. However, we may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

### ***Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.***

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breaches. We may experience security breaches in connection with our Internet banking service in the future, which may result in liability to our customers and third parties and materially and adversely affect our business.

### ***We may experience disruptions, delays and other difficulties from our information technology systems.***

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers' confidence in us.

### ***We do not prepare interim financial information on a U.S. GAAP basis.***

Neither we nor our subsidiaries are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See Item 5B. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean GAAP. As a result, our provision and allowance levels reflected under Korean GAAP in our results as of the end of and for 2000, 2001, 2002, 2003 and 2004 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

### **Risks relating to liquidity and capital management**

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*A considerable increase in interest rates could decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which, as a result, could adversely affect us.*

From 2000 to 2004, interest rates in Korea declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates have started to rebound in the first quarter of 2005. In order to minimize our losses in the event that interest rates decrease again, the vast



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majority of debt securities we hold pay interest at a fixed rate. However, all things being equal and assuming that the interest rate sensitivity gap of our assets and liabilities is narrow, a considerable increase in interest rates would lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. A considerable rise in interest rates may therefore require us to rebalance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

***Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.***

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2004, approximately 91.5% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we estimate that, setting aside the effects of the merger, the recent increase in our short-term deposits is attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the current low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of our short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yield investment opportunities emerge. In that event, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

***We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on favorable terms or at all.***

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. As of December 31, 2004, our Tier I capital adequacy ratio was 6.67% and our combined Tier I and Tier II capital adequacy ratio was 11.01%, which exceeded the minimum levels required by the Financial Supervisory Commission. However, our capital base and capital adequacy ratio may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, including as a result of continued deterioration in the asset quality of our retail loans (including credit card balances) and loans to small- and medium-sized enterprises, or if we are not able to deploy our funding into suitably low-risk assets.

If our capital adequacy ratio deteriorates, we may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. We may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our license. For a description of the capital adequacy requirements of the Financial Supervisory Commission, see Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.



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### ***We may face increased capital requirements under the new Basel Capital Accord.***

In December 2004, the Financial Supervisory Service announced that it would implement the new Basel Capital Accord, referred to as Basel II, in Korea by the end of 2007. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. Basel II also institutes new measures that will require us to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In addition, under Basel II, we are permitted to follow either a standardized approach or an internal rating-based approach with respect to calculating capital requirements. We have, subject to approval from the Financial Supervisory Service, voluntarily chosen to establish and follow an internal rating model, which is more stringent in terms of calculating risk sensitivity with respect to our capital requirements. Since we will be implementing this model for the first time in connection with our implementation of Basel II, our internal rating model may require an increase in our capital requirements, which will require us to either improve our asset quality or raise additional capital.

### **Risks relating to government regulation and policy**

#### ***New loan loss provisioning guidelines to be implemented by the Financial Supervisory Commission may require us to increase our provisioning levels under Korean GAAP, which could adversely affect us.***

In November 2004, the Financial Supervisory Commission announced that it will implement new loan loss provisioning guidelines, which we, along with other Korean banks, will be required to follow from the second half of 2006 in preparing financial statements under Korean GAAP. These guidelines include a new requirement that banks take into account expected losses with respect to credits in establishing their allowance for loan losses, instead of establishing such allowances based on the classification of credits under the current asset classification criteria. As a result, we will be required to establish and maintain allowance for loan losses under Korean GAAP based on an evaluation of expected losses on individual credits or credit portfolios.

Under the new guidelines, all Korean banks, including us, are required to establish systems to calculate their historical losses and expected losses during 2005. The Financial Supervisory Commission also announced that Korean banks may voluntarily comply with the new loan loss provisioning guidelines commencing in 2005. Specifically, in the second half of 2005, banks that have implemented a credible internal system for evaluating historical losses may establish their allowance for loan losses based on such historical losses, so long as the total allowance for loan losses established exceeds the levels required under the current asset classification-based provisioning guidelines. Similarly, in the first half of 2006, banks that have implemented a credible system for evaluating expected losses may establish their allowance for loan losses based on such expected losses, so long as the total allowance established exceeds currently required levels. We currently intend to voluntarily comply with the new guidelines in establishing our allowance for loan losses commencing in the second half of 2005, which we expect will substantially increase our provisions for loan losses under Korean GAAP in 2005 compared to the levels that would be required under the currently applicable provisioning guidelines. Any such increase in our provisions for loan losses will have an adverse effect, and could have a material adverse effect, on our reported results of operations and financial condition under Korean GAAP and our reported capital adequacy ratio, which in turn may adversely affect the market price of our common stock and ADSs. Full compliance with the new guidelines commencing in 2006 may further increase our provisions for loan losses under Korean GAAP compared to currently mandated levels.

*Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may adversely affect our retail banking operations.*

In light of concerns regarding the potential risks of excessive retail lending, particularly mortgage and home equity lending, the Korean government has in recent years adopted more stringent regulations with respect to

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retail lending by Korean banks. The Financial Supervisory Commission increased the minimum loan loss reserve requirements applicable to retail loans with effect from May 2002. In addition, in an effort to curtail the growth in property speculation caused by increased levels of mortgage and home equity lending, the Financial Supervisory Commission and Financial Supervisory Service adopted measures during 2002 that reduced our ability to provide certain higher-risk mortgage and home equity loans and applied new, more stringent guidelines to mortgage and home equity lending by Korean banks.

Furthermore, in October 2003, the government advised Korean banks to limit their loans to a maximum of 40% of the value of the underlying real estate collateral, in the case of mortgage and home equity lending in areas where the average real estate price had increased substantially. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans. In addition, the Korean government announced the implementation of measures to stabilize the real estate market in October 2003, which included:

building more residential apartments and houses;

enforcing more stringent supervision of property speculation; and

increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

The Korean government has also expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary. For example, in 2004 and the first quarter of 2005, the Korean government has:

raised the residential property tax applicable to residential properties in cases where such property represents the third or more residential property owned by a single individual;

placed a ceiling on the sale price of newly constructed residential properties and, under certain circumstances, required developers to disclose the costs incurred in connection with the construction of such properties; and

amended the Urban and Residential Environment Improvement Act to require that at least 25% of any increased floor space resulting from the redevelopment of existing residential properties be devoted to the construction of rental residential properties.

These regulations and measures, as well as any similar regulations that the Korean government may adopt in the future, may have the effect of constraining the growth and profitability of our retail banking operations, especially in the area of mortgage and home equity lending. Furthermore, these regulations and measures may result in substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity lending. See Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

*Government regulation of the credit card business has increased significantly in recent years, which may hurt our credit card operations.*

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Due to the rapid growth of the credit card market and rising consumer debt levels in Korea in recent years, the Korean government has heightened its regulatory oversight of the credit card industry. From mid-2002 through early 2003, the Ministry of Finance and Economy and the Financial Supervisory Commission adopted a variety of amendments to existing regulations governing the credit card industry. Among other things, these amendments increased minimum required provisioning levels applicable to credit card receivables, required the reduction in volumes for certain types of credit card loans, increased minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also implemented a number of changes to the rules governing the evaluation and reporting of credit card balances, as well as procedures governing which persons may receive credit cards. For more details relating to these regulations, see [Item 4B. Business Overview](#) [Supervision and Regulation](#) [Principal Regulations Applicable to Banks](#) [Credit Card Business](#).

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The government has also increased its enforcement activities with respect to the credit card industry in recent years. In March 2002, the Financial Supervisory Commission imposed sanctions, ranging from warnings and administrative fines to partial business suspensions, on substantially all Korean credit card issuers in respect of unlawful or unfair practices discovered in the course of its industry-wide inspection. In connection with these sanctions, Kookmin Credit Card was warned against, and fined (Won)50 million for, issuing cards to non-qualified minors and, in a number of instances, for issuing cards to applicants who unlawfully used another person's name in their credit card operations.

In April 2002, the Korea Fair Trade Commission ordered four domestic-brand credit card companies to pay administrative fines in the aggregate amount of (Won)23.4 billion in connection with certain collusion and anti-competitive practices in fixing commission fees and credit card interest rates for cash advances, installment purchases and overdue accounts. Kookmin Credit Card was fined (Won)6.96 billion for anti-competitive behavior.

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March, September and October 2003, the Korean government announced measures intended to support the credit card industry. These included the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card companies, such as restrictions on cash advance fee rates and on the level of cash advance and card loan receivables as a percentage of total receivables. These relief measures, however, were temporary, and the overall effect of the Korean government's recent regulatory initiatives has been to constrain the growth and increase the oversight of the credit card industry. For example, since October 2003, the Financial Supervisory Commission has:

changed its standards for reporting credit card delinquency ratios to require the inclusion of restructured loans (with the exception of restructured loans with substantially improved repayment prospects, which may be excluded) in the calculation of such ratios; and

assigned to each credit card company a target delinquency ratio to meet on a semi-annual basis until the end of 2006 and required each credit card company to enter into a memorandum of understanding with the Financial Supervisory Commission by the end of November 2003 with respect to each credit card company's action plan to meet its assigned target delinquency ratio.

The Korean government may adopt further regulatory changes in the future that affect the credit card industry. Depending on their nature, such changes may adversely affect our credit card operations, by restricting its growth or scope, subjecting it to stricter requirements and potential sanctions or greater competition, constraining its profitability or otherwise. For more details regarding these enacted and proposed changes, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

***The Korean government has designated additional managers to the National Housing Fund and is contemplating other changes, which may cause our fee income from managing the National Housing Fund to be reduced.***

The National Housing Fund is a government fund that provides housing loans to low-income households and construction loans to fund projects to build small-sized housing. From 1981 until 2001, H&CB solely managed the operations of the National Housing Fund and received a monthly management fee. We have managed the fund since our formation as a result of the merger between the former Kookmin Bank and H&CB. In 2004, we received total management fees of (Won)161 billion.

In January 2000, the relevant law that had specified H&CB as the institution that manages the National Housing Fund was amended to provide that the Ministry of Construction and Transportation is to designate the institution that will perform this function. In November 2002, the ministry designated two other financial institutions as managers, together with us, of the National Housing Fund with a view to diversifying its management. In February 2003, the ministry changed the basis of calculating fees related to the National Housing Fund and, in April 2004,

implemented reductions to fees relating to bonds issued by the National



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Housing Fund. If the ministry decides to lower existing management fees or to designate additional institutions to manage the National Housing Fund, our fee income from managing it will be reduced compared to current levels, which in turn may have a further adverse effect on our results of operations.

Furthermore, in November 2003, the Ministry of Construction and Transportation strengthened existing regulations to provide for liability of managers of the National Housing Fund, where they have clear responsibility for non-performing National Housing Fund loans or where losses result due to their negligent management. As a result, we may in the future be required to reimburse the National Housing Fund for its losses, including those that relate to the deterioration of the credit quality of its loans, to the extent such losses are deemed to have resulted from our negligence in managing the fund.

*The Korean government from time to time provides policy loans, which we may choose to accept, and may announce policies involving the participation of financial institutions, including us, in providing financial support for particular sectors.*

The Korean government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that may voluntarily choose to lend to these sectors. The government has in this manner provided policy loans intended to promote low-income mortgage lending and lending to small- and medium-sized enterprises. All loans or credits we choose to make pursuant to these policy loans would be subject to review in accordance with our credit approval procedures. However, the availability of policy loans may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such loans from the government.

In the past, the Korean government has also announced policies under which financial institutions in Korea may voluntarily choose to provide financial support to particular sectors, including remedial programs for troubled corporate borrowers. For example, in light of the financial market instability in Korea resulting from the liquidity problems faced by credit card companies during the first quarter of 2003, the Korean government announced temporary measures in April 2003 intended to provide liquidity support to credit card companies. These measures included, among other things, requesting banks and other financial institutions to agree to extend the maturity of debt securities of credit card companies that they held and to make contributions to mutual funds to enable them to purchase debt securities of credit card companies.

The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

## **Risks relating to Korea**

*Tensions with North Korea could have an adverse effect on us and the market price of our ADSs.*

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea

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announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. A third round

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of talks were held in June 2004 with agreement to hold further talks in September, which were postponed and have not resumed yet. In February 2005, North Korea declared that it had developed and was in possession of nuclear weapons. It also announced its indefinite withdrawal from the six-party talks. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the market price of our common stock and ADSs.

### ***Unfavorable financial and economic developments in Korea may have an adverse effect on us.***

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. Beginning in late 1997, Korea experienced a significant financial and economic downturn that resulted in, among other things, an increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, financial institutions in Korea, including us, experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery has since slowed and has been volatile. The economic indicators in 2002, 2003 and 2004 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices and the continued weakness of the economy in parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

Developments that could hurt Korea's economy in the future include:

financial problems relating to *chaebols*, or their suppliers, and their potential adverse impact on Korea's financial sector;

failure of restructuring of large troubled companies, including LG Card and other troubled credit card companies and financial institutions;

increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;

volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including continued weakness of the U.S. dollar or a depreciation of the Chinese renminbi or Japanese yen), interest rates and stock markets;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

adverse developments in the economies of countries such as the United States, China and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;

social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;

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a decrease in tax revenues and a substantial increase in the Korean government's expenditures for unemployment compensation and other social programs that, together, lead to an increased government budget deficit;

political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling progressive party and the conservative opposition; and

a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

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*Ongoing significant reforms and changes to the regulatory framework for the Korean financial industry could adversely affect our results of operations.*

The legal and regulatory framework for the Korean financial industry is undergoing significant reforms and changes. For example, in the past the Korean government regulated, among other things, lending rates and deposit rates for banks. Regulations also dictated the extent of competition by restricting new entrants and the growth of existing financial institutions, including the opening of new branches. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits) and have relaxed barriers to entry, including by foreign financial institutions, leading to increased competition. At the same time, the Korean government has revised its regulations in recent years to impose stricter regulatory standards and oversight on Korean financial institutions, as part of its efforts to modernize the industry and to address specific social and economic issues. Most recently, the Korean government has revised the regulations relating to credit cards and household lending as part of its effort to control the potential risks of excessive consumer lending. Continuing regulatory changes in the financial industry will require us to modify our business operations and may adversely affect our results of operations.

*Labor unrest in Korea may adversely affect our operations.*

Any future economic downturn in Korea or an increase in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% in 2000 to 3.1% in 2002, but increased to 3.4% in 2003 and 3.5% in 2004. A continued increase in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

*Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact our business and cause the price of the ADSs to go down.*

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia, including China. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. Furthermore, in December 2003, we invested (Won)71 billion for a 25% interest in Sorak Financial Holdings, which acquired a 57% interest in Bank Internasional Indonesia, and we may make similar investments outside Korea in the future. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again in Asia or in other markets in which we may invest, or that such events will not have an adverse effect on our business or the price of our common stock and ADSs.

### **Risks relating to our common stock and ADSs**

*Ownership of our common stock is restricted under Korean law.*

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Under Korean law, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a nationwide bank such as us, with the exception of certain stockholders that are non-financial group companies, whose applicable limit is 4.0%. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies are exempt from this limit, and investors may also exceed the 10.0% limit upon filing a report with, or approval by, the Financial Supervisory Commission. See Item 4B. Business Overview Supervision and Regulation Principal

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Regulations Applicable to Banks Restrictions on Bank Ownership. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own together exceeds that limit, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order that holder to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal.

*A holder of our ADSs may not be able to exercise dissent and appraisal rights unless it has withdrawn the underlying shares of our common stock and become our direct stockholder.*

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, holders of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders' meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

*A holder of our ADSs may be limited in its ability to deposit or withdraw common stock.*

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

- (1) the aggregate number of common shares we have deposited or we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and
- (2) the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless

- (A) our consent with respect to such deposit has been obtained; or
- (B) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit to the extent that, after the deposit, the number of deposited shares does not exceed 115,840,996 shares or any other number of shares we determine from time to time, unless the deposit would be prohibited by applicable laws or violate our articles of incorporation. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the

stock again to obtain ADSs.

*A holder of our ADSs will not have preemptive rights in some circumstances.*

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of



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such holders and make the net proceeds available to such holders. The depository, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

Similarly, holders of our common stock located in the United States may not exercise any such rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depository is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

***Dividend payments and the amount a holder of our ADSs may realize upon a sale of its ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.***

Our common stock is listed on the Stock Market Division of the Korea Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depository in Won and then converted by the depository into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a holder of our ADSs will receive from the depository in respect of dividends, the U.S. dollar value of the proceeds that it would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

***The market value of an investment in our ADSs may fluctuate due to the volatility of the Korean securities market.***

Our common stock is listed on the Stock Market Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 1138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in the history of the KOSPI. On June 27, 2005, the KOSPI closed at 991.11. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the

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Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

*If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.*

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency, exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Law, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See Item 9C. Markets.

## **Other Risks**

*A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.*

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

## **Item 4. INFORMATION ON THE COMPANY**

### **Item 4A. History and Development of the Company**

#### **History of the Former Kookmin Bank**

The former Kookmin Bank was established by the Korean government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small- and medium-sized enterprises. See Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking for an exact definition of small- and medium-sized enterprises. In September 1994, we completed our initial public offering

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in Korea and listed our shares on the Stock Market Division of the Korea Exchange. In December 2003, the Korean government sold all of our common stock it held through an auction process, as a result of which we were the winning bidder. We subsequently sold all of these shares in an over-the-counter transaction in June 2005.

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Our status was changed from a specialized bank to a nationwide commercial bank and in February 1995, we changed our name to Kookmin Bank. The Repeal Act allowed us to engage in lending to large businesses. Following the repeal, however, under our articles of incorporation at that time, only up to 20% of our total Won-currency loans outstanding was allowed to be made to large businesses. Currently, under our articles of incorporation, financial services to individuals and small- and medium-sized enterprises (including mortgage lending) are required to be equal to or more than 60% of the total amount of our loans denominated in Won.

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In June 1998, we acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DaeDong Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. We assumed 519 out of 1,740 employees and 49 out of 108 branches of DaeDong Bank. As of the date of the acquisition, there was a net shortfall of (Won)1,687 billion between the value of the assets we acquired and the value of the liabilities we assumed. We received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition.

In December 1998, we merged with the Korea Long Term Credit Bank, which focused on providing large corporate banking services. Through this acquisition, we were able to selectively expand our large corporate business, while continuing to concentrate on the retail sector. This expansion resulted in increased product and service offerings, including wholesale deposits, corporate overdraft facilities, bills and receivables discounting, export/import financing, payment remittances, foreign exchange transactions, standby letters of credit and guarantees and acceptances.

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US\$500 million in new common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US\$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. As a result of subsequent sales of our common stock (including common stock obtained upon conversion of the convertible bonds) by Goldman Sachs Capital Koryo in June 2002 and November 2003, Goldman Sachs Koryo beneficially owned 1.14% of our outstanding common stock as of December 31, 2004. See Item 7B. Related Party Transactions.

## **History of H&CB**

H&CB was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Under the Korea Housing Bank Act, up to 20% of H&CB's lending (excluding lending pursuant to government programs) could be non-mortgage lending. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In June 1998, H&CB acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DongNam Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. H&CB assumed 650 out of 1,661 employees and 49 out of 116 branches of DongNam Bank. As of the date of the DongNam Bank acquisition, there was a net shortfall of (Won)1,453 billion between the value of the assets it acquired and the value of the liabilities it assumed. As in the case of the former Kookmin Bank, H&CB received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition. The acquisition of DongNam Bank strengthened H&CB's business presence in the southeastern region of Korea where DongNam Bank was based.

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to

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acquire 9,914,777 new common shares of H&CB representing 9.99999% of H&CB s outstanding common shares. As of December 31, 2004, ING Groep N.V. beneficially owned 4.06% of our outstanding common stock.

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In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. In August, 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Groep N.V. As a result:

the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;

ING Groep N.V. is required to maintain beneficial ownership of no less than 12,716,691 shares of our common stock, subject to adjustment for any share consolidations or share splits or, in the event of a merger with another entity, as adjusted accordingly pursuant to the merger ratio for the merger; and

each party agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management Co., Ltd. (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

For more details regarding our relationship with ING Groep N.V., see Item 4B. Business Overview Other Businesses Bancassurance, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

## **The Merger of the Former Kookmin Bank and H&CB**

In November 2000, the former Kookmin Bank and H&CB entered into discussions regarding a possible merger. On December 22, 2000, the two banks entered into a memorandum of understanding regarding the merger. The proposed merger was publicly announced in Korea on that date. On April 23, 2001, the two banks executed a merger agreement approved by their respective boards of directors. The merger was structured as a merger of the two banks into a new entity in order to ensure that the transaction was properly understood by the security holders and customers of the two banks, as well as their employees, as a merger of equals rather than an absorption by one bank of the other. Under U.S. GAAP, however, the former Kookmin Bank was deemed the accounting acquiror of H&CB in the merger. We accounted for the acquisition using the purchase method of accounting.

On September 29, 2001, the merger proposal was approved by the stockholders of both banks at extraordinary general meetings called for that purpose. The merger became effective on November 1, 2001. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea. Our ADSs were listed on the New York Stock Exchange on November 1, 2001 and our common shares were listed on the Stock Market Division of the Korea Exchange on November 9, 2001. As of October 31, 2001, H&CB's total assets were (Won)67,399 billion, its total deposits were (Won)51,456 billion, its total liabilities were (Won)64,537 billion and it had stockholders' equity of (Won)2,849 billion. As required by U.S. GAAP, we recognized H&CB's total assets and liabilities at their estimated fair values of (Won)68,347 billion and (Won)64,858 billion, respectively. These amounts reflect the recognition of (Won)544 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible assets and credit card relationship intangible assets assumed.

At the time of the merger, we issued 179,775,233 shares of our common stock to holders of former Kookmin Bank shares and 119,922,229 shares of our common stock to holders of former H&CB shares. The merger ratio was such that holders of former Kookmin Bank common stock received one of our shares for every 1.688346 shares of former Kookmin Bank they owned, and holders of H&CB common stock received one of our shares for every share of H&CB common stock they owned.

**The Merger with Kookmin Credit Card**

On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card, previously a 75% owned and consolidated subsidiary. On July 23, 2003, our board approved the merger with Kookmin Credit Card and on September 5, 2003, the merger was approved by the shareholders of Kookmin Credit Card. On September 30, 2003, we merged with Kookmin Credit Card.



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The merger was effected by the issuance of 8,120,431 shares of our common stock, and the former minority shareholders of Kookmin Credit Card received 0.442983 shares of our common stock for every one share of Kookmin Credit Card common stock that they owned and cash instead of fractional shares that they would have otherwise been entitled to receive in the merger. Immediately following the merger, former shareholders of Kookmin Credit Card common stock, other than us, owned approximately 2.4% of our outstanding common stock. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill.

The goals of this merger were to:

alleviate the difficulties that Kookmin Credit Card was experiencing with respect to its liquidity and capital adequacy;

maximize management efficiency and further enhance our credit card business;

assist us in developing a leading credit card business in Korea;

enable us to effectively cross-sell our financial products by integrating our database; and

develop and launch products and services that integrated our credit card and banking businesses.

## **Item 4B. Business Overview**

### **Business**

We are the largest commercial bank in Korea. As of December 31, 2004, we had total assets of (Won)177,536 billion and total deposits of (Won)126,220 billion. On the asset side, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. On the deposit side, we provide a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined network of 1,144 branches as of December 31, 2004, the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, mobile telephone and Internet banking. As of December 31, 2004, we had a customer base of over 24 million retail customers, which represented approximately one-half of the Korean population. Of the population in Korea between the ages of 20 and 40, approximately two-thirds have accounts with us. As of December 31, 2004, we also had over 147,000 small- and medium-sized enterprise customers.



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The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2004 retail loans, credit card loans and credit card receivables accounted for 67.6% of our total loan portfolio:

	As of December 31,					
	2002		2003		2004	
	(in billions of Won, except percentages)					
<b>Retail</b>						
Mortgage and home equity (1)	(Won) 46,195	31.7%	(Won) 52,477	36.0%	(Won) 57,965	42.0%
Other consumer (2)	28,066	19.2	28,727	19.7	25,963	18.8
<b>Total retail</b>	<b>74,261</b>	<b>50.9</b>	<b>81,204</b>	<b>55.7</b>	<b>83,928</b>	<b>60.8</b>
Credit card	22,643	15.5	15,322	10.5	9,421	6.8
Corporate	47,502	32.6	47,899	32.8	43,657	31.6
Capital markets activities and international banking	1,426	1.0	1,433	1.0	1,118	0.8
<b>Total loans</b>	<b>(Won) 145,832</b>	<b>100.0%</b>	<b>(Won) 145,858</b>	<b>100.0%</b>	<b>(Won) 138,124</b>	<b>100.0%</b>

- (1) Includes (Won)1,160 billion, (Won)1,162 billion and (Won)1,186 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2002, 2003 and 2004, respectively.
- (2) Includes (Won)9,211 billion, (Won)10,038 billion and (Won)9,062 billion of overdraft loans as of December 31, 2002, 2003 and 2004, respectively.

We provide a full range of personal lending products and retail banking services to individual customers, including mortgage loans. We are the largest private sector mortgage lender in Korea and our mortgage loan portfolio in terms of aggregate loan value accounted for a 73.7% share of the domestic commercial banking market as of December 31, 2004. We are also a manager of the National Housing Fund, a government fund that provides housing loans to low income households and loans to construction companies to build small-sized housing for low income households.

Lending to small- and medium-sized enterprises is the single largest component of our non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the newest categories being collateralized loans to SOHO customers that are among the smallest of the small- and medium-sized enterprises. The volume of our loans to small- and medium-sized enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network.

In keeping with industry trends, our credit exposure to large corporate customers is declining as a percentage of our total loan portfolio although we continue to maintain and to seek quality relationships and to expand them by providing these customers with an increasing range of fee-related services.

Since the former Kookmin Bank initiated the issuance of domestic credit cards in 1980, we have seen our credit card business grow rapidly, particularly in 2001 and 2002 as the nationwide trend towards credit card use accelerated. As of December 31, 2004, we had more than 11.5 million holders of KB Card. Our credit card balances (including card loans) increased from (Won)8,321 billion as of December 31, 2000 to (Won)22,643 billion as of December 31, 2002, as a result of both the merger with H&CB and significant organic growth. However, such growth was accompanied by increasing delinquencies and a significant deterioration in asset quality, which required us to take measures in 2003 and

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2004 to reduce our credit card exposure, including through substantial write-offs. As a result, our credit card balances declined to (Won)9,421 billion as of December 31, 2004. See Item 3D. Risk Factors Risks relating to our retail credit portfolio and Item 4A. History and Development of the Company The Merger with Kookmin Credit Card.

Our legal and commercial name is Kookmin Bank. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul, Korea 100-703. Our telephone number is 822-2073-8341.

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Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100.

### **Strategy**

Our strategic focus is to be the leading bank in Korea and a world-class financial service provider. We plan to continue to develop our business on the basis of our core strengths in mortgage financing and retail banking. We believe our strong market position is an important competitive advantage, which will enable us to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on our profitability.

The key elements of our strategy are as follows:

#### ***Identifying, targeting and marketing to attractive customer segments and providing superior customer value and service to such segments***

In recent years, rather than focusing on developing products and services to satisfy the overall needs of the general population, we have increasingly targeted specific market segments that we expect to generate superior growth and profitability. We will continue to implement a targeted marketing approach that seeks to identify the most attractive customer segments and to develop strategies to build market share in those segments. In particular, we intend to increase our wallet share of superior existing customers by using our advanced customer relationship management technology to better identify and meet the needs of our most creditworthy and high net worth customers, on whom we intend to concentrate our marketing efforts. We estimate that there are approximately 6 million people who fall into this category in Korea, and we aim to cross-sell our loan and other products to those customers who have an account with us.

As part of this strategy, we are also focusing on attracting and retaining creditworthy customers by offering more differentiated fee-based products and services that are tailored to meet their specific needs. The development and marketing of our products and services are, in part, driven by customer segmentation to ensure we meet the needs of each customer segment. For instance, we currently offer customized mortgage products and electronic banking promotions, and have enhanced our private banking services for high net worth individuals, including opening new branches specializing in such services. We also continue to develop more complex financial products, including trust commodities and other investment products, for which consumer demand has increased in recent years. We are also focusing on addressing the needs of our customers by providing the highest-quality products and services and developing an open-architecture strategy, which allows us to sell such products through the largest branch network in Korea. In short, we aim to offer our customers a convenient one-stop financial services destination where they can meet their traditional retail and corporate banking requirements, as well as find a broad array of fee-based products and services tailored to address more specific banking needs. We believe such differentiated, comprehensive services and cross-selling will not only enhance customer loyalty but also increase profitability.

One of our key customer-related strategies continues to be creating greater value and better service for our customers. We intend to continue improving our customer service, including through:

*Improved customer relationship management technology.* Management has devoted substantial resources toward development of our customer relationship management system, which is designed to provide our employees with the needed information to continually improve the level of service and incentives offered to our preferred customers. Our system is based on an integrated

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customer database, which allows for better customer management and streamlines our customer reward system. We have also developed state-of-the-art call centers and online Internet capabilities to provide shorter response times to customers seeking information or to execute transactions. Our goals are to continually focus on improving customer service to satisfy our customer's needs through continuing efforts to deliver new and improved services and to upgrade our customer relationship management system to provide the best possible service to our customers in the future.

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*Enhanced distribution channels.* We also believe we can improve customer retention and usage rates by increasing the range of products and services we offer and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centers, mobile-banking and Internet banking. We believe that our leading market position gives us a competitive advantage in developing and enhancing our distribution capabilities.

### ***Focusing on expanding an improving credit quality in our corporate lending business***

We plan to focus on corporate lending as one of our core businesses through attracting top-tier corporate customers and providing customized and distinctive products and services to build our position as a leading bank in the corporate financial market. To increase our market share in providing financial services to the corporate market, we intend to:

promote a more balanced and strengthened portfolio with respect to our corporate business by developing our large corporate customer base and utilizing our improved credit management operations to better evaluate new large corporate and small- and medium-sized enterprise customers;

develop and sell more varied corporate financial products, consisting of transactional banking products which provide higher margin and less risk such as cyber branch products to large corporate customers and cyber CEO products to small- and medium-sized enterprise customers;

generate more fee income from large corporate customers through business-to-business transactions, foreign exchange transactions and derivative and other investment products;

further develop and train our core professionals with respect to this market, including through programs such as the career development path ;

strengthen our marketing system based on our accumulated expertise in order to attract top-tier corporate customers; and

focus on enhancing our channel network in order to provide the best service by strengthening our corporate customer management.

### ***Strengthening internal risk management capabilities***

We believe that ensuring strong asset quality through effective credit risk management is critical to maintaining stable growth and profitability and risk management will continue to be one of our key focus areas. One of our highest priorities is to improve our asset quality and more effectively price our lending products to take into account inherent credit risk in our portfolio. Our goal is to maintain the soundness of our credit portfolio, profitability and capital base. To this end, we intend to continue to strengthen our internal risk management capabilities by tightening our underwriting and management policies and improving our internal compliance policies. To accomplish this objective, we have undertaken the following initiatives:

*Strengthening underwriting procedures with advanced credit scoring techniques.* We have recently centralized our credit management operations into our credit group. Our prior structure had divided such operations into four groups and ten teams. As a result of such centralization, we aim to enhance our credit management expertise and improve our system of checks-and-balances

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with respect to our credit portfolio. We are also improving our ability to evaluate the credit of our small- and medium-sized enterprise customers through assigning experienced credit loan officers to our regional credit offices. We have also introduced a policy requiring the same officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which will enhance expertise and improve efficiency and accountability of such officer, while enabling us to maintain a consistent credit policy. We have also, as a general matter, implemented enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our asset quality through improvement of our early monitoring systems and collection procedures.



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*Improving our internal compliance policy and ensuring strict application in our daily operations.* We have improved our monitoring capabilities with respect to our internal compliance and providing training and educational programs to our management and employees. We have also implemented strict compliance policies to maintain the integrity of our risk management system.

*Cultivating a performance-based, customer-oriented culture that emphasizes market best practices*

We believe a strong and dedicated workforce is critical to our ability to offer our customers the highest quality banking services and is integral to our goal of maintaining our position as one of Korea's leading financial service providers. In the past, we have dedicated significant resources to develop and train our core professionals, and we intend to continue to enhance the productivity of our employees, including by regularly sponsoring in-house training and educational programs. We have also been seeking to cultivate a performance-based culture to create a work environment where members of our staff are incentivized to maximize their potential and in which our employees are directly rewarded for superior performance. We intend to maintain a professional workforce whose high quality of customer service reflects our goal to achieve and maintain global best practice standards in all areas of operations.

**Branch Network**

As of December 31, 2004, we had 1,144 branches and sub-branches in Korea, which were the largest number of branches among Korean commercial banks. In Korea, retail transactions are generally conducted in cash, although credit card use has increased, and conventional checking accounts are not offered or used as widely as in other countries. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 41% of our branches and sub-branches are located in Seoul, and more than 24% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2004:

Area	Number of branches	Percentage
Seoul	474	41%
Six largest cities (other than Seoul)	271	24
Other	399	35
Total	1,144	100%

In addition, we have continued to implement the specialization of branch functions. Of our branch network, 136 branches handle corporate transactions exclusively and are dedicated to providing comprehensive services to our corporate customers.

In order to support our branch network, we have established an extensive network of automated banking machines, which are located in branches and in unmanned outlets known as autobanks. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2004, we had 8,227 ATMs, 884 cash dispensers and 537 passbook printers.

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We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of our automated banking machines has increased in recent years. In 2004, automated banking machine transactions accounted for approximately 83.7% of our deposit and withdrawal transactions for amounts less than (Won)700,000.

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The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs, including those that only dispense cash:

	For the year ended December 31,		
	2002	2003	2004
Number of transactions (millions)	816	828	786
Fee revenue (in billions of Won)	(Won) 81	(Won) 89	(Won) 92

**Retail Banking**

Due to our development as a retail bank and the know-how and expertise we have acquired from our activities in that market, retail banking has been and will continue to remain one of our core businesses. Our retail banking activities consist primarily of lending and deposit-taking.

**Lending Activities**

We offer various loan products that target different segments of the population, with features tailored to each segment's financial profile and other characteristics. The following table sets forth the balances and the percentage of our total lending represented by our retail loans as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	(in billions of Won, except percentages)					
<b>Retail:</b>						
Mortgage and home equity loans	(Won) 46,195	31.7%	(Won) 52,477	36.0%	(Won) 57,965	42.0%
Other consumer loans (1)	28,066	19.2	28,727	19.7	25,963	18.8
<b>Total</b>	(Won) 74,261	50.9%	(Won) 81,204	55.7%	(Won) 83,928	60.8%

(1) Excludes credit card loans, but includes overdraft loans.

Our retail loans consist of:

*Mortgage loans*, which are loans made to customers to finance home purchases, construction, improvements or rentals; and *home equity loans*, which are loans made to our customers secured by their homes to ensure loan repayment. We also provide overdraft

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loans in connection with our home equity loans.

*Other consumer loans*, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us.

For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 40% to 60%. This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

A borrower's eligibility for our mortgage loans depends on value of the mortgage property, the appropriateness of the use of proceeds and the borrower's creditworthiness. A borrower's eligibility for home equity loans is determined by the borrower's credit and the value of the property, while the borrower's eligibility

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for other consumer loans is primarily determined by the borrower's credit. If the borrower's credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower's creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Due to a rapid increase in retail loans and increased credit risks relating thereto, as well as to stabilize the real estate market in Korea, the Financial Supervisory Commission and the Financial Supervisory Service have been adopting more stringent guidelines applicable to mortgage and home equity lending by Korean banks since 2002. See Item 3D. Risk Factors Risks relating to government regulation and policy and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

### *Mortgage and Home Equity Lending*

Our mortgage and home equity lending has substantially expanded in recent years. As of December 31, 2004, our market share of the outstanding Korean private mortgage market was 73.7% based on our internal statistics. We do not receive any fee income related to the origination of mortgage and home equity loans.

*The Housing Finance Market in Korea.* The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending. In the private sector, a number of financial institutions and installment finance companies, including us, provide mortgage lending. Prior to 1997, government regulations limited the types of mortgage lending products commercial banks in Korea could offer. These restrictions affected both the terms of mortgages that could be offered as well as eligibility of properties to be mortgaged and persons applying for mortgages. Government restrictions on mortgage lending were largely lifted in 1997, leading to a more competitive mortgage lending market. In 1998, the government promulgated new laws to facilitate asset securitization transactions by Korean banks. Such transactions have contributed to the growth of the mortgage lending market by increasing the amount of funding available to lenders and allowing lenders to manage their credit risk.

*Mortgage and Home Equity Loan Products.* We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a commercial basis. The maximum term of mortgage loans is 35 years. Home equity loans have an initial maturity of three years. These loans are typically renewed upon maturity on an annual basis for a maximum of ten years, after which these loans must be repaid. Approximately 70% of our mortgage and home equity loans have an initial maturity of one to three years. Consumers of mortgage and home equity loans prefer loans with a maturity of one to three years because these loans generally have lower interest rates than longer-term loans. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

As of December 31, 2004, approximately 39.6% of our mortgage loans were secured by residential property which is the subject of the loan, 13.9% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 46.5% of our mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans are restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers. For the year ended



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December 31, 2004, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 57.6%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the *jeonsae* system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower's property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower's property. This is in the event that the borrower's property is seized by a creditor, and the renter is no longer able to reside at that property. See Item 3D. Risk Factors Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio. As a result of government initiatives, we have also tightened our mortgage loan guidelines.

*Pricing.* The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending). Our interest rates also incorporate a margin based among other things on the type of security, priority with respect to the security, loan-to-value and loan length. We can adjust the price to reflect the borrower's current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 1% to 1.5% of the loan amount in addition to the accrued interest.

The interest rates on our home equity loans are determined on the same basis as our retail mortgage loans.

As of December 31, 2004, our current three-month, six-month and twelve-month base rates were approximately 5.12%, 5.17% and 5.12%, respectively.

As of December 31, 2004, approximately (Won)57,494 billion, or 99.2%, of our outstanding mortgage and home equity loans were priced based on a floating rate and (Won)471 billion, or 0.8%, were priced based on a fixed rate.

### *Other Consumer Loans*

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2004, approximately (Won)13,772 billion, or 53.0% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and typically have a maturity between one and three years. The amount of overdraft loans have been increasing over the past several years and, as of December 31, 2004, was approximately (Won)9,062 billion.

*Pricing.* The interest rates on our other consumer loans are determined on the same basis as on our home equity loans, except that, for unsecured loans, the borrower's credit score as determined during our loan approval process is also taken into account. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management. For overdraft loans, we also add 50 basis points in determining the interest rate.

As of December 31, 2004, approximately 99.0% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.



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### *Deposit-taking Activities*

Due to our extensive nationwide network of branches and the merger, together with our long history of development and our resulting know-how and expertise, as of December 31, 2004, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was (Won)92,126 billion, (Won)99,172 billion and (Won)94,024 billion as of December 31, 2002, 2003 and 2004, respectively, which constituted 75.3%, 75.4% and 74.5%, respectively, of the balance of our total deposits.

We offer many deposit products that target different segments of our retail customer base, with features tailored to each segment's financial profile, characteristics and needs, including:

*Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit. Retail and corporate demand deposits constituted approximately 2.8% of our total deposits as of December 31, 2004 and paid average interest of 0.16% for 2004.

*Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the Korea Composite Stock Prices Index (known as KOSPI), or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically range from one month to five years, and the term for installment savings deposits range from six months to ten years. Retail and corporate time deposits constituted approximately 53.7% of our total deposits as of December 31, 2004 and paid average interest of 3.98% for 2004. Most installment savings deposits offer fixed interest rates.

*Savings deposits*, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently below 0.30%. Retail and corporate savings deposits constituted approximately 29.1% of our total deposits as of December 31, 2004 and paid average interest of 0.79% for 2004.

*Certificates of deposit*, the maturities of which range from 30 days to 365 days with a required minimum deposit of (Won)5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.

*Foreign currency deposits*, which accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants. We offer foreign currency time deposits and checking and passbook accounts in nine currencies.

We offer varying interest rates on our deposit products depending upon average funding costs, the rate of return on our interest earning assets and the interest rates offered by other commercial banks.

We also offer deposits that provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

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*Housing subscription time deposits*, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Law. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

*Housing subscription installment savings deposits*, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Law. Account holders are also eligible for our mortgage loans. These deposits require monthly

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installments of (Won)50,000 to (Won)500,000, have maturities of between two and five years and accrue interest at fixed or variable rates depending on the term. These deposit products target low- and middle-income households.

We have a priority customer program called KB Star Club that categorizes our customers by their average deposit balance for the most recent three-month period, the amount of their transactions with us and their program points based on such balances and transactions. A customer may receive preferential treatment in various areas, including interest rates and transaction fees, depending upon how the customer is classified. As of December 31, 2004, we had over 2.8 million KB Star Club customers, representing about 11% of our total retail customer base of over 24 million retail customers. In 2004, on an average balance basis, our KB Star Club customers held approximately 78% of our total retail customer deposits, and revenues from our KB Star Club customers accounted for approximately 53% of our revenues derived from our retail customers.

In the second quarter of 2002, after significant research and planning, we launched private banking operations at our headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of December 31, 2004, we had established 16 centers and plan to increase the number of private banking centers as necessary. We believe that by offering high quality personal wealth management services to these customers we can increase our share of the priority customer market, which will increase our profitability and our position in the retail banking market.

The Monetary Policy Committee of the Bank of Korea (the Monetary Policy Committee) imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 5%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a premium rate of 0.2% of our average deposits and we paid (Won)232 billion for 2004.

## **Credit Cards**

Credit cards are another of our core retail products. As a result of the merger with H&CB, for a period of time we issued and operated two brands of credit cards, Kookmin Card and BC Card. Following our merger with our subsidiary, Kookmin Credit Card, in September 2003, we adopted a strategy of trying to unify the two brands. Accordingly, commencing in September 2004, we have been issuing all of our credit cards (including replacement cards) under the KB Card brand.

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The following table sets forth certain data relating to our credit card operations. All financial figures appearing below have been prepared in accordance with Korean GAAP, which differs significantly from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Reconciliation with Korean GAAP.

	As of and for the year ended December 31,				
	2002		2003		2004
	(in billions of Won, except number of holders, accounts and percentages)				
	Kookmin Card	BC Card	Kookmin Card	BC Card	KB Card (1)
<b>Number of credit cardholders (at year end) (thousands)</b>					
General accounts	12,614	4,748	10,991	3,899	11,362
Corporate accounts	154	58	148	53	182
<b>Total</b>	<b>12,768</b>	<b>4,806</b>	<b>11,139</b>	<b>3,952</b>	<b>11,544</b>
<b>Number of merchants (at year end) (thousands)</b>					
Active ratio (at year end) (2)	72%	61%	53.6%	50.1%	54.9%
<b>Credit card fees</b>					
Merchant fees (3)	(Won) 745	(Won) 236	(Won) 690	(Won) 203	(Won) 788
Installment and cash advance fees	1,106	555	543	508	919
Annual membership fees	39	12	38	14	45
Other fees	158	237	669	223	885
<b>Total</b>	<b>(Won) 2,048</b>	<b>(Won) 1,040</b>	<b>(Won) 1,940</b>	<b>(Won) 948</b>	<b>(Won) 2,637</b>
<b>Charge volume (4)</b>					
General purchase	(Won) 18,708	(Won) 4,329	(Won) 21,481	(Won) 4,664	(Won) 25,373
Installment purchase	11,026	4,362	7,574	3,223	7,520
Cash advance	57,166	18,198	41,155	13,204	33,456
Card loan (5)	5,108	8,784	956	5,078	2,999
<b>Total</b>	<b>(Won) 92,008</b>	<b>(Won) 35,673</b>	<b>(Won) 71,166</b>	<b>(Won) 26,169</b>	<b>(Won) 69,348</b>
<b>Outstanding balance (at year end) (6)</b>					
General purchase	(Won) 1,199	(Won) 591	(Won) 1,117	(Won) 491	(Won) 2,320
Installment purchase	2,932	1,747	1,459	959	1,344
Cash advance	2,370	2,184	1,638	1,428	2,605
Card loan (5)	2,739	1,227	2,178	979	1,375
<b>Total (7)</b>	<b>(Won) 9,240</b>	<b>(Won) 5,749</b>	<b>(Won) 6,392</b>	<b>(Won) 3,857</b>	<b>(Won) 7,644</b>
<b>Average outstanding balances (6)</b>					
General purchase	(Won) 1,567	(Won) 582	(Won) 1,212	(Won) 625	(Won) 1,637
Installment purchase	3,381	1,599	2,110	1,358	1,835
Cash advance	3,910	2,389	1,669	1,949	2,787

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Card loan (5)	2,749	1,150	2,929	1,174	2,247
Delinquency ratios (at year end) (8)					
Less than 1 month	3.08%	2.91%	2.23%	2.70%	1.48%
From 1 month to 3 months	2.85	5.01	4.82	5.04	3.32
From 3 months to 6 months	2.19	2.85	6.48	2.27	0.29
Over 6 months	0.01	0.56	0.02	0.05	0.11
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	8.13%	11.33%	13.55%	10.06%	5.20%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Non-performing loan ratio					
Reported	4.70%	5.08%	15.86%	9.58%	4.55%
Managed	3.88%	5.08%	11.24%	9.58%	3.91%
Write-offs (gross)	(Won) 1,017	(Won) 671	(Won) 3,453	(Won) 1,742	(Won) 3,261
Recoveries (9)	112	45	72	79	131
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net write-offs	(Won) 905	(Won) 626	(Won) 3,381	(Won) 1,663	(Won) 3,130
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross write-off ratio (10)	8.76%	11.73%	43.60%	34.12%	38.33%
Net write-off ratio (11)	7.80%	10.94%	42.69%	32.57%	36.79%
Asset sales	248				
Asset securitization (12)	(Won) 7,463		(Won) 5,075		(Won) 1,790
	<u>          </u>				<u>          </u>

(1) Includes data for credit cards issued under the Kookmin Card and BC Card brands prior to September 2004.

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- (2) For 2002, the active ratio represents the ratio of the number of cards used at least once within the last 12 months to the total number of cards issued as of year end. In 2003 and 2004, the active ratio for KB Card and Kookmin Card represents the ratio of accounts used at least once within the last six months to total accounts as of year end, while the active ratio for BC Card represents the ratio of cards outstanding at year end that have been issued for at least six months and that have been used at least once within the last six months of the year.
- (3) Merchant fees consist of merchant membership and maintenance fees, costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, bad debt expenses, general variable expenses and other fixed costs that are charged to our member merchants. We charge our member merchants fees that range from 1.0% to 4.5%.
- (4) Represents the aggregate cumulative amount charged during the year.
- (5) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed period.
- (6) Excludes credit card balances transferred to special purpose entities in connection with asset securitization transactions, which transfers are recognized as sales under Korean GAAP but not under U.S. GAAP.
- (7) Total outstanding balances pursuant to U.S. GAAP for Kookmin Card and BC Card, respectively, were (Won)16,948 billion and (Won)5,695 billion as of December 31, 2002 and (Won)11,467 billion and (Won)3,855 billion as of December 31, 2003. The total outstanding balance pursuant to U.S. GAAP for all of our credit cards was (Won)9,421 billion as of December 31, 2004.
- (8) Represents the ratio of delinquencies to outstanding balance. In line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and have also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We discontinued the practice of providing substituted cash advances from January 2004. As of December 31, 2004, these restructured loans amounted to (Won)640 billion. Because these restructured loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances.
- (9) Does not include proceeds that we received from sales of our non-performing loans that were written off. In 2003 and 2004, such proceeds amounted to (Won)201 billion and (Won)219 billion, respectively. In 2002, we had no such proceeds.
- (10) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which are 180 days past due, except for those balance with a reasonable probability of recovery. In 2003 and 2004, our write-off ratio under Korean GAAP increased considerably due to significant repurchases and subsequent write-offs of credit card receivables underlying asset-backed securities that were issued in late 2002.
- (11) Represents the ratio of net write-offs for the year to average outstanding balances for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which are 180 days past due, except for those balance with a reasonable probability of recovery. In 2003 and 2004, our write-off ratio under Korean GAAP increased considerably due to significant repurchases and subsequent write-offs of credit card receivables underlying asset-backed securities that were issued in late 2002.
- (12) Comprises credit card balances that were transferred in asset securitization transactions. Under U.S. GAAP, these transfers are not recognized as sales and are recorded as secured borrowings.

The use of credit cards in Korea has increased dramatically in recent years as the Korean economy and consumer spending recovered from the recent financial and economic difficulties and, as a result of government initiatives promoting the use of credit cards in Korea. For example, the government requires commercial merchants to accept credit cards as a means of preventing tax evasion by ensuring proper disclosure of transactions and provides tax benefits to businesses that accept credit cards. For consumers, there is also a tax deduction for certain amounts spent using credit cards. However, there has been significant concern in Korea regarding the high levels of credit card usage (including cash advances) and the deteriorating asset quality of credit card portfolios of Korean financial institutions. Commencing in July 2002, the Financial Supervisory Commission increased regulation of the credit card industry. See Item 3D. Risk Factors Risks relating to government regulation and policy and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required minimum percentage is repaid, credit cardholders in Korea are generally required to pay for their purchases within approximately 20 to 60 days of purchase depending on their payment cycle. However, we also offer revolving cards to individuals that allow outstanding amounts to be rolled over to subsequent payment periods. Delinquent accounts (defined as amounts overdue for one day or more) are charged penalty interest and closely monitored. For installment purchases, we charge interest on unpaid installments at rates that vary according to the terms of repayments. See Item 3D. Risk Factors Risks relating to our retail credit portfolio.

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We believe that by establishing a unified credit card business through our merger with Kookmin Credit Card and our adoption of the new KB Card brand, we have further enhanced this business by strengthening our risk management and maximizing our operational efficiency. In addition, we believe that our extensive branch network, name recognition and overall size will enable us to cross-sell products such as credit cards to our existing and new customers.

To promote our credit card business, we offer services targeted to various financial profiles and customer requirements and are concentrating on:

strengthening cross-sales to existing customers and offering integrated financial services;

offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;

offering gold cards, platinum cards and other preferential members cards, which have a higher credit limit and provide additional services in return for a higher fee;

acquiring new customers through strategic alliances and cross-marketing with wholesalers and retailers;

encouraging increased use of credit cards by existing customers through special offers for frequent users;

introducing new features, such as revolving credit cards, travel services and insurance;

developing fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet; and

issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

As of December 31, 2004, we had more than 11.5 million cardholders. Of the credit cards outstanding, approximately 54.9% were active, meaning that they had been used at least once during the previous six months. For 2004, our market share with respect to charge volume was 21.5% according to the Financial Supervisory Service.

Our revenues consist principally of cash advance fees, merchant fees, interest income from credit card loans, cardholders purchase fees, including interest on late and deferred payments, and annual fees paid by cardholders. Cardholders are generally required to pay for their purchases within 29 to 47 days after the date of purchase, depending on their payment cycle. Except in the case of installment purchases, accounts, which remain unpaid after this period, are deemed to be delinquent.

We generate other fees through a processing charge on merchants, with the average charge equaling approximately 2.40%.

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Under non-exclusive license agreements with MasterCard International Incorporated and Visa International Service Association, we also issue MasterCard and Visa credit cards.

We launched our debit card business in February 1996 in response to changing customer needs. We charge merchants an average commission of 1.5% of the amounts purchased using a debit card.

### **Corporate Banking**

We lend to and take deposits from small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2002, 2003 and 2004, we had 155,726, 156,960 and 147,462 small- and medium-sized enterprise borrowers and 974, 632 and 629 large corporate borrowers, respectively. For 2002, 2003 and 2004, we received fee revenue from firm banking services offered to corporate customers, which



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include inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company, in the amount of (Won)56.3 billion, (Won)62.8 billion and (Won)65.3 billion, respectively. Of our branch network as of December 31, 2004, we had 136 branches dedicated exclusively to corporate banking.

The following table sets forth the balances and the percentage of our total lending represented by our small- and medium-sized enterprise business loans and our large corporate business loans as of the dates indicated, estimated based on our internal classifications of corporate borrowers under Korean GAAP:

	As of December 31,					
	2002		2003		2004	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	(Won) 38,871	26.7%	(Won) 41,540	28.5%	(Won) 38,240	27.7%
Large corporate loans	8,631	5.9	6,359	4.3	5,417	3.9
Total	(Won) 47,502	32.6%	(Won) 47,899	32.8%	(Won) 43,657	31.6%

On the deposit-taking side, we currently offer our corporate customers several types of corporate deposits. Our corporate deposit products can be divided into two general categories: (1) demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and (2) deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment savings deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on deposit products depending upon the rate of return on our income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

The total amount of deposits from our corporate customers amounted to (Won)30,440 billion as of December 31, 2004, or 24.1% of our total deposits.

***Small- and Medium-sized Enterprise Banking***

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses because of both our historical development and our accumulated expertise. In recent years, we have largely focused our corporate banking activities on the small- and medium-sized enterprise market in Korea. We believe that we possess the necessary elements to succeed in the small- and medium-sized enterprise market, including our extensive branch network, our credit rating system for credit approval, our marketing capabilities (which we believe have provided us with significant brand loyalty) and our ability to take advantage of economies of scale.

We use the term "small- and medium-sized enterprises" as defined in the Small and Medium Industry Basic Act and related regulations. The general criterion used to define small- and medium-sized enterprises is either the number of full-time employees (less than 300), paid-in capital (equal to or less than (Won)8 billion) or sales revenues (equal to or less than (Won)30 billion). Criteria differ from industry to industry. In all cases, however, the number of full-time employees may not equal or exceed 1,000.

*Lending Activities*

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2004, working capital loans and facilities loans accounted for 83.7% and 16.3%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2004, we had over 147,000 small- and medium-sized enterprise customers.

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Loans to small- and medium-sized enterprises may be secured by real estate or deposits or be unsecured. As of December 31, 2004, secured loans and guaranteed loans accounted for, in the aggregate, 83.7% of our small- and medium-sized enterprise loans. Among the secured loans, approximately 67.0% were secured by real estate and 33.0% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

When evaluating the extension of working capital loans, we review the corporate customer's creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time and savings deposits that the borrower has with us as collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with a loan extension.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous 3.5 years. We revalue any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

We also offer collective housing loans. Our collective housing loans are mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorized as small- and medium-sized enterprises. We offer a variety of collective housing loans, including loans to purchase property or finance the construction of housing units, loans to contractors used for working capital purposes, and loans to educational establishments, small- and medium-sized enterprises and non-profit entities to finance the construction of dormitories. Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower's creditworthiness and the adequacy of the intended use of proceeds. Furthermore, we take a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

A substantial number of our small- and medium-sized enterprise customers are SOHOs, which represent sole proprietorships, individual business interests and very small corporations. We generally diversify SOHOs into two groups. The first group are those who do not typically maintain financial statements. We generally lend to this group on a secured basis. For these SOHOs we apply a strict credit risk evaluation model, which uses not only quantitative analysis related to a customer's accounts and due amounts but also requires our credit officers to perform a qualitative analysis of each potential SOHO customer. The second group are those who maintain a double-entry book keeping system. We usually lend to this group on an unsecured basis. We evaluate the risk of this segment through the corporate credit risk system, which takes into account both financial and non-financial criteria.

### *Pricing*

We establish the price for our corporate loan products (other than collective housing loans) based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower and the value and type of collateral. Our loans are priced based on the Market Opportunity Rate system.

Our Market Opportunity Rate system is a periodic floating rate system which takes into account the current market interest rate and an activity-based cost, and a spread calculated to achieve a target return on asset ratio set for the year. As of December 31, 2004, the Market

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Opportunity Rate was 3.41% for three months, 3.36% for six months and 3.41% for one year, respectively.

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While we generally utilize the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, we may adjust the interest rate we charge to compete more effectively with other banks.

The interest rates on our collective housing loans are based on a periodic floating rate, which in turn is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system. After selecting the appropriate periodic floating rate, our loan analysis system raises or lowers the floating rate based on various factors related to the loan and the borrower. In addition, we take into account the market conditions and our expenses and services to be provided with respect to such loan. The repayment schedule differs according to the variable term, repayment method and the particular loan. If a loan is terminated prior to its maturity, the corporate borrower is obligated to pay us an early termination fee in addition to the accrued interest.

### ***Large Corporate Banking***

Large corporate customers include all companies that are neither small- and medium-sized enterprise customers nor government corporations. Due to our history of development and limitations in our articles of incorporation, large corporate banking was not a core business of the former Kookmin Bank or of H&CB prior to the merger. Our articles of incorporation provide that financial services to large corporate customers must be no more than 40% of the total amount of our Won-denominated loans. Our business focus with respect to large corporate banking has shifted from a concentration on risk management to selective expansion, within the constraints of our articles of incorporation. Specifically, we are carrying out various initiatives to improve our customer relationship with large corporate customers and plan to expand our service offerings to this segment.

### ***Lending Activities***

Our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2004, working capital loans and facilities loans accounted for 90.2% and 9.8% of our total large corporate loans. We also offer collective housing loans, as described above under *Small- and Medium-sized Enterprise Banking Lending Activities*, to large corporate clients.

As of December 31, 2004, secured loans and guaranteed loans accounted for, in the aggregate, 39.0% of our large corporate loans. Among the secured loans, approximately 52.8% were secured by real estate and approximately 47.2% were secured by deposits or securities. Working capital loans generally have a maturity of one year but are extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

We evaluate creditworthiness and collateral for our large corporate loans in essentially the same way as we do for small- and medium-sized enterprise loans. See *Small- and Medium-sized Enterprise Banking Lending Activities* above.

As of December 31, 2004, in terms of our outstanding loan balance, 34.2% of our large corporate loans was extended to borrowers in the manufacturing industry, 7.8% was extended to borrowers in the construction industry, and 23.0% was extended to borrowers in the financial and insurance industry.

*Pricing*

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See *Small- and Medium-sized Enterprise Banking Pricing* above. As of December 31, 2004, the Market Opportunity Rate, which is utilized in pricing loans offered by us, was the same for our large corporate loans as for our small- and medium-sized enterprise loans.

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### **Capital Markets Activities and International Banking**

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, engage in derivatives and asset securitization transactions and make call loans.

#### ***Securities Investment and Trading***

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2002, 2003 and 2004, our investment portfolio, which consists primarily of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won)29,898 billion, (Won)25,167 billion and (Won)26,790 billion and represented 16.2%, 13.7% and 15.1% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. As of December 31, 2002, 2003 and 2004, we held debt securities with a total book value of (Won)21,941 billion, (Won)23,628 billion and (Won)25,512 billion, respectively, of which:

held-to-maturity debt securities accounted for (Won)11,134 billion, (Won)6,137 billion and (Won)6,168 billion or 50.7%, 26.0% and 24.2%, respectively;

available-for-sale debt securities accounted for (Won)9,030 billion, (Won)14,925 billion and (Won)15,898 billion or 41.2%, 63.1% and 62.3%, respectively; and

trading debt securities accounted for (Won)1,777 billion, (Won)2,565 billion and (Won)3,446 billion or 8.1%, 10.9% and 13.5%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2002, 2003 and 2004 amounted to:

(Won)8,735 billion, (Won)5,228 billion and (Won)4,748 billion, or 78.5%, 85.2% and 77.0%, respectively, of our held-to-maturity debt securities;

(Won)4,096 billion, (Won)4,996 billion and (Won)3,735 billion, or 45.4%, 33.5% and 23.5%, respectively, of our available-for-sale debt securities; and

(Won)840 billion, (Won)1,419 billion and (Won)916 billion, or 47.3%, 55.3% and 26.6%, respectively, of our trading debt securities.

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From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the Stock Market Division of the Korea Exchange or KOSDAQ Market Division of the Korea Exchange. As of December 31, 2002, 2003 and 2004:

equity securities in our available-for-sale portfolio had a book value of (Won)3,452 billion, (Won)764 billion and (Won)252 billion, or 27.7%, 4.9% and 1.6% of our available-for-sale portfolio, respectively; and

equity securities in our trading portfolio had a book value of (Won)3,898 billion, (Won)175 billion and (Won)249 billion, or 68.7%, 6.4% and 6.7% of our debt and equity trading portfolio, respectively.

Our trading portfolio also includes foreign exchange spot contracts and derivative instruments. See Derivatives Trading. Our investment portfolio also includes venture capital activities, non-marketable or restricted equity securities, investments under the equity method and investments held by our asset management subsidiary. As of December 31, 2002, 2003 and 2004, these investments had an aggregate book value of (Won)607 billion, (Won)601 billion and (Won)777 billion, respectively.



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The following table shows, as of the dates indicated, the gross unrealized gains and losses on available-for-sale and held-to-maturity securities within our investment securities portfolio, and the amortized cost and fair value of the portfolio by type of investment security:

	As of December 31, 2002			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
(in billions of Won)				
<b>Available-for-sale securities:</b>				
Debt securities				
Korean Treasury securities and government agencies	(Won) 4,022	(Won) 82	(Won) 8	(Won) 4,096
Corporate (1)	2,041	54	27	2,068
Financial institutions (2)	2,622	33	6	2,649
Foreign governments	17	3		20
Asset-backed securities	155	42		197
Subtotal	8,857	214	41	9,030
Marketable equity securities	3,360	97	5	3,452
Total available-for-sale securities	(Won) 12,217	(Won) 311	(Won) 46	(Won) 12,482
<b>Held-to-maturity securities:</b>				
Korean Treasury securities and government agencies				
Corporate (3)	(Won) 8,735	(Won) 294	(Won) 2	(Won) 9,029
Financial institutions (4)	313	30		341
Foreign governments	933	9	1	942
Asset-backed securities	49	1		49
Subtotal	1,104	15		1,119
Total held-to-maturity securities	(Won) 11,134	(Won) 349	(Won) 3	(Won) 11,480
As of December 31, 2003				
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
(in billions of Won)				
<b>Available-for-sale securities:</b>				
Debt securities				
Korean Treasury securities and government agencies	(Won) 5,024	(Won) 11	(Won) 39	(Won) 4,996
Corporate (1)	1,845	95	10	1,930
Financial institutions (2)	7,900	21	21	7,900
Foreign governments	30	9		39
Asset-backed securities	59	1		60
Subtotal	14,858	137	70	14,925
Marketable equity securities	734	30		764
Total available-for-sale securities	(Won) 15,592	(Won) 167	(Won) 70	(Won) 15,689

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	_____	_____	_____	_____
<b>Held-to-maturity securities:</b>				
Korean Treasury securities and government agencies	(Won) 5,228	(Won) 157	(Won) 8	(Won) 5,377
Corporate (3)	132	10		142
Financial institutions (4)	297	5		302
Foreign governments				
Asset-backed securities	480	2	1	481
	_____	_____	_____	_____
Total held-to-maturity securities	(Won) 6,137	(Won) 174	(Won) 9	(Won) 6,302
	_____	_____	_____	_____

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	As of December 31, 2004			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
<b>Available-for-sale securities:</b>				
Debt securities				
Korean Treasury securities and government agencies	(Won) 3,689	(Won) 48	(Won) 1	(Won) 3,736
Corporate (1)	801	22	5	818
Financial institutions (2)	11,103	38	6	11,135
Foreign governments	37	5		42
Asset-backed securities	166	1		167
Subtotal	15,796	114	12	15,898
Marketable equity securities	225	27		252
Total available-for-sale securities	(Won) 16,021	(Won) 141	(Won) 12	(Won) 16,150
<b>Held-to-maturity securities:</b>				
Korean Treasury securities and government agencies	(Won) 4,748	(Won) 206	(Won)	(Won) 4,954
Corporate (3)	65	1		66
Financial institutions (4)	1,242	5		1,247
Foreign governments				
Asset-backed securities	113	2		115
Total held-to-maturity securities	(Won) 6,168	(Won) 214	(Won)	(Won) 6,382

- (1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)183 billion as of December 31, 2002, (Won)77 billion as of December 31, 2003 and (Won)16 billion as of December 31, 2004.
- (2) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)2,217 billion as of December 31, 2002, (Won)7,390 billion as of December 31, 2003 and (Won)10,206 billion as of December 31, 2004. These financial institutions are controlled by the Korean government.
- (3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)88 billion as of December 31, 2002, (Won)36 billion as of December 31, 2003 and (Won)30 billion as of December 31, 2004.
- (4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)876 billion as of December 31, 2002, (Won)265 billion as of December 31, 2003 and (Won)1,144 billion as of December 31, 2004. These financial institutions are controlled by the Korean government.

