

2003 ANNUAL REPORT

Jump up CHB

*Beyond the Present
Beyond the Limit*

Jump up CHB

With integration into the Shinhan Financial Group, Chohung Bank has extended the range of its services and enhanced the competitiveness of its operations.

At a rejuvenated Chohung Bank, we are strengthening the loyalty of our customers and attracting a new generation of clients with our outstanding financial products and services, and our unmatched levels of customer satisfaction.

Now we are ready to leap ahead of the competition. Already, we are setting new standards in the domestic financial industry through the upgrade of every aspect of our business and the assurance of the highest quality service.

As the nation's oldest corporation, established in 1897, we have always sought to play a leading role in advancing Korea's financial industry by raising standards of professionalism and customer service. We are continuing that tradition today as we "**Jump Up**" to become a truly world-class financial services provider.

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Highlights of 2003



- Feb. 27 Chohung Vina Bank, a Vietnamese subsidiary of CHB, celebrated its 10th anniversary.
- Mar. 19 CHB launched its "Moment of Truth" quality management system to improve customer satisfaction.
- Apr. 29 Chohung Finance Museum was designated a Cultural Inheritance by the Ministry of Culture and Tourism.
- Jun. 28 CHB issued W272.6 billion of hybrid debt.
- Jul. 8 Chohung Bank received a presidential citation from the Ministry of Health and Welfare for its support of social welfare.
- Jul. 9 KDIC signed final contract for the sale of Chohung Bank stake to Shinhan Financial Group.
- Sept. 3 CHB commenced bancassurance business.
- Sept. 5 CHB became a subsidiary of Shinhan Financial Group.
- Nov. 6 Moody's raised its credit rating for CHB to Baa1.
- Dec. 26 CHB increased its paid-in capital by W200.0 billion through the issue of 40 million shares to Shinhan Financial Group.

Financial Data



	Millions of Korean Won		Thousands of U.S. Dollars ¹⁾
	2002	2003	2003
Consolidated Basis			
For the Year			
Total income	W 5,587,761	W 5,864,147	\$ 4,895,765
Total expenses	6,188,888	6,772,397	5,654,030
Loss before income taxes	(601,127)	(908,250)	(758,265)
Income tax expenses (benefits)	(16,569)	53,806	44,921
Net loss	(586,468)	(962,947)	(803,930)
At Year-End			
Loans	W 45,609,951	W 43,096,897	\$ 35,980,044
Securities	11,949,825	10,195,981	8,512,257
Total assets	67,270,429	60,601,599	50,594,088
Deposits	46,529,737	41,579,591	34,713,300
Total stockholders' equity	2,320,581	1,961,374	1,637,480
Financial Ratios (%)²⁾			
Return on Assets (ROA)	(0.97)%	(1.48)%	
Return on Shareholders' Equity (ROE)	(22.31)	(46.28)	
BIS Capital Ratio	8.66	8.87	

Notes: 1) The Korean Won amounts are translated into U.S. dollars solely for the convenience of the reader at the exchange rate of W1,197.80 to US\$1.00, the prevailing rate on December 31, 2003.

2) ROA and ROE calculations are based on non-consolidated data, while the BIS capital ratio is based on consolidated data.

Message from the President and CEO



An eventful 2003 saw us achieve safe passage to privatization and record an 18.7 percent jump in pre-provision income.

• Challenging Operating Environment

The year 2003 was one of challenge and change. An inauspicious start to the year foreshadowed war in Iraq, an outbreak of SARS, and nuclear crisis in North Korea, all of which deepened political and economic uncertainty. Nevertheless, the global economy continued its gradual emergence from three years in recession. It is yet unclear, however, to what extent the recovery has benefited the Korean economy. Consumer spending remained low, while the fallout from a major accounting fraud at SK Networks, liquidity crises at credit card companies and a steep rise in consumer debt all negatively affected business confidence.

• Privatization

Against that unfavorable background, the Bank faced a number of profound challenges, not the least of which was its privatization. Following the announcement of a plan to dispose of shares in publicly funded banks, in December 2002 the government named Shinhan Financial Group the preferred bidder in the sale of its stake in Chohung Bank. The two parties signed a final share purchase agreement on July 9, and the Bank became a subsidiary of Shinhan Financial Group on September 5, 2003, shortly after my appointment as CEO. Thanks to the efforts of senior management to bolster corporate ethos since the transition, the Bank is successfully progressing to the next phase of its evolution.

• Results for FY2003

Despite the difficult conditions in 2003, pre-provision income for the year rose an impressive 18.7% to W1,250.4 billion compared to W1,053.2 billion a year earlier, clearly indicating that our business fundamentals remain robust. However, in common with the domestic banking industry as a whole, losses from credit card and household loans affected performance, pushing our total provision for possible loan loss to W2,159.9 billion. As a result, we recorded a net loss of W966.0 billion in fiscal 2003 and ended the year with a BIS capital adequacy ratio of 8.87%. Nevertheless, we are confident that a reinforced financial structure and a greater return from our skill base will contribute to a return to profit in 2004.



Dong-Soo CHOI
President and Chief Executive Officer

- **Other Achievements in 2003**

We realized some notable achievements during 2003. Among the highlights of the year, we were honored to receive a presidential citation in recognition of our contributions to humanitarian aid and community activities. Moreover, as part of our ongoing commitment to promoting environmental protection, we sponsored our eleventh annual national photography competition.

- **The Market Outlook and Strategy for 2004**

The domestic financial market looks likely to remain unsettled in the year ahead, affected by a host of negative factors including rising consumer debt. There are also concerns that the full liberalization of market interest rates, along with fiercer competition, will have a noticeable impact on industry profitability.

- **“A New Start, A Powerful Take-off”**

With “A New Start, A Powerful Take-off” as our management goal for 2004, we intend to focus on reinforcing our financial base and profitability and enhancing management contribution through greater use of skills, responsibility, reward and accountability. To that end, we will push ahead with measures to strengthen risk management, capitalize on marketing synergy in partnership with Shinhan Financial Group affiliates, and maximize the effectiveness of our organizational structure.

Message from the President and CEO

We are determined to play a significant role in helping Shinhan Financial Group to achieve its goal of establishing a dominant market presence. Through close cooperation with the Group ahead of our eventual merger with Shinhan Bank, we are already laying the foundation for the creation of a "New Bank," which we are confident will reap the rewards of integration and emerge as leading domestic bank.

> [Priority on Strengthening Risk Management](#)

In order to strengthen our financial structure, we will seek to eliminate non-performing assets and tighten risk management. As an initial step, we will endeavor to reduce significantly delinquent credit card and retail loans. We will conduct thorough analyses of risk and profitability and incorporate these into our credit evaluation system.

> [Sales Synergy](#)

Synergy is perhaps the single biggest competitive advantage that membership of Shinhan Financial Group affords us. By maximizing fee-based income in both retail and corporate business through cross selling with Group affiliates, we expect "sales synergy" to become an important source of profit. We have already made progress in the retail sector with the launch in early 2004 of our FNA (Financial Network Account), which enables customers to make banking and stock transactions through one account. We are also able to offer the convenience of over-the-counter sales of a variety of products and services including bancassurance and beneficiary certificates. In the corporate sector, we intend to offer clients a comprehensive range of services in partnership with the Group's securities and capital companies.

> [Maximized Organizational Efficiency](#)

We are already enhancing productivity through greater organizational efficiency. In early 2004, we consolidated the competitiveness of our corporate banking business through restructuring. The creation of specialized branches for large corporate customers has enabled us to segment clients according to size and deliver services tailored to their individual needs.

In other measures to improve organizational efficiency, we are upgrading our business group systems and enhancing our employee skills base through recruitment and training. Moreover, we intend to foster an innovative corporate culture based on performance-based compensation. We are confident these steps will contribute to overcoming the challenges that we face in achieving our goals in 2004.

In 2004, we intend to reinforce our financial structure by enhancing risk management and develop new sources of fee income in partnership with Shinhan Financial Group affiliates.

- **Greater Value for Shareholders and Customers**

All of us at Chohung Bank stand united in our dedication to setting new standards of excellence and exceeding the expectations of customers and shareholders alike. We are striving to meet the needs of our customers for financial products and services and to provide greater value for our shareholders. In fiscal 2004, we are committed to improving profitability, meeting financial targets and realizing a marked improvement in performance.

I would like to express my sincere gratitude to our shareholders, customers and employees for their invaluable support and encouragement. I look forward to your continuing support and guidance in the year ahead.

Thank you.



Dong-Soo CHOI

President and Chief Executive Officer

Chohung Bank : A Member of Shinhan Financial Group



• Chohung Bank joins Shinhan Financial Group

On September 5, 2003, following the acquisition of the Korean government's entire stake in Chohung Bank by Shinhan Financial Group, the Bank became a subsidiary of the Shinhan Financial Group.

• The Vision of a New Bank

In order to maximize the benefits of synergy and avoid conflicts of interest, the Shinhan Financial Group intends to merge Chohung Bank and Shinhan Bank to create an entirely new model for banks in the domestic financial industry. Until the merger, the two banks will operate independently but in close cooperation. An integration committee will be established in the latter half of 2005 to finalize details of the merger.

• Direction in 2004

In 2004, efforts will be accelerated to establish "One Bank" based on the stable and efficient operation of the two banks. A platform will be laid for the creation of a "New Bank" that delivers high-quality products and services. As a subsidiary of the Shinhan Financial Group, the Bank will focus on the sales synergies afforded by group structure. It will expand cross-sales of products and services, establish a structure for effective cooperation, and share customers, sales channels, and infrastructures with Group affiliates.

• CHB Privatization Process

Feb. 8, 2002	Korean government announced plan for early privatization of publicly funded banks.
Sept. 23, 2002	Korea Deposit Insurance Corp. selected a lead-manager for the sale of CHB stake.
Dec. 6, 2002	Shinhan Financial Group and Cerberus Capital submitted bidding proposals.
Dec. 26, 2002	Shinhan Financial Group was named as preferred bidder .
Feb.-Apr. 2003	Shinhan RSM International conducted due diligence of CHB.
Jun. 19, 2003	Public Funds Oversight Committee approved the sale of Chohung Bank stake to SFG.
Jul. 9, 2003	Shinhan Financial Group and KDIC signed final Stock Purchase Agreement.
Aug. 19, 2003	Shinhan Financial Group acquired CHB shares held by KDIC.
Sept. 5, 2003	CHB became a member of Shinhan Financial Group.



As the newest member of the nation's second largest financial services group, Chohung Bank is harnessing group synergy to provide greater value for customers and shareholders.

• **Efforts for Integration**

Several bodies have been established to oversee and manage the creation of the "New Bank". The Joint Management Committee, led by the CEOs and CFOs of Shinhan Financial Group, Chohung Bank and Shinhan Bank, is the senior decision-making body for integration of the two banks. It devises management strategy, tasks and structure. The Committee has met monthly since September 2003.

The Joint Working Group was formed to propose and implement solutions for a variety of issues related to the integration. It convenes as required. In 2004, with the goal of realizing tangible results at the earliest date, the Joint Working Group aims to put into operation 56 'One Bank' initiatives.

Team-building programs have been set up to foster cooperation and open communication. In October 2003, a summit meeting was held at Seorabeol for executives and senior managers of the two banks. In addition, "Run Together 2004" team-building events for high-level employees were held in October and December 2003. Other initiatives to create an atmosphere encouraging mutual support are also being implemented, typified by joint corporate culture sessions held for employees from both banks.

Beyond the Present



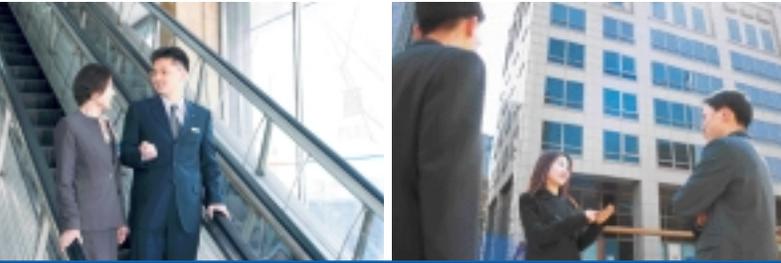
Service & Support:

Business and Performance

In a challenging year for the domestic banking industry, Chohung Bank concentrated on strengthening asset quality and establishing a strong foundation for profitable growth.

... In retail banking, the Bank strengthened its competitiveness through the introduction of new services including bancassurance sales. Meeting the financial needs of increasingly sophisticated consumers, CHB also found success in niche markets with the development of specialized products.

Business in 2003



*Jumping beyond the present
Jumping beyond the limit*

• Market Environment

The Korean economy showed signs of gradual recovery on the back of robust export growth in 2003, although domestic consumer spending remained stagnant. In the financial industry, competition among banks became increasingly fierce as the larger players vied for market dominance. The banking sector as a whole faced a deterioration of asset quality, primarily due to the economic slowdown and growing loan delinquencies in the retail sector. Adding to the woes, liquidity problems at credit card companies cast a cloud of uncertainty over the financial market.

Despite encountering some difficulties in the course of privatization, including a strike by employees, the Bank made notable progress in its efforts to strengthen the efficiency and quality of its operations. Above all, it remained dedicated to creating distinctive and differentiated products and services designed to ensure greater customer satisfaction. The Bank also worked diligently to prevent bad loans and reduce the number of delinquent accounts.

In 2004, CHB intends to increase cross-sales of investment trust and insurance products in partnership with affiliates of the Shinhan Financial Group. In addition, through the broadening of its customer database as a member of the Shinhan Financial Group, the Bank intends to develop new business portfolios.

• Retail Banking

Due to the previously mentioned problems in the domestic economy, along with increased competition and sustained low-interest rates, 2003 was a difficult year in the retail banking sector.

In response to the challenges of heightened competition, the Bank moved to fortify its marketing capabilities. In line with this objective, the Bank introduced professional account managers (Pro-AMs) and devised a comprehensive range of consulting programs tailored to meet the specific needs of individual customers. In July 2003, the Bank implemented its innovative Economic Mapping System (EMS), a scientific marketing tool

developed by CHB based on geographic information systems technology. By analyzing data provided by the system, the Bank is able to accurately assess potential customer profitability, develop and target-market products, and set appropriate performance targets for individual branches. In addition, the Bank launched an integrated quality management system to improve customer satisfaction. The system, the first of its kind in the industry, is based on the Moment of Truth quality management system, which analyzes each contact that customers make with a business. The new system integrates quality management across all of the Bank's increasingly diversified product and service delivery channels.

> [Customer Base and Consumer Business](#)

Backed by its reinforced management focused on customer satisfaction, the Bank's high net-worth customers (classified by income) grew by 2.2% to 877,000 in 2003 compared to the previous year. As a result, the proportion of high-net-worth customers to overall customers rose to 9.5% from 8.6%. Meanwhile, the number of affluent customers (classified by transaction volume) was up to 171,000 compared to 157,000 a year ago, representing an increase of 8.9%.

Won-denominated loans expanded by 2.4% year on year to W15,823.2 billion in 2003. Mortgage loans accounted for W6,923.1 billion, up 2.5% from the previous year. In July 2003, the Bank introduced long-term housing loans for apartment buyers. The loans are available for up to 60% of property market value and carry a maturity of between 10 and 30 years.

> [Credit Card Business](#)

Credit card business in 2003 was negatively affected by rising delinquencies, particularly among multiple debtors, shrinking charge volume, and lowered credit limits imposed on card companies.

In 2003, the number of CHB credit card holders declined by 24.9% over the previous year to around 3.2 million. Total card charge volume contracted by 31.2% to W20,574.5 billion compared to W29,906.9 billion year earlier. The decrease in both the number of cardholders and volume of charges reflected the Bank's efforts to reduce customers considered a credit risk and to lower the credit ceiling for multiple debtors. The domestic economic downturn also contributed to the results. Consequently, credit card operations posted negative annual growth of 15.9% in 2003, with revenue falling to W930.9 billion.

> [Bancassurance Business Launched in September 2003](#)

From September 2003, Korean banks were authorized to commence sales of bancassurance products. CHB established a Bancassurance Division with the aim of becoming a leading force in the market and diversifying its sources of fee-based income. At year-end 2003, the Bank offered 42 insurance products in alliance with six life insurers and four non-life insurers. Reflecting its priority on insurance policies with high-margin commissions, CHB ranked third in terms of sales of bancassurance products.

Business in 2003

> [e-banking](#)

Reflecting the rapid pace of Korea's online growth, e-banking activities continued to increase. CHB currently offers 310 types of electronic banking services to retail and corporate clients. In 2003, the Bank sought to strengthen the security of its Internet banking service by improving system safeguards. For example, when customers now log on to the CHB Internet banking site, an anti-hacking program is automatically activated.

As of year-end 2003, in excess of five million customers subscribed to CHB electronic banking services. Of the total, 2.3 million customers used Internet banking services, up 16.7% from a year earlier, while 2.7 million took advantage of phone banking, up 7.4%. Meanwhile, the number of users of e-FMS, a service provided to corporate clients, rose more than threefold to 24,843 in 2003 from 6,743 in 2002.

Consequently, the ratio of e-banking transactions to over-the-counter transactions continued to rise, up to 52.1% in 2003 from 41.7% in 2002 and 33.8% in 2001. This continuing channel shift from offline to online services enables the Bank to provide customers with a diverse range of quality services at competitive prices.

The Bank continued to set the pace in e-banking, providing both retail and corporate customers with a wide choice of convenient and secure online and mobile financial services.

> [Strategies for 2004](#)

The financial sector is expected to continue to experience instability due to persistent consumer loan delinquencies and the absence of an early recovery in domestic consumer spending. The Bank intends to guard against market fluctuations by promoting qualitative growth with strict risk management rather than quantitative expansion. It will push ahead with improvement of its risk management and VIP customer-oriented marketing initiatives and seek to reinforce the stability of its profit base through improved asset quality and strengthened customer relationships.

Accelerating reform of the financial market will inevitably erode the boundaries between financial institutions and increase competition. Faced with growing challenges, CHB will focus on increasing fee-based income and creating new revenue sources through cross selling with members of Shinhan Financial Group and on the development of innovative products.



• Corporate Banking

The year 2003 saw a worsening environment for corporate banking stemming from a continued business downturn and weak domestic consumption. Small and medium-sized businesses in particular, with the exception of a small minority that benefited from the recovery in export growth, suffered from sluggish demand.

The Bank concentrated on preventing deterioration of its asset quality. Initiatives undertaken included stepped-up risk management for corporate borrowers with below-average earnings and financial ratios, as well as implementation of comprehensive follow-up management. The Bank also launched a Business Plan, which identified 221 leading corporations with strong fundamentals, in order to promote its merchant banking and financial derivatives services and bolster fee based-income.

Won-denominated loans to the corporate sector rose slightly from W16,955.5 billion in 2002 to W17,018.3 billion in 2003 due to the expansion of loans to small and medium-sized enterprises (SMEs). Loans to SMEs amounted to W14,426.8 billion, up 9.2% over the previous year, while loans to large corporations fell by 30.7% to W2,591.5 billion in 2003. As a result, the proportion of loans extended to SMEs to total corporate loans rose to 84.8% in 2003 from 77.9% a year earlier.

In 2004, the Bank intends to implement risk management-oriented marketing, enhance its asset quality and post-loan management procedures, and strengthen its relationships with promising companies. It also plans to offer comprehensive services in partnership with the Group's securities and capital companies.

• Treasury and International Business

> [Treasury](#)

The overall low-interest-rate environment, credit crises such as the SK Global accounting fraud, and liquidity problems at credit card companies led to upward pressure on market interest rates in 2003. Interest rate volatility was greater than in previous years due to the above-mentioned issues and fluctuations in won-dollar exchange rates.

To secure long-term stable funds, Chohung Bank uses fixed and floating rate debentures and other advanced funding methods. In overseas funding, the Bank constantly explores the feasibility of raising funds in

Business in 2003

currencies other than U.S. dollars, such as the Japanese yen and the Euro. In addition, the Bank makes call loans and borrows call money in the short-term money market.

In 2003, the Bank's trade volume reached \$32,591 million, a year-on-year increase of 11.4%. Foreign exchange and remittance transactions dropped to \$4,405 million from \$6,482 million in the previous year. The Bank maintained its market leadership in won/dollar foreign exchange dealing, which rose to \$138.1 billion and equated to a market share of 10.6%.



In 2003, the Bank's foreign exchange expertise saw it maintain market leadership in won-dollar dealing.

> [Securities Investment and Trading](#)

The Bank's strategy focused on reducing risk in its securities investment portfolio in response to interest rate fluctuations, while following a policy of flexible management in accordance with market forecasts for trading securities. The Bank sought to maximize gains through the timely trading of short-term and long-term investment securities. It also implemented measures to enhance its derivatives trading expertise, develop innovative products, and explore new revenue sources.

The Bank's debt securities portfolio consists primarily of government-related bonds, finance debentures and corporate bonds. In making securities investments, the Bank takes into account factors including macroeconomic trends, industry analysis, and credit evaluation. The Bank's total investment in securities decreased from W11,072.6 billion to W9,208.3 billion at the end of 2003. Investment in trading securities rose by 13.6% to W1,124.6 billion, while available-for-sale securities and held-to-maturity securities shrank 20.0% to W7,884.8 billion in 2003.

Competition in the capital market has become fiercer as leading foreign investment banks battle to expand their presence in Korea. CHB intends to shore up both its profitability and its market leadership by sharply expanding its trading volume and improving its short-term fund management. The Bank is determined to establish a low-cost, high-profit revenue model based on cost-effective management of liquidity and market risks.

• **Trust Business**

The year 2003 was particularly difficult for trust business. The Bank experienced substantial withdrawals by trust account customers due to reduced rates of return, which were affected by the SK Networks accounting fraud and liquidity problems at credit card companies.

Trust products directly managed by the Bank in 2003 decreased by 23.6% from the previous year to W3,938.7 billion. Products cross-sold with investment trust companies were down 21.5%, to W1,827.5 billion. As a consequence, the share of products managed by CHB to total products sold in 2003 fell to 65.9%, while the share of other cross-sold products rose to 34.1%. During 2003, the Bank developed niche market products, such as the Little Economists' trusts, retirement fund trusts and asset-backed commercial paper, amounting to W145.7 billion.

In 2004, the Bank will focus on diversifying its trust business portfolio and training specialized managers for affluent customers in order to systemize services for high-net-worth clients. The Bank also plans to develop diversified products to strengthen its competitive edge and to reinforce risk management. This will enable it to establish a professional wealth management service, one of its targets for the year ahead.

• Merchant Banking

CHB, which acquired Hyundai Merchant Bank in 1999, has significant expertise in merchant banking, particularly in such areas as short-term financing on both deposit and lending sides, and investment banking, including financial services focused on niche markets where it has competitive strengths, such as ABS offerings and project financing.

The short-term financial market in 2003 remained bearish, adversely impacted by the liquidity crisis at credit card companies. Total merchant account assets in 2003 declined by 33.2% compared to a year earlier to W1,697.9 billion. Loans in merchant accounts also decreased by 32.2% from W1,882.5 billion to W1,276.8 billion whereas deposits were up 8.1% to W1,341.1 billion.

CHB put in an impressive performance in project financing as a result of aggressive marketing. In 2003, the Bank participated in 19 projects, including LBO projects, consulted on SOC financing, and negotiated and structured corporate financing. The Bank also provided comprehensive M&A services, ABS underwriting, and financial consulting. In addition, the Bank participated indirectly in the investment market for corporate restructuring companies through M&A funds and other functions.

The real estate market, meanwhile, was in a bullish mood in 2003, buoyed by the low-interest rate environment and significant investment in the construction of new apartments in major provincial cities. The Bank focused on the construction of apartment houses, as the sector carried relatively low risk. Financing for real estate development amounted to W214.1 billion, averaging between W10.0 billion and W30.0 billion per project.

In 2004, based on its expertise and experience gained in the merchant banking business, the Bank will seek new clients and develop a range of innovative financial products and services, while positioning itself to reap significant results in project financing, M&A and real estate development activities.

Beyond the Limit



Support & Partnership: *CHB & the Community*

With its long tradition of social contribution, Chohung Bank has become a valued partner to the communities that it serves. In 2003, the Bank continued to strengthen established relationships and forge new friendships.

... CHB employees participate in community activities that include volunteering at local welfare centers, collecting on behalf of charities, participating in environmental preservation initiatives, and competing in sporting events.

Contribution to Society



Chohung Bank has a long tradition of supporting worthy causes. Each year, it supports a variety of social and community activities in an effort to promote interaction between the Bank and the community, and fulfill its mission as a responsible corporate citizen. Its activities include raising funds for the underprivileged, providing scholarships for disadvantaged students, volunteering in environmental conservation programs, and promoting culture and sports. In recognition of its efforts, and of its support for a campaign sponsored by the Ministry of Health and Welfare and other organizations, in July 2003 the Bank was honored with a presidential citation.

- **Social Welfare**

- > [Support for Social Welfare Agencies](#)

The generosity of CHB employees, who donate monthly fixed amounts through deductions from their salaries, has enabled the Bank to make over 1,100 individual monetary donations to numerous voluntary organizations, including the Korea Welfare Foundation and Help the Aged Korea. In addition, the Bank responds in times of crisis by collecting donations for victims of natural disasters. Funds donated by CHB and its employees are used to send gifts to soldiers serving in front-line areas and to relieve the suffering of victims of typhoons, drought and other natural disasters.

- **Education**

- > [Scholarships and Economics Classes for Children](#)

Aiming to broaden educational opportunities for young people, each year CHB offers scholarships to students at home and abroad. The scholarship program focuses on underprivileged children who head their families, students at special schools for the disabled, and children of ethnic Koreans in China, Kazakhstan and Uzbekistan. Teaching aids and research funds are also donated to educational institutes. In Korea, the Bank also sponsors a tour program for rural students, who have the opportunity to visit educational centers and sites of historical value in Seoul.

In partnership with the Maeil Business News, CHB offers special classes in economics for young children, aimed at helping them develop a sound understanding of money and gain a basic knowledge of economics and finance.

- **CHB Museum of Finance**

The CHB Museum of Finance was established as part of the Bank's centenary celebrations in 1997. The museum, the first in its kind in the country, showcases the history and development of finance in Korea. The museum features over 2,500 exhibits, including rare personal financial documents dating from the Joseon Dynasty. In April 2003, it was designated a national Cultural Inheritance, with its exhibits to be electronically catalogued by the Ministry of Culture and Tourism. In February 2004, an online version of the museum was launched, enabling access to Korea's financial heritage over the Internet. During the summer vacation, Chohung Bank also holds Happy School economics classes for children at the museum.

In 2003, we were honored to receive a presidential citation for our contributions to the community.

- **Volunteerism**

The Bank's six regional headquarters and branches are in the vanguard of voluntary services for the underprivileged. Their activities include forming partnerships with local welfare facilities, which employees visit on a regular basis to help needy children. In 2003, CHB personnel inaugurated the Happy Messenger program, which enables them to participate in voluntary activities more effectively.





- **Environmental Awareness**

Keenly aware of the importance of protecting our natural environment, CHB employees are involved in a variety of conservation activities, including tagging and caring for woodland trees. In addition, the Bank has sponsored an annual photography competition and exhibition since 1994. The exhibition, which features work from amateurs and professionals, tours the country with the aim of spreading a nature-loving campaign and raising awareness of the environment.

We have a longstanding commitment to environmental awareness. In 2003, we organized the 11th CHB National Environmental Photography Contest.

- **Support for Culture & Sports**

- > [CHB Gallery](#)

The CHB Gallery, opened in commemoration of the Bank's centenary in 1997, provides free exhibition space to promising young artists in line with CHB's commitment to promoting the arts and culture. The gallery also aims to provide the Korean public with greater access to paintings.

- > [Athletics Teams](#)

As a part of its effort to promote sports for all, CHB sponsors a swim team and a track and field team. In addition, with the aim of promoting teamwork and self-esteem among its employees, the Bank has sponsored and participated in the Chosun Ilbo Chunchon Marathon since 1997. The Bank also extends financial support to various other sporting events, such as soccer matches and cycling events.

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Management's Discussion and Analysis

Table 1 - Selected Financial Data

	(Billions of Korean Won)				
	1999	2000	2001	2002	2003
Non-Consolidated Statements of Operations					
Interest income and dividends	W 3,173.0	W 4,012.2	W 3,962.5	W 3,849.8	W 3,815.1
Interest expenses	2,071.8	2,663.4	2,344.1	2,106.2	2,039.6
Net interest income	1,101.2	1,348.8	1,618.4	1,743.7	1,775.5
Provision for loan losses	1,658.0	852.3	751.3	1,542.9	2,159.9
Non-interest income	1,571.6	1,489.6	1,483.0	1,606.9	1,902.3
Non-interest expenses	1,709.1	1,899.1	2,013.7	2,418.8	2,433.6
Income (loss) before income taxes	(694.3)	104.6	336.4	(611.2)	(915.8)
Net income (loss)	(698.0)	101.1	522.5	(586.0)	(966.0)
Non-Consolidated Balance Sheets					
Loans	W 24,152.7	W 29,376.6	W 34,443.0	W 45,328.5	W 42,701.7
Allowance for loan losses	2,481.8	1,669.7	1,030.7	1,604.6	1,658.9
Securities	11,999.7	12,858.8	14,076.3	11,072.6	9,208.3
Total assets	43,430.7	50,331.5	56,026.3*	66,196.3	59,227.9
Deposits	27,621.1	34,392.9	38,922.1	45,125.8	40,030.1
Borrowings	8,945.0	7,327.8	7,429.7	6,843.7	5,711.9
Total liabilities	41,212.6	48,246.5	53,490.5	63,904.0	57,289.2
Total shareholders' equity	2,218.1	2,084.9	2,535.8	2,292.3	1,938.6
Per Share Data:					
Weighted average number of shares (mil)	463.7	679.1	653.8	673.6	679.8
Net income (loss) per share (Won)	W (1,505)	W 149	W 799	W (870)	W (1,421)
Dividends	-	-	-	-	-
Profitability Ratios (%):					
Return on assets	(1.69)%	0.21%	1.01%	(0.97)%	(1.48)%
Return on shareholders' equity	(24.72)	3.34	22.68	(22.31)	(46.28)
NIM	3.23	3.20	3.59	3.40	3.17
Korean Won	4.16	3.76	3.91	3.65	3.46
Foreign currencies	1.06	0.90	1.80	1.31	0.85
NIM (FSS standards)	3.26	3.18	3.57	3.36	3.04
Korean Won	4.10	3.75	3.81	3.59	3.29
Foreign currencies	1.43	0.96	2.23	1.35	0.98
Asset Quality Ratios (%):					
<i>- Based on FSS standards ¹⁾</i>					
NPL (substandard and below) ratio	16.54%	10.22%	3.28%	3.75%	4.82%
Precautionary and below ratio	24.98	15.72	9.18	7.59	8.81
Loan loss reserve/ NPLs	54.7	55.05	90.72	94.94	80.87
Loan loss reserve/ Total credit	9.0	5.62	2.98	3.56	3.9
<i>- Bank account only</i>					
NPL (substandard and below) ratio	16.0	10.10	3.25	3.55	4.38
Precautionary and below ratio	24.3	15.09	9.11	7.32	8.32
Loan loss reserve/ NPLs	58.7	54.72	92.61	98.12	86.64
Loan loss reserve/ Total credit	9.4	5.53	3.01	3.48	3.79
BIS Capital Ratio (%)²⁾					
Tier I	5.66	5.24	5.91	4.61	4.47

* Financial data were adjusted in line with changes in the accounting guidelines in 2002 except for accounting treatment of Banker's Usance. The Bank's balance sheet in 2001 was restated to reflect the changes. The balance sheets for 1999 and 2000 were based on the previous accounting treatment. Financial ratios before 2002 were based on the previous accounting treatment method except for NIM. NIM was adjusted according to the new FSS standards.

1) Including guarantees and acceptances on off-balance sheet items and trust accounts
2) Based on consolidated data

Overview

Basis of Presentation

The following financial statement analysis is based on non-consolidated financial statements for Chohung Bank (the Bank). Therefore, the Bank's results of operations should be read in conjunction with the audited non-consolidated financial statements and notes unless otherwise specified. The information with respect to the trust accounts is set forth separately in the section titled "Analysis of Trusts Accounts". All other financial information set forth below is presented on a non-consolidated basis unless otherwise specified.

Management's discussion and analysis may contain forward-looking statements that are provided to assist in the understanding of anticipated financial performance. Words such as "plans", "anticipates", "expects", "targeted", and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed in such statements.

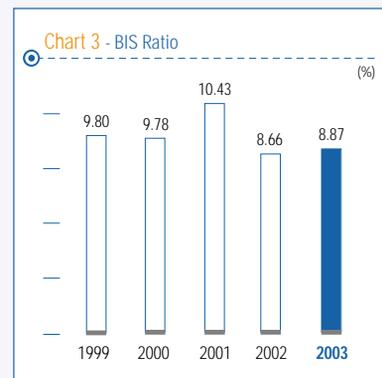
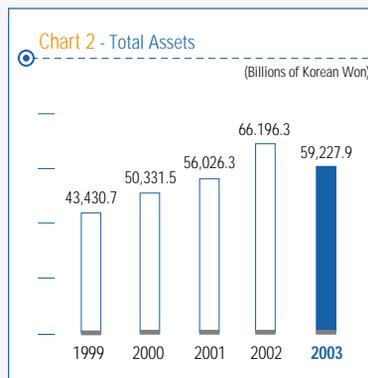
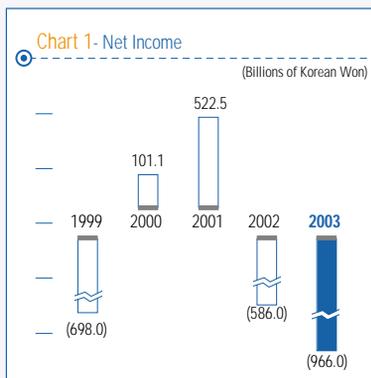
Business Highlights

In 2003, worldwide interest rates remained low as the global economy showed signs of moderate recovery. The global financial market was also on the rebound. Following the process of restructuring in the Korean financial industry, foreign and domestic financial institutions were involved in fierce competition to dominate the market. Sluggish domestic consumption, which stemmed primarily from weak business activity and a consumer credit crisis, factored into steep rises in credit card delinquencies and losses.

Despite the challenging business environment, Chohung Bank's pre-provision income rose by 18.7% to W1,250.4 billion compared to W1,053.2 billion in 2002, primarily due to an increase in interest income and a remarkable reduction in non-operating loss. However, rising losses from credit card and household loan delinquencies adversely impacted net income. The Bank incurred a net loss of W966.0 billion in 2003, following a net loss of W586.0 billion in the prior year.

The Bank's profitability ratios deteriorated, affected by the increase in net loss. ROA and ROE were (1.48)% and (46.28)% respectively in 2003. The NPL ratio also worsened by 1.07 percentage points to 4.82% in 2003 from 3.75% in the previous year, impacted by the stagnation of business activities and increased consumer loan delinquencies.

