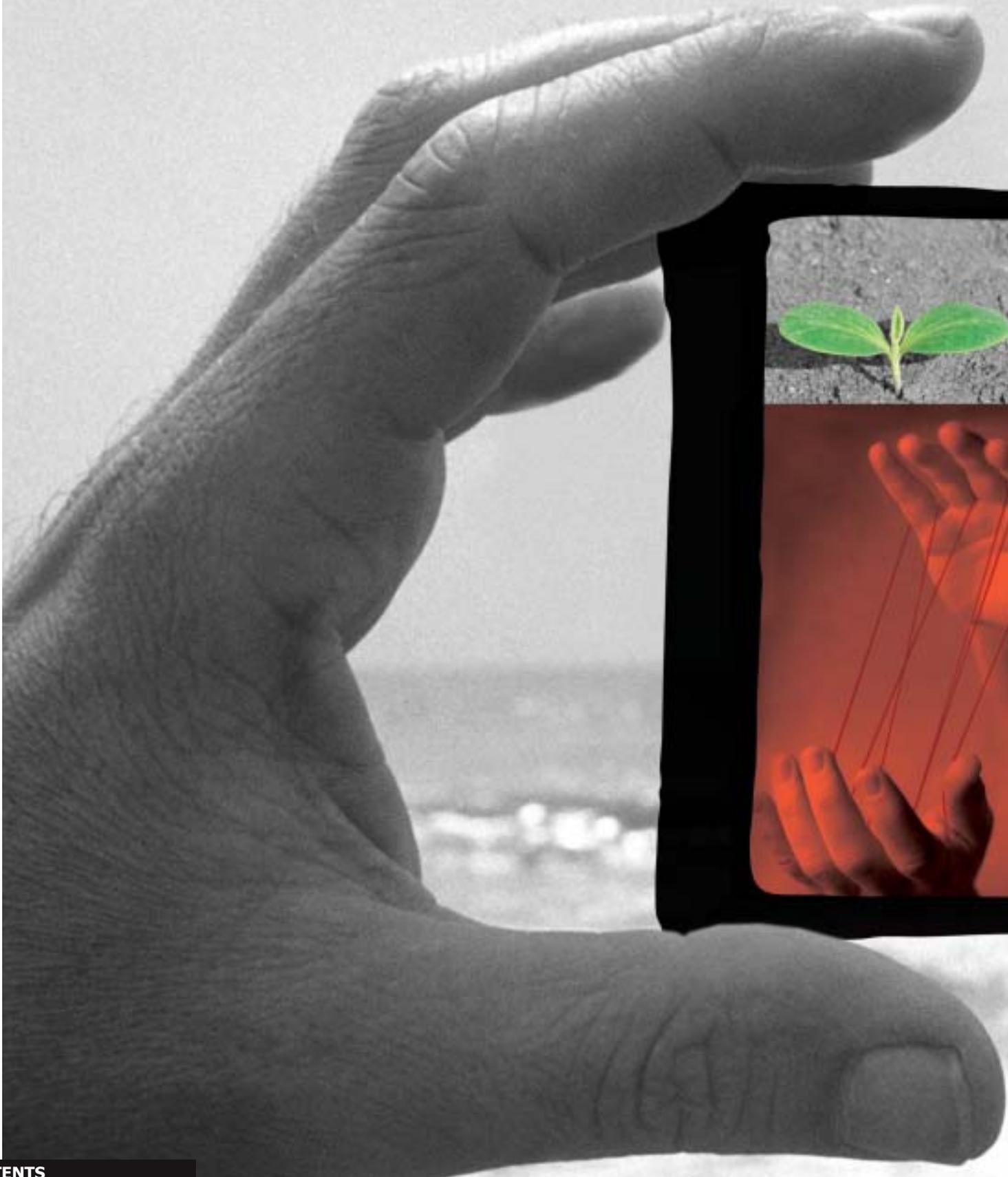


'Best Quality Bank'

Growth through efficient management



“Best Quality Bank” Our mission is to remain



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as Korea's best quality bank."



2003 Management Objectives

“飛! 청년한미”

Business Goals

1. Tighten Risk Management to keep the best asset quality in the banking industry.
2. Build a Base for stable growth.
3. Upgrade our operating platform.
4. Create a dynamic KorAm culture.

Corporate Profile

Established in 1983 as Korea's seventh commercial bank, KorAm Bank was originally created as a joint venture between a consortium of local conglomerates and the Bank of America. Since its inauguration, the bank has focused on stable growth and asset soundness, backed by a rational management framework and efficient decision-making systems.

The bank's shareholder-focused management system is based on a diverse range of strategies. An example of this management system can be seen from the Citibank's announcement for the acquisition of the bank by tender offer.

For the year 2003, KorAm's total assets and liabilities amounted to ₩43,001.2 billion (US\$36.1 billion) and ₩41,387 billion (US\$34.7 billion), respectively, while net income reached ₩46.2 billion (US\$38.7 million). In addition, the bank once again led the industry in non-performing loan (NPL) and BIS performance, posting annual ratios of 1.60% and 10.98%, respectively, as of 2003-end, from 1.13% and 12.11% a year earlier.

With the goal of remaining as Korea's best quality bank, KorAm is committed to providing optimal services and delivering value to its shareholders and customers. Our 3,007 devoted employees and extensive network comprising three international and 222 domestic branches ensure this.



Financial Highlights

In billions of Korean won, %, %p

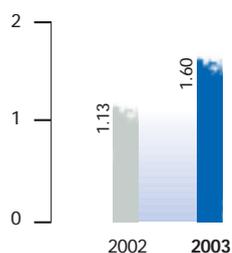
	2002	2003	Change
Operating results			
Net interest income	731.3	770.8	5.4
Net income	260.4	46.2	-82.3
Per share data (won)			
Dividend per common share*	375	150	225
Earning per common share*	1,326	239	1,087
Profitability ratios			
ROA	0.79	0.11	-0.68
ROE	17.18	2.90	-14.28
Net interest margin**	3.24	2.70	-0.54
Net interest spread**	2.94	2.92	-0.02
Balance sheet data at year-end			
Total assets	37,097.4	43,001.2	15.9
Loans	24,953.4	29,711.3	19.1
Deposits	20,789.8	25,006.8	20.3
Securities	8,244.7	9,290.4	12.7
Shareholders' equity	1,691.9	1,614.2	-4.6
Asset Quality Ratios			
Coverage ratio***	110.3	98.7	-11.60
NPL ratio (substandard or below)	1.13	1.60	0.47
Capital Ratios at Year-end			
Total capital ratio	12.11	10.98	-1.13
Tier 1 capital	6.53	6.63	0.1
Tier 2 capital	5.72	4.40	-1.32

* Adjusted to audit criteria

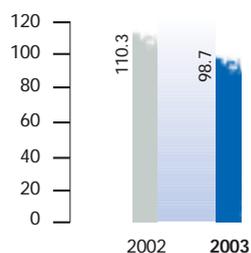
** Based on internal criteria

*** Adjusted to changed accounting guideline, which excluded provisioning for loans sold to KAMCO off the provision account since the 4th quarter of 2003 but included provision on unused credit line of cash advance.

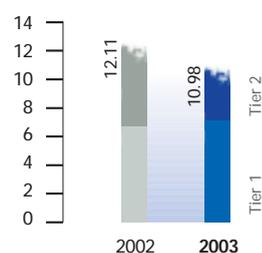
NPL ratio (%)



Coverage ratio (%)



Total capital ratio (%)





Corporate governance

4

Following the Asian Financial Crisis, several types of systematic checks have been implemented to improve corporate transparency, which has become a key issue among global economic communities. In 2003, corporate supervision by major foreign shareholders was on the rise. KorAm Bank has executed advanced CG techniques, backed by an endeavor to competitively position the bank in the Korean financial sector.

We aim to protect shareholder value and general investors and we realize that the core of strong CG lies in the power, authority, and responsibility of the board of directors (BOD). On this note, the power and authority of KorAm's BOD has been expanded; the board is now the highest decision maker within the bank. In addition, we have constructed a foundation to secure the objectiveness and honesty of the BOD by appointing the majority of its members from external sources.

In 2003, KorAm Bank held BOD meetings on 12 occasions to deliberate on almost every major pending issue, including the SK Networks scandal and stabilization measures for the credit card sector. Particularly, the bank induces the participation of external foreign directors through its in-house video conferencing system, which enables non-resident, non-executive directors to take part in such meetings with ease. The bank also distributes all agendas, data, and monthly business results to all directors beforehand in a timely manner.



Furthermore, our directors are financial and investment specialists, thereby contributing to the bank's development through the introduction of advanced techniques. Currently, the BOD has various subcommittees, such as the Non-Executive Director Candidate Nominating Committee, BOD Governance Committee, Management Development & Compensation Committee, Audit Committee, and Risk Management Committee. The bank encourages participation of external directors by appointing them as committee heads, while seeking objective opinions regarding committee operations.

Management compensation is largely divided into: (1) basic salaries, (2) short-term incentives, and (3) stock options (long-term). Noteworthy is that management's incentives are aligned with that of the bank's performance in order to ensure good CG. Also, the bank has secured the transparency of such compensation by establishing the Management Development Committee, which is comprised of external directors.

To protect shareholders and investors, KorAm Bank meets its obligations for disclosure through the Financial Supervisory Service (FSS) and Korea Stock Exchange. Furthermore, the bank separately operates an IR homepage, which provides corporate information, current company status, stock information, financial information, and credit ratings. It also enables investors and shareholders to request desired data. Moreover, the bank's IR homepage is available in English and Korean, which assists in introducing foreign investment.

Such CG is not applied only to management, but also to all employees. KorAm Bank maintains its clean and honest image by requesting its staff to observe the bank's 'Code of conduct'.

Recognizing KorAm Bank's strong CG practices, The Asset, a Hong Kong-based financial journal, selected the bank as a model for CG in Korea. This opinion was echoed by: (1) the Korea CG Service, which selected the bank as an Excellent CG Corporation in 2003, and (2) the Korea Stock Exchange, which included the bank in the Korea CG Stock Price Index (KOGI), an index that lists 50 companies considered to have excellent CG structures.

Dear Shareholders,



Overview of Business Performance

The events of last year not only tested our strength as an institution, but also weighed on the imperturbability of our shareholders. As such, I would first like to extend my sincerest gratitude and appreciation to you, our shareholders, for your continued support and confidence, especially in times of trial and adversity.

The year 2003 presented several challenges, as domestic consumer sentiment dampened and a global economic recovery was still uncertain. Accordingly, we based our efforts on coping with these difficult conditions by reinforcing our credo of "Best Quality Bank" and implementing strategies to: (1) grow core businesses, (2) enhance risk management, (3) promote productivity, (4) foster a healthier corporate culture, and (5) focus on customer satisfaction.

However, the events to come were much harsher than expected. Amid the US-Iraq War and threats of nuclear reprisal from North Korea, the domestic economy fell into its first recession since the Asian Financial Crisis of 1997-98. Highlighting this economic downturn, consumer consumption dipped to historical lows while corporate investment and new hirings fell. Moreover, consumer financing crumbled under the weight of heavy debts and unfavorable employment conditions, creating a flood of delinquencies and heightening the default rate at financial institutions. Adding to this, the SK Global accounting scandal raised uncertainties at Korea's third largest business group and sparked a panic in the domestic capital markets, shutting off a valuable lifeline to credit card companies. This ultimately led to the bailout of the country's largest consumer credit issuer, LG Card.

Despite this troublesome backdrop, KorAm Bank was able to achieve stability and profitability, resolving issues many other lenders were forced to cope with. We were also able to maintain asset quality by strictly adhering to risk management policies and focusing on servicing our prime customers. Our NPL ratio of 1.60% was far lower than the industry average of 2.50% and our delinquency ratio sharply improved to 1.5% in 2003, from 1.9% in 2002. We achieved a BIS Ratio of 11%, the best in the banking industry, on the back of our successful issuance of subordinated debentures and hybrid notes supported by the confidence of both our domestic and international investors.

During these trying times, everyone pulled together, instilling within the bank a vibrant corporate culture that will be ready to overcome any obstacle and to serve as a springboard into the future.

Towards the Future

In 2003, we celebrated our 20th anniversary and this year we will prepare ourselves for the next 20 years by laying the foundation for the times to come. As such, we have established several strategies to work on for the following year.

First, we will boost profitability by strengthening our core competitiveness and concentrate on diversifying our revenue sources into areas such as fee income from investment and insurance products, foreign exchange, and other ancillary businesses. In addition, we will maximize margins by lowering our cost of funding through promoting low cost deposits and by enlarging our share of customer's wallet and carefully managing rates of return. Building upon significant cost savings made in 2003,

We made efforts to cope with the difficult times ahead by reinforcing our principle of "Best Quality Bank" and implementing plans to grow core businesses, enhance risk management, promote productivity, corporate culture, and customer satisfaction. Accordingly, we were able to achieve stability and profitability, resolving issues many other lenders were forced to cope with, and maintain asset quality by strictly adhering to risk management policies and focusing on servicing our prime customers.

Best Quality Bank

we will look to continue making improvements to our cost structure and lead the industry in efficiency and productivity.

Second, we will continue to have the banking industry's best asset quality. Since the bank's establishment, asset quality through comprehensive risk management has remained our guiding principal. This was proven true even as the collapse of the consumer credit market drove other financial institutions to restructure. Accordingly, we will continue to adhere to comprehensive credit review policies and proactively manage our assets to reduce default risks.

Third, we will gear our operating platform towards continual growth. Regarding corporate banking, we will cultivate the marketing capabilities of our corporate account managers to foster strong relationships with our prime customers and provide financial solutions for loans and transaction banking, such as corporate cash management and foreign exchange. With regard to consumer banking, our bank staff will beef up wealth management services by expanding our customer base and helping our clients achieve their financial objectives through the introduction of various investment products. We will continue providing our customers with the best quality services and products in the industry, making their satisfaction our number one priority.

After experiencing a setback in the credit card business last year, we expect a turnaround in 2004 backed by improvements in the domestic economy and consumer consumption. Furthermore, we will emphasize profitability by focusing on increasing card usage, rather than relying on external growth.

To accomplish the aforementioned strategies, we must instill our own vibrant corporate culture and let it take root through active and open channels of communication. The challenges we faced last year pulled each and every one of us together working towards a common goal, and we will continue to nurture and foster that development. The year 2004 will also present new obstacles and challenges, but it will ultimately bear fruit. In that respect, I am confident that our management and employees are committed to accomplishing our objectives and reaping the rewards of our determination and hard work.

Despite missing some key business targets last year, we remain at the forefront of innovation and plan on doing so for at least the next 20 years. As CEO of the bank, I am committed to taking the initiative in leading our bank through the struggles and growing pains that lie ahead in remaining as Korea's 'Best Quality Bank'.

Without your support and interest, none of this would be possible. Therefore, I again would like to express my deepest appreciation to you, our shareholders.



Yung-ku Ha
Chairman & Chief Executive Officer

“Improved risk management to maintain



best asset quality.”

Throughout 2003, KorAm Bank was committed to preemptive delinquency management backed by its strengthened organization. As a result, our delinquency ratio improved 0.42%p (YoY) to 1.49% as of 2003-end, from 1.89% at 2002-end. Furthermore, despite the global economic slowdown and the SK Networks accounting scandal, we maintained an industry-leading substandard-and-below NPL ratio of 1.6%, which is noticeably lower than the banking sector's average of 2.6%. The bank's BIS ratio also remained robust, staying at the 11%-level thanks to the successful issuances of foreign-currency subordinate bonds (US\$165 million in June) and hybrid notes (₩230 billion in July).

Best quality Bank

“A base for stable growth.”





Corporate and Household Loans

Loans to small and medium-size enterprises (SMEs), one of our core businesses, grew noticeably in 2003, with won-currency SME loans surging 27.2% (YoY) to ₩8,876 billion. In addition, our pure SME customer base ballooned 30.9% (YoY) to 5,541 clients, on the back of continued efforts to strengthen relationships with quality customers and develop new products. Meanwhile, consumer loans also rose 28% during the year, despite intensifying competition. By product, mortgage loans including group loans and UPL increased by 31% (YoY) and 40% (YoY), respectively.

Credit Card

For the credit card sector, we focused on the development of a stable earnings base rather than external growth. This was done by significantly decreasing the credit limits for insolvent members and placing them on a credit-watch system. Accordingly, we were able to improve overall asset soundness, and readjust our credit loan portfolio focusing on quality members. We also pursued greater business efficiencies by reducing marketing expenses, streamlining our organizational structure, and adjusting our commission and fee systems. Thanks to such endeavors, the bank's weighting of quality assets sharply increased, while that of poor assets noticeably declined.

Bancassurance

KorAm Bank began its bancassurance business from September 3, 2003. In order to successfully advance into this growing market, we partnered with insurance industry leaders-four life insurance carriers (Samsung, AIG, PCA, Hungkuk Life Insurance) and five non-life insurance providers (Samsung, LG, Hyundai, Dongyang, AIG). Our marketing is focused on competitive products offered by affiliated insurers, and is backed by the bank's 440 qualified professional sales people, including private bankers (PBs) and associate private bankers (APBs). As a result, we garnered a 4.8% market share, generating sales of ₩92 billion and commission income of ₩2.7 billion for the four months since introduction (Sep~Dec 2003). Moreover, with 3,934 certified bancassurance sales personnel, we are prepared for the industry's full potential, as bancassurance barriers further dissipate going forward.

Best Quality Bank

“Upgraded operating platforms.”





A task force for management efficiency

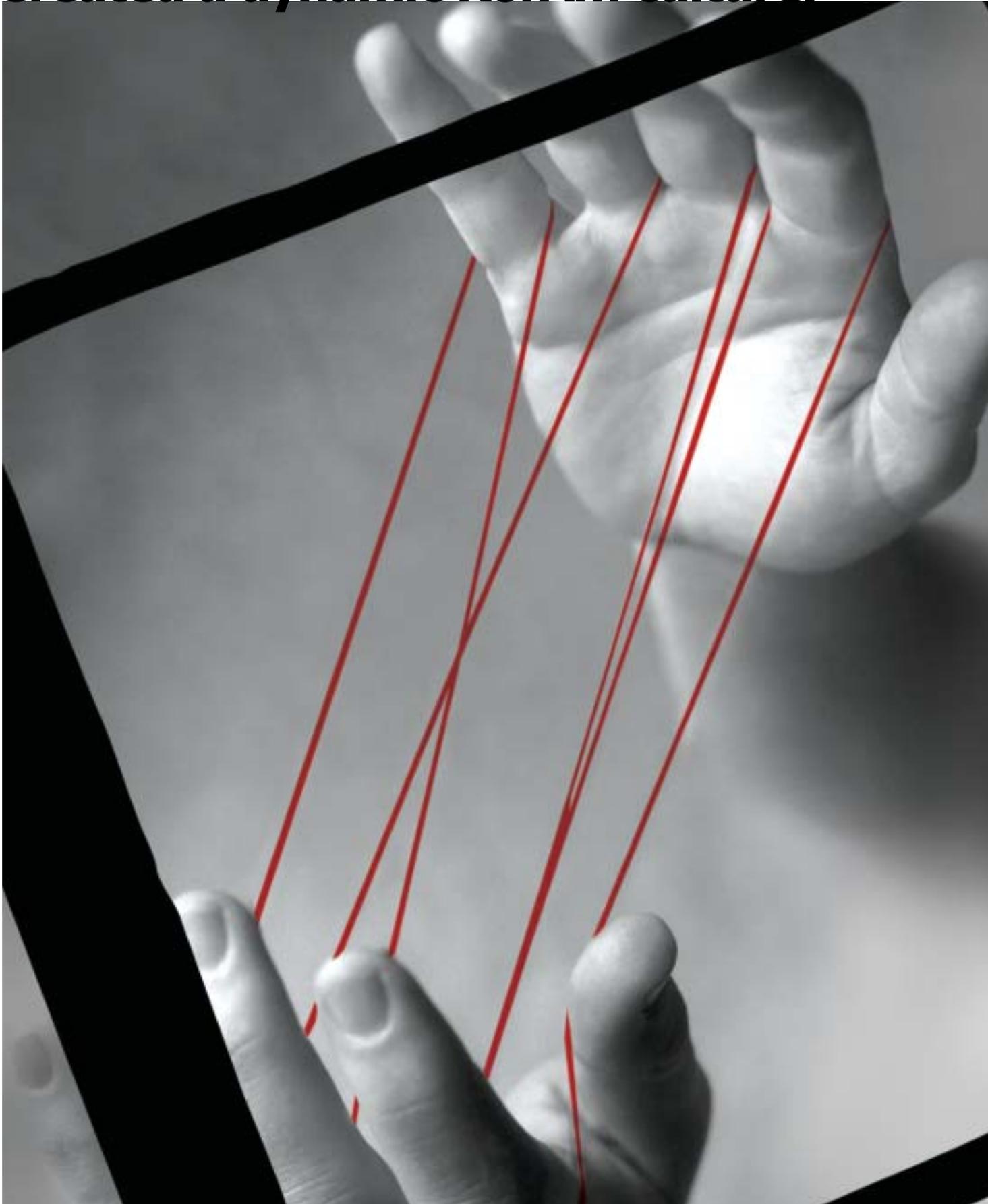
KorAm Bank inaugurated a task force to advance management effectiveness in April, amid a slowing global economy and aggravating environmental conditions, such as the North Korean nuclear issue, the SARS outbreak, and the SK Networks accounting scandal. The task force established and enforced policies to bolster the efficiency and effectiveness of our manpower and business divisions, and focused on boosting the bottom line through cost reductions. Ultimately, the bank implemented ₩32.2 billion in cost cuts in 2003, leading to an impressive expense-to-sales ratio of below 40% for the year.

Revamped KorAm Bank homepage - Improved e-banking capabilities

The year 2003 saw the overall revamping of KorAm Bank's homepage (www.goodbank.com), in line with the bank's changes in corporate identity and user environment. The modified homepage is now more user-friendly and provides a wider range of personalized services through the newly introduced 'My Good Bank' service.

Best quality Bank

“Created a dynamic KorAm culture.”





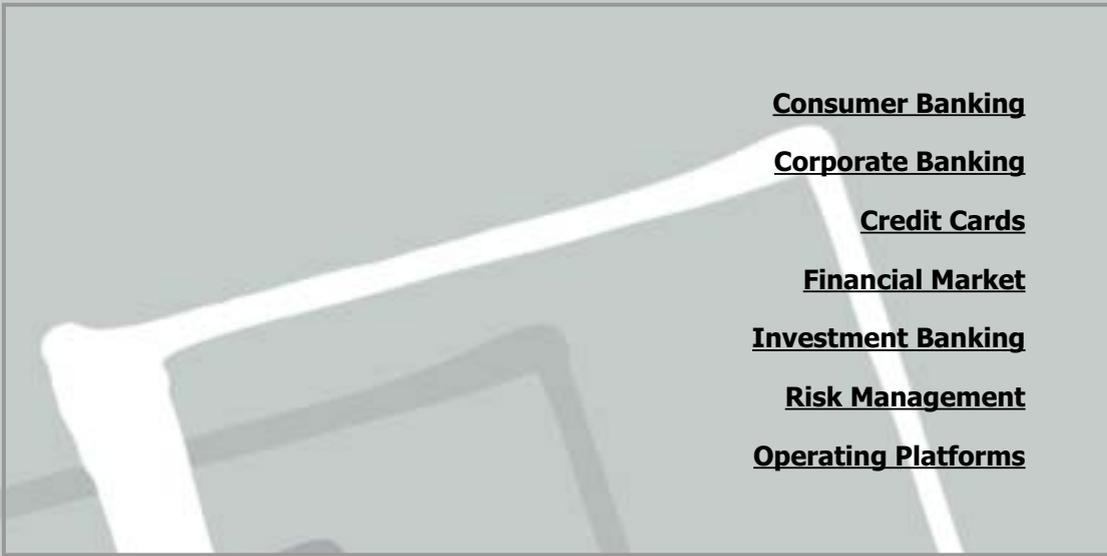
Heightened pride of KorAm staff through new corporate identity

KorAm Bank proclaimed a new corporate identity by shaping its image as a total financial solutions provider, capable of managing a variety of financial needs in a systematic fashion. This is grounded on its 'Mondrian' image, developed from grasping the theme of 'Banking Curator.'

The bank's emblem represents a canvas on which customer value is created, focusing solely on customer needs, while the straight-line partitions signify its role as a reliable financial partner based on synergies with its members. Of the four colors within, red represents our passion for our customers; blue stands for rational judgment; yellow is akin to promptitude; and white exemplifies transparent management. Meanwhile, the diverse range of colors signifies a wealth of financial services, and the bold square symbolizes KorAm Bank's progressive and creative services.



“ We aim to help our customers enhance the value of their portfolios and provide a one-stop shop for all their financial needs, while improving our profit structure through the sale of high-margin products.”



Consumer Banking

Corporate Banking

Credit Cards

Financial Market

Investment Banking

Risk Management

Operating Platforms

Quality Bank

Consumer Banking

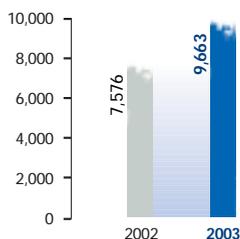
KorAm continued to see growth in the consumer banking sector thanks to ongoing efforts to focus equally on retail and corporate banking during 2003. The bank also aimed to prevent the generation of non-performing loans (NPLs) amid such growth. Relevant endeavors include stringent credit management and upward adjustments on loan loss provisioning ratios.

RETAIL LENDING

(In billions of Korean Won)

	2002	2003
Mortgage	₩4,920	₩6,443
Unsecured personal loans (UPLs)	984	1,377
Others	1,672	1,843
Total retail loans	₩7,576	₩9,663

Total retail loans
(In billions of Korean Won)



In 2003, the retail lending market, which comprises nine commercial banks, expanded by 14% year-on-year (YoY). Amid this growth and intensifying industry competition, KorAm Bank saw retail lending activities increase 28%, nearly doubling the market's growth. By product, mortgage loans including group loans and unsecured personal loans (UPLs) expanded by 31% (YoY) and 40% (YoY), respectively, reaching ₩6,443 billion and ₩1,377 billion, as of 2003-end.