**Derivatives Trading**

Until the full-scale launch of our derivative operations in mid-1999, we had been engaged in limited volumes of derivatives trading, mostly on behalf of our customers. Since then, our trading volume significantly increased from (Won)60,848 billion in 2002, to (Won)99,238 billion in 2003 and to (Won)136,579 billion in 2004. Our net trading revenue from derivatives and foreign exchange spot contracts for the year ended December 31, 2002, 2003 and 2004 was (Won)189 billion, (Won)100 billion and (Won)298 billion, respectively.

We provide and trade a range of derivatives products, including:

Won interest rate swaps, relating to Won interest rate risks;

cross-currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;

foreign exchange forwards, swaps and options, relating to foreign exchange risks; and

equity options on the KOSPI index.

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To provide more sophisticated and complete treasury risk management services to our clients, we entered into a business alliance with Australia's Macquarie Bank in December 1998. Macquarie Bank, established in 1969, is a leading provider of financial services offering a full range of investment banking, commercial banking and retail financial services in over 20 different countries around the world. Through this alliance, we were able to combine Macquarie Bank's derivatives expertise, risk management systems and methodologies with our established local infrastructure and strong market presence.

Our derivative operations focus on addressing the needs of our corporate clients to hedge their risk exposure and to hedge our risk exposure that results from such client contracts. We also engage in derivative trading activities to hedge the interest rate and foreign currency risk exposure that arise from our own assets and liabilities. A substantial portion of these hedge-purposed derivative contracts, however, do not qualify for hedge accounting under U.S. GAAP and are consequently treated as trading derivatives. In addition, we engage in proprietary trading of derivatives within our regulated open position limits. We engage in equity option transactions on a fully-hedged, back-to-back basis.

The following shows the estimated fair value of our derivatives and foreign exchange spot contracts as of December 31, 2002, 2003 and 2004:

	As of December 31,					
	2002		2003		2004	
	Estimated fair value assets	Estimated fair value liabilities	Estimated fair value assets	Estimated fair value liabilities	Estimated fair value assets	Estimated fair value liabilities
	(in billions of Won)					
Foreign exchange spot contracts	(Won) 5	(Won) 4	(Won) 2	(Won) 2	(Won) 8	(Won) 5
Foreign exchange derivatives	512	353	411	315	1,998	1,846
Interest rate derivatives	150	247	149	245	323	372
Equity derivatives	26	21	214	200	72	74
<b>Total</b>	<b>(Won) 693</b>	<b>(Won) 625</b>	<b>(Won) 776</b>	<b>(Won) 762</b>	<b>(Won) 2,401</b>	<b>(Won) 2,297</b>

The following table shows the unrealized gains and losses of derivatives held or issued for hedging purposes that qualified for hedge accounting under U.S. GAAP, as of December 31, 2002, 2003 and 2004:

	As of December 31,					
	2002		2003		2004	
	Unrealized gains	Unrealized losses	Unrealized gains	Unrealized losses	Unrealized gains	Unrealized losses

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	(in billions of Won)					
Interest rate derivatives	(Won) 9	(Won) 9	(Won) 3	(Won) 3	(Won) 10	(Won) 10
Total	(Won) 9	(Won) 9	(Won) 3	(Won) 3	(Won) 10	(Won) 10

*Asset Securitization Transactions*

We are active in the Korean asset-backed securities market. Based on our diverse experience with respect to product development and management capabilities relating to asset securitization, we offer customers a wide range of financial products to reinforce our position as a leading bank with respect to the asset securitization market. We were involved in asset securitization transactions with an initial aggregate issue amount of (Won)9,214 billion in 2004, (Won)10,886 billion in 2003 and (Won)13,104 billion in 2002. Most of these securities were sold to institutional investors through Korean securities houses.

*Call Loans*

We make call loans and borrow call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Won or foreign currencies, in amounts exceeding (Won)100 million,

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with maturities of 30 days or less. Typically, call loans have maturities of one day. As of December 31, 2004, we had made call loans of (Won)2,993 billion and borrowed call money of (Won)652 billion, compared to (Won)2,459 billion and (Won)225 billion, respectively, as of December 31, 2003.

***Investment Banking***

We have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. The main focus of our investment banking operations is project finance and financial advisory services. Our principal investment banking services include:

project finance and financial advisory services for social overhead capital projects such as highway, port, power, water and sewage projects;

financing and financial advisory services for real estate development projects; and

structured finance and venture financing.

In 2004, under Korean GAAP, we generated investment banking revenue of (Won)124 billion, consisting of (Won)99 billion of interest income and (Won)25 billion of fee income, from 74 financing arrangements and 12 advisory projects.

***International Banking***

We engage in various international banking activities, including foreign exchange services and derivatives dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations. We also raise foreign currency funds through our international banking operations. Since the Korean financial crisis, which began in late 1997, we have focused on minimizing the risk of our existing foreign currency assets and maximizing the recovery ratio of non-performing assets while selectively providing financing to and making investments in overseas subsidiaries of Korean companies.

The table below sets forth certain information regarding our foreign currency assets and borrowings:

	<b>As of December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(in millions of US\$)</b>		
Total foreign currency assets	\$ 6,035	\$ 5,439	\$ 5,465

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Foreign currency borrowings			
Long-term borrowings	1,664	1,671	1,485
Short-term borrowings	1,316	1,324	730
	<u>          </u>	<u>          </u>	<u>          </u>
Total borrowings	\$ 2,980	\$ 2,995	\$ 2,215
	<u>          </u>	<u>          </u>	<u>          </u>

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2004:

<u>Business Unit (1)</u>	<u>Location</u>
<b>Subsidiaries</b>	
Kookmin Bank Hong Kong Ltd.	Hong Kong
Kookmin Bank International Ltd.	United Kingdom
<b>Branches</b>	
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States

(1) Does not include subsidiaries and branches in liquidation or dissolution.



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Our overseas branches and subsidiaries principally provide Korean companies and nationals in overseas markets with trade financing, local currency funding and foreign exchange services, in conjunction with the operations of our headquarters.

In December 2003, we invested (Won)71 billion for a 25% interest in Sorak Financial Holdings, which was originally owned by Temasek Holdings, the Singapore government's investment vehicle. We made this investment as part of a consortium with Temasek and other parties that was formed to bid for a majority interest in Bank Internasional Indonesia, an Indonesian commercial bank, being auctioned by the Indonesian Bank Restructuring Agency. With the capital contributions made by the consortium members, Sorak Financial Holdings acquired a 51% interest in Bank Internasional Indonesia. As a member of the consortium, we participate in the management of Bank Internasional Indonesia.

### ***Trustee and Custodian Services Relating to Securities Investment Trusts and other Functions***

We act as a trustee for 31 securities investment trust management companies, which are entities established to invest in securities using funds raised by the sale of beneficiary certificates of investment trusts to investors. We also act as custodian, settlement and clearing agent and fund administrator for 55 financial institutions with respect to various securities investments. We receive a fee for acting in these capacities and generally perform the following functions:

holding securities for the benefit of the securities investment trust;

receiving and making payments made in respect of such securities;

executing trades in respect of such securities on behalf of the securities investment trust, based on instructions from the relevant securities investment trust management company;

in certain cases, authenticating beneficiary certificates issued by the securities investment trust and handling settlements in respect of such beneficiary certificates;

clearing and settlement in the domestic and foreign securities markets;

providing foreign exchange services for overseas investment and foreign investors; and

providing fund-related administration and accounting services.

For the year ended December 31, 2004, our fee income from our trustee and custodian services was (Won)20 billion. Approximately 26% of the securities investment trusts for which we provide trustee services are currently managed by KB Asset Management, which is a subsidiary owned 80% by us and 20% by ING Insurance International N.V.

### **Other Businesses**

*Trust Account Management Services*

*Money Trust Management Services*

We provide trust account management services for money trusts, which are trusts the assets of which we generally have broad discretion in investing. We receive fees for our trust account management services consisting of (1) basic fees that are based upon a percentage of the net asset value of the assets under management and (2) performance fees that are based upon the performance of the trust account operation. In 2004, our basic fees ranged from 0.4% to 2.0% of total assets under management depending on the type of trust account product. We also charge performance fees with respect to certain types of trust account products. We receive penalty payments when customers terminate their trust accounts prior to the original contract maturity.

We currently provide trust account management services for 22 types of money trusts. The money trusts we manage are generally trusts with a fixed life. Approximately half of our money trusts also make periodic distributions of dividend.

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Under Korean law, the assets of our trust accounts are segregated from our banking account assets and are not available to satisfy the claims of any of our potential creditors. We are, however, permitted to deposit surplus funds generated by trust assets into our banking accounts.

As of December 31, 2004, the total balance of our money trusts (under Korean GAAP) was (Won)7,029 billion. Except for specified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers, typically corporations, which direct our investment of trust assets.

The following table shows the balances of our money trusts by type as of the dates indicated as determined in accordance with Korean GAAP. Under U.S. GAAP, we historically have not consolidated money trust accounts in our financial statements or recognized the acquisition of such accounts in accordance with the purchase method of accounting due to the fact that these are not our assets but customer assets. As more fully discussed in Note 11 to our financial statements, however, beginning in 2004, we began consolidating money trusts for which we guaranteed the principal amount invested and those for which we guaranteed both the principal and a fixed rate of interest (as described below) under U.S. GAAP, as well as under Korean GAAP.

	As of December 31,		
	2002	2003	2004
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 1	(Won) 0.4	(Won) 0.3
Principal guaranteed trusts	3,696	3,261	3,162
Performance trusts	11,659	7,017	3,867
<b>Total</b>	<b>(Won) 15,356</b>	<b>(Won) 10,278</b>	<b>(Won) 7,029</b>

The balance of our money trusts decreased 54.2% between December 31, 2002 and December 31, 2004.

As of December 31, 2004, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2004, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of (Won)6,546 billion, of which (Won)6,120 billion was debt securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2004, under Korean GAAP, our trust accounts had made loans in the principal amount of (Won)328 billion (excluding loans from the trust accounts to our banking accounts of (Won)362 billion), which accounted for approximately 4.9% of our money trust assets. Loans by our money trusts are subject to the same credit approval process as loans from our banking accounts. As of December 31, 2004, 99.5% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. On a Korean GAAP basis, as of December 31, 2004, equity securities in our money trust accounts amounted to (Won)426 billion, which accounted for approximately 5.7% of our total money trust assets. Of this amount, (Won)362 billion was from specified money trusts and (Won)64 billion was from money trusts over which we have investment discretion.

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For some of the money trusts we manage, we have guaranteed the principal amount of an investor's investment as well as a fixed rate of interest. As a result of changes in the Financial Supervisory Commission regulations on January 1, 1999, we can no longer offer new money trusts where we guarantee both the principal amount and a fixed rate of interest. On a Korean GAAP basis, as of December 31, 2004, the balance of the money trusts for which we guaranteed both the principal amount invested and a fixed rate of interest was (Won)0.3 billion, all which has matured as of the date of this annual report.

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We currently continue to offer pension-type money trusts that provide a guarantee of the principal amount of an investor's investment. On a Korean GAAP basis, as of December 31, 2004, the balance of the money trusts for which we guaranteed only the principal was (Won)3,162 billion.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from our general banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. In 2002, 2003 and 2004 we made no payments from our banking accounts to cover shortfalls in our guaranteed return trusts. On a Korean GAAP basis, we derived net trust fees with regard to trust account management services (including those fees related to property trust management services) of (Won)301 billion in 2002, (Won)232 billion in 2003 and (Won)102 billion in 2004.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products, took effect in January 2004. Under that law, a bank is not permitted to offer unspecified money trust products after July 2004 (except under certain limited circumstances) and is required to qualify as an asset management company by such date in order to manage any newly offered unspecified money trust products. See *Principal Regulations Applicable to Banks Trust Business*. Because we did not qualify as an asset management company under the Indirect Investment Asset Management Business Act, since July 2004, we have continued to directly manage only trust products sold before July 2004 and have concentrated on product marketing. Trust products sold after July 2004 are managed by KB Asset Management. We believe that we can leverage our extensive sales network in connection with KB Asset Management's unspecified money trust operations.

### *Property Trust Management Services*

We also offer property trust management services, where we manage non-cash assets in return for a fee. Non-cash assets include mostly securities, but can also include movable property such as aircraft, automobiles and maritime vessels. Under these arrangements, we render escrow or custodial services for the property in question and collect fee income in return.

In 2004, our property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust account product. As of December 31, 2004, the aggregate balance of our property trusts decreased to (Won)12,534 billion, compared to (Won)21,454 billion in 2003.

The property trusts are not consolidated within our U.S. GAAP financial statements.

### *Investment Trust Management*

We offer securities investment trust products to customers and manage the funds invested by them in investment trusts, through our subsidiary, KB Asset Management, which is 80% owned by us and 20% owned by ING Insurance International N.V. As of December 31, 2004, we had (Won)29,670 billion of investment trust assets under management.

*Management of the National Housing Fund*

We manage the operations of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing Fund include providing and managing National Housing Fund loans, issuing National Housing Fund bonds and accepting subscription savings deposits.

In return for managing the operations of the National Housing Fund we receive a monthly fee, calculated based on activity levels for the relevant month. In 2004, we received total fees of (Won)161 billion for managing the National Housing Fund, which accounted for 7.4% of our total fee and commission revenue during 2004, compared to (Won)175 billion in 2003.

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The financial accounting for the National Housing Fund is entirely separate from our financial accounting, and the non-performing loans and loan losses of the National Housing Fund, in general, do not impact our financial condition. Regulations and guidelines for managing the National Housing Fund are issued by the Minister of Construction and Transportation pursuant to the Housing Act.

In November 2002, the Ministry of Construction and Transportation designated two other financial institutions to, together with us, manage the Fund with a view to diversifying its management. The appointment of the two other financial institutions to manage the National Housing Fund is for three years and is subject to renewal. In February 2003, the Ministry of Construction and Transportation changed the basis of calculating fees related to the National Housing Fund and, in April 2004, implemented reductions to fees relating to bonds issued by the National Housing Fund. In November 2003, the Ministry of Construction and Transportation strengthened existing regulations to provide for liability of managers of the National Housing Fund, where they had clear responsibility for non-performing National Housing Fund loans or where losses resulted to the National Housing Fund due to negligent management.

### ***Bancassurance***

The Korean government's liberalization of the bancassurance market in Korea has allowed us to offer third-party insurance products since September 2003. We currently market a wide range of bancassurance products and expect that we will be able to develop an important new source of fee-based revenues by expanding our offering of these products in the future.

In December 2002, we entered into a strategic alliance agreement with ING Bank N.V., ING Insurance International N.V. and ING Life Insurance Company, Korea, Ltd., pursuant to which ING Life Insurance Company, Korea, Ltd. would be the exclusive provider of life insurance products for our bancassurance business so long as ING Groep N.V. and its affiliates maintain a minimum shareholding in us as defined in the strategic alliance agreement. This was in anticipation of the revision by the Korean government of relevant regulations to liberalize the bancassurance market and allow non-insurance distribution channels, such as banks and other financial institutions, to offer banking and insurance products beginning in August 2003. The Korean government, however, subsequently announced that banks and other financial institutions may not enter into an exclusive relationship with a single insurance company for the provision of life insurance products. In August 2003, we amended and restated the strategic alliance agreement to a non-exclusive, commercial relationship-based alliance. See Item 4A. History and Development of the Company History of H&CB, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

Currently, our bancassurance business has alliances with seven life insurance companies and four non-life insurance companies and offers 32 different products through our branch network. These products are composed of 17 types of life insurance policies such as pension insurances and savings insurances, and 15 types of non-life insurance products. In 2004, our commission income from our bancassurance business amounted to (Won)117 billion.

In April 2004, we entered into an agreement with the Korea Deposit Insurance Corporation to purchase the assets and liabilities of Hanil Life Insurance for (Won)2.5 billion, in order to expand our bancassurance business. In connection with our acquisition, which was completed in June 2004, we also established a new wholly-owned insurance subsidiary, KB Life Co., Ltd., to which we contributed the acquired assets and liabilities. Through KB Life, we intend to develop more specialized bancassurance products, tailored to the needs and preferences of specific customer profiles. In January 2005, we entered into a joint venture agreement with ING Groep Insurance International B.V., which acquired a 49% interest in KB Life from us.

**Table of Contents****Other Distribution Channels**

The following table sets forth information, for the periods indicated, on the number of users and transactions and the fee revenue of the other services provided to our retail and corporate customers, which are discussed below:

	For the year ended December 31,		
	2002	2003	2004
<b>Phone banking:</b>			
Number of users (1)	1,696,587	1,577,488	1,573,505
Number of transaction (thousands)	338,616	252,297	285,892
Fee revenue (in millions of Won)	(Won) 11,817	(Won) 14,503	(Won) 18,021
<b>Internet banking:</b>			
Number of users (2)	2,733,802	3,602,146	3,223,671
Number of transactions (thousands)	271,419	388,298	566,192
Fee revenue (in millions of Won)	(Won) 7,010	(Won) 11,743	(Won) 19,296

- (1) Users are defined as persons who had recorded a transaction within the past six months (excluding overlapping and inactive customers).  
(2) Users are defined as persons who had recorded a transaction within the past 12 months (excluding overlapping and inactive customers).

*Phone Banking*

We launched our telephone banking services in November 1991, allowing customers to conduct a number of types of transactions by telephone. We offer a variety of services, including inter-account fund transfers, balance and transaction inquiries, credit card transaction inquiries and customer service inquiries. We also have call centers, which we primarily use to:

advise clients with respect to deposits, loans and credit cards and to provide our customers a way to report any emergencies with respect to their accounts;

allow our customers to conduct transactions with respect to their accounts, such as transfers or payments, opening or closing accounts, processing loans through automated systems, conducting credit card transactions and offering lottery-related services;

conduct telemarketing to our customers or potential customers to advertise products or services through phone, fax or text messaging; and

provide automated banking services, mobile services or other services relating to affinity programs.

*Internet Banking*



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We began to offer a variety of services over the Internet beginning in July 1999. Our goal is to consolidate our position as a market leader in on-line banking. Our Internet banking services currently include:

*Basic Banking Services* these include all of the banking services offered through our telephone banking services, including funds transfers, balance and transaction inquiries, credit card transaction inquiries, pre-set automatic transfers and product inquiries;

*Processing of Loan Applications* we quickly process and approve on-line loan applications;

*Electronic Certification* we offer an electronic certification service, which permits Internet users to authenticate transactions on a confidential basis through digital signatures; and

*Mondex e-Cash* we offer the Korean banking industry's first electronic cash system which facilitates purchases at affiliated merchants through a smart card that allows credit to be transferred electronically through the Internet, telephone, ATM or other digital transfer systems.

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### ***Mobile Banking***

Mobile banking services allow customers to use mobile phones or PDAs (Personal Digital Assistants) to make inter-account transfers and balance and other transaction inquiries. There are currently three mobile phone service providers in Korea, SK Telecom, KT Freetel, and LG Telecom, and we provide our services in association with all three.

### ***Lottery Business***

We have been designated by the government as a lottery issuer and have been permitted to conduct ticket sales, marketing and sales network management in connection with two lotteries, the Lotto 6/45 and the Housing Lottery, since 2002 and 1969, respectively. These lotteries are owned by the Korean government. We receive fees for our sales and marketing activities in respect of these lotteries.

In response to changes in the lottery business environment in recent years, primarily as a result of the implementation of the Lottery and Lottery Fund Act, which became effective in April 2004, we have expanded our marketing and promotional activities, including through the expansion of our ticket sales network. We generated (Won)62 billion of fees from our lottery sales and marketing activities in 2004.

### ***Other Channels***

In May 1989, we began providing cash management services, which included automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information. We have continued to develop our firm banking services and, as of December 31, 2004, we provided cash management services to over 1,400 large corporations and small- and medium-sized enterprises.

### ***Competition***

We compete principally with other nationwide commercial banks in Korea, but we also face competition from a number of additional sources including regional banks, development banks, specialized banks and branches of foreign banks operating in Korea and installment finance corporations for mortgage loan products. We also compete for customer funds with other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations) and life insurance companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

Competition has increased significantly in our traditional core businesses, retail banking, small- and medium-sized enterprise banking and credit card lending, as a result of other commercial banks reducing their exposure to large corporations in light of recent financial difficulties that they experienced, contributing to some extent to the asset quality deterioration in retail and small- and medium-sized loans. As a result, our margins on lending activities may decrease in the future.

In addition, general regulatory reforms in the Korean banking industry, accelerated by Korea's economic difficulties since late 1997 and the Korean government's commitments to the International Monetary Fund, have increased competition among banks and financial institutions in Korea. Among these reforms was the lifting of the regulatory restrictions on mortgage lending and housing deposit taking activities that had prevented the other commercial banks in Korea from competing directly with H&CB in providing mortgage finance products. This means that we now face broad competition in our mortgage lending activities. The increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services.

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In addition, the Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last five years, including the establishment of financial holding companies, which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to eight banks and three financial holding companies as of December 31, 2004. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, as well as Standard Chartered Bank's acquisition of Korea First Bank in April 2005. Merger and acquisition activity in the Korean commercial banking sector may continue, and we intend to review potential acquisition opportunities as they arise. We cannot guarantee that we will not be involved in any future mergers. In addition, some of the banks resulting from these mergers may, by virtue of the increased size, provide significantly greater competition than what exists at present.

For additional information, you should read the section entitled "Item 3D. Risk Factors - Risks relating to competition."

## **Information Technology**

As a result of the merger between the former Kookmin Bank and H&CB, we completed the integration of our IT operations onto a single platform in September 2002 (based on H&CB's platform but incorporating functionalities of the former Kookmin Bank's platform). This system is fully integrated and provides information to all offices and branches.

Prior to our IT integration, H&CB's system was backed up on a real time basis at a third party site, and the former Kookmin Bank system was backed up by H&CB's system on a real time basis from June 2002. In September 2002 after completion of our IT integration, we completed the transfer of the H&CB operations to the main center and the transfer of the former Kookmin Bank operations to the back-up center. In addition, through the implementation of Parallel Sysplex, which is a new information system (also known as a "multi-host system"), we believe we are able to conduct our operations without material interruption in the event of an internal system failure. This system also enables us to process more than 1,000 transactions per second. The integrity of our electronic systems, and their ability to withstand potential catastrophic events (such as natural calamities and internal system failures), is crucial to our continuing operations. We currently test our disaster recovery systems on a quarterly basis, with the branch verification capability being tested twice a year and the main IT center disaster recovery system tested four times a year. For additional information, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk - Operational Risk Management."

We believe that a sophisticated IT system is crucial in supporting our operations management and providing high quality customer service. Accordingly, we plan to upgrade and improve our system by taking the following initiatives:

- streamlining our core banking infrastructure through eliminating redundancies in our IT systems by adopting the "New Technology Based System," which is an advanced IT system designed to enhance our processing speed and be more user-friendly through the adoption of component-based development technology based on Java and J2EE, which is the newest Java platform;

- completing the introduction of a bank-wide integrated customer relationship management system including the development of an online Internet-based customer relationship management system, which are designed to provide us with comprehensive customer information, including transaction history, and thereby allow us to identify potential marketing and cross-marketing opportunities;

- strengthening our security system by periodically consulting with security experts, centralizing control and management of the security system, researching and developing a public key encryption system and improving our firewall and virus prevention system;

and

replacing and upgrading our IT software and equipment, including servers, CPUs, terminals, automated banking machines such as ATMs and cash dispensers and telecommunications devices.

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In 2004, we spent approximately (Won)97.5 billion for our IT systems, including for continued upgrades and improvements to our integrated system and for developing the New Technology Based System. For the next three years, we allocated approximately (Won)150 billion in order to continue to develop the New Technology Based System. As of December 31, 2004, we employed a total of approximately 772 employees in connection with our IT operations.

**Assets and Liabilities**

The tables below set out selected financial highlights regarding our banking operations and individual assets and liabilities. Data as of and for the year ended December 31, 2001 reflect the impact of the merger between the former Kookmin Bank and H&CB, effective November 1, 2001. In addition, data in these tables do not include information with respect to operations that we have classified as discontinued operations as of and for the year ended December 31, 2002 under U.S. GAAP.

**Loan Portfolio**

As of December 31, 2004, our total loan portfolio decreased to (Won)138,124 billion compared to (Won)145,858 billion at December 31, 2003. As of December 31, 2004, approximately 97.3% of our total loans were Won-denominated loans.

**Loan Types**

The following table presents loans by type for the periods indicated. Except where we specify otherwise, all loan amounts stated below are before deduction of allowance for loan losses. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,				
	2000	2001	2002	2003	2004
	(in billion of Won)				
<b>Domestic:</b>					
Corporate					
Commercial and industrial (1)	(Won) 29,795	(Won) 36,113	(Won) 40,072	(Won) 41,096	(Won) 38,427
Construction	2,168	4,141	6,385	6,061	4,459
Lease financing	592	568			
Other corporate	1,216	1,669	1,045	742	771
Retail					
Mortgage and home equity	8,068	37,194	46,195	52,477	57,965
Other consumer	8,151	23,312	28,066	28,727	25,963
Credit cards	8,321	16,751	22,643	15,322	9,421
<b>Total domestic</b>	<b>58,311</b>	<b>119,748</b>	<b>144,406</b>	<b>144,425</b>	<b>137,006</b>

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<b>Foreign:</b>					
Corporate					
Commercial and industrial	1,086	1,146	1,426	1,433	1,118
<b>Total foreign</b>	<b>1,086</b>	<b>1,146</b>	<b>1,426</b>	<b>1,433</b>	<b>1,118</b>
<b>Total gross loans</b>	<b>(Won) 59,397</b>	<b>(Won) 120,894</b>	<b>(Won) 145,832</b>	<b>(Won) 145,858</b>	<b>(Won) 138,124</b>

- (1) Commercial and industrial loans include (Won)1,832 billion, (Won)334 billion, (Won)165 billion, (Won)3 billion and (Won)335 billion of loans to Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 2000, 2001, 2002, 2003 and 2004, respectively.

*Loan Concentrations*

We limit our exposure to any single borrower to 10% of our total Tier I and Tier II capital, depending on their rating under our credit scoring system. We also limit our exposure to any single *chaebol* to 20.0% of our total Tier I and Tier II capital (less any capital deductions).

**Table of Contents***20 Largest Exposures by Borrower*

As of December 31, 2004, our 20 largest exposures totaled (Won)20,539 billion and accounted for 12.2% of our total exposures. The following table sets forth, as of December 31, 2004, our total exposures to these top 20 borrowers under Korean GAAP:

Company	Loans			Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
	Won currency	Foreign currency	Equity securities				
	(in billions of Won)						
The Bank of Korea	(Won)	(Won)	(Won)	(Won) 12,897	(Won)	(Won) 12,897	(Won)
Korea Deposit Insurance Corporation				2,322		2,322	
The Korea Development Bank				706		706	
Woori Bank		263		354		617	
Korean Land Development Corporation			6	506		512	
LG Card Co., Ltd.	238		178			416	238
Samsung Electronics Co., Ltd.	275	101	32			408	
Hyundai Heavy Industries Co., Ltd.			2		392	394	
KT Corporation	78	8	7	181	2	276	
INI Steel	107	9			132	248	
National Agricultural Cooperative Federation		157		54		211	
Samsung Corporation	197		4			201	
Hyundai Motors	2	6	8	75	109	200	
Kyongbu Integrated Distribution Center	180					180	
Hanjin Shipping Co., Ltd.	51	119	5			175	
Industrial Bank of Korea		5	2	167		174	
Daegu Metropolitan Subway Corporation	157					157	
Samsung Card Co., Ltd	150					150	
Korea Exchange Bank		56		93		149	
Korea National Housing Corporation	55			91		146	
<b>Total</b>	<b>(Won) 1,490</b>	<b>(Won) 724</b>	<b>(Won) 244</b>	<b>(Won) 17,446</b>	<b>(Won) 635</b>	<b>(Won) 20,539</b>	<b>(Won) 238</b>

As of December 31, 2004, eight of these top 20 borrowers were companies belonging to the 25 largest *chaebols* in Korea.

As of December 31, 2004, we had total exposures of (Won)416 billion to LG Card in the form of loans and equity securities issued by LG Card. Commencing in late 2003, LG Card, one of Korea's largest credit card companies, experienced significant liquidity and asset quality problems. In 2003 and 2004, the principal creditor banks of LG Card, led by the Korea Development Bank, agreed to a series of rescue measures pursuant to which the maturities of outstanding LG Card debt were extended, new funding was provided by the creditor banks to LG Card (in the form of loans and purchases of debt securities) and LG Card debt was exchanged by the creditor banks into equity of LG Card. In conjunction with these



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rescue measures, LG Group made additional capital contributions of approximately (Won)1,175 billion into LG Card and agreed to several capital write-downs which reduced its ownership interest in LG Card to 10.6%. In addition, the creditor banks of LG Card formed a normalization steering committee to jointly oversee LG Card's management and business operations.

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In December 2004, the creditor banks and LG Group agreed to another (Won)1 trillion rescue plan to prevent LG Card from becoming delisted on the Korea Stock Exchange (currently the Stock Market Division of the Korea Exchange) of the Korea Exchange. In connection with the rescue plan, the creditor banks agreed to:

make an additional capital contribution of (Won)272 billion for new shares constituting 3.5% of the outstanding share capital of LG Card, with our portion of such amount being (Won)43 billion;

exchange an additional (Won)228 billion of LG Card debt for shares constituting 3.0% of the outstanding share capital of LG Card, with our portion of such amount being approximately (Won)3 billion;

provide an additional up to (Won)1 trillion credit line to LG Card when necessary; and

reduce the interest rate on LG Card's existing debt by two percentage points.

In connection with the rescue plan, the LG Group agreed to exchange (Won)500 billion of LG Card debt into equity of LG Card. In January 2005, LG Card also issued (Won)1 trillion in new shares as part of the rescue plan to raise capital. In connection with this new issuance, the creditor banks and affiliates of LG Group subscribed to (Won)500 billion of new shares, with our portion of such amount being approximately (Won)76 billion. In addition, the creditor banks agreed to sell 5% of LG Card's outstanding shares during each quarter of 2005 to meet stock distribution requirements of the Stock Market Division of the Korea Exchange. LG Card also agreed to a 5.5:1 stock consolidation plan, which was implemented in March 2005.

See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, recent and any future financial difficulties of *chaebols* may have an adverse impact on us.

*Exposure to Chaebols*

As of December 31, 2004, 2.92% of our total exposure was to the 25 largest *chaebols* in Korea. The following table shows, as of December 31, 2004, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans			Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
	Won currency	Foreign currency	Equity securities				
	(in billions of Won)						
Samsung (1)	(Won) 1,095	(Won) 139	(Won) 51	(Won) 54	(Won) 133	(Won) 1,472	(Won)
Hyundai Motors (2)	172	136	10	133	306	757	
Hyundai Heavy Industries (3).		4	6		397	407	
KT Corporation (4)	179	7	12	181	3	382	
Hanjin Shipping (5).	148	170	16		4	338	
LG (6)	96	51	24	63	22	256	

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SK Corporation (7)	28	14	15	29	77	163	
Lotte (8)	129	18			1	148	
Hanwha (9)	121	3	10		8	142	
Dongbu (10)	115		15	6		136	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	(Won) 2,083	(Won) 542	(Won) 159	(Won) 466	(Won) 951	(Won) 4,201	(Won)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

- (1) Includes Samsung Electronics Co., Ltd., Samsung Corporation and Cheil Communications Inc.  
(2) Includes Hyundai Motor Company Co., Ltd., Hyundai Mobis Corp. and INI Steel Company.  
(3) Hyundai Heavy Industries Co., Ltd. and Hyundai Mipo Dockyard Co., Ltd.  
(4) KT Corporation, KT Powertel. Co., Ltd. and KT Freetel Co., Ltd.  
(5) Hanjin Shipping Co., Ltd., Korean Air Lines Co., Ltd. and Hanjin Heavy Industries & Construction Co., Ltd.  
(6) LG Electronics Inc., LG Philips LCD Co., Ltd. and LG Petrochemical Co., Ltd.

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- (7) SK Corporation, SK Telecom Co., Ltd. and SK Networks Co., Ltd.  
 (8) Lotte Shopping Co., Ltd. and Lotte Chilsung Beverage Co., Ltd.  
 (9) Hanwha Chemical Corporation, Korea Life Insurance Co., Ltd. and Hanwha Living & Creative Corporation.  
 (10) Dongbu Steel Co., Ltd., Dongbunam Semiconductor, Inc. and Dongbu Corporation.

The following table shows information relating to our exposures to former Daewoo Group companies as of December 31, 2004:

Company	Loans					Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
	Won currency	Foreign currency	Equity securities	Debt securities				
(in billions of Won)								
Daewoo Shipbuilding & Marine Engineering Co. Ltd.	(Won) 70	(Won) 5	(Won) 3	(Won)	(Won) 55	(Won) 133	(Won)	
Ssangyong Motor Company	44	9	27		18	98	53	
Daewoo Engineering & Construction Co., Ltd.	2		27	4		33		
Daewoo International Corp.		4		1	18	23		
Daewoo Electronics Corp.	16		7			23	16	
Daewoo Heavy Industries & Machinery Ltd.	4	3			12	19		
Daewoo Electronics Co., Ltd					6	6		
Daewoo Telecom				2		2		
<b>Total</b>	<b>(Won) 136</b>	<b>(Won) 21</b>	<b>(Won) 64</b>	<b>(Won) 7</b>	<b>(Won) 109</b>	<b>(Won) 337</b>	<b>(Won) 69</b>	

In August 1999, the principal creditor banks of the former Daewoo Group commenced formal workout procedures with respect to 12 member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Currently, these companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2004, our exposures to the companies of the former Daewoo Group totaled approximately (Won)337 billion, of which (Won)69 billion was classified as impaired loans. This exposure consisted of (Won)157 billion in loans outstanding, (Won)64 billion in equity securities, (Won)7 billion in corporate bonds and (Won)109 billion in guarantees and acceptances. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, recent and any future financial difficulties of *chaebols* may have an adverse impact on us.

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The following table shows information relating to our total exposure to current and certain former Hyundai Group companies as of December 31, 2004. While certain of these companies were disaffiliated from the Hyundai Group in September 2000 following approval from the Korean Fair Trade Commission, for certain internal purposes, we continued to monitor these companies as a unified Hyundai Group as of December 31, 2004.

Company	Loans					Total exposures	Amounts classified as impaired loans
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances		
(in billions of Won)							
Hyundai Heavy Industries Co. Ltd.	(Won) 107	(Won) 9	(Won) 2	(Won) 2	(Won) 392	(Won) 394	(Won) 29
INI Steel	107	9			132	248	
Hyundai Motors	2	6	8	75	109	200	
Kia Motors Corporation	3	101		16	25	145	
Hyundai Merchant Marine		102				102	
Hyundai Engineering & Construction Co., Ltd.	29		36	15		80	29
Hyundai Capital	40			5		45	
BNG Steel		5			32	37	
Rotem		3		31	2	36	
Others (1)	8	16	2	6	12	44	
<b>Total</b>	<b>(Won) 189</b>	<b>(Won) 242</b>	<b>(Won) 48</b>	<b>(Won) 148</b>	<b>(Won) 704</b>	<b>(Won) 1,331</b>	<b>(Won) 29</b>

(1) Others include Hyundai Hysco, Hyundai Mobis, KEFICO, Dymos Inc., Kia Tigers, Hyundai Autonet, Hyundai Samho Heavy Industries and Hyundai Logistics.

In recent years, a number of former Hyundai Group companies have experienced financial difficulties as a result of, among other things, their liquidity positions. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, recent and any future financial difficulties of *chaebols* may have an adverse impact on us. In 2002, we charged off or sold all of our remaining exposures to Hynix Semiconductor, and accordingly had no exposure to that company as of December 31, 2004.

See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, recent and any future financial difficulties of *chaebols* may have an adverse impact on us.

*Loan Concentration by Industry*

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2004:

**Industry**

	<b>Aggregate loan balance</b>	<b>Percentage of total loan balance</b>
	<b>(in billions of Won)</b>	
Manufacturing	(Won) 14,408	32.2%
Retail and wholesale	8,147	18.2
Hotel, leisure or transportation	4,066	9.1
Real estate	7,258	16.2
Construction	4,478	10.0
Finance and insurance	1,714	3.8
Other	4,704	10.5
<b>Total</b>	<b>(Won) 44,775</b>	<b>100.0%</b>

**Table of Contents***Loan Concentration by Size of Loans*

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2004:

	<b>Aggregate loan balance</b>	<b>Percentage of total loan balance</b>
	<b>(in billions of Won)</b>	
<b>Commercial and industrial loans</b>		
Up to (Won)10 million	(Won) 168	0.12%
Over (Won)10 million to (Won)50 million	3,110	2.25
Over (Won)50 million to (Won)100 million	3,177	2.30
Over (Won)100 million to (Won)500 million	12,983	9.40
Over (Won)500 million to (Won)1 billion	5,435	3.93
Over (Won)1 billion to (Won)5 billion	7,119	5.16
Over (Won)5 billion to (Won)10 billion	1,483	1.07
Over (Won)10 billion to (Won)50 billion	3,245	2.35
Over (Won)50 billion to (Won)100 billion	834	0.60
Over (Won)100 billion	873	0.63
Sub-total	38,427	27.81
<b>Construction loans</b>		
Up to (Won)10 million	9	0.01
Over (Won)10 million to (Won)50 million	180	0.13
Over (Won)50 million to (Won)100 million	246	0.18
Over (Won)100 million to (Won)500 million	1,081	0.78
Over (Won)500 million to (Won)1 billion	503	0.36
Over (Won)1 billion to (Won)5 billion	1,016	0.74
Over (Won)5 billion to (Won)10 billion	385	0.28
Over (Won)10 billion to (Won)50 billion	985	0.71
Over (Won)50 billion to (Won)100 billion	54	0.04
Over (Won)100 billion		
Sub-total	4,459	3.23
<b>Other corporate loans</b>		
Up to (Won)10 million	8	0.01
Over (Won)10 million to (Won)50 million	98	0.07
Over (Won)50 million to (Won)100 million	105	0.08
Over (Won)100 million to (Won)500 million	265	0.19
Over (Won)500 million to (Won)1 billion	95	0.07
Over (Won)1 billion to (Won)5 billion	120	0.09
Over (Won)5 billion to (Won)10 billion	8	0.01
Over (Won)10 billion to (Won)50 billion	72	0.05
Sub-total	771	0.57
<b>Credit cards</b>		
Up to (Won)10 million	7,882	5.71
Over (Won)10 million to (Won)50 million	1,484	1.07

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Over (Won)50 million to (Won)100 million	13	0.01
Over (Won)100 million to (Won)500 million	17	0.01
Over (Won)500 million to (Won)1 billion	5	0.00
Over (Won)1 billion to (Won)5 billion	11	0.01
Over (Won)5 billion to (Won)10 billion	9	0.01
Over (Won)10 billion to (Won)50 billion		
	<hr/>	<hr/>
Sub-total	9,421	6.82
	<hr/>	<hr/>



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	<b>Aggregate loan balance</b>	<b>Percentage of total loan balance</b>
	<b>(in billions of Won)</b>	
<b>Mortgage and home equity loans</b>		
Up to (Won)10 million	2,378	1.72
Over (Won)10 million to (Won)50 million	20,723	15.00
Over (Won)50 million to (Won)100 million	21,356	15.46
Over (Won)100 million to (Won)500 million	13,137	9.51
Over (Won)500 million to (Won)1 billion	357	0.26
Over (Won)1 billion to (Won)5 billion	14	0.01
Over (Won)5 billion to (Won)10 billion		
Over (Won)10 billion to (Won)50 billion		
Sub-total	57,965	41.96
<b>Other consumer loans</b>		
Up to (Won)10 million	8,945	6.48
Over (Won)10 million to (Won)50 million	10,148	7.35
Over (Won)50 million to (Won)100 million	2,833	2.05
Over (Won)100 million to (Won)500 million	3,293	2.38
Over (Won)500 million to (Won)1 billion	578	0.42
Over (Won)1 billion to (Won)5 billion	166	0.12
Over (Won)5 billion to (Won)10 billion		
Sub-total	25,963	18.80
<b>Foreign commercial and industrial loans</b>		
Up to (Won)10 million		
Over (Won)10 million to (Won)50 million	5	0.00
Over (Won)50 million to (Won)100 million	9	0.01
Over (Won)100 million to (Won)500 million	81	0.06
Over (Won)500 million to (Won)1 billion	68	0.05
Over (Won)1 billion to (Won)5 billion	455	0.33
Over (Won)5 billion to (Won)10 billion	200	0.14
Over (Won)10 billion to (Won)50 billion	300	0.22
Over (Won)50 billion to (Won)100 billion		
Sub-total	1,118	0.81
Total	(Won) 138,124	100.00%

*Maturity Analysis*

We typically roll over our working capital loans and consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three years and consumer loans may be extended for another term of up to 12 months for an aggregate term of ten years.



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The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2004. The amounts disclosed are before deduction of allowance for loan losses:

	<u>1 year or less</u>	<u>Over 1 year but not more than 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
(in billions of Won)				
<b>Domestic</b>				
Corporate				
Commercial and industrial	(Won) 30,595	(Won) 5,484	(Won) 2,348	(Won) 38,427
Construction	4,075	335	49	4,459
Other corporate	765	6	0	771
<b>Total-corporate</b>	<b>35,435</b>	<b>5,825</b>	<b>2,397</b>	<b>43,657</b>
Retail				
Mortgage and home equity	22,262	26,208	9,495	57,965
Other consumer	17,913	6,957	1,093	25,963
<b>Total retail</b>	<b>40,175</b>	<b>33,165</b>	<b>10,588</b>	<b>83,928</b>
Credit cards	9,049	371	1	9,421
<b>Total domestic</b>	<b>84,659</b>	<b>39,361</b>	<b>12,986</b>	<b>137,006</b>
<b>Foreign</b>				
Corporate				
Commercial and industrial	396	433	289	1,118
<b>Total foreign</b>	<b>396</b>	<b>433</b>	<b>289</b>	<b>1,118</b>
<b>Total gross loans</b>	<b>(Won) 85,055</b>	<b>(Won) 39,794</b>	<b>(Won) 13,275</b>	<b>(Won) 138,124</b>

*Interest Rate Sensitivity*

The following table shows, as of December 31, 2004, the total amount of loans, which have fixed interest rates and variable or adjustable interest rates:

	As of <b>December 31, 2004</b>
	(in billions of Won)
Fixed rate (1)	(Won) 15,544
Variable or adjustable rates (2)	122,580

Total gross loans	(Won) 138,124
-------------------	---------------

- (1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.
- (2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Non-Trading Activities.

*Credit Exposures to Companies in Workout, Corporate Reorganization and Composition*

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower's credit terms. Between 1998 and 2001, we joined with other financial institutions in Korea in establishing and implementing voluntary workout procedures. On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and

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will expire on December 31, 2005. The Corporate Restructuring Promotion Act replaced the previously established workout procedures. The Act applies to more than 420 financial institutions in Korea, which include commercial banks, insurance companies, investment trust companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower must participate in a creditors committee to prepare a restructuring plan. The approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower (as well as 75% of the total outstanding secured debt, if the restructuring plan includes debt restructuring) finalizes the borrower's restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan is also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagrees with the final restructuring plan approved by the creditors committee has the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting creditor financial institution fail to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts will be set up to resolve the matter. These procedures may require us to participate in a plan that we do not agree with or may require us to sell our claims at prices that we do not believe are adequate.

Korean law also provides for corporate reorganization proceedings and composition proceedings, both of which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. That restructuring plan is subject to court approval. Corporate reorganization and composition proceedings differ in two principal ways. First, in a corporate reorganization, the court appoints a receiver who has the power, subject to court supervision, to conduct all of the company's business and manage all of the company's property and assets. In composition, however, the company's existing management continues to manage the company and negotiate on its behalf with its major creditors to solve what will generally be interpreted as a temporary insolvency problem. Second, in corporate reorganization, any creditor whose claim against the company arose before the corporate reorganization proceeding began, whether secured or unsecured, may only enforce those claims in the manner and to the extent provided for in the reorganization plan. If a creditor intends to participate in a reorganization plan, it must file its claim with the court within a period fixed by the court. In composition, however, secured creditors are not subject to the composition plan, and are entitled to foreclose on their collateral outside the scope of the composition proceeding. To the extent that a secured creditor has any uncollected deficiency after it forecloses on its collateral, it may then participate in the composition proceeding as an unsecured creditor with respect to that balance.

Currently, all of our workout loans are managed by our corporate restructuring team. Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout or restructuring, corporate reorganization or composition, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

The Law Concerning Credit Restoration and Bankruptcy was enacted on March 31, 2005 and will become effective on March 31, 2006. Once the Law Concerning Credit Restoration and Bankruptcy becomes effective, each of the Company Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act, currently in effect, will be abolished. The Law Concerning Credit Restoration and Bankruptcy contains notable changes to existing corporate reorganization and composition procedures, including nullification of the composition procedures currently in place and the modification of reorganization procedures, whereby existing management would continue to oversee a company's reorganization process (except that the court would be empowered to appoint a third-party receiver under certain circumstances). Notwithstanding this legislative change, any composition or company reorganization proceedings that are pending at the time the new law becomes effective will continue to be governed under the Composition Act and the Company Reorganization Act, respectively.

A portion of our loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2004, (Won)1,095 billion or 0.7% of our total loans and debt securities were in

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workout or restructuring. This included (Won)685 billion of loans to and debt securities of large corporate borrowers and (Won)410 billion of loans to and debt securities of small- and medium-sized enterprises.

The following table shows, as of December 31, 2004, our ten largest exposures that were in workout or restructuring, including composition or court receivership:

Company	Loans		Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
	Won currency	Foreign currency					
(in billions of Won)							
LG Card Co., Ltd.	(Won) 238	(Won)	(Won) 178	(Won)	(Won)	(Won) 416	(Won) 238
Ssangyong Motor Company	44	9	27		18	98	53
Hyundai Engineering & Construction Co., Ltd.	29		36	15		80	29
Ssangyong Cement Industrial	49		3	3		55	49
Saehan Industries Inc.	1	9	6	7	2	25	10
Daewoo Electronics Corp.	16		7			23	16
Newcore Co., Ltd.	22					22	22
Herald Media	20					20	20
Shinsewha department store	19					19	19
Mercury Corporation	10		1		6	17	10
<b>Total</b>	<b>(Won) 448</b>	<b>(Won) 18</b>	<b>(Won) 258</b>	<b>(Won) 25</b>	<b>(Won) 26</b>	<b>(Won) 775</b>	<b>(Won) 466</b>

*Provisioning Policy*

We base our provisioning on the following loan classifications that classify corporate and consumer loans, with the exception of credit card receivables which are classified based on the number of days past due, as required by the Financial Supervisory Commission:

<u>Loan classification</u>	<u>Loan characteristics</u>
Normal	Loans made to customers whose financial position, future cash flows and nature of business are deemed financially sound. No problems in recoverability are expected.
Precautionary	Loans made to customers whose financial position, future cash flows and nature of business show potential weakness, although there is no immediate risk of non-repayment.
Substandard	Loans to customers whose adverse financial position, future cash flows and nature of business have a direct effect on the repayment of the loan.
Doubtful	Loans to customers whose financial position, future cash flows and nature of business are so weak that significant risk exists in the recoverability of the loan to the extent the outstanding amount exceeds any collateral pledged.
Estimated loss	Loans where write-off is unavoidable.

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We consider the following corporate loans to be impaired loans:

loans classified as substandard or below according to the Financial Supervisory Commission's asset classification guidelines;

loans that are over 30 days past due;

loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and

loans, which are troubled debt restructurings as defined under U.S. GAAP.

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We establish loan loss allowances for corporate loans based on whether a particular loan is identified as impaired or not. Loan loss allowances are established for impaired loans, in general, by discounting the estimated future cash flow (both principal and interest) we expect to receive on such loans. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, the fair value of the collateral or the guarantee payment is considered in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, the amount of impairment is determined by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that are considered impaired, the fair value is determined by reference to observable market prices, when available. We also establish allowances for losses for corporate loans that have not been individually identified as impaired. These allowances are based on historical migration and loss information.

The following table sets out, at the dates indicated, the percentage of our loan loss allowances that may be allocated to each impaired corporate loan based on its loan classification:

	As of December 31,				
	2000	2001	2002	2003	2004
	(percentages)				
Normal	3.4%	3.4%	3.2%	3.7%	3.8%
Precautionary	6.2	14.2	12.7	19.5	9.7
Substandard	26.6	29.4	27.8	23.5	21.9
Doubtful	75.3	78.6	69.1	69.7	77.7
Estimated loss	86.7	93.5	91.8	85.8	89.9

For consumer loans, we establish loan loss allowances based on historical performance, previous loan loss history and charge-off information. Additional factors that management considers when establishing reserves for homogeneous pools of consumer loans include, but are not limited to, economic events, delinquencies and changes in underwriting and credit monitoring policies.

The actual amount of incurred credit losses may vary from loss estimates due to changing economic conditions or changes in industry or geographic concentrations. We have procedures in place to monitor differences between estimated and actual incurred credit losses, which include detailed periodic assessments by senior management of both individual loans and credit portfolios and the use of models to estimate incurred credit losses in those portfolios.

Management regularly evaluates the adequacy of the overall allowance for credit losses and we believe that the allowance for credit losses reflects management's best estimate of probable credit losses as of each balance sheet date.

*Loan Aging Schedule*

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated:

As of December 31, % % % %



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	<u>Normal amount</u>		<u>Amount past due 1-3 months</u>		<u>Amount past due 3-6 months</u>		<u>Amount past due more than 6 months</u>		<u>Total amount</u>
(in billions of Won, except percentages)									
2002	(Won) 138,527	95.0%	(Won) 3,392	2.3%	(Won) 1,862	1.3%	(Won) 2,051	1.4%	(Won) 145,832
2003	139,317	95.5	2,441	1.7	1,527	1.0	2,573	1.8	145,858
2004	133,743	96.8	1,207	0.9	701	0.5	2,473	1.8	138,124

*Non-Accrual Loans and Past Due Accruing Loans*

We generally place loans on non-accrual status when payments of interest and/or principal become past due by one day. We no longer recognize interest on these loans from the date the loan is placed on non-accrual status.

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We reclassify loans as accruing when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. We generally do not recognize interest income on non-accrual loans unless collected.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2004, we would have recorded gross interest income of (Won)763 billion compared to (Won)916 billion for the year ended December 31, 2003 and (Won)1,033 billion for the year ended December 31, 2002 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2002, 2003 and 2004 was (Won)532 billion, (Won)447 billion and (Won)258 billion, respectively.

The category *accruing but past due one day* includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, Korea Deposit Insurance Corporation or certain financial institutions.

The following table shows, at the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans which were past due one day or more:

	As of December 31,				
	2000	2001	2002	2003	2004
	(in billions of Won)				
<b>Loans accounted for on a non-accrual basis</b>					
Corporate	(Won) 2,414	(Won) 3,976	(Won) 2,578	(Won) 2,883	(Won) 2,975
Consumer	1,734	4,691	9,756	9,298	6,590
<b>Sub-total</b>	<b>4,148</b>	<b>8,667</b>	<b>12,334</b>	<b>12,181</b>	<b>9,565</b>
<b>Accruing loans which are contractually past due one day or more as to principal or interest (1)</b>					
Corporate	68	106	268	167	91
Consumer		1,471	2,689	2,481	1,020
<b>Sub-total</b>	<b>68</b>	<b>1,577</b>	<b>2,957</b>	<b>2,648</b>	<b>1,111</b>
<b>Total</b>	<b>(Won) 4,216</b>	<b>(Won) 10,244</b>	<b>(Won) 15,291</b>	<b>(Won) 14,829</b>	<b>(Won) 10,676</b>

(1) Includes accruing loans which are contractually past due 90 days or more in the amount of (Won)27 billion, (Won)82 billion, (Won)39 billion and (Won)11 billion of corporate loans as of December 31, 2001, 2002, 2003 and 2004, respectively.

*Troubled Debt Restructurings*

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The following table presents, at the dates indicated, our loans which are troubled debt restructurings as defined under U.S. GAAP. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,				
	2000	2001	2002	2003	2004
	(in billions of Won)				
Loans, which are classified as troubled debt restructurings	(Won) 2,691	(Won) 2,206	(Won) 1,662	(Won) 1,338	(Won) 1,050

For 2004, interest income that would have been recorded under the original contract terms of restructured loans amounted to (Won)131 billion, out of which (Won)110 billion was reflected as interest income during 2004.

**Table of Contents***Potential Problem Loans*

As of December 31, 2004, we had (Won)1,560 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These amounts were classified as impaired and included as such in our calculation of loan loss allowance under U.S. GAAP.

*Other Problematic Interest Earning Assets*

We have certain other interest earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2002, we had debt securities with an amortized cost of (Won)79 billion and a market value of (Won)93 billion on which interest was past due. As of December 31, 2003 and 2004, we did not have any debt securities on which interest was past due.

*Non-Performing Loans*

Non-performing loans are defined as loans greater than 90 days past due. These loans are generally classified as substandard or below. For further information on the classification of non-performing loans under Korean regulatory requirements, see Provisioning Policy above.

The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio:

	<b>As of December 31,</b>				
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(in billions of Won, except percentages)</b>				
Total non-performing loans	(Won) 1,762	(Won) 3,376	(Won) 3,912	(Won) 4,116	(Won) 3,175
As a percentage of total loans	3.0%	2.8%	2.7%	2.8%	2.3%

The above table does not reflect the amount of loans classified as substandard or below that we or any of our predecessor operations sold to Korea Asset Management Corporation in connection with a government program to assist the Korean banking industry and other parties.

We have also issued securities backed by non-performing loans and collateralized bond obligations. Some of these transactions involved transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings.



**Table of Contents***Analysis of Non-Performing Loans*

The following table sets forth, as of the dates indicated, our total non-performing loans by type of borrower:

	As of December 31,									
	2000		2001		2002		2003		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
<b>Domestic</b>										
Corporate										
Commercial and industrial	(Won) 1,160	65.8%	(Won) 1,487	44.0%	(Won) 1,284	32.8%	(Won) 1,376	33.4%	(Won) 1,548	48.76%
Construction	142	8.0	402	11.9	403	10.3	264	6.4	250	7.87
Lease financing	116	6.6	20	0.6						
Other corporate	17	1.0	89	2.6	23	0.6	13	0.4	11	0.36
<b>Total corporate</b>	<b>1,435</b>	<b>81.4</b>	<b>1,998</b>	<b>59.1</b>	<b>1,710</b>	<b>43.7</b>	<b>1,653</b>	<b>40.2</b>	<b>1,809</b>	<b>56.99</b>
Retail										
Mortgage and home equity	86	4.9	614	18.2	699	17.9	1,150	27.9	1,088	34.27
Other consumer	80	4.5	432	12.8	577	14.8	463	11.4	241	7.59
<b>Total retail</b>	<b>166</b>	<b>9.4</b>	<b>1,046</b>	<b>31.0</b>	<b>1,276</b>	<b>32.7</b>	<b>1,613</b>	<b>39.3</b>	<b>1,329</b>	<b>41.86</b>
Credit cards	98	5.6	218	6.5	905	23.1	723	17.4	32	1.01
<b>Total domestic</b>	<b>1,699</b>	<b>96.4</b>	<b>3,262</b>	<b>96.6</b>	<b>3,891</b>	<b>99.5</b>	<b>3,989</b>	<b>96.9</b>	<b>3,170</b>	<b>99.86</b>
<b>Foreign</b>										
Corporate										
Commercial and industrial	63	3.6	114	3.4	21	0.5	127	3.1	5	0.14
<b>Total foreign</b>	<b>63</b>	<b>3.6</b>	<b>114</b>	<b>3.4</b>	<b>21</b>	<b>0.5</b>	<b>127</b>	<b>3.1</b>	<b>5</b>	<b>0.14</b>
<b>Total non-performing loans</b>	<b>(Won) 1,762</b>	<b>100.0%</b>	<b>(Won) 3,376</b>	<b>100.0%</b>	<b>(Won) 3,912</b>	<b>100.0%</b>	<b>(Won) 4,116</b>	<b>100.0%</b>	<b>(Won) 3,175</b>	<b>100.0%</b>

**Table of Contents***Top 20 Non-Performing Loans*

As of December 31, 2004, our 20 largest non-performing loans accounted for 8.15% of our total non-performing loan portfolio. The following table shows, as of December 31, 2004, certain information regarding our 20 largest non-performing loans:

	<u>Industry</u>	<u>Gross principal outstanding</u>	<u>Allowance for loan losses</u>
(in billions of Won)			
Borrower A	Manufacturing	(Won) 53	(Won) 53
Borrower B	Finance and insurance	32	27
Borrower C	Construction	18	9
Borrower D	Other	17	17
Borrower E	Retail and wholesale	15	11
Borrower F	Other	13	5
Borrower G	Manufacturing	13	5
Borrower H	Retail and wholesale	10	10
Borrower I	Construction	10	10
Borrower J	Manufacturing	9	9
Borrower K	Manufacturing	9	2
Borrower L	Hotel	8	2
Borrower M	Other	7	
Borrower N	Construction	7	1
Borrower O	Construction	6	7
Borrower P	Construction	7	3
Borrower Q	Retail and wholesale	7	1
Borrower R	Other	6	
Borrower S	Other	6	
Borrower T	Manufacturing	6	5
<b>Total</b>		<u>(Won) 259</u>	<u>(Won) 177</u>

Most of our loans to companies in workout or restructuring, including LG Card, were not classified as non-performing as of December 31, 2004 because such loans had been rescheduled and payments on such rescheduled loans were not past due by more than 90 days.

*Non-Performing Loan Strategy*

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating systems, we believe that we have reduced our risks relating to future non-performing loans. Our credit rating systems are designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Review and Monitoring.

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Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower's assets, send a notice either demanding payment or stating that we will take legal action and prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;



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identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. While the overall process is the responsibility of the Credit Management Group, actual recovery efforts on non-performing loans are handled by one of our regional credit management centers, the Workout Team or one of our regional non-performing loan management teams.

In addition, we use the services of our loan collection subsidiary, KB Credit Information Co., Ltd. (formerly known as Kookeun Credit Information Co., Ltd.), of which we and KB Investment Co., Ltd., one of our subsidiaries, own 93.7% and 6.0% of the outstanding share capital, respectively. KB Credit Information Co., Ltd. receives payments from recoveries made on charged-off loans and loans that are overdue for over six months (three months in the case of credit card loans). KB Credit Information Co., Ltd. has over 1,000 employees, including loan recovery experts, legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. The amount recovered was (Won)150 billion in 2002, (Won)231 billion in 2003 and (Won)145 billion in 2004.

Methods for resolving non-performing loans include the following:

(i) For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:

non-performing loans are transferred from the operating branch or call center to our regional non-performing loan management centers;

a demand note is dispatched by mail if payment is generally two months past due;

calls and visits are made by our regional non-performing loan management staff to customers encouraging them to make payments;

borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks database of non-performing loans;

preparations are made to use judicial means, including foreclosure and auction of the collateral; and

credit card loans are transferred to KB Credit Information Co., Ltd. for collection.

(ii) For loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:

for mortgage loans other than individual housing loans, foreclosure and auction proceedings are commenced;

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for unsecured loans other than credit card loans, the loans are transferred to KB Credit Information Co., Ltd. for collection; and

borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks database of non-performing loans.

(iii) For loans in arrears for over one year:

for individual housing loans, foreclosure and auction proceeding are commenced;

in the case of unsecured loans, the loans are treated as loan losses; and

charged off loans are given to KB Credit Information Co., Ltd. for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

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In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to our Credit Management Team, to one of our regional credit management centers or to KB Credit Information Co., Ltd.

In addition to making efforts to collect on these non-performing loans, we also undertake measures to reduce the level of our non-performing loans, which include:

selling our non-performing loans to third parties including the Korea Asset Management Corporation; and

entering into asset securitization transactions with respect to our non-performing loans.

We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized under U.S. GAAP as sale transactions.

*Allocation of Allowance for Loan Losses*

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type. The ratio represents the percentage of loans in each category to total loans.

As of December 31,										
	2000		2001		2002		2003		2004	
	(in billions of Won, except percentages)									
<b>Domestic</b>										
Corporate										
Commercial and industrial	(Won) 1,474	50.2%	(Won) 1,830	29.9%	(Won) 1,525	27.5%	(Won) 1,644	28.1%	(Won) 1,912	27.8%
Construction	174	3.7	312	3.4	423	4.4	332	4.2	376	3.2
Lease financing	97	1.0	122	0.5						
Other corporate	108	2.0	169	1.3	34	0.7	28	0.5	25	0.6
<b>Total corporate</b>	<b>1,853</b>	<b>56.9</b>	<b>2,433</b>	<b>35.1</b>	<b>1,982</b>	<b>32.6</b>	<b>2,004</b>	<b>32.8</b>	<b>2,313</b>	<b>31.6</b>
Retail										
Mortgage and home equity	86	13.6	93	30.8	63	31.7	68	36.0	246	42.0
Other consumer	146	13.7	236	19.3	483	19.2	1,102	19.7	1,168	18.8
<b>Total retail</b>	<b>232</b>	<b>27.3</b>	<b>329</b>	<b>50.1</b>	<b>546</b>	<b>50.9</b>	<b>1,170</b>	<b>55.7</b>	<b>1,414</b>	<b>60.8</b>
Credit cards	115	14.0	614	13.9	2,597	15.5	2,537	10.5	696	6.8

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<b>Foreign (1)</b>	194	1.8	132	0.9	70	1.0	61	1.0	38	0.8
<b>Total allowance for loan losses</b>	(Won) 2,394	100.0%	(Won) 3,508	100.0%	(Won) 5,195	100.0%	(Won) 5,772	100.0%	(Won) 4,461	100.0%

(1) Consists of loans to corporations.

Our total allowance for loan losses was (Won)5,195 billion as of December 31, 2002. During 2003, the allowance for loan losses increased by (Won)577 billion, or 11.1%, to (Won)5,772 billion as of December 31, 2003. During 2004, the allowance for loans losses decreased by (Won)1,311 billion, or 22.7%, to (Won)4,461 billion as of December 31, 2004. As of December 31, 2002, 2003 and 2004, 39.5%, 35.8% and 52.7% of our total allowance for loan losses, respectively, were in respect of our corporate loan portfolio (including all foreign loans), which reflect our assessment of the financial difficulties experienced by our corporate borrowers (including small- and medium-sized enterprises) and, in 2002 and 2003, increasing delinquencies in our credit card and retail loan portfolios.

**Table of Contents***Analysis of Allowance for Loan Losses*

The following table analyzes our loan loss experience for each of the years indicated:

	Year ended December 31,				
	2000	2001	2002	2003	2004
	(in billions of Won, except percentages)				
Balance at the beginning of the period	(Won) 2,623	(Won) 2,394	(Won) 3,508	(Won) 5,195	(Won) 5,772
Amounts charged against income	262	1,264	3,909	7,192	3,860
Allowance relating to loans repurchased from the Korea Asset Management Corporation	26	8	6	6	
Allowance relating to other loans repurchased					6
Allowance relating to loans acquired in the merger with H&CB		1,279	(164)		
Allowance relating to newly consolidated entities					9
Gross charge-offs:					
Domestic:					
Corporate					
Commercial and industrial	372	690	486	1,056	976
Construction	39	22	65	80	103
Lease financing	82	80			
Other corporate	56	175	16	13	8
Retail					
Mortgage and home equity	7	7	29	34	181
Other consumer	53	179	209	745	1,313
Credit cards	54	394	1,527	5,290	3,313
Foreign:	67	98	115	59	20
Total gross charge-offs	(730)	(1,645)	(2,447)	(7,277)	(5,914)
Recoveries:					
Domestic:					
Corporate					
Commercial and industrial	117	74	117	99	56
Construction	8	4	2	7	40
Other corporate	2	3	29	16	2
Retail					
Mortgage and home equity	26	16	9	5	1
Other consumer	11	26	53	59	71
Credit cards	47	81	155	452	554
Foreign:	2	4	18	18	4
Total recoveries	213	208	383	656	728
Net charge-offs	(517)	(1,437)	(2,064)	(6,621)	(5,186)
Balance, at the end of the period	(Won) 2,394	(Won) 3,508	(Won) 5,195	(Won) 5,772	(Won) 4,461

Ratio of net charge-offs during the period to average loans outstanding during the period	1.0%	2.0%	1.6%	4.5%	3.6%

***Loan Charge-Offs***

*Basic Principles*

We attempt to minimize loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if

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charge-offs are necessary, we charge off loans subject to our charge-off policy at an early stage in order to maximize accounting transparency, to minimize any waste of resources in managing loans which have a low probability of being collected and to reduce our non-performing loan ratio.