Despite a net loss, the Bank's BIS capital adequacy ratio in 2003 improved slightly to 8.87% from 8.66% a year earlier, driven by a capital increase with consideration, issuance of hybrid debt, and a contraction of risk-weighted assets.



Analysis of the Statements of Operations

Table 2 - Net Interest Income

	(Billions of Korean Won)	
	2002	2003
Interest on Loans	W 3,031.1	W 3,263.0
Interest on loans	2,246.4	2,554.7
Interest on credit card loans	546.2	457.3
Interest on bills bought in foreign currency	75.0	56.8
Interest on advances for customers	14.3	13.4
Interest on call loans	19.8	21.7
Interest on bills discounted	71.8	81.0
Other	57.6	78.1
Interest on due from banks	22.0	5.3
Interest and dividends on securities	759.4	520.1
Other interest income	37.4	26.6
Interest Income and Dividends	3,849.9	3,815.1
Interest on deposits	1,508.1	1,409.8
Interest on borrowings	254.3	170.9
Interest on debentures	264.3	386.9
Other interest expenses	79.4	72.0
Interest Expenses	2,106.2	2,039.6
Net Interest Income	W 1,743.7	W 1,775.5

Low-interest rates prevailed during 2003, although short-term interest rates showed an upward movement for some time following the SK Networks accounting scandal and liquidity crises at credit card companies.

Net interest income in 2003 grew W31.8 billion to W1,775.5 billion compared to W1,743.7 billion in the previous year. Total interest income was down 0.9% to W3,815.1 billion from W3,849.9 billion in 2002, while total interest expenses decreased 3.2% to W2,039.6 billion from W2,106.2 billion. In terms of currency denomination, net interest income denominated in local currency amounted to W1,723.7 billion, a gain of 3.1% over the previous year's W1,671.7 billion. Net interest income in foreign currencies, however, shrank to W51.8 billion in 2003 from W72.0 billion a year earlier.

Despite a decrease in interest income due to the low-interest rate environment, net interest income expanded, chiefly due to a contraction of interest expenses resulting from the Bank's low-cost funding structure.

Impacted by the unfavorable operating environment, net interest margin (NIM) was down 23 basis points from 3.40% in 2002 to 3.17% in 2003.

NIM based on FSS standards also declined from 3.36% to 3.04%. NIM in local currency shrank from 3.59% in 2002 to 3.29% in 2003, while NIM in foreign currencies decreased to 0.98% from 1.35%.

Net interest spread (NIS) based on FSS standards, which is the difference between average interest rates on average interest-earning assets and interest-bearing liabilities, was down 35 basis points to 2.87% in 2003 from 3.22% in the previous year.

The fall-off in net interest margin in 2003 was primarily the result of intense competition among financial institutions and steep rises in overdue loans. In 2004, the Bank intends to improve NIM by enhancing asset quality through stepped-up asset management and expansion of its low-cost funding sources.

Table 3 - NIM and NIS

	2002		2003	
NIM¹⁾	3.40	3.17		
Korean Won	3.65	3.46		
Foreign currencies	1.31	0.85		
NIM (FSS standards)^{1,2)}	3.36	3.04		
Korean Won	3.59	3.29		
Foreign currencies	1.35	0.98		
NIS (FSS standards)²⁾	3.22	2.87		

1) Net interest margin is computed by dividing net interest income by average interest-earning assets, calculated on a daily-average basis for the period. From December 31, 2002, interest income included income from credit card cash advances and card loans as interest on loans. Income from credit card purchases and installment payments, which was previously included in interest on loans, was classified as fees and commission.

2) From June 30, 2002, NIM based on FSS standards excludes income-related credit card purchases and installment payments from interest income and related assets from interest-earning assets, whereas it adds interest on demand deposits to interest expenses.

Chart 4 - Net Interest Margin vs Net Interest Spread based on FSS standards



Interest income

Table 4 - Average Interest-Earning Assets

(Billions of Korean Won)

	2002			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Loans	W 38,090.5	W 3,031.1	7.96%	W 45,119.5	W 3,263.0	7.23%
Won	33,622.3	2,862.0	8.51	39,755.2	3,135.3	7.89
Credit Card	3,510.2	546.2	15.56	3,077.4	457.3	14.86
Foreign currencies	4,468.3	169.1	3.78	5,364.3	127.7	2.38
Due from banks	560.7	22.0	3.93	251.4	5.3	2.10
Won	371.3	20.8	5.60	83.4	4.3	5.12
Foreign currencies	189.4	1.2	0.65	167.9	1.0	0.59
Securities	12,311.7	759.4	6.17	10,198.8	520.1	5.10
Won	11,730.7	728.7	6.21	9,847.2	511	5.19
Foreign currencies	581.1	30.7	5.28	351.6	9.2	2.61
Other*	358.2	37.4	-	376.0	26.6	-
Won	110.8	28.0	-	131.0	18.3	-
Foreign currencies	247.4	9.4	-	245.1	8.3	-
Total Interest- Earning Assets	W 51,321.1	W 3,849.9	7.50%	W 55,945.7	W 3,815.1	6.82%

* Including miscellaneous income recognized as interest income without being tied to the corresponding assets.

Total interest income in 2003 contracted W34.8 billion over the prior year to W3,815.1 billion, primarily due to the low interest trend and a 31.5% decrease in interest earned on securities. The Bank responded to this trend by placing particular focus on expansion of loans while moving to reduce the proportion of low-yielding accounts, such as due from banks.

Interest on loans in 2003 grew by 7.7% over the previous year to W3,263.0 billion compared with W3,031.1 billion in 2002, as a result of the growth of loans in local currency. The average balance of loans in local currency expanded to W39,755.2 billion, up 18.2% from a year earlier, buoyed by the growth of loans to household and SMEs. Although the average balance of loans increased exponentially, interest on loans increased by a relatively small margin, influenced by the low-interest rate trend worldwide and a rise in loan delinquency ratios. The overall average interest rate on loans in 2003 declined to 7.23% from 7.96%. Interest on credit cards declined by 16.3% from W546.2 billion in 2002 to W457.3 billion in 2003 as a result of a decrease in the average balance of credit card accounts. The drop of 12.3% to W3,077.4 billion in 2003 compared with W3,510.2 billion a year earlier reflected lowered credit ceilings on cash advances for overextended borrowers. The average balance of loans denominated in foreign currencies grew 20.1% in 2003 over the previous year to W5,364.3 billion, mainly due to a change in the

accounting regulations related to confirmed banker's usance transactions, which went into effect as of December 1, 2002. Confirmed banker's usance transactions previously accounted as "acceptance" in off-balance items were recorded as "domestic import usance bills" included with "loans in foreign currencies."

Table 5 - Credit Card Business

(Billions of Korean Won)

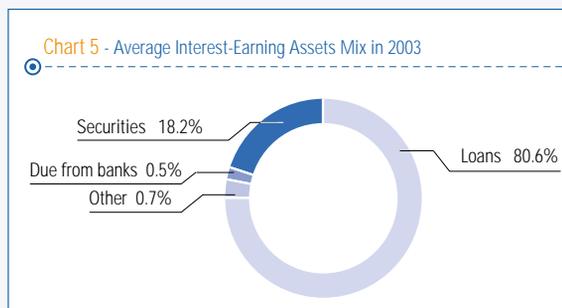
	2002	2003
Cardholders (in thousands)	4,266	3,205
Interest income on credit card	W 546.2	W 457.3
Net commissions from credit card	447.8	371.1
Total charge volume	29,906.9	20,574.5
Purchase charge volume	9,682.6	7,989.1
Cash advance	20,224.3	12,585.4
Credit card balance	5,898.5	3,698.7
Write-offs	430.3	1,360.3
Allowance for loan losses	465.7	378.5
NPL ratio (%)	8.85%	11.51%
Delinquency ratio (%)*	9.64	7.42

* Balance overdue for more than one month divided by credit card balance

Interest on securities in 2003 fell 31.5% to W520.1 billion from W759.4 billion in 2002, affected by the disposal of available-for-sale securities with high-interest rates. Reflecting this, average interest rates on securities declined to 5.10% in 2003 from 6.17% in 2002.

The average interest rate on average interest-earning assets slipped 0.68 percentage points to 6.82% in 2003 from 7.50%, influenced by the prevailing low interest rate trend and the rise in loan delinquencies. In terms of currency denomination, the average interest rate for Won-denominated assets was 7.36% in 2003, down from the previous year's 7.94%, while the average interest rate for foreign currency assets was 2.39%, down from 3.83% a year earlier. Average interest-earning assets in local currency rose 8.7% to W49,816.8 billion in 2003 from W45,835.0 billion, while average interest-earning assets in foreign currencies were also up 11.7% to W6,128.9 billion from W5,486.1 billion

in 2002, mainly thanks to the previously mentioned change in accounting rules related to confirmed banker's usance. As such, average interest-earning assets in local currency accounted for 89.0% in 2003, down slightly from 89.3% a year ago.



Interest expenses

Table 6 - Average Interest-Bearing Liabilities

(Billions of Korean Won)

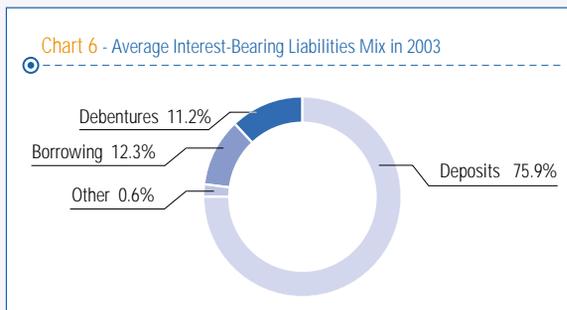
	2002			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Deposits	W 41,714.7	W 1,508.1	3.62%	W 43,869.9	W 1,409.8	3.21%
Won	40,208.9	1,483.80	3.69	42,526.2	1,397.6	3.29
Demand deposits	6,846.7	91	1.33	7,073.6	81.3	1.15
Saving deposits	10,091.8	173.5	1.72	9,937.4	125.1	1.26
Time deposits	17,579.1	938.0	5.34	19,173.3	909.6	4.74
Mutual installments	549.1	35.6	6.48	897.5	45.5	5.07
Certificates of deposits	3,211.4	161.4	5.03	3,151.2	145.5	4.62
Other	1,930.8	84.3	4.37	2,293.1	90.6	3.95
Foreign currencies	1,505.8	24.4	1.62	1,343.8	12.2	0.91
Borrowings	7,349.3	254.3	3.46	7,144.2	170.9	2.39
Won	4,319.6	188	4.35	3,235.1	125.8	3.89
Foreign currencies	3,029.7	66.3	2.19	3,909.1	45.1	1.15
Debentures	4,107.0	264.3	6.44	6,465.0	386.9	5.98
Won	3,311.7	218.2	6.59	5,831.1	350.6	6.01
Foreign currencies	795.3	46.1	5.79	633.9	36.3	5.72
Other*	308.4	79.4	-	353.9	72.0	-
Won	308.4	77.8	-	353.9	71.1	-
Foreign currencies	-	1.6	-	-	0.9	-
Total Interest-Bearing Liabilities	W 53,479.4	W 2,106.2	3.94%	W 57,833.0	W 2,039.6	3.53%

* Including miscellaneous expenses recognized as interest expenses without being tied to the corresponding liabilities.

Total interest expenses in 2003 fell 3.2% to W2,039.6 billion over the previous year, although average interest-bearing liabilities grew by 8.1% from W53,479.4 billion to W57,833.0 billion.

Interest expenses on deposits in 2003 were down 6.5% over the previous year to W1,409.8 billion whereas average balance of deposits grew 5.2% to W43,869.9 billion. Declines in market interest rates contributed to a substantial improvement in the funding cost ratio of deposits from 3.62% in 2002 to 3.21%. Low-cost deposits, including demand and savings deposits, increased slightly from W16,938.5 billion in 2002 to W17,011.0 billion in 2003.

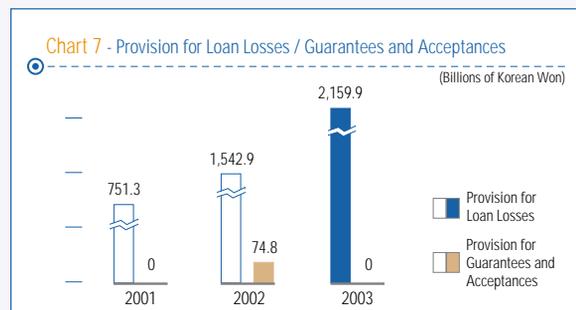
Interest expenses on borrowings decreased by 32.8% to W170.9 billion in 2003, while the funding cost ratio on borrowings improved by a substantial 1.07 percentage points from 3.46% in 2002 to 2.39% with the low interest rate movement. Average balance of borrowings decreased by 2.8% to W7,144.2 billion compared with W7,349.3 billion prior year, mainly due to the reduction of borrowings in local currency. Borrowing in local currency were down 25.1% year on year to W3,235.1 billion due to a decrease in the average volume of bonds sold under repurchase agreement, while borrowings in foreign currencies surged 29.0% to W3,909.1 billion resulting from the changes in accounting rules of banker's usance. Beginning in December 2002, confirmed banker's usance transactions previously accounted as "acceptance" in the off-balance item were recorded as "loans and borrowings in foreign currencies."



Interest expenses on debentures in 2003 stood at W386.9 billion, up 46.4% over the previous year, reflecting the 57.4% rise in the average balance of debentures. The funding cost ratio for debentures also dropped 46 basis points from 6.44% in 2002 to 5.98% thanks to declines in market interest rates and favorable primary market conditions.

The overall funding cost ratio, which is computed by dividing total interest expenses by average interest-bearing liabilities, fell to 3.53% in 2003 from 3.94%, an improvement of 41 basis points primarily attributable to the global trend in low interest rates. In terms of currency denomination, the funding cost ratio for local currency decreased to 3.74% from 4.09%, while the funding cost ratio for foreign currencies declined to 1.60% in 2003 from 2.60% a year before. Won-denominated funding in 2003 grew 7.9% year on year to W51,946.3 billion, while foreign currency funding amounted to W5,888.7 billion, a rise of 10.4% over the previous year. As a result, the proportion of local currency to total funding sources edged down to 89.8% in 2003 from 90.0% in 2003.

Provision for Loan Losses



Provisions for loan losses in 2003 grew exponentially by 40.0%, or W617.0 billion to W2,159.9 billion from W1,542.9 billion a year earlier. This was mainly the result of increased provisioning for consumer loans in special credit card sectors.

The Bank's provision for loan losses against credit cards significantly increased by 79.3% from W753.1 billion in 2002 to W1,350.0 billion, reflecting increased delinquencies in 2003. The level of write-offs within the credit card portfolio also soared 216.1% from W430.3 billion to W1,360.3 billion in 2003, affected by the higher levels of delinquency.

The provision for loan losses against consumer loans excluding credit cards increased by 134.3% from W187.4 billion to W439.0 billion in 2003, while allowances were up 66.7% from W242.5 billion to W404.2 billion primarily due to the rise in delinquencies and the size of the portfolio. The level of write-offs also rose 473.3% to W189.2 billion in 2003 compared to W33.0 billion a year earlier.

Provision for Guarantees and Acceptances

Provision for possible loss on confirmed guarantees and acceptances is reflected as other expenses under non-interest expenses. The Bank generally makes allowance for loans losses for confirmed guarantees and acceptances, except that, unlike loans, no allowance is made for confirmed guarantees and acceptances that are classified as "normal" or "precautionary". However, the Bank makes allowance of 2% to companies in workout that are classified as "precautionary". The Bank made no provision for guarantees and acceptance in 2003 compared with W74.8 billion in 2002 according to the decline in the volume of confirmed guarantees and acceptances and improved asset quality of confirmed guarantees to the former Sports TOTO resulting from the acquisition of the business by the Orion Consortium.

Non-interest income (loss) - net

Table 7 - Non-interest Income (loss)-net
(Billions of Korean Won)

	2002	2003
Fees and commissions	W 593.8	W 543.6
Credit cards	447.8	371.1
Guarantees	10.1	9.1
Other fees and commissions	135.9	163.4
Trading securities	24.3	4.6
Foreign currency trading	40.8	78.1
Derivative trading	42.2	(0.9)
Trust operations	(8.3)	47.2
Loss on sale of loans	(16.2)	(168.2)
Gain (Loss) on sale of available-for-sale securities	(8.3)	164.9
Impairment loss on available-for-sale securities	(448.0)	(213.6)
Other	(175.9)	(78.8)
Sub-total	44.4	376.9
General and administrative expenses	856.3	908.2
Total	W (811.9)	W (531.3)

Non-interest income, excluding general and administrative expenses, recorded a remarkable 748.9% rise in 2003 over the previous year to total W376.9 billion. This was mainly due to a large contraction in impairment losses on available-for-sale securities and a sharp increase in gains on sales of available-for-sale securities.

Fees and commissions, however, shrank 8.5% to W543.6 billion, primarily attributable to a fall-off in credit card fees. Fees from credit card business, which was adversely affected by sluggish private consumption and general business downturn, declined by 17.1% from W447.8 billion in 2002 to W371.1 billion in 2003. Purchase charge volume was likewise down 17.5% from W9,682.6 billion in 2002 to W7,989.1 billion.

Net gains from trading securities decreased from W24.3 billion a year ago to W4.6 billion in 2003 due to the contraction of valuation gain on trading securities. Net gain on valuation of trading securities decreased by W10.0 billion, resulting in a loss of W4.3 billion due to an increase in interest rate volatility affected by fluctuations in the exchange rate during the last month of the year 2003.

Net gains from foreign currency-related operations, such as foreign currency and derivatives trading, declined by 7.0% to W77.2 billion in 2003 compared with W83.0 billion in 2002.

Net gains from trust operations improved dramatically to W47.2 billion in 2003 from a loss of W8.3 billion in 2002. The net loss on trust operations in 2002 resulted from the loss incurred on the repurchase of Hanbo Steel exposures, which were sold to KAMCO on a recourse basis.

The loss on sales of loans swelled to W168.2 billion from W16.2 billion in the prior year mainly due to increased losses on sales of loans extended to multiple debtors. During 2003, the Bank sold multiple-debtor loans with an aggregate principal amounting to W536.4 billion and a book value of W368.2 billion.

Gains on sale of available-for-securities in 2003 improved markedly to W164.9 billion from a loss of W8.3 billion. Impairment loss on available-for-sale securities also improved, decreasing from W448.0 billion to W213.6 billion, including impairment losses on securities related to Ssangyong Cement of W158.9 billion and W17.5 billion for Ssangyong Corporation in 2003.

General and administrative expenses in 2003 grew 6.1% over the previous year to W908.2 billion due to a rise in depreciation on property.

Net Loss

Table 8 - Net Loss

	(Billions of Korean Won)	
	2002	2003
Net interest income	W 1,743.7	W 1,775.5
Provision for loan losses	1,542.9	2,159.9
Non-interest income (loss) - net	(811.9)	(531.3)
Loss before income tax	(611.1)	(915.8)
Income tax expenses (benefits)	(25.1)	50.2
Net Loss	W (586.0)	W (966.0)
Pre-provision income*	W 1,053.2	W 1,250.4
Provision for loan losses (less recovery)	1,541.3	2,156.5
Provision for G&A (less recovery)	74.8	(71.9)
Provision for other bad debts	15.4	48.6
Provision for severance benefits	32.8	33.0
Income tax expenses (benefits)	(25.1)	50.2
Net Loss	W (586.0)	W (966.0)

* Based on FSS reporting guidelines

Despite an improvement in its pre-provisioning income, the Bank's net loss in 2003 widened to W966.0 billion from W586.0 billion a year earlier, largely due to increased provision for loan losses against consumer credit, particular in the credit card sector.

Major Financial Indicators

Table 9 - Major Financial Indicators

	(Billions of Korean Won, %)	
	2002	2003
Return on average assets	(0.97)%	(1.48)%
Return on average equity	(22.31)	(46.28)
Per capita deposits	W 6.9	W 7.0
Per capita loans	4.5	5.6
Deposits per branch	98.8	89.4
Loans per branch	65.1	71.5

In 2003, the Bank's profitability ratios deteriorated, affected by its net loss. ROA and ROE were (1.48)% and (46.28)% respectively, down from (0.97)% and (22.31)% in the prior year. However, productivity ratios improved as a result of streamlined operations. Per capita deposits and loans rose to W7.0 billion and W5.6 billion in 2003 respectively, from W6.9 billion and W4.5 billion a year earlier.

Analysis of Financial Condition

Loans

Table 10 - Loans

	(Billions of Korean Won)	
	2002	2003
Loans in Won*	W 32,781.9	W 33,329.0
Loans in foreign currencies	3,480.7	3,165.3
Bills bought in foreign currencies	1,775.6	1,736.3
Advances for customers	79.7	75.0
Credit card accounts	5,898.5	3,698.7
Call loans	655.8	351.0
Privately placed bonds	185.2	355.8
Bills discounted	1,481.8	962.5
Cash management accounts	134.6	186.4
Financing lease receivables	182.6	126.4
Other	297.2	392.2
	46,953.6	44,378.6
Less: Allowance for loan losses	1,604.6	1,658.9
Present value discount	20.5	18.0
	W 45,328.5	W 42,701.7

* Including discounted commercial notes of W1,857.7 billion and W1,363.3 billion in 2002 and 2003, respectively.

In 2003, the balance of outstanding loans contracted 5.8% from the previous year to W42,701.7 billion, primarily attributable to a 37.3% drop in credit card loans.

Loans in local currency expanded W547.1 billion to W33,329.0 billion mainly due to the expansion of loans to small and medium-sized enterprises (SMEs). Breaking down the local currency loan portfolio by borrower type reveals that loans to SMEs rose whereas loans to large corporations shrank in proportion. Loans to SMEs amounted W14,426.8 billion, up 9.2% over W13,213.4 billion in the previous year. Loans to large corporations, however, fell 30.7% to W2,591.5 billion from W3,742.1 billion. As such, the proportion of loans to SMEs to total loans swelled to 43.3% in 2003 from 40.3% a year earlier, while that of loans to large corporations dipped to 7.8% from 11.4%. Consumer loans, maintaining a similar level, edging up 2.4% to W15,823.2 billion in 2003. Mortgage loans also expanded slightly to W6,923.1 billion in 2003 from W6,755.7 billion in the prior year. However, the rate of mortgage loan growth slowed, affected by strict government regulations on mortgages aimed at damping the overheating property market.

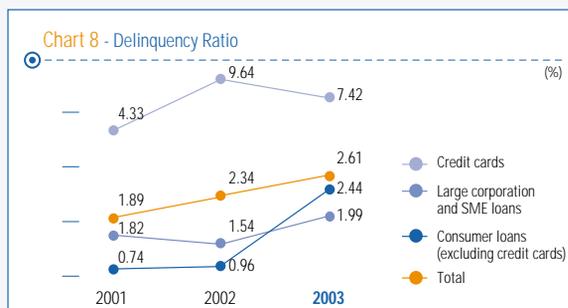
Credit card balance was down 37.3% or W2,199.8 billion over the prior year to W3,698.7 billion in 2003 reflecting the general business downturn and sluggish private spending. As a result, the proportion of consumer loans (loans in local currency extended to consumers and credit card balance) to total loans slipped to 45.7% in 2003 from 47.1% in 2002.

Table 11 - Loans in Won Portfolio by Type of Borrower
(Billions of Korean Won)

	2002		2003	
	W	%	W	%
Large corporations	3,742.1	11.4%	2,591.5	7.8%
Small and medium-sized enterprises	13,213.4	40.3	14,426.8	43.3
Public sector enterprises and other	369.9	1.1	487.5	1.4
Consumer	15,456.5	47.2	15,823.2	47.5
Mortgage loans	6,755.7	20.6	6,923.1	20.8
Total	W 32,781.9	100.0%	W 33,329.0	100.0%

The Bank's overall delinquency ratio, calculated as balance overdue for more than one month, rose to 2.61% from 2.34% in 2002 primarily due to a steep rise in consumer delinquencies including credit cards. Of note, the delinquency ratio of both consumer and corporate loans jumped from 0.96% and 1.54% in 2002 to 2.44% and 1.99% in 2003, respectively, due to stagnant business activities. However, the credit card delinquency ratio improved from 9.64% in 2002 to 7.42% in 2003, influenced by the large write-off of credit card accounts.

Collateral or credit support includes real estate, payment guarantees from other financial institutions, deposits and marketable securities. Cross-guarantees by affiliates of the borrower or officers or shareholders of the borrowers, and guarantees made by merchant banks are not considered as guaranteed.



* Balance overdue for more than one month divided by loan balance

Table 12 - Secured Loans by Collateral Type
(Billions of Korean Won)

	2002	2003
Real estate	W 12,448.3	W 12,573.2
Deposits	1,636.5	1,483.7
Securities	166.3	241.0
Guarantees*	2,049.3	2,004.4
Other	211.4	232.4
Secured Loans	16,511.8	16,534.7
Unsecured Loans	16,270.1	16,794.3
Total Loans in local currency	W 32,781.9	W 33,329.0

1) Includes certificates issued by Korean Credit Guarantee Fund, Korea Technology Credit Guarantee Fund, and Korea Housing Guarantee Co., Ltd.

The secured portion of loans in local currency increased slightly by W22.9 billion to W16,534.7 billion in 2003. However, the proportion of secured loans to total loans denominated in Won slipped to 49.6% in 2003 from 50.4%. Real estate accounted for 76.0% of total collateral, up from 75.4% in 2002.

With respect to real estate collateral, the Bank appraises the value of the underlying collateral by multiplying the average ratio of the value obtainable upon sale of such collateral in a court-administered auction (which is generally 20% to 30% below fair market value) by either the lowest fair market value or the appraisal value of such collateral, at the Bank's discretion. The Bank appraises the collateral value of real estate by multiplying its value at public auction (which averages 20% to 30% below fair market value) by either the lowest fair market value or the appraisal value of such collateral by property appraisal companies.

With respect to securities collateral, the Bank appraises the value of the underlying collateral at 70% of the closing price on the Korean Stock Exchange on the previous Friday and generally lends up to 90% of the resulting value of such securities collateral.

The value of the collateral is reassessed at any time when there is a concern of a significant drop in its value. The Bank requires certain borrowers whose collateral shows a significant drop in value to provide additional security (collateral or guarantees). When the Bank decides that the repayment of Bank loans is in doubt, it generally requires such borrowers to supply additional security (collateral or guarantees) or prepayment of a considerable portion of the Bank loans to the extent that such action is feasible.

Asset Classification

The Korean Financial Supervisory Commission (FSC) requires banks in Korea to analyze and classify their credit into one of five categories. In accordance with the Accounting Standards for the Banking Industry applied from 1999, the Bank classifies loans to corporate borrowers, whose credit limit, including that for securities, exceeds W10 billion, into ten categories according to repayment history and future debt repayment capability. Loans to other corporations and individuals are also classified into ten categories based only on repayment history. The loans are reclassified into five categories: normal (categories 1-6), precautionary (7), substandard (8), doubtful (9) and estimated loss (10). The criteria for the FSC guidelines are as set forth below:

- Normal - Sound credit exposure.
- Precautionary - Credit in arrears for more than one month and less than 3 months or credit extended to customers judged to have potential risk with respect to their capability to repay.
- Substandard - (i) The secured portion of total credit that is in arrears for more than 3 months (ii) Credit extended to customers judged to have incurred considerable risk of default in repayment as their capability to repay has deteriorated.
- Doubtful - The unsecured portion of credit more than 3 months but less than twelve months overdue, or credit extended to customers judged to have incurred serious risk of default in repayment due to a noticeable deterioration in their capability to repay.
- Estimated Loss - The unsecured portion of credit that is in arrears for twelve months or more, or credit extended to customers judged to have to be accounted as lost, as the inability to repay is certain.

In 2002, the FSS increased the minimum-reserve requirement ratio for retail loans and credit card balance, which previously had the same requirement ratios as corporate loans, while the ratio for corporate loans was unchanged. The details of the minimum-reserve requirement by loan type are as follows:

Table 13- Minimum Reserve Requirements

	Corporate	Retail	Credit Card
Normal	0.5% or more	0.75% or more	1% or more
Precautionary	2% or more	8% or more	12% or more
Substandard	20% or more	20% or more	20% or more
Doubtful	50% or more	55% or more	60% or more
Estimated loss	100%	100%	100%

For more detailed information on the calculation of minimum allowance for loan losses, see "Notes 2 - Allowance for possible loan losses and other losses" in "Notes to the non-consolidated financial statements".

In bank accounts, the NPL (non-performing loan) ratio rose 0.83 percentage points in 2003 to 4.38% compared to the prior year, primarily impacted by rising loan delinquencies in the credit card and household sectors. The ratio of loans classified as precautionary & below also worsened to 8.32% in 2003 from 7.32% in the previous year. The Bank reduced its non-performing loans through write-offs of W1,780.6 billion and sales of multiple-debtor loans at a book value of W368.2 billion (aggregate principal of W536.4 billion) for the year 2003.

In Korea, the general terms "total credit" and "NPL ratio," mean those conforming to FSS reporting standards. The FSS reporting standards include on-balance items in bank accounts, confirmed guarantees and acceptances in off-balance items as well as trust account credits. In 2003, the Bank's total NPL ratio including trust accounts and confirmed guarantees worsened to 4.82% from the previous year's 3.75%. Of particular note, NPL ratio in trust accounts surged from 3.59% in 2002 to 61.19% in 2003 as a result of changes in FSS guidelines for the classification of assets in trust accounts. Under the revised guidelines, from 2003 classification of trust account assets included only credit extended on principle or return-guaranteed trust accounts whereas previously credit extended on guaranteed and non-guaranteed trust accounts were included.

The Bank has installed various types of infrastructures to raise its asset quality level to that prevailing in leading foreign banks. In 2004, the Bank will focus on risk management designed to minimize delinquent loans by further improving credit quality.

Table 14 - Asset Classification based on FSS Standards

(Billions of Korean Won)

	2002				2003			
	Bank a/c ¹⁾	G&A ²⁾	Trust a/c ³⁾	Total ⁴⁾	Bank a/c ¹⁾	G&A ²⁾	Trust a/c ³⁾	Total ⁴⁾
Normal	W 42,717.4	W 960.4	W 1,869.0	W 45,546.8	W 40,103.9	W 786.5	W 44.3	W 40,934.7
Precautionary	1,740.4	134.2	17	1,891.6	1,723.0	50.3	16.2	1,789.5
Substandard (a)	407.7	2.2	67.6	477.5	692.7	153.7	94.8	941.2
Doubtful (b)	1,009.4	140.1	0.9	1,150.4	814.6	1.9	0.1	816.6
Estimated loss (c)	218.2	0.7	1.8	220.7	407.3	-	0.5	407.8
Total credit	W 46,093.1	W 1,237.6	W 1,956.3	W 49,287.0	W 43,741.5	W 992.4	W 155.9	W 44,889.8
NPLs (a+b+c)	W 1,635.3	W 143.0	W 70.3	W 1,848.6	W 1,914.6	W 155.6	W 95.4	W 2,165.6
Precautionary and below	3,375.7	277.2	87.3	3,740.2	3,637.6	205.9	111.6	3,955.1
Loan loss reserve	W 1,604.6	W 125.9	W 24.6	W 1,755.1	W 1,658.9	W 54.0	W 38.4	W 1,751.3
Asset Quality Ratios:								
NPL ratio	3.55%	11.55%	3.59%	3.75%	4.38%	15.68%	61.19%	4.82%
Precautionary & below ratio	7.32	22.40	4.46	7.59	8.32	20.75	71.58	8.81
Coverage Ratios:								
Loan loss reserve/ NPLs	98.12%	88.04%	34.99%	94.94%	86.64%	34.70%	40.25%	80.87%
Loan loss reserve/ Total credit	3.48	10.17	1.26	3.56	3.79	5.44	24.63	3.90

* This classification of the Bank's credit exposure is based on current FSS standards, in which amounts are net of present value discounts.

1) "Loans" of W42,701.7 billion appearing on non-consolidated balance sheets in 2003 included W294.4 billion of inter-bank loans and W351.0 billion of call loans, and excluded W1,658.9 billion of allowance for loan losses, W24.5 billion of accounts receivables and suspense receivables that have credit attribution and are subject to asset classification, and W1.8 billion present value discounts with respect to sundry receivables that are not included in total credit for FSS reporting purposes. "Loans" of W45,328.5 billion appearing on non-consolidated balance sheets in 2002 included W189.5 billion of inter-bank loans and W655.8 billion of call loans, and excluded W1,604.6 billion of allowance for loan losses, W3.3 billion of accounts receivables and suspense receivables that have credit attribution and are subject to asset classification, and W2.1 billion present value discounts with respect to sundry receivables that are not included in total credit for FSS reporting purposes.

2) Includes confirmed guarantees and acceptance in off-balance sheet items, which consist of guarantees and acceptances relating to various payments, note issuances and trade-related guarantees.

3) Credit extended from guaranteed and non-guaranteed trust accounts in 2002; credit extended from principle or return-guaranteed trust accounts in 2003.

Allowance for Loan Losses

The allowance for loan losses in bank accounts expanded by W54.3 billion in 2003 over the prior year to W1,658.9 billion. The allowance for loan losses as a percentage of total non-performing bank account credits dipped to 86.64% in 2003 from 98.12% in 2002. Moreover, the allowance for loan losses as a percentage of total bank account credit increased by 0.31 percentage points to 3.79% in 2003 from 3.48% a year earlier.

In 2003, provision for loan losses and write-offs rose significantly from W1,542.9 billion and W907.1 billion in 2002 to W2,159.9 billion and W1,780.6 billion in 2003 respectively. This was mainly due to the deterioration of asset quality in the consumer sector. For more detailed information, refer to "Provision for Loan Losses" in Management's Discussions & Analysis.

Table 15 - Allowance for Loan Losses

(Billions of Korean Won)

	2002	2003
Balance at beginning of year	W 1,030.7	W 1,604.6
Provision for loan losses	1,542.9	2,159.9
Write-offs	(907.1)	(1,780.6)
Other changes*	(61.9)	(325.0)
Balance at end of year	W 1,604.6	W 1,658.9

* Includes changes in allowances resulting from debt restructuring, debt relief and foreign exchange rate effect.

As of the end of 2003, the Bank's allowance for losses against total credit amounted to W1,751.3 billion, including W38.4 billion for trust account credit and W54.0 billion for confirmed guarantees and acceptances. The total represents a slight decrease of W3.8 billion over the prior year. The overall coverage ratio, the allowance for loan losses as a percentage of total credit, improved 0.34 percentage points to 3.90% in 2003 from 3.56% in 2002.

