

2003  
Annual Report





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*Corporate Profile*

**Dynamic...**

*is at the core of Korea First Bank's culture. Established in 1929, the Bank is broad-based, serving customers nationwide with both consumer and commercial banking products, as well as trust and investment management services. As the eighth largest commercial bank in Korea, with assets of over KRW 39.5 trillion and a network of 410 branches nationwide, Korea First Bank is well positioned for 2004 and beyond with a strong balance sheet and a steadily growing income stream.*

**Moving Ahead...**

*Korea First Bank has completed its restructuring and is now poised for further expansion. The Bank is a symbol of change and reform in the market, having introduced global best practices into its culture. With a well-balanced mix of corporate and consumer business, disciplined risk management techniques, convenient and advanced distribution channels, and a strong customer service ethos, Korea First Bank is rapidly moving forward.*

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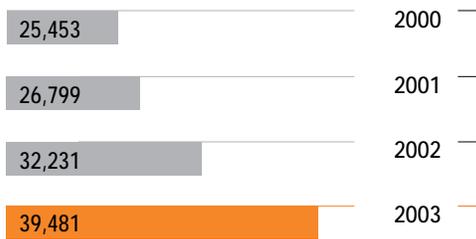
# Financial Highlights

December 31, 2003 and 2002	(In billions of Korean Won)		%
	2003	2002	Change
<b>BANKING ACCOUNTS</b>			
<b>At Year-End</b>			
Total loans	27,218	20,027	35.9
Securities	7,072	7,591	(6.8)
Total assets	39,481	32,231	22.5
Deposits	27,197	23,272	16.9
Borrowings	1,892	2,442	(22.5)
Financial debentures	5,695	2,156	164.2
Total liabilities	37,833	30,565	23.8
Common stock	1,030	981	5.0
Total shareholders' equity	1,648	1,667	(1.1)
<b>For the Year</b>			
Net interest revenue	768	547	40.3
Fees, commissions and other revenue, net	275	260	5.6
Total revenue	1,043	808	29.1
Operating expense	679	591	14.9
Operating margin	364	217	67.8
Provisions for credit losses	329	133	148.5
Operating income	34	84	(59.3)
Net non-operating income	59	11	430.6
Income before tax	93	95	(2.3)
Income tax	107	(6)	N/M
Deferred tax amortization	106	(10)	N/M
Net income	(14)	102	N/M
<b>Credit Quality</b>			
Non-performing credits	416	391	6.4
Reserve for loan losses	424	402	5.4
NPL ratio	1.53%	1.95%	(0.42%p)
<b>TRUST ACCOUNTS</b>			
<b>At year-end</b>			
Total assets	2,440	1,482	64.6
Money trust	950	1,208	(21.3)
<b>CONSOLIDATED FINANCIAL DATA</b>			
<b>BIS Capital Ratios</b>			<b>%p Change</b>
Tier 1 capital	6.18%	7.31%	(1.13%p)
Tier 2 capital	5.87%	4.30%	1.57%p
Total capital	12.00%	11.55%	0.45%p

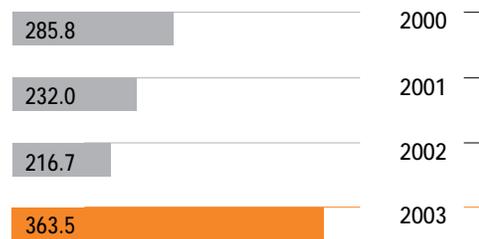
Korea First Bank continued to build the foundation for sustainable profitability with an operating margin of W363.5 billion, up by 67.8% over 2002.

As of December 31, 2003, the Bank's total assets had reached W39,481 billion, up by 22.5%.

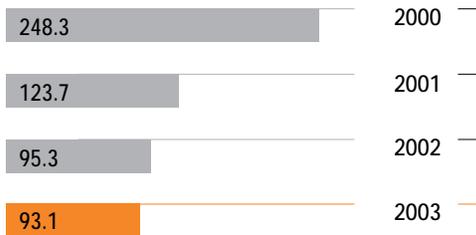
The Bank's Capital Adequacy Ratio was 12.00% in 2003, one of the highest in Korea.



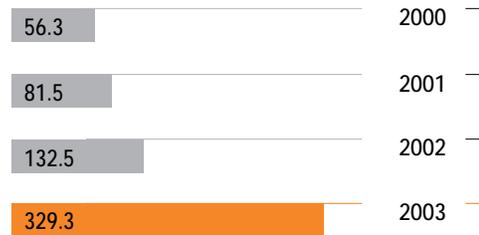
Total Assets (BW)



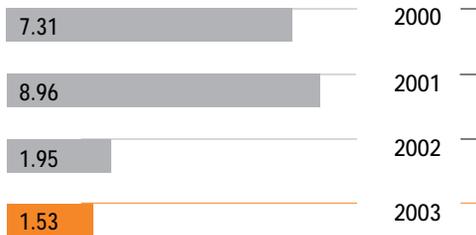
Operating Margin (BW)



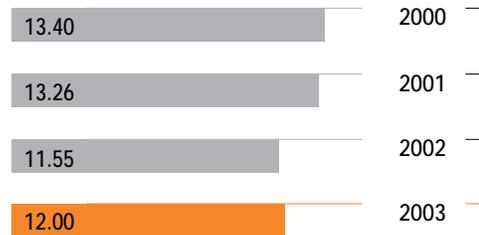
EBIT (BW)



Provisions for Credit Losses (BW)



NPL Ratios (%)



BIS Ratios (%)

## *Letter to the Shareholders and Customers*

*While 2003 was a turbulent year, the Board is pleased with the quality of the results in 2003, and we are excited about the prospects for 2004.*



### *“ Korea First Bank: The name you can trust ”*

Korea experienced many challenges in 2003. There has been more activity in the North. There is a changed political environment. There have been significant corporate scandals. And the entire economy has been affected by the credit card crisis, which has forced the rescue of Korea’s largest credit card company.

While Korea First Bank is not the largest bank in Korea, the Board is very proud of its number one position in two very important categories. First, while significantly growing its corporate business, Korea First Bank has enjoyed the lowest percentage of non-performing loans of any major Korean Bank. The Bank’s world-class risk management has performed well for the Bank in averting many of the credit problems affecting other banks.

Second, Korea First Bank is one of the leading originators of mortgages in Korea. This has been the integral step in our strategy of building a strong retail bank to complement our corporate banking business. In 2003, Korea First Bank made mortgage loans to more than 100,000 customers and originated approximately 22% of the new volume generated by the entire industry.

While 2003 was a turbulent year, the Board is pleased with the quality of the results in 2003, and we are excited about the prospects for 2004. Our thanks go to the dedicated efforts of our employees, whose hard work and passion for our customers are the cornerstone of the Bank’s success. We are also grateful to our customers, who have shown unwavering loyalty and appreciation of the efforts of the Korea First Bank employees.

A handwritten signature in black ink, appearing to read 'Robert T. Barnum', written in a cursive style.

**Robert T. Barnum**  
Chairman, Board of Directors

*Korea First Bank had a remarkably strong year in 2003, .....in spite of difficult conditions in Korea.*

Interest rates declined to well under 4% with a flat yield curve, and depressed domestic consumption led to an increase in the number of failures among corporations that depended on local business rather than exports. Some high profile failures negatively impacted the capital markets and, worse, the credit card crisis we forecasted last year deepened into a financial and social crisis.

*In this context, the Bank's good performance was even more spectacular,*

Korea First Bank has grown much faster than the market, even faster than planned. Our corporate lending increased by more than 28%, the highest rate of increase in Korea, and our share of the consumer mortgage market went from 1% two years ago to more than 10% in 2003. And we believe that all this was achieved without compromising our stringent risk management standards.

We were not involved as direct lenders to either of the year's most notable troubled companies, SK Networks and LG Card, and our share of Korea's total new non-performing-loans (NPLs) is well below a half percent, 15 times less than our market share.

Korea First Bank weathered the credit card crisis well. As with every player in the market, we were affected, but our credit card-related delinquency rate, of less than 15% at its peak in mid-year 2003 compared quite well with the 40% range experienced by many of our competitors (when one takes into account all re-aged and restructured loans). Since then, our credit card-related delinquent volumes have decreased by almost half, and we expect this downward trend to continue. More importantly, we maintained our disciplined credit risk approach in that we did not re-age delinquent card accounts and we only restructured accounts when the debtors made



*Korea First Bank has grown much faster than the market, even faster than planned.*

## *Letter to the Shareholders and Customers*

large upfront cash payments evidencing their serious intention to repay. Additionally, we increased the level of our provisioning for any delinquent credit card account over 90 days past due to 90%, well above industry guidelines. Our aim in taking this step was to avoid merely pushing these problems into 2004, so as to enable our leaner, safer portfolio to withstand the turbulence in credit card debt that we believe will continue in 2004.

The Bank's pre-tax income in 2003 was close to that in 2002, even after we took a provision of about KRW 80 billion more than in 2002 against credit card related losses, an action that we do not expect to recur. We refer to pre-tax income as Korea First Bank does not currently pay Korean income taxes, although the accounting impact of the deferred tax assets on our income statement can be somewhat confusing.

The most impressive improvements in 2003 over 2002 are the 68% increase in operating margin and the 10 percentage point reduction in the efficiency ratio and the effects of these structural improvements will continue in the future.

### *Today, Korea First Bank is a different bank,*

a very dynamic one, growing its loan portfolio rapidly, increasing its market share, and improving its efficiency. Our Bank is opening new branches, introducing new concepts and aggressively working to attract new customers.

Our balance sheet is remarkably clean. We were protected from the old NPLs by the support (now expired) provided through the Assistance Agreement with the Korean Government, and, as noted above, our rigorous approach to controlling credit risk has kept our new NPLs to a very low level.

Our conservative provisioning policy, which gives us more than 100% of NPL coverage, together with prompt charge-offs, allows us to keep a clean balance sheet, which we believe is key to a stable and profitable future. And added to that, our Value at Risk (VaR) is still less than one-half of our capitalization -- an exception in this market and in Asia in general.

The Bank uses sophisticated modeling techniques and modern processes. The rigorous application of our centralized risk management and the scientific approach to consumer risk management are yielding results. Our total NPL ratio of 1.53% is the lowest in Korea.

The centralization of operations and administrative processes allowed us to handle routinely 15,000 new mortgages a month and, by freeing the branches, permitted a continuous marketing effort while those of the competition were busy trying to collect. At the same time, our quality of service has been recognized by the prestigious Korea Management Association award. All of our processes are supported by a strongly updated Information Technology function and by a state of the art branch network computer system.

Finally, our Management Information System is one of the best and most detailed of any bank in the world, and is used by all business units. The emphasis on profit and efficiency per unit is now changing the decision-making process.

Public recognition of many of these improvements and achievements has dramatically changed Korea First Bank's image, replacing the image of a troubled bank from the days of the IMF crisis with that of a model bank. This change in public perception of our bank will strongly support our actions in 2004.

*For 2004, the goal was already defined 2 years ago: to reach assets of KRW 40 trillion with a 25% return on equity before tax (ROE).*

We ended 2003 with assets of KRW 39.5 trillion, which means that we will surpass our 2004 asset goal within the first quarter. We fully expect to attain our target of 25% ROE in the second half of 2004.

This year we expect to retain our momentum, continuing our growth in consumer and corporate markets while maintaining the high quality of our assets. We will be stressing vicinity banking to further improve client service, and we will be harvesting the first fruits of our Private Banking investment.

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

Our shareholders have provided their total support during these critical years of rebuilding.

Among other things, they have supported our continuing investment in modernizing the Bank and have refrained from taking any distributions during these past four years.

Our clients have been wonderful, maintaining their faith during the bad years in the late 90's, and supporting us during the turnaround and the reconstruction. They can now receive the full services of a modern and solid bank.

Our employees, or should I say, our Team, have performed consistently beyond expectations. They have demonstrated their love for the Bank, their personal and familial dedication and, through this incredible growth, their skills and energy.

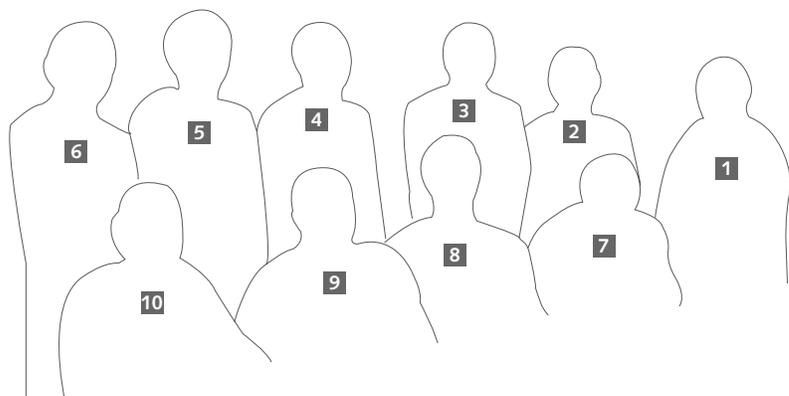
To all, thank you.

Korea First Bank is again becoming the First Bank in Korea, if not by size then by the much more important criteria of dynamism, growth rate, strength and profitability.



**Robert A. Cohen**  
President & CEO

# *Executive Officers*





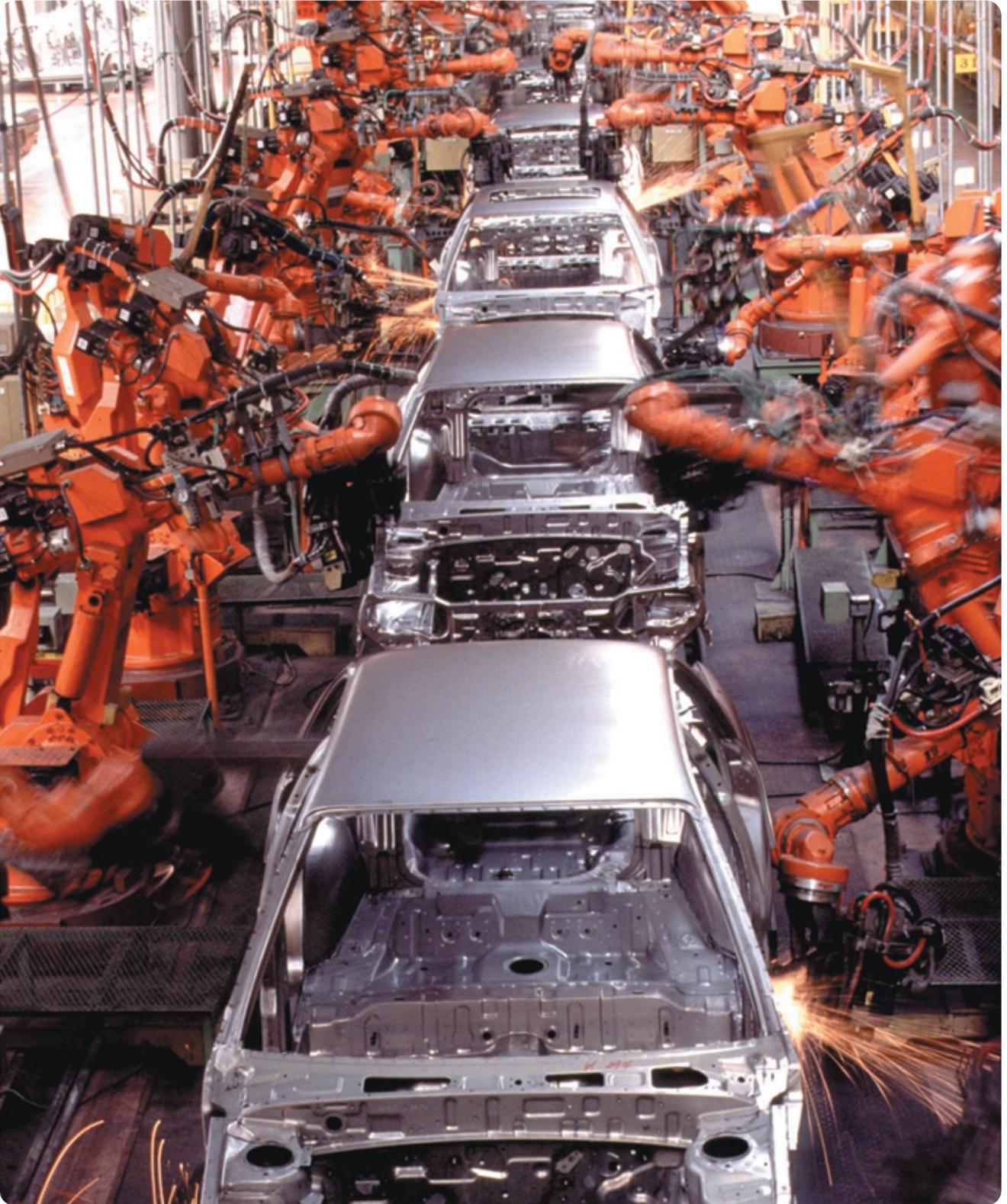
- 1 Robert A. Cohen**  
*President & Chief Executive Officer*
- 2 Seung Yeal Yang**  
*Executive Vice President & Chief Branch Officer*
- 3 Duncan W. Barker**  
*Executive Vice President & Chief Operating Officer*
- 4 Jae Myung Hyun**  
*Executive Vice President & Chief Information Officer*
- 5 Jin Ho Kim**  
*Executive Vice President*
- 6 WonKyu Choi**  
*Executive Vice President & Chief of International Business*
- 7 SooHo Lee**  
*Executive Vice President & Chief Credit Officer  
Chief Risk Management Officer*
- 8 Keith M. Schachat**  
*Executive Vice President & Chief Consumer Risk Officer*
- 9 Ranvir Dewan**  
*Executive Vice President & Chief Financial Officer*
- 10 Si Chin Kang**  
*Acting Standing Auditor*



*“Review of Operations”*

The background is a solid orange color with a repeating pattern of stylized, ornate motifs. A vertical line runs down the center of the page, with a downward-pointing arrow on the left side and an upward-pointing arrow on the right side. The text is centered horizontally and vertically between these two arrows.

*Truly a remarkable year, both in growth of assets,  
growth in operating margin, and improvement in productivity*



# The Corporate Bank

*Supporting our good corporate customers is central to both their business growth and the growth of the Korean economy*

While much of our attention over the past four years has been on building a strong foundation for a consumer bank, we firmly believe in the importance of supporting our good corporate relationships and their role in the continuing development of the Korean economy.

Until 2003, the Bank had been focused on cleansing and reshaping the acquired corporate portfolio in accordance with the Assistance Agreement with the government. With this behind us, we were able to focus our efforts in 2003 on new initiatives, while being very conscious of the increasing risks and number of bankruptcies that occurred throughout the market during the year. We were fortunate to have avoided many of the pitfalls that impacted our competitors this past year. Specifically, we had no direct exposure to either SK Networks or LG Card, and thus we were not required to commit new funding to assist in their bailout operations.

Concentration of risks is deliberately avoided by a disciplined approach to exposure management with NPLs as a percentage of corporate portfolio credit outstanding falling to 94 basis points in 2003. The number of new problem accounts for KFB in 2003 is by far the lowest in the industry, and only a fraction of the next best performer.

This disciplined approach to risk management in the corporate

sector over the past year, while not popular in many constituencies, has not only avoided potential problems, but also yielded positive results for the Bank. We have been able to build on relationships in key areas, assisting many of our customers in the restructuring of their balance sheets, as well as supporting their core business activities. This resulted in growth of outstanding loans of more than 28% in 2003. This growth was the fastest in the industry and, while dramatic, we are confident that our risk process and decisioning are sufficiently prudent to manage such growth appropriately.

This year, we have delivered to our smaller and medium-sized customers electronic products and services through remote channels (such as the Internet) that had historically been affordable only for our large customers with high transaction volumes. These new channels for the smaller companies have been very well received, and as a result, transaction volumes have increased steadily.

As we enter 2004, we are well-positioned to continue our support to those industries that are the backbone of the economy, while recognizing the needs of the medium and smaller enterprises. Our emphasis and delivery of services to the corporate sector has never been more important, through both traditional and remote channels, and we look forward to 2004 for continued growth in both lending and fee-related services.





# The Consumer Bank

*Growth in consumers' assets outpaced the competition, with the Bank achieving a 10% market share in mortgage lending*

The Consumer Bank has been a clear success story this year. The 5-year plan established in 2000 was exceeded in 2003, a full year ahead of target. The key elements introduced in 2000, most importantly our mortgage products, laid the foundation for building a strong asset base, with prudent underwriting and risk-adjusted pricing. Growth in the mortgage products segment outstripped the competition in 2003, with the Bank almost doubling customer assets. Fortunately, by far the largest component of our portfolio is in longer-term mortgages, representing the Bank's conscious efforts to avoid the more speculative aspects of mortgage lending that have been of concern to the Government in 2003. Today, our mortgage portfolio has an average maturity of over 10 years, with a loan-to-value ratio of just over 50%—an exception in the Korean banking industry. From a zero market share in mortgages in late 2000, the Bank can now boast a market share of 10%—a major achievement in strengthening our franchise.

Complementing the growth in our secured consumer portfolio was the continued success of our unsecured personal loan products, most importantly the First Convenient Loan (FCL) product that was launched in late 2002, which have performed

remarkably well in a difficult market. These loans are kept relatively short in tenor and smaller in amount to avoid having our good customers become overly indebted, while providing them with the necessary financing to meet their needs. These loans tend to be higher priced because they are unsecured.

Growth of these loans, as well as of our secured book, has resulted in consumer loans reaching 60% of total loan assets, in line with our intentions to build a well-balanced portfolio. We are naturally very pleased with the steady growth in our consumer business, which has completely reshaped the Bank's portfolio mix and risk profile and laid a firm foundation for the future.

We continue to invest in our network, reaching a total of 410 branches in 2003. While customers in Korea are very wired, we still see a strong value proposition in the branch distribution network as the population ages. With the demographics and customer patterns continually changing, the network of branches has been reshaped to exploit the opportunities of new communities, while shuttering those branches that no longer contribute sufficient value.



■■■ *The Consumer Bank* ■■■

With both our existing and new valuable customers, we look forward to broadening the services we provide, from loans to deposits to investments to conveniences such as bill paying and money transfers. In this way, we are aspiring to build closer and more meaningful relationships with our customers, reinforcing the concept of the; Customer First,; and we; Support the Customer. ; –

Despite various challenges in 2003—the meltdown of the money market funds in early 2003 caused by the SK Networks crisis and the ongoing credit card crisis that has caused the biggest issuer in the market, LG Card, to be taken over by the Government—we have been able to maintain our strong position in core deposits, mostly, we believe, because the Bank had no direct exposure to either company. Because of this lack of exposure, customers have viewed the Bank as a safer; home; – for their money. Building on this image has been and will continue to be a critical part of our ongoing strategy to demonstrate how strong and customer-focused the Bank has become. Several of our products received awards during the year, including the; 2003 Korea Economic Daily Consumer Award,; and the; 2003 Kyunghyang Hit Product; – for our new Money Master CD Bankbook.

This becomes especially important as we launch our new wealth management business. 2003 saw the establishment of a new

group, dedicated to serving the needs of the more affluent customers of the Bank. This new group is strongly linked into our branch network, reinforcing the partnership to grow with our customers by providing both bank and trust products, as well as more customized financial services, to meet the increasing needs and sophistication of the growing wealth segment in Korea.

The credit card business was impacted in 2003 by the market meltdown, as some of the questionable practices of market participants became apparent towards the end of the year. The Bank refused to adopt these questionable practices and, instead, made a conscious decision to recognize losses as they occurred rather than deferring them by; re-aging; – the accounts. This, along with a very disciplined approach to our customer’s credit line management, caused our portfolio and card base to shrink in 2003. Early recognition of the problems in the industry has positioned the Bank very well for 2004, with transaction volumes of our better customers returning. The Bank has historically had a very conservative approach to providing cash advance lines, and we continue to look for opportunities to move customers away from this product. Overall returns in this area steadily improved over the year, and we expect to see a continued improvement in 2004 in the overall card business, with the recent introduction of the new debit cards, where the Bank is a market leader in transaction volumes.



Strong Platform



# Strong Platform

*Adoption of advanced technology and new processes are key to meeting customers' needs through convenient and economic channels*

## Electronic Services

Central to our strategy is the desire to drive down the costs of serving our mass market customers, while not diminishing the service we provide them. Providing automated solutions to our customers through convenient channels has been and remains core to our e-banking strategy. As of the end of 2003, over 40% of our customers use one remote channel or another to transact business with the Bank. Our Internet customer penetration continues to grow, with over 20% of our total customer base registered to use the Internet with official certificates.

As we continually upgrade our different services, we are now the industry leader in automating transactions across our branch counters. Our overall automation rate has increased from the low sixties in 2000, to a level of 77% at the end of 2003. The installation of more modern ATMs across the network, as well as special CDs (cash dispensers) that handle utility bills for customers, has been well-received and is helping to reduce the long lines one generally sees in Korean bank branches. Added to this, we signed an agreement with one of the major mobile carriers in late 2003 to significantly enhance our mobile banking capabilities. We believe this new service convenience will be a strong driver of customer loyalty.

Security has always been at the forefront of our planning for the different delivery channels. In 2003, we introduced the first pin pad system in the market for our regular branch customers, so that they could control their own passkeys, while continuing to

enhance the protective walls for those who access their accounts electronically.

Services provided electronically now include a full range of loan, deposit, card, foreign exchange, investment, and real estate products for the consumer. Our suite of products designed for the small to medium sized corporate customers has attracted a great deal of interest from customers as they are becoming more sophisticated users of banking services.

## Centralized Operations

The Bank moved aggressively in 2002 with the implementation of its centralised processing and call center initiative, commonly called the 'factory'. This factory, the first in Korea, was designed to totally change the way the Bank processes and controls its business, while creating the platform to support the increasing call volumes coming through the Consumer Bank. Apart from the more normal functions commonly seen in this type of environment (for example, call handling), we have also centralized our loan underwriting and processing, collections, customer service and telesales activities. This centralization has allowed us to be a more active participant in the market, while maintaining strong disciplines and a consistency in our delivery process. It has also permitted our branch networks to focus on the business of selling, while driving strong efficiencies and economies of scale into the back office.

In 2003, we launched a second factory site, based in Busan, as a full back-up to the centralized capabilities in Seoul. We viewed



this as common sense, especially given the volumes of business being transacted, as well as the increase in collections and customer service activities.

The highlight of 2003 was when the Bank received two awards from the Korea Management Association -- one for Korea Best Service for the overall call center structure, and the other for Best Customer Service Innovation.

### IT Investment

Since 2000, we have made a significant investment in upgrading our business networks. Information technology is a key component to the continued success of the Bank, enabling us to develop and implement new products more rapidly. Our IT vision is to provide customers with the most reliable services at an affordable price, while supporting a world-class infrastructure.

In 2003, we completed implementation and nationwide rollout of a new branch workstation called EDS SELLSTATION. This initiative is a significant development for the domestic Korean banking industry—it redefines how we can run our branch operations, successfully merging global banking practices with local knowledge and expertise. This system is now the key tool for the Bank’s internal sales management. It utilizes EAI technology, allowing us to seamlessly integrate sales, teller, loan, Internet, and centralized activities. At the same time, it divides roles and responsibilities with a new security scheme to control risks in today’s competitive banking environment. The implementation of SELLSTATION greatly improves KFB’s internal business processes and has transformed the Bank’s old IT infrastructure into a flexible, multi-tiered architecture. The outcome is a real-time, information-rich capability that allows our employees to operate

on a procedure-based system with accurate and up-to-date information. More importantly, by redefining the roles and responsibilities of bank officials (from a process point-of-view), this ‘automated’ process helps to dramatically decrease the chance of human error.

We also completed in 2003 a new state-of-the-art collection system, Debt Manager, to respond to our growing customer base and to more actively manage consumer debt problems of our customers when they arise.

With our advanced IT infrastructure, we are well positioned to develop new products, whether loan or deposit services, remote banking, investments or other key areas in the Bank. IT plays a critical role in furnishing our customers with convenient and efficient services, including expanding distribution channels such as mobile banking and TV banking, both planned for 2004, as well as the more traditional branch-based products.

In 2003, our Bank was upgraded to level three (the highest level) of CMM (Capability Maturity Model) IT industry certification, recognizing our software development and maintenance. We have been reorganizing our infrastructure in preparation for this transition since 2000 and have reworked our software process improvement based on the SW-CMM format since November 2001. In recognition of our efforts, we were first awarded CMM level two in early 2003, and subsequently became the first player in the Korean banking industry to reach level three.

IT’s partnership with the business strategists in developing new customer solutions and heightened productivity is central to our strategy. Our investment has allowed us to keep pace with a rapidly changing market, and has positioned us well for the future.



Strong Principles



## Strong Principles

*We believe in total transparency and the adherence to global banking and financial practices in our daily operations*

### **Risk Management**

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

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

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

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

The Bank's commitment to implementing better risk management policies in relation to both individual and corporate customers is one of its greatest strengths. The FSS-compliant delinquency ratio stood at 1.82% and the non-performing loans (NPLs) ratio was the lowest among Korean banks, standing at

1.53% as of December 31, 2003. Despite Korea's turbulent credit card environment, the Bank's scientific risk management approach and vigilance kept the delinquency rate well below those of the Bank's competitors.

In the consumer sector, the Bank dealt responsibly with delinquent receivables, by raising the required upfront cash payment in order to restructure accounts to 20% (plus all delinquent interest charges); by selling to third parties all credit card non-performing unsecured loans (NPLs) that were more than 90 days overdue; and by making provisions at higher rates than the regulatory minimum. The Bank steadfastly maintained its disciplines by not re-aging credits as many of the participants in the market were doing.

This conservative approach cost the Bank about KRW 200 billion more in provisions in 2003 but, more importantly, it provided the Bank with a stronger balance sheet entering 2004. The behavioral models installed since late 2001 performed remarkably well given the meltdown in the credit card market. Also importantly, the constant refinement of these models on a pro-active basis has positioned the Bank to better control the consumer risks in the future. The reduction in the Bank's delinquency ratio—to 1.82% at the end of 2003—in a difficult environment is a testament to this, as are the prices achieved on the Bank's consumer NPL sales.

In corporate loans, the Bank implemented a new Credit Risk Management System (CRMS) that both incorporated and conformed to BASEL II recommendations. In this regard, KFB has been an industry leader as one of the first players to implement such a comprehensive system. While the focus since 2000 has always been on cash flow-based lending, the importance of this focus increased even more after the

## Strong Principles

introduction of the CRMS methodology. In September 2003, the Bank also expanded the range of customers subject to the Early Warning System (EWS) alert to include entire corporate portfolios. This EWS is an integral part of proactively managing the risks in our corporate portfolio.

The NPL ratio for corporate loans fell to 94 basis points in 2003. Risk disciplines also contributed to controlling the inflow of new problem accounts. Compared to other Korean banks, the Bank had the lowest level by far of new problem assets - a fraction of the next best performer in the banking industry.

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

### Corporate Governance

#### Exemplary Structure

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

The Board comprises one standing director and fifteen non-

standing directors. The non-standing directors monitor governance of the Bank.

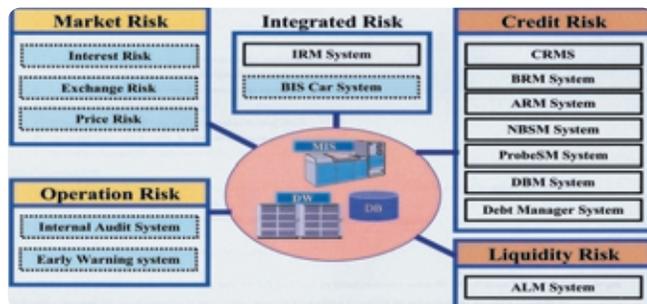
#### Committees and Their Roles

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

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

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

The Risk Management and Financial Control Committee is composed of five directors. Its duties include supervising matters relating to the principal risk management guidelines for the Bank in accordance with the Bank's business strategies, and managing the Bank's risk positions, including credit, liquidity,



currency and interest rate risk, as well as the use of derivative products in risk management. It is also responsible for establishing investment limits and loss-cut limits, supervising matters regarding risk-based capital allocation, reviewing the details of the financial situation of the Bank, supervising matters delegated by the Board and other matters approved by the Chairman of the committee or the President and CEO.

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

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

#### *Standard for Financial Reporting*

The Management of the Bank has prepared the accompanying

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

In meeting its responsibilities for the reliability of the financial statements, the Bank depends on its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with the appropriate corporate authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in Korea. Internal accounting controls are augmented by written policies covering standards of personal and business conduct and an organizational structure providing for the division of responsibility and authority.

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



Community & Employees



# Community & Employees

*Giving to our communities is an integral part of our way of doing business*

## Community Focus

Social responsibility is an integral part of the Bank's approach to doing business. We have a rich, 75-year heritage of giving back to our many communities. Below are just a few examples of how we fulfill our role as a corporate citizen and neighbor.

The Hansarang Campaign is a fund-raising program similar to United Way in which all employees can donate, and donations are matched by the Bank. In 2003, with the participation of 2,683 employees, the program attracted KRW 250 million in employee donations, and the Bank matched this amount with its own, for a total donation of KRW 500 million. We are very proud of this accomplishment, particularly as it represented voluntary contributions by our employees.

The Hong Myung Bo Scholarship Foundation is a unique program in which the Bank provides scholarships for less fortunate young people. The Foundation was initiated by Mr. Hong, the former captain of the Korean National World Cup Soccer team, and is also supported by many other members of the team. Through Bank product offerings, customers can also contribute to the fund.

Celebrating the 74th Anniversary of its establishment, Korea First Bank hosted the "KFB Family Hanmaum Festival 2003." Heralded as the largest festival since KFB's establishment, and with each location connected live through satellites, a total of 15,000 people were in attendance. This event highlighted the unified spirit of the KFB family and its dedication to all parts of the community.

The "Barracks Life Experience Summer Camp" for children of KFB families provided participating children with an opportunity to cultivate patriotism and learn about country security, as well as

just have some fun. The children participated in a variety of programs, including reporting for duty, learning about special military arts, riding tanks, and learning battle swimming, among others. They also visited the No. 2 Tunnel and Weoljungri Station, the final station of the Kyongwon Line, to witness the reality of the peninsular division and the harsh realities of war. Through their experiences in the barracks, they were reminded of the importance of country and family.