The mortgage loan market saw growth remain stable (YoY) at 9%, due to numerous government regulations on real estate-backed lending, including a reduction in the continued loan-to-value ratio on overly speculative areas, and upward adjustments on loan loss provisioning.

Despite these hurdles, however, KorAm saw accumulated mortgage loans climb 31% (YoY), exceeding the market's growth. This was attributed to the bank's continued efforts for a stable increase in incremental loans through 252 direct sales members. Incremental mortgage loans induced by the direct sales channel accounted for ₩1,080 billion, or 47%, of total incremental mortgage loans in 2003.

Meanwhile, Doctor Loans jumped ₩269 billion (+224% YoY) in 2003 on the back of competitive lending limits and interest rate operations, along with the full-year impact of 'Doctor Loan' product sales, which were first introduced in 2002. Of note, the bank maintained low delinquency ratios (0.21% as of 2003-end) on Doctor Loan clients backed by advance collections.

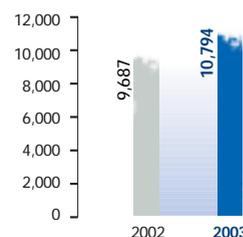
In addition to a rise in loan assets during 2003, KorAm Bank saw noteworthy improvements in its retail lending process including: (1) the computerization of automatic roll-over notices, (2) the revision of agreements to simplify the roll-over process, (3) notifications of loan maturities via email, and (4) the simplification of the mortgage management system, which alleviated branch-related operating burdens. In 2004, all processes for retail loans, from inspection to execution, will be automated by converting the retail loan approval system into the Unix operating system.

RETAIL DEPOSITS

(In billions of Korean Won)

	2002	2003	YoY Growth	
			Amount	%
MMDA/Demand deposits	₩2,554	₩2,874	320	13%
Installment savings	1,090	1,461	371	34%
Time deposits	5,779	5,602	-177	-3%
Others	265	856	951	223%
Total retail deposits	₩9,687	₩10,794	1,107	11%

Total retail deposits
(In billions of Korean Won)



Consumer deposits totaled ₩10,794 billion at 2003-end, rising by ₩1,107 billion (YoY), or 11% (YoY), from 2002. This improvement was attained thanks to continuous micro-marketing efforts by branches in each region in order to expand the bank's quality client base, and by implementing target-marketing activities to induce more private banking customers.

Meanwhile, KorAm's liquidity risks have been greatly reduced by converting short-term deposits into long-term deposits following the introduction of the 'Free Revolving Deposit,' a competitive savings product that features convenient transactions. This coupled with the bank's continuous efforts to boost marketing activities resulted in total deposits of ₩4,304 billion at 2003-end.

In addition, KorAm posted ₩456 billion in free-style installment savings products by combining the strengths of installment-savings deposits and time deposits, while reinforcing its marketing efforts and maintaining product competitiveness. Meanwhile, sales of the new 'Equity-Linked Deposit' products amounted to ₩235 billion in 2003.

In particular, KorAm has increased its customer base for retail deposits by strengthening its customer relationship management (CRM) activities, while continuously enhancing branch services. The bank also strengthened its branch support efforts by expanding and reorganizing its marketing support center, while aiding sales activities in a more 'hands-on' manner.

Meanwhile, we have carried forward our strategy to enlarge KorAm's customer base for retail deposits by upgrading qualified mid-tier customers to VIP status (i.e., Royal Customers) backed by continuous telemarketing support. Fees for personal teller services have also been raised in order to curtail bottlenecks at branches and increase commission income. This resulted in an increase in utilization of automated solutions and a rise in fee-based income, thanks to an increase in transactions via the Internet, cash dispensers, and automated teller machines, which all charge comparatively lower fees.

WEALTH MANAGEMENT

KorAm Bank's royal customers are classified into Royal VIP, Royal Gold, Royal Silver, and Royal Classic categories, according to their financial net worth and dealings with the bank.

In recognition of the importance of private banking (PB) and its contribution to earnings, the bank operates diverse employee education programs, such as certificate courses and workshops, to foster PB specialists and strengthen the capabilities of its private bankers. As a result, KorAm Bank has secured a PB Group of 486 specialists, including 25 certified financial planners (CFP) and 160 Associate Financial Planners of Korea (AFPK).

In addition, through MGM(Member Get Member) promotion, the bank induced 280 new Royal Customers in 2003, leading to ₩109.6 billion in new assets. As of 2003-end, KorAm's Royal Customer base increased 25% (YoY) to 34,262 clients, and accounted for ₩9,161 billion in sales in 2003 (+1,405 billion YoY). Specifically, sales of investment products and bancassurance products to such customers reached ₩800 billion and ₩81 billion, respectively, accounting for 73% and 86% of total Bank's performance in 2003.

INVESTMENT PRODUCTS

In order to strengthen its non-banking operations, KorAm established a product development team in 2001 through alliances with various non-monetary institutions. Since its establishment, the bank has seen noticeable growth in customer asset management through sales of diverse products, including equity and bond-type securities and overseas-operated mutual funds. Through this business, we aim to help our customers enhance the value of their portfolios and provide a one-stop shop for all their financial needs, while at the same time improving our profit structure through the sale of high-margin products.

The bank now sells the investment products of nine domestic and three overseas firms. By the end of 2003, the bank had sold investment products amounting to ₩1,140 billion. In 2004, we are aiming for sales in excess of ₩2,000 billion.

At KorAm, only designated professionals are permitted to offer information on products. Employees are put through exhaustive education and training, and as of 2003-end, KorAm has 1,818 designated staff to sell such products.

We plan to develop and launch diverse investment products as part of our goal to offer customers optimal asset allocation. At present, KorAm offers a wide range of products, which include money market funds, domestic fixed income/equity funds, and foreign mutual funds. In addition, our products range from pure equity-type securities to principal protected products. Going forward, we aim to release products in a more timely manner according to market trends, and provide greater opportunities for our customers to further diversify their portfolios.

Investment Product Sales

(In billions of Korean Won)

	KorAm Bank	Banking Industry Total	Financial Industry Total
At 2002-end	1,210	20,470	181,370
At 2003-end	1,140	20,150	149,490
Change	-70	-320	-31,880
(Percentage)	(-5.7%)	(-1.5%)	(-17.57%)

As of 2003-end, KorAm Bank accounted for 0.7% of the domestic investment products market, while accounting for 5.6% of the banking industry's total.

BANCASSURANCE

From September 3, 2003, domestic banks were permitted to sell bancassurance products, enabling one-stop shopping for all individual financial needs. KorAm successfully entered the bancassurance market following the completion of a comprehensive sales infrastructure, constructed over the past 1.5 years. We forged ahead with preparations for bancassurance by providing intense education on bancassurance sales, establishing relevant business strategies, and selecting partners with the help of outside consultations.

The government decided to allow the sale of bancassurance products in three stages, with full-scale sales of all products slated for 2007. Accordingly, we saw satisfactory results in 2003, as we established sales strategies for our life insurance and single savings/annuity products, and carried out marketing activities targeting VIP customers. To target general customers, we introduced non-life insurance products with a focus on casualty, driving, and child support.

With only two professionals per branch permitted to sell bancassurance products, KorAm had 440 active bancassurance salespeople as of 2003-end, mainly PBs and Assistant PBs concentrating on advisory services regarding asset allocation for VIP customers. In preparing for the cancellation of such limitations on the number of bancassurance salespeople going forward, we have already secured 3,934 certified sales personnel as of December 2003, by implementing insurance product training programs targeting early-stage employees.

In moving forward with our bancassurance strategy, KorAm partnered with four leading life insurance carriers (Samsung, AIG, PCA, Hungkuk Life Insurance) and five non-life insurance providers (Samsung, LG, Hyundai, Dongyang, AIG), agreeing to market products offered by these companies.

Sales of bancassurance products for the first four months in 2003 amounted to ₩92 billion (based on initial premiums), accounting for 4.8% of total bancassurance product sales by banks. Commission income totaled ₩2.7 billion, and the bank recorded significantly high productivity with an average premium per policy of ₩13 million, as compared to the industry's average of ₩9.1 million.

Bancassurance sales

(In millions of Korean Won)

	KorAm Bank		Banking Industry	
	Premium per policy	Premium	Premium per policy	Premium
2003-end Market share	13	92,000 4.8%	9.1	1,906,300

OTHERS

In 2003, KorAm established an information system which specifically provides information on apartment-residing customers, and the respective size and value of each apartment. The system can provide data by apartment complex and customer group, and was created to support private bankers (PBs) with their micro marketing strategies and customer relationship management (CRM) activities. By utilizing this system, PBs can thoroughly analyze each prospective client, and offer customized products with optimal support from head office.

In addition, basic personal information of each customer has been standardized to improve CRM activities. Specifically, we aim to minimize errors in customer information thereby improving our hit ratios by channel. The same system has been applied to the credit card sector, which eventually led to a decline in the number of returned bills and mailing costs.

The bank has also implemented a target customer system, which offers continuously updated information on profitable customers for target marketing purposes. This will be utilized as fundamental data for product development going forward.

Corporate Banking

KorAm maintained industry-best asset quality of 1.31% in terms of NPL ratio, much lower than industry average of 2.6% in 2003, despite being slightly weaker than its results posted in 2002 due to a slump in the overall domestic economy and SK Network scandal.

ASSET QUALITY

Corporate loan

	2001	2002	2003
Substandard or below loan ratio	3.34%	0.70%	1.31%
Delinquency ratio	1.40%	0.60%	0.71%

In addition, the bank's delinquency ratio improved to 1.49%, from 1.89% in 2002

KorAm Bank is committed to performing comprehensive credit risk management at each lending stage in order to maintain industry-best asset quality levels.

First, we established stringent credit review guidelines centering on financially healthy enterprises during the credit review stage. Loans were disseminated with a focus on companies with feasible business plans and verified cash flows, rather than collateral-oriented loans involving real estate. In order to suppress loan concentration, we established portfolios by identifying strong industries and preemptively managed credit risks by disseminating operating loans based on these portfolios.

We also removed potential NPLs by identifying companies displaying signs of insolvency and reduced loans to such companies. In terms of systems, we upgraded our early warning system by one notch, reflecting CRT data from the Korea Federation of Bank, stock market information, and changes in financial conditions as new variables to identify companies showing signs of insolvency.

We also focus on the effective management of delinquency ratio and substandard or below loan ratio. In order to effectively manage delinquency ratio, we introduced quarterly delinquency ratio management plans, assigning goals by business segment. Furthermore, the bank immediately classified short-term overdue loans as 'precautionary' in order to prevent the extension of these loans. KorAm also implement continuous delinquency management at every branch by adjusting their independent decision rights at all times.

Regarding problematic loans (substandard or below), these have been sharply reduced by actively writing off or disposing them based on loan loss provisions reserved for bad debts.

KorAm has done its utmost to strengthen its staff's credit screening abilities to maintain asset quality. In order to boost the capabilities of all account officers, we improved our career development and training systems, and operate intensive training programs based on the case method. Other efforts include monthly training for industry and credit analysis, and the publication of credit screening manuals.

Finally, KorAm established guidance lines for quality companies (154 companies, ₩647.6 billion) to support an increase in healthy assets in the corporate banking sector, and set standard processing times for speedy credit-related decisions. The bank also cooperated with Korea Credit Guarantee Fund (KCGF) and Korea Technology Credit Guarantee Fund (KOTEC) in the electronic guarantee business, and improved credit review management systems.

SMALL & MEDIUM-SIZED ENTERPRISES (SMEs)

In 2003, KorAm posted significant growth in the Small and Medium-Sized Enterprises (SMEs) banking sector, one of its core businesses. This is attributed to strengthened relationships with quality customers and the continued development of competitive products. As of 2003-end, total won-currency loans to SMEs expanded by 27.2% (YoY), or ₩1,900 billion, to ₩8,876 billion (from ₩6,976 billion at 2002-end). This accounted for 91.9% of the increase in total corporate loans in won, which amounted to ₩2,067.8 billion in 2003. Won-currency SME loans accounted for 81.3% of total corporate loans in won in 2003, a 2.5% (YoY) rise.

Meanwhile, backed by an expansion in sales of new products, convertible foreign-currency loans and purchases of trade receivables grew sharply by 34.9% (YoY) and 72.5% (YoY), respectively, reaching ₩727 billion and ₩425 billion.

KorAm's SME client base excluding SOHO (with an average balance of loans greater than ₩0.3 billion, or imports/export of more than US\$0.5 million per annum) increased by 30.9% (YoY) to 5,541 companies at 2003-end, from 4,234 in 2002.

LARGE CORPORATE

KorAm has increased its abilities in managing Large Corporate loans, particularly since the establishment of its Large Corporate Banking Center in 2002.

With a view to managing credits amid aggravating financial market conditions, such as credit card bonds in early 2003, we tightly controlled loans to large corporations, concentrating our efforts on: (1) managing previously-made loans to financial institutions (including credit card providers), (2) enhancing profitability, by adjusting lending rates.

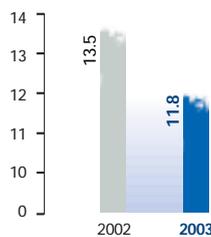
As a result, KorAm's ratio of large corporate loans to total loans (including public corporations), eased 1% (YoY) to 22% at 2003-end, from 23% a year earlier. Furthermore, the bank's domestic market share for corporate loans (including loans to large corporations) surged to 7.1% (+0.7% YoY), from 6.4% in 2002.



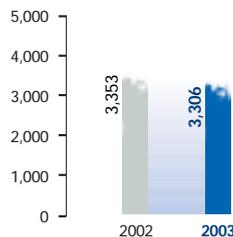
Credit Cards

	2002	2003	YoY Growth (%)
Sales volume (Wtn)	13.5	11.8	-12.6%
No. of generally accepted cards (Thousands)	3,353	3,306	-1.4%
Ending Net Receivables (Wbn)	2,507	1,998	-20.3%

Sales volume
(In trillions of Korean Won)



No. of generally accepted cards(thousand)



The domestic credit card industry faced numerous challenges throughout 2003, including a significant downturn in consumption, and a slowing economy. These factors inevitably led to deteriorating credit quality, rapidly rising delinquencies, large-scale deficits, and liquidity risks.

In this environment, credit card companies started to focus on risk management instead of volume growth through risk management baseline strategies.

Reflecting the slowing economy and difficult market conditions, KorAm was devoted to stringent risk management to improve asset quality. In addition, the bank restructured its loan portfolio by inducing new card members with a focus on asset quality, while discouraging usage by poor credit holders. Furthermore, we pursued greater efficiency through reductions in marketing costs and other streamlining efforts, while realigning pricing policy to bolster profitability.

Accordingly, despite posting sluggish results relative to 2002, the ratio of bad assets to total assets sharply decreased

(26.5%p YoY) in 2003, allowing us to construct a stable, forward-looking earnings base.

KorAm's strategic path in 2003 is as follows:

First, a CRM program was implemented to boost quality assets, while retention and loyalty programs were activated. Additionally, we are retaining customers through an up-selling program by upgrading products, benefit offers, etc. On the other hand, services such as 'Revolving Services,' are given to quality customers to enhance loyalty.

We also consolidated various types of pricing policies to improve profitability. Specifically, we carried into effect a number of measures which would significantly contribute to boosting profitability in the credit card business going forward, such as: (1) optimizing interest rates for cash advances and delinquencies, (2) newly establishing handling fees for cash advance transactions, (3) changing credit grace periods, and (4) applying score-based differentiated pricings by customer grade.

In addition, KorAm continued to concentrate on strengthening risk management. In 2003, we further consolidated our CB system by upgrading our scoring systems, constructing a fraud detection system, and enforcing proper workout programs. As a result, delinquency ratios continued to decline throughout the year.

Generating new revenue drivers and increasing quality assets were also on our mandate in 2003. To begin with, we sought to meet a variety of customer needs by successfully introducing gift cards in the second half of 2003. In addition, we rolled out platinum cards as a strategic product, inducing the activation of new and existing quality customers.

Finally, we reorganized and incorporated the Shinsegae Card Team with the KorAm Credit Card Team in order to bolster work efficiency, improve all processes, and reduce costs.

Such endeavors pursued in 2003 should allow the bank to proactively cope with the rapidly changing market environment, and significantly contribute to systematic portfolio management as our core basis going forward.

Financial Market

In 2003, entering a full-scale development stage, the Financial Market Department sought to maximize earnings relative to risks through diverse portfolio management by professionals in each field. The department has prepared a foundation for continued growth, creating stable earnings sources based on diverse asset operations and product offerings.

The department generated earnings of ₩77.1 billion in 2003 and significantly contributing to the bank's overall earnings. As for won-denominated funds, we timely and properly responded to interest rate risks, increasing durations and holding when interest rates were on the downturn, and decreasing durations when they were on the rise. This led to exceptional results, exceeding the performance of both the stock and bond markets. Furthermore, in 2003 we posted earnings of ₩8.9 billion from won-denominated equity portfolio (+129% YoY) by timely coping with the stock market's rise since the second quarter of 2003.

Foreign exchange business also displayed positive results in all sectors, particularly foreign exchange and currency options, which saw 2003 earnings rise by 32% (YoY) and 79% (YoY), respectively. This is attributed to: (1) better management of foreign exchange positions, (2) an expanding customer base through active marketing, and (3) the establishment of stable revenue drivers by developing a variety of derivative-based investment securities.

In 2003, KorAm generated ₩690 billion in sales from equity-linked deposits, which were developed to meet the expectations of high returns in an era of low interest rates. Interest rates for the majority of these deposits hovered between 6~7.5%, exceeding those of time deposits by 2~3%.

The Currency Options Team, which began from 2001, produced outstanding results in 2003, with earnings of ₩8.9 billion (+79% YoY), and maintained the largest market share for the second consecutive year. This was due to the unit's efforts to secure stable earnings sources while meeting the needs of companies to hedge against foreign exchange risks through the development of currency options products.

Meanwhile, market and operational risks have been steadily increasing with the expansion of derivative products. Accordingly, Middle Office, which is operated separately from other divisions to provide an objective analysis and evaluation, effectively carried out risk management using VaR, stress tests, simulations, and a wide array of sensitivity indicators.

Investment Banking

In 2003, KorAm displayed substantial growth and development in the area of investment banking (IB), providing financial advisory services for social overhead-capital (SOC) projects, the first to do so among domestic commercial banks. The IB Department has now grown into a solid group following the integration of the asset-backed securities (ABS) trustee, equity investment, project finance and DCM units at the beginning of the new millennium. The department generated record-high results for two consecutive years from 2002, despite sluggish facility investments by corporations and dampened economic conditions. In 2003, the department saw earnings rise by CAGR 52% for past three years, which prepared a foundation for high-end asset transactions.

In 2003, the Project Finance and DCM unit generated earnings of ₩11.3 billion (+12% YoY) including leading two major syndicated loans. The unit was also the first domestic bank to provide advisory services for a private investment SOC project, thereby increasing competitiveness in the SOC market.

KorAm was very active in the ABS market in 2003, capturing 8% of the domestic market, with a total of ₩2.4 trillion in assets under management, including ₩1 trillion in corporate trade receivables, ₩536.1 billion in collateralized bond obligations (CBOs), ₩435.5 billion in card trade receivables, and ₩393.3 billion in installment loans. In 2003, the ABS unit focused on improving profitability through high-yield ABS issues, and on heightening efficiency by installing an ABS trustee management system. As a result, KorAm's ABS unit posted record-high earnings of ₩14.3 billion in 2003, a rise of more than 50% (YoY).

The Equity unit made conservative investments of approximately ₩2 billion in five companies during 2003, due to a sluggishness in the Kosdaq market and a downturn in the IT sector. Nevertheless, the bank collected ₩3.2 billion from its equity investments and generated earnings of ₩1.2 billion after reflecting impaired losses on investment securities.

Meanwhile, the International Banking Team arranged a transferable term loan facility (TTLF) of US\$140 million in May, and another TTLF worth US\$150 million in September 2003.



Risk Management

RISK MANAGEMENT DEPARTMENT

KorAm operates a Risk Management Organization comprising of a Risk Management Committee and a Risk Management Department (RMD), which is independent from all other operations. Encompassing integrated risk, credit risk, trading market risk, asset liability management, and credit review, it is the RMD's responsibility to assess company-wide risks based on scientific standards. In addition, KorAm operates its consumer credit risk management department as a separate entity in order to manage risks related to consumer banking, which have been on the rise as of late.

INTEGRATED RISKS

KorAm Bank has operated on the basis of risk-adjusted return on capital (RAROC) since 2002 in order to manage integrated risks. RAROC, a risk-adjusted performance measurement system for the integrated management of risks and earnings, not only enables us to measure outcomes by each business sector, but also provides indicators that can be used as reference for value-based decisions with a view to enhancing shareholder value. The RAROC system is also a tool that enables us to recognize, measure and manage integrated risks based on the independent management methodologies of individual risks. Currently, we are setting up risk tolerance limits on a semi-annually basis utilizing the RAROC system, are measuring and managing risks on a monthly basis, and are reported to management on a quarterly basis. We also plan to reflect RAROC results in the evaluation of the business group's performance beginning from 2004.

RAROC = Risk Adjusted Return / Capital

- 1) Risk Adjusted Return = Revenue - Cost - Expected Loss + Capital Benefit - Tax
- 2) Capital
Capital volume required given target risk levels
Target credit rating: BBB- (S&P), Confidence level: 99.5%

	2003
RAROC	14.0%
Total Capital	₩1,482 billion
Available Capital	₩2,045 billion

CREDIT RISKS

KorAm Bank's loan approval and monitoring systems are based on the credit ratings of individual assets, leading to differentiated applications of lending rates in accordance with the credit ratings of individual debtors. We reflect credit risk premiums in the evaluation of branches, to spread a culture of risk awareness. Even after the execution of credit loans, we inquire into the credit levels of debtors. In addition, if there is any sign of potential weakness in the borrower's debt-paying ability, we designate such borrower as a watched account and closely monitor such the situation. We have established and operated portfolio management policies by credit rating and industry in order to apply appropriate portfolio management strategies. We also use tools such as the 'Credit Ceiling System for Individual Borrower and/or its Affiliates' to prevent loan concentration on the same debtors or debtor groups.

The bank measures risks on a monthly basis using credit portfolio models to meet its target risk levels. At the end of 2003, our credit risks were measured to reach ₩1,113 billion. All these efforts, backed by the bank's excellent credit review and analysis, significantly contributed to advancing the soundness of our loan assets, will continue to be the foundation for excellent asset quality.

MARKET RISKS

The bank sees to it that losses on trading positions, which can be generated due to diverse changes in interest rates, foreign exchange rates, and stock prices, are kept within acceptable levels. To this end, we have established a Position Limit, Loss Limit, and Value at Risk (VaR) Limit. We also demand that traders observe such limits while monitoring their positions on a daily basis. In addition, we measure our daily VaR position, the maximum estimated loss to be generated for the next ten business days, using Variance-Covariance, Historical Simulation, and Monte-Carlo Simulation Models.

Furthermore, we run Stress Testing on a regular basis to measure estimated losses that can be generated under extreme market conditions, and Scenario Analysis to measure the possible changes in portfolio values in accordance with changes in market variables. Back Testing is also executed on a daily basis to verify the appropriateness of our VaR models. Of note, the VaR of our trading accounts amounted to an average of ₩12.4 billion and maximum of ₩17.0 billion during 2003.

ASSET & LIABILITY MANAGEMENT

KorAm Bank's liquidity risk management aims to secure an appropriate level of liquid assets for the payment of deposits and borrowings. On this note, we control the maturities of our assets and liabilities by setting liquidity gap limits, and prepare against liquidity risks due to tight financial markets by setting up several contingency plans. The bank's interest rate risk management is designed to control changes in interest income and the value of non-trading portfolios that are influenced by changes in market interest rates. We measure changes in the value of non-trading portfolios through Net Present Value Simulation and Value at Risk Analysis on a monthly basis. In addition, changes in net interest income are measured through Net Interest Income Simulation and Earning at Risk Analysis every month.

CREDIT REVIEW

KorAm Bank operates an independent credit review unit, separate from the Credit Risk Management Group, to improve asset quality. The Credit Review Unit engages in the re-evaluation of approved loans so that the bank's credit evaluation can be made consistently and properly. In addition, it operates an early warning system to improve the bank's asset soundness by detecting signs of loan deterioration.

CONSUMER CREDIT RISK MANAGEMENT DEPARTMENT

The Consumer Credit Risk Management Department plays a pivotal role in identifying and minimizing risks associated with specific activities and processes in consumer banking. While supervising the consumer credit cycle, the department develops risk acceptance criteria and conducts a credit review process. Also, their expertise in risk management has provided invaluable feedback in designing new product offerings.

Specifically, the department uses various analytical tools to analyze loan performance and monitor changes in loan quality. The department is also responsible for establishing risk acceptance criteria, operating the credit scoring system using various methods to prevent default, and securing the soundness of consumer credit assets. It is also responsible for monitoring and screening customers' credit statuses through credit bureau information shared with other financial institutions. Furthermore, the department collects delinquent loans utilizing an advanced call system and its 260+ specialized loan collectors. Finally, the department reflects the risk calculated from each credit process in the planning of new products.

Importantly in 2003, the department upgraded its management information system to promptly and appropriately counter various risks in order to improve risk management techniques and asset quality. Second, we expanded prime customers and greatly improved our asset quality by extensively utilizing upgraded scorecards to a lot of sectors including acquisition, line management, marketing, and collection. The department is maintaining KS ratio of at least 65% by monitoring the performance of scorecards on a regular basis. Risk acceptance criteria for household loans and credit card receivables have been streamlined in preparation for the continued economic slowdown and the downturn in real estate.

The newly developed fraud detection system reduced fraud by more than 50% and the successful operation of the upgraded collection increased the amount of collections per person by more than 30%. Delinquency ratios for household loans greater than one day remained low at 1.18%, while such ratios for credit cards declined 3.3%p (YoY) to 9.5%. In addition, newly generated delinquencies from household loans and credit cards were reduced by 16% (YoY) and 42% (YoY), respectively. Meanwhile, as to the ratio of loan loss provisions to receivables that are overdue by more than three months, the ratio for household loans and credit cards stood at 129% and 140%, respectively. Regarding credit card workout assets, we minimized the generation of additional losses by earmarking a 60% loan loss provision.