Securities

Table 16 - Securities Portfolio
(Billions of Korean Won)

	2002		2003	
Trading securities	W 990.2	9.0%	W 1,124.6	12.2%
Available-for-sale securities	2,684.8	24.2	7,884.8	85.6
Held-to-maturity securities	7,166.0	64.7	-	-
Investment equity securities accounted for using the equity method	231.6	2.1	198.9	2.2
	W 11,072.6	100.0%	W 9,208.3	100.0%

Chohung Bank's investments in debt securities include primarily government-related bonds and corporate bonds, which are guaranteed by banks, government-related funds, or privately capitalized funds that Chohung Bank considers to have a low credit risk.

Securities investments in 2003 were down 16.8% over the prior year to W9,208.3 billion. Investment in trading securities was up 13.6% year on year to W1,124.6 billion. Available for-sale-securities increased from W2,684.8 billion to W7,884.8 billion in 2003 due to the reclassification of securities. In 2003, the Bank reclassified the entire amount of its held-to-maturity securities as available-for-sale securities. For more detailed information, see "Notes 2 - (5) Reclassification of securities in Valuation of Securities" in "Notes to the non-consolidated financial statements".

Government bonds, including available-for-sale securities and held-to-maturity securities, both denominated in local currency, amounted to W1,385.4 billion, down 20.1% over the previous year. Financial debentures stood at W1,588.0 billion, an increase of 4.7%, while corporate bonds plunged 28.4% to W4,027.1 billion in 2003 from

W5,625.3 billion a year ago. This resulted in a slippage in the portion of corporate bonds to total debt securities from 63.4% to 57.5% in 2003, while that of financial debentures rose from 17.1% to 22.7%.

Investments in securities denominated in foreign currencies are subject to certain limits and restrictions specified in Chohung Bank's internal guidelines relating to country, issuer and type of security exposure, and total investments by a branch. Investment securities in foreign currencies, including available-for-sale securities and held-to-maturity securities, dwindled to W63.6 billion in 2003 from W251.9 billion a year ago.

Funding

Table 17 - Funding
(Billions of Korean Won)

	2002		2003	
Deposits	W 45,125.8	70.6%	W 40,030.1	69.9%
Won	43,930.5	68.7	38,781.6	67.7
Foreign currencies	1,195.3	1.9	1,248.5	2.2
Borrowings	6,843.7	10.7	5,711.9	10.0
Won	2,476.5	3.9	1,961.6	3.4
Foreign currencies	4,367.2	6.8	3,750.3	6.6
Debentures	5,672.4	8.9	6,424.2	11.2
Won	5,026.4	7.9	5,799.4	10.1
Foreign currencies	646.0	1.0	624.8	1.1
Other	6,262.1	9.8	5,123.0	8.9
Won	6,204.2	9.7	5,069.8	8.8
Foreign currencies	57.9	0.1	53.2	0.1
	W 63,904.0	100.0%	W 57,289.2	100.0%

At 2003 year-end, customer deposits accounted for 69.9% of the Bank's total funding, down 0.7 percentage points over the prior year. Deposits in local currency in 2003 fell 11.7% year on year to W38,781.6 billion. Low-cost deposits, including demand deposits and savings deposits, totaled W17,192.8 billion, representing 44.3% of total deposits in local currency in 2003 and an increase on the prior year's 39.7%.

Table 18 - Breakdown of Customer Deposits

(Billions of Korean Won)

	1999	2000	2001	2002	2003
Total Deposits in Won (A)	W 25,997.5	W 32,726.4	W 37,064.3	W 43,930.5	W 38,781.6
Deposits in Won	23,289.9	29,817.7	33,276.2	38,538.3	35,540.3
Low cost deposits (B=a+b)	12,520.4	14,011.6	17,044.9	17,447.1	17,192.8
Demand deposits (a)	6,051.5	5,968.6	7,158.2	7,845.9	7,836.9
Savings deposits (b)	6,468.9	8,043.0	9,886.7	9,601.2	9,355.9
Time deposits	10,169.8	15,245.6	15,745.1	20,411.7	17,463.3
Mutual installment deposits	599.7	560.5	486.2	679.5	884.2
CDs	2,003.5	1,452.1	2,320.5	4,151.9	1,900.2
Others	704.1	1,456.6	1,467.6	1,240.4	1,341.1
Low-cost deposit ratio (B/A)	48.2%	42.8%	46.0%	39.7%	44.3%
Deposits in foreign currencies	1,623.6	1,666.5	1,857.8	1,195.3	1,248.5
Total Deposits on B/S	W 27,621.1	W 34,392.9	W 38,922.1	W 45,125.8	W 40,030.1
RP	W 893.7	W 1,342.9	W 1,817.0	W 995.3	W 1,221.9
Bills sold	551.4	699.0	492.7	900.5	45.8

* RP and Bills sold were classified as borrowings based on current Korean GAAP

Funding from borrowings in 2003 was down 16.5% over the prior year to W5,711.9 billion. As a result, the proportion of funding from borrowings to total funding slipped to 10.0% from 10.7%, mainly due to a reduction in borrowings in local currency. Borrowing in foreign currencies also decreased from W4,367.2 billion in 2002 to W3,750.3 billion 2003, largely influenced by the reduction of poorly performing foreign currency assets.

The Bank's debentures outstanding at 2003 year-end jumped 13.3% over the prior year to W6,424.2 billion, backed by growth of Won-denominated debentures. The growth stemmed mainly from favorable primary market conditions, in which the trend for debenture interest rates was downward, and the need to observe the minimum liquidity ratio required by the FSS.

Shareholders' Equity

Total shareholders' equity as of December 31, 2003, amounted to W1,938.6 billion, 15.4% lower than the previous year. The reduction was principally due to a rise in accumulated deficits resulting from the net loss of W966.0 billion in 2003. To enhance its capital strength, in

December 2003 the Bank increased its paid-in capital by W200.0 billion through the third-party allotment issuance of 40,000,000 common shares offered at W5,000 per share to Shinhan Financial Group. As a result, the Bank's paid-in capital rose to W3,595.6 billion in 2003 from W3,395.6 billion a year earlier. Shinhan Financial Group became the Bank's majority shareholder on August 19, 2003 with the acquisition of 80.04% of its shares from KDIC. As a result of participation of the capital increase with consideration, at the end of 2003 Shinhan Financial Group held 81.15% of the Bank's shares.

The Bank's capital adjustments accounts improved significantly from W(182.6) billion in 2002 to W228.9 billion in 2003, mainly due to the rise in valuation gains on available-for-sale securities, which derived from the reclassification of held-to-maturity securities as available-for-sale securities. Valuation gains on available-for-sale securities in 2003 increased from a loss of W208.4 billion in 2002 to gains of W204.2 billion. For more detailed information, see "Notes 2 - (5) Reclassification of securities in Valuation of Securities" in "Notes to the non-consolidated financial statements".

Capital Adequacy (Consolidated basis)

Table 19 - Capital Adequacy Ratio

	(Billions of Korean Won)	
	2002	2003
Paid-in capital	W 3,395.6	W 3,595.6
Capital surplus	-	-
Retained earnings	(883.9)	(1,854.5)
Hybrid debt	-	234.9
Other	(538.6)	(175.1)
Tier 1 Capital	1,973.1	1,800.9
Allowance for loan losses	520.4	516.6
Valuation gain on available-for-sale securities	-	92.2
Upper tier 2 subordinated debt	236.0	235.4
Subordinated debt	986.5	900.5
Hybrid debt	-	37.7
Tier 2 Capital	1,742.9	1,782.4
Consolidation to unconsolidated subsidiaries (-)	(7.2)	(10.9)
Total Qualifying Capital	W 3,708.8	W 3,572.4
Balance sheet assets	W 41,273.3	W 38,921.5
Off-balance sheet assets	1,567.6	1,339.4
Total Risk-Weighted Assets	W 42,840.9	W 40,260.9
BIS Capital Ratio (%)	8.66%	8.87%
Tier 1 capital ratio	4.61	4.47

Capital strength for Korean banks is regulated pursuant to guidelines issued by the Financial Supervisory Committee based on standards issued by the Bank for International Settlements (BIS). The FSC regulates capital ratios on a consolidated basis. Therefore, capital ratios should be read in conjunction with the audited consolidated financial statements.

Capital adequacy is measured by risk-weighted capital ratios, calculated by dividing Tier 1 and Tier 2 capital (less any capital deductions) by risk-weighted assets. Tier 1 capital is core capital, which is the sum of paid-in capital, capital surplus, retained earnings and minority interests on a consolidated basis. Tier 2 capital is supplementary capital (up to a maximum of 100% of Tier 1 capital), including allowances for loan losses for credit classified as normal or precautionary up to 1.25% of total risk-weighted assets and subordinated debt with an initial maturity of at

least five years. Risk-weighted assets are the sum of risk-weighted assets on the balance sheet and other risk-weighted assets off the balance sheet multiplied by the applicable credit translation rate provided in the FSC guidelines. Beginning in 2002, the FSC adopted revisions for calculating capital adequacy ratio outlined by the BIS, which take into account market risks relating to trading assets. Risk weights for such assets were calculated in accordance with a formula based on market risk.

Moreover, in November 2002, the FSC increased the risk weights for consumer loans secured by housing to 60%-70% from 50% in cases where loans are in arrears or the borrowers' debt-to-equity ratio is over 250%. The revised guidelines applied to newly extended mortgage loans starting from November 13, 2002.

In spite of the contraction of total qualifying capital, the Bank's BIS capital adequacy ratio at the end of 2003 rose 0.21 percentage points over a year earlier to 8.87%, mainly influenced by the reduction of risk-weighted assets. Total qualifying capital contracted by 3.7% from W3,708.8 billion to W3,572.4 billion in 2003, while risk-weighted assets decreased from W42,840.9 billion to W40,260.9 billion.

Tier 1 capital decreased by 8.7% from W1,973.1 billion to W1,800.9 billion in 2003, mainly due to a net loss of W962.9 billion on a consolidated basis, despite a capital increase with consideration of W200.0 billion and the issuance of hybrid debt of W272.6 billion during 2003. Hybrid debt is recognized as Tier 1 capital only up to 15% of Tier 1 capital excluding Hybrid debt. The excess portion of Hybrid debt is included in Tier 2 capital. The Tier 1 ratio also slipped to 4.47% in 2003 from 4.61% a year ago. Tier 2 capital rose slightly to W1,782.4 billion from W1,742.9 billion resulting from an increase in valuation gains on available-for-sale securities, despite a reduction in qualified subordinated debt. Subordinated debt is recognized as Tier 2 capital only up to 50% of Tier 1 capital.

Total risk-weighted assets in 2003 amounted to W40,260.9 billion, down 6.0% from a year earlier. Of these, on-balance assets contracted to W38,921.5 billion from W41,273.3 billion mainly due to a decrease in credit card charge volume and a rise in charge-offs of credit card accounts. Off-balance assets also dipped 14.6% year on year from W1,567.6 billion to W1,339.4 billion in 2003.

Analysis of Trust Accounts

Table 20 - Schedule of Trust Assets and Liabilities
(Billions of Korean Won)

	2002	2003
Assets		
Loans and discounts	W 170.5	W 150.4
Call loans	241.0	180.0
Securities	4,723.9	3,745.5
Loans to bank accounts	285.4	77.4
Other	136.4	147.1
Allowance for valuation of receivables	(24.6)	(38.4)
	W 5,532.6	W 4,262.0
Liabilities		
Money trusts	W 5,154.7	W 3,938.7
Property in trusts	62.8	102.4
Borrowings	145.4	80.4
Special reserve	20.8	25.1
Other	148.9	115.4
	W 5,532.6	W 4,262.0

Under Korean law, assets held in trust by a bank are segregated from its other assets and are not available to satisfy the claims of depositors or other creditors of the bank. Accordingly, trust accounts are accounted for and reported separately from bank accounts.

Trust assets as of the end of 2003 amounted to W4,262.0 billion, down 23.0% from the previous year. Securities investments comprising corporate bonds, government-related bonds, and other securities (primarily commercial paper), and accounting for the largest portion of trust assets, were down to W3,745.5 billion from the previous year's W4,723.9 billion. The NPL ratio in trust accounts worsened from 3.59% in the previous year to 61.19% in 2003 following changes in FSS guidelines for asset classification in trust accounts. (See "Asset Classification" in Management's Discussions & Analysis for details.)

The outstanding balance of money trusts managed by the Bank was W3,938.7 billion at 2003 year-end, which represented a decline of 23.6% over the previous year, mainly due to the reduced annualized return on money trusts affected by the SK Global and LG Card problems.

Chohung Bank offers two basic types of money trust accounts: guaranteed fixed-rate trusts and variable-rate trusts. The Bank maintains two types of guaranteed fixed-rate accounts: general unspecified money trusts and development trusts. Korean banks have been prohibited from establishing new general unspecified money trusts since January 1, 1996, and development trusts from January 1, 1999. As a result, guaranteed fixed-rate trust accounts have decreased in size substantially and most development trusts and general unspecified money trusts matured or will mature by the end of 2001 and 2018 respectively. As of December 31, 2003, development trusts had no outstanding balance while general unspecified money trusts amounted to an aggregate of W8.7 billion.

Variable-rate trust accounts are trust accounts for which the Bank does not guarantee the return on the trust account but, in certain instances described below, the principle of the trust account is guaranteed. In respect of variable-rate trust accounts, the Bank is entitled to receive fixed fees. Chohung Bank also receives commissions upon the termination of trust accounts prior to their stated maturities. It is required to set aside allowance for trust assets which are not mark to market and provide special reserves for principal-guaranteed variable-rate trust accounts in addition to guaranteed fixed-rate trust accounts. Provision for variable-rate trust assets that are not mark to market are reflected in the rate of return to customers and thus have no impact on Chohung Bank's income, while provisions for guaranteed fixed-rate or principal-guaranteed trust products would reduce the Bank's income. The Bank provides special reserves with respect to guaranteed fixed-rate and principal-guaranteed variable-rate trust account credit by deducting the required amounts for such trust accounts from trust fees.

Korean banks are currently allowed to guarantee the principal of new deposits in only three types of variable-rate trust accounts: pension trusts for the elderly, pension trusts, and retirement trusts. In addition, Korean banks are allowed to guarantee the principal of four types of variable-rate trust account products: household money trusts; corporation money trusts underwritten prior to April 30, 1996; accumulated money trusts underwritten prior to April 30, 1996; and individual pension trusts underwritten prior to December 31, 2000.

Table 21 - Schedule of Revenues and Expenses of Trust Accounts

		(Billions of Korean Won)	
		2002	2003
Revenue			
Interest on loans and discounts	W	20.8	W 35.2
Interest on call loans		5.4	5.3
Interest and dividends on securities		273.6	220.4
Revenues related to securities		36.4	47.2
Interest on loans to bank accounts		7.0	7.7
Receipt from bank accounts for return guaranteed trusts		57.7	-
Other		24.7	20.1
	W	425.6	W 335.9
Expenses			
Interest paid on trust deposits	W	261.4	W 213.8
Interest paid on borrowing		4.0	4.2
Expenses related to securities		35.1	23.9
Fees and commission to bank accounts		44.1	43.6
Provision for special reserve		4.7	4.4
Provision for valuation of receivables		73.6	39.6
Other		2.7	6.4
	W	425.6	W 335.9

Although assets in trust accounts are segregated from assets in bank accounts, Chohung Bank is responsible for the principal of and/or return on certain trust accounts and may be required to transfer funds from bank accounts to satisfy such obligations. If income from a guaranteed trust account is insufficient to pay the guaranteed amount, such deficiency must be satisfied from the following sources: first, reserves maintained in such trust accounts; second, trust fees; and lastly, receipt from bank accounts for guaranteed trusts.

Receipt from bank accounts for guaranteed trusts in 2002 was W57.7 billion, which stemmed from losses incurred from write-off of KAMCO repurchase obligations. However, receipt from bank accounts for return guaranteed trusts was nil in 2003.

Trust fund operating fees and commissions to bank accounts slightly fell from W44.1 billion in to W43.6 billion as a result of reductions in the average outstanding balance of money trusts.

Risk Management

Chohung Bank has a multi-layered risk management governance structure. The highest decision-making body is the Board of Directors. The Board formulates risk management policies and guidelines, and determines the Bank's risk tolerance. The Board delegates authority and responsibility for risk management activities to the Risk Management Committee (RMC), which consists of three directors.

The RMC allocates available capital within acceptable limits by business unit and risk, in accordance with directives of the Board of Directors. In addition, the RMC determines risk limits by individual case and by industry with regard to credit risk. The Asset and Liabilities Management (ALM) Committee manages risk involving the Bank's assets and liabilities.

Chohung Bank has implemented the following systems in its risk management infrastructure:

- implemented in September 2000, the Credit Risk Management System (CMS) measures default rates by credit rating and credit risk based on default volatility. The results are applied to credit portfolio management and management of the credit risk limit for each business unit;
- implemented in September 2000, the Market Risk Management System measures Value-at-Risk (VaR) to be used for market risk limit management;
- upgraded in December 2000, the Asset Liability System ensures accurate cash flow management and improved measurement of interest rate risk using Monte Carlo simulation; and
- implemented in April 2001, the Capital Allocation System and Risk Adjusted Performance Measurement System allocates risk adjusted capital, sets risk limits and measures risk adjusted return on risk capital and economic value-added for risk adjusted performance measurement.

Credit Risk Management

The Board of Directors also functions as the highest decision-making body with respect to the direction of the Bank's overall credit policies. The Credit Management Group is responsible for overall credit risk management. The Credit Management Group has three working-level entities for planning, review and management of loan portfolios. Specifically, the Credit Planning Division recommends loan policies, manages loan portfolios, and develops and modifies related regulations and procedures. It also is responsible for development of various management infrastructures concerning loan portfolios. With the aim of ensuring the quality of its assets, the Bank established the Loan Review Division to review and monitor existing loans. In reviewing a loan, the Bank focuses on (i) whether the loan was approved in compliance with the credit approval procedures in place; (ii) whether the loan's current asset quality and the borrower's credit rating are adequate; and (iii) whether such a loan is profitable. The Bank's loan review can be further divided into three types: review, periodical review and special review. The Risk Management Division performs duties related to credit risk measurement, such as calculating risk for expected and unexpected loan losses, and applies RAROC (risk-adjusted returns on capital) to each business unit to effectively measure performance.

For efficient credit risk management, the Bank operates a Total Exposure Management System, Credit Scoring System, and Credit Risk Rating System.

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds or loss of attractive investment opportunities.

Chohung Bank's basic principles for liquidity risk management are as follows:

- maintain an appropriate level of liquidity risk through liquidity risk management based on liquidity gap or debt-to-equity ratio at each maturity date;
- assess and monitor net cash flows by currency and by maturity and continuously evaluate available sources of funds and the possibility of disposal of any liquid assets;

- diversify sources and uses of funds by product and by maturity to prevent excessive concentration in certain periods or products; and
- prepare contingency plans to cope with a potential liquidity crisis.

Each subsidiary manages liquidity risk in accordance with risk limits and guidelines established internally as well as with those directed by the relevant regulatory authorities. Pursuant to regulations applicable to financial holding companies and banks as promulgated by the FSC, Chohung Bank is required to keep specific Won and foreign currency liquidity ratios. These ratios require the Bank to keep its ratio of liquid assets to liquid liabilities above certain minimum levels.

Chohung Bank manages its liquidity risk within the limits set on local and foreign currency accounts in accordance with FSC regulations. The FSC requires Korean banks to maintain a Won liquidity ratio of at least 105.0% and a foreign currency liquidity ratio of at least 80%. The FSC defines the liquidity ratio as liquid assets including marketable securities due within three months divided by liabilities due within three months.

The Treasury Division is in charge of liquidity risk management with respect to the Bank's Won and foreign currency funds. The Treasury Department submits Chohung Bank's monthly funding and asset management plans to the ALM Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and the maturity profile of the Bank's assets and liabilities. The Risk Management Division measures the Bank's liquidity ratio and liquidity gap ratio on a monthly basis and reports whether they are in compliance with the limits to the ALM Committee on a monthly basis.

The following tables show Chohung Bank's liquidity status and limits for local and foreign currency accounts as of December 31, 2003 in accordance with FSC regulations.

Table 22 - Liquidity Gap as of December 31, 2003

Currency denomination		At the end of 2003	Required minimum ratio
In local currency	Liquidity ratio within 3 months ¹⁾	108.8%	105%
In foreign currencies	Liquidity ratio within 3 months ¹⁾	99.7%	80%

1. Calculated as assets due within 3 months divided by liabilities due within 3 months in each currency's denomination.

Table 23 - Liquidity Gap in 2003

(Billions of Korean Won)

	Assets		Liabilities		Liquidity gap	
Korean Won						
Due in 3 months or less	W	16,933	W	15,041	W	1,892
Due between 3 months and 6 months		6,826		5,217		1,609
Due between 6 months and 1 year		10,518		8,747		1,771
Due between 1 year and 3 years		6,582		3,795		2,787
Due after 3 years		11,234		19,293		(8,059)
	W	52,093	W	52,093	W	-
Foreign currencies						
Due in 3 months or less	W	3,504	W	3,045	W	459
Due between 3 months and 6 months		859		761		98
Due between 6 months and 1 year		390		1,028		(638)
Due between 1 year and 3 years		441		726		(285)
Due after 3 years		600		234		366
	W	5,794	W	5,794	W	-

Chohung Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. The Bank funds its operations principally through deposits from retail and corporate customers, accessing the call loan market (for loans with maturities of less than one month), issuing debentures, and borrowing from the Bank of Korea. The Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

Market Risk Management

Market risk is the risk of loss that results from changes in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which Chohung Bank is exposed are interest rate risk and, to a lesser extent, foreign exchange risk and equity price risk. These risks stem from the Bank's trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. Chohung Bank is not exposed to commodity risk, the other recognized form of market risk, as it does not hold any commodity positions. The Board of Directors establishes and oversees implementation of overall risk management policies for both trading and non-trading activities.

Market Risk Management for Trading Activities

Chohung Bank generally manages market risk from trading activities at the entire trading portfolio level. To control market risk for its trading

portfolio, the Bank uses VaR limits and stop loss limits. The Bank has prepared risk control and management guidelines for derivative trading based on FSC regulations and guidelines.

For Chohung Bank's trading portfolio, the VaR (holding period 10 days, 99% confidence interval) was W14.3 billion as of December 31, 2003. The required capital to manage market risk as determined according to BIS standards was W26.5 billion. The following table represents the 10-day VaR at a 99% confidence interval, for interest rate risk, foreign exchange risk and equity risk relating to trading activities at the end of 2003.

Table 24 - VaR in 2003

(Billions of Korean Won)

	10-day VaR		Required capital to manage market risk	
Interest rate	W	13.9	W	24.2
Equity		1.0		2.1
Foreign Exchange		2.5		7.5
Market risk *		14.3		26.5

* Less than simple addition due to diversification effects among different types of market risk.

In addition to VaR, the Bank performs stress testing to measure market risk. As VaR assumes normal market situations, Chohung Bank assesses its market risk exposure to abnormal market fluctuations through stress testing. Stress testing projects the anticipated change under certain scenarios of the value of positions held by the Bank assuming that no action is taken during a stress event to change the risk profile of a portfolio. The Risk Management Division performs market risk stress testing on a daily basis. Based on the results, the Bank takes measures to manage risk exposure, including warnings and contingency plans. The Risk Management Division reports the results to the ALM Committee on a monthly basis and to the Risk Management Committee on a quarterly basis. Moreover, it continuously monitors movements of market risk components and takes action to prevent crisis situations when there are abrupt market movements.

Foreign Exchange Risk Management

Foreign exchange risk arises because the Bank's assets and liabilities, including derivatives such as foreign exchange forwards, futures, options and currency swaps, are denominated in currencies other than the Korean won. Chohung Bank's exposure to foreign exchange risk arises primarily from its foreign exchange spot and forward positions in both trading and non-trading accounts.

Chohung Bank measures foreign exchange risk with its net foreign currency open position, which is the difference between its foreign currency assets and liabilities offset against forward foreign exchange positions. The ALM committee establishes limits for the net foreign currency open position, stop loss limits and VaR limits.

The management of foreign exchange position is centralized at the Treasury Division. Dealers manage the Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. The Bank sets a VaR limit for each dealer to control foreign exchange risk.

Equity Risk

Equity risk for trading activities results from the trading of equity portfolios of Korean companies and Korea Stock Price Index futures and options. Although the Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the equity risk VaR of the trading account is relatively higher than that of the trading account interest rate risk due to high volatility in the prices of equity securities.

Hedging and Derivatives Market Risk

Chohung Bank enters into derivative contracts on behalf of its customers or to hedge its own position. The principal objective of the Bank's hedging strategy is to manage market risk within established limits. The Bank uses derivative instruments to hedge its market risk as well as to generate profits by trading derivative products within pre-approved risk limits. Derivative trading includes interest rate and cross-currency swaps, foreign currency forwards, and futures, stock index and interest rate futures, and stock index and currency options. Market risk from derivatives is not significant since the Bank's derivative positions are primarily driven by arbitrage and customer transactions, which result in very limited open trading positions.

Interest Rate Management and Sensitivity

Chohung Bank's interest rate risk arises primarily due to differences between the timing of rate changes for interest-earning assets, such as loans and investment securities, and interest-bearing liabilities, such as deposits and borrowings. The principal objectives of interest rate risk management are to generate stable net interest income and to protect the Bank's net asset value against interest rate fluctuations. To this end, the ALM Committee sets interest rate risk limits at least annually. The Risk Management Division monitors compliance with these limits and reports its results to the ALM Committee on a monthly basis. The Bank primarily uses interest rate swaps to control its interest rate exposure limits.

On a monthly basis, the Bank uses various analytical methodologies to measure and manage its interest rate risk for non-trading activities. The principal methodology that the Bank uses for its non-trading interest rate risk is "earnings at risk" (EaR) analysis, which measures changes in the annual net interest income at a 99% confidence level based on various interest rate scenarios generated by Monte Carlo simulation.

Other complementary analytical methodologies that Chohung Bank uses include the following:

- **Interest Rate Gap Analysis:** Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date for a specific time frame.
- **Duration Gap Analysis:** Duration gap analysis measures durations of the Bank's interest-earning assets and interest-bearing liabilities, which are weighted average maturities calculated based on discounted cash flows from assets and liabilities using yield curve.

• Market Value Analysis: Market value analysis measures changes in the market value of interest-earning assets and interest-bearing liabilities based on the assumption of parallel shifts in interest rates.

• Net Interest Income Simulation Analysis: Net interest income simulation analysis uses statistical analysis methodology to measure changes in the annual net interest income under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements.

Table 25 - Rate Sensitivity Gap as of December 31, 2003

Classification		0-3 months	4-6 months	7-12 months	Over 1 year	Total	EaR
In Won (Won bn)	Assets	W 30,098	W 3,104	W 4,453	W 14,438	W 52,093	
	Liabilities	15,609	5,669	5,884	24,931	52,093	
	Gap	W 14,489	W (2,565)	W (1,431)	W (10,493)	W -	W 1,088
In foreign currencies (US\$ mil)	Assets	\$ 3,663	\$ 729	\$ 167	\$ 279	\$ 4,838	
	Liabilities	3,951	651	188	48	4,838	
	Gap	\$ (288)	\$ 78	\$ (21)	\$ 231	\$ -	\$ 3.1

Equity Risk

All of Chohung Bank's equity risk results from listed and unlisted equity securities issued by Korean companies. Chohung Bank measures VaR of the listed equity securities but does not manage most of the related risk using VaR limits, as most of these securities are held for reasons other than normal investment purposes. For unlisted equity securities, the Bank does not measure VaR. These unlisted securities were equities of its consolidated subsidiary and affiliates and those held as a result of debt-to-equity conversion as a part of the reorganization of companies to which it had extended loans. As of December 31, 2003, Chohung Bank held equity securities in an aggregate amount of W820.4 billion in its non-trading accounts, including W104.1 billion of unlisted securities.

Operational Risk Management

Operational risk is difficult to quantify and is subject to different definitions. The Basle Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from other external events. Similarly, Chohung Bank defines operational risk as the risk related to overall management other than credit risk, market risk, interest rate risk and liquidity risk. The Bank monitors and assesses operational risk related to its business operations, including administrative risk, information technology risk, managerial risk, legal risk and reputation risk.

To monitor and control operational risk, the Bank maintains a system of comprehensive policies and has put in place a control framework

designed to provide a stable and well-managed operational environment throughout the organization. The primary responsibility for ensuring compliance with Chohung Bank's operational risk management procedures remains with its business units and operational teams. In addition, the Examination Division, Risk Management Division and Compliance Department also play important roles in reviewing and maintaining the integrity of the Bank's internal control environment.

Each operational risk team checks operational risk based on the checklists established and reports the results to the Risk Management Division, which collects the operational divisions' results to report to the Risk Management Committee and the ALM Committee.

Meanwhile, the Risk Management Division has set operational risk limits for 2004 based on the standardized approach that is specified in the proposed New Basel Capital Accord and guidelines of the Financial Supervisory Board. The operational risk limits in 2004 are W405.9 billion.

Preparation for New Basel Capital Accord

Chohung Bank and Shinhan Bank have formed a task force to cope effectively with the New Basel Capital Accord, also known as Basel 2, which is due to take effect by year-end 2006. The team will develop approaches to calculate minimum capital requirements for credit risk and operating risk. It will also work to integrate market and other risk measurement systems, while creating standardized monitoring and simulations of capital requirements until 2005.

Independent Public Accountants' Report

English Translation of a Report Originally Issued in Korean



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To the Shareholders and Board of Directors of Chohung Bank :

We have audited the accompanying non-consolidated balance sheets of the Bank Accounts of Chohung Bank (the "Bank") as of December 31, 2002 and 2003, and the related statements of operations, disposition of accumulated deficit and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chohung Bank as of December 31, 2002 and 2003, and the results of its operations, changes in its accumulated deficit and its cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 2, Korea Accounting Standard Board (KASB) under Korea Accounting Institute (KAI) established and published Statements of Korea Accounting Standards (SKAS) that substitute relative clauses of existing financial accounting standards and form part of financial accounting standards commencing March 2001. SKAS No. 1-"Accounting Changes and Correction of Errors" to No. 13-"Restructuring debt" are established as of December 31, 2003. The Bank prepared its financial statements applying from SKAS No.2-"Interim Financial Reporting" to No.9-"Convertible Securities" as of and for the year ended December 31, 2003 (SKAS No.1-"Accounting Changes and Corrections of Errors" was applied in 2002). From SKAS No.10-"Inventories" to No.13-"Restructuring Debt" are early adoptable but the Bank did not apply those as of and for the year ended December 31, 2003. The Bank restated the accumulated deficit of 2002 financial statements from undisposed accumulated deficit into accumulated deficit before disposition for comparative purposes in accordance with SKAS No.6-"Events Occurring after the Balance Sheet Date". In addition, according to the initial adoption of SKAS No.8-"Investments in Securities", the Bank restated the accounts relating to securities of 2002 financial statements for comparative purposes, which had no effects on the Bank's total assets, accumulated deficit and net loss of 2002.

As discussed in Note 5, on February 25, 2003, the Bank reclassified all of its held-to-maturity securities to available-for-sale securities, as the Bank changed its objective. The Bank disposed such securities amounting to W3,240.5 billion (US\$ 2,705.4 million) and recorded gain on disposal of available-for-sale securities amounting to W121.6 billion (US\$ 101.5 million) in 2003. The book value of the reclassified remaining securities prior to the assessment amounting to W3,299.9 billion (US\$ 2,755.0 million) was adjusted to the fair market value of W3,342.3 billion (US\$ 2,790.4 million) with a resulting gain on valuation of available-for-sale securities of W42.4 billion (US\$ 35.4 million) recorded as capital adjustments as of December 31, 2003.

As explained in Note 6, as of December 31, 2003, SK Networks is in a collaborative management with creditors' association committee. In October 2003, in connection with the loans and guarantee credits with SK Networks, W138.0 billion (US\$ 115.2 million) excluding estimated collectible amount from collateral provided by SK Networks and liquidation of the subsidiary of SK Networks in Hong Kong, was converted into W98.0 billion (US\$ 81.8 million) of securities and the remaining W40.0 billion (US\$ 33.4 million) will be swapped into equity. As of December 31, 2003, the Bank provides credits to SK Networks and its subsidiaries amounting to W303.0 billion (US\$ 253.0 million) from the bank accounts including W101.5 billion (US\$ 84.7 million) of L/C bills bought in foreign currency classified as normal and W40.0 billion (US\$ 33.4 million) of loans to be swapped into equity mentioned above. In connection with these credits, the

Bank provided an allowance for possible loan losses amounting to W93.8 billion (US\$ 78.3 million). Since the going-concern of SK Networks will highly depend on the future progress of its rescue plan and effective support of financial creditors, actual credit loss from these credit exposures may differ materially from management's current assessment.

As discussed in Note 6, many credit card companies in Korea have been facing difficulties in liquidity due to the bad credit of assets at the end of 2003. Of the credit card companies, LG Card Co., Ltd has been supported with W2 trillion by the Financial Institution Creditors based on their agreement on November 24, 2003 caused by the significant financial difficulties. The association of Financial Institution Creditors in January 2004 agreed to support new loan of W1,591.6 billion (US\$ 1,328.8 million) and exercise debt-to-equity swap of W1,907.8 billion (US\$ 1,592.8 million) for rehabilitating LG Card Co., Ltd. According to the above agreement, the Bank acquired asset-backed securities of W103.0 billion (US\$ 86.0 million) issued by LG Card Co., Ltd. in December 2003 and the Bank plans to exercise debt-to-equity swap amounting to W73.7 billion (US\$ 61.5 million) and to provide additional loan of W73.4 billion (US\$ 61.3 million) in 2004. The loans and securities of the Bank (including trust accounts) in relation to LG Card are W265.2 billion (US\$ 221.4 million) as of December 31, 2003. The going concern issues on LG Card Co., Ltd. are highly dependent on the rehabilitation plan and an effective financial support from Financial Institution Creditors. Therefore, the actual amount to be collected from loans and securities held by the Bank might materially differ from management's current estimation.

As discussed in Note 28, from December 15, 1997 to December 31, 2003, the Bank sold W3,894.6 billion of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.6 billion, which included W2,451.2 billion of special loans sold with recourse for W1,596.7 billion. Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2003, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W47.3 billion (US\$ 39.5 million) at its sale price. The Bank estimated and reserved W11.6 billion (US\$ 9.7 million) as allowance for possible losses for these obligations. In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion (US\$ 75.1 million) in 2001, which was intended to reinforce the credit of the asset-backed securities (ABS) issued by the SPC.