The Bank also made donations to assist those areas impacted by the severe flooding during the year. Many families in these areas had lost everything in their households.

## Employees

The Bank continues to be recognized for its swift and effective enhancement of its service quality. It has also received high points for providing superior facilities and a pleasant work environment. These results can be attributed to the maintenance of open communication between management and employees, and the constant efforts to create a constructive and positive environment.

To develop the service-oriented and sales-motivated mindset, the Bank continues to make a significant investment in training employees to effectively use its new systems, and to adapt new techniques and technology in an ever-changing environment. The Bank has enhanced its financial education system to provide employees who wish to further develop by acquiring financial related licenses.

The Bank is fully committed to supporting its employees, while doing its utmost for its customers and the communities in which they live.





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# Management's Discussion & Analysis

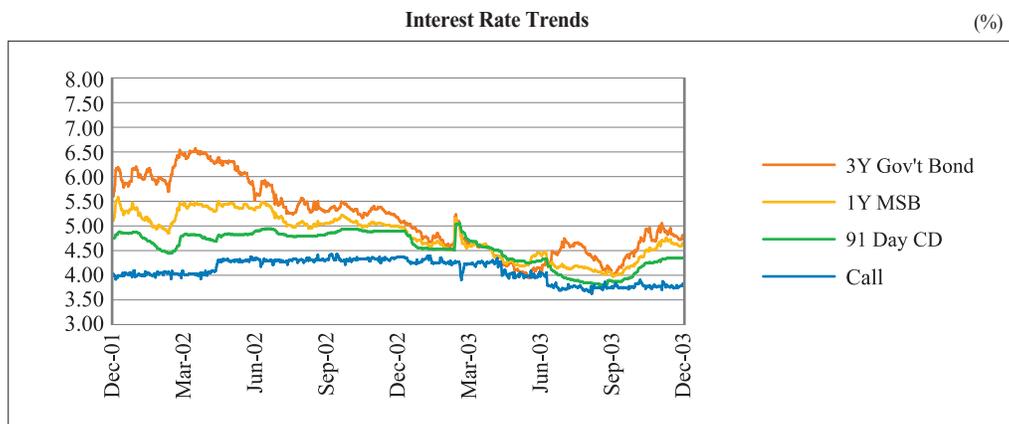
## SELECTED FINANCIAL DATA

	Won in Billions			% Change
	2003	2002	Change	
<b>BANKING ACCOUNTS</b>				
<b>Operating Results</b>				
Net interest revenue	767.6	547.1	220.5	40.3
Fees, commissions and other revenue, net	275.1	260.4	14.7	5.6
Total revenue	1,042.8	807.5	235.3	29.1
Operating expense	679.2	590.9	88.3	14.9
Operating margin	363.5	216.7	146.8	67.8
Provision for credit losses	329.3	132.5	196.8	148.5
Operating income	34.3	84.2	(49.9)	(59.3)
Net non-operating income/(expense)	58.9	11.1	47.8	430.6
Income before tax	93.1	95.3	(2.2)	(2.3)
Current income tax expense	0.4	3.8	(3.4)	(89.5)
Deferred income tax expense/(benefit)	106.2	(10.0)	116.2	N/M
Income tax expense/(benefit)	106.6	(6.2)	112.8	N/M
<b>Net income</b>	<b>(13.5)</b>	<b>101.5</b>	<b>(115.0)</b>	<b>N/M</b>
<b>Balance Sheet</b>				
Loans net of loan provisions	26,790.7	19,619.3	7,171.4	36.6
Investment securities	7,072.0	7,591.2	(519.2)	(6.8)
Other interest-earning assets	2,203.4	1,797.9	405.5	22.6
Non-interest-earning assets	3,414.6	3,223.0	191.6	5.9
<b>Total assets</b>	<b>39,480.7</b>	<b>32,231.3</b>	<b>7,249.4</b>	<b>22.5</b>
Deposits	27,196.9	23,271.7	3,925.2	16.9
Borrowings	1,892.3	2,441.5	(549.2)	(22.5)
Financial debentures	5,695.0	2,155.6	3,539.4	164.2
Other interest-bearing liabilities	1,420.7	1,357.1	63.6	4.7
Non-interest-bearing liabilities	1,627.7	1,338.7	289.0	21.6
Total liabilities	37,832.6	30,564.6	7,268.0	23.8
Total shareholders' equity	1,648.1	1,666.7	(18.6)	(1.1)
<b>Total liabilities and shareholders' equity</b>	<b>39,480.7</b>	<b>32,231.3</b>	<b>7,249.4</b>	<b>22.5</b>
<b>TRUST ACCOUNTS</b>				
Money trust	950.1	1,207.9	(257.8)	(21.3)
Property trust	1,450.1	109.7	1,340.4	1,221.9
Others	39.8	164.5	(124.7)	(75.8)
<b>Total</b>	<b>2,440.0</b>	<b>1,482.2</b>	<b>957.8</b>	<b>64.6</b>
Performance trust	1,993.7	912.6	1,081.1	118.5
Guaranteed trust	446.3	569.6	(123.3)	(21.6)
<b>Total</b>	<b>2,440.0</b>	<b>1,482.2</b>	<b>957.8</b>	<b>64.6</b>
Won in Billion				
	<b>BANKING</b>		<b>CONSOLIDATED</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>CREDIT QUALITY</b>				
Non-Performing Loans	416.3	391.2	416.4	408.3
NPL Ratio	1.53%	1.95%	1.52%	2.01%
Reserve for loan losses	423.8	402.0	427.3	414.9
Reserve as a percentage of total loans	1.56%	2.01%	1.56%	2.04%
<b>KEY FINANCIAL RATIOS</b>				
Net interest margin	2.46%	2.20%	2.41%	2.21%
Efficiency ratio	65.13%	73.17%	65.26%	73.01%
Return on Average Assets	(0.04%)	0.36%	(0.04%)	0.35%
Return on Average Equity	(0.82%)	6.34%	(0.83%)	6.32%
Tier 1 capital			6.18%	7.31%
Tier 2 capital			5.87%	4.30%
Total capital			12.00%	11.55%
Full Time Employees	4,180	4,250		
Total Employees	5,089	5,055		

## Management's Discussion & Analysis (continued)

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

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



### OVERVIEW

Income before tax decreased by W2.2 billion to W93.1 billion in 2003 from W95.3 billion in 2002. The 2003 results reflected a W146.8 billion or 67.8% increase in operating margin (total revenue minus operating expense), significantly increasing the Bank's absorptive capacity. This increase was offset by a substantial increase in the provision for credit losses. Net income decreased by W115.0 billion to a net loss of W13.5 billion in 2003 from income of W101.5 billion in 2002 as the Bank took a conservative view on the usage of the remaining NOLs, which expire in 2004, and elected to write-down deferred tax assets in the first quarter of 2003 because of concerns regarding the uncertain credit environment. This non-cash charge was the primary reason for the small loss in 2003. In 2002, the Bank had recognized a small deferred tax benefit.

The past year has seen the Bank continue its focus on balanced loan growth which resulted in an increase in total loans of W7,190.7 billion to W27,218.1 billion at the end of 2003 from W20,027.4 billion at the end of 2002. Consumer loans (excluding bulk consumer loan portfolios) grew by W6,112.2 billion to W16,360.2 billion at the end of 2003 with most of the increase coming from the mortgage business. The growth in interest earning assets, coupled with an increase in the net interest margin, resulted in a W220.5 billion or 40.3% increase in net interest revenue. The loan growth has built a strong foundation for growth in profitability into the future and the Bank considers it has now reached a balance sheet size which is commensurate with its branch network and number of employees. This is evidenced by the improvement in the efficiency ratio which has decreased to 65.13% in 2003 from 73.17% in 2002.

During the year the Korean credit card industry was plagued by high delinquency levels and the Bank was also affected by this. Provisions for credit losses increased sharply but with the Bank's rigorous underwriting standards, resulting losses have generally been better than the industry average for credit card lenders. Further tightening to underwriting criteria during the year has contributed to recent improvements to the Bank's delinquency trends and the Bank continues to provide for credit losses on a conservative basis. The Bank's corporate credit risk methodologies have resulted in the Bank showing the lowest new non performing loan balance for 2003.

The consolidated Capital Adequacy Ratio ("CAR") of 12.00% remains one of the highest of any financial institution in Korea, and appreciably higher than the regulatory requirements for well-capitalized institutions, notwithstanding the strong asset growth during the year. The maintenance of appropriate levels of capital is a management priority, particularly in these uncertain economic times, as capital provides a solid foundation for the future anticipated asset growth and promotes depositor and investor confidence.

# Management's Discussion & Analysis (continued)

## NET INCOME ANALYSIS

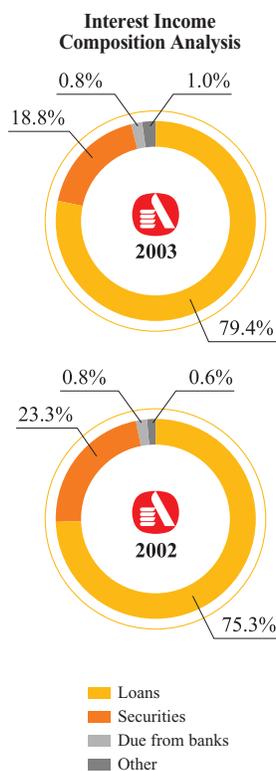
	2003	2002	Won in Billions	
			Better / (Worse)	
			Amt	%
Net interest revenue	767.6	547.1	220.5	40.3%
Fees, commissions and other revenue, net	275.1	260.4	14.7	5.6%
Total revenue	1,042.8	807.5	235.3	29.1%
Operating expense	679.2	590.9	(88.3)	(14.9%)
Operating margin	363.5	216.7	146.8	67.8%
Provisions for credit losses	329.3	132.5	(196.8)	(148.5%)
Operating income	34.3	84.2	(49.9)	(59.3%)
Net non-operating income/(expense)	58.9	11.1	47.8	430.6%
Income before tax	93.1	95.3	(2.2)	(2.3%)
Current income tax expense	0.4	3.8	3.4	89.5%
Deferred income tax expense/(benefit)	106.2	(10.0)	(116.2)	N/M
Income tax expense/(benefit)	106.6	(6.2)	(112.8)	N/M
<b>Net income</b>	<b>(13.5)</b>	<b>101.5</b>	<b>(115.0)</b>	<b>N/M</b>

Total revenue increased by W235.3 billion, or 29.1%, to W1,042.8 billion in 2003 from W807.5 billion in 2002 due to a substantial increase in net interest revenue (before provisions) and an increase in fees and commissions. Operating margin increased by W146.8 billion, or 67.8%, to W363.5 billion in 2003 from W216.7 billion in 2002 with the increase in total revenue being partially offset by an increase in operating expenses. Notwithstanding this increase, operating income decreased by W49.9 billion, or 59.3%, to W34.3 billion in 2003 from W84.2 billion in 2002 due to higher provisions for credit losses, resulting mainly from the deterioration of the Bank's credit card portfolio. Income before tax decreased by W2.2 billion, or 2.3%, to W93.1 billion in 2003 from W95.3 billion in 2002 as a result of the decrease in operating income, which was largely offset by an increase in non-operating income with gains on sales of investment securities contributing most to this increase. Net income decreased by W115.0 billion to a net loss of W13.5 billion in 2003 from income of W101.5 billion in 2002 primarily due to the write-off of a large portion of the deferred tax assets relating to NOLs in 2003 as compared to a recognition of the benefit of the NOLs in 2002.

## NET INTEREST REVENUE

Net interest revenue increased by W220.5 billion, or 40.3%, to W767.6 billion in 2003 from W547.1 billion in 2002. The increase in net interest revenue was principally a result of an increase in the average balance of interest earning assets of W6,395.7 billion, or 25.7%, to W31,251.6 billion in 2003 from W24,855.9 billion in 2002, with substantial increases in both consumer and corporate loans as the Bank continued to implement its strategy of increasing consumer assets while maintaining a strong base of corporate assets. An increase in the net interest margin (defined as net interest revenue as a percentage of the average balance of interest earning assets, calculated on the basis of daily balances) which increased by 26 basis points, to 2.46% in 2003 from 2.20% in 2002 also contributed to the increase in net interest revenue. The increase in net interest margin resulted primarily from strong growth in higher yielding consumer assets, redemption of the balance of the lower yielding KDIC Bonds in December 2002 and a reduction in the average balance of lower yielding bulk loans.

# Management's Discussion & Analysis (continued)



## INTEREST INCOME ANALYSIS

	2003				2002			
	Average		Interest		Average		Interest	
	Balance	Rate	Total	%	Balance	Rate	Total	%
<b>Interest-Earning Assets</b>								
Loans	23,070.3	6.69%	1,544.1	79.4%	16,932.8	7.05%	1,194.2	75.3%
Securities	7,167.4	5.10%	365.4	18.8%	6,971.0	5.29%	368.6	23.3%
Due from banks	929.2	1.68%	15.6	0.8%	777.9	1.63%	12.7	0.8%
Other	84.7	22.20%	18.8	1.0%	174.2	5.68%	9.9	0.6%
<b>Total</b>	<b>31,251.6</b>	<b>6.22%</b>	<b>1,943.9</b>	<b>100.0%</b>	<b>24,855.9</b>	<b>6.38%</b>	<b>1,585.4</b>	<b>100.0%</b>

Won in Billions

Interest income increased by W358.5 billion, or 22.6%, to W1,943.9 billion in 2003 from W1,585.4 billion in 2002. This increase was due to a significant increase in the average balance of interest earning assets, which was partially offset by a decrease in the yield on interest earning assets. The average balance of total interest earning assets increased by W6,395.7 billion, or 25.7%, to W31,251.6 billion in 2003 from W24,855.9 billion in 2002 with the Bank continuing its strategy to increase its consumer lending, particularly mortgage loans and building on its core corporate relationships with a particular focus on structured finance products. The yield on interest earning assets declined by 16 basis points to 6.22% in 2003 from 6.38% in 2002, primarily due to a decrease in average market rates which resulted in lower overall rates on the Bank's interest earning assets.

The average balance of the Bank's consumer loan portfolio increased by W4,007.7 billion, or 42.9%, to W13,344.1 billion in 2003 from W9,336.4 billion in 2002. Mortgage Loans, which comprised wholesale mortgage loans and First Home Loans, were the largest contributors to this increase, growing W4,927.2 billion, or 152.4%, to an average balance of W8,159.7 billion in 2003 from W3,232.5 billion in 2002. Wholesale mortgage loans are loans issued by the Bank to purchasers of apartments under construction by qualified real estate developers. Liens are registered once construction is completed and title passes to the residents. The average balance of wholesale loans, which were first introduced in late 2002, grew by W2,202.5 billion to W2,287.7 billion in 2003 from W85.2 billion in 2002. The average balance of First Home Loans, the Bank's consumer home loan product, increased by W2,724.8 billion, or 86.6%, to W5,872.1 billion in 2003 from W3,147.3 billion in 2002. Other general consumer loans, which include overdrafts, general loans secured by installment savings accounts and other secured and unsecured loans (including loans secured by property) also increased by W651.3 billion, or 25.7%, to W3,185.9 billion in 2003 from W2,534.6 billion in 2002. Yields on consumer loans, however, fell by 36 basis points to 7.21% in 2003 from 7.57% in 2002, reflecting the general decrease in prevailing market rates. Driven by the significant growth in average balances, interest earned on consumer loans increased by W255.3 billion, or 36.1%, to W961.9 billion in 2003 from W706.6 billion in 2002 despite the decline in rates.

Interest earned on corporate loans increased by W94.4 billion, or 19.4%, to W582.1 billion in 2003 from W487.7 billion in 2002. This increase was primarily due to an increase in the average balance of corporate loans of W2,129.8 billion, or 28.0%, to W9,726.2 billion from W7,596.4 billion as a result of the Bank's efforts to build on its strong corporate base by maintaining a balanced portfolio of assets and products. Management believes that the Bank's focus on core corporate accounts and its promotion of innovative structured finance products have been central to this growth in volume. The effect of the increase in the average balance was partially offset by a reduction in average interest rates for corporate loans, which fell by 43 basis points to 5.99% in 2003 from 6.42% in 2002 primarily as a result of the general decline in prevailing market rates.

## Management's Discussion & Analysis (continued)

Interest earned on securities decreased by W3.2 billion, or 0.9%, to W365.4 billion in 2003 from W368.6 billion in 2002. This was due to a decrease in the average rate earned, which fell by 19 basis points from 5.29% to 5.10%, which was partially offset by an increase in the average balance of securities, which increased by W196.4 billion, or 2.8%, to W7,167.4 billion in 2003 from W6,971.0 billion in 2002. In December 2002, the remaining KDIC Bonds were fully redeemed in line with the contractual redemption schedule. The amounts received from this redemption were reinvested in other securities, mostly shorter term monetary stabilization bonds issued by the Government ("MSBs") with a view to investing in government bonds having longer maturities when rates increase. While overall market rates decreased in 2003 compared to 2002, the effect of this decrease on the Bank's yield on securities was mitigated by the replacement of the lower yielding KDIC Bonds with other securities, including government bonds and MSBs.

Interest earned on balances due from banks increased by W2.9 billion, or 22.8%, to W15.6 billion in 2003 from W12.7 billion in 2002. This increase resulted primarily from an increase in the average balance of certificates of deposit issued by other banks, which grew by W109.6 billion. The balance of reserves maintained with the Bank of Korea ("BOK") also increased by W88.0 billion. These reserves do not accrue interest and therefore do not contribute to the yield on balances due from banks. The yield on balances due from banks increased marginally by 5 basis points to 1.68% in 2003 from 1.63% in 2002.

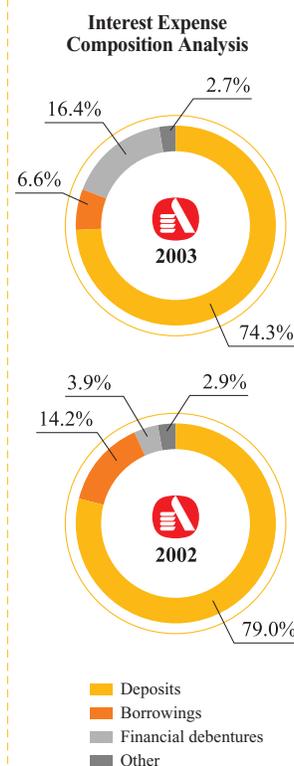
Interest earned on other balances, including amounts loaned to the trust business, increased by W8.9 billion, or 89.9%, to W18.8 billion in 2003 from W9.9 billion in 2002. Interest income in 2003 included interest received from the Korea Deposit Insurance Corporations ("KDIC") as part of the settlement of certain claims under the Assistance Agreement and interest received on receivables from the Hynix Semiconductor creditor group neither of which was included in the average balance.

### INTEREST EXPENSE ANALYSIS

	Won in Billions							
	2003				2002			
	Average		Interest		Average		Interest	
	Balance	Rate	Total	%	Balance	Rate	Total	%
<b>Interest-Bearing Liabilities</b>								
Deposits	24,627.0	3.55%	873.5	74.3%	20,373.2	4.02%	819.8	79.0%
Borrowings	2,552.2	3.04%	77.6	6.6%	3,586.2	4.12%	147.8	14.2%
Financial debentures	3,787.5	5.10%	193.2	16.4%	799.4	5.04%	40.3	3.9%
Other	797.0	4.00%	31.9	2.7%	737.1	4.11%	30.3	2.9%
<b>Total</b>	<b>31,763.7</b>	<b>3.70%</b>	<b>1,176.2</b>	<b>100.0%</b>	<b>25,495.9</b>	<b>4.07%</b>	<b>1,038.3</b>	<b>100.0%</b>

The Bank's interest expense increased by W137.9 billion, or 13.3%, to W1,176.2 billion in 2003 from W1,038.3 billion in 2002. This increase resulted primarily from an increase in the average balance of interest bearing liabilities which increased by W6,267.8 billion, or 24.6%, to W31,763.7 billion in 2003 from W25,495.9 billion in 2002. The impact of the increase in the average balance of interest bearing liabilities was partially offset by a decrease in the average cost of funding which decreased by 37 basis points to 3.70% in 2003 from 4.07% in 2002. The reduction in the rate paid on the Bank's interest bearing liabilities reflected the general decline in prevailing market rates.

The interest expense on deposits increased by W53.7 billion, or 6.5%, to W873.5 billion in 2003 from W819.8 billion in 2002 as a result of the increase in the average balance of deposits by W4,253.8 billion, or 20.9%, to W24,627.0 billion in 2003 from W20,373.2 billion in 2002. This increase in average balance was partially offset by a decrease in the average rate paid on deposits, which decreased by 47 basis points



## Management's Discussion & Analysis (continued)

to 3.55% in 2003 from 4.02% in 2002. The increase in average balances was due to an increase of W2,035.3 billion in the average balance of CDs and an increase of W1,590.3 billion in the average balance of time deposits. The Bank has continued to seek and obtain additional funding from deposits to meet strong asset growth. Out of the variety of deposit products offered by the Bank, time deposits and CDs are more readily available sources of deposits for the Bank as depositors are price sensitive and thus actively seek out the slightly higher rates offered on those products. CDs are attractive to the Bank because, while their yield is relatively high, their tenor is generally longer and the Bank is not required to pay deposit insurance, which increased from 10 basis points to 20 basis points in January 2003, on CDs.

The interest paid on borrowings decreased by W70.2 billion, or 47.5%, to W77.6 billion in 2003 from W147.8 billion in 2002 as a result of the reduction in the average balance of borrowings, as well as the decline in rates paid on borrowings. The average balance of borrowings decreased by W1,034.0 billion, or 28.8%, to W2,552.2 billion in 2003 from W3,586.2 billion in 2002. This decrease was a result of the continued reduction in the average balance of Won-denominated bonds sold pursuant to repurchase agreements ("RPs sold") of W1,266.7 billion, or 82.1%, to W275.7 billion in 2003 from W1,542.4 billion in 2002 primarily as a result of the redemption of the KDIC Bonds, which were largely used in connection with RPs sold. RPs sold were offered to the Bank's retail customers and were treated by management as similar in nature to time deposits. This decrease in RPs sold was partially offset by an increase in the average balance of call money in Won which increased by W217.2 billion to W694.7 billion in 2003 from W477.5 billion in 2002. The average rate paid on borrowings also decreased by 108 basis points to 3.04% in 2003 from 4.12% in 2002 mainly because of the reduction in average balance of RPs sold which had relatively high interest rates, as well as decreases in market rates.

The interest paid on financial debentures issued by the Bank increased by W152.9 billion, or 379.4%, to W193.2 billion in 2003 from W40.3 billion in 2002 as a result of the increase of W2,988.1 billion in the average balance of financial debentures outstanding to W3,787.5 billion in 2003 from W799.4 billion in 2002. This increase was primarily due to an increase in the average balance of Won-denominated financial debentures which increased by W2,700.1 billion to W3,250.2 billion in 2003 from W550.1 billion in 2002 in order to fund loan growth. These financial debentures were used to provide funding with lower overall cost than time deposits of a similar maturity. Unlike time deposits, financial debentures do not require either deposit insurance or cash reserves with the BOK. The average balance of foreign currency-denominated financial debentures also increased by W288.0 billion, or 115.5%, to W537.3 billion in 2003 from W249.3 billion in 2002 as a result of the issuances of US\$375 million in Upper Tier II debt in March 2003 and US\$200 million in Lower Tier II debt in October 2003. The effect of these increases was partially offset by a redemption of US\$200 million in Lower Tier II debt in June 2003. Average interest rates paid on financial debentures increased by 6 basis points to 5.10% in 2003 from 5.04% in 2002. The increase in average rates was a result of an increase in rates paid on foreign currency denominated financial debentures that was largely offset by a decrease in rates paid on Won-denominated financial debentures.

Interest paid on other interest bearing funding increased by W1.6 billion, or 5.3%, to W31.9 billion in 2003 from W30.3 billion in 2002. Other interest bearing funding comprised the interbank reconciliation account and balances due to the Trust Account. The interbank reconciliation account is an interbank balance that is settled through the BOK, increased by the Bank's customers' withdrawals from other banks and decreased by other banks' customers' withdrawals from the Bank.

### FEES, COMMISSIONS AND OTHER REVENUE, NET

	2003	2002	Won in Billions Better / (Worse)	
			Amt	%
Banking fees & commissions	70.6	63.1	7.5	11.9%
Credit card fees	171.8	166.5	5.3	3.2%
Trust	17.1	13.8	3.3	23.9%
Securities	1.4	1.3	0.1	7.7%
Foreign exchange	17.1	18.1	(1.0)	(5.5%)
Others	(2.9)	(2.5)	(0.4)	(16.0%)
<b>Total fees ,commissions and other revenue</b>	<b>275.1</b>	<b>260.4</b>	<b>14.7</b>	<b>5.6%</b>

Fees, commissions and other revenue increased by W14.7 billion, or 5.6%, to W275.1 billion in 2003 from W260.4 billion in 2002. This resulted mainly from an increase in banking fees & commissions, credit card fees and trust fee income. These increases were partially

## Management's Discussion & Analysis (continued)

offset by a decrease in foreign exchange fees and other fees. Banking fees & commissions increased by W7.5 billion, or 11.9%, to W70.6 billion in 2003 from W63.1 billion in 2002 primarily as a result of (i) a W11.3 billion increase in the fees earned on new loans, mostly attributable to the fact that commencing on July 2003, origination costs on mortgage loans can be amortized over the life of the loans under Korean GAAP provided certain conditions are satisfied (such origination costs used to be netted against fees earned), and (ii) a W3.9 billion increase in the foreign currency fees including trade finance related fees. These increases were partially offset by a W2.9 billion decrease in fees earned on the sale of third-party investment products as a result of a decrease in customer confidence in these investment products, especially due to the SK Global accounting scandal and a W3.7 billion decrease in general Won-denominated fees, including a W2.2 decrease in fees paid by KDIC for the management of loan assets transferred to the KDIC under the Assistance Agreement. After the protection provided by the Assistance Agreement expired, KDIC balances under the Bank's management became negligible, and consequently, fees received from the KDIC for the management of assets transferred pursuant to the Assistance Agreement were also negligible.

Credit card fees increased by W5.3 billion, or 3.2%, to W171.8 billion in 2003 from W166.5 billion in 2002 primarily due to W2.5 billion of cash access fees earned and W1.9 billion of fees earned on purchase cards. Commencing in September 2003, the Bank started charging cash access fees of 0.4%, which are fees charged for credit card cash advances. Trust fee income increased W3.3 billion, or 23.9%, to W17.1 billion in 2003 from W13.8 billion in 2002 primarily as a result of a one time reversal to income of excess loan loss reserves in the trust accounts of W5.7 billion due to reserves being in excess of reserving requirements. Foreign exchange income decreased by W1.0 billion, or 5.5%, to W17.1 billion in 2003 from W18.1 billion in 2002. This net decrease of W1.0 billion comprised an increase in transaction spread fees of W13.1 billion, which were offset by losses of W14.2 billion from derivative positions that were entered into to hedge the risk on underlying asset-backed securities.

### OPERATING EXPENSE

	2003	2002	Won in Billions	
			Better / (Worse)	
			Amt	%
Salary and employee related expenses	344.8	312.3	(32.5)	(10.4%)
Administrative expenses	171.3	151.9	(19.4)	(12.8%)
Depreciation, amortization and other expenses	163.1	126.7	(36.4)	(28.7%)
<b>Total operating expense</b>	<b>679.2</b>	<b>590.9</b>	<b>(88.3)</b>	<b>(14.9%)</b>

Operating expenses increased by W88.3 billion, or 14.9%, to W679.2 billion in 2003 from W590.9 billion in 2002. The increase in operating expenses was due to an increase in depreciation and amortization expenses, an increase in salary and employee related expenses and an increase in administrative expenses.

Salary and employee related expenses increased by W32.5 billion, or 10.4%, to W344.8 billion in 2003 from W312.3 billion in 2002 mainly as a result of normal salary increases in the year of about 6.4% and a one-time bonus of W15.0 billion paid to employees as compensation for canceling the progressive severance scheme. The progressive severance scheme, which was based on accumulated seniority, was replaced with a linear severance scheme. The Bank believes that this new scheme will result in significant savings in the future. These contributors to the increase were slightly offset by savings from the retirement of senior employees in the 2002 and 2003 early retirement plan agreements.

Administrative expenses increased by W19.4 billion, or 12.8%, to W171.3 billion in 2003 from W151.9 billion in 2002 mainly as a result of (i) an increase in computer service fees of W11.4 billion primarily due to service contract fees related to the upgrading of the Bank's information technology ("IT") function and equipment, (ii) an increase in other general administration expenses of W4.3 billion, including an increase of W2.3 billion in travel and conference expenses and an increase of W1.9 billion in training expenses, and (iii) an increase in legal fees of W2.8 billion primarily as a result of the arbitration costs associated with the final disputed claims under the Assistance Agreement. The increases were partially offset by a decrease in consulting expenses of W3.6 billion as a result of the Bank using less consulting services.

## Management's Discussion & Analysis (continued)

Depreciation, amortization and other expenses increased by W36.4 billion, or 28.7%, to W163.1 billion in 2003 from W126.7 billion in 2002. This increase was primarily the result of (i) an increase in deposit insurance expense of W19.6 billion as a result of an increase in the rate to 20 basis points from 10 basis points in January 2003, (ii) an increase in the contribution to the credit guarantee fund of W5.4 billion as a result of corporate loan volume increases, (iii) an increase in the amortization of capitalized intangible assets of W7.8 billion, which include software and capitalized development costs, and (iv) a W2.5 billion increase in taxes and dues primarily as a result of increased taxes related to the registration of mortgage loan properties and education taxes paid.

### OPERATING MARGIN

The operating margin, which represents the difference between total revenue and operating expense, grew W146.8 billion or 67.8% to W363.5 billion in 2003 from W216.7 billion in 2002.

### PROVISIONS FOR CREDIT LOSSES

Provisions for credit losses increased by W196.8 billion, or 148.5%, to W329.3 billion in 2003 from W132.5 billion in 2002. The charge for 2003 consisted of (i) provisions required on new loan growth which amounted to W52.2 billion, of which W37.6 billion was attributable to growth in consumer loans and W14.6 billion was attributable to growth in corporate loans, and (ii) provisions required as a result of a deterioration in the asset quality in the amount of W277.1 billion. The large provisions required to cover the deterioration in the asset quality were primarily due to deterioration in credit card assets reflecting significant industry-wide credit deterioration in the credit card sector. Any difference between the net book value of the NPLs at the date of the sale agreement and the proceeds received from such sales is reflected as non-operating income or expense. As of December 31, 2003, the reserve for credit losses as a percentage of Banking Total Loans was 1.56% and NPLs as a percentage of Banking Total Loans was 1.53%.

### NET NON-OPERATING INCOME / (EXPENSE)

	2003	2002	Won in Billions	
			Better / (Worse)	
	Amt	%		
<b>Non operating revenue</b>	<b>131.2</b>	<b>29.6</b>	<b>101.6</b>	<b>343.2%</b>
Share of income of affiliates	2.3	7.6	(5.3)	(69.7%)
Gain on the sale of investment securities	65.2	5.5	59.7	1,085.5%
Rental fees received	11.2	9.9	1.3	13.1%
Gain on sales of NPLs	1.4	0.0	1.4	N/M
Other	51.0	6.7	44.3	661.2%
<b>Non operating expense</b>	<b>72.3</b>	<b>18.5</b>	<b>(53.8)</b>	<b>(290.8%)</b>
Early retirement plan	4.9	15.7	10.8	68.8%
Loss on sales of NPLs	36.6	0.0	(36.6)	N/M
Other	30.9	2.8	(28.1)	(1,003.6%)
<b>Net non-operating income / (expense)</b>	<b>58.9</b>	<b>11.1</b>	<b>47.8</b>	<b>430.6%</b>

The Bank's net non-operating income increased by W47.8 billion to W58.9 billion in 2003 from W11.1 billion in 2002. This comprised non-operating income of W131.2 billion and non-operating expenses of W72.3 billion in 2003 compared to non-operating income of W29.6 billion and non-operating expenses of W18.5 billion in 2002.

Non-operating income in 2003 and 2002 primarily comprised the following: (i) the Bank's share of the income of its affiliates under the equity method of W2.3 billion in 2003 compared to W7.6 billion in 2002 with most of the decrease attributable to the Bank's Hong Kong subsidiary, Korea First Finance Ltd., which provides international banking facilities to the Bank's corporate customers; (ii) a profit on the sale of investment securities of W65.2 billion in 2003 compared to W5.5 billion in 2002 primarily as a result of the Bank realizing profit on the sale of bonds in the "available for sale" portfolio in a falling interest rate environment; (iii) rental income of W11.2 billion in 2003 compared to W9.9 billion in 2002 due to an increase in the amount of space rented as well as an increase in the rent payable by the tenants; and (iv) other non-operating income in 2003 of W51.0 billion compared to W6.7 billion in 2002. Other non-operating income in 2003 included the recognition of dormant accounts of W39.2 and provisions for suspense accounts of W7.0 billion that are no longer required to

## Management's Discussion & Analysis (continued)

be held. W36.0 billion of income recognition from the dormant accounts was attributable to the KDIC arbitration settlement and related to balances that existed before the Acquisition.

Non-operating expenses in 2003 and 2002 primarily comprised the following: (i) the early retirement program resulted in an expense of W4.9 billion in 2003 compared to W15.7 billion in 2002, which comprised early retirement incentives offered to reduce the Bank's headcount to more appropriate levels; (ii) losses in 2003 on the sales of non-performing loans, primarily credit card receivables was W36.6 billion; and (iii) other non-operating expenses in 2003 were W30.9 billion, which includes amounts relating to the arbitration settlement of W10.0 billion and payments to the KDIC under the arbitration settlement of W15.0 billion in respect of dormant accounts recognized to income, compared to W2.8 billion in 2002.