OPERATING PLATFORMS

INFORMATION TECHNOLOGY

KorAm has constructed a stable IT infrastructure to proactively cope with a rapidly changing financial environment and to accomplish management objectives. In order to stabilize our systems, we constructed a disaster recovery center together with Hyundai Information Technology, an SI company specializing in the IT-related systems integration, in June 2000.

In January 2002, a number of other KorAm business lines were added to the systems, including credit cards, external banking, automated systems, and electronic settlements, which has allowed the bank to centralize its key operations. We also completed the construction of an expanded disaster recovery system in March 2003, which enables the recovery of accidents in account businesses (deposits, loans, and foreign exchange). The newly constructed system features a curtailment in recovery time to three hours from 24 hours.



With the construction of these speedy and deliberate disaster recovery systems, we are able to minimize losses and guarantee stable solutions to our customers if disaster occurs. Furthermore, these systems will improve the stability and reliability of our services, as well as satisfy the government's requirements for countermeasures against emergencies in the information technology (IT) sector.

In order to expand KorAm's Internet-based customer services and operate stable IT support systems, we established protection measures by evaluating protection levels on information assets. We also obtained certification for our information protection management system (BS7799) from the British Standards Institution in December 2003, and carried out information protection consultations during May~December 2003 for the prevention of electronic trespassing. All these efforts are to eliminate diverse threats and risk factors that adversely affect our information protection systems.

Currently, we are constructing new information systems in cooperation with HP Korea in order to (1) reflect changes in market conditions of late (2) realize a non-stop business support system, (3) consider the terminating life cycles of current systems, (4) construct an open system-based financial IT environment and (5) modify databases. This 18-month project, which commenced in August 2003, is scheduled for completion in February 2005, and will provide non-stop business support for an open system-based financial IT environment.

We also reconstructed a report output system (September 2003) allowing speedy responses to inquiries by customers for all transactions details. Several processes have also been streamlined with a view to simplify the handling of new inquiries.

Additionally, in an effort to enhance the efficiency of our business processes and to secure customer and marketing-oriented terminal systems, we reconstructed online terminals to Web versions.

Other efforts include server integration to actively support the bank's core businesses (bancassurance, bills, retail and corporate loans, IC card systems), and improve the efficiency of legacy systems by maximizing the utilization of existing hardware infrastructure. We also strive to construct low-cost, efficient IT systems by moving towards the informatization of our customer relations system, while strengthening IT security and internal control.

Also underway is the streamlining of our computerization systems in preparation for the enactment of the New Basel

Accord, slated for 2006. We strive to become a premier IT specialist group with expertise in financial businesses by establishing new policies and models by upgrading the capabilities of IT manpower and organizations.

INTERNET BANKING

KorAm Bank provides advanced financial services in line with the development of the IT sector to correspond with diversifying needs of customers and to protect the financial assets of our customers. To this end, we have developed a variety of Internet products, leading to a 26.4% (YoY) increase in Internet banking customers to 434,064. We also deliver a variety of financial information through email notifications on all transactions. As a result, the number of customers who have subscribed to our email services amounted to 1,573,085, rising 29.8% from a year earlier.

We also strengthened the functions of our homepage (www.goodbank.com), which was revamped on October 7, 2003 to meet changes in our CI and user environment. The revamped homepage enables convenient usage without additional login procedures. It also gives more diverse and personalized options featuring 'My Good Bank Service,' which provides specialized personal banking services tailored to individual tendencies, personal financial management service (PFMS), personal itinerary management service (PIMS), and supplementary services (such as e-card & e-letter services).

In addition, KorAm unveiled insurance site (www.goodbankinsu.com) on July 31, 2003, specializing in insurance products and services related to bancassurance services. Accordingly, the bank now operates four financial homepages (excluding its banking homepage), including insurance, credit cards (www.goodbankcard.com), loans (www.goodbankloan.com), deposits and investments (www.goodbankinvest.com).

In order to develop new products and maximize sales, we introduced 'Internet Tuition Loan' services, an Internet product for college and postgraduate students in Korea. This government loan product can be applied for on the net and is automatically delivered to relevant colleges.

We also handled Internet applications for the purchase of apartments and officetels (multi-use studios) in line with the strengthening domestic real estate market, which amounted to 4,016 cases and ₩111,380 million (out of a total of 36,005 total cases and ₩1,015,430 million). As such, the Internet has proven to be a vital revenue channel for KorAm Bank, benefiting both customer convenience and overall earnings.

To diversify our access channels and to maximize business efficiency, we introduced personal digital assistant (PDA) banking services in March, following the launch of computer and cell phone banking services. The launch of related Internet banking services includes foreign exchange services (January 2), exchange rate information mailing services (April 21), and short messaging services (SMS) to notify customers of their deposit account transactions on real-time basis (October 27). Other services are free real-time mini foreign exchange tables for the homepages of customers (corporate) and inquiries on change in foreign exchange rates following market trends (December 22). Internet banking services are not only creating new earnings sources for KorAm, but are also significantly contributing to customer satisfaction and the capabilities of branch businesses.

NEW BANKING BUSINESSES

The New Banking Business Department performs tasks relating to transaction-banking services, new e-businesses (including channels) and electronic finance targeting corporate customers as following: (1) R&D and promotions, (2) the establishment of strategies and decision-making about relevant commissions, (3) the enactment, revision and abolition of relevant rules and regulations, (4) planning, operation, improvement and business support for electronic finance—B2B, CMS (CAT-i), purchasing/reverse-purchasing card, electronic-type bond receivable-backed loans, (5) marketing planning of electronic finance(including internet-banking), and (6) the establishment of strategies for and the promotion of relevant commission income expansion.

In 2003, the department was primarily committed to expanding its e-banking services, securing leadership in the B2B market through core financial products including purchasing / reverse-purchasing card, and reaching new markets through the introduction of new settlement systems.

In order to expand e-banking services, we integrated corporate banking with Internet banking services, and strengthened corporate fund management services by introducing sweeping and other services.

For market expansion through the introduction of new settlement systems, we participated in the B2B common network created by KCGF and Korea Financial Telecommunications & Clearings Institute (KFTC), and prepared a foundation to preoccupy the B2B settlement market through the development of advanced payment solutions for the e-marketplace.

In addition, KorAm has also developed and operated 'Instant e-Loan' services since June 2003. 'Instant e-Loan' is an immediate loan product based on short-term trade receivables, which can be settled by credit card at portal sites or Internet shopping malls. In addition, the bank has made preparations to enter the short-term settlement market before other players by adding Escrow and Virtual Account functions.

The Call Center currently processes about 40 million cases, or 22%, of the bank's total transactions on an annual basis, of which banking and credit card transactions make up 78% and 22%, respectively. Meanwhile, the ratio of ARS transactions to total transactions amounted to 87%, or 28 million cases. The number of phone banking users for monetary transfers was 326,000, which is 8% of total customers.

Major inbound services include consultations on deposits and loans, generating ₩19.7 billion and ₩32.5 billion, respectively. Regarding outbound services, the loyalty program recorded an increase of ₩89.4 billion in deposits (including ₩15.4 billion in investment products), centering around intense management of 85,000 middle customers, thereby significantly contributing to an expanding customer base and heightening customer loyalty.

In addition, the call center sought concentration of operations including deposit maturity management program (₩332.8 billion, ratio of retention: 65%), and loan maturity management program (₩1,412.0 billion, ratio of retention: 80%) while operating a diverse range of strategic programs. Particularly, outbound services became our core competence, with a broad array of activated businesses using minimum personnel.

Operated for customer satisfaction and systematic resource management are the Call Abandon Ratio and Average Speed Answer. We also concentrate on the development of marketing skills and processes for customer satisfaction and the continuous improvement of customer consultation services through intensive quality assurance/training programs.

In addition, KorAm has prepared a foundation to strengthen its marketing capabilities and management efficiency by integrating its branch telephone systems. By increasing customers' convenience and enabling 'One Call Resolution' through exclusive applications for outbound credit card services, we have secured systematic CRM and enhanced productivity, as well as improved all customer-centered processes.



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MANAGEMENT'S DISCUSSION AND ANALYSIS



Net Interest Income

(In billions of Korean won, %, %p)

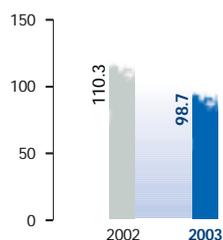
	2002	2003	(YoY)Change
Operating results			
Net interest income	731.3	770.8	5.4
Net income	260.4	46.2	-82.3
Per share data (won)			
Dividend per common share*	375	150	225
Earning per common share*	1,326	239	1,087
Profitability ratios			
ROA	0.79	0.11	-0.68
ROE	17.18	2.90	-14.28
Net interest margin**	3.24	2.70	-0.54
Net interest spread**	2.94	2.92	-0.02
Balance sheet data at year-end			
Total assets	37,097.4	43,001.2	15.9
Loans	24,953.4	29,711.3	19.1
Deposits	20,789.8	25,006.8	20.3
Securities	8,244.7	9,290.4	12.7
Shareholders' equity	1,691.9	1,614.2	-4.6
Asset Quality Ratios			
Coverage ratio***	110.3	98.7	-11.60
NPL ratio (substandard and below)	1.13	1.60	0.47
Capital Ratios at Year-end			
Total capital ratio	12.11	10.98	-1.13
Tier 1 capital	6.53	6.63	0.1
Tier 2 capital	5.72	4.40	-1.32

* Adjusted to audit criteria

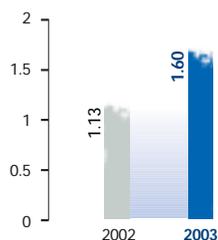
** Based on internal criteria

*** Adjusted to changed accounting guideline, which excluded provisioning for loans sold to KAMCO off the provision account since the 4th quarter of 2003, but included provision for unused credit line of cash advance.

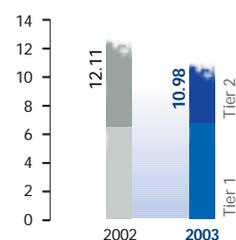
Coverage ratio (%)



NPL ratio (%)



Total capital ratio (%)



MANAGEMENT'S DISCUSSION AND ANALYSIS

30

Overview

The year 2003 saw poor business conditions unfold due to the negative credit cycle and intensifying market competition. Nonetheless, KorAm Bank posted net interest income of ₩770.8 billion, which is a rise of 5.4% year-on-year (YoY), thanks to efficient business activities. Net income, on the other hand, significantly dropped by 82.3% (YoY) to ₩46.2 billion on the back of the SK Networks scandal, increases in non-performing loans (NPLs) including credit card, and burden for loan loss provisioning.

Total assets rose 15.9% (YoY) to ₩43,001.2 billion as of 2003-end, while total loans advanced ₩4,757.9 billion (YoY) to ₩29,711.3 billion. Meanwhile, deposits surged 20.3% (YoY) to ₩25,006.8 billion. However, ROA and ROE backed off to 0.11% and 2.90%, respectively, behind a fall in net income due to rise in loan loss provisions. NIM and NIS also fell by 0.54%p (YoY) and 0.02%p (YoY), respectively, to 2.70% and 2.92%, led by a downward stabilization of interest rates and steep drop in credit card receivable.

The NPL ratio stood at 1.60% as of 2003-end, up 0.47%p from the previous year, while the coverage ratio dropped 11.6%p over the year to 98.7%. Risk-weighted assets expanded due to an increase in total assets. Meanwhile, the bank's BIS capital ratio backed off 1.13%p (YoY) to 10.98% as of 2003-end due to a fall in net income.

Income Statement Analysis

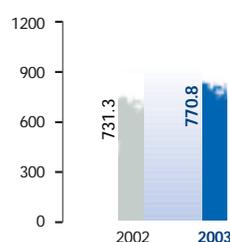
KorAm Bank posted net interest income of ₩770.8 billion in 2003, a rise of 5.4% (YoY). However, non-interest income dropped 16.9% (YoY) to ₩226.5 billion. In addition, selling & administrative expense rose 2.2% to ₩419.6 billion, while net non-operating income contracted by 50.1% (YoY) to ₩51.2 billion in 2003. However, provisions & insurance premiums surged 73.5% (YoY) to ₩562.8 billion in 2003, leading to a 82.3% drop in net income, which fell to ₩46.2 billion, despite a slight rise in net interest income.

Income Statement Summary

(In billions of Korean won, %)

	2002	2003	(YoY) change	% change
Net interest income	731.3	770.8	39.5	5.4
Net non-interest income	272.5	226.5	-46.0	-16.9
Selling & administrative expense	410.6	419.6	9.0	2.2
Net non-operating income	102.6	51.2	-51.4	-50.1
Provisions & insurance premiums	324.4	562.8	238.4	73.5
<Insurance premiums>	111.0	121.0	10.0	9.0
Tax	111.0	19.9	-91.1	-82.1
Net income	260.4	46.2	-214.2	-82.3

Net interest income
(In billions of Korean won)



* Insurance premiums were classified as provision.

Net Interest Income

Net interest income rose by 5.4% (YoY) in 2003, to ₩770.8 billion, with both interest income and interest expense increasing. Specifically, interest income grew more in terms of absolute value, however interest expense saw greater growth in percentage terms. Interest income advanced 8.1% (YoY) to ₩2,133.0 billion, of which, interest on loans increased 12.5% (YoY) to ₩1,615.3 billion, while other interest income only slightly increased (YoY) to ₩17.1 billion. On the contrary, interest on securities backed off by 4.4% (YoY) to ₩500.6 billion.

Interest expense climbed 9.7% (YoY) to ₩1,362.2 billion, but interest on deposits, which makes up the largest portion of interest expense, merely edged up by 1.0% (YoY) to ₩805.7 billion. Interest on debentures saw the greatest increase among interest expense components, ballooning 41.0% (YoY) to ₩267.1 billion in 2003. Meanwhile, interest on borrowings advanced 8.9% (YoY) to ₩254.0 billion during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Interest Income

(In billions of Korean won, %)

	2002	2003	(YoY) change	% change
Interest income (a)	1,973.2	2,133.0	159.8	8.1
Interest on loans	1,435.8	1,615.3	179.5	12.5
Interest on securities	523.4	500.6	-22.8	-4.4
Other interest income	13.9	17.1	3.2	23.0
Interest expense (b)	1,241.8	1,362.2	120.4	9.7
Interest on deposits	797.9	805.7	7.8	1.0
Interest on borrowings	233.2	254.0	20.8	8.9
Interest on debentures	189.4	267.1	77.7	41.0
Other interest expenses	21.3	35.4	14.1	66.2
Net interest income (a-b)	731.3	770.8	39.5	5.4

NIS & NIM

NIS edged down 0.02%p over the year to stand at 2.92% at 2003-end. Interest on won-currency loans fell 0.48%p to 6.55%, while interest on won-currency deposits slumped 0.46%p to 3.63%. Accordingly, the bank saw a slight decline in NIS in 2003.

Meanwhile, NIM contracted 0.54%p (YoY) to 2.70% behind a downward stabilization in interest rates. On the other hand, the bank saw average interest bearing assets rise ₩6,382.5 billion YoY to ₩35,962.4 billion due to an expansion in business volume.

NIS & NIM

(In billions of Korean won, %)

	2002	2003	(YoY) change
Avg. interest bearing assets	29,579.9	35,962.4	6,382.5
Adjusted Net interest income*	958.9	970.7	11.8
NIM*	3.24%	2.70%	-0.54%p
Interest rate of Won loans	7.03%	6.55%	-0.48%p
Interest rate of Won deposits**	4.09%	3.63%	-0.46%p
NIS	2.94%	2.92%	-0.02%p

* Internal criteria (Including fees from retail sales of credit card)

** Including NCD

Non-interest income

Net non-interest income fell 16.9% (YoY) to ₩226.5 billion in 2003. G'ty fees & commissions increased by 4.2% (YoY) to ₩197.5 billion, and gains from securities and gains from FX & Derivatives decreased slightly compared to previous year.

Selling & administrative expenses remained almost flat, increasing by only 2.2% (YoY) to ₩419.6 billion due to the bank's efforts to enhance the efficiency.

Non-Interest Income

(In billions of Korean won, %)

	2002	2003	(YoY) change	% change
G'ty fees & Commissions	189.6	197.5	7.9	4.2
Gains from Securities	8.6	8.5	-0.1	-1.0
Gains from FX & Derivatives	61.6	58.7	-2.9	-4.8
Other	12.7	-38.2	-50.9	N/A
Net Non-Interest Income	272.5	226.5	-46.0	-16.9

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Selling & Administrative Expenses

(In billions of Korean won, %)

	2002	2003	(YoY) change	% change
Salaries	169.2	188.5	19.3	11.4
Provision for current year severance & retirements benefits	20.2	21.4	1.1	5.6
Other employee benefits	29.6	31.3	1.7	5.6
Depreciation on property	42.9	46.8	3.9	9.2
Tax and dues	48.7	41.9	-6.8	-13.9
Others	100.0	89.7	-10.3	-10.3
Selling & Administrative Expenses	410.6	419.6	9.0	2.2

Loans

Won-currency loans surged 25.3% (YoY) to ₩20,582.8 billion as of 2003-end. Observing their composition, loans to small and medium-size enterprises (SMEs) and to households slightly increased from a year earlier, while the portion of credit card loans to total loans declined relative to 2002. Meanwhile, won-currency loans to large corporations declined 9% (YoY) to ₩1,854.7 billion, and won-currency SME loans surged 27.2% (YoY) to ₩8,876.1 billion.

Household loans rose 27.5% (YoY) to ₩9,663.0 billion as of 2003-end, while their proportion to total won-currency loans rose by 0.8%p (YoY) to 46.9%. Such a rise in consumer loans was attributed to an increase in household loans following a bullish real estate market. Additionally, credit card loans fell 20.3% (YoY) to ₩1,998.3 billion at 2003-end.

Loan Portfolio

(In billions of Korean won, %)

	2002		2003		(YoY)	
	Amount	%	Amount	%	Amount	%
Loans in Won	16,428.0	100.0%	20,582.8	100.0%	4,154.8	25.3%
Large Corp.	1,549.8	9.4%	1,854.7	9.0%	304.9	19.7%
SME	6,975.5	42.5%	8,876.1	43.1%	1,900.6	27.2%
Consumer	7,575.9	46.1%	9,663.0	46.9%	2,087.1	27.5%
Others	326.8	2.0%	189.0	0.9%	-137.8	-42.2%

Asset quality

Substandard or below loans amounted to ₩460.7 billion at the end of 2003, which is a rise of 156.7 billion, from ₩304.0 billion at 2002-end. This was primarily due to loans to SK Networks (₩124.8 billion), which were classified as substandard. However, when excluding loans to SK Networks, substandard or below loans increased by only ₩31.9 billion (YoY) to ₩335.9 billion as of 2003-end.

The percentage of substandard or below loans to total loans stood at 1.60% at 2003-end, up 0.47%p from 1.13% at 2002-end. Despite this rise, KorAm Bank posted industry-best results related to asset soundness. Furthermore, the weighting is deemed satisfactory, as it stands at only 1.17% when excluding loans to SK Networks. This is a positive result attributed to the bank's active post loan management and sound loan lending practices.

Loan loss provisions jumped 88.8% (YoY) to ₩441.3 billion in 2003, as additional provisions were set aside mainly for loans related to SK Networks. Furthermore, the bank continues to stand by its conservative loan loss provisioning practices and early write-off policy for the credit cards. Although overall write-offs declined 21% (YoY) to ₩272.9 billion as of 2003-end, write-offs for the credit card sector ballooned 137.9% (YoY) to ₩158.2 billion due to a rise in the portion of the bank's own write-offs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

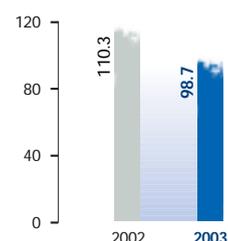
Asset Quality Classification

(In billions of Korean won, %)

	2002	2003	Amount	% change
Total Credits	26,824.9	28,821.6	1,996.7	7.4%
Normal	26,106.5	28,179.0	2,072.5	7.9%
Precautionary	414.4	181.9	-232.5	-56.1%
Substandard	227.1	216.8	-10.3	-4.5%
Doubtful	51.0	139.7	88.7	173.9%
Loss	25.9	104.2	78.3	302.3%
Precautionary or below loan ratio	2.68%	2.23%		-0.45%p
Substandard or below loan ratio	1.13%	1.60%		0.47%p
Coverage ratio for precautionary or below *	46.7%	70.7%		24.0%p
Coverage ratio for substandard or below *	110.3%	98.7%		-11.6%p
Delinquency ratio	1.89%	1.49%		-0.40%p

* LLRs: Provision for loans in banking account + Provision for credit card unused CA line + Allowance for guarantees + Allowance for valuation of receivables in trust account (Principal guaranty only)

NPL Coverage ratio (%)

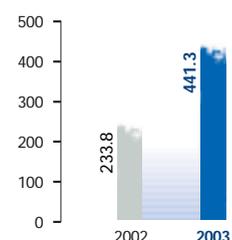


Provision & Write-Offs

(In billions of Korean won, %)

	2002	2003	Amount	% change
Provisions (Expense)				
Corporate	66.9	146.6	79.7	119.1%
Consumer	48.8	36.1	-12.7	-26.0%
Credit card	118.1	258.6	140.5	119.0%
Total	233.8	441.3	207.5	88.8%
Write-offs				
Corporate	273.1	105.5	-167.6	-61.4%
Consumer	5.7	9.2	3.5	61.4%
Credit card	66.5	158.2	91.7	137.9%
Total	345.3	272.9	-72.4	-21.0%

Provision
(In billions of Korean won)



BIS Capital Ratio

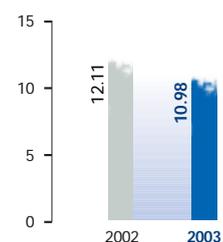
Total capital as of 2003-end amounted to ₩2,901.8 billion, surging 13.6% (YoY) from a year earlier. Specifically, Tier I capital swelled 27.2% (YoY) to ₩1,752.3 billion, mainly behind the conversion of preferred stock into common stock, and the issuance of hybrid notes. However, despite the issuance of subordinated bonds, Tier II capital declined 3.6% (YoY) to ₩1,163.2 billion due to amortization of subordinated debts. Meanwhile, risk-weighted assets rose 25.4% (YoY) to ₩26,438.3 billion at 2003-end, due to an expansion in business volume. Consequently, the bank's BIS capital ratio fell 1.14%p (YoY) to 10.98%. KorAm's Tier I capital ratio increased 0.09%p (YoY) to 6.63%, while its Tier II capital ratio fell 1.32%p (YoY) to 4.40%.

BIS Capital Ratio

(In billions of Korean won, %)

	2002	2003	Change
Tier I	1,377.8	1,752.3	27.2%
Tier II	1,206.5	1,163.2	-3.6%
Investment in unconsolidated subsidiaries	30.1	13.7	-54.5%
Total capital	2,554.2	2,901.8	13.6%
Risk-weighted assets	21,086.2	26,438.3	25.4%
BIS ratio	12.11%	10.98%	-1.14%p
Tier I capital ratio	6.53%	6.63%	0.09%p
Tier II capital ratio	5.72%	4.40%	-1.32%p

BIS ratio (%)



INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

English Translation of a Report Originally Issued in Korean

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Anjin & Co.
14th Floor, Hanwha Securities Building,
23-5 Yoido-dong, Youngdeumgpo-ku,
Seoul 150-717, Korea
Tel : 82-2-6676-1000, 1114
Fax : 82-2-785-4753, 786-0267
www.anjin.co.kr

**Deloitte
Touche
Tohmatsu**

To the Shareholders and Board of Directors of KorAm Bank :

We have audited the accompanying non-consolidated balance sheets of the bank accounts of KorAm Bank (the "Bank") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

As explained in Note 2, The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Statements supersede the relative articles of existing accounting standards and constitutes generally accepted accounting standards of the Republic of Korea. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) from January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Reporting) through No.9 (Convertible Securities), starting from January 1, 2003. The Bank restated the retained earnings of 2002 financial statements in accordance with SKAS No.6 (Events Occurring after the Balance Sheet Date), which decreased liabilities and increased net assets by ₩76,724 million (US\$64,054 thousand), compared to those accounted for using the previous method. In addition, in accordance with the initial adoption of SKAS No.8 (Investments in Securities) for the year ended December 31, 2003 and for comparative purposes, the Bank reclassified the 2002 financial statements relating to securities, which had no effects on the Bank's total assets, retained earnings and net income.

As disclosed in Notes 4, 5 and 14, as of December 31, 2003, the total credits (including confirmed acceptances and guarantees) owed by and the available-for-sale securities issued by SK Networks and its overseas affiliates amounted to ₩124,771 million (US\$104,167 thousand) and ₩40,860 million (US\$34,113 thousand), respectively. The Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩51,830 million (US\$43,271 thousand) in connection with the credits, and recognized loss on impairment of available-for-sale securities of ₩602 million (US\$503 thousand) for the year ended December 31, 2003. In October 2003, the Bank converted ₩80,356 million (US\$67,086 thousand) of loans and securities to equity interests issued by SK Networks under the restructuring plan agreed by Creditor Financial Institution Committee of SK Networks. As of December 31, 2003, the book value of equity interests acquired through troubled debt restructuring consist of ₩20,932 million (US\$17,475 thousand) of common stock and ₩17,521 million (US\$14,628 thousand) of redeemable preferred stock. In addition, the Bank acquired ₩13,693 million (US\$11,432 thousand) of convertible debt and ₩6,550 million (US\$5,468 thousand) of loans to be converted to preferred stock, pursuant to troubled debt restructuring agreement in October 2003. As of December 31, 2003, the Bank has provided an allowance for possible loan losses of ₩7,545 million (US\$6,299 thousand) for the convertible debt and the loans to be converted to preferred stock.

According to the Corporate Restructuring Promotions Law, the Creditor Financial Institution Committee of SK Networks has identified SK Networks as "possible insolvency company" in March 2003, and the negotiations for normalization of business



are in process as of December 31, 2003. Going-concern issue of the company will highly depend on the future progress of the company's restructuring plan and effective support of financial creditors. Therefore, actual credit loss from this credit exposure may differ materially from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

As disclosed in Note 31, certain credit card companies in Republic of Korea are facing shortage of funds due to delinquency in credit card receivables. LG Card Co., Ltd., one of the credit card companies, had received liquidity support of ₩2,000 billion (US\$1,670 million) on November 24, 2003 due to serious insolvency problem, and the Creditor Financial Institution Committee of LG Card Co., Ltd. has agreed to provide additional liquidity support of ₩1,600 billion (US\$1,336 million) and convert debts of ₩2,000 billion (US\$1,670 million) to equity interests in January 2004.