As explained in Note 31, on July 9, 2003, KDIC, which owned 80.04 percent of the Bank's shares, entered into an agreement with Shinhan Financial Group to transfer its entire shares. Shinhan Financial Group became a majority shareholder by acquiring 80.04 percent of shares held by KIDC on August 19, 2003 and contributed capital amounting to W200.0 billion (US\$ 167.0 million) on December 26, 2003. As a result, as of December 31, 2003, common stock of the Bank is W3,595.6 billion (US\$ 3,001.8 million) and Shinhan Financial Group owns 81.15 percent of the Bank's common shares. The change in major shareholder of the Bank might cause significant change in the Bank's management and business environment.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial positions and results of operations in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



Anjin Deloitte LLC
A member firm of Deloitte Touche Tohmatsu

Seoul, Korea
January 30, 2004

Notice to Readers

This report is effective as of January 30, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Non-consolidated Balance Sheets

DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
ASSETS			
Cash and due from banks (Notes 3, 4, 26, 27 and 29)	W 2,698,816	W 1,550,638	\$ 1,294,572
Securities (Notes 5, 11, 26 and 29)	11,072,577	9,208,341	7,687,712
Loans (Notes 6, 7, 8, 26, 27, 28 and 29)	45,328,520	42,701,666	35,650,080
Fixed assets (Notes 9, 11, 12 and 29)	1,415,312	1,280,655	1,069,173
Other assets (Notes 10, 25 and 29)	5,681,063	4,486,564	3,745,670
Total assets	W 66,196,288	W 59,227,864	\$ 49,447,207
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits (Notes 13, 26, 27 and 29)	W 45,125,839	W 40,030,091	\$ 33,419,679
Borrowings (Notes 14, 26, 27 and 29)	6,843,721	5,711,922	4,768,677
Debentures (Notes 15, 26 and 29)	5,672,349	6,424,165	5,363,304
Other liabilities (Notes 16, 17, 18, 26 and 29)	6,262,081	5,123,046	4,277,046
Total liabilities	63,903,990	57,289,224	47,828,706
SHAREHOLDERS' EQUITY (Notes 19, 29 and 31):			
Common stock	3,395,592	3,595,592	3,001,830
Capital surplus	45,179	-	-
Other reserves	10,619	14,624	12,209
Accumulated deficit (net loss of W586,045 million in 2002 and W965,951 million in 2003)	(976,541)	(1,900,455)	(1,586,621)
Capital adjustments	(182,551)	228,879	191,083
Total shareholders' equity	2,292,298	1,938,640	1,618,501
Total liabilities and shareholders' equity	W 66,196,288	W 59,227,864	\$ 49,447,207

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
INTEREST INCOME AND DIVIDENDS (Note 27):			
Interest on due from banks	W 22,023	W 5,267	\$ 4,397
Interest and dividends on securities	759,327	520,143	434,249
Interest on loans (Note 20)	3,031,095	3,263,010	2,724,169
Other interest income	37,404	26,644	22,244
	3,849,849	3,815,064	3,185,059
INTEREST EXPENSE (Note 27):			
Interest on deposits	1,508,118	1,409,828	1,177,014
Interest on borrowings	254,333	170,889	142,669
Interest on debentures	264,338	386,865	322,980
Other interest expense	79,382	72,002	60,112
	2,106,171	2,039,584	1,702,775
NET INTEREST INCOME	1,743,678	1,775,480	1,482,284
PROVISION FOR POSSIBLE LOAN LOSSES	1,542,948	2,159,906	1,803,228
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR POSSIBLE LOAN LOSSES	200,730	(384,426)	(320,944)
NON-INTEREST INCOME:			
Fees and commissions (Note 21)	763,691	696,004	581,069
Gain on sale of trading securities	24,201	24,411	20,380
Gain on valuation of trading securities	5,856	58	48
Gain on foreign currency trading	145,089	172,743	144,217
Gain on derivatives trading	440,856	537,639	448,855
Fees and commissions from trust accounts (Note 2)	49,012	46,984	39,225
Gain on sale of available-for-sale securities	48,958	178,900	149,357
Other non-interest income (Note 22)	129,228	245,552	205,003
	1,606,891	1,902,291	1,588,154
NON-INTEREST EXPENSES:			
Commissions	166,603	149,143	124,514
General and administrative expenses (Note 23)	856,328	908,250	758,265
Loss on foreign currency trading	104,270	94,630	79,003
Loss on derivatives trading	398,694	538,498	449,573
Contribution to Credit Guarantee Fund	45,249	53,959	45,048
Loss on sale of loans	16,641	169,560	141,559
Loss on sale of trading securities	5,590	15,509	12,948
Loss on valuation of trading securities	150	4,374	3,652
Loss on sale of available-for-sale securities	57,304	14,037	11,719
Loss on impairment of available-for-sale securities	448,236	232,629	194,214
Payments to guaranteed return trust account	57,675	-	-
Other non-interest expenses (Note 24)	262,041	253,051	211,263
	2,418,781	2,433,640	2,031,758
ORDINARY LOSS	(611,160)	(915,775)	(764,548)
EXTRAORDINARY ITEM	-	-	-
LOSS BEFORE INCOME TAX EXPENSE	(611,160)	(915,775)	(764,548)
INCOME TAX EXPENSE (BENEFITS) (Note 25)	(25,115)	50,176	41,890
NET LOSS	W (586,045)	W (965,951)	\$ (806,438)
ORDINARY LOSS PER COMMON SHARE (in Currency Units) (Note 2)	W (870)	W (1,421)	\$ (1.19)
NET LOSS PER COMMON SHARE (in Currency Units) (Note 2)	W (870)	W (1,421)	\$ (1.19)

See accompanying notes to non-consolidated financial statements.

Statements of Disposition of Accumulated Deficit

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
ACCUMULATED DEFICIT BEFORE DISPOSITION:			
Balance at beginning of year	W (388,792)	W (931,362)	\$ (777,560)
Adjustment of retained earnings of subsidiaries valued using the equity method	36	4	3
Net loss	(586,045)	(965,951)	(806,438)
Other statutory reserves	(1,740)	(3,146)	(2,626)
Balance at end of year	(976,541)	(1,900,455)	(1,586,621)
DISPOSITION:			
Disposition of capital in excess of par value	24	-	-
Disposition of other capital surplus	45,155	-	-
	45,179	-	-
UNDISPOSED ACCUMULATED DEFICIT TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	W (931,362)	W (1,900,455)	\$ (1,586,621)

See accompanying notes to non-consolidated financial statements.

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2003	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	W (586,045)	W (965,951)	\$ (806,438)	
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	189,790	210,994	176,151	
Provision for possible loan losses	1,542,948	2,159,906	1,803,228	
Provision for severance benefits	32,763	32,986	27,539	
Loss on disposal of fixed assets, net	10,230	10,730	8,958	
Loss on sale of loans, net	16,238	168,240	140,458	
Loss on impairment of available-for-sale securities, net	448,013	213,603	178,329	
Loss (Gain) on disposal of available-for-sale securities, net	8,346	(164,863)	(137,638)	
Gain on sale of trading securities, net	(18,611)	(8,902)	(7,432)	
Loss (Gain) on valuation of trading securities, net	(5,706)	4,316	3,603	
Payment of severance benefits	(1,891)	(1,954)	(1,631)	
Other, net	(1,900)	142,376	118,865	
Net cash provided by operating activities	1,634,175	1,801,481	1,503,992	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net increase in loans	(12,629,682)	(436,739)	(364,618)	
Proceeds on sale of fixed assets	75,475	51,132	42,688	
Purchase of fixed assets	(126,713)	(138,886)	(115,951)	
Net decrease in available-for-sale securities	10,572,930	2,793,391	2,332,101	
Net decrease (increase) in held-to-maturity securities	(7,721,649)	47,740	39,857	
Net decrease (increase) in trading securities	271,064	(129,830)	(108,390)	
Other, net	10,591	107,113	89,425	
Net cash provided by (used in) investing activities	(9,547,984)	2,293,921	1,915,112	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	6,203,695	(5,095,748)	(4,254,256)	
Net decrease in borrowings	(703,035)	(899,437)	(750,908)	
Net increase in debentures	3,172,501	642,002	535,984	
Disposition of treasury stock	118,057	-	-	
Issuance of common stock	225	198,963	166,107	
Other, net	(216,679)	(89,360)	(74,603)	
Net cash provided by (used in) financing activities	8,574,764	(5,243,580)	(4,377,676)	
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	660,955	(1,148,178)	(958,572)	
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	2,037,861	2,698,816	2,253,144	
CASH AND DUE FROM BANKS, END OF YEAR (Note 30)	W 2,698,816	W 1,550,638	\$ 1,294,572	

See accompanying notes to non-consolidated financial statements.

Notes to Non-consolidated Financial Statements

DECEMBER 31, 2002 AND 2003

1. GENERAL:

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of the merger of Han Sung Bank, which was established on February 19, 1897, and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. In addition to the head office in Seoul, the Bank operates 470 domestic branches, and 87 depository offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2003. The shares of the Bank were listed on the Korea Stock Exchange on June 3, 1956 and on the London Stock Exchange for Global Depository Receipts (GDRs) on December 5, 1996. The Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively.

The common stock capital of the Bank was decreased by ₩723,913 million on February 12, 1999 from ₩930,429 million as of December 31, 1998 in accordance with the resolution of shareholders' meeting on January 27, 1999. After reduction of the capital and merger, the capital of the Bank increased with the capital injection by Korea Deposit Insurance Corporation (KDIC) and amounted to ₩3,395,592 million as of December 31, 2002.

Shinhan Financial Group became a majority shareholder by acquiring 80.04 percent of the shares held by KIDC on August 19, 2003 and contributed additional capital amounting to ₩200,000 million (US\$ 166,973 thousand) on December 26, 2003. As a result, as of December 31, 2003, common stock of the Bank is ₩3,595,592 million (US\$ 3,001,830 thousand) and Shinhan Financial Group owns 81.15 percent of Bank's common shares.

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector have been implementing structural reforms to historical business practices including corporate governance. The Bank may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Bank. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Non-Consolidated Financial Statement Presentation

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

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into U.S. dollars based on the Bank of Korea (BOK) Basic Rate of ₩1,197.80 to US\$ 1.00 at December 31, 2003, solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The significant accounting policies followed by the Bank in preparing the accompanying non-consolidated financial statements are summarized below.

Allowance for Possible Loan Losses and Other Losses

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires providing the minimum rate of loss provision for each category as described in

the next paragraph. In accordance with the Supervisory Regulation and the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to corporate borrowers, including the securities that have credit attributes such as commercial paper, privately placed bonds and financing lease receivables, into ten categories according to past repayment history including any overdue period, the bankruptcy status of the borrower, and future debt repayment capability based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to individual business operations and households are also classified into ten categories based only on the past repayment history.

As required by the FSC, the loans to enterprises are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. The allowance for possible loan losses is then calculated on the category balances using the prescribed minimum percentages of 0.5 percent or more, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. However, the Bank does not provide allowances for the loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as normal, as it is not required by the Accounting Standards for the Banking Industry. The loans to households and the credit card receivables are also classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. Beginning in 2002, the Bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card receivables were raised to 1 percent or more, 12 percent or more, and 60 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary.

As required by the FSC, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same criteria used for loan classification. An allowance is then calculated, using 20 percent or more for confirmed acceptances and guarantees classified as substandard, 50 percent or more for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. Additionally, as prescribed in the debt restructuring accounting standard, loans on companies that were applied for debt restructuring due to the work-out, court receivership or composition and other restructuring process, an allowance for possible loan losses is provided for the residual amount after deducting the present value. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities. This additional provision is included in the non-interest expense.

In addition, beginning in 2002, the Bank provides other allowance in other liabilities, which includes (i) 1 percent for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year and, (ii) for the expected future expenses due to the bonus point given to credit card users, (iii) expected losses from the recourse obligation provided to KAMCO in relation to sales of non-performing loans and (iv) expected losses from the pending lawsuits. The Bank accounts for these other bad debts expense in the caption of non-interest expense.

Restructuring of Loans

A loan, whose contractual terms are modified in a troubled debt restructuring through execution of workout plan, court receivership, commencement of corporate reorganization and mutual agreement, is accounted for at the present value of expected future cash flows, if the book value of the loan differs from the present value. The difference between the book value and present value is offset against the allowance for possible loan losses, and any remaining amounts are charged to operations as provisions for possible loan losses. The difference between the book value of a loan and its present value is recorded as present value discount, which is presented as a deduction from the loan. The present value discount is amortized over the remaining restructuring period using the effective interest rate method, and the amortization is recorded as interest income.

Recognition of Interest Income

The Bank recognizes the interest income earned on loans, call loans, long-term deposits with other banks and securities on an accrual basis, except for the interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to the customers that are bankrupt, given a grace period or a reduction or exemption of interest payments, or listed as watch list clients by the Korean Banking Authorities, where interest income is recognized on a cash basis. As of December 31, 2002 and 2003, the principal amount of loans of which the accrued interest income was not recorded in the financial statements based on the stated criteria amounted to W6,927.7 billion and W6,878.6 billion (US\$ 5,742.7 million), respectively, and the related accrued interest income not recognized amounted to W85.5 billion and W113.1 billion (US\$ 94.4 million), respectively.

Investment in Securities other than those Accounted for Using the Equity Method

Classification of Securities

At acquisition, the Bank classifies securities into one of the three categories: trading, available-for-sale or held-to-maturity. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed and determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified either as held-to-maturity or trading securities.

If the objective and ability to held securities of the Bank change, available-for-sale securities can be reclassified to held-to-maturity securities and vice versa. Whereas, if the Bank sells held-to-maturity or exercises early redemption right of securities to issuer in the current year and the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be reclassified to available-for-sale or held-to-maturity securities and vice versa, except when certain trading securities lose their marketability.

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially stated at acquisition cost plus incidental expenses with the individual moving average method. When the face value of trading debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. Trading securities are stated at fair value, if the fair value of trading securities differs from its acquisition cost. Its carrying value is adjusted to the fair value and the resulting valuation gain or loss is charged to current operations.

(2) Valuation of Available-for-sale Securities

Available-for-sale securities are initially stated at acquisition cost plus incidental expenses, determined by the individual moving average method. When the face value of available-for-sale debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the security. Available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in capital adjustments. Accumulated capital adjustment of securities is charged to current operations in lump-sum at the time of disposal or impairment recognition. Non-marketable equity securities can be stated at acquisition cost on the financial statement if the fair value of the securities is not credibly determinable.

For equity securities, if the decline in the fair value of equity securities is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. For debt securities, if the decline in the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in the capital adjustment account should be reversed.

(3) Valuation of Held-to-maturity Securities

Held-to-maturity securities are initially stated at acquisition cost plus incidental expenses, determined by the individual moving average method. As held-to-maturity securities are stated at amortized cost, the effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the securities. If collectible value is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations.

(4) Reversal of loss on impairment of available-for-sale securities and held-to-maturity securities

For available-for-sale securities, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in capital adjustment as gain on valuation of available-for-sale securities. However, if

the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded on gain or loss on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost. For held-to-maturity securities, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of held-to-maturity securities.

(5) Reclassification of securities

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are stated at the fair value on the reclassification date and the difference between the fair value and book value are accounted on capital adjustment as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be stated on capital adjustment and will be amortized using the effective interest rate and be charged to interest income or expense upon maturity. The difference between the fair value on the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate and charged to interest income or expense.

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities loses from the sale of the securities, the unrealized valuation gain or loss of securities included in the capital adjustment account is added to or deducted from the gain or loss on sale. The gain or loss amounts to the difference between the net proceeds received or receivable and its carrying value. Whereas when securities are transferred without losing its control, the transaction is recorded as secured borrowing transaction.

Investment in Securities Using the Equity Method

Equity Securities that are in companies in which the company is able to exercise significant influence over the investees are accounted for using the equity method. Under the Bank Law, investors with more than 15% ownership of voting right are generally considered as significant influence. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings of the investee are reflected in the retained earnings of the investors. Changes in the capital surplus or other capital accounts of the investee are reflected as gain or loss on valuation of available-for-sale securities in capital adjustment account of the investor.

Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at acquisition cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as follows:

	In Years
Buildings	40-60
Equipment and furniture	5
Leasehold improvements	5

Intangible Assets

Intangible assets other than goodwill included in fixed assets are recorded at the production costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated economic useful lives of the related assets or the activity method.

The excess of the consideration paid for business combinations over the net assets transferred is classified as goodwill, which is amortized using the straight-line method over 5 years. Goodwill was recognized from the acquisitions of Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively, and adjusted subsequently due to the revaluation of treasury stock acquired in relation to those business combinations. Accordingly, the revaluation amounting to W100,716 million has been included in goodwill and amortized over the useful life of the related assets.

Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term borrowing and lending transactions and other similar transactions are stated at the present value of expected future cash flows with the gain or loss on valuation of the related receivables and payables reflected in current operations, unless the difference between nominal value and present value is immaterial. The present value discount or premium is amortized using the effective interest rate method with the amortization recorded as interest income or interest expense.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral on a foreclosed mortgage. No depreciation is provided for this asset. However, if the auction price of the foreclosed asset is lower than the book value, the difference is provided as a valuation allowance with the valuation loss charged to current operations.

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discount or premium is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance indemnities that would be payable assuming all eligible employees were to resign are W51,560 million and W82,592 million (US\$ 68,953 thousand) as of December 31, 2002 and 2003, respectively. Actual payments of severance indemnities amounted to W1,891 million and W1,954 million (US\$ 1,631 thousand) [excluding the severance payment accounted for as non-operating expense amounting to W900 million (US\$ 751 thousand)] in the years ended December 31, 2002 and 2003, respectively.

Funding of the severance liability is not required. However, in order to obtain a tax deduction, the Bank has purchased an employee retirement trust, which meets the funding requirements for tax purposes, and made deposits with Korea Exchange Bank as of December 31, 2003. The deposits amounting to W49,551 million (US\$ 41,368 thousand) as of December 31, 2003 are presented as a deduction from accrued severance benefits.

Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings, when the Bank purchases or sells securities under resale or repurchase agreements.

Accounting for Financial Derivatives

The Bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or a liability. Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (a hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged items attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment, and the ineffective portion is reflected in current operations. The effective portion of gain or loss recorded as capital adjustment is reclassified into current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

Stock options are valued at fair value pursuant to the Interpretations on Financial Accounting Standards 39-35 on accounting for stock options. The fair value of stock options is charged to general and administrative expenses in the statement of operations and credited to capital adjustments as stock option cost over the contract term of the services provided.

Payments to Guaranteed Return Trust Accounts

With respect to certain trust account products, the Bank guarantees the repayment of the principal and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. For the years ended December 31, 2002 and 2003, the Bank recorded trust management fees of W49,012 million and W46,984 million (US\$ 39,225 thousand), respectively, and trust cancellation charge income of W378 million and W216 million (US\$ 180 thousand), respectively. For the years ended December 31, 2002 and 2003, the Bank paid compensating contributions to guaranteed return trusts of W57,675 million and nil, respectively, and as a result, the Bank recorded a loss from the operation of trust business of W8,285 million and gain of W47,200 million (US\$ 39,406 thousand), respectively.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in the deferred income taxes. The difference between the amount currently payable for the period and the income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the BOK Basic Rate (W1,200.40 and W1,197.80 to US\$ 1.00 at December 31, 2002 and 2003, respectively) or cross rates for other currencies at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches and subsidiaries in which investments are accounted for using the equity method are translated based on BOK Basic Rate at the balance sheet dates.

Loss per Share

Ordinary loss per common share and net loss per common share are computed by dividing ordinary loss (after deducting the tax effect) and net loss, respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 673,608,597 and 679,775,963 in 2002 and 2003, respectively. Ordinary loss and net loss on common shares in 2002 and 2003 were as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Net loss	W (586,045)	W (965,951)	\$ (806,438)
Extraordinary loss	-	-	-
Income tax on extraordinary loss	-	-	-
Ordinary loss	W (586,045)	W (965,951)	\$ (806,438)

Diluted ordinary loss per common share and net loss per common share represent the ordinary loss and net loss divided by the number of common shares and diluted securities. The average stock price of the Bank's common shares for the year ended December 31, 2003 is below the exercise prices of the stock options, and thereby, there is no dilution effect from stock options. In addition, the dilution effect could happen because the average price of common stock in last fiscal year was above the exercise price. However, dilution effect from stock options was not ultimately incurred as the increase in the ratio of the denominator is less than that of the numerator. As a result, the diluted ordinary loss per common share and diluted net loss per common share are equal to the ordinary loss per common share and net loss per common share in 2002 and 2003, respectively. The diluted securities are 673,757,609 shares and 679,775,963 shares for the years ended December 31, 2002 and 2003, respectively.

The dilutive securities as of December 31, 2003 are summarized as follows:

Item	Face value (In millions)	Exercise period	Common stock to be issued	Remarks
Stock options (see Note 19)	-	2003. 3. 28 - 2006. 3. 27	211,645 shares	W5,000 paid in cash upon exercise
Stock options (see Note 19)	-	2004. 3. 10 - 2007. 3. 9	664,000 shares	W5,000 paid in cash upon exercise
Stock options (see Note 19)	-	2004. 3. 30 - 2007. 3. 29	312,000 shares	W5,860 paid in cash upon exercise
Stock options (see Note 19)	-	2005. 3. 29 - 2008. 3. 28	165,090 shares	W5,000 paid in cash upon exercise

Application of the Statements of Korea Accounting Standards

Korea Accounting Standard Board (KASB) under Korea Accounting Institute (KAI) established and published Statements of Korea Accounting Standards (SKAS) that substitute relative clauses of existing financial accounting standards and form part of financial accounting standards commencing March 2001. SKAS No. 1-"Accounting Changes and Correction of Errors" to No. 13-"Restructuring debt" are established as of December 31, 2003. The Bank prepared its financial statements applying from SAKS No.2-"Interim Financial Reporting" to No.9 -"Convertible Securities" as of and for the year ended December 31, 2003 (SKAS No.1-"Accounting Changes and Corrections of Errors" was applied in 2002). From SKAS No.10 -"Inventories" to No.13-"Restructuring Debt" are early adoptable but the Bank did not apply those as of and for the year ended December 31, 2003. The Bank restated the accumulated deficit of 2002 financial statements from undisposed accumulated deficit into accumulated deficit before disposition for comparative purposes in accordance with SKAS No.6-"Events Occurring after the Balance Sheet Date". In addition, according to the initial adoption of SKAS No.8-"Investments in Securities", the Bank restated the accounts relating to securities of 2002 financial statements for comparative purposes, which had no effects on the Bank's total assets, accumulated deficit and net loss of 2002.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Cash and checks	W 1,174,976	W 918,147	\$ 766,528
Foreign currencies	76,065	84,242	70,331
Due from banks in local currency	1,255,581	463,382	386,861
Due from banks in foreign currencies	192,194	84,867	70,852
	W 2,698,816	W 1,550,638	\$ 1,294,572

4. RESTRICTED DUE FROM BANKS:

Restricted due from banks as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Reference
	2002	2003	2003	
Reserve deposits with the Bank of Korea	W 1,224,944	W 462,188	\$ 385,864	Required under the Banking Law
Due from banks in foreign currencies	46,094	39,502	32,979	Required under the Banking Law, borrowings and derivative transactions
	W 1,271,038	W 501,690	\$ 418,843	

5. SECURITIES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Trading securities	W 990,179	W 1,124,595	\$ 938,884
Available-for-sale securities	2,684,844	7,884,816	6,582,748
Held-to-maturity securities	7,165,994	-	-
Investment equity securities accounted for using the equity method	231,560	198,930	166,080
	W 11,072,577	W 9,208,341	\$ 7,687,712

(2) Trading securities as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Government bonds	W 174,802	W 332,866	\$ 277,898
Finance debentures	-	330,586	275,994
Corporate bonds	308,086	382,778	319,568
Trading securities in foreign currencies	100,108	1,331	1,111
Other	407,183	77,034	64,313
	W 990,179	W 1,124,595	\$ 938,884

(3) The details of valuation of trading securities as of December 31, 2003 are as follows (in millions of Won):

	Face value		Acquisition cost		Adjusted by effective interest method		Fair value (Book value)	
Government bonds	W	330,000	W	334,010	W	333,241	W	332,866
Finance debentures		340,000		329,661		331,376		330,586
Corporate bonds		370,000		382,885		381,265		382,778
Trading securities in foreign currencies		1,198		1,162		1,162		1,331
Other		75,643		76,455		76,627		77,034
	W	1,116,841	W	1,124,173	W	1,123,671	W	1,124,595

The details of valuation of trading securities as of December 31, 2002 are as follows (in millions of Won):

	Face value		Acquisition cost		Adjusted by effective interest method		Fair value (Book value)	
Government bonds	W	170,000	W	173,177	W	173,079	W	174,802
Corporate bonds		298,387		305,353		305,353		308,086
Trading securities in foreign currencies		85,326		94,848		94,848		100,108
Other		410,613		405,184		407,065		407,183
	W	964,326	W	978,562	W	980,345	W	990,179

Beginning in 2003, the fair values of trading debt securities in local currency were determined by the prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KR Co. and KIS Bond Pricing, Inc., while in 2002, they were valued at the prices provided by Korea Bond Pricing & KR Co. and NICE Pricing Services, Inc.. The fair values of trading securities in foreign currencies are determined by the latest market prices provided by reputable market price information providers or by the yields provided by professional dealers. Acquisition costs of trading securities in foreign currencies are Korean Won equivalents of foreign currencies denominated acquisition costs based on BOK Basic Rate at December 31, 2002 and 2003.

(4) Available-for-sale securities as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won				Thousands of U.S. Dollars (Note 2)
	2002		2003		2003
Equity securities:					
Investments in stock	W	583,276	W	764,502	\$ 638,255
Equity investments		26,779		21,548	17,990
Debt securities:					
Government bonds		10,966		1,385,392	1,156,614
Finance debentures		903,070		1,587,960	1,325,730
Corporate bonds		1,033,424		4,027,137	3,362,111
Beneficiary certificates		60,399		-	-
Investment securities in foreign currencies		65,624		63,573	53,075
Other		1,306		34,704	28,973
	W	2,684,844	W	7,884,816	\$ 6,582,748

(5) Held-to-maturity securities as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Debt securities	W 6,929,043	W -	\$ -
Investment securities in foreign currencies	186,322	-	-
Other	50,629	-	-
	W 7,165,994	W -	\$ -

There is no held-to-maturity security as of December 31, 2003 as the entire amounts were reclassified into available-for-sale securities during the year ended December 31, 2003.

(6) Investment equity securities accounted for using the equity method as of December 31, 2003 are summarized as follows (in millions of Won):

	Balance sheet date	Percentage of ownership (%)	Acquisition cost	Net asset value	Book value
Chohung Investment Trust Management Co., Ltd.	2003. 9. 30	79.77	W 58,862	W 53,661	W 55,940
Chohung Finance Ltd., Hong Kong	2003. 12. 31	99.99	7,187	34,757	34,757
CHB America Bank	2003. 12. 31	100.00	41,923	64,224	64,224
Chohung Bank (Deutschland) GmbH	2003. 12. 31	100.00	23,048	33,069	33,069
Chohung Vina Bank	2003. 12. 31	50.00	7,211	11,249	10,940
			W 138,231	W 196,960	W 198,930

On March 24, 2003, Chohung Bank of New York and California Chohung Bank entered into a merger and established CHB America Bank.

Investment equity securities accounted for using the equity method as of December 31, 2002 are summarized as follows (in millions of Won):

	Balance sheet date	Percentage of ownership (%)	Acquisition cost	Net asset value	Book value
Chohung Investment Trust Management Co., Ltd.	2002. 9. 30	79.77	W 50,761	W 54,300	W 58,862
Chohung Finance Ltd., Hong Kong	2002. 12. 31	99.99	7,202	46,510	46,510
Chohung Bank of New York	2002. 12. 31	100.00	30,610	36,167	36,167
Chohung Bank (Deutschland) GmbH	2002. 12. 31	100.00	19,286	28,614	28,614
California Chohung Bank	2002. 12. 31	100.00	42,402	52,435	52,435
Chohung Vina Bank	2002. 12. 31	50.00	7,226	9,388	8,972
			W 157,487	W 227,414	W 231,560

(7) The valuation of debt securities among available-for-sale securities in local currency, by type, as of December 31, 2003 is summarized as follows (in millions of Won):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (Book value)
Available-for-sale:				
Government bonds	W 1,344,000	W 1,343,404	W 1,356,408	W 1,385,392
Finance debentures	1,609,000	1,567,835	1,585,120	1,587,960
Corporate bonds	4,198,678	3,964,326	3,960,352	4,027,137
	W 7,151,678	W 6,875,565	W 6,901,880	W 7,000,489

The valuation of debt securities among available-for-sale securities and held-to-maturity securities in local currency, by type, as of December 31, 2002 is summarized as follows (in millions of Won):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (Book value)
Available-for-sale:				
Government bonds	W 10,000	W 10,789	W 10,707	W 10,966
Finance debentures	910,000	889,434	900,249	903,070
Corporate bonds	1,440,119	1,110,635	1,264,698	1,033,424
	2,360,119	2,010,858	2,175,654	1,947,460
Held-to-maturity:				
Government bonds	1,719,671	1,689,882	1,722,945	1,722,945
Finance debentures	610,033	613,394	614,239	614,239
Corporate bonds	4,552,043	4,612,444	4,591,859	4,591,859
	6,881,747	6,915,720	6,929,043	6,929,043
	W 9,241,866	W 8,926,578	W 9,104,697	W 8,876,503

Beginning in 2003, the fair values of trading debt securities in local currency were determined by the prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KR Co. and KIS Bond Pricing, Inc., while in 2002, they were valued at the prices provided by Korea Bond Pricing & KR Co. and NICE Pricing Services, Inc.

(8) The portfolio of securities, by country, as of December 31, 2002 and 2003 is summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Percentage (%)	
	2002	2003	2003	2002	2003	
Securities in local currency:						
Korea	W 10,547,825	W 9,000,447	\$ 7,514,149	95.26	97.74	
Securities in foreign currencies:						
United States	244,024	70,370	58,749	2.20	0.76	
Korea	161,678	44,375	37,047	1.46	0.48	
Hong Kong	46,510	34,757	29,017	0.42	0.38	
Germany	28,614	33,069	27,608	0.26	0.36	
Vietnam	8,972	10,940	9,133	0.08	0.12	
India	11,768	9,977	8,330	0.11	0.11	
Philippines	5,981	-	-	0.05	-	
Bermuda	951	-	-	0.01	-	
Singapore	-	3,586	2,994	-	0.04	
Egypt	-	820	685	-	0.01	
Other	16,254	-	-	0.15	-	
	524,752	207,894	173,563	4.74	2.26	
	W 11,072,577	W 9,208,341	\$ 7,687,712	100.00	100.00	

(9) The portfolio of securities, by type, as of December 31, 2002 and 2003 is summarized as follows:

Type	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Percentage (%)	
	2002	2003	2003	2002	2003	
Fixed rate notes	W 5,629,120	W 4,995,715	\$ 4,170,742	50.84	54.25	
Floating rate notes	3,943,111	2,967,363	2,477,345	35.61	32.22	
Convertible bonds	213,652	175,194	146,263	1.93	1.90	
Stocks and equity	842,441	985,800	823,009	7.61	10.71	
Other	444,253	84,269	70,353	4.01	0.92	
	W 11,072,577	W 9,208,341	\$ 7,687,712	100.00	100.00	

(10) Conversion of loans for debt to equity swap of Hynix Semiconductor Inc. into equity:

As determined by the Financial Institutional Creditors' meeting held on October 31, 2001, the Bank acquired mandatory convertible bonds issued by Hynix Semiconductor Inc. amounting to W423,481 million of face value, which were recorded as loans to be swapped into equity before the actual swap occurs. As of June 1, 2002, the Bank converted all of such convertible bonds into equity at the conversion price of W708 and acquired 598,137,005 shares. As a result of this conversion, the Bank recorded W127,044 million of investment securities based on the book value of the loans swapped into equity, which was W212 per share. The shares of Hynix Semiconductor Inc. are traded on the Korea Stock Exchange, but most of the converted shares are held by the Financial Institutional Creditors including the Bank and restricted in disposal until the end of 2006. The Bank recorded the equity securities at their fair values, the price quoted on the Korea Stock Exchange. Additionally, on April 14, 2003, Hynix Semiconductor Inc. reduced its shares to 28,494,281 shares through non-compensatory capital reduction with the ratio of twenty one shares into one share, and as of the same date, loans amounting to W160,108 million (US\$ 133,668 thousand) and convertible bonds amounting to W896 million (US\$ 748 thousand) were converted to common stock amounting to 16,830,442 shares and 94,174 shares, respectively.

(11) As of December 31, 2003, debt securities (available-for-sale) issued by foreign governments amount to W10,148 million (US\$ 8,472 thousand) and debt securities with collaterals (corporate bonds) amount to W89,908 million (US\$ 75,061 thousand).

(12) Loss on impairment of available-for-sale securities due to the increase in credit risk and other reasons amounts to W232,629 million (US\$ 194,214 thousand) and the reversal of impairment loss previously accounted for prior to December 31, 2002 amounting to W19,026 million (US\$ 15,884 thousand) was accounted by the Bank for the year ended December 31, 2003. The entire amount of interest receivables pertaining to the debt securities considered impaired was not reflected in the financial statements.

(13) On February 25, 2003, the Bank reclassified all of its held-to-maturity securities to available-for-sale securities as the Bank changed its objective. The Bank disposed such securities amounting to W3,240,455 million (US\$ 2,705,339 thousand) and recorded gain on disposal of available-for-sale securities amounting to W121,597 million (US\$ 101,517 thousand). The book value of the reclassified remaining securities prior to the assessment amounting to W3,299,893 million (US\$ 2,754,962 thousand) was adjusted to the fair market value of W3,342,323 million (US\$ 2,790,385 thousand) with a resulting gain on valuation of securities of W42,430 million (US\$ 35,423 thousand) recorded as capital adjustments.