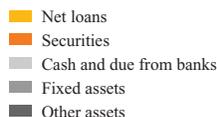
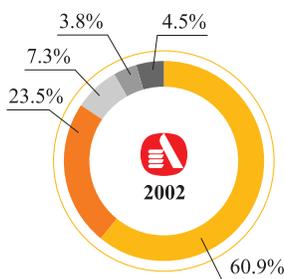
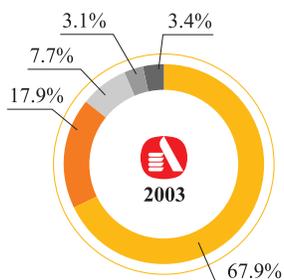
### INCOME TAX

	2003	2002	Won in Billions	
			Better / (Worse)	
			Amt	%
Income tax expense	0.4	3.8	3.4	89.5%
Deferred income tax expense/(benefit)	106.2	(10.0)	(116.2)	N/M
<b>Total income tax expense/(benefit)</b>	<b>106.6</b>	<b>(6.2)</b>	<b>(112.8)</b>	<b>N/M</b>

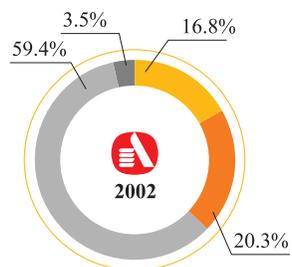
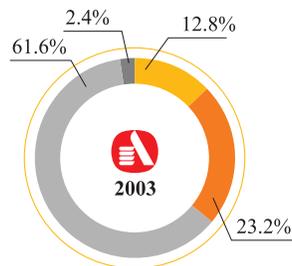
As of December 31, 1999, the Bank's NOLs amounted to approximately W5 trillion and could be applied against the Bank's taxable income after that date through the end of 2004. The Bank, therefore, expects that no income tax will be payable on its operations in Korea until the end of 2004. As a result, under Korean GAAP, the Bank recognized expected benefits from these NOLs of W169.6 billion from 2000 to 2002. The recognition of these benefits was based on the Bank's expected ability to utilize the NOLs based on the Bank's income forecasts. The Bank intended to start amortizing the deferred tax assets in 2003 so that they were fully amortized by the end of 2004. In the first quarter of 2003, because of the uncertain credit environment, however, the Bank believed it would be prudent to reduce the amount of the deferred tax benefit to be realized over the remaining life of the NOLs. Accordingly, the Bank recorded a valuation allowance of W85.0 billion in the first quarter of 2003, thereby accelerating the drawdown of the deferred tax assets. This non-cash item had no impact on the Bank's capital ratio or cash profits. Subsequently, the Bank continued to amortize the deferred tax assets for the remaining quarters of 2003. The total of the valuation allowance and the amortization of the deferred tax assets for 2003 amounted to W106.2 billion. Including the taxation expense in foreign branches of W0.4 billion, the total taxation charge in 2003 was W106.6 billion. The Bank's income tax benefit, largely relating to deferred income tax, was W6.2 billion in 2002.

# Management's Discussion & Analysis (continued)

## Asset Composition Analysis



## Loan Composition Analysis



## BALANCE SHEET IN BRIEF

### ASSET ANALYSIS

	2003	2002	Won in Billions	
			Better / (Worse)	
			Amt	%
Net loans	26,790.7	19,619.3	7,171.4	36.6%
Securities	7,072.0	7,591.2	(519.2)	(6.8%)
Cash and due from banks	3,061.2	2,355.7	705.5	29.9%
Fixed assets	1,228.2	1,226.2	2.0	0.2%
Other assets	1,328.6	1,438.9	(110.3)	(7.7%)
<b>Total assets</b>	<b>39,480.7</b>	<b>32,231.3</b>	<b>7,249.4</b>	<b>22.5%</b>

Total assets increased by W7,249.4 billion, or 22.5%, to W39,480.7 billion as of December 31, 2003 from W32,231.3 billion as of December 31, 2002. The increase was primarily due to an increase in loans net of reserve for loan losses and present value discounts ("net loans"), which increased by W7,171.4 billion, or 36.6%, to W26,790.7 billion as of December 31, 2003 from W19,619.3 billion as of December 31, 2002 with an increase of W4,871.1 billion, or 41.0%, in consumer loans and an increase of W2,319.6 billion, or 28.5%, in corporate loans. Securities decreased by W519.2 billion, or 6.8%, to W7,072.0 billion as of December 31, 2003 from W7,591.2 billion as of December 31, 2002 as a result of less attractive investment opportunities in the current low interest rate environment. Cash and due from banks increased W705.5 billion, or 29.9%, to W3,061.2 billion as of December 31, 2003 from W2,355.7 billion as of December 31, 2002. Fixed assets, net of accumulated depreciation, increased by W2.0 billion, or 0.2%, to W1,228.2 billion as of December 31, 2003 from W1,226.2 billion as of December 31, 2002. Other assets decreased by W110.3 billion, or 7.7%, to W1,328.6 billion as of December 31, 2003 from W1,438.9 billion as of December 31, 2002 as a result of a reduction in the loans to the Trust Account to settle maturing balances.

### LOAN ANALYSIS

	2003	2002	Won in Billions	
			Better / (Worse)	
			Amt	%
Large corporates	3,477.2	3,362.4	114.8	3.4%
SMEs	6,313.3	4,066.4	2,246.9	55.3%
Consumers	16,762.6	11,891.5	4,871.1	41.0%
Other	665.0	707.1	(42.1)	(6.0%)
<b>Total loans</b>	<b>27,218.1</b>	<b>20,027.4</b>	<b>7,190.7</b>	<b>35.9%</b>
Reserve for loan losses	(423.8)	(402.0)	(21.8)	(5.4%)
Present value discounts	(3.6)	(6.1)	2.5	41.0%
<b>Net loans</b>	<b>26,790.7</b>	<b>19,619.3</b>	<b>7,171.4</b>	<b>36.6%</b>

In 2003, Total loans grew by W7,190.7 billion, or 35.9%, to W27,218.1 billion.

The increase in Total loans came primarily from an increase of W4,871.1 billion, or 41.0%, in consumer loans, particularly from growth in mortgages of W5,418.3 billion, or 96.2%, to W11,051.1 billion. This growth was partially offset by a decrease in consumer bulk loans of W1,241.1 billion.

Loans to Large corporates increased by W114.8 billion, or 3.4%, to W3,477.2 billion as of December 31, 2003, from W3,362.4 billion as of December 31, 2002. This increase was due to the Bank's selective

## Management's Discussion & Analysis (continued)

lending in this customer segment in conjunction with its relationship banking strategy. Loans to SMEs increased by W2,246.9 billion, or 55.3%, to W6,313.3 billion as of December 31, 2003 from W4,066.4 billion as of December 31, 2002 as a result of the Bank's increased focus on lending to this customer segment. Other loans decreased by W42.1 billion.

### FUNDING ANALYSIS

	2003	2002	Won in Billions	
			Better / (Worse) Amt	%
Deposits	27,196.9	23,271.7	3,925.2	16.9%
Borrowings	1,892.3	2,441.5	(549.2)	(22.5%)
Financial debentures	5,695.0	2,155.6	3,539.4	164.2%
Other interest-bearing liabilities	1,420.7	1,357.1	63.6	4.7%
Non-interest-bearing liabilities	1,627.7	1,338.7	289.0	21.6%
<b>Total liabilities</b>	<b>37,832.6</b>	<b>30,564.6</b>	<b>7,268.0</b>	<b>23.8%</b>
Shareholders' equity	1,648.1	1,666.7	(18.6)	(1.1%)
<b>Total funding</b>	<b>39,480.7</b>	<b>32,231.3</b>	<b>7,249.4</b>	<b>22.5%</b>

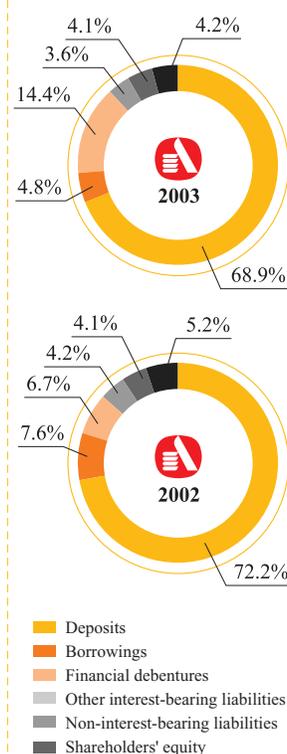
Total deposits increased by W3,925.2 billion, or 16.9%, to W27,196.9 billion as of December 31, 2003 from W23,271.7 billion as of December 31, 2002, primarily due to an increase of W3,077.8 billion in time deposits to W11,315.3 billion as of December 31, 2003 from W8,237.5 billion as of December 31, 2002. This increase was primarily due to the Bank offering competitive rates on time deposits and partially due to an improvement in the Bank's perceived image assisted by the recent upgrade in the Bank's local rating and improved customer service. Borrowings decreased by W549.2 billion, or 22.5%, to W1,892.3 billion as of December 31, 2003 from W2,441.5 billion as of December 31, 2002 primarily due to the decline in RPs sold which fell by W378.1 billion to W196.2 billion as of December 31, 2003 from W574.3 billion as of December 31, 2002 as the Bank reduced its use of customer RPs as a funding source. Call money borrowings decreased by W156.0 billion. Financial debentures increased by W3,539.4 billion to W5,695.0 billion as of December 31, 2003 from W2,155.6 billion as of December 31, 2002 primarily due to the issuance of Won-denominated financial debentures to fund growth in assets but also due to the US Dollar-denominated issuances of Upper Tier II debt of US\$375.0 million and Lower Tier II debt of US\$200 million. Other liabilities increased by W352.6 billion primarily due to unsettled foreign exchange spot transaction liabilities which increased by W326.1 billion in non-interest-bearing liabilities.

### CAPITAL ADEQUACY

	Dec 2003	Dec 2002
Tier 1	6.18%	7.31%
Tier 2	5.87%	4.30%
Total Capital Adequacy Ratio	12.00%	11.55%
Risk Adjusted Capital	2,966.3	2,190.4
Risk Weighted Assets	24,718.2	18,962.6

As of December 31, 2003, the Bank's consolidated core capital (Tier I) and total capital ratios were 6.18% and 12.00%, respectively, considerably above the respective minimum required ratios of 4% and 8%. The level of the Bank's capital adequacy ratios as of December 31, 2003 also qualified it for the second of five grades of capital adequacy, which is one measure of management evaluation by the FSS.

### Funding Composition Analysis



## Management's Discussion & Analysis (continued)

The increase in the Bank's total capital ratio at December 31, 2003 as compared to the total capital ratio as of December 31, 2002 was largely due to the issuances of subordinated debt in 2003. The increase in the total capital ratio as a result of the issuances of subordinated debt was offset by the substantial growth in loans of the Bank and the effect of this on risk-weighted assets. The Bank's total risk-weighted assets increased by 30.4% to W24,718.2 billion as of December 31, 2003, which was primarily a result of the increase in the amount of the Bank's loan portfolio, together with the decrease in the allowance for loan losses (which is deducted from risk-weighted assets to the extent not included in Tier II capital). Tier I capital increased by W139.7 billion to W1,526.6 billion as a result of a decrease in the deduction from Tier I capital of other capital adjustments, primarily comprising the decrease in the Bank's deferred tax asset, an increase in common stock as a result of the KDIC exercising its option to acquire more shares in the Bank on May 23, 2003 through warrants issued in accordance with the Assistance Agreement, and an increase in the capital surplus. These increases were offset by a decrease in retained earnings. Tier II capital increased by W634.4 billion to W1,449.9 billion as of December 31, 2003 as a result of the issuances of subordinated debt, the increase in the allowance for loan losses on normal and precautionary loans which are included in the calculation and an increase in the capital gains on securities. Subordinated debt issued in 2003 included upper Tier II debt of US\$375 million in March 2003, lower Tier II debt of W 200 billion in September 2003 and lower Tier II debt of US\$200 million in October 2003. The effect of these issuances was offset by the redemption of lower Tier II debt of US\$200 million, which matured in June 2003.

### TRUST BUSINESS

	2003	2002	Won in Billions	
			Better / (Worse)	
	Amt	%		
Trust management fees	17.1	13.7	3.4	24.8%
Payment for guaranteed returns	0.0	0.0	0.0	N/M
Early termination fees	0.0	0.1	(0.1)	(100.0%)
<b>Total</b>	<b>17.1</b>	<b>13.8</b>	<b>3.3</b>	<b>23.9%</b>

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

- \* money trusts
- \* property trusts

As of December 31, 2003, the aggregate amount of money trust deposits with the Bank was W950.1 billion, and the aggregate amount of property trust deposits with the Bank was W1,450.1 billion. In Korea, a money trust is a discretionary trust that (except in the case of a specified money trust and certain other trust accounts) gives the trustee broad authority in investing the funds deposited by customers in the trust accounts. Such funds are invested by the Bank primarily in securities and loans.

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

- \* Performance Based Trusts. Under these trusts, the Bank receives a fixed trust fee, generally limited to an annual fee of 0.3% to 2.0%, and the customer is paid a variable return during the term of the trust based on the performance of the trust assets; and
- \* Guaranteed Yield Trusts. Under these trusts, the customer is paid dividends at a fixed rate during the trust term and the Bank's income depends on the performance of the trust assets relative to such fixed dividend rate.

Since 1999, the Bank has only offered performance based trust products. As of December 31, 2003, the aggregate balance of the Bank's performance based trusts accounted for W949.0 billion, or 99.9%, of the total balance of the Bank's money trusts. For a certain portion of its trust account products, the Bank guarantees the return of the principal amount initially deposited into the Trust Accounts. As of December 31, 2003, the aggregate balance of the money trusts for which the Bank guaranteed the return of principal amounted to W432.4 billion, or 45.5% of the total balance of the Bank's money trusts. The balance of Guaranteed Yield Trusts was W1.1 billion as of December 31, 2003.

# Management's Discussion & Analysis (continued)

## RISK MANAGEMENT

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

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

### ALCO

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

## CREDIT RISK MANAGEMENT

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

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

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

### *Consumer Credit Risk Methodology*

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

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

## Management's Discussion & Analysis (continued)

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

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

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

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

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

### **Corporate Credit Risk Methodology**

In September 2002, the Bank introduced a new corporate methodology for assessing credit risk, the CRMS, a portfolio management tool for the corporate business, which was developed in conjunction with KPMG Consulting. The CRMS is made up of nine modules: Credit Rating; Asset Classification; Limits; Portfolio Management; Risk Measures; Pricing; Default/Delinquency; Collateral and the Early Warning System. The CRMS is designed to comply with the requirements of the Basel II accord on capital adequacy which has been distributed as a draft and comprises 10 grades measured from two aspects: BRR and FRR.

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

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

*Pricing.* Each loan facility extended by the Bank is priced based on the credit risk presented, with the borrower's risk premium being based on expected and unexpected losses. The Bank's targets for after-tax risk-adjusted return on capital is 25%.

## Management's Discussion & Analysis (continued)

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

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

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

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

### MARKET RISK MANAGEMENT

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

#### *Securities*

The Bank has adopted a policy for securities investment that makes the Risk Management Committee responsible for approval and review of the policy, provides that ALCO establish the risk measurement standards and methodology for securities investment and monitor compliance with the policy, places on the Chief Credit Officer the responsibility for assessing the Bank's credit risk to issuers of securities, and authorizes the general manager of the Treasury Department (or investment officers working under his supervision) to conduct investment activities under the direction of senior management. The ALM Department is responsible for monitoring compliance with the policy and objectives of ALCO and reporting activities to senior management and ALCO. The policy separates the back office, which is responsible for confirmations, accounting procedures and settlements (as well as evaluating, monitoring limits and reporting) from the investment officers. As of December 31, 2003, approximately 77.0% of the Bank's securities portfolio consisted of securities issued or guaranteed by the Government and Monetary Stabilization Bonds, 3.5% consisted of corporate bonds, 13.2% consisted of asset-backed securities and the balance consisted of equity investments in subsidiaries, securities issued by local governments and other securities. The

## Management's Discussion & Analysis (continued)

Bank's policy on investments in securities sets position limits on securities investments generally and on investments in certain types of securities specifically. In addition, the Bank controls the market risk of its outstanding securities available for sale by requiring instances where the unrealized loss on the purchase price of a security exceeds 10% of the purchase price be reported to ALCO and Risk Management Committee with ALCO and Risk Management Committee directing loss limiting measures if considered necessary.

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

The Bank's policy on securities investment was implemented in September 2000 with certain revisions in December 2000. This was further revised for the inclusion of investment in asset-backed securities in October 2002, and investment in CLN in December 2002.

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

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

*Foreign Currency Exchange.* Under the Bank's policy for derivatives transactions adopted by the Risk Management Committee in September 2000, the general manager of the Treasury Department and the head of the Trading & Sales Team are required to monitor and manage, within preset limits, the Bank's net open foreign exchange position. The Bank measures its open position daily and controls risk with position limits and loss-cut limits.

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

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

### **INTEREST RATE RISK MANAGEMENT**

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

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

## Management's Discussion & Analysis (continued)

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

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

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

As of December 31, 2003, the Bank's total interest rate-sensitive assets in the Banking Account amounted to W33.8 trillion, while total interest rate-sensitive liabilities in the Banking Account equalled W34.6 trillion. As of December 31, 2003, interest rate-sensitive liabilities maturing from four months to one year exceeded interest rate-sensitive assets in that time segment.

### LIQUIDITY MANAGEMENT

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

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

Under its liquidity and funds management policy, the Bank measures liquidity first by calculating the "Basic Surplus/Deficit," the difference between liquid assets ("Total Liquid Assets") and short-term liabilities (30 days or fewer) that are vulnerable to non-replacement under abnormally stringent conditions ("Total Short-Term Liabilities"). In effect, the Basic Surplus measures the Bank's ability to raise cash quickly (within 30 days) at a reasonable cost without relying on selling assets. The second measure of liquidity is a cash-flow forecast expressed in terms of the relationship between identified funding needs (net new loans and repayments of liabilities) and the estimated level of cash inflows over a 60-day horizon. Calculating a liquidity gap (the differences between liquid assets and variable liabilities at both present and future dates) provides an additional measure of liquidity. All relevant indicators are monitored regularly to both ensure proper liquidity and in the event of a liquidity crisis, to initiate a contingency plan sufficiently early to avoid adversely impacting the Bank's

## Management's Discussion & Analysis (continued)

business. Under the policy, the ALCO sets a target "Basic Surplus" (Total Liquid Assets minus Total Short-Term Liabilities) as a percentage of assets. As of December 31, 2003, the minimum Basic Surplus as a percentage of total Won-denominated assets, total foreign currency-denominated assets and total assets, respectively, was 5%. At that date, the actual Basic Surplus as a percentage of total Won-denominated assets was 8.1%, the Basic Surplus as a percentage of total foreign currency denominated assets was 11.5% and the Basic Surplus as a percentage of total assets was 8.4%.

The FSS requires each Korean bank to maintain a Won liquidity ratio (defined as Won-denominated assets due within three months (including marketable securities) divided by Won-denominated liabilities due within three months) in excess of 100% and to make quarterly reports to the FSS. The FSS also requires each Korean bank to (i) maintain a foreign currency liquidity ratio (defined as foreign currency denominated liquid assets due within three months divided by foreign currency denominated liabilities due within three months) in excess of 80% (beginning in April 2004 this will rise to 85% for all banks) and to make monthly reports to the FSS, (ii) maintain foreign currency denominated liquid assets due within seven days less foreign currency denominated liabilities due within seven days divided by total foreign currency denominated assets above 0%, and (iii) maintain foreign currency denominated liquid assets due within a month less foreign currency denominated liabilities due within a month divided by total foreign currency denominated assets above negative 10%. The Monetary Board also requires banks to maintain certain reserves against their deposits.

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

# Independent Auditors' Report



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## **The Board of Directors and Shareholders of Korea First Bank**

We have audited the accompanying balance sheets of Korea First Bank (the "Bank") as of December 31, 2003 and 2002, and the related statements of operations, appropriations of unappropriated retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea First Bank as of December 31, 2003 and 2002, and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

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

February 11, 2004

This audit report is effective as of February 11, 2004, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

# Balance Sheets (Banking Accounts)

December 31, 2003 and 2002

	In Millions of Korean Won	
	December 31, 2003	December 31, 2002
<b>Assets</b>		
Cash & due from banks (Note 4)	W 3,061,229	W 2,355,717
Securities (Note 5)	7,071,976	7,591,211
Loans (Note 6)	27,218,082	20,027,400
Present value discounts for loans	(3,611)	(6,144)
Allowance for possible loan losses (Note 6)	(423,771)	(402,021)
Net deferred fees and expenses (Note 6)	10,705	-
	<b>26,801,405</b>	<b>19,619,235</b>
Receivable from KDIC (Note 3)	121,442	286,368
Fixed assets (Note 7)	1,228,179	1,226,223
Deferred income tax (Note 20)	63,425	169,625
Other assets (Note 8)	1,133,002	982,964
<b>Total assets</b>	<b>W39,480,658</b>	<b>W32,231,343</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits (Note 9)	W27,196,857	W23,271,699
Borrowings (Note 10)	1,892,320	2,441,456
Financial debentures (Note 11)	5,695,014	2,155,556
Accrued severance and retirement benefits (Note 12)	30,357	21,570
Other liabilities (Note 14)	3,018,000	2,674,324
<b>Total liabilities</b>	<b>37,832,548</b>	<b>30,564,605</b>
Commitments and contingencies (Note 16)		
Shareholders' equity		
Common stock (Note 17)	1,029,613	980,584
Capital surplus (Note 17)	17,111	-
Retained earnings (Note 18)		
Legal reserves	64,141	53,141
Voluntary reserve	11,000	-
Other statutory reserves	16,755	14,083
Retained earnings before appropriations	513,741	559,390
<b>Total retained earnings</b>	<b>605,637</b>	<b>626,614</b>
Capital adjustments	(4,251)	59,540
<b>Total shareholders' equity</b>	<b>1,648,110</b>	<b>1,666,738</b>
<b>Total liabilities and shareholders' equity</b>	<b>W39,480,658</b>	<b>W32,231,343</b>

See accompanying notes.

# Statements of Operations (Banking Accounts)

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
<b>Interest income (Note 15)</b>		
Loans	W1,544,111	W1,194,253
Securities	365,395	368,608
Due from banks	15,555	12,667
Other	18,798	9,856
	<hr/> 1,943,859	<hr/> 1,585,384
<b>Interest expense (Note 15)</b>		
Deposits	873,548	819,762
Borrowings	77,636	147,842
Financial debentures	193,154	40,322
Other	31,903	30,331
	<hr/> 1,176,241	<hr/> 1,038,257
Net interest revenue	767,618	547,127
Fees, commissions and other revenue (expense), net		
Banking fees	70,654	63,121
Card fees	171,826	166,513
Trust account	17,066	13,780
Securities	1,355	1,345
Foreign exchange	17,141	18,073
Other	(2,907)	(2,470)
	<hr/> 275,135	<hr/> 260,362
Total revenue	1,042,753	807,489
Operating expense		
Staff cost	344,799	312,286
Administration expense	171,252	151,863
Depreciation and other	163,119	126,713
	<hr/> 679,170	<hr/> 590,862
Operating margin	363,583	216,627
Provision for loan and other losses (Note 6)	329,326	132,468
Operating income	34,257	84,159
Non-operating revenue (Note 19)	131,223	29,624
Non-operating expense (Note 19)	72,347	18,500
Net non-operating income	58,876	11,124
Income before taxes	93,133	95,283
Income tax expenses (benefit) (Note 20)	106,603	(6,232)
Net income (loss)	<b>W (13,470)</b>	<b>W 101,515</b>
Ordinary earnings (loss) per share (Note 21)	W (67)	W 518
Net earnings (loss) per share (Note 21)	W (67)	W 518
(Korean Won in units)		

See accompanying notes.

# Statements of Appropriations of Unappropriated Retained Earnings (Banking Accounts)

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
Retained earnings before appropriations		
Unappropriated retained earnings carried forward from the prior year	W536,316	W458,159
Cumulative effect of accounting changes	(9,105)	-
Net income (loss)	(13,470)	101,515
Other	-	(284)
	513,741	559,390
Proposed (2003) and final (2002) appropriations of unappropriated retained earnings		
Legal reserve	-	11,000
Voluntary reserve	-	11,000
Other statutory reserves	274	1,074
	274	23,074
Unappropriated retained earnings to be carried forward to the next year	<b>W513,467</b>	<b>W536,316</b>

See accompanying notes.

# Statements of Cash Flows (Banking Accounts)

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
<b>Cash flows from operating activities:</b>		
Net income (loss)	W (13,470)	W 101,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and other losses	329,326	132,468
Depreciation and amortization	75,912	67,169
Provision for severance and retirement benefits	29,383	36,253
Loss on sales of loans	36,554	-
Interest on KDIC receivables	(3,827)	(14,015)
Other, net	146,109	(9,717)
Changes in operating assets and liabilities, net	133,478	(103,714)
Net cash provided by operating activities	733,465	209,959
<b>Cash flows from investing activities:</b>		
Due from banks	(435,129)	(300,735)
Securities	367,059	(5,544,657)
KDIC bonds	91,076	4,392,000
Loans (*)	(7,252,859)	(4,375,765)
Acquisition of fixed assets	(79,087)	(117,779)
Other, net	(65,452)	266,849
Net cash used in investing activities	(7,374,392)	(5,680,087)
<b>Cash flows from financing activities:</b>		
Deposits	3,925,158	5,471,293
Borrowings	(802,770)	(1,800,652)
Financial debentures	3,482,395	1,572,322
Borrowing (repayment) from (to) trust account	152,731	(238,194)
Domestic exchange obligation payable	(71,822)	55,026
Account payable	227,129	(26,140)
Other, net	(1,511)	34,111
Net cash provided by financing activities	6,911,310	5,067,766
Net increase (decrease) in cash and cash equivalents	270,383	(402,362)
Cash and cash equivalents at beginning of year	788,710	1,191,072
Cash and cash equivalents at end of year (Note 4)	<b>W1,059,093</b>	<b>W 788,710</b>

(\*) Net of amounts transferred to KDIC of W301,337 million and W442,856 million for the years ended December 31, 2003 and 2002, respectively.

See accompanying notes.

## 1. Organization and Business

Korea First Bank (“the Bank”) was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 410 local branches and 4 overseas networks as of December 31, 2003.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. However, in connection with recapitalization by the Korea Deposit Insurance Corporation (“KDIC”) in July 1999, the Bank’s shares were suspended from trading on the Korean Stock Exchange. The par value of the Bank’s common stock outstanding at December 31, 2003 is W1,030 billion.

As of December 31, 2003, KFB Newbridge Holdings (Private) Limited (“Newbridge”) was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank’s common stock from the KDIC on December 30, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 3. On May 23, 2003, the KDIC exercised warrants and purchased additional shares so that as of December 31, 2003, the KDIC, Ministry of Finance and Economy and Newbridge own 48.49%, 2.95% and 48.56%, respectively, of the Bank’s common stock. The exercise does not impact control of the Bank as the KDIC must still allow Newbridge the ability to vote all of its shares, except for matters of fundamental governance.

## 2. Summary of Significant Accounting Policies

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

### Basis of Presenting Financial Statements

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

The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank’s financial position and results of operations, is not presented in the accompanying financial statements.

Certain reclassifications, and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year’s presentation.

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

### Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2003 and December 31, 2002. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

## Notes to Financial Statements (continued)

### Recognition of Interest and Fee Income

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

### Cash and Cash Equivalents

Highly liquid deposits, and marketable securities with original maturities of three months or less, which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents. Deposits restricted in use are not included in cash and cash equivalents (see Note 4).

### Equity Securities in Controlled Investees

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

### Debt Securities and Equity Securities in Non-Controlled Investees

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

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

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

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

### Allowance for Possible Loan Losses

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

## Notes to Financial Statements (continued)

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

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

(\*) For call loans, bonds purchased under resale agreements, and loans to government entities, loan loss provisions are not required in accordance with FSS guidelines provided the loans are classified as normal.

For household and credit card loans, the Bank determines loss percentages using historical migration loss models by loan type. The resulting loss percentages calculated by the historical migration loss models are compared to the above minimum reserve percentages, on a total basis, and the Bank records a provision based on the overall higher percentage of the two methods.

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

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

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

### Present Value Discounts

If the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference in present value of the loan and book value of the loan is offset against the allowance for possible loan losses, if available, or charged to current expense.

The difference between book value and present value is recorded as a present value discount in the balance sheet and amortized to current earnings over the related period using the effective interest method. The amortization is recorded as interest income.

## Notes to Financial Statements (continued)

### Deferred Fees and Expenses

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

### Fixed Assets

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

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

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

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

### New Stock Issuance Costs and Debenture Issuance Costs

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

### Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

### Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2003 and 2002 is sufficient to state the liability under the Korean Labor Standards Law and the Bank's policies based on the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2003 and 2002. Funding of this liability is not required by Korean law. Actual payments of severance and retirement benefits, excluding payments for one-time special retirement programs, were W28,421 million for the year ended December 31, 2003.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W138,641 million at December 31, 2003. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2003, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

## Notes to Financial Statements (continued)

### Reserve for Acceptances and Guarantees

Except for certain confirmed and outstanding domestic import usance bills originating from import L/Cs issued by the Bank, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides a minimum allowance percentage on confirmed guarantees of 0.5% for companies classified as “normal,” 2% for “precautionary,” 20% for “substandard,” 50% for “doubtful” and 100% for “estimated loss.” Refer to Note 3 for discussion of guarantees protected by the KDIC.

### Reserve for Unused Cash Advance Commitments on Credit Cards

Pursuant to a new regulation issued by the FSS, from the third quarter of 2002 the Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months. The allowance for unused cash advance commitments on credit cards as of December 31, 2003 amounted to W5,000 million.

### Income Tax Expense

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

### Derivative Financial Instruments

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

Derivative financial instruments, regardless of whether they are entered for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with gains and losses included in current operations.

Derivative contracts qualifying for hedge accounting treatment have unrealized valuation gains and losses recorded as capital adjustments (cash-flow-hedge derivatives) or as other revenues and expenses in current operations in conjunction with recording unrealized gains and losses for underlying assets or liabilities (fair-value-hedge derivatives).

### Contingent Liabilities

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

### Investment Distribution Business

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

# Notes to Financial Statements (continued)

## Trust Accounts

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

## Korean GAAP Revisions

The Korean Accounting Standards Board has issued new accounting standards with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards include changes in the areas of inventories, discontinued operations, construction contracts and troubled debt restructuring. Korean companies should apply such revised accounting standards for the first fiscal year starting after December 31, 2003 with the exception of the accounting for discontinued operations which should be applied from the fiscal year starting after December 31, 2004. Early adoption of the revised accounting standards is allowed with the exception of the accounting for discontinued operations. The cumulative effect on prior years of the changes in accounting standards will be primarily charged or credited to opening retained earnings with disclosures made on the effect of the changes.

The Bank plans to adopt the relevant accounting standards from January 1, 2004 with the exception of the accounting for discontinued operations which will be applied from January 1, 2005.

The Bank adjusted the opening balance at January 1, 2003 of certain bonds classified as held-to-maturity, whose initial acquisition costs were in excess of their fair values, downward to the amortized cost of the fair values including incidental expenses. A difference of W9,105 million between the acquisition cost and the amortized cost of fair value was charged to opening retained earnings and the effective interest method had been applied to amortize the difference over the remaining terms of the bonds. Due to early repayment of the related bonds in May of 2003, this amount was reversed and included in non-operating income as of December 31, 2003.

As a result of the application of the new accounting standard relating to subsequent events after the balance sheet date effective from the fiscal year starting after December 31, 2002, the Bank reflects appropriations of unappropriated retained earnings when such appropriations are approved through a general shareholders meeting the following fiscal year. Prior to 2003, the Bank reflected the appropriations of unappropriated retained earnings in the balance sheet of the current fiscal year. According to this change in the Bank's accounting policy, the Bank presented retained earnings as of December 31, 2003 as the amount before appropriations. This change has also been made to the prior year financial statements to conform to the current year's presentation which resulted in a reclassification of W23,074 million from appropriated retained earnings to unappropriated retained earnings.

## 3. Government Assistance

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

In connection with this transaction, the KDIC entered into an Assistance Agreement with the Bank to provide certain protections to the Bank with respect to credit losses for specified periods of time. In general, these protections applied to certain loans and similar credit instruments remaining on the Bank's consolidated balance sheet after Closing ("Remaining Loans"). Remaining Loans included any loans in guaranteed trust accounts and certain designated loans in mixed trust accounts but did not include any loans in performance trust accounts.

In general, depending on the type and circumstances of the particular Remaining Loan, these protections took the form of: (i) the Bank's right to transfer the Remaining Loan to the Resolution Finance Corporation ("RFC"), the entity designated by the KDIC, and obtain

## Notes to Financial Statements (continued)

payment from the KDIC equal to the adjusted book value, or (ii) the Bank's right to obtain payment from the KDIC for certain specific allowances which the Bank determined to take against the Remaining Loan. Certain guarantees and commitments of the Bank were also subject to credit protection. All reserve protection and transfer rights expired as of January 1, 2003.

The KDIC also guaranteed the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio, until each such security matured, was sold, or was otherwise liquidated by the Bank. In general, the guaranteed rate was the annualized weighted average interest rate applied by the Bank to its deposits and other interest bearing liabilities shown on the Bank's consolidated balance sheet, plus 106 basis points. As of December 31, 2003, all securities receiving a guaranteed yield had been transferred to the KDIC.

Receivables from the KDIC at December 31, 2003 and 2002 are W121,442 million and W286,368 million, respectively. Receivables are primarily for reserves, settlement of asset transfers, and indemnification settlements.