As of December 31, the Bank does not hold either loans or securities of LG Card Co., Ltd. in the bank account; however, the trust account holds commercial papers and public offered bonds of ₩127,516 million (US\$106,459 thousand) issued by LG Card Co., Ltd. including Specified Monetary Trust of ₩107,517 million (US\$89,762 thousand). The Board of Directors of the Bank has assented to participate in new liquidity support of ₩33.4 billion (US\$28 million) according to the creditors joint management program of LG Card Co., Ltd. Pursuant to such arrangement, the Bank has provided funds of ₩10 billion (US\$8 million) and ₩13.4 billion (US\$11 million) on February 6 and 11, 2004, respectively. The collectibility of these loans may be affected by the progress of normalization of the business of LG Card Co., Ltd. under the joint management of creditors.

As explained in Note 25, the Export-Import Bank of Korea (EIBK) filed a lawsuit against the Bank, demanding the issuance of the certification of payment guarantee amounting to US\$60 million in connection with the loans previously provided by EIBK to former Daewoo Corporation, or demanding the confirmation of existence of guarantee liabilities thereon. The local court ruled in the first trial on March 12, 2003 that the Bank would issue the guarantee letter, but rejected the demand of the confirmation of existence of guarantee liabilities. The Bank appealed to the High Court of Justice to reject for demanding the issuance of the certification of payment guarantee and the High Court has not yet rendered its judgment. The Bank intends to vigorously contest this lawsuit. The management of the Bank is unable to predict the ultimate outcome of this case, and based on the advice of legal counsel, the Bank cannot reasonably estimate the amount or range of possible loss relating to this case.

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 knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Anjin Deloitte LLC
A Member Firm of Deloitte Touche Tohmatsu

Seoul, Korea
February 13, 2004

Notice to Readers

This report is effective as of February 13, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

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	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
ASSETS				
Cash and due from banks (Notes 3, 17, 18 and 19)	₩ 1,406,339	₩ 1,557,268	\$ 1,174,102	\$ 1,300,107
Securities (Notes 4, 17, 18 and 19)	9,290,415	8,244,678	7,756,232	6,883,184
Loans (Notes 5, 6, 7, 17, 18 and 19)	29,268,166	24,626,127	24,434,936	20,559,465
Fixed assets (Notes 8, 10, 17 and 18)	387,580	389,828	323,577	325,453
Other assets (Notes 9, 17, and 18)	2,648,728	2,279,476	2,211,327	1,903,052
	₩ 43,001,228	₩ 37,097,377	\$ 35,900,174	\$ 30,971,261
LIABILITIES AND SHAREHOLDERS' EQUITY				
EQUITY				
LIABILITIES				
Deposits (Notes 11, 17, 18 and 19)	₩ 25,006,804	₩ 20,789,818	\$ 20,877,279	\$ 17,356,669
Borrowings (Notes 12, 17, 18 and 19)	8,426,370	6,701,034	7,034,872	5,594,451
Debentures (Notes 13, 17, 18 and 19)	4,494,334	4,971,013	3,752,157	4,150,120
Other liabilities (Notes 15, 17, and 18)	3,459,531	2,943,569	2,888,238	2,457,479
	41,387,039	35,405,434	34,552,546	29,558,719
SHAREHOLDERS' EQUITY (Notes 16 and 18)				
Capital stock	1,054,334	1,093,334	880,225	912,785
Capital surplus	155,006	152,472	129,409	127,293
Retained earnings (Net income of ₩46,186 million in 2003 and ₩260,354 million in 2002)	340,886	371,424	284,594	310,089
Capital adjustments	63,963	74,713	53,400	62,375
	1,614,189	1,691,943	1,347,628	1,412,542
	₩ 43,001,228	₩ 37,097,377	\$ 35,900,174	\$ 30,971,261

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002



	Korean Won		Translation into U.S. Dollars (Note 2)	
	(In millions except per share amounts)		(In thousands except per share amounts)	
	2003	2002	2003	2002
OPERATING REVENUE:				
INTEREST INCOME:				
Interest on due from banks (Note 19)	₩ 13,656	₩ 4,774	\$ 11,401	\$ 3,986
Interest on securities (Note 19)	500,644	523,386	417,970	436,956
Interest on loans (Note 19)	1,615,267	1,435,837	1,348,528	1,198,729
Other (Note 26)	3,444	9,166	2,875	7,652
	2,133,011	1,973,163	1,780,774	1,647,323
GUARANTEE FEES AND COMMISSIONS	318,506	330,963	265,909	276,309
OTHER OPERATING INCOME:				
Gain on disposal of trading securities	14,950	16,840	12,481	14,059
Gain on valuation of trading securities (Note 4)	1,398	2,152	1,167	1,797
Dividends from trading securities	496	411	414	343
Dividends from available-for-sale securities	1,281	1,757	1,069	1,466
Foreign exchange trading income	396,808	298,185	331,281	248,944
Fees and commissions from trust accounts (Note 26)	41,991	69,907	35,057	58,363
Gain on derivatives trading (Note 25)	940,614	816,792	785,285	681,910
Other	14,557	28,269	12,153	23,601
	1,412,095	1,234,313	1,178,907	1,030,483
Total operating income	3,863,612	3,538,439	3,225,590	2,954,115
OPERATING EXPENSES				
INTEREST EXPENSES:				
Interest on deposits (Note 19)	805,691	797,905	672,642	666,142
Interest on borrowings (Note 19)	254,037	233,174	212,086	194,668
Interest on debentures (Note 19)	267,089	189,409	222,983	158,131
Other (Note 6)	35,410	21,340	29,563	17,816
	1,362,227	1,241,828	1,137,274	1,036,757
COMMISSION EXPENSE	121,035	141,403	101,048	118,052
OTHER OPERATING EXPENSES:				
Loss on disposal of trading securities	9,584	11,182	8,001	9,335
Loss on valuation of trading securities (Note 4)	-	1,351	-	1,128
Foreign exchange trading loss	260,742	257,038	217,684	214,592
Loss on derivatives trading (Note 25)	1,027,498	790,249	857,821	659,750
Provision for possible loan losses (Note 7)	441,267	233,810	368,398	195,200
Others	206,762	182,151	172,618	152,072
	1,945,853	1,475,781	1,624,522	1,232,077
GENERAL AND ADMINISTRATIVE EXPENSES (Note 20)	419,617	410,626	350,323	342,817
Total operating expenses	3,848,732	3,269,638	3,213,167	2,729,703
OPERATING INCOME	14,880	268,801	12,423	224,412
NON-OPERATING INCOME (Note 21)	124,173	171,921	103,668	143,530
NON-OPERATING EXPENSES (Note 21)	72,954	69,358	60,907	57,904
ORDINARY INCOME	66,099	371,364	55,184	310,038
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	66,099	371,364	55,184	310,038
INCOME TAX EXPENSE (Note 22)	19,913	111,010	16,625	92,678
NET INCOME	₩ 46,186	₩ 260,354	\$ 38,559	\$ 217,360
ORDINARY INCOME PER COMMON SHARE (Note 23)	₩ 239	₩ 1,326	\$ 0.20	\$ 1.11
NET INCOME PER COMMON SHARE (Note 23)	₩ 239	₩ 1,326	\$ 0.20	\$ 1.11
DILUTED ORDINARY INCOME PER COMMON SHARE (Note 23)	₩ 227	₩ 1,320	\$ 0.19	\$ 1.10
DILUTED NET INCOME PER COMMON SHARE (Note 23)	₩ 227	₩ 1,320	\$ 0.19	\$ 1.10

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

38

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
ACCUMULATED RETAINED EARNINGS BEFORE APPROPRIATION:				
Unappropriated accumulated retained earnings carried over from prior years	₩ 100	₩ 70	\$ 83	\$ 58
Net income	46,186	260,354	38,559	217,360
	46,286	260,424	38,642	217,418
APPROPRIATIONS:				
Legal reserve	4,700	26,100	3,924	21,790
Voluntary reserve	10,900	157,500	9,100	131,491
Cash dividends (Note 24)	30,671	76,724	25,606	64,054
	46,271	260,324	38,630	217,335
UNAPPROPRIATED ACCUMULATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 15	₩ 100	\$ 12	\$ 83

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002



	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩ 46,186	₩ 260,354	\$ 38,559	\$ 217,360
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss on disposal of trading securities	9,584	11,182	8,001	9,335
Loss on valuation of trading securities	-	1,351	-	1,128
Loss on derivatives instruments	349,118	288,468	291,466	240,832
Provision for possible loan losses	441,267	233,810	368,398	195,200
Provision for severance benefits	21,384	20,246	17,853	16,903
Depreciation and amortization	51,439	44,021	42,945	36,752
Loss on disposal of tangible assets	2,138	2,115	1,785	1,766
Loss on disposal of available-for-sale securities	5,450	24,430	4,550	20,396
Available-for-sale securities impairment loss	55,918	38,450	46,684	32,100
Loss on sales of loans	11	621	9	518
Other expenses not involving cash outflows	147,692	117,173	123,302	97,823
Gain on disposal of trading securities	(14,950)	(16,840)	(12,481)	(14,059)
Gain on valuation of trading securities	(1,398)	(2,152)	(1,167)	(1,797)
Gain on derivatives instruments	(344,791)	(273,421)	(287,854)	(228,269)
Gain on disposal of tangible assets	(65)	(5,672)	(54)	(4,735)
Gain on valuation using the equity method	(12,647)	(7,150)	(10,559)	(5,969)
Gain on disposal of available-for-sale securities	(48,389)	(75,608)	(40,398)	(63,122)
Recovery of available-for-sale securities impairment loss	(5,200)	(22,352)	(4,341)	(18,661)
Gain on sales of loans	(29,300)	(21,831)	(24,462)	(18,226)
Other revenues not involving cash inflows	(17,686)	(44,791)	(14,765)	(37,395)
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in accounts receivable - other	43,032	(542,646)	35,925	(453,036)
Decrease (increase) in accrued income	(41,862)	31,246	(34,949)	26,086
Decrease (increase) in prepaid expenses	21,660	(2,615)	18,083	(2,183)
Decrease in deferred income tax assets	12,586	86,277	10,508	72,030
Increase (decrease) in accounts payable-other	(99,807)	524,000	(83,325)	437,469
Increase in accrued expenses	1,558	56,653	1,301	47,298
Increase (decrease) in unearned income	(10,221)	6,158	(8,533)	5,141
Payment of severance benefits	(7,648)	(4,571)	(6,385)	(3,816)
Other, net	(25,809)	14,538	(21,547)	12,136
Net cash provided by operating activities	549,250	741,444	458,549	619,005

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Decrease (increase) in securities	₩ (991,527)	₩ 233,396	\$ (827,790)	\$ 194,854
Increase in loans	(5,102,415)	(7,238,449)	(4,259,822)	(6,043,120)
Proceeds from disposal of tangible assets	567	15,134	474	12,635
Acquisition of tangible assets	(51,836)	(86,050)	(43,276)	(71,840)
Decrease (increase) in other assets	(100,610)	29,874	(83,997)	24,940
Other, net	18,956	15,946	15,826	13,313
Net cash used in investing activities	(6,226,865)	(7,030,149)	(5,198,585)	(5,869,218)
CASH FLOWS FROM FINANCING				
ACTIVITIES:				
Increase in deposits	4,216,986	3,033,750	3,520,610	2,532,768
Increase in borrowings	1,725,336	605,230	1,440,421	505,285
Increase (decrease) in debentures	(600,429)	3,366,051	(501,277)	2,810,195
Increase (decrease) in other liabilities	305,490	(77,002)	255,042	(64,287)
Proceeds from issuance of capital stock	-	252,405	-	210,724
Payment of cash dividends	(76,722)	(16,543)	(64,052)	(13,811)
Other, net	(43,975)	(81,974)	(36,713)	(68,437)
Net cash provided by financing activities	5,526,686	7,081,917	4,614,031	5,912,437
NET INCREASE (DECREASE) IN CASH				
AND DUE FROM BANKS	(150,929)	793,212	(126,005)	662,224
CASH AND DUE FROM BANKS,				
BEGINNING OF YEAR (Note 32)	1,557,268	764,056	1,300,107	637,883
CASH AND DUE FROM BANKS,				
END OF YEAR (Note 32)	₩ 1,406,339	₩ 1,557,268	\$ 1,174,102	\$ 1,300,107

See accompanying notes to non-consolidated financial statements.

NOTES TO NON- CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002



1. GENERAL:

KorAm Bank (the "Bank") was established in 1983 and is engaged in the commercial banking business under the Banking Act, trust business under the Trust Business Act and foreign exchange business with approval from the Bank of Korea (BOK) and the Ministry of Finance and Economy (MOFE). The Bank's head office is in Seoul, Korea and operates through 222 domestic branches and 3 overseas networks as of December 31, 2003. The Bank's common stock was listed on the Korea Securities Exchange on November 11, 1989. As of December 31, 2003, the Bank's common stock and preferred stock amounts to ₩1,015,334 million (US\$847,665 thousand), consisting of 203.1 million common shares issued and outstanding, and ₩39,000 million (US\$32,560 thousand), consisting of 7.8 million preferred shares issued and outstanding, respectively.

Based on the decision of the Financial Supervisory Commission in accordance with the Act of the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Kyungki Bank ("the P&A") in June 1998.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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

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

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

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. When a loan is placed on non-accrual status, previously accrued interest is generally reversed and deducted from current interest income; future interest income is recognized on cash basis in accordance with the accounting standards of the banking industries. As of December 31, 2003 and 2002, the principal amount of loans of which the accrued interest income was not recorded in the financial statements based on the stated criteria amounted to ₩754,455 million (US\$ 629,867 thousand) and ₩739,470 million (US\$ 617,357 thousand), respectively, and the related accrued interest income not recognized amounted to ₩19,227 million (US\$16,052 thousand) and ₩23,706 million (US\$19,791 thousand), respectively.

Classification of Securities

At acquisition, the Bank classifies securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities accounted for using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded over-the-counter are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities.

NOTES TO NON- CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

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Securities that should be accounted for under the equity method are classified as securities under the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

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

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specific identification method for debt securities). When the face value of trading debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the valuation gain or loss is included in current operations.

(2) Valuation of Held-to-maturity Securities

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

(3) Valuation of Available-for-sale Securities

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

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

(4) Valuation of Securities Accounted for under the Equity Method

Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds 15 percent or more of the issued shares, the Bank is considered being able to exercise significant influence) are accounted for under the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in the retained earnings of the investee are reflected in the retained earnings. Changes in the capital surplus or other capital accounts of the investee are reflected as gain or loss on valuation of securities under the equity method in capital adjustment.

(5) Reversal of Loss on Impairment of Available-for-sale Securities and Held-to-maturity Securities

If the reasons for impairment losses of available-for-sale securities no longer exist, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in capital adjustment as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded on gain or loss on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

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For held-to-maturity securities, the recovery is recorded in current non-operations within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of loss on impairment of held-to-maturity securities.

(6) Reclassification of Securities

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

Transfer of Securities

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

Allowance for Possible Losses on Credits

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires the Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages. The Bank complies with the minimum regulatory guidelines and the Bank's policy on the calculation of allowance for possible losses on credits are described below.

As required by the Supervisory Regulation, the Bank classifies corporate credits (loans, confirmed acceptances and guarantees) based on borrowers' capability to repay in consideration of borrowers' business operation, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria). Credits to small companies and to households, however, are classified not by evaluating the debt repayment capability of a borrower or customer but by past due period and status of bankruptcy proceedings. The Bank generally classifies all credits to a single borrower in the same category of classification but credits guaranteed or credits collateralized by bank deposits, real estate and other assets may be classified differently based on the guarantor's capability to service such guarantee or based on the value of collateral securing such credits.

Based on the Bank's corporate credit evaluation model, credits to a borrower are classified into fourteen grades from one to ten (1, 2, 3, 4, 5⁺, 5, 5⁻, 6⁺, 6, 6⁻, 7, 8, 9, 10). Credits of grades of 1 to 6⁻ are classified as normal, credits of grade 7 as precautionary, credits of grade 8 as substandard, credits of grade 9 as doubtful, and credits of grade 10 as estimated loss. Credits are finally classified reflecting past due period and bankruptcy considerations.

The Historical Repayment Criteria are set forth as follows:

- Normal Loans in arrears for less than one month
- Precautionary Loans in arrears for one month or more but less than three months
- Substandard Collectible portion of loans in arrears for three months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to the final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses
- Doubtful Amount in excess of collectible portion of loans in arrears for three months or more but less than twelve months and/or loans extended to customers who are determined by the court to begin final restructuring plan prepared through court receivership or court mediation
- Estimated loss Amount in excess of collectible portion of loans in arrears for twelve months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses

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The Forward Looking Criteria based on ability to repay are set forth as follows:

- Grade 1 (Exceptional) Credits extended to the customers, who have exceptionally strong debt-repay ability with very excellent stability, substantial equity and adequate diversification; Bank's credit risk to these customers is minimal.
- Grade 2 (Very Strong) Credits extended to the customers, who have very strong debt-repay ability with very good stability, substantial equity and adequate diversification, but slightly fall short of Grade 1; Bank's credit risk to these customers is very low.
- Grade 3 (Strong) Credits extended to the customers, who have strong debt-repay ability with good stability and balance sheet but fall short of Grade 1 and 2; Bank's credit risk to these customers is relatively low.
- Grade 4 (Good) Credits extended to the customers, who have mostly good stability and balance sheet; Bank's credit risk to these customers is not so high.
- Grade 5+ (Satisfactory) Credits extended to the customers, whose stability and balance sheet are somewhat better than those of industry average; Bank's credit risk to these customers is adequate.
- Grade 5 (Average) Credits extended to the customers whose stability and balance sheet are commensurate with those of industry average; Bank's credit risk to these customers is average.
- Grade 5- (Below Average) Credits extended to the customers whose balance sheet strength, profitability and cash flow are somewhat fall short with those of industry average; Bank's credit risk to these customers is somewhat higher than average.
- Grade 6+ (Somewhat Unsatisfactory) Credits extended to the customers whose balance sheet strength, profitability and cash flow are somewhat low; Bank's credit risk to these customers is relatively high.
- Grade 6 (Unsatisfactory) Credits extended to the customers whose overall creditworthiness including balance sheet, profitability and cash flow is unsatisfactory; Bank's credit risk to these customers is high.
- Grade 6- (Marginal) Credits extended to the customers, bank's exposure to whom currently is not at risk yet; their business performance is so bad or highly volatile that they may cause loss to Bank if the current trend is not improved.
- Grade 7 (Special Mention) Credits extended to the customers, who have potential weaknesses that may result in deterioration of ability to repay debt; they can cause loss to Bank if the weaknesses are not corrected in near future.
- Grade 8 (Substandard) Collectible portion of credits extended to the customers, which are judged to have incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows.
- Grade 9 (Doubtful) Amount in excess of collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows.
- Grade 10 (Estimated loss) Amount in excess of collectible portion of credits extended to customers, which are judged to have to be accounted for as loss as the inability to repay became certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows.

An allowance is then calculated on the category balances using the prescribed percentages of 0.5 - 1.9 percent for normal, 2 - 19.9 percent for precautionary, 20 - 49.9 percent for substandard, 50 - 99.9 percent for doubtful and 100 percent for estimated loss. However, the Bank does not provide allowances for loans to the Korean government and local government entities, bonds bought under resale agreements and inter-bank loans that are classified as normal, as it is not required by the Accounting Standards for the Banking Industry.

In addition, as required by the Supervisory Regulation, based on the classification of household loans and credit card receivables by past due period and status of bankruptcy proceedings, allowance for household loans and credit card receivables are then calculated on the category balances using the prescribed minimum percentages of 0.75 percent and 1 percent for normal, 8 percent and 12 percent for precautionary, 20 percent for substandard, 55 percent and 60 percent for doubtful and 100 percent for estimated loss. In addition, as required by the Financial Supervisory Service, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds

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60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary instead of providing 0.75 percent or more for normal and 8 percent or more for precautionary.

As required by the Supervisory Regulation, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same loan classification criteria. An allowance is then calculated, using from 20 to 49.9 percent for substandard, from 50 to 99.9 percent for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. However, an allowance for confirmed acceptances and guarantees to companies under workout classified as precautionary is provided from 2 to 19.9 percent. The allowance for possible losses on confirmed acceptances and guarantees is included in other liabilities.

For loans sold to Korea Asset Management Company(“KAMCO”)with repurchase agreements, the Bank provides other allowance for loans which are likely to be repurchased. When the loan’s estimated value (collectible value) under forward looking criteria is less than the sale price, the Bank assumes it is probable that the loans will be repurchased, and provides allowance for expected losses which may incur in case the loans are repurchased.

In addition, as required by the Financial Supervisory Service, from the third quarter of 2002, the Bank provides an additional other allowance of 1 percent for certain portions of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The Bank also provides other allowance for expenses likely to occur with regard to the credit card reward points.

Restructuring of Loans

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

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Depreciation

Tangible assets included in fixed assets are recorded at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea, which was effective up to December 31, 2000. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings	50
Equipment	5
Leasehold improvements	5

Intangible Assets

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

Recognition of Impairment of Assets

When the book value of assets (other than trading securities, investment securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, those book value of assets are adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the recoverable value equals the book value of the assets that would have been measured had no impairment loss been recognized.

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Amortization of Discount (Premium) on Debentures

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

Bonds under Resale or Repurchase Agreements

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of termination.

The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign amount to ₩77,782 million (US\$64,937 thousand) and ₩64,046 million (US\$53,470 thousand) as of December 31, 2003 and 2002, respectively. The accrued severance benefits are included in other liabilities.

The funding of the severance liability is not required. However, the Bank has insured a portion of its obligations for severance benefits in order to obtain the related tax benefits, by making deposits with life insurance companies. The Bank has purchased severance insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. The individual severance insurance deposits, amounting to ₩50,258 million (US\$41,959 thousand) and ₩52,682 million (US\$43,982 thousand) as of December 31, 2003 and 2002, respectively, are presented as a deduction from accrued severance benefits because the severance insurance's beneficiaries are the Bank's employees.

Before April 1999, the Bank and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Bank paid half of the employees' 6 percent portion, which was paid as an advance for the future severance payment and deducted from the total severance indemnity payable at the termination. Such advanced payment, totaling ₩2,341 million (US\$1,954 thousand) and ₩2,571 million (US\$2,146 thousand) as of December 31, 2003 and 2002, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Bank and its employees each pay 4.5 percent of monthly pay to the Fund.

Actual payment of severance indemnities amounted to ₩7,648 million (US\$6,385 thousand) and ₩4,571 million (US\$3,816 thousand) in the year ended December 31, 2003 and 2002, respectively.

Accounting for Derivative Instruments

The Bank accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrance of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

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

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Accounting for Trust Accounts

The Bank engages in trust business with the approval from the Ministry of Finance and Economy (MOFE) on February 2, 1984 under Article 3 of the Trust Business Act. The Bank maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) separately from those of the bank accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. The Bank receives the fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as other operating expense of the bank accounts and as other income of the trust accounts. There is no assurance that the Bank will not be required to make such compensating transfers in the future or that the amounts of such transfers may not be significantly greater in the future.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and is offset by income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on BOK Basic Rate (₩1,197.80 and ₩1,200.40 to US\$1.00 at December 31, 2003 and 2002, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on BOK Basic Rate at balance sheet dates.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statement of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Statements supersedes the relative articles of existing Accounting Standards and constitutes Generally Accepted Accounting Standards of Republic of Korea. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) from January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Reporting) through No.9 (Convertible Securities), starting from January 1, 2003. The Bank restated the retained earnings of 2002 financial statements in accordance with SKAS No.6 (Events Occurring after the Balance Sheet Date), which decreased liabilities and increased net assets by ₩76,724 million (US\$64,054 thousand), respectively, compared to those accounted for using the previous method. In addition, in accordance with the initial adoption of SKAS No.8 (Investments in Securities) for the year ended December 31, 2003 and for comparative purposes, the Bank reclassified the 2002 financial statements relating to securities, which had no effects on the Bank's total assets, retained earnings and net income.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes. However, those reclassifications had no effect on the previously reported prior period net income or shareholders' equity of the Bank.