(14) Gain (loss) on valuation of securities (capital adjustments) for the year ended December 31, 2003 is as follows (in millions of Won):

	December 31, 2002	Gain (Loss)	Disposition (Realization)	December 31, 2003
Investment equity securities accounted for using the equity method	W 23,386	W (379)	W -	W 23,007
Available-for-sale securities	(208,393)	232,103	180,486	204,196
	W (185,007)	W 231,724	W 180,486	W 227,203

6. LOANS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Loans in local currency	W 30,924,206	W 31,965,758	\$ 26,687,058
Loans in foreign currencies	3,480,755	3,165,342	2,642,630
Bills bought in local currency	1,903,887	1,599,498	1,335,363
Bills bought in foreign currencies	1,775,599	1,736,303	1,449,577
Advances for customers	79,682	75,045	62,652
Factoring receivables	121,681	113,599	94,840
Loans to be swapped into equity	129,384	42,388	35,388
Credit card accounts	5,898,452	3,698,656	3,087,874
Call loans	655,798	350,955	293,000
Bills discounted	1,481,776	962,473	803,534
Cash management accounts	134,609	186,368	155,592
Privately placed bonds	185,168	355,806	297,049
Financing lease receivables	182,596	126,364	105,497
	46,953,593	44,378,555	37,050,054
Allowance for possible loan losses (see Note 7)	(1,604,607)	(1,658,919)	(1,384,972)
Present value discounts (see Note 8)	(20,466)	(17,970)	(15,002)
	W 45,328,520	W 42,701,666	\$ 35,650,080

(2) Loans in local currency and foreign currencies as of December 31, 2002 and 2003 classified by borrower type are summarized as follows (in millions of Won):

Type	2002		2003	
	Loans in local currency	Loans in foreign currencies	Loans in local currency	Loans in foreign currencies
Loans to enterprises:				
Loans for operations	W 15,415,596	W 2,254,793	W 15,308,145	W 2,073,876
Loans for equipment	1,539,906	901,764	1,710,128	670,182
	16,955,502	3,156,557	17,018,273	2,744,058
Loans to households	15,456,478	-	15,823,232	-
Loans to the public sector and others:				
Loans for operations	254,016	151,416	366,813	141,957
Loans for equipment	99,147	-	105,644	-
Inter-bank loans	16,745	172,782	15,068	279,327
	369,908	324,198	487,525	421,284
	W 32,781,888	W 3,480,755	W 33,329,030	W 3,165,342

Type	Total				
	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2002	2003	2003	2002	2003
Loans to enterprises:					
Loans for operations	W 17,670,389	W 17,382,021	\$ 14,511,622	48.73	47.63
Loans for equipment	2,441,670	2,380,310	1,987,235	6.73	6.52
	20,112,059	19,762,331	16,498,857	55.46	54.15
Loans to households	15,456,478	15,823,232	13,210,245	42.62	43.36
Loans to the public sector and others:					
Loans for operations	405,432	508,770	424,754	1.12	1.39
Loans for equipment	99,147	105,644	88,198	0.28	0.29
Inter-bank loans	189,527	294,395	245,780	0.52	0.81
	694,106	908,809	758,732	1.92	2.49
	W 36,262,643	W 36,494,372	\$ 30,467,834	100.00	100.00

Discounted notes of W1,857.7 billion and W1,363.3 billion (US\$ 1,138.2 million) were included in the loans in local currency as of December 31, 2002 and 2003, respectively, represented in (2) above, and (3) and (4) below.

(3) Loans in local currency and foreign currencies, by industry, as of December 31, 2002 and 2003 are summarized as follows (in millions of Won):

Type	2002		2003	
	Loans in local currency	Loans in foreign currencies	Loans in local currency	Loans in foreign currencies
Manufacturing	W 7,669,058	W 851,447	W 7,029,854	W 1,041,589
Finance and insurance	300,429	483,463	373,059	569,692
Wholesale and retail	2,991,310	790,015	3,076,331	732,541
Construction	1,559,255	19,790	1,519,902	7,924
Others	20,261,836	1,336,040	21,329,884	813,596
	W 32,781,888	W 3,480,755	W 33,329,030	W 3,165,342

Industry	Total				
	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2002	2003	2003	2002	2003
Manufacturing	W 8,520,505	W 8,071,443	\$ 6,738,556	23.50	22.12
Finance and insurance	783,892	942,751	787,069	2.16	2.58
Wholesale and retail	3,781,325	3,808,872	3,179,890	10.43	10.44
Construction	1,579,045	1,527,826	1,275,527	4.35	4.19
Others	21,597,876	22,143,480	18,486,792	59.56	60.67
	W 36,262,643	W 36,494,372	\$ 30,467,834	100.00	100.00

(4) Loans in local currency and foreign currencies, by country, as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2002	2003	2003	2002	2003
Loans in local currency:					
Korea	W 32,781,888	W 33,329,030	\$ 27,825,204	90.40	91.33
Loans in foreign currencies:					
Korea	3,098,678	2,615,593	2,183,664	8.55	7.17
United States	133,396	297,396	248,285	0.37	0.81
Russia	118,840	118,582	99,000	0.33	0.32
Japan	84,232	108,143	90,285	0.23	0.30
Indonesia	22,281	15,492	12,934	0.06	0.04
Others	23,328	10,136	8,462	0.06	0.03
	3,480,755	3,165,342	2,642,630	9.60	8.67
	W 36,262,643	W 36,494,372	\$ 30,467,834	100.00	100.00

(5) Loans to financial institutions, excluding call loans, as of December 31, 2003 and 2002 are summarized as follows:

2003

	Millions of Korean Won			Thousands of U.S. Dollars (Note 2)	Percentage (%)
	Local currency	Foreign currencies	Total		
Banks	W 15,068	W 279,327	W 294,395	\$ 245,780	31.23
Leasing companies	7,000	30,125	37,125	30,994	3.94
Credit cards and installment financing companies	96,799	-	96,799	80,814	10.27
Investment financing companies	107,257	220,100	327,357	273,299	34.72
Others	146,935	40,140	187,075	156,182	19.84
	W 373,059	W 569,692	W 942,751	\$ 787,069	100.00

2002

	Millions of Korean Won			Percentage (%)
	Local currency	Foreign currencies	Total	
Banks	W 16,745	W 172,782	W 189,527	24.18
Leasing companies	-	63,820	63,820	8.14
Credit cards and installment financing companies	208,907	-	208,907	26.65
Investment financing companies	20,990	198,413	219,403	27.99
Others	53,787	48,448	102,235	13.04
	W 300,429	W 483,463	W 783,892	100.00

(6) Companies under court receivership, composition, workout and law of corporation restructuring promotion

As of December 31, 2003, loans and allowances for possible losses on loans (including trust accounts) of the bank to companies under court receivership, composition, workout and regulated by law of corporation restructuring promotion are as follows (in million of Won):

Status of borrowers	Corporation	Loans	Allowances for possible losses
Court receivership	Inchon Oil Refinery Co. and 23 firms	W 263,629	W 86,789
Composition	Dongsung Co. and 15 firms	38,644	10,256
Workout	Ssangyong Motors and 7 firms	150,506	36,113
Law of Corporation restructuring promotion	SK Networks and 8 firms	718,787	274,917
		W 1,171,566	W 408,075

(7) Loans to SK Networks

As of December 31, 2003, SK Networks is in a collaborative management with creditors' association committee. In October 2003, in connection with the loans and guarantee credits with SK Networks, W138.0 billion (US\$ 115.2 million) excluding estimated collectible amount from collateral provided by SK Networks and liquidation of the subsidiary of SK Networks in Hong Kong, was converted into W98.0 billion (US\$ 81.8 million) of securities and the remaining W40.0 billion (US\$ 33.4 million) will be swapped into equity. As of December 31, 2003, the Bank provides credits to SK Networks and its subsidiaries amounting to W303.0 billion (US\$ 253.0 million) from the bank accounts including W101.5 billion (US\$ 84.7 million) of L/C bills bought in foreign currency classified as normal and W40.0 billion (US\$ 33.4 million) of loans to be swapped into equity mentioned above. In connection with these credits, the Bank provided an allowance for possible loan losses amounting to W93.8 billion (US\$ 78.3 million). Since the going-concern of SK Networks will highly depend on the future progress of its rescue plan and effective support of financial creditors, actual credit loss from these credit exposures may differ materially from management's current assessment.

(8) Loans and Securities to credit card corporation

Many credit card companies in Korea have been facing difficulties in liquidity due to the bad credit of assets at the end of 2003. Of the credit card companies, LG Card Co., Ltd has been supported with W2 trillion by the Financial Institution Creditors based on their agreement on November 24, 2003 caused by the significant financial difficulties. The association of Financial Institution Creditors in January 2004 agreed to support new loan of W1,591.6 billion (US\$ 1,328.8 million) and exercise debt-to-equity swap of W1,907.8 billion (US\$ 1,592.8 million) for rehabilitating LG Card Co., Ltd. According to the above agreement, the Bank acquired asset-backed securities of W103.0 billion (US\$ 86.0 million) issued by LG Card Co., Ltd. in December 2003 and the Bank plans to exercise debt-to-equity swap amounting to W73.7 billion (US\$ 61.5 million) and to provide additional loan of W73.4 billion (US\$ 61.3 million) in 2004. The loans and securities of the Bank (including trust accounts) in relation to LG Card are W265.2 billion (US\$ 221.4 million) as of December 31, 2003. The going concern issues on LG Card Co., Ltd. are highly dependent on the rehabilitation plan and an effective financial support from Financial Institution Creditors. Therefore, the actual amount to be collected from loans and securities held by the Bank might materially differ from management's current estimation.

(9) The valuation of subordinated bonds acquired through the disposal of multi-debtors' credit card loans

The Bank joined the disposal program of credits with individual debtors associated with multi financial institutions. The program was designed for restructuring troubled debts of individuals by the Credit Welfare Committee. In this connection, the Bank disposed of its loans of W536,407 million (US\$ 447,827 thousand) [including written-off loans of W68,199 million (US\$ 140,423 thousand)] for W48,180 million (US\$ 40,224 thousand) of cash and W169,560 million (US\$ 141,560 thousand) of subordinated bonds. The Bank recognized all subordinated bonds as loss on sale of loans due to its doubtful collectibility as of the current period.

(10) Disposal of non-performing loans

Besides disposal of credit card loans with multi-debtors described in (9), the Bank sold its written-off loans amounting to W1,012,994 million (US\$ 845,712 thousand) to Jinheung Savings Bank and others at W129,179 million (US\$ 107,847 thousand) in 2003.

(11) Details of loans restructured for the year ended December 31, 2003 including swap of debts to equity or mandatory convertible bonds are summarized as follows (in millions of Won):

Borrowers	Status of borrowers	Date of restructuring	Loans before restructuring	Principal forgiveness	Loans to be swapped into equity	Loans swapped into equity	Other changes in terms
SK Networks	Restructuring Promotion Law	2003. 10. 27	W 299,516	W -	W 39,975	W 98,010	W 161,531
Ssangyong Corporation	Restructuring Promotion Law	2003. 10. 25	79,570	-	-	79,570	-
Inchon Oil Refinery Co., Ltd.	Court receivership	2003. 3. 25	78,000	-	-	11,700	66,300
Chungnam Spinning Co.	Court receivership	2003. 9. 19	35,565	-	-	-	35,565
Kolon-TNS	Court receivership	2003. 9. 2	9,195	-	-	-	9,195
KIA Steel Co., Ltd.	Court receivership	2003. 11. 10	4,246	-	-	3,944	302
Choil Paper	Court receivership	2003. 3. 25	3,834	-	-	3,834	-
Acorn Co.	Court receivership	2003. 4. 4	3,428	-	-	-	3,428
Koryo Co., Ltd.	Court receivership	2003. 12. 8	3,324	-	-	3,324	-
Other (7 borrowers)			3,659	396	1,637	389	1,237
			W 520,337	W 396	W 41,612	W 200,771	W 277,558

Loans to be swapped into equity are the receivables that were committed for swap against equity securities in the future. As of December 31, 2003, loans to be swapped into equity in the balance sheet include W776 million (US\$ 648 thousand) with Kukje Corporation, which has been under court receivership since 2001.

Details of loans restructured for the year ended December 31, 2002 including swap of debts to equity or mandatory convertible bonds are summarized as follows (in millions of Won):

Borrowers	Status of borrowers	Date of restructuring	Loans before restructuring	Principal forgiveness	Loans to be swapped into equity	Loans swapped into equity	Other changes in terms
Ssangyong Corporation	Restructuring Promotion Law	2002. 2. 8	W 470,627	W -	W 128,220	W 10,000	W 332,407
Hynix Semiconductor Inc.	Restructuring Promotion Law	2002. 12. 30	160,108	-	-	160,108	-
Ssangyong Corporation	Restructuring Promotion Law	2002. 12. 24	57,866	-	-	57,866	-
Dongbang Textile & Mart Co., Ltd.	Others	2002. 3. 23	39,783	-	-	-	39,783
Daewoo Electronics Corp.	Work-Out	2002. 11. 18	28,973	-	-	28,973	-
Dongsu Industrial Co., Ltd.	Court receivership	2002. 1. 23	17,025	-	-	2,769	14,256
Bumyang Shipping Co., Ltd.	Court receivership	2002. 2. 6	10,700	-	-	10,700	-
Other (7 borrowers)			25,182	8,975	-	15,020	1,187
			W 810,264	W 8,975	W 128,220	W 285,436	W 387,633

Loans to be swapped into equity are the receivables that were committed for swap against equity securities in the future. As of December 31, 2002, loans to be swapped into equity in the balance sheet include W128,220 million with Ssangyong Corporation, which was committed in 2002, and W1,164 million with Kukje Corporation, which has been under court receivership since 2001.

7. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) As of December 31, 2002 and 2003, the Bank complied with the minimum regulatory guideline for loan loss provision, as described in Note 2, announced by the Korean Financial Supervisory Commission (FSC). The allowance for possible loan losses as of December 31, 2002 and 2003 is summarized as follows:

	Billions of Korean Won		Millions of U.S. Dollars (Note 2)
	2002	2003	2003
Loans in local currency	W 797.8	W 970.2	\$ 810.0
Loans in foreign currencies	81.1	115.8	96.7
Bills bought in foreign currencies	126.7	87.8	73.3
Advances for customers on payment guarantees	26.0	31.0	25.9
Credit card accounts	465.6	378.5	316.0
Privately placed bonds	9.4	36.0	30.1
Financing lease receivables	9.7	2.7	2.2
Other	88.3	36.9	30.8
	W 1,604.6	W 1,658.9	\$ 1,385.0

(2) The changes in allowance for possible loan losses in 2002 and 2003 were as follows:

	Billions of Korean Won		Millions of U.S. Dollars (Note 2)
	2002	2003	2003
Beginning balance	W 1,030.7	W 1,604.6	\$ 1,339.6
Provision for possible loan losses	1,542.9	2,159.9	1,803.2
Write-offs	(907.1)	(1,780.6)	(1,486.5)
Other changes (Note)	(61.9)	(325.0)	(271.3)
Ending balance	W 1,604.6	W 1,658.9	\$ 1,385.0

(Note) Other changes are due to equity swaps, sales of loans, repurchases of loans sold by recourse obligation and collection of loan written off.

(3) The allowance for possible loan losses compared to total credits in bank accounts as of December 31, 2001, 2002 and 2003 is summarized as follows:

	Total credits		Allowance for possible loan losses		Coverage ratio (%)
	Billions of Korean Won	Millions of U.S. Dollars (Note 2)	Billions of Korean Won	Millions of U.S. Dollars (Note 2)	
December 31, 2003	W 43,741.5	\$ 36,518.2	W 1,658.9	\$ 1,385.0	3.79
December 31, 2002	46,093.1	38,481.5	1,604.6	1,339.6	3.48
December 31, 2001	34,262.7	28,604.7	1,030.7	860.5	3.01

(4) The following tables set forth the classification of total credits in bank accounts as of December 31, 2003 and 2002 (in billion of Won):

2003

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	W 32,846.1	W 763.5	W 466.5	W 426.0	W 246.0	W 34,748.1
Loans in foreign currencies	2,468.7	274.8	131.1	10.4	1.0	2,886.0
Bills bought in foreign currencies	1,651.5	64.4	0.6	-	56.3	1,772.8
Advances for customers						
on payment guarantees	5.6	3.2	36.1	11.3	18.0	74.2
Credit card accounts	2,678.4	594.5	0.9	361.8	63.1	3,698.7
Privately placed bonds	315.4	22.4	16.0	2.0	-	355.8
Financing lease receivables	122.8	-	-	2.9	0.6	126.3
Others	15.4	0.2	41.5	0.2	22.3	79.6
	W 40,103.9	W 1,723.0	W 692.7	W 814.6	W 407.3	W 43,741.5

Total credits described above present the amount after deducting the present value discounts of W16.2 billion (US\$ 13.5 million), excluding W15.1 billion (US\$ 12.6 million) of inter-bank loans in local currency, W279.3 billion (US\$ 233.2 million) of inter-bank loans in foreign currencies and W351.0 billion (US\$ 293.0 million) of call loans. Accounts receivable and suspense receivables that have credit attribution and subject to asset classification amounting to W24.5 billion (US\$ 20.5 million) is included above.

The Bank provides more than the minimum rate of allowance for loan losses required by the FSC for certain loans with restructuring companies under the Restructuring Promotion Law after the approvals of the executive directors committee and board of directors. As of December 31, 2003, the Bank provided more than 20 percent of allowance for possible loan losses amounting to W110.0 billion (US\$ 91.8 million) for W220.1 billion (US\$ 183.8 million) of credits as precautionary.

2002

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	W 31,163.2	W 719.4	W 310.2	W 488.4	W 65.6	W 32,746.8
Loans in foreign currencies	2,970.1	273.1	37.1	18.0	9.6	3,307.9
Bills bought in foreign currencies	1,622.9	110.5	0.6	87.6	0.2	1,821.8
Advances for customers						
on payment guarantees	11.3	20.3	29.4	16.1	0.7	77.8
Credit card accounts	4,969.4	407.0	0.6	386.1	135.4	5,898.5
Privately placed bonds	136.0	24.9	24.2	0.1	-	185.2
Financing lease receivables	167.6	-	2.1	12.9	-	182.6
Others	1,676.9	185.2	3.5	0.2	6.7	1,872.5
	W 42,717.4	W 1,740.4	W 407.7	W 1,009.4	W 218.2	W 46,093.1

Total credits described above present the amount after deducting the present value discounts of W18.5 billion, excluding W16.7 billion of inter-bank loans in local currency, W172.8 billion of inter-bank loans in foreign currencies and W655.8 billion of call loans. Accounts receivable and suspense receivables that have credit attribution and subject to asset classification amounting to W3.3 billion is included above.

The Bank provided more than the minimum rate of allowance for loan losses required by the FSC for certain loans with restructuring companies under the Restructuring Promotion Law after the approvals of the executive directors committee and board of directors. As of December 31, 2002, the Bank provided more than 20 percent of allowance for possible loan losses amounting to W258.1 billion for W516.1 billion of credits as precautionary.

8. PRESENT VALUE DISCOUNTS:

(1) Present value discounts in relation to the restructured loans as of December 31, 2003 are summarized as follows:

	Face value			Maturity date	Unamortized present value discounts	
	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)	Discount rate (%)		Millions of Korean Won	Thousands of U.S. Dollars (Note 2)
Inchon Oil Refinery Co., Ltd.	W 66,300	\$ 55,351	10.00	2011. 12. 31	W 10,504	\$ 8,769
Hanjin Shipping Co., Ltd.	4,809	4,015	11.50	2017. 10. 1	3,544	2,959
Renault Samsung Motors Co., Ltd.	4,243	3,542	10.00	2015. 3. 13	1,813	1,514
Korean Air Lines Co., Ltd.	2,349	1,961	10.00	2009. 12. 31	761	635
Doosung Sbtech Co., Ltd.	2,465	2,058	16.50	2011. 3. 31	446	372
Hanjin Transportation Co., Ltd.	880	735	11.50	2017. 10. 1	288	240
Hanjin Heavy Industries & Construction Co., Ltd.	880	735	11.50	2008. 4. 20	288	240
Jungseok Enterprise Co., Ltd.	589	492	11.50	2017. 10. 1	196	164
Korean Airport Service Co., Ltd.	805	672	11.50	2017. 10. 1	118	99
Namsun NPS	626	522	10.00	2004. 12. 31	12	10
	W 83,946	\$ 70,083			W 17,970	\$ 15,002

(2) Present value discounts in relation to the restructured loans as of December 31, 2002 are summarized as follows:

Borrower	Face value			Maturity date	Unamortized present value discounts
	Millions of Korean Won	Discount rate (%)	Millions of Korean Won		
Daelim Industrial Co., Ltd.	W 75,380	11.50	2008. 9. 8	W 10,906	
Hanjin Shipping Co., Ltd.	4,809	11.50	2017. 10. 1	3,797	
Renault Samsung Motors Co., Ltd.	4,243	10.00	2015. 3. 13	2,034	
Korea Industry Development Co., Ltd.	8,976	12.40	2011. 12. 31	1,147	
Korean Air Lines Co., Ltd.	2,349	10.00	2009. 12. 31	815	
Doosung Sbtech Co., Ltd.	2,797	16.50	2011. 3. 31	659	
Hanjin Transportation Co., Ltd.	880	11.50	2017. 10. 1	309	
Hanjin Heavy Industries & Construction Co., Ltd.	880	11.50	2008. 4. 20	309	
Jungseok Enterprise Co., Ltd.	589	11.50	2017. 10. 1	210	
Korean Airport Service Co., Ltd.	805	11.50	2017. 10. 1	126	
Others (11 companies)	21,210			154	
	W 122,918			W 20,466	

(3) Changes in present value discounts for the year ended December 31, 2003 are summarized as follows (in millions of Won):

Conditions of borrowers	Beginning balance	Increase	Decrease	Ending balance
Work-out programs	W 154	W -	W 142	W 12
Industrial rationalization	16,472	-	11,277	5,195
Court receivership	3,181	14,505	5,369	12,317
Composition	659	-	213	446
	W 20,466	W 14,505	W 17,001	W 17,970

9. FIXED ASSETS:

(1) Fixed assets as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Land	W 846,517	W 800,743	\$ 668,511
Buildings	394,438	401,397	335,112
Furniture and equipment	485,598	514,868	429,845
Leasehold improvements	45,465	50,213	41,921
Construction in progress	817	1,242	1,037
Total tangible assets	1,772,835	1,768,463	1,476,426
Accumulated depreciation	(474,016)	(491,787)	(410,575)
Net tangible assets	1,298,819	1,276,676	1,065,851
Goodwill	112,020	-	-
Other intangible assets	4,300	3,806	3,178
Non-business use properties	173	173	144
	W 1,415,312	W 1,280,655	\$ 1,069,173

As of December 31, 2002 and 2003, the published value of land was W624,995 million and W649,357 million (US\$ 542,125 thousand), respectively, using the disclosed public land price announced annually by the government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

(2) The changes in the fixed assets for the year ended December 31, 2003 are summarized as follows (In millions of Won):

	Book value As of Dec. 31 2002	Acquisition	Disposal	Depreciation	Others	Book value As of Dec. 31 2003
Land	W 846,517	W 7,277	W 53,051	W -	W -	W 800,743
Buildings	319,173	16,617	7,536	12,325	-	315,929
Furniture and equipment	120,460	106,236	557	79,818	(204)	146,117
Leasehold improvements	11,852	7,443	432	6,169	(49)	12,645
Construction in progress	817	1,313	-	-	(888)	1,242
Goodwill	112,020	-	-	112,020	-	-
Other intangible assets	4,300	189	-	662	(21)	3,806
Non-business use properties	173	-	-	-	-	173
	W 1,415,312	W 139,075	W 61,576	W 210,994	W (1,162)	W 1,280,655

10. OTHER ASSETS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Guarantee deposits	W 460,949	W 484,130	\$ 404,183
Accounts receivable	1,528,507	429,190	358,315
Accrued income	336,855	242,195	202,200
Prepaid expenses	6,286	3,849	3,213
Deferred income tax assets (see Note 25)	227,067	180,174	150,421
Domestic exchange settlement account - debit	2,533,003	2,660,250	2,220,947
Adjustment for valuation of financial derivatives	139,932	155,906	130,160
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	152,121	125,920	105,126
Loans to trust accounts	145,400	80,400	67,123
Accounts receivables - other	25,129	18,112	15,121
Other	125,814	106,438	88,861
	W 5,681,063	W 4,486,564	\$ 3,745,670

11. COLLATERALIZED ASSETS:

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

Collateralized assets	Provided to	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Provided for
		2002	2003	2003	
Securities	Bank of Korea	W 1,400,000	W 1,394,240	\$ 1,164,001	RP of Bank of Korea (BOK)
"	"	497,160	850,000	709,634	Borrowings from BOK
"	"	735,000	741,000	618,634	Intra-day overdraft from BOK
"	"	146,700	320,500	267,574	Settlement risk
"	Development Bank of Singapore and others	857,700	1,297,050	1,082,860	Borrowings in foreign currencies
"	Customer RP	695,000	360,000	300,551	Customer RP
"	Korea Securities Finance Corporation	65,000	-	-	Fund of government bonds
"	Samsung Futures Inc. and other	19,500	23,500	19,619	Futures transaction
"	KAMCO	25,988	-	-	Settlement of sales of non-performing loans
"	CHB NPL 1 st SPC	40,000	40,000	33,395	Collateral regarding the issuance of ABS
"	Seoul Guarantee Insurance Co. and other	78,802	9,000	7,514	Securities lent
Real estate for business purposes	Lessees	12,015	14,012	11,698	Key money deposits for rent
		W 4,572,865	W 5,049,302	\$ 4,215,480	

12. INSURED ASSETS:

Assets insured as of December 31, 2002 and 2003 are as follows (in millions of Won):

Type of insurance	Assets	Book Value		Insured Amount	
		2002	2003	2002	2003
Fire	Buildings	W 319,173	W 315,929	W 312,958	W 316,233
	Furniture and equipment	132,312	146,117	143,824	169,091
		W 451,485	W 462,046	W 456,782	W 485,324

13. DEPOSITS:

(1) Deposits as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Deposits in local currency	W 38,538,270	W 35,540,313	\$ 29,671,325
Deposits in foreign currencies	1,195,292	1,248,501	1,042,329
Negotiable certificates of deposits	4,151,898	1,900,196	1,586,405
Deposits in bills issued	1,106,525	1,156,501	965,521
Trust of cash management accounts	133,854	184,580	154,099
	W 45,125,839	W 40,030,091	\$ 33,419,679

(2) Deposits in local currency and foreign currencies from other banks and financial institutions as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2002	2003	2003	2002	2003
Commercial banks	W 1,415,175	W 941,221	\$ 785,791	45.50	60.66
Securities companies	471,969	122,116	101,950	15.18	7.87
Insurance companies	247,007	180,545	150,731	7.94	11.64
Savings institutions	696,889	75,714	63,211	22.41	4.88
Other financial institutions	279,113	232,022	193,707	8.97	14.95
	W 3,110,153	W 1,551,618	\$ 1,295,390	100.00	100.00

14. BORROWINGS:

Borrowings as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Borrowings in local currency:			
General borrowings	W 1,288,124	W 1,620,099	\$ 1,352,562
Subordinated borrowings	15,000	-	-
	1,303,124	1,620,099	1,352,562
Borrowings in foreign currencies	3,536,020	2,672,863	2,231,477
Bonds sold under repurchase agreements	995,311	1,221,930	1,020,145
Bills sold	900,459	45,801	38,237
Due to Bank of Korea in foreign currencies	14,372	2,739	2,287
Call money	94,435	148,490	123,969
	W 6,843,721	W 5,711,922	\$ 4,768,677

15. DEBENTURES:

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

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
		2002	2003	2003
Debentures in local currency:				
General debentures	3.94-6.97%			
	CD+0.24-0.35	W 4,108,792	W 4,470,193	\$ 3,732,003
Subordinated debentures	6.00-18.00%	1,002,000	1,100,000	918,350
Hybrid debts (Note)	7.80%	-	272,564	227,554
		5,110,792	5,842,757	4,877,907
Discounts on debentures		(84,399)	(43,428)	(32,256)
		5,026,393	5,799,329	4,841,651
Debentures in foreign currencies:				
Subordinated debentures	6M Libor +4.95%, 11.50-11.88%	653,834	631,573	527,278
		653,834	631,573	527,278
Discounts on debentures		(7,878)	(6,737)	(5,625)
		645,956	624,836	521,653
		W 5,672,349	W 6,424,165	\$ 5,363,304

(Note) The Bank issued Hybrid debts amounting to W272,564 million (US\$ 227,554 thousand) by registering at Korea Securities Depository in order to raise BIS ratio on June 28, 2003 and the details are as follows:

	Details
1. Repurchase claim (call option)	Repurchase claim option is owned by the issuer and after 5 years from the issue date, a call option can be exercised for a repurchase under the approval of the chief of the FSS.
2. Interest rate	Annual interest rate of 7.80% for 10 years from the issue date and after 10 years annual interest rate of 7.80% + (7.80%- interest rate for 5-year maturity public bond issued on the same date) X 50% is applied.
3. Conditions for interest payments	Interests are paid at the end of every 3-month period, calculated on a monthly basis.
4. Date of maturity	Matured in 30 years from the issue date but the date of maturity can be extended by the Bank at any time.
5. Other	In case that the Bank is considered as unsound financial institution or receives remedy order to improve its financial status by the Financial Supervisory Service (FSS), payment of interests will be stopped until the related problem is resolved. Also, in case the shareholders decided no dividend to common stock, payment of interests could be suspended.

16. OTHER LIABILITIES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Accrued severance benefits (see Note 2)	W 51,560	W 82,592	\$ 68,953	
Deposits with employee retirement trust (see Note 2)	(30,000)	(49,551)	(41,368)	
Allowance for possible losses on acceptances and guarantees (see Note 17)	125,923	54,004	45,086	
Other allowance for bad debts (see Note 18)	15,357	52,049	43,454	
Borrowings from trust accounts	446,698	361,990	302,212	
Foreign exchange remittances pending	57,879	53,227	44,437	
Accounts payable	1,444,027	338,559	282,651	
Accrued expenses	889,362	770,103	642,931	
Unearned revenues	99,788	80,464	67,176	
Deposits for letters of guarantees and other	63,133	66,213	55,279	
Domestic exchange settlement account - credit	2,318,345	2,374,855	1,982,681	
Accounts payable - other	168,580	91,160	76,106	
Adjustment for valuation of financial derivatives	80,986	127,182	106,180	
Others	530,443	720,199	601,268	
	W 6,262,081	W 5,123,046	\$ 4,277,046	

17. ALLOWANCE FOR POSSIBLE LOSSES ON CONFIRMED ACCEPTANCES AND GUARANTEES:

(1) The classifications of confirmed acceptances and guarantees as of December 31, 2002 and 2003 are summarized as follows (in billions of Won):

	2003					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Confirmed acceptances and guarantees	W 786.5	W 50.3	W 153.7	W 1.9	W -	W 992.4
Required ratio of allowance for credit losses to credit balances	0%	0%	20%	50%	100%	
Minimum required allowance for credit losses	W -	W -	W 30.7	W 1.0	W -	W 31.7
Allowance for credit losses recorded	W -	W 18.3	W 34.7	W 1.0	W -	W 54.0

	2002					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Confirmed acceptances and guarantees	W 960.4	W 134.2	W 2.2	W 140.1	W 0.7	W 1,237.6
Required ratio of allowance for credit losses to credit balances	0%	0%	20%	50%	100%	
Minimum required allowance for credit losses	W -	W -	W 0.4	W 70.1	W 0.7	W 71.2
Allowance for credit losses recorded	W -	W 54.7	W 0.4	W 70.1	W 0.7	W 125.9

(2) Percentages of allowances for acceptances and guarantees outstanding on the aggregate amount of acceptances and guarantees outstanding as of December 31, 2001, 2002 and 2003 are summarized as follows (in billions of Won):

	As of December 31, 2001	As of December 31, 2002	As of December 31, 2003
Aggregate amount of acceptances and guarantees confirmed	W 2,190.7	W 1,237.6	W 992.4
Allowances for acceptances and guarantees confirmed	W 51.6	W 125.9	W 54.0
Coverage ratio (%)	2.36	10.17	5.44

18. OTHER ALLOWANCES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Additional loss expected on sale of non-performing loans with the right of recourse (Note 1)	W 10,000	W 11,628	\$ 9,708
Allowance on unused cash advance service limit (Note 2)	863	4,267	3,562
Allowance on credit card points accumulated (Note 3)	2,494	10,012	8,359
Additional loss expected due to pending lawsuits (Note 4)	2,000	22,900	19,118
Loss expected due to possible monetary losses (Note 5)	-	3,242	2,707
	W 15,357	W 52,049	\$ 43,454

(Note 1) Additional loss expected from the non-performing loans with the right of recourse sold to KAMCO.

(Note 2) 1% of allowance on the amount calculated by deducting the cash advances used by the credit card holders from the 75% of the total cash advance service limits.

(Note 3) Expected future expenses due to the credit card points accumulated and unused by the credit card holders of the Bank.

(Note 4) Additional loss expected from the pending lawsuits.

(Note 5) Estimated loss expected from possible monetary loses.

19. SHAREHOLDERS' EQUITY:

(1) Common stock:

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 719,118,429 common shares were issued and outstanding as of December 31, 2003.

In accordance with the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at the rate of 4.5045 shares to one share under a capital reduction without consideration. The capital reduction resulted in a decrease of W723.9 billion in the common stock and a gain for the same amount, which was offset against accumulated deficit in 1999. On February 19, 1999, May 7, 1999 and September 30, 1999, the Bank increased its common stock by a total of W2,717.9 billion by issuing 544 million shares to Korea Deposit Insurance Corporation (KDIC) at par value. In addition, the Bank increased its common stock as a result of the acquisitions of Chungbuk Bank and Kangwon Bank. On November 23, 1999, the Bank increased its common stock by W275.0 billion through an offering of 55,000,000 shares of common stock for an aggregate offer price of approximately W302.5 billion. In 2002, common stock of the Bank increased by 40,314 shares or W201 million through the exercise of stock warrants. In addition, Shinhan Financial Group, who became a majority shareholder by acquiring 80.04 percent of shares held by KIDC on August 19, 2003, contributed capital amounting to W200,000 million (US\$ 166,973 thousand) on December 26, 2003. As a result, as of December 31, 2003, common stock capital of the Bank is W3,595,592 million (US\$ 3,001,830 thousand) and Shinhan Financial Group owns 81.15 percent of the Bank's common shares.

(2) Disposition of accumulated deficit:

To dispose of the accumulated deficit, on February 28, 1998, the Bank transferred voluntary reserves amounting to W279.3 billion and on February 18, 1999, capital surplus, statutory reserves and other voluntary reserves totaling to W1,196.0 billion were also transferred. On February 12, 1999, the Bank disposed of its accumulated deficits using the gain on reduction of capital stock of W723.9 billion, which was recognized by resolution in a temporary general meeting of shareholders held on January 27, 1999. In 2002, the Bank disposed of its accumulated deficits using capital in excess of par value of W24 million derived from the execution of the stock warrants and gains on disposal of treasury stock (classified as other capital surplus) of W45,155 million.

(3) Other reserves:

Other reserves were appropriated in the branches located in Tokyo and Mumbai according to the banking laws of Japan and India, respectively, and may be used to offset a deficit incurred in those branches exclusively. The beginning balance of other reserves for the current period was W10,619 million (US\$ 8,865 thousand) and ending balance was W14,624 million (US\$ 12,209 thousand), reflecting W3,146 million (US\$ 2,626 thousand) of reserve and W859 million (US\$ 717 thousand) of foreign currency translation loss.