### 4. Cash and Due from Banks

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

	Millions of Won	
	2003	2002
Cash on hand	W 822,052	W 656,485
Foreign currencies	49,402	46,471
Due from banks in Korean Won	2,001,494	1,503,716
Due from banks in foreign currencies	188,281	149,045
	<b>W3,061,229</b>	<b>W2,355,717</b>

Due from banks denominated in Korean Won at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2003			
Checking accounts	-	Bank of Korea	W1,694,784
CD purchases	4.30 ~ 4.50	Shinhan Bank, etc.	306,478
Other deposits	0.00 ~ 4.00	Korea Stock Exchange, etc.	232
			<b>W2,001,494</b>
December 31, 2002			
Checking accounts	-	Bank of Korea	W1,165,029
CD purchases	4.90 ~ 4.93	Industrial Bank of Korea, etc.	336,444
Other deposits	0.00 ~ 5.00	Woori Bank, etc.	2,243
			<b>W1,503,716</b>

## Notes to Financial Statements (continued)

Due from banks denominated in foreign currencies at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2003			
Demand deposits	-	Bank of Korea, etc.	W 78,539
Time deposits	1.20 ~ 1.60	Korea First Finance, HK	109,722
Other deposits	T-bill-0.5 (*)	Prudential Securities	20
			<b>W188,281</b>
December 31, 2002			
Demand deposits	-	Bank of Korea, etc.	W 47,089
Time deposits	1.54 ~ 2.21	Korea First Finance, HK	101,794
Other deposits	Sibid-1.75	HSBC Futures	162
			<b>W149,045</b>

(\*) 1 month US treasury bill

Restricted balances in due from banks at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Type	Depository	Total	Restriction
December 31, 2003			
Checking accounts	Bank of Korea	W1,694,784	Reserve for payment of deposits
Demand deposits	Bank of Korea	57,800	Reserve for payment of deposits
Other deposits	Korea Stock Exchange, etc	249	Deposits for stock index futures, etc.
		<b>W1,752,833</b>	
December 31, 2002			
Checking accounts	Bank of Korea	W1,165,029	Reserve for payment of deposits
Demand deposits	Bank of Korea	28,129	Reserve for payment of deposits
Time deposits	Woori Bank	1,722	Escrow accounts
Other deposits	HSBC Futures, etc.	392	Deposits for stock index futures, etc.
		<b>W1,195,272</b>	

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

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

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

The term structure of amounts of due from banks at December 31, 2002 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2003	W1,503,716	W149,045	W1,652,761

## Notes to Financial Statements (continued)

Major transactions not resulting in cash flows for the years ended December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Loss reserve - KDIC Receivable	W41,665	W215,965
Present value discount - KDIC Receivable	145	1,355
Warrant bond issued - paid in capital and capital in excess of par value	66,140	-

Cash and cash equivalents at December 31, 2003 and 2002 are comprised as follows (millions of Won):

	2003	2002
Cash on hand	W 822,052	W656,485
Foreign currencies	49,402	46,471
Due from banks in Won	128,604	291
Due from banks in foreign currency	59,035	85,463
	<b>W1,059,093</b>	<b>W788,710</b>

### 5. Securities

Securities at December 31, 2003 and December 31, 2002 are comprised of the following (millions of Won):

	December 31, 2003	December 31, 2002
Equity securities held for investment		
Korean Won		
Affiliated companies	W 4,908	W 5,596
Listed companies	1,659	29,014
Unlisted companies	13,340	15,557
Beneficiary certificates	-	19,690
	19,907	69,857
Foreign currency		
Beneficiary certificates	119,466	-
Affiliated companies	61,866	59,840
	181,332	59,840
	201,239	129,697
Debt securities held for investment		
Bonds available-for-sale		
Korean Won	6,454,600	6,934,610
Foreign currencies	223,090	193,636
	6,677,690	7,128,246
Bonds held-to-maturity		
Korean Won	1,896	111,250
Foreign currencies	191,151	130,942
	193,047	242,192
	6,870,737	7,370,438
Total securities	7,071,976	7,500,135
KDIC bonds held-to-maturity	-	91,076
	<b>W7,071,976</b>	<b>W7,591,211</b>

## Notes to Financial Statements (continued)

### Equity Securities Held for Investment

Equity investments in affiliated companies, denominated in Korean Won, as of December 31, 2003 and December 31, 2002 are summarized as follows (millions of Won):

Company	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
December 31, 2003					
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W4,908	W4,908
December 31, 2002					
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W5,596	W5,596

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. For the year ended December 31, 2003, W12 million of gain from affiliated companies is included in current operations. For the year ended December 31, 2002, W1,788 million of income from affiliated companies is included in current operations, and a W146 million decrease in retained earnings is debited to the opening balance of unappropriated retained earnings. The Bank received W700 million of dividends in 2003 and 2002, respectively.

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

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

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

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

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2002 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Maxon Telecom Co. (preferred)	1,093,841	0.00	W3,380	W21,877
Keangnam Enterprises Co., Ltd.	83,536	0.32	182	182
KP Chemical	74,412	0.08	227	372
Ssang Yong Motor	58,534	0.05	293	2,927
Korea Information Service	42,000	0.88	599	599
Jin Do Co., Ltd.	40,669	0.20	17	3,050
Dong Yang Steel Pipe Co., Ltd.	1,180	0.00	-	7
	<b>1,394,172</b>		<b>W4,698</b>	<b>W29,014</b>

## Notes to Financial Statements (continued)

Unlisted equity securities, denominated in Korean Won, as of December 31, 2003 and 2002 are as follows (millions of Won):

Company	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
December 31, 2003					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W10,113	W 7,500
BC Card	653,400	14.85	5,840	22,889	5,840
	<b>2,153,400</b>		<b>W13,340</b>	<b>W33,002</b>	<b>W13,340</b>
December 31, 2002					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W 9,870	W 7,500
BC Card	653,400	14.85	5,840	22,414	5,840
ETRONICS (*)	288,280	0.45	2,018	(638)	2,018
Daewoo Motors (*)	3,868	0.004	193	83	193
Daewoo Commercial Vehicle (*)	1,177	0.01	6	8	6
	<b>2,446,725</b>		<b>W15,557</b>	<b>W31,737</b>	<b>W15,557</b>

(\*) These securities were stated at acquisition cost as of December 31, 2002 because they were protected by the KDIC in accordance with the agreement between the Bank and the KDIC. They were transferred to the KDIC during the third quarter of 2003.

Beneficiary certificates, denominated in Korean Won, as of December 31, 2002 (none as of December 31, 2003) are as follows (millions of Won):

	Face value	Acquisition cost	Capital adjustment	Carrying value (*)
December 31, 2002	<b>W19,690</b>	<b>W19,690</b>	<b>W -</b>	<b>W19,690</b>

(\*) Beneficiary certificates were stated at acquisition cost because they are protected by the KDIC in accordance with the agreement between the Bank and the KDIC. These beneficiary certificates were transferred to the KDIC during the third quarter of 2003.

Beneficiary certificates, denominated in foreign currencies, as of December 31, 2003 (none as of December 31, 2002) are as follows (millions of Won):

	Face value	Acquisition cost	Capital adjustment	Carrying value
December 31, 2003	<b>W118,585</b>	<b>W118,585</b>	<b>W881</b>	<b>W119,466</b>

Equity securities, denominated in foreign currencies, at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Company	Number of shares	Owner-ship (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2003						
Qingdao International Bank	-	50.00	W11,978	W10,181	W12,232	W10,181
Korea First Finance Ltd, HK	7,000	100.00	3,593	51,685	51,685	51,685
	<b>7,000</b>		<b>W15,571</b>	<b>W61,866</b>	<b>W63,917</b>	<b>W61,866</b>
December 31, 2002						
Qingdao International Bank	-	50.00	W12,004	W12,258	W12,258	W12,258
Korea First Finance Ltd, HK	7,000	100.00	3,601	47,582	47,582	47,582
	<b>7,000</b>		<b>W15,605</b>	<b>W59,840</b>	<b>W59,840</b>	<b>W59,840</b>

Equity securities in foreign currencies are valued by the equity method. W2,295 million and W5,776 million of income from affiliated companies, net is included in current operations for the years ended December 31, 2003 and 2002, respectively.

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

## Notes to Financial Statements (continued)

### Debt Securities Held for Investment

Bonds available-for-sale, denominated in Korean Won, as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Capital adjustment	Carrying value (*)
December 31, 2003						
Government bonds	4.75 ~ 11.15	W 520,352	W 519,517	W 519,331	W 1,627	W 520,958
Asset backed securities	6.20 ~ 13.44	825,000	956,394	925,770	3,865	929,635
Financial debentures	3.83 ~ 6.42	5,040,000	4,940,595	4,925,846	(7,360)	4,918,486
Corporate debentures	5.18 ~ 7.00	86,000	85,058	84,982	539	85,521
		<b>W6,471,352</b>	<b>W6,501,564</b>	<b>W6,455,929</b>	<b>W(1,329)</b>	<b>W6,454,600</b>
December 31, 2002						
Government bonds	3.00 ~ 11.15	W1,487,452	W1,429,209	W1,434,451	W54,411	W1,488,862
Asset backed securities	11.46	365,000	431,394	429,772	1,856	431,628
Financial debentures	4.37 ~ 7.77	5,020,000	4,823,760	4,820,037	1,609	4,821,646
Corporate debentures	5.14 ~ 8.00	193,280	190,856	190,515	1,959	192,474
		<b>W7,065,732</b>	<b>W6,875,219</b>	<b>W6,874,775</b>	<b>W59,835</b>	<b>W6,934,610</b>

(\*) The above carrying values are estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2003 and 2002.

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

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

(\*1) Bonds hedged by asset swap contracts which offset valuation gains and losses on underlying assets as fair value hedges (see Note 16).

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

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

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2002 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain	Capital adjustment	Carrying value
USD	0.25 ~ 5.14	W177,040	W174,926	W182,524	W1,217	W(236)	W183,505
JPY	0.93	10,129	10,129	10,129	2	-	10,131
		<b>W187,169</b>	<b>W185,055</b>	<b>W192,653</b>	<b>W1,219</b>	<b>W(236)</b>	<b>W193,636</b>

A certain portion of bonds available-for-sale in foreign currencies as of December 31, 2002 are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are receivable from the KDIC until sale or maturity. The market values of securities above as of December 31, 2002 are W165,999 million.

## Notes to Financial Statements (continued)

Bonds held-to-maturity, denominated in Korean Won, as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Carrying value	Market value
December 31, 2003					
Government bonds	3.00 ~ 6.00	W 2,255	W 1,222	W 1,896	W 2,166
December 31, 2002					
KDIC bonds (*)	1.00	W 91,076	W 91,076	W 91,076	W 86,568
Corporate debentures (*)	5.14	110,223	110,223	110,223	115,171
Government bonds	3.00 ~ 6.00	701	567	1,027	908
		<b>W202,000</b>	<b>W201,866</b>	<b>W202,326</b>	<b>W202,647</b>

(\*) W91 billion of KDIC bonds and W110 billion of corporate debentures are guaranteed by the government as of December 31, 2002.

As of December 31, 2003 and 2002, W3,495 billion and W2,851 billion of bonds denominated in Korean Won (both available-for-sale and held-to-maturity bonds) are pledged as collateral for certain borrowings and key money deposits, respectively.

Bonds held-to-maturity, denominated in foreign currencies, as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Carrying value	Fair value
December 31, 2003					
USD	3.87 ~ 7.88	W185,659	W185,446	W185,550	W185,876
JPY	0.10	5,598	5,604	5,601	5,603
		<b>W191,257</b>	<b>W191,050</b>	<b>W191,151</b>	<b>W191,479</b>
December 31, 2002					
USD	4.11 ~ 5.14	W126,042	W125,829	W125,872	W126,164
JPY	0.10	5,064	5,070	5,070	5,070
		<b>W131,106</b>	<b>W130,899</b>	<b>W130,942</b>	<b>W131,234</b>

As of December 31, 2003 and 2002, JPY500 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for settlement of accounts.

### Securities Concentrations

At December 31, 2003 and 2002, information about securities by geography, issuer, industry and character are summarized as follows (millions of Won):

By Geography	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
Korea	W6,476,403	W220,735	W6,697,138	94.70
USA	-	299,166	299,166	4.23
China	-	10,181	10,181	0.14
Japan	-	5,601	5,601	0.08
Switzerland	-	59,890	59,890	0.85
	<b>W6,476,403</b>	<b>W595,573</b>	<b>W7,071,976</b>	<b>100.00</b>

(Continued)

## Notes to Financial Statements (continued)

By Geography	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2002				
Korea	W7,206,793	W179,971	W7,386,764	97.31
USA	-	178,040	178,040	2.35
China	-	12,258	12,258	0.16
Indonesia	-	5,849	5,849	0.08
Japan	-	5,070	5,070	0.06
Malaysia	-	3,230	3,230	0.04
	<b>W7,206,793</b>	<b>W384,418</b>	<b>W7,591,211</b>	<b>100.00</b>

By Issuer	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
Financial business	W5,871,570	W420,783	W6,292,353	88.98
Public	522,854	53,483	576,337	8.15
Large corporate	75,412	121,307	196,719	2.78
Others	6,567	-	6,567	0.09
	<b>W6,476,403</b>	<b>W595,573</b>	<b>W7,071,976</b>	<b>100.00</b>
December 31, 2002				
Financial business	W5,396,818	W216,761	W5,613,579	73.95
Public	1,711,464	21,032	1,732,496	22.82
Large corporate	92,908	146,625	239,533	3.16
Others	5,603	-	5,603	0.07
	<b>W7,206,793</b>	<b>W384,418</b>	<b>W7,591,211</b>	<b>100.00</b>

By Industry	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
Financial business	W5,871,570	W420,783	W6,292,353	88.98
Public	522,854	53,483	576,337	8.15
Manufacturing	62,523	121,307	183,830	2.60
Wholesale and retail	19,456	-	19,456	0.27
	<b>W6,476,403</b>	<b>W595,573</b>	<b>W7,071,976</b>	<b>100.00</b>
December 31, 2002				
Financial business	W5,396,818	W216,761	W5,613,579	73.95
Public	1,711,464	21,032	1,732,496	22.82
Manufacturing	62,638	146,625	209,263	2.76
Wholesale and retail	35,691	-	35,691	0.47
Construction	182	-	182	0.00
	<b>W7,206,793</b>	<b>W384,418</b>	<b>W7,591,211</b>	<b>100.00</b>

## Notes to Financial Statements (continued)

By Character	Securities in Korean Won	Securities in foreign currencies	Total	Percentage
December 31, 2003				
Stocks	W 19,907	W 61,866	W 81,773	1.16
Fixed rate bonds	6,456,496	151,196	6,607,692	93.43
Floating rate bonds	-	263,045	263,045	3.72
Beneficiary certificates	-	119,466	119,466	1.69
	<b>W6,476,403</b>	<b>W595,573</b>	<b>W7,071,976</b>	<b>100.00</b>
December 31, 2002				
Stocks	W 50,167	W 59,840	W 110,007	1.45
Fixed rate bonds	7,136,936	98,997	7,235,933	95.32
Floating rate bonds	-	225,581	225,581	2.97
Beneficiary certificates	19,690	-	19,690	0.26
	<b>W7,206,793</b>	<b>W384,418</b>	<b>W7,591,211</b>	<b>100.00</b>

### Maturity Schedule

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

Year ending December 31	Government bonds	Financial debentures	Corporate debentures	Asset backed securities	Securities in foreign currencies	Total
2004	W171,559	W4,918,486	W85,521	W 95,568	W 71,400	W5,342,534
2005	1,135	-	-	-	132,391	133,526
2006	349,817	-	-	-	-	349,817
2007	88	-	-	834,067	119,780	953,935
2008	255	-	-	-	90,670	90,925
Thereafter	-	-	-	-	-	-
	<b>W522,854</b>	<b>W4,918,486</b>	<b>W85,521</b>	<b>W929,635</b>	<b>W414,241</b>	<b>W6,870,737</b>

The maturities of securities, except equity securities, at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31	Government bonds	Financial debentures	Corporate debentures (*)	Asset backed securities	Securities in foreign currencies	Total
2003	W 269,801	W4,821,646	W236,450	W -	W 33,650	W5,361,547
2004	330,124	-	157,323	-	68,902	556,349
2005	105,385	-	-	-	72,861	178,246
2006	302,615	-	-	-	8,402	311,017
2007	481,964	-	-	431,628	120,040	1,033,632
Thereafter	-	-	-	-	20,723	20,723
	<b>W1,489,889</b>	<b>W4,821,646</b>	<b>W393,773</b>	<b>W431,628</b>	<b>W324,578</b>	<b>W7,461,514</b>

(\*) Corporate debentures include KDIC bonds.

## Notes to Financial Statements (continued)

### 6. Loans

Loans at December 31, 2003 and 2002 are summarized as follows:

Account	2003		2002	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in Korean Won				
Corporate loans	4.60 ~ 11.17	W 6,725,391	5.09 ~ 11.96	W 5,038,274
Household loans	5.29 ~ 14.70	15,890,383	5.15 ~ 15.55	10,599,731
Loans to public sector	5.52 ~ 6.67	273,400	5.23 ~ 7.97	103,351
Other loans	4.50	117,981	5.44	133,665
Notes bought	5.92 ~ 10.95	436,592	6.38 ~ 10.46	423,365
Advances to customers	-	6,671	-	29,609
Credit card accounts	-	872,182	-	1,291,729
Private placement corporate bonds	6.94	956,832	5.09	760,179
		25,279,432		18,379,903
Loans in foreign currencies				
Loans	1.68 ~ 3.14	902,167	2.10 ~ 4.49	775,898
Call loans	-	-	1.29	84,028
Off-shore loans	2.39	80,852	1.92	42,713
Bills bought	2.61	955,631	3.69	744,858
		1,938,650		1,647,497
<b>Total loans</b>		<b>W27,218,082</b>		<b>W20,027,400</b>

Loans made to financial institutions at December 31, 2003 and 2002 are summarized as follows:

	Account	Annual interest rate (%)	Millions of Won
December 31, 2003			
Domestic banks	Interbank loans	4.50	W 117,981
Overseas banks	Loans in foreign currencies	1.49	16,769
	Interbank loans in foreign currencies	1.68	35,934
Other	General loans	7.48	533,780
	Private placement corporate bonds	7.29	440,736
	Loans in foreign currencies	4.01	48,961
	Overdrafts	6.25	93
	Others	8.29	80,852
			<b>W1,275,106</b>
December 31, 2002			
Domestic banks	Interbank loans	5.44	W 133,665
Overseas banks	Loans in foreign currencies	1.55	16,806
	Interbank loans in foreign currencies	2.10	48,016
Other	General loans	7.14	533,035
	Private placement corporate bonds	7.55	310,932
	Overdrafts	6.46	7,299
	Loans in foreign currencies	4.58	142,332
			<b>W1,192,085</b>

## Notes to Financial Statements (continued)

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection in connection with the Bank's final reserve claim from the KDIC on a portion of the principal balances of loans outstanding as of December 31, 2002 (see Note 3). The Bank has established additional allowances for new loans and existing loans that the Bank does not believe are protected by assistance from the KDIC.

Changes in the allowance for possible loan losses at December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Beginning balance	W402,021	W744,705
Decrease in reserves for protected loans	(41,665)	(206,513)
Provision for loan losses on unprotected loans (*1)	329,923	126,871
Put and call to KDIC	(1,159)	(32,290)
Written off	(148,168)	(237,050)
Sale of non-performing loans	(123,794)	-
Other changes	6,613	6,298
<b>Ending balance (*2)</b>	<b>W423,771</b>	<b>W402,021</b>

(\*1) The provision for loan and other losses per the statements of income includes a provision reversal for unused cash advance commitments on credit cards of W597 million for the year ended December 31, 2003 and a provision expense for unused cash advance commitments on credit cards of W5,597 million for the year ended December 31, 2002.

(\*2) The allowances for loan losses at December 31, 2003 and 2002 do not include allowances for unused cash advance commitments on credit cards amounting to W5,000 million and W5,597 million, respectively, which are included in other liabilities.

The ratios of allowance for loan losses to total loans as of December 31, 2003, 2002 and 2001 are 1.56%, 2.01% and 4.76%, respectively.

At December 31, 2003 and 2002, loans (excluding call loans and credit card accounts) by geography, borrower type and industry are summarized as follows (millions of Won):

By Geography	2003		2002	
	W	%	W	%
Korea	W25,983,591	98.63%	W18,278,136	98.00%
Japan	159,422	0.61	154,180	0.83
China	27,398	0.10	48,934	0.26
USA	30,094	0.11	23,725	0.13
Other	145,395	0.55	146,668	0.78
	<b>W26,345,900</b>	<b>100.00%</b>	<b>W18,651,643</b>	<b>100.00%</b>

By Borrower Type	2003		2002	
	W	%	W	%
Household	W15,890,474	60.31%	W10,600,485	56.83%
Corporate	10,064,045	38.20	7,814,142	41.90
Public and Other	391,381	1.49	237,016	1.27
	<b>W26,345,900</b>	<b>100.00%</b>	<b>W18,651,643</b>	<b>100.00%</b>

By Industry	2003		2002	
	W	%	W	%
Household	W15,890,475	60.31%	W10,600,485	56.84%
Manufacturing	3,678,247	13.96	3,639,243	19.51
Lodging and restaurant	1,395,372	5.30	524,373	2.81
Real estate and rental	1,345,927	5.11	578,296	3.10
Financial business	1,275,106	4.84	1,192,085	6.39
Wholesale and retail trade	977,419	3.71	955,312	5.12
Other	1,783,354	6.77	1,161,849	6.23
	<b>W26,345,900</b>	<b>100.00%</b>	<b>W18,651,643</b>	<b>100.00%</b>

## Notes to Financial Statements (continued)

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

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2004	W10,337,185	W1,634,635	W11,971,820
2005 ~ 2006	4,877,353	167,662	5,045,015
2007 ~ 2008	4,268,912	84,660	4,353,572
Thereafter	5,795,982	51,693	5,847,675
	<b>W25,279,432</b>	<b>W1,938,650</b>	<b>W27,218,082</b>

The maturities of loans in Korean Won and foreign currencies at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2003	W 9,579,946	W1,333,676	W10,913,622
2004 ~ 2005	4,424,145	178,206	4,602,351
2006 ~ 2007	1,502,063	68,886	1,570,949
Thereafter	2,873,749	66,729	2,940,478
	<b>W18,379,903</b>	<b>W1,647,497</b>	<b>W20,027,400</b>

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

	Beginning balance	Increase	Decrease	Ending balance
Deferred expenses	W -	W16,313	W1,878	W14,435
Deferred fees	-	4,150	420	3,730
Net balance	<b>W -</b>	<b>W12,163</b>	<b>W1,458</b>	<b>W10,705</b>

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

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*)	Allowance percentage
Loans in Won	W23,344,860	W285,781	W228,221	W71,393	W43,507	W23,973,762	
(Allowance)	(175,090)	(19,546)	(45,966)	(53,985)	(43,507)	(338,094)	1.41
Loans in foreign currencies	951,414	23,467	8,138	-	-	983,019	
(Allowance)	(10,815)	(664)	(1,627)	-	-	(13,106)	1.33
Notes bought	432,482	3,451	81	61	517	436,592	
(Allowance)	(2,163)	(69)	(18)	(30)	(517)	(2,797)	0.64
Bills bought	955,510	119	-	2	-	955,631	
(Allowance)	(4,778)	(2)	-	(1)	-	(4,781)	0.50
Advances to customers	5,863	234	115	-	459	6,671	
(Allowance)	(29)	(5)	(23)	-	(459)	(516)	7.73
Credit card	770,890	37,488	882	44,321	18,601	872,182	
(Allowance)	(7,745)	(6,584)	(181)	(31,366)	(18,601)	(64,477)	7.39
Total (*)	<b>W26,461,019</b>	<b>W350,540</b>	<b>W237,437</b>	<b>W115,777</b>	<b>W63,084</b>	<b>W27,227,857</b>	
(Allowance)	(200,620)	(26,870)	(47,815)	(85,382)	(63,084)	(423,771)	1.56
Allowance percentage	0.76	7.67	20.14	73.75	100.00	1.56	

(\*) Present value discounts amounting to W3,611 million were deducted from total loan balances, and net deferred fees and expenses for first home loans amounting to W13,386 million were added to total loan balances.

## Notes to Financial Statements (continued)

The classification and allowance for loan losses outstanding at December 31, 2002 are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)	Allowance percentage
Loans in Won	W15,969,692	W415,501	W 94,364	W132,737	W16,801	W16,629,095	
(Allowance)	(114,751)	(16,859)	(20,319)	(56,585)	(16,801)	(225,315)	1.35
Loans in foreign currencies	804,440	60,725	26,918	9,604	952	902,639	
(Allowance)	(19,541)	(1,467)	(6,916)	(7,462)	(952)	(36,338)	4.03
Notes bought	419,085	2,458	457	-	1,365	423,365	
(Allowance)	(9,373)	(49)	(91)	-	(1,365)	(10,878)	2.57
Bills bought	648,658	79,772	-	16,428	-	744,858	
(Allowance)	(3,806)	(1,595)	-	(16,270)	-	(21,671)	2.91
Advances to customers	6,052	45	3,467	10,431	9,575	29,570	
(Allowance)	(2,952)	(1)	(693)	(10,068)	(9,575)	(23,289)	78.76
Credit card	1,158,839	64,757	300	40,662	27,171	1,291,729	
(Allowance)	(25,131)	(7,771)	(60)	(24,397)	(27,171)	(84,530)	6.54
<b>Total (*1)</b>	<b>W19,006,766</b>	<b>W623,258</b>	<b>W125,506</b>	<b>W209,862</b>	<b>W55,864</b>	<b>W20,021,256</b>	
(Allowance) (*2)	(175,554)	(27,742)	(28,079)	(114,782)	(55,864)	(402,021)	2.01
Allowance percentage	0.92	4.45	22.37	54.69	100.00	2.01	

(\*1) Net of present value discounts amounting to W6,144 million.

(\*2) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W225,150 million based on the agreement between the Bank and KDIC.

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

	Corporations under liquidation	Industry rationalization	Total
Balance before restructuring	W3,747	W36,591	W40,338
D/E swap stock	7	-	7
Interest rate reduction	3,740	36,591	40,331
Balance at end of year	W2,225	W28,779	W31,004
Restructuring loss for 2003	W -	W -	W -

Restructured loans at December 31, 2002 are summarized as follows (millions of Won):

	Corporations under liquidation	Court ordered restructuring	Work-out	Industry rationalization	Total
Balance before restructuring	W13,462	W217	W254,446	W37,685	W305,810
D/E swap stock	2,025	-	28,676	-	30,701
D/E swap CB	-	-	225,150	-	225,150
Interest rate reduction	11,437	217	620	37,685	49,959
Balance at end of year	W11,067	W100	W255,100	W28,477	W294,744
Restructuring loss for 2002	W 1,686	W -	W -	W -	W 1,686

## Notes to Financial Statements (continued)

The Bank has W34,614 million and W44,254 million of loans discounted to present value (amounting to W3,611 million and W6,144 million) due to debt restructuring as of December 31, 2003 and 2002, respectively.

The Bank transferred loans through monthly put claims and KDIC's exercise of call options amounting to W301,337 million and W442,856 million to the KDIC for the years ended December 31, 2003 and 2002, respectively, according to the agreement between the Bank and the KDIC.

During the year ended December 31, 2003, the Bank sold without recourse charged-off and delinquent loans amounting to W383,613 million and JPY632 million out of non-performing consumer loans and credit card loans. As a result of these sales, the Bank recorded a loss on sale of loans amounting to W36,554 million as non-operating expense and W1,413 million as non-operating revenue.

### 7. Fixed Assets

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

	Beginning balance	Increase	Decrease	Ending balance
Premises and equipment				
Acquisition cost				
Land	W 796,646	W -	W 122	W 796,524
Buildings and structures	403,978	17,180	2,221	418,937
Movable property	222,800	37,815	9,003	251,612
	1,423,424	54,995	11,346	1,467,073
Accumulated depreciation				
Buildings and structures	113,518	19,745	1,507	131,756
Movable property	141,089	42,217	8,620	174,686
	254,607	61,962	10,127	306,442
Net	1,168,817			1,160,631
Intangible assets				
Acquisition cost	66,600	24,092	-	90,692
Accumulated amortization	9,194	13,950	-	23,144
Net	57,406			67,548
Total net book value	<b>W1,226,223</b>			<b>W1,228,179</b>

Premises and equipment at December 31, 2002 are comprised of the following (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Premises and equipment				
Acquisition cost				
Land	W 797,004	W 20	W 378	W 796,646
Buildings and structures	384,986	20,392	1,400	403,978
Movable property	196,488	53,864	27,552	222,800
	1,378,478	74,276	29,330	1,423,424
Accumulated depreciation				
Buildings and structures	94,860	19,744	1,086	113,518
Movable property	126,135	41,301	26,347	141,089
	220,995	61,045	27,433	254,607
Net	1,157,483			1,168,817

(Continued)

## Notes to Financial Statements (continued)

	Beginning balance	Increase	Decrease	Ending balance
Intangible assets				
Acquisition cost	23,097	43,503	-	66,600
Accumulated amortization	3,070	6,124	-	9,194
Net	20,027			57,406
Total net book value	<b>W1,177,510</b>			<b>W1,226,223</b>

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2003 and 2002, the government-posted prices of the Bank's land used for tax assessment purposes are W687,662 million and W606,165 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

### 8. Other Assets

Other assets at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Other accounts receivable	W 577,674	W296,053
Guarantee money	295,658	285,876
Fees and interest receivable	200,878	216,545
Loans to trust accounts	-	134,800
Bills unsettled	5,717	16,704
Unsettled exchange	15,149	11,883
Prepaid expenses	7,256	9,537
Regulatory and legal deposits (*)	7,046	4,925
Credit loss reserves of other assets	(3,472)	(3,761)
Derivative valuation assets	21,999	3,411
Others	5,097	6,991
	<b>W1,133,002</b>	<b>W982,964</b>

(\*) Regulatory and legal deposits include W6,510 million and W4,908 million of securities held in escrow at December 31, 2003 and 2002, respectively.

### 9. Deposits

Deposits at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	Banks	Other financial institutions	Others	Total
December 31, 2003				
Deposits in Korean Won				
Demand deposits	W 9,497	W 213,630	W 1,880,743	W 2,103,870
Time & saving deposits	242,142	2,533,797	17,055,142	19,831,081
	251,639	2,747,427	18,935,885	21,934,951
Deposits in foreign currencies	131	13,283	422,939	436,353
Certificates of deposit	264,539	2,867,081	1,693,933	4,825,553
	<b>W516,309</b>	<b>W5,627,791</b>	<b>W21,052,757</b>	<b>W27,196,857</b>
December 31, 2002				
Deposits in Korean Won				
Demand deposits	W 8,727	W 229,568	W 1,815,659	W 2,053,954
Time & saving deposits	49,135	1,909,157	14,179,217	16,137,509
	57,862	2,138,725	15,994,876	18,191,463
Deposits in foreign currencies	42	16,349	456,013	472,404
Certificates of deposit	97,460	3,916,654	593,718	4,607,832
	<b>W155,364</b>	<b>W6,071,728</b>	<b>W17,044,607</b>	<b>W23,271,699</b>

## Notes to Financial Statements (continued)

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

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2004	W20,942,614	W436,341	W4,825,553	W26,204,508
2005	530,965	12	-	530,977
2006	203,014	-	-	203,014
2007	60,661	-	-	60,661
2008	111,695	-	-	111,695
Thereafter	86,002	-	-	86,002
	<b>W21,934,951</b>	<b>W436,353</b>	<b>W4,825,553</b>	<b>W27,196,857</b>

The maturities of deposits at December 31, 2002 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2003	W17,357,570	W469,651	W4,607,832	W22,435,053
2004	410,235	2,753	-	412,988
2005	253,498	-	-	253,498
2006	60,931	-	-	60,931
2007	27,496	-	-	27,496
Thereafter	81,733	-	-	81,733
	<b>W18,191,463</b>	<b>W472,404</b>	<b>W4,607,832</b>	<b>W23,271,699</b>

### 10. Borrowings

Borrowings at December 31, 2003 and 2002 are comprised of the following:

	2003		2002	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Borrowings in Korean Won:				
Aggregate limit borrowings	2.50	W 42,079	2.50	W 46,974
Call money	3.50 ~ 3.65	40,900	4.05 ~ 4.15	73,000
Other	1.20 ~ 6.30	329,414	2.00 ~ 7.45	487,631
		412,393		607,605
Borrowings in foreign currencies:				
Bank of Korea	1.11 ~ 1.26	6,926	1.39 ~ 1.96	23,980
Other borrowings	0.00 ~ 3.00	1,165,429	0.00 ~ 4.40	1,111,278
Off-shore borrowings	1.37 ~ 1.42	95,824	2.10	96,032
Call money	-	-	0.25 ~ 2.00	13,340
		1,268,179		1,244,630
Bonds sold under repurchase agreements	1.54 ~ 4.41	196,193	1.98 ~ 5.10	574,293
Bills sold	3.68	15,555	4.56	14,928
		W1,892,320		W2,441,456

## Notes to Financial Statements (continued)

At December 31, 2003 and 2002, borrowings by borrower type are summarized as follows (millions of Won):

<b>December 31, 2003</b>	<b>Bank of Korea</b>	<b>Commercial banks</b>	<b>Other financial institutions</b>	<b>Others</b>	<b>Total (*)</b>
Borrowings in Korean Won	W42,079	W 55,282	W246,500	W68,532	W 412,393
Borrowings in foreign currencies	6,926	1,258,103	-	3,150	1,268,179
Bonds sold under repurchase agreements	-	111,063	-	-	111,063
	<b>W49,005</b>	<b>W1,424,448</b>	<b>W246,500</b>	<b>W71,682</b>	<b>W1,791,635</b>

<b>December 31, 2002</b>	<b>Bank of Korea</b>	<b>Commercial banks</b>	<b>Other financial institutions</b>	<b>Others</b>	<b>Total (*)</b>
Borrowings in Korean Won	W46,974	W 180,368	W278,600	W101,663	W 607,605
Borrowings in foreign currencies	23,980	1,042,707	-	177,943	1,244,630
Bonds sold under repurchase agreements	-	122,888	-	-	122,888
	<b>W70,954</b>	<b>W1,345,963</b>	<b>W278,600</b>	<b>W279,606</b>	<b>W1,975,123</b>

(\*) W85,130 million and W451,405 million of bonds sold under repurchase agreements and W15,555 million and W14,928 million of bills sold to the public at December 31, 2003 and 2002, respectively, are not included.