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3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks in local currency and foreign currencies as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Cash and checks	₩ 434,240	₩ 707,022	\$ 362,531	\$ 590,267
Foreign currencies	41,544	30,617	34,684	25,561
Due from banks in local currency	833,115	740,956	695,538	618,598
Due from banks in foreign currencies	97,440	78,673	81,349	65,681
	₩ 1,406,339	₩ 1,557,268	\$ 1,174,102	\$ 1,300,107

(2) Restricted due from banks in local currency and foreign currencies as of December 31, 2003 and 2002 consisted of the following:

Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason for restriction
	2003	2002	2003	2002	
Reserve deposits BOK	₩ 728,092	₩ 655,970	\$ 607,858	\$ 547,646	BOK Act
Other deposits Samsung Life Insurance Co.	-	22,000	-	18,367	Subordinated borrowings
Woori Bank	2,199	-	1,836	-	Escrow account for Daewoo Telecom Alcatel
Woori Bank	-	3,998	-	3,338	Escrow account for Daewoo Telecom
Korea Stock Exchange	236	360	197	300	Deposits for securities transaction
Kookmin Bank	-	4,533	-	3,784	Bond Market Stabilization Fund
Ace American Insurance Co.	3	-	2	-	Individual severance insurance deposit
Due from banks in foreign currencies BOK	₩ 31,615	₩ 33,349	\$ 26,394	\$ 27,842	BOK Act
	₩ 762,145	₩ 720,210	\$ 636,287	\$ 601,277	

(3) Due from banks by financial institution as of December 31, 2003 and 2002 included the following:

	Interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2003	2003	2002	2003
Due from banks in local currency					
BOK	-	₩ 728,092	₩ 655,970	\$ 607,858	\$ 547,646
Other financial institutions	0.00 - 4.04	105,023	84,986	87,680	70,952
		833,115	740,956	695,538	618,598
Due from banks in foreign currencies					
BOK	-	₩ 31,615	₩ 33,349	\$ 26,394	\$ 27,842
Foreign financial institutions and others	-	65,825	45,324	54,955	37,839
		97,440	78,673	81,349	65,681
		₩ 930,555	₩ 819,629	\$ 776,887	\$ 684,279

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4. SECURITIES:

(1) Securities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Trading securities	₩ 743,915	₩ 264,343	\$ 621,068	\$ 220,691
Available-for-sale securities	4,976,194	5,012,325	4,154,445	4,184,609
Held-to-maturity securities	3,525,443	2,937,939	2,943,265	2,452,779
Securities accounted for using the equity method	44,863	30,071	37,454	25,105
	₩ 9,290,415	₩ 8,244,678	\$ 7,756,232	\$ 6,883,184

(2) Trading securities

1) Trading securities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Equity securities	₩ 17,713	₩ 14,889	\$ 14,788	\$ 12,430
Government and public bonds	186,351	87,025	155,578	72,654
Finance debentures	387,958	60,729	323,892	50,701
Corporate bonds	101,132	71,356	84,431	59,573
Others	50,761	30,344	42,379	25,333
	₩ 743,915	₩ 264,343	\$ 621,068	\$ 220,691

2) The valuation of trading securities as of December 31, 2003 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value
Equity securities	₩ -	₩ 16,506	₩ -	₩ 17,713
Government and public bonds	191,000	186,492	186,667	186,351
Finance debentures	390,000	388,031	387,995	387,958
Corporate bonds	100,000	101,619	101,274	101,132
Other trading securities	51,247	50,000	50,075	50,761
	₩ 732,247	₩ 742,648	₩ 726,011	₩ 743,915

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

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value
Equity securities	₩ -	₩ 16,240	₩ -	₩ 14,889
Government and public bonds	85,890	85,541	86,045	87,025
Finance debentures	60,000	60,015	60,011	60,729
Corporate bonds	70,000	71,251	71,246	71,356
Others	29,846	30,000	30,000	30,344
	₩ 245,736	₩ 263,047	₩ 247,302	₩ 264,343

The fair values of trading debt securities in local currency were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. Fair value of trading securities in foreign currencies is determined by the latest market prices, which are announced by market price information providers or yields provided by professional dealers of bonds.

For the year ended December 31, 2003 and 2002, the Bank recorded gain on valuation of trading securities of ₩1,398 million (US\$1,167 thousand) and ₩2,152 million (US\$1,797 thousand), respectively, and loss on valuation of trading securities of nil and ₩1,351 million (US\$1,128 thousand), respectively.

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3) The portfolio of trading securities, by industry, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Financial services	₩ 2,908	₩ -	\$ 2,428	\$ -	0.39	-
Government	675,442	219,832	563,902	183,530	90.80	83.16
Manufacturing	4,388	392	3,663	327	0.58	0.15
Construction	51	420	43	351	0.01	0.16
Others	61,126	43,699	51,032	36,483	8.22	16.53
	₩ 743,915	₩ 264,343	\$ 621,068	\$ 220,691	100.00	100.00

4) The portfolio of trading securities, by type, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Stocks	₩ 17,713	₩ 14,889	\$ 14,788	\$ 12,430	2.38	5.63
Fixed rate bonds	574,309	147,754	479,470	123,355	77.20	55.90
Floating rate bonds	101,132	71,356	84,431	59,573	13.60	26.99
Beneficiary certificates	50,761	30,344	42,379	25,333	6.82	11.48
	₩ 743,915	₩ 264,343	\$ 621,068	\$ 220,691	100.00	100.00

5) All trading securities as of December 31, 2003 and 2002 were issued in Korea.

6) There are no trading securities pledged as collateral as of December 31, 2003 and 2002.

(3) Available-for-sale securities

1) Available-for-sale securities as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Equity securities	₩ 204,835	₩ 147,178	\$ 171,009	\$ 122,874
Equity investments	5,603	5,237	4,678	4,372
Government and public bonds	1,579,689	1,604,368	1,318,825	1,339,429
Finance debentures	1,971,022	1,609,211	1,645,535	1,343,472
Corporate bonds	740,688	1,306,014	618,374	1,090,344
Other securities in foreign currencies	468,316	340,291	390,980	284,096
Others	6,041	26	5,044	22
	₩ 4,976,194	₩ 5,012,325	\$ 4,154,445	\$ 4,184,609

2) Equity securities as of December 31, 2003 were as follows (Unit: Won in millions):

	No. of shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Fair value	Book value
(Marketable equity securities)						
Daewoo Engineering & Construction Co., Ltd.	7,036,198	2.10	₩ 27,980	₩ 28,250	₩ 39,191	₩ 39,191
Daewoo Precision Industries Co., Ltd.	390,901	4.04	2,262	5,766	6,059	6,059
Daewoo Securities Co., Ltd.	3,130,000	1.65	55,215	14,148	13,303	13,303
Saehan Industries Inc.	1,892,000	1.44	8,355	3,897	1,570	1,570
Samsung Electronics	6,000	0.00	2,719	2,719	2,706	2,706
Shin Won Corporation	49,900	0.98	4,158	768	202	202
SsangYong Motor Company	618,679	0.51	7,566	3,099	6,373	6,373
KODEX 200	1,000,000	2.81	9,176	9,176	10,690	10,690

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	No. of shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Fair value	Book value
KP Chemical	870,000	0.92	2,452	2,653	1,780	1,780
Hankang Restructuring Fund	1,260,000	0.99	3,165	2,019	2,293	2,293
Hyundai Engineering & Construction Co., Ltd.	4,621,200	0.91	23,106	7,417	5,291	5,291
SK Networks	6,125,800	1.81	15,621	15,621	20,932	20,932
SK Telecom	5,705	0.01	541	1,306	1,135	1,135
Others			3,781	1,101	1,212	1,212
			166,097	97,940	112,737	112,737
(Unlisted equity securities)						
Daewoo Electronics Co., Ltd.	1,180,540	1.13	590	590	5,200	590
Daewoo Capital CRV	253,556	1.00	2,536	2,536	1,268	1,268
Korea Housing Guarantee Co., Ltd.	5,457,600	0.94	8,292	3,092	11,166	8,292
Mukunghwa Structure Control Fund	1,260,000	1.89	4,079	3,558	3,136	3,136
BC Card Co., Ltd.	87,120	1.98	1,331	1,331	2,988	1,331
Samsung Life Insurance	74,786	0.37	20,192	20,192	32,127	20,192
Samsung Capital Co., Ltd.	2,105,556	5.05	11,372	11,372	33,620	11,372
Seoul Debt Control Fund	2,220,000	1.85	3,242	3,156	3,179	3,179
Arirang Structure Control Fund	1,260,000	1.89	4,120	3,299	3,543	3,543
Kiwoom.com Securities Co., Ltd.	500,000	5.00	2,500	2,500	2,779	2,500
Final Data Inc.	33,330	0.67	1,000	1,000	163	1,000
Korea Securities Finance Corp.	1,003,217	1.48	5,019	5,038	6,785	5,038
Korea Aerospace Industries Co., Ltd.	475,400	0.51	2,377	1,575	1,566	1,566
SK Networks (preferred stock)	589,798	-	15,040	15,040	17,521	17,521
Others			89,755	12,798	28,269	11,570
			171,445	87,077	153,310	92,098
			₩ 337,542	₩ 185,017	₩ 266,047	₩ 204,835

Equity securities as of December 31, 2002 were as follows (Unit: Won in millions):

	No. of shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Fair value	Book value
(Marketable equity securities)						
Kabool Co., Ltd	3,069,810	1.77	₩ 1,985	₩ 1,578	₩ 3,315	₩ 3,315
Daewoo Engineering & Construction Co., Ltd.	3,138,748	1.88	7,824	8,673	8,161	8,161
Daewoo International Corporation	612,099	1.43	1,448	1,690	1,402	1,402
Daewoo Precision Industries Co., Ltd.	434,334	4.49	2,514	2,093	6,406	6,406
Daewoo Securities Co., Ltd.	3,130,000	1.65	55,215	31,926	14,148	14,148
Saehan Industries Inc.	1,892,000	1.68	8,355	4,087	3,898	3,898
Shin Won Corporation	3,058,550	1.50	6,372	2,031	1,178	1,178
SsangYong Motor Company	618,679	0.50	7,566	6,779	3,099	3,099
KP Chemical	974,593	1.03	2,746	534	2,973	2,973
Hankang Restructuring Fund	1,260,000	0.99	4,147	2,708	2,646	2,646
Korea Electric Power Corporation	100,000	0.02	1,971	1,971	1,825	1,825
Hyundai Engineering & Construction Co., Ltd.	5,987,276	0.01	29,936	19,459	9,610	9,610
HungChang Co., Ltd	180,610	6.90	-	-	2,384	2,384
KT Corporation	39,000	0.01	1,892	1,892	1,977	1,977
LG Electronics Inc.	30,000	0.02	981	981	1,239	1,239
SK Telecom	5,705	0.01	541	325	1,306	1,306
Others			6,635	4,727	4,050	4,050
			140,128	91,454	69,617	69,617

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	No. of shares	Percentage of ownership (%)	Acquisition cost	Book value before valuation	Fair value	Book value
(Unlisted equity securities)						
Daewoo Electronics Co., Ltd.	1,180,540	1.13	590	590	6,026	590
Daewoo Capital CRV	301,376	1.00	3,014	3,014	3,014	3,014
Korea Housing Guarantee Co., Ltd.	5,457,600	0.94	8,292	3,092	8,527	3,092
Mukunghwa Structure Control Fund	1,260,000	1.89	6,183	6,242	5,394	5,394
BC Card Co., Ltd.	87,120	1.98	1,331	1,331	2,606	1,331
Samsung Life Insurance	74,786	0.37	20,192	20,192	19,877	20,192
Samsung Capital Co., Ltd.	2,105,556	5.05	11,372	11,372	25,844	11,372
Seoul Debt Control Fund	2,220,000	1.85	4,951	4,986	4,820	4,820
Arirang Structure Control Fund	1,260,000	1.89	5,481	4,991	4,389	4,389
Kiwoom.com Securities Co., Ltd.	500,000	5.00	2,500	2,500	2,574	2,500
Final Data Inc.	33,330	0.67	1,000	1,000	162	1,000
Korea Securities Finance Corp.	1,003,217	1.48	5,019	5,037	6,396	5,037
Korea Aerospace Industries Co., Ltd.	475,400	0.51	2,377	1,703	1,575	1,575
Others			89,961	33,708	8,764	13,255
			162,263	99,758	99,968	77,561
			₩ 302,391	₩ 191,212	₩ 169,585	₩ 147,178

Marketable investment equity securities were stated at fair value with the valuation gain or loss recorded as a capital adjustment. If the decline in the fair value of marketable equity securities is below the acquisition cost and the pervasive evidence of impairment exists (impaired investment security), the value of the equity security was adjusted to fair value, with the valuation loss charged to current operations. For year ended December 31, 2003 and 2002, impairment loss on marketable investment equity securities was ₩47,914 million (US\$40,001 thousand) and ₩14,931 million (US\$12,465 thousand), respectively, and recovery of impairment loss was nil and ₩2,633 million (US\$2,198 thousand), respectively.

Unlisted equity securities were stated at acquisition cost if the fair value of the securities is not credibly determinable. If the decline in the fair value of unlisted equity securities is below the acquisition cost and the pervasive evidence of impairment exists (impaired investment security), the value of the equity security was adjusted to net equity value, with the valuation loss charged to current operations. Impairment loss on unlisted investment equity securities was ₩2,752 million (US\$2,298 thousand) and ₩20,581 million (US\$17,182 thousand) for the years ended December 31, 2003 and 2002, respectively, and recovery of impairment loss was ₩5,200 million (US\$4,341 thousand) and nil, respectively.

Equity securities in foreign currencies as of December 31, 2002 were securities issued by Balkan Fund (198,020 shares) and were stated at acquisition cost.

3) As of December 31, 2003 and 2002, the equity investments were as follows:

	2003		2002	
	Acquisition cost	Book value	Acquisition cost	Book value
SMSF	₩ 847	₩ 2,803	₩ 2,262	₩ 3,437
KAMCO	1,300	1,300	1,300	1,300
Kia Steel CRV	1,000	1,000	-	-
Others	500	500	500	500
	₩ 3,647	₩ 5,603	₩ 4,062	₩ 5,237

The Bank's investment in Stock Market Stabilization Fund (SMSF) (0.92 percent owned as of December 31, 2003) was stated at net asset value while the investment in KAMCO (0.93 percent owned as of December 31, 2003) and other equity investments were stated at acquisition cost.

The Bank recorded gain or loss on valuation of SMSF investment in non-operating income or expenses for the year ended December 31, 2002 according to the Banking Accounting Standards. However, for the year ended December 31, 2003, the Bank recorded the related gain or loss in capital adjustments as gain or loss on valuation of available-for-sale securities according to SKAS No. 8 - "Investments in Securities." As a result, gain of ₩765 million (US\$639 thousand) is recorded in non-operating income for the year ended December 31, 2002 and gain of ₩1,517 million (US\$1,266 thousand) is recorded in capital adjustments as of December 31, 2003.

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4) The valuation of available-for-sale debt securities as of December 31, 2003 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (book value)
Government and public bonds	₩ 1,570,624	₩ 1,517,773	₩ 1,593,043	₩ 1,579,689
Finance debentures	1,980,000	1,971,813	1,978,906	1,971,022
Corporate bonds	737,466	735,705	10,348	740,688
Other securities in foreign currencies	466,156	463,723	459,666	468,316
	₩ 4,754,246	₩ 4,689,014	₩ 4,041,963	₩ 4,759,715

The valuation of available-for-sale debt securities as of December 31, 2002 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (book value)
Government and public bonds	₩ 1,565,875	₩ 1,517,470	₩ 1,574,912	₩ 1,604,368
Finance debentures	1,612,000	1,600,178	1,600,705	1,609,211
Corporate bonds	1,287,836	1,282,648	1,282,005	1,306,014
Other securities in foreign currencies	325,730	330,402	333,784	340,006
	₩ 4,791,441	₩ 4,730,698	₩ 4,791,406	₩ 4,859,599

The fair values of available-for-sale debt securities in local currency were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. The fair values of other securities in foreign currencies were calculated based on the latest market value announced by price information provider, or yield provided by professional dealers. Acquisition costs of other securities in foreign currencies are Korean Won equivalents of foreign currency denominated acquisition costs at BOK Basic Rate at the balance sheet dates.

For the year ended December 31, 2003 and 2002, impairment loss on available-for-sale debt securities was ₩5,252 million (US\$4,385 thousand) and ₩2,938 million (US\$2,453 thousand), respectively, and recovery of impairment loss was nil and ₩19,719 million (US\$16,463 thousand), respectively.

In addition, hedging the exposure of the interest rate risk and foreign exchange rate risk, the Bank is engaged in swap transactions. For the year ended December 31, 2003 and 2002, the Bank recorded gain on fair value hedge of ₩2,552 million (US\$2,131 thousand) and ₩3,951 million (US\$3,299 thousand), respectively.

5) Other available-for-sale securities as of December 31, 2003 and 2002 were as follows (Unit: Won in millions):

	2003		2002	
	Acquisition cost	Fair value	Acquisition cost	Fair value
Investments in beneficiary certificates	₩ 6,015	₩ 6,015	₩ -	₩ -
Others	32	26	32	26
	₩ 6,047	₩ 6,041	₩ 32	₩ 26

6) The portfolio of available-for-sale securities, by country, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Korea	₩ 4,922,284	₩ 4,955,930	\$ 4,109,437	\$ 4,137,527	98.91	98.87
U.S.A.	36,358	12,064	30,354	10,072	0.73	0.24
Singapore	-	6,104	-	5,096	-	0.12
Hong Kong	2,407	30,001	2,010	25,047	0.05	0.60
Thailand	7,331	7,941	6,120	6,629	0.15	0.16
Others	7,814	285	6,524	238	0.16	0.01
	₩ 4,976,194	₩ 5,012,325	\$ 4,154,445	\$ 4,184,609	100.00	100.00

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7) The portfolio of available-for-sale securities, by industry, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Financial services	₩ 332,824	₩ 257,106	\$ 277,863	\$ 214,649	6.69	5.13
Government	4,200,002	4,427,433	3,506,430	3,696,304	84.40	88.33
Manufacturing	262,034	203,218	218,763	169,659	5.27	4.05
Construction	56,310	35,930	47,011	29,997	1.13	0.72
Wholesale & retail	38,727	1,760	32,332	1,469	0.78	0.04
Others	86,297	86,878	72,046	72,531	1.73	1.73
	₩ 4,976,194	₩ 5,012,325	\$ 4,154,445	\$ 4,184,609	100.00	100.00

8) The portfolio of available-for-sale securities, by type, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Stocks	₩ 204,835	₩ 147,463	\$ 171,009	\$ 123,112	4.12	2.94
Fixed rate bonds	4,133,759	3,565,936	3,451,126	2,977,071	83.07	71.14
Floating rate bonds	532,809	1,183,192	444,823	987,804	10.71	23.61
Convertible bonds	81,172	98,455	67,768	82,197	1.63	1.97
Beneficiary certificate	17,990	-	15,019	-	0.36	-
Others	5,629	17,279	4,700	14,425	0.11	0.34
	₩ 4,976,194	₩ 5,012,325	\$ 4,154,445	\$ 4,184,609	100.00	100.00

9) The portfolio of other securities in foreign currencies, by foreign currency and type, as of December 31, 2003 and 2002 was as follows:

Currency	Type	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
		2003	2002	2003	2002	2003	2002
USD	Floating rate notes	₩ 125,953	₩ 129,895	\$ 105,154	\$ 108,444	26.88	38.18
	Bonds	225,915	108,965	188,608	90,971	48.24	32.02
	Convertible bonds	8,701	18,081	7,264	15,095	1.86	5.31
	Exchange bonds	67,697	70,995	56,518	59,271	14.46	20.86
	Stocks	-	285	-	238	-	0.08
	Credit-linked notes	-	12,016	-	10,032	-	3.53
	Beneficiary certificate	11,975	-	9,998	-	2.56	-
		440,241	340,237	367,542	284,051	94.00	99.98
HKD	Bonds	-	54	-	45	-	0.02
JPY	Bonds	12,502	-	10,438	-	2.67	-
EUR	Bonds	15,573	-	13,000	-	3.33	-
		₩ 468,316	₩ 340,291	\$ 390,980	\$ 284,096	100.00	100.00

10) Fair value of the Bank's available-for-sale debt securities, by remaining contractual maturity, as of December 31, 2003 was as follows (Unit: Won in millions):

	Korean Won	
	Book Value	Fair value
Due in one year or less	₩ 1,785,953	₩ 1,785,953
Due after one year through five years	2,761,001	2,761,001
Due after five years through ten years	199,215	199,215
Due after ten years	19,587	19,587
	₩ 4,765,756	₩ 4,765,756

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11) Available-for-sale securities, which were not valued at fair value , as of December 31, 2003 were as follows (Unit: Won in millions):

Amount			
Equity security			
Unlisted equity securities	₩	82,240	Lack of marketability
Equity investments		2,800	Lack of marketability
	₩	85,040	

(4) Held-to-maturity securities

1) Held-to-maturity securities as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Government and public bonds	₩ 333,845	₩ 395,031	\$ 278,715	\$ 329,797
Finance debentures	2,646,290	1,872,441	2,209,292	1,563,233
Corporate bonds	364,928	603,566	304,665	503,896
Others	30,000	-	25,046	-
Other securities in foreign currencies	150,380	66,901	125,547	55,853
	₩ 3,525,443	₩ 2,937,939	\$ 2,943,265	\$ 2,452,779

2) The valuation of held-to-maturity debt securities as of December 31, 2003 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest method	Book value
Government and public bonds	₩ 332,743	₩ 338,371	₩ 333,845	₩ 333,845
Finance debentures	2,670,000	2,653,769	2,646,290	2,646,290
Corporate bonds	361,282	369,901	364,928	364,928
Other securities in foreign currencies	148,527	150,767	150,380	150,380
	₩ 3,512,552	₩ 3,512,808	₩ 3,495,443	₩ 3,495,443

The valuation of held-to-maturity debt securities as of December 31, 2002 was as follows (Unit: Won in millions):

	Face value	Acquisition cost	Adjusted by effective interest method	Book value
Government and public bonds	₩ 388,042	₩ 399,828	₩ 395,031	₩ 395,031
Finance debentures	1,890,000	1,874,022	1,872,441	1,872,441
Corporate bonds	601,858	604,773	603,565	603,566
Other securities in foreign currencies	64,821	66,990	66,901	66,901
	₩ 2,944,721	₩ 2,945,613	₩ 2,937,938	₩ 2,937,939

The fair values of held-to-maturity debt securities in local currency were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. The fair values of other securities in foreign currencies were calculated based on the latest market value announced by price information provider, or yield provided by professional dealers.

3) The portfolio of held-to-maturity securities, by country, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Korea	₩ 3,429,619	₩ 2,901,927	\$ 2,863,265	\$ 2,422,714	97.28	98.77
Singapore	95,824	36,012	80,000	30,065	2.72	1.23
	₩ 3,525,443	₩ 2,937,939	\$ 2,943,265	\$ 2,452,779	100.00	100.00

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4) The portfolio of held-to-maturity securities, by industry, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Financial services	₩ 238,376	₩ 278,449	\$ 199,011	\$ 232,467	6.76	9.48
Government	3,146,733	2,439,859	2,627,094	2,036,950	89.26	83.05
Manufacturing	57,833	93,486	48,283	78,048	1.64	3.18
Construction	2,574	99,260	2,149	82,869	0.07	3.38
Others	79,927	26,885	66,728	22,445	2.27	0.91
	₩ 3,525,443	₩ 2,937,939	\$ 2,943,265	\$ 2,452,779	100.00	100.00

5) The portfolio of held-to-maturity securities, by type, as of December 31, 2003 and 2002 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Fixed rate bonds	₩ 3,290,819	₩ 2,484,990	\$ 2,747,386	\$ 2,074,628	93.34	84.58
Floating rate bonds	108,800	416,937	90,833	348,086	3.09	14.19
Others	125,824	36,012	105,046	30,065	3.57	1.23
	₩ 3,525,443	₩ 2,937,939	\$ 2,943,265	\$ 2,452,779	100.00	100.00

6) The portfolio of held-to-maturity securities in foreign currencies, by foreign currency and type, as of December 31, 2003 and 2002 was as follows:

Currency	Type	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
		2003	2002	2003	2002	2003	2002
USD	Bonds	₩ 54,556	₩ 30,889	\$ 45,547	\$ 25,788	36.28	46.17
	Credit-linked notes	95,824	36,012	80,000	30,065	63.72	53.83
		₩ 150,380	₩ 66,901	\$ 125,547	\$ 55,853	100.00	100.00

7) Fair value of the Bank's held-to-maturity debt securities, by remaining contractual maturity, as of December 31, 2003 was as follows (Unit: Won in millions):

	Korean Won	
	Book Value	Fair value
Due in one year or less	₩ 2,736,927	₩ 2,746,874
Due after one year through five years	775,779	777,138
Due after five years through ten years	24	21
Due after ten years	12,713	12,713
	₩ 3,525,443	₩ 3,536,746

(5) Securities accounted for using the equity method as of December 31, 2003 were as follows (Unit: Won in millions):

	Book value before valuation	Book value after valuation	Gain (Loss) on valuation using the equity method	Presented in retained earnings	Presented in capital adjustments
Hanmi Capital Co., Ltd.	₩ 17,300	₩ 31,193	₩ 13,810	₩ -	₩ 83
Hanmi Technology Investment Co., Ltd.	8,289	6,746	(1,334)	-	21
SK Investment Trust Management Co., Ltd.	6,756	6,924	171	-	117
	₩ 32,345	₩ 44,863	₩ 12,647	₩ -	₩ 221

Dividends of ₩230 million (US\$192 thousand) and ₩120 million (US\$100 thousand) received from Hanmi Technology Investment Co., Ltd. and SK Investment Trust Management Co., Ltd. in 2003, respectively, were deducted from the book value. Goodwill and negative goodwill resulting from the equity method of accounting are amortized over five years using the straight-line method. Such amortized amounts of negative goodwill for the year ended December 31, 2003 were

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₩4,285 million (US\$3,577 thousand).

In addition, During 2003, the Bank acquired additional equity interest of 7.26 percent of Hanmi Capital Co., Ltd. amounting to ₩2,274 million (US\$1,898 thousand), and accordingly, the Bank's equity interest of Hanmi Capital Co., Ltd. increased from 28.76 percent to 36.02 percent as of December 31, 2003.

The closing month of companies accounted for using the equity method and the balance sheet date of the financial statements of these companies used for equity method were as follows:

	Percentage of ownership (%)	Closing month	Balance sheet date
Hanmi Capital Co., Ltd. (*)	36.02	March	December
Hanmi Technology Investment Co., Ltd.	25.73	December	December
SK Investment Trust Management Co., Ltd.	20.00	March	December

(*) The Bank had additionally acquired interest of 7.26 percent in 2003.

(6) The asset-backed debt securities as of December 31, 2003 were as follows (Unit: Won in millions):

	Amount
Asset backed securities.	
Held-to-maturity (CP)	₩ 30,000
Held-to-maturity (corporate bond)	35,006
	₩ 65,006

As of December 31, 2003, the Bank did not hold any debt securities issued by foreign governments.

(7) The gain (loss) on valuation of available-for-sale securities and equity securities under the equity method as of December 31, 2003 reflected in capital adjustments consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	January 1, 2003	Increase (Decrease)	December 31, 2003	December 31, 2003
Available-for-sale securities				
Equity securities	₩ (34,780)	₩ 62,444	₩ 27,664	\$ 23,096
Debt securities	110,095	(65,067)	45,028	37,592
	75,315	(2,623)	72,692	60,688
Securities accounted for using the equity method	(1,468)	221	(1,247)	(1,041)
	₩ 73,847	₩ (2,402)	₩ 71,445	\$ 59,647

(8) The Bank had available-for-sale securities issued by Daewoo Group companies of ₩48,007 million (US\$40,079 thousand). In addition, the Bank had available-for-sale securities of workout companies (including private workout) other than Daewoo Group companies amounting to ₩9,857 million (US\$8,229 thousand), which was the net amount after deducting loss on impairment of available-for-sale securities of ₩3,019 million (US\$2,520 thousand) for the year ended December 31, 2003.