### *Loans To Be Charged Off*

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;

loans for which collection is not foreseeable due to the death or disappearance of the debtor;

loans for which expenses of collection exceed the collectible amount;

loans on which collection is not possible through legal or any other means;

payments in arrears in respect of credit cards that have been overdue for more than six months;

payments in arrears on unsecured consumer loans which have been overdue for more than six months; or

the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

### *Procedure for Charge-off Approval*

In order to charge off a loan for Korean GAAP purposes, an application for charge-off must be submitted by a branch to our Credit Management Team promptly, and in any event within one month, after the loan is classified as estimated loss. The relevant department or team evaluates and approves the application. Then, we must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, we refer the approval of the charge-off by the Credit Management Team to our Audit & Examination Department for their review of compliance with our internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Once we receive approval from the Financial Supervisory Service, we must also obtain approval from senior executive management to charge off those loans. For U.S. GAAP purposes with respect to corporate loans, we follow a similar procedure (although we will not seek approval from the Financial Supervisory Service). With respect to unsecured retail loans, however, we follow a different procedure relating to the length of time overdue amounts have been outstanding.

### *Treatment of Loans Charged Off*

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Once loans are charged off, we classify them as charged-off loans and remove them from our balance sheet. These loans are managed based on a different set of procedures. We continue our collection efforts in respect of these loans, including through our subsidiary, KB Credit Information Co., Ltd., although loans may be charged off before we begin collection efforts in some circumstances.

If a collateralized loan is overdue for more than a year, we will petition a court to foreclose and sell the collateral through a court-supervised auction. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we will sell the collateral, net of expenses incurred from the auction.

Our U.S. GAAP financial statements include as charge-offs all unsecured consumer loans that are overdue for more than six months.

### *Credit Rehabilitation Programs for Delinquent Consumer Borrowers*

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the



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Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

In 2002, the Financial Supervisory Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)500 million may participate in an individual work-out program designed to restructure such person's debt and rehabilitate such person's credit.

Furthermore, in March 2004, the Korean National Assembly passed the Individual Debtor Rehabilitation Law, which became effective in September 2004. Under this law, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding a threshold to be determined by the Supreme Court (within the maximum amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt) may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

## **Investment Portfolio**

### *Investment Policy*

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

maintain the stability and diversification of our assets;

maintain adequate sources of back-up liquidity to match our funding requirements; and

supplement income from our core lending activities.

The International Banking & Capital Market Group and the Risk Management Department supervise our investment and trading activities. In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make particular investments in securities.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Bank Act. Under these regulations, we must limit our investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 60.0% of our total Tier I and Tier II capital amount (less any capital deductions). Generally, we are also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation subject to certain exceptions. Pursuant to an amendment to the Bank Act which became effective in July 2002, a bank and its trust accounts are prohibited from acquiring the shares of a major shareholder (for the definition of major shareholder, see Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholders ) of that bank in excess of an amount equal to 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Further information on the

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regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies.

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The following table sets out the definitions of the primary categories of investments we hold:

<b><u>Investment category</u></b>	<b><u>Definition</u></b>
Held-to-maturity securities	Held-to-maturity securities are securities for which we have the positive ability and intent to hold to maturity and are recorded at amortized cost, adjusted for accretion or amortization of discounts and premiums. Declines in the fair value of individual held-to-maturity securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair values. Such write-downs are reflected as realized losses in our income statement and cannot be subsequently reversed.
Available-for-sale securities	Securities are classified as available-for-sale when we intend to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Available-for-sale securities are reported at fair value with unrealized gains and losses being recorded in accumulated other comprehensive income within stockholders' equity. Other-than-temporary declines in the fair value of available-for-sale securities below cost result in write-downs to their fair value. Such write-downs are reflected as realized losses in our income statement and cannot be subsequently reversed.
Trading securities	Trading assets include securities held in anticipation of short-term market movements. Trading securities are reported at fair value, with unrealized and realized gains and losses being recorded immediately in our income statement.

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We also hold limited balances of venture capital securities, non-marketable and restricted equity securities and derivative instruments:

**Book Value and Market Value**

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Book value	Market value	Book value	Market value	Book value	Market value
	(in billions of Won)					
<b>Available-for-sale securities:</b>						
Equity securities	(Won) 3,452	(Won) 3,452	(Won) 764	(Won) 764	(Won) 252	(Won) 252
Debt securities						
Korean treasury securities and government agency securities	4,096	4,096	4,996	4,996	3,736	3,736
Debt securities issued by financial institutions	2,649	2,649	7,900	7,900	11,135	11,135
Corporate debt securities	2,068	2,068	1,930	1,930	818	818
Debt securities issued by foreign governments	20	20	39	39	42	42
Asset-backed securities	197	197	60	60	167	167
<b>Total available-for-sale</b>	<b>12,482</b>	<b>12,482</b>	<b>15,689</b>	<b>15,689</b>	<b>16,150</b>	<b>16,150</b>
<b>Held-to-maturity securities:</b>						
Debt securities						
Korean treasury securities and government agency securities	8,735	9,029	5,227	5,377	4,748	4,954
Debt securities issued by financial institutions	933	942	298	302	1,242	1,247
Corporate debt securities	313	341	132	142	65	66
Debt securities issued by foreign governments	49	49				
Asset-backed securities	1,104	1,119	480	481	113	115
<b>Total held-to-maturity</b>	<b>11,134</b>	<b>11,480</b>	<b>6,137</b>	<b>6,302</b>	<b>6,168</b>	<b>6,382</b>
<b>Trading securities:</b>						
Equity securities	3,898	3,898	175	175	249	249
Debt securities						
Korean treasury securities and government agency securities	840	840	1,419	1,419	916	916
Debt securities issued by financial institutions	784	784	912	912	2,479	2,479
Corporate debt securities	113	113	105	105	6	6
Asset-backed securities	40	40	129	129	45	45

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Total trading	5,675	5,675	2,740	2,740	3,695	3,695
<b>Total securities</b>	(Won) 29,291	(Won) 29,637	(Won) 24,566	(Won) 24,731	(Won) 26,013	(Won) 26,227

**Table of Contents****Maturity Analysis**

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2004:

As of December 31, 2004

	Within 1 year	Weighted average yield (1)	Over 1 but within 5 years	Weighted average yield (1)	Over 5 but within 10 years	Weighted average yield (1)	Over 10 years	Weighted average yield (1)	Securities not due at a single maturity	Weighted average yield (1)	Total	Weighted average yield (1)
(in billions of Won, except percentages)												
<b>Available-for-sale securities</b>												
Korean treasury securities and government agencies	(Won) 364	4.54%	(Won) 2,807	3.28%	(Won) 563	1.08%	(Won)		(Won) 1	1.05%	(Won) 3,735	3.07%
Debt securities issued by financial institutions	6,887	1.99	4,180	1.49					69	13.08	11,136	1.87
Corporate debt securities	444	2.67	271	8.92	32	1.42	1	6.24%	70	4.26	818	4.83
Debt securities issued by foreign governments	10	0.72	31	9.26					1	10.40	42	7.23
Asset-backed securities	90	3.15	77	1.28						0.00	167	2.28
<b>Total</b>	<b>(Won) 7,795</b>	<b>2.16%</b>	<b>(Won) 7,366</b>	<b>2.48%</b>	<b>(Won) 595</b>	<b>1.10%</b>	<b>(Won) 1</b>	<b>6.24%</b>	<b>(Won) 141</b>	<b>8.62%</b>	<b>(Won) 15,898</b>	<b>2.32%</b>
<b>Held-to-maturity securities</b>												
Korean treasury securities and government agencies	(Won) 1,474	6.91%	(Won) 2,899	4.27%	(Won) 368	3.90%			(Won) 7	5.16%	(Won) 4,748	5.06%
Debt securities issued by financial institutions	403	1.62	839	0.76							1,242	1.04
Corporate debt securities	60	7.71			5	2.69					65	7.31
Asset-backed securities	60	6.62	33	4.35	20	5.51					113	5.76
<b>Total</b>	<b>(Won) 1,997</b>	<b>5.85%</b>	<b>(Won) 3,771</b>	<b>3.49%</b>	<b>(Won) 393</b>	<b>3.97%</b>			<b>(Won) 7</b>	<b>5.16%</b>	<b>(Won) 6,168</b>	<b>4.29%</b>
<b>Trading securities</b>												
Korean treasury securities and government agencies	(Won) 41	1.31%	(Won) 783	1.55%	(Won) 93	0.22%					(Won) 917	1.40%
Debt securities issued by financial	1,184	2.27	1,294	1.63							2,478	1.93

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institutions									
Corporate debt securities	6	6.95						6	6.95
Asset-backed securities	40	4.34	5	0.16				45	3.88
<b>Total</b>	<b>(Won) 1,271</b>	<b>2.33%</b>	<b>(Won) 2,082</b>	<b>1.59%</b>	<b>(Won) 93</b>	<b>0.22%</b>		<b>(Won) 3,446</b>	<b>1.83%</b>

- (1) The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held-to-maturity securities and the fair value in the case of available-for-sale securities and trading securities).

**Table of Contents****Concentrations of Risk**

As of December 31, 2004, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our stockholders' equity at such date, which was (Won)7,682 billion:

	<b>Book value</b>	<b>Market value</b>
	<b>(in billions of Won)</b>	
Name of issuer:		
Bank of Korea	(Won) 12,897	(Won) 12,899
Korean government	6,044	6,176
Korea Deposit Insurance Corporation	2,322	2,391
<b>Total</b>	<b>(Won) 21,263</b>	<b>(Won) 21,466</b>

Except for the Korean government, all of these issuers are controlled by the government.

**Funding**

We obtain funding for our lending activities from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits. In addition, we acquire funding through long-term debt, short-term borrowings, including borrowings from the Bank of Korea, and call money.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and savings deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 73.5% of our total funding as of December 31, 2002, 77.6 % of total funding as of December 31, 2003 and 78.7% of total funding as of December 31, 2004.

In addition, we acquire funding by issuing bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and government-affiliated funds. Such borrowings are generally long-term borrowings, with maturities ranging from one year to 29 years.

Call money, which is available in both Won and foreign currencies, is obtained from both domestic and international call loan markets, which are short-term loan markets for loans with maturities of less than one month.

**Deposits**



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Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated:

	2002		2003		2004	
	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid
(in billions of Won, except percentages)						
Demand deposits:						
Non-interest bearing	(Won) 2,934		(Won) 2,961		(Won) 2,832	
Interest-bearing	598	0.67%	667	0.30%	620	0.16%
Time deposits:						
Certificates	2,120	4.81	4,068	4.45	6,107	4.06
Other time deposits	66,454	4.91	67,733	4.38	68,230	3.98
Savings deposits	35,206	1.17	38,368	0.91	39,042	0.79
Mutual installment deposits (2)	12,235	6.24	11,946	5.37	12,105	4.63
Average total deposits	(Won) 119,547	3.90%	(Won) 125,743	3.29%	(Won) 128,936	2.97%

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- (1) Average balances are based on: (a) daily balances for our primary banking operations; and (b) quarterly balances for subsidiaries.
- (2) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible for our loans while they maintain an account with us. The customer's account does not have to secure loan amounts once made but is a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from us, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

For a description of our retail deposit products, see Business Retail Banking Lending Activities Mortgage and Home Equity Lending and Business Retail Banking Deposit-Taking Activities.

**Certificates of Deposit and Other Time Deposits**

The following table presents the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of (Won)100 million as of December 31, 2004:

	Certificates of deposit	Other time deposits	Mutual installment deposits	Total
	(in billions of Won)			
Maturing within three months	(Won) 2,674	(Won) 6,251	(Won) 292	(Won) 9,217
After three but within six months	1,757	4,867	178	6,802
After six but within 12 months	250	15,217	253	15,720
After 12 months		900	374	1,274
<b>Total</b>	<b>(Won) 4,681</b>	<b>(Won) 27,235</b>	<b>(Won) 1,097</b>	<b>(Won) 33,013</b>

A majority of our other time deposits issued by our overseas branches is in the amount of US\$100,000 or more.

**Long-term debt**

The aggregate amount of contractual maturities of all long-term debt at December 31, 2004 was as follows:

	At December 31, 2004
	(in billions of Won)
Due in 2005	(Won) 2,880
Due in 2006	6,320
Due in 2007	1,449
Due in 2008	2,448

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Due in 2009	1,620
Thereafter	3,178
Gross long-term debt	17,895
Plus: Premium	4
Total long-term debt, net	(Won) 17,899

**Table of Contents****Short-term borrowings**

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated:

	As of and for the year ended					
	December 31,					
	2002		2003		2004	
(in billions of Won, except percentages)						
<b>Call Money</b>						
Year-end balance	(Won)	306	(Won)	225	(Won)	652
Average balance (1)		1,803		1,802		1,267
Maximum balance		2,452		2,959		3,773
Average interest rate (2)		3.94%		3.61%		3.31%
Year-end interest rate		0.25-5.85%		0.88-5.15%		0.27-6.85%
<b>Borrowings from the Bank of Korea (3)</b>						
Year-end balance	(Won)	709	(Won)	1,005	(Won)	922
Average balance (1)		1,337		1,020		911
Maximum balance		1,738		1,292		1,073
Average interest rate (2)		2.47%		2.45%		2.41%
Year-end interest rate		2.50%		2.50%		2.00%
<b>Other short-term borrowings (4)</b>						
Year-end balance	(Won)	15,147	(Won)	11,890	(Won)	8,592
Average balance (1)		9,077		13,250		8,150
Maximum balance		15,147		14,239		8,592
Average interest rate (2)		5.38%		4.32%		3.80%
Year-end interest rate		0.02-17.69%		0.15-17.69%		0.15-17.69%

(1) Average outstanding balances have been calculated using quarterly averages.

(2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.

(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by securities totaling (Won)1,024 billion as of December 31, 2004.

**Supervision and Regulation****Legal and Regulatory Framework**

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The banking system in Korea is governed by the Bank Act of 1950, as amended (the Bank Act ) and the Bank of Korea Act of 1950, as amended (the Bank of Korea Act ). In addition, Korean banks come under the regulations and supervision of the Bank of Korea, the Monetary Policy Committee, the Financial Supervisory Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

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Under the Bank of Korea Act, the Monetary Policy Committee's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea.

The Financial Supervisory Commission, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and prepares regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Bank Act on May 24, 1999, the Financial Supervisory Commission, instead of the Ministry of Finance and Economy, now regulates market entry into the banking business.

The Financial Supervisory Service was established on January 2, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements within the authority delegated to it under the Financial Supervisory Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the Financial Supervisory Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or subject to the limitation established by the Financial Supervisory Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain permission from the Financial Supervisory Commission. Permission to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Supervisory Commission.

If the Korean government deems our financial condition to be unsound or if we fail to meet the applicable capital adequacy ratio set forth under Korean law, the government may order:

capital increases or reductions;

stock cancellations or consolidations;

transfers of business;

sales of assets;

closures of branch offices;

mergers with other financial institutions;

suspensions of a part or all of business operation; or

assignments of contractual rights and obligations relating to financial transactions.

**Principal Regulations Applicable to Banks**

*Capital Adequacy and Allowances*

The Bank Act requires nationwide banks, such as us, to maintain a minimum paid-in capital of (Won)100 billion and regional banks to maintain a minimum paid-in capital of (Won)25 billion. All banks, including foreign bank

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branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Enforcement Detailed Rules on the Supervision of Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of shareholders' equity, capital surplus, retained earnings, unpaid stock dividends and hybrid Tier I capital instruments. Tier II capital (supplementary capital) consists of revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Supervisory Commission requirements that have been formulated based on Bank of International Settlements (BIS) standards. These standards were adopted and became effective in 1996. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

In November 2002, the Financial Supervisory Service amended the Enforcement Detailed Rules on the Supervision of the Banking Business to include a more conservative risk-weighting system for certain newly extended home mortgage loans. As a result, for certain home mortgage loans extended after November 13, 2002, Korean banks must apply a risk-weight ratio of 60% if either of the following two conditions are satisfied, and a risk-weight ratio of 70% if both conditions are satisfied:

- (1) if the home mortgage loans are overdue for at least 30 consecutive days as of the date of calculating the bank's BIS capital adequacy ratio, or there were at least 30 overdue days during the one year period preceding the date on which the bank's BIS capital adequacy ratio is calculated; and
- (2) the borrower's debt ratio (which is the ratio of the borrower's total outstanding borrowings, including borrowings from other financial institutions, to the borrower's annual income) exceeds 250%.

For all other home mortgage loans, the bank must apply a 50% risk-weight ratio.

Under the Regulation on the Supervision of the Banking Business, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees, and acceptances and trust account loans) in an aggregate amount covering not less than:

0.5% of normal credits, excluding confirmed guarantees and acceptances (or 0.75% in the case of normal credits comprising loans to individuals and households, and 1% in the case of normal credits comprising outstanding credit card receivables and card loans);

2% of precautionary credits, excluding confirmed guarantees and acceptances (or 8% in the case of precautionary credits comprising loans to individuals and households, and 12% in the case of precautionary credits comprising outstanding credit card receivables and card loans);



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20% of substandard credits;

50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 60% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and

100% of estimated loss credits.

See Recent Regulations Relating to Retail Household Loans and Credit Card Business.

### *Liquidity*

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Rules on the Supervision of the Banking Business. Banks may not invest an amount

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exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea. The Financial Supervisory Commission also requires each Korean bank to:

maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service;

maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;

maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 0%; and

maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%.

The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

5% of average balances for Won currency demand deposits outstanding;

1% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and

2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to savings deposits outstanding and a 5% minimum reserve ratio is applied to demand deposits. A 1% minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

### *Financial Exposure to Any Individual Customer and Major Shareholder*

Under the Bank Act, the sum of large exposures by a bank in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

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Recent amendments to the Bank Act, which became effective on July 28, 2002, strengthened restrictions on extending credits to a major shareholder. A major shareholder is defined as:

a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank's total issued voting shares; or

a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4% in the aggregate of the bank's (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where the shareholder is the largest shareholder or has actual control over the

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major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than (Won)2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares.

Under these amendments, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank's Tier I and Tier II capital (less any capital deductions).

### *Interest Rates*

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank's interest expense.

### *Lending to Small- and Medium-sized Enterprises*

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to small- and medium-sized enterprises. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises;  
or

lower the bank's credit limit.

### *Disclosure of Management Performance*

In order to assist the general public, especially depositors and shareholders, in monitoring bank management performance, the Financial Supervisory Commission requires commercial banks to make mandatory public disclosures of the following:

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loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than (Won)4 billion;

the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than (Won)1 billion as a result of that financial incident, or the governor of the Financial Supervisory Service has made a public announcement regarding the incident; and

any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than (Won)1 billion.

**Table of Contents***Restrictions on Lending*

Pursuant to the Bank Act, commercial banks may not provide:

loans for the purpose of speculation in commodities or securities;

loans directly or indirectly secured by a pledge of a bank's own shares, or secured by a pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);

loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;

loans directly or indirectly to finance political campaigns or related activities;

loans to any of the bank's officers or employees, other than petty loans of up to (Won)20 million in the case of a general loan, (Won)50 million in the case of a general loan plus a housing loan or (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or

loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to (Won)20 million or general and housing loans of up to (Won)50 million in the aggregate.

*Recent Regulations Relating to Retail Household Loans*

The Financial Supervisory Commission recently implemented a number of changes to the mechanisms by which a bank evaluates and report its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, the Financial Supervisory Commission and the Financial Supervisory Service increased the minimum provisioning requirements for retail household loans. These requirements, set forth in the following table, became effective in the second quarter of 2002:

<b>Asset quality classification</b>	<b>Provisioning ratio on retail household loans</b>	
	<b>Before</b>	<b>Current</b>
Normal	0.5% or above	0.75% or above
Precautionary	2.0% or above	8.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	50.0% or above	55.0% or above

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Estimated loss	100.0%	100.0%
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In addition, due to a rapid increase in loans secured by homes and other forms of housing, the Financial Supervisory Commission and the Financial Supervisory Service implemented regulations designed to reduce the rate of increase in these loans. Effective from the third quarter of 2002, the Financial Supervisory Commission and the Financial Supervisory Service raised minimum provisioning requirements for new loans secured by housing located in the areas of wide-spread real property speculation, with respect to the portion of the new loan that exceeds the loan-to-value ratio of 60.0%, to 1.0% from 0.75% for normal loans and to 10.0% from 5.0% for precautionary loans. They also raised the minimum provisioning requirements for household loans classified as precautionary from 2.0% to 8.0% with effect from the fourth quarter of 2002. In a further effort to curtail extension of new or refinanced loans secured by housing, the Financial Supervisory Commission and the Financial Supervisory Service subsequently:

reduced the average loan-to-value ratio (the aggregate principal amount of credit over the approval value of collateral) that Korean commercial banks must maintain for new loans secured by housing located nationwide to below 60%; and

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increased risk-weights for loans secured by housing meeting certain criteria in connection with the capital adequacy calculation for commercial banks.

More recently, on November 8, 2002, the Financial Supervisory Commission and the Financial Supervisory Service issued guidelines that:

require Korean commercial banks to implement stronger internal control systems and stricter credit review and approval policies with respect to loans secured by housing;

introduce sharing of information on multiple housing loans to a single borrower within the financial industry;

require Korean commercial banks to appoint two to three qualified market value appraisal institutions and to use the lowest of the appraisal valuations; and

discourage the use of incentive-based compensation systems by Korean commercial banks.

Furthermore, on October 29, 2003, the Financial Supervisory Commission announced more stringent guidelines that require Korean commercial banks to maintain loan-to-value ratios equal to or less than 40% for new loans secured by real estate located in the areas of wide-spread real property speculation.

See Item 3D. Risk Factors Risks relating to government regulation and policy Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our retail banking operations.

*Restrictions on Investments in Property*

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

*Restrictions on Shareholdings in Other Companies*

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

that corporation engages in a category of financial businesses set forth by the Financial Supervisory Commission; or



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the acquisition is necessary for the corporate restructuring of the corporation and is approved by the Financial Supervisory Commission.

In the above exceptional cases, a bank must satisfy either of the following requirements:

the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

the acquisition satisfies the requirements determined by the Financial Supervisory Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

### *Restrictions on Bank Ownership*

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and

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outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank's outstanding voting shares, unless they obtain the approval of the Financial Supervisory Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank's outstanding voting shares, and in excess of 10%, 25% or 33% of that bank's outstanding voting shares with the approval of the Financial Supervisory Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the Financial Supervisory Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Supervisory Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

*Deposit Insurance System*

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the Korea Deposit Insurance Corporation on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.05% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The Korea Deposit Insurance Corporation insures a maximum of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003 and therefore the whole amount deposited in such accounts is protected.

*Restrictions on Foreign Exchange Position*

Under the Korean Foreign Exchange Transaction Law, each of a bank's net overpurchased and oversold positions may not exceed 20% of its shareholders' equity as of the end of the prior month.

*Laws and Regulations Governing Other Business Activities*

A bank must register with the Ministry of Finance and Economy to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the permission of the Financial Supervisory Commission to enter the securities business, which is governed by regulations under the Korean Securities and Exchange Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

*Trust Business*

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A bank must obtain approval from the Financial Supervisory Commission to engage in trust businesses. The Trust Act and the Trust Business Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank, which requires that banks engaged in both banking and trust businesses must maintain two separate accounts and two separate sets of records; and

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depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

The bank must make a special reserve of 25% or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed. In addition, a trust bank must deposit with a court an amount equal to the greater of (i) 1% of its paid-in capital each year and (ii) 10% of the net income from such trust account products for each fiscal year, until the aggregate amount of those deposits equals 0.05% or more of its paid-in capital. If that bank breaches its duty of care as a trustee and causes losses to its customers, the court deposits are available as compensation.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act, securities investment companies under the Securities Investment Company Act and variable insurance products under the Insurance Business Act, took effect on January 5, 2004. Under the Indirect Investment Asset Management Business Act, a bank is not permitted to offer current unspecified money trust account products after July 5, 2004 (except under certain limited circumstances), unless it is qualified as an asset management company by such date. Investment trust products will need to be established pursuant to a trust contract entered into between an asset management company and a trustee.

In the event that a bank qualifies and operates as an asset management company, a trustee or a custodian under the Indirect Investment Asset Management Business Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business and the trustee or custodian business. These measures include:

prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation;

prohibitions against the joint use or sharing of computer equipment or office equipment; and

prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

In addition, a bank is also required to establish an Indirect Investment Asset Management Committee consisting of three directors, two of whom must be non-standing directors of such bank.

## **Credit Card Business**

### *General*

In order to enter the credit card business, a bank must register with the Financial Supervisory Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on January 27, 2005. A registered bank engaging in the credit card business is regulated by the Financial Supervisory Commission and the Financial Supervisory Service.

*Disclosure and Reports*

Pursuant to the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business must submit its business reports and reports with respect to its results of operations to the Governor of the Financial Supervisory Service within one month from the end of each quarter.

*Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards*

Under the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business is liable for any loss arising from the unauthorized use of credit cards or debit cards after it has received notice

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from the holder of the loss or theft of the card. A registered bank engaging in the credit card business is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. A registered bank engaging in the credit card business may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of willful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the registered bank engaging in the credit card business and members of such cards specifically provide for that transfer.

For these purposes, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence. However, a disclosure of a cardholder's password that is made under irresistible force or threat to cardholder or his/her relatives' life or health will not be deemed as willful misconduct or negligence of the cardholder.

Each registered bank engaging in the credit card business must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Recently, a proposed amendment to the Enforcement Decree to Specialized Credit Financial Business Act was announced. Among other things, the proposed amendment provides that a registered bank engaging in the credit card business will be liable for any losses arising from loss or theft of a credit card (which was not from the holder's willful misconduct or negligence) during the period beginning 60 days before the notice by the holder to the registered bank engaging in the credit card business.

Pursuant to the Specialized Credit Financial Business Act, the Financial Supervisory Commission may either restrict the limit or take other necessary measures against the registered bank engaging in the credit card business with respect to the following:

maximum limits for cash advances on credit cards;

use restrictions on debit cards with respect to per day or per transaction usage; or

aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

### *Lending Ratio in Ancillary Business*

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act issued in December 2003, a registered bank engaging in the credit card business must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding unstructured loans and revolving cash advances) no greater the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume; provided that, in the case that any bank engaged in the credit card business was unable to meet this lending ratio as of December 31, 2003, such bank would have been granted an extended compliance period until December 31, 2007 during which to achieve such lending ratio. Any bank availing itself of such extended compliance period would also be required to submit to the Financial Supervisory Commission, no later than January 31, 2004, a detailed plan setting forth how such bank intended to achieve compliance by December 31, 2007.

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### *Issuance of New Cards and Solicitation of New Cardholders*

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a registered bank engaging in the credit card business may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

persons who are at least 18 years old when they apply for a credit card;

persons whose capability to pay bills as they come due has been verified using standards established by the registered bank engaging in the credit card business; and

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in the case of minors who are at least 18 years and younger than 20 years, persons who submit a guardian's consent along with documents evidencing income, such as an employment certificate or a tax certificate.

In addition, a registered bank engaging in the credit card business may not solicit credit card members by:

providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be deemed to be (Won)10,000) in connection with issuing a credit card;

soliciting applicants on roads, public places or along corridors used by the general public;

soliciting applicants through visits, except those visits made upon prior consent and visits to a business area; and

soliciting applicants through pyramid sales methods.

*Compliance Rules on Collection of Receivable Claims*

Pursuant to Supervisory Regulation on the Specialized Credit Financial Business, a registered bank engaging in the credit card business may not:

exert violence or threaten violence;

demand payment from or pressure a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) without just cause with respect to payment for the debtor's obligations;

provide false information relating to the debtor's obligation to the debtor or his or her related parties;

provide false information or overstate the negative consequences of being registered as a person of poor credit;

threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and

utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

*Regulations on the Class Actions Regarding Securities*



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The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and an amendment to such law was enacted as of March 10, 2005. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

claims for damages caused by misleading information contained in a securities statement;

claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;

claims for damages caused by insider trading or market manipulation; and

claims instituted against auditors for damages caused by accounting irregularities.

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Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

The Law on Class Actions Regarding Securities is scheduled to take effect on January 1, 2007 with respect to companies with a total asset value of less than (Won)2 trillion, and on January 1, 2005 for all other companies and will apply retroactively to all applicable claims arising out of acts committed since its enactment.

An amendment of the new law delays its effectiveness until December 31, 2006, with respect to claims against companies and their auditors in cases where such companies take steps to correct any accounting irregularities.

**Item 4C. Organizational Structure**

We are the direct or indirect parent company of a number of subsidiaries. The following table provides summary information for our operating subsidiaries that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2004, including contribution to our total assets, net income, operating income and stockholders' equity:

<u>Subsidiary</u>	<u>Percentage of ownership</u>	<u>Total assets</u>	<u>Stockholders equity</u>	<u>Operating income</u>	<u>Net income</u>
			(in millions of Won)		
KB Data Systems Corp.	99.98%	(Won) 22,307	(Won) 15,754	(Won) 1,984	(Won) 1,523
KB Futures Co., Ltd.	99.98	38,411	25,971	1,247	844
KB Investment Co., Ltd.	99.89	107,430	98,907	(2,064)	(2,065)
KB Asset Management Co., Ltd.	80.00	66,098	59,449	15,749	10,818
KB Real Estate Trust Co., Ltd.	99.99	248,136	102,662	(25,696)	(18,789)
KB Credit Information Co., Ltd.	99.73	27,840	21,042	4,454	2,406
Kookmin Bank Hong Kong Ltd.	100.00	293,689	66,155	10,203	9,923
Kookmin Bank International Ltd.	100.00	357,170	66,995	1,041	412
KB Life Insurance Co., Ltd.	100.00	193,134	30,864	817	298

Further information regarding our subsidiaries is provided below:

*KB Data Systems Corp.* was established in Korea in September 1991 to provide software services to us and other financial institutions.

*KB Futures Co., Ltd.* was established in Korea in March 1997 to act as a broker-dealer for domestic and overseas futures transactions.

*KB Investment Co., Ltd.* was established in Korea in March 1990 to invest in and finance small- and medium-sized enterprises. KB Investment was merged with Frontier Investment Co., Ltd. and Kookmin Venture Capital Co., Ltd. effective as of December 31,

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2001 and June 27, 2002, respectively. KB Investment was formerly known as Kookmin Bank Venture Capital Co., Ltd. until May 25, 2002.

*KB Asset Management Co., Ltd.* was established in April 1988 as a subsidiary of Citizens Investment Trust Company to provide trust account investment services. KB Asset Management was formerly known as Joeeun Investment Management Co., Ltd. until June 10, 2002.

*KB Real Estate Trust Co., Ltd.* was established in December 1996 to provide real estate development and brokerage services and assist small- and medium-sized construction companies by managing trusts related to the real estate industry. KB Real Estate Trust was formerly known as Joeeun Real Estate Trust Co., Ltd. until September 16, 2002.

*KB Credit Information Co., Ltd.* was established in October 1999 to collect delinquent loans and to check credit history. KB Credit Information was formerly known as Kookeun Credit Information Co., Ltd. (and prior to that was known as Joeeun Credit Information Co, Ltd.) and was merged with KM Credit Information Co., Ltd. on May 2, 2002.

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*Kookmin Bank Hong Kong Ltd.* was established in July 1995 to provide a broad range of corporate banking services.

*Kookmin Bank International Ltd.* was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.

*KB Life Insurance Co., Ltd.* was established in April 2004 to provide and market a wide array of life insurance products.

*Other Subsidiaries.* For the year ended December 31, 2004, we derived operating income of (Won)379 billion and net income of (Won)389 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

**Item 4D. Property, Plants and Equipment**

Our registered office and corporate headquarters are located at 9-1, 2-ga, Namdaemoon-ro, Jung-Gu, Seoul 100-703, Korea. The following table presents information regarding certain of our properties in Korea:

<u>Type of facility/building</u>	<u>Location</u>	<u>Area (square meters)</u>	<u>Site (if different)</u>
Registered office and corporate headquarters	9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703	1,749	
Headquarters building	36-3, Yoido-dong, Youngdeungpo-gu, Seoul 150-758	5,354	
Headquarters building	Yoido, Seoul	5,928	
Headquarters building	Yoido, Seoul	2,006	
Headquarters building	Jongro-gu, Seoul	3,704	
Training institute	Ilisan	207,659	
Training institute	Daechon	4,158	
Training institute	Sokcho	15,584	
Training institute	Cheonan	196,649	
IT center	Seoul	13,116	
IT center	Seoul	4,748	

As of December 31, 2004, we had a countrywide network of 1,144 branches and sub-branches. Approximately one-third of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in Hong Kong and the United Kingdom and branches in Tokyo in Japan, Auckland in New Zealand and New York in United States. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2004 was (Won)1,770 billion.

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**Item 5A. Operating Results**

**Overview**

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP.

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**Table of Contents*****Trends in the Korean Economy***

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. As part of the Korean government's structural reform program, which stemmed from the economic difficulties in Korea in 1997 and 1998, the government made significant changes to the regulations governing financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity and minimum capital requirements.

Financial and economic conditions generally improved in Korea from 1999 to 2004. The general level of interest rates decreased, consumer spending and consumer demand for credit cards and other financial products increased, the overall level of non-performing corporate loans decreased and overall profitability increased. Nonetheless, many large corporations, including those to which we have credit and other exposure, are still experiencing significant financial difficulties. Furthermore, substantial growth in lending to small- and medium-sized enterprises has been accompanied by increasing delinquencies and a deterioration in overall asset quality, which is expected to continue. In 2004, under Korean GAAP, we recorded charge-offs of (Won)709 billion and provisions of (Won)754 billion in respect of our loans to small- and medium-sized enterprises, compared to charge-offs of (Won)560 billion and provisions of (Won)610 billion in 2003. See Item 3D. Risk Factors Risk relating to our small- and medium-sized enterprise loan portfolio.

In addition, the significant increase in retail and credit card debt has led to a deterioration in the asset quality of the retail loans and credit card receivables of Korean financial institutions. In recent years, commercial banks, credit card companies, consumer finance companies and other financial institutions in Korea made significant investments and engaged in aggressive marketing in these areas, leading to substantially increased competition in the retail lending and credit card segments. However, the rapid growth in retail lending and credit card usage has led to increasing delinquencies, loan loss provisions, non-performing loans and charge-offs. In 2004, we recorded charge-offs of (Won)3,313 billion in respect of our credit card portfolio, compared to charge-offs of (Won)5,290 billion in 2003. We also recorded charge-offs of (Won)1,494 billion in respect of our retail loan portfolio in 2004, compared to charge-offs of (Won)779 billion in 2003. See Item 3D. Risk Factors Risks relating to our retail credit portfolio.

As a result of growing concerns regarding the high levels of consumer borrowing and credit card usage in Korea and the deterioration in the retail lending and credit card portfolios of Korean financial institutions, the Korean government has implemented various changes to the regulations governing retail loans and credit card operations generally. See Item 3D. Risk Factors Risks relating to government regulation and policy and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

As a result of the developments in the Korean economy described above, as well as factors such as high oil prices, the weakness of the economy in certain parts of the world, the war in Iraq and its aftermath, recent large-scale natural disasters in certain parts of the world and tensions with North Korea, the economic outlook for the financial services sector in Korea in 2005 and for the foreseeable future is uncertain.

***New Basel Capital Accord***

In December 2004, the Financial Supervisory Service announced that it would implement Basel II in Korea by the end of 2007. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. Basel II also institutes new measures that will require us to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In addition, under Basel II, we are permitted to follow either a standardized approach or an internal rating-based approach with respect to calculating capital requirements. We have, subject to approval from the Financial

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Supervisory Service, voluntarily chosen to establish and follow an internal rating model, which is more stringent in terms of calculating risk sensitivity with respect to our capital requirements. Since we will be implementing this model for the first time in connection with our implementation of Basel II, our internal rating model may require an increase in our capital requirements, which will require us to either improve our asset quality or raise additional capital.

**Changes in Securities Values, Exchange Rates and Interest Rates**

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the Stock Market Division of the Korea Exchange as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	<u>Dec. 31,</u> <u>2000</u>	<u>June</u> <u>30,</u> <u>2001</u>	<u>Dec. 31,</u> <u>2001</u>	<u>June</u> <u>30,</u> <u>2002</u>	<u>Dec. 31,</u> <u>2002</u>	<u>June</u> <u>30,</u> <u>2003</u>	<u>Dec. 31,</u> <u>2003</u>	<u>June</u> <u>30,</u> <u>2004</u>	<u>Dec. 31,</u> <u>2004</u>
KOSPI	504.62	595.13	693.70	742.72	627.55	669.93	810.71	785.79	895.92
(Won)/US\$ exchange rates (1)	1,267.0	1,303.0	1,313.5	1,205.0	1,186.3	1,196.0	1,192.0	1,156.0	1,035.1
Corporate bond rates (2)	8.3%	7.3%	7.2%	6.7%	5.8%	5.6%	5.7%	5.0%	3.9%
Treasury bond rates (3)	6.7%	5.9%	5.9%	5.7%	5.1%	4.2%	4.8%	4.2%	3.3%

(1) Represents the noon buying rate on the dates indicated.

(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Finance and Economy of Korea.

**Critical Accounting Policies**

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

**Allowance for Loan Losses**

We evaluate our loan portfolio for impairment on an ongoing basis. We have established an allowance for loan losses, which is available to absorb the losses that we estimate we will incur in our loan portfolio as of the balance sheet date. If we believe that additions to the allowance for loan losses are required, then we record provisions for loan losses, which are treated as charges against current income. Credit exposures that we deem to be uncollectible, net of recoveries of previously charged-off amounts, are charged directly against the allowance for loan losses.



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We base the level of our allowance for loan losses on an evaluation of the risk characteristics of our loan portfolio. We consider factors such as historical loss experience, the financial condition of our borrowers and current economic conditions. We evaluate corporate loans and consumer loans in different ways, due to their respective characteristics, as follows:

We generally evaluate impaired corporate loans individually, due to the unique characteristics of individual corporate borrowers, and establish an allowance for loan losses for such loans. As described in more detail in our consolidated financial statements, we consider a loan impaired when, after considering risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts owed under the contractual terms of the agreement, including principal

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and interest. Once we have identified loans as impaired, we generally value them either based on the present value of expected future cash flows discounted at their effective interest rate or, as a practical expedient, at a loan's observable market price or the fair value of the collateral if a loan is collateral dependent. If the resulting value is less than the carrying value, we establish allowances for the difference.

We also establish an allowance for loan losses for corporate loans that we do not believe are impaired. This allowance is established for the aggregate pool of these loans based on our historical loss experience for these types of loans.

We establish an allowance for loan losses related to leases based on historical loss experience.

We generally evaluate consumer loans and certain smaller balance corporate loans, including mortgages and home equity loans and credit card balances, as individual pools for loan loss reserve purposes due to their homogeneous nature, and establish an allowance for loan losses relating to each pool based on historical loss experience.

Factors that we consider when establishing reserves for homogeneous pools of corporate and consumer loans include, but are not limited to, global and local economic events, delinquencies and changes in underwriting and credit monitoring policies.

We believe that the accounting estimate related to our allowance for loan losses is a critical accounting policy because: (1) it is highly susceptible to change from period to period because it requires us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated loan losses (as reflected in our allowance for loan losses) and actual loan losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Our consolidated financial statements for the year ended December 31, 2004 included a total loan loss allowance of (Won)4,520 billion as of that date (including allowances with respect to guarantees and acceptances). Our total loan charge-offs, net of recoveries, amounted to (Won)5,186 billion and our provision for losses on loans, guarantees and acceptances amounted to (Won)3,861 billion in 2004.

### ***Valuation of Securities and Financial Instruments***

We invest in various financial instruments including debt and equity securities, derivatives and investments in venture capital activities. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

*Trading assets and liabilities:* Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading assets and liabilities also include derivatives used for trading purposes as well as those used for other than trading purposes that do not qualify for hedge accounting and foreign exchange spot contracts. Trading positions are carried at fair value and recorded on a trade date basis, with changes in fair value recognized in net trading revenue as they occur.

*Debt and marketable equity securities:* We classify our investments in debt and marketable equity securities as available-for-sale when we intend to hold the securities for an indeterminable period of time or when the securities may be sold from time to time to

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effectively manage interest rate exposure and liquidity needs. Available-for-sale securities are reported at fair value. Unrealized gains and losses are excluded from earnings and reported in a separate component of stockholders' equity. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of realized loss in earnings. We carry our investments in held-to-maturity debt securities at amortized cost if we intend, and have the ability to, hold them to maturity. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other-than-temporary result in write-downs of the securities to their fair value.

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*Nonmarketable or restricted equity securities:* Some equity securities do not have readily determinable marketable values or have sales restrictions exceeding one year. We carry such securities at cost, with any other-than-temporary impairment recorded in earnings. The fair values of nonmarketable equity securities are based on the latest obtainable net asset value of the investees, which often reflect cost or other reference events or valuation performed by qualified independent valuers. The fair values of restricted equity securities are based on the latest market value of the related nonrestricted securities less a restriction discount. Any changes in the information or assumptions used in obtaining the fair values could significantly affect the fair value of these investments.

*Investments in venture capital activities:* Certain of our subsidiaries engage exclusively in venture capital activities. We carry venture capital investments at fair value with net changes in fair value recognized as noninterest income or expense. The fair values of publicly traded securities these subsidiaries hold are generally based on quoted market prices. Securities that these subsidiaries hold that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date we estimate fair value based on investee transactions with unaffiliated parties or based on our review of the investee's financial results and condition. If such information is not readily available, the fair values are based on the latest obtainable net asset value of the investees. Any changes to these assumptions could significantly affect the fair values of these investments.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities and financial instruments using quoted market prices when available, including quotes from dealers trading those securities or instruments. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair values calculated based on pricing and valuation models or discounted cash flow analysis are subject to various assumptions used which, if changed, could significantly affect the fair values of the investments. These assumptions relate to discount rates, cash flows and certain modeling techniques, among other things. For certain nonmarketable or restricted securities, we may periodically utilize external valuations performed by qualified independent evaluators.

Factors we consider in determining whether declines in value are other-than-temporary include the length of time and extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and (for domestic securities only) the state of the Korean economy. Any changes in these assumptions could significantly affect the valuation and timing of recognition of an other-than-temporary impairment.

We believe that the accounting estimates related to the fair market value of our various securities is a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether or not any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

***Goodwill and Other Intangible Assets***

We recognized a significant amount of goodwill in connection with our merger with H&CB and our acquisitions of Kookmin Credit Card and the assets and liabilities of Hanil Life Insurance. In addition, we acquired core deposit and credit card relationship intangible assets upon our merger with H&CB and Kookmin Credit Card.

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Goodwill represents the excess of acquisition cost over the fair value of assets and liabilities acquired in a business combination. We allocated goodwill to the reporting unit level, which we define as an operating segment, or one level below. We do not amortize goodwill. Instead, we perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate that it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying amount, a second test is required to measure the amount of goodwill impairment. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess. Impairment assessments are performed using a variety of valuation methodologies, including discounted cash flow estimates. Management estimates the future cash flows expected to be derived from the use and, if applicable, the terminal value of the assets. The key variables that management must estimate include, among other factors, market trading volume, market share, fee income, growth rate and profitability margin. Although the assumptions used are consistent with internal planning, significant management judgment is involved in estimating these variables, which include inherent uncertainties. A discount rate is applied to the cash flow estimates considering our cost of capital rate and specific country and industry risk factors.

We recorded the other intangible assets at their estimated fair values. The core deposit intangible asset reflects the value of the base of demand deposits and savings accounts acquired, which we can expect to maintain for an extended period because of generally stable customer relationships. The fair value of this asset was based principally upon the estimates of: (1) the funding benefits that these deposits provide relative to our alternative funding sources; and (2) the projected run-off of the related customer accounts. The credit card relationship intangible asset reflects the value of the credit card relationships acquired from which we expect to derive future benefits over the estimated life of such relationships. The fair value of this asset was based principally upon the estimates of: (1) the profitability of the acquired accounts; and (2) the projected run-off of the acquired accounts. We will amortize these intangible assets over their estimated useful lives, which range from approximately six to ten years, on an accelerated basis. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these intangible assets. We periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off.

We believe that the accounting estimates related to the fair values of our acquired goodwill and other intangible assets is a critical accounting policy because: (1) they may be highly susceptible to change from period to period because they require assumptions about future cash flows, run-off rates and profitability; and (2) any significant difference between our estimates and the actual amounts could result in valuation losses which may have a material impact on our net income. Our assumptions about estimated future cash flows, run-off rates and profitability require significant judgment and the fair values of the goodwill and other intangible assets could fluctuate in the future, based on a variety of factors.

**Table of Contents****Results of Operations**

Results of operations for each of the three years presented below do not include results for subsidiaries that we disposed of in 2002, the results of which have been aggregated as discontinued operations in 2002.

**Net Interest Income**

The following table shows, for the periods indicated, the principal components of our net interest income:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won, except percentages)			(% change)	
<b>Interest and dividend income</b>					
Loans, including fees (1)	(Won) 11,824	(Won) 12,062	(Won) 10,826	2.0%	(10.2)%
Trading securities	112	105	156	(6.3)	48.6
Investment securities	1,419	1,513	1,004	6.6	(33.6)
Call loans and securities purchased under resale agreements	34	61	85	79.4	39.3
Deposits	61	14	21	(77.0)	50.0
<b>Total interest and dividend income</b>	<b>13,450</b>	<b>13,755</b>	<b>12,092</b>	<b>2.3</b>	<b>(12.1)</b>
<b>Interest expense</b>					
Deposits	4,543	4,137	3,834	(8.9)	(7.3)
Call money	71	65	42	(8.5)	(35.4)
Other borrowed funds	521	598	332	14.8	(44.5)
Secured borrowings	325	476	366	46.5	(23.1)
Long-term debt	1,274	1,186	942	(6.9)	(20.6)
<b>Total interest expense</b>	<b>6,734</b>	<b>6,462</b>	<b>5,516</b>	<b>(4.0)</b>	<b>(14.6)</b>
<b>Net interest income</b>	<b>(Won) 6,716</b>	<b>(Won) 7,293</b>	<b>(Won) 6,576</b>	<b>8.6</b>	<b>(9.8)</b>
<b>Net interest margin (2)</b>	<b>4.02%</b>	<b>4.01%</b>	<b>3.84%</b>		

(1) Fees primarily include annual fees on credit cards.

(2) The ratio of net interest income to average interest earning assets. See Item 3A. Selected Financial Data Profitability ratios and other data.

*Comparison of 2004 to 2003*

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*Interest and dividend income.* Interest and dividend income decreased 12.1% from (Won)13,755 billion in 2003 to (Won)12,092 billion in 2004, primarily due to a 10.2% decrease in interest and fees on loans and a 33.6%

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decrease in interest and dividends from investment securities. The average balance of our interest earning assets decreased 5.8% from (Won)182,010 billion in 2003 to (Won)171,380 billion in 2004, and the average yields on our interest earning assets declined from 7.56% in 2003 to 7.06% in 2004.

The 10.2% decrease in interest and fees on loans from (Won)12,062 billion in 2003 to (Won)10,826 billion in 2004 was primarily the result of:

a 27.0% decrease in the average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)16,498 billion in 2003 to (Won)12,049 billion in 2004, which was enhanced by a decrease of 83 basis points in average yields on such loans from 17.25% in 2003 to 16.42% in 2004;

a 4.0% decrease in the average volume of commercial and industrial loans from (Won)44,134 billion in 2003 to (Won)42,369 billion in 2004, which was enhanced by a decrease of 24 basis points in average yields on such loans from 6.47% in 2003 to 6.23% in 2004;

a 26.7% decrease in the average volume of construction loans from (Won)6,433 billion in 2003 to (Won)4,718 billion in 2004, which was enhanced by a decrease of 107 basis points in average yields on such loans from 7.62% in 2003 to 6.55% in 2004; and

a 6.2% decrease in the average volume of other consumer loans from (Won)29,077 billion in 2003 to (Won)27,287 billion in 2004, which was enhanced by a decrease of 11 basis points in average yields on such loans from 8.16% in 2003 to 8.05% in 2004.

These decreases were partially offset by a 15.1% increase in the average volume of mortgage and home equity loans from (Won)48,535 billion in 2003 to (Won)55,863 billion in 2004, which in turn was partially offset by a decrease of 58 basis points in average yields on such loans from 7.04% in 2003 to 6.46% in 2004.

The average volume of our loans (other than mortgage and home equity loans) decreased principally as a result of our efforts to concentrate on improving the asset quality of our loans rather than increasing the size of our loan portfolio, particularly with respect to our small- and medium-sized enterprise loans and our other consumer loans. This decrease was enhanced by a substantial decrease in the average volume of our credit card balances as a result of the high level of charge-offs we recorded as part of our continuing efforts to improve the asset quality of our credit card portfolio. These decreases were partially offset by average volume growth in our mortgage and home equity loans, which reflected higher demand for such loans in Korea as well as our increased marketing efforts with respect to such loan products. Our average yield on loans decreased 72 basis points from 8.21% to 7.49% principally as a result of the general decline in market interest rates in Korea from 2003 to 2004.

Our securities portfolio consists primarily of investment securities, of which 90.8% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2004. Interest and dividends on investment securities decreased 33.6% from (Won)1,513 billion in 2003 to (Won)1,004 billion in 2004. This decrease was primarily due to a 31.9% decrease in the average volume of our investment securities from (Won)29,431 billion in 2003 to (Won)20,030 billion in 2004, reflecting the redemption upon maturity of debt securities in our portfolio and a shift in our asset mix toward assets that offer higher long-term returns than investment securities. The effect of this decrease was enhanced by a 13 basis point decline in average yields on our investment securities from 5.14% in 2003 to 5.01% in 2004, as a result of the general decline in market interest rates in Korea from 2003 to 2004.



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Our securities portfolio also includes trading securities, of which 91.9% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2004. Interest and dividends on trading securities increased 48.6% from (Won)105 billion in 2003 to (Won)156 billion in 2004. This increase was primarily due to a 122 basis point increase in average yields on such securities from 3.58% in 2003 to 4.80% in 2004, as a result of a shift in the asset mix of our trading securities portfolio toward higher-yielding debt securities.

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*Interest Expense.* Interest expense decreased 14.6% from (Won)6,462 billion in 2003 to (Won)5,516 billion in 2004, primarily due to a 7.3% decline in interest expense on deposits, a 44.5% decline in interest expense on other borrowed funds, a 20.6% decline in interest expense on long-term debt and a 23.1% decline in interest expense on secured borrowings. The average balance of our interest bearing liabilities decreased 3.7% from (Won)166,682 billion in 2003 to (Won)160,581 billion in 2004, principally as a result of decreases in other borrowed funds, long-term borrowings and secured borrowings, which was enhanced by a 44 basis point decline in average cost from 3.88% in 2003 to 3.44% in 2004.

The 7.3% decrease in interest expense on deposits from (Won)4,137 billion in 2003 to (Won)3,834 billion in 2004 was primarily the result of:

a 40 basis point decline in the average interest rate paid on other time deposits from 4.38% in 2003 to 3.98% in 2004, which was partially offset by a 0.7% increase in the average volume of such deposits from (Won)67,733 billion in 2003 to (Won)68,230 billion in 2004;

a 74 basis point decline in the average interest rate paid on mutual installment deposits from 5.37% in 2003 to 4.63% in 2004, which was partially offset by a 1.3% increase in the average volume of such deposits from (Won)11,946 billion in 2003 to (Won)12,105 billion in 2004; and

a 12 basis point decline in the average interest rate paid on savings deposits from 0.91% in 2003 to 0.79% in 2004, which was partially offset by a 1.8% increase in the average volume of such deposits from (Won)38,368 billion in 2003 to (Won)39,042 billion in 2004.

These declines in the average interest rates paid on deposits resulted from the general decline in market interest rates in Korea from 2003 to 2004, while the increases in the average volume of such deposits was primarily attributable to sustained demand for our deposit products in 2004.

Other borrowed funds consist primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts. The 44.5% decrease in interest expense on other borrowed funds from (Won)598 billion in 2003 to (Won)332 billion in 2004 resulted mainly from a decrease in the average volume of such borrowings, which was enhanced by a decrease in the average interest rate paid with respect to such borrowings. The average volume of short-term borrowings other than borrowings from the Bank of Korea decreased 38.5% from (Won)13,250 billion in 2003 to (Won)8,150 billion in 2004, while the average volume of borrowings from the Bank of Korea declined 10.7% from (Won)1,020 billion in 2003 to (Won)911 billion in 2004. Such decreases mainly reflected a decrease in our funding needs as a result of the decline in the size of our loan portfolio. The average interest rate paid on short-term borrowings other than borrowings from the Bank of Korea decreased 52 basis points from 4.32% in 2003 to 3.80% in 2004, while the average interest rate paid on borrowings from the Bank of Korea declined four basis points from 2.45% in 2003 to 2.41% in 2004. Such decreases mainly reflected our greater reliance on lower cost short-term Won-denominated debentures as a funding source, as well as the general decline in market interest rates in Korea from 2003 to 2004.

The 20.6% decrease in interest expense on long-term debt from (Won)1,186 billion in 2003 to (Won)942 billion in 2004 resulted from a decrease in both the average volume and average cost of such debt. The average volume of our long-term debt declined 14.9% from (Won)19,678 billion in 2003 to (Won)16,749 billion in 2004 due to a decrease in our funding needs as a result of the decline in the size of our loan portfolio. The average interest rate paid on our long-term debt declined 41 basis points from 6.03% in 2003 to 5.62% in 2004, due to the general decline in market interest rates in Korea from 2003 to 2004 and as we replaced maturing long-term debt with lower cost long-term debt.

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The 23.1% decrease in interest expense on secured borrowings from (Won)476 billion in 2003 to (Won)366 billion in 2004 resulted from a decrease in both the average cost and average volume of such borrowings. The average interest rate paid on our secured borrowings decreased 89 basis points from 5.84% in 2003 to 4.95% in 2004, principally as a result of the general decline in market interest rates in Korea. The average volume of our secured

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borrowings declined 9.2% from (Won)8,150 billion in 2003 to (Won)7,400 billion in 2004 as a result of the liquidation of our special purpose vehicles due to the collection of underlying receivables.

*Net interest margin.* Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin decreased from 4.01% in 2003 to 3.84% in 2004. Net interest income decreased 9.8% from (Won)7,293 billion in 2003 to (Won)6,576 billion in 2004. The average volume of our interest earning assets decreased 5.8% from (Won)182,010 billion in 2003 to (Won)171,380 billion in 2004. The decrease in net interest margin reflected the larger decline in our net interest income compared to the decline in the average volume of our interest earning assets, which was primarily due to the larger decline in the average yield on our interest earning assets (driven mainly by a sharp decline in the average volume of higher yielding assets such as credit card receivables and other consumer loans) relative to the decline in the average cost of our interest bearing liabilities, and the resulting decrease in our net interest spread.

*Comparison of 2003 to 2002*

*Interest and dividend income.* Interest and dividend income increased 2.3% from (Won)13,450 billion in 2002 to (Won)13,755 billion in 2003, primarily due to a 2.0% increase in interest and fees on loans and a 6.6% increase in interest and dividends from investment securities. The average balance of our interest earning assets increased 8.9% from (Won)167,073 billion in 2002 to (Won)182,010 billion in 2003, principally as a result of increased consumer loan demand as a result of both higher levels of consumer spending and our marketing efforts, which more than offset a decline in average yields from 8.05% in 2002 to 7.56% in 2003.

The 2.0% increase in interest and fees on loans from (Won)11,824 billion in 2002 to (Won)12,062 billion in 2003 was primarily the result of:

a 13.9% increase in the average volume of consumer loans other than mortgage and home equity loans from (Won)25,519 billion in 2002 to (Won)29,077 billion in 2003, which was partially offset by a decrease of 19 basis points in average yields on such loans from 8.35% in 2002 to 8.16% in 2003;

a 13.9% increase in the average volume of commercial and industrial loans from (Won)38,733 billion in 2002 to (Won)44,134 billion in 2003, which was partially offset by a decrease of 61 basis points in average yields on such loans from 7.08% in 2002 to 6.47% in 2003;

a 20.6% increase in the average volume construction loans from (Won)5,336 billion in 2002 to (Won)6,433 billion in 2003, which was enhanced by an increase of 42 basis points in average yields on such loans from 7.20% in 2002 to 7.62% in 2003; and

a 17.2% increase in the average volume of mortgage and house equity loans from (Won)41,422 billion in 2002 to (Won)48,535 billion in 2003, which was partially offset by a decrease of 90 basis points in average yields on such loans from 7.94% in 2002 to 7.04% in 2003.

This increase was partially offset by a 16.8% decline in the average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)19,840 billion in 2002 to (Won)16,498 billion in 2003, partially offset by an increase of 129 basis points in average yields on credit card balances from 15.96% in 2002 to 17.25% in 2003.

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The average volume of our loans increased principally as a result of increased demand for mortgage and home equity and other consumer loans, due to generally higher levels of consumer borrowing in Korea, as well as for small- and medium-sized enterprise loans. Our average volume growth in mortgage and home equity loans and other consumer loans also reflected the effects of our increased marketing efforts with respect to our retail loan products, which effects were offset to some extent by government efforts to control the level of outstanding consumer debt in Korea. Such volume growth was also partially offset by the substantial decrease in the average volume of our credit card balances as a result of a high level of charge-offs, as well as increased market saturation, competition and government regulation in the credit card business. Our average yield on loans decreased 65 basis points from 8.86% to 8.21% principally as a result of the decline in average yields on

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mortgage and home equity loans and on commercial and industrial loans, both of which were due to the general decline in market interest rates in Korea from 2002 to 2003. These decreases were partially offset by the increase in average yields on credit card balances, which resulted from industry-wide rate increases designed to enhance the profitability of credit card operations in the face of increasing delinquencies and lower volume growth, as well as the application of penalty interest on higher delinquent balances.

Interest and dividends on investment securities increased 6.6% from (Won)1,419 billion in 2002 to (Won)1,513 billion in 2003. This increase was primarily due to an increase in the proportion of debt securities invested in trust beneficiary certificates as a result of a shift to more income generating investments in 2003. The effect of this increase was partially offset by a 52 basis point decline in average yields from 5.66% in 2002 to 5.14% in 2003, as a result of the general decline in market interest rates in Korea from 2002 to 2003.

*Interest Expense.* Interest expense decreased 4.0% from (Won)6,734 billion in 2002 to (Won)6,462 billion in 2003, primarily due to a 8.9% decline in interest expense on deposits and a 6.9% decline in interest expense on long-term debt, which were partially offset by a 46.5% increase in interest on secured borrowings and a 14.8% increase in interest on other borrowed funds. The average balance of our interest bearing liabilities increased 7.6% from (Won)154,978 billion in 2002 to (Won)166,682 billion in 2003, principally as a result of growth in deposits and other borrowed funds, which was offset by a 47 basis point decline in average cost from 4.35% in 2002 to 3.88% in 2003.

The 8.9% decrease in interest expense on deposits from (Won)4,543 billion in 2002 to (Won)4,137 billion in 2003 was primarily the result of:

a 53 basis point decline in the average interest rate paid on other time deposits from 4.91% in 2002 to 4.38% in 2003, which was partially offset by a 1.9% increase in the average volume of such deposits from (Won)66,454 billion in 2002 to (Won)67,733 billion in 2003;

an 87 basis point decline in the average interest rate paid on mutual installment deposits from 6.24% in 2002 to 5.37% in 2003, which was enhanced by a 2.4% decline in the average volume of such deposits from (Won)12,235 billion in 2002 to (Won)11,946 billion in 2003; and

a 26 basis point decline in the average interest rate paid on savings deposits from 1.17% in 2002 to 0.91% in 2003, which was partially offset by a 9.0% increase in the average volume of such deposits from (Won)35,206 billion in 2002 to (Won)38,368 billion in 2003.

These declines in the average interest rates paid on deposits resulted from the general decline in market interest rates in Korea from 2002 to 2003, while the overall increase in the average volume of such deposits was primarily attributable to increased demand for deposit products.

The 6.9% decrease in interest expense on long-term debt from (Won)1,274 billion in 2002 to (Won)1,186 billion in 2003 resulted from a decrease in both the average cost and average volume of such debt. The average interest rate paid on our long-term debt declined 26 basis points from 6.29% in 2002 to 6.03% in 2003, due to the general decline in market interest rates in Korea from 2002 to 2003 and as we replaced maturing long-term debt with lower cost long-term debt. The average volume of our long-term debt declined 2.9% from (Won)20,260 billion in 2002 to (Won)19,678 billion in 2003 as we replaced such debt with other borrowed funds due to the lower borrowing costs for such funds.

The 46.5% increase in interest expense on secured borrowings from (Won)325 billion in 2002 to (Won)476 billion in 2003 was the result of an increase in the average interest rate paid on such borrowings. The average interest rate paid on our secured borrowings increased 32 basis points

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from 5.52% in 2002 to 5.84% in 2003, principally as a result of our special purpose vehicles issuing asset-backed securities at higher interest rates than prevailing market rates due to the lower asset quality of the underlying securitized assets.

The 14.8% increase in interest expense on other borrowed funds from (Won)521 billion in 2002 to (Won)598 billion in 2003 was due to an increase in the average volume of such borrowings, which was partially offset by a

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decrease in the average interest rate paid with respect to such borrowings. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased 46.0% from (Won)9,077 billion in 2002 to (Won)13,250 billion in 2003, while the average volume of borrowings from the Bank of Korea declined 23.7% from (Won)1,337 billion in 2002 to (Won)1,020 billion in 2003. The increase in the average volume of other borrowed funds was primarily due to the issuance of more short-term Won-denominated debentures as this funding source became more attractive as a result of its lower cost. The average interest rates paid on short-term borrowings other than borrowings from the Bank of Korea decreased 106 basis points from 5.38% in 2002 to 4.32% in 2003, and the average interest rates paid on borrowings from the Bank of Korea declined two basis points from 2.47% in 2002 to 2.45% in 2003. The decrease in the average cost of other borrowed funds was primarily due to our greater reliance on lower cost Won-denominated debentures as a funding source, as well as the general decline in market interest rates in Korea from 2002 to 2003.

*Net interest margin.* Our overall net interest margin declined from 4.02% in 2002 to 4.01% in 2003. Net interest income increased 8.6% from (Won)6,716 billion in 2002 to (Won)7,293 billion in 2003. The average volume of our interest earning assets increased 8.9% from (Won)167,073 billion in 2002 to (Won)182,010 billion in 2003. The decline in net interest margin was largely due to the replacement of credit card balances with other loans that generally earn interest at lower rates, such as retail loans, as well as the declines in average yields on mortgage and home equity loans and on investment securities.

***Provision for Loan Losses***

For a discussion of our loan loss provisioning policy, see [Item 4B. Business Overview](#) [Assets and Liabilities](#) [Loan Portfolio](#) [Provisioning Policy](#).

***Comparison of 2004 to 2003***

Our provision for loan losses decreased from (Won)7,192 billion in 2003 to (Won)3,860 billion in 2004, as a result of lower provisions in respect of our credit card portfolio due to:

significant improvement in the asset quality of our credit card portfolio, as reflected in a sharp decrease in delinquency rates and non-performing loans; and

continued decline in our outstanding credit card balances due to significant charge-offs and our efforts to limit the growth of these assets.