(4) Capital adjustments:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Discount on stock issuance	W -	W (1,037)	\$ (866)
Stock option costs	2,456	2,713	2,265
Gain (loss) on valuation of securities, net	(185,007)	227,203	189,684
	W (182,551)	W 228,879	\$ 191,083

1) Stock option costs:

On March 27, 2000, March 9, 2001, March 29, 2002 and March 28, 2003, the Bank granted stock options, which give the grantee the right to buy the Bank's shares, to the management of the Bank including the president and deputy-president. The number of stock options granted will be determined depending on the relative stock price increase rate of the Bank over the banking industry's stock price increase rate, the Bank's non-performing loans ratio and BIS capital ratio. If the stock options are exercised, the Bank has the option either to issue new shares or shares held as treasury stock, or to pay the difference between the market price and the exercise price in cash or with treasury stock.

The summary of stock options granted as of December 31, 2003 is summarized as follows:

Description	First grant	Second grant	Third grant	Fourth grant
Number of shares might be issued	969,200 shares	664,000 shares	312,000 shares	165,090 shares
Finalized Exercisable number of shares	211,645 shares	Pending	Pending	Pending
Type	Share issue	Share issue	Share issue	Share issue
Exercise price	W5,000 per share	W5,000 per share	W5,860 per share	W5,000 per share
Exercisable period	2003.3.28~2006.3.27	2004.3.10~2007.3.9	2004.3.30~2007.3.29	2005.3.29~2008.3.28
Valuation method	Fair value approach	Fair value approach	Fair value approach	Fair value approach

The summary of stock option costs over the exercisable period is summarized as follows (in millions of Won):

Description	First grant	Second grant	Third grant	Fourth grant	Total
Total stock option costs	W 989	W 912	W 1,451	W 243	W 3,595
Amortized in prior periods	989	862	605	-	2,456
Amortized for the year ended					
December 31, 2003	(773)	50	810	170	257
To be amortized after current period	-	-	36	73	109

As the exercisable number of shares for the stock options granted on March 27, 2000 is finalized in 2003, the stock option cost amounting to W773 million (US\$ 645 thousand), pertaining to the extinguished stock options (757,555 shares) due to the non fulfillment of the required conditions, was deducted from current stock option expenses and off-set with stock option liabilities. In addition, the initial number of stock options of 4th grant was 312,000 shares; however, due to mid-retirement of some grantees, the granted shares decreased to 165,090 shares as of December 31, 2003. The Bank increased its capital in 2003 at the higher price than its market price, which increased its exercise price to W5,860 per share.

The Bank estimated stock option costs using the Black/Scholes Pricing Model as follows:

Description	Application
Risk free rate	Yield of 3 year treasury bond (9.07% for the first, 5.99% for the second, 6.39% for the third and 4.68% for the fourth grant)
Expected exercising period	4.5 years for the first and second, 3.5 years for the third and fourth
Expected variable of stock price	81% for the first, 95% for the second, 93% for the third and 83% for the fourth, which are the annualized standard deviation of expected stock investment yield based on continuous compounding method
Weight average of exercise price	W5,000 per share (for the first, second and fourth) and W5,860 (for the third)
Weight average of fair value	W989 million (for the first), W912 million (for the second), W1,451 million (for the third) and W243 million (for the fourth)

2) Gain (loss) on valuation of securities, net:

Gain (loss) on valuation of securities as of December 31, 2002 and 2003 consisted of:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Gain on valuation of investment securities of subsidiaries using the equity method	W 23,386	W 23,007	\$ 19,208
Loss on valuation of available-for-sale securities of overseas branches	(451)	(337)	(281)
Gain (loss) on valuation of available-for-sale securities of headquarters	(207,942)	204,533	170,757
	W (185,007)	W 227,203	\$ 189,684

20. INTEREST ON LOANS:

For the years ended December 31, 2002 and 2003, the interest on loans included income from credit card cash advances and card loans amounting to W546.2 billion and W457.3 billion (US\$ 381.8 million), respectively.

21. FEES AND COMMISSIONS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Guarantee fees	W 10,129	W 9,116	\$ 7,611
Fees and Commission on credit card accounts	560,419	473,612	395,402
Commissions received from early termination of trust accounts	378	216	180
Service charges on other financial services	192,765	213,060	177,876
	W 763,691	W 696,004	\$ 581,069

Fees and commissions included income from credit card purchases and installment payments.

22. OTHER NON-INTEREST INCOME:

Other income of non-interest income for the years ended December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Reversal of allowance for possible losses of acceptances and guarantees	W -	W 71,919	\$ 60,043
Gain on disposal of fixed assets	7,396	5,132	4,285
Recovery of available-for-sale securities impairment loss	223	19,026	15,884
Gain on valuation using the equity method	22,388	-	-
Other	99,221	149,475	124,791
	W 129,228	W 245,552	\$ 205,003

23. GENERAL AND ADMINISTRATIVE EXPENSES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Salaries	W 338,648	W 338,026	\$ 282,206
Provision for severance benefits	32,763	32,986	27,539
Other employee benefits	67,422	81,381	67,942
Rent	25,875	31,415	26,227
Entertainment	7,701	7,499	6,261
Depreciation	76,987	98,312	82,077
Amortization of intangible assets	112,803	112,682	94,074
Taxes and dues	39,756	39,161	32,694
Advertising	16,383	9,204	7,684
Other	137,990	157,584	131,561
	W 856,328	W 908,250	\$ 758,265

24. OTHER NON-INTEREST EXPENSES:

Other expenses of non-interest expenses for the years ended December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Loss on disposal of fixed assets	W 17,626	W 15,862	\$ 13,243
Insurance	33,655	69,565	58,077
Allowance for possible losses of acceptances and guarantees	74,829	-	-
Other provision for possible losses	15,357	48,557	40,538
Other	120,574	119,067	99,405
	W 262,041	W 253,051	\$ 211,263

25. INCOME TAX EXPENSE:

The annual tax charge takes into account current income tax on taxable income and expenses for the period, and deferred taxes resulting from timing differences and loss carryforward. Deferred taxes are calculated according to the liability method for the timing differences added or deducted during the year and loss carryforward using the future year's estimated tax rate. Tax rate is 29.7 percent in 2002 and 2003. From 2005, it will decrease to 27.5 percent.

(1) Income tax expense (benefits) for the years ended December 31, 2002 and 2003 consisted of the following:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Domestic offices:			
Income tax to be paid	W 99	W 1,142	\$ 954
Tax effect on changes in cumulative temporary differences	(78,082)	31,245	26,085
Tax effect on changes in tax loss carryforward	48,082	10,784	9,003
	W (29,901)	W 43,171	\$ 36,042
Overseas offices:			
Income tax to be paid	W 1,605	W 2,141	\$ 1,788
Tax effect on changes in cumulative temporary differences	3,181	4,864	4,060
	4,786	7,005	5,848
Income tax expense (benefits)	W (25,115)	W 50,176	\$ 41,890

(2) For the years ended December 31, 2002 and 2003, the differences between the income before income tax in financial accounting and the taxable income pursuant to Corporate Income Tax Law of Korea are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Income before income tax	W (611,160)	W (915,775)	\$ (764,548)
Permanent differences	42,514	15,929	13,299
Temporary differences	944,814	123,079	102,754
	376,168	(776,767)	(648,495)
Tax loss carryforward	376,168	-	-
Taxable income (loss)	W -	W (776,767)	\$ (648,495)

(3) Details of cumulative temporary differences and loss carryforward, including their increase and decrease, for the current period are summarized as follows (in millions of Won):

Accounts	Beginning balance		Increase		Decrease		Ending balance	
Allowance for possible loan losses	W	388,134	W	294,995	W	388,134	W	294,995
Goodwill		(112,020)		-		(112,020)		-
Accrued interest		(184,142)		(69,922)		(150,003)		(104,061)
Allowance for possible losses of confirmed acceptances and guarantees		125,923		54,004		125,923		54,004
Gain on valuation of derivatives		(58,946)		(28,724)		(58,946)		(28,724)
Impairment loss on available-for-sale securities		544,295		232,629		204,559		572,365
Loans to be swapped into equity		272,568		-		13,898		258,670
Other		106,591		56,391		4,748		158,234
		1,082,403		539,373		416,293		1,205,483
Tax loss carryforward		2,522,575		776,767		2,357,404		941,938
	W	3,604,978	W	1,316,140	W	2,773,697	W	2,147,421

Some of the estimated amounts of cumulative temporary differences as of December 31, 2002 were differently finalized in filing its tax return. These differences are reflected and accounted for prospectively and the beginning balances of cumulative temporary differences of the year ended December 31, 2003 are based on the actual tax return file of prior year.

(4) Deferred income tax assets as of December 31, 2003 are summarized as follows (in millions of Won):

	As of December 31, 2002		Increase (Decrease)		As of December 31, 2003	
Domestic offices	W	220,029	W	(42,029)	W	178,000
Overseas offices		7,038		(4,863)		2,174
	W	227,067	W	(46,892)	W	180,174

The Bank has recognized the deferred income tax assets resulting from temporary difference and loss carryforward as of December 31, 2003 due to the likelihood of its realization. Although the Bank incurred net loss in 2003, the Bank has projected that results will continue to improve and the Bank has recognized the deferred income tax assets resulting from temporary differences and loss carryforwards.

(5) Tax loss carryforwards are subject to a five-year carryforward period. The details of tax loss carryforwards together with their effective period as of December 31, 2003 are summarized as follows (in millions of Won):

Year incurred	As of December 31, 2002		Use and termination in current period		Incurrence		Remaining balance as of December 31, 2003		Period deductible
1998	W	1,644,564	W	1,644,564	W	-	W	-	By 2003
1999		712,840		712,840		-		-	By 2003
2000		165,171		-		-		165,171	By 2005
2003		-		-		776,767		776,767	By 2008
	W	2,522,575	W	2,357,404	W	776,767	W	941,938	

The tax loss carryforwards incurred in 1999 were taken over from Kangwon Bank and Chungbuk Bank through the merger. However, for taxation purposes, this loss carryforward is separately maintained and deductible only when the related business division reports taxable income.

26. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

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

	Thousands of U.S. Dollars (Note 2)		Millions of Korean Won	
	2002	2003	2002	2003
Assets:				
Cash and due from banks	\$ 223,474	\$ 141,183	W 268,259	W 169,109
Securities	437,148	173,563	524,752	207,894
Loans	4,802,762	4,467,674	5,765,235	5,351,380
	\$ 5,463,384	\$ 4,782,420	W 6,558,246	W 5,728,383
Liabilities:				
Deposits	\$ 995,745	\$ 1,042,328	W 1,195,292	W 1,248,501
Borrowings	3,638,112	3,130,971	4,367,189	3,750,277
Debentures	544,680	527,278	653,834	631,573
Other liabilities	48,216	44,437	57,879	53,227
	\$ 5,226,753	\$ 4,745,014	W 6,274,194	W 5,638,578

27. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Subsidiaries as of December 31, 2003 are summarized as follows (in millions of Won):

Subsidiaries	Capital stock	Number of shares	Equity ownership (%)
In Korea:			
Chohung Investment Trust Management Co., Ltd.	W 45,000	7,179,678	79.77
Outside of Korea:			
Chohung Finance Ltd., Hong Kong	17,967	149,999	99.99
CHB America Bank	16,769	400,000	100.00
Chohung Bank (Deutschland) GmbH	23,048	Limited partnership	100.00
Chohung Vina Bank	23,956	Limited partnership	50.00

On March 24, 2003, Chohung Bank of New York and California Chohung Bank entered into a merger and established CHB America Bank.

(2) Significant balances with related parties as of December 31, 2003 are summarized as follows (in millions of Won):

Assets	Due from banks in foreign currencies	Loans in foreign currencies	Call loans
Chohung Finance Ltd., Hong Kong	W 651	W 61,088	W -
CHB America Bank	1,067	17,967	-
Chohung Bank (Deutschland) GmbH	1,197	97,959	9,617
	W 2,915	W 177,014	W 9,617

<u>Liabilities</u>	Deposits in local currency		Deposits in foreign currencies		Borrowings in foreign currencies		Call money	
Chohung Investment Trust Management Co., Ltd.	W	50,397	W	-	W	-	W	-
Chohung Finance Ltd., Hong Kong		-		79		85,586		5,989
Chohung Bank (Deutschland) GmbH		-		-		105,539		-
Chohung Vina Bank		-		-		16,769		-
	W	50,397	W	79	W	207,894	W	5,989

Significant transactions with related parties for the year ended December 31, 2003 are summarized as follows (in millions of Won):

	Interest income		Interest expense	
Chohung Investment Trust Management Co., Ltd.	W	1	W	2,902
Chohung Finance Ltd., Hong Kong		162		404
CHB America Bank		17		-
Chohung Bank (Deutschland) GmbH		1,970		3,814
Chohung Vina Bank		38		618
	W	2,188	W	7,738

(3) Significant balances with related parties as of December 31, 2002 are summarized as follows (in millions of Won):

<u>Assets</u>	Due from banks in foreign currencies		Loans in foreign currencies		Call loans	
Chohung Finance Ltd., Hong Kong	W	-	W	69,623	W	-
Chohung Bank of New York		1,154		10,804		-
Chohung Bank (Deutschland) GmbH		2,834		104,150		8,517
California Chohung Bank		847		-		-
Chohung Vina Bank		-		-		3,001
	W	4,835	W	184,577	W	11,518

<u>Liabilities</u>	Deposits in local currency		Deposits in foreign currencies		Borrowings in foreign currencies		Call money	
Chohung Investment Trust Management Co., Ltd.	W	55,939	W	-	W	-	W	-
Chohung Finance Ltd., Hong Kong		-		372		77,370		3,082
Chohung Bank (Deutschland) GmbH		-		-		136,141		14,495
Chohung Vina Bank		-		-		54,018		-
	W	55,939	W	372	W	267,529	W	17,577

Significant transactions with related parties for the year ended December 31, 2002 are summarized as follows (in millions of Won):

	Interest income		Interest expense	
Chohung Investment Trust Management Co., Ltd.	W	-	W	2,448
Chohung Finance Ltd., Hong Kong		269		443
Chohung Bank of New York		265		7
Chohung Bank (Deutschland) GmbH		3,027		4,239
Chohung Vina Bank		7		1,122
	W	3,568	W	8,259

(4) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2002 and 2003 are summarized as follows:

Beneficiary	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Description
	2002	2003	2003		
Chohung Finance Ltd., Hong Kong	W 1,921	W 240	\$ 200		L/C guarantees
Chohung Bank (Deutschland) GmbH	158	-	-		Guarantees for L/C and borrowings
Chohung Bank of New York	2,281	-	-		L/C guarantees
	W 4,360	W 240	\$ 200		

28. COMMITMENTS AND CONTINGENCIES:

In the normal course of its commercial banking business, the Bank makes various commitments and incurs certain contingent liabilities, which are not recorded in the financial statements.

(1) Guarantees and acceptances provided by the Bank as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2003	
Confirmed:				
Local currency:				
Corporate debentures	W 27,169	W 20,784	\$ 17,352	
Financing	94,516	76,224	63,637	
Other	455,141	420,050	350,684	
Foreign currencies:				
Acceptance	317,046	163,486	136,489	
Letters of guarantee - trade finance	61,592	47,475	39,635	
Other	282,160	264,369	220,712	
	W 1,237,624	W 992,388	\$ 828,509	
Unconfirmed:				
Issuance of letters of credit	W 1,199,663	W 1,077,717	\$ 899,747	
Other	307,712	266,277	222,305	
	W 1,507,375	W 1,343,994	\$ 1,122,052	

(2) Details, by industry sector, of acceptances and guarantees as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Percentage (%)	
	2002	2003	2003	2002	2003	
Manufacturing	W 1,953,201	W 1,556,334	\$ 1,299,327	71.15	66.61	
Wholesale/retail	618,458	545,934	455,781	22.53	23.37	
Finance/insurance	64,132	57,576	48,068	2.34	2.46	
Construction	19,352	21,413	17,877	0.71	0.92	
Others	89,856	155,125	129,508	3.27	6.64	
	W 2,744,999	W 2,336,382	\$ 1,950,561	100.00	100.00	

(3) Details, by borrower type, of acceptances and guarantees as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Percentage (%)	
	2002	2003	2003	2002	2003	
Enterprises	W 2,640,900	W 2,177,681	\$ 1,818,067	96.21	93.21	
Households	14,243	10,933	9,128	0.52	0.47	
Public sector and others	89,856	147,768	123,366	3.27	6.32	
	W 2,744,999	W 2,336,382	\$ 1,950,561	100.00	100.00	

(4) The financial derivatives contracts as of December 31, 2003 and 2002 are summarized as follows:

As of and for the year ended December 31, 2003, outstanding contract amount, gain or loss on valuation of financial derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets are summarized as follows (in millions of Won):

Type	Outstanding contract amount (Note)		Gain (loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forwards	W 8,341,309	W 191,766	W (1,911)	W (1,531)	W (11,042)
Currency swaps	1,149,577	-	3,004	-	(1,079)
	9,490,886	191,766	1,093	(1,531)	(12,121)
Interest rate futures	16,292	-	-	-	-
Interest rate swaps	4,411,196	722,087	2,081	(22,561)	40,539
	4,427,488	722,087	2,081	(22,561)	40,539
Stock index options (Buy)	8,300	111,231	(16)	10,667	17,630
Stock index options (Sell)	118,386	-	(9,787)	-	(17,324)
	126,686	111,231	(9,803)	10,667	306
	W 14,045,060	W 1,025,084	W (6,629)	W (13,425)	W 28,724

As of and for the year ended December 31, 2002, outstanding contract amount, gain or loss on valuation of financial derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets are summarized as follows (in millions of Won):

Type	Outstanding contract amount (Note)		Gain (loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forwards	W 2,135,827	W 164,086	W 8,798	W (1,838)	W 4,417
Currency swaps	243,969	148,690	(7,479)	(274)	(4,391)
Currency options (Buy)	1	-	-	-	-
Currency options (Sell)	1	-	-	(4)	-
	2,379,798	312,776	1,319	(2,116)	26
Interest rate futures	340,916	-	-	-	-
Interest rate swaps	2,415,602	762,503	(4,068)	22,464	58,898
	2,756,518	762,503	(4,068)	22,464	58,898
Stock index options (Buy)	5	-	14	-	22
Stock index options (Sell)	5	-	-	-	-
	10	-	14	-	22
	W 5,136,326	W 1,075,279	W (2,735)	W 20,348	W 58,946

(Note) Derivative contracts for Korean Won to foreign currency is translated into Korean Won using market exchange rate against foreign currency and the contracts for foreign currency to foreign currency is translated into Korean Won using market exchange rate at the balance sheet date against purchased foreign currency.

The outstanding contract amount and the gain or loss on valuation for hedging purpose as described in the table above, which include both the derivative transactions accounted for using hedge accounting, pursuant to the Interpretations on Financial Accounting Standards 53-70, and the derivative transactions used for hedging activities but not accounted for as hedges. As of December 31, 2003, the Bank does not have derivative transactions used for cash flow hedging activities or accounted for as cash flow hedges. However, the Bank has derivative instruments accounted for as fair value hedges. The hedged items, to which the fair value hedge accounting was applied, consist of investment securities and subordinated bonds issued. The hedging derivative instruments, such as interest rate swaps, were used to cover exposures to changes in fair value of hedged items resulting from the fluctuations in interest rates.

As a result of the valuation of hedged items accounted for using fair value hedge accounting, the gain on valuation of available-for-sale securities amounting to W415 million (US\$ 346 thousand), the loss on valuation of available-for-sale securities amounting to W1,075 million (US\$ 897 thousand), the gain on valuation of subordinated notes issued amounting to W23,029 million (US\$ 19,226 thousand) and the loss on valuation of subordinated notes issued amounting to W22 million (US\$ 18 thousand) for the year ended December 31, 2003 were reflected in current operations. The gain or loss on valuation of derivative instruments accounted for using fair value hedge accounting, which amounted to the opposite corresponding amounts resulting from valuation of hedged items, were also reflected in current operations.

With regard to accounting for the stock index futures traded in Korea Stock Exchange, the currency futures and the interest rate futures traded in Korea Futures Exchange, the gain or loss on valuation accounted for as settlement accounts in the balance sheet is subject to mark-to-market accounting. For the derivative contracts cleared or carried forward to the subsequent year, the difference between the purchase price (settlement price at the end of prior year for the contracts carried over from prior year) and the clearing price (market price for the contract carried forward to subsequent year without clearing) was accounted for as gain or loss on futures trading. There were unsettled interest rate futures amounting to W16,292 million (US\$ 13,602 thousand) as of December 31, 2003.

(5) Other commitments as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Commitments	W 47,196	W 39,716	\$ 33,157
Bills endorsed	25,175,677	7,017,601	5,858,742
Loans charge - offs	2,431,322	3,006,111	2,509,694
Loans sold under repurchase agreements	363,025	137,332	114,653
OTC government and public bonds sold	2,563	33	28
	W 28,019,783	W 10,200,793	\$ 8,516,274

(6) Litigations

In the normal course of its business, the Bank files lawsuits and takes other legal actions in connection with its business, primarily with respect to the actions for collection of receivables.

As of December 31, 2002 and 2003, the Bank as a plaintiff has filed 310 lawsuits claiming W282,189 million and 602 lawsuits claiming W272,988 million (US\$ 227,908 thousand), respectively, including the case related to collection of debts. The Bank is a defendant in 72 lawsuits claiming W627,987 million and 91 lawsuits claiming W663,276 million (US\$ 553,745 thousand) as of December 31, 2002 and 2003, respectively. The outcomes of such lawsuits cannot presently be determined; however, the management of the Bank does not believe that the outcomes of these lawsuits will have a significant effect on the financial condition or operations of the Bank.

(7) Sales of non-performing loans with the right of recourse

From December 15, 1997 to December 31, 2003, the Bank sold W3,894.6 billion of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.6 billion, which included W2,451.2 billion of special loans sold with recourse for W1,596.7 billion.

Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2003, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W47.3 billion (US\$ 39.5 million) at its sale price. The Bank estimated and reserved W11.6 billion (US\$ 9.7 million) as allowance for possible losses for these obligations.

In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion (US\$ 75.1 million) in 2001, which was intended to reinforce the credit of the asset-backed securities (ABS) issued by the SPC.

29. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of assets and liabilities for disclosing purpose to Financial Supervisory Service (FSS) as of December 31, 2003, which exclude merchant accounts, is summarized as follows (in billions of Won):

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Classified substandard and below	Total
Due from banks:							
Local currency	W (818.7)	W (818.7)	W (817.6)	W (817.6)	W 1,281.0	W -	W 463.4
Foreign currencies	74.2	81.5	84.9	84.9	-	-	84.9
Securities:							
Local currency	7,489.6	7,489.6	7,489.6	7,489.6	1,091.6	359.7	8,940.9
Foreign currencies	18.3	18.3	30.4	51.0	148.2	8.6	207.8
Loans:							
Local currency	7,837.1	14,346.6	24,467.9	30,800.5	1,408.2	1,193.1	33,401.8
Foreign currencies	2,857.8	3,707.2	4,080.3	4,486.0	312.1	202.1	5,000.2
Other Assets:							
Local currency	2,425.2	2,742.1	3,137.2	3,386.3	5,398.2	502.5	9,287.0
Foreign currencies	554.2	557.0	558.7	573.7	(89.2)	17.0	501.5
	W 20,437.7	W 28,123.6	W 39,031.4	W 46,054.4	W 9,550.1	W 2,283.0	W 57,887.5
Deposits:							
Local currency	W 11,673.8	W 14,863.3	W 22,973.5	W 25,444.6	W 11,995.9	W -	W 37,440.5
Foreign currencies	787.8	821.6	1,242.9	1,248.5	-	-	1,248.5
Borrowings:							
Local currency	826.2	861.9	938.2	1,172.0	448.1	-	1,620.1
Foreign currencies	2,196.3	2,923.5	3,530.4	4,250.9	63.2	-	4,314.1
Other Liabilities and Equity:							
Local currency	2,541.1	4,532.4	5,092.6	6,182.6	6,849.9	-	13,032.5
Foreign currencies	61.0	61.0	61.0	61.0	170.8	-	231.8
	W 18,086.2	W 24,063.7	W 33,838.6	W 38,359.6	W 19,527.9	W -	W 57,887.5

30. STATEMENTS OF CASH FLOWS:

Cash flows from operating activities are presented by the indirect method. Cash for the purposes of the cash flow statements is cash and due from banks.

Material transactions not involving cash inflows and outflows during the years ended December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Increase (decrease) in gain on valuation of available-for-sale securities	W (225,283)	W 411,929	\$ 343,905
Conversion of held-to-maturity securities to available-for-sale securities	-	7,118,254	5,942,773
Conversion of loans to available-for-sale securities	316,242	511,626	427,138
	W 90,959	W 8,041,809	\$ 6,713,816

31. CHANGE IN THE MAJOR SHAREHOLDER OF THE BANK:

On July 9, 2003, KDIC, which owned 80.04 percent of the Bank's shares, entered into an agreement with Shinhan Financial Group to transfer its entire shares. Shinhan Financial Group became a majority shareholder by acquiring 80.04 percent of shares held by KDIC on August 19, 2003 and contributed capital amounting to W200,000 million (US\$ 166,973 thousand) on December 26, 2003. As a result, as of December 31, 2003, common stock of the Bank is W3,595,592 million (US\$ 3,001,830 thousand) and Shinhan Financial Group owns 81.15 percent of the Bank's common shares. The change in major shareholder of the Bank might cause significant change in the Bank's management and business environment.

32. APPROVAL DATE AND BODY OF FINANCIAL STATEMENTS

Financial statements to be presented at the annual shareholders' meeting will be approved by the board of directors on February 9, 2004

Independent Public Accountants' Report

English Translation of a Report Originally Issued in Korean



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To the Shareholders and Board of Directors of Chohung Bank:

We have audited the accompanying consolidated balance sheets of Chohung Bank (the "Bank") and its subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2002 and 2003, and the results of its operations, changes in its shareholders' equity and cash flows for the years then ended in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 2, Korea Accounting Standard Board (KASB) under Korea Accounting Institute (KAI) established and published Statements of Korea Accounting Standards (SKAS) that substitute relative clauses of existing financial accounting standards and form part of financial accounting standards commencing March 2001. SKAS No.1 -"Accounting Changes and Correction of Errors" to No.13 -"Restructuring Debt" are established as of December 31, 2003. The Bank prepared its financial statements applying from SKAS No.2 -"Interim Financial Reporting" to No.9 -"Convertible Securities" as of and for the year ended December 31, 2003 (SKAS No.1 -"Accounting Changes and Corrections of Errors" was applied in 2002). From SKAS No.10 -"Inventories" to No.13 -"Restructuring Debt" are early adoptable but the Bank did not apply those as of and for the year ended December 31, 2003. The Bank restated the accumulated deficit of 2002 financial statements from undisposed accumulated deficit into accumulated deficit before disposition for comparative purposes in accordance with SKAS No.6 -"Events Occurring after the Balance Sheet Date". In addition, according to the initial adoption of SKAS No.8 - "Investments in Securities", the Bank restated the accounts relating to securities of 2002 financial statements for comparative purposes, which had no effects on the Bank's total assets, accumulated deficit and net loss of 2002.

As discussed in Note 5, on February 25, 2003, the Bank reclassified all of its held-to-maturity securities to available-for-sale securities, as the Bank changed its objective. The Bank disposed such securities amounting to W3,240.5 billion (US\$ 2,705.4 million) and recorded gain on disposal of available-for-sale securities amounting to W121.6 billion (US\$ 101.5 million) in 2003. The book value of the reclassified remaining securities prior to the assessment amounting to W3,299.9 billion (US\$ 2,755.0 million) was adjusted to the fair market value of W3,342.3 billion (US\$ 2,790.4 million) with a resulting gain on valuation of available-for-sale securities of W42.4 billion (US\$ 35.4 million) recorded as capital adjustments as of December 31, 2003.

As explained in Note 6, as of December 31, 2003, SK Networks is in a collaborative management with creditors' association committee. In October 2003, in connection with the loans and guarantee credits with SK Networks, W138.0 billion (US\$ 115.2 million) excluding estimated collectible amount from collateral provided by SK Networks and liquidation of the subsidiary of SK Networks in Hong Kong was converted into W98.0 billion (US\$ 81.8 million) of securities and the remaining W40.0 billion (US\$ 33.4 million) will be swapped into equity. As of December 31, 2003, the Bank provides credits to SK Networks and its subsidiaries amounting to W303.0 billion (US\$ 253.0 million) from the bank account including W101.5 billion (US\$ 84.7 million) of L/C bills bought in foreign currency classified as normal and W40.0 billion (US\$ 33.4 million) of loans to be swapped into equity mentioned above. In connection with these credits, the Bank

provided an allowance for possible loan losses amounting to W93.8 billion (US\$ 78.3 million). Since the going-concern of SK Networks will highly depend on the future progress of its rescue plan and effective support of financial creditors, actual credit loss from these credit exposures may differ materially from management's current assessment.

As discussed in Note 6, many credit card companies in Korea have been facing difficulties in liquidity due to the bad credit of assets at the end of 2003. Of the credit card companies, LG Card Co., Ltd has been supported with W2 trillion by the Financial Institution Creditors based on their agreement on November 24, 2003 caused by the significant financial difficulties. The association of Financial Institution Creditors in January 2004 agreed to support new loan of W1,591.6 billion (US\$ 1,328.8 million) and exercise debt-to-equity swap of W1,907.8 billion (US\$ 1,592.8 million) for rehabilitating LG Card Co., Ltd. According to the above agreement, the Bank acquired asset-backed securities of W103.0 billion (US\$ 86.0 million) issued by LG Card Co., Ltd. in December 2003 and the Bank plans to exercise debt-to-equity swap amounting to W73.7 billion (US\$ 61.5 million) and to provide additional loan of W73.4 billion (US\$ 61.3 million) in 2004. The loans and securities of the Bank (including trust account) in relation to LG Card are W265.2 billion (US\$ 221.4 million) as of December 31, 2003. The going concern issues on LG Card Co., Ltd. are highly dependent on the rehabilitation plan and an effective financial support from Financial Institution Creditors. Therefore, the actual amount to be collected from loans and securities held by the Bank might materially differ from management's current estimation.

As discussed in Note 20, from December 15, 1997 to December 31, 2003, the Bank sold W3,894.6 billion of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.6 billion, which included W2,451.2 billion of special loans sold with recourse for W1,596.7 billion. Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2003, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W47.3 billion (US\$ 39.5 million) at its sale price. The Bank estimated and reserved W11.6 billion (US\$ 9.7 million) as allowance for possible losses for these obligations. In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion (US\$ 75.1 million) in 2001, which was intended to reinforce the credit of the asset-backed securities (ABS) issued by the SPC.