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

<b>Year ending December 31,</b>	<b>Borrowings in Korean Won</b>	<b>Borrowings in foreign currencies</b>	<b>Bonds sold under repurchase agreements</b>	<b>Bills sold</b>	<b>Total</b>
2004	W106,752	W1,265,214	W196,193	W15,555	W1,583,714
2005	15,516	-	-	-	15,516
2006	55,926	-	-	-	55,926
2007	158,845	-	-	-	158,845
2008	17,426	-	-	-	17,426
Thereafter	57,928	2,965	-	-	60,893
	<b>W412,393</b>	<b>W1,268,179</b>	<b>W196,193</b>	<b>W15,555</b>	<b>W1,892,320</b>

The maturities of borrowings at December 31, 2002 are as follows (millions of Won):

<b>Year ending December 31,</b>	<b>Borrowings in Korean Won</b>	<b>Borrowings in foreign currencies</b>	<b>Bonds sold under repurchase agreements</b>	<b>Bills sold</b>	<b>Total</b>
2003	W254,678	W1,180,965	W574,293	W14,928	W2,024,864
2004	28,118	60,694	-	-	88,812
2005	29,920	-	-	-	29,920
2006	57,378	-	-	-	57,378
2007	164,865	-	-	-	164,865
Thereafter	72,646	2,971	-	-	75,617
	<b>W607,605</b>	<b>W1,244,630</b>	<b>W574,293</b>	<b>W14,928</b>	<b>W2,441,456</b>

## Notes to Financial Statements (continued)

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

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

The subordinated borrowings included in Korean Won borrowings as of December 31, 2002 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%) (*)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	6.12	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	6.12	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	7.18	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	6.12	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	6.12	20,000
				<b>W205,600</b>

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

### 11. Financial Debentures

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

	Issue date	Millions of Won	Annual interest rate (%)	Due date
<b>Korean Won</b>				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Subordinated	9-28-2003	200,000	6.00 ~ 6.13	1-28-2011
General debentures	11-08-2002, etc.	4,619,990	4.04 ~ 5.08	12-29-2006, etc.
Discount on debentures		(88,421)		
		5,007,836		
<b>Foreign currency</b>				
Subordinated FRN (*1, *2)	3-10-2003	456,132	5.75	3-10-2013
Subordinated FRN (*1)	10-02-2003	239,560	6.25	10-02-2013
Discount on debentures		(8,514)		
		687,178		
		<b>W5,695,014</b>		

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

(\*2) A portion of the debenture is hedged by interest rate swaps which offset valuation losses on the underlying liability of W6,957 million as fair value hedges.

## Notes to Financial Statements (continued)

Debentures at December 31, 2002 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	07-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	01-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	04-28-2008
Bonds with Warrants	1-31-2000	91,076	-	12-30-2006
General debentures	10-10-2002, etc.	1,620,000	4.91 ~ 5.08	10-10-2003, etc.
Discount on debentures		(71,867)		
		1,915,476		
Foreign currency				
Subordinated FRN (*)	6-26-1996	240,080	6ML+2	06-26-2006
		<b>W2,155,556</b>		

(\*) The Bank has the right to annually redeem the note (call option).

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

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2004	W3,761,643	W -	W3,761,643
2005	239,966	-	239,966
2006	529,960	-	529,960
2007	100,000	-	100,000
2008	176,267	-	176,267
Thereafter	200,000	687,178	887,178
	<b>W5,007,836</b>	<b>W687,178</b>	<b>W5,695,014</b>

The maturities of debentures at December 31, 2002 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2003	W1,491,901	W -	W1,491,901
2004	56,232	-	56,232
2005	-	-	-
2006	91,076	240,080	331,156
2007	100,000	-	100,000
Thereafter	176,267	-	176,267
	<b>W1,915,476</b>	<b>W240,080</b>	<b>W2,155,556</b>

## 12. Accrued Severance and Retirement Benefits

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

## Notes to Financial Statements (continued)

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

	<b>Beginning balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending balance</b>
Accrued severance and retirement benefits	W172,981	W29,383	W28,421	W173,943
Prepayments to National Pension Corp.	(5,853)	-	(908)	(4,945)
Deposits for group severance and retirement benefits	(145,558)	(17,592)	(24,509)	(138,641)
	<b>W 21,570</b>	<b>W11,791</b>	<b>W 3,004</b>	<b>W 30,357</b>

The changes in accrued severance and retirement benefits for the year ended December 31, 2002 are as follows (millions of Won):

	<b>Beginning balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending balance</b>
Accrued severance and retirement benefits	W164,520	W36,253	W27,792	W172,981
Prepayments to National Pension Corp.	(6,770)	-	(917)	(5,853)
Deposits for group severance and retirement benefits	(153,389)	(16,822)	(24,653)	(145,558)
	<b>W 4,361</b>	<b>W19,431</b>	<b>W 2,222</b>	<b>W 21,570</b>

### 13. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	<b>2003</b>	<b>2002</b>
Acceptances and guarantees in Korean Won		
Corporate debentures	W 1,088	W 5,225
Other	96,510	107,717
	<b>97,598</b>	<b>112,942</b>
Acceptances and guarantees in foreign currencies		
Acceptances	16,398	29,891
Stand-by letters of credit	67,731	57,606
Letters of guarantee	10,965	11,735
Credit derivatives sold	179,670	120,040
Other	3,919	15,598
	<b>278,683</b>	<b>234,870</b>
	<b>W376,281</b>	<b>W347,812</b>

Credit derivatives sold at December 31, 2003 and 2002 are comprised of the following (millions of Won):

<b>Type</b>	<b>Counter party</b>	<b>2003</b>	<b>2002</b>
Credit linked notes	Lehman Brothers Asia Ltd.	W119,780	W120,040
	UBS Warburg Ltd.	59,890	-
		<b>W179,670</b>	<b>W120,040</b>

The Bank classified these as "Normal" and provided an allowance of 0.5% of guaranteed amounts for credit derivative sold as of December 31, 2003 and 2002.

## Notes to Financial Statements (continued)

Contingent acceptances and guarantees outstanding at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Import L/C	W333,736	W275,906
Local L/C	172,039	160,951
	<b>W505,775</b>	<b>W436,857</b>

According to the agreement between the KDIC and the Bank, all rights and responsibilities for guarantees and acceptances outstanding as of December 31, 1999 were assumed by the KDIC as of December 31, 1999. Therefore, the Bank believes that confirmed acceptances and guarantees, amounting to W2,386 million and W63,431 million as of December 31, 2003 and 2002, respectively, are protected by the KDIC (see Note 3).

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

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W96,548	W1,050	W-	W-	W -	W 97,598	
(Allowance)	(483)	(21)	-	-	-	(504)	0.52
Acceptances & guarantees in foreign currencies	276,367	-	-	-	2,316	278,683	
(Allowance)	(1,381)	-	-	-	(2,316)	(3,697)	1.33
<b>Total</b>	<b>W372,915</b>	<b>W1,050</b>	<b>W-</b>	<b>W-</b>	<b>W2,316</b>	<b>W376,281</b>	
(Allowance)	(1,864)	(21)	-	-	(2,316)	(4,201)	1.12
Allowance percentage	0.50	2.00	-	-	100.00	1.12	

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2002 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W111,909	W 576	W458	W -	W -	W112,943	
(Allowance)	(561)	(12)	(207)	-	-	(780)	0.69
Acceptances & guarantees in foreign currencies	186,975	30,925	-	14,648	2,321	234,869	
(Allowance)	(934)	(618)	-	(9,805)	(2,321)	(13,678)	5.82
<b>Total</b>	<b>W298,884</b>	<b>W31,501</b>	<b>W458</b>	<b>W14,648</b>	<b>W2,321</b>	<b>W347,812</b>	
(Allowance)	(1,495)	(630)	(207)	(9,805)	(2,321)	(14,458)	4.16
Allowance percentage	0.50	2.00	45.20	66.94	100.00	4.16	

The ratio of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2003, 2002 and 2001 was 1.12 %, 4.16% and 0.47%, respectively.

## Notes to Financial Statements (continued)

At December 31, 2003 and 2002, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

<b>By Geography</b>	<b>Confirmed acceptances and guarantees</b>		<b>Contingent acceptances and guarantees</b>		<b>Total</b>	
December 31, 2003						
Korea	W174,891	46.48%	W505,775	100.00%	W680,666	77.17%
USA	129,158	34.32	-	-	129,158	14.64
Switzerland	59,890	15.92	-	-	59,890	6.79
Thailand	12,342	3.28	-	-	12,342	1.40
	<b>W376,281</b>	<b>100.00%</b>	<b>W505,775</b>	<b>100.00%</b>	<b>W882,056</b>	<b>100.00%</b>
December 31, 2002						
Korea	W199,040	57.23%	W386,799	88.54%	W585,839	74.66%
USA	134,123	38.56	-	-	134,123	17.09
Japan	-	-	50,058	11.46	50,058	6.38
Thailand	14,649	4.21	-	-	14,649	1.87
	<b>W347,812</b>	<b>100.00%</b>	<b>W436,857</b>	<b>100.00%</b>	<b>W784,669</b>	<b>100.00%</b>

<b>By Concentration</b>	<b>Confirmed acceptances and guarantees</b>		<b>Contingent acceptances and guarantees</b>		<b>Total</b>	
December 31, 2003						
Manufacturing	W 68,080	18.09%	W274,615	54.30%	W342,695	38.85%
Wholesale and retail	61,439	16.33	171,931	33.99	233,370	26.46
Financial business	181,476	48.23	755	0.15	182,231	20.66
Construction	10,289	2.74	8,576	1.70	18,865	2.14
Business service	16,869	4.48	2,293	0.45	19,162	2.17
Other	38,128	10.13	47,605	9.41	85,733	9.72
	<b>W376,281</b>	<b>100.00%</b>	<b>W505,775</b>	<b>100.00%</b>	<b>W882,056</b>	<b>100.00%</b>
December 31, 2002						
Manufacturing	W100,011	28.75%	W242,112	55.42%	W342,123	43.60%
Wholesale and retail	63,494	18.26	158,222	36.22	221,716	28.26
Financial business	120,459	34.63	948	0.22	121,407	15.47
Construction	26,495	7.62	17,209	3.94	43,704	5.57
Business service	16,301	4.69	791	0.18	17,092	2.18
Other	21,052	6.05	17,575	4.02	38,627	4.92
	<b>W347,812</b>	<b>100.00%</b>	<b>W436,857</b>	<b>100.00%</b>	<b>W784,669</b>	<b>100.00%</b>

<b>By Borrower Type</b>	<b>Confirmed acceptances and guarantees</b>		<b>Contingent acceptances and guarantees</b>		<b>Total</b>	
December 31, 2003						
Corporate	<b>W376,281</b>	<b>100.00%</b>	<b>W505,775</b>	<b>100.00%</b>	<b>W882,056</b>	<b>100.00%</b>
December 31, 2002						
Corporate	<b>W347,812</b>	<b>100.00%</b>	<b>W436,857</b>	<b>100.00%</b>	<b>W784,669</b>	<b>100.00%</b>

## Notes to Financial Statements (continued)

### 14. Other Liabilities

Other liabilities at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Domestic exchange obligation payable	W1,168,971	W1,260,047
Accrued fees and interest	473,055	440,276
Accounts payable	520,119	301,347
Agency fees payable for tax settlement	360,081	261,020
Foreign exchange payable	42,081	113,903
Borrowing from trust account	266,523	113,792
Giro and other settlements	50,069	55,536
Derivative valuation liabilities (Note 16)	43,655	17,221
Unearned revenues	21,913	24,766
Agency deposit for securities transactions	2,182	3,408
Others	69,351	83,008
	<b>W3,018,000</b>	<b>W2,674,324</b>

### 15. Interest Bearing Assets and Liabilities

Interest bearing assets and liabilities (excluding other assets and other liabilities) at December 31, 2003 and 2002 are summarized as follows (millions of Won):

	2003		2002	
	Average amount of assets	Interest revenue	Average amount of assets	Interest revenue
<Assets>				
Loans in Won	W20,205,829	W1,421,288	W14,492,182	W1,082,000
Loans in foreign currencies	629,276	17,572	746,427	27,636
Call loan	273,325	9,652	304,621	10,613
Notes bought	9,651	1,007	13,852	1,541
Private placement corporate bonds	925,274	61,081	605,718	40,125
Bills bought	856,660	25,898	666,024	27,735
Advances to customers	19,768	1,831	63,587	2,931
Bonds purchased on reselling agreements	150,466	5,782	40,369	1,672
	<b>23,070,249</b>	<b>1,544,111</b>	<b>16,932,780</b>	<b>1,194,253</b>
Securities (*1)	7,167,420	365,395	6,971,022	368,608
Due from banks in Won (*2)	791,416	14,044	599,898	9,474
Due from banks in foreign currencies (*2)	137,802	1,511	177,995	3,193
	<b>929,218</b>	<b>15,555</b>	<b>777,893</b>	<b>12,667</b>
	<b>W31,166,887</b>	<b>W1,925,061</b>	<b>W24,681,695</b>	<b>W1,575,528</b>

(\*1) Includes certain equity securities which are scheduled to be transferred to the KDIC.

(\*2) Includes reserves required to be deposited with the Bank of Korea.

## Notes to Financial Statements (continued)

	2003		2002	
	Average amount of liabilities	Interest expense	Average amount of liabilities	Interest expense
<Liabilities>				
Deposits in Won	W19,481,839	W 650,208	W17,280,612	W 680,194
Deposits in foreign currencies	460,308	3,178	443,134	4,434
Certificate of deposits	4,684,823	220,162	2,649,503	135,134
	24,626,970	873,548	20,373,249	819,762
Borrowings in Won	409,954	18,769	451,621	24,586
Borrowings in foreign currencies	1,010,804	15,855	941,764	21,850
Call money	723,269	27,339	497,281	19,289
Bonds sold on repurchase agreements	396,827	15,202	1,686,408	81,727
Cover bills sold	11,364	471	9,151	390
	2,552,218	77,636	3,586,225	147,842
Debentures in Won	3,250,182	167,548	550,107	30,673
Debentures in foreign currencies	537,314	25,606	249,319	9,649
	3,787,496	193,154	799,426	40,322
	<b>W30,966,684</b>	<b>W1,144,338</b>	<b>W24,758,900</b>	<b>W1,007,926</b>

### 16. Commitments and Contingencies

#### KDIC Agreement Issues

Due to the complexity of the KDIC assistance under the Acquisition Agreement and Assistance Agreement, several disagreements have arisen between the Bank and the KDIC as to the interpretation of these agreements. Certain of these disagreements were disclosed in previous financial statements and were submitted to two separate arbitrations. The first arbitration was resolved by an Award by Consent issued by the International Chamber of Commerce in December of 2001 and such resolution did not result in any material impact on the Bank's financial statements. The second arbitration was also resolved by an Award by Consent issued by the International Chamber of Commerce in July of 2003 and such resolution did not result in any material impact on the Bank's financial statements.

Certain other disagreements have arisen between the Bank and the KDIC. At December 31, 2003, there are approximately W5.9 billion of such other claims reflected in the Bank's financial statements as other assets. Management believes that its assumptions are supported, but the outcome of any negotiations or proceedings with the KDIC related to these items may be different from the assumptions used by management. However, management believes that the maximum financial loss that may result from the disposition of these items is not material.

#### Reserve for Unused Cash Advance Commitments on Credit Cards

The allowance for unused cash advance commitments on credit cards at December 31, 2003 and 2002 are as follows (million of Won):

	Commitment	Outstanding balance	Unused commitment (*)	Allowance	Allowance percentage
December 31, 2003	W 932,158	W199,087	W500,031	W5,000	1.00%
December 31, 2002	W1,157,931	W308,694	W559,755	W5,597	1.00%

(\*) Commitment ÷ 75% outstanding balance

## Notes to Financial Statements (continued)

### Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts and interest rate futures contracts. As of December 31, 2003 and 2002, the Bank has derivative financial instruments for trading purposes, as follows (millions of Won):

<Trading purposes>

	2003	2002
Currency forwards	W 283,046	W145,023
Interest rate swaps	563,085	560,290
Interest rate futures	23,956	174,058
Stock index options purchased	66,237	-
Stock index options sold	66,082	-
	<b>W1,002,406</b>	<b>W879,371</b>

For the years ended December 31, 2003 and 2002, W10,072 million and W969 million of gains and W14,014 million and W8,621 million of losses, respectively, on valuation of derivative contracts for trading purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2003				
Currency forwards	W 884	W 2,399	W 884	W 2,399
Interest rate swaps	380	3,019	1,018	8,626
Stock index options	8,808	8,596	14,017	14,011
	<b>W10,072</b>	<b>W14,014</b>	<b>W15,919</b>	<b>W25,036</b>
December 31, 2002				
Currency forwards	W 820	W 948	W 820	W 948
Interest rate swaps	149	7,673	2,591	7,562
	<b>W 969</b>	<b>W 8,621</b>	<b>W 3,411</b>	<b>W 8,510</b>

As of December 31, 2003 and 2002, the Bank has derivative financial instruments for hedging purposes, as follows (millions of Won):

<Hedging purposes>

	2003	2002
Interest rate swaps	W365,745	W73,750

For the years ended December 31, 2003 and 2002, W6,910 million and W0 million of gains and W7,272 million and W1,313 million of losses on valuation of derivative contracts for hedging purposes was recorded in fees, commissions, and other revenues and expenses, respectively, as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability (*)
December 31, 2003				
Interest rate swaps	<b>W6,910</b>	<b>W7,272</b>	<b>W6,080</b>	<b>W18,619</b>
December 31, 2002				
Interest rate swaps	<b>W -</b>	<b>W1,313</b>	<b>W -</b>	<b>W8,711</b>

(\*) Contains W11,259 million and W7,398 million of liabilities incurred upon initiation of derivatives for swaption premiums and transfer of convertible bond rights at December 31, 2003 and 2002, respectively.

## Notes to Financial Statements (continued)

The difference between valuation losses of derivative contracts and gains on underlying assets and liabilities being hedged is W1,253 million and W95 million as of December 31, 2003 and 2002, respectively.

### Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2003, commitments and endorsed notes aggregated W46,181 million and W10,623 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2003, total loan commitments are W17,367 billion and unused commitments are W11,079 billion.

The Bank has been named as defendant in 42 legal actions amounting to W86,147 million, W73,543 million of which the Bank believes is protected by the KDIC, and is plaintiff in 105 legal actions amounting to W146,359 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

### 17. Common Stock and Capital Surplus

As of December 31, 2003 and December 31, 2002, the authorized common shares are 1,600 million shares and the outstanding common shares are 205,922,640 and 196,116,800 shares (at a par value of W5,000), respectively. The Bank's paid in capital is W1,029,613 million and W980,584 million as of December 31, 2003 and December 31, 2002, respectively (see Note 1).

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. On May 23, 2003 the warrants were exercised and converted to 9,805,840 shares of the Bank's common stock at a price of W6,749 per share. Details of shares outstanding and shares issued as of December 31, 2003 are as follows (millions of Won except number of shares):

	Number of shares	Common stock	Capital surplus
December 31, 2002	196,116,800	W 980,584	W -
Exercise of warrants	9,805,840	49,029	17,111
	<b>205,922,640</b>	<b>W1,029,613</b>	<b>W17,111</b>

The Bank has granted stock options which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2003 are as follows:

	First	Second
Grant date	March 30, 2000	October 19, 2001
Options originally granted	5,273,217 shares	1,171,531 shares
Options terminated	4,173,219 shares	50,000 shares
Options exercised	0 shares	0 shares
Options outstanding	1,099,998 shares	1,121,531 shares
Exercise price	W9,834	W12,497
Exercise period	From March 30, 2003 until March 30, 2010	From October 19, 2004 until October 19, 2011

## Notes to Financial Statements (continued)

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

	First	Second
Stock price at grant date (*)	W6,791	W6,791
Risk free rate	4.96%	5.73%
Expected exercisable period	5 years	5 years
Expected stock price volatility	0%	0%
Expected dividend ratio	0%	0%
Compensation cost per share	-	-
Total compensation cost	-	-

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

### 18. Retained Earnings

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

### 19. Non-operating revenue and expense

Non-operating revenue and expense for the years ended December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Non-operating revenue		
Rental income	W11,179	W 9,853
Gain on equity method	2,307	7,564
Gain on sale of securities	65,278	5,541
Gain on sale of loans	1,413	-
Other non-operating revenue	51,046	6,666
	<b>131,223</b>	<b>29,624</b>
Non-operating expense		
Loss on sale of loans	36,554	-
Expenses for early retirement	4,853	15,706
Other non-operating expense	30,940	2,794
	<b>W72,347</b>	<b>W18,500</b>

## Notes to Financial Statements (continued)

### 20. Income Tax Expense

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 16.5% on taxable income up to W100 million and 29.7% on taxable income in excess of W100 million. The income tax expense (benefit) for the years ended December 31, 2003 and 2002 is comprised of the following (millions of Won):

	2003	2002
Income tax expense	W 403	W 3,768
Changes in deferred income taxes due to loss carryforwards	106,200	(10,000)
Income tax expenses (benefit)	<b>106,603</b>	<b>(6,232)</b>
Deferred income tax asset at end of the year	63,425	169,625
Deferred income tax asset at beginning of the year	169,625	159,625
Changes in deferred income tax asset	<b>W(106,200)</b>	<b>W 10,000</b>

The Bank has tax basis net operating loss carryforwards (“NOLs”) of approximately W880 billion as of December 31, 2003, which expire as of December 31, 2004. For tax purposes, net operating losses in Korea may be carried forward for five years from the year of origination against future earnings.

Adjustments of income before income taxes to taxable income for the year ended December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Income before income tax expense	W 93,133	W 95,283
Adjustment to increase taxable income		
Permanent differences	16,506	21,018
Temporary differences	275,766	263,530
	292,272	284,548
Adjustment to decrease taxable income		
Permanent differences	44,931	4,794
Temporary differences	222,560	297,971
	267,491	302,765
Taxable income	<b>W117,914</b>	<b>W 77,066</b>

Deferred income taxes reflect the net tax effects of the tax loss carryforward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2003 are comprised of the following (in millions of Won):

	January 1, 2003 (*)	Increase	Decrease	December 31, 2003
Interest receivable on securities	W (83,312)	W(75,126)	W (83,312)	W (75,126)
Profit from valuation of equity method	(44,830)	(2,308)	-	(47,138)
Gain on valuation of derivatives	(3,411)	(21,999)	(3,411)	(21,999)
Discount amortization on securities	(13,497)	(1,331)	(11,867)	(2,961)
Present value discounts	4,003	2,987	4,003	2,987
Loss on valuation of derivatives	17,221	43,655	17,221	43,655
Depreciation	29,875	6,488	51	36,312
Deemed dividends	14,550	2,853	-	17,403

(Continued)

## Notes to Financial Statements (continued)

	January 1, 2003 (*)	Increase	Decrease	December 31, 2003
Retirement benefits	4,600	(4,108)	(8)	500
Other	28,274	48,317	23,545	53,046
Tax loss carryforward	3,713,010	-	2,833,161	879,849
Total	3,666,483	<b>W (572)</b>	<b>W2,779,383</b>	886,528
Tax rate	29.7%			29.7%
Deferred income tax asset	1,088,945			263,299
Allowance	(919,320)			(199,874)
Net deferred income tax asset	<b>W 169,625</b>			<b>W 63,425</b>

(\*) The amounts are different from those in the prior year's audit report to reflect the 2002 final tax return filed in March 2003.

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income and therefore the Bank's net deferred tax asset is based on the Bank's forecast of future income. Due to the uncertain credit environment and revised forecast, management recognized an impairment charge of W85,000 million in March of 2003 by increasing the allowance to reflect the portion of the net operating loss carryforwards expected to be utilized. In addition, the Bank reversed an additional W21,200 million of deferred tax assets through normal amortization. As of December 31, 2003, the Bank had recorded a net deferred tax asset of W63,425 million.

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2002 are comprised of the following (in millions of Won):

	January 1, 2002	Increase	Decrease	December 31, 2002
Interest receivable on securities	W (42,268)	W(83,312)	W (42,268)	W (83,312)
Profit from valuation of equity method	(37,551)	(7,564)	(284)	(44,831)
Gain on valuation of derivatives	(8,558)	(3,411)	(8,558)	(3,411)
Discount amortization on securities	(1,504)	(21,017)	(164)	(22,357)
Present value discounts	177	4,003	177	4,003
Loss on valuation of derivatives	6,538	17,221	6,538	17,221
Depreciation	20,627	4,457	-	25,084
Deemed dividends	9,691	4,859	-	14,550
Retirement benefits	-	4,600	-	4,600
Loss on reduction of investment debentures	20,511	-	20,511	-
Other	15,459	32,587	10,912	37,134
Tax loss carryforward	4,735,971	-	1,022,961	3,713,010
Total	4,719,093	<b>W(47,577)</b>	<b>W1,009,825</b>	3,661,691
Tax rate	29.7%			29.7%
Deferred income tax asset	1,401,571			1,087,522
Allowance	(1,241,946)			(917,897)
Net deferred income tax asset	<b>W 159,625</b>			<b>W 169,625</b>

## Notes to Financial Statements (continued)

### 21. Per Share Amounts

Per share amounts for the years ended December 31, 2003 and 2002 are calculated as follows (in Korean Won):

<b>Ordinary earnings (loss) per share</b>	<b>2003</b>	<b>2002</b>
Ordinary earnings before income tax expenses	W 93,132,749,665	W 95,282,981,976
Income tax expenses (benefits) related to ordinary earnings	106,603,056,000	(6,232,123,600)
	(13,470,306,335)	101,515,105,576
Weighted average number of common shares (*)	202,107,765	196,116,800
Ordinary earnings (loss) per share	W (67)	W 518

<b>Net earnings (loss) per share</b>	<b>2003</b>	<b>2002</b>
Net earnings (loss) after income tax expenses	W(13,470,306,335)	W101,515,105,576
Weighted average number of common shares (*)	202,107,765	196,116,800
Net earnings (loss) per share	W (67)	W 518

(\*) The weighted average number of common shares outstanding at December 31, 2003 and 2002 were 202,107,765 and 196,116,800, respectively.

On May 23, 2003, 9,805,840 additional shares were issued as a result of the KDIC's exercise of warrants (Note 1). There were no shareholder transactions during the year ended December 31, 2002.

In July 1999, the Bank's shares were suspended from trading on the Korean Stock Exchange. As a market value for the Bank's shares cannot be readily determined, the diluted impact on earnings (loss) per share from stock options has not been calculated.

### 22. Application of the Equity-method

Equity investments at December 31, 2003 and 2002 are as follows (millions of Won):

	<b>Korea First Finance Ltd., HK</b>	<b>Qingdao International Bank (*)</b>	<b>Korea First Data System Co., Ltd.</b>
January 1, 2002	W49,067	W10,794	W4,654
Equity in net income of affiliates	3,149	2,627	1,788
Exchange rate fluctuation	(4,651)	(1,025)	-
Dividends received	-	-	(700)
Equity in retained earnings of affiliates	-	(138)	(146)
Capital adjustment	17	-	-
December 31, 2002	W47,582	W12,258	W5,596
Equity in net income (loss) of affiliates	4,346	(2,051)	12
Exchange rate fluctuation	(102)	(26)	-
Dividends received	-	-	(700)
Capital adjustment	(141)	-	-
December 31, 2003	<b>W51,685</b>	<b>W10,181</b>	<b>W4,908</b>

(\*) For Qingdao International Bank, an additional loss of W2,051 million was recorded as the market value of Qingdao was deemed to be lower than its net asset value.

The Bank's shares in Qingdao were sold to a third party during January 2004.

## Notes to Financial Statements (continued)

### 23. Related Party Transactions

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

	Transactions		Account balances	
	Account	Amount	Account	Amount
Korea First Finance Ltd., Hong Kong	Interest income	W 2,198	Due from banks	W110,967
	Interest expense	16	Loans	52,703
			Other assets	292
			Borrowings	53,395
Qingdao International Bank	Interest income	122	Deposits	175
	Interest expense	123		
Korea First Data System Co., Ltd.	Other revenue	42	Other assets	869
	Interest income	1	Deposits	3,609
	Interest expense	125	Other liabilities	249
	Other expense	10,152		
	Revenue transactions	<b>W 2,363</b>	Receivables	<b>W164,831</b>
	Expense transactions	<b>W10,416</b>	Payables	<b>W 57,428</b>

Significant transactions between the Bank, its controlled subsidiary, and equity-method investees for the year ended December 31, 2002 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Korea First Finance Ltd., Hong Kong	Interest income	W 4,096	Due from banks	W108,084
			Loans	52,818
			Other assets	289
Qingdao International Bank	Interest income	474	Loans	12,004
	Interest expense	495	Other assets	54
			Deposits	167
			Borrowings	12,124
			Other liabilities	54
Korea First Data System Co., Ltd.	Interest income	1	Other assets	600
	Other revenue	40	Deposits	4,189
	Interest expense	166	Other liabilities	367
	Other expense	14,126		
	Revenue Transactions	<b>W 4,611</b>	Receivables	<b>W173,849</b>
	Expense Transactions	<b>W14,787</b>	Payables	<b>W 16,901</b>

### 24. Employee Welfare

The Bank provided W33,012 million and W33,665 million of housing loans for its employees at December 31, 2003 and 2002, respectively with terms generally more favorable than prevailing market terms.

## Notes to Financial Statements (continued)

Expenditures for the training of specialists for 2003, 2002 and 2001 are as follows (millions of Won):

Type	2003	2002	2001
Korea Banking Institute	W134	W178	W218
Special skill training	677	443	583
Foreign language training	16	11	45
Overseas service training	39	141	99
	<b>W866</b>	<b>W773</b>	<b>W945</b>

### 25. Segment Information

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

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

	Retail banking	Corporate banking	Capital markets	Credit card operations	Others	Total
Loans	W15,746,266	W10,334,071	W -	W721,068	W -	W26,801,405
Securities	-	284,378	6,787,598	-	-	7,071,976
Fixed assets	-	-	-	-	1,228,179	1,228,179
Other assets	-	-	-	-	4,379,098	4,379,098
	<b>W15,746,266</b>	<b>W10,618,449</b>	<b>W6,787,598</b>	<b>W721,068</b>	<b>W5,607,277</b>	<b>W39,480,658</b>

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

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

	Domestic	Overseas	Total
Loans	W26,496,328	W305,077	W26,801,405
Securities	6,926,660	145,316	7,071,976
Fixed assets	1,227,414	765	1,228,179
Other assets	4,372,942	6,156	4,379,098
	<b>W39,023,344</b>	<b>W457,314</b>	<b>W39,480,658</b>

### 26. Added Value Information

The accounts and amounts which are required to be disclosed in connection with the calculation of added value from the Bank's operations for the years ended December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Salaries and wages	W257,578	W219,575
Retirement benefit	29,383	36,253
Other employee benefit	57,838	56,458
Rent	22,498	20,213
Depreciation	61,962	61,045
Amortization	13,950	6,124
Other taxes and dues	32,201	29,690
	<b>W475,410</b>	<b>W429,358</b>

## Notes to Financial Statements (continued)

### 27. Operating Result for the 4th Quarter of 2003 and 2002

During the 4th quarter of 2003, there was no change in accounting estimation policies. Major operating result for the 4th quarter of 2003 and 2002 are as follows (millions of Won):

	2003	2002
Total revenue	W281,713	W218,276
Operating margin	96,376	63,342
Operating income	24,450	7,691
Net income	19,770	11,116
Earnings per share (Korean Won in units)	96	57

### 28. Book Value and Fair Value of Trust Accounts

Book value and fair value of principal or dividend guaranteed trust accounts as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

	Book value	Provisions	Fair value	Charge on Bank Accounts
December 31, 2003				
Principal guaranteed trust accounts	W426,610	W11,274	W448,815	W-
Principal and dividend guaranteed trust accounts	2,698	411	2,715	-
	<b>W429,308</b>	<b>W11,685</b>	<b>W451,530</b>	<b>W-</b>
December 31, 2002				
Principal guaranteed trust accounts	W428,009	W14,481	W440,673	W-
Principal and dividend guaranteed trust accounts	94,746	1,492	94,760	-
	<b>W522,755</b>	<b>W15,973</b>	<b>W535,433</b>	<b>W-</b>

### 29. Approval of Financial Statements

The Bank's financial statements for the year ended December 31, 2003 will be submitted for approval by the Board of Directors in a meeting on March 19, 2004.

### 30. Korean Economy

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement 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.

# Independent Auditors' Report



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## Chief Executive Officer and Trust Beneficiaries of Korea First Bank

We have audited the accompanying balance sheets of Korea First Bank's trust accounts (the "Trust") as of December 31, 2003 and 2002, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Korea First Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust at December 31, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea.

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

A handwritten signature in black ink, appearing to read 'Young Wha'.

February 11, 2004

This audit report is effective as of February 11, 2004, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

# Balance Sheets (Trust Accounts)

December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
<b>Assets</b>		
Securities (Notes 4 and 5)	W 862,729	W1,203,010
Loans (Notes 5 and 6)	26,747	29,232
Allowance for possible loan and securities losses (Note 5)	(7,834)	(17,161)
Entrusted accounts receivable	1,294,904	14,122
Movable property and real estate	155,152	95,616
Amounts due from the Bank	67,546	81,414
Accrued income	39,622	36,884
Other assets	1,137	39,067
	<b>W2,440,003</b>	<b>W1,482,184</b>
<b>Liabilities</b>		
Money trusts (Note 1)	W 950,089	W1,207,900
Borrowings	-	134,800
Property trust	1,450,056	109,738
Other liabilities	30,386	23,042
Reserve for future trust losses	9,472	6,704
	<b>W2,440,003</b>	<b>W1,482,184</b>

See accompanying notes

# Statements of Operations (Trust Accounts)

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
<b>Revenues</b>		
Interest on securities	W65,009	W77,150
Interest on loans	2,231	2,956
Interest on amounts due from the Bank	2,757	3,653
Gain on securities valuation and transactions	3,637	6,414
Reverse of allowance for possible loan and securities losses	8,314	272
Other income	4,234	5,567
	<b>W86,182</b>	<b>W96,012</b>
<b>Expenses</b>		
Interest on borrowings	W 3,948	W 8,054
Trust fees to the Bank	15,652	11,614
Loss on securities valuation and transactions	5,619	5,464
Other expenses	4,176	1,072
Provision for future trust losses	2,769	1,538
	<b>32,164</b>	<b>27,742</b>
Dividends of trust profit to beneficiaries	<b>W54,018</b>	<b>W68,270</b>

*See accompanying notes*

# Statements of Cash Flows (Trust Accounts)

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
Cash flows from operating activities:		
Loss (gain) on securities transactions, net	W 1,198	W (2,755)
Unrealized loss on securities, net	784	1,805
Reversal of allowance for possible loan and securities losses	(8,314)	(272)
Other, net	2,768	(520)
Changes in operating assets and liabilities, net	4,054	267
Net cash provided by (used in) operating activities	490	(1,475)
Cash flows from investment activities:		
Decrease (increase) in securities	340,827	(17,791)
Decrease in loans and discounts	2,372	55,126
Increase in entrusted accounts receivable	(1,280,782)	(14,122)
Other, net	(22,399)	(87,536)
Net cash used in investment activities	(959,982)	(64,323)
Cash flows from financing activities:		
Increase (Decrease) in money trust	(257,811)	60,263
Increase in property trust	1,340,318	109,738
Decrease in borrowings	(134,800)	(147,200)
Other, net	(2,083)	(3,806)
Net cash provided by financing activities	945,624	18,995
Net decrease in cash and cash equivalents	(13,868)	(46,803)
Cash equivalents at beginning of year	81,414	128,217
Cash equivalents at end of year	W 67,546	W 81,414

See accompanying notes

# Notes to Financial Statements

December 31, 2003 and 2002

## 1. Trust Accounts

### Money Trusts

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

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

Mixed: Principal guaranteed for certain trust beneficiaries

### Property Trusts

Property trusts are created when non-cash assets are given to the Bank as Trustee. As Trustee, the Bank manages two property trusts, Accounts Receivable Trust and Movable Property and Real Estate Trust as of December 31, 2003.