This decrease was partially offset by higher provisions in respect of our corporate loan portfolio, particularly small- and medium-sized enterprise loans, and our retail loans. The higher provisions with respect to our small- and medium-sized enterprise loans were primarily due to a deterioration in the overall asset quality of such loans, while the higher provisions with respect to our retail loans were primarily due to the increase in the outstanding volume of mortgage and home equity loans, as well as an overall deterioration in asset quality in 2004.

Our loan charge-offs, net of recoveries, decreased 21.7% from (Won)6,621 billion in 2003 to (Won)5,186 billion in 2004. This decrease was attributable mainly to a (Won)2,079 billion decrease in net charge-offs of outstanding credit card balances, which was partially offset by increases in net charge-offs of retail loans and corporate loans of (Won)707 billion and (Won)63 billion, respectively.



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As a result of such charge-offs, overdue balances in our credit card portfolio decreased 76.1% from (Won)3,317 billion as of December 31, 2003 to (Won)794 billion as of December 31, 2004, resulting in lower provisioning for our outstanding credit card balances.

After net charge-offs, overdue balances in our retail loan portfolio decreased 52.1% from (Won)6,221 billion as of December 31, 2003 to (Won)2,980 billion as of December 31, 2004 and overdue balances in our corporate loan portfolio decreased 1.5% from (Won)2,396 billion as of December 31, 2003 to (Won)2,360 billion as of December 31, 2004, however, the non-performing loan portion of our overdue corporate loans increased, which reflected the

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deterioration in the asset quality of our small- and medium-sized enterprise loans. Such deterioration and the growth of our mortgage and home equity loans, as well as continued weakness in the Korean economy, resulted in higher provisioning for these assets.

### *Comparison of 2003 to 2002*

Our provision for loan losses increased substantially from (Won)3,909 billion in 2002 to (Won)7,192 billion in 2003, as a result of higher provisions in respect of our credit card, retail and corporate loan portfolios due to:

significant deterioration in the asset quality of our credit card and retail loan portfolios, demonstrated by continuing increases in delinquencies and non-performing loans;

continued re-aging of outstanding delinquent credit card balances into restructured loans and substituted cash advances, which may have a higher delinquency rate and a higher degree of risk and are considered separately for purposes of determining loan loss allowances;

continued growth in our retail loan portfolio; and

growth in, and deterioration of the asset quality of, our loans to small- and medium-sized enterprise borrowers.

Our loan charge-offs, net of recoveries, increased 220.8% from (Won)2,064 billion in 2002 to (Won)6,621 billion in 2003. Of the (Won)4,557 billion increase, (Won)3,466 billion, (Won)539 billion and (Won)552 billion represented increases in net charge-offs of outstanding credit card balances, retail loans and corporate loans, respectively.

As a result of such charge-offs, overdue balances in our credit card portfolio decreased 28.8% from (Won)4,657 billion as of December 31, 2002 to (Won)3,317 billion as of December 31, 2003. However, our provisions for credit card balances increased due to continuing increases in delinquency rates and weakness in the Korean economy.

After net charge-offs, overdue balances in our retail loan portfolio decreased 17.0% from (Won)7,495 billion as of December 31, 2002 to (Won)6,221 billion as of December 31, 2003. Overdue balances in our corporate loan portfolio also decreased 15.2% from (Won)2,824 billion as of December 31, 2002 to (Won)2,396 billion as of December 31, 2003. However, significant increases in retail and small- and medium-sized enterprise loans and increases in delinquency rates, as well as continued weakness in the Korean economy, resulted in higher provisioning for these assets.

### *Allowance for Loan Losses*

For information on allowance for loan losses, see [Critical Accounting Policies](#) [Allowance for Loan Losses](#) and [Item 4B. Business Overview](#) [Assets and Liabilities](#) [Loan Portfolio](#) [Allocation of Allowance for Loan Losses](#).

*Corporate Loans.* We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy. We also establish an allowance for loan losses for corporate loans that we do not believe are impaired based on our historical loss experience for those types of loans. Smaller balance commercial loans (which are commercial loans of (Won)1 billion or less) are managed on a portfolio basis and evaluated collectively for impairment. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans.

	<u>As of December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Impaired loans as a percentage of total corporate loans	9.3%	9.8%	8.6%
Allowance for loan losses as a percentage of total corporate loans	4.2	4.2	5.3
Allowance for loan losses as a percentage of impaired loans	34.3	28.4	38.3

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During 2004, impaired loans as a percentage of total corporate loans decreased, while the level of allowance for loan losses as a percentage of both impaired loans and total corporate loans increased. Although significant charge-offs resulted in a decrease in the overall outstanding balance of both total corporate loans and impaired loans as a percentage of total corporate loans, the deterioration in the asset quality of small- and medium-sized enterprise loans led to a worse overall mix of impaired loans, resulting in an increase in allowance for loan losses as a percentage of both impaired loans and total corporate loans.

During 2003, impaired loans as a percentage of total corporate loans increased, the level of allowance for loan losses as a percentage of impaired loans decreased and the level of allowance for loan losses as a percentage of total corporate loans remained stable, as the decrease in outstanding balances resulting from charge-offs was more than offset by new loans to small- and medium-sized enterprises and as non-performing loans charged off were replaced by new delinquencies in the small- and medium-sized enterprise loan portfolio, leading to an improved overall mix of impaired loans.

*Consumer Loans.* We establish allowances for loan losses for consumer loans (including credit card receivables) based on historical losses as well as delinquencies and changes in underwriting and credit monitoring policies. We also analyze government economic data when considering consumer bankruptcies and delinquency rates as well as the build-up of consumer debt in Korea. The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	<b>As of December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Non-performing loans as a percentage of total consumer loans	2.3%	2.4%	1.5%
Allowance for loan losses as a percentage of total consumer loans	3.2	3.8	2.3
Allowance for loan losses as a percentage of non-performing consumer loans	32.5	30.0	11.7

During 2004, non-performing consumer loans as a percentage of total consumer loans, as well as the level of allowance for loan losses as a percentage of both total consumer loans and non-performing consumer loans, decreased as a result of significant charge-offs of non-performing credit card balances and retail loans and the resulting improvement in the overall asset quality of our credit card portfolio, and as the decrease in credit card balances resulting from such charge-offs was more than offset by new mortgage and home equity loans.

During 2003, non-performing consumer loans as a percentage of total consumer loans increased despite higher charge-offs as a result of continuing increases in delinquencies and non-performing loans in our credit card and retail loan portfolios. The level of allowance for loan losses as a percentage of total consumer loans increased as we increased our allowance for existing and new consumer loans as a result of continuing increases in delinquencies and non-performing loans in our credit card and retail loan portfolios. The level of allowance for loan losses as a percentage of non-performing consumer loans, however, decreased as non-performing loans that were secured with collateral, which require a lower allowance level, were not charged off as quickly as those that were unsecured due to the possibility of recovery as a result of the underlying collateral.

**Table of Contents****Non-Interest Income**

The following table shows, for the periods indicated, the components of our non-interest income:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
Credit card merchant fees	(Won) 1,092	(Won) 1,049	(Won) 835	(3.9)%	(20.4)%
Other fees and commission income (excluding credit card merchant fees)	867	853	934	(1.6)	9.5
Net trading revenue	458	163	409	(64.4)	150.9
Trust fees, net	376	289	153	(23.1)	(47.1)
Net gain on investments	130	387	99	197.7	(74.4)
Other non-interest income	175	173	370	(1.1)	113.9
<b>Total non-interest income</b>	<b>(Won) 3,098</b>	<b>(Won) 2,914</b>	<b>(Won) 2,800</b>	<b>(5.9)%</b>	<b>(3.9)%</b>

*Comparison of 2004 to 2003*

Non-interest income decreased 3.9% from (Won)2,914 billion in 2003 to (Won)2,800 billion in 2004. This decrease was attributable primarily to:

- a (Won)288 billion decrease in net gain on investments from (Won)387 billion in 2003 to (Won)99 billion in 2004;
- a (Won)214 billion decrease in credit card merchant fees from (Won)1,049 billion in 2003 to (Won)835 billion in 2004; and
- a (Won)136 billion decrease in net trust fees from (Won)289 billion in 2003 to (Won)153 billion in 2004.

These decreases were partially offset by a (Won)246 billion increase in net trading revenue from (Won)163 billion in 2003 to (Won)409 billion in 2004 and a (Won)196 billion increase in other non-interest income from (Won)173 billion in 2003 to (Won)369 billion in 2004.

Net gain on investments consists in gains on equity securities, debt securities and gains on other investments, net of corresponding losses. The 74.4% decrease in net gain on investments was attributable principally to a decrease of gains on equity securities, as a result of a decrease in disposal gain on equity securities due to the stabilization of the Korean equity market in 2004.

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Credit card merchant fees represent fees we collect from merchants in respect of credit card purchases by our cardholders. The 20.4% decrease in credit card merchant fees was attributable principally due to a decrease in credit card charge volume as a result of our efforts to improve the asset quality of our credit card portfolio by restricting credit card usage by certain cardholders.

Net trust fees represent trust management fees we collect from our trust accounts, net of payments to cover shortfalls in our guaranteed trust products. The 47.1% decrease in net trust fees resulted primarily from a decrease in the average volume of our trust account assets due to our customers withdrawing funds from our trust accounts and investing such funds in products with higher yields, such as those offered by investment trust companies.

Net trading revenue consists of net realized and unrealized gains on securities and derivatives in our trading portfolio. The 150.9% increase in net trading revenue resulted from a (Won)172 billion increase in net gain on trading-related revenue from disposals and revaluations of derivatives and foreign exchange spot contracts from (Won)126 billion in 2003 to (Won)298 billion in 2004 and a (Won)60 billion increase in net gain on trading-related revenue from disposals and revaluations of debt securities from (Won)16 billion in 2003 to (Won)76 billion in 2004. These increases resulted respectively from an increase in the volume of our derivative and foreign exchange contracts and a decrease in market interest rates which increased the value of our debt securities.

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Other non-interest income consists mainly of gains on the disposal of premises and equipment, early withdrawal fees associated with certain deposits and bancassurance fees. The 113.9% increase in other non-interest was attributable principally to a (Won)47 billion increase in gains on the disposal of premises and equipment from (Won)5 billion in 2003 to (Won)52 billion in 2004 and a (Won)35 billion increase in bancassurance fees from (Won)23 billion in 2003 to (Won)58 billion in 2004.

*Comparison of 2003 to 2002*

Non-interest income decreased 5.9% from (Won)3,098 billion in 2002 to (Won)2,914 billion in 2003. This decrease was attributable primarily to a (Won)295 billion decrease in net trading revenue from (Won)458 billion in 2002 to (Won)163 billion in 2003. This decrease was partially offset by a (Won)257 billion increase in net gain on investments from (Won)130 billion in 2002 to (Won)387 billion in 2003.

The 64.4% decline in net trading revenue resulted from a (Won)119 billion decline in net gain on trading-related revenue from disposals and revaluations of equity securities from (Won)166 billion in 2002 to (Won)47 billion in 2003 and an (Won)87 billion decline in net gain on trading-related revenue from disposals and revaluations of debt securities from (Won)103 billion in 2002 to (Won)16 billion in 2003. These declines resulted from a decrease in the trading volume of equity and debt securities due to reallocation of our resources to investment securities.

The 197.7% increase in net gain on investments was attributable principally to gains on equity securities, as a result of a decrease in impairment loss on such securities due to the general improvement of conditions in the Korean equity market in 2003.

**Non-Interest Expense**

The following table shows, for the periods indicated, the components of our non-interest expense:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
Salaries and employee benefits	(Won) 1,586	(Won) 1,657	(Won) 1,702	4.5%	2.7%
Other administrative expenses	834	713	646	(14.5)	(9.4)
Other fees and commissions	701	523	537	(25.4)	2.7
Depreciation and amortization	443	526	441	18.7	(16.2)
Credit card fees	390	521	332	33.6	(36.3)
Other non-interest expenses	433	466	374	7.6	(19.7)
<b>Total non-interest expense</b>	<b>(Won) 4,387</b>	<b>(Won) 4,406</b>	<b>(Won) 4,032</b>	<b>0.4%</b>	<b>(8.5)%</b>

*Comparison of 2004 to 2003*

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Non-interest expense decreased 8.5% from (Won)4,406 billion in 2003 to (Won)4,032 billion in 2004. This decrease was primarily due to:

a (Won)189 billion decrease in credit card fees from (Won)521 billion in 2003 to (Won)443 billion in 2004;

a (Won)92 billion decrease in other non-interest expenses from (Won)466 billion in 2003 to (Won)374 billion in 2004;

an (Won)85 billion decrease in depreciation and amortization from (Won)526 billion in 2003 to (Won)441 billion in 2004; and

a (Won)67 billion decrease in other administrative expenses from (Won)713 billion in 2002 to (Won)646 billion in 2003.

These decreases were partially offset by a (Won)45 billion increase in salaries and employment benefits from (Won)1,657 billion in 2003 to (Won)1,702 billion in 2004.



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Credit card fees include fees and commissions paid to our sales agents, expenses related to awarding mileage and bonus points to our credit card customers and fees and commissions paid to our member merchants. The 36.3% decrease in credit card fees resulted mainly from decreases in credit card charge volume and in new credit card issuances due to our efforts to improve the asset quality of our credit card portfolio by restricting credit card usage by certain cardholders and applying stricter criteria for new credit card issuances.

Other non-interest expenses include mainly losses in connection with the sale of loans and losses on the disposal of premises and equipment. The 19.7% decrease in other non-interest expenses resulted mainly from a (Won)98 billion decrease in losses in connection with the sale of loans due to the sale of mostly corporate loans that had already been charged off in the prior year.

The 16.2% decrease in depreciation and amortization resulted mainly from a decrease in the new purchase of property and equipment.

The 9.4% decrease in other administrative expenses (which include other employee benefits, advertising, public relations, sales promotion and data processing expenses) was primarily attributable to a decrease in advertising and sales promotion expenses.

### *Comparison of 2003 to 2002*

Non-interest expense remained relatively stable at (Won)4,406 billion in 2003 compared to (Won)4,387 billion in 2002 due to:

a (Won)131 billion increase in credit card fees from (Won)390 billion in 2002 to (Won)521 billion in 2003;

an (Won)83 billion increase in depreciation and amortization from (Won)443 billion in 2002 to (Won)526 billion in 2003;

a (Won)178 billion decrease in other fees and commissions from (Won)701 billion in 2002 to (Won)523 billion in 2003; and

a (Won)121 billion decrease in other administrative expenses from (Won)834 billion in 2002 to (Won)713 billion in 2003.

The 33.6% increase in credit card fees resulted mainly from increased fees paid in connection with collection activities in respect of overdue credit card receivables.

The 18.7% increase in depreciation and amortization resulted mainly from an increase in depreciation of purchased office equipment.

Other fees and commission expenses consist primarily of contributions to the Korea Credit Guarantee Fund and the Housing Credit Guarantee Fund for loan guarantees, premiums paid to the Korea Deposit Insurance Corporation for deposit insurance, commissions paid to loan collection agents on overdue loans (other than credit card receivables) and related fees. The 25.4% decline in other fees and commission expenses was

principally due to a decrease in fees paid in respect of mortgage loans.

The 14.5% decline in other administrative expenses was primarily attributable to a decrease in advertising and sales promotion expenses.

***Income Tax Expense (Benefit)***

*Comparison of 2004 to 2003*

Income tax benefit of (Won)367 billion in 2003 changed to an income tax expense of (Won)448 billion in 2004 as a result of an increase in earnings and a decrease in our deferred income tax assets from 2003 to 2004. The

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statutory tax rate applicable to us was approximately 29.7% in 2003 and 2004. From 2005, the statutory tax rate will be lowered to 27.5% applicable to taxable income in excess of (Won)100 million and 14.3% applicable to taxable income of (Won)100 million or below. Our effective tax rate was 27.9% in 2003 and 30.3% in 2004.

### *Comparison of 2003 to 2002*

Income tax expense of (Won)597 billion in 2002 changed to an income tax benefit of (Won)367 billion in 2003 as a result of the net loss incurred in 2003 and an increase in our deferred income tax assets from 2002 to 2003. The effect of this increase was partially offset by (Won)123 billion of income tax accrued in 2003 in respect of prior periods. The statutory tax rate applicable to us was approximately 29.7% in 2002 and 2003. Our effective tax rate was 38.8% in 2002 and 27.9% in 2003.

### **Minority Interest**

#### *Comparison of 2004 to 2003*

Minority interest represents the allocation to minority shareholders of their interests in the gain or loss of our non-wholly owned consolidated subsidiaries. Income attributable to minority interests was (Won)52 billion in 2003 compared to an expense of (Won)3 billion in 2004. The income in 2003 was due primarily to the deduction of the portion of the loss of Kookmin Credit Card in 2003 that was attributable to the interests of minority shareholders, while the expense in 2004 was due primarily to the deduction of the portion of the net income earned by KB Asset Management that was attributable to such interests.

#### *Comparison of 2003 to 2002*

Income attributable to minority interests declined 75.4% from (Won)211 billion in 2002 to (Won)52 billion in 2003. The income in 2002 was due primarily to the deduction of the portion of the loss suffered by Kookmin Credit Card in 2002 that was attributable to the interests of minority shareholders, which was reduced in 2003 due to the merger of Kookmin Credit Card with us in September 2003.

### **Net Income from Discontinued Operations After Tax**

#### *Comparison of 2004 and 2003*

Net income from discontinued operations after tax represents that portion of our net income derived from the operations of subsidiaries that we have disposed of during the year. We had no such income in 2003 and 2004.

*Comparison of 2003 and 2002*

Net income from discontinued operations after tax in 2002 represents that portion of our net income derived from the operations of Kookmin Leasing, KB Asset Management and Alpha Capital Corporation (formerly Joeun Leasing), which are subsidiaries that we disposed of during 2002. Net income from discontinued operations after tax amounted to (Won)97 billion in 2002, while we had no such income in 2003.

***Net Income***

As a result of the above, our net income was (Won)1,032 billion in 2004, as compared to a net loss of (Won)947 billion in 2003 and net income of (Won)1,252 billion in 2002.

**Results under Korean GAAP by Principal Business Segment**

We are organized into four major business segments: retail banking, credit card operations, corporate banking and international banking and capital markets. The following discussion is based upon our internal

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management account information, prepared based on Korean GAAP. The following table shows, for the periods indicated, our results of operation by segment based on this information:

	Net income (1)			Total revenue		
	Year ended December 31,			Year ended December 31,		
	2002	2003	2004	2002	2003	2004
	(in billions of Won)					
Retail banking	(Won) 878	(Won) 863	(Won) 724	(Won) 12,595	(Won) 12,523	(Won) 12,225
Credit card operations	(326)	(1,816)	(220)	4,525	3,655	2,585
Corporate banking	166	(133)	(245)	3,430	3,648	3,119
International banking and capital markets	282	478	48	6,600	6,103	9,558
Other	63	(4)	34	1,416	1,197	929
<b>Total</b>	<b>(Won) 1,063</b>	<b>(Won)(612)</b>	<b>(Won) 341</b>	<b>(Won) 28,566</b>	<b>(Won) 27,126</b>	<b>(Won) 28,416</b>

(1) After deduction of income tax allocated proportionately among each segment.

**Retail Banking**

Our retail banking segment products include mortgage and home equity loans and other consumer loans, deposits and other savings products. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
<b>Income statement data:</b>					
Interest income	(Won) 12,387	(Won) 12,094	(Won) 11,610	(2.4)%	(4.0)%
Interest expense	8,375	8,024	7,487	(4.2)	(6.7)
Provision for loan losses	654	822	1,402	25.7	70.6
Non-interest income	208	429	615	106.3	43.4
Non-interest expense including depreciation and amortization	2,296	2,160	2,249	(5.9)	4.1
Net income before tax	1,270	1,517	1,087	19.4	(28.3)
Income tax (1)	392	654	363	66.8	(44.5)
<b>Net income</b>	<b>(Won) 878</b>	<b>(Won) 863</b>	<b>(Won) 724</b>	<b>(1.7)%</b>	<b>(16.1)%</b>

- (1) Portion of income tax allocated to this segment.

*Comparison of 2004 to 2003*

Our net income before tax for this segment decreased 28.3% from (Won)1,517 billion in 2003 to (Won)1,087 billion in 2004.

Interest income from our retail banking activities decreased 4.0% from (Won)12,094 billion in 2003 to (Won)11,610 billion in 2004, primarily due to a decline in average interest rates on inter-segment lending from retail banking to other segments as a result of declines in market interest rates in Korea, which caused interest income from these loans to decrease 11.4% from (Won)6,483 billion in 2003 to (Won)5,741 billion in 2004. This decrease was partially offset by an increase in average retail lending volumes, specifically for mortgage and home equity loans, principally as a result of greater demand for such loans. The average volume of retail loans increased 7.2% from (Won)77,525 billion in 2003 to (Won)83,118 billion in 2004, the effect of which was partially offset by a decline in average interest rates in respect of such loans as a result of the general decline in market interest rates in Korea. As a result of these effects, interest income relating to retail loans increased 1.7% from (Won)5,769 billion in 2003 to (Won)5,869 billion in 2004.

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Our largest and most important funding source is deposits from retail customers, which represent approximately three-quarters of our total deposits. Interest expense in the retail banking segment decreased 6.7% from (Won)8,024 billion in 2003 to (Won)7,487 billion in 2004, due to a decline in average interest rates on deposit and savings products from 3.4% in 2003 to 3.1% in 2004, which was partially offset by a 2.3% increase in the average volume of deposit and savings products from (Won)125,049 billion in 2003 to (Won)127,877 billion in 2004. As a result, interest expense relating to deposit and savings products declined 8.7% from (Won)4,270 billion in 2003 to (Won)3,898 billion in 2004.

Provision for loan losses on retail loans increased 70.6% from (Won)822 billion in 2003 to (Won)1,402 billion in 2004, primarily due to an increase in mortgage and home equity loan volume, as well as a deterioration in the asset quality of our retail loan portfolio, including increasing delinquencies and non-performing loans.

Non-interest income increased 43.4% from (Won)429 billion in 2003 to (Won)615 billion in 2004, primarily due to an increase in fees derived from sales of third-party insurance products and sales of beneficiary certificates.

Non-interest expense, which includes depreciation and amortization, increased 4.1% from (Won)2,160 billion in 2003 to (Won)2,249 billion in 2004 primarily due to a change in Korean GAAP, commencing in 2004, which requires, provisions for loan losses recorded in the year of sale in respect of loans sold to be reversed upon the sale and booked as part of the loss or gain on sale of such loans. As a result, losses on sales of retail loans increased in 2004 compared to 2003, which contributed to the increase in non-interest expense.

*Comparison of 2003 to 2002*

Our net income before tax for this segment increased 19.4% from (Won)1,270 billion in 2002 to (Won)1,517 billion in 2003.

Interest income from our retail banking activities decreased 2.4% from (Won)12,387 billion in 2002 to (Won)12,094 billion in 2003, primarily due to a decline in average interest rates on inter-segment lending from retail banking to other segments as a result of declines in market interest rates in Korea, which caused interest income from these loans to decrease 6.1% from (Won)6,904 billion in 2002 to (Won)6,483 billion in 2003. This decrease was partially offset by an increase in average retail lending volumes, both for consumer loans and mortgage and home equity loans, principally as a result of greater demand for retail loans. The average volume of retail loans increased 16.3% from (Won)66,660 billion in 2002 to (Won)77,525 billion in 2003, the effect of which was partially offset by a decline in average interest rates in respect of such loans as a result of the general decline in market interest rates in Korea. As a result of these effects, interest income relating to retail loans increased 5.0% from (Won)5,493 billion in 2002 to (Won)5,769 billion in 2003.

Interest expense in the retail banking segment decreased 4.2% from (Won)8,375 billion in 2002 to (Won)8,024 billion in 2003, primarily due to a decline in average interest rates on deposit and savings products from 3.9% in 2002 to 3.4% in 2003, which was partially offset by a 5.4% increase in the average volume of those products from (Won)118,645 billion in 2002 to (Won)125,049 billion in 2003. As a result, interest expense relating to deposit and savings products declined 10.3% from (Won)4,757 billion in 2002 to (Won)4,270 billion in 2003. The decrease was partially offset by a 67.3% increase in interest expense relating to bonds sold under repurchase agreements from (Won)107 billion in 2002 to (Won)179 billion in 2003, which resulted from the higher volume of such bonds sold.

Provision for loan losses on retail loans increased 25.7% from (Won)654 billion in 2002 to (Won)822 billion in 2003 primarily due to a deterioration in the asset quality of our retail loan portfolio; including increasing delinquencies and non-performing loans, as well as an increase

in retail loan volume.

Non-interest income increased 106.3% from (Won)208 billion in 2002 to (Won)429 billion in 2003 primarily due to new fees derived from sales of third-party insurance products commencing in August 2003, as well as an increase of other fees and commissions, particularly gain on dormant deposits and early repayment commissions, resulting in part from the increased average volume of assets and liabilities of our retail segment. Also, in 2003, fee and



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commission income derived from sales of beneficiary certificates was included in this segment, which had previously been included in the other segment.

Non-interest expense, which includes depreciation and amortization, decreased 5.9% from (Won)2,296 billion in 2002 to (Won)2,160 billion in 2003 primarily due to a 14.6% decrease in expenses allocated to this segment with respect to services shared with other segments from (Won)1,496 billion in 2002 to (Won)1,278 billion in 2003, as a result of the allocation of a higher portion of our aggregate salaries and wages to the credit card segment in connection with our merger with Kookmin Credit Card. In addition, costs associated with registering collateral in connection with certain loans decreased 88.2% from (Won)161 billion in 2002 to (Won)19 billion in 2003 due to a decrease in the volume of new secured loans provided and as we started to defer and amortize a certain portion of those costs as loan origination costs in 2003 due to the adoption of a new accounting principle under Korean GAAP, which we had not done in 2002. These decreases were partially offset by an increase in insurance fee expense on deposits resulting from an increased premium rate charged by the KDIC.

**Credit Card Operations**

Our credit card segment handles our credit card activities. Prior to its merger into us in September 2003, these activities were managed principally by Kookmin Credit Card, our consolidated subsidiary. Subsequent to the merger, these activities and the related assets and liabilities have been combined with us and are managed by the relevant units of our bank. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
<b>Income statement data:</b>					
Interest income	(Won) 2,748	(Won) 2,084	(Won) 1,406	(24.2)%	(32.5)%
Interest expense	1,015	758	386	(25.3)	(49.1)
Provision for loan losses	2,434	287	781	(88.2)	172.1
Non-interest income	1,778	1,571	1,178	(11.6)	(25.0)
Non-interest expense including depreciation and amortization	1,432	5,770	1,792	302.9	(68.9)
Net income (loss) before tax	(355)	(3,160)	(375)	790.1	(88.1)
Income tax (1)	(29)	(1,344)	(155)	4,534.5	(88.5)
Net income (loss)	(Won) (326)	(Won) (1,816)	(Won) (220)	457.1	(87.9)%

(1) Portion of income tax allocated to this segment.

*Comparison of 2004 to 2003*

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Our net loss before tax for this segment decreased from (Won)3,160 billion in 2003 to (Won)375 billion in 2004. The decrease in net loss in 2004 was primarily as a result of a decrease in loan loss provisions, a portion of which was recorded as non-interest expense, as described below.

Interest income from our credit card operations decreased 32.5% from (Won)2,084 billion in 2003 to (Won)1,406 billion in 2004. This decrease was primarily due to a decrease in the average volume of outstanding credit card balances, as a result of a high level of charge-offs. The average volume of cash advances and card loans decreased 35.0% from (Won)7,749 billion in 2003 to (Won)5,033 billion in 2004. The decrease in average outstanding credit card balances was partially offset by an increase in the average interest rates in respect of such outstanding balances from 16.6% in 2003 to 20.6% in 2004, principally as a result of a decrease in delinquencies.

Interest expense decreased 49.1% from (Won)758 billion in 2003 to (Won)386 billion in 2004 due to decreased funding costs resulting from lower average balances of inter-segment borrowings and lower average interest rates

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in respect of such borrowings as a result of a decline in market interest rates. In addition, interest expense declined because debentures and borrowings of Kookmin Credit Card were combined with us and, accordingly, the interest expense from such debentures and borrowings was reclassified to the international banking and capital markets segment, following Kookmin Credit Card's merger with us in September 2003.

Provision for loan losses increased 172.1% from (Won)287 billion in 2003 to (Won)781 billion in 2004. The provision for loan losses for 2003 does not include (Won)1,438 billion of such provision recorded during the first three quarters of 2003 by Kookmin Credit Card that was reclassified as non-interest expense, as part of a provision for losses due to the merger of Kookmin Credit Card with us. Including such amount, provision for loan losses decreased 54.7% from 2003 to 2004, primarily as a result of the decrease in outstanding credit card balances, as well as an improvement in their asset quality.

Non-interest income decreased 25.0% from (Won)1,571 billion in 2003 to (Won)1,178 billion in 2004. This decrease resulted principally from a decrease in the total volume of credit card transactions, which led to a decrease in installment purchase fees and fees and commissions received from member merchants, who are charged from 1.0% to 4.5% on transaction amounts based on balance of credit and frequency of usage. This decrease was partially offset by a 0.1% increase in average merchant fee rates charged by us from 2.4% of transaction amounts in 2003 to 2.5% of transaction amounts in 2004.

Non-interest expense, which includes depreciation and amortization, decreased 68.9% from (Won)5,770 billion in 2003 to (Won)1,792 billion in 2004, primarily due to a decrease in losses on sales of credit card balances as a result of the lower volume of such sales in 2003 compared to 2004. A one-time provision recorded in 2003 for losses due to the merger of Kookmin Credit Card with us of (Won)1,652 billion (comprising a provision for loan losses of (Won)1,438 billion and a loss on valuation of securities of (Won)214 billion) for the first three quarters of 2003 also contributed to the decrease in non-interest income from 2003 to 2004.

*Comparison of 2003 to 2002*

Our net loss before tax for this segment increased more than eight-fold from (Won)355 billion in 2002 to (Won)3,160 billion in 2003, primarily as a result of higher loan loss provisions, a portion of which was recorded as non-interest expense as described below. In both 2002 and 2003, income tax allocation had a positive effect on the net loss from this segment, which increased from (Won)326 billion in 2002 to (Won)1,815 billion in 2003.

Interest income from our credit card operations decreased 24.2% from (Won)2,748 billion in 2002 to (Won)2,084 billion in 2003. This decrease was primarily due to a decrease in average volume of outstanding credit card balances, as a result of a high level of charge-offs, as well as increased market saturation, competition and government regulation. The average volume of cash advances and card loans decreased 23.6% from (Won)10,147 in 2002 to (Won)7,749 billion in 2003. The decrease in average outstanding credit card balances was enhanced by a decline in the average interest rates in respect of such outstanding balances from 17.4% in 2002 to 16.6% in 2003, as a result of increased delinquencies and the general decline in market interest rates. In addition, interest income declined because investment securities that Kookmin Credit Card had held were combined with us and, accordingly, the interest income from such investment securities was reclassified to the international banking and capital markets segment following its merger with us in September 2003.

Interest expense for our credit card operations decreased 25.3% from (Won)1,015 in 2002 to (Won)758 in 2003, due to decreased funding costs resulting from lower average balances of inter-segment borrowings and lower average interest rates in respect of such borrowings as a result of a decline in market interest rates. In addition, interest expense declined because debentures and borrowings of Kookmin Credit Card were combined with us and, accordingly, the interest expense from such debentures and borrowings was reclassified to the international banking and

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capital markets segment, following Kookmin Credit Card s merger with us in September 2003.

Provision for loan losses decreased 88.2% from (Won)2,434 billion in 2002 to (Won)287 billion in 2003. The provision for loan losses for 2003 does not include (Won)1,438 billion of provision for loan losses recorded during

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the first three quarters of 2003 by Kookmin Credit Card that was reclassified as non-interest expense in 2003, as part of a provision for losses due to the merger of Kookmin Credit Card with us. Including such amount, provision for loan losses decreased 41.4% from 2002 to 2003, primarily as a result of the decrease in outstanding credit card balances. However, we continued to experience high levels of delinquencies in 2003, and also became subject to higher regulatory minimum provisioning ratios required for banks with respect to balances previously held by Kookmin Credit Card following its merger with us, which partially offset the effects of the decrease in outstanding credit card balances.

Non-interest income decreased 11.6% from (Won)1,778 billion in 2002 to (Won)1,571 billion in 2003. This decrease resulted principally from a decrease in the total volume of credit card transactions, which led to a decrease in installment purchase fees and fees and commissions received from member merchants, who are charged from 1.0% to 4.5% on transaction amounts based on balance of credit and frequency of usage. In addition, non-interest income declined because trading and investment securities and derivatives of Kookmin Credit Card were combined with us and, accordingly, such revenues related to trading and investment securities and derivatives were reclassified to the international banking and capital markets segment, following its merger with us in September 2003.

Non-interest expense, which includes depreciation and amortization, increased 302.9% from (Won)1,432 billion in 2002 to (Won)5,770 billion in 2003 primarily due to a one-time provision recorded in 2003 for losses due to the merger of Kookmin Credit Card with us of (Won)1,652 billion (comprising a provision for loan losses of (Won)1,438 billion and a loss on valuation of securities of (Won)214 billion) for the first three quarters of 2003. In addition, administrative expenses relating to the collection of delinquent balances increased due to an increase in such balances.

**Corporate Banking**

Our corporate banking segment handles our transactions with private and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities, deposits in foreign currencies and foreign currency activities. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
<b>Income statement data:</b>					
Interest income	(Won) 3,183	(Won) 3,398	(Won) 2,960	6.8%	(12.9)%
Interest expense	2,296	2,234	1,838	(2.7)	(17.7)
Provision for loan losses	171	830	896	385.4	8.0
Non-interest income	247	251	159	1.6	(36.7)
Non-interest expense including depreciation and amortization	723	791	798	9.4	0.9
Net income (loss) before tax (1)	240	(206)	(413)	N/M	100.5
Income tax (1)(2)	74	(73)	(168)	(198.6)	130.1
Net income (1)	(Won) 166	(Won) (133)	(Won) (245)	N/M	84.2

- (1) N/M = not meaningful.
- (2) Portion of income tax allocated to this segment.

*Comparison of 2004 to 2003*

Our net loss before tax for this segment increased from (Won)206 billion in 2003 to (Won)413 billion in 2004. As in 2003, income tax allocation for 2004 had a positive effect on net loss from this segment, which was (Won)245 billion.

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Interest income from our corporate banking activities decreased 12.9% from (Won)3,398 billion in 2003 to (Won)2,960 billion in 2004. This decrease was primarily due to a 4.0% decrease in average corporate lending volumes from (Won)47,153 billion in 2003 to (Won)45,248 billion in 2004, reflecting a decline principally of loans to small- and medium-sized enterprises as a result of significant charge-offs. The effect of this decrease was enhanced by a decrease in average interest rates from 6.97% in 2003 to 6.33% in 2004 principally as a result of the general decline in market interest rates.

Interest expense represents the internal transfer cost for the use of funds. Interest expense decreased 17.7% from (Won)2,234 billion in 2003 to (Won)1,838 billion in 2004. This decrease was primarily due to a 17.5% decrease in interest expense relating to inter-segment borrowing, primarily from our retail banking segment, from (Won)2,229 billion in 2003 to (Won)1,838 billion in 2004, as a result of a decline in the average inter-segment interest rates on such borrowings in line with the general decline in market interest rates. This decrease was enhanced by a 4.0% decrease in the average volume such inter-segment borrowing.

Provision for loan losses on commercial loans increased 8.0% from (Won)830 billion in 2003 to (Won)896 billion in 2004, primarily due to the deterioration in the asset quality of our loans to small- and medium-sized enterprises, including SOHO borrowers.

Non-interest income decreased 36.7% from (Won)251 billion in 2003 to (Won)159 billion in 2004. This decrease was primarily due to a decrease in recoveries of certain interest and fee income from loans that were charged off.

Non-interest expense, which includes depreciation and amortization, increased 0.9% from (Won)791 billion in 2003 to (Won)798 billion in 2004, primarily due to an increase in losses on sales of loans mainly as result of the higher volume of such sales in 2004 compared to 2003.

### *Comparison of 2003 to 2002*

Our net income before tax for this segment decreased from a profit of (Won)240 billion in 2002 to a loss of (Won)206 billion in 2003, primarily due to increased provision for loan losses. For 2003, income tax allocation had a positive effect on net loss from this segment, which was (Won)133 billion.

Interest income from our corporate banking activities increased 6.8% from (Won)3,183 billion in 2002 to (Won)3,398 billion in 2003. This increase was primarily due to a 16.7% increase in average corporate lending volumes from (Won)40,391 billion in 2002 to (Won)47,153 billion in 2003, reflecting higher loan demand principally from small- and medium-sized enterprises. The effect of this increase was partially offset by a decrease in average interest rates from 7.30% in 2002 to 6.97% in 2003 principally as a result of the general decline in market interest rates.

Interest expense decreased 2.7% from (Won)2,296 billion in 2002 to (Won)2,234 billion in 2003. This decrease was primarily due to a 2.0% decrease in interest expense relating to inter-segment borrowing, primarily from our retail banking segment, from (Won)2,271 billion in 2002 to (Won)2,229 billion in 2003, as a result of a decline in the average inter-segment interest rates on such borrowings in line with the general decline in market interest rates.

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Provision for loan losses on commercial loans increased 385.4% from (Won)171 billion in 2002 to (Won)830 billion in 2003. This increase was primarily due to deterioration in the financial condition of two large corporate borrowers, LG Card and SK Networks (formerly SK Global). Deterioration in the asset quality of our loans to small- and medium-sized enterprises and an increase of the average volume of corporate loans also contributed to the increase in provision for loan losses.

Non-interest income increased 1.6% from (Won)247 billion in 2002 to (Won)251 billion in 2003. This increase was primarily due to an increase in gain on sales of loans from (Won)16 billion in 2002 to (Won)61 billion in 2003, as a result of the higher volume of such sales in 2003 compared to 2002. The increase was partially offset by a decrease in



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credit review fees, which resulted from the deferral and amortization of such fees as part of loan origination costs commencing in 2003 due to the adoption of a new accounting principle under Korean GAAP.

Non-interest expense, which includes depreciation and amortization, increased 9.4% from (Won)723 billion in 2002 to (Won)791 billion in 2003 primarily due to an increase in losses on sales of loans resulting from transfers of non-performing loans to special purpose entities in 2003.

**International Banking and Capital Markets**

Our international banking and capital markets segment handles our treasury activities and dealing of trading and investment securities as well as raising foreign currency funding through debentures and borrowings in foreign currencies and making loans overseas from our overseas branches and subsidiaries. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
<b>Income statement data:</b>					
Interest income	(Won) 2,830	(Won) 3,120	(Won) 2,417	10.2%	(22.5)%
Interest expense	3,089	3,080	2,660	(0.3)	(13.6)
Provision for loan losses	(5)	(27)	(10)	440.0	(63.0)
Non-interest income	3,769	2,983	7,141	(20.9)	139.4
Non-interest expense including depreciation and amortization	3,110	2,239	6,647	(28.0)	196.9
Net income before tax	405	811	261	100.2	(67.8)
Income tax (1)	123	333	213	170.7	(36.0)
Net income	(Won) 282	(Won) 478	(Won) 48	69.5%	(90.0)%

(1) Portion of income tax allocated to this segment.

**Comparison of 2004 to 2003**

Our net income before tax for this segment decreased 67.8% from (Won)811 billion in 2003 to (Won)261 billion in 2004.

Interest income decreased 22.5% from (Won)3,120 billion in 2003 to (Won)2,417 billion in 2004. The decrease was primarily due to a decrease in income from investment securities and from amounts due from financial institutions, as a result of a decrease in the average volume of such assets, as well as a decline in average interest rates due to the general decline in market interest rates.

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Interest expense decreased 13.6% from (Won)3,080 billion in 2003 to (Won)2,660 billion in 2004, due primarily to a decrease of interest expense relating to borrowings in both Won and foreign currency as a result of a decrease in average volume as well as in market interest rates.

Net reversal of provision for loan losses decreased from (Won)27 billion in 2003 to (Won)10 billion in 2004, primarily due to a decrease in the average volume of offshore loans in foreign currency while the asset quality of our foreign loans remained similar in 2004 compared to 2003.

Non-interest income increased 139.4% from (Won)2,983 billion in 2003 to (Won)7,141 billion in 2004, primarily due to a more than four-fold increase in revenues and valuation gains on derivatives from (Won)154 billion in 2003 to (Won)626 billion in 2004, which resulted mainly from higher transaction volume. This increase was enhanced by a 24.9% increase in revenues on trading securities from (Won)173 billion in 2003 to (Won)216 billion in 2004 mainly as a result of an increase in trading volume.

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Non-interest expense, which includes depreciation and amortization, increased 196.9% from (Won)2,239 billion in 2003 to (Won)6,647 billion in 2004, primarily due to a more than four-fold increase in losses (including valuation losses) on derivatives from (Won)147 billion in 2003 to (Won)605 billion in 2004, which resulted mainly from higher transaction volume. This increase was partially offset by a 60.1% decrease in loss on investment securities from (Won)268 billion in 2003 to (Won)107 billion in 2004 resulting from the improved valuation of such securities and lower losses on sales of such assets.

*Comparison of 2003 to 2002*

Our net income before tax for this segment increased 100.2% from (Won)405 billion in 2002 to (Won)811 billion in 2003.

Interest income increased 10.2% from (Won)2,830 billion in 2002 to (Won)3,120 billion in 2003. The increase was primarily due to an increase of interest income from inter-segment lending from our financial planning division, which is included in this segment, to other segments. In addition, interest income increased as a result of the reclassification into this segment of income from securities that Kookmin Credit Card had held, as described above. These increases were partially offset by a decrease of income from trading and investment securities and from amounts due from financial institutions as a result of a decrease in the average volume of such assets, as well as a decline in average interest rates due to the general decline in market interest rates.

Interest expense remained relatively constant at (Won)3,089 billion in 2002 compared to (Won)3,080 billion in 2003. This was primarily due to the offsetting effects of a decrease of interest expense relating to borrowings in both won and foreign currency as a result of the decline in the market interest rates, and an increase in interest expense resulting from the reclassification into this segment of expenses related to debentures and borrowings of Kookmin Credit Card, as described above.

Net reversal of provision for loan losses improved from (Won)5 billion in 2002 to (Won)27 billion in 2003 primarily due to a decrease in the average volume of offshore loans in foreign currency in 2003 and improvements in the asset quality of our foreign loans.

Non-interest income decreased 20.9% from (Won)3,769 billion in 2002 to (Won)2,983 billion in 2003 primarily due to a 38.9% decrease in revenues on trading securities from (Won)283 billion in 2002 to (Won)173 billion in 2003 mainly as a result of a decrease in trading volume. In addition, revenues and valuation gains on derivatives decreased. These decreases were partially offset by an increase in gain on sales of investment securities, as well as the reclassification into this segment of revenues related to trading and investment securities and derivatives of Kookmin Credit Card, as described above.

Non-interest expense, which includes depreciation and amortization, decreased 28.0% from (Won)3,110 billion in 2002 to (Won)2,239 billion in 2003 primarily due to an 43.2% decrease in loss on investment securities from (Won)472 billion in 2002 to (Won)268 billion in 2003 resulting from improved valuations of such securities and reduced losses on sales of such assets. In addition, losses relating to sales and valuations of derivatives and losses relating to sales of foreign currency decreased.

**Table of Contents****Other**

Other includes our trust account management operations, activities of foreign branches, the operations within our guaranteed money trust accounts, which are included in our consolidated financial statements under Korean GAAP, and the operations of all of our consolidated subsidiaries. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Year ended December 31,	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)			(% change)	
<b>Income statement data</b>					
Interest income	(Won) 454	(Won) 355	(Won) 255	(21.8)%	(28.2)%
Interest expense	358	200	212	(44.1)	6.0
Provision for loan losses	(73)	116	49	(258.9)	(57.8)
Non-interest income	962	842	674	(12.5)	(20.0)
Non-interest expense including depreciation and amortization	1,030	871	623	(15.4)	(28.5)
Net income (loss) before tax	(Won) 101	(Won) 10	(Won) 45	(90.1)	350.0
Income tax (1)	38	14	11	(63.2)	(21.4)
Net income (2)	(Won) 63	(Won) (4)	(Won) 34	(106.3)%	N/M

(1) Portion of income tax allocated to this segment.

(2) N/M = not meaningful.

**Comparison of 2004 to 2003**

Our net income before tax for this segment increased 350.0% from (Won)10 billion in 2003 to (Won)45 billion in 2004.

Interest income decreased 28.2% from (Won)355 billion in 2003 to (Won)255 billion in 2004. This decrease was primarily due to a 23.3% decrease of interest income in our guaranteed trust accounts from (Won)210 billion in 2003 to (Won)161 billion in 2004, which resulted mainly from a decrease in the average volume of interest earning assets in those accounts. This decrease was enhanced by a decline in average interest rates applicable to such assets due to the general decline in market interest rates.

Interest expense increased 6.0% from (Won)200 billion in 2003 to (Won)212 billion in 2004 primarily due to an increase in payments to our trust customers, which we classify as interest expense, as a result of increased returns attributable to an improvement in the asset quality of our principal and interest guaranteed trusts and principal guaranteed trusts, which was partially offset by a decline in average interest rates. Also, interest expense paid to our non-guaranteed trust accounts increased due to an increase of the average volume of borrowings from such trust accounts.

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Provision for loan losses decreased 57.8% from (Won)116 billion in 2003 to (Won)49 billion in 2004 primarily due to a decrease in the average volume of loans provided by the trust accounts, as well as their improved asset quality.

Non-interest income decreased 20.0% from (Won)842 billion in 2003 to (Won)674 billion in 2004 primarily due to a 52.4% decrease in trust fee income from our non-guaranteed trust accounts from (Won)248 billion in 2003 to (Won)118 billion in 2004, an 8.0% decrease in fee income from managing the National Housing Fund from (Won)175 billion in 2003 to (Won)161 billion in 2004, and a decline in non-interest income from our guaranteed trust accounts as a result of a decrease in the average volume of guaranteed trust account assets.

Non-interest expense, which includes depreciation and amortization, decreased 28.5% from (Won)871 billion in 2003 to (Won)623 billion in 2004, primarily due to a decline in non-interest expense in our guaranteed trust accounts as a result of a decrease in the average volume of guaranteed trust account deposits.

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*Comparison of 2003 to 2002*

Our net income before tax for this segment decreased 90.1% from (Won)101 billion in 2002 to (Won)10 billion in 2003.

Interest income decreased 21.8% from (Won)454 billion in 2002 to (Won)355 billion in 2003. This decrease was primarily due to a 30% decrease of interest income in our guaranteed trust accounts from (Won)300 billion in 2002 to (Won)210 billion in 2003 as a result of a decrease in the average volume of interest earning assets in those accounts and a decline in average interest rates due to the general decline in market interest rates.

Interest expense decreased 44.1% from (Won)358 billion in 2002 to (Won)200 billion in 2003 primarily due to a decrease of interest expense in our guaranteed trust accounts as a result of a decrease in the average volume of interest bearing liabilities in those accounts and a decline in average interest rates. Also, interest expense paid to our non-guaranteed trust accounts increased due to an increase of the average volume of borrowings from such trust accounts.

Provision for loan losses changed from a net reversal of provision of (Won)73 billion in 2002 to a provision of (Won)116 billion in 2003 primarily due to the absence in 2003 of debt-to-equity conversions of our trust account loans, which had resulted in reversals of provision in 2002.

Non-interest income decreased 12.5% from (Won)962 billion in 2002 to (Won)842 billion in 2003 primarily due to a 22.0% decrease in trust fee income from our non-guaranteed trust accounts from (Won)318 billion in 2002 to (Won)248 billion in 2003, a 10.0% decrease in fee income from managing the National Housing Fund from (Won)195 billion in 2002 to (Won)175 billion in 2003, and a decline in non-interest income from our guaranteed trust accounts as a result of a decrease in the average volume of guaranteed trust account assets. These decreases were partially offset by an increase in commissions received from collecting amounts owed on delinquent loans through our KB Credit Information operations.

Non-interest expense, which includes depreciation and amortization, decreased 15.4% from (Won)1,030 billion in 2002 to (Won)871 billion in 2003 primarily due to a decline in non-interest expense in our guaranteed trust accounts as a result of a decrease in the average volume of guaranteed trust account deposits.

**Table of Contents****Item 5B. Liquidity and Capital Resources****Financial Condition****Assets**

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			% Change	
	2002	2003	2004	2003/2002	2004/2003
	(in billions of Won)				
Cash and cash equivalents	(Won) 3,328	(Won) 3,170	(Won) 2,818	(4.7)%	(11.1)%
Restricted cash	1,580	2,770	1,822	75.3	(34.2)
Interest-bearing deposits in other banks	564	563	597	(0.2)	6.0
Call loans and securities purchased under resale agreements	229	3,959	2,993	1,628.8	(24.4)
Trading assets	6,368	3,517	6,096	(44.8)	73.3
Investments (1)	24,223	22,427	23,095	(7.4)	3.0
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	40,072	41,096	38,427	2.6	(6.5)
Construction	6,385	6,061	4,459	(5.1)	(26.4)
Lease financing					
Other commercial	1,045	742	771	(29.0)	3.9
Total commercial	47,502	47,899	43,567	0.8	(9.0)
Consumer:					
Credit cards	22,643	15,322	9,421	(32.3)	(38.5)
Mortgage and home equity	46,195	52,477	57,965	13.6	10.5
Other consumer	28,066	28,727	25,963	2.4	(9.6)
Total consumer	96,904	96,526	93,349	(0.4)	(3.3)
Total domestic	144,406	144,425	137,006		(5.1)
Foreign:					
Commercial and industrial	1,426	1,433	1,118	0.5	(22.0)
Total foreign	1,426	1,433	1,118	0.5	(22.0)
Deferred origination costs	119	127	131	6.7	3.1
Less allowance for loan losses	(5,195)	(5,772)	(4,461)	11.1	(22.7)
Total loans	140,756	140,213	133,794	(0.4)	(4.6)
Due from customers on acceptances	881	605	743	(31.3)	22.8
Premises and equipment, net	2,121	1,909	1,637	(10.0)	(14.2)
Accrued interest and dividends receivable	1,116	995	871	(10.8)	(12.5)

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Security deposits	1,337	1,331	1,285	(0.4)	(3.5)
Goodwill and other intangible assets	631	818	730	29.6	(10.8)
Other assets	965	1,702	1,055	76.4	(38.0)
	<u>          </u>	<u>          </u>	<u>          </u>		
Total assets	(Won) 184,099	(Won) 183,979	(Won) 177,536	(0.1)%	(3.5)%
	<u>          </u>	<u>          </u>	<u>          </u>		

(1) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other investments.

*Comparison of 2004 to 2003*

Our assets decreased 3.5% from (Won)183,979 billion as of December 31, 2003 to (Won)177,536 billion as of December 31, 2004, primarily due to a decrease in credit card balances, other consumer loans, commercial and industrial loans and construction loans, which were partially offset by an increase in our mortgage and home equity loans and trading assets.



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Our loans (net of loan loss allowances) decreased 4.6% from (Won)140,213 billion as of December 31, 2003 to (Won)133,794 billion as of December 31, 2004.

Credit card balances decreased 38.5% from (Won)15,322 billion as of December 31, 2003 to (Won)9,421 billion as of December 31, 2004. Other consumer loans decreased 9.6% from (Won)28,727 billion as of December 31, 2003 to (Won)25,963 billion as of December 31, 2004. Commercial and industrial loans decreased 6.5% from (Won)41,096 billion as of December 31, 2003 to (Won)38,427 billion as of December 31, 2004. Construction loans decreased 26.4% from (Won)6,061 billion as of December 31, 2003 to (Won)4,459 billion as of December 31, 2004.

These decreases were partially offset by a (Won)5,488 billion increase in mortgage and home equity loans from (Won)52,477 billion as of December 31, 2003 to (Won)57,965 billion as of December 31, 2004 and (Won)2,579 billion increase in trading assets from (Won)3,517 billion as of December 31, 2003 to (Won)6,096 billion as of December 31, 2004.

*Comparison of 2003 to 2002*

Our assets remained relatively stable at (Won)183,979 billion as of December 31, 2003 compared to (Won)184,099 billion as of December 31, 2002, as increases primarily in mortgage and home equity loans and other consumer loans were largely offset by a decrease in credit card balances.

Our loans (net of loan loss allowances) remained relatively stable at (Won)140,213 billion as of December 31, 2003 compared to (Won)140,756 billion as of December 31, 2002.

Mortgage and home equity loans increased 13.6% from (Won)46,195 billion as of December 31, 2002 to (Won)52,477 billion as of December 31, 2003. Call loans and securities purchased under resale agreements increased 1,628.8% from (Won)229 billion as of December 31, 2002 to (Won)3,959 billion as of December 31, 2003. Commercial and industrial loans increased 2.6% from (Won)40,072 billion as of December 31, 2002 to (Won)41,096 billion as of December 31, 2003.

These increases were primarily offset by a (Won)7,321 billion decrease in credit card balances from (Won)22,643 billion as of December 31, 2002 to (Won)15,322 billion as of December 31, 2003, a (Won)2,851 billion decrease in trading assets from (Won)6,368 billion as of December 31, 2002 to (Won)3,517 billion as of December 31, 2003 and a (Won)1,796 billion decrease in investments from (Won)24,223 billion as of December 31, 2002 to (Won)22,427 billion as of December 31, 2003.

**Table of Contents****Liabilities and Stockholders Equity**

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our stockholders equity:

	As of December 31,			% Change	
	2002	2003	2004	2003/2002	2004/2003
(in billions of Won)					
Deposits					
Interest bearing	(Won) 118,654	(Won) 128,144	(Won) 123,203	8.0%	(3.9)%
Non-interest bearing	3,745	3,460	3,017	(7.6)	(12.8)
Call money	306	225	652	(26.5)	189.8
Trading liabilities	625	762	2,297	21.9	201.4
Acceptances outstanding	881	605	743	(31.3)	22.8
Other borrowed funds	15,856	12,895	9,514	(18.7)	(26.2)
Accrued interest payable	4,463	3,938	3,495	(11.8)	(11.2)
Secured borrowings	7,864	8,207	6,121	4.4	(25.4)
Long-term debt	20,165	16,607	17,899	(17.6)	7.8
Other liabilities	2,634	2,552	2,900	(3.1)	13.6
<b>Total liabilities</b>	<b>(Won) 175,193</b>	<b>(Won) 177,395</b>	<b>(Won) 169,841</b>	<b>1.3%</b>	<b>(4.3)%</b>
Minority interest	71	16	13	(77.5)	(18.8)
Common stock	1,641	1,682	1,682	2.5	0.0
Additional paid-in capital	5,146	5,393	5,400	4.8	0.1
Other (1)	2,048	(507)	600	N/M	N/M
<b>Stockholders equity</b>	<b>8,835</b>	<b>6,568</b>	<b>7,682</b>	<b>(25.7)</b>	<b>17.0</b>
<b>Total liabilities, minority interest and stockholders equity</b>	<b>(Won) 184,099</b>	<b>(Won) 183,979</b>	<b>(Won) 177,536</b>	<b>(0.1)%</b>	<b>(3.5)%</b>

(1) N/M = Not meaningful.

*Comparison of 2004 to 2003*

Our total liabilities decreased 4.3% from (Won)177,395 billion as of December 31, 2003 to (Won)169,841 billion as of December 31, 2004, principally due to decreases in interest bearing deposits, other borrowed funds and secured borrowings, which were partially offset by increases in trading liabilities and long-term debt.

Our interest bearing deposits decreased 3.9% from (Won)128,144 billion as of December 31, 2003 to (Won)123,203 billion as of December 31, 2004, primarily due to decreases in savings deposits, certificates of deposit and mutual installment deposits.

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Other borrowed funds decreased 26.2% from (Won)12,895 billion as of December 31, 2003 to (Won)9,514 billion as of December 31, 2004. Secured borrowings decreased 25.4% from (Won)8,207 billion as of December 31, 2003 to (Won)6,121 billion as of December 31, 2004.

Trading liabilities increased 201.4% from (Won)762 billion as of December 31, 2003 to (Won)2,297 billion as of December 31, 2004. Long-term debt increased 7.8% from (Won)16,607 billion as of December 31, 2003 to (Won)17,899 billion as of December 31, 2004.

Our stockholders' equity increased by 17.0% from (Won)6,568 billion as of December 31, 2003 to (Won)7,682 billion as of December 31, 2004. This increase resulted principally from an increase in retained earnings, which was attributable mainly to our significant net income in 2004.

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*Comparison of 2003 to 2002*

Our total liabilities increased 1.3% from (Won)175,193 billion as of December 31, 2002 to (Won)177,395 billion as of December 31, 2003, principally due to increases in interest bearing deposits and secured borrowings, which were partially offset by decreases in long-term debt and other borrowed funds.

Our interest bearing deposits increased 8.0% from (Won)118,654 billion as of December 31, 2002 to (Won)128,144 billion as of December 31, 2003, primarily due to increases in savings deposits, certificates of deposit and other time deposits. Secured borrowings increased 4.4% from (Won)7,864 billion as of December 31, 2002 to (Won)8,207 billion as of December 31, 2003.

Long term debt declined 17.6% from (Won)20,165 billion as of December 31, 2002 to (Won)16,607 billion as of December 31, 2003. Other borrowed funds declined 18.7% from (Won)15,856 billion as of December 31, 2002 to (Won)12,895 billion as of December 31, 2003.

Our stockholders' equity declined 25.7% from (Won)8,835 billion as of December 31, 2002 to (Won)6,568 billion as of December 31, 2003. This decline resulted principally from a decline in retained earnings, which was attributable mainly to our significant net loss in 2003, as well as our repurchase in December 2003 of 27,423,761 shares of our common stock from the Korean government at a price of (Won)43,700 per share, which we held as treasury stock.

***Liquidity***

Since we are a retail bank, our primary source of funding (which includes deposits, long-term debt, borrowings from the Bank of Korea and other short-term borrowings, secured borrowings and call money) has historically been and continues to be customer deposits. Deposits amounted to (Won)122,399 billion, (Won)131,604 billion and (Won)126,220 billion as of December 31, 2002, 2003 and 2004, which represented approximately 73.5%, 77.6% and 78.7% of our total funding, respectively. We have been able to use increases in customer deposits in recent years to finance our operations generally, including meeting a portion of our liquidity requirements. We also use cash and cash equivalents, payments on loans and sales of short-term securities to meet our liquidity needs. Other sources of liquidity available to us include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to (Won)16,162 billion, (Won)13,121 billion and (Won)10,166 billion as of December 31, 2002, 2003 and 2004 and represented 9.7%, 7.7% and 6.3% of our total funding, respectively. These types of borrowings have maturities of less than one year. For a more detailed description of our funding sources, see Item 4B. Business Overview Funding.

The Financial Supervisory Commission of Korea requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

We are exposed to liquidity risk arising from withdrawals of deposits and maturities of our borrowings, as well as the need to fund our lending, trading and investment activities and the management of our trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Liquidity Risk Management.



**Table of Contents****Contractual Cash Obligations**

The following table sets forth our contractual cash obligations as of December 31, 2004.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in billions of Won)				
Long-term debt obligations (1)	(Won) 17,899	(Won) 2,881	(Won) 7,769	(Won) 4,068	(Won) 3,181
Secured borrowings (2)	2,448	1,121	1,322	5	
<b>Total</b>	<b>(Won) 20,347</b>	<b>(Won) 4,002</b>	<b>(Won) 9,091</b>	<b>(Won) 4,073</b>	<b>(Won) 3,181</b>

- (1) Long-term debt includes senior debt and subordinated debt, as contained in Note 19 to our consolidated financial statements. The above table excludes short-term bank borrowings, secured borrowings and deposits since these are generally short-term in nature.
- (2) Excluding securities purchased under resale agreements.

**Commitments and Guarantees**

The following table sets forth our commitments and guarantees as of December 31, 2004. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated balance sheet. Guarantees issued after December 31, 2002 are recorded at their fair value at inception, which is amortized over the life of guarantees.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in billions of Won)				
Financial guarantees	58	58			
Performance guarantees	712	379	279	54	
Credit derivatives	42		42		
Liquidity facilities to special purpose entities (1)	4,701	861	3,330	380	130
Loans sold with recourse to Korea Asset Management Corporation	1			1	
Trust fund guarantees	3,162				3,162
<b>Total</b>	<b>(Won) 8,676</b>	<b>(Won) 1,298</b>	<b>(Won) 3,651</b>	<b>(Won) 435</b>	<b>(Won) 3,292</b>

- (1) Including securities purchased under resale agreements.

***Capital Adequacy***

The following discussion and the figures herein are based on the Korean GAAP statistics we prepared for regulatory reporting purposes in Korea. We are subject to Financial Supervisory Commission capital adequacy requirements, which have been formulated based on, and are consistent in all material respects with, the capital adequacy accord reached by the Basel Committee of Banking Supervision, Bank for International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk-weighted assets, as determined by a specified formula, of 8.0%. The Bank for International Settlements has adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivative instruments held by banks. These changes became applicable to most Korean banks commencing in 2002. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy and Allowances.

As of December 31, 2004, our capital adequacy ratio was 11.01%, compared to 9.81% as of December 31, 2003. This increase resulted principally from increases in our retained earnings due to our net income, as well as the issuance of subordinated bonds and a decrease in our risk-weighted assets in 2004.

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As of December 31, 2003, our capital adequacy ratio was 9.81%, compared to 10.41% as of December 31, 2002. This decrease resulted principally from the purchase of our common stock from the Korean government in December 2003.

In September 2003, we issued 8,120,431 shares of our common stock to shareholders of Kookmin Credit Card in connection with our merger with Kookmin Credit Card.

In November 2002, a subsidiary of Goldman Sachs Capital Koryo exercised its right to convert \$200 million in convertible bonds into shares of our common stock. As a result of this conversion, we issued an additional 10,581,269 shares of our common stock, and our stockholders' equity increased by (Won)234 billion.

The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 2002, 2003 and 2004.

	As of December 31,					
	2002		2003		2004	
	(in billions of Won, except percentage)					
	(Won)	9,178	(Won)	7,681	(Won)	8,077
Tier I capital:						
Paid-in capital		1,641		1,682		1,682
Capital reserves		5,791		6,060		6,061
Retained earnings		2,462		1,536		1,897
Minority interests in consolidated subsidiaries		252		17		28
Others		(968)		(1,614)		(1,591)
Tier II capital:		5,319		5,187		5,901
Revaluation reserves		177		177		177
Allowance for loan losses (1)		1,499		1,468		1,435
Hybrid debt		435		439		537
Subordinated debt (2)		3,127		3,035		3,482
Valuation gain on investment securities		81		68		270
Investment in non-consolidated equity investees (3)		(58)		(159)		(153)
Subordinated notes from securitizations				(210)		(490)
Total core and supplementary capital		14,439		12,500		13,335
Risk-weighted assets		138,703		127,370		121,082
On-balance sheet		132,946		122,054		115,969
Off-balance sheet		4,929		4,160		3,970
Market risk (4)		828		1,156		1,143
Capital adequacy ratio		10.41%		9.81%		11.01%
Tier I capital		6.62		6.03		6.67
Tier II capital		3.79		3.78		4.34

- (1) Reserves for possible loan losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.
- (2) The subordinated debt representing 50% of Tier I capital is used in the calculation of Tier II capital.
- (3) Equity investees engaged in banking and financial activities of which we own more than 15% are deducted from total capital, not deducted directly from Tier I and Tier II pursuant to the guidelines of the Financial Supervisory Service.
- (4) Net of risk-weighted assets related to credit risk with respect to our trading activities account.



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In December 2003, we purchased 27,423,761 shares of our common stock in the Korean government's auction of the shares that it had owned, which reduced our capital adequacy ratio by 0.9% based on our financial condition as of December 31, 2003. We subsequently sold all of these shares in an over-the-counter transaction in June 2005.

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In December 2004, the Financial Supervisory Service announced that it would implement Basel II in Korea by the end of 2007. Basel II, which builds upon the initial Basel Capital Accord of 1988, focuses its attention on risk assessment and credit risk in particular. Basel II institutes new measures that will require us to:

take into account individual borrower credit when calculating our risk-weighted assets, unlike in the past; and

quantify our operational risk to include explicit capital requirements in our financial statements.