As explained in Note 22, on July 9, 2003, KDIC, which owned 80.04 percent of the Bank's shares, entered into an agreement with Shinhan Financial Group to transfer its entire shares. Shinhan Financial Group became a majority shareholder by acquiring 80.04 percent of shares held by KIDC on August 19, 2003 and contributed capital amounting to W200.0 billion (US\$ 167.0 million) on December 26, 2003. As a result, as of December 31, 2003, common stock of the Bank is W3,595.6 billion (US\$ 3,001.8 million) and Shinhan Financial Group owns 81.15 percent of the Bank's common shares. The change in major shareholder of the Bank might cause significant change in the Bank's management and business environment.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial positions and results of operations in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



Anjin Deloitte LLC
A member firm of Deloitte Touche Tohmatsu

Seoul, Korea
February 6, 2004

Notice to Readers

This report is effective as of February 6, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report

Consolidated Balance Sheets

DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
ASSETS			
Cash and due from banks (Notes 3, 4, 19 and 21)	W 2,728,954	W 1,607,172	\$ 1,341,770
Securities (Notes 5 and 10)	11,949,825	10,195,981	8,512,257
Loans (Notes 6, 7, 19 and 20)	45,609,951	43,096,897	35,980,044
Fixed assets (Notes 8 and 10)	1,426,248	1,291,485	1,078,214
Other assets (Notes 9 and 19)	5,555,451	4,410,064	3,681,803
Total assets	W 67,270,429	W 60,601,599	\$ 50,594,088
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits (Notes 11 and 19)	W 46,529,737	W 41,579,591	\$ 34,713,300
Borrowings (Notes 12 and 19)	6,647,053	5,528,332	4,615,405
Debentures (Note 13)	5,672,349	6,424,165	5,363,304
Other liabilities (Notes 14 and 19)	6,100,709	5,108,137	4,264,599
Total liabilities	64,949,848	58,640,225	48,956,608
SHAREHOLDERS' EQUITY (Note 15):			
Capital stock	3,395,592	3,595,592	3,001,830
Capital surplus	45,179	-	-
Other reserve	61,256	73,374	61,257
Accumulated deficit	(990,333)	(1,927,890)	(1,609,526)
Capital adjustments	(204,918)	206,512	172,409
Minority interests	13,805	13,786	11,510
Total shareholders' equity	2,320,581	1,961,374	1,637,480
Total liabilities and shareholders' equity	W 67,270,429	W 60,601,599	\$ 50,594,088

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
INTEREST INCOME AND DIVIDENDS:			
Interest income in local currency (Note 19)	W 2,412,742	W 2,759,780	\$ 2,304,041
Interest income in foreign currencies (Note 19)	178,363	142,804	119,222
Interest and dividends on securities	838,782	593,442	495,443
Other interest income (Note 16)	546,247	457,267	381,756
	3,976,134	3,953,293	3,300,462
INTEREST EXPENSE:			
Interest expense in local currency (Note 19)	2,019,187	1,991,445	1,662,586
Interest expense in foreign currencies (Note 19)	143,834	97,935	81,762
	2,163,021	2,089,380	1,744,348
NET INTEREST INCOME	1,813,113	1,863,913	1,556,114
PROVISION FOR POSSIBLE LOAN LOSSES	1,617,622	2,216,400	1,850,392
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR POSSIBLE LOAN LOSSES	195,491	(352,487)	(294,278)
NON-INTEREST INCOME:			
Fees and commissions	792,086	714,976	596,908
Gain on sale and valuation of trading securities	38,375	40,029	33,419
Gain on sale and valuation of available-for-sale securities	49,188	197,926	165,241
Gain on foreign currency trading	146,052	173,572	144,909
Gain on derivatives trading	441,205	537,870	449,048
Other	144,721	246,138	205,492
	1,611,627	1,910,511	1,595,017
NON-INTEREST EXPENSES:			
Commissions	167,703	150,082	125,298
Loss on sale and valuation of trading securities	16,526	29,215	24,391
Loss on sale and valuation of available-for-sale securities	506,825	247,683	206,782
General and administrative expenses (Note 17)	877,599	931,227	777,448
Loss on sale of loans	16,643	169,560	141,559
Contribution to fund	46,578	56,352	47,046
Loss on foreign currency trading	104,375	94,712	79,072
Loss on derivatives trading	399,567	538,717	449,755
Other	272,429	249,069	207,939
	2,408,245	2,466,617	2,059,290
ORDINARY LOSS	(601,127)	(908,593)	(758,551)
EXTRAORDINARY GAIN	-	343	286
LOSS BEFORE INCOME TAX EXPENSE	(601,127)	(908,250)	(758,265)
INCOME TAX EXPENSE (BENEFITS) (Note 18)	(16,569)	53,806	44,921
NET LOSS BEFORE MINORITY INTEREST	(584,558)	(962,056)	(803,186)
INCOME ATTRIBUTABLE TO MINORITY INTERESTS	(1,910)	(891)	(744)
NET LOSS	W (586,468)	W (962,947)	\$ (803,930)
ORDINARY LOSS PER SHARE (in Currency Units) (Note 2)	W (868)	W (1,416)	\$ (1.18)
NET LOSS PER SHARE (in Currency Units) (Note 2)	W (871)	W (1,417)	\$ (1.18)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Millions of Korean Won

Description	Capital stock	Capital surplus	Accumulated deficit	Capital adjustments	Minority interests	Total
As of January 1, 2002	W 3,395,391	W -	W (342,332)	W (502,297)	W 12,805	W 2,563,567
Net loss	-	-	(586,468)	-	-	(586,468)
Issuance of common stock of controlling company	201	24	-	-	-	225
Adjustment of retained earnings of subsidiaries valued using the equity method	-	-	36	-	-	36
Amortization of discount on stock issuance	-	-	(20)	20	-	-
Adjustment on the change in foreign exchange rate	-	-	(266)	-	-	(266)
Stock options cost	-	-	-	1,134	-	1,134
Decrease in loss on valuation of available-for-sale securities	-	-	-	223,323	-	223,323
Decrease in treasury stock	-	45,155	-	72,902	-	118,057
Dividends received	-	-	-	-	(910)	(910)
Gain attributable to minority interests	-	-	-	-	1,910	1,910
Other	-	-	(27)	-	-	(27)
As of December 31, 2002	W 3,395,592	W 45,179	W (929,077)	W (204,918)	W 13,805	W 2,320,581
As of January 1, 2003	W 3,395,592	W 45,179	W (929,077)	W (204,918)	W 13,805	W 2,320,581
Net loss	-	-	(962,947)	-	-	(962,947)
Issuance of common stock of controlling company	200,000	-	-	-	-	200,000
Adjustment of retained earnings of subsidiaries valued using the equity method	-	-	(8,531)	-	-	(8,531)
Disposition of capital in excess of par value	-	(24)	24	-	-	-
Disposition of other capital surplus	-	(45,155)	45,155	-	-	-
Adjustment on the change in foreign exchange rate	-	-	860	-	-	860
Stock options cost	-	-	-	1,030	-	1,030
Lapse of stock options	-	-	-	(773)	-	(773)
Decrease in loss on valuation of available-for-sale securities	-	-	-	412,210	-	412,210
Dividends received	-	-	-	-	(910)	(910)
Gain attributable to minority interests	-	-	-	-	891	891
Increase of discount on stock issuance	-	-	-	(1,037)	-	(1,037)
As of December 31, 2003	W 3,595,592	W -	W (1,854,516)	W 206,512	W 13,786	W 1,961,374

(continued)

Consolidated Statements of Changes in Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

Thousands of U.S. Dollars (Note 2)

Description	Capital stock	Capital surplus	Accumulated deficit	Capital adjustments	Minority interests	Total
As of January 1, 2003	\$ 2,834,857	\$ 37,718	\$ (775,653)	\$ (171,079)	\$ 11,526	\$ 1,937,369
Net loss	-	-	(803,930)	-	-	(803,930)
Issuance of common stock of controlling company	166,973	-	-	-	-	166,973
Adjustment of retained earnings of subsidiaries valued using the equity method	-	-	(7,122)	-	-	(7,122)
Disposition of capital in excess of par value	-	(20)	20	-	-	-
Disposition of other capital surplus	-	(37,698)	37,698	-	-	-
Adjustment on the change in foreign exchange rate	-	-	718	-	-	718
Stock options cost	-	-	-	860	-	860
Lapse of stock options	-	-	-	(645)	-	(645)
Loss on valuation of available on sale securities	-	-	-	344,139	-	344,139
Dividends received	-	-	-	-	(760)	(760)
Gain attributable to minority interests	-	-	-	-	744	744
Increase of discount on stock issuance	-	-	-	(866)	-	(866)
As of December 31, 2003	\$ 3,001,830	\$ -	\$ (1,548,269)	\$ 172,409	\$ 11,510	\$ 1,637,480

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	W (586,468)	W (962,947)	\$ (803,930)	
Adjustments to reconcile net loss to net cash provided by operating activities:				
Provision for possible loan losses	1,617,622	2,216,400	1,850,393	
Depreciation	77,970	99,335	82,931	
Provision for severance benefits	33,078	33,304	27,804	
Amortization of intangible assets	112,803	112,682	94,074	
Loss on sale of loans, net	16,240	168,240	140,458	
Gain on sale and valuation of trading securities, net	(21,849)	(10,814)	(9,028)	
Loss on sale and valuation of available-for-sale securities, net	457,637	49,757	41,541	
Salaries	1,134	258	215	
Other non-interest expenses	891	879	734	
Other non-interest income	(3,968)	(1,987)	(1,659)	
Income attributable to minority interests	1,910	891	744	
Payment of severance benefits	(2,240)	(2,120)	(1,770)	
Decrease (Increase) in other assets	(1,774,292)	1,147,895	958,336	
Increase (Decrease) in other liabilities	1,727,066	(1,079,196)	(900,982)	
Net cash provided by operating activities	1,657,534	1,772,577	1,479,861	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in trading securities	541,810	(212,279)	(17,224)	
Net decrease in available-for-sale securities	10,262,985	2,286,129	1,908,606	
Net decrease (increase) in held-to-maturity securities	(7,708,852)	46,697	38,986	
Net increase in fixed assets	(38,578)	(76,982)	(64,269)	
Net decrease (increase) in loans	(12,400,438)	128,414	107,208	
Other, net	(231)	(272)	227	
Net cash provided by (used in) investing activities	(9,343,304)	2,171,707	1,813,080	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in deposits	5,928,901	(4,950,145)	4,132,697	
Net decrease in borrowings	(766,608)	(1,118,721)	(933,980)	
Net increase in debentures	3,256,670	751,815	627,663	
Issuance of common stock	225	198,963	166,107	
Other, net	(76,063)	52,022	43,431	
Net cash provided by (used in) financing activities	8,343,125	(5,066,066)	(4,229,476)	
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	657,355	(1,121,782)	(936,535)	
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	2,071,599	2,728,954	2,278,305	
CASH AND DUE FROM BANKS, END OF YEAR (Note 21)	W 2,728,954	W 1,607,172	\$ 1,341,770	

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 2002 AND 2003

1. GENERAL:

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of the merger of Han Sung Bank, which was established on February 19, 1897, and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. In addition to the head office in Seoul, the Bank operates 470 domestic branches, and 87 depository offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2003. The shares of the Bank were listed on the Korea Stock Exchange on June 3, 1956 and on the London Stock Exchange for Global Depository Receipts (GDRs) on December 5, 1996. The Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively.

The common stock capital of the Bank was decreased by W723,913 million on February 12, 1999 from W930,429 million as of December 31, 1998 in accordance with the resolution of shareholders' meeting on January 27, 1999. After reduction of the capital and merger, the capital of the Bank increased with the capital injection by Korea Deposit Insurance Corporation (KDIC) and amounted to W3,395,592 million as of December 31, 2002.

Shinhan Financial Group became a majority shareholder by acquiring 80.04 percent of the shares held by KIDC on August 19, 2003 and contributed additional capital amounting to W200,000 million (US\$ 166,973 thousand) on December 26, 2003. As a result, as of December 31, 2003, common stock of the Bank is W3,595,592 million (US\$ 3,001,830 thousand) and Shinhan Financial Group owns 81.15 percent of Bank's common shares.

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector have been implementing structural reforms to historical business practices including corporate governance. The Bank and its subsidiaries may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Bank and its subsidiaries. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean won and prepares statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank and its subsidiaries' financial position or results of operations, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into U.S. dollars based on the Bank of Korea (BOK) Basic Rate of W1,197.80 to US\$1.00 at December 31, 2003, solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The significant accounting policies followed by the Bank in preparing the accompanying consolidated financial statements are summarized below.

Scope of Consolidation and Accounting using the Equity Method

The consolidated financial statements include the banking accounts and the trust accounts of the Bank and its wholly or partially owned subsidiaries. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from these financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission ("FSC"). Subsidiaries of the Bank as of December 31, 2002 and 2003 are as follows:

Subsidiaries	Percentage of ownership		Fiscal year-end	Date of acquisition of controlling interest
	2002	2003		
Consolidated:				
Chohung Investment Trust Management Co., Ltd.	79.77%	79.77%	Mar. 31	Nov. 19, 1992
Chohung Finance Ltd., Hong Kong	99.99%	99.99%	Dec. 31	Dec. 31, 1984
CHB America Bank	100.00%	100.00%	Dec. 31	Mar. 24, 2003
Chohung Bank (Deutschland) GmbH	100.00%	100.00%	Dec. 31	Oct. 10, 1994
Accounted for using the equity method:				
Chohung Vina Bank	50.00%	50.00%	Dec. 31	Nov. 24, 2000

(1) Chohung Investment Trust Management Co., Ltd.

Chohung Investment Trust Management Co., Ltd. was established in 1988 and engages in securities management services and conducts surveys of the economic and capital markets. In 1997, the company changed its name from Chohung Investment Management Co., Ltd. to Chohung Investment Trust Management Co., Ltd. As of December 31, 2003, its capital stock amounts to W45,000 million (US\$ 37,569 thousand), of which the Bank owns 79.77 percent and KGI Securities Co, Ltd. owns the remaining 20.23 percent.

(2) Chohung Finance Ltd., Hong Kong

Chohung Finance Ltd., Hong Kong is a subsidiary of the Bank and engages in various merchant banking activities in Hong Kong. As of December 31, 2003, its capital stock amounts to US\$ 15,000 thousand, of which the Bank owns 99.99 percent.

(3) CHB America Bank

Based on the Agreement on Implementation of Management Improvement Plan, Chohung Bank of New York and California Chohung Bank entered into a merger and established CHB America Bank on March 24, 2003. As of December 31, 2003, its capital stock amounts to US\$ 14,000 thousand, of which the Bank owns 100 percent.

(4) Chohung Bank (Deutschland) GmbH

Chohung Bank (Deutschland) GmbH was established in 1994 as a wholly owned subsidiary of the Bank. As of December 31, 2003, its capital stock amounts to EUR 15,339 thousand.

(5) Chohung Vina Bank

Chohung Bank purchased 40 percent of share issued and outstanding of First Vina Bank of Vietnam on November 24, 2000 from Korea Depositary Insurance Corporation (KDIC). The name of First Vina Bank was subsequently changed to Chohung Vina Bank. The capital stock of Chohung Vina Bank is US\$ 20,000 thousand as of December 31, 2003 of which the Bank owns 50 percent as a result of acquiring 10 percent from Daewoo Securities Co., Ltd. on November 23, 2001.

Basis of Consolidated Financial Statement Preparation

(1) Offset of investments and shareholders' equity

The investment account of the Bank and the equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiary. Any differences were accounted for as consolidation adjustment, which is amortized using the straight-line method over five years.

(2) Inter-company transactions and balances

All inter-company transactions are eliminated in the consolidated financial statements.

(3) Minority interest

The portion of a subsidiary's shareholders' equity not attributable to the Bank, in cases when the Bank has a controlling of less than 100 percent interest, are presented as minority interest.

(4) Capital stock owned by subsidiary companies

Capital stock of the Bank owned by subsidiaries in which the Bank has controlling interests, are presented as capital stock owned by subsidiaries in the consolidated balance sheets.

(5) Fiscal years of subsidiaries

The accounts of consolidated subsidiaries whose fiscal year are different from those of the Bank have been adjusted to reflect balances as of December 31, 2002 and 2003, respectively.

(6) Translation of financial statements of foreign subsidiaries

Financial statements of foreign subsidiaries are translated into Korean Won at the Bank of Korea (BOK) basic rates (W1,200.40 and W1,197.80 to US\$ 1.00 at December 31, 2002 and 2003, respectively) or cross rates for other currencies of exchange at the balance sheet date. Gain and losses resulting from translation of financial statements of foreign subsidiaries are recorded as adjustments to accumulated deficit.

Allowance for Possible Loan Losses and Other Losses

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires providing the minimum rate of loss provision for each category as described in the next paragraph. In accordance with the Supervisory Regulation and the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to corporate borrowers, including the securities that have credit attributes such as commercial paper, privately placed bonds and financing lease receivables, into ten categories according to past repayment history including any overdue period, the bankruptcy status of the borrower, and future debt repayment capability based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to individual business operations and households are also classified into ten categories based only on the past repayment history.

As required by the FSC, the loans to enterprises are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. The allowance for possible loan losses is then calculated on the category balances using the prescribed minimum percentages of 0.5 percent or more, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. However, the Bank does not provide allowances for the loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as normal, as it is not required by the Accounting Standards for the Banking Industry. The loans to households and the credit card receivables are also classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. Beginning in 2002, the Bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card receivables were raised to 1 percent or more, 12 percent or more, and 60 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary.

As required by the FSC, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same criteria used for loan classification. An allowance is then calculated, using 20 percent or more for confirmed acceptances and guarantees classified as substandard, 50 percent or more for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. Additionally, as prescribed in the debt restructuring accounting standard, loans on companies that were applied for debt restructuring due to the work-out, court receivership or composition and other restructuring process, an allowance for possible loan losses is provided for the residual amount after deducting the present value. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities. This additional provision is included in the non-interest expense.

In addition, beginning in 2002, the Bank provides other allowance in other liabilities, which includes (i) 1 percent for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year and, (ii) for the expected future expenses due to the bonus point given to credit card users, (iii) expected losses from the recourse obligation provided to KAMCO in relation to sales of non-performing loans and (iv) expected losses from the pending lawsuits. The Bank accounts for these other bad debts expense in the caption of non-interest expense.

Restructuring of Loans

A loan, whose contractual terms are modified in a troubled debt restructuring through execution of workout plan, court receivership, commencement of corporate reorganization and mutual agreement, is accounted for at the present value of expected future cash flows, if the book value of the loan differs from the present value. The difference between the book value and present value is offset against the allowance for possible loan losses, and any remaining amounts are charged to operations as provisions for possible loan losses. The difference between the book value of a loan and its present value is recorded as present value discount, which is presented as a deduction from the loan. The present value discount is amortized over the remaining restructuring period using the effective interest rate method, and the amortization is recorded as interest income.

Recognition of Interest Income

The Bank recognizes the interest income earned on loans, call loans, long-term deposits with other banks and securities on an accrual basis, except for the interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to the customers that are bankrupt, given a grace period or a reduction or exemption of interest payments, or listed as watch list clients by the Korean Banking Authorities, where interest income is recognized on a cash basis.

Investment in Securities other than those Accounted for Using the Equity Method

Classification of Securities

At acquisition, the Bank classifies securities into one of the three categories: trading, available-for-sale or held-to-maturity. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed and determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified either as held-to-maturity or trading securities.

If the objective and ability to held securities of the Bank change, available-for-sale securities can be reclassified to held-to-maturity securities and vice versa. Whereas, if the Bank sells held-to-maturity or exercises early redemption right of securities to issuer in the current year and the proceeding two years, and if it reclassifies held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand, trading securities cannot be reclassified to available-for-sale or held-to-maturity securities and vice versa, except when certain trading securities lose their marketability.

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially stated at acquisition cost plus incidental expenses with the individual moving average method. When the face value of trading debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. Trading securities are stated at fair value, if the fair value of trading securities differs from its acquisition cost. Its carrying value is adjusted to the fair value and the resulting valuation gain or loss is charged to current operations.

(2) Valuation of Available-for-sale Securities

Available-for-sale securities are initially stated at acquisition cost plus incidental expenses, determined by the individual moving average method. When the face value of available-for-sale debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the security. Available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in capital adjustments. Accumulated capital adjustment of securities is charged to current operations in lump-sum at the time of disposal or impairment recognition. Non-marketable equity securities can be stated at acquisition cost on the financial statement if the fair value of the securities is not credibly determinable.

For equity securities, if the decline in the fair value of equity securities is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. For debt securities, if the decline in the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in the capital adjustment account should be reversed.

(3) Valuation of Held-to-maturity Securities

Held-to-maturity securities are initially stated at acquisition cost plus incidental expenses, determined by the individual moving average method. As held-to-maturity securities are stated at amortized cost, the effective interest method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the securities. If collectible value is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations.

(4) Reversal of loss on impairment of available-for-sale securities and held-to-maturity securities

For available-for-sale securities, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in capital adjustment as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded on gain or loss on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost. For held-to-maturity securities, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of held-to-maturity securities.

(5) Reclassification of securities

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are stated at the fair value on the reclassification date and the difference between the fair value and book value are accounted on capital adjustment as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be stated on capital adjustment and will be amortized using the effective interest rate and be charged to interest income or expense upon maturity. The difference between the fair value on the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate and charged to interest income or expense.

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities loses from the sale of the securities, the unrealized valuation gain or loss of securities included in the capital adjustment account is added to or deducted from the gain or loss on sale. The gain or loss amounts to the difference between the net proceeds received or receivable and its carrying value. Whereas when securities are transferred without losing its control, the transaction is recorded as secured borrowing transaction.

Investment in Securities Using the Equity Method

Equity Securities that are in companies in which the company is able to exercise significant influence over the investees are accounted for using the equity method. Under the Bank Law, investors with more than 15% ownership of voting right are generally considered as significant influence. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings of the investee are reflected in the retained earnings of the investors. Changes in the capital surplus or other capital accounts of the investee are reflected as gain or loss on valuation of available-for-sale securities in capital adjustment account of the investor.

Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at acquisition cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as follows:

	In Years
Buildings	40-60
Equipment and furniture	5
Leasehold improvements	5

Intangible Assets

Intangible assets other than goodwill included in fixed assets are recorded at the production costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated economic useful lives of the related assets or the activity method.

The excess of the consideration paid for business combinations over the net assets transferred is classified as goodwill, which is amortized using the straight-line method over 5 years. Goodwill was recognized from the acquisitions of Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively, and adjusted subsequently due to the revaluation of treasury stock acquired in relation to those business combinations. Accordingly, the revaluation amounting to W100,716 million has been included in goodwill and amortized over the useful life of the related assets.

Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term borrowing and lending transactions and other similar transactions are stated at the present value of expected future cash flows with the gain or loss on valuation of the related receivables and payables reflected in current operations, unless the difference between nominal value and present value is immaterial. The present value discount or premium is amortized using the effective interest rate method with the amortization recorded as interest income or interest expense.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral on a foreclosed mortgage. No depreciation is provided for this asset. However, if the auction price of the foreclosed asset is lower than the book value, the difference is provided as a valuation allowance with the valuation loss charged to current operations.

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discount or premium is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance indemnities that would be payable assuming all eligible employees were to resign are W51,664 million and W82,848 million (US\$ 69,167 thousand) as of December 31, 2002 and 2003, respectively. Actual payments of severance indemnities amounted to W2,240 million and W2,120 million (US\$ 1,770 thousand) in the years ended December 31, 2002 and 2003, respectively.

Funding of the severance liability is not required. However, in order to obtain a tax deduction, the Bank has purchased an employee retirement trust, which meets the funding requirements for tax purposes, and made deposits with Korea Exchange Bank as of December 31, 2003. The deposits, amounting to W30,000 million and W49,551 million (US\$ 41,368 thousand) as of December 31, 2002 and 2003, respectively, are presented as a deduction from accrued severance benefits.

Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings, when the Bank purchases or sells securities under resale or repurchase agreements.

Accounting for Financial Derivatives

The Bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or a liability. Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (a hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged items attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment, and the ineffective portion is reflected in current operations. The effective portion of gain or loss recorded as capital adjustment is reclassified into current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

Stock options are valued at fair value pursuant to the Interpretations on Financial Accounting Standards 39-35 on accounting for stock options. The fair value of stock options is charged to general and administrative expenses in the statement of operations and credited to capital adjustments as stock option cost over the contract term of the services provided.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in the deferred income taxes. The difference between the amount currently payable for the period and the income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the BOK Basic Rate (W1,200.40 and W1,197.80 to US\$1.00 at December 31, 2002 and 2003, respectively) or cross rates for other currencies at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches and subsidiaries in which investments are accounted for using the equity method are translated based on BOK Basic Rate at the balance sheet dates.

Loss per Share

Ordinary loss per common share and net loss per common share are computed by dividing ordinary loss (after deducting the tax effect) and net loss, respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 673,608,597 and 679,775,963 in 2002 and 2003, respectively. Ordinary loss and net loss on common shares were summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Net loss	W (586,468)	W (962,947)	\$ (803,930)	
Extraordinary gain	-	(343)	(286)	
Extraordinary loss	-	-	-	
Income tax on extraordinary gain	-	-	-	
Income tax on extraordinary loss	-	-	-	
Income attributable to minority interests	1,910	891	744	
Ordinary loss	W (584,558)	W (962,399)	\$ (803,472)	

Diluted ordinary loss per common share and net loss per common share represent the ordinary loss and net loss divided by the number of common shares and diluted securities. The average stock price of the Bank's common shares for the year ended December 31, 2003 is below the exercise prices of the stock options, and thereby, there is no dilution effect from stock options. In addition, the dilution effect could happen because the average price of common stock in last fiscal year was above the exercise price. However, dilution effect from stock options was not ultimately incurred as the increase in the ratio of the denominator is less than that of the numerator. As a result, the diluted ordinary loss per common share and diluted net loss per common share are equal to the ordinary loss per common share and net loss per common share in 2002 and 2003, respectively. The diluted securities are 673,757,609 shares and 679,775,963 shares for the years ended December 31, 2002 and 2003, respectively.

The dilutive securities as of December 31, 2003 are summarized as follows:

Item	Face value (In millions)	Exercise period	Common stock to be issued	Remarks
Stock options	-	2003.3.28 ~ 2006.3.27	211,645 shares	₩5,000 paid in cash upon exercise
Stock options	-	2004.3.10 ~ 2007.3. 9	664,000 shares	₩5,000 paid in cash upon exercise
Stock options	-	2004.3.30 ~ 2007.3.29	312,000 shares	₩5,860 paid in cash upon exercise
Stock options	-	2005.3.29 ~ 2008.3.28	165,090 shares	₩5,000 paid in cash upon exercise

Application of the Statements of Korea Accounting Standards

Korea Accounting Standard Board (KASB) under Korea Accounting Institute (KAI) established and published Statements of Korea Accounting Standards (SKAS) that substitute relative clauses of existing financial accounting standards and form part of financial accounting standards commencing March 2001. SKAS No. 1 - "Accounting Changes and Correction of Errors" to No. 13 - "Restructuring Debt" are established as of December 31, 2003. The Bank prepared its financial statements applying from SKAS No.2 - "Interim Financial Reporting" to No.9 - "Convertible Securities" as of and for the year ended December 31, 2003 (SKAS No.1 - "Accounting Changes and Corrections of Errors" was applied in 2002). From SKAS No.10 - "Inventories" to No.13 - "Restructuring Debt" are early adoptable but the Bank did not apply those as of and for the year ended December 31, 2003. The Bank restated the accumulated deficit of 2002 financial statements from undisposed accumulated deficit into accumulated deficit before disposition for comparative purposes in accordance with SKAS No.6 - "Events Occurring after the Balance Sheet Date". In addition, according to the initial adoption of SKAS No.8 - "Investments in Securities", the Bank restated the accounts relating to securities of 2002 financial statements for comparative purposes, which had no effects on the Bank's total assets, accumulated deficit and net loss of 2002.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2003	
Cash and checks	₩ 1,174,976	₩ 918,147	\$	766,528
Foreign currencies	84,488	88,140		73,585
Due from banks in local currency	1,255,582	474,448		396,099
Due from banks in foreign currencies	213,908	126,437		105,558
	₩ 2,728,954	₩ 1,607,172	\$	1,341,770

4. RESTRICTED DUE FROM BANKS:

Restricted due from banks as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2003	
Reserve deposits with the Bank of Korea	₩ 1,224,944	₩ 462,188	\$	385,864
Other	46,094	40,101		33,479
	₩ 1,271,038	₩ 502,289	\$	419,343

5. SECURITIES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Trading securities	W 2,036,580	W 2,259,673	\$ 1,886,520	
Available-for-sale securities	2,699,653	7,885,699	6,583,486	
Held-to-maturity securities	7,204,620	39,669	33,118	
Securities valued using the equity method	8,972	10,940	9,133	
	W 11,949,825	W 10,195,981	\$ 8,512,257	

(2) Trading securities as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Stocks	W 806	W 3,073	\$ 2,566	
Government bonds	239,772	630,420	526,315	
Finance debentures	622,174	969,912	809,745	
Corporate bonds	609,873	539,680	450,559	
Trading securities in foreign currencies	106,432	1,331	1,111	
Other	457,523	115,257	96,224	
	W 2,036,580	W 2,259,673	\$ 1,886,520	

(3) Available-for-sale securities as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Stocks	W 610,055	W 786,853	\$ 656,915	
Government bonds	10,966	1,385,392	1,156,614	
Finance debentures	903,070	1,587,960	1,325,731	
Corporate bonds	1,038,880	4,028,306	3,363,087	
Available-for-sale securities in foreign currencies	74,649	62,484	52,166	
Other	62,033	34,704	28,973	
	W 2,699,653	W 7,885,699	\$ 6,583,486	

As determined by the Financial Institutional Creditors' meeting held on October 31, 2001, the Bank acquired mandatory convertible bonds issued by Hynix Semiconductor Inc. amounting to W423,481 million of face value, which were recorded as loans to be swapped into equity before the actual swap occurs. As of June 1, 2002, the Bank converted all of such convertible bonds into equity at the conversion price of W708 and acquired 598,137,005 shares. As a result of this conversion, the Bank recorded W127,044 million of investment securities based on the book value of the loans swapped into equity, which was W212 per share. The shares of Hynix Semiconductor Inc. are traded on the Korea Stock Exchange, but most of the converted shares are held by the Financial Institutional Creditors including the Bank and restricted in disposal until the end of 2006. The Bank recorded the equity securities at their fair values, the price quoted on the Korea Stock Exchange. Additionally, on April 14, 2003, Hynix Semiconductor Inc. reduced its shares to 28,494,281 shares through non-compensatory capital reduction with the ratio of twenty one shares into one share, and as of the same date, loans amounting to W160,108 million (US\$ 133,668 thousand) and convertible bonds amounting to W896 million (US\$ 748 thousand) were converted to common stock amounting to 16,830,442 shares and 94,174 shares, respectively.

(4) Held-to-maturity securities as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Government bonds	W 1,722,945	W -	\$ -
Finance debentures	614,239	-	-
Corporate bonds	4,591,859	-	-
Available-for-sale securities in foreign currencies	224,948	39,669	33,118
Other	50,629	-	-
	W 7,204,620	W 39,669	\$ 33,118

On February 25, 2003, the Bank reclassified all of its held-to-maturity securities to available-for-sale securities, as the Bank changed its objective. The Bank disposed such securities amounting to W3,240,455 million (US\$ 2,705,339 thousand) and recorded gain on disposal of available-for-sale securities amounting to W121,597 million (US\$ 101,517 thousand). The book value of the reclassified remaining securities prior to the assessment amounting to W3,299,893 million (US\$ 2,754,962 thousand) was adjusted to the fair market value of W3,342,323 million (US\$ 2,790,385 thousand) with a resulting gain on valuation of securities of W42,430 million (US\$ 35,423 thousand) recorded as capital adjustments.

(5) Securities valued using the equity method as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Book value before valuation	W 8,990	W 8,972	\$ 7,490
Additional acquisition	-	-	-
Changes due to valuation using the equity method	834	1,987	1,659
Translation gain or loss	(852)	(19)	(16)
Securities valued using the equity method	W 8,972	W 10,940	\$ 9,133

6. LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) As of December 31, 2002 and 2003, the Bank complied with the minimum regulatory guideline for loan loss provision, as described in Note 2, announced by the Korean Financial Supervisory Commission (FSC). Loans and allowance for possible loan losses of the Bank and its subsidiaries as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Loans in local currency	W 32,657,020	W 33,271,909	\$ 27,777,516
Loans in foreign currencies	3,785,541	3,454,695	2,884,200
Other	10,825,835	8,081,896	6,747,283
	47,268,396	44,808,500	37,408,999
Allowance for possible loan losses	(1,637,979)	(1,693,633)	(1,413,953)
Present value discounts (see Note 7)	(20,466)	(17,970)	(15,002)
	W 45,609,951	W 43,096,897	\$ 35,980,044

(2) Companies under court receivership, composition, workout and law of corporation restructuring promotion

As of December 31, 2003, loans and allowances for possible losses on loans (including trust accounts) of the bank to companies under court receivership, composition, workout and regulated by law of corporation restructuring promotion are as follows (in million of Won):

Status of borrowers	Corporation	Loans	Allowances for possible losses
Court receivership	Inchon Oil Refinery Co. and 23 firms	W 263,629	W 86,789
Composition	Dongsung Co. and 15 firms	38,644	10,256
Workout	Ssangyong Motors and 7 firms	150,506	36,113
Law of Corporation restructuring promotion	SK Networks and 8 firms	718,787	274,917
		W 1,171,566	W 408,075

(3) Loans to SK Networks

As of December 31, 2003, SK Networks is in a collaborative management with creditors' association committee. In October 2003, in connection with the loans and guarantee credits with SK Networks, W138.0 billion (US\$ 115.2 million) excluding estimated collectible amount from collateral provided by SK Networks and liquidation of the subsidiary of SK Networks in Hong Kong, was converted into W98.0 billion (US\$ 81.8 million) of securities and the remaining W40.0 billion (US\$ 33.4 million) will be swapped into equity. As of December 31, 2003, the Bank provides credits to SK Networks and its subsidiaries amounting to W303.0 billion (US\$ 253.0 million) from the bank account including W101.5 billion (US\$ 84.7 million) of L/C bills bought in foreign currency classified as normal and W40.0 billion (US\$ 33.4 million) of loans to be swapped into equity mentioned above. In connection with these credits, the Bank provided an allowance for possible loan losses amounting to W93.8 billion (US\$ 78.3 million). Since the going-concern of SK Networks will highly depend on the future progress of its rescue plan and effective support of financial creditors, actual credit loss from these credit exposures may differ materially from management's current assessment.

(4) Loans and Securities to credit card corporation

Many credit card companies in Korea have been facing difficulties in liquidity due to the bad credit of assets at the end of 2003. Of the credit card companies, LG Card Co., Ltd has been supported with W2 trillion by the Financial Institution Creditors based on their agreement on November 24, 2003 caused by the significant financial difficulties. The association of Financial Institution Creditors in January 2004 agreed to support new loan of W1,591.6 billion (US\$ 1,328.8 million) and exercise debt-to-equity swap of W1,907.8 billion (US\$ 1,592.8 million) for rehabilitating LG Card Co., Ltd. According to the above agreement, the Bank acquired asset-backed securities of W103.0 billion (US\$ 86.0 million) issued by LG Card Co., Ltd. in December 2003 and the Bank plans to exercise debt-to-equity swap amounting to W73.7 billion (US\$ 61.5 million) and to provide additional loan of W73.4 billion (US\$ 61.3 million) in 2004. The loans and securities of the Bank (including trust account) in relation to LG Card are W265.2 billion (US\$ 221.4 million) as of December 31, 2003. The going concern issues on LG Card Co., Ltd. are highly dependent on the rehabilitation plan and an effective financial support from Financial Institution Creditors. Therefore, the actual amount to be collected from loans and securities held by the Bank might materially differ from management's current estimation.