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

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

## 2. Summary of Significant Accounting Policies

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

# Notes to Financial Statements (continued)

## Basis of Presenting Financial Statements

The Trust maintains its official accounting records in Korean Won and prepares its statutory financial statements in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea (“Korean GAAP”). Certain accounting principles applied by the Trust that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

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

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

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

## Equity Securities

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

## Debt Securities

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

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

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

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

# Notes to Financial Statements (continued)

## Beneficiary Certificates

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

## Allowance for Possible Loan Losses

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

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

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

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

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

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

## Present Value Discounts

If the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference in present value of the loan and the book value of the loan is offset against the allowance for possible loan losses, if available, or charged to current expense.

The difference between book value and present value is recorded as a present value discount in the balance sheet and amortized to current earnings over the related period using the effective interest method. The amortization is recorded as interest income.

## Due from the Bank Account

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

## Recognition of Interest Income

Interest income on loans and securities is recognized on an accrual basis, while interest income on overdue and dishonoured loans or securities, except for those secured or guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonoured loans or securities, which is not recognized, amounted to W89 million and W627 million as of December 31, 2003 and 2002, respectively.

# Notes to Financial Statements (continued)

## Income Taxes

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

## Compensation from the Bank

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

In relation to such guarantees, the Trust is required to set up a special reserve equal to 25% or more of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the guaranteed rate of return, the deficiency will be recovered from previously established special reserves and trust fees paid to the Bank, and then compensated by the Bank if special reserves or previously paid fees are insufficient. During the year ended December 31, 2003, no such deficiencies were compensated by the Bank (W6 million during 2002).

## Calculation of Trust Profits

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

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

Trust profits = Trust deposit balance  $\times$  Average yield rate

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

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

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

\* Daily profit calculated = Interest revenue  $\pm$  Realized gain (loss) from securities transactions  
- Provision for loan and securities losses - Other expenses

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

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

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

Standard price = Net assets  $\div$  Total number of shares of each trust

## Trust Fees to the Bank

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

## Notes to Financial Statements (continued)

### Securities Investment Trusts

The Bank acts as a custodian of assets and liabilities for securities investment trusts which are managed by securities investment trust companies. The Bank receives predetermined fees from the securities investment trust companies and does not bear any risk from results of operations for those companies. According to the Korean Trust Business Supervisory Regulations, assets belonging to the securities investments trusts are excluded from the accompanying financial statements of the Trust Accounts.

### 3. Classification of Trust Accounts

Assets and liabilities of trust accounts at December 31, 2003 and 2002 are classified into principal or dividend guaranteed trusts, mixed guaranteed trusts, and non-guaranteed trusts as follows (millions of Won):

December 31, 2003	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Securities	W377,922	W 36,985	W 447,822	W 862,729
Loans	25,147	779	821	26,747
Entrusted accounts receivable	-	-	1,294,904	1,294,904
Movable property and real estate	-	-	155,152	155,152
Other assets	18,733	1,424	20,602	40,759
Amounts due from the Bank	10,740	2,703	54,103	67,546
Allowance for possible loan and securities losses	(1,412)	(2,597)	(3,825)	(7,834)
<b>Total Assets</b>	<b>W431,130</b>	<b>W39,294</b>	<b>W1,969,579</b>	<b>W2,440,003</b>

Money trust	W420,674	W 35,595	W 493,820	W 950,089
Property trust	-	-	1,450,056	1,450,056
Other liabilities	2,808	1,875	25,703	30,386
Reserve for future trust losses	7,648	1,824	-	9,472
<b>Total Liabilities</b>	<b>W431,130</b>	<b>W39,294</b>	<b>W1,969,579</b>	<b>W2,440,003</b>

December 31, 2002	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Securities	W458,116	W 49,212	W 695,682	W1,203,010
Loans	22,145	1,488	5,599	29,232
Entrusted accounts receivable	-	-	14,122	14,122
Movable property and real estate	-	-	95,616	95,616
Other assets	50,532	1,826	23,593	75,951
Amounts due from the Bank	29,149	4,595	47,670	81,414
Allowance for possible loan and securities losses	(7,349)	(4,458)	(5,354)	(17,161)
<b>Total Assets</b>	<b>W552,593</b>	<b>W 52,663</b>	<b>W 876,928</b>	<b>W1,482,184</b>

Money trust	W404,498	W 50,147	W 753,255	W1,207,900
Property trust	-	-	109,738	109,738
Borrowings	134,800	-	-	134,800
Other liabilities	8,415	692	13,935	23,042
Reserve for future trust losses	4,880	1,824	-	6,704
<b>Total Liabilities</b>	<b>W552,593</b>	<b>W 52,663</b>	<b>W 876,928</b>	<b>W1,482,184</b>

## Notes to Financial Statements (continued)

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

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

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

### 4. Securities

#### Equity Securities

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

Company	Number of shares	Acquisition cost	Book value
Doosan Corp.	811,082	W 6,000	W 6,000
DPC Co., Ltd.	1,055,970	2,496	2,496
Kyung Nong Corp.	128,710	1,499	1,499
Korea Logistics Network Corp.	160,444	1,478	1,478
Korea Flange Co., Ltd.	134,600	1,474	1,474
Heehoon Co., Ltd.	1,180,584	1,267	1,267
The Korea Express Co., Ltd.	46,364	1,117	1,117
Daeho AL Co., Ltd.	1,868,000	1,000	1,000
Ilryung Telesys. Inc	407,958	998	998
Deesys Co., Ltd.	580,479	936	936
Konictch Co., Ltd.	178,921	174	174
Daewoo Heavy Industries & Machinery Ltd.	5,000	46	49
Daishin Securities Co., Ltd. (First Preference Shares)	5,000	42	43
Plenus Co., Ltd	2,000	42	41
Korea Tronich INC.	5,349	37	36
RF-TECH Co., Ltd.	5,000	33	29
Reigncom Ltd.	277	13	26
LG Cable Corp.	1,700	25	25
KT Corp.	550	24	24
Sejin T.S Co., Ltd.	164	2	2
Topfiled Co., Ltd.	470	2	2
From 30 Co., Ltd.	179	2	2
Uju Co., Ltd.	289	1	1
Samwon-TECH Co., Ltd.	51	-	-
	<b>6,579,141</b>	<b>W18,708</b>	<b>W18,719</b>

## Notes to Financial Statements (continued)

Equity securities as of December 31, 2002 are as follows (millions of Won):

Company	Number of shares	Acquisition cost	Book value
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	385,187	W 5,218	W 5,218
Daewoo Heavy Industries & Machinery Ltd.	326,344	4,421	4,421
Daewoo Capital Corporation CRB	434,234	4,342	4,342
Digital Power Communications	1,055,970	2,496	2,496
Daewoo Securities Co.,Ltd	408,158	2,388	2,388
Midopa Department Co.	16,269	1,952	1,952
Korea Development Leasing Corp.	218,860	1,572	1,572
Kyung Nong Corporation	128,710	1,499	1,499
The Korea Express Co., Ltd.	59,104	1,393	1,393
Heehoon	1,180,584	1,267	1,267
Saehan Industries Inc.	540,300	1,167	1,113
Ilryung Telesys.Inc	407,958	998	998
C&H Capital Co., Ltd	153,200	766	766
Deesys Co. Ltd.	372,205	762	762
Hanmi Capital Co., Ltd.	151,800	759	759
SK Telecom Co.	1,300	321	298
Samsung Electronics Co.Ltd	750	273	236
Daewoo Motor Co., Ltd.	30,248	151	151
SBS Co., Ltd	3,900	188	143
Others	29,485	977	809
	<b>5,904,566</b>	<b>W32,910</b>	<b>W32,583</b>

### Debt Securities

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

Type	Face value	Acquisition cost	Book value
Government bonds			
Korea treasury bonds	W 30,500	W 31,512	W 30,934
Korea housing bonds	139,797	131,352	132,229
Foreign exchange stabilization bonds	40,000	42,484	41,319
	210,297	205,348	204,482
Financial debentures			
Monetary stabilization bonds	120,000	119,257	118,924
Others	20,793	18,894	18,894
	140,793	138,151	137,818
Local government bonds	32,163	30,178	30,534
Corporate bonds	189,835	186,208	186,173
	<b>W573,088</b>	<b>W559,885</b>	<b>W559,007</b>

## Notes to Financial Statements (continued)

Debt securities as of December 31, 2002 are as follows (millions of Won):

Type	Face value	Acquisition cost	Book value
Government bonds			
Korea treasury bonds	W 50,500	W 52,356	W 51,593
Korea housing bonds	147,520	137,832	138,606
Foreign exchange stabilization bonds	40,000	43,682	42,484
	<u>238,020</u>	<u>233,870</u>	<u>232,683</u>
Financial debentures			
Monetary stabilization bonds	120,000	120,310	120,336
Others	35,793	33,617	33,598
	<u>155,793</u>	<u>153,927</u>	<u>153,934</u>
Local government bonds	34,658	32,467	32,672
Corporate bonds	326,745	323,331	322,906
	<u>W755,216</u>	<u>W743,595</u>	<u>W742,195</u>

### Bills Bought

Bills bought as of December 31, 2003 and 2002 are as follows (millions of Won):

December 31, 2003	Face value	Acquisition cost	Book value
Bills issued	W 567	W 567	W 567
Commercial paper	248,838	248,838	248,838
	<u>W249,405</u>	<u>W249,405</u>	<u>W249,405</u>
<b>December 31, 2002</b>	<b>Face value</b>	<b>Acquisition cost</b>	<b>Book value</b>
Bills issued	W 588	W 588	W 588
Commercial paper	409,567	409,567	409,567
	<u>W410,155</u>	<u>W410,155</u>	<u>W410,155</u>

### Other Securities

Other securities as of December 31, 2003 and 2002 are as follows (millions of Won):

December 31, 2003	Face value	Acquisition cost	Book value
Beneficiary certificates of bond type trusts	W35,026	W33,641	W33,687
Others	1,911	1,911	1,911
	<u>W36,937</u>	<u>W35,552</u>	<u>W35,598</u>
<b>December 31, 2002</b>	<b>Face value</b>	<b>Acquisition cost</b>	<b>Book value</b>
Negotiable certificate of deposits	W 6,740	W 6,643	W 6,643
Beneficiary certificates of bond type trusts	10,803	10,834	10,838
Beneficiary certificate of equity type trust	596	596	596
	<u>W18,139</u>	<u>W18,073</u>	<u>W18,077</u>

## Notes to Financial Statements (continued)

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

The classification of loans and securities at December 31, 2003 and 2002 is as follows (millions of Won):

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

December 31, 2002	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans	W 26,200	W 908	W 547	W 1,309	W 268	W 29,232
Corporate bonds	196,039	103,145	11,175	12,449	98	322,906
Bills bought	294,252	88,334	25,396	-	2,173	410,155
	<b>W516,491</b>	<b>W192,387</b>	<b>W37,118</b>	<b>W13,758</b>	<b>W2,539</b>	<b>W762,293</b>

Specified Money Trust assets were excluded from recording an allowance for possible loan and securities losses and are maintained at book value in accordance with Korean Trust Business Supervisory Regulations. Details of Specified Money Trust assets at December 31, 2003 and 2002 are as follows (millions of Won):

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

December 31, 2002	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Corporate bonds	W 43,478	W103,145	W11,175	W12,449	W 98	W170,345
Bills bought	284,252	88,334	25,396	-	1,585	399,567
	<b>W327,730</b>	<b>W191,479</b>	<b>W36,571</b>	<b>W12,449</b>	<b>W1,683</b>	<b>W569,912</b>

The allowance for possible loan and securities losses as of December 31, 2003 and 2002 is as follows (millions of Won):

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

December 31, 2002	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Allowance	W7,349	W4,458	W5,354	W17,161

### 6. Restructured Assets

Restructured assets at December 31, 2003 and 2002 are as follows (millions of Won):

December 31, 2003	Corporations under liquidation	Total
Balance before restructured	W14,293	W14,293
D/E swap stock	1,117	1,117
D/E swap CB	50	50
CP	13,126	13,126
Balance at end of year	W14,293	W14,293
Restructuring loss	W -	W -

## Notes to Financial Statements (continued)

December 31, 2002	Corporations under liquidation	Work-out	Private restructuring	Total
Balance before restructured	W3,570	W75,508	W9,835	W88,913
D/E swap stock	3,520	7,044	5,485	16,049
D/E swap CB	50	68,464	4,350	72,864
Balance at end of year	W3,570	W73,974	W9,835	W87,379
Restructuring loss	W -	W -	W -	W -

(\*) Restructured assets consist of loan and securities.

### 7. Income Statement for Management of the Trust Accounts

Pro forma income statements for Bank operations related to management of the trust accounts for the years ended December 31, 2003 and 2002, which are prepared and disclosed in accordance with the Korean Trust Business Supervisory Regulations, are as follows (millions of Won):

	2003	2002
Operating income		
Trust fees, net of subsidy for trust deficiencies	W17,078	W13,746
Commissions received from early redemptions	48	52
	17,126	13,798
Operating expenses (*)		
Salaries and employee benefits	3,174	3,054
Administration expenses	1,727	1,704
Taxes and dues	879	691
Amortization	765	769
Provision for severance and retirement benefits	298	334
	6,843	6,552
Net income	<b>W10,283</b>	<b>W 7,246</b>

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

### 8. Korean Economy

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Trust 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 Trust. Actual results may differ materially from management's current assessment.

# Independent Auditors' Report



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## **The Board of Directors and Shareholders of Korea First Bank**

We have audited the accompanying consolidated balance sheets of Korea First Bank and subsidiaries (the "Bank") as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in capital surplus and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea First Bank and subsidiaries as of December 31, 2003 and 2002, and the consolidated results of its operations, changes in capital surplus and retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

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

February 11, 2004

This audit report is effective as of February 11, 2004, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

# Consolidated Balance Sheets

December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
<b>Assets</b>		
Cash & due from banks (Note 4)	W 2,951,184	W 2,253,932
Securities (Note 5)	7,103,154	7,624,119
Trust securities	379,208	386,471
Loans (Note 6)	27,332,789	20,310,107
Present value discounts for loans (Note 6)	(3,611)	(6,144)
Allowance for possible loan losses (Note 6)	(427,293)	(414,947)
Net deferred fees and expenses (Note 6)	10,705	-
	<b>26,912,590</b>	<b>19,889,016</b>
Receivable from KDIC (Note 3)	121,442	319,958
Fixed assets (Note 7)	1,228,734	1,226,277
Deferred income tax (Note 20)	63,427	169,625
Other assets (Note 8)	1,156,595	867,191
Total assets	<b>W39,916,334</b>	<b>W32,736,589</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits (Note 9)	W27,669,036	W23,786,370
Borrowings (Note 10)	1,850,903	2,447,174
Financial debentures (Note 11)	5,695,014	2,155,556
Accrued severance and retirement benefits (Note 12)	30,819	21,570
Other liabilities (Note 14)	3,012,980	2,652,476
Total liabilities	<b>38,258,752</b>	<b>31,063,146</b>
Commitments and contingencies (Note 16)		
Shareholders' equity		
Common stock (Note 17)	1,029,613	980,584
Capital surplus (Note 17)	17,111	-
Retained earnings (Note 18)	615,109	633,319
Capital adjustments	(4,251)	59,540
Total shareholders' equity	<b>1,657,582</b>	<b>1,673,443</b>
Total liabilities and shareholders' equity	<b>W39,916,334</b>	<b>W32,736,589</b>

See accompanying notes

# Consolidated Statements of Operations

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
Interest income (Note 15)		
Loans	W1,549,782	W1,203,934
Securities	367,457	370,902
Trust securities	26,700	28,271
Due from banks	14,319	9,663
Other	15,032	1,858
	1,973,290	1,614,628
Interest expense (Note 15)		
Deposits	892,024	839,434
Borrowings	77,845	147,842
Financial debentures	193,154	40,322
Other	30,657	28,745
	1,193,680	1,056,343
Net interest revenue	779,610	558,285
Fees, commissions, other revenue (expense), net		
Banking fees	63,322	64,107
Card fees	171,826	166,513
Trust account	3,928	6,739
Securities	183	1,490
Foreign exchange	17,162	18,079
Other	(2,720)	(2,470)
	253,701	254,458
Total revenue	1,033,311	812,743
Operating expense		
Staff cost	347,782	313,110
Administration expense	162,440	152,860
Depreciation and other	164,043	127,416
	674,265	593,386
Operating margin	359,046	219,357
Provision for loan and other losses (Note 6)	320,558	131,961
Operating income	38,488	87,396
Non-operating revenue (Note 19)	129,057	26,480
Non-operating expense (Note 19)	74,398	18,500
Net non-operating income	54,659	7,980
Income before taxes	93,147	95,376
Income tax expense (benefit) (Note 20)	106,617	(6,139)
Consolidated net income (loss)	<b>W (13,470)</b>	<b>W 101,515</b>
Ordinary earnings (loss) per share (Note 21)	W (67)	W 518
Net earnings (loss) per share (Note 21) (Korean Won in units)	W (67)	W 518

See accompanying notes

# Consolidated Statements of Changes in Capital Surplus and Retained Earnings

Years ended December 31, 2003 and 2002

(In Millions of Korean Won)

	<b>Capital stock</b>	<b>Capital surplus</b>	<b>Retained earnings</b>	<b>Capital adjustment</b>	<b>Total</b>
Beginning balances at January 1, 2002	W 980,584	W 4,831	W530,502	W 15,780	W1,531,697
Consolidated net income			101,515		101,515
Decrease in consolidated capital surplus		(4,831)			(4,831)
Increase in other reserves			1,538		1,538
Equity in retained earnings of affiliates			(284)		(284)
Gain on valuation of investment securities				43,760	43,760
Increase due to foreign currency translation			48		48
Ending balances at December 31, 2002	<b>W 980,584</b>	<b>W -</b>	<b>W633,319</b>	<b>W 59,540</b>	<b>W1,673,443</b>

(In Millions of Korean Won)

	<b>Capital stock</b>	<b>Capital surplus</b>	<b>Retained earnings</b>	<b>Capital adjustment</b>	<b>Total</b>
Beginning balances at January 1, 2003	W 980,584	W -	W633,319	W 59,540	W1,673,443
Increase in capital by exercise of warrants	49,029	17,111			66,140
Consolidated net loss			(13,470)		(13,470)
Increase in other reserves			2,768		2,768
Cumulative effect of accounting changes			(9,105)		(9,105)
Loss on valuation of investment securities				(63,791)	(63,791)
Increase due to foreign currency translation			1,597		1,597
Ending balances at December 31, 2003	<b>W1,029,613</b>	<b>W17,111</b>	<b>W615,109</b>	<b>W (4,251)</b>	<b>W1,657,582</b>

See accompanying notes

# Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	In Millions of Korean Won	
	2003	2002
<b>Cash flows from operating activities:</b>		
Consolidated net income (loss)	W (13,470)	W 101,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and other losses	320,558	131,961
Depreciation and amortization	75,935	67,212
Provision for severance and retirement benefits	29,517	36,272
Loss on sales of loans	36,554	-
Interest on KDIC receivables	(5,601)	(19,257)
Other, net	173,466	(5,247)
Changes in operating assets and liabilities, net	124,269	(108,321)
Net cash provided by operating activities	741,228	204,135
<b>Cash flows from investing activities:</b>		
Due from banks	(398,995)	(271,677)
Securities	347,330	(5,546,943)
KDIC bonds	91,076	4,392,000
Loans (*)	(7,138,209)	(4,312,094)
Acquisition of fixed assets	(79,982)	(117,779)
Other, net	(160,661)	31,142
Net cash used in investing activities	(7,339,441)	(5,825,351)
<b>Cash flows from financing activities:</b>		
Deposits	3,886,275	5,533,644
Repayment of borrowings	(796,510)	(1,695,934)
Financial debentures	3,482,395	1,572,322
Borrowing (repayment) from (to) trust account	172,550	(208,193)
Domestic exchange obligation payable	(91,076)	55,026
Other, net	242,828	3,014
Net cash provided by financing activities	6,896,462	5,259,879
Cash flows due to change of consolidation scope	8	-
Net increase (decrease) in cash and cash equivalents	298,257	(361,337)
Cash and cash equivalents at beginning of year	722,216	1,083,553
Cash and cash equivalents at end of year (Note 4)	<b>W1,020,473</b>	<b>W 722,216</b>

(\*) Net of amounts transferred to KDIC of W402,219 million and W498,834 million for the years ended December 31, 2003 and 2002, respectively.

See accompanying notes

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## 1. Organization and Business

Korea First Bank (“the Bank”) was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 410 local branches and 4 overseas networks as of December 31, 2003.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. However, in connection with recapitalization by the Korea Deposit Insurance Corporation (“KDIC”) in July 1999, the Bank’s shares were suspended from trading on the Korean Stock Exchange. The par value of the Bank’s common stock outstanding at December 31, 2003 is W1,030 billion.

As of December 31, 2003, KFB Newbridge Holdings (Private) Limited (“Newbridge”) was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank’s common stock from the KDIC on December 30, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 3. On May 23, 2003, the KDIC exercised warrants and purchased additional shares so that as of December 31, 2003, the KDIC, Ministry of Finance and Economy, and Newbridge own 48.49%, 2.95% and 48.56%, respectively, of the Bank’s common stock. The exercise does not impact control of the Bank as the KDIC must still allow Newbridge the ability to vote all of its shares, except for matters of fundamental governance.

## 2. Summary of Significant Accounting Policies

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

### Basis of Presenting Consolidated Financial Statements

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

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

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

### Scope of Consolidation

The accompanying consolidated financial statements include the Bank’s accounts and certain trust accounts (money trusts which are subject to a guaranteed principal repayment or a fixed rate of return) of the Bank and its controlled subsidiaries. General information describing the Bank’s controlled subsidiaries and equity-method investee are provided below. A summary of the Bank’s controlled subsidiaries as of December 31, 2003 is as follows:

## Notes to Consolidated Financial Statements (continued)

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

Korea First Finance Ltd., Hong Kong (“KFF”) was established on May 23, 1980. KFF is engaged in banking according to the provision of the local general banking act. KFF’s common stock outstanding at December 31, 2003 is US\$7 million.

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

A summary of the Bank’s equity-method investee as of December 31, 2003 is as follows:

Subsidiaries	Number of invested shares	Percentage of ownership
Qingdao International Bank	Limited company	50.00

Qingdao International Bank, in Qingdao China, is engaged in banking according to the provisions of the local general banking act. Qingdao International Bank’s total equity outstanding at December 31, 2003 is US\$20 million.

The Bank sold all shares of Qingdao International Bank to a third party during January 2004.

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

### Accounting Standards for Consolidated Financial Statements

#### Inter-company transactions and balances

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

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

#### Translation of foreign subsidiary financial statements

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

#### Accounting for trust accounts

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

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

# Notes to Consolidated Financial Statements *(continued)*

## **Foreign Currency Translation and Transactions**

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2003 and December 31, 2002. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

## **Recognition of Interest and Fee Income**

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

## **Cash and Cash Equivalents**

Highly liquid deposits, and marketable securities with original maturities of three months or less, which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents. Deposits restricted in use are not included in cash and cash equivalents (see Note 4).

## **Debt and Equity Securities**

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

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

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

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

## **Allowance for Possible Loan Losses**

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

## Notes to Consolidated Financial Statements (continued)

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

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

(\*) For call loans, bonds purchased under resale agreements, and loans to government entities, loan loss provisions are not required in accordance with FSS guidelines provided the loans are classified as normal.

For household and credit card loans, the Bank determines loss percentages using historical migration loss models by loan type. The resulting loss percentages calculated by the historical migration loss models are compared to the above minimum reserve percentages, on a total basis, and the Bank records a provision based on the overall higher percentage of the two methods.

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

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

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

### Present Value Discounts

If the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the difference in present value of the loan and the book value of the loan is offset against the allowance for possible loan losses, if available, or charged to current expense.

The difference between book value and present value is recorded as a present value discount in the balance sheet and amortized to current earnings over the related period using the effective interest method. The amortization is recorded as interest income.

# Notes to Consolidated Financial Statements (continued)

## Deferred Fees and Expenses

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

## Fixed Assets

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

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

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

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

## New Stock Issuance Costs and Debenture Issuance Costs

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

## Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

## Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the year ended December 31, 2003 and 2002 is sufficient to state the liability under the Korean Labor Standards Law and the Bank's policies based on the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2003 and 2002. Funding of this liability is not required by Korean law. Actual payments of severance and retirement benefits, excluding payments for one-time special retirement programs, were W29,237 million for the year ended December 31, 2003.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W140,840 million at December 31, 2003. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2003, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

# Notes to Consolidated Financial Statements *(continued)*

## **Reserve for Acceptances and Guarantees**

Except for certain confirmed and outstanding domestic import usance bills originating from import L/Cs issued by the Bank, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides a minimum allowance percentage on confirmed guarantees of 0.5% for companies classified as “normal,” 2% for “precautionary,” 20% for “substandard,” 50% for “doubtful” and 100% for “estimated loss.” Refer to Note 3 for discussion of guarantees protected by the KDIC.

## **Reserve for Unused Cash Advance Commitments on Credit Cards**

Pursuant to a new regulation issued by the FSS, from the third quarter of 2002 the Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months. The allowance for unused cash advance commitments on credit cards as of December 31, 2003 amounted to W5,000 million.

## **Income Tax Expense**

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

## **Derivative Financial Instruments**

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

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

## **Contingent Liabilities**

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

## **Investment Distribution Business**

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

# Notes to Consolidated Financial Statements *(continued)*

## **Korean GAAP Revisions**

The Korean Accounting Standards Board has issued new accounting standards with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards include changes in the areas of inventories, discontinued operations, construction contracts and troubled debt restructuring. Korean companies should apply such revised accounting standards for the first fiscal year starting after December 31, 2003 with the exception of the accounting for discontinued operations which should be applied from the fiscal year starting after December 31, 2004. Early adoption of the revised accounting standards is allowed with the exception of the accounting for discontinued operations. The cumulative effect on prior years of the changes in accounting standards will be primarily charged or credited to opening retained earnings with disclosures made on the effect of the changes.

The Bank plans to adopt the relevant accounting standards from January 1, 2004 with the exception of the accounting for discontinued operations which will be applied from January 1, 2005.

The Bank adjusted the opening balance at January 1, 2003 of certain bonds classified as held-to-maturity, whose initial acquisition costs were in excess of their fair values, downward to the amortized cost of the fair values including incidental expenses. A difference of W9,105 million between the acquisition cost and the amortized cost of fair value was charged to opening retained earnings and the effective interest method had been applied to amortize the difference over the remaining terms of the bonds. Due to early repayment of the related bonds in May of 2003, this amount was reversed and included in non-operating income as of December 31, 2003.

## **3. Government Assistance**

On December 30, 1999, Newbridge entered into an agreement with the Korean government whereby Newbridge acquired 50.99% of the outstanding common stock of the Bank from the Korea Deposit Insurance Corporation (“KDIC”) effective December 31, 1999 (“Closing”).

In connection with this transaction, the KDIC entered into an Assistance Agreement with the Bank to provide certain protections to the Bank with respect to credit losses for specified periods of time. In general, these protections applied to certain loans and similar credit instruments remaining on the Bank’s consolidated balance sheet after Closing (“Remaining Loans”). Remaining Loans included any loans in guaranteed trust accounts and certain designated loans in mixed trust accounts but did not include any loans in performance trust accounts.

In general, depending on the type and circumstances of the particular Remaining Loan, these protections took the form of: (i) the Bank’s right to transfer the Remaining Loan to the Resolution Finance Corporation (“RFC”), the entity designated by the KDIC, and obtain payment from the KDIC equal to the adjusted book value, or (ii) the Bank’s right to obtain payment from the KDIC for certain specific allowances which the Bank determined to take against the Remaining Loan. Certain guarantees and commitments of the Bank were also subject to credit protection. All reserve protection and transfer rights expired as of January 1, 2003.

The KDIC also guaranteed the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank’s investment portfolio, until each such security matured, was sold, or was otherwise liquidated by the Bank. In general, the guaranteed rate was the annualized weighted average interest rate applied by the Bank to its deposits and other interest bearing liabilities shown on the Bank’s consolidated balance sheet, plus 106 basis points. As of December 31, 2003, all securities receiving a guaranteed yield had been transferred to the KDIC.

Receivables from the KDIC at December 31, 2003 and 2002 are W121,442 million and W319,958 million, respectively. Receivables are primarily for reserves, settlement of asset transfers, and indemnification settlements.

# Notes to Consolidated Financial Statements (continued)

## 4. Cash and Due from Banks

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

	Millions of Won	
	2003	2002
Cash on hand	W 822,053	W 656,485
Foreign currencies	49,406	46,475
Due from banks in Korean Won	2,001,501	1,503,716
Due from banks in foreign currencies	78,224	47,256
	<b>W2,951,184</b>	<b>W2,253,932</b>

Due from banks denominated in Korean Won at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2003			
Checking accounts	-	Bank of Korea	W1,694,784
CD purchased	4.30 ~ 4.50	Industrial Bank of Korea, etc.	306,478
Other deposits	0.00 ~ 4.00	Korea Stock Exchange, etc.	239
			<b>W2,001,501</b>
December 31, 2002			
Checking accounts	-	Bank of Korea	W1,165,029
CD purchased	4.90 ~ 4.93	Industrial Bank of Korea, etc.	336,444
Other deposits	0.00 ~ 5.00	Woori Bank, etc.	2,243
			<b>W1,503,716</b>

Due from banks denominated in foreign currencies at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Type	Annual interest rate (%)	Depository	Total
December 31, 2003			
Demand deposits	-	Bank of Korea, etc.	W78,204
Other deposits	T bill-0.5 (*)	Prudential Securities	20
			<b>W78,224</b>
December 31, 2002			
Demand deposits	-	Bank of Korea, etc.	W47,094
Other deposits	Sibid-1.75	HSBC Futures	162
			<b>W47,256</b>

(\*)1 month US treasury bill

## Notes to Consolidated Financial Statements (continued)

Restricted balances in due from banks at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Type	Depository	Total	Restriction
December 31, 2003			
Checking accounts	Bank of Korea	W1,694,784	Reserve for payment of deposits
Demand deposits	Bank of Korea	57,800	Reserve for payment of deposits
Other deposits	Korea Stock Exchange, etc.	249	Deposits for stock index futures, etc.
		<b>W1,752,833</b>	
December 31, 2002			
Checking accounts	Bank of Korea	W1,165,029	Reserve for payment of deposits
Demand deposits	Bank of Korea	28,129	Reserve for payment of deposits
Other deposits	Woori Bank	1,722	Escrow accounts
Other deposits	HSBC Futures, etc.	392	Deposits for stock index futures, etc.
		<b>W1,195,272</b>	

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

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

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

The term structure of amounts due from banks at December 31, 2002 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2003	W1,503,716	W47,256	W1,550,972

Major transactions not resulting in cash flows for the years ended December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Loss reserve - KDIC Receivable	W41,665	W218,250
Present value discount - KDIC Receivable	145	1,422
Warrant bond issued - paid in capital and capital in excess of par value	66,140	-

Cash and cash equivalents at December 31, 2003 and 2002 are comprised as follows (millions of Won):

	2003	2002
Cash on hand	W 822,053	W656,485
Foreign currencies	49,406	46,475
Due from banks in Won	128,610	291
Due from banks in foreign currency	20,404	18,965
	<b>W1,020,473</b>	<b>W722,216</b>

# Notes to Consolidated Financial Statements (continued)

## 5. Securities

Securities at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Equity securities held for investment		
Korean Won		
Affiliated companies	W -	W 5,596
Listed companies	1,659	29,014
Unlisted companies	13,340	15,557
Beneficiary certificates	-	19,690
	14,999	69,857
Foreign currency		
Beneficiary certificates	119,466	-
Affiliated companies	10,181	12,258
	129,647	12,258
	144,646	82,115
Debt securities held for investment		
Bonds available-for-sale		
Korean Won	6,454,600	6,934,610
Foreign currencies	286,482	229,023
	6,741,082	7,163,633
Bonds held-to-maturity		
Korean Won	1,906	111,250
Foreign currencies	215,520	176,045
	217,426	287,295
	6,958,508	7,450,928
Total investment securities	7,103,154	7,533,043
KDIC bonds held-to-maturity	-	91,076
	<b>W7,103,154</b>	<b>W7,624,119</b>

### Equity Securities Held for Investment

Equity investments in affiliated companies, denominated in Korean Won, as of December 31, 2002 (none as of December 31, 2003) are summarized as follows (millions of Won):

Company	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W5,596	W5,596

(\*) Starting in 2003, Korea First Data System Co., Ltd. is subject to consolidation under Korean GAAP (see Note 2).