In addition, under Basel II, we are permitted to follow either a standardized rating model, or an internal rating model with respect to calculating capital requirements. We have, subject to approval from the Financial Supervisory Service, voluntarily chosen to establish and follow an internal rating model, which is more stringent in terms of calculating risk sensitivity with respect to our capital requirements. Since we will be implementing this model for the first time in connection with our implementation of Basel II, our internal rating model may require an increase in our capital requirements under Korean GAAP, which will require us to either improve our asset quality or raise additional capital.

### ***Recent Accounting Pronouncements***

#### ***FIN No. 46 and FIN No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51***

In January 2003, the Financial Accounting Standards Board ( FASB ) issued Financial Interpretation Number ( FIN ) No. 46 that addressed consolidation by business enterprises where equity investors did not bear the residual economic risks and rewards. These entities were commonly referred to as special purpose entities although non-special purpose entities were also subject to this interpretation. The underlying principle behind FIN No. 46 was that if a business enterprise has the majority financial interest in an entity, which is defined in the guidance as a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements with those of the business enterprise. FIN No. 46 also explains how to identify variable interest entities and how an enterprise should assess its interest in an entity when deciding whether or not it will consolidate that entity.

The provisions of FIN No. 46 were adopted for variable interests in variable interest entities created after January 31, 2003. The adoption of this interpretation had a significant impact on our results of operations and financial condition.

In December 2003, the FASB issued FIN No. 46R, which clarified and interpreted certain of the provisions of FIN No. 46, without changing the basic accounting model in FIN No. 46. Adoption of this interpretation did not have a material impact on our results of operations or financial condition. More information related to the adoption of FIN No. 46 and FIN No. 46R is presented in Note 11 of our consolidated financial statements.

#### ***Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer***

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In December 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer ( SOP No. 03-3 ). SOP No. 03-3 requires impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans. SOP No. 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. SOP No. 03-3 is not expected to have a material impact on the Bank's results of operations or financial condition.

### *SFAS No. 123 (revised 2004), Share-Based Payment*

In December 2004, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment, ( SFAS No. 123R ), which revised SFAS 123 and eliminated the ability

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to account for share-based compensation transactions using Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R generally requires that such transactions be accounted for using a fair value-based method with the resulting compensation cost recognized over the period that the employee is required to provide service in order to receive their compensation. SFAS No. 123R also amends SFAS No. 95, Statement of Cash Flows, requiring the benefits of tax deductions in excess of recognized cash flows to be reported as a financing cash flow, rather than as a reduction of taxes paid as currently required. In April 2005, the Securities and Exchange Commission approved a new rule that delays the effective date of SFAS No. 123R. Under the Securities and Exchange Commission's rule, SFAS No. 123R will be effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. We plan to adopt SFAS No. 123R beginning January 1, 2006. We adopted the fair value method of accounting for stock-based compensation as of January 1, 2003, and as a result, adoption of SFAS No. 123R is not expected to have a material impact on our results of operations or financial condition.

***EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments***

In March 2004, the Emerging Issues Task Force ( EITF ) issued EITF No. 03-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments ( EITF No. 03-1 ). EITF No. 03-1 provides recognition and measurement guidance regarding when impairments of equity and debt securities are considered other than temporary thereby requiring a charge to earnings, and also requires additional annual disclosures for investments in unrealized loss positions. The additional annual disclosures were previously issued by the EITF in November 2003 and were effective with respect to us for the year ended December 31, 2003. The disclosures required by EITF No. 03-1 are presented in Note 10 of our consolidated financial statements.

In September 2004, the FASB issued FASB Staff Position ( FSP ) EITF No. 03-1-1, which delayed the recognition and measurement provisions of EITF No. 03-1 pending the issuance of further implementation guidance. Accordingly, we are currently in the process of analyzing and interpreting the effect of the proposed recognition and measurement provisions of EITF No. 03-1.

***Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments***

In March 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments ( SAB No. 105 ), which specifies that servicing assets embedded in commitments to originate loans to be held-for-sale should be recognized only when the servicing asset has been contractually separated from the associated loans by sale or securitization. The adoption of SAB No. 105 is effective for commitments entered into after March 31, 2004. The adoption of SAB No. 105 did not have a significant impact on our results of operations or financial condition.

**Selected Financial Information Under Korean GAAP**

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of (Won)7 billion. Substantial control is deemed to exist when the investor is the largest stockholder and owns more than 30% of the investee's voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Under Korean GAAP, financial statements of our trust accounts on which we guarantee a fixed rate of return and/or the repayment of principal are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as part of our consolidated assets and liabilities, and revenues and expenses generated from such third-party assets are reflected in our consolidated statement of operations. Activities between trusts and us are eliminated in consolidation.

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Beginning January 1, 1999, our financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Supervisory Commission.

**Consolidated Income Statement Data under Korean GAAP**

	Year ended December 31,					
	2000	2001 (1)	2002	2003 (2)(3)	2004	2004 (4)
						(in millions of US\$, except per common share data)
	(in billions of Won, except per common share data)					
Interest income	(Won) 6,788	(Won) 8,304	(Won) 13,088	(Won) 13,085	(Won) 11,190	\$ 10,811
Interest expense	4,947	5,502	7,008	6,476	5,541	5,353
Net interest income	1,841	2,802	6,080	6,609	5,649	5,458
Provision for possible loan losses	916	1,414	3,196	2,029	3,064	2,961
Net interest income after provision for possible loan losses	925	1,388	2,884	4,580	2,585	2,497
Non-interest revenue (5)	3,753	5,325	5,775	4,936	9,655	9,328
Non-interest expense (6)	3,514	5,177	6,703	6,595	10,546	10,189
Operating income	1,164	1,536	1,956	2,921	1,694	1,636
Non-operating loss, net	(30)	(180)	(138)	(4,181)	(1,071)	(1,034)
Net (loss) income before income tax expense	1,134	1,356	1,818	(1,260)	623	602
Income tax (benefit) expense	448	560	612	(418)	264	255
Net (loss) income before consolidation adjustments	686	796	1,206	(842)	359	347
Minority interest in (losses) earnings of consolidated subsidiaries	(94)	(121)	65	(77)	(3)	(3)
Other (7)		162				
Net income	(Won) 592	(Won) 837	(Won) 1,271	(Won) (919)	(Won) 356	\$ 344
Per common share data:						
Earnings per share-basic	(Won) 3,330	(Won) 4,188	(Won) 4,001	(Won) (2,818)	(Won) (1,162)	\$ (1.12)
Earnings per share-diluted	2,849	4,003	4,001	(2,818)	(1,161)	(1.12)
Cash dividends per common share (8)	500	100	1,000		550	0.53
Stock dividends per common share		300				

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- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
  - (2) Certain income statement accounts for 2003 have been restated based on review of the Financial Supervisory Service, which resulted in an increase in our net loss by (Won)177 billion.
  - (3) Certain income statement accounts for 2003 have been reclassified to conform to the presentation of the current year's financial statements. These reclassifications have no effect on previously reported net loss or shareholders' equity.
  - (4) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US\$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.
  - (5) Non-interest revenue includes fees and commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transactions and gains from derivative transactions.
  - (6) Non-interest expense is composed of fees and commissions paid or payable, general and administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.

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- (7) Prior to 2000, we recorded changes of equity interest in subsidiaries due to additional share issuance by these companies as consolidation adjustments and amortized the balances over five years using the straight-line method. From 2000, in accordance with the revised accounting standards for the consolidated financial statements, such changes of equity interest are recorded in consolidated capital surplus.
- (8) Ratios represent the periods to which the dividends relate.

**Consolidated Balance Sheet Data under Korean GAAP**

	Year ended December 31,					
	2000	2001 (1)	2002	2003 (2)(3)	2004	2004 (4)
	(in billions of Won)					
	(in millions of US\$)					
Cash and cash equivalents	(Won) 6,403	(Won) 7,843	(Won) 4,791	(Won) 6,561	(Won) 5,213	\$ 5,036
Foreign exchange (5)						
Loans (6)(7)(8)	60,462	118,982	138,456	145,067	138,969	134,257
Less: allowance for doubtful accounts (3)	(2,250)	(2,641)	(3,312)	(3,922)	(3,131)	(3,025)
Trading securities (9)	3,806	11,634	9,273	7,178	6,523	6,302
Investment securities (9)	16,839	26,653	27,589	22,159	24,147	23,328
Premises and equipment, net	1,452	3,291	3,360	3,025	2,637	2,548
Other assets (10)(11)	4,386	6,837	6,969	6,755	8,494	8,206
Consolidation adjustment debit						
<b>Total assets</b>	<b>91,098</b>	<b>172,599</b>	<b>187,126</b>	<b>186,823</b>	<b>182,852</b>	<b>176,652</b>
Deposits	57,979	120,449	126,891	135,373	130,134	125,721
Borrowings (12)(13)	9,649	17,073	15,473	10,751	9,360	9,043
Debentures	11,648	13,861	23,450	19,183	21,875	21,133
Other liabilities (14)	7,571	11,939	10,957	13,205	12,222	11,808
<b>Total liabilities</b>	<b>86,847</b>	<b>163,322</b>	<b>176,771</b>	<b>178,512</b>	<b>173,591</b>	<b>167,705</b>
Minority interests in consolidated subsidiaries	215	309	252	17	28	27
Stockholders equity	4,036	8,968	10,103	8,294	9,233	8,920
<b>Total liabilities, minority interest and stockholders equity</b>	<b>(Won) 91,098</b>	<b>(Won) 172,599</b>	<b>(Won) 187,126</b>	<b>(Won) 186,823</b>	<b>(Won) 182,852</b>	<b>\$ 176,652</b>

- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (2) Certain balance sheet accounts as of December 31, 2003 have been restated based on review of the Financial Supervisory Service, which resulted in a decrease in shareholders equity by (Won)177 billion.
- (3) Certain balance sheet accounts as of December 31, 2003 have been reclassified to conform to the presentation of the current year's financial statements. These reclassifications have no effect on previously reported net loss or shareholders equity. Before the reclassification, the allowance for doubtful accounts as of December 31, 2003 was (Won)3,725 billion.
- (4) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US\$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.
- (5) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies and are included in cash and cash equivalents and loans, respectively. The amounts of foreign currency and bills bought in foreign currencies as of December 31, 2000 were



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(Won)74 billion and (Won)925 billion, respectively. As of December 31, 2001, the amounts were (Won)147 billion and (Won)1,006 billion, respectively. As of December 31, 2002, the amounts were (Won)187 billion and (Won)756 billion, respectively. As of December 31, 2003, the amounts were (Won)228 billion and (Won)534 billion, respectively. As of December 31, 2004, the amounts were (Won)125 billion and (Won)575 billion, respectively.

- (6) Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets.

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- (7) Credit card assets are included in loans. The amount of credit card assets was (Won)6,214 billion, (Won)14,089 billion, (Won)14,968 billion, (Won)11,665 billion and (Won)7,644 billion as of December 31, 2000, 2001, 2002, 2003 and 2004, respectively.
- (8) Call loans are included in loans. The amount of call loans at December 31, 2000, 2001, 2002, 2003 and 2004 was (Won)991 billion, (Won)1,497 billion, (Won)319 billion, (Won)1,659 billion and (Won)2,824 billion, respectively.
- (9) Under Korean GAAP, all debt securities and marketable equity securities are accounted for on a similar basis to U.S. GAAP. However, adjustments for impairment can be reversed up to the original cost of the investment.
- (10) Guarantees and acceptances for which the amounts were determined do not appear on the balance sheet but are recorded as an off-balance sheet item in the notes to our consolidated financial statements. The amounts of guarantees and acceptances at December 31, 2000, 2001, 2002, 2003 and 2004 were (Won)3,060 billion, (Won)2,825 billion, (Won)1,048 billion, (Won)811 billion and (Won)976 billion, respectively.
- (11) Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network). Leasehold deposits are recorded as other assets on the balance sheet. Accumulated depreciation is recorded as a deduction from premises and equipment.
- (12) Borrowings consist mainly of borrowings from the Bank of Korea, the Korean government and other banking institutions.
- (13) Call money is included in borrowings at December 31, 2000, 2001, 2002, 2003 and 2004. The balance of call money as of those dates was (Won)762 billion, (Won)2,701 billion, (Won)306 billion, (Won)522 billion and (Won)655 billion, respectively.
- (14) Under Korean GAAP, contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Provisions are only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. The amounts of allowance as of December 31, 2000, 2001, 2002, 2003 and 2004 were (Won)37 billion, (Won)44 billion, (Won)2 billion, (Won)1 billion and (Won)1 billion, respectively. These amounts are included in other liabilities.

**Profitability and Other Ratios under Korean GAAP**

	Year ended December 31,				
	2000	2001	2002	2003	2004
	(percentages)				
<b>Net income as a percentage of:</b>					
Average total assets (1)	0.72%	0.76%	0.71%	(0.47)%	0.19%
Average stockholders' equity (1)	15.74	15.47	11.47	(7.36)	3.75
Dividend payout ratio (2)	25.16	14.32	25.58		47.36
Net interest spread (3)	2.14	2.11	3.93	3.57	3.39
Net interest margin (4)	2.45	2.59	3.87	3.76	3.39
Efficiency ratio (5)	62.82	63.51	56.54	57.13	68.91
Cost-to-average assets ratio (6)	4.28	4.67	3.75	3.34	5.66
Fee income as a percentage of total income (7)	13.95	15.5	13.10	13.56	12.45

- (1) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
- (2) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.
- (3) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
- (4) Net interest margin represents the ratio of net interest income to average interest earning assets.
- (5) Efficiency ratio represents the ratio of non-interest expense to the sum of net interest income and non-interest income.

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- (6) Cost-to-average assets ratio represents the ratio of non-interest expense to average total assets.
- (7) Fee income represents income other than interest income and other operating income, and excludes fees and commissions classified in those categories under Korean GAAP.

**Capital Ratios under Korean GAAP**

	Year ended December 31,				
	2000	2001	2002 (1)	2003 (1)	2004 (1)
	(percentages)				
Tier I capital adequacy ratio (2)	6.82	7.09	6.62	6.03	6.67
Tier II capital adequacy ratio (2)	4.36	3.18	3.79	3.78	4.34
Average stockholders equity as a percentage of average total assets	4.58	4.88	6.20	6.33	5.10

- (1) The method of calculating our capital and capital adequacy ratios changed from 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier I capital ratio would have been 6.66%, 6.09% and 6.73%, our Tier II capital ratio would have been 3.86%, 4.11% and 4.92% and our capital adequacy ratio would have been 10.47%, 9.90% and 11.12% as of December 31, 2002, 2003 and 2004, respectively.
- (2) The capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission, which guidelines are consistent with the capital adequacy accord reached by the Basel Committee of Banking Supervision, Bank for International Settlements in all material respects. The computation is prepared on a consolidated Korean GAAP basis.

**Credit Portfolio Ratios Under Korean GAAP**

	As of December 31,				
	2000	2001	2002	2003	2004
	(in billions of Won, except percentages)				
Non-performing loans (1)	(Won) 3,921	(Won) 3,925	(Won) 4,126	(Won) 4,962	(Won) 3,524
Non performing loans as a percentage of total loans	6.49%	3.30%	2.98%	3.45%	2.53%
Non performing loans as a percentage of total assets	4.30	2.27	2.20	2.66	1.93
Allowance for loan losses as a percentage of non-performing loans	48.97	46.96	40.04	44.62	47.86
Allowance for loan losses as a percentage of total loans	3.72	2.22	2.38	2.59	2.25
Non-performing credits as a percentage of total credits (2)	6.28	3.26	2.96	3.44	2.52
Won loans as a percentage of Won deposits (3)	97.86	97.36	95.20	97.35	99.41
Precautionary loans as a percentage of total loans	4.71	3.67	5.50	5.35	4.37
Precautionary and below loans as a percentage of total loans (4)	11.20	6.97	8.48	8.81	6.90
Precautionary and below loans as a percentage of total assets (4)	7.43	4.80	6.27	6.78	5.26

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Allowance for loan losses as a percentage of precautionary and below loans (4)	29.46	25.24	19.37	22.20	23.53
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- (1) Non-performing loans are defined in accordance with regulatory guidance in Korea. Since 2000, regardless of default on interest payments, loans to workout companies are classified using the same strict standards as those applied to the other companies. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks.
- (2) Credits include loans and confirmed guarantees and acceptances provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts. Loans, as defined for Korean GAAP purposes, include loans provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts.

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- (3) Under Korean GAAP, Won loans do not include bills bought in Won, advances for customers, credit card accounts, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower. Including these items, our ratios as of December 31, 2000, 2001, 2002, 2003 and 2004 would have been 99.16%, 95.77%, 108.67%, 109.74% and 109.55%, respectively.
- (4) As defined by the Financial Supervisory Commission.

**Reconciliation with Korean GAAP**

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in Note 1 to our consolidated financial statements. These principles and policies differ in some respect from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and stockholders' equity of the consolidated statements with Korean GAAP:

	<b>2004</b>
	<b>(in millions of won)</b>
<b>U.S. GAAP net income</b>	<b>1,031,750</b>
1 Provision for loan losses, guarantees and acceptances	(731,516)
2 Deferred loan costs	36,367
3 Equity method investments	(17,966)
4 Securities and hedging derivatives accounting	(818)
5 Other loan sale accounting	252,532
6 Fixed assets	(15)
7 Merger with Korea Long Term Credit Bank	(6,920)
8 Reversal of amortization of present value discounts	8,510
9 Foreign currency translation	(96,919)
10 Merger with H&CB	(86,509)
11 Minority interest	(605)
12 Merger with Kookmin Credit Card	16,060
13 Consolidation of fund represented by the wholly owned beneficiary certificates	(168,970)
14 Others	(52,828)
<b>Total of adjustments</b>	<b>(849,597)</b>
<b>Tax effect of adjustments</b>	<b>173,783</b>
<b>Korean GAAP net income</b>	<b>355,936</b>
<b>U.S. GAAP stockholders' equity</b>	<b>7,682,279</b>
1 Provision for loan losses, guarantees and acceptances	219,754
2 Deferred loan costs	(80,049)
3 Equity method investments	(87,306)
4 Securities and hedging derivatives accounting	225,887
5 Other loan sale accounting	(319,663)
6 Fixed assets	330,594
7 Merger with Korea Long Term Credit Bank	363,550
8 Reversal of amortization of present value discounts	151,671
9 Foreign currency translation	4,667
10 Merger with H&CB	649,740
11 Minority interest	27,640

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12 Merger with Kookmin Credit Card	(258,392)
13 Consolidation of fund represented by the wholly owned beneficiary certificates	6,498
14 Others	(7,765)
	<hr/>
<b>Total of adjustments</b>	<b>1,226,826</b>
<b>Tax effect of adjustments</b>	<b>352,096</b>
	<hr/>
<b>Korean GAAP stockholders equity</b>	<b>9,261,201</b>
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The following is a summary of the significant adjustments made to consolidated net income and stockholders' equity to reconcile the U.S. GAAP results with those under Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. We established the U.S. GAAP loan loss allowance for impaired non-homogeneous loans based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the fair value of the collateral if the loan was collateral dependent or (3) observable market prices if available. For small balance homogeneous impaired loan portfolios and consumer loans, we established the allowance for the loan losses based on an evaluation of the historical performance of the loan portfolios. Allowance for loans that were not impaired was based principally on historical migration patterns. Other factors that management considered when establishing reserves for loans include, but were not limited to, global and local economic events, delinquencies, changes in underwriting and changes in credit monitoring policies. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy.

Prior to 2004 year-end, the allowance for loan losses under Korean GAAP was determined based on the classification guidelines promulgated by the Financial Supervisory Commission (FSC), which require that the allowance should be equal to or greater than the allowance based on the minimum provisioning rate determined by the classification of the loan. Beginning with 2004 year-end, the allowance for loan losses under Korean GAAP has been determined at the larger of the allowance based on historical loss rates of loan portfolios or the one based on the loan classification guidelines of the FSC. For 2004 year-end, we used the allowance based on the FSC guidelines as it was greater than the one based on the historical loss rates. Our reserve under Korean GAAP was established based on the following percentages as of December 31, 2004:

	2004		
	Corporate loans	Retail loans	Credit card balances
	(percentages)		
Normal	0.50% or more	0.75% or more	1.00% or more
Precautionary	2.00% or more	8.00% or more	12.00% or more
Substandard	20.00% or more	20.00% or more	20.00% or more
Doubtful	50.00% or more	55.00% or more	60.00% or more
Estimated loss	100.00%	100.00%	100.00%

The historical loss rates used under Korean GAAP were different from those under U.S. GAAP as a result of differences in methodologies and industry practice including approaches for estimating charge-off recovery rates and loss factors from migration and roll rate analyses.

This adjustment also reflected the offsetting effects of (1) the consolidation of our trust accounts, which include loans and related reserves under Korean GAAP and (2) the deconsolidation of certain securitized loans and related reserves which we recorded as sales under Korean GAAP.

2. Under U.S. GAAP, certain employee and other costs associated with originating loans are deferred and amortized as a yield adjustment over the life of the related loans, net of any related fees received. These costs relate to direct loan origination activities performed by us which include evaluating the prospective borrower's financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. Prior to January 1, 2003, Korean GAAP required that these origination fees and costs be recognized as income or expense when received or paid and did not provide for deferral or amortization. Effective January 1, 2003, certain origination fees and costs were required to be deferred and amortized as a yield adjustment over the life of the related loans.
3. In our consolidated financial statements under U.S. GAAP, we must include a proportionate share of the results of operations of our investments accounted for under the equity method, which would be also presented on a U.S. GAAP basis.

Consequently, the results of each of our equity method investments have been affected by the conversion from each investment's respective local GAAP to U.S. GAAP.



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4. Under U.S. GAAP, decreases in fair value with respect to all securities classified as available-for-sale or held-to-maturity as well as unlisted equity securities below the cost basis of an individual security and deemed to be other-than-temporary must be written off through a charge to income. In determining whether a decrease in fair value is other-than-temporary, the following factors were considered: the length of time and the extent to which the market value had been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, when the recoverable value of available-for-sale or held-to-maturity securities is less than their amortized acquisition costs (in the case of equity securities, their acquisition costs), and there is any objective evidence of impairment, then their book value is adjusted to their recoverable amount, and the amount of their amortized acquisition costs (in the case of equity securities, their acquisition costs) in excess of the recoverable amount less the amount of impairment loss already recognized in the prior periods is reflected in current loss as impairment loss.

Under U.S. GAAP, to qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be formally designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness would be assessed prospectively and retrospectively. Under Korean GAAP, the criteria that must be met in order to apply hedge accounting were less prescriptive. This adjustment reflected the effects of the reversal of the hedge accounting treatment under Korean GAAP and fair value adjustments to derivatives arising from differences in bifurcation criteria and consolidation scope of special purpose entities.

5. Under U.S. GAAP, the transfer of loans was recorded as a sale if specific and prescriptive criteria were met relating to the transferor's relinquishing control. If these criteria were not met, the transfer would be treated as a secured borrowing. Certain loan transfers (including those in connection with asset securitization transactions) that qualified for derecognition as sales under Korean GAAP did not meet U.S. GAAP criteria for derecognition as sales.
6. Under Korean GAAP, we revalued certain fixed assets in accordance with Korean GAAP with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. As part of our normal operations, we occasionally dispose of fixed assets. Due to the difference in carrying value under U.S. GAAP and Korean GAAP noted above, there was an adjustment to reflect the difference in the gain or loss on disposal of those fixed assets.
7. In accordance with Korean GAAP, the value of consideration paid for Korea Long Term Credit Bank was based on the price of our common stock on the date that the transaction was consummated. In addition, the assets were recorded at their carrying values. This transaction created negative goodwill under Korean GAAP which was recorded in stockholders' equity. The application of U.S. GAAP resulted in goodwill because of differences in the measurement of the purchase price and recording the related assets and liabilities at fair value. The income statement adjustment represented the accretion to income of the difference between book value and fair value on the net assets acquired.
8. Under Korean GAAP, loans modified through troubled debt restructurings were carried at the lower of (1) the book value of the loan prior to restructuring and (2) the present value of the restructured loan. If carried at present value, the related present value discount was accreted to income over the remaining term of the restructured loans. Under U.S. GAAP, such troubled debt restructured loans were treated as impaired loans and the related allowance for loan losses were established based on (1) the present value of expected future cash flows discounted, (2) the fair value of the collateral if the loan is collateral dependent, or (3) observable market prices if available. Accordingly, this difference reflects the reversal of the present value discount.
9. U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income. Under Korean GAAP, the portion of unrealized gains and losses on available for sale securities arising from foreign currency translation were recognized in earnings.

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10. Under Korean GAAP, the value of consideration paid for H&CB was measured based on our stock price on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the Stock Market Division of the Korea Exchange two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in negative goodwill due to the fact that the consideration paid was less than the fair value of H&CB's net assets acquired. Under Korean GAAP, goodwill was created because the value of consideration measured based on the consummation date was significantly higher. The income statement adjustment primarily reflected the following:
- (a) Reversal of goodwill amortization that was recorded under Korean GAAP.
  - (b) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.
  - (c) Accretion to income or amortization to expense of the difference between the fair value and book value of the assets acquired and liabilities assumed.
  - (d) The amortization related to the core deposit and credit card relationship intangible assets acquired in the merger based on their estimated useful lives in proportion to the estimated run-off of the related depositor and customer relationships, respectively.
11. The operating results of each of our subsidiaries have been affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, the allocation to minority of their shares of the respective subsidiaries has been affected as a result of the conversion.

Under Korean GAAP, minority interest is treated as a component of stockholders' equity. Under U.S. GAAP, minority interest is not considered part of stockholders' equity and is disclosed in the consolidated balance sheet between the liability section and the stockholders' equity section.

12. Under Korean GAAP, the value of consideration paid for the step-up acquisition of a subsidiary is measured based on book value of the subsidiary's net assets on the consummation date of the merger. Accordingly the value of consideration paid for the acquisition of Kookmin Credit Card ( KCC ) was measured based on book value of KCC's net assets. However, under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the Stock Market Division of the Korea Exchange two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in goodwill due to the fact that the consideration paid was more than the fair value of KCC's net assets acquired. Under Korean GAAP, goodwill was not recognized because the value of consideration measured based on the consummation date was the same as the book value of KCC's net assets. The adjustment primarily reflected the following:
- (a) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.
  - (b) The operating results of KCC was affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, the allocation to minority of their shares of KCC was also affected as a result of the conversion.
  - (c) Accretion to income or amortization to expense of the difference between the fair value and book value of the assets acquired and liabilities assumed.
  - (d) The amortization related to the credit card relationship intangible asset acquired in the merger based on their estimated useful lives in proportion to the estimated run-off of customer relationships.

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13. Under Korean GAAP, beneficiary certificates were treated as available-for-sale securities and, therefore, related unrealized gains or losses were recorded in the other comprehensive income of the stockholders' equity. However, under U.S. GAAP, the underlying funds represented by the wholly owned beneficiary certificates were consolidated into our financial statements, resulting in the net income or loss of the funds being reflected in our net income. The difference in the stockholders' equity mostly relates to the effect of deferred taxes on the unrealized gains or losses on the beneficiary certificates treated as available for sale securities.
  
14. This adjustment reflected the effect of miscellaneous items, which were not individually material.

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**Item 5C. *Research and Development, Patents and Licenses, etc.***

**Not Applicable**

**Item 5D. *Trend Information***

These matters are discussed under Item 5A and Item 5B above where relevant.

**Item 5E. *Off-Balance Sheet Arrangements***

See Item 5B. Liquidity and Capital Resources Financial Condition Contractual Cash Obligations and Item 5B. Liquidity and Capital Resources Financial Condition Commitments and Guarantees.

**Item 5F. *Tabular Disclosure of Contractual Obligations***

See Item 5B. Liquidity and Capital Resources Financial Condition Contractual Cash Obligations.

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Item 6A. *Directors and Senior Management***

**Board of Directors**

Our board of directors, currently consisting of four executive directors and nine non-executive directors, has the ultimate responsibility for the management of our affairs. We currently have an executive director, Hyung Duk Chang, who serves as a standing member of the Audit Committee.

Our articles of incorporation provide that we may have no more than 30 directors and the number of executive directors must be less than 50% of the total number of directors. Each executive director has been elected for a three-year term of office, and each non-executive director has been elected for a one-year term. Terms are renewable and are subject to the Korean Commercial Code, the Bank Act and related regulations.

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Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of any director or one of the six management committees that serve under the board of directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea.

### *Executive Directors*

The table below identifies our executive directors as of the date of this annual report:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>End of Term (1)</u>
Chung Won Kang	54	President and Chief Executive Officer	November 1, 2004	2007
Hyung Duk Chang	54	Auditor and Executive Director	December 13, 2004	2008
Kap Shin	49	Chief Financial Officer and Senior Executive Vice President; Finance Group	March 18, 2005	2008
Donald H. MacKenzie	56	Executive Director and Senior Executive Vice President; Risk Management Group	March 21, 2003	2006

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

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None of the executive directors have any significant activities outside Kookmin Bank.

*Chung Won Kang* is our president and chief executive officer. He was an advisor to Kim & Chang, non-executive director of LG Investment & Securities Co., Ltd., an advisor to World Bank Group, president and chief executive officer of the former Seoul Bank, chief country officer of Deutsche Bank Group, Korea and chief country officer of Bankers Trust Group, Korea. He received a B.A. in economics from Dartmouth College and an M.A. in law and diplomacy from The Fletcher School of Law & Diplomacy.

*Hyung Duk Chang* is our auditor and executive director. He was an advisor to Shin & Kim, a representative director and head of Management Consulting at Kyobo Life Insurance, senior vice president of Planning & Human Resources and head of the Credit & Consumer Finance Department at Seoul Bank, and a managing director of SME Business Unit & Consumer Finance Department at Citibank. He received a B.A. in English at Hankuk University of Foreign Studies and studied top management at The Federation of Korean Industries.

*Kap Shin* is our chief financial officer, senior executive vice president and head of the Finance Group. He was chief financial officer of Korea Exchange Bank Credit Service, chief executive officer of Kapco Inc. and chief financial officer of Citibank Korea. He received a B.A. in accounting and an M.B.A. from Northern Illinois University.

*Donald H. MacKenzie* is an executive director, senior executive vice president and head of the Risk Management Group. He was seconded to us by ING Groep N.V. in 2000 as a senior advisor on risk management matters. Before coming to Korea, he was the country manager for ING Bank N.V. in Japan, managing director of ING Barings Limited, a vice president with Goldman Sachs and a partner at KPMG Peat Marwick. He is a member of the Canadian Institute of Chartered Accountants. He received a B.A. in economics from British Columbia University and a degree in accounting, finance and business administration from Simon Fraser University.

*Non-executive Directors*

Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economy, management and accounting. All nine non-executive directors below were nominated by our Non-executive Director Nominating Committee.

The table below identifies our non-executive directors as of the date of this annual report:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Year Term Ends (1)</u>
Dong Soo Chung	59	Non-executive Director	March 22, 2002	2006
Nobuya Takasugi	62	Non-executive Director	March 18, 2005	2006
Hoon Namkoong	57	Non-executive Director	March 18, 2005	2006
Doo Hwan Song	56	Non-executive Director	March 18, 2005	2006
Chang Kyu Lee	55	Non-executive Director	March 18, 2005	2006
Dam Cho	52	Non-executive Director	March 18, 2005	2006
Suk Yong Cha	51	Non-executive Director	March 21, 2003	2006
Ki Hong Kim	48	Non-executive Director	March 21, 2003	2006

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Young Soon Cheon	44	Non-executive Director	March 23, 2004	2006
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(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

*Dong Soo Chung* has been a non-executive director since 2002. He is currently our chairman of the board of directors and a professor at Sangmyung University. He served as the deputy minister of the Ministry of Environment from January 2001 to February 2002. Prior to that, he was the assistant minister of the Planning and Management Office at the Ministry of Planning and Budget. He received a B.A. in business administration from Seoul National University and an M.A. in public administration from University of Wisconsin at Madison.

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*Nobuya Takasugi* was elected non-executive director this year. He is currently an executive advisor to Fuji Xerox Korea. He was chairman and chief executive officer of Fuji Xerox Korea, chairman of the Seoul Japan Club and chairman of the Asia Pacific Policy Research Institute Advisory Council. He received a B.A. in Commercial Science from Waseda University in Japan.

*Hoon Namkoong* was elected non-executive director this year. He is currently a professor at Myungji University. He was a member of the Monetary Policy Committee and president of Korea Depositary Insurance Corporation. He received a B.A. in law from Seoul National University and an M.A. in public administration from University of Wisconsin at Madison.

*Doo Hwan Song* was elected non-executive director this year. He is currently a representative partner of Hankyul Law Firm. He served as an independent counsel on remittance to North Korea, an arbitrator of the Korean Commercial Arbitration Board, an executive director of the Korean Bar Association and a judge in the Seoul Civil District Court. He received a B.A. in law from Seoul National University.

*Chang Kyu Lee* was elected non-executive director this year. He is currently chief executive officer of Joongang Ilbo News Media. He was chief economic correspondent and managing director of Joongang Ilbo, director of Joongang Ilbo Newsroom and branch chief of Joongang Ilbo in Tokyo. He received a B.A. in economics from Sogang University.

*Dam Cho* was elected non-executive director this year. He is currently a professor at Chonnam National University. He was president of Korean Financial Management Association and a lecturer at Hongik University. He received a B.A. in business administration, an M.B.A. and a Ph.D. in finance from Korea University.

*Suk Yong Cha* has been a non-executive director since 2003. He is currently president and chief executive officer of LG Household & Health Care Ltd. He was president and chief executive officer of Haitai Confectionary and Foods Co., Ltd., president and chief executive officer of Procter & Gamble Korea, president and chief executive officer of Ssangyong Paper Co. and chief financial officer of P&G Asia headquarters in Hong Kong. He received a B.A. from the School of Management, State University of New York and an M.B.A. from the Johnson Graduate School of Management from Cornell University.

*Ki Hong Kim* has been a non-executive director since 2003. He is currently a professor of business administration at Chungbuk National University. He was a research fellow at the Korea Institute of Fiscal Policy, a research director at the Korea Insurance Development Institute and an assistant governor at the Financial Supervisory Service. He received a B.A. in business and economics from Barat College, an M.B.A. from the University of Missouri and a Ph.D. in business administration from the University of Georgia.

*Young Soon Cheon* was elected as a non-executive director in 2004. She is currently a professor of business administration at Joongang University. Prior to that, she was an assistant professor at Kyunghee University and an assistant professor at Baruch College, City University of New York. She received a B.A. in business administration from Chungang University, and an M.A. and Ph.D. in accountancy from the University of Georgia.

Any director wishing to enter into a transaction with Kookmin Bank in his or her personal capacity is required to obtain the prior approval of the Board of Directors. The director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.





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The table below identifies our senior executive officers who are not executive directors as of the date of this annual report:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dong Won Kim	52	Senior Executive Vice President; Strategic Planning Group
Yun Keun Jung	54	Senior Executive Vice President; Consumer Banking Group I
Nam Sik Yang	51	Senior Executive Vice President; Consumer Banking Group II
Hyo Sung Won	45	Senior Executive Vice President; Consumer Marketing Group
Yong Kook Oh	56	Senior Executive Vice President; Corporate Banking Group
Sang Jin Lee	50	Senior Executive Vice President; Credit Card Group
Ahn Sook Koo	50	Senior Executive Vice President; Private Banking/Asset Management Group
Jung Young Kang	54	Senior Executive Vice President; Trust/National Housing Fund Management Group
Young Han Choi	47	Senior Executive Vice President; Capital Markets and Treasury Group
Dong Soo Choe	50	Senior Executive Vice President; Credit Management Group
Seong Kyu Lee	45	Senior Executive Vice President; Sales Supporting Group
Jun Bo Cho	54	Senior Executive Vice President; Information Technology Group
Jeong Min Kim	54	Senior Executive Vice President; Human Resources Group

None of the executive officers have any significant activities outside Kookmin Bank.

*Dong Won Kim* is a senior executive vice president and the head of the Strategic Planning Group. Prior to that, he was an editorial at the Maeil Business Newspaper and a professor at Suwon University. He received a B.A., M.A., and Ph.D. in Economics from Korea University.

*Yun Keun Jung* is a senior executive vice president and the head of the Consumer Banking Group I. He was head of the Private Banking/Asset Management Group. Prior to that, he was head of the Taegu Regional Head Office. He received a B.A. in business from Kyungki University and an M.B.A. from Yonsei University.

*Nam Sik Yang* is a senior executive vice president and the head of the Consumer Banking Group II. Prior to that, he was a general manager at SeoYoido Corporate Banking Department. He received a B.S. from Seoul National University and an M.A. from Yonsei University.

*Hyo Sung Won* is a senior executive vice president and the head of the Consumer Marketing Group. Prior to that, he was executive vice president at KorAm Bank and a marketing director at Citibank, Korea. He received a B.A. in business from Seoul National University and an M.B.A. from Indiana University.

*Yong Kook Oh* is a senior executive vice president and the head of the Corporate Banking Group. Prior to that, he was a deputy president and executive vice president at Shinhan Bank and head of Local Corporation Banking Group at Citibank, Korea. He received a B.A. in business from Korea University.

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*Sang Jin Lee* is a senior executive vice president and the head of the Credit Card Group. Prior to that, he was a vice president at Kookmin Credit Card. He received a B.A. in agriculture from Seoul National University.

*Ahn Sook Koo* is a senior executive vice president and the head of the Private Banking/Asset Management Group. Prior to that, she was the head of the Private Banking Group at Woori Bank, a managing director at Kyobo Life Insurance and a Consumer Banking branch manager at Citibank, Korea. She received a B.A. in English literature from Yonsei University and an M.B.A. from New York University.

*Jung Young Kang* is a senior executive vice president and the head of the Trust/National Housing Fund Management Group. Prior to joining us, he was a tax judge at the National Tax Tribunal. He received a B.A. in

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economics from Sungkyunkwan University, an M.A. in public administration from Seoul National University and an M.A. in economics from Indiana University.

*Young Han Choi* is a senior executive vice president and the head of the Capital Markets and Treasury Group. Prior to that, he was a consultant at Accolate Inc., the head of Trading and Treasury Manager of Deutsche Bank. He received a B.A. in business from Yonsei University and an M.B.A. from University of Michigan.

*Dong Soo Choe* is a senior executive vice president and the head of the Credit Management Group. Prior to that, he was the head of Commercial Affairs and Investment Banking at Samsung Securities and an assistant executive vice president of Credit Analysis at Hana Bank. He received a B.A. in French literature from Yonsei University and an M.B.A. from Peter Drucker Management School of Claremont Graduate University.

*Seong Kyu Lee* is a senior executive vice president and the head of the Sales Supporting Group. He was an executive director of our bank, head of the Workout and Operation Group and a director of the Corporate Restructuring Coordination Committee. Prior to joining us, he was an executive director of Seoul Bank. He received a B.A. in business administration, an M.A. in economics from Seoul National University and a Ph.D. in business administration from Yonsei University.

*Jun Bo Cho* is a senior executive vice president and the head of the Information Technology Group. Prior to that, he was a general manager at Buchen branch and IT Planning Team. He received a B.A. in public administration from Kunkuk University.

*Jeong Min Kim* is a senior executive vice president and the head of the Human Resources Group. Prior to that, he was a general manager of the Audit Team and Yeoksamdong Corporate Banking branch. He received a B.A. in business from Korea National Open University and an M.A. in human resources from Yonsei University.

**Item 6B. Compensation**

The aggregate remuneration paid and benefits-in-kind paid by us to our chairman, our president and chief executive officer, our other executive directors, our non-executive directors and our executive officers for the year ended December 31, 2004 was (Won)8,247 million. In addition, for the year ended December 31, 2004, we set aside (Won)269 million for allowances for severance and retirement benefits for our chairman, our president and chief executive officer, the other executive directors and our executive officers.

We do not have service contracts with any of our directors or officers providing for benefits upon termination of their employment with us.

We have granted stock options to our president and chief executive officer and other directors and executive officers as described below. For all of the options granted, we may elect either to issue common shares or allocate treasury shares, or pay in cash or treasury shares, the difference between the exercise and the market price at the date of exercise. Upon vesting, options may be exercised between three to eight years from the grant date, once restrictions on the exercise of options, including continued employment for at least two years from the grant date, lapse.

On November 16, 2001, our board of directors approved the Presidential Stock Option Plan. In accordance with the Presidential Stock Option Plan, we granted 700,000 options to our previous president and chief executive officer. 200,000 of these stock options terminated in November 2004. These options have vested and may be exercised up to eight years from the grant date. The exercise price is (Won)51,200 and the exercised options can be settled through the issuance of shares or allocation of treasury shares, or the payment in cash or treasury shares the difference between the exercise and the market price at the date of exercise at our discretion.

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On November 1, 2004, we granted 700,000 options to our current president and chief executive officer, Mr. Chung Won Kang. Calculation with respect to how many options are exercisable is variable based on our financial performance and, specifically, the meeting of certain financial targets. Of the 700,000 options granted:

300,000 options will become exercisable if we reach a return on equity target of 25%;

200,000 options will become exercisable if we reach a BIS target ratio of 12%; and

200,000 options will become exercisable if reach a total return target for our shareholders, which is 100% of the rate of increase in the KOSPI banking industry index.

Our financial performance, as well as the rate of increase in the KOSPI banking industry index, will be measured at the commencement of the exercise period. In the case of early retirement, prior to the date of retirement, the number of options exercisable will be determined based on the duration of employment and the exercise price will depend on the KOSPI banking industry index on the date of such early retirement. These options vest after three years from the grant date and up to eight years after such date, beginning on November 2, 2007 and may be exercised up to eight years from the grant date. The exercise price is (Won)37,600 and the exercised options can be settled through the issuance of shares, the allocation of treasury shares, or the payment in cash or treasury shares the difference between the exercise and the market price at the date of exercise, at our discretion. For additional information regarding our stock option plan, see Note 30 to our consolidated financial statements.

In 2004, we recognized (Won)5,100 million as compensation expense for the stock options granted under our incentive stock option plan. For additional information regarding our compensation expense in connection with our incentive stock option plan, see Note 30 to our consolidated financial statements.

### **Item 6C. Board Practices**

See Item 6A. Directors and Senior Management above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

#### **Committees of the Board of Directors**

We currently have six management committees that serve under the board:

the Board Steering Committee;

the Management Strategy Committee;

the Risk Management Committee;

the Audit Committee;

the Compensation Committee; and

the Non-executive Director Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders.

***Board Steering Committee***

The committee currently consists of five non-executive directors, consisting of Dong Soo Chung, Chang Kyu Lee, Suk Yong Cha, Ki Hong Kim and Young Soon Cheon, together with our president and chief executive officer. The chairperson of the Board Steering Committee is currently Dong Soo Chung. The Board Steering Committee is responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee is responsible for both recommending and reviewing candidates for director and recommending candidates for the committee. The committee also reviews and assesses the director compensation

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programs and retainer arrangements to attract qualified directors. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities. The committee holds regular meetings every six months.

### ***Management Strategy Committee***

The committee currently consists of five non-executive directors, consisting of Chang Kyu Lee, Nobuya Takasugi, Dong Soo Chung, Doo Hwan Song and Dam Cho, together with our president and chief executive officer. The chairperson of the Management Strategy Committee is currently Chang Kyu Lee. The Management Strategy Committee oversees our long-term strategy formulation and reviews management's proposals of new strategic initiatives. The committee also reviews any other strategy and performance related matters that the committee deems necessary. The committee holds regular meetings every quarter.

### ***Risk Management Committee***

The committee currently consists of five non-executive directors, consisting of Suk Yong Cha, Nobuya Takasugi, Hun Namkoong, Dam Cho and Young Soon Cheon, together with our president and chief executive officer. The chairperson of the Risk Management Committee is Suk Yong Cha. The Risk Management Committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

### ***Audit Committee***

The committee currently consists of four non-executive directors, consisting of Young Soon Cheon, Hoon Namkoong, Suk Yong Cha and Ki Hong Kim, together with our auditor and executive director, who serves as a standing member. The chairperson of the Audit Committee is Young Soon Cheon. The Audit Committee oversees our financial reporting and approves the appointment of our independent auditors. The committee also reviews our financial information, auditor's examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The committee holds regular meetings every quarter.

### ***Compensation Committee***

The committee currently consists of four non-executive directors, consisting of Ki Hong Kim, Dong Soo Chung, Doo Hwan Song and Chang Kyu Lee. The chairperson of the Compensation Committee is Ki Hong Kim. The Compensation Committee oversees our overall compensation strategy and ensures that our executives are compensated in a manner consistent with the compensation strategy and requirements of the appropriate regulatory bodies. The committee is also responsible for reviewing and approving executive compensation criteria and levels as well as the benefit plans and overseeing the overall succession planning for executives. The committee holds regular meetings every six months.



*Non-executive Director Nominating Committee*

The committee currently has no members. The committee was created on October 24, 2002. The last meeting of the committee was on March 18, 2005 to nominate our current slate of nine non-executive directors. The committee will oversee the selection of non-executive director candidates and recommend them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the non-executive directors until the nominated non-executive directors are appointed. The committee will also oversee the establishment of the Council for Selection of Candidates for Non-executive Directors to assist in the impartial recommendation of non-executive director candidates.

**Table of Contents****Differences in Corporate Governance Practices**

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences:

**NYSE Corporate Governance Standards****Director independence**

Listed companies must have a majority of independent directors.

**Executive Session**

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.

**Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors.

**Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of more than three directors.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

**Kookmin Bank**

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as 9 out of 13 directors are non-executive directors.

Our non-executive directors hold semiannual meetings in accordance with the Regulation of the Board of Directors.

We have not established a separate nomination/corporate governance committee. However, our president and three non-executive directors will serve on the Non-executive Director Nominating Committee, established in accordance with applicable Korean law, and the committee presents proposals for the nomination of non-executive directors to the board. In addition, we receive advice from an ad hoc advisory board, composed of two to five independent experts, in connection with the nomination of non-executive directors.

We maintain a Compensation Committee composed of four non-executive directors.

We maintain an Audit Committee comprised of four non-executive directors and a standing member who satisfies the New York Stock Exchange's independence requirements. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act.

Our Audit Committee has five members, as described above.

We currently have two equity compensation plans: one providing for the grant of stock options to officers and directors; and an Employee Stock Ownership Plan, or ESOP.

All material matters related to the granting stock options are provided in our Articles of Incorporation, and any amendments to the Articles of Incorporation are subject to shareholders' approval.

Matters related to the ESOP are not subject to shareholders' approval under Korean law.

**Table of Contents****NYSE Corporate Governance Standards****Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

**Kookmin Bank**

We are currently in the preliminary process of adopting corporate governance guidelines.

We have adopted a Code of Ethics and Business Conduct for Employees, a copy of which is filed as an exhibit to this annual report and which is also available on our website.

**Item 6D. Employees**

The following table sets forth information, for the periods indicated, regarding our employees:

	As of December 31,		
	2002	2003	2004
Full-time employees	18,347	19,525	18,927
Contractual employees	8,665	9,455	8,367
Managerial or executive employees	10,112	11,309	11,000
Members of Korea Financial Industry Union			
Kookmin Bank Chapter	8,446	8,342	8,126
H&CB Chapter	7,022	6,933	6,772
Members of the Korea Federation of Trade Unions			
Former Kookmin Credit Card Labor Union		1,215	1,215
Subsidiary full-time employees (1)	1,976	945	1,226

(1) Including executive officers.

Our total number of employees increased in 2003, primarily as a result of the merger of Kookmin Credit Card with us. Our total number of employees decreased in 2004 compared to 2003, reflecting our efforts to streamline our organizational structure.

We consider our relations with our employees to be satisfactory. Every year, usually in May, our unions and our management negotiate and enter into a new collective bargaining agreement and negotiate annual wage adjustments. Following the merger of former Kookmin Bank and H&CB, we had two union chapters of the Korea Financial Industry Union and one labor union of the Korea Federation of Trade Unions. These three unions merged into one union in January 2005.

In connection with the merger between the former Kookmin Bank and H&CB, we encountered a number of difficulties with the labor unions of both banks, most of which have since been resolved. More recently, in connection with the merger of Kookmin Credit Card with us, in May 2003, the employees of Kookmin Credit Card called a strike to demand that the merger be stopped. We subsequently reached an agreement with them relating to staffing, salaries and other benefits.

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In February 2005, after 2,200 employees chose to take voluntary early retirement, we established a human resources outsourcing organization to assist those who wished to come out of retirement to return to work for us.

Our compensation packages consist of base salary and base bonuses. We also provide performance-based compensation to employees and management. Executive officers, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, are compensated depending on their individual annual performance evaluation. Recently, we have also implemented a profit-sharing system in order to enhance the performance of our employees. Under this system, we pay bonuses to our employees, in addition to the base salary and depending on our annual performance.

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We provide a wide range of benefits to our employees, including our executive directors. These benefits include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance and reimbursement for medical expenses.

Pursuant to the Korean National Pension Law, we prepay a portion of our accrued severance liabilities to the National Pension Corporation at the rate of 4.5% of each employee's annual wages. Our employees are also responsible for payment to the National Pension Corporation of 4.5% of their wages. Our employees are entitled to receive an annuity from the National Pension Corporation following their retirement, commencing at the age of 60.

Upon termination, our employees are entitled to receive severance payments pursuant to the Labor Standards Act of Korea. The amount received by any employee equals the amount equivalent to (1) 30 days' salary, calculated by averaging the employee's daily salary for the three months prior to the date of the employee's departure, multiplied by (2) the number of continuous years during which the employee worked. For information regarding our severance payments, see Note 29 of the notes to our consolidated financial statements.

All of our employees are eligible to participate in our employee stock ownership association plan. We are not required to, and do not, make cash contributions to this plan. Members of our employee stock ownership association plan have pre-emptive rights to acquire up to 20% of our shares in public offerings by us pursuant to the Korean Securities and Exchange Act. In April 2005, we contributed 2,000,000 shares to our employee stock ownership association. The association will need to hold these shares for three years, after which such shares may be sold.

We operate human resources development programs to train future leaders, leadership programs for development and improvement of management skills and job skills enhancement programs to improve business skills. These educational training programs are being implemented through our four internal training centers, professional training institutions within Korea and overseas, advanced overseas financial institutions, satellite programming and correspondence training institutions. We also offer training programs at the Korea Banking Institute in order to train our employees in both basic functional and professional skills.

## **Item 6E. Share Ownership**

### ***Common Stock***

As of December 31, 2004, the persons who are currently our directors or executive officers, as a group, held an aggregate of 10,060 shares of common stock of Kookmin Bank, representing approximately 0.003% of the outstanding Kookmin Bank common stock as of such date. None of these persons individually held more than 1% of the outstanding common stock of Kookmin Bank as of such date.

**Table of Contents****Stock Options**

The following table is the breakdown of stock options with respect to our common stock which we have granted to our directors and employees. It describes grant date, position, exercise period, price and the number of options as of March 31, 2005.

Grant date	Position when granted	Exercise period		Exercise price	Number of granted options (1)	Number of exercised options	Number of exercisable options
		From	To				
28-Feb-00	Director and Executive Vice President	01-Mar-03	28-Feb-06	27,600	22,490	0	22,490
28-Feb-00	2 Senior Executive Vice Presidents	01-Mar-03	28-Feb-06	27,600	60,000	20,000	40,000
28-Feb-00	11 Non-executive Directors	01-Mar-03	28-Feb-06	27,600	52,009	14,539	37,470
28-Feb-00	10 Employees	01-Mar-03	28-Feb-06	27,600	67,283	33,975	33,308
24-Mar-01	2 Senior Executive Vice Presidents	25-Mar-04	24-Mar-07	25,100	49,333	7,000	42,333
24-Mar-01	3 Non-executive Directors	25-Mar-04	24-Mar-07	25,100	6,552	0	6,552
24-Mar-01	3 Employees	25-Mar-04	24-Mar-07	25,100	16,491	13,216	3,275
15-Mar-01	Chairman and CEO	16-Mar-04	15-Mar-09	28,027	29,614	1,000	28,614
15-Mar-01	Auditor and Executive Director	16-Mar-04	15-Mar-09	28,027	14,807	0	14,807
15-Mar-01	9 Non-executive Directors	16-Mar-04	15-Mar-09	28,027	23,376	7,792	15,584
15-Mar-01	7 Senior Executive Vice Presidents	16-Mar-04	15-Mar-09	28,027	82,915	18,380	64,535
15-Mar-01	47 Employees	16-Mar-04	15-Mar-09	28,027	39,684	5,015	34,669
22-Mar-01	Auditor(2)	23-Mar-04	22-Mar-11	71,538	6,644	0	6,644
22-Mar-01	3 Vice Presidents(2)	23-Mar-04	22-Mar-11	71,538	15,502	0	15,502
16-Nov-01	President and CEO	17-Nov-04	16-Nov-09	51,200	500,000	0	500,000
16-Nov-01	Chairman	17-Nov-04	16-Nov-09	51,200	150,000	0	150,000
22-Mar-02	Auditor and Executive Director	23-Mar-05	22-Mar-10	57,100	9,963	0	9,963
22-Mar-02	8 Non-executive Directors	23-Mar-05	22-Mar-10	57,100	32,284	0	32,284
22-Mar-02	9 Senior Executive Vice Presidents	23-Mar-05	22-Mar-10	57,100	161,651	0	161,651
22-Mar-02	16 Employees	23-Mar-05	22-Mar-10	57,100	147,658	0	147,658
29-Mar-02	3 Non-executive Directors(2)	30-Mar-04	29-Mar-11	129,100	9,990	0	9,990
26-Jul-02	Senior Executive Vice President	27-Jul-05	26-Jul-10	58,800	30,000	0	30,000
21-Mar-03	11 Non-executive Directors	22-Mar-06	21-Mar-11	X(3)	63,443	0	63,443
21-Mar-03	3 Senior Executive Vice Presidents	22-Mar-06	21-Mar-11	35,500	25,910	0	25,910
21-Mar-03	6 Employees	22-Mar-06	21-Mar-11	35,500	63,650	0	63,650
27-Aug-03	Senior Executive Vice President	28-Aug-06	27-Aug-11	40,500	5,091	0	5,091
09-Feb-04	4 Senior Executive Vice Presidents	10-Feb-07	09-Feb-12	46,100	26,702	0	26,702
09-Feb-04	10 Employees	10-Feb-07	09-Feb-12	46,100	48,837	0	48,837
23-Mar-04	4 Non-executive Directors	24-Mar-07	23-Mar-12	47,200	20,000	0	20,000
23-Mar-04	Senior Executive Vice President	24-Mar-07	23-Mar-12	47,200	10,000	0	10,000
01-Nov-04	President and CEO	02-Nov-07	01-Nov-12	Y(4)	700,000	0	700,000
18-Mar-05	Auditor and Executive Director	19-Mar-08	18-Mar-13	Z(5)	30,000	0	30,000
18-Mar-05	9 Non-executive Directors	19-Mar-08	18-Mar-13	Z(5)	135,000	0	135,000
18-Mar-05	14 Senior Executive Vice Presidents	19-Mar-08	18-Mar-13	46,800	420,000	0	420,000
18-Mar-05	23 Employees	19-Mar-08	18-Mar-13	46,800	345,000	0	345,000
					3,421,879	120,917	3,300,962

(1) Some numbers of the granted options have been adjusted due to the merger and the early retirement of the grantees.

(2) Originally options with respect to common stock of Kookmin Credit Card, which have been converted into options with respect to our common stock.

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- (3) Exercise price = 35,500 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period - KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.
- (4) Exercise price = 37,600 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period - KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.
- (5) Exercise price = 46,800 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period - KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.

**Table of Contents****Item 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7A. Major Stockholders**

The following table presents information regarding the beneficial ownership of our shares at December 31, 2004 by each person or entity known to us to own beneficially more than 5% of our outstanding shares.

Except as otherwise indicated, each stockholder identified by name has:

sole voting and investment power with respect to its shares; and

record and beneficial ownership with respect to its shares.

<u>Beneficial Owner</u>	<u>Number of shares of common stock</u>	<u>Percentage of total shares of common stock (%)</u>	<u>Percentage of total shares on a fully diluted basis (%)</u>
The Bank of New York (1)	47,503,730	15.50	15.50

(1) As depositary bank.

As of December 31, 2004, executive and non-executive directors collectively owned 28,716 shares of our common stock, and our executive officers, excluding our chairman, our president and chief executive officer, and auditor and executive director owned 7,627 shares of our common stock.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of December 31, 2004.

In December 2003, we purchased 27,423,761 shares of our common stock in the Korean government's auction of the shares that it had owned. In June 2005, we disposed of all of these shares in an over-the-market transaction. With respect to the remaining shares that we own, we cannot exercise any voting rights with respect to those shares pursuant to Korean law.

**Item 7B. Related Party Transactions**



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As of December 31, 2002, 2003 and 2004, we had an aggregate of (Won)1,536 million, (Won)8,048 million and (Won)1,633 million, respectively, in loans outstanding to our executive officers and directors. In addition, as of such dates, we had loans outstanding to various companies whose directors or executive officers were serving concurrently as our directors or executive officers. See Note 35 of the notes to our consolidated financial statements. All of these loans were made in the ordinary course of business, on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US\$500 million in new common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US\$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. As a result of subsequent sales of our common stock (including common stock obtained upon conversion

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of the convertible bonds) by Goldman Sachs Capital Koryo in June 2002 and November 2003, Goldman Sachs Koryo beneficially owned 1.14% of our outstanding common stock as of December 31, 2004. See See Item 4A. History and Development of the Company History of the Former Kookmin Bank.

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. Under the terms of the strategic alliance agreement, we are required to cause one nominee of ING Bank N.V. to be appointed as an executive director and senior executive vice president and another nominee to be appointed as a non-executive director so long as ING Groep N.V. and its affiliates maintain a minimum shareholding in us as defined in the strategic alliance agreement. In August 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Groep N.V. As a result:

the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;

ING Groep N.V. is required to maintain beneficial ownership of no less than 12,716,691 shares of our common stock, subject to adjustment for any share consolidations or share splits or, in the event of a merger with another entity, as adjusted accordingly pursuant to the merger ratio for the merger; and

each party agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

In August 2003, we amended and restated our joint venture agreement with ING Insurance International B.V. and ING Life Insurance Company, Korea, Ltd. This agreement establishes the terms of the joint venture between us and ING Insurance International with respect to ING Life Insurance Company, Korea. Pursuant to this agreement, we have agreed to use our best commercial efforts to source and distribute insurance products produced and underwritten by ING Life Insurance Company, Korea at a percentage level that is approximately 30% of our total sales of insurance products produced and underwritten from all life insurance companies.

In August 2003, we also amended certain provisions in our joint venture agreement with ING Insurance International B.V. and KB Asset Management Co., Ltd. This agreement expands and establishes the terms of the joint venture between us and ING Insurance International with respect to KB Asset Management.

In June 2004, we established a new wholly-owned insurance subsidiary, KB Life Co., Ltd., to which we contributed the acquired assets and liabilities. KB Life focuses on bancassurance, and offer life insurance and wealth management products through our branch network. ING Groep N.V. purchased a 49% interest in KB Life in August 2004.

For more details regarding our relationship with ING Groep N.V., see Item 4A. History and Development of the Company History of H&CB, Item 4B. Business Overview Other Businesses Bancassurance and Item 10C. Material Contracts.

## ***Item 7C. Interest of Experts and Counsel***

**Not Applicable**

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### **Item 8. FINANCIAL INFORMATION**

#### ***Item 8A. Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-67 of Item 19. Exhibits.

#### **Legal Proceedings**

Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

#### ***The Merger with H&CB***

In March 2001, an individual filed a lawsuit with the Seoul Central District Court requesting the court to order a revocation of the merger. Despite the dismissal of certain motions filed in connection with the lawsuit, the case is still pending. In the meantime, additional persons have joined the lawsuit as plaintiffs. In November 2003, the Seoul Central District Court decided the case in our favor. The individual, however, appealed the decision to the Seoul High Court. On March 30, 2005, Seoul High Court denied the plaintiff's appeal. The plaintiff then appealed the decision to the Supreme Court in April 2005. The case is still pending.

#### ***Other Proceedings***

During the first quarter of 2004, the National Tax Administration of Korea completed a tax audit in respect of us for the fiscal years 1998, 1999, 2000 and 2001, as a result of which we were assessed (Won)123.3 billion for tax deficiencies. We have paid the entire amount, but are in proceedings to appeal the assessment. The case is still pending before the National Tax Tribunal.

On March 28, 2001, the Korea Fair Trade Commission ordered 15 financial institutions including H&CB to pay administrative fines in an aggregate amount of (Won)4.02 billion for using their superior market position to unfairly modify or contain the fees for cash advance service, installment purchase and late payment and transaction terms. H&CB was fined (Won)335.9 million, which was subsequently lowered to (Won)316.9 million upon appeal by H&CB on August 24, 2001. H&CB paid the administrative fine in full. In September 2001, we filed a lawsuit to revoke the fine. In May 2003, the Seoul High Court decided in our favor. The Korea Fair Trade Commission appealed this ruling. The case is still pending.

On January 9, 2002, the Korea Fair Trade Commission ordered seven banks, including us, to refrain from refusing to continue their business relationship with a particular business partner, Hana Bank. The banks filed a lawsuit with the Seoul High Court to revoke the order and, in

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October 2003, the Seoul High Court decided in our favor. The Korea Fair Trade Commission appealed this ruling in November 2003. The case is still pending.

On April 6, 2001, the Korea Fair Trade Commission fined Kookmin Credit Card (Won)235 million for allegedly using its superior market position to prevent other banks in our affinity program from altering fees paid by merchants and from reducing the payment cycle from merchants. In September, 2001 Kookmin Credit Card paid the administrative fine in full and filed a lawsuit with the Seoul High Court to revoke the order. The court ruled against Kookmin Credit Card in December 2002. Kookmin Credit Card appealed to the Supreme Court in January 2003. The case is still pending.

In April 2002, the Korea Fair Trade Commission ordered four domestic-based credit card companies to pay administrative fines in an aggregate amount of (Won)23.4 billion in connection with certain collusion and anti-competitive practices in fixing commission fees and credit card interest rates for cash advances, installment purchases and overdue accounts. Kookmin Credit Card was fined (Won)6.96 billion for anti-competitive behavior. In

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July 2002 Kookmin Credit Card paid the administrative fine in full; prior to this it filed a lawsuit in October 2002 with the Seoul High Court to revoke the order. On May 20, 2004, the Seoul High Court ruled that the order to pay administrative fines was invalid. The Korean Fair Trade Commission petitioned to the Supreme Court in June 2004. The case is still pending.

In November 2002, the Korea Fair Trade Commission fined five credit card companies (including Kookmin Credit Card) for allegedly discriminating against merchants at department stores by charging fees higher than those charged to merchants at discount stores. Kookmin Credit Card's portion of the fine amounted to (Won)640 million. In February 2003 Kookmin Credit Card paid the administrative fine in full and filed a lawsuit with the Seoul High Court to revoke the order. The Seoul High Court ruled for us in June 2004. The Korean Fair Trade Commission, however, appealed to the Supreme Court in August 2004. The case is still pending.

During the second quarter of 2004, the Financial Supervisory Service, which is our principal regulator in Korea, conducted a periodic inspection of our bank, which it generally performs once every two years. Following the conclusion of this periodic inspection, the Financial Supervisory Service notified us in June 2004 that it would conduct an audit review with respect to our audited annual financial statements prepared under Korean GAAP as of and for the year ended December 31, 2003. As a result of the review, the Financial Supervisory Service determined that we had improperly applied certain Korean accounting principles in connection with our merger with Kookmin Credit Card and other accounting related matters. The Financial Supervisory Service required us to adjust certain line items in our Korean GAAP financial statements, which resulted in an increase in our net loss for 2003 by approximately (Won)177 billion. We were also fined (Won)2 billion and our previous president and chief executive officer was given a disciplinary warning from the Financial Supervisory Service as a result of these accounting violations, which effectively prevented him from extending his term after the expiration of his initial term in October 2004. In addition, we were prohibited from selecting our own independent auditor to audit our Korean GAAP financial statements as of and for the future years ending December 31, 2005 and 2006. In May 2005, we engaged Deloitte Hana Anjin LLC as our new independent auditor for purposes of our Korean GAAP financial statements after it was selected on our behalf by the Financial Supervisory Service.