7. PRESENT VALUE DISCOUNTS:

(1) Present value discounts of the Bank in relation to the restructured loans as of December 31, 2003 are summarized as follows:

Borrower	Face value			Discount rate (%)	Maturity date	Unamortized present value discounts	
	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)				Millions of Korean Won	Thousands of U.S. Dollars (Note 2)
Inchon Oil Refinery Co. Ltd.	W 66,300	\$ 55,351		10.0	2011. 12. 31	W 10,504	\$ 8,769
Hanjin Shipping Co., Ltd.	4,809	4,015		11.50	2017. 10. 1	3,544	2,959
Renault Samsung Motors Co., Ltd.	4,243	3,542		10.00	2015. 3. 13	1,813	1,514
Korean Air Lines Co., Ltd.	2,349	1,961		10.00	2009. 12. 31	761	635
Doosung Sbtch Co., Ltd.	2,465	2,058		16.50	2011. 3. 31	446	372
Hanjin Transportation Co., Ltd.	880	735		11.50	2017. 10. 1	288	240
Hanjin Heavy Industries & Construction Co., Ltd.	880	735		11.50	2008. 4. 20	288	240
Jungseok Enterprise Co., Ltd.	589	492		11.50	2017. 10. 1	196	164
Korean Airport Service Co., Ltd.	805	672		11.50	2017. 10. 1	118	99
Namsun NPS	626	522		10.00	2004. 12. 31	12	10
	W 83,946	\$ 70,083				W 17,970	\$ 15,002

(2) Present value discounts of the Bank in relation to the restructured loans as of December 31, 2002 are summarized as follows:

Borrower	Face value			Discount rate (%)	Maturity date	Unamortized present valuediscounts	
	Millions of Korean Won					Millions of Korean Won	
Daelim Industrial Co., Ltd.	W 75,380			11.50	2008. 9. 8	W 10,906	
Hanjin Shipping Co., Ltd.	4,809			11.50	2017. 10. 1	3,797	
Renault Samsung Motors Co., Ltd.	4,243			10.00	2015. 3. 13	2,034	
Korea Industry Development Co., Ltd.	8,976			12.40	2011. 12. 31	1,147	
Korean Air Lines Co., Ltd.	2,349			10.00	2009. 12. 31	815	
Doosung Sbtch Co., Ltd.	2,797			16.50	2011. 3. 31	659	
Hanjin Transportation Co., Ltd.	880			11.50	2017. 10. 1	309	
Hanjin Heavy Industries & Construction Co., Ltd.	880			11.50	2008. 4. 20	309	
Jungseok Enterprise Co., Ltd.	589			11.50	2017. 10. 1	210	
Korean Airport Service Co., Ltd.	805			11.50	2017. 10. 1	126	
Others (11 companies)	21,210					154	
	W 122,918					W 20,466	

(3) Changes in present value discounts for the year ended December 31, 2003 are summarized as follows (in millions of Won):

Conditions of borrowers	Beginning balance	Increase	Decrease	Ending balance
Work-out programs	W 154	W -	W 142	W 12
Industrial rationalization	16,472	-	11,277	5,195
Court receivership	3,181	14,505	5,369	12,317
Composition	659	-	213	446
	W 20,466	W 14,505	W 17,001	W 17,970

8. FIXED ASSETS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Land and buildings	W 1,251,660	W 1,212,961	\$ 1,012,657
Equipment	492,584	521,885	435,703
Leasehold improvements	48,204	52,715	44,010
Construction in progress	817	1,242	1,037
Total tangible assets	1,793,265	1,788,803	1,493,407
Accumulated depreciation	(483,653)	(501,544)	(418,721)
Net tangible assets	1,309,612	1,287,259	1,074,686
Goodwill	112,020	-	-
Other intangible assets	4,443	4,053	3,384
Non-business use properties	173	173	144
	W 1,426,248	W 1,291,485	\$ 1,078,214

9. OTHER ASSETS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Guarantee deposits	W 463,825	W 485,607	\$ 405,416
Accounts receivables	1,533,478	431,539	360,276
Accrued income	340,984	230,936	192,800
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	152,121	125,920	105,126
Local exchange remittances receivables	2,533,003	2,660,250	2,220,947
Deferred income tax assets (see Note 18)	231,039	183,744	153,401
Other	301,001	292,068	243,837
	W 5,555,451	W 4,410,064	\$ 3,681,803

10. COLLATERALIZED ASSETS:

Details of collateralized assets of the Bank and its subsidiaries as of December 31, 2002 and 2003 are summarized as follows:

Collateralized assets	Provided to	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Provided for
		2002	2003	2003	
Bank:					
Securities	Bank of Korea	W 1,400,000	W 1,394,240	\$ 1,164,001	RP of Bank of Korea (BOK)
"	"	497,160	850,000	709,634	Borrowings from BOK
"	"	735,000	741,000	618,634	Intra-day overdraft from BOK
"	"	146,700	320,500	267,574	Settlement risk
"	Development Bank of Singapore and others	857,700	1,297,050	1,082,860	Borrowings in foreign currencies
"	Customer RP	695,000	360,000	300,551	Customer RP
"	Korea Securities Finance Corporation	65,000	-	-	Fund of government bonds
"	Samsung Futures Inc. and other	19,500	23,500	19,619	Futures transaction
"	KAMCO	25,988	-	-	Settlement of sales of non-performing loans
"	CHB NPL 1 st SPC	40,000	40,000	33,395	Collateral regarding the issuance of ABS
"	Seoul Guarantee Insurance Co. and other	78,802	9,000	7,514	Securities lent
Real estate for business purposes	Lessees	12,015	14,012	11,698	Key money deposit for rent
Subsidiaries:					
Securities and other	State of California and other	25,131	20,436	17,061	Time certificate deposits, lien and other
		W 4,597,996	W 5,069,738	\$ 4,232,541	

11. DEPOSITS:

Deposits as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Deposits in local currency:			
Bank-banking accounts	W 39,722,710	W 36,830,997	\$ 30,748,871
Bank-trust accounts	1,145,227	1,208,897	1,009,264
Subsidiaries	14	12	10
	40,867,951	38,039,906	31,758,145
Deposits in foreign currencies	1,509,888	1,639,489	1,368,750
Negotiable certificates of deposits	4,151,898	1,900,196	1,586,405
	W 46,529,737	W 41,579,591	\$ 34,713,300

12. BORROWINGS:

Borrowings as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Borrowings in local currency:			
General borrowings	W 1,288,124	W 1,620,099	\$ 1,352,562
Subordinated borrowings	15,000	-	-
	1,303,124	1,620,099	1,352,562
Borrowings in foreign currencies	3,354,414	2,495,262	2,083,204
Bonds sold under repurchase agreements	995,311	1,221,930	1,020,145
Bills sold	900,459	45,801	38,238
Due to Bank of Korea in foreign currencies	14,372	2,739	2,287
Call money	79,373	142,501	118,969
	W 6,647,053	W 5,528,332	\$ 4,615,405

13. DEBENTURES:

Debentures as of December 31, 2002 and 2003 are summarized as follows:

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
		2002	2003	2003
Debentures in local currency:				
General debentures	3.94~6.97%			
	CD+0.24~0.35	W 4,108,792	W 4,470,193	\$ 3,732,003
Hybrid debts (Note)	7.80%	-	272,564	227,554
Subordinated debentures	6.00~18.00%	1,002,000	1,100,000	918,350
		5,110,792	5,842,757	4,877,907
Discounts on debentures		(84,399)	(43,428)	(32,256)
		5,026,393	5,799,329	4,841,651
Debentures in foreign currencies:				
Subordinated debentures	6M Libor + 4.95%, 11.50~11.88%	653,834	631,573	527,278
		653,834	631,573	527,278
Discounts on debentures		(7,878)	(6,737)	(5,625)
		645,956	624,836	521,653
		W 5,672,349	W 6,424,165	\$ 5,363,304

(Note) The Bank issued Hybrid debts amounting to W272,564 million (US\$ 227,554 thousand) by registering at Korea Securities Depository in order to raise BIS ratio on June 28, 2003 and the details are as follows:

	Details
1. Repurchase claim (call option)	Repurchase claim option is owned by the issuer and after 5 years from the issue date, a call option can be exercised for a repurchase under the approval of the chief of the FSS.
2. Interest rate	Annual interest rate of 7.80% for 10 years from the issue date and after 10 years annual interest rate of 7.80% + (7.80%- interest rate for 5-year maturity public bond issued on the same date) X 50% is applied.
3. Conditions for interest payments	Interests are paid at the end of every 3-month period, calculated on a monthly basis.
4. Date of maturity	Matured in 30 years from the issue date but the date of maturity can be extended by the Bank at any time.
5. Other	In case that the Bank is considered as unsound financial institution or receive remedy order to improve its financial status by the Financial Supervisory Service (FSS), payment of interests will be stopped until the related problem is resolved. Also, in case the shareholders decided no dividend to common stock, payment of interests could be suspended.

14. OTHER LIABILITIES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Accrued severance benefits (see Note 2)	W 51,664	W 82,848	\$ 69,167
Deposits with employee retirement trust (see Note 2)	(30,000)	(49,551)	(41,368)
Allowance for possible losses on acceptances and guarantees	125,923	54,004	45,086
Other allowance for bad debts	17,482	52,520	43,847
Borrowings from trust accounts	271,403	330,098	275,587
Foreign exchange remittances pending	58,990	53,227	44,437
Deposits for letters of guarantees and other	63,833	66,341	55,386
Accrued expenses	891,848	763,149	637,125
Domestic exchange settlement account - credit	2,318,345	2,374,855	1,982,681
Unearned revenue	100,267	81,961	68,426
Accounts payable - other	171,329	95,953	80,108
Liabilities incurred by agency relationship	342,412	553,334	461,958
Account for agency business	75,875	66,771	55,745
Deferred income tax liabilities (see Note 18)	-	122	102
Other	1,641,338	582,505	486,312
	W 6,100,709	W 5,108,137	\$ 4,264,599

15. SHAREHOLDERS' EQUITY:

(1) Common Stock:

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 719,118,429 common shares were issued and outstanding as of December 31, 2003.

In accordance with the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at the rate of 4.5045 shares to one share under a capital reduction without consideration. The capital reduction resulted in a decrease of W723.9 billion in the common stock and a gain in the same amount, which was offset against accumulated deficit in 1999. On February 19, 1999, May 7, 1999 and September 30, 1999, the Bank increased its common stock by a total of W2,717.9 billion by issuing 544 million shares to Korea Deposit Insurance Corporation (KDIC) at par value. In addition, the Bank increased its common stock as a result of the acquisitions of Chungbuk Bank and Kangwon Bank. On November 23, 1999, the Bank increased its common stock by W275.0 billion through an offering of 55,000,000 shares of common stock for an aggregate offer price of approximately W302.5 billion. In 2002, common stock of the Bank increased by 40,314 shares or W201 million through the exercise of stock warrants. In addition, Shinhan Financial Group who became a majority shareholder by acquiring 80.04 percent of shares held by KDIC on August 19, 2003 contributed capital amounting to W200,000 million (US\$ 166,973 thousand) on December 26, 2003. As a result, as of December 31, 2003, common stock capital of the Bank is W3,595,592 million (US\$ 3,001,830 thousand) and Shinhan Financial Group owns 81.15 percent of the Bank's common shares.

(2) Capital Adjustments:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Gain on valuation of available-for-sale securities, net	W (207,373)	W 204,836	\$ 171,010	
Discounts on stock issuance	-	(1,037)	(866)	
Other	2,455	2,713	2,265	
	W (204,918)	W 206,512	\$ 172,409	

16. OTHER INTEREST INCOME:

For the years ended December 31, 2002 and 2003, the other interest income included income from credit card cash advances and card loans amounting to W546.2 billion and W457.3 billion (US\$ 381.8 million), respectively, which is classified as interest income.

17. GENERAL AND ADMINISTRATIVE EXPENSES:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Salaries	W 347,985	W 347,972	\$ 290,509	
Provision for severance benefits	33,078	33,304	27,805	
Other employee benefits	68,358	81,749	68,249	
Rent	27,632	39,897	33,309	
Depreciation	77,970	99,335	82,931	
Amortization of intangible assets	112,803	112,682	94,074	
Taxes and dues	40,180	39,651	33,103	
Other	169,593	176,637	147,468	
	W 877,599	W 931,227	\$ 777,448	

18. INCOME TAX EXPENSE:

The annual tax charge takes into account current income tax on taxable income and expenses for the period, and deferred taxes resulting from timing differences and loss carryforward. Deferred taxes are calculated according to the liability method for the timing differences added or deducted during the year and loss carryforward using the future year's estimated tax rate. Tax rate is 29.7 percent in 2002 and 2003. From 2005, it will decrease to 27.5 percent.

(1) Income tax expense (benefits) for the years ended December 31, 2002 and 2003 consisted of the following:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2003	
The Bank:				
Income tax to be paid	W 1,704	W 3,283	\$	2,742
Tax effect on changes in cumulative temporary differences	(74,901)	36,109		30,145
Tax effect on changes in tax loss carryforward	48,082	10,784		9,003
	W (25,115)	W 50,176	\$	41,890
Subsidiaries:				
Income tax to be paid	W 9,154	W 3,106	\$	2,593
Tax effect on changes in cumulative temporary differences	(608)	524		438
	8,546	3,630		3,031
Income tax expense (benefits)	W (16,569)	W 53,806	\$	44,921

(2) For the years ended December 31, 2002 and 2003, the differences between the income before income tax in financial accounting and the taxable income pursuant to Corporate Income Tax Law of Korea of the Bank are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2003	
Income before income tax	W (611,160)	W (915,775)	\$	(764,548)
Permanent differences	42,514	15,929		13,299
Temporary differences	944,814	123,079		102,754
	376,168	(776,767)		(648,495)
Tax loss carryforward	376,168	-		-
Taxable income (loss)	W -	W (776,767)	\$	(648,495)

(3) Details of cumulative temporary differences and loss carryforward of the Bank, including their increase and decrease, for the current period are summarized as follows (in millions of Won):

Accounts	Beginning balance		Increase		Decrease		Ending balance	
Allowance for possible loan losses	W	388,134	W	294,995	W	388,134	W	294,995
Goodwill		(112,020)		-		(112,020)		-
Accrued interest		(184,142)		(69,922)		(150,003)		(104,061)
Allowance for possible losses of confirmed acceptances and guarantees		125,923		54,004		125,923		54,004
Gain on valuation of derivatives		(58,946)		(28,724)		(58,946)		(28,724)
Impairment loss on available-for-sale securities		544,295		232,629		204,509		572,365
Loans for debt-equity swap		272,568		-		13,898		258,670
Other		106,591		56,391		4,748		158,234
		1,082,403		539,373		416,293		1,205,483
Tax loss carryforward		2,522,575		776,767		2,357,404		941,938
	W	3,604,978	W	1,316,140	W	2,773,697	W	2,147,421

Some of the estimated amounts of cumulative temporary differences as of December 31, 2002 were differently finalized in filing its tax return. These differences are reflected and accounted for prospectively and the beginning balances of cumulative temporary differences of the year ended December 31, 2003 are based on the actual tax return file of prior year.

(4) The deferred income tax assets (liabilities) as of December 31, 2002 and 2003 are summarized as follows (in millions of Won).

	As of December 31, 2002		Increase (Decrease)		As of December 31, 2003	
The Bank:						
Deferred income tax assets due to temporary differences	W	131,288	W	(36,109)	W	95,179
Deferred income tax assets due to the undisposed accumulated deficit carried over		95,779		(10,784)		84,995
		227,067		(46,893)		180,174
Subsidiaries:						
Deferred income tax assets due to temporary differences		3,972		(402)		3,570
Deferred income tax assets	W	231,039	W	(47,295)	W	183,744
Subsidiaries:						
Deferred income tax liabilities due to temporary differences		-		122		122
Deferred income tax liabilities	W	-	W	122	W	122

The Bank has recognized the deferred income tax assets resulting from temporary difference and loss carryforward as of December 31, 2003 due to the likelihood of its realization. Although the Bank incurred net loss in 2003, the Bank has projected that results will continue to improve and the Bank has recognized the deferred income tax assets resulting from temporary differences and loss carryforwards.

(5) Tax loss carryforwards are subject to a five-year carryforward period. The details of tax loss carryforwards together with their effective period as of December 31, 2003 are summarized as follows (in millions of Won):

Year incurred	As of December 31, 2002	Use and termination in current period	Incurrence	Remaining balance as of December 31, 2003	Period deductible
1998	W 1,644,564	W 1,644,564	W -	W -	By 2003
1999	712,840	712,840	-	-	By 2003
2000	165,171	-	-	165,171	By 2005
2003	-	-	776,767	776,767	By 2008
	W 2,522,575	W 2,357,404	W 776,767	W 941,938	

The tax loss carryforwards incurred in 1999 were taken over from Kangwon Bank and Chungbuk Bank through the merger. However, for taxation purposes, this loss carryforward is separately maintained and deductible only when the related business division reports taxable income.

19. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant balances with related parties as of December 31, 2003 are summarized as follows (in millions of Won):

<u>Assets</u>	Due from banks in foreign currencies	Loans in foreign currencies	Call loans	Other assets
Trust account	W -	W -	W -	W 80,400
Chohung Finance Ltd., Hong Kong	651	61,088	-	-
CHB America Bank	1,067	17,967	-	-
Chohung Bank (Deutschland) GmbH	1,197	97,959	9,617	-
	W 2,915	W 177,014	W 9,617	W 80,400

<u>Liabilities</u>	Deposits	Borrowings in foreign currencies	Call money	Other liabilities
Trust account	W -	W -	W -	W 55,470
Chohung Investment Trust Management Co., Ltd.	50,397	-	-	-
Chohung Finance Ltd., Hong Kong	79	85,586	5,989	-
Chohung Bank (Deutschland) GmbH	-	105,539	-	-
	W 50,476	W 191,125	W 5,989	W 55,470

Significant transactions with related parties during the year ended December 31, 2003 are summarized as follows (in millions of Won):

	Interest Income	Other Income	Interest expense	Other expense
Trust account	W 4,163	W 26,442	W 2,554	W -
Chohung Investment Trust Management Co., Ltd.	1	-	2,902	-
Chohung Finance Ltd., Hong Kong	162	-	404	-
CHB America Bank	17	-	-	-
Chohung Bank (Deutschland) GmbH	1,970	-	3,814	-
	W 6,313	W 26,442	W 9,674	W -

(2) Significant balances with related parties as of December 31, 2002 are summarized as follows (in millions of Won):

Assets

	Due from banks in foreign currencies	Loans in foreign currencies	Call loans	Other assets
Trust account	W -	W -	W -	W 145,400
Chohung Finance Ltd., Hong Kong	-	69,623	-	-
Chohung Bank of New York	1,154	10,804	-	-
Chohung Bank (Deutschland) GmbH	2,834	104,150	8,517	-
California Chohung Bank	847	-	-	-
	W 4,835	W 184,577	W 8,517	W 145,400

Liabilities

	Deposits	Borrowings in foreign currencies	Call money	Other liabilities
Trust account	W -	W -	W -	W 190,555
Chohung Investment Trust Management Co., Ltd.	55,939	-	-	-
Chohung Finance Ltd., Hong Kong	372	77,370	3,082	-
Chohung Bank (Deutschland) GmbH	-	136,141	14,495	-
	W 56,311	W 213,511	W 17,577	W 190,555

Significant transactions with related parties during the year ended December 31, 2002 are summarized as follows (in millions of Won):

	Interest Income	Other Income	Interest expense	Other expense
Trust account	W 3,986	W 14,233	W 2,124	W 57,675
Chohung Investment Trust Management Co., Ltd.	-	-	2,448	-
Chohung Finance Ltd., Hong Kong	269	-	443	-
Chohung Bank of New York	265	-	7	-
Chohung Bank (Deutschland) GmbH	3,027	-	4,239	-
	W 7,547	W 14,233	W 9,261	W 57,675

(3) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2002 and 2003 are summarized as follows:

Beneficiary	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Description
	2002	2003	2002	2003	
Chohung Finance Ltd., Hong Kong	W 1,921	W 240	\$ 200		L/C guarantees
Chohung Bank (Deutschland) GmbH	158	-	-		Guarantees for L/C and borrowings
Chohung Bank of New York	2,281	-	-		L/C guarantees
	W 4,360	W 240	\$ 200		

(4) As of December 31, 2002 and 2003, the receivables and payables, and also the transactions with the subsidiary accounted for using the equity method, which are reflected in the income statement, are summarized as follows (in millions of Won):

Beneficiary	Accounts	Millions of Korean Won	
		2002	2003
Chohung Vina Bank	Call loans	W 3,001	W -
	Borrowings in foreign currencies	54,018	16,769
	Interest income	7	38
	Interest expense	1,122	618

20. COMMITMENTS AND CONTINGENCIES:

In the normal course of its commercial banking business, the Bank and its subsidiaries makes various commitments and incurs certain contingent liabilities which are not recorded in the financial statements.

(1) Guarantees, acceptances and other commitments provided by the Bank and its subsidiaries as of December 31, 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2002	2003	2002	2003
Confirmed	W 1,238,062	W 1,001,587	\$ 836,189	
Unconfirmed	1,526,861	1,361,763		1,136,887
Bills endorsed	25,175,677	7,017,601		5,858,742
Commitments	47,196	39,716		33,157
Loans charge - offs	2,431,322	3,006,111		2,509,694
Loans sold under repurchase agreements	363,025	137,332		114,654
OTC government and public bonds sold	2,563	33		28

(2) The financial derivatives contracts of the Bank as of December 31, 2003 and 2002 are summarized as follows:

As of and for the year ended December 31, 2003, outstanding contract amount, gain or loss on valuation of financial derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets are summarized as follows (in millions of Won):

Type	Outstanding contract amount (Note)		Gain (loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forwards	W 8,341,309	W 191,766	W (1,911)	W (1,531)	W (11,042)
Currency swaps	1,149,577	-	3,004	-	(1,079)
	9,490,886	191,766	1,093	(1,531)	(12,121)
Interest rate futures	16,292	-	-	-	-
Interest rate swaps	4,411,196	722,087	2,081	(22,561)	40,539
	4,427,488	722,087	2,081	(22,561)	40,539
Stock index options (Buy)	8,300	111,231	(16)	10,667	17,630
Stock index options (Sell)	118,386	-	(9,787)	-	(17,324)
	126,686	111,231	(9,803)	10,667	306
	W 14,045,060	W 1,025,084	W (6,629)	W (13,425)	W 28,724

As of and for the year ended December 31, 2002, outstanding contract amount, gain or loss on valuation of financial derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets are summarized as follows (in millions of Won):

Type	Outstanding contract amount (Note)		Gain (loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forwards	W 2,135,827	W 164,086	W 8,798	W (1,838)	W 4,417
Currency swaps	243,969	148,690	(7,479)	(274)	(4,391)
Currency options (Buy)	1	-	-	-	-
Currency options (Sell)	1	-	-	(4)	-
	2,379,798	312,776	1,319	(2,116)	26
Interest rate futures	340,916	-	-	-	-
Interest rate swaps	2,415,602	762,503	(4,068)	22,464	58,898
	2,756,518	762,503	(4,068)	22,464	58,898
Stock index options (Buy)	5	-	14	-	22
Stock index options (Sell)	5	-	-	-	-
	10	-	14	-	22
	W 5,136,326	W 1,075,279	W (2,735)	W 20,348	W 58,946

(Note) Derivative contracts for Korean Won to foreign currency is translated into Korean Won using market exchange rate against foreign currency and the contracts for foreign currency to foreign currency is translated into Korean Won using market exchange rate at the balance sheet date against purchased foreign currency.

The outstanding contract amount and the gain or loss on valuation for hedging purpose as described in the table above, which include both the derivative transactions accounted for using hedge accounting, pursuant to the Interpretations on Financial Accounting Standards 53-70, and the derivative transactions used for hedging activities but not accounted for as hedges. As of December 31, 2003, the Bank does not have derivative transactions used for cash flow hedging activities or accounted for as cash flow hedges. However, the Bank has derivative instruments accounted for as fair value hedges. The hedged items, to which the fair value hedge accounting was applied, consist of investment securities and subordinated bonds issued. The hedging derivative instruments, such as interest rate swaps, were used to cover exposures to changes in fair value of hedged items resulting from the fluctuations in interest rates.

As a result of the valuation of hedged items accounted for using fair value hedge accounting, the gain on valuation of available-for-sale securities amounting to W415 million (US\$ 346 thousand), the loss on valuation of available-for-sale securities amounting to W1,075 million (US\$ 897 thousand), the gain on valuation of subordinated notes issued amounting to W23,029 million (US\$ 19,226 thousand) and the loss on valuation of subordinated notes issued amounting to W22 million (US\$ 18 thousand) for the year ended December 31, 2003 were reflected in current operations. The gain or loss on valuation of derivative instruments accounted for using fair value hedge accounting, which amounted to the opposite corresponding amounts resulting from valuation of hedged items, were also reflected in current operations.

With regard to accounting for the stock index futures traded in Korea Stock Exchange, the currency futures and the interest rate futures traded in Korea Futures Exchange, the gain or loss on valuation accounted for as settlement accounts in the balance sheet is subject to mark-to-market accounting. For the derivative contracts cleared or carried forward to the subsequent year, the difference between the purchase price (settlement price at the end of prior year for the contracts carried over from prior year) and the clearing price (market price for the contract carried forward to subsequent year without clearing) was accounted for as gain or loss on futures trading. There were unsettled interest rate futures amounting to W16,292 million (US\$ 13,602 thousand) as of December 31, 2003.

(3) Litigations

In the normal course of its business, the Bank files lawsuits and takes other legal actions in connection with its business, primarily with respect to the actions for collection of receivables.

As of December 31, 2002 and 2003 the Bank as a plaintiff has filed 310 lawsuits claiming ₩282,189 million and 602 lawsuits claiming ₩272,988 million (US\$ 227,908 thousand), respectively, including the case related to collection of debts. The Bank is a defendant in 72 lawsuits claiming ₩627,987 million and 91 lawsuits claiming ₩663,276 million (US\$ 553,745 thousand) as of December 31, 2002 and 2003, respectively. The outcomes of such lawsuits cannot presently be determined; however, the management of the Bank does not believe that the outcomes of these lawsuits will have a significant effect on the financial condition or operations of the Bank.

(4) Sales of non-performing loans with the right of recourse

From December 15, 1997 to December 31, 2003, the Bank sold ₩3,894.6 billion of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for ₩2,124.6 billion, which included ₩2,451.2 billion of special loans sold with recourse for ₩1,596.7 billion.

Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2003, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to ₩47.3 billion (US\$ 39.5 million) at its sale price. The Bank estimated and reserved ₩11.6 billion (US\$ 9.7 million) as allowance for possible losses for these obligations.

In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to ₩90.0 billion (US\$ 75.1 million) in 2001, which was intended to reinforce the credit of the asset-backed securities (ABS) issued by the SPC.

21. CONSOLIDATED STATEMENTS OF CASH FLOWS:

Cash flows from operating activities are presented by the indirect method. Cash for the purposes of the consolidated cash flow statements is cash and due from banks as of December 31, 2002 and 2003.

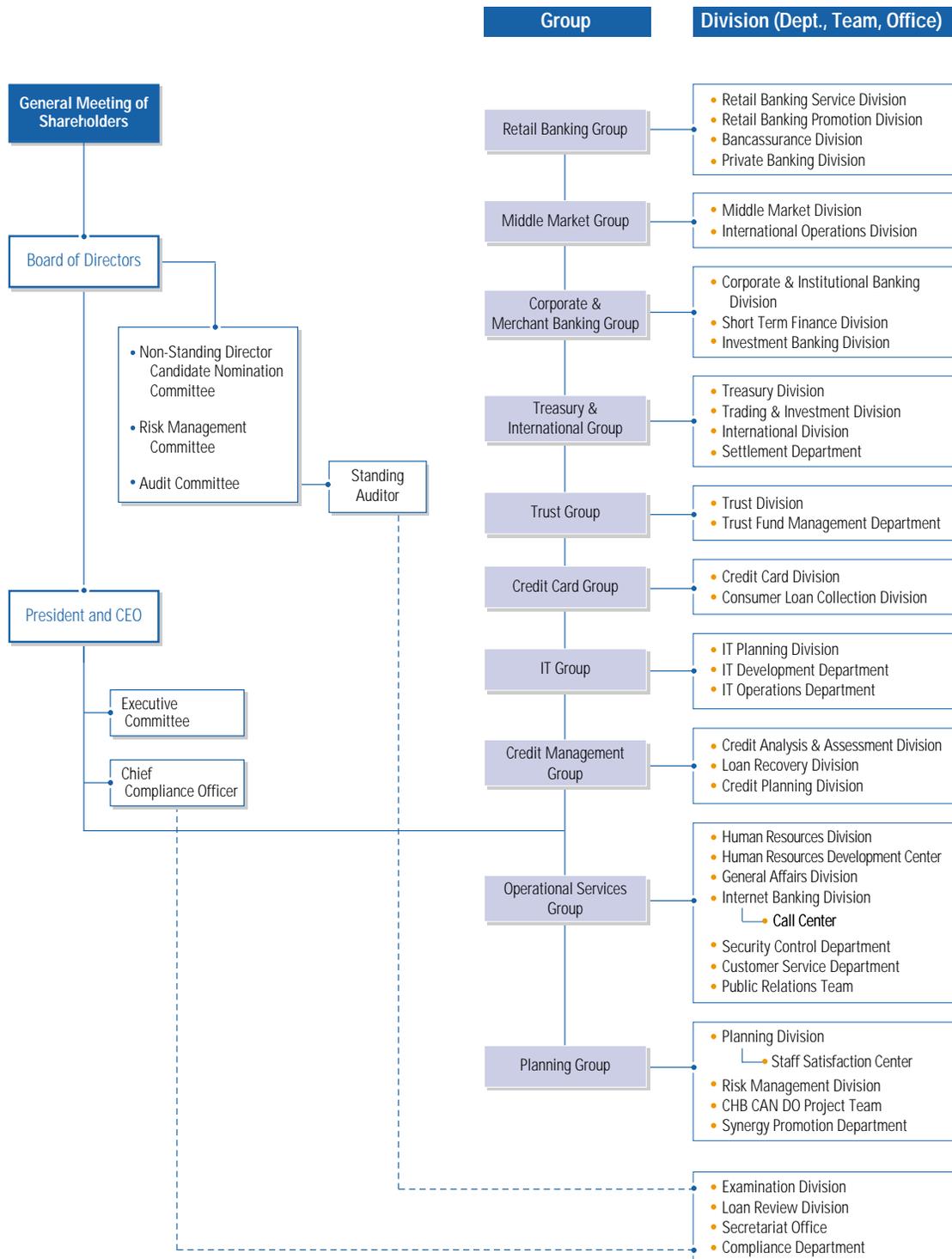
Material transactions not involving cash inflows and outflows during 2002 and 2003 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2002	2003	2003
Conversion of held-to-maturity securities to available-for-sale securities	₩ -	₩ 7,118,254	\$ 5,942,774
Debt to equity swap	316,242	511,626	427,138
Increase (decrease) in loss on valuation of investment securities	(223,323)	412,210	344,139
	₩ 92,919	₩ 8,042,090	\$ 6,714,051

22. CHANGE IN THE MAJOR SHAREHOLDER OF THE BANK:

On July 9, 2003, KDIC, which owned 80.04 percent of the Bank's shares, entered into an agreement with Shinhan Financial Group to transfer its entire shares. Shinhan Financial Group became a majority shareholder by acquiring 80.04 percent of shares held by KDIC on August 19, 2003 and contributed capital amounting to ₩200,000 million (US\$ 166,973 thousand) on December 26, 2003. As a result, as of December 31, 2003, common stock of the Bank is ₩3,595,592 million (US\$ 3,001,830 thousand) and Shinhan Finance Group owns 81.15 percent of the Bank's common shares. The change in major shareholder of the Bank might cause significant change in the Bank's management and business environment.

Organization Chart



Board of Directors



Standing Directors



• **Dong-Soo CHOI**
Chairman of the Board
President and
Chief Executive Officer
Appointed 2003



• **Ji Hong YOO**
Standing Auditor
Appointed 2004

Non-Standing Directors



• **Yong Sung PARK**
Director
Chairman of
Doosan Heavy Industries &
Construction Co., Ltd.
Appointed 2004



• **Young-Hwi CHOI**
Director
President and CEO of
Shinhan Financial Group
Appointed 2003



• **Byung Jae CHO**
Director
Senior Executive Vice President of
Shinhan Financial Group
Appointed 2004



• **Dae Sik KIM**
Director
Professor of
Hanyang University
Appointed 2004



• **Chang Seong JANG**
Director
Director of
Korea Deposit Insurance
Corporation
Appointed 2001

Banking Directory



Overseas Network

Asia

Tokyo Branch

8-6, Nishi-Shimbashi, 2-Chome, Minato-Ku
Tokyo 105, Japan
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Telex : J22555 CHOBANK
SWIFT : CHOH JP JT
http : //www.chbtk.co.jp
E-Mail : korea@chbtk.co.jp
Hyeong Jin KIM, General Manager

Singapore Branch

50 Raffles Place #40-02/03
Singapore Land Tower
Singapore 048623
Phone : (65) 6536-1144
Fax : (65) 6533-1244
Telex : 25049 CHOBANK
SWIFT : CHOH SG SG
E-Mail : chohsgem@singnet.com.sg
Heong Min CHOI, General Manager

Tianjin Branch

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Phone : (86-22) 2339-4070, 4077
Fax : (86-22) 2339-4043
Telex : 234190 CHBTJ
SWIFT : CHOH CN BT
E-Mail : chbchina@chb.co.kr
Yong-Kil KIM, General Manager

Mumbai Branch

42, Jolly Maker Chambers II
4th Fl., 225, Nariman Point
Mumbai, 400-021, India
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Fax : (91-22) 2282-4277
SWIFT : CHOH IN BB
E-Mail : chbmb@vsnl.com
Seong-Ho KUK, General Manager

Chohung Finance Ltd.

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Fax : (852) 2810-1426/1928
Telex : 63016 CHOBK HX
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E-Mail : hongkong@chb.co.kr
Yung-Pyo JUN, Managing Director

Chohung Vina Bank

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Sung-Ho NOH, General Director

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North America

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Fax : (1-212) 355-2231/3360
Telex : 662314/5 CHBK UW
SWIFT : CHOH US 33
http : //www.chbglobal.com
Nam-Soo HEO, General Manager

CHB America Bank

Head Office &

Manhattan Branch

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Chang Eul JUN, President & CEO

CHB America Bank

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E-Mail : chbnflu@aol.com
Mi Hwa KANG, General Manager

CHB America Bank

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Soo-Hwan CHO, General Manager

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Telex : 8951125 CHOBNK G
SWIFT : CHOH GB 2L
E-Mail : mail@chohungbank.co.uk
Jung Kee MIN, General Manager

Chohung Bank (Deutschland) GmbH

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Yong Jin YOON, Managing Director
Ernst-Direter Kircher, Managing Director

Domestic Network

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Phone : (82-2) 2010-2114
Fax : (82-2) 3700-4971/2
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SWIFT : CHOH KR SE
http : //www.chb.co.kr

• Retail Banking Group

Hong Hee CHAE
Deputy President
Head of Retail Banking Group

• Middle Market Group

Yong-Chang HWANG
Deputy President
Head of Middle Market Group

• International Operations Division

Young Hoon HAM
General Manager
Phone : (82-2) 2010-2690

• Corporate & Merchant Banking Group

In Joon CHAEY
Deputy President
Head of Corporate & Merchant Banking Group

• Treasury & International Group

Chan-II PARK
Deputy President
Head of Treasury & International Group

• International Division

Hee Sung PARK
General Manager
Phone : (82-2) 3700-4246

• Correspondent Banking

Hern-Jeen PARK
Deputy General Manager
Phone : (82-2) 3700-4774

• Trust Group

Yong Uk O
Deputy President
Head of Trust Group

• Credit Card Group

Jeong-Woo CHANG
Deputy President
Head of Credit Card Group

• IT Group

Kwang Yub CHUNG
Deputy President
Head of IT Group

• Credit Management Group

Jae-Yoo KIM
Deputy President
Head of Credit Management Group

• Operational Services Group

Kwang Yub CHUNG
Deputy President
Head of Operational Services Group

• Planning Group

Bhang-Gil CHOI
Deputy President
Head of Planning Group

• Investor Relations

Bong Ki JANG
Deputy General Manager
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Dong Gil CHOI, Head

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Sung Woo KIM, Head

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Fax : (82-42) 253-5215
Jong Soo LIM, Head

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Chongju 360-200, Chungchongbuk-do, Korea
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Fax : (82-43) 220-7039
Nam-Hak BAEK
Executive Vice President

Gangwon Regional Office

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Gangwon-do, Korea
Phone : (82-33) 240-3114
Fax : (82-33) 240-3318
Won Suk CHOI
Executive Vice President

Corporate Data



As of December 31, 2003

- **Date of Establishment**

February 19, 1897

- **Head Office**

14, 1-ga, Namdaemun-ro
Jung-gu, Seoul 100-757, Korea
Phone : (82-2) 2010-2114
Fax : (82-2) 3700-4971

- **Domestic Network**

557 (1,697 including automated cash lobbies)

- **Overseas Network**

6 Branches
4 Subsidiaries

- **Number of Employees**

6,667

- **Paid-up Capital**

₩3,596 billion

- **Number of Shares of Common Stock**

Authorized : 2,000,000,000 shares
Issued : 719,118,429 shares

- **Number of Shareholders**

68,870

- **Major Shareholders**

Shinhan Financial Group 81.15%

- **General Meeting of Shareholders**

March 25, 2004

- **Stock Listing**

Korea Stock Exchange
London Stock Exchange (GDRs)

- **Independent Accounts**

Anjin & Co.
A member firm of
Deloitte Touche Tohmatsu

- **Investor Relations**

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