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. For the year ended December 31, 2002, W1,788 million of income from affiliated companies is included in current operations, and a W146 million decrease in retained earnings is debited to the opening balance of unappropriated retained earnings. The Bank received W700 million of dividends in 2002.

## Notes to Consolidated Financial Statements (continued)

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

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

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

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

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2002 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Maxon Telecom Co. (preferred)	1,093,841	0.00	W3,380	W21,877
Keangnam Enterprises Co., Ltd.	83,536	0.32	182	182
KP Chemical	74,412	0.08	227	372
Ssang Yong Motor	58,534	0.05	293	2,927
Korea Information Service	42,000	0.88	599	599
Jin Do Co., Ltd.	40,669	0.20	17	3,050
Dong Yang Steel Pipe Co., Ltd.	1,180	0.00	-	7
	<b>1,394,172</b>		<b>W4,698</b>	<b>W29,014</b>

Unlisted equity securities, denominated in Korean Won, as of December 31, 2003 and 2002 are as follows (millions of Won):

Company	Number of shares	Ownership(%)	Acquisition cost	Net asset value	Book value
December 31, 2003					
Korea Securities Finance Co.	1,500,000	2.21	W 7,500	W10,113	W 7,500
BC Card	653,400	14.85	5,840	22,889	5,840
	<b>2,153,400</b>		<b>W13,340</b>	<b>W33,002</b>	<b>W13,340</b>
December 31, 2002					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W 9,870	W 7,500
BC Card	653,400	14.85	5,840	22,414	5,840
ETRONICS (*)	288,280	0.45	2,018	(638)	2,018
Daewoo Motors (*)	3,868	0.004	193	83	193
Daewoo Commercial Vehicle (*)	1,177	0.01	6	8	6
	<b>2,446,725</b>		<b>W15,557</b>	<b>W31,737</b>	<b>W15,557</b>

(\*) These securities were stated at acquisition cost as of December 31, 2002 because they were protected by the KDIC in accordance with the agreement between the Bank and the KDIC. They were transferred to the KDIC during the third quarter of 2003.

Beneficiary certificates, denominated in Korean Won, as of December 31, 2002 (none as of December 31, 2003) are as follows (millions of Won):

	Face value	Acquisition cost	Capital adjustment	Carrying value (*)
December 31, 2002	<b>W19,690</b>	<b>W19,690</b>	<b>W -</b>	<b>W19,690</b>

(\*) Beneficiary certificates were stated at acquisition cost because they are protected by the KDIC in accordance with the agreement between the Bank and the KDIC. These beneficiary certificates were transferred to the KDIC during the third quarter of 2003.

## Notes to Consolidated Financial Statements (continued)

Beneficiary certificates, denominated in foreign currencies, as of December 31, 2003 (none as of December 31, 2002) are as follows (millions of Won):

	Face value	Acquisition cost	Capital adjustment	Carrying value
December 31, 2003	W118,585	W118,585	W881	W119,466

Equity securities, denominated in foreign currencies, at December 31, 2003 and 2002 are summarized as follows (millions of Won):

Company	Ownership (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2003					
Qingdao International Bank	50.00	W11,978	W10,181	W12,232	W10,181
December 31, 2002					
Qingdao International Bank	50.00	W12,004	W12,258	W12,258	W12,258

Equity securities in foreign currencies are valued by the equity method. W2,051 million of loss and W2,627 million of income from affiliated companies, net is included in current operations for the years ended December 31, 2003 and 2002, respectively. W2,051 million represents the loss recorded for Qingdao International Bank ("Qingdao") as the market value of Qingdao was deemed to be lower than its net asset value. The Bank's shares in Qingdao were sold to a third party during January 2004 for US\$8.5 million.

### Debt Securities Held for Investment

Bonds available-for-sale, denominated in Korean Won, as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Capital adjustment	Carrying value (*)
December 31, 2003						
Government bonds	4.75 ~ 11.15	W 520,352	W 519,517	W 519,331	W 1,627	W 520,958
Asset backed securities	6.20 ~ 13.44	825,000	956,394	925,770	3,865	929,635
Financial debentures	3.83 ~ 6.42	5,040,000	4,940,595	4,925,846	(7,360)	4,918,486
Corporate debentures	5.18 ~ 7.00	86,000	85,058	84,982	539	85,521
		<b>W6,471,352</b>	<b>W6,501,564</b>	<b>W6,455,929</b>	<b>W(1,329)</b>	<b>W6,454,600</b>
December 31, 2002						
Government bonds	3.00 ~ 11.15	W1,487,452	W1,429,209	W1,434,451	W54,411	W1,488,862
Asset backed securities	11.46	365,000	431,394	429,772	1,856	431,628
Financial debentures	4.37 ~ 7.77	5,020,000	4,823,760	4,820,037	1,609	4,821,646
Corporate debentures	5.14 ~ 11.46	193,280	190,856	190,515	1,959	192,474
		<b>W7,065,732</b>	<b>W6,875,219</b>	<b>W6,874,775</b>	<b>W59,835</b>	<b>W6,934,610</b>

(\*) The above carrying values are estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2003 and 2002.

## Notes to Consolidated Financial Statements (continued)

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

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (loss) (*1)	Capital adjustment	Carrying value (*2)
USD	0.25 ~ 4.63	W262,350	W260,810	W273,348	W6,958	W(5,046)	W275,260
JPY	0.93	11,196	11,196	11,197	2	23	11,222
		<b>W273,546</b>	<b>W272,006</b>	<b>W284,545</b>	<b>W6,960</b>	<b>W(5,023)</b>	<b>W286,482</b>

(\*1) Bonds hedged by asset swap contracts which offset valuation gains and losses on underlying assets as fair value hedges (see Note 16).

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

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

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2002 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (loss)	Capital adjustment	Carrying value
USD	0.25 ~ 5.14	W212,452	W210,306	W217,894	W1,217	W(219)	W218,892
JPY	0.93	10,129	10,129	10,129	2	-	10,131
		<b>W222,581</b>	<b>W220,435</b>	<b>W228,023</b>	<b>W1,219</b>	<b>W(219)</b>	<b>W229,023</b>

A certain portion of bonds available-for-sale in foreign currencies as of December 31, 2002 are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are receivable from the KDIC until sale or maturity. The market values of securities above as of December 31, 2002 was W201,836 million.

Bonds held-to-maturity, denominated in Korean Won, as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

Account	Annual interest rate (%)	Face value	Acquisition cost	Carrying value	Market value
December 31, 2003					
Government bonds	3.00 ~ 6.00	W 2,270	W 1,237	W 1,906	W 2,176
December 31, 2002					
KDIC bonds (*)	1.00	W 91,076	W 91,076	W 91,076	W 86,568
Corporate debentures (*)	5.14	110,223	110,223	110,223	115,171
Government bonds	3.00 ~ 6.00	701	567	1,027	908
		<b>W202,000</b>	<b>W201,866</b>	<b>W202,326</b>	<b>W202,647</b>

(\*) W91 billion of KDIC bonds and W110 billion of corporate debentures are guaranteed by the government as of December 31, 2002.

As of December 31, 2003 and 2002, W3,495 billion and W2,851 billion of bonds denominated in Korean Won (both available-for-sale and held-to-maturity bonds) are pledged as collateral for certain borrowings and key money deposits, respectively.

## Notes to Consolidated Financial Statements (continued)

Bonds held-to-maturity, denominated in foreign currencies, as of December 31, 2003 and 2002 are summarized as follows (millions of Won):

Currency	Annual interest rate (%)	Face value	Acquisition cost	Carrying value	Fair value
December 31, 2003					
USD	3.87 ~ 7.25	W209,644	W210,108	W209,919	W210,245
JPY	0.10	5,598	5,604	5,601	5,603
		<b>W215,242</b>	<b>W215,712</b>	<b>W215,520</b>	<b>W215,848</b>
December 31, 2002					
USD	4.11 ~ 7.25	W170,542	W171,006	W170,975	W171,267
JPY	0.10	5,064	5,070	5,070	5,070
		<b>W175,606</b>	<b>W176,076</b>	<b>W176,045</b>	<b>W176,337</b>

As of December 31, 2003 and 2002, JPY500 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for settlement of accounts.

### Securities Concentrations

At December 31, 2003 and 2002, information about securities by geography, issuer, industry and character are summarized as follows (millions of Won):

By Geography	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2003				
Korea	W6,471,505	W250,432	W6,721,937	94.63
USA	-	299,166	299,166	4.21
China	-	16,560	16,560	0.23
Japan	-	5,601	5,601	0.08
Switzerland	-	59,890	59,890	0.85
	<b>W6,471,505</b>	<b>W631,649</b>	<b>W7,103,154</b>	<b>100.00</b>
December 31, 2002				
Korea	W7,206,793	W206,263	W7,413,056	97.23
USA	-	178,040	178,040	2.33
China	-	18,874	18,874	0.25
Indonesia	-	5,849	5,849	0.08
Japan	-	5,070	5,070	0.07
Malaysia	-	3,230	3,230	0.04
	<b>W7,206,793</b>	<b>W417,326</b>	<b>W7,624,119</b>	<b>100.00</b>

## Notes to Consolidated Financial Statements (continued)

<b>By Issuer</b>	<b>Securities in Korean Won</b>	<b>Securities in foreign currency</b>	<b>Total</b>	<b>Percentage</b>
December 31, 2003				
Financial business	W5,866,662	W397,248	W6,263,910	88.19
Public	522,864	59,862	582,726	8.20
Large corporate	75,412	174,539	249,951	3.52
Middle & small business	6,567	-	6,567	0.09
	<b>W6,471,505</b>	<b>W631,649</b>	<b>W7,103,154</b>	<b>100.00</b>
December 31, 2002				
Financial business	W5,396,818	W169,179	W5,565,997	73.01
Public	1,711,464	21,032	1,732,496	22.72
Large corporate	92,908	227,115	320,023	4.20
Middle & small business	5,603	-	5,603	0.07
	<b>W7,206,793</b>	<b>W417,326</b>	<b>W7,624,119</b>	<b>100.00</b>

<b>By Industry</b>	<b>Securities in Korean Won</b>	<b>Securities in foreign currency</b>	<b>Total</b>	<b>Percentage</b>
December 31, 2003				
Financial business	W5,866,662	W397,248	W6,263,910	88.19
Public	522,864	59,862	582,726	8.20
Manufacturing	62,523	174,539	237,062	3.34
Wholesale and retail	19,456	-	19,456	0.27
	<b>W6,471,505</b>	<b>W631,649</b>	<b>W7,103,154</b>	<b>100.00</b>
December 31, 2002				
Financial business	W5,396,818	W200,449	W5,597,267	73.42
Public	1,711,464	21,032	1,732,496	22.72
Manufacturing	62,638	195,845	258,483	3.39
Wholesale and retail	35,691	-	35,691	0.47
Construction	182	-	182	0.00
	<b>W7,206,793</b>	<b>W417,326</b>	<b>W7,624,119</b>	<b>100.00</b>

<b>By Character</b>	<b>Securities in Korean Won</b>	<b>Securities in foreign currency</b>	<b>Total</b>	<b>Percentage</b>
December 31, 2003				
Fixed rate bonds	W6,456,506	W157,575	W6,614,081	93.12
Floating rate bonds	-	344,427	344,427	4.85
Beneficiary certificates	-	119,466	119,466	1.68
Stocks	14,999	10,181	25,180	0.35
	<b>W6,471,505</b>	<b>W631,649</b>	<b>W7,103,154</b>	<b>100.00</b>
December 31, 2002				
Fixed rate bonds	W7,136,936	W105,613	W7,242,549	94.99
Floating rate bonds	-	299,455	299,455	3.93
Stocks	50,167	12,258	62,425	0.82
Beneficiary certificates	19,690	-	19,690	0.26
	<b>W7,206,793</b>	<b>W417,326</b>	<b>W7,624,119</b>	<b>100.00</b>

# Notes to Consolidated Financial Statements (continued)

## Maturity Schedule

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

Year ending December 31,	Government bonds	Financial debentures	Corporate debentures	Asset backed securities	Securities in foreign currencies	Total
2004	W171,561	W4,918,486	W85,521	W 95,568	W 74,374	W5,345,510
2005	1,135	-	-	-	192,128	193,263
2006	349,823	-	-	-	14,885	364,708
2007	88	-	-	834,067	128,719	962,874
2008	255	-	-	-	90,670	90,925
Thereafter	2	-	-	-	1,226	1,228
	<b>W522,864</b>	<b>W4,918,486</b>	<b>W85,521</b>	<b>W929,635</b>	<b>W502,002</b>	<b>W6,958,508</b>

The maturities of securities, except equity securities, at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31,	Government bonds	Financial debentures	Corporate debentures (*)	Asset backed securities	Securities in foreign currencies	Total
2003	W 269,801	W4,821,646	W236,450	W -	W 53,457	W5,381,354
2004	330,124	-	157,323	-	71,903	559,350
2005	105,385	-	-	-	117,288	222,673
2006	302,615	-	-	-	8,402	311,017
2007	481,964	-	-	431,628	131,410	1,045,002
Thereafter	-	-	-	-	22,608	22,608
	<b>W1,489,889</b>	<b>W4,821,646</b>	<b>W393,773</b>	<b>W431,628</b>	<b>W405,068</b>	<b>W7,542,004</b>

(\*) Corporate debentures include KDIC bonds.

## 6. Loans

Loans at December 31, 2003 and 2002 are summarized as follows:

Account	2003		2002	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in Korean Won				
Corporate loans	4.60 ~ 11.17	W 6,725,391	5.09 ~ 11.96	W 5,038,274
Household loans	5.29 ~ 14.70	15,890,987	5.15 ~ 15.55	10,599,731
Loans to public sector	5.52 ~ 6.67	273,400	5.23 ~ 7.97	103,351
Trust loans	5.26	37,408	5.96	40,472
Other loans	4.50	117,981	5.44	133,665
Notes bought	5.92 ~ 10.95	436,592	6.38 ~ 10.46	423,365
Advances to customers	-	6,671	-	29,609
Credit card accounts	-	872,182	-	1,291,729
Private placement corporate bonds-bank	6.94	956,832	5.09	760,179
Private placement corporate bonds-trust	-	-	1.07	68,465
		<b>25,317,444</b>		<b>18,488,840</b>

(Continued)

## Notes to Consolidated Financial Statements (continued)

Account	2003		2002	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in foreign currencies				
Loans	2.01 ~ 3.14	995,309	2.10 ~ 4.49	962,649
Call loans	-	-	1.29	84,028
Off-shore loans	2.39	64,083	1.92	25,908
Bills bought	2.61	955,953	3.69	748,682
		2,015,345		1,821,267
<b>Total loans</b>		<b>W27,332,789</b>		<b>W20,310,107</b>

Loans made to financial institutions at December 31, 2003 and 2002 are summarized as follows:

	Account	Annual interest rate (%)	Millions of Won
December 31, 2003			
Domestic banks	Interbank loans	4.50	W 117,981
Other	General loans	7.48	533,780
	Private placement corporate bonds	7.29	440,736
	Loans in foreign currencies	4.01	48,961
	Overdrafts	6.25	93
	Others	8.29	80,852
			<b>W1,222,403</b>
December 31, 2002			
Domestic banks	Interbank loans	5.44	W 133,665
Overseas banks	Interbank loans in foreign currencies	2.10	12,004
Other	General loans	7.14	533,035
	Private placement corporate bonds	7.55	310,932
	Overdrafts	6.46	7,299
	Loans in foreign currencies	4.58	142,332
			<b>W1,139,267</b>

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection in connection with the Bank's final reserve claim from the KDIC on a portion of the principal balances of loans outstanding as of December 31, 2002 (see Note 3). The Bank has established additional allowances for new loans and existing loans that the Bank does not believe are protected by assistance from the KDIC.

Changes in the allowance for possible loan losses at December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Beginning balance	W414,947	W763,354
Decrease in reserves for protected loans	(41,665)	(206,513)
Provision for loan losses on unprotected loans (*1)	321,155	126,364
Put and call to KDIC	(1,159)	(36,838)
Written off	(148,190)	(237,534)
Sales of non-performing loans	(123,794)	-
Other changes	5,999	6,114
<b>Ending balance (*2)</b>	<b>W427,293</b>	<b>W414,947</b>

(\*1) The provision for loan and other losses per the statements of income includes a provision reversal for unused cash advance commitments on credit cards of W597 million for the year ended December 31, 2003 and a provision expense for unused cash advance commitments on credit cards of W5,597 million for the year ended December 31, 2002.

(\*2) The allowances for loan losses at December 31, 2003 and 2002 do not include allowances for unused cash advance commitments on credit cards amounting to W5,000 million and W5,597 million, respectively, which are included in other liabilities.

## Notes to Consolidated Financial Statements (continued)

The ratios of the allowance for loan losses to total loans (excluding trust loans and private placement corporate bonds - trust) as of December 31, 2003, 2002 and 2001 are 1.56 %, 2.01% and 4.74%, respectively.

At December 31, 2003 and 2002, loans (excluding call loans, credit card accounts, trust loans and private placement corporate bonds - trust) by geography, borrower type and industry are summarized as follows (millions of Won):

<b>By Geography</b>	<b>2003</b>		<b>2002</b>	
Korea	W26,049,145	98.59%	W18,451,906	98.01%
Japan	159,422	0.60	154,180	0.82
China	27,398	0.10	48,934	0.26
Other	187,234	0.71	170,393	0.91
	<b>W26,423,199</b>	<b>100.00%</b>	<b>W18,825,413</b>	<b>100.00%</b>

<b>By Borrower Type</b>	<b>2003</b>		<b>2002</b>	
Household	W15,891,197	60.14%	W10,600,595	56.31%
Corporate	10,101,445	38.23	7,854,018	41.72
Public and other	430,557	1.63	370,800	1.97
	<b>W26,423,199</b>	<b>100.00%</b>	<b>W18,825,413</b>	<b>100.00%</b>

<b>By Industry</b>	<b>2003</b>		<b>2002</b>	
Household	W15,891,198	60.14%	W10,600,596	56.31%
Manufacturing	3,709,989	14.04	3,757,426	19.96
Lodging and restaurant	1,395,372	5.28	524,373	2.79
Real estate and rental	1,363,894	5.16	596,302	3.17
Financial business	1,222,403	4.63	1,139,267	6.05
Wholesale and retail trade	997,835	3.78	988,556	5.25
Other	1,842,508	6.97	1,218,893	6.47
	<b>W26,423,199</b>	<b>100.00%</b>	<b>W18,825,413</b>	<b>100.00%</b>

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

<b>Year ending December 31,</b>	<b>Loans in Korean Won</b>	<b>Loans in foreign currencies</b>	<b>Total</b>
2004	W10,337,284	W1,642,377	W11,979,661
2005 ~ 2006	4,877,551	219,860	5,097,411
2007 ~ 2008	4,269,219	101,415	4,370,634
Thereafter	5,795,982	51,693	5,847,675
	<b>W25,280,036</b>	<b>W2,015,345</b>	<b>W27,295,381</b>

## Notes to Consolidated Financial Statements (continued)

The maturities of loans in Korean Won and foreign currencies (excluding trust loans and private placement corporate bonds - trust) at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2003	W 9,579,946	W1,428,796	W11,008,742
2004 ~ 2005	4,424,145	216,619	4,640,764
2006 ~ 2007	1,502,063	99,346	1,601,409
Thereafter	2,873,749	76,506	2,950,255
	<b>W18,379,903</b>	<b>W1,821,267</b>	<b>W20,201,170</b>

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

	Beginning balance	Increase	Decrease	Ending balance
Deferred expenses	W -	W16,313	W1,878	W14,435
Deferred fees	-	4,150	420	3,730
Net balance	<b>W -</b>	<b>W12,163</b>	<b>W1,458</b>	<b>W10,705</b>

The classification and allowance for loan losses outstanding at December 31, 2003 (excluding trust loans and private placement corporate bonds - trust) are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)	Allowance percentage
Loans in Won	W23,345,464	W285,781	W228,221	W 71,393	W43,507	W23,974,366	
(Allowance)	(175,090)	(19,546)	(45,966)	(53,985)	(43,507)	(338,094)	1.41
Loans in foreign currencies	1,027,787	23,467	8,138	-	-	1,059,392	
(Allowance)	(12,122)	(664)	(1,627)	-	-	(14,413)	1.36
Notes bought	432,482	3,451	81	61	517	436,592	
(Allowance)	(2,163)	(69)	(18)	(30)	(517)	(2,797)	0.64
Bills bought	955,832	119	-	2	-	955,953	
(Allowance)	(4,781)	(2)	-	(1)	-	(4,784)	0.50
Advances to customers	5,863	234	115	-	459	6,671	
(Allowance)	(29)	(5)	(23)	-	(459)	(516)	7.73
Credit card	770,890	37,488	882	44,321	18,601	872,182	
(Allowance)	(7,745)	(6,584)	(181)	(31,366)	(18,601)	(64,477)	7.39
Total (*1)	<b>W26,538,318</b>	<b>W350,540</b>	<b>W237,437</b>	<b>W115,777</b>	<b>W63,084</b>	<b>W27,305,156</b>	
(Allowance) (*2)	(201,930)	(26,870)	(47,815)	(85,382)	(63,084)	(425,081)	1.56
Allowance percentage	0.76	7.67	20.14	73.75	100.00	1.56	

(\*1) Present value discounts amounting to W3,611 million were deducted from total loan balances, and net deferred fees and expenses for first home loans amounting to W13,386 million were added to total loan balances.

(\*2) Net of allowance for trust loans and private placement corporate bonds - trust amounting to W2,212 million.

## Notes to Consolidated Financial Statements (continued)

The classification and allowance for loan losses outstanding at December 31, 2002 (excluding trust loans and private placement corporate bonds - trust) are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)	Allowance percentage
Loans in Won	W15,969,692	W415,501	W 94,364	W132,737	W16,801	W16,629,095	
(Allowance)	(114,751)	(16,859)	(20,319)	(56,585)	(16,801)	(225,315)	1.35
Loans in foreign currencies	971,025	64,086	26,918	9,604	952	1,072,585	
(Allowance)	(23,036)	(1,535)	(6,916)	(7,462)	(952)	(39,901)	3.72
Notes bought	419,085	2,458	457	-	1,365	423,365	
(Allowance)	(9,373)	(49)	(91)	-	(1,365)	(10,878)	2.57
Bills bought	652,482	79,772	-	16,428	-	748,682	
(Allowance)	(3,845)	(1,595)	-	(16,270)	-	(21,710)	2.90
Advances to customers	6,052	45	3,467	10,431	9,575	29,570	
(Allowance)	(2,952)	(1)	(693)	(10,068)	(9,575)	(23,289)	78.76
Credit card	1,158,839	64,757	300	40,662	27,171	1,291,729	
(Allowance)	(25,131)	(7,771)	(60)	(24,397)	(27,171)	(84,530)	6.54
<b>Total (*1)</b>	<b>W19,177,175</b>	<b>W626,619</b>	<b>W125,506</b>	<b>W209,862</b>	<b>W55,864</b>	<b>W20,195,026</b>	
(Allowance) (*2)	(179,088)	(27,810)	(28,079)	(114,782)	(55,864)	(405,623)	2.01
Allowance percentage	0.93	4.44	22.37	54.69	100.00	2.01	

(\*1) Net of present value discounts amounting to W6,144 million.

(\*2) Net of allowance for trust loans and private placement corporate bonds - trust amounting to W9,324 million. Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W225,150 million based on the agreement between the Bank and KDIC.

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

	Corporations under liquidation	Industry rationalization	Total
Balance before restructuring	W3,747	W36,591	W40,338
D/E swap stock	7	-	7
Interest rate reduction	3,740	36,591	40,331
Balance at end of year	W2,225	W28,779	W31,004
Restructuring loss for 2003	W -	W -	W -

Restructured loans at December 31, 2002 are summarized as follows (millions of Won):

	Corporations under liquidation	Court ordered restructuring	Work-out	Industry rationalization	Private restructuring	Total
Balance before restructuring	W15,590	W217	W310,570	W37,685	W7,447	W371,509
D/E swap stock	4,153	-	28,784	-	3,097	36,034
D/E swap CB	-	-	281,166	-	4,350	285,516
Interest rate reduction	11,437	217	620	37,685	-	49,959
Balance at end of year	W13,195	W100	W311,162	W28,477	W7,447	W360,381
Restructuring loss for 2002	W 1,686	W -	W -	W -	W -	W 1,686

## Notes to Consolidated Financial Statements (continued)

The Bank has W34,614 million and W44,254 million of loans discounted to present value (amounting to W3,611 million and W6,144 million) due to debt restructuring as of December 31, 2003 and 2002, respectively.

The Bank transferred loans through monthly put claims and KDIC's exercise of call options amounting to W402,219 million and W498,834 million to the KDIC for the years ended December 31, 2003 and 2002, respectively, according to the agreement between the Bank and the KDIC.

During the year ended December 31, 2003, the Bank sold without recourse charged-off and delinquent loans amounting to W383,613 million and JPY632 million out of non-performing consumer loans and credit card loans. As a result of these sales, the Bank recorded a loss on sale of loans amounting to W36,554 million as non-operating expense and W1,413 million as non-operating revenue.

### 7. Fixed Assets

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

	Beginning balance	Increase	Decrease	Increase (decrease) by change of scope of consolidation	Ending balance
Premises and equipment					
Acquisition cost					
Land	W 796,646	W -	W 122	W -	W 796,524
Buildings and structures	403,978	17,180	2,199	110	419,069
Movable property	222,854	38,710	9,048	1,342	253,858
	1,423,478	55,890	11,369	1,452	1,469,451
Accumulated depreciation					
Buildings and structures	113,518	19,750	1,471	70	131,867
Movable property	141,089	42,304	7,347	356	176,402
	254,607	62,054	8,818	426	308,269
Net	1,168,871				1,161,182
Intangible assets					
Acquisition cost	66,600	24,390	-	(69)	90,921
Accumulated amortization	9,194	13,958	-	217	23,369
Net	57,406				67,552
Total net book value	W1,226,277				W1,228,734

## Notes to Consolidated Financial Statements (continued)

Premises and equipment at December 31, 2002 are comprised of the following (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Premises and equipment				
Acquisition cost				
Land	W 797,004	W 20	W 378	W 796,646
Buildings and structures	384,986	20,392	1,400	403,978
Movable property	196,586	53,864	27,596	222,854
	1,378,576	74,276	29,374	1,423,478
Accumulated depreciation				
Buildings and structures	94,860	19,744	1,086	113,518
Movable property	126,135	41,344	26,390	141,089
	220,995	61,088	27,476	254,607
Net	1,157,581			1,168,871
Intangible assets				
Acquisition cost	23,097	43,503	-	66,600
Accumulated amortization	3,070	6,124	-	9,194
Net	20,027			57,406
Total net book value	<b>W1,177,608</b>			<b>W1,226,277</b>

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2003 and 2002, the government-posted prices of the Bank's land used for tax assessment purposes are W687,662 million and W606,165 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

### 8. Other Assets

Other assets at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Other accounts receivable	W 582,039	W300,324
Guarantee money	295,979	286,137
Fee and interest receivable	219,731	231,039
Bills unsettled	5,717	16,704
Unsettled exchange	15,149	11,883
Prepaid expenses	7,330	9,537
Regulatory and legal deposits (*)	7,046	4,925
Present value discount of other assets	(85)	-
Credit loss reserves of other assets	(3,525)	(3,761)
Derivative valuation assets	21,999	3,411
Others	5,215	6,992
	<b>W1,156,595</b>	<b>W867,191</b>

(\*) Regulatory and legal deposits include W6,510 million and W4,908 million of securities held in escrow at December 31, 2003 and 2002, respectively.

# Notes to Consolidated Financial Statements (continued)

## 9. Deposits

Deposits at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	Banks	Other financial institutions	Others	Total
December 31, 2003				
Deposits in Korean Won				
Demand deposits	W 9,497	W 213,630	W 1,880,743	W 2,103,870
Money trust	-	-	433,526	433,526
Time & saving deposits	242,142	2,533,797	17,051,533	19,827,472
	251,639	2,747,427	19,365,802	22,364,868
Deposits in foreign currencies				
Certificates of deposit	38,628	13,283	426,704	478,615
	264,539	2,867,081	1,693,933	4,825,553
	<b>W554,806</b>	<b>W5,627,791</b>	<b>W21,486,439</b>	<b>W27,669,036</b>
December 31, 2002				
Deposits in Korean Won				
Demand deposits	W 8,727	W 229,568	W 1,815,659	W 2,053,954
Money trust	-	-	419,429	419,429
Time & saving deposits	49,135	1,909,157	14,179,217	16,137,509
	57,862	2,138,725	16,414,305	18,610,892
Deposits in foreign currencies				
Certificates of deposit	91,582	16,349	459,715	567,646
	97,460	3,916,654	593,718	4,607,832
	<b>W246,904</b>	<b>W6,071,728</b>	<b>W17,467,738</b>	<b>W23,786,370</b>

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

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2004	W20,939,005	W478,603	W4,825,553	W26,243,161
2005	530,965	12	-	530,977
2006	203,014	-	-	203,014
2007	60,661	-	-	60,661
2008	111,695	-	-	111,695
Thereafter	86,002	-	-	86,002
	<b>W21,931,342</b>	<b>W478,615</b>	<b>W4,825,553</b>	<b>W27,235,510</b>

The maturities of deposits (excluding money trust deposits) at December 31, 2002 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2003	W17,357,570	W564,893	W4,607,832	W22,530,295
2004	410,235	2,753	-	412,988
2005	253,498	-	-	253,498
2006	60,931	-	-	60,931
2007	27,496	-	-	27,496
Thereafter	81,733	-	-	81,733
	<b>W18,191,463</b>	<b>W567,646</b>	<b>W4,607,832</b>	<b>W23,366,941</b>

# Notes to Consolidated Financial Statements (continued)

## 10. Borrowings

Borrowings at December 31, 2003 and 2002 are comprised of the following:

	2003		2002	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Borrowings in Korean Won:				
Aggregate limit borrowings	2.50	W 42,079	2.50	W 46,974
Call money	3.50 ~ 3.65	40,900	4.05 ~ 4.15	73,000
Other	1.20 ~ 6.30	329,414	2.00 ~ 7.45	487,631
		412,393		607,605
Borrowings in foreign currencies				
Bank of Korea	1.11 ~ 1.26	6,926	1.39 ~ 1.96	23,980
Other borrowings	0.00 ~ 3.00	1,124,012	0.00 ~ 4.40	1,116,996
Off-shore borrowings	1.37 ~ 1.42	95,824	2.10	96,032
Call money	-	-	0.25 ~ 2.00	13,340
		1,226,762		1,250,348
Bonds sold under repurchase agreements	1.54 ~ 4.41	196,193	1.98 ~ 5.10	574,293
Bills sold	3.68	15,555	4.56	14,928
		<b>W1,850,903</b>		<b>W2,447,174</b>

At December 31, 2003 and 2002, borrowings by borrower type are summarized as follows (millions of Won):

December 31, 2003	Bank of Korea	Commercial banks	Other financial institutions	Others	Total (*)
Borrowings in Korean Won	W42,079	W 55,282	W246,500	W68,532	W 412,393
Borrowings in foreign currencies	6,926	1,216,686	-	3,150	1,226,762
Bonds sold under repurchase agreements	-	111,063	-	-	111,063
	<b>W49,005</b>	<b>W1,383,031</b>	<b>W246,500</b>	<b>W71,682</b>	<b>W1,750,218</b>

December 31, 2002	Bank of Korea	Commercial banks	Other financial institutions	Others	Total (*)
Borrowings in Korean Won	W46,974	W 180,368	W278,600	W101,663	W 607,605
Borrowings in foreign currencies	23,980	1,048,425	-	177,943	1,250,348
Bonds sold under repurchase agreements	-	122,888	-	-	122,888
	<b>W70,954</b>	<b>W1,351,681</b>	<b>W278,600</b>	<b>W279,606</b>	<b>W1,980,841</b>

(\*) W85,130 million and W451,405 million of bonds sold under repurchase agreements and W15,555 million and W14,928 million of bills sold to the public at December 31, 2003 and 2002, respectively, are not included.

## Notes to Consolidated Financial Statements (continued)

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

Year ending December 31,	Borrowings in Korean Won	Borrowings in foreign currencies	Bonds sold under repurchase agreements	Bills sold	Total
2004	W106,752	W1,223,797	W196,193	W15,555	W1,542,297
2005	15,516	-	-	-	15,516
2006	55,926	-	-	-	55,926
2007	158,845	-	-	-	158,845
2008	17,426	-	-	-	17,426
Thereafter	57,928	2,965	-	-	60,893
	<b>W412,393</b>	<b>W1,226,762</b>	<b>W196,193</b>	<b>W15,555</b>	<b>W1,850,903</b>

The maturities of borrowings at December 31, 2002 are as follows (millions of Won):

Year ending December 31,	Borrowings in Korean Won	Borrowings in foreign currencies	Bonds sold under repurchase agreements	Bills sold	Total
2003	W254,678	W1,186,683	W574,293	W14,928	W2,030,582
2004	28,118	60,694	-	-	88,812
2005	29,920	-	-	-	29,920
2006	57,378	-	-	-	57,378
2007	164,865	-	-	-	164,865
Thereafter	72,646	2,971	-	-	75,617
	<b>W607,605</b>	<b>W1,250,348</b>	<b>W574,293</b>	<b>W14,928</b>	<b>W2,447,174</b>

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

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

The subordinated borrowings included in Korean Won borrowings as of December 31, 2002 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%) (*)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	6.12	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	6.12	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	7.18	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	6.12	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	6.12	20,000
				<b>W205,600</b>

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

# Notes to Consolidated Financial Statements (continued)

## 11. Financial Debentures

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

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Subordinated	9-28-2003	200,000	6.00 ~ 6.13	1-28-2011
General debentures	11-08-2002, etc.	4,619,990	4.04 ~ 5.08	12-29-2006, etc.
Discount on debenture		(88,421)		
		<u>5,007,836</u>		
Foreign currency				
Subordinated FRN (*1, *2)	3-10-2003	456,132	5.75	3-10-2013
Subordinated FRN (*1)	10-02-2003	239,560	6.25	10-02-2013
Discount on debenture		(8,514)		
		<u>687,178</u>		
		<b>W5,695,014</b>		

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

(\*2) A portion of the debenture is hedged by interest rate swaps which offset valuation losses on the underlying liability of W6,957 million as fair value hedges.