**Dividends**

Dividends must be approved by the stockholders at the annual general meeting of stockholders. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See Item 10B. Memorandum and Articles of Association Description of Capital Stock Dividends and Other Distributions.

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends declared and paid by us in respect of each of the five years ended December 31, 2004. The dividends set out for each of the years below were paid within 30 days after our annual stockholders meeting, which is held no later than March of the following year. Dollar amounts have been converted from Won at the noon buying rate at the end of the relevant periods.

Fiscal year	Dividends per common share (1)(2)		Dividends per preferred share (2)		Total amount of cash dividends paid
	(Won)	\$	(Won)	\$	(in millions of Won)
2000(3)	844	0.64	50	0.04	151,009
2001(4)	400	0.34			29,967
2002(5)	1,000	0.84			325,233
2003(6)					
2004(7)	550	0.53			168,574

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(1) Per share information for dividends paid prior to November 1, 2001 has been adjusted for the merger ratio of 1:1.688346.

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- (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 = US\$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) On January 31, 2001 our board of directors passed a board resolution recommending a cash dividend of 10% to the stockholders of record as of December 31, 2000.
- (4) On December 15, 2001, our board of directors passed a board resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to the stockholders who were registered in the stockholder registry on December 31, 2001.
- (5) On March 3, 2003, our board of directors passed a board resolution recommending a cash dividend of (Won)1,000 per common share (before dividend tax), representing 20% of the par value of each share, for the fiscal year ended December 31, 2002. This resolution was approved and ratified by our stockholders on March 21, 2003.
- (6) On February 9, 2004, our board of directors passed a board resolution recommending that no dividends be paid for the fiscal year ended December 31, 2003. This resolution was approved and ratified by our stockholders on March 23, 2004.
- (7) On February 3, 2005, our board of directors passed a board resolution recommending a cash dividend of (Won)550 per common share (before dividend tax), representing 11% of the par value of each share, for the fiscal year ended December 31, 2004. This resolution was approved and ratified by our stockholders on March 18, 2005.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our stockholders, see Item 10E. Taxation United States Taxation and Korean Taxation Taxation of Dividends.

**Item 8B. Significant Changes**

**Not Applicable**

**Item 9. THE OFFER AND LISTING**

**Item 9A. Offering and Listing Details**

**Market Price Information**

The principal trading market for our common stock is the Stock Market Division of the Korea Exchange. Our common stock has been listed on the Stock Market Division of the Korea Exchange since November 9, 2001, and the ADSs have been listed on the New York Stock Exchange under the symbol KB since November 1, 2001. The ADSs are identified by the CUSIP number 50049M109.



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The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Stock Market Division of the Korea Exchange for our common stock and, for periods prior to the merger, for the common stock of the former Kookmin Bank (not adjusted for the merger ratio), and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	Stock Market Division of Korea Exchange (1)			New York Stock Exchange (2)		
	Closing price per common stock (3)		Average daily trading volume	Closing price per ADS		Average daily trading volume
	High	Low		High	Low	
			(in thousands of shares)			(in thousands of shares)
2000	(Won) 21,100	(Won) 9,200	3,340.3			
2001						
First Quarter	18,900	13,200	2,700.9			
Second Quarter	17,750	12,250	1,975.9			
Third Quarter	20,600	15,600	1,891.4			
Fourth Quarter (to October 31)	20,000	16,600	1,754.7			
Fourth Quarter (from November 1 for ADSs and from November 9 for common stock)	50,300	41,300	2,549.4	\$ 40.00	\$ 34.00	116.9
2002						
First Quarter	62,100	51,500	1,897.0	48.69	39.45	161.6
Second Quarter	66,400	54,300	1,642.0	54.10	40.75	332.6
Third Quarter	62,100	44,750	1,227.4	52.32	35.30	320.4
Fourth Quarter	47,700	37,150	2,139.9	40.09	29.40	364.8
2003						
First Quarter	43,300	29,600	1,777.8	37.87	22.90	306.0
Second Quarter	39,900	29,150	2,532.1	33.25	23.39	355.5
Third Quarter	46,200	36,400	1,683.6	39.23	30.86	405.0
Fourth Quarter	48,100	38,100	2,068.1	40.34	33.46	238.9
2004						
First Quarter	50,600	44,000	1,456.0	44.20	37.40	231.5
Second Quarter	49,000	32,650	1,894.1	42.94	28.94	352.9
Third Quarter	39,900	31,450	1,573.4	35.83	27.11	366.1
Fourth Quarter	41,200	35,000	1,414.5	39.08	31.70	308.2
2005						
January	44,500	40,000	1,189.4	43.40	37.70	309.4
February	46,400	43,200	1,502.6	46.09	42.75	313.7
March	49,300	44,250	1,167.0	43.24	48.76	375.2
April	47,350	41,750	988.7	46.95	41.70	263.5
May	45,150	42,050	737.6	45.31	41.70	271.0
June (through June 27)	48,400	44,550	1,155.2	47.74	44.90	289.3

Source: IDC Remote Plus, Reuters and Stock Market Division of the Korea Exchange

- (1) Trading of common shares on the Stock Market Division of the Korea Exchange commenced on November 9, 2001.
- (2) Trading of ADSs on the New York Stock Exchange commenced on November 1, 2001. Each ADS represents the right to receive one share.
- (3) For periods prior to November 9, 2001, the quotations for the common shares are in respect of the former Kookmin Bank, which have not been adjusted for the merger ratio.



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**Item 9B. *Plan of Distribution***

**Not Applicable**

**Item 9C. *Markets***

**The Stock Market Division of the Korea Exchange**

The Stock Market Division of the Korea Exchange began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The Stock Market Division of the Korea Exchange is a membership organization consisting of most of the Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2004, the aggregate market value of equity securities listed on the Stock Market Division of the Korea Exchange was approximately (Won)412.6 trillion. The average daily trading volume of equity securities for 2004 was approximately 372.9 million shares with an average transaction value of (Won)2,232.1 billion.

The Stock Market Division of the Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Listing Regulation of the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Stock Market Division of the Korea Exchange publishes the KOSPI every ten seconds, which is an index of all equity securities listed on the Stock Market Division of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

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The following table sets out movements in KOSPI:

	<u>Opening</u>	<u>High</u>	<u>Low</u>	<u>Closing</u>
1982	123.60	134.48	105.99	128.99
1983	22.52	34.46	15.59	21.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005 (through June 27)	893.71	1,022.79	870.84	991.11

Source: The Stock Market Division of the Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Stock Market Division of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

<u>Previous day's closing price (Won)</u>	<u>Rounded down to (Won)</u>
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500

500,000 or more

1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

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Due to a recent deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Stock Market Division of the Korea Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agriculture and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Stock Market Division of the Korea Exchange. See Item 10E. Taxation Korean Taxation.

The following table sets forth the number of companies listed on the Stock Market Division of the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods:

Year	Market capitalization on the			Average daily trading volume, value		
	last day of each period					
	Number of listed companies	(Billions of Won)	(Millions of US\$) (1)	Thousands of shares	(Millions of Won)	(Thousands of US\$) (1)
1982	334	(Won) 3,001	\$ 4,279	9,704	(Won) 6,667	\$ 9,507
1983	328	3,490	4,666	9,325	5,941	7,944
1984	336	5,149	6,434	14,847	10,642	13,301
1985	342	6,570	7,921	18,925	12,315	14,846
1986	355	11,994	13,439	31,755	32,870	36,830
1987	389	26,172	30,250	20,353	70,185	81,120
1988	502	64,544	81,177	10,367	198,364	249,483
1989	626	95,477	138,997	11,757	280,967	409,037
1990	669	79,020	115,610	10,866	183,692	268,753
1991	686	73,118	101,623	14,022	214,263	297,795
1992	688	84,712	110,691	24,028	308,246	402,779
1993	693	112,665	142,668	35,130	574,048	726,919
1994	699	151,217	185,657	36,862	776,257	953,047
1995	721	141,151	178,266	26,130	487,762	616,016
1996	760	117,370	151,289	26,571	486,834	627,525
1997	776	70,989	82,786	41,525	555,759	648,115
1998	748	137,799	81,297	97,716	660,429	389,634
1999	725	349,504	294,319	278,551	3,481,620	2,931,891
2000	704	188,042	166,703	306,163	2,602,211	2,306,925
2001	689	255,850	200,039	473,241	1,997,420	1,561,705
2002	683	258,681	217,379	857,245	3,041,598	2,308,789
2003	684	355,363	298,123	542,010	2,216,636	1,859,594
2004	679	412,588	398,597	372,894	2,232,108	2,156,418
2005 (through June 27)	679	460,342	454,210	401,821	2,411,368	2,379,248

Source: The Stock Market Division of the Korea Exchange

(1) Converted at the noon buying rate of the Federal Reserve Bank of New York in effect on the first business day of the period indicated.

The Korean securities markets are principally regulated by the Financial Supervisory Commission and the Korean Securities and Exchange Act. The Korean Securities and Exchange Act was fundamentally amended numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for stockholders holding substantial interests.



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### **Further Opening of the Korean Securities Market**

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Stock Market Division of the Korea Exchange. Remittance and repatriation of funds in connection with foreign investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, on January 28, 2002 the Stock Market Division of the Korea Exchange opened a new options market for seven stocks (Samsung Electronics, SK Telecom, KT Corporation, Korea Electric Power Corporation, POSCO, Kookmin Bank and Hyundai Motor Company). Foreigners are permitted to invest in such options subject to the same procedural requirements and investment limitations applicable to Korean investors.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Stock Market Division of the Korea Exchange or registered on the KOSDAQ Market Division of the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Supervisory Commission sets forth procedural requirements for such investments. The government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies that are not listed on the Stock Market Division of the Korea Exchange nor registered on the KOSDAQ Market Division of the Korea Exchange and in bonds that are not listed.

### **Protection of Customer's Interest in Case of Insolvency of Securities Companies**

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through that sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Stock Market Division of the Korea Exchange, and that securities company places a sell order with another securities company which is a member of the Stock Market Division of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.



Under the Korean Securities and Exchange Act, the Stock Market Division of the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Stock Market Division of the Korea Exchange breaches its obligation in connection with a buy order, the Stock Market Division of the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

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When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company prior to August 1, 1998 in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification was available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to (Won)50 million. Pursuant to the Korean Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Korean Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

### **Reporting Requirements for Holders of Substantial Interests**

Any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares or equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as "Equity Securities"), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (plus Equity Securities of us held by such persons) is required to report the status of the holdings to the Financial Supervisory Commission and the Stock Market Division of the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities of us is required to be reported to the Financial Supervisory Commission and the Stock Market Division of the Korea Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the Financial Supervisory Commission may order the disposal of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a "major stockholder") must report the status of his/her shareholding to the Korea Securities Futures Commission and the Stock Market Division of the Korea Exchange within ten days after he/she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Stock Market Division of the Korea Exchange within the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Any single stockholder and persons who stand in a special relationship with that stockholder that acquire more than 4% of the voting stock of a nationwide Korean bank pursuant to the Bank Act will be subject to reporting requirements. In addition, any single stockholder and persons who stand in a special relationship with that stockholder that acquire in excess of 10% of a nationwide bank's total issued and outstanding shares with voting rights must receive approval from the Financial Supervisory Commission to acquire shares in each instance where the total shareholding would exceed 10%, 25% or 33%, respectively, of the bank's total issued



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and outstanding shares with voting rights. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

### **Restrictions Applicable to ADSs**

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Supervisory Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depository is required to obtain the prior consent of us for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depository at the time of such proposed deposit.

We have agreed to grant such consent to the extent that the total number of shares on deposit with the depository would not exceed 115,840,996 at any time.

### **Restrictions Applicable to Shares**

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Supervisory Commission regulations (which we refer to collectively as the Investment Rules ) adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange or registered on the KOSDAQ Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange or registered on the KOSDAQ Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, except in limited circumstances, including:

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odd-lot trading of shares;

acquisition of shares (which we refer to as **Converted Shares** ) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends; and

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions.

For over-the-counter transactions of shares between foreigners outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange for shares with respect to which the

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limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division of the Korea Exchange or registration on KOSDAQ Market Division of the Korea Exchange) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Finance and Economy under the Korean Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. A foreign investor must ensure that any acquisition or sale by it of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the securities company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), investment trust companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, investment trust companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances

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where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. Currently, Korea Electric Power Corporation is the only designated public corporation that has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see [Item 4B. Business Overview](#) [Supervision and Regulation](#) [Principal Regulations Applicable to Banks](#) [Restrictions on Bank Ownership](#).

**Item 9D. *Selling Shareholders***

**Not Applicable**

**Item 9E. *Dilution***

**Not Applicable**

**Item 9F. *Expenses of the Issuer***

**Not Applicable**

**Item 10. ADDITIONAL INFORMATION**

**Not Applicable**

**Item 10A. *Share Capital***

**Not Applicable**

**Item 10B. Memorandum and Articles of Association**

**Description of Capital Stock**

Set forth below is information relating to our capital stock, including brief summaries of certain provisions of our articles of incorporation, the Korean Commercial Code, the Korean Securities and Exchange Act of 1976, as amended (the Korean Securities and Exchange Act ) and certain related laws of Korea, all as currently in effect. The following summaries do not purport to be complete and are subject to the articles of incorporation and the applicable provisions of the Korean Securities and Exchange Act, the Korean Commercial Code, and certain other related laws of Korea.

As of December 31, 2004, our authorized share capital is 1,000,000,000 shares. Subject to applicable laws and regulations, we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares under our articles of incorporation. Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, in addition to the common shares and the preferred shares. See Voting Rights.



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As of December 31, 2004, we had 336,379,116 shares of issued common stock and had 306,497,907 shares of outstanding common stock. No preferred stock is currently outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. Our authorized but unissued share capital consists of 663,620,884 shares. We may issue the unissued shares without further stockholder approval, subject to a board resolution as provided in the articles of incorporation. See **Preemptive Rights and Issuances of Additional Shares** and **Dividends and Other Distributions** **Distribution of Free Shares**.

Our articles of incorporation provide that our stockholders may, by special resolution, grant to our officers, directors and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options exercisable for up to 1% of our issued and outstanding shares, provided that such grant must be approved at the general meeting of stockholders convened immediately after the date of granting such stock options. As of December 31, 2004, our officers, directors and employees held options to purchase 2,532,054 shares of our common stock. These outstanding options included options to purchase 700,000 shares of our common stock held by our chief executive officer. The exercise by our chief executive officer of options to purchase 700,000 shares of our common stock is subject to the satisfaction of certain conditions with respect to the price of our common stock on the Stock Market Division of the Korea Exchange.

Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

## ***Organization and Register***

We are a banking corporation organized in Korea under the Korean Commercial Code and the Bank Act. We are registered with the commercial registry office of Seoul Central District Court.

## ***Dividends and Other Distributions***

### ***Dividends***

Dividends are distributed to stockholders in proportion to the number of shares of the relevant class of capital stock owned by each stockholder following approval by the stockholders at an annual general meeting of stockholders. Subject to the requirements of the Korean Commercial Code, the Bank Act and other applicable laws and regulations, we expect to pay full annual dividends on newly issued shares for the year in which the new shares are issued.

We declare our dividend annually at the annual general meeting of stockholders, which are held within three months after the end of each fiscal year. Once declared, the annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend.

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Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The Bank Act and the regulations thereunder provide that a Korean bank shall not pay an annual dividend, unless each time it pays dividends it has set aside in its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount in its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital. Under the Bank Act and the regulations thereunder, we intend to set aside allowances for loan losses and reserves for severance pay in addition to the above legal reserve.

For information regarding Korean taxes on dividends, see Item 10E. Taxation Korean Taxation.

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### *Distribution of Free Shares*

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its stockholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed pro rata to all stockholders. Our articles of incorporation provide that the types of shares to be distributed to the holders of preferred shares will be determined by the board of directors.

### *Preemptive Rights and Issuances of Additional Shares*

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all stockholders who have preemptive rights and who are listed on the stockholders' register as of the applicable record date. Our stockholders will be entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in our articles of incorporation, new shares may be issued to persons other than existing stockholders if such shares are:

publicly offered pursuant to the Korean Securities and Exchange Act;

issued to our employee stock ownership association as described below;

represented by our depositary receipts;

issued to certain foreign or domestic investors in the course of management of our bank pursuant to relevant laws and regulations;

issued upon exercise of stock options pursuant to the Korean Securities and Exchange Act;

issued to the Korean government or the Korea Deposit Insurance Corporation; or

issued primarily to a third party who has contributed to the management of our bank, including by providing financing, credit, advanced financing technique, know-how or entering into close business alliances.

Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the stockholders' register is closed) prior to the record date. We will notify the stockholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a stockholder fails to subscribe on or before such deadline, the stockholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Korean Securities and Exchange Act, members of our employee stock ownership association, whether or not they are stockholders, will have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Korean

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Securities and Exchange Act. This right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then outstanding. As of December 31, 2004, our employee stock ownership association owned 982,454 of our shares of common stock.

### *Voting Rights*

Each outstanding share of our common stock is entitled to one vote per share. However, voting rights with respect to shares of common stock that we hold and shares of common stock that are held by a corporate stockholder, where more than one-tenth of the outstanding capital stock is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Korean Securities and Exchange Act permits holders of an aggregate of 1% or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our articles of incorporation do not prohibit cumulative voting. The Korean Commercial Code and our articles of incorporation provide that an ordinary

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resolution may be adopted if approval is obtained from the holders of at least a majority of those shares of common stock present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding shares of common stock. Holders of non-voting shares (other than enfranchised non-voting shares) will not be entitled to vote on any resolution or to receive notice of any general meeting of stockholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our annual general stockholders meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general stockholders meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that to amend the articles of incorporation, which is also required for any change to the authorized share capital of the company, and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company, acquisition of a part of the business of any other company having a material effect on the business of the company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases, where the rights or interest of the holders of the preferred shares are adversely affected, a resolution must be adopted by a separate meeting of holders of the preferred shares. Such a resolution may be adopted if the approval is obtained from stockholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A stockholder may exercise his voting rights by proxy given to another stockholder. The proxy must present the power of attorney prior to the start of a meeting of stockholders.

## **Liquidation Rights**

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to stockholders in proportion to the number of shares held. Holders of preferred shares have no preferences in liquidation.

## **General Meetings of Stockholders**

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We will be required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of stockholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our outstanding shares of common stock, or the holders of an aggregate of 1.5% or more of our outstanding stock with voting rights, who have held those shares at least for six months. Under the Korean Commercial Code, an extraordinary general meeting of stockholders may also be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of stockholders only to the extent the non-voting shares have become enfranchised as described under the section entitled "Voting Rights" above, hereinafter referred to as "enfranchised non-voting shares." Meeting agendas will be determined by the board of

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directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights, or by holders of an aggregate of 0.5% or more of our outstanding shares

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with voting rights, who have held those shares for at least six months, by way of a written proposal to the board of directors at least six weeks prior to the meeting. Written notices or e-mail notices stating the date, place and agenda of the meeting must be given to the stockholders at least two weeks prior to the date of the general meeting of stockholders. Notice may, however, be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Stockholders who are not on the stockholders' register as of the record date will not be entitled to receive notice of the general meeting of stockholders, and they will not be entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the stockholders' register as of the record date will be entitled to receive notice of the general meeting of stockholders and they will be entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares will not be entitled to receive notice of or vote at general meetings of stockholders.

The general meeting of stockholders will be held at our head office, which is our registered head office, or, if necessary, may be held anywhere in the vicinity of our head office.

### ***Rights of Dissenting Stockholders***

Pursuant to the Korean Securities and Exchange Act, and the Law on the Improvement of the Structure of the Financial Industry, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business, if we acquire a part of the business of any other company and such acquisition has a material effect on our business or if we merge or consolidate with another company), dissenting holders of shares of our common stock and our preferred stock will have the right to require us to purchase their shares. To exercise such a right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders. Within 20 days (10 days in the case of a merger or consolidation under the Law on Improvement of the Structure of the Financial Industry) after the date on which the relevant resolution is passed at such meeting, such dissenting stockholders must request in writing that we purchase their shares. We are obligated to purchase the shares from dissenting stockholders within one month after the end of such request period (within two months after the receipt of such request in the case of a merger or consolidation under the Law on Improvement of the Structure of Financial Industry) at a price to be determined by negotiation between the stockholder and us. If we cannot agree on a price with the stockholder through such negotiations, the purchase price will be the arithmetic mean of:

the weighted average of the daily stock prices on the Stock Market Division of the Korea Exchange for the two-month period prior to the date of the adoption of the relevant board of directors' resolution;

the weighted average of the daily stock prices on the Stock Market Division of the Korea Exchange for the one-month period prior to the date of the adoption of the relevant board of directors' resolution; and

the weighted average of the daily stock prices on the Stock Market Division of the Korea Exchange for the one-week period prior to the date of the adoption of the relevant board of directors' resolution.

However, the Financial Supervisory Commission may adjust such price if we or at least 30% of the dissenting stockholders do not accept such purchase price and request the Financial Supervisory Commission to adjust the purchase price not later than ten days prior to the end of the one month purchase period. In the case of a merger or consolidation pursuant to the Law on the Improvement of the Structure of Financial Industry where the government or the Korea Deposit Insurance Corporation provides financial support, if a price cannot be agreed upon by the relevant parties, the purchase price will be determined by an accounting expert. However, the court may adjust such price if we or holders of at least 30% of our shares that we are obligated to purchase do not accept such purchase price and request the court to adjust the purchase price by no later than 30 days from the date of the determination of the purchase price.

*Required Disclosure of Ownership*

Under Korean law, stockholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our



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other equity securities, must report the status of their holdings to the Financial Supervisory Commission and other relevant governmental authorities. For a description of such required disclosure of ownership, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership and Item 9C. Markets Reporting Requirements for Holders of Substantial Interests.

### ***Other Provisions***

#### *Register of Stockholders and Record Dates*

We maintain the register of our stockholders at our principal office in Seoul, Korea. We register transfers of shares on the register of stockholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of stockholders may be closed for the period beginning from January 1 and ending on January 31. Further, the Korean Commercial Code and our articles of incorporation permit us upon at least two weeks public notice to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of stockholders is closed.

#### *Annual Reports*

At least one week before the annual general meeting of stockholders, we must make our management report to shareholders and audited financial statements available for inspection at our head office and at all of our branch offices. Copies of this report, the audited financial statements and any resolutions adopted at the general meeting of stockholders are available to our stockholders.

Under the Korean Securities and Exchange Act, we must file with the Korean Financial Supervisory Commission and the Stock Market Division of the Korea Exchange an annual report within 90 days after the end of each fiscal year, a half-year report within 45 days after the end of the first six months of each fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of each fiscal year, respectively. Copies of such reports will be available for public inspection at the Korean Financial Supervisory Commission and the Stock Market Division of the Korea Exchange.

#### *Transfer of Shares*

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. The Korean Securities and Exchange Act provides, however, that in case of a company listed on the Stock Market Division of the Korea Exchange such as us, share transfers can be effected by the book-entry method. In order to assert stockholders' rights against us, the transferee must have his name and address registered on the register of stockholders. For this purpose, stockholders are required to file with us their name, address and seal. Non-resident stockholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under current Korean regulations, the Korea Securities

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Depository, internationally recognized foreign custodians, investment trust companies, futures trading companies, foreign exchange banks (including domestic branches of foreign banks), and securities companies (including domestic branches of foreign securities companies) may act as agents and provide related services for foreign stockholders. In addition, foreign stockholders may appoint a standing proxy among the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 9C. Markets and Item 10D. Exchange Controls. Except as provided in the Bank Act, the ceiling on the aggregate shareholdings of a single stockholder and persons who stand in a special relationship with such stockholder is 10% of our issued and outstanding voting shares. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

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### *Acquisition of Our Shares*

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Korean Securities and Exchange Act and regulations under the Bank Act and after submission of certain reports to the Korean Financial Supervisory Commission, we may purchase our own shares on the Stock Market Division of the Korea Exchange or through a tender offer, subject to the restrictions that:

the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year; and

the purchase of such shares shall meet the risk-adjusted capital ratio under Bank for International Settlements standards.

In general, subsidiaries of which we own 50% or more will not be permitted to acquire our shares.

### **Item 10C. Material Contracts**

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., pursuant to which we agreed to replace the prior investment agreement entered into with the affiliates of ING Bank and H&CB with this agreement and to enter into joint venture agreements with its affiliates relating to the bancassurance business and KB Asset Management. Under the terms of this agreement, we are required to nominate one person selected by ING Bank N.V. to be appointed as an executive director and senior executive vice president and another person to be appointed as a non-executive director so long as ING Groep N.V. and its affiliates maintain a minimum shareholding in us as defined in this agreement. In August 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Groep N.V. As a result:

the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;

ING Groep N.V. is required to maintain beneficial ownership of no less than 12,716,691 shares of our common stock, subject to adjustment for any share consolidations or share splits or, in the event of a merger with another entity, as adjusted accordingly pursuant to the merger ratio for the merger; and

each the parties agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

For more details regarding our relationship with ING Groep N.V., see Item 4A. History and Development of the Company History of H&CB, Item 4B. Business Overview Other Businesses Bancassurance, and Item 7B. Related Party Transactions.

**Item 10D. Exchange Controls**

**General**

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Finance and Economy of Korea. The Financial Supervisory Commission has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

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Under the Foreign Exchange Transaction Laws, (1) if the Korean government deems that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Finance and Economy may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government deems that international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Finance and Economy may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

## **Restrictions Applicable to Shares**

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or in his Won account. Funds in the investor's Won account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and investment trust companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, securities companies and investment trust companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

## **Item 10E. Taxation**

### **United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold the common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank;

a life insurance company;

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a tax-exempt organization;

a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depository's receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, (a) a passive foreign investment company ( PFIC ) or (b) for dividends paid prior to the 2005 tax year, a foreign personal holding company ( FPHC ) or foreign investment company ( FIC ). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on the Company's audited financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC, FPHC or FIC for U.S. federal income tax purposes with respect to its 2003 or 2004 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2005 taxable year.



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Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

### ***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

### ***Foreign Tax Credit Considerations***

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general limitation income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

### **U.S. Information Reporting and Backup Withholding Rules**

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or

through a U.S.-related financial intermediary.

### **Korean Taxation**

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation organized under Korean law; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

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The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date of this document. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law and the laws of the jurisdiction of which they are resident and the effect of any tax treaty between Korea and their country of residence, by consulting their own tax advisers.

### ***Taxation of Dividends***

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5% (including surtax). If you are a resident of a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the income tax treaty currently in effect between Korea and the United States and you are the beneficial owner of a dividend, a reduced withholding tax rate of 16.5% or 11.0% (respectively, including resident surtax, depending on your shareholding ratio) will apply. You will not be entitled to claim treaty benefits if you are not the beneficial owner of a dividend.

In order to obtain the benefit of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of your tax residence as may be required by the Korean tax authorities. If you hold ADSs, evidence of your tax residence may be submitted to us through the depository. Please see the discussion under *-Tax Treaties* below for additional information with respect to claiming treaty benefits.

If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

### ***Taxation of Capital Gains***

As a general rule, you will be exempt from Korean taxation on capital gains recognized from a sale of our shares through the Stock Market Division of the Korea Exchange, if you (i) have no permanent establishment in Korea and (ii) did not or have not owned, together with certain related parties, 25% or more of our total issued and outstanding shares at any time during the year of sale and the five calendar years before the year of sale.

Under a tax ruling issued by the Korean tax authorities in 1995 (the 1995 tax ruling), ADSs are treated as securities separate from the underlying shares represented by such ADSs and, as a result, (i) capital gains earned by you from the transfer of ADSs to another non-resident (other than to such transferees permanent establishment in Korea) are not subject to Korean income taxation and (ii) capital gains earned by you (regardless whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea are exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea; provided that the issuance of the ADSs is deemed to be an overseas issuance under such law. However, according to a recent tax ruling issued in 2004 by the Korean tax authorities regarding the securities transaction tax (the 2004 tax ruling), depository receipts constitute share certificates the transfer of which is subject to the securities transaction tax. Even though the 2004 tax ruling addresses the securities transaction tax and not the income on capital gains, it gives rise to a concern that exemptions afforded under domestic Korean tax law to capital gains from transfers of ADSs based on the treatment of ADSs as securities separate from the underlying shares may no longer apply (including those referred to in the 1995 tax ruling), if the Korean tax authority's view with respect to the character of depository receipts in 2004 tax ruling applies to income tax on capital gains from transfers of ADSs as well. In that case, however, the capital gain from transfers of ADSs should be exempt from Korean income tax under the Special Tax Treatment Control Law if (i) the ADSs are listed on an overseas securities market that is similar to the Stock Market Division of the Korea Exchange or KOSDAQ Market Division of

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the Korea Exchange and (ii) the transfer of ADSs is made through such securities market. We believe that New York Stock Exchange would satisfy the condition described in (i) above.

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If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the amount of Korean tax imposed on your capital gains will be the lesser of (i) 11% of the gross realization proceeds for the transaction and (ii) (subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs) 27.5% of the net capital gains, unless exempt from Korean income taxation under the applicable Korean tax treaty with your country of tax residence. In this regard, the purchaser or, in the case of the sale of shares of common stock on the Stock Market Division of the Korea Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the American depository receipt, or ADR, depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. Please see the discussion under *-Tax Treaties* below for an additional explanation on claiming treaty benefits.

### ***Tax Treaties***

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the securities company, as applicable, a certificate as to its tax residence. In the absence of sufficient proof, we, the purchaser or the securities company, as applicable, must withhold tax at the normal rates. Further, effective from July 1, 2002, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

### ***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If you are treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at a rate of 10% to 50%, if the value of the ADSs is greater than a specified amount.

Under the Korean inheritance and gift tax laws, shares issued by Korean corporations are deemed located in Korea irrespective of where the share certificates are physically located or by whom they are owned. You may be treated as the owner of the common shares underlying the ADSs, if the Korean tax authority's view with respect to the character of depository receipts in the 2004 tax ruling applies for these purposes as well.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

*Securities Transaction Tax*

If you transfer shares of common stock, you will be subject to a securities transaction tax at a rate of 0.15% and an agriculture and fishery special surtax at a rate of 0.15% of the sale price of the shares of common stock

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when traded on the Stock Market Division of the Korea Exchange. If your transfer is not made on the Stock Market Division of the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at a rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfers of ADRs, depositary receipts (which the ADRs fall under) constitute share certificates subject to the securities transaction tax according to the 2004 tax ruling; provided that, under the Securities Transaction Tax Law, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq National Market, Tokyo Stock Exchange, London Stock Exchange, German Stock Exchange or equivalent stock markets which operate in accordance with regulatory standards and procedures provided by the Korean Securities and Exchange Act is exempt from the securities transaction tax. Based on the 2004 tax ruling and the relevant provisions of the Securities Transaction Tax Law, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax.

According to tax rulings issued by the Korean tax authorities in 2000 and 2002, foreign stockholders are not subject to securities transaction tax upon the deposit of underlying stock and receipt of depositary shares or upon the surrender of depositary shares and withdrawal of the originally deposited underlying stock, but there remained uncertainties as to whether holders of ADSs other than initial holders will not be subject to securities transaction tax when they withdraw common shares upon surrendering the ADSs. However, the holding of the 2004 tax ruling referred to above seems to view the ADRs as the underlying shares at least for the purpose of the securities transaction tax and, though not specifically stated, could be read to imply that the securities transaction tax should not apply to deposits of common shares in exchange of ADSs or withdrawals of common shares upon surrender of the ADSs regardless of whether the holder is the initial holder because the transfer of ADRs by the initial holder to a subsequent holder would have already been subject to securities transaction tax under such tax ruling.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or the rights to subscribe to such shares. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a securities company only, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

**Item 10F. *Dividends and Paying Agents***

**Not Applicable**

**Item 10G. *Statements by Experts***

**Not Applicable**

**Item 10H. *Documents on Display***

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We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

### **Item 10I. *Subsidiary Information***

**Not Applicable**



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### **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Overview**

As a financial services provider, we are exposed to various risks related to our lending and trading businesses, our funding activities and our operating environment. Our goal in risk management is to ensure that we identify, measure, monitor and control the various risks that arise, and that our organization adheres strictly to the policies and procedures, which we establish to address these risks. The principal risks to which we are exposed are credit risk, market risk, liquidity risk and operational risk, and we strive to manage these risks within acceptable limits.

#### **Organization**

We have established a multi-layered 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 with other business groups to implement risk management strategies, policies and procedures.

#### ***Risk Management Committee***

Our Risk Management Committee is a board level committee that is responsible for overseeing all risks and advising the board of directors with respect to risk management-related issues. The committee consists of five non-executive directors, together with our president and chief executive officer, and its major roles include:

establishing risk management strategies in accordance with the directives of the board of directors;

determining our risk tolerance; and

reviewing the level of risks we are exposed to and the status of our risk management operations.

Our Risk Management Committee convenes at least quarterly and makes decisions by majority votes of the attending members, which must constitute a majority of the committee members to be a quorum. In 2004, the committee convened meetings six times at which it:

passed resolutions revising certain risk management-related regulations; and

set our risk appetite level for the 2005 fiscal year.

The committee also reviewed and provided comments on our New Basel Capital Accord, or Basel II, implementation plans.

***Risk Management Council***

Our Risk Management Council is the executive decision making body for our risk management operations. It consists of eight senior executive vice presidents, including the chief risk officer. 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 bank-wide and for each business group;

setting limits for each type of risk;

reviewing the key decisions related to operational risk; and

performing any other duties delegated by the Risk Management Committee.

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Our Risk Management Council works closely with our business groups to implement our risk management strategies. Our business groups and teams provide a variety of information to the Risk Management Council, including reports relating to risk management, including:

the status of overall risk management;

the status of compliance with risk limits;

analyses and suggestions with respect to ongoing credit reviews;

the results of quarterly stress testing and back testing; and

reports on monthly risk-adjusted return on capital, or RAROC, and reports on the allocation of economic capital.

Our Risk Management Council generally operates on consensus but, when required, makes decisions by majority vote of the council members then holding office. In 2004, the council convened ten meetings. Business conducted during such meetings included:

the semiannual setting of our economic capital-based risk limit;

the development and application of Basel II-compliant loss given default and exposure at default frameworks;

the development of an operational risk management framework and IT system implementation plan; and

the review of reports on the introduction of our market risk internal models.

### ***Risk Management Subcommittees***

Our 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 our chief credit officer, approves the criteria to set total exposure limits, which are implemented by our business groups, and resolves certain working-level issues related to credit risk management. It is composed of 12 members, including our chief credit officer and 11 general managers.

The Market Risk Management Subcommittee, chaired by our chief risk officer, sets market risk-related limits and resolves certain working-level issues related to market risk management. In particular, the Market Risk Management Subcommittee sets the Value at Risk, or VaR, position and stop loss limits for our fixed income, equity, foreign exchange and derivative portfolios. It is composed of

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nine members, including our chief risk officer, the head of the Derivatives Business Unit, two general managers from the Risk Management Group and five general managers from other relevant teams.

### *Asset Liability Management Committee*

The Asset Liability Management Committee, chaired by our chief financial officer, is responsible for, and makes strategic business decisions related to, our overall asset and liability management. It is composed of eight members, including our president and chief executive officer, our chief financial officer and six senior executive vice presidents. Its duties include:

performing bi-weekly or monthly reviews of our interest rate gap and liquidity positions and reviews of interest rate trends in new loans and deposits;

formulating policies on interest rates;

establishing strategies for deposit and lending rates; and

assessing the overall impact of those factors on asset and liability management.

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In addition, the Financial Strategy Subcommittee performs duties delegated to it by the Asset Liability Management Committee. Members of the Financial Strategy Subcommittee review our interest rate and liquidity gap positions monthly, formulate a view on interest rates and review the business profile and the impact of those rules on asset and liability management.

### ***Risk Management Group***

Our Risk Management Group is responsible for identifying, measuring, monitoring, and reporting on risks, and for initiating actions with respect to risk management that may be required by our other business groups. The chief risk officer is responsible for the Risk Management Group, and is the chairman of the Risk Management Council, and a member of each of the Loan Committee, the Asset Liability Management Committee, the Management Council and the board of directors. The Risk Management Group is divided into three teams:

*Risk Capital Team.* This team manages our RAROC system, and is responsible for the regular reporting of RAROC, economic value added, or EVA, and economic capital at the bank-wide level, and by business group. It is also responsible for the bank-wide implementation of Basel II and validates internal rating systems.

*Market Risk Team.* This team measures, monitors, controls and reports on the status of market risks including interest rate, foreign exchange, equity and derivative related risks. It also monitors and reviews risks related to interest and liquidity independently from the Asset Liability Management Team, which is responsible for daily interest and liquidity risk management. In addition, it is responsible for the development of our operational risk measurement methodology, as required under the Basel II.

*Credit Review Team.* This team is responsible for monitoring the regular credit reviews we conduct on the credit status of our borrowers, corporate groups and industries. It is also responsible for the operation of our comprehensive portfolio monitoring system and monitors and reports to management on the overall risk management profile of each subsidiary and overseas branch.

Our three risk management teams act independently from our business groups in order to enhance the effectiveness of our risk management policies.

### ***Credit Management Group***

Our Credit Management Group is responsible for controlling, managing and reporting our overall credit risk. The chief credit officer is responsible for the Credit Management Group, and is a member of the Risk Management Council and chairman of the Loan Committee. The Credit Management Group is divided into five teams:

*Credit Planning Team.* This team manages the overall credit risk of our loan portfolio and is responsible for oversight of overall asset quality. It also establishes our loan loss provisioning policy and determines total exposure limits for our corporate customers. It maintains and upgrades our credit scoring system for corporate customers.

*Retail Credit Analysis Team.* This team maintains and upgrades our credit scoring system for retail customers. It is also responsible for improving our retail loan approval process.

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*Corporate Credit Analysis Team.* This team maintains and monitors our credit approval processes. It is also responsible for conducting industry analysis and management of our pre-workout corporate customers.

*Corporate Restructuring Team.* This team is responsible for the management of our corporate workout customers.

*Credit Management Team.* This team develops and oversees our procedures for management of delinquent loans. It is also responsible for management of non-performing credits, including sales and securitization of non-performing loans.

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### ***Subsidiary Risk Management***

We manage the risk of our consolidated subsidiaries through supporting the construction of their risk management systems in order to ensure the soundness of their management. Our Credit Review Team assumes the responsibility of overall control and coordination of our subsidiaries' risk management policies and procedures. Its major roles in this regard are as follows:

monitoring and reporting on our subsidiaries' risk management status;

reviewing the current risk management practice of our subsidiaries and making recommendations to our subsidiaries as necessary;  
and

operating a working-level council with respect to subsidiary risk management policies and procedures.

### **Credit Risk Management**

Credit risk is the risk of losses in the event of 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. We determine the creditworthiness of each type of borrower or counterparty through reviews conducted by our credit experts and through our credit rating systems, and we set a credit limit for each borrower or counterparty. In January 2005, our credit risk management was centralized in our Credit Management Group, which is headed by our chief credit officer.

We assess all credit exposures, whether on- or off-balance sheet. These exposures include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. Our risk appetite, which is the ratio of our required economic capital to our estimated available book capital, is approved by the Risk Management Committee at the beginning of each year. Thereafter, we calculate economic capital quarterly for each business group and bank-wide based on attributed economic capital. We measure and report profiles of credit risk at a bank-wide level and by business group regularly to relevant business groups and senior management, including the Risk Management Council and the Risk Management Committee.

We use expected default rates and recovery rates to determine the expected loss rate of a borrower or counterparty. We use the expected loss rate to make credit related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision making. These rates are calculated using information gathered from our internal database. With respect to large corporate borrowers, we also use information provided by external credit rating services to calculate default rates and recovery rates.

Our Corporate Banking Group currently uses our Risk Adjusted Pricing System, or RAPS, to support pricing decisions by calculating economic capital, RAROC and economic value added for each facility and by customer in our large corporate portfolio. This system will gradually be applied to our much larger small- and medium-sized enterprise portfolio as well.

Our credit risk management processes include:

credit evaluation;

credit analysis and loan approval;

total exposure management;

collateral evaluation and monitoring; and

credit review and monitoring.

***Credit Evaluation***

We evaluate the ability of all loan applicants to repay their debts before we approve any loans, except for loans guaranteed by letters of guarantee issued by the Credit Guarantee Fund, the Korea Technology Credit



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Guarantee Fund and highly rated banks, and for loans fully secured by deposits with us. We assign each borrower or guarantor a credit rating based on the judgment of our experts or scores calculated using the appropriate credit rating system. Factors that we consider in assigning credit ratings include both financial factors and non-financial factors, such as our 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.

We use our internally developed credit rating systems to rate potential borrowers. As the characteristics of each customer segment differ, we use several credit rating systems for our 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, we have 12 credit ratings, ranging from AAA to D. For small- and medium-sized enterprises, we have 11 credit ratings ranging from AA to D. For retail customers, we have 10 credit ratings ranging from grade 1 to grade 10.

Based on the credit rating of a borrower, we apply different credit policies, which affect factors such as credit limit, loan period, loan pricing, loan classification and provisioning. We also use these credit ratings in evaluating our bank-wide risk management strategy. Factors we consider in making this evaluation include the profitability of each company or transaction, performance of each business unit and portfolio management. We monitor the credit status of borrowers and collect information to adjust our ratings appropriately. If we change a borrower's credit rating, we will also change the credit policies relating to that borrower and we may also change the policies underlying our loan portfolio.

### ***Retail Loan Approval Process***

***Mortgage Loans and Secured Retail Loans.*** Our processing center staff approves mortgage loans and retail loans secured by real estate or guarantees. Branch staff employees forward loan applications to processing centers. But in the case of loans secured by deposits with us, our branch staff approves such loans. We make lending decisions based on our assessment of the value of the collateral, debt service capability and the borrower's score generated from our credit rating systems.

For mortgage loans and loans secured by real estate, we evaluate the value of the real estate offered as collateral using a database we have developed that contains information about real estate values throughout Korea. We also use information from a third party provider about the real estate market in Korea, which gives us up-to-date market value information for Korean real estate. In addition, our processing center staff employees review the value of real estate provided by the evaluation system to ensure there are no significant discrepancies. Beginning in April 2005, we have based decisions regarding the approval of such loans primarily on the results of our credit rating systems.

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

With respect to mortgage loans and secured retail loans, we initially screen customers based on various items on our checklist that indicate whether the customer may have deteriorating credit using internal information and rating information from credit bureaus. We also evaluate debt service capability for eligible customers pursuant to ten checklist items, such as type of residence, profession, family information, annual income, age, credit card overdue information, transaction history (with both our bank and other financial institutions) and other relevant credit information.

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We generally decide whether to approve a loan application within three to five days after recording the relevant information in our credit rating systems.

*Unsecured Retail Loans.* We review applications for unsecured retail loans in accordance with our credit scoring systems. These automated systems evaluate loan applications and determine an appropriate pricing for

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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 our processing centers reviews the results of the credit scoring system based on information input by our branch staff and, if approved, issues the loan.

Our credit scoring systems take into account factors including borrower's income, assets, profession, age, transaction history (with both our bank 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.

We generally base our decisions on the results of our credit scoring systems to evaluate applications. However, a credit officer may overturn the results of our credit scoring systems, in certain circumstances.

**Corporate Loan Approval Process**

We approve corporate loans at different levels of our organization depending on the size and type of the loan, the credit risk level assessed by the credit rating system, whether the loan is secured by collateral and, if secured, the value of the collateral. The lowest level of authority is the branch staff employee, who can approve small loans and loans that have the lowest range of credit risk. Larger loans and loans with higher credit risk are approved by higher levels of authority depending on where they fall in a matrix of loan size and credit risk. Depending on the size and terms of any particular loan or the credit risk relating to a particular borrower, more than one entity may review the application, although generally loan applications are reviewed only by the entity having corresponding authority to approve the loan. The following table identifies the various entities that are involved in approving corporate loans.

<b>Entity</b>	<b>Members</b>	<b>Quorum for Approval</b>
Loan Committee	Head of the Credit Management Group; Head of the Corporate Banking Group; Head of the Risk Management Group; Corporate Lending Analysis Team Manager; Credit Analysis Team Manager; Small- and Medium-Sized Enterprise Team Manager; Large Corporate Banking Team Manager	2/3 or more participation; 2/3 or more required for approval
Senior Credit Officers Committee	Six Senior Credit Officers and two Junior Credit Officers	2/3 or more participation;
		2/3 or more required for approval
Credit Officers Committee	Four Credit Officers	2/3 or more participation;
		2/3 or more required for approval
<b>Local/Regional Approval</b>		
Credit Analysis Center Credit Officers Committee	Four Credit Officers	2/3 or more participation;
		2/3 or more required for approval
		Agreement of all members

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Co-signature of Relationship  
Managers

One Senior Relationship Manager and one Relationship Manager  
(2 persons)

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We evaluate all of our 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. See Credit Evaluation.

For owner-operated enterprises with sales volume of (Won)2 billion or lower (which we refer to as retail SOHOs), we have put in place a retail SOHO credit rating system, which adopts simplified credit evaluation modeling procedures. This system consists of a scoring model, a qualitative credit assessment (or 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 and owner-operated enterprises with a sales volume of over (Won)2 billion (which we refer to as corporate SOHOs), we have put in place a credit rating system known as CRS. The CRS model consists of the following three parts:

*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 checks 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 our CRS system only. Accordingly, we rely more on the judgment of our expert credit officers with respect to these entities. The relative importance of the factors we use to evaluate these entities varies, and accordingly the process largely depends on the experience and expertise of our 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. We 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, and then drafts a report relating to the potential borrower, which includes a tentative credit rating determination. This report is submitted to the Senior Credit Officers Committee for its review and final approval of the borrower's rating. This committee consists of six senior credit officers and two junior credit officers, all chosen from among our Credit Management Group.

We often refer 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 our credit ratings.

*Credit Card Approval Process*

As a result of the merger with Kookmin Credit Card, we integrated our application scoring system and overall approval process with respect to our Kookmin Card and BC Card businesses. This integrated approval criteria was implemented from the date of the merger.

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Our application scoring system reflects various credit information, including basic customer information (such as credit history, occupation, job title and income of applicant), transaction history with us, if any, delinquency and transaction history with other card companies and credit information provided by bank associations and other external credit information organizations. We also consider repayment ability, total assets and the length of the applicant's relationship, if any, and past contribution to our profitability, if any. On the basis of scores from our application scoring system, we establish, among other things, the term of any new approvals, initial limits and differentiation of fee rates with respect to our credit cards.

We approve all applicants through our application scoring system. Our system allows us to differentiate applicants into groups that receive immediate credit card approval or rejection, or that may require us to further investigate that applicant's credit qualifications. The initial limits of new applicants are based on their estimated monthly income, which is based on their occupation and the value of their personal assets. We apply our fee rates to applicants differently according to risk premium and profitability.

As a result of the merger, we have also integrated our behavior scoring system, which was implemented from the date of the merger.

Recent government initiatives have reduced our ability to provide credit card to more marginal borrowers. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Application to Banks Credit Card Business.

### ***Total Exposure Management***

We establish and manage 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. We establish 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 our total exposure. Small- and medium-sized enterprise limits are set by referring to the results from our credit rating system. The guidelines used to set these total exposure limits are approved by our Credit Risk Management Subcommittees. In certain exceptional cases, we 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. Our Credit Risk Management Subcommittee must also approve all cases where established limits are to be exceeded.

Our 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 we set for corporations and groups are far lower than these levels.

We manage and control exposure limits on a daily basis. The principal system that we use for this purpose is the Total Exposure Management System. This system allows us to monitor and control our total exposure to large corporations, conglomerates and industries. We monitor our exposure to large corporations, our exposure to the 34 largest conglomerates in Korea designated by the Financial Supervisory Commission based on their outstanding exposures, and our exposure to 144 industry groups. Our Total Exposure Management System integrates all of our credit-related risk including credit extended by our 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, corporate bonds and derivatives. With respect to small- and medium-sized enterprises to which we have an exposure of less than (Won)30 billion, we manage and control exposure limits through a system that measures the client exposure limit and transaction limit with respect to these entities.





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***Collateral Evaluation and Monitoring System***

We use the Collateral Evaluation and Monitoring System to manage the liquidation value of collateral we hold. The Collateral Evaluation and Monitoring System is a computerized collateral management system that can be accessed from our headquarters and our branches. Using this system, we can more accurately assess the actual liquidation value of collateral, determine the recovery rate on our loans and use this information in setting our credit risk management and loan policies. We can monitor the value of all the collateral a borrower provides and the value of that collateral based on its liquidation value. When appraising the value of real estate collateral, which makes up the largest part of our collateral, we consult a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of Korea are sold. We appraise the value of collateral when we make 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***

We perform credit review operations independently from our asset operating teams, 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 our borrowers. A borrower will be reviewed if it is selected by our early warning system and if our total exposure to a borrower exceeds a certain threshold. Our responsible group or business unit performs a credit review and the originating branch performs a loan review of the selected borrower. We review the borrower's condition with respect to its current debt, collateral, business, transactions with related parties and debt service capability. Based on our review, we may adjust the borrower's credit rating, our borrowing policy or asset quality classification of the loan provided to the borrower. We also regularly review other aspects of the lending process, including industries in which borrowers operate, our asset operating teams' loan quality and the quality of our domestic and overseas assets. When a review takes place, we may adjust not only credit ratings of our borrowers based on a variety of factors, but also asset quality classification, credit limits and applied interest rates or our credit policies. Credit review results are reported to our chief risk officer and the Risk Management Committee on a quarterly basis.

We have 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 updating information is fed automatically from internal and external sources while some other data are gathered and updated manually. The system automatically updates data including:

the total amount of loans extended by other financial institutions to the same borrower, as reported monthly by the Korea Federation of Banks;

financial data relating to the borrower supplied by Korea Information Service and our internal credit rating system;

our internal credit rating;

the estimated recovery rate of collateral provided by the borrower;

whether a borrower is included in the list of problem debtors, or black list, maintained by the Korea Federation of Banks;

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whether the borrower has defaulted on any payments owed to us; and

the status of the borrower's financial transactions with us.

In addition, our branches periodically review the status of companies to which we have an exposure of more than (Won)0.5 billion to check for severe deterioration of their financial condition, and report the findings directly into our early warning system. Companies to which we have an exposure of less than (Won)0.5 billion are monitored monthly by our early warning system for quantitative deterioration and the results are forwarded to our branches

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to assist in managing outstanding exposures. We accumulate this gathered data in our early warning system checklist database. Information in the checklist includes:

whether the borrower has ceased operating for more than three months;

for construction companies, whether construction has stopped for more than three months;

whether contests for management control are taking place;

whether there is tension in labor relations;

whether the borrower uses an excessive amount of negotiable paper or financing from the private money markets; and

whether any of the borrower's affiliates have defaulted on their obligations.

We conduct a credit review of any borrower identified by our early warning system. Depending on the nature of the problem detected by our early warning system, we may initiate a screening procedure with respect to a borrower. Through our screening procedure, such a borrower may be initially classified as a company to be reviewed. This classification will result in a more thorough review procedure and result in either a credit rating downgrade or a determination by our credit officer that the borrower is a company where no further action is required. Our determination is based on a combination of information from the borrower's relationship manager and a credit officer's review of the borrower's financial and non-financial condition.

## **Market Risk Management**

The major risk to which we are exposed is interest rate risk on debt instruments and interest-bearing securities and, to a lesser extent, equity risk and foreign exchange risk. The financial instruments that expose us to these risks are loans, debentures, deposits, securities and financial derivatives. We are not exposed to commodity risk, the other recognized form of market risk, as we do not hold any commodity positions. We are also exposed to interest rate risk and liquidity risk in our banking book. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Our Risk Management Council establishes overall market risk management principles. It has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee, which is chaired by our chief risk officer. This subcommittee meets on a regular basis each month and as required to respond to developments in the market and the economy. Based on the policies approved by the Risk Management Council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, sensitivity analysis and value at risk, or VaR, results for our trading activities.

The Asset Liability Management Committee is responsible for day-to-day interest and liquidity risk management of non-trading activities. It meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Asset Liability Management Committee, acting through our Asset Liability Management Team, review our interest rate and liquidity gap position bi-weekly or

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monthly, formulate a view on interest rates, establishing strategies with respect to deposit and lending rates and review the business profile and its impact on asset and liability management.

To ensure adequate interest and liquidity risk management, we have also assigned the responsibilities of our asset and liability management risk control to our Market Risk Team in our Risk Management Group, which monitors and reviews the asset and liability management risk procedures and activities of our Asset Liability Management Team, and independently reports to the management on the related issues.

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### ***Market Risk Management for Trading Activities***

Our trading activities consist of:

trading activities for our own account to realize short-term trading profits in Won-denominated debt and equities markets and foreign exchange markets based on our short-term forecast of changes in market situation; and

trading activities involving derivatives, such as swap, forward, futures and option transactions, to realize profits primarily from arbitrage transactions and, to a lesser extent, from selling derivative products to our customers and to hedge market risk incurred from those activities. In addition, certain derivative products that we use to hedge our own market risk are classified as trading activities as they do not qualify for hedge accounting treatment under U.S. GAAP. We believe, however, that certain of these products are effective as economic hedges.

We use derivative instruments to hedge our market risk and, to a limited extent, to make profits by trading derivative products within acceptable risk limits. The principal objective of our hedging strategy is to manage our market risk within established limits. We use the following hedging instruments to manage relevant risks:

to hedge interest rate risk from its trading activities, the Securities Management Team occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;

to hedge equity risk from its trading activities, the Securities Management Team selectively uses stock index futures; and

to hedge interest rate risk and foreign exchange risk from our foreign currency-denominated asset and liability positions as well as our trading activities, the International Financing Team and FX Product Team use interest rate swaps, cross-currency interest rate swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options. We use derivatives to change the interest rate characteristics of certain assets and liabilities after the original investment or funding. For example, depending on the market situation, we may choose to obtain fixed rate funding instead of floating rate funding if we believe that the terms are more favorable, which we can achieve by entering into interest rate swaps.

We generally manage our market risk at the portfolio level. To control our exposure to market risk, we use VaR limits set by the Risk Management Council and position and stop loss limits set by the Market Risk Management Subcommittee. We prepared our risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Supervisory Service.

We monitor market risk arising from trading activities of our business groups and teams. The market risk measurement model we use for both our Won-denominated trading operations and foreign currency-denominated trading operations is implemented through our integrated market risk management system called Panorama, which enables us to generate consistent VaR numbers for all trading activities.

*Value at Risk analysis.* We use daily value at risk, or VaR, to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that could occur for a day under normal distribution of financial variables. We use a 99% single tail confidence level to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days.

Value at risk is a commonly used market risk management technique. However, this approach does have some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

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In order to measure VaR, we use the variance-covariance method, which takes into account the diversification effects among different risk categories as well as within the same risk category.

The following table shows our daily VaRs as of December 31, 2002, 2003 and 2004, at a 99% confidence level for a one-day holding period, for interest rate risk, equity risk and foreign exchange risk relating to our trading activities. The following figures were calculated on a non-consolidated basis.

	<u>As of December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in billions of Won)		
<b>Risk categories:</b>			
Interest rate risk	4.1	8.3	4.4
Equity risk	2.9	4.5	2.3
Foreign exchange risk	0.4	0.04	0.2
Less: diversification	3.6	6.3	1.2
VaR for overall trading activities	3.8	6.5	5.7

*Stress test.* In addition to VaR, which assumes normal market situations, we use stress testing to assess our market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant declines in the stock market and significant increases in the general level of interest rates. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. According to our stress testing, we estimate that as of December 31, 2004, our trading securities portfolio, which represents most of our trading risk, could have lost (Won)110 billion for an assumed short-term extreme decline of 21% in the equity market and experienced an approximate 200 basis point, or nearly 2%, increase in interest rates under an abnormal stress environment.

Although we have not set any limits based on stress testing, we monitor the impact of market turmoil or any abnormality. If the impact is large, our chief risk officer may request a portfolio restructuring or other appropriate action.

*Interest Rate Risk*

Interest rate risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As our trading accounts are marked-to-market daily, we manage the interest rate risk related to our trading accounts using market value-based tools such as VaR and sensitivity analysis. As of December 31, 2004, the VaR of our interest rate risk from trading was (Won)4.4 billion and the weighted average duration, or weighted average maturity, of our Won-denominated trading debt securities was approximately 1.5 years.

*Foreign Exchange Risk*

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Foreign exchange risk arises because we have assets and liabilities that are denominated in currencies other than Won, as well as off-balance sheet items such as foreign exchange forwards and currency swaps.

Assets and liabilities denominated in U.S. dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese yen and the euro account for most of the remainder.

The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain our net foreign currency open position. The Market Risk Management Subcommittee oversees



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our foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits. VaR limits are established on a combined basis for our domestic operations and foreign branches.

The following table shows our non-consolidated net open positions at the end of 2002, 2003 and 2004. Positive amounts represent long positions and negative amounts represent short positions. The net open positions held by subsidiaries are not significant.

	As of December 31, (1)		
	2002	2003	2004
	(in millions of US\$)		
<b>Currency</b>			
US\$	\$ (68.4)	\$ (20.1)	\$ 14.8
JP¥	2.5	(0.1)	(1.2)
Euro	1.9	2.4	2.5
Others	13.0	1.4	0.1
<b>Total</b>	<b>\$ (51.0)</b>	<b>\$ (16.4)</b>	<b>\$ (16.2)</b>

(1) Amounts prepared on a non-consolidated basis.

*Equity Price Risk*

Equity price risk results from our equity trading portfolio in Won since we do not have any trading exposure to shares denominated in foreign currencies.

The equity trading portfolio in Won consists of exchange-traded stocks and nearest month or second nearest month futures contracts under strict limits on diversification as well as position limits and stop loss limits.

This has been an area of particular focus due to the level of volatility in the stock market. The Market Risk Management Subcommittee sets annual and monthly stop loss limits that are monitored by the Market Risk Team. In order to ensure timely action, the stop loss limit of individual securities is monitored by our middle office.

As of December 31, 2004, our equity trading position was (Won)184.5 billion.

*Derivative Market Risk*

Our derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures and currency options. These activities consist primarily of the following:

arbitrage transactions to make profit from short-term discrepancies between the spot and forward derivative markets or within the derivative markets;

sales of tailor-made derivative products that meet various needs of our corporate customers and related transactions to reduce our exposure resulting from those sales;

taking positions in limited cases when we expect short-swing profits based on our market forecasts; and

trading to hedge our interest rate and foreign currency risk exposure as described above.

Market risk from trading derivatives is not significant since our derivative trading activities are primarily driven by arbitrage and customer deals with very limited open trading positions.

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### ***Market Risk Management for Non-Trading Activities***

#### ***Interest Rate Risk***

Our principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of these rate-sensitive assets and liabilities. We measure interest rate risk for Won and foreign currency assets and liabilities in our bank accounts (including derivatives) and our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars.

Our principal interest rate risk management objectives are to generate stable net interest revenues and to protect our asset value against interest rate fluctuations. We principally manage this risk for our non-trading activities by analyzing and managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities. Although we have used hedging instruments only on a limited basis for interest rate risk management for our non-trading assets and liabilities, to date the Korean financial market has not been sufficiently developed for this purpose. We expect to increase our use of derivatives to hedge this risk in the near future as the Korean financial market becomes more sophisticated.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. We perform interest rate gap analysis for Won-denominated and foreign currency-denominated assets and trust assets on a monthly basis or more frequently when deemed necessary.

*Interest Rate Gap Analysis.* We perform interest rate gap analysis based on interest rate repricing maturities of assets and liabilities. However, for some of our assets and liabilities with either no maturities or unique characteristics, we use or assume certain maturities, including the following examples:

With respect to asset maturities, we assume remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and use the actual maturities for prime rate-linked loans with remaining maturities of less than one year.

With respect to liability maturities, we assume non-core demand deposits under the Financial Supervisory Commission guidelines to have remaining maturities of less than three months; and we assume core demand deposits under the same guidelines to have remaining maturities of over three years.

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The following table shows our non-consolidated interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2004, based on our Korean GAAP accounts, which vary in certain significant respects from our accounts prepared in accordance with U.S. GAAP.

	As of December 31, 2004 (1)					Total
	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	
(in billions of Won, except percentages)						
<b>Won-denominated</b>						
<b>Interest-earning assets:</b>						
Loans	76,910	26,928	13,265	1,448	1,119	119,669
Securities	10,732	1,955	3,421	7,220	1,893	25,221
Others	10,551	1,367	931	1,191	132	14,172
<b>Total</b>	<b>98,193</b>	<b>30,250</b>	<b>17,617</b>	<b>9,859</b>	<b>3,143</b>	<b>159,063</b>
<b>Interest-bearing liabilities:</b>						
Deposits	51,636	17,762	28,404	7,491	20,580	125,873
Borrowings	2,945	0	0	0	0	2,945
Others	4,223	4,788	3,373	7,913	5,470	25,767
<b>Total</b>	<b>58,805</b>	<b>22,550</b>	<b>31,776</b>	<b>15,404</b>	<b>26,050</b>	<b>154,585</b>
Sensitivity gap	39,388	7,700	(14,159)	(5,545)	(22,906)	4,477
Cumulative gap	39,388	47,088	32,929	27,384	4,477	
% of total assets	24.8%	29.6%	20.7%	17.2%	2.8%	
<b>Foreign currency-denominated</b>						
<b>Interest-earning assets:</b>						
Due from banks	382	126	0	0	0	508
Loans	2,009	627	17	73	8	2,734
Securities	253	127	56	142	123	701
Others	1,401	318	103	12	0	1,833
<b>Total</b>	<b>4,404</b>	<b>1,197</b>	<b>176</b>	<b>227</b>	<b>131</b>	<b>5,776</b>
<b>Interest-bearing liabilities:</b>						
Deposits	756	595	42	3	0	1,396
Borrowings	1,582	774	139	6	46	2,548
Others	104	81	0	525	0	710
<b>Total</b>	<b>2,442</b>	<b>1,450</b>	<b>181</b>	<b>534</b>	<b>46</b>	<b>4,654</b>
Sensitivity gap	1,602	(253)	(5)	(307)	85	1,122
Cumulative gap	1,602	1,349	1,344	1,037	1,122	
% of total assets	27.7%	23.4%	23.2%	18.0%	19.4%	

(1) The numbers are prepared on a non-consolidated basis in accordance with Korean GAAP for internal management purposes.

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*Duration Gap Analysis.* We also perform duration gap analysis to measure and manage interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses more on accounting income as opposed to the market value of the assets and liabilities. We emphasize duration gap analysis because, in the long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes. In 2004, our asset and liability duration gap was negative and it moved between 0.3278 years and 0.4436 years. Accordingly, our net asset value would have declined between (Won)536 billion and (Won)710 billion if interest rates had decreased by one percentage point.

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For duration gap analysis we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

The following table, which was prepared in accordance with Korean GAAP, shows duration gaps and net asset value changes when interest rates decrease by one percentage point as of the specified dates on a non-consolidated basis.

<b>Date</b>	<b>Asset duration</b>	<b>Liability duration</b>	<b>Duration gap</b>	<b>Net asset value change</b>
	<b>(in years)</b>	<b>(in years)</b>	<b>(in years)</b>	<b>(in billions of Won)</b>
June 30, 2002	0.6786	0.9664	(0.2112)	(303)
December 31, 2002	0.5701	0.9067	(0.2710)	(420)
June 30, 2003	0.5401	0.8819	(0.2912)	(466)
December 31, 2003	0.5311	0.8779	(0.3270)	(545)
June 30, 2004	0.5206	0.9247	(0.3880)	(624)
December 31, 2004	0.5024	0.9395	(0.4049)	(653)

We set interest rate risk limits using historical interest rate volatility of financial bonds and duration gaps with respect to expected asset and liability positions based on our annual business plans. The Asset Liability Management Team in our Finance Group submits interest rate gap analysis reports, duration gap analysis reports, sensitivity reports and interest rate limit compliance reports monthly to the Asset Liability Management Committee and quarterly to the Risk Management Committee.