(9) The Bank had available-for-sale securities issued by Hyundai Engineering and Construction of ₩9,706 million (US\$8,103 thousand), which was the net amount after deducting loss on impairment of available-for-sale securities of ₩2,126 million (US\$1,775 thousand) for the year ended December 31, 2003. In addition, the Bank had available-for-sale securities issued by Hynix of ₩613 million (US\$512 thousand).

(10) The Bank had ₩40,860 million (US\$34,113 thousand) of available-for-sale securities issued by SK Networks and its overseas affiliates, which was the net amount after deducting loss on impairment of available-for-sale securities of ₩602 million (US\$503 thousand) for the year ended December 31, 2003. The securities include ₩20,932 million (US\$17,475 thousand) of common stock and ₩17,521 million (US\$14,628 thousand) of redeemable preferred stock, which were acquired pursuant to the troubled debt restructuring agreement passed through the Creditor Financial Institution Committee of SK Networks. As the common stocks are restricted of disposition until 2007, the fair value as of December 31, 2003 was based upon the pricing report provided by Korea Bond Pricing Co., Ltd.

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(11) As of December 31, 2003 and 2002, securities excluding trading securities, which were provided as collateral, were as follows:

Provided to	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Provided for
	2003	2002	2003	2002	
Korea Securities Depository	₩ 1,866,509	₩ 1,326,254	\$ 1,558,281	\$ 1,107,242	Customer RP
Bank of Korea	1,324,758	1,445,161	1,105,993	1,206,513	RP of Bank of Korea
Bank of Korea	571,759	203,369	477,341	169,785	Inter-bank settlement
Bank of Korea	591,034	522,057	493,433	435,847	Loans with credit limit from Bank of Korea
Bank of Korea	96,079	106,482	80,213	88,898	Borrowings from Bank of Korea
Korea Asset Management Corporation	-	14,079	-	11,754	Settlement of non- performing loans
Seoul Guarantee Insurance Company	18,405	35,921	15,365	29,989	Guarantee for construction execution
Korea Construction Financial Cooperative	10,083	26,309	8,418	21,964	Guarantee for construction execution
HSBC	82,333	-	68,737	-	Repo transaction
UBS Warburg	-	75,091	-	62,691	Repo transaction
LG Investment & Securities Co., Ltd. and other	39,857	41,742	33,275	34,849	Futures
	₩ 4,600,817	₩ 3,796,465	\$ 3,841,056	\$ 3,169,532	

5. LOANS:

(1) Loans as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Loans in local currency	₩ 21,045,679	₩ 16,835,708	\$ 17,570,278	\$ 14,055,525
Loans in foreign currencies	1,381,482	1,098,931	1,153,349	917,458
Bills bought in local currency	745,069	779,469	622,031	650,750
Bills bought in foreign currencies	1,331,465	1,259,804	1,111,592	1,051,765
Advances for customers	2,347	2,784	1,959	2,324
Credit card accounts	1,998,321	2,506,454	1,668,326	2,092,548
Call loans	999,639	795,867	834,563	664,441
Privately placed bonds	1,072,045	751,642	895,012	627,519
Loans to be converted to equity securities	20,242	22,626	16,899	18,890
Domestic import usance	689,692	653,673	575,799	545,728
Factoring receivables	425,277	246,451	355,049	205,753
	29,711,258	24,953,409	24,804,857	20,832,701
Allowance for possible loan losses (Note 7)	(441,828)	(322,942)	(368,866)	(269,613)
Present value discounts (Note 6)	(1,264)	(4,340)	(1,055)	(3,623)
	₩ 29,268,166	₩ 24,626,127	\$ 24,434,936	\$ 20,559,465

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(2) Loans in local currency and loans in foreign currencies, by borrower type, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
(Loans in local currency)				
Loans to enterprise Working capital	₩ 9,053,615	₩ 6,995,550	\$ 7,558,536	\$ 5,840,332
Facilities and equipment	1,677,218	1,529,804	1,400,249	1,277,178
	10,730,833	8,525,354	8,958,785	7,117,510
Loans to households				
Overdrafts	3	15	2	13
General purpose	8,834,315	6,708,046	7,375,451	5,600,305
Installment saving	11,027	8,637	9,206	7,211
	8,845,345	6,716,698	7,384,659	5,607,529
Loans to public sector and other				
Working capital	161,191	306,254	134,573	255,681
Facilities and equipment	27,796	20,521	23,206	17,132
	188,987	326,775	157,779	272,813
Housing	817,658	859,163	682,633	717,284
Inter-bank loans	462,856	407,718	386,422	340,389
	₩ 21,045,679	₩ 16,835,708	\$ 17,570,278	\$ 14,055,525
(Loans in foreign currencies)				
Loans in foreign currencies	₩ 1,198,419	₩ 950,247	\$ 1,000,517	\$ 793,327
Off- shore loans in foreign currencies	135,151	148,684	112,832	124,131
Inter-bank loans in foreign currencies	47,912	-	40,000	-
	₩ 1,381,482	₩ 1,098,931	\$ 1,153,349	\$ 917,458

(3) Loans in local currency and loans in foreign currencies, by borrower's country, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Korea	₩ 21,778,400	₩ 17,302,438	\$ 18,182,000	\$ 14,445,181	99.37	98.72
U.S.A.	718	996	599	832	0.00	0.01
Russia	43,121	43,214	36,000	36,078	0.20	0.25
Indonesia	1,337	2,107	1,116	1,759	0.01	0.01
Overseas branches	85,150	171,973	71,089	143,574	0.39	0.98
Others	7,667	6,193	6,401	5,170	0.03	0.03
	₩ 21,916,393	₩ 17,526,921	\$ 18,297,205	\$ 14,632,594	100.00	100.00

(*) The above loans excluded inter-bank loans and inter-bank loans in foreign currencies.

(4) Loans in local currency and loans in foreign currencies, by customers, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Large corporations	₩ 2,185,827	₩ 1,687,340	\$ 1,824,868	\$ 1,408,699	9.97	9.63
Medium and small corporations	9,793,426	7,764,972	8,176,178	6,482,695	44.69	44.30
Households	9,663,003	7,575,861	8,067,292	6,324,813	44.09	43.23
Others	188,987	326,775	157,778	272,813	0.86	1.86
Overseas branches	85,150	171,973	71,089	143,574	0.39	0.98
	₩ 21,916,393	₩ 17,526,921	\$ 18,297,205	\$ 14,632,594	100.00	100.00

(*) The above loans excluded inter-bank loans and inter-bank loans in foreign currencies.

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(5) Loans in local currency and loans in foreign currencies, by industry, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Manufacturing	₩ 5,583,332	₩ 4,536,148	\$ 4,661,322	\$ 3,787,066	25.48	25.88
Wholesale and retail	1,519,025	1,080,095	1,268,179	901,732	6.93	6.16
Finance and insurance	320,818	519,336	267,839	433,575	1.46	2.96
Construction	283,930	176,881	237,043	147,672	1.29	1.01
Transportation, storage and communication	435,482	564,491	363,568	471,273	1.99	3.22
Real estate and renting	1,913,877	1,330,961	1,597,827	1,111,171	8.73	7.60
Food and accommodations	365,450	221,230	305,101	184,697	1.67	1.26
Others	1,746,326	1,349,945	1,457,945	1,127,021	7.97	7.70
Overseas branches	85,150	171,973	71,089	143,574	0.39	0.98
Sub-total	12,253,390	9,951,060	10,229,913	8,307,781	55.91	56.77
Loan to households	9,663,003	7,575,861	8,067,292	6,324,813	44.09	43.23
	₩ 21,916,393	₩ 17,526,921	\$ 18,297,205	\$ 14,632,594	100.00	100.00

(*) The above loans excluded inter-bank loans and inter-bank loans in foreign currencies.

(6) Loans to financial institutions as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Banks	₩ 43,121	₩ 52,298	\$ 36,000	\$ 43,662	13.44	10.07
Special purpose companies	43,680	27,187	36,467	22,697	13.62	5.23
Leasing companies	24,886	23,495	20,776	19,615	7.76	4.52
Mutual savings and finance companies	2,000	2,000	1,670	1,670	0.62	0.38
Credit card companies	80,282	242,463	67,025	202,424	25.02	46.69
Investment trust companies	10,603	13,642	8,852	11,389	3.31	2.63
Investment banking	27,430	19,820	22,900	16,547	8.55	3.82
Finance companies	10,499	11,663	8,765	9,737	3.27	2.25
Other financial institutions	78,317	126,768	65,384	105,834	24.41	24.41
	₩ 320,818	₩ 519,336	\$ 267,839	\$ 433,575	100.00	100.00

(7) As of December 31, 2003, the total credits (including confirmed acceptances and guarantees) of the Bank to SK Networks amounted to ₩124,771 million (US\$104,167 thousand), and in connection with these credits, the Bank provided an allowance for possible loan losses of ₩51,830 million (US\$43,271 thousand). The above loans include ₩13,693 million (US\$11,432 thousand) of convertible debt and ₩6,550 million (US\$5,46 thousand) of loans to be converted to preferred stock, which the Bank acquired pursuant to troubled debt restructuring agreement in October 2003. The Bank has provided an allowance for possible loan losses of ₩7,545 million (US\$6,299 thousand) for the convertible debt and the loans to be converted to preferred stock.

According to the Corporate Restructuring Promotions Law, Creditor Financial Institution Committee of SK Networks as "possible insolvency company" in March 2003, and the negotiations for normalization of business are in process as of December 31, 2003. Going-concern issue of the company will highly depend on the future progress of the company's restructuring plan and effective support of financial creditors. Therefore, actual credit loss from this credit exposure may differ from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

(8) Daewoo Group companies, which were placed under workout in August 1999 due to their liquidity problems, are undergoing a workout or court receivership as of December 31, 2003. As of December 31, 2003, the Bank had loans outstanding (including confirmed acceptances and guarantees and trust accounts with guaranteed return) to Daewoo Group companies of ₩89,418 million (US\$74,652 thousand). For these credits, the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩10,129 million (US\$8,456 thousand) based on its loan classification.

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The recovery of loans outstanding to Daewoo Group companies is highly dependent on the results of the business restructuring; accordingly, the potential impact on the Bank's operations of the workout program and the difficulties Daewoo Group companies are facing cannot presently be determined.

(9) As of December 31, 2003, amounts owed by companies under workout program excluding Daewoo Group companies amounted to ₩8,941 million (US\$7,465 thousand). After deducting present value discounts of ₩1,243 million (US\$1,038 thousand), the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩859 million (US\$717 thousand).

The collectibility of these loans may be affected by the outcome of the restructuring of these companies under workout program.

(10) As of December 31, 2003, amounts owed by Hyundai Group companies, which include Hyundai Merchant Marine and Hyundai Engineering & Construction Co., Ltd. amounted to ₩17,383 million (US\$14,512 thousand) including confirmed acceptances and guarantees. The Bank has provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩1,176 million (US\$982 thousand) based on its loan classification.

Hyundai Group companies are presently undergoing a liquidity problem and the potential impact on the Bank's operation of the difficulties these companies are facing cannot presently be determined.

(11) The classification of asset quality for loans, net of present value discount, as of December 31, 2003 is summarized as follows (Unit: Won in millions):

	Normal	Precautionary	Substandard	Estimated Doubtful	Loss	Total
Loans in local currency	₩ 20,735,641	₩ 86,898	₩ 163,848	₩ 41,547	₩ 17,745	₩ 21,045,679
Loans in foreign currencies	1,361,293	6,549	13,142	4	494	1,381,482
Bills bought in local currency	739,604	5,465	-	-	-	745,069
Bills bought in foreign currencies	1,310,732	7,662	12,992	-	79	1,331,465
Advances for customers	658	-	1,319	250	99	2,326
Credit card loans	1,761,715	72,684	151	79,191	84,580	1,998,321
Privately placed bonds	1,059,014	350	2,823	8,282	333	1,070,802
Loans to be converted to equity securities	-	-	20,242	-	-	20,242
Domestic import usance	688,866	565	-	261	-	689,692
Factoring receivables	425,149	83	-	18	27	425,277
Others (*)	987,962	109	283	1,402	796	990,552
	₩ 29,070,634	₩ 180,365	₩ 214,800	₩ 130,955	₩ 104,153	₩ 29,700,907
Composite ratio (%)	97.88	0.61	0.72	0.44	0.35	100.00

The classification of asset quality for loans, net of present value discount, as of December 31, 2002 is summarized as follows (Unit: Won in millions):

	Normal	Precautionary	Substandard	Estimated Doubtful	Loss	Total
Loans in local currency	₩ 16,585,719	₩ 166,547	₩ 55,357	₩ 16,482	₩ 11,361	₩ 16,835,466
Loans in foreign currencies	1,055,475	11,197	29,255	3,004	-	1,098,931
Bills bought in local currency	773,469	6,000	-	-	-	779,469
Bills bought in foreign currencies	1,254,480	4,406	372	46	500	1,259,804
Advances for customers	250	144	1,373	459	532	2,758
Credit card loans	2,210,140	143,224	127,105	14,852	11,133	2,506,454
Privately placed bonds	712,877	13,590	8,320	11,223	1,560	747,570
Loans to be converted to equity securities	-	22,626	-	-	-	22,626
Domestic import usance	649,123	570	-	3,913	67	653,673
Factoring receivables	246,451	-	-	-	-	246,451
Others (*)	795,894	79	369	515	427	797,284
	₩ 24,283,878	₩ 368,383	₩ 222,151	₩ 50,494	₩ 25,580	₩ 24,950,486
	97.33	1.48	0.89	0.20	0.10	100.00

(*) consisting of call loans (excluding inter-banks reconciliation funds), suspense receivable as credit and accounts receivable reclassified from dishonored bills bought in foreign currencies.

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(12) The Banks sold its non-performing loans of ₩306,062 million (US\$255,520 thousand) including trust accounts with guaranteed return in 3 different batches to Korea Asset Management Corporation ("KAMCO") since December 1997. As of December 31, 2003, the unsettled amount was ₩32,184 million (US\$26,869 thousand) including trust accounts with guaranteed return of ₩14,319 million (US\$11,954 thousand). The Bank has provided other allowance totaling ₩21,567 million (US\$18,006 thousand) including trust accounts with guaranteed return of ₩7,759 million (US\$6,478 thousand).

(13) For the year ended December 31, 2003, the Bank sold certain non-performing loans with principal amount of ₩14,026 million (US\$11,710 thousand) to JP Morgan Chase Bank and etc. for ₩11,656 million (US\$9,731 thousand), and recognized gain on sales of loans of ₩4,084 million (US\$3,410 thousand). In addition, the Bank sold charged-off loans with principle amount of ₩74,605 million (US\$62,285 thousand) to Global Asset Management Company and others, and recognized the proceeds from the sale of ₩18,132 million (US\$15,138 thousand) as gain on sales of loans. The Bank also sold credit card receivables with principal amount of ₩216,564 million (US\$180,801 thousand) to Seoul Guarantee Insurance Company, and recognized gain on sale of loans of ₩7,084 million (US\$5,914 thousand). There is no recourse obligations related to the sale.

6. RESTRUCTURING LOANS:

(1) Present value discounts related to outstanding restructured loans as of December 31, 2003 were as follows (Unit: Won in millions):

Present value discounts

Type	Discount rate (%)	Loans	Beginning balance	Increase	Decrease (*)	Ending Balance
Composition	13.75 - 14.25	₩ 286	₩ 32	₩ -	₩ 11	₩ 21
Workout programs	10.00 - 13.50	1,708	4,308	-	3,065	1,243
		₩ 1,994	₩ 4,340	₩ -	₩ 3,076	₩ 1,264

(*) composed of amortization of present value discount of ₩1,394 million, reversal of present value discount of ₩1,677 million due to advanced redemption and foreign exchange trading income of ₩5 million.

Present value discounts related to outstanding restructured loans as of December 31, 2002 were as follows (Unit: Won in millions):

Present value discounts

Type	Discount rate (%)	Loans	Beginning balance	Increase	Decrease (*)	Ending Balance
Composition	13.75 - 14.25	₩ 343	₩ 54	₩ -	₩ 22	₩ 32
Workout programs	10.00 - 13.50	16,438	13,268	392	9,352	4,308
		₩ 16,781	₩ 13,322	₩ 392	₩ 9,374	₩ 4,340

(*) composed of amortization of present value discount of ₩2,813 million, reversal of present value discount of ₩6,115 million due to advanced redemption and foreign exchange trading income of ₩446 million

Cash flows from outstanding fixed rate loans are discounted by the original agreed interest rate, and cash flows from matured fixed rate loans and floating rate loans are discounted by the interest rate reflecting debtors' credit at the time of restructuring of the loans.

(2) Debt restructuring for the year ended December 31, 2003 was as follows (Unit: Won in millions):

Type	Amount before restructuring	Principal exemption	Debt-equity swap (declared)	Debt-equity swap (stock)	Transferred to CB	Interest reduction
Court receivership	₩ 41,946	₩ 135	₩ -	₩ 39,671	₩ -	₩ 2,140
Composition	836	-	-	836	-	-
Others	250,122	49,389	6,550	60,606	13,693	119,884
	₩ 292,904	₩ 49,524	₩ 6,550	₩ 101,113	₩ 13,693	₩ 122,024

Debt restructuring for the year ended December 31, 2002 was as follows (Unit: Won in millions):

Type	Amount before restructuring	Principal exemption	Debt-equity swap (declared)	Debt-equity swap (stock)	Transferred to CB	Interest reduction
Court receivership	₩ 86,638	₩ 53,399	₩ -	₩ 27,423	₩ -	₩ 5,816
Composition	994	339	-	655	-	-
Workout programs	89,703	-	25,083	62,223	-	2,397
	₩ 177,335	₩ 53,738	₩ 25,083	₩ 90,301	₩ -	₩ 8,213

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7. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

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

2003						
	Normal	Precautionary	Substandard	Doubtful	Loss	Total
Loans in local currency	₩ 125,462	₩ 8,385	₩ 55,808	₩ 22,075	₩ 17,745	₩ 229,475
Loans in foreign currencies	6,703	131	2,628	2	494	9,958
Bills bought in local currency	3,698	1,088	-	-	-	4,786
Bills bought in foreign currencies	6,612	153	2,599	-	79	9,443
Advances for customers	3	-	264	125	99	491
Credit card loans	17,618	8,722	30	47,515	84,580	158,465
Privately placed loans	5,295	7	770	7,320	333	13,725
Loans to be converted to equity securities	-	-	7,545	-	-	7,545
Domestic import usance	3,444	11	-	130	-	3,585
Factoring receivables	2,126	2	-	9	27	2,164
Others	-	2	56	701	1,432	2,191
	₩ 170,961	₩ 18,501	₩ 69,700	₩ 77,877	₩ 104,789	₩ 441,828

The allowance for possible loan losses as of December 31, 2002 is summarized as follows (Unit: Won in millions):

2002						
	Normal	Precautionary	Substandard	Doubtful	Loss	Total
Loans in local currency	₩ 99,761	₩ 15,933	₩ 12,947	₩ 9,927	₩ 11,361	₩ 149,929
Loans in foreign currencies	5,572	224	14,598	1,502	-	21,896
Bills bought in local currency	3,867	1,194	-	-	-	5,061
Bills bought in foreign currencies	6,333	88	75	23	500	7,019
Advances for customers	1	3	275	230	532	1,041
Credit card loans	22,101	17,187	25,421	8,911	11,133	84,753
Privately placed loans	3,564	2,495	1,784	5,726	1,560	15,129
Loans to be converted to equity securities	-	4,503	-	-	-	4,503
Domestic import usance	3,246	11	-	1,957	67	5,281
Factoring receivables	1,232	-	-	-	-	1,232
Others	-	2	16,822	7,942	2,332	27,098
	₩ 145,677	₩ 41,640	₩ 71,922	₩ 36,218	₩ 27,485	₩ 322,942

(2) The changes in allowance for possible loan losses as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Beginning balance	₩ 322,942	₩ 437,213	\$ 269,613	\$ 365,013
Loans written-off	(272,889)	(345,349)	(227,825)	(288,319)
Conversion to equity securities	(32,421)	(44,590)	(27,067)	(37,227)
Sales of loans	(36,322)	(5,486)	(30,324)	(4,580)
Collection of previously written - off loans	18,956	15,946	15,826	13,313
Repurchase of NPLs sold	14,156	37,763	11,818	31,527
Termination of restructuring	1,677	6,115	1,400	5,105
Other	(15,538)	(12,480)	(12,973)	(10,419)
Provision for possible loan losses	441,267	233,810	368,398	195,200
Ending balance	₩ 441,828	₩ 322,942	\$ 368,866	\$ 269,613

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(3) The allowance for possible loan losses compared to total loans, net of present value discount, is summarized as follows:

	Total loans (*)		Allowance for possible loan losses		Percentage (%)
	(In millions)	(In thousands)	(In millions)	(In thousands)	
	Korean Won	U.S. Dollars (Note 2)	Korean Won	U.S. Dollars (Note 2)	
Dec 31, 2003	₩ 28,202,272	\$ 23,545,059	₩ 441,828	\$ 368,866	1.57
Dec 31, 2002	23,746,901	19,825,431	322,942	269,613	1.36
Dec 31, 2001	17,026,947	14,215,184	437,213	365,013	2.57

(*) excluding call loans and inter-bank loans classified as normal

8. FIXED ASSETS:

(1) Fixed assets as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Tangible assets	₩ 551,593	₩ 533,555	\$ 460,505	\$ 445,446
Less: Accumulated depreciation	(187,772)	(159,220)	(156,764)	(132,927)
Intangible assets	23,759	15,493	19,836	12,934
	₩ 387,580	₩ 389,828	\$ 323,577	\$ 325,453

(2) Tangible assets as of December 31, 2003 consisted of the following:

	Acquisition cost		Accumulated depreciation	
	(In millions)	(In thousands)	(In millions)	(In thousands)
	Korean Won	U.S. Dollars (Note 2)	Korean Won	U.S. Dollars (Note 2)
Land	₩ 122,067	\$ 101,909	₩ -	\$ -
Buildings	152,337	127,181	21,178	17,681
Equipment and furniture	232,894	194,435	144,015	120,233
Leasehold improvements	43,641	36,434	22,579	18,850
Construction in progress	654	546	-	-
	₩ 551,593	\$ 460,505	₩ 187,772	\$ 156,764

Tangible assets as of December 31, 2002 consisted of the following:

	Acquisition cost		Accumulated depreciation	
	(In millions)	(In thousands)	(In millions)	(In thousands)
	Korean Won	U.S. Dollars (Note 2)	Korean Won	U.S. Dollars (Note 2)
Land	₩ 119,045	\$ 99,387	₩ -	\$ -
Buildings	149,003	124,397	17,655	14,740
Equipment and furniture	224,141	187,127	121,384	101,339
Leasehold improvements	40,712	33,989	20,181	16,848
Construction in progress	654	546	-	-
	₩ 533,555	\$ 445,446	₩ 159,220	\$ 132,927

As of December 31, 2003 and 2002, the published value of land was ₩88,342 million (US\$73,736 thousand) and ₩71,524 million (US\$59,713 thousand), respectively, based on the disclosed public land price announced by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

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(3) The changes in tangible assets for the year ended December 31, 2003 were as follows (Unit: Won in millions):

	Beginning balance	Acquisitions	Dispositions	Depreciation	Other	Ending balance
Land	₩ 119,045	₩ 3,178	₩ 156	₩ -	₩ -	₩ 122,067
Buildings	131,348	4,194	639	3,744	-	131,159
Equipment and furniture	102,757	23,072	859	36,090	(1)	88,879
Leasehold improvements	20,531	8,476	923	7,018	(4)	21,062
Construction in process	654	-	-	-	-	654
	₩ 374,335	₩ 38,920	₩ 2,577	₩ 46,852	₩ (5)	₩ 363,821

(4) Intangible assets as of December 31, 2003 and 2002 consisted of the following

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Software (Development Costs)	₩ 23,585	₩ 15,317	\$ 19,690	\$ 12,787
Other	174	176	146	147
	₩ 23,759	₩ 15,493	\$ 19,836	\$ 12,934

(5) The changes in intangible assets for the year ended December 31, 2003 were as (Unit: Won in millions):

	Beginning balance	Increase	Decrease	Amortization	Other	Ending balance
Software						
(Development Costs)	₩ 15,317	₩ 12,785	₩ -	₩ 4,517	₩ -	₩ 23,585
Other	176	131	63	70	-	174
	₩ 15,493	₩ 12,916	₩ 63	₩ 4,587	₩ -	₩ 23,759

9. OTHER ASSETS:

(1) Other assets as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Guarantee deposits	₩ 275,625	₩ 264,488	\$ 230,109	\$ 220,811
Accounts receivable (Note 25)	1,064,281	1,107,313	888,530	924,456
Accrued income (Note 2)	299,511	257,649	250,051	215,101
Prepaid expenses	117,276	138,936	97,910	115,993
Deferred income tax assets (Note 22)	35,589	48,175	29,712	40,220
Derivatives assets (Note 25)	627,401	271,341	523,794	226,533
Domestic exchange settlements debits	220,175	181,679	183,816	151,677
Sundry assets	8,870	9,895	7,405	8,261
	₩ 2,648,728	₩ 2,279,476	\$ 2,211,327	\$ 1,903,052

(2) Sundry assets among other assets as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Suspense receivables	₩ 5,194	₩ 6,521	\$ 4,336	\$ 5,444
Deposit money to court	3,076	1,701	2,568	1,420
Other	600	1,673	501	1,397
	₩ 8,870	₩ 9,895	\$ 7,405	\$ 8,261

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10. INSURED ASSETS:

Assets insured as of December 31, 2003 were as follows (Unit: Won in millions):

Type of insurance	Assets	Book value	Insured amount	Insurance companies
Property composite	Buildings (*)	₩ 152,221	₩ 120,191	Federal Insurance Company
	Equipment and furniture	88,879	51,050	Federal Insurance Company
		₩ 241,100	₩ 171,241	

(*) including leasehold improvements.

The Bank also has compensation liability insurance for officers and compensation liability insurance for business.