Debentures at December 31, 2002 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Bonds with warrants	1-31-2000	91,076	-	12-30-2006
General debentures	10-10-2002, etc.	1,620,000	4.91 ~ 5.08	10-10-2003, etc.
Discount on debenture		(71,867)		
		<u>1,915,476</u>		
Foreign currency				
Subordinated FRN (*)	6-26-1996	240,080	6ML+2	6-26-2006
		<u>W2,155,556</u>		

(\*) The Bank has the right to annually redeem the note (call option).

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

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2004	W3,761,643	W -	W3,761,643
2005	239,966	-	239,966
2006	529,960	-	529,960
2007	100,000	-	100,000
2008	176,267	-	176,267
Thereafter	200,000	687,178	887,178
	<u>W5,007,836</u>	<u>W687,178</u>	<u>W5,695,014</u>

## Notes to Consolidated Financial Statements (continued)

The maturities of debentures at December 31, 2002 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2003	W1,491,901	W -	W1,491,901
2004	56,232	-	56,232
2005	-	-	-
2006	91,076	240,080	331,156
2007	100,000	-	100,000
Thereafter	176,267	-	176,267
	<b>W1,915,476</b>	<b>W240,080</b>	<b>W2,155,556</b>

### 12. Accrued Severance and Retirement Benefits

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

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

	Beginning balance	Increase (*2)	Decrease	Increase by change of scope of consolidation (*1)	Ending Balance
Accrued severance and retirement benefits	W173,312	W30,537	W29,237	W2,054	W176,666
Prepayments to National Pension Corp.	(5,853)	-	(936)	(90)	(5,007)
Deposits for group severance and retirement benefits	(145,889)	(18,494)	(24,990)	(1,447)	(140,840)
	<b>W 21,570</b>	<b>W12,043</b>	<b>W 3,311</b>	<b>W 517</b>	<b>W 30,819</b>

(\*1) Represents Korea First Data System Co., Ltd. ("KFDS") which is newly included as a consolidated entity effective from January 1, 2003.

(\*2) Included in the increase are accrued severance and retirement benefits for KFDS for the year ended December 31, 2003 in the amount of W1,020 million.

The changes in accrued severance and retirement benefits for the year ended December 31, 2002 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W164,885	W36,272	W27,845	W173,312
Prepayments to National Pension Corp.	(6,770)	-	(917)	(5,853)
Deposits for group severance and retirement benefits	(153,754)	(16,841)	(24,706)	(145,889)
	<b>W 4,361</b>	<b>W19,431</b>	<b>W 2,222</b>	<b>W 21,570</b>

## Notes to Consolidated Financial Statements (continued)

### 13. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Acceptances and guarantees in Won currency		
Corporate debentures	W 1,088	W 5,225
Other	96,402	107,717
	97,490	112,942
Acceptances and guarantees in foreign currencies		
Acceptances	16,398	29,891
Stand-by letters of credit	68,730	46,542
Letters of guarantee	10,966	11,735
Credit derivatives sold	179,670	120,040
Other	3,919	15,598
	279,683	223,806
	<b>W377,173</b>	<b>W336,748</b>

Credit derivatives sold at December 31, 2003 and 2002 are comprised of the following (millions of Won):

Type	Counter party	2003	2002
Credit linked notes	Lehman Brothers Asia Ltd.	W119,780	W120,040
	UBS Warburg Ltd.	59,890	-
		<b>W179,670</b>	<b>W120,040</b>

The Bank classified these as “Normal” and provided an allowance of 0.5% of guaranteed amounts for credit derivative sold as of December 31, 2003 and 2002.

Contingent acceptances and guarantees outstanding at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Import L/C	W342,578	W285,171
Local L/C	172,039	160,951
	<b>W514,617</b>	<b>W446,122</b>

According to the agreement between the KDIC and the Bank, all rights and responsibilities for guarantees and acceptances outstanding as of December 31, 1999 were assumed by the KDIC as of December 31, 1999. Therefore, the Bank believes that confirmed acceptances and guarantees, amounting to W2,386 million and W63,431 million as of December 31, 2003 and 2002, respectively, are protected by the KDIC (see Note 3).

## Notes to Consolidated Financial Statements (continued)

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

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W 96,440	W1,050	W -	W -	W -	W 97,490	
(Allowance)	(483)	(21)	-	-	-	(504)	0.52
Acceptances & guarantees In foreign currencies	277,367	-	-	-	2,316	279,683	1.32
(Allowance)	(1,381)	-	-	-	(2,316)	(3,697)	
<b>Total</b>	<b>W373,807</b>	<b>W1,050</b>	<b>W -</b>	<b>W -</b>	<b>W2,316</b>	<b>W377,173</b>	
(Allowance)	(1,864)	(21)	-	-	(2,316)	(4,201)	1.11
Allowance percentage	0.50	2.00	-	-	100.00	1.11	

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2002 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W111,909	W 576	W458	W -	W -	W112,943	
(Allowance)	(561)	(12)	(207)	-	-	(780)	0.69
Acceptances & guarantees In foreign currencies	175,911	30,925	-	14,648	2,321	223,805	
(Allowance)	(934)	(618)	-	(9,805)	(2,321)	(13,678)	6.11
<b>Total</b>	<b>W287,820</b>	<b>W31,501</b>	<b>W458</b>	<b>W14,648</b>	<b>W2,321</b>	<b>W336,748</b>	
(Allowance)	(1,495)	(630)	(207)	(9,805)	(2,321)	(14,458)	4.29
Allowance percentage	0.52	2.00	45.20	66.94	100.00	4.29	

The ratios of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2003, 2002 and 2001 are 1.11 %, 4.29% and 0.48%, respectively.

At December 31, 2003 and 2002, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

By Geography	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2003						
Korea	W163,404	43.32%	W514,617	100.00%	W678,021	76.03%
U.S.A	129,158	34.24	-	-	129,158	14.48
Switzerland	59,890	15.88	-	-	59,890	6.72
Thailand	24,721	6.56	-	-	24,721	2.77
	<b>W377,173</b>	<b>100.00%</b>	<b>W514,617</b>	<b>100.00%</b>	<b>W891,790</b>	<b>100.00%</b>
December 31, 2002						
Korea	W187,927	55.81%	W396,064	88.78%	W583,991	74.60%
U.S.A	134,123	39.83	-	-	134,123	17.13
Japan	-	-	50,058	11.22	50,058	6.39
Other	14,698	4.36	-	-	14,698	1.88
	<b>W336,748</b>	<b>100.00%</b>	<b>W446,122</b>	<b>100.00%</b>	<b>W782,870</b>	<b>100.00%</b>

## Notes to Consolidated Financial Statements (continued)

By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2003						
Manufacturing	W 56,701	15.03%	W274,615	53.36%	W331,316	37.15%
Wholesale and retail	61,439	16.29	180,773	35.13	242,212	27.16
Financial business	181,368	48.09	755	0.14	182,123	20.42
Construction	10,289	2.73	8,576	1.67	18,865	2.12
Business service	16,869	4.47	2,293	0.45	19,162	2.15
Other	50,507	13.39	47,605	9.25	98,112	11.00
	<b>W377,173</b>	<b>100.00%</b>	<b>W514,617</b>	<b>100.00%</b>	<b>W891,790</b>	<b>100.00%</b>
December 31, 2002						
Manufacturing	W 88,898	26.40%	W242,112	54.27%	W331,010	42.28%
Wholesale and retail	63,497	18.86	167,487	37.54	230,984	29.50
Financial business	120,459	35.77	948	0.21	121,407	15.51
Construction	26,495	7.87	17,209	3.86	43,704	5.58
Business service	16,301	4.84	791	0.18	17,092	2.19
Other	21,098	6.26	17,575	3.94	38,673	4.94
	<b>W336,748</b>	<b>100.00%</b>	<b>W446,122</b>	<b>100.00%</b>	<b>W782,870</b>	<b>100.00%</b>

By Borrower Type	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2003						
Corporate	<b>W377,173</b>	<b>100.00%</b>	<b>W514,617</b>	<b>100.00%</b>	<b>W891,790</b>	<b>100.00%</b>
December 31, 2002						
Corporate	<b>W336,748</b>	<b>100.00%</b>	<b>W446,122</b>	<b>100.00%</b>	<b>W782,870</b>	<b>100.00%</b>

### 14. Other Liabilities

Other liabilities at December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Domestic exchange obligation payable	W1,168,971	W1,260,047
Accrued fee and interest	474,727	446,402
Accounts payable	524,789	304,829
Agency fees payable for tax settlement	360,081	261,020
Foreign exchange payable	42,081	113,903
Borrowing from trust account	253,831	81,281
Giro and other settlements	50,069	55,536
Derivative valuation liabilities	43,655	17,221
Unearned revenues	21,995	24,967
Agency deposit for securities transaction	2,182	3,408
Others	70,599	83,862
	<b>W3,012,980</b>	<b>W2,652,476</b>

# Notes to Consolidated Financial Statements (continued)

## 15. Interest Bearing Assets and Liabilities

Interest bearing assets and liabilities (excluding other assets and other liabilities) at December 31, 2003 and 2002 are summarized as follows (millions of Won):

	2003		2002	
	Average amount of assets	Interest revenue	Average amount of assets	Interest revenue
<Assets>				
Loans in Won	W20,206,465	W1,421,294	W14,492,182	W1,082,000
Trust loans	31,378	1,857	125,597	4,570
Loans in foreign currencies	782,346	21,283	903,008	32,711
Call loan	271,465	9,631	304,428	10,605
Notes bought	9,651	1,007	13,852	1,541
Private placement corporate bonds	970,292	61,160	605,718	40,125
Bills bought	857,946	25,937	667,257	27,779
Advances to customers	19,768	1,831	63,587	2,931
Bonds purchased on reselling agreements	150,466	5,782	40,369	1,672
	23,299,777	1,549,782	17,215,998	1,203,934
Securities (*1)	7,245,844	367,457	7,031,051	370,902
Trust securities	386,565	26,700	354,847	28,271
Due from banks in Won (*2)	791,417	14,111	599,898	9,474
Due from banks in foreign currencies (*2)	52,478	208	48,056	189
	843,895	14,319	647,954	9,663
	<b>W31,776,081</b>	<b>W1,958,258</b>	<b>W25,249,850</b>	<b>W1,612,770</b>

(\*1) Include certain equity securities which are scheduled to be transferred to the KDIC.

(\*2) Include reserves required to be deposited with the Bank of Korea.

	2003		2002	
	Average amount of liabilities	Interest expense	Average amount of liabilities	Interest expense
<Liabilities>				
Deposits in Won	W19,901,803	W 667,462	W17,681,811	W 699,046
Deposits in foreign currencies	540,771	4,431	476,889	5,254
Certificate of deposits	4,684,170	220,131	2,649,503	135,134
	25,126,744	892,024	20,808,203	839,434
Borrowings in Won	409,956	18,769	451,621	24,586
Borrowings in foreign currencies	1,024,378	16,078	941,764	21,850
Call money	722,002	27,325	497,281	19,289
Bonds sold on repurchase agreements	396,827	15,202	1,686,408	81,727
Cover bills sold	11,364	471	9,151	390
	2,564,527	77,845	3,586,225	147,842
Debentures in Won	3,250,182	167,548	550,107	30,673
Debentures in foreign currencies	537,314	25,606	249,319	9,649
	3,787,496	193,154	799,426	40,322
	<b>W31,478,767</b>	<b>W1,163,023</b>	<b>W25,193,854</b>	<b>W1,027,598</b>

# Notes to Consolidated Financial Statements (continued)

## 16. Commitments and Contingencies

### KDIC Agreement Issues

Due to the complexity of the KDIC assistance under the Acquisition Agreement and Assistance Agreement, several disagreements have arisen between the Bank and the KDIC as to the interpretation of these agreements. Certain of these disagreements were disclosed in previous financial statements and were submitted to two separate arbitrations. The first arbitration was resolved by an Award by Consent issued by the International Chamber of Commerce in December of 2001 and such resolution did not result in any material impact on the Bank's financial statements. The second arbitration was also resolved by an Award by Consent issued by the International Chamber of Commerce in July of 2003 and such resolution did not result in any material impact on the Bank's financial statements.

Certain other disagreements have arisen between the Bank and the KDIC. At December 31, 2003, there are approximately W5.9 billion of such other claims reflected in the Bank's financial statements as other assets. Management believes that its assumptions are supported, but the outcome of any negotiations or proceedings with the KDIC related to these items may be different from the assumptions used by management. However, management believes that the maximum financial loss that may result from the disposition of these items is not material.

### Reserve for Unused Cash Advance Commitments on Credit Cards

The allowance for unused cash advance commitments on credit cards at December 31, 2003 and 2002 are as follows (millions of Won):

	Commitment	Outstanding balance	Unused commitment (*)	Allowance	Allowance percentage
December 31, 2003	W 932,158	W199,087	W500,031	W5,000	1.00%
December 31, 2002	W1,157,931	W308,694	W559,755	W5,597	1.00%

(\*) Commitment ÷ 75% - outstanding balance

### Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts and interest rate futures contracts. As of December 31, 2003 and 2002, the Bank has derivative financial instruments for trading purposes, as follows (millions of Won):

<Trading purposes>

	2003	2002
Currency forwards	W 283,046	W145,023
Interest rate swaps	563,085	560,290
Interest rate futures	23,956	174,058
Stock index options purchased	66,237	-
Stock index options sold	66,082	-
	<b>W1,002,406</b>	<b>W879,371</b>

## Notes to Consolidated Financial Statements (continued)

For the years ended December 31, 2003 and 2002, W10,072 million and W969 million of gains and W14,014 million and W8,621 million of losses, respectively, on valuation of derivative contracts for trading purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2003				
Currency forwards	W 884	W 2,399	W 884	W 2,399
Interest rate swaps	380	3,019	1,018	8,626
Stock index options	8,808	8,596	14,017	14,011
	<b>W10,072</b>	<b>W14,014</b>	<b>W15,919</b>	<b>W25,036</b>
December 31, 2002				
Currency forwards	W 820	W 948	W 820	W 948
Interest rate swaps	149	7,673	2,591	7,562
	<b>W 969</b>	<b>W 8,621</b>	<b>W 3,411</b>	<b>W 8,510</b>

As of December 31, 2003 and 2002, the Bank has derivative financial instruments for hedging purposes, as follows (millions of Won):

<Hedging purposes>

	2003	2002
Interest rate swaps	W365,745	W73,750

For the years ended December 31, 2003 and 2002, W6,910 million and W0 million of gains and W7,272 million and W1,313 million of losses on valuation of derivative contracts for hedging purposes was recorded in fees, commissions, and other revenues and expenses, respectively, as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability (*)
December 31, 2003				
Interest rate swaps	<b>W6,910</b>	<b>W7,272</b>	<b>W6,080</b>	<b>W18,619</b>
December 31, 2002				
Interest rate swaps	<b>W -</b>	<b>W1,313</b>	<b>W -</b>	<b>W 8,711</b>

(\*) Contains W11,259 million and W7,398 million of liabilities incurred upon initiation of derivatives for swaption premiums and transfer of convertible bond rights at December 31, 2003 and 2002, respectively.

The difference between valuation losses of derivative contracts and gains on underlying assets and liabilities being hedged is W1,253 million and W95 million as of December 31, 2003 and 2002, respectively.

### Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2003, commitments and endorsed notes aggregated W46,181 million and W10,623 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2003, total loan commitments are W17,367 billion and unused commitments are W11,079 billion.

The Bank has been named as defendant in 42 legal actions amounting to W86,147 million, W73,543 million of which the Bank believes is protected by the KDIC, and is plaintiff in 105 legal actions amounting to W146,359 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

# Notes to Consolidated Financial Statements (continued)

## 17. Common Stock and Capital Surplus

As of December 31, 2003 and December 31, 2002, the authorized common shares are 1,600 million shares and the outstanding common shares are 205,922,640 and 196,116,800 shares (at a par value of W5,000), respectively. The Bank's paid in capital is W1,029,613 million and W980,584 million as of December 31, 2003 and December 31, 2002, respectively (see Note 1).

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. On May 23, 2003 the warrants were exercised and converted to 9,805,840 shares of the Bank's common stock at a price of W6,749 per share. Details of shares outstanding and shares issued as of December 31, 2003 are as follows (millions of Won except number of shares):

	Number of shares	Common stock	Capital surplus
December 31, 2002	196,116,800	W 980,584	W -
Exercise of warrants	9,805,840	49,029	17,111
	<b>205,922,640</b>	<b>W1,029,613</b>	<b>W17,111</b>

The Bank has granted stock options which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2003 are as follows:

	First	Second
Grant date	March 30, 2000	October 19, 2001
Options originally granted	5,273,217 shares	1,171,531 shares
Options terminated	4,173,219 shares	50,000 shares
Options exercised	0 shares	0 shares
Options outstanding	1,099,998 shares	1,121,531 shares
Exercise price	W9,834	W12,497
Exercise period	From March 30, 2003 until March 30, 2010	From October 19, 2004 until October 19, 2011

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

	First	Second
Stock price at grant date (*)	W6,791	W6,791
Risk free rate	4.96%	5.73%
Expected exercisable period	5 years	5 years
Expected stock price volatility	0%	0%
Expected dividend ratio	0%	0%
Compensation cost per share	-	-
Total compensation cost	-	-

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

## 18. Retained Earnings

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

## Notes to Consolidated Financial Statements (continued)

### 19. Non-operating Revenue and Expense

Non-operating revenue and expense for the years ended December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Non-operating revenue		
Rental income	W11,138	W 9,853
Gain on equity method	-	4,415
Gain on sale of securities	65,278	5,541
Gain on sale of loans	1,413	-
Other non-operating revenue	51,228	6,671
	<b>129,057</b>	<b>26,480</b>
Non-operating expense		
Loss on equity method	2,051	-
Loss on sale of loans	36,554	-
Expenses for early retirement	4,853	15,706
Other non-operating expense	30,940	2,794
	<b>W74,398</b>	<b>W18,500</b>

### 20. Income Tax Expense

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 16.5% on taxable income up to W100 million and 29.7% on taxable income in excess of W100 million. The income tax expense (benefit) for the years ended December 31, 2003 and 2002 is comprised of the following (millions of Won):

	2003	2002
Income tax expense	W 417	W 3,861
Changes in deferred income taxes due to loss carryforwards	106,200	(10,000)
Income tax expense (benefit)	<b>W 106,617</b>	<b>W (6,139)</b>
Deferred income tax asset at the end of the year	W 63,427	W 169,625
Change from consolidation of Korea First Data System	2	-
Deferred income tax asset at beginning of the year	169,625	159,625
Changes in deferred income tax asset	<b>W(106,200)</b>	<b>W 10,000</b>

The Bank has tax basis net operating loss carryforwards ("NOLs") of approximately W880 billion as of December 31, 2003, which expire as of December 31, 2004. For tax purposes, net operating losses in Korea may be carried forward for five years from the year of origination against future earnings.

Adjustments of income before income taxes to taxable income for the years ended December 31, 2003 and 2002 are comprised of the following (millions of Won):

	2003	2002
Income before income tax expense	W 93,147	W 95,376
Adjustment to increase taxable income		
Permanent differences	16,506	21,018
Temporary differences	275,952	263,530
	292,458	284,548
Adjustment to decrease taxable income		
Permanent differences	45,131	4,887
Temporary differences	222,560	297,971
	267,691	302,858
Taxable income	<b>W117,914</b>	<b>W 77,066</b>

## Notes to Consolidated Financial Statements (continued)

Deferred income taxes reflect the net tax effects of the tax loss carry forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carry forward for the year ended December 31, 2003 are comprised of the following (millions of Won):

	January 1, 2003 (*)	Increase	Decrease	December 31, 2003
Interest receivable on securities	W (83,312)	W(75,126)	W (83,312)	W (75,126)
Profit from valuation of equity method	(44,830)	(2,308)	-	(47,138)
Gain on valuation of derivatives	(3,411)	(21,999)	(3,411)	(21,999)
Discount amortization on securities	(13,497)	(1,331)	(11,867)	(2,961)
Present value discounts	4,003	2,987	4,003	2,987
Loss on valuation of derivatives	17,221	43,655	17,221	43,655
Depreciation	29,875	6,488	51	36,312
Deemed dividends	14,550	2,853	-	17,403
Retirement benefits	4,600	(4,108)	(8)	500
Other	28,274	48,503	23,545	53,232
Tax loss carryforward	3,713,010	-	2,833,161	879,849
<b>Total</b>	<b>3,666,483</b>	<b>W (386)</b>	<b>W2,779,383</b>	<b>886,714</b>
Tax rate	29.70%			29.70%
Deferred income tax asset	1,088,945			263,354
Allowance	(919,320)			(199,927)
<b>Net deferred income tax asset</b>	<b>W 169,625</b>			<b>W 63,427</b>

(\*) The amounts are different from those in the prior year's audit report to reflect the 2002 final tax return filed in March 2003.

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income and therefore the Bank's net deferred tax asset is based on the Bank's forecast of future income. Due to the uncertain credit environment and revised forecast, management recognized an impairment charge of W85,000 million in March of 2003 by increasing the allowance to reflect the portion of the net operating loss carryforwards expected to be utilized. In addition, the Bank reversed an additional W21,200 million of deferred tax assets through normal amortization. As of December 31, 2003, the Bank had recorded a net deferred tax asset of W63,427 million.

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2002 are comprised of the following (millions of Won):

	January 1, 2002 (*)	Increase	Decrease	December 31, 2002
Interest receivable on securities	W (42,268)	W(83,312)	W (42,268)	W (83,312)
Profit from valuation of equity method	(37,551)	(7,564)	(284)	(44,831)
Gain on valuation of derivatives	(8,558)	(3,411)	(8,558)	(3,411)
Discount amortization on securities	(1,504)	(21,017)	(164)	(22,357)
Present value discounts	177	4,003	177	4,003
Loss on valuation of derivatives	6,538	17,221	6,538	17,221
Depreciation	20,627	4,457	-	25,084
Deemed dividends	9,691	4,859	-	14,550
Retirement benefits	-	4,600	-	4,600
Loss on reduction of investment debentures	20,511	-	20,511	-
Other	15,459	32,587	10,912	37,134
Tax loss carryforward	4,735,971	-	1,022,961	3,713,010
<b>Total</b>	<b>4,719,093</b>	<b>W(47,577)</b>	<b>W1,009,825</b>	<b>3,661,691</b>
Tax rate	29.70%			29.70%
Deferred income tax asset	1,401,571			1,087,522
Allowance	(1,241,946)			(917,897)
<b>Net deferred income tax asset</b>	<b>W 159,625</b>			<b>W 169,625</b>

# Notes to Consolidated Financial Statements (continued)

## 21. Consolidated Per Share Amounts

Consolidated per share amounts for the years ended December 31, 2003 and 2002 are calculated as follows (in Korean Won):

<b>Consolidated ordinary earnings (loss) per share</b>	<b>2003</b>	<b>2002</b>
Consolidated ordinary earnings before income tax expenses	W 93,147,213,911	W 95,375,998,511
Income tax expenses (benefits) related to ordinary earnings	106,617,520,246	(6,139,107,065)
	(13,470,306,335)	101,515,105,576
Weighted average number of common shares (*)	202,107,765	196,116,800
<b>Consolidated ordinary earnings (loss) per share</b>	<b>W (67)</b>	<b>W 518</b>

<b>Consolidated net earnings (loss) per share</b>	<b>2003</b>	<b>2002</b>
Consolidated net earnings (loss) after income tax expenses	W(13,470,306,335)	W101,515,105,576
Weighted average number of common shares (*)	202,107,765	196,116,800
<b>Consolidated net earnings (loss) per share</b>	<b>W (67)</b>	<b>W 518</b>

(\*) The weighted average number of common shares outstanding at December 31, 2003 and 2002 were 202,107,765 and 196,116,800, respectively.

On May 23, 2003, 9,805,840 additional shares were issued as a result of the KDIC's exercise of warrants (Note 1). There were no shareholder transactions during the year ended December 31, 2002.

In July 1999, the Bank's shares were suspended from trading on the Korean Stock Exchange. As a market value for the Bank's shares cannot be readily determined, the diluted impact on earnings (loss) per share from stock options has not been calculated.

## 22. Application of the Equity-method

Equity investments at December 31, 2003 and 2002 are as follows (millions of Won):

	<b>Qingdao International Bank (*2)</b>	<b>Korea First Data System Co., Ltd. (*1)</b>
January 1, 2002	W10,794	W4,654
Equity in net income of affiliates	2,627	1,788
Exchange rate fluctuation	(1,025)	-
Dividends received	-	(700)
Equity in retained earnings of affiliates	(138)	(146)
December 31, 2002	W12,258	W5,596
Equity in net loss of affiliates	(2,051)	-
Exchange rate fluctuation	(26)	-
December 31, 2003	<b>W10,181</b>	<b>W -</b>

(\*1) Accounted for as a consolidated entity effective from January 1, 2003.

(\*2) For Qingdao International Bank, an additional loss of W2,051 million was recorded as the market value of Qingdao was deemed to be lower than its net asset value. The Bank's shares in Qingdao were sold to a third party during January 2004.

## Notes to Consolidated Financial Statements (continued)

### 23. Related Party Transactions

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2003 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Trust accounts	Interest income	W 3,947	Other assets	W 1,321
	Commissions received	10,352	Other liabilities	12,692
	Trust fees & commissions	18		
	Interest expense	1,388		
Korea First Finance Ltd., Hong Kong	Interest income	2,198	Due from banks	110,967
	Interest expense	16	Loans	52,703
			Other assets	292
			Borrowings	53,395
Korea First Data System Co., Ltd.	Interest income	1	Other assets	869
	Other revenue	42	Deposits	3,609
	Interest expense	125	Other liabilities	249
	Other expense	10,152		
	Revenue transactions	<b>W16,558</b>	Receivables	<b>W166,152</b>
Expense transactions	<b>W11,681</b>	Payables	<b>W 69,945</b>	

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2002 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Trust accounts	Interest income	W 8,054	Other assets	W134,800
	Commissions received	30	Other liabilities	32,511
	Trust fees & commissions	5,479		
	Interest expense	1,833		
	Compensation	6		
Korea First Finance Ltd., Hong Kong	Interest income	4,096	Due from banks	108,084
			Loans	52,818
			Other assets	289
Revenue transactions	<b>W17,659</b>	Receivables	<b>W295,991</b>	
Expense transactions	<b>W 1,839</b>	Payables	<b>W 32,511</b>	

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

	Transactions		Account balances	
	Account	Amount	Account	Amount
Qingdao International Bank	Interest income	W122	Deposits	W175
	Interest expense	123		
	Revenue transactions	<b>W122</b>	Receivables	<b>W -</b>
	Expense transactions	<b>W123</b>	Payables	<b>W175</b>

## Notes to Consolidated Financial Statements (continued)

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 2002 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Qingdao International Bank	Interest income	W 474	Loans	W12,004
	Interest expense	495	Other assets	54
			Deposits	167
			Borrowings	12,124
			Other liabilities	54
Korea First Data System Co., Ltd.	Interest income	1	Other assets	600
	Other revenue	40	Deposits	4,189
	Interest expense	166	Other liabilities	367
	Other expense	14,126		
	Revenue transactions	<b>W 515</b>	Receivables	<b>W12,658</b>
Expense transactions	<b>W14,787</b>	Payables	<b>W16,901</b>	

### 24. Employee Welfare

The Bank provided W33,616 million and W33,665 million of housing loans for its employees at December 31, 2003 and 2002, respectively with terms generally more favorable than prevailing market terms.

Expenditures for the training of specialists for the years ended December 31, 2003, 2002, and 2001 are as follows (millions of Won):

Type	2003	2002	2001
Korea Banking Institute	W134	W178	W218
Special skill training	677	443	583
Foreign language training	16	11	45
Overseas service training	39	141	99
	<b>W866</b>	<b>W773</b>	<b>W945</b>

### 25. Segment Information

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

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

	Retail banking	Corporate banking	Capital markets	Credit card operations	Others	Total
Loans	W15,746,870	W10,409,456	W -	W721,068	W 35,196	W26,912,590
Securities	-	284,378	6,818,776	-	379,208	7,482,362
Fixed assets	-	-	-	-	1,228,734	1,228,734
Other assets	-	-	-	-	4,292,648	4,292,648
	<b>W15,746,870</b>	<b>W10,693,834</b>	<b>W6,818,776</b>	<b>W721,068</b>	<b>W5,935,786</b>	<b>W39,916,334</b>

## Notes to Consolidated Financial Statements (continued)

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

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

	Domestic	Overseas	Total
Loans	W26,479,688	W432,902	W26,912,590
Securities	7,249,285	233,077	7,482,362
Fixed assets	1,227,922	812	1,228,734
Other assets	4,271,473	21,175	4,292,648
	<b>W39,228,368</b>	<b>W687,966</b>	<b>W39,916,334</b>

### 26. Added Value Information

The accounts and amounts which are required to be disclosed in connection with the calculation of added value from the Bank's operations for the years ended December 31, 2003 and 2002 are as follows (millions of Won):

	2003	2002
Salaries and wages	W259,837	W220,222
Retirement benefit	29,735	36,272
Other employee benefit	58,210	56,616
Rent	23,050	20,802
Depreciation	62,054	61,088
Amortization	13,958	6,124
Other taxes and dues	32,201	29,936
	<b>W479,045</b>	<b>W431,060</b>

### 27. Approval of Financial Statements

The Bank's financial statements for the year ended December 31, 2003 will be submitted for approval by the Board of Directors in a meeting on March 19, 2004.

### 28. Korean Economy

In common with certain other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement 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.

Board of Directors

As of December 31, 2003

**Robert T. Barnum**

Chairman, Board of Directors, Non-Standing Director  
Executive Committee, Risk Management &  
Financial Control Committee

**Robert A. Cohen**

President, Chief Executive Officer  
Executive Committee

**Thomas J. Barrack, Jr.**

Non-Standing Director

**Richard C. Blum**

Non-Standing Director, Executive Committee

**David Bonderman**

Non-Standing Director

**Daniel A. Carroll**

Non-Standing Director, Compensation Committee

**Paul H. Chen**

Non-Standing Director, Audit Committee

**Michael O'Hanlon**

Non-Standing Director, Audit Committee

**Edward G. Harshfield**

Non-Standing Director, Audit Committee  
Risk Management & Financial Control Committee

**Michael "Mickey" Kantor**

Non-Standing Director, Compensation Committee

**Jong Tae Kim**

Non-Standing Director, Audit Committee

**YoonJae Lee**

Non-Standing Director, Compensation Committee

**Frank N. Newman**

Non-Standing Director, Executive Committee  
Compensation Committee  
Risk Management & Financial Control Committee

**Shee Yul Ryoo**

Non-Standing Director  
Risk Management & Financial Control Committee

**Weijian Shan**

Non-Standing Director, Executive Committee  
Risk Management & Financial Control Committee

**Francis Yeo Teng Yang**

Non-Standing Director, Audit Committee

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(Ext: 4316, 3547)  
E-mail: ir@kfb.co.kr

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## INTERNATIONAL BUSINESS-RELATED DEPARTMENTS

### Trade Banking Department

Foreign Exchange Information Center  
(Ext: 3913)  
Foreign Investment Service Center  
(Ext: 3913)  
Export Section (Ext: 3874)  
Import Section (Ext: 3887)  
Remittance (Ext: 3879)  
L/C Advising (Ext: 3912)  
Reconciliation (Ext: 3912)  
SWIFT/Telex (Ext: 3895)  
Marketing (Ext: 3825)  
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K26535, K28784  
K28785 FIRSTBK  
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### International Department

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Won/Dollar Dealing (Ext: 4404)  
Marketing (Ext: 4410)  
FX Dealing (Ext: 4408)  
Derivatives & Structured Products  
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### Treasury Department

Term Borrowing (Ext: 4401)  
Money Market (Ext: 4403)  
Fax: 82-2-3702-4943/44

## OVERSEAS NETWORK

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7-1, Yurakucho, 1-Chome,  
Chiyoda-ku, Tokyo, Japan  
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Telex: J23329, J22695 KOFIRST  
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Fax: 81-3-3201-4558

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71933 KOFST HK  
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Fax: 85-2-2521-7611

## DOMESTIC NETWORK

### Customer Service Center

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Seoul, 100-753, Korea  
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82-1588-1599  
Fax: 82-2-2129-6131

#### *Busan*

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Fax: 82-51-661-7143

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Tel: 82-2-552-9125  
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## DOMESTIC SUBSIDIARY

### Korea First Data Systems Corp., Ltd.

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<http://www.kfb.co.kr>  
 E-mail: [ir@kfb.co.kr](mailto:ir@kfb.co.kr)

**DATE OF ESTABLISHMENT**

July 1, 1929

**PAID-IN CAPITAL**

W1,029.6 Billion

**NUMBER OF EMPLOYEES**

4,180

**NUMBER OF OFFICES**

Domestic: 410  
 Overseas: 3 (As of January 31, 2004)

**DISTRIBUTION OF SHAREHOLDERS**

KFB Newbridge Holdings(private) Ltd.	48.56%
Korea Deposit Insurance Corp.	48.49%
Ministry of Finance & Economy	2.95%

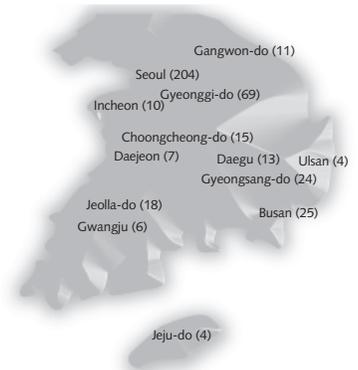


**NUMBER OF DOMESTIC OFFICES**

Retail Branches	347
Corporate Branches	63
<b>Total</b>	<b>410</b>

**DISTRIBUTION OF DOMESTIC BRANCHES**

Seoul	204	Ulsan	4
Busan	25	Gyeonggi-do	69
Daegu	13	Gangwon-do	11
Incheon	10	Choongcheong-do	15
Gwangju	6	Jeolla-do	18
Daejeon	7	Gyeongsang-do	24
		Jeju-do	4
		<b>Total</b>	<b>410</b>





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