The following table, which was prepared in accordance with Korean GAAP, summarizes our interest rate risk on a non-consolidated basis, taking into account asset and liability durations as of December 31, 2004.

	<b>As of December 31, 2004</b>					<b>Total</b>
	<b>3 months or less</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-3 years</b>	<b>Over 3 years</b>	
<b>(in billions of Won, except percentages and maturities in years)</b>						
<b>Won-denominated:</b>						
Asset position	98,193	30,250	17,617	9,859	3,143	159,063
Liability position	58,805	22,550	31,776	15,404	26,050	154,585
Gap	39,388	7,700	(14,159)	(5,545)	(22,906)	4,477
Average maturity	0.175	0.383	0.692	1.496	2.870	
Interest rate volatility	1.60%	1.69%	1.84%	2.29%	2.36%	
Amount at risk	110	50	(180)	(190)	(1,550)	(1,760)
<b>Foreign currency-denominated:</b>						
Asset position	4,044	1,197	176	227	131	5,776
Liability position	2,442	1,450	181	534	46	4,654
Gap	1,602	(253)	(5)	(307)	85	1,122

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Average maturity	0.24	0.48	0.96	2.72	3.48	
Interest rate volatility	1.14%	1.38%	2.12%	2.12%	2.12%	
Amount at risk	4	(2)	0	(18)	6	(9)

### *Foreign Exchange Risk*

We manage foreign exchange rate risk arising from our non-trading operations together with such risks arising from our trading operations. See Market Risk Management for Trading Activities Foreign Exchange Risk above.

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***Liquidity Risk Management***

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans, to extend other credits and to invest in securities. Our liquidity management goal is to meet all our liability repayments on time and fund all investment opportunities even under adverse conditions. To date, we have not experienced significant liquidity risk, including during 1997 and 1998 when the Korean economy experienced serious difficulties.

We maintain liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. We also manage 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 we believe we could raise by issuing securities. We seek to minimize our liquidity costs by managing our 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.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. We use the majority of funds we raise to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, we manage liquidity using a cash flow structure based on holding short-term liabilities and long-term assets. In December 2003, the average initial contract maturity of our new Won-denominated time deposits was about 12 months, while during the same period most of our new loans and securities had maturities over one year.

We manage liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Supervisory Commission. The Financial Supervisory Commission requires Korean banks to maintain a Won liquidity ratio of at least 100.0%. The Financial Supervisory Commission defines the Won liquidity ratio as Won liquid assets (including marketable securities) due within three months divided by Won liabilities due within three months.

The Fund Management Team and the International Financing Team are responsible for daily liquidity risk management of our Won and foreign currency exposure, respectively. They report monthly plans for funding and asset management to the Asset Liability Management Committee, which discusses factors such as interest rate movements, maturity structures of our deposits, loans and securities, re-deposit ratios and loan roll-over ratios.

The following table shows our liquidity status and limits for Won and foreign currency accounts as of December 31, 2004 in accordance with Financial Supervisory Commission regulations:

**3 months or  
less**



	(in billions of Won, except percentages)
<b>Won accounts:</b>	
Assets(A)	67,292
Liabilities (B)	62,384
Liquidity gap	4,908
Liquidity ratio (A/B)	107.87%
Limit	100%

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	<u>7 days</u>	<u>7 days</u>	
	<u>or less</u>	<u>or less</u>	<u>1-3 months</u>
	(in millions of US\$, except percentages)		
<b>Foreign currency accounts:</b>			
Foreign currency assets	5,471	6,645	8,587
Foreign currency liabilities	4,605	9,834	8,405
Maturity gap	866	(3,189)	182
Cumulative gap (A)	866	(2,323)	(2,141)
Total assets (B)	31,987	31,987	31,987
Liquidity gap ratio (A/B)	2.71%	(7.26)%	90.63%
Limits	0.00%	(10.00)%	85.00%

The Asset Liability Management Team in our Finance Group reports whether we are complying with these limits monthly to the Asset Liability Management Committee and quarterly to the Risk Management Committee.

**Operational Risk Management***Overall Status*

Basel II currently defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. However, there is still no complete consensus on the definition of operational risk in the banking industry. We define operational risk as risks related to our overall business and support activities other than credit risk, market risk, interest rate risk and liquidity risk. Within this definition, we plan to manage not only the direct risk of such loss (such as those risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial loss), but also indirect risks (such as reputational risk).

We are in the process of establishing a bank-wide operational risk management framework meeting the Basel II Advanced Measurement Approach, or AMA, according to a multi-year plan comprising:

the framework building phase, which was completed at the end of 2004;

the implementation phase, which we plan to complete by the end of 2005; and

the stabilization phase, which we plan to complete by the end of 2007.

In 2003, we entered into phase I, which focuses on building our operational risk management framework through upgrades relating to our Control Self Assessment Program, identification of key risk indicators, collection of internal loss data and initial measurement of operational risk capital based on the Basel II AMA.

Our Operational Risk Unit is part of our Risk Management Group, and it is responsible for:

refining bank-wide operational risk policies and procedures;

managing internal and external loss data;

measuring operational risk;

providing appropriate training and support to business line operational risk managers; and

reporting overall operational risk status to our senior management.

***Internal Control***

Our Audit Planning and Coordination Team, Audit Operation Team, Legal Team, Compliance Team and Operational Risk Unit all play important roles in reviewing and maintaining the integrity of our internal control environment.

The Audit Committee, which consists of four non-executive directors and one auditor and executive director, is an independent authority that evaluates the effectiveness and efficiency of our internal control

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systems and business processes and reviews the reliability of financial statements to secure the transparency and stability of our management, including through the activities of our independent auditor. In carrying out these duties, the Audit Committee ultimately protects our property for the benefit of our shareholders, investors and customers by independently monitoring our management.

Our auditor and executive director executes duties determined and delegated by the Audit Committee. That person is responsible for auditing our management's daily business activities and also responsible for the auditing activities summarized below in order for the Audit Committee to function effectively.

Our Audit Planning and Coordination Team and Audit Operation Team are the execution bodies for the Audit Committee, and they perform the following activities:

general audits, which include full-scale audits of the overall operations performed according to an annual audit plan, and sectional audits of selected operations performed when determined necessary by the Audit Committee;

special audits, performed when our audit committee or auditor and executive director deems it necessary or pursuant to requests by the president and chief executive officer, board or supervisory authorities, such as the Financial Supervisory Service;

day-to-day audits, including preliminary audits and ex post facto audits, performed by the auditor and executive director with respect to the regular management of our operations;

constant audits, performed to detect any unusual transactions by analyzing data and information with a computerized audit system, and to take necessary actions with respect to such transactions in a timely manner; and

self-audits, performed as a self-check on overall operations by each business unit and branch to ensure its compliance with our business regulations and policies.

The Financial Supervisory Service periodically conducts a general review of our operations. It also performs special reviews on particular aspects of our operations, such as risk management, credit monitoring and liquidity, as the need arises.

As a result of recent regulatory trends, our Audit Planning and Coordination Team and Audit Operation Team are continuing their efforts to establish an advanced audit system and value-added internal audit by introducing risk-based audit techniques.

Our Audit Planning and Coordination Team and Audit Operation Team have reviewed our headquarters' operations since February 2003 through the use of Business Measurement Process, or BMP, audit methodology. This methodology requires that our Auditing Team evaluate the risk and process of our business units and concentrate their audit capacity with respect to high risk areas to support our management's financial objectives.

Our Compliance Team operates a compliance system to ensure that all of our employees comply with the relevant laws and regulations. This system's main function is to monitor the degree of improvement in compliance and observance with the relevant laws and regulations, maintain internal controls (including ensuring that each department has established proper internal policies, and that it complies with those policies) and

educate our employees about the observance of the relevant laws and regulations.

***Legal Risk***

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts, although legal risk can also increase in our traditional business to the extent that the

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legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. Our Legal Team seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. Our internal auditors review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court should such scrutiny occur.

### ***IT System Operational Risk***

The integrity of our electronic systems, and their ability to withstand potential catastrophic events, is crucial to our continuing operations. Accordingly, we are continuing to develop our disaster recovery capabilities. In February 2002, we developed a draft plan to create an integrated IT infrastructure. We completed the initial development of this system in September 2002, which related to our general ledger system. In July 2004, we successfully conducted and completed the online operation of our disaster recovery system during an online power stoppage. In 2004, we conducted four disaster recovery tests, including testing at our branches.

In order to minimize operational risks relating to our electronic systems, we have implemented a multi-host system that runs three host systems simultaneously on-site and ensures system continuity in case any of the three host systems fails. This system backs up our data systems at an off-site location on a real-time basis to ensure that our operations can be carried out normally and without material interruption in the event of an internal system failure at one of the other host sites. The system functions by means of complete interconnectivity between our main IT center, our IT recovery center and our branches and headquarters facilities. This system enables the full recovery of all customer transactions occurring at any of our branches within one hour.

We currently test our disaster recovery systems on a quarterly basis, with the branch verification capability being tested twice a year and the main IT center disaster recovery system tested four times a year. Our disaster recovery capabilities involves a number of other operations, including credit card and call center transactions. In addition, we intend to also enhance our disaster recovery capabilities by the fourth quarter of 2004 in some of our lower priority business areas by enabling more rapid system and database back up and recovery. Internally, our IT System Team monitors all of our electronic and computerized network processes and our IT systems. This team monitors and reports on any unusual delays or irregularities reported by our branches. In addition, the Information Technology Transformation Team is responsible for the daily monitoring of our entire information security system.

In 2005, we increased our capacity to handle online transaction volume of our Core Banking System. We also enhanced our security system through the establishment of patches (or program improvements) that will act as a countermeasure to new security threats to our Core Banking System. Currently, we are building a document security system aimed at preventing financial irregularities caused by unauthorized access to our system or the falsification of electronic documents or records within our system.

## **Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Not Applicable**

## **Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

**Not Applicable**

**Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**Not Applicable**

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**Item 15. CONTROLS AND PROCEDURES**

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures as of December 31, 2004 were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as and when required.

As a company with ADSs listed on the New York Stock Exchange, we are required to comply with the Sarbanes-Oxley Act of 2002. Section 404 of the Act and the applicable rules of the Securities and Exchange Commission require foreign private issuers such as us to assess and report on internal controls over financial reporting on an annual basis, commencing with the fiscal year ending December 31, 2006. We are in the process of evaluating the requirements of Section 404 and are making preparations to comply with such requirements when they become applicable to us.

There has been no change in our internal control over financial reporting during 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. RESERVED**

**Item 16A. *Audit Committee Financial Expert***

Our board of directors has determined that Young Soon Cheon qualifies as an audit committee financial expert and is independent within the meaning of this Item 16A.

**Item 16B. *Code of Ethics***

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our chief executive officer, and chief financial officer and persons performing similar functions as well as to our non-executive directors and other officers and employees. Our code of ethics is available on our website at <http://www.kbstar.com> and our code of ethics is filed as an exhibit to this Form 20-F. If we amend the provisions of our code of ethics that apply to our chief executive officer and chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Item 16C. *Principal Accountant Fees and Services***



**Audit and Non-audit Fees**

The following table sets forth the fees billed to us by Samil PricewaterhouseCoopers, our independent registered public accounting firm, during the fiscal years ended December 31, 2003 and 2004:

	Year ended December 31,	
	2003	2004
	(in millions of Won)	
Audit fees	(Won) 7,010	(Won) 6,291
Audit-related fees	1,240	402
Tax fees	273	252
Other fees		
<b>Total fees</b>	<b>(Won) 8,523</b>	<b>(Won) 6,945</b>

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Audit fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers in connection with the audits of:

our annual financial statements and the review of our interim financial statements;

our special purpose entities in connection with the Korean Securities and Exchange Act; and

our trust accounts and funds in connection with the Korean Trust Business Act.

Audit-related fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers for:

due diligence related to mergers and acquisition; and

accounting consultations.

Tax fees in the above table are fees billed by Samil PricewaterhouseCoopers for tax compliance and tax advice.

**Audit Committee Pre-Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

**Item 16D. *Exemptions from the Listing Standards for Audit Committees***

**Not Applicable**

**Item 16E. *Purchase of Equity Securities by the Issuer and Affiliated Purchasers***

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**Item 17. FINANCIAL STATEMENTS**

**Not Applicable**

**Item 18. FINANCIAL STATEMENTS**

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

**Item 19. EXHIBITS**

Pursuant to the rules and regulations of the Securities and Exchange Commission, Kookmin Bank has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties made by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe Kookmin Bank's actual state of affairs at the date of this annual report.

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## (a) List of Financial Statements:

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## (b) Exhibits

<u>Number</u>	<u>Description</u>
1.1*****	Amended and Restated Articles of Incorporation of Kookmin Bank (translation in English).
2.1*	Form of Share Certificate of Kookmin Bank's common stock, par value (Won)5,000 per share (translation in English).
2.2*	Form of Amended and Restated Deposit Agreement to be entered into among Kookmin Bank, The Bank of New York, as depositary, and all owners and holders from time to time of American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated herein by reference to Exhibit (a) of the registrant's Registration Statement on Form F-6 (Registration No. 333-13882) filed on September 5, 2001).
4.1*	Investment Agreement, dated as of July 15, 1999, between H&CB, ING Insurance International B.V. and ING Verzekeringen N.V. (as amended).
4.2**	Waiver Agreement, dated as of October 31, 2001, among H&CB, ING Insurance International B.V., ING Life Insurance Company, Korea Ltd. and KB Asset Management Co., Ltd.
4.3*	Merger Agreement, dated as of April 23, 2001, by and between Kookmin Bank and H&CB.
4.4***	Waiver Agreement, dated as of December 4, 2002, between Kookmin Bank and ING Bank N.V.
4.5*****	Merger Agreement, dated as of May 30, 2003, between Kookmin Bank and Kookmin Credit Card.
4.6*****	Amended and Restated Strategic Alliance Agreement, dated as of August 27, 2003, between Kookmin Bank and ING Bank N.V.
8.1*****	List of subsidiaries of Kookmin Bank.
11.1	Code of Ethics.
12.1	Section 302 certifications.
13.1	Section 906 certifications.

\* Incorporated by reference to the registrant's previous filing on Form F-4 (No. 333-13880), filed on September 10, 2001.

\*\* Incorporated by reference to the registrant's previous filing on Form F-1 (No. 333-90074), filed on June 4, 2002.

\*\*\* Incorporated by reference to the registrant's previous filing on Form 20-F (No. 1-15258), filed on June 17, 2003.

\*\*\*\* Incorporated by reference to the registrant's previous filing on Form F-4 (No. 333-106262), filed on June 19, 2003.

\*\*\*\*\* Incorporated by reference to the registrant's filing on Form 20-F (No. 1-15258), filed on June 28, 2004.

\*\*\*\*\* Incorporated by reference to Note 36 of the consolidated financial statements of the registrant included in this annual report.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Kookmin Bank:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of changes in stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Kookmin Bank and its subsidiaries (the Bank) at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 1 to the consolidated financial statements, the Bank has been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea.

SAMIL PRICEWATERHOUSECOOPERS

Seoul, Korea

June 23, 2005

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Balance Sheets**

As of December 31,

	2003	2004	2004
			US Dollars
			(Note 1)
			(in thousands,
			except share
		Korean Won	data)
	(in millions, except share data)		(Unaudited)
<b>ASSETS</b>			
Cash and cash equivalents	3,170,156	2,817,522	2,721,980
Restricted cash	2,769,885	1,822,112	1,760,325
Interest-bearing deposits in other banks	563,091	597,497	577,236
Call loans and securities purchased under resale agreements	3,958,860	2,993,476	2,891,968
Trading assets	3,517,182	6,095,645	5,888,943
Investments	22,426,949	23,094,969	22,311,824
Loans (net of allowance for loan losses of 5,771,951 in 2003 and 4,461,435 in 2004)	140,213,117	133,794,275	129,257,342
Due from customers on acceptances	604,863	742,506	717,328
Premises and equipment, net	1,908,847	1,636,609	1,581,112
Accrued interest and dividends receivable	994,748	870,618	841,096
Security deposits	1,331,157	1,285,419	1,241,831
Goodwill	394,457	421,990	407,681
Other intangible assets	423,067	307,881	297,440
Other assets	1,702,910	1,055,903	1,020,097
<b>Total assets</b>	<b>183,979,289</b>	<b>177,536,422</b>	<b>171,516,203</b>
<b>LIABILITIES</b>			
Deposits:			
Interest bearing	128,143,768	123,203,419	119,025,620
Non-interest bearing	3,460,146	3,017,436	2,915,115
Call money	225,376	652,185	630,070
Trading liabilities	762,465	2,296,588	2,218,711
Acceptances outstanding	604,863	742,506	717,328
Other borrowed funds	12,895,201	9,514,418	9,191,786
Accrued interest payable	3,937,801	3,494,533	3,376,034
Secured borrowings	8,206,588	6,120,939	5,913,379
Long-term debt	16,607,248	17,899,341	17,292,379
Other liabilities	2,552,140	2,899,635	2,801,309
<b>Total liabilities</b>	<b>177,395,596</b>	<b>169,841,000</b>	<b>164,081,731</b>
Commitments and contingencies (Notes 5, 31, 32, 33)			

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Minority interest	15,843	13,143	12,697
<b>STOCKHOLDERS EQUITY</b>			
Common stock (5,000 Won par value, authorized 1 billion shares, 336,379,116 shares issued and 306,362,493 shares outstanding in 2003 and 336,379,116 shares issued and 306,497,907 shares outstanding in 2004)	1,681,896	1,681,896	1,624,863
Additional paid-in capital	5,393,351	5,400,237	5,217,116
Retained earnings	759,735	1,812,546	1,751,083
Accumulated other comprehensive income	61,180	109,920	106,193
	<u>7,896,162</u>	<u>9,004,599</u>	<u>8,699,255</u>
Less: treasury stock, at cost, 30,016,623 shares in 2003 and 29,881,209 shares in 2004	1,328,312	1,322,320	1,277,480
	<u>6,567,850</u>	<u>7,682,279</u>	<u>7,421,775</u>
<b>Total stockholders equity</b>	<b>6,567,850</b>	<b>7,682,279</b>	<b>7,421,775</b>
<b>Total liabilities, minority interest and stockholders equity</b>	<b>183,979,289</b>	<b>177,536,422</b>	<b>171,516,203</b>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Operations and Comprehensive Income**

For the year ended December 31,

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
				US Dollars
				(Note 1)
				(in thousands,
				except per share
				Korean Won
				amounts)
				(Unaudited)
				(in millions, except per share amounts)
<b>Interest and dividend income</b>				
Deposits in other banks	61,007	13,800	21,336	20,613
Loans, including fees	11,824,733	12,061,170	10,825,980	10,458,874
Trading assets	111,789	105,433	155,751	150,470
Investment securities	1,418,914	1,513,172	1,003,496	969,468
Call loans and securities purchased under resale agreements	33,722	61,332	85,324	82,431
	<u>13,450,165</u>	<u>13,754,907</u>	<u>12,091,887</u>	<u>11,681,856</u>
<b>Interest expense</b>				
Deposits	4,542,713	4,136,028	3,834,009	3,703,999
Call money	71,175	65,357	41,552	40,143
Other borrowed funds	521,692	598,286	332,278	321,011
Secured borrowings	324,881	476,157	365,914	353,506
Long-term debt	1,273,847	1,185,621	942,042	910,098
	<u>6,734,308</u>	<u>6,461,449</u>	<u>5,515,795</u>	<u>5,328,757</u>
<b>Net interest income</b>	6,715,857	7,293,458	6,576,092	6,353,099
Provision for loan losses	3,908,663	7,192,057	3,859,917	3,729,028
Provision for guarantees and acceptances	(23,133)	(24,403)	1,517	1,466
	<u>2,830,327</u>	<u>125,804</u>	<u>2,714,658</u>	<u>2,622,605</u>
<b>Noninterest income</b>				
Trust fees, net	375,805	289,254	152,769	147,589
Other fees and commission income	1,958,535	1,901,656	1,769,120	1,709,130
Net trading revenue	458,394	162,635	408,816	394,953
Net gain on investments	130,351	387,174	99,039	95,681
Other noninterest income	174,950	173,090	369,657	357,122
	<u>3,098,035</u>	<u>2,913,809</u>	<u>2,799,401</u>	<u>2,704,475</u>



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<b>Noninterest expense</b>				
Salaries and employee benefits	1,586,340	1,656,961	1,702,095	1,644,377
Depreciation and amortization	442,783	525,894	440,624	425,683
Other administrative expenses	834,436	712,785	646,241	624,327
Credit card fees	389,509	520,823	331,740	320,491
Other fees and commissions	700,895	523,451	537,305	519,085
Other noninterest expenses	433,644	465,928	373,951	361,270
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total noninterest expense	4,387,607	4,405,842	4,031,956	3,895,233
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Income (loss) from continuing operations</b>	<b>1,540,755</b>	<b>(1,366,229)</b>	<b>1,482,103</b>	<b>1,431,847</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income tax expense (benefit)	597,308	(367,056)	447,825	432,639
Minority interest	(211,172)	(52,137)	2,528	2,442
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss) from continuing operations	1,154,619	(947,036)	1,031,750	996,766
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Operations and Comprehensive Income**

For the year ended December 31,

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
				US Dollars
				(Note 1)
				(in thousands,
				except per share
				Korean Won
				Amounts)
				(Unaudited)
				(in millions, except per share amounts)
<b>Net income (loss) from continuing operations</b>	1,154,619	(947,036)	1,031,750	996,766
Income from discontinued operations, net of tax expense of 41,032 million Won in 2002 (including a net gain on disposal of 23,417 million Won, net of tax expense of 9,893 million Won in 2002)	97,122			
<b>Net income (loss)</b>	1,251,741	(947,036)	1,031,750	996,766
<b>Other comprehensive income (loss), net of tax</b>				
Foreign currency translation adjustments	8,851	8,622	(15,539)	(15,011)
Net unrealized gains (losses) on available-for-sale securities	(120,282)	(113,086)	64,279	62,099
<b>Total other comprehensive income (loss), net of tax</b>	(111,431)	(104,464)	48,740	47,088
<b>Comprehensive income (loss)</b>	1,140,310	(1,051,500)	1,080,490	1,043,854
<b>Net income (loss) per common share</b>				
Basic:				
Net income (loss) from continuing operations	3,633	(2,905)	3,367	3.25
Income from discontinued operations, net of tax	306			
<b>Net income (loss)</b>	3,939	(2,905)	3,367	3.25
Diluted:				
Net income (loss) from continuing operations	3,535	(2,905)	3,365	3.25
Income from discontinued operations, net of tax	296			
<b>Net income (loss)</b>	3,831	(2,905)	3,365	3.25
<b>Weighted average basic common shares outstanding (in thousands)</b>	317,787	326,000	306,432	306,432

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Weighted average diluted common shares outstanding (in thousands)	328,107	326,000	306,650	306,650
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The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Changes in Stockholders Equity**

For the year ended December 31,

	Common Stock				Accumulated Other Comprehensive Income, net of tax	Treasury Stock	Total Stockholders Equity (Unaudited)
	Shares	Amount	Additional Paid-in Capital	Retained Earnings			
	Korean Won (in millions, except share data)						
<b>Balance at January 1, 2002 .</b>	317,645,868	1,588,387	4,960,422	810,230	277,075	(1,363)	7,634,751
Issuance of common shares conversion from convertible bonds	10,581,269	52,906	184,325				237,231
Acquisition of treasury stock	(3,036,089)					(149,704)	(149,704)
Reissuance of treasury stock	31,548		326			1,602	1,928
Deferred stock option compensation			1,492				1,492
Exercise of stock options	10,000		(10,072)			492	(9,580)
Cash dividends declared (100 Won per share)				(29,967)			(29,967)
Changes in subsidiary ownership			8,988				8,988
Other comprehensive income, net of tax					(111,431)		(111,431)
Net income				1,251,741			1,251,741
<b>Balance at December 31, 2002</b>	<b>325,232,596</b>	<b>1,641,293</b>	<b>5,145,481</b>	<b>2,032,004</b>	<b>165,644</b>	<b>(148,973)</b>	<b>8,835,449</b>
Issuance of common shares on acquisition of minority interest	8,120,431	40,603	235,118				275,721
Acquisition of treasury stock	(28,078,856)					(1,227,876)	(1,227,876)
Reissuance of treasury stock							
a. On exercise of stock option	88,322		390			4,285	4,675
b. Under employee stock ownership plan	1,000,000		(950)			44,252	43,302
Stock-based compensation			13,368				13,368
Exercise of stock options			(56)				(56)
Cash dividends declared (1,000 Won per share)				(325,233)			(325,233)
Other comprehensive income, net of tax.							
a.Foreign currency translation					8,622		8,622
b.Unrealized holding gains on investment securities					(113,086)		(113,086)
Net loss				(947,036)			(947,036)
<b>Balance at December 31, 2003</b>	<b>306,362,493</b>	<b>1,681,896</b>	<b>5,393,351</b>	<b>759,735</b>	<b>61,180</b>	<b>(1,328,312)</b>	<b>6,567,850</b>
Reissuance of treasury stock							
a. On exercise of stock option	135,414		(2,754)			5,992	3,238
Stock-based compensation			9,640				9,640
Other comprehensive income, net of tax.							
a.Foreign currency translation					(15,539)		(15,539)
b.Unrealized holding gains on investment securities					64,279		64,279
Net Income				1,031,750			1,031,750
Change of consolidation scope adoption of FIN No. 46R				21,061			21,061
<b>Balance at December 31, 2004</b>	<b>306,497,907</b>	<b>1,681,896</b>	<b>5,400,237</b>	<b>1,812,546</b>	<b>109,920</b>	<b>(1,322,320)</b>	<b>7,682,279</b>

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The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

For the year ended December 31,

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income, net of tax</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					<u>Stockholders Equity (Unaudited)</u>
	<b>US Dollars (Note 1) (in thousands, except share data)</b>						
<b>Balance at December 31, 2003</b>	306,362,493	1,624,863	5,210,464	733,973	59,105	(1,283,269)	6,345,136
Reissuance of treasury stock							
a. On exercise of stock option	135,414		(2,661)			5,789	3,128
Stock-based compensation			9,313				9,313
Other comprehensive income, net of tax.							
a.Foreign currency translation					(15,011)		(15,011)
b.Unrealized holding gains on investment securities					62,099		62,099
Net Income				996,766			996,766
Change of consolidation scope adoption of FIN No. 46R				20,344			20,344
<b>Balance at December 31, 2004</b>	306,497,907	1,624,863	5,217,116	1,751,083	106,193	(1,277,480)	7,421,775

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

For the year ended December 31,

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
				US Dollars
				(Note 1)
				(in thousands)
		Korean Won (in millions)		(Unaudited)
<b>Cash flows from operating activities:</b>				
Net income (loss)	1,251,741	(947,036)	1,031,750	996,766
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	3,908,663	7,192,057	3,859,917	3,729,028
Provision for guarantees and acceptances	(23,133)	(24,403)	1,517	1,466
Depreciation and amortization	442,783	525,894	440,624	425,683
Accretion of discounts on long-term debt	26,146	23,725	60,515	58,463
Net gain on valuation of trading securities	(167,886)	(5,957)	(26,847)	(25,937)
Net gain on sales of trading securities	(101,082)	(56,805)	(84,278)	(81,420)
Net loss (gain) on valuation of derivatives	35,081	17,623	(91,460)	(88,359)
Net gain on transaction of derivatives	(144,163)	(31,274)	(113,332)	(109,489)
Net gain on sales of available for sale securities	(423,924)	(498,106)	(114,920)	(111,024)
Impairment loss on available-for-sale securities	171,792	79,051	75,390	72,834
Income on equity method investments	(10,118)	(14,421)	(44,286)	(42,784)
Net loss (gain) on redemption of held-to-maturities Securities	(30,303)	26,492	313	302
Impairment loss on held-to-maturity securities	9,855			
Net loss (gain) on other investments	152,346	19,810	(15,677)	(15,145)
Net gain on sales of subsidiaries	(23,417)			
Net loss on sales of loans	126,250	98,274	2,476	2,392
Net loss (gain) on disposal of premises and equipment	5,847	30,751	(32,971)	(31,853)
Gain on extinguishment of debts			(10,725)	(10,361)
Stock options issued	889	13,321	9,640	9,313
Employee stock ownership plan		42,900		
Minority interest in net income (loss) of consolidated Subsidiaries	(211,172)	(52,139)	2,528	2,442
Net change in:				
Trading assets	817,754	1,335,257	(2,267,793)	(2,190,894)
Accrued interest and dividend receivable	8,321	121,737	124,130	119,921
Other assets	(125,168)	(690,867)	541,792	523,419
Trading liabilities	341,524	137,672	1,534,123	1,482,101
Accrued interest payable	(152,001)	(525,211)	(443,269)	(428,238)
Other liabilities	109,205	(81,154)	448,613	433,400
<b>Net cash provided by operating Activities</b>	<u>5,995,830</u>	<u>6,737,191</u>	<u>4,887,770</u>	<u>4,722,026</u>

The accompanying notes are an integral part of these consolidated financial statements.





Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

For the year ended December 31,

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
				US Dollars
				(Note 1)
				(in thousands)
		Korean Won (in millions)		(Unaudited)
<b>Cash flows from investing activities:</b>				
Net change in restricted cash	2,792,633	(1,189,599)	947,773	915,634
Net change in interest-bearing deposits in other banks	(128,913)	1,629	(34,406)	(33,239)
Net change in call loans and securities purchased under resale agreements	1,782,960	(3,729,519)	965,385	932,649
Proceeds from sales and maturities of available-for-sale securities	8,554,167	34,817,351	15,952,866	15,411,907
Purchases of available-for-sale securities	(8,442,994)	(36,154,587)	(16,373,896)	(15,818,661)
Proceeds from maturities, prepayments and calls of held-to-maturity securities	5,903,784	9,363,827	2,271,629	2,194,599
Purchases of held-to-maturity securities	(3,877,800)	(4,391,620)	(2,302,775)	(2,224,688)
Net change in venture capital activities	1,927	(7,940)	(12,602)	(12,175)
Net change in other investments	26,177	14,263	129,130	124,752
Proceeds from sales of subsidiaries	51,007			
Net originations and repayments of loans	(27,486,988)	(6,997,853)	1,900,788	1,836,333
Proceeds from sales of loans	221,854	238,105	413,450	399,430
Payments for purchases of loans	(1,081,238)			
Proceeds from sales of premises and equipment	8,302	124,123	207,880	200,831
Payments for purchases of premises and equipment	(613,803)	(347,368)	(225,374)	(217,732)
Net change in security deposits	(95,112)	5,391	45,738	44,187
Cash received related to business combination			71,066	68,656
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) investing activities	(22,384,037)	(8,253,797)	3,956,652	3,822,483
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Cash flows from financing activities:</b>				
Net increase (decrease) in noninterest bearing Deposits	(396,153)	(284,733)	(442,710)	(427,698)
Net increase (decrease) in interest-bearing deposits	7,759,502	9,489,380	(4,940,349)	(4,772,823)
Net increase (decrease) in call money	(2,364,374)	(80,590)	426,809	412,336
Net increase (decrease) in secured borrowings	2,362,854	342,266	(2,054,624)	(1,984,952)
Net increase (decrease) in other borrowed funds	5,044,170	(2,960,648)	(3,380,783)	(3,266,141)
Proceeds from issuance of long-term debt	9,568,069	8,241,245	13,126,378	12,681,266
Repayment of long-term debt	(5,044,841)	(11,834,143)	(11,894,798)	(11,491,449)
Cash dividends paid to minority stockholders by Subsidiaries	(23,953)	(2,474)	(1,667)	(1,610)
Proceeds from stock option exercise		826	3,701	3,575
Payment for stock option exercise	(26,791)			
Purchases of treasury stock	(148,052)	(1,227,876)		
Cash dividends paid on common stocks	(29,967)	(325,233)		
Other	(275)	(212)		
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) financing activities	16,700,189	1,357,808	(9,158,043)	(8,847,496)

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

For the year ended December 31,

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
	US Dollars			
	(Note 1)			
	(in thousands)			
	Korean Won (in millions)			(Unaudited)
Effect of exchange rate changes on cash	(25,128)	1,410	(39,013)	(37,690)
Net increase (decrease) in cash and cash equivalents	286,854	(157,388)	(352,634)	(340,677)
Cash and cash equivalents, beginning of year	3,040,690	3,327,544	3,170,156	3,062,657
	<u>3,327,544</u>	<u>3,170,156</u>	<u>2,817,522</u>	<u>2,721,980</u>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the year for interest	6,889,208	6,461,450	5,515,795	5,328,756
Cash paid during the year for income taxes	624,929	327,219	26,496	25,598
<b>Supplemental schedule of noncash investing and financing activities:</b>				
Acquisitions (Note 3, 15):				
Fair value of net assets (liabilities) acquired		45,465	(27,286)	(95,268)
Loans repurchased from KAMCO in exchange for bonds (Note 5)	26,019	26,840		
Bonds and securities received in connection with loan restructuring	308,113	34,224	310,276	299,755
(Decrease) increase in cumulative translation adjustments, net of tax	8,851	8,622	(15,539)	(15,011)
Increase (decrease) in unrealized gains on available-for-sale securities, net of tax	(120,282)	(113,086)	64,279	62,099
Shares issued on acquisition of minority interest		275,932		

The accompanying notes are an integral part of these consolidated financial statements.

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**KOOKMIN BANK AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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**1. General Information and Summary of Significant Accounting Policies**

Kookmin Bank and its subsidiaries (together, the Bank) conduct financial business primarily in Korea. The Bank is a major commercial banking institution, conducting its operations in accordance with the provisions of the General Banking Act of Korea, providing a broad range of credit and related financial services to consumers and corporations. It is also engaged in the trust business according to the Trust Business Act and in the credit card business under the Specialized Credit Financial Business Act and other related laws. As of December 31, 2004, it operated through 1,124 domestic branches and 3 overseas branches.

On September 30, 2003, Kookmin Bank acquired the remaining 25.22% outstanding minority interest in Kookmin Credit Card (KCC), previously a 74.78% owned subsidiary of Kookmin Bank, in order to maximize the synergies, efficiencies, and competitiveness from combining operations of KCC into the credit card division of Kookmin Bank. The acquisition was effected through an exchange of shares at an exchange ratio of 1:0.442983, with the stockholders of KCC receiving 8,120,431 shares of Kookmin Bank common stock for 18,331,248 shares of KCC common stock exchanged. The acquisition of the minority interest in KCC was accounted for using the purchase method of accounting. The consolidated financial statements of Kookmin Bank reflect 100% of the operations of KCC from September 30, 2003, the date Kookmin Bank owned all the outstanding common stock of KCC.

On April 29, 2004, the Bank established a new wholly owned subsidiary, KB Life, and KB Life acquired the assets and liabilities of Hanil Life Insurance, to engage in insurance business. On January 25, 2005, the Bank entered into a joint venture agreement with ING Insurance International B.V. which acquired a 49% interest in KB Life.

**Risk and uncertainties**

Since 2000, the Korean government has been lowering interest rates to stimulate the economy. In addition, the government attempted to stimulate the credit card market by deregulating card issuance and by providing tax benefits for card users. These efforts were successful in increasing consumption and resulted in significant growth in the number of credit card accounts and a general reliance on credit cards by consumers for both making purchases and as a source of funds to borrow. The stimulus led, however, to an oversupply of credit and poor asset quality, which caused increases in the level of bankruptcies, unemployment, a higher level of written-off loans, and higher levels of delinquencies related to consumer borrowings and small and medium enterprise borrowings. As a result, the Korean economy has been faced with severe contractions in private consumption. In addition, credit card companies including the Bank's credit card operation have experienced serious liquidity issues and suffered substantial losses.

Although economic conditions in Korea may improve and some of the trends and conditions noted above may reverse, the Bank and its customers may continue to be affected for the foreseeable future by certain adverse economic conditions in Korea and the countries on which Korea heavily depends its trades. If these conditions have an adverse effect on the Bank, adjustments to the carrying amount of its loans and investments could be required, and such adjustments could be material to the consolidated financial statements.

**Basis of presentation**

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America ( US GAAP ). The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported

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**KOOKMIN BANK AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Amounts subject to significant estimates and assumptions include items such as the allowance for loan losses, investment securities, derivative financial instruments, and deferred tax assets. Actual results could differ from these estimates.

The policies, which are followed by the Bank to determine its financial position, results of operations and cash flows, are summarized below.

**Principles of consolidation**

The consolidated financial statements of the Bank include the accounts of Kookmin Bank and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Operating results of companies acquired are included from the dates of acquisition. Assets held in agency or trust management capacities are not included in the consolidated financial statements.

The Bank includes in its consolidated financial statements the accounts of the variable interest entities ( VIEs ) in which the Bank is the primary beneficiary pursuant to the FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ( FIN No. 46R ). See Note 11 for further information related to the adoption of FIN No. 46R.

The Bank consolidates entities not determined to be VIEs when it controls a majority of the entity's outstanding voting stock. The Bank accounts for investments in entities that are not VIEs where the Bank owns a voting or economic interest of 20 to 50 percent and for which it has significant influence over operating and financing decisions using the equity method of accounting.

**Business combination**

The Bank accounts for business combinations using the purchase method, in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations . Identifiable intangible assets acquired in a purchase business combination is separately valued and recognized on the balance sheet if they meet certain requirements.

**Foreign currency translation**

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Assets and liabilities denominated in foreign currencies are translated into Korean Won at the exchange rate prevailing on the balance sheet date, with resulting gains and losses included in the statement of operations. Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. The relating gains and losses from the settlement of foreign currency transactions and from remeasurement at the balance sheet date are recorded in the statement of operations.

Assets, liabilities and operations of foreign branches and subsidiaries are recorded based on the functional currency of each entity. For certain of the foreign operations, the functional currency is the local currency, in which case the assets, liabilities and operations are translated, for consolidation purposes, at current exchange rates from the local currency to the reporting currency, the Korean Won. The resulting unrealized gains or losses are reported, net of taxes, in accumulated other comprehensive income (loss), a component of shareholders' equity. Gains and losses arising from the remeasurement of available-for-sale securities are also recorded as a component of Accumulated other comprehensive income, net of tax.

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**KOOKMIN BANK AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand, cash items in the process of collection and amounts due from banks and other financial institutions and the Bank of Korea. All such amounts have an original maturity at the time of purchase of 90 days or less.

**Resale and repurchase agreements**

The Bank enters into short-term purchases of securities under agreements to resell ( resale agreements ) and sales of securities under agreements to repurchase ( repurchase agreements ) of substantially identical securities. Resale agreements and repurchase agreements are accounted for as secured lending and secured borrowing transactions, respectively, when control over the related securities has not been surrendered by the transferor. When control over the related securities has been surrendered by the transferor, the Bank accounts for its resale agreements as purchases of securities with related forward commitments to resell and accounts for its repurchase agreements as sales of securities with related forward commitments to repurchase. It is the Bank's policy to take possession of securities under agreements to resell. The Bank minimizes the credit risk associated with these transactions by monitoring its aggregate credit exposure to each counterparty and by monitoring collateral value and requiring the counterparty to deposit additional collateral with the Bank when deemed necessary.

The amount advanced under resale agreements accounted for as secured lending transactions and the amounts borrowed under repurchase agreements accounted for as secured borrowing transactions are carried on the balance sheet at the amount advanced or borrowed. Interest earned on resale agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

**Trading assets and liabilities, including derivatives**

Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading positions are carried at fair value and recorded on a trade date basis. The Bank recognizes changes in the fair value of trading positions as they occur in net trading revenue.

Trading assets and liabilities also include derivatives used for trading purposes and for non-trading purposes that do not qualify for hedge accounting treatment and foreign exchange contracts which the Bank carries at fair value. Trading and non-trading derivatives include interest rate and foreign currency swaps, credit indexed contracts, equity conversion options, puts and calls, caps and floors, warrants, and futures and forwards. The Bank recognizes changes in the fair value of trading and non-trading derivatives that do not qualify for hedge accounting treatment and foreign exchange contracts as they occur in net trading revenue.



The fair value of trading securities, derivative financial instruments and foreign exchange contracts is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is determined based on pricing models, quoted prices of instruments with similar characteristics, discounted cash flows or the net asset value of the investee, counterparty quotes or external valuations performed by qualified independent evaluators.

**Derivatives used for hedging purposes**

The Bank uses various derivative instruments as part of its asset and liability management process, including interest rate and foreign currency swaps, to manage various interest rate and foreign exchange exposure or modify interest rate characteristics of various balance sheet accounts. Certain derivative contracts are entered into for non-trading purposes and intended to serve as economic hedges of risk but do not qualify for hedge accounting.

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**KOOKMIN BANK AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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Derivatives accounted for as hedges must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be formally designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively at inception and on a regular basis using quantitative measures of correlation.

All derivatives, whether designated for hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge of fixed rate assets, liabilities or firm commitments, all changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the hedged risk are recognized in earnings. Hedge ineffectiveness represented by the net amount is reflected in current earnings. Fair value hedges of the Bank mainly include hedges of fixed rate debentures.

If the derivative is designated as a cash flow hedge of floating rate assets, liabilities or forecasted transactions, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income and recognized in the income statement when the hedged item affects earnings. The ineffective portion of cash flow hedges is immediately recognized in earnings.

If hedge relationships are terminated, hedge designations are removed or forecasted transactions are no longer expected to occur, hedge accounting treatment would not be applied prospectively and the related hedging derivatives would be transferred to trading assets and liabilities. In such cases, the changes in the fair value or cash flows of the hedged item that are attributable to the risk being hedged will not be offset and the fair value changes in the hedging derivatives are recognized immediately in the current earnings.

The majority of the Bank's derivatives do not qualify as hedges pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), except under the short-cut method of hedge accounting. The short-cut method assumes no ineffectiveness in a hedging relationship involving an interest rate swap and an interest-bearing asset or liability. The changes in fair value or cash flow that are attributable to the risk being hedged will be completely offset at the hedge's inception and on an on-going basis. Under short-cut method, only the demonstration that the critical terms of the derivative instrument and the hedged item are initially the same and subsequently stay the same throughout the hedge's life would need to be documented as support for the ongoing application of hedge accounting. Non-trading derivatives that do not qualify for hedge accounting include interest rate swaps that are entered to hedge interest rate risks.

**Available-for-sale securities**

Debt securities and equity securities with readily determinable fair values are classified as available-for-sale when management intends to hold the securities for an indeterminate period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Premiums and discounts for debt securities are amortized or accreted, respectively, using the effective interest rate method. Realized gains and losses on the sales of securities are determined using the specific identification method for debt securities and the moving average method for equity securities. Available-for-sale securities are reported at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in Accumulated other comprehensive income (loss), net of taxes. Declines

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in fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors considered in determining whether such declines in value are other than temporary include the length of time and extent to which fair value is less than cost, the status, financial condition and near-term prospects of the issuer, the status of the security, the

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**KOOKMIN BANK AND SUBSIDIARIES**

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Bank's intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and the state of the Korean economy (domestic securities only). The related write-downs are included in earnings under Net gain (loss) on investments .

**Held-to-maturity securities**

Debt securities for which the Bank has the positive ability and intent to hold until maturity are recorded at amortized cost and adjusted for accretion or amortization of discounts and premiums, respectively. Premiums and discounts for debt securities are amortized or accreted, respectively, using the effective interest rate method. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings under Net gain (loss) on investments .

**Venture capital activities**

KB Investment Co., Ltd., one of the Bank's subsidiaries, engages exclusively in venture capital activities. Venture capital investments are not within the scope of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ) and subject to specialized industry accounting principles for investment companies. Venture capital investments are recorded as Venture capital securities under Investments and are carried at fair value with net changes in fair value recognized in Net gain (loss) on investments . The fair values of publicly-traded securities held by this subsidiary are generally based on quoted market prices. Securities that are held by this subsidiary that are not publicly traded are initially recorded at cost, which is deemed to approximate the fair value as of the acquisition date. Subsequent to that date, management estimates fair value based on investee transactions with unaffiliated parties, management's review of the investee's financial results and condition or the latest obtainable net asset value of the investees.

**Non-marketable or restricted equity securities**

The Bank holds certain equity securities that do not have readily determinable fair values or with sales restrictions exceeding one year. Such equity securities are not within the scope of SFAS No. 115. Those equity securities are recorded as Other securities under Investments and are accounted for at cost, with any other-than-temporary impairment included in earnings under Net gain (loss) on investments .

**Loans**

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Loans are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Loans held and intended for dispositions or sales are transferred to the held-for-sale classification and carried at the lower of cost or estimated fair value on an individual loan basis. Loan origination fees, net of certain direct origination costs are deferred and recognized over the contractual life of the loan as an adjustment of yield. Interest income on loans that are not put to non-accrual status is accrued at the effective rate and credited to income as it is earned.

Loans are generally placed on non-accrual status when principal or interest payments become contractually one day or more past due or are classified as impaired loans, except where the loans are fully collateralized by customer deposits or guaranteed by sovereign or certain selected financial institutions. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. Cash receipts on nonaccrual loans, for which the ultimate collectibility of principal is uncertain, are applied as principal reductions; otherwise, payments are applied first to the delinquent interest, normal interest, and

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## KOOKMIN BANK AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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then to the loan balance until it is paid in full. A non-accrual loan is returned to accrual status when all the principal and interest amounts contractually due are brought current and collection of future principal and interest are reasonably assured.

Securities received by the Bank under a debt restructuring or settlement are recorded at the fair value of the security at the date of restructuring or settlement. Any difference between the fair value of the security and the net carrying amount of the loan is recorded as a charge-off or recovery, as appropriate, on the loan through the allowance for loan losses.

#### Allowance for loan losses

The allowance for loan losses is based upon management's continuing review and evaluation of the loan portfolio and is management's best estimate of probable losses which have been incurred as of the balance sheet date. The level of the allowance is based on an evaluation of the risk characteristics of the loan portfolio and considers factors such as past loss experience and the financial condition of the borrower. The allowance for loan losses is charged against income as provision for loan losses. The aggregate allowance for loan losses is increased by amounts charged to the provisions for loan losses, net of charge-offs and releases of provisions as a result of cash collections from charged-off accounts.

The Bank's allowance for loan losses consists of (a) specific allowances for specifically identified impaired borrowers, and (b) general allowances for homogeneous pools of commercial and consumer loans, and other loans which are not specifically identified as impaired.

A commercial loan is considered as impaired when, after consideration of current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Generally, the Bank considers the following types of loans to be impaired:

Loans classified as substandard or below according to the Financial Supervisory Commission's asset classification guidelines;

Loans that are 30 days or more past due;

Loans to companies that have received a warning from the Korean Federation of Banks, indicating that the company has exhibited difficulties in making timely payments of principal and interest.

Loans which are troubled debt restructurings under US GAAP.

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The allowance for loan losses for specifically identified impaired borrower represents the impairment allowance determined in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The Bank measures the impairment of a loan, with the exception of large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

The allowance for homogeneous pools of commercial and consumer loans, and other loans, which are not specifically identified as impaired, is established through a process that begins with estimates of probable losses inherent in the portfolio. These estimates are based upon various analyses including the Bank's historical delinquency and loan loss experience, adjusted for qualitative factors, such as the current economic conditions in which the Bank operates as well as current lending policies and procedures.

Any amounts deemed uncollectible are charged off. Consumer and credit card loans are charged-off at no more than 180 days past due.

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**Allowance for guarantees and acceptances**

The Bank analyzes its off-balance sheet legally binding commitments for possible losses associated with such commitments. The Bank reviews the ability of the counterparty of the underlying credit commitment to perform under the proposed commitment. If it is determined that a loss is probable and estimable, the Bank will record a liability for other credit exposures in a similar manner as if a loan was granted under the terms of the commitment. The allowance for guarantees and acceptances is reflected in Other liabilities .

**Foreclosed assets**

Assets acquired through or in lieu of loan foreclosures are initially recorded at fair value at the date of acquisition. After acquisition, such assets are carried at the lower of their carrying amounts or fair values as determined by their estimated public auction price, net of selling costs. An impairment assessment is made where there is an indication that the carrying amount may not be recoverable.

**Secured borrowings**

Transfers of loans and securities related to certain securitizations, in which control over the loans has not been surrendered, are accounted for as collateralized borrowings. The liability for funds received under the related loan sale agreements are included in Secured borrowings .

**Collateral**

The Bank pledges loans as collateral for certain borrowings. These borrowings are structured as transfers of loans through asset securitization, which are retained on the balance sheet, as the Bank retains control of the assets transferred. The Bank also pledges securities as collateral, primarily for certain deposit transactions and borrowings structured as a transfer of securities through asset securitization. The Bank retains control of the securities and retains them on the balance sheet. Securities pledged against deposits cannot be sold or re-pledged by the Bank. However, the Bank has the right to substitute the collateral provided that this is not to the detriment of the depositor.

**Premises and equipment**



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Premises, equipment and furniture and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of buildings is computed on a straight-line basis over the estimated useful lives of the assets. Depreciation of equipment and furniture and operating lease assets is computed on a declining balance basis over the useful lives of the assets, or the term of the lease, if shorter, in the case of leasehold improvements. Gains or losses on disposals of premises and equipment are determined by reference to their carrying amount. Maintenance and repairs are charged to expense as incurred.

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

Buildings	40 years
Equipment and furniture	3-6 years
Leasehold improvements	1-5 years
Operating lease assets	40 years

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**Goodwill**

Goodwill represents the excess of acquisition cost over the fair values of assets and liabilities acquired in a business combination. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights, or because the asset is capable of being sold or exchanged either on its own or in connection with a related contract, asset, or liability.

Prior to 2002, the goodwill was amortized on a straight-line basis over 15 years, its estimated useful life. Effective January 1, 2002, the Bank adopted provisions of FASB issued SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ), which sets forth the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 requires that goodwill and indefinite-lived intangible assets be allocated to the reporting unit level, which the Bank defines as an operating segment, or one level below. SFAS No. 142 also prohibits the amortization of goodwill and indefinite-lived intangible assets upon adoption, but requires that they be tested for impairment at least annually, or more frequently as warranted, at the reporting unit level.

The goodwill impairment test under SFAS No. 142 is performed in two phases. The first step of the impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, goodwill of the reporting unit is considered impaired, and step two of the impairment test must be performed. The second step of the impairment test quantifies the amount of the impairment loss by comparing the carrying amount of goodwill to the implied fair value. An impairment loss is recorded to the extent the carrying amount of goodwill exceeds its implied fair value. The Bank has performed the required impairment test and there was no impairment of goodwill as of December 31, 2003 and 2004.

**Other intangible assets**

The Bank has no indefinite-lived intangibles. Other finite-lived intangible assets include core deposit intangible, credit card relationship intangibles, and capitalized software. Core deposit intangible reflects the estimated fair value of the acquired demand deposits and savings account, which the Bank can expect to maintain for an extended period of time because of generally stable customer relationships. Credit card relationship intangibles reflect the estimated fair value of the credit card relationships acquired from which the Bank expects to derive future benefits over the estimated life of such relationships. Both the core deposit intangible and the credit card relationship intangibles are amortized on an accelerated basis over their useful lives in proportion to the estimated run-off of depositors and credit card customers, respectively. The estimated useful life of the core deposit intangible and the credit card relationship intangibles ranges from six to ten years. Capitalized software is amortized over its estimated useful life ranging from four to five years. The Bank has evaluated the lives of these intangible assets as required by SFAS No. 142, and no change was made regarding useful lives upon adoption.

**Impairment of long-lived assets and other intangible assets**

The Bank reviews its long-lived assets, including identifiable intangibles with definite lives, for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Such circumstances include significant or sustained declines in revenues or earnings and material adverse changes in the economic climate. For assets the Bank intends to hold for use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the assets, a loss is recognized for the difference between the fair value and carrying value of the assets. For assets the Bank intends to dispose of by sale, a loss is recognized for the amount that the estimated fair value, less cost to sell, is less than the carrying value of the assets.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Employee stock option plan**

As December 31, 2004, the Bank has various stock-based employee compensation plans, which are described more fully in Note 30. Prior to January 1, 2003, the Bank accounted for those plans using the intrinsic-value in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations ( APB No. 25 ). The compensation expense was calculated by multiplying the number of shares underlying the option by the difference between the market value of the underlying shares on the measurement date and the exercise price. The compensation expense was recognized over the service (vesting) period.

Effective January 1, 2003, the Bank adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation ( SFAS No. 123 ) and selected the modified prospective method of adoption under the provisions of SFAS No. 148, Accounting for Stock-Based Compensation -Transition and Disclosure . Under SFAS No. 123, the compensation expense is determined using option pricing models intended to estimate the fair value of the stock option at the grant date. Similar to APB No. 25, the compensation expense is recognized over the service (vesting) period with a corresponding credit to additional paid-in capital. For options settled in cash, the difference between cash paid and cumulative compensation recognized is adjusted to compensation expense in the consolidated statement of operations.

The compensation cost recognized in fiscal 2004 and 2003 is the same as that which would have been recognized had the recognition provisions of SFAS No. 123 been applied from its original effective date. Results for prior years have not been restated. The following table illustrates the effect on net income and earnings per share for the year ended December 31, 2002 if the fair value based method had been applied to all outstanding and unvested awards in 2002.

*(in millions of Won, except share data)*

<b>Net income, as reported</b>		<b>1,251,741</b>
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect		2,249
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effect		21,856
<b>Pro forma net income</b>		<b>1,232,134</b>
Basic earnings per share	- As reported	3,939
	- Pro forma	3,877
Diluted earnings per share	- As reported	3,831
	- Pro forma	3,774

**Trust fees and compensation to the trust accounts**

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The Bank manages funds on behalf of its customers through operations of various trust accounts. The Bank earns fees for managing those funds which is recognized when earned. In certain cases, the Bank guarantees (a) principal and fixed return on those principal or (b) principal only to the investors in those trust accounts. At each balance sheet date, the Bank accrues for liability that exists on account of such guarantee where the Bank does not consolidate the trust accounts.

### **Other fees and commission income**

Other fees and commissions primarily consist of credit card fees, fees on guarantees and import/export letters of credit, and commissions received on remittance, lottery sales, cash dispenser service, CMS services and others. Such fees are recognized when earned.

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**Income taxes**

Deferred income tax is provided, using the asset and liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Currently enacted tax rates are used to determine deferred tax amounts.

Deferred tax assets, including the tax effect on the carryforward tax losses, are recognized to the extent it is more likely than not that the deferred tax assets will be realized. To the extent the deferred tax assets are not realizable, a valuation allowance is recognized.

**Earnings per share**

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for stock options, and as if converted method for convertible securities, except where the results will be anti-dilutive.

**United States dollar amounts**

The Bank operates primarily in Korea and its official accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of 1,035.10 Won : US\$1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2004. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in either Korea or the United States of America, and should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in US dollars at this or any other rate.

**Reclassification**

Certain reclassifications have been made in the 2002 and 2003 consolidated financial statements to conform to the 2004 presentation for comparability purposes.

**2. Recently Issued Accounting Pronouncements**

**FIN No. 46 and FIN No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51**

In January 2003, the Financial Accounting Standards Board ( FASB ) issued FIN No. 46 that addressed consolidation by business enterprises where equity investors did not bear the residual economic risks and rewards. These entities were commonly referred to as special purpose entities although non-SPE entities were also subject to this interpretation. The underlying principle behind the FIN No. 46 was that if a business enterprise has the majority financial interest in an entity, which was defined in the guidance as a VIE, the assets, liabilities and results of the activities of the VIE should be included in the consolidated financial statements with those of the business enterprise. FIN No. 46 also explained how to identify VIEs and how an enterprise should assess its interest in an entity when deciding whether or not it would consolidate that entity.

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The provisions of FIN No. 46 were adopted in 2003 for variable interests in VIEs created after January 31, 2003. The adoption of FIN No. 46 had a significant impact on the Bank's results of operations or financial condition.

In December 2003, the FASB issued FIN No. 46R, which clarifies and interprets certain of the provisions of FIN No. 46, without changing the basic accounting model in FIN No. 46. Adoption of FIN No. 46R in 2004 did not have a material impact on the Bank's results of operations or financial condition. More information related to the adoption of FIN No. 46 and FIN No. 46R is presented in Note 11.

**Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer**

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP No. 03-3). SOP No. 03-3 requires impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans. SOP No. 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. SOP No. 03-3 is not expected to have a material impact on the Bank's results of operations or financial condition.

**SFAS No. 123 (revised 2004), Share-Based Payment**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS No. 123R), which revised SFAS 123 and eliminates the ability to account for share-based compensation transactions using APB No. 25. SFAS No. 123R generally requires that such transactions be accounted for using a fair value-based method with the resulting compensation cost recognized over the period that the employee is required to provide service in order to receive their compensation. SFAS No. 123R also amends SFAS No. 95, Statement of Cash Flows, requiring the benefits of tax deductions in excess of recognized cash flows to be reported as a financing cash inflow, rather than as a reduction of taxes paid as currently required. In April 2005, the SEC approved a new rule that delays the effective date of SFAS No. 123R. Under the SEC's rule, SFAS No. 123R will be effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. The Bank plans to adopt SFAS No. 123R beginning January 1, 2006. The Bank adopted the fair value method of accounting for stock-based compensation as of January 1, 2003, and as a result, adoption of SFAS No. 123R is not expected to have a material impact on the Bank's results of operations or financial condition.

**EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments**

In March 2004, the Emerging Issues Task Force (EITF) issued EITF No. 03-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (EITF No. 03-1). EITF No. 03-1 provides recognition and measurement guidance regarding when



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impairments of equity and debt securities are considered other than temporary thereby requiring a charge to earnings, and also requires additional annual disclosures for investments in unrealized loss positions. The additional annual disclosures were previously issued by the EITF in November 2003 and were effective for the Bank for the year ended December 31, 2003. The disclosures required by EITF No. 03-1 are presented in Note 10.

In September 2004, the FASB issues FASB Staff Position ( FSP ) EITF No. 03-1-1, which delays the recognition and measurement provisions of EITF No. 03-1 pending the issuance of further implementation

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guidance. Accordingly, the Bank is currently in the process of analyzing and interpreting the effect of the recognition and measurement provisions of proposed EITF No. 03-1 amendment.

**Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments**

In March 2004, the Securities Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments ( SAB No. 105 ), which specifies that servicing assets embedded in commitments to originate loans to be held-for-sale should be recognized only when the servicing asset have been contractually separated from the associated loans by sale or securitization. The adoption of SAB No. 105 is effective for commitments entered into after March 31, 2004. The adoption of SAB No. 105 did not have a significant impact on the Bank s results of operations or financial condition.

**3. Acquisition of Minority Interest in Kookmin Credit Card**

On May 30, 2003, the Bank entered into a Merger Agreement with Kookmin Credit Card Co., Ltd ( KCC ), a 74.48% owned subsidiary of the Bank, in order to maximize the synergies, efficiencies, and competitiveness from combining operations of KCC into the credit card division of the Bank. To facilitate the merger, on September 30, 2003, the Bank acquired all of the outstanding minority interest in KCC, which represents the remaining 25.22% of KCC s outstanding common stock. The acquisition was effected through an exchange of shares at an exchange ratio of 1:0.442983, with the stockholders of KCC receiving 8,120,431 shares of the Bank s stock for 18,331,248 shares of KCC common stock exchanged. The acquisition of the minority interest in KCC was accounted for using the purchase method of accounting. On September 30, 2003, the operations of KCC were merged into the credit card division of the Bank.

The allocation of purchase price consideration for the acquisition is as follows (in millions of Won):

Fair value of Kookmin Bank common stock exchanged	275,932
Acquisition costs	1,784
	<u>          </u>
Total purchase price	277,716
	<u>          </u>
Fair value of 25% of KCC tangible net assets acquired	(29,535)
Fair value of 25% of KCC credit card relationship intangible asset acquired	75,000
Goodwill	232,251
	<u>          </u>
Total purchase price	277,716
	<u>          </u>

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Fair value of the Bank's common stock exchanged is calculated using the number of shares of the Bank's common stock issued to KCC stockholders multiplied by the average closing price of the Bank's shares on the Korean Stock Exchange two days before and after May 30, 2003, the Merger Agreement date.

The credit card relationship intangible reflects the estimated fair value of the credit card relationships acquired from the minority interest from which the Bank expects to derive future benefits over the estimated life of such relationships. The customer relationship intangible is amortized over its estimated useful life of 10 years on an accelerated basis. The fair value of this asset is based principally upon the estimates of (i) the profitability of the acquired accounts and (ii) the projected run-off of the acquired accounts.

Goodwill generated represents the excess of purchase price over the fair value of 25% of net assets of KCC. Goodwill generated from this acquisition of KCC minority interest is allocated to the Bank's Credit Card Operations segment.

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As part of the acquisition, the Bank also issued 32,136 shares of the Bank's stock options to replace 80,000 shares of the outstanding KCC employee stock options. This exchange is treated as a modification of existing awards in accordance with SFAS 123. However, since the fair value of the KCC options was higher than the Bank's replacement options as of the date of acquisition, no compensation cost was recognized.

**4. Discontinued Operations**

On December 27, 2002, the Bank sold its 88.66% ownership interest in Kookmin Leasing Co., Ltd. ( Kookmin Leasing ) for 365 million Won and recognized a pretax gain on sale of 28,501 million Won (after tax gain of 20,036 million Won). On May 29, 2002, the Bank sold its 99.99% ownership interest in Kookmin Investment Trust Management Co., Ltd. for 37,309 million Won and recognized a pretax gain on sale of 8,485 million Won (after tax gain of 5,965 million Won).

On August 30, 2002 and then on October 28, 2002, the Bank sold 65.43% and 5.03%, respectively, of its 85.43% ownership interest in Alpha Capital Corporation ( Alpha Capital ), formerly known as Jooeun Leasing Co., Ltd., to the same buyer. The Bank carried its remaining investment in Alpha Capital from August 30, 2002 to October 28, 2002 under the equity method and subsequent to October 28, 2002, under the cost method. The Bank's proportionate share of the results of operations of Alpha Capital from August 30, 2002 to October 28, 2002 was not significant. Sales proceeds from the two transactions totaled 13,333 million Won and the Bank recognized a pretax loss on sale of 3,676 million Won (after tax loss of 2,584 million Won). The remaining 14.97% ownership interest at December 31, 2002 was sold for 149 million Won on February 4, 2003 to a different buyer.

Financial information related to these disposed subsidiaries is presented separately in the consolidated statements of income and comprehensive income as discontinued operations.

The following table summarizes financial information for discontinued operations for the year ended December 31:

	<b>2002</b>
<i>(in millions of Won)</i>	
Operating income from discontinued operations	104,844
Net gain on disposal	33,310
Income tax expense	41,032
Income from discontinued operations, net of tax	97,122

There were no discontinued operations during 2003 and 2004.

**5. Transactions with Korea Asset Management Corporation**

Prior to fiscal year 1999, the Bank sold certain non-performing loans to the Korea Asset Management Corporation ( KAMCO ). The sales agreements contain a recourse obligation under which KAMCO can obligate the Bank to repurchase the related loans at the original sales price. The recourse obligation has no expiration date. Loans for which the Bank has a recourse obligation amounted to 8,294 million Won and 4,294 million Won at December 31, 2003 and 2004, respectively. At December 31, 2003 and 2004, the Bank recorded a liability of 382 million Won and 392 million Won, respectively and reported in other liabilities, representing its estimated obligation to repurchase the loans under the recourse obligation.

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The following table presents restricted cash as of December 31:

	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>		
Reserve deposits with the Bank of Korea	2,624,663	1,728,736
Deposits with Hansol Mutual Savings & Finance	127,190	86,249
Other	18,032	7,127
<b>Total restricted cash</b>	<b><u>2,769,885</u></b>	<b><u>1,822,112</u></b>

Reserve deposits with the Bank of Korea ( BOK ) represent amounts required under the General Banking Act for payment of deposits.

Deposits with Hansol Mutual Savings & Finance are restricted from being withdrawn prior to their maturity in 2005 in accordance to the sale agreement of Bukook Mutual Savings & Finance which was then a subsidiary of the Bank.

**7. Call Loans and Securities Purchased under Resale Agreements**

Call loans and securities purchased under agreements to resell, at their respective carrying values, consisted of the following at December 31:

	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>		
Call loans <sup>(1)</sup>	2,458,860	2,993,476
Securities purchased under resale or similar arrangements	1,500,000	
<b>Total</b>	<b><u>3,958,860</u></b>	<b><u>2,993,476</u></b>

- (1) Call loans are short-term lending among banks and financial institutions, with maturities of 30 days or less. Typically, call loans have maturities of one day.



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The following table presents trading assets and liabilities at December 31:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2004</u>
<b>Trading assets:</b>		
Debt securities		
Korean treasury and government agencies	1,418,730	916,291
Corporate	105,058	5,833
Financial institutions	912,183	2,478,856
Asset-backed securities	129,180	44,963
Equity securities	175,279	249,069
	<u>          </u>	<u>          </u>
Total debt and equity instruments	2,740,430	3,695,012
	<u>          </u>	<u>          </u>
Foreign exchange spot contracts	2,378	7,951
Derivative instruments		
Foreign exchange derivatives	411,317	1,997,447
Interest rate derivatives	149,117	322,637
Equity derivatives	213,532	72,440
Credit derivatives	408	158
	<u>          </u>	<u>          </u>
Total derivative instruments and foreign exchange spot contracts	776,752	2,400,633
	<u>          </u>	<u>          </u>
Total trading assets	3,517,182	6,095,645
	<u>          </u>	<u>          </u>
<b>Trading liabilities:</b>		
Foreign exchange spot contracts	2,181	5,279
Derivative instruments		
Foreign exchange derivatives	314,769	1,846,086
Interest rate derivatives	244,890	371,778
Equity derivatives	200,625	73,445
	<u>          </u>	<u>          </u>
Total trading liabilities	762,465	2,296,588
	<u>          </u>	<u>          </u>

**9. Net Trading Revenue**

The following table presents net trading related revenue for the years ended December 31:



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	<u>2002</u>	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>			
Debt securities	103,416	15,904	75,783
Equity securities	165,551	46,859	35,343
Foreign exchange contracts	80,345	86,220	92,899
Derivative instruments	109,082	13,652	204,791
	<u>          </u>	<u>          </u>	<u>          </u>
Total net trading revenue	458,394	162,635	408,816
	<u>          </u>	<u>          </u>	<u>          </u>

For the years ended December 31, 2002, 2003 and 2004, net unrealized gains on trading securities of 167,886 million Won, 5,957 million Won and 26,847 million Won, respectively, were recognized in net trading revenue.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****10. Investments**

Investments as of December 31, 2003 and 2004 consisted of the following:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2004</u>
Available-for-sale securities	15,689,028	16,150,138
Held-to-maturity securities	6,137,077	6,167,880
Venture capital securities	87,931	69,768
Other securities <sup>(1)</sup>	512,913	707,183
<b>Total investments</b>	<b>22,426,949</b>	<b>23,094,969</b>

- (1) Other securities comprise of equity securities without readily determinable fair values or with sales restrictions exceeding one year, investments under the equity method, and investments held by broker-dealer subsidiary.

At December 31, 2003, the amortized cost and estimated fair value of the Bank's available-for-sale securities and held-to-maturity securities and the related gross unrealized gains and losses were as follows:

<i>(in millions of Won)</i>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair Value</u>
<b>Available-for-sale securities:</b>				
Debt securities				
Korean treasury and government agencies	5,024,167	10,776	38,833	4,996,110
Corporate	1,845,058	94,586	10,069	1,929,575
Financial institutions	7,899,500	21,875	20,846	7,900,529
Foreign governments	29,819	9,469	141	39,147
Asset-backed securities	59,233	753		59,986
Marketable equity securities	733,970	30,081	370	763,681
<b>Total available-for-sale securities</b>	<b>15,591,747</b>	<b>167,540</b>	<b>70,259</b>	<b>15,689,028</b>
<b>Held-to-maturity securities:</b>				
Debt securities				
Korean treasury and government agencies	5,227,522	156,710	7,687	5,376,545
Corporate	132,222	10,306	49	142,479

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Financial institutions	297,793	4,636	56	302,373
Foreign governments				
Asset-backed securities	479,540	2,422	1,125	480,837
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Total held-to-maturity securities	6,137,077	174,074	8,917	6,302,234
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

At December 31, 2004, the amortized cost and estimated fair value of the Bank's available-for-sale securities and held-to-maturity securities and the related gross unrealized gains and losses were as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair Value</u>
<i>(in millions of Won)</i>				
<b>Available-for-sale securities:</b>				
Debt securities				
Korean treasury and government agencies	3,688,617	48,040	1,176	3,735,481
Corporate	801,012	22,181	5,065	818,128
Financial institutions	11,103,054	37,821	5,676	11,135,199
Foreign governments	37,756	4,850	451	42,155
Asset-backed securities	166,315	878	96	167,097
Marketable equity securities	224,668	27,424	14	252,078
<b>Total available-for-sale securities</b>	<b>16,021,422</b>	<b>141,194</b>	<b>12,478</b>	<b>16,150,138</b>
<b>Held-to-maturity securities:</b>				
Debt securities				
Korean treasury and government agencies	4,748,442	206,180	18	4,954,604
Corporate	64,822	943		65,765
Financial institutions	1,241,601	4,782	39	1,246,344
Asset-backed securities	113,015	1,833		114,848
<b>Total held-to-maturity securities</b>	<b>6,167,880</b>	<b>213,738</b>	<b>57</b>	<b>6,381,561</b>

The BOK and the Korea Development Bank ( KDB ) are both financial institutions owned and controlled by the Korean government. The amounts listed above for the fair value of available-for-sale debt securities from financial institutions include 6,930,776 million Won and 10,067,551 million Won as of December 31, 2003 and 2004, respectively, that are related to BOK and KDB. The amounts listed above for the amortized cost of held-to-maturity debt securities from financial institutions include 264,717 million Won and 1,114,967 million Won as of December 31, 2003 and 2004, respectively, that are related to BOK and KDB.

For the years ended December 31, 2002, 2003 and 2004, the Bank recognized impairment losses on available-for-sale securities of 171,792 million Won, 79,051 million Won and 75,390 million Won, respectively, where decreases in value were deemed to be other-than-temporary.

For the years ended December 31, 2002, 2003 and 2004, the Bank recognized impairment losses on held-to-maturity securities of 9,855 million Won, 0 million Won and 0 million Won, respectively, where decreases in value were deemed to be other-than-temporary.



Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The following table presents the current fair value and the associated unrealized losses on investments in available-for-sale debt securities and marketable equity securities, and held-to-maturity debt securities with unrealized losses at December 31, 2004. The table also discloses whether these securities have had unrealized losses for less than 12 months, or for 12 months or longer.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(in millions of Won)</i>						
<b>Available-for-sale securities</b>						
Debt securities:						
Korean treasury and government agencies	755,929	(1,176)			755,929	(1,176)
Corporate	111,203	(5,065)			111,203	(5,065)
Financial institutions	1,998,755	(5,676)			1,998,755	(5,676)
Foreign governments	10,136	(451)			10,136	(451)
Asset-backed securities	40,136	(96)			40,136	(96)
Marketable equity securities	2,303	(14)			2,303	(14)
<b>Total available-for-sale securities</b>	<b>2,918,462</b>	<b>(12,478)</b>			<b>2,918,462</b>	<b>(12,478)</b>
<b>Held-to-maturity securities</b>						
Debt securities:						
Korean treasury and government agencies	11,933	(18)			11,933	(18)
Financial institutions	271,518	(39)			271,518	(39)
<b>Total held-to-maturity securities</b>	<b>283,451</b>	<b>(57)</b>			<b>283,451</b>	<b>(57)</b>
<b>Total temporary impaired securities</b>	<b>3,201,913</b>	<b>(12,535)</b>			<b>3,201,913</b>	<b>(12,535)</b>

At December 31, 2004, the cost of approximately 457 debt and equity securities exceeded their fair value by 12,535 million Won. The unrealized losses on these securities resulted mainly from changes in the current market conditions. The extent of the decline for each security was not substantial and the decline unrelated to credit quality. Based on the Bank's review for impairment and consideration of the factors presented in Note 1, management determined that the gross unrealized losses on the investments in debt and equity securities at December 31, 2004 were temporary in nature.

For the years ended December 31, 2002, 2003 and 2004, the Bank recognized net losses on venture capital securities and other investments of 152,346 million Won, 19,810 million Won and net gains of 15,677 million Won, respectively.

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Any deterioration in Korean economic conditions, or in specific situations of the counterparty to the security, could adversely affect the fair value of securities held by the Bank.

For the years ended December 31, 2002, 2003 and 2004, proceeds from sales of available-for-sale securities amounted to 8,554,167 million Won, 34,817,351 million Won and 15,952,866 million Won, respectively. Gross realized gains amounted to 577,524 million Won, 577,751 million Won and 173,180 million Won for the years ended December 31, 2002, 2003 and 2004, respectively. Gross realized losses amounted to 153,600 million Won, 79,645 million Won and 58,400 million Won for the years ended December 31, 2002, 2003 and 2004, respectively.

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The amortized cost and estimated fair value of the Bank's available-for-sale debt securities and held-to-maturity securities at December 31, 2004 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale debt securities		Held-to-maturity securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(in millions of Won)</i>				
Due in one year or less	7,765,066	7,794,002	1,997,021	2,031,529
Due after one year through five years	7,307,024	7,366,426	3,770,753	3,906,481
Due after five years through ten years	584,054	595,422	393,416	435,862
Due after ten years	1,225	1,225		
Securities not due at a single maturity date	139,385	140,985	6,690	7,689
<b>Total</b>	<b>15,796,754</b>	<b>15,898,060</b>	<b>6,167,880</b>	<b>6,381,561</b>

**11. Variable Interest Entities**

In January 2003, the FASB issued FIN No. 46, which addressed consolidation by business enterprises where equity investors did not bear the residual economic risks and rewards. These entities were typically special purpose entities (SPEs) although non-SPE entities were also subject to this interpretation. The underlying principle behind the FIN No. 46 was that if a business enterprise had the majority financial interest in an entity, which was defined in the guidance as a VIE, the assets, liabilities and results of the activities of the VIE should be included in the consolidated financial statements with those of the business enterprise. FIN No. 46 also explained how to identify VIEs and how an enterprise should assess its interest in an entity when deciding whether or not it would consolidate that entity.

In December 2003, the FASB issued a revised version of FIN No. 46 (FIN No. 46R), which clarifies and interprets certain of the provisions of FIN No. 46 without changing the basic accounting model. More information related to the adoption dates is presented in Note 2.

The following table represents the carrying amount of assets held by VIEs at December 31, 2003, which have been consolidated by the Bank in accordance with the provisions of FIN No. 46 and VIEs that the Bank became involved with after January 31, 2003:

<i>(in millions of Won)</i>	
Investments	4,651,610
Loans (net of allowance for loan losses of 1,101,712)	4,914,703



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Other assets	1,891,109
<b>Total</b>	<b>11,457,422</b>

Of the 11,457,422 million Won of total assets consolidated by the Bank at December 31, 2003, 6,180,412 million Won represents structured transaction where the Bank packages and securitizes assets, 5,277,010 million Won related to investment trusts that hold investments on behalf of the Bank.

The Bank did not consolidate or deconsolidate any other significant VIEs created after January 31, 2003 in connection with the adoption of FIN No. 46 in 2003, and accordingly, it did not have a material impact on the Bank's consolidated financial position as of December 31, 2003 or results of operations for the year ended December 31, 2003, other than as indicated above.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The Bank applied the provisions of FIN No. 46R to those entities considered SPEs on January 1, 2004 (including VIEs created before February 1, 2003) beginning January 1, 2004 and to other entities effective December 31, 2004. The following table represents the carrying amount of assets at December 31, 2004 held by VIEs (including VIEs created before February 1, 2003) which have been consolidated by the Bank in accordance with the provisions of FIN No. 46R:

<i>(in millions of Won)</i>	
Investments	7,376,429
Loans (net of allowance for loan losses of 775,582)	3,119,002
Other assets	1,438,004
	<hr/>
Total	11,933,435
	<hr/>

Of the 11,933,435 million Won of total assets consolidated by the Bank at December 31, 2004, 6,572,071 million Won represents structured transaction where the Bank packages and securitizes assets, 5,278,593 million Won related to investment trusts that hold investments on behalf of the Bank and 82,771 million Won related to the Guaranteed Fixed Rate Money Trusts constructed by the Bank.

In connection with the adoption of FIN No. 46R, the Bank consolidated its Guaranteed Fixed Rate Money Trusts because the Bank was deemed to be the primary beneficiary. These trusts were constructed by the Bank and the Bank would absorb the majority of the expected losses of the trusts by providing a guarantee of the principal and a fixed rate of return on the principal amount invested. The Bank did not consolidate its Guaranteed Principal Money Trusts, Securities Investment Trusts or No-Guarantee Money Trusts because in the Bank's view, the Bank was not the primary beneficiary. For further discussion on the trust accounts, refer to Note 38.

The Bank did not consolidate or deconsolidate any other significant VIEs in connection with the adoption of FIN No. 46R in 2004, and accordingly, it did not have a material impact on the Bank's consolidated financial position as of December 31, 2004 or results of operations for the year ended December 31, 2004, other than as indicated above.

FIN No. 46R requires disclosure of significant variable interests the company has in VIEs where it is not the primary beneficiary and thus not required to consolidate. The Bank has significant involvement with VIEs that it will not likely consolidate because it is not considered the primary beneficiary. These SPEs are structured by other third parties. In all cases, the Bank does not absorb the majority of the entities' losses nor does it receive a majority of the entities' expected residual returns, or both. These entities facilitate client transactions, and the Bank provides the entities with administration services and liquidity. The transactions with the entities are conducted at arm's length, and individual credit decisions are based upon the analysis of the specific SPE, taking into consideration of the quality of the underlying assets. The Bank records and reports these transactions with the SPEs similar to any other third party transactions. All liquidity facilities provided to these entities are included in the Bank's credit-related commitments described in more detail in Note 33. Total assets of these entities at the date the entity was established were approximately 19,259,891 million Won in 2003 and 17,190,435 million Won in 2004. No individual liquidity guarantee was considered a significant variable interest at December 31, 2003 and 2004. However, at December 31, 2003 and 2004, the Bank's maximum loss exposures associated with these entities, which were the total variable interest, were approximately 7,164,000 million Won and 4,701,050 million Won

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respectively. As most of these liquidity facilities expire without being drawn, the total variable interest of these facilities is not, in the Bank's view, representative of the Bank's actual future funding requirement.

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****12. Loans**

The composition of the loan portfolio as of December 31, 2003 and 2004 was as follows:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2004</u>
Domestic		
Commercial:		
Commercial and industrial <sup>(1)</sup>	41,096,101	38,427,249
Construction loans	6,060,553	4,459,316
Other commercial <sup>(2)</sup>	742,227	770,875
Consumer:		
Mortgage and home equity	52,477,123	57,964,483
Credit cards	15,321,894	9,421,196
Other consumer <sup>(3)</sup>	28,726,515	25,962,639
Foreign	1,433,151	1,118,494
	<u>145,857,564</u>	<u>138,124,252</u>
Gross loans <sup>(4)(5)</sup>		
Deferred origination costs	127,504	131,458
Less: Allowance for loan losses	(5,771,951)	(4,461,435)
	<u>140,213,117</u>	<u>133,794,275</u>
Total loans, net		

- 
- (1) Commercial and industrial loans include 3,364 million Won and 334,561 million Won of loans to the Korean government and government related agencies as of December 31, 2003 and 2004, respectively.
  - (2) Other commercial loans include bills bought in foreign currency and overdrafts.
  - (3) Other consumer loans include personal overdrafts and loans with principal due at maturity.
  - (4) Total loans on non-accrual status amounted to 12,181,450 million Won and 9,565,372 million Won as of December 31, 2003 and 2004, respectively.
  - (5) The total investment in loans past due one day or more still accruing interest amounted to 2,647,582 million Won and 1,110,309 million Won as of December 31, 2003 and 2004, respectively.

During 2004 and 2003, the Bank received convertible debt securities and equity securities having a fair market value of 0 Won (2003: 809 million Won) and 174,168 million Won (2003: 33,415 million Won), respectively, through the restructuring of 16 (2003: 27) loans having an aggregate book value of 502,341 million Won (2003: 152,870 million Won). The Bank recognized aggregate charge-offs of 328,173 million Won (2003: 118,646 million Won) related to these transactions.

The following table sets forth information about the Bank's impaired loans as of December 31, 2002, 2003 and 2004. Impaired loans are those on which the Bank believes it is probable that it will not be able to collect all amounts due according to the contractual terms of the loan.

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	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>(in millions of Won)</i>			
Impaired loans with an allowance	4,114,052	4,515,254	3,685,306
Impaired loans without an allowance	430,537	341,007	158,116
<b>Total impaired loans</b>	<b>4,544,589</b>	<b>4,856,261</b>	<b>3,843,422</b>
Allowance for impaired loans	1,560,418	1,377,421	1,472,019
Average balance of impaired loans during the year	5,364,633	5,030,902	5,156,846
Interest income recognized on impaired loans during the year <sup>(1)(2)</sup>	238,889	282,796	256,604

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- (1) Had the impaired loans performed in accordance with their original terms, additional interest income of 179,681 million Won, 137,617 million Won and 163,258 million Won would have been recorded in 2002, 2003 and 2004, respectively.
- (2) Of these amounts, 89,643 million Won, 117,670 million Won and 110,216 million Won as of December 31, 2002, 2003 and 2004, respectively, relate to troubled debt restructurings.

As discussed in Note 1, adverse economic conditions in the Korean economy may continue to have a negative effect on debtors of the Bank. The Bank owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectibility of these amounts is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Korean economy and the potential continuation for the adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Bank's consolidated financial statements.

The table below summarizes the changes in the allowance for credit losses:

	2002			2003		
	Loans	Guarantees and Acceptances <sup>(1)</sup>	Total	Loans	Guarantees and Acceptances <sup>(1)</sup>	Total
<i>(in millions of Won)</i>						
Allowance at January 1,	3,507,583	104,366	3,611,949	5,195,205	81,233	5,276,438
Provisions for credit losses	3,908,663	(23,133)	3,885,530	7,192,057	(24,403)	7,167,654
Allowance relating to loans reacquired from KAMCO (Note 5)	6,424		6,424	5,325		5,325
Allowance relating to discontinued operation	(163,555)		(163,555)			
Charge-offs	(2,446,813)		(2,446,813)	(7,276,745)		(7,276,745)
Recoveries	382,903		382,903	656,109		656,109
Allowance at December 31,	5,195,205	81,233	5,276,438	5,771,951	56,830	5,828,781

*(in millions of Won)*

2004		
Loans	Guarantees and Acceptances <sup>(1)</sup>	Total

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Allowance at January 1,	5,771,951	56,830	5,828,781
Provisions for credit losses	3,859,917	1,517	3,861,434
Allowances relating to newly consolidated entities	9,239		9,239
Charge-offs	(5,913,519)		(5,913,519)
Recoveries	728,176		728,176
Other	5,671		5,671
	<u>          </u>	<u>          </u>	<u>          </u>
Allowance at December 31,	4,461,435	58,347	4,519,782
	<u>          </u>	<u>          </u>	<u>          </u>

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- (1) The allowance for guarantees and acceptances is included in Other liabilities .

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****13. Premises and Equipment**

Premises and equipment at December 31, 2003 and 2004 were as follows:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2004</u>
Land	594,632	520,418
Building	815,841	776,540
Equipment and furniture	1,332,346	1,393,144
Leasehold improvements	157,897	175,124
Construction in progress	12,326	1,242
Operating lease assets	126,987	121,175
<b>Total</b>	<b>3,040,029</b>	<b>2,987,643</b>
Less: Accumulated depreciation and amortization	(1,131,182)	(1,351,034)
<b>Premises and equipment, net</b>	<b>1,908,847</b>	<b>1,636,609</b>

The Bank incurred depreciation expense on its buildings, equipment and furniture, leasehold improvements and operating lease assets of 299,929 million Won, 404,178 million Won and 322,717 million Won, for the years ended December 31, 2002, 2003 and 2004, respectively.

**14. Other Assets**

Other assets as of December 31, 2003 and 2004 consisted of the following:

<i>(in millions of Won)</i>	<u>2003</u>	<u>2004</u>
Accounts receivable	262,459	52,075
Payments in advance	42,922	34,510
Deferred tax assets	918,547	656,598
Prepaid expenses	47,515	35,260
Prepaid income tax	295,527	185,681
Foreclosed assets	776	239
Loans held-for-sale		26,185
Others	135,164	65,355



Total	1,702,910	1,055,903
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**15. Goodwill and Other Intangible Assets**

Goodwill and other intangible assets as of December 31, 2003 and 2004 consisted of the following:

<i>(in millions of Won)</i>	2003	2004
Goodwill	394,457	421,990
Other intangible assets	423,067	307,881
Total	817,524	729,871

At December 31, 2003 and 2004, the goodwill balance was 145,985 million Won and 145,985 million Won, respectively, for the Corporate Banking segment and 248,472 million Won and 248,472 million Won, respectively, for the Credit Card Operations segment. The change in the goodwill balance in 2004 was the result of goodwill generated from the acquisition of the assets and liabilities of Hanil Life Insurance, which is described below.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

On April 8, 2004, the Bank entered into an acquisition agreement with Korea Deposit Insurance Corporation ( KDIC ) and Hanil Life Insurance. According to the agreement, the Bank would acquire certain assets and liabilities of Hanil Life Insurance and 40 former employees of Hanil Life Insurance would remain employed for another year on a contractual basis. On April 29, 2004, the Bank established a new wholly owned subsidiary, KB Life, to engage in insurance business. KB Life acquired the assets and liabilities of Hanil Life Insurance on a Purchase and Acquisition transaction. On May 31, 2004, the Financial Supervisory Commission of Korea approved the acquisition for KB Life to start insurance business with Hanil Life Insurance. The fair value of the net liabilities assumed by KB Life was 53.1 billion Won before consideration of KDIC 's financial assistance. KDIC, according to the agreement, reimbursed 25.8 billion Won to KB Life for the net liabilities assumed. A goodwill of 27.5 billion Won was generated from the acquisition of Hanil Life Insurance.

There were no indefinite-lived intangible assets for any of the periods presented. Other intangible assets, which are subject to amortization, primarily include core deposit and credit card relationship intangibles, as well as capitalized software costs.

	December 31, 2003			December 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
<i>(in millions of Won)</i>						
Core deposit intangible	403,773	(161,156)	242,617	403,773	(221,571)	182,202
Credit card relationship intangible (H&CB)	133,844	(70,109)	63,735	133,844	(95,603)	38,241
Credit card relationship intangible (KCC)	75,000	(3,750)	71,250	75,000	(18,075)	56,925
Capitalized software costs	64,698	(34,042)	30,656	64,925	(47,060)	17,865
Other	23,112	(8,303)	14,809	25,606	(12,958)	12,648
<b>Total amortizable intangibles</b>	<b>700,427</b>	<b>(277,360)</b>	<b>423,067</b>	<b>703,148</b>	<b>(395,267)</b>	<b>307,881</b>

No goodwill amortization expense was recognized in 2002, 2003 and 2004 in accordance with SFAS No. 142. Other intangible assets amortization expense was 142,854 million Won, 121,716 million Won, and 117,907 million Won in 2002, 2003, and 2004, respectively. Other intangible assets amortization expense is included in Depreciation and amortization expense in the consolidated statements of operations and comprehensive income. Other intangible asset amortization expense is expected to be 97,310 million Won in 2005, 82,107 million Won in 2006, 53,919 million Won in 2007, 35,263 million Won in 2008 and 24,747 million Won in 2009.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****16. Deposits**

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

<i>(in millions of Won)</i>	<u>2003</u>	<u>2004</u>	<u>Weighted Average Rate Paid for 2004</u>
<b>Interest-bearing deposits:</b>			
Interest-bearing demand deposits	707,986	622,828	0.16%
Savings deposits	39,773,679	37,329,035	0.79%
Certificate of deposit accounts	6,499,258	4,908,950	4.06%
Other time deposits	68,716,691	68,770,711	3.98%
Mutual installment deposits	12,446,154	11,571,895	4.63%
	<u>128,143,768</u>	<u>123,203,419</u>	<u>3.04%</u>
<b>Non interest bearing deposits:</b>			
Demand accounts	3,460,146	3,017,436	
	<u>3,460,146</u>	<u>3,017,436</u>	
<b>Total deposits</b>	<u>131,603,914</u>	<u>126,220,855</u>	<u>2.97%</u>

Mutual installment deposits are interest-bearing accounts offered by the Bank which enable customers to become eligible for mortgage and other consumer loans as well as corporate loans while maintaining an account with the Bank. Prior to qualifying for a loan, a customer must make a required monthly deposit to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from the Bank, but the loan amount and terms are not as favorable as those are associated with a loan request made after completing the deposit contract term.

The contractual schedule of maturities of certificate of deposits, other time deposits, and mutual installment deposits at December 31, 2004 was as follows:

<i>(in millions of Won)</i>	
2005	74,481,894
2006	5,567,967
2007	3,236,049
2008	178,998
2009	133,010
Thereafter	1,653,638

Total	85,251,556
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The KDIC provides deposit insurance up to a total of 50 million Won per depositor in each bank pursuant to the Depositor Protection Act for deposits due after January 1, 2001, regardless of the placement date of the deposit. For the insurance covered by KDIC, the Bank pays a premium of 0.2% of the average deposits which amounted to 229,290 million Won and 231,285 million Won in 2003 and 2004, respectively.

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****17. Other Borrowed Funds**

A summary of other borrowed funds at December 31, 2003 and 2004 is presented below:

	2003		2004	
	Outstanding	Weighted Average Interest	Outstanding	Weighted Average Interest
	Balance	Rate	Balance	Rate
<i>(in millions of Won)</i>				
<b>Kookmin Bank</b>				
Borrowings from the Bank of Korea	1,005,041	2.45%	922,151	2.41%
Borrowings in foreign currencies	1,057,283	1.30%	577,199	1.28%
Borrowings from trust account managed by the Bank	3,895,444	3.80%	787,764	3.48%
Debentures in Won	6,268,614	5.49%	7,008,452	4.13%
Other borrowings	534,947	2.10%	218,852	1.24%
Subtotal	12,761,329	4.25%	9,514,418	3.67%
<b>Subsidiaries</b>				
Borrowings from other financial institutions	133,872	2.00%		
Total other borrowed funds	12,895,201	4.22%	9,514,418	3.67%

Other borrowed funds are defined as borrowed funds with original maturities of less than one year.

**18. Secured Borrowings**

The Bank transferred certain non-performing loans and investment securities to special purpose entities, which in turn issued beneficial interests collateralized by such loans. In addition, one of the Bank's majority-owned subsidiaries, KCC, prior to its merger with the Bank, had transferred credit card loans and revolving assets to a SPE. In accordance with SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* as superseded by SFAS No. 140, these transactions have been accounted for as secured borrowings. As a result, the loans and securities collateralizing these borrowings are included in *Loans and Available-for-sale securities* or *Held-to-maturity securities*, respectively, and the beneficial interests issued by the SPE, which pay interest at rates of 1.00% to 9.50% per annum, are included in *Secured borrowings*.

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In addition to above, the Bank has sold securities under repurchase agreement having maturity in excess of 90 days but less than 1 year.

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

A summary of the secured borrowings and related collaterals as of December 31, 2003 and 2004 were as follows:

	2003			2004		
	Maturity	Secured		Secured		
		borrowings	Collateral	borrowings	Collateral	
		Loans	Securities	Loans	Securities	
<i>(in millions of Won)</i>						
Kookmin 6th ABS Specialty Co., Ltd. 6.39%-7.27% senior collateralized bond obligation	2004-2005	36,000	83,993	16,000	21,621	29
Kookmin Credit Card 3rd ABS Specialty Co., Ltd. 7.55% senior collateralized bond obligation	2004	450,000	491,031			
Kookmin Credit Card 4th ABS Specialty Co., Ltd. 8.14% senior collateralized bond obligation	2004	280,000	346,321			
Kookmin Credit Card 5th ABS Specialty Co., Ltd. 5.30% senior collateralized bond obligation	2004	359,340	691,624			
Kookmin Credit Card 7th ABS Specialty Co., Ltd. 6.65% senior collateralized bond obligation	2005	500,000	592,187	500,000	594,567	
Kookmin Credit Card 8th ABS Specialty Co., Ltd. 6.13% senior collateralized bond obligation	2006	365,000	517,658	365,000	510,573	
Kookmin Credit Card Securitization 2002-1, Ltd. 6.17% senior collateralized bond obligation	2007	299,450	434,665	260,950	536,475	
Kookmin Credit Card 14th ABS Specialty Co., Ltd. 3.94%-4.31% Asset-backed commercial paper	2004	71,939	136,513			
Kookmin Credit Card 15th ABS Specialty Co., Ltd. 6.80% senior collateralized bond obligation	2004	249,166	705,563			
Kookmin Credit Card 16th ABS Specialty Co., Ltd. 5.60%-6.50% Senior collateralized bond obligation	2004-2006	169,036	335,427	49,929	46,349	16
KB star Card 2nd ABS Specialty Co., Ltd. 9.50% Senior collateralized bond obligation.	2009	299,952				
H&CB 2nd ABS Specialty Co., Ltd. 1.00% subordinated collateralized bond obligation	2005	20,300		29,982		
KB 1st ABS Specialty Co., Ltd. 4.21%-5.34% Senior collateralized bond obligation	2004	355,000	487,216			
KB 2nd ABS Specialty Co., Ltd. 4.25%-4.94% Senior collateralized bond obligation	2005-2006			280,000	247,156	
KB 3rd ABS Specialty Co., Ltd. 3.49%-3.92% Senior collateralized bond obligation	2005-2006			275,000	328,162	
FN star 1st ABS Specialty Co. Ltd, 5.03%-5.27% Senior collateralized bond obligation	2004-2005	285,000		93,442	155,000	345,418
FN star 2nd ABS Specialty Co. Ltd, 5.15%-5.72% Senior collateralized bond obligation	2004-2006	292,000		90,911	205,000	322,972
FN star 3rd ABS Specialty Co. Ltd, 4.00%-5.03% Senior collateralized bond obligation	2004-2006	507,000		129,363	287,000	1,058
FN star 4th ABS Specialty Co. Ltd, 5.05%-5.72% Senior collateralized bond obligation	2005-2007			173,000		20,018
FN star 5th ABS Specialty Co. Ltd, 4.73%-5.66% Senior collateralized bond obligation	2005-2009			82,000		42,998
Other 1.5%-4.1% securities sold under repurchase agreement	2004-2006	3,623,156	4,210,767	3,443,344		3,791,977

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Gross secured borrowings	8,162,339			6,092,223		
Plus: Premium (Discount)	44,249			28,716		
<b>Total secured borrowings, net</b>	<b>8,206,588</b>	<b>4,822,198</b>	<b>4,554,465</b>	<b>6,120,939</b>	<b>2,954,351</b>	<b>3,855,038</b>

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**Table of Contents****KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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**Secured borrowings Maturity Schedule**

The combined aggregate amount of contractual maturities of all secured borrowings at December 31, 2004 was as follows:

*(in millions of Won)*

Due in 2005	4,746,487
Due in 2006	1,058,828
Due in 2007	282,916
Due in 2008	
Due in 2009	3,992
Thereafter	
	<hr/>
Gross secured borrowings	6,092,223
Plus: Premium	28,716
	<hr/>
Total secured borrowings, net	6,120,939
	<hr/>

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The following table is a summary of long-term debt (net of unamortized original issue discount) at December 31, 2003 and 2004:

<i>(in millions of Won)</i>	<u>Maturity</u>	<u>2003</u>	<u>2004</u>
<b>Senior</b>			
<b>Kookmin Bank</b>			
<b>Won currency</b>			
0.00%-5.00% Notes payable to Ministry of Finance and Economy	2004-2023	306,173	229,534
1.84%-5.00% Notes payable to Korea Development Bank	2004-2009	5,688	5,227
0.75%-8.00% Notes payable to other government funds	2004-2019	622,969	471,224
2.79%-8.55% Notes payable to Industrial Bank of Korea	2004-2012	253,822	158,245
2.25%-8.15% Floating rate finance debentures <sup>(1)</sup>	2004-2014	870,000	610,000
3.14%-17.69% Finance debentures	2004-2014	4,929,932	6,419,041
1.25%-7.00% Other notes payable	2004-2018	1,075,784	1,160,863
Subtotal		<u>8,064,368</u>	<u>9,054,134</u>
<b>Foreign currency</b>			
0.25%-3.46% Floating rate finance debentures <sup>(1)</sup>	2004-2008	264,919	171,037
1.08%-4.63% Finance debentures	2004-2007	622,981	533,252
0.15%-6.78% Floating rate notes payable <sup>(1)</sup>	2004-2012	1,057,683	790,360
1.07%-1.20% Other notes payable	2008	44,784	40,483
Subtotal		<u>1,990,367</u>	<u>1,535,132</u>
<b>Subsidiaries</b>			
2.10%-5.50% Borrowings from other financial institutions in Won	2005-2028	204,244	115,294
2.68%-2.82% Borrowings from other financial institutions in foreign currencies	2012	2,529	1,959
1.83%-5.00% Borrowings from Small and Medium Company Promotion Fund	2004-2009	12,215	3,908
6.92% Finance debentures in Won	2004	10,000	
Subtotal		<u>228,988</u>	<u>121,161</u>
<b>Subordinated</b>			
<b>Kookmin Bank</b>			
<b>Won currency</b>			
4.19%-16.00% Finance debentures	2004-2033	6,316,808	7,184,622
Gross long-term debt		<u>16,600,531</u>	<u>17,895,049</u>

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Premium	6,717	4,292
Total long-term debt, net	<u>16,607,248</u>	<u>17,899,341</u>

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(1) Interest rates on floating rate debt are those rates in effect at December 31, 2004.

Long-term debt are predominately denominated in Won, US dollars, and Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the six-month London Inter-bank Offered Rate ( LIBOR ) and the monthly Public Fund Prime Rate published by the Korean government and are reset on a monthly, semi-annual and

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quarterly basis, respectively. The weighted-average interest rate for long-term debt was 6.03% and 5.62% as of December 31, 2003 and 2004, respectively.

**Debt Maturity Schedule**

The combined aggregate amount of contractual maturities of all long-term debt at December 31, 2004 was as follows:

<i>(in millions of Won)</i>	
Due in 2005	2,880,566
Due in 2006	6,385,877
Due in 2007	1,382,815
Due in 2008	2,447,568
Due in 2009	1,620,460
Thereafter	3,177,763
	17,895,049
Gross long-term debt	17,895,049
Plus: Premium	4,292
	17,899,341
Total long-term debt, net	17,899,341

**20. Other Liabilities**

Other liabilities at December 31, 2003 and 2004 comprise the following:

	<b>2003</b>	<b>2004</b>
<i>(in millions of Won)</i>		
Accrued severance benefits	73,188	129,291
Accrued expenses	471,401	652,660
Accounts payable	399,438	474,105
Unearned income	139,557	113,428
Tax withholdings and income tax payable	269,442	198,457
Guarantee deposits received	110,884	98,917
Deferred tax liabilities		4,057
Due to agencies	315,241	280,569
Allowance for losses on guarantees and acceptances	56,830	58,347

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Payments received on behalf of government and others	365,852	233,692
Policy reserve		156,127
Others	350,307	499,985
	<u>          </u>	<u>          </u>
Total	2,552,140	2,899,635
	<u>          </u>	<u>          </u>

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Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****21. Noninterest Income**

The components of noninterest income for the years ended December 31, 2002, 2003 and 2004 were as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>			
Trust fees, net	375,805	289,254	152,769
Other fees and commission income			
Commissions received on fund management	201,102	180,455	165,759
Commissions and fees received for brokerage and agency activities	54,440	54,695	83,682
Commissions received on credit card	1,092,123	1,048,719	834,666
Commissions received in remittance	45,468	38,900	29,561
Commissions received on cash dispenser service	81,206	89,181	91,539
Commissions received on letters of credit	42,965	46,022	51,149
Other	441,231	443,684	512,764
	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal	1,958,535	1,901,656	1,769,120
	<u>          </u>	<u>          </u>	<u>          </u>
Net trading revenue	458,394	162,635	408,816
	<u>          </u>	<u>          </u>	<u>          </u>
Net gain (loss) on investment securities			
Debt securities	327,326	69,296	368
Equity securities	(44,628)	337,688	82,994
Other	(152,347)	(19,810)	15,677
	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal	130,351	387,174	99,039
	<u>          </u>	<u>          </u>	<u>          </u>
Other noninterest income			
Gain on sale of loans	20,858	2,784	542
Gain on extinguishment of debt			10,725
Bancassurance fees received		23,246	117,670
Insurance premiums			58,385
Other	154,092	147,060	182,335
	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal	174,950	173,090	369,657
	<u>          </u>	<u>          </u>	<u>          </u>
Total noninterest income	3,098,035	2,913,809	2,799,401
	<u>          </u>	<u>          </u>	<u>          </u>

Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****22. Noninterest Expense**

The components of noninterest expense for the years ended December 31, 2002, 2003 and 2004 were as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>			
Salaries and employee benefits			
Salaries and other benefits	1,472,560	1,532,367	1,578,372
Provision for accrued severance benefits	113,780	124,594	123,723
Subtotal	<u>1,586,340</u>	<u>1,656,961</u>	<u>1,702,095</u>
Depreciation and amortization			
Depreciation on premises and equipment	299,929	404,178	322,717
Amortization on intangible assets	142,854	121,716	117,907
Subtotal	<u>442,783</u>	<u>525,894</u>	<u>440,624</u>
Other administrative expenses	834,436	712,785	646,241
Credit card fees			
Commissions paid on credit card	382,438	513,722	328,653
Commissions paid on troubled credit card	7,071	7,101	3,087
Subtotal	<u>389,509</u>	<u>520,823</u>	<u>331,740</u>
Other fees and commissions			
Insurance fees on deposits to KDIC	111,732	229,290	231,285
Contribution to guarantee funds	150,659	178,094	179,922
Commissions on overdue loans	94,519	8,703	7,884
Other	343,985	107,364	118,214
Subtotal	<u>700,895</u>	<u>523,451</u>	<u>537,305</u>
Other noninterest expenses			
Loss on sale of loans	147,108	101,057	3,018
Loss on disposition of assets	10,106	35,956	18,981
Tax expenses other than income tax	106,693	117,841	105,279
Insurance expense including benefits and claims			57,100
Other	169,737	211,074	189,573
Subtotal	<u>433,644</u>	<u>465,928</u>	<u>373,951</u>

Total noninterest expense	4,387,607	4,405,842	4,031,956
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**23. Common Stock**

**Issuances of common stock**

As of December 31, 2004, there were 306,497,907 outstanding common stock, net of 29,881,209 treasury stock.

Acquisition of minority interest in KCC: On September 30, 2003, Kookmin Bank acquired all of the outstanding minority interest in KCC, which represents the remaining 25.22% of KCC's outstanding common stock. The acquisition was effected through an exchange of shares at an exchange ratio of 1:0.442983, with the stockholders of KCC receiving 8,120,431 shares of Kookmin Bank stock for 18,331,248 shares of KCC common stock exchanged.



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**KOOKMIN BANK AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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**Treasury stock**

Treasury stocks are recorded at cost.

In 2002, the Bank repurchased a total of 3,036,089 shares and held them as treasury stock. Subsequently, 41,548 shares were reissued, of which 10,000 shares were upon the exercise of employee stock options.

In 2003, the Bank repurchased a total of 28,078,856 shares and held them as treasury stock of which (a) 27,423,761 shares were acquired from the KDIC (a Korean Government entity) at approximately 43,700 Won per share through public bidding and intends to sell these shares depending on certain market conditions and (b) 650,000 shares for the purpose of settlement of stock options issued under its stock-based compensation plan. The Bank reissued 88,322 shares upon the exercise of employee stock options and 1,000,000 shares under Employee Stock Ownership Plan as discussed below.

In 2004, the Bank reissued 135,414 shares upon the exercise of employee stock options.

**Employee Stock Ownership Plan**

On July 26, 2002, the Board of Directors made a resolution to establish an Employee Stock Ownership Plan (the ESOP) for the welfare of employees. Accordingly, the Bank acquired 3,000,000 shares of treasury stock under the ESOP in 2002, among which the Bank contributed 1,000,000 shares to the Employee Stock Ownership Association (the ESOA) on December 26, 2003. The fair value of shares, contributed to the ESOA amounting to 42,900 million Won, was charged to expense, as the Bank does not have control over the ESOA.

In terms of the plan, all the Bank's employees are eligible to participate under the ESOP except the employees who are granted stock options under the Bank's stock-based compensation plan. On the date of stock contribution by the Bank, the ESOA temporarily allocates shares to eligible employees and confirm allocation to individuals after three years, which can be withdrawn by the employees after one year from the confirmation date. Under the ESOP, all the eligible employees are required to contribute an equal number of stocks to the ESOA during 2003, which can be withdrawn after one year from the contribution date. Upon retirement, disorganization or exercise of purchase option, withdrawal is permitted despite the obligatory depositing period. The dividend received by the ESOA on the shares held by them would be distributed to the employees along with distribution of shares to the employees.

**Dividends**

Dividends payable to the equity shareholders are based on the unappropriated retained earnings available for distribution, which is defined in Korean Commercial Law, as reported in the Bank's unconsolidated financial statements prepared in accordance with Korean GAAP ( KGAAP ). Hence, the unappropriated retained earnings available for dividend distribution in accordance with US GAAP may, in certain years, either not be fully available or will be additionally available for distribution to the equity shareholders. Further, the dividends are declared and paid in Korean Won. For the years ended December 31, 2003 and 2004, in its KGAAP unconsolidated financial statements, the Bank has reported unappropriated retained earnings of 895,837 million Won and 1,257,905 million Won, respectively.

On March 22, 2002, the shareholders approved a stock dividend of 6% and a cash dividend of 2% to stockholders of record as of December 31, 2001. Stock dividends of 851,337 million Won were issued on April 3, 2002, and cash dividends amounting to 29,967 million Won were paid out on April 3, 2002. The stock dividends were deducted from retained earnings and reflected in common stock outstanding as of December 31, 2001.

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On March 21, 2003 the shareholders approved payment of a cash dividend of 20% to stockholders of record as of December 31, 2002. Cash dividend amounting to 325,233 million Won was paid on March 21 2003, and was deducted from retained earnings in 2003.

In 2004, there was no dividend declared for the year ended December 31, 2003.

**24. Retained Earnings**

Korean regulations require the Bank to appropriate retained earnings to the following as of December 31, 2003 and 2004:

	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>		
Appropriated retained earnings:		
Legal reserve	545,740	545,740
Reserve for business rationalization	40,760	40,760
Other statutory reserves	2,774	2,490
Unappropriated retained earnings	170,461	1,223,556
	<u>759,735</u>	<u>1,812,546</u>
Total	<u>759,735</u>	<u>1,812,546</u>

The General Banking Act requires the Bank to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income, as reported in the Bank's unconsolidated KGAAP financial statements, until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends but may be transferred to capital stock or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Bank's board of directors.

Pursuant to the Tax Preferential Control Law, the Bank is required to appropriate, as a reserve for business rationalization, amounts equal to the tax reductions arising from tax exemptions and tax credits. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce an accumulated deficit, if any.

The Bank's branch in Japan is required to appropriate a legal reserve of up to 10% of annual income, as reported in the Japan Branch's Japanese GAAP financial statements, until such reserve equals two billion Japanese Yen. This reserve is used only to reduce any accumulated deficit related to the branch in Japan.



Table of Contents**KOOKMIN BANK AND SUBSIDIARIES****Notes to Consolidated Financial Statements****25. Components of Accumulated Other Comprehensive Income**

Comprehensive income includes net income plus transactions and other occurrences that are the result of non-owner changes in equity. For the years ended December 31, 2002, 2003 and 2004, the non-owner equity changes are composed of foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Below are the components of accumulated other comprehensive income and the related tax effects for the years ended December 31, 2002, 2003 and 2004.

	<b>Foreign Currency Translation Adjustments</b>	<b>Net Unrealized Gains on Investment Securities</b>	<b>Accumulated Other Comprehensive Income</b>
<i>(in millions of Won)</i>			
<b>Balance, January 1, 2002</b>	(30,256)	307,331	277,075
Foreign currency translation adjustments, net of tax expense 3,739	8,851		8,851
Unrealized holding gains on investment securities, net of tax expense 37,936		89,795	89,795
Less: Reclassification adjustment for gains included in net income, net of tax benefit 88,752		(210,077)	(210,077)
<b>Current period change</b>	8,851	(120,282)	(111,431)
Balance, December 31, 2002	(21,405)	187,049	165,644
Foreign currency translation adjustments, net of tax expense 3,664	8,622		8,622
Unrealized holding losses on investment securities, net of tax benefit 391		(924)	(924)
Less: Reclassification adjustment for gains included in net income, net of tax benefit 47,385		(112,162)	(112,162)
<b>Current period change</b>	8,622	(113,086)	(104,464)
<b>Balance, December 31, 2003</b>	(12,783)	73,963	61,180
Foreign currency translation adjustments, net of tax benefit 5,343	(15,539)		(15,539)
Unrealized holding gains on investment securities, net of tax expense 22,842		68,192	68,192
Less: Reclassification adjustment for gains included in net income, net of tax benefit 1,653		(3,913)	(3,913)
<b>Current period change</b>	(15,539)	64,279	48,740
<b>Balance, December 31, 2004</b>	(28,322)	138,242	109,920

**26. Regulatory Requirements**

In conformity with the Financial Supervisory Service ( FSS ) and the Basel Committee on Banking Regulations and Supervisory Practice guidelines, the Bank applied risk-adjusted capital ratios to evaluate its capital adequacy. Banking organizations engaged in international banking are required to maintain a minimum 8% total risk-based capital ratio, the ratio of total risk-adjusted capital divided by total risk-weighted assets, including a Tier 1 capital ratio of at least 4%. The capital ratios are calculated based on the Bank's consolidated balance sheets prepared in accordance with KGAAP which may vary in certain significant respects from US GAAP. In the event the Bank does not maintain a consolidated capital adequacy ratio of 8%, it is subject to corrective actions recommended by the FSS based on the actual financial position and capital ratio of the Bank. Continued non-compliance with these standards could potentially result in closure of the Bank.

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The following capital ratios are calculated in accordance with and as defined by the FSS guideline, which is materially consistent with BIS guidelines, and the Bank's consolidated financial statements prepared in accordance with KGAAP which may vary in certain significant respects from US GAAP at December 31:

	2003	2004
<i>(in millions of Won, except capital ratios)</i>		
<b>Tier 1 capital</b>	7,681,419	8,076,519
<b>Tier 2 capital</b>	5,187,196	5,900,797
<b>Less : Investment in non-consolidated equity investees, etc.<sup>(1)</sup></b>	(369,072)	(642,785)
<b>Total risk-adjusted capital</b>	<b>12,499,543</b>	<b>13,334,531</b>
<b>Risk-Weighted Assets</b>		
On-balance sheet assets	122,054,092	115,969,225
Off-balance sheet assets	4,159,859	3,970,163
<b>Total risk-weighted assets</b>	<b>126,213,951</b>	<b>119,939,388</b>
<b>Total assets</b>	257,483,034	281,474,269
<b>Capital Adequacy Ratios (%)</b>		
Tier 1 capital ratio (%)	6.09	6.73
Tier 2 capital ratio (%)	4.11	4.92
<b>Capital adequacy ratio (%)</b>	<b>9.90</b>	<b>11.12</b>

- (1) Equity investees engaged in banking and financial activities of which the Bank owns more than 15% and subordinated notes from securitization are deducted from total capital, not deducted directly from Tier 1 and Tier 2 pursuant to the guidelines of the FSS.

Effectively January 1, 2002, in addition to the existing capital ratio calculations, all banks in Korea, with certain exceptions, are required to report to the FSS an alternative set of capital ratios, taking into account market risk from equity securities, foreign exchange and derivative instruments. The bank is subject to the new reporting requirements, which are covered under the same existing minimum capital adequacy ratios.

	December 31,	
	2003	2004
<i>(in millions of Won, except capital ratios)</i>		
<b>Tier 1 capital</b>	7,681,419	8,076,519
<b>Tier 2 capital<sup>(1)</sup></b>	4,818,124	5,258,012

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Total risk-adjusted capital	12,499,543	13,334,531
<b>Risk-Weighted Assets</b>		
Risk-weighted assets for credit risk	125,256,792	119,433,885
Risk-weighted assets for market risk	2,113,388	1,647,850
Total risk-weighted assets	127,370,180	121,081,735
<b>Total assets</b>	257,483,034	281,474,269
<b>Capital Adequacy Ratios (%)</b>		
Tier 1 capital ratio (%)	6.03	6.67
Tier 2 capital ratio (%)	3.78	4.34
Capital adequacy ratio (%)	9.81	11.01

- (1) Equity investees engaged in banking and financial activities of which the Bank owns more than 15% are deducted from directly Tier 2 pursuant to the guidelines of the FSS.

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The General Banking Act provides for a minimum paid-in capital of 100 billion Won for nationwide banks, such as the Bank, and 25 billion Won for regional banks.

**27. Income Taxes**

The components of income tax expense for the years ended December 31, 2002, 2003 and 2004 were as follows:

	<b>For the years ended December 31,</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>(in millions of Won)</i>			
National tax			
Current	583,007	158,880	179,874
Deferred	(40,000)	(492,567)	227,240
Total national income tax expense (benefit)	543,007	(333,687)	407,114
Local tax			
Current	58,301	15,888	17,987
Deferred	(4,000)	(49,257)	22,724
Total local income tax expense (benefit)	54,301	(33,369)	40,711
Total income tax expense (benefit)	597,308	(367,056)	447,825

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities and foreign currency translation. The tax effects of these items are recorded directly in stockholders' equity.

Taxes are calculated for each individual entity in the group. As a result, losses incurred by subsidiaries cannot be offset against profits earned by the parent company. Taxes on the operating profit differ from the theoretical amount that would arise at the statutory tax rate of the home country of the parent as follows:

	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>(in millions of Won)</i>			

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Income (loss) from continuing operations for the years ended December 31,	1,540,755	(1,366,229)	1,482,103
Statutory tax rates	29.7%	29.7%	29.7%
Prima facie tax calculated at a statutory tax rate	457,604	(405,770)	440,185
Income not assessable for tax purposes	(1,309)	(3,809)	(4,666)
Expenses not deductible for tax purposes	17,132	3,101	5,599
Taxation on outside basis	(110,888)	57,928	6,220
Adjustment for overseas tax rates	(162)	(5,158)	4,125
Change in statutory tax rate		30,655	12,784
Increase (decrease) in valuation allowance	238,878	(237,734)	(20,980)
Taxes for prior years		198,759	3,279
Others	(3,947)	(5,028)	1,279
Income tax expense (benefit)	597,308	(367,056)	447,825

Effective from January 1, 2005, the applicable statutory tax rate has been changed from 29.7% to 27.5%.

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The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets ( DTA ) and deferred income tax liabilities ( DTL ) at December 31, 2003 and 2004 are as follows:

	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>		
<b>Deferred income tax assets:</b>		
Allowance for loan losses	376,224	227,220
Allowance for guarantees and acceptances	16,878	64,667
Valuation of trading assets	21,001	
Investments	509,362	483,378
Premises and equipment	97,451	115,527
Long-term debt	27,067	17,291
Other temporary differences	125,730	119,509
Net operating loss	107,012	37,714
	<u>1,280,725</u>	<u>1,065,306</u>
Less: Valuation allowance	(142,710)	(121,730)
	<u>1,138,015</u>	<u>943,576</u>
<b>Deferred income tax liabilities:</b>		
Valuation of trading assets	13,775	2,117
Available-for-sale securities	31,247	52,437
Accrued interest and dividend receivable	146,039	125,277
Other assets		8,086
Other temporary differences	28,407	103,118
	<u>219,468</u>	<u>291,035</u>
Net deferred income tax assets, including other comprehensive income ( OCI ) related DTL	<u>918,547</u>	<u>652,541</u>
Less: OCI related DTL	(25,868)	(41,911)
Net deferred income tax assets, excluding OCI related DTL	<u>944,415</u>	<u>694,452</u>

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Management believes it is uncertain whether certain subsidiaries will generate sufficient profits to offset their tax losses in 2003 and 2004. Accordingly, a valuation allowance totaling 142,710 million Won and 121,730 million Won in 2003 and 2004, respectively, was recognized for deferred income tax assets related to net operating loss carryforwards ( NOLs ) and temporary differences that may not be realized.

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At December 31, 2004, the Bank including its subsidiaries had tax effect totaling 37,714 million Won from NOLs. These losses are expected to expire in the periods ranging from 2005 to 2009.

At December 31, 2004, the Bank utilized the NOLs totaling 276,496 million Won since the Bank generated sufficient profits to offset tax losses.

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The following table is a summary of the computation of earnings per share for the years ended December 31:

	2002	2003	2004
<i>(in millions of Won, except share data)</i>			
Net income (loss) from continuing operations	1,154,619	(947,036)	1,031,750
Income from discontinued operations, net of tax	97,122		
Net income (loss) available to common stockholders for basic EPS	1,251,741	(947,036)	1,031,750
Effect of dilutive securities	5,122		229
Net income (loss) available to common stockholders for diluted EPS	1,256,863	(947,036)	1,031,979
Weighted average common shares outstanding applicable to basic EPS (thousands)	317,787	326,000	306,432
Dilutive effect of convertible debentures	9,508		
Dilutive effect of stock options	812		218
Adjusted weighted average common shares outstanding applicable to diluted EPS (thousands)	328,107	326,000	306,650
Net income (loss) per common share basic:			
Net income (loss) from continuing operations	3,633	(2,905)	3,367
Income from discontinued operations, net of tax	306		
Basic net income (loss) per share	3,939	(2,905)	3,367
Net income (loss) per common share dilutive:			
Net income (loss) from continuing operations	3,535	(2,905)	3,365
Income from discontinued operations, net of tax	296		
Diluted net income (loss) per share	3,831	(2,905)	3,365

Notes:

- (1) Where the effect of convertible securities has been dilutive, net income available to common stockholders is adjusted by the applicable interest expense.
- (2) Stock options excluded from computation of diluted earnings per share due to their anti-dilutive effect totaled 652,000 and 2,048,554 and 2,155,131 in 2002, 2003 and 2004, respectively.

**29. Employee Severance Plan**

Employees with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rates of pay at the time of termination (the severance plan ). Under the Korean National Pension Fund Law, the Bank was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. Additionally, the Bank contributes voluntarily a certain percentage of employee severance benefits to a severance insurance deposit account ( Severance Insurance Deposit ) maintained for the benefit of employees at an insurance company. The Bank has no additional liability once the amount has been contributed, thus the Bank deducts contributions made to the National Pension Fund and the Severance Insurance Deposit from its accrued employee severance plan obligations. The compensation cost of employees' severance benefit is recognized based on the vested benefits to which the employees are entitled if they separate immediately.

Under limited circumstances, employees can withdraw their accumulated unpaid severance amounts before their termination of employment ( interim severance payment ). Severance plan payments include the

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amount for such withdrawal. Total interim severance payments made by the Bank were 2,688 million Won, 3,002 million Won and 12,401 million Won in 2002, 2003 and 2004, respectively.

In addition to regular termination benefits, the Bank paid special termination benefits of 48,775 million Won, 0 Won and 50,029 million Won to 470, 0 and 459 employees who accepted early retirement for the year ended December 31, 2002, 2003 and 2004, respectively.

The Bank accrued severance benefits of 113,780 million Won, 124,594 million Won and 123,723 million Won for the years ended December 31, 2002, 2003 and 2004, respectively.

Accrued employee severance plan obligations included in Other liabilities at December 31 are as follows:

	<u>2003</u>	<u>2004</u>
<i>(in millions of Won)</i>		
<b>Balance at beginning of the year</b>	150,756	241,076
Severance benefit	124,594	123,723
Special termination benefit		50,029
Plan payments	(34,274)	(87,589)
	<u>241,076</u>	<u>327,239</u>
Less: Balance of payments remaining with National Pension Fund and Severance Insurance Deposit	(167,888)	(197,948)
<b>Balance at end of the year</b>	<u>73,188</u>	<u>129,291</u>

The Bank expects to pay the following future benefits to its employees upon their normal retirement age of 58:

<i>(in millions of Won)</i>	
2005	
2006	42
2007	72
2008	636
2009	1,640
2010 - 2014	119,329

The above amounts have been determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Bank before their normal retirement age.

### **30. Employee Stock Option Plan**

#### **Stock-based compensation plan of Kookmin Bank**

In fiscal 2002, the Bank granted 652,000 options, of which (i) 490,000 and 30,000 options are performance based and has exercise price of 57,100 Won and 58,800 Won per option, respectively and (ii) 132,000 options are subject to service requirements and its exercise price is dependable to the bank industrial index, which do not fall below 57,100 Won per option.

In fiscal 2003, the Bank granted 350,000 options, of which (i) 180,000 and 30,000 options are performance based and has exercise price of 35,500 Won and 40,500 Won per option, respectively and (ii) 140,000 options are subject to service requirements and its exercise price is dependable to the bank industrial index, with a minimum exercise price of 35,500 Won per option. At the end of fiscal 2003, these 140,000 options had an evaluated exercise price of 42,200 Won per option. In addition to above, in fiscal 2003, the Bank granted 32,136 replacement options at a weighted-average exercise price of 89,432 Won per option to Kookmin Credit Card option holders in connection with the merger of Kookmin Credit Card with the Bank.



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In fiscal 2004, the Bank granted 815,000 options, of which (i) 85,000 and 10,000 options are performance based and has exercise price of 46,100 Won and 47,200 Won per option respectively and (ii) 700,000 and 20,000 options are subject to service requirements and its exercise price is dependable to the bank industrial index, with a minimum exercise price of 37,600 Won and 47,200 per option, respectively.

Generally, the options granted (a) are either subject to service requirements or performance based and (b) has either fixed exercise price or exercise price that is dependent upon bank industrial index. The options granted vest three years from the date of grant. However, if an employee resigns or ceases to be employed by the Bank prior to three years from the grant date, the options vest in proportion to the number of days service from the grant date. The exercise period ranges from 2 years to 7 years post completion of three-year vesting period.

For options granted under all the above plans, the Bank can choose to settle the vested stock options either by a) issuing new shares or b) payment treasury shares or c) allocating treasury shares or giving cash equivalent to the difference between the market price and exercise price. The market price is determined by the arithmetic average of the prices, which are calculated by the weighted average of every closing price for two months, one month and one week immediately preceding the exercise of the option, published by Korea Stock Exchange. Presently, the Bank intends to settle these options by issuing treasury shares.

The following table summarizes the information about stock options activity under the Bank's stock-based compensation plans for the years ended December 31, 2002, 2003 and 2004.

	2002		2003		2004	
	Number of Stock Options	Weighted average exercise price (Won)	Number of Stock Options	Weighted average exercise price (Won)	Number of Stock Options	Weighted average exercise price (Won)
Outstanding, beginning of year	1,919,666	29,087	1,941,231	43,540	2,048,554	43,910
Granted	652,000	57,178	382,136 <sup>(1)</sup>	42,516	815,000	38,840
Exercised	(530,108)	8,695	(91,283)	9,808	(135,414)	23,919
Forfeited	(100,327)	39,737	(183,530)	54,057	(196,086)	43,070
Outstanding, end of year	1,941,231	43,540	2,048,554	43,910	2,532,054	43,412
Exercisable at year-end	80,000	5,000	303,028	25,459	1,120,219	42,847

(1) Includes 32,136 replacement options at a weighted-average exercise price of 89,432 Won in relation to the merger of KCC

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The weighted-average fair value at grant date of options granted during the years ended December 31, 2002, 2003 and 2004 were 29,481 Won, 17,069 Won and 12,199 Won, respectively.

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The following table summarizes the information about stock options outstanding as at December 31, 2004:

Exercise Price (Won)	Options outstanding				Options exercisable	
	Number of Stock Options	Weighted Average Remaining Contractual Life <sup>(1)</sup>	Weighted Average Exercise Price	Weighted Average Fair Value at Grant Date	Number of Stock Options	Weighted Average Exercise Price
23,469	40,888	0.21	23,469	11,380	40,888	23,469
25,100	61,160	2.21	25,100	28,801	61,160	25,100
27,600	159,998	1.16	27,600	25,514	159,998	27,600
28,027	176,037	4.20	28,027	13,643	176,037	28,027
35,500	185,910	6.22	35,500	17,442		
37,600	700,000	7.84	37,600	11,718		
40,500	5,091	6.65	40,500	19,236		
42,200	10,053	6.22	42,200	16,124		
46,100	85,000	7.11	46,100	15,456		
47,200	30,000	7.23	47,200	14,199		
51,200	650,000	4.88	51,200	19,149	650,000	51,200
57,100	365,781	5.22	57,100	29,728		
58,800	30,000	5.57	58,800	24,375		
71,538	22,146	6.22	71,538	37,835	22,146	71,538
129,100	9,990	6.24	129,100	84,969	9,990	129,100

(1) Contractual life indicates the sum of service (vesting) period and exercisable period.

**Stock-based compensation plan of KCC**

Beginning fiscal 2001, KCC issued stock options to certain executive officers and directors under its stock-based compensation plans. In fiscal 2002 and 2003, KCC granted 286,000 and 135,000 options to purchase its stock at an exercise price of 57,160 Won and 46,100 Won per option. Of the options granted in fiscal 2002, 40,000 options were granted at an exercise price dependable to the stock index, beginning from 57,160 Won per option. In fiscal 2003, prior to the merger of KCC and the Bank, KCC cancelled most of the stock options due to the poor performance of the KCC, except 80,000 options that were replaced by the Bank's stock options upon the merger. As of September 30, 2003, the merger date between the Bank and KCC, the stock-based compensation plan of KCC was terminated.

Generally, the options granted were subject to service requirements and had either fixed exercise price or exercise price that is dependent upon the stock index. The options granted vested two to three years from the date of grant. However, if an employee resigns or ceases to be employed by the KCC prior to the vesting period, the options vested in proportion to the number of days service from the grant date. The exercise period

was 7 years post completion of the vesting period.

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The following table summarizes the information about stock options activity under KCC's stock-based compensation plans for the years ended December 31, 2002 and 2003.

	2002		2003	
	Options	Weighted average exercise price (Won)	Options	Weighted average exercise price (Won)
Outstanding, beginning of year	75,000	31,690	286,000	52,707
Granted	286,000	57,160	135,000	46,100
Exercised				
Forfeited/canceled	(75,000)	48,670	(341,000)	52,781
Options replaced upon merger with the Bank			(80,000)	41,241
Outstanding, end of year	286,000	52,707		

The weighted-average fair value at grant date of options granted during the years 2002 was 28,295 Won.

Pursuant to APB No. 25, KCC recognized no stock compensation expense for the years ended December 31, 2002 as the options granted these plans had an exercise price higher than the market value of the underlying shares on the measurement date.

Prior to January 1, 2003, the Bank accounted for stock-based employee compensation plans using the intrinsic-value in accordance with APB No. 25, and related Interpretations. The compensation expense was calculated by multiplying the number of shares under the option by the difference between the market value of the underlying shares on the measurement date and the exercise price. The compensation expense was recognized over the service (vesting) period. Alternatively, SFAS No. 123 allows entities to recognize stock compensation expense over the related service period based on fair value of the stock options at the grant date using option-pricing models. Refer to Note 1 for a further description of these accounting standards and a presentation of the effect net income and earnings per share had the Company applied SFAS No. 123 in accounting for the Bank's stock-based employee compensation plans. The fair values of stock options are based on the following weighted-average assumptions that were determined at the grant date.

<u>For options granted during</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Expected annual dividend yield	1.66%	1.81%	1.06%

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Expected volatility	53.17%	53.01%	43.94%
Risk-free interest rate	7.03%	4.96%	3.72%
Expected option life	5.5 years	5.5 years	5.5 years

### 31. Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value is based on quoted market prices, where available. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. As a result, the fair values of such instruments are derived using present value or other valuation techniques derived based on management's assumptions of the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, such estimates may not be indicative of net realizable value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Certain financial instruments and all non-financial instruments are excluded from the scope of SFAS No. 107, Disclosure about Fair Value of Financial Instruments (SFAS No. 107). Accordingly,