11. DEPOSITS:

(1) Deposits as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Deposits in local currency	₩ 20,948,949	₩ 18,951,615	\$ 17,489,522	\$ 15,822,020
Deposits in foreign currencies	946,262	583,706	790,000	487,315
Certificates of deposits	3,111,593	1,254,497	2,597,757	1,047,334
	₩ 25,006,804	₩ 20,789,818	\$ 20,877,279	\$ 17,356,669

(2) Deposit in local currency as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Demand deposits	₩ 1,506,009	₩ 1,787,763	\$ 1,257,313	\$ 1,492,539
Savings deposits	19,249,060	16,896,623	16,070,345	14,106,381
Mutual installment receipts	82,771	124,396	69,103	103,854
Housing installment deposits	111,109	142,833	92,761	119,246
	₩ 20,948,949	₩ 18,951,615	\$ 17,489,522	\$ 15,822,020

(3) Deposits in foreign currencies as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Current deposits	₩ 54,826	₩ 38,041	\$ 45,772	\$ 31,759
Passbook deposits	265,111	249,094	221,332	207,960
Notice deposits	2,587	2,586	2,160	2,159
Time deposits	623,102	293,338	520,205	244,897
Temporary deposits	636	647	531	540
	₩ 946,262	₩ 583,706	\$ 790,000	\$ 487,315

(4) Deposits with financial institutions as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Deposits in local currency				
Banks	₩ 47,712	₩ 123,204	\$ 39,833	\$ 102,859
Securities companies	36,866	52,380	30,778	43,730
Insurance companies	446,329	430,542	372,624	359,444
Other financial institution	1,110,668	522,255	927,257	436,012
	₩ 1,641,575	₩ 1,128,381	\$ 1,370,492	\$ 942,045

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	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Deposits in foreign currencies				
Banks	18,250	48,024	15,236	40,093
Securities companies	31	1,407	26	1,175
Insurance companies	-	120	-	100
Other financial institution	2,143	13,964	1,789	11,658
	20,424	63,515	17,051	53,026
	₩ 1,661,999	₩ 1,191,896	\$ 1,387,543	\$ 995,071

12. BORROWINGS:

(1) Borrowings as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Borrowings in local currency	₩ 1,645,198	₩ 1,507,186	\$ 1,373,516	\$ 1,258,295
Borrowings in foreign currencies	2,527,790	2,468,345	2,110,361	2,060,732
Bonds sold under repurchase agreements	1,622,447	1,298,781	1,354,522	1,084,305
Bills sold	334,519	26,376	279,278	22,020
Due to BOK in foreign currencies	3,816	15,334	3,186	12,802
Call money	2,292,600	1,385,012	1,914,009	1,156,297
	₩ 8,426,370	₩ 6,701,034	\$ 7,034,872	\$ 5,594,451

(2) Borrowings in local currency as of December 31, 2003 and 2002 consisted of the following:

Institution	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2003	2002	2003	2002
BOK	2.50	₩ 515,784	₩ 347,393	\$ 430,609	\$ 290,026
Borrowings from government fund	4.41 - 4.50	44,315	50,036	36,997	41,773
Small & Medium-Sized Business					
Development and others	2.00 - 8.55	1,085,099	1,109,757	905,910	926,496
		₩ 1,645,198	₩ 1,507,186	\$ 1,373,516	\$ 1,258,295

The details of subordinated borrowings, included in others, as of December 31, 2003 and 2002 consisted of the following:

Institution	Annual interest rate (%)	Condition of borrowings	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
			2003	2002	2003	2002
Samsung Life Insurance	5.52 - 6.03	Lump sum reimbursement	₩ 70,000	₩ 100,000	\$ 58,440	\$ 83,486
Korea Life Insurance	10.00	Lump sum reimbursement	-	30,000	-	25,046
			₩ 70,000	₩ 130,000	\$ 58,440	\$ 108,532

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(3) Borrowings in foreign currencies as of December 31, 2003 and 2002 consisted of the following:

Institution	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2003	2002	2003	2002
Development Bank of Singapore and others	0.05 - 3.03	₩ 2,412,613	₩ 2,336,541	\$ 2,014,204	\$ 1,950,694
Natexis Banques Populaires and others	1.35 - 1.60	115,177	131,804	96,157	110,038
		₩ 2,527,790	₩ 2,468,345	\$ 2,110,361	\$ 2,060,732

(4) Due to BOK in foreign currencies as of December 31, 2003 and 2002 was received from BOK for the purpose of re-lending pursuant to government policies (funds for import facility) and annual interest rate ranges from 1.04 to 1.41 percent in 2003.

(5) Call money as of December 31, 2003 and 2002 consisted of the following:

Institution	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2003	2002	2003	2002
Local currency Mirae Asset and others	3.55 - 3.65	₩ 2,292,600	₩ 1,258,500	\$ 1,914,009	\$ 1,050,676
Foreign currencies Den Norske Bank and others	-	-	6,347	-	5,299
Inter-bank reconciliation Shinhan Bank and others	-	-	120,165	-	100,322
		₩ 2,292,600	₩ 1,385,012	\$ 1,914,009	\$ 1,156,297

(6) Borrowings in local currency and borrowings in foreign currencies with financial institutions as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
BOK	₩ 515,784	₩ 347,393	\$ 430,609	\$ 290,026
Banks	2,659,072	2,614,427	2,219,963	2,182,691
Insurance companies	70,000	130,000	58,441	108,532
	₩ 3,244,856	₩ 3,091,820	\$ 2,709,013	\$ 2,581,249

13. DEBENTURES:

(1) Debentures as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Debentures in local currency	₩ 3,907,191	₩ 4,619,392	\$ 3,261,973	\$ 3,856,564
Less: Discounts	(51,381)	(94,900)	(42,896)	(79,229)
Debentures in foreign currencies	643,479	451,600	537,217	377,025
Less: Discounts	(4,955)	(5,079)	(4,137)	(4,240)
	₩ 4,494,334	₩ 4,971,013	\$ 3,752,157	\$ 4,150,120

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(2) Debentures in local currency as of December 31, 2003 and 2002 were as follows:

Type	Issuance date	Expiration date	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
			2003	2003	2002	2003	2002
Debtenture	Dec. 1997	Dec. 2002	10.57	₩ -	₩ 1	\$ -	\$ -
	Apr. 1998	Apr. 2001	11.42	₩ 2	₩ 2	\$ 2	\$ 2
	Sep. 2000	Sep. 2003	6.87	-	10,000	-	8,349
	Nov. 2000	Nov. 2003	7.48	-	10,000	-	8,349
	Feb. 2001	Feb. 2003	5.76	-	10,000	-	8,349
	Mar. 2001	Mar. 2003	5.86 - 6.13	-	15,000	-	12,523
	Apr. 2001	Apr. 2003	6.40	-	10,000	-	8,349
	May 2001	May 2003	6.27	-	24,000	-	20,037
	Nov. 2001	Nov. 2004	5.68 - 5.72	20,000	20,000	16,697	16,697
	Feb. 2002	Feb. 2003	5.13 - 5.25	-	120,000	-	100,184
	Feb. 2002	Feb. 2004	5.51	30,000	30,000	25,046	25,046
	Jan. 2002	Jan. 2003	4.97 - 5.06	-	90,000	-	75,138
	Jan. 2002	Jan. 2004	5.69	30,000	30,000	25,046	25,046
	Jan. 2002	Jan. 2005	(*1)	120,000	120,000	100,184	100,184
	Mar. 2002	Mar. 2003	5.22 - 5.39	-	368,238	-	307,428
	Mar. 2002	Mar. 2005	6.68 - 6.75	90,000	90,000	75,138	75,138
	Apr. 2002	Apr. 2003	5.29 - 5.37	-	235,000	-	196,193
	Apr. 2002	Apr. 2009	7.36	70,000	70,000	58,440	58,440
	May 2002	May 2003	5.31 - 5.34	-	220,000	-	183,670
	June 2002	June 2003	5.25 - 5.31	-	150,000	-	125,229
	June 2002	June 2005	6.50	60,000	60,000	50,092	50,092
	July 2002	July 2003	4.99 - 5.33	-	310,000	-	258,808
	Aug. 2002	Aug. 2003	4.88 - 4.99	₩ -	₩ 505,000	\$ -	\$ 421,606
	Sep. 2002	Sep. 2003	4.85 - 4.95	-	690,000	-	576,056
	Sep. 2002	Sep. 2005	5.72	90,000	90,000	75,138	75,138
	Oct. 2002	Oct. 2003	4.89 - 4.99	-	145,000	-	121,055
	Oct. 2002	Oct. 2005	5.68 - 5.74	150,000	150,000	125,230	125,230
	Nov. 2002	Nov. 2003	4.86 - 4.90	-	260,000	-	217,064
	Dec. 2002	Dec. 2003	4.91	-	130,000	-	108,532
	Jan. 2003	Jan. 2004	4.72 - 4.74	180,000	-	150,275	-
	Jan. 2003	Jan. 2009	6.22	50,000	-	41,743	-
	Feb. 2003	Feb. 2009	6.24	50,000	-	41,743	-
	Feb. 2003	Feb. 2004	4.53 - 4.57	140,000	-	116,881	-
	Apr. 2003	Apr. 2005	4.88	60,000	-	50,092	-
	Apr. 2003	Apr. 2004	4.53 - 4.58	40,000	-	33,395	-
	May. 2003	May. 2004	4.34 - 4.42	240,000	-	200,367	-
	Jun. 2003	Jun. 2004	4.36 - 4.42	75,000	-	62,615	-
	Jun. 2003	Jun. 2006	4.99	70,000	-	58,440	-
	Jul. 2003	Jul. 2004	4.14 - 4.51	360,000	-	300,551	-
	Jul. 2003	Jul. 2033	7.2 (*2)	230,000	-	192,019	-
	Aug. 2003	Aug. 2004	4.07 - 4.16	250,000	-	208,716	-
	Sep. 2003	Sep. 2004	3.95 - 4.05	369,000	-	308,065	-
	Sep. 2003	Sep. 2005	4.27	40,000	-	33,394	-
	Sep. 2003	Sep. 2009	5.30	50,000	-	41,743	-
	Oct. 2003	Oct. 2004	3.92 - 4.17	200,000	-	166,973	-
	Oct. 2003	Oct. 2010	5.37	35,000	-	29,220	-
	Nov. 2003	Nov. 2004	4.38	170,000	-	141,927	-
	Nov. 2003	Nov. 2010	5.55	50,000	-	41,743	-
	Dec. 2003	Dec. 2004	4.61 - 4.62	100,000	-	83,486	-
	Dec. 2003	Dec. 2013	9.2 (*3)	30,000	-	25,046	-
Sub-ordinated	Dec. 1998	Mar. 2004	(*4)	-	133,300	-	111,287
	Dec. 1998	Mar. 2004	(*5)	-	63,100	-	52,680
	Mar. 2000	June 2005	10.50 - 10.60	99,993	99,993	83,481	83,481
	May 2001	Jan. 2007	7.60 - 7.65	99,980	99,980	83,470	83,470
	Sep. 2001	Mar. 2007	6.80 - 6.84	100,000	100,000	83,486	83,486
	July 2002	July 2008	7.10 - 7.25	150,000	150,000	125,230	125,230
				₩ 3,898,975	₩ 4,608,614	\$ 3,255,114	\$ 3,847,566
				(2,562)	10,778	(2,139)	8,998
				10,778	-	8,998	-
				₩ 3,907,191	₩ 4,619,392	\$ 3,261,973	\$ 3,856,564

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(*1) including gain on valuation of fair market value risk hedge of ₩3,661 million and loss on valuation of fair market value risk hedge of ₩1,099 million.

(*2) 5.22 percent + interest rate of 3-year Treasury bond + interest rate of 91-day CD

(*3) New Type Capital Security (hybrid bond)

(*4) 9.2 percent for one year after issuance date; 19 percent - 2 x interest rate of 91-day CD after one year

(*5) depository rate of public capital managing funds

(*6) depository rate of public capital managing funds + 1 percent

(3) Debentures in foreign currencies as of December 31, 2003 and 2002 consisted of:

Type	Issuance date	Expiration date	Annual interest rate (%)		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
			2003	2002	2003	2002	2003	2002
Subordinated debentures	May 1997	May 2007	6.88		₩ 19,974	₩ 16,715	\$ 16,676	\$ 13,955
Subordinated convertible bonds	Aug. 1997	Aug. 2007	0.25		1,210	1,212	1,010	1,012
Subordinated debentures	Dec. 2001	Dec. 2011	6.95		191,648	192,064	160,000	160,347
Subordinated debentures	Sep. 2002	Sep. 2012	5.64		239,560	240,080	200,000	200,434
Subordinated debentures	Jun. 2003	Jun. 2013	4.68		197,637	-	165,000	-
					650,029	450,071	542,686	375,748
Loss (gain) on valuation of fair market value risk hedge (current year) (*1)					(8,079)	1,443	(6,745)	1,205
Loss on valuation of fair market value risk hedge (prior year)					1,529	86	1,276	72
					₩ 643,479	₩ 451,600	\$ 537,217	\$ 377,025

(*1) including gain on valuation of fair market value risk hedge of ₩8,344 million and foreign exchange trading loss of ₩265 million.

The major terms relating to the subordinated convertible bonds shown above are as follows:

Agreement Terms	
Conversion price	₩ 13,203
Number of shares to be converted	6,775,796 shares of common stock
Conversion exchange rate	₩ 894.60 /US\$1
Put option	137.74% of principal after 5 years from issue date (Put premium: 6.836%)
Call option	100% of principal after 5 years from issue date
Conversion period	September 25, 1997 - July 26, 2007
Interest payment	Once at every year end (End-of-period)
Other	Non-guaranteed subordinated debentures

Through the exercise of put option of the subordinated convertible bonds, the amount of US\$ 98,990,000 among the total amount of US\$ 100,000,000 was redeemed in 2002.

14. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES:

(1) Acceptances and guarantees as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debentures	₩ 59	₩ 658	\$ 49	\$ 549
Payment guarantee for loan	10,507	19,867	8,772	16,586
Others	189,417	192,973	158,137	161,107
	199,983	213,498	166,959	178,242

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	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letter of credit	78,180	120,645	65,270	100,722
Letters of guarantees for importers	46,899	41,048	39,154	34,270
Guarantees on credit derivatives	119,780	84,028	100,000	70,152
Others (*)	72,559	150,789	60,577	125,888
	₩ 317,418	₩ 396,510	\$ 265,001	\$ 331,032
	₩ 517,401	₩ 610,008	\$ 431,959	\$ 509,274
Unconfirmed acceptances and guarantees				
Customer's liability on letter of credit	₩ 751,531	₩ 515,605	\$ 627,426	\$ 430,460

(*) acceptances and guarantees for the return of advances related to export, overseas bidding, contractual obligations, payment guarantee for other borrowings in foreign currencies.

(2) Acceptances and guarantees (including unconfirmed acceptances and guarantees), by customer, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Large enterprise	₩ 802,195	₩ 663,751	\$ 669,724	\$ 554,142	63.22	58.97
Small and medium enterprise	463,058	461,403	386,590	385,209	36.49	40.99
Others	3,679	459	3,071	383	0.29	0.04
	₩ 1,268,932	₩ 1,125,613	\$ 1,059,385	\$ 939,734	100.00	100.00

(3) Acceptances and guarantees (including unconfirmed acceptances and guarantees), by industry, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Manufacturing	₩ 843,394	₩ 681,153	\$ 704,119	\$ 568,670	66.46	60.51
Finance and insurance	99,235	62,982	82,848	52,582	7.82	5.60
Construction	6,903	24,949	5,763	20,829	0.55	2.22
Wholesale and retail	209,165	249,140	174,624	207,998	16.48	22.13
Others	110,235	107,389	92,031	89,655	8.69	9.54
	₩ 1,268,932	₩ 1,125,613	\$ 1,059,385	\$ 939,734	100.00	100.00

(4) Acceptances and guarantees (including unconfirmed acceptances and guarantees), by country, as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)	
	2003	2002	2003	2002	2003	2002
Korea	₩ 1,257,872	₩ 1,105,166	\$ 1,050,152	\$ 922,663	99.13	98.18
China	11,060	8,443	9,233	7,049	0.87	0.75
United Kingdom	-	12,004	-	10,022	-	1.07
	₩ 1,268,932	₩ 1,125,613	\$ 1,059,385	\$ 939,734	100.00	100.00

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(5) Allowance for possible losses on confirmed acceptances and guarantees as of December 31, 2003 and 2002 were as follows:

Classification	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Normal	₩ 514,601	₩ 585,084	\$ 429,622	\$ 488,466
Precautionary	1,520	24,910	1,269	20,796
Substandard	1,280	-	1,068	-
Doubtful	-	1	-	1
Estimated loss	-	13	-	11
	₩ 517,401	₩ 610,008	\$ 431,959	\$ 509,274
Allowance for possible losses	₩ 620	₩ 100	\$ 518	\$ 83
Ratio (%)	0.12	0.02	0.12	0.02

(6) As of December 31, 2003, confirmed acceptances and guarantees to Daewoo Group companies, and SK Networks (including its foreign subsidiaries) amounted to ₩10 million (US\$8 thousand) and ₩1,179 million (US\$984 thousand), respectively. For SK Networks (including its foreign subsidiaries), an allowance for possible losses of ₩578 million (US\$483 thousand) had been provided based on the Bank's loan classification.

15. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Accrued severance benefits (Note 2)	₩ 77,782	₩ 64,046	\$ 64,937	\$ 53,470
Less: Transfer to National Pension	(2,341)	(2,571)	(1,954)	(2,146)
Less: Individual severance insurance deposits	(50,258)	(52,682)	(41,959)	(43,982)
Allowance for possible losses on confirmed acceptances and guarantees (Note 14)	620	100	518	83
Borrowings from trust accounts (Note 26)	454,522	273,774	379,464	228,564
Foreign exchange remittance pending	31,753	75,748	26,509	63,239
Accounts payable (Note 25)	999,693	1,099,498	834,608	917,931
Accrued expenses	448,832	437,993	374,714	365,665
Unearned revenues	41,237	51,458	34,427	42,960
Deposits for letter of guarantees and other	37,717	27,116	31,489	22,638
Derivative liabilities (Note 25)	649,233	289,335	542,021	241,555
Local exchange settlement credits	421,679	329,073	352,045	274,731
Sundry liabilities	349,062	350,681	291,419	292,771
	₩ 3,459,531	₩ 2,943,569	\$ 2,888,238	\$ 2,457,479

(2) Sundry liabilities among other liabilities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Suspense payable	₩ 60,471	₩ 50,058	\$ 50,485	\$ 41,792
Cash received from other banks	500	1,100	417	918
Withholding taxes	27,268	30,999	22,765	25,880
Guarantee deposits for securities subscription	4,049	27,381	3,380	22,860
Liability incurred by agency relationship	186,024	152,422	155,305	127,252
Account for agency businesses	36,947	54,196	30,846	45,246
Other allowance (Note 2)	32,324	9,777	26,986	8,162
Others	1,479	24,748	1,235	20,661
	₩ 349,062	₩ 350,681	\$ 291,419	\$ 292,771

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16. SHAREHOLDERS' EQUITY:

(1) Common stock and preferred stock

The Bank has 600million authorized shares (₩5,000 par value) as of December 31, 2003 and 2002, of which 203,066,765 shares (₩1,015,334 million) and 183,066,765 shares (₩915,334 million) had been issued as common stock, and 7,800,000 shares (₩39,000million) and 35,600,000 share (₩178,000million) had been issued as preferred stock as of December 31, 2003 and 2002, respectively. The Bank's major shareholders of common stock were J.P. Morgan & Carlyle Consortium (36.55 percent) and Standard Chartered Bank (9.76 percent) as of December 31, 2003. For the year ended December 31, 2003, one of the major shareholders, Samsung Group sold their shares, to Standard Chartered Bank and the latter became the second largest shareholder of the Bank as of December 31, 2003. In addition, the Bank's largest shareholder J.P. Morgan & Carlyle Consortium is proceeding with the negotiation to sell its shares.

On January 29, 2003, the Bank paid ₩39,000 million (US\$32,560 thousand) to acquire 7,800,000 shares of preferred stock, which were issued to the Korea Deposit Insurance Corporation in accordance with the P&A agreement for Kyunggi Bank. The acquired treasury stock was reduced on April 25, 2003, with the approval at the general shareholder's meeting held on March 21, 2003. The remaining preferred stock of 7,800,000 shares (₩ 39,000 million) held by Korea Deposit Insurance Corporation was redeemed in January 29, 2004.

Except for the preferred stock held by Korea Deposit Insurance Corporation, the Bank's preferred stock consisted of cumulative, participating preferred stock, which was issued in the form of public placement on June 30, 2000 (20,000,000 shares, issue amount per share: ₩5,000, total issue amount: ₩100,000 million). The preferred stock could be converted to common stock after stipulated dividends (7.5 percent per annum) paid for three years (i.e. 7.5% X 3 years = 22.5%). As of December 31, 2003, the Bank paid all the stipulated dividends, and the preferred stock was converted into common stock on July 1, 2003.

(2) Capital surplus

The Bank entered into an agreement to issue 20,000,000 global depository shares (GDSs) on April 25, 2002 and brought in US\$198,730 thousand from the issuance of GDSs on April 30, 2002. The GDSs represent 20 million shares of common stock (issuance price: ₩13,000) and, accordingly, ₩100,000 million (US\$83,486 thousand) was recorded as capital stock and ₩152,405 million (US\$127,237 thousand), net of issuance cost, was recorded as paid-in-capital in excess of par value in capital surplus.

Capital surplus, other than described above, amounting to ₩2,606 million (US\$2,176 thousand) consisted of gain on disposition of Treasury Stock Fund and treasury stock, and the transferred amount of capital adjustment (stock options cost).

(3) Retained earnings

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

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Legal reserve	₩ 45,700	₩ 19,600	\$ 38,154	\$ 16,364
Voluntary reserve	248,900	91,400	207,798	76,307
Unappropriated accumulated retained earnings	46,286	260,424	38,642	217,418
	₩ 340,886	₩ 371,424	\$ 284,594	\$ 310,089

1) Legal reserve

The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

2) Reserve for financial structure improvement (voluntary reserve)

In 2002, the Finance Supervisory Service recommended banks to appropriate at least 10 percent of net income after accumulated deficit to reserve for financial structure improvement, until simple capital ratio equals 5.5 percent. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

3) Retained earnings appropriated for accumulated deficit conservation

The Bank appropriated capital surplus, legal reserve and other reserve amounting to ₩348,363 million (US\$290,836 thousand) for accumulated deficit conservation, pursuant to the approval at the shareholders' meeting on March 9, 2001.

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(4) Capital adjustments

Capital adjustments as of December 31, 2003 and 2002 were as follows

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Treasury stock	₩ (9,830)	₩ (5,655)	\$ (8,207)	\$ (4,721)
Gain on valuation of available-for-sale securities-net (Note 4)	72,692	75,315	60,688	62,878
Loss on valuation of equity securities under the equity method (Note 4)	(1,247)	(1,468)	(1,041)	(1,226)
Stock option cost	3,279	8,433	2,737	7,040
Other	(931)	(1,912)	(777)	(1,596)
	₩ 63,963	₩ 74,713	\$ 53,400	\$ 62,375

1) Treasury stock

The Bank deposited ₩10,000 million (US\$8,349 thousand) on the Treasury Stock Fund of Daehan Investment Trust Securities in 1998. With the disposition of Treasury Stock Fund in 2002, the Bank recorded gain on disposal of treasury stock in capital surplus amounting to ₩67 million (US\$56 thousand).

The Bank acquired 650,000 and 1,493,760 common shares in 2002 and 2003, respectively, in preparation for the exercise of the stock option and stated the treasury stock at acquisition cost of ₩5,655 million (US\$4,721 thousand) and ₩11,982 million (US\$10,003 thousand). In 2003, 948,900 shares of treasury stock (acquisition cost ₩7,807 million) were disposed following the exercise of stock options, and the resulting gain on disposal of treasury stock of ₩2,370 million (US\$1,979 thousand) was recorded in capital surplus.

2) Stock option cost

On March 20, 2000, the Bank granted stock options to purchase 1,620,500 shares to 460 employees and directors (first-awarded stock options) at the exercise price of ₩7,190 per share (a third of the granted shares were accounted for at ₩7,730 per share as of December 31, 2003, by reflecting the increase in the average stock price index of banking industry on the minimum exercise price stipulated in the relevant regulation). When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock. The stock options are exercisable during a three-year period beginning after three years from the grant date. As three years have passed since the grant date, 874,480 shares have become exercisable beginning March 20, 2003. During the year ended December 31, 2003, 668,260 shares have been exercised and settled through issuance of treasury stock, and 48,440 shares expired unexercised.

In addition, on May 17, 2001, the Bank granted stock options to purchase 3,560,500 shares to 480 employees and directors including the president (second-awarded stock options) at the exercise price of ₩7,310 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock. Except for cancellation of options due to the retirement of employees during the contractual service period, 1,256,080 shares, which accounts for 40 percent of total stock options granted, have become exercisable, and 280,640 shares have been exercised and settled through issuance of treasury stock for the year ended December 31, 2003.

In addition, on March 22, 2002, the Bank granted stock options to purchase 1,366,000 shares to 51 employees and directors including the president (third-awarded stock options) at the exercise price of ₩12,580 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock.

In addition, on March 21, 2003, the Bank granted stock options to purchase 157,000 shares to 77 employees and directors (fourth-awarded stock options) at the exercise price of ₩7,270 per share. The stock options are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock.

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When the selling of shares held by the majority shareholder is settled, the second-awarded stock options, third-awarded stock options and fourth-awarded stock options, which were granted 2 years prior to the settlement date of selling of shares, may be immediately exercisable regardless of the conditional service period.

The Bank has changed the settlement method for stock options that are exercisable starting from 2004 from granting the treasury stock to the employee at exercise price to paying the difference between the market price and the exercise price in cash. Due to the change in settlement method, the Bank has recomputed the compensation expense for the stock options that become exercisable from December 31, 2003 according to intrinsic value, and the effect of the change has been applied prospectively. Due to such accounting change, the Bank has recognized additional expense of ₩2,604 million (US\$2,174 thousand) for the year ended December 31, 2003

In respect to stock options, the Bank recorded expense of ₩7,461 million (US\$6,229 thousand) and recorded expense of ₩4,580 million (US\$3,824 thousand) for the year ended December 31, 2003 and 2002, respectively.

17. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2003 and 2002 were as follows:

	2003		2002	
	U.S. Dollar equivalent (In millions)	KRW equivalent (In thousands)	U.S. Dollar equivalent (In millions)	KRW equivalent (In thousands)
Assets				
Foreign currencies	\$ 34,684	₩ 41,544	\$ 25,506	₩ 30,617
Due from banks-foreign currencies	81,349	97,440	65,539	78,673
Available-for sale securities-foreign currencies	390,980	468,316	283,482	340,291
Held-to-maturity securities-foreign currencies	125,547	150,380	55,732	66,901
Loans in foreign currencies	1,153,349	1,381,482	915,471	1,098,931
Bills bought in foreign currencies	1,111,592	1,331,465	1,049,487	1,259,804
Domestic import usance	575,799	689,692	544,546	653,673
Call loans	424,000	507,867	163,168	195,867
Privately placed bonds	1,426	1,708	1,846	2,216
Other assets	601,157	720,066	433,681	520,591
	\$ 4,499,883	₩ 5,389,960	\$ 3,538,458	₩ 4,247,564
Liabilities				
Deposits-foreign currencies	\$ 790,000	₩ 946,262	\$ 486,260	₩ 583,706
Borrowings-foreign currencies	2,110,361	2,527,790	2,056,269	2,468,345
Due to BOK	3,186	3,816	12,774	15,334
Call money	-	-	5,287	6,347
Debentures-foreign currencies	542,686	650,029	374,934	450,071
Foreign exchange remittance pending	26,509	31,753	63,102	75,748
Other liabilities	591,299	708,258	682,904	819,758
	\$ 4,064,041	₩ 4,867,908	\$ 3,681,530	₩ 4,419,309

(*) Foreign currencies other than U.S. dollars were translated into U.S. dollars at the appropriate exchange rates at balance sheet dates.

18. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of assets and liabilities as of December 31, 2003 was as follows (Won in millions):

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Assets in local currency:						
Due from banks	₩ 76,948	₩ 100,000	₩ 239	₩ 655,928	₩ -	₩ 833,115
Securities	6,804,599	269,087	727,801	590,424	279,808	8,671,719
Loans	4,178,891	3,322,309	4,710,275	5,785,361	3,048,843	21,045,679
Advances for customers	658	-	-	-	1,689	2,347
Allowance for possible loan losses	-	-	-	-	(415,208)	(415,208)
Other	2,827,158	297,999	416,470	1,500,905	2,431,084	7,473,616
	₩ 13,888,254	₩ 3,989,395	₩ 5,854,785	₩ 8,532,618	₩ 5,346,216	₩ 37,611,268

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	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Liabilities & shareholders' equity in local currency:						
Deposits	₩ 5,269,565	₩ 2,032,279	₩ 6,809,079	₩ 6,414,127	₩ 423,899	₩ 20,948,949
Certificate deposits	2,330,991	756,378	21,130	3,094	-	3,111,593
Borrowings	572,759	6,173	15,571	153,907	896,788	1,645,198
Shareholders' equity	-	-	-	-	1,695,320	1,695,320
Other	4,715,919	588,984	2,334,047	1,476,107	1,617,203	10,732,260
	₩ 12,889,234	₩ 3,383,814	₩ 9,179,827	₩ 8,047,235	₩ 4,633,210	₩ 38,133,320
Assets in foreign currencies:						
Due from banks (*1)	₩ 65,824	₩ -	₩ -	₩ 31,616	₩ -	₩ 97,040
Securities (*2)	613,283	3,006	-	-	2,407	618,696
Loans (*3)	697,423	499,859	553,084	150,096	35,561	1,936,023
Bills bought in foreign currencies	1,107,951	189,428	8,851	-	25,235	1,331,465
Offshore assets (*4)	1,311	6,646	2,656	54,138	70,400	135,151
Allowance for possible loan losses	-	-	-	-	(26,620)	(26,620)
Other	1,153,526	-	-	67,827	76,452	1,297,805
	₩ 3,639,318	₩ 698,939	₩ 564,591	₩ 303,677	₩ 183,435	₩ 5,389,960
Liabilities in foreign currencies:						
Deposits	₩ 858,631	₩ 48,850	₩ 38,741	₩ 40	₩ -	₩ 946,262
Borrowings (*5)	1,632,746	532,434	250,989	260	-	2,416,429
Offshore liabilities (*6)	35,575	-	79,602	-	21,591	136,768
Other	581,183	-	59,890	308,122	419,254	1,368,449
	₩ 3,108,135	₩ 581,284	₩ 429,222	₩ 308,422	₩ 440,845	₩ 4,867,908

(*1) excluding offshore due from banks in foreign currencies

(*2) excluding offshore securities in foreign currencies

(*3) Including domestic import usance in foreign currencies and excluding offshore loans in foreign currencies

(*4) Consisting of offshore due from banks in foreign currencies, offshore securities in foreign currencies and offshore loans in foreign currencies

(*5) Including due to BOK in foreign currencies and excluding offshore borrowings in foreign currencies

(*6) Consisting of offshore borrowings in foreign currencies and offshore debenture in foreign currencies

19. INTEREST REVENUE AND EXPENSES:

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expense as of and for the year ended December 31, 2003 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)
	Average balance	Interest revenue/expense	Average balance	Interest revenue/expense	
Assets					
Due from Banks (*1)	₩ 311,597	₩ 13,656	\$ 260,141	\$ 11,401	4.38
Securities	9,079,774	500,644	7,580,376	417,970	5.51
Loans (*2)	26,164,383	1,615,267	21,843,699	1,348,528	6.17
	₩ 35,555,754	₩ 2,129,567	\$ 29,684,216	\$ 1,777,899	5.99
Liabilities					
Deposits	₩ 22,802,294	₩ 805,691	\$ 19,036,812	\$ 672,642	3.53
Borrowings	8,080,155	254,037	6,745,830	212,086	3.14
Debenture	4,712,382	267,089	3,934,198	222,983	5.67
	₩ 35,594,831	₩ 1,326,817	\$ 29,716,840	\$ 1,107,711	3.73

(*1) Excluding the average balance of due from BOK

(*2) Including the average balance of the credit card account

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The average balance of the interest bearing assets and liabilities, and the related interest revenue and expense as of and for the year ended December 31, 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage (%)
	Average balance	Interest revenue/expense	Average balance	Interest revenue/expense	
Assets					
Due from Banks (*1)	₩ 112,814	₩ 4,774	\$ 94,184	\$ 3,986	4.23
Securities	8,353,765	523,386	6,974,257	436,956	6.27
Loans (*2)	20,140,578	1,435,837	16,814,642	1,198,729	7.13
	₩ 28,607,157	₩ 1,963,997	\$ 23,883,083	\$ 1,639,671	6.87
Liabilities					
Deposits	₩ 19,905,800	₩ 797,905	\$ 16,618,634	\$ 666,142	4.01
Borrowings	5,975,664	233,174	4,988,866	194,668	3.90
Debenture	3,088,849	189,409	2,578,769	158,131	6.13
	₩ 28,970,313	₩ 1,220,488	\$ 24,186,269	\$ 1,018,941	4.21

(*1) Excluding the average balance of due from BOK

(*2) Including the average balance of the credit card account

20. GENERAL AND ADMINISTRATIVE EXPENSES:

(1) General and administrative expenses for the years ended December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Salaries	₩ 188,505	₩ 169,163	\$ 157,376	\$ 141,228
Provision for severance benefits	21,384	20,246	17,853	16,903
Other employee benefits	31,294	29,626	26,126	24,734
Rent	6,816	7,857	5,690	6,560
Entertainment	4,318	4,558	3,605	3,804
Depreciation	46,852	42,862	39,115	35,784
Amortization of intangible assets	4,587	1,159	3,830	968
Taxes and dues	41,922	48,686	34,999	40,646
Advertising	12,032	19,930	10,045	16,639
Others (Note 29)	61,907	66,539	51,684	55,551
	₩ 419,617	₩ 410,626	\$ 350,323	\$ 342,817

(2) The value added information in the general and administrative expense accounts for the years ended December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Salaries	₩ 188,505	₩ 169,163	\$ 157,376	\$ 141,228
Provision for severance benefits	21,384	20,246	17,853	16,903
Other employee benefits	31,294	29,626	26,126	24,734
Rent	6,816	7,857	5,690	6,560
Depreciation & amortization	51,439	44,021	41,945	36,752
Taxes and dues	41,922	48,686	34,999	40,646
	₩ 341,360	₩ 319,599	\$ 284,989	\$ 266,823

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21. NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Non-operating income:				
Gain on disposal of tangible assets	₩ 65	₩ 5,672	\$ 54	\$ 4,735
Rent income	1,848	1,851	1,543	1,545
Gain on valuation under the equity method (Note 4)	12,647	7,150	10,559	5,969
Gain on disposal of available-for-sale securities	48,389	75,608	40,398	63,122
Recovery of available-for-sale securities impairment loss (Note 4)	5,200	22,352	4,341	18,661
Gain on valuation of investment equity in fund (Note 4)	-	765	-	639
Gain on sales of loans	29,300	21,831	24,462	18,226
Other	26,724	36,692	22,311	30,633
	₩ 124,173	₩ 171,921	\$ 103,668	\$ 143,530
Non-operating expenses:				
Loss on disposal of tangible assets	₩ 2,138	₩ 2,115	\$ 1,785	\$ 1,766
Loss on disposal of available-for-sale securities	5,450	24,430	4,550	20,396
Available-for-sale securities impairment loss (Note 4)	55,918	38,450	46,684	32,100
Loss on sales of loans	11	621	9	518
Other	9,437	3,742	7,879	3,124
	₩ 72,954	₩ 69,358	\$ 60,907	\$ 57,904

22. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended December 31, 2003 and 2002 are summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Income before income tax				
Income before income tax	₩ 66,099	₩ 371,364	\$ 55,184	\$ 310,038
Taxable and non-deductible items				
Temporary difference	282,470	335,718	235,824	280,279
Permanent difference	26,114	29,422	21,801	24,563
	308,584	365,140	257,625	304,842
Deductible and non-taxable items				
Temporary difference	(306,454)	(488,822)	(255,847)	(408,100)
Permanent difference	(36,026)	(19,122)	(30,077)	(15,964)
	(342,480)	(507,944)	(285,924)	(424,064)
Tax loss carryforwards	-	(136,711)	-	(114,135)
Taxable income	₩ 32,203	₩ 91,849	\$ 26,885	\$ 76,681

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(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets as of December 31, 2003 were as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	January 1, 2003 (*)	Deduction	Addition	December 31, 2003	December 31, 2003
Allowance for possible losses of confirmed acceptances and guarantees	₩ 100	₩ 100	₩ 620	₩ 620	\$ 518
Accrued income	(151,867)	(21,140)	(41,596)	(172,323)	(143,866)
Restructuring of loans	4,104	4,104	1,264	1,264	1,055
Valuation of securities	151,510	177,216	153,363	127,657	106,576
Valuation loss on derivatives financial instruments	9,271	9,271	9,542	9,542	7,966
Valuation loss from debt-for-equity swap	85,192	16,657	17,566	86,101	71,883
Others	55,976	57,510	78,975	77,441	64,653
	154,286	243,718	219,734	130,302	108,785
Tax loss carryforwards	-	-	-	-	-
	154,286	243,718	219,734	130,302	108,785
Statutory tax rate	29.7%			29.7, 27.5%	29.7, 27.5%
Deferred income tax assets	₩ 45,823			₩ 35,589	\$ 29,712

(*) Adjusted based on the final tax return.

Temporary differences estimated to be realized in 2004 were applied 29.70 percent and other temporary differences estimated to be realized after 2005 were applied 27.5 percent.

The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets as of June 30, 2002 were as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	January 1, 2002 (*)	Deduction	Addition	December 31, 2002	December 31, 2002
Allowance for possible loan losses	₩ 140,948	₩ 140,948	₩ -	₩ -	\$ -
Allowance for possible losses of confirmed acceptances and guarantees	20,923	20,923	100	100	83
Accrued income	(144,465)	(23,980)	(28,287)	(148,772)	(124,204)
Restructuring of loans	9,936	9,936	4,104	4,104	3,426
Valuation of securities	102,968	148,585	201,467	155,850	130,114
Valuation loss on derivatives financial instruments	19,061	19,061	9,271	9,271	7,740
Valuation loss from debt-for-equity swap	79,609	39,007	44,590	85,192	71,124
Others	86,330	82,075	52,206	56,461	47,137
	315,310	436,555	283,451	162,206	135,420
Tax loss carryforwards	136,711	136,711	-	-	-
	452,021	₩ 573,266	₩ 283,451	162,206	135,420
Statutory tax rate	29.7%			29.7%	29.7%
Deferred income tax assets	₩ 134,250			₩ 48,175	\$ 40,220

(*) Adjusted based on the final tax return.

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(3) Income tax expense for the years ended December 31, 2003 and 2002 is summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Income tax currently payable	₩ 9,679	₩ 24,733	\$ 8,081	\$ 20,649
Changes in deferred tax assets				
Tax effect on cumulative temporary differences	10,234	45,674	8,544	38,131
Tax effect on tax loss carryforwards	-	40,603	-	33,898
Income tax expense	₩ 19,913	₩ 111,010	\$ 16,625	\$ 92,678

(4) The Bank is subject to corporate income tax at 15 percent of the first ₩100 million of taxable income and 27 percent of the excess. Added to this is a resident surtax of 10 percent of the corporate income tax due. Due to the differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law, the effective income tax rate is approximately 30.13 percent and 29.89 percent for the years ended December 31, 2003 and 2002, respectively.

23. EARNINGS PER SHARE:

(1) Ordinary income per share and net income per share

Ordinary income per share and net income per share were calculated for common stock by dividing ordinary income net income available to common shareholders by the weighted average number of outstanding common stock.

Net income per share for common stock for the year ended December 31, 2003 was computed as follows (Korea Won in millions except per share amounts):

	Common stock
Net income (*)	45,796
Number of shares outstanding	191,518,672
Net income per share (in currency unit)	₩ 239

(*) net income adjusted for preferred stock dividends

Earnings per share in 2002 were calculated for common stock and for participating preferred stock by dividing net income available to common shareholders and participating preferred shareholders, respectively, by the weighted average number of outstanding common stock of 176,522,872 shares and outstanding participating preferred stock of 20,000,000 shares.

Earnings per share for common stock and preferred stock for the year ended December 31, 2002 were computed as follows (Korean Won in millions except per share amounts):

	Common stock	Participating preferred stock	Ordinary preferred stock	Total
Dividends	₩ 68,444	₩ 7,500	₩ 780	₩ 76,724
Income available for additional dividends (*)	165,544	18,086	-	183,630
Net income	233,988	25,586	₩ 780	₩ 260,354
Number of shares outstanding	176,522,872	20,000,000		
Net income per share	₩ 1,326	₩ 1,279		

(*) Income available for additional dividends = Net income - Dividends

Income available for additional dividends attributable to common stock
 = ₩183,630 million X 915,334 million ÷ (915,334 million + 100,000 million)
 = ₩165,544 million

Income available for additional dividends attributable to participating preferred stock
 = ₩183,630 million X 100,000 million ÷ (915,334 million + 100,000 million)
 = ₩18,086 million

Since there is no extraordinary gain or loss for the years ended December 31, 2003 and 2002, ordinary income available to common stock and preferred stock are same with the net income available to common stock and preferred stock. Accordingly, ordinary income per share is htd same with net income per share.

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(2) Diluted ordinary income per share and diluted net income per share

Diluted net income (ordinary income) per share in 2003 represents diluted net income (ordinary income) divided by the number of common shares and diluted securities. Diluted net income (ordinary income) was computed by adding the interest expense, net of tax, of the convertible bonds to net income (ordinary income) to common stock. Convertible preferred stock, which has been converted in 2003, and convertible bonds were assumed to have been converted to common stock at the beginning of the year. Stock options were excluded from the computation of diluted earnings per share due to their anti-dilutive effects.

Diluted net income (ordinary income) per share for the year ended December 31, 2003 was computed as follows:

1) Number of diluted securities:

	Common stocks to be issued	Fraction of period	Weighted- average shares
Convertible bonds	68,434	365/365	68,434
Convertible preferred stock	20,000,000	181/365	9,917,808
			9,986,242

2) Diluted net income (ordinary income) (Unit: Won in millions):

	Amount	
Income available to common stock	₩	45,796
Income impact of assumed conversions		
Interest on convertible bonds, net of tax		1
Diluted net income	₩	45,797

3) Diluted net income (ordinary income) per share

$$= \text{₩}45,797 \text{ million} \div (191,518,672 \text{ shares} + 9,986,242 \text{ shares}) = \text{₩}227$$

Diluted net income (ordinary income) per share in 2002 represents diluted net income (ordinary income) divided by the number of common shares and diluted securities. Diluted net income (ordinary income) was computed by adding net income to convertible preferred stock (dividends and income available for additional dividends attributable to participating preferred stock) and the interest expense, net of tax, of the convertible bonds to net income (ordinary income) to common stock. Convertible preferred stock and convertible bonds were assumed to be converted to common stock at the beginning of the year.

Diluted net income (ordinary income) per share for the year ended December 31, 2002 was computed as follows:

1) Number of diluted securities:

	Common stocks to be issued	Fraction of period	Weighted- average shares
Convertible bonds	68,434	365/365	68,434
Convertible preferred stock	20,000,000	365/365	20,000,000
			20,068,434

2) Diluted net income (ordinary income) (Unit: Won in millions):

	Amount	
Income available to common stock	₩	233,988
Income impact of assumed conversions		
Income available to preferred stock	₩	25,586
Interest on convertible bonds, net of tax		2
Diluted net income	₩	259,576

3) Diluted net income (ordinary income) per share

$$= \text{₩}259,576 \text{ million} \div (176,522,872 \text{ shares} + 20,068,434 \text{ shares}) = \text{₩}1,320$$

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(3) As of December 31, 2003, dilutive securities are summarized as follows (Unit: Won in millions, shares):

	Face value	Exercise period	Common stocks to be issued	Remark
Convertible bonds	₩ 1,212	1997. 9. 25 - 2007. 7. 26	68,434	See Note 13
Stock option	-	2003. 3. 21 - 2006. 3. 20	157,780	See Note 16
Stock option	-	2003. 5. 18 - 2009. 5. 17	975,440	See Note 16

Stock options which will be settled through payment of the difference between the market price and the exercise price in cash were not considered as dilutive securities as the compensation costs are computed based on intrinsic value.

24. DIVIDENDS:

(1) Dividends per share in 2003 were ₩150 for common stock and ₩50 for ordinary preferred stock. Details of dividends were as follows:

Shares	No. of shares subject to receive dividend	Par value	Dividends rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				Dividends	Dividends	Dividends	Dividends
Common stock:	201,871,905	₩ 5,000	3.0	₩ 30,281	\$ 25,280		
Preferred stock:							
Ordinary	7,800,000	5,000	1.0	390	326		
	209,671,905			₩ 30,671	\$ 25,606		

Dividends per share in 2002 were ₩375 for common stock and participating preferred stock, ₩50 for ordinary preferred stock. Details of dividends were as follows:

Shares	No. of shares subject to receive dividend	Par value	Dividends rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				Dividends	Dividends	Dividends	Dividends
Common stock(*):	182,516,765	₩ 5,000	7.5	₩ 68,444	\$ 57,142		
Preferred stock:							
Participating	20,000,000	₩ 5,000	7.5	7,500	6,261		
Ordinary	15,600,000	5,000	1.0	780	651		
	218,116,765			₩ 76,724	\$ 64,054		

(*) includes 100,000 shares of treasury stock which has been acquired after date of record.

(2) Propensity to dividend and dividend yield ratio in 2003 and 2002 were as follows:

Classification	Computation	2002	2001	Remarks
Propensity to dividend	Dividend amount / Net income	66.41%	29.47%	
Dividend yield ratio(*)	Dividend per share / Stock price (Closing price at balance sheet date)	1.07%	5.07%	Common stock
		-	5.21%	Participating preferred stock

(*) Yield of ordinary preferred stock that has no closing price available is not calculated.

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25. CONTINGENCIES AND COMMITMENTS:

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

(1) As of December 31, 2003, the Bank has ₩4,417 million (US\$3,688 thousand) of endorsed notes for sales, which had been purchased on discount.

(2) The Bank manages written-off loans whose time period for legal claim has not elapsed amounting to ₩1,098,633 million (US\$917,209 thousand) as of December 31, 2003.

(3) The Bank sold its non-performing loans of ₩306,062 million (US\$255,520 thousand) in 3 different batches to Korea Asset Management Corporation since December 1997. As of December 31, 2003, the amount of these unsettled non-performing loans (including trust account) is ₩32,184 million (US\$26,869 thousand).

(4) As of December 31, 2003, the Bank has receivables of unsettled spot foreign currency transactions of ₩963,385 million (US\$804,295 thousand) and payables of ₩963,232 million (US\$804,168 thousand).

(5) The Export-Import Bank of Korea (EIBK) filed a lawsuit against the Bank, demanding the issuance of the certification of payment guarantee amounting to US\$60 million in connection with the loans previously provided by EIBK to former Daewoo Corporation, or demanding the confirmation of existence of guarantee liabilities thereon. The local court ruled in the first trial on March 12, 2003 that the Bank would issue the guarantee letter, but rejected the demand of the confirmation of existence of guarantee liabilities. The Bank appealed to the High Court of Justice to reject the demand for the issuance of the certification of payment guarantee and the High Court has not yet rendered its judgment. The Bank intends to vigorously contest this lawsuit. The management of the Bank is unable to predict the ultimate outcome of this case, and based on the advice of legal counsel, the Bank cannot reasonably estimate the amount or range of possible loss relating to this case.

In addition, there are pending legal actions instituted by the Bank in the normal course of business such as claims for auction concerning compensation of losses. The outcome of these lawsuits cannot presently be determined.

(6) As of December 31, 2003, the Bank has been engaged to provide credit line commitment with the limit of ₩1,588,701 million (US\$1,326,349 thousand), for the support of payments for bonds issued by New Millennium Special Purpose Company and others. As of December 31, 2003, ₩51,235 million (US\$42,774 thousand) had been used. In addition, as of December 31, 2003, the Bank has provided credit line commitment with the limit of ₩17,967 million (US\$15,000 thousand) in connection with the payment of loans in foreign currencies. In addition, the Bank has provided credit line commitment with the limit of ₩80,000 million (US\$66,789 thousand), for the support of payments for bonds issued by the 30th Credipia Special Purpose Company of which underlying assets are credit card receivables of LG Card Co., Ltd..

(7) Derivative instruments as of December 31, 2003 were as follows (Unit: Won in millions):

Type	Outstanding contract amount		
	Trading	Hedging	Total
Currency:			
Currency forwards (*)	₩ 12,606,340	₩ -	₩ 12,606,340
Currency futures (*)	72,227	-	72,227
Currency swaps (*)	1,928,211	31,090	1,959,301
Currency options purchased	4,797,936	-	4,797,936
Currency options sold	6,064,838	-	6,064,838
	25,469,552	31,090	25,500,642
Interest rate:			
Interest rate swaps (*)	7,915,760	1,081,993	8,997,753
Interest rate futures	97,524	-	97,524
Interest rate options	10,000	-	10,000
	8,023,284	1,081,993	9,105,277
Stock:			
Stock index futures	9,939	-	9,939
Stock index options	2,096,604	-	2,096,604
	2,106,543	-	2,106,543
	₩ 35,599,379	₩ 1,113,083	₩ 36,712,462

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Type	Gain (loss) on valuation (P/L)			Gain (loss)
	Trading	Hedging	Total	on valuation (B/S)
Currency:				
Currency forwards (*)	₩ 115,323 (132,147)	₩ - -	₩ 115,323 (132,147)	₩ 123,505 (141,406)
Currency swaps (*)	19,460 (17,668)	3,544 (1,006)	23,004 (18,674)	63,084 (72,509)
Currency options purchased	63,368	-	63,368	149,872
Currency options sold	- (40,486)	- -	- (40,486)	- (128,264)
	198,151 (190,301)	3,544 (1,006)	201,695 (191,307)	336,461 (342,179)
Interest rate:				
Interest rate swaps (*)(*1)	24,453 (33,349)	4,866 (14,828)	29,319 (48,177)	93,012 (106,210)
Interest rate options	55	-	55	-
	- 24,508 (33,349)	- 4,866 (14,828)	- 29,374 (48,177)	(102) 93,012 (106,312)
Stock:				
Stock index options	113,722 (109,634)	- -	113,722 (109,634)	197,928 (200,742)
	₩ 336,381 (333,284)	₩ 8,410 (15,834)	₩ 344,791 (349,118)	₩ 627,401 (649,233)

(*1) Includes unrealized derivative gain or loss of cash flow hedges ₩931 million (US\$777 thousand) recorded in capital adjustments.

Derivative instruments as of December 31, 2002 were as follows (Unit: Won in millions):

Type	Outstanding contract amount		
	Trading	Hedging	Total
Currency:			
Currency forwards (*)	₩ 6,584,886	₩ -	₩ 6,584,886
Currency futures (*)	420	-	420
Currency swaps (*)	1,551,068	16,715	1,567,783
Currency options purchased	1,115,772	-	1,115,772
Currency options sold	1,406,925	-	1,406,925
	10,659,071	16,715	10,675,786
Interest rate:			
Interest rate swaps (*)	5,564,636	482,237	6,046,873
Interest rate futures	224,985	-	224,985
Interest rate options	10,000	-	10,000
	5,799,621	482,237	6,281,858
Stock:			
Stock index futures	9,302	-	9,302
Stock index options	94,782	-	94,782
	104,084	-	104,084
	₩ 16,562,776	₩ 498,952	₩ 17,061,728

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Type	Gain (loss) on valuation (P/L)			Gain (loss) on valuation (B/S)	
	Trading	Hedging	Total		
Currency:					
Currency forwards (*)	₩ 69,191	₩ -	₩ 69,191	₩ 67,940	
	(92,811)	-	(92,811)	(85,223)	
Currency swaps (*)	66,446	4,667	71,113	62,119	
	(78,442)	-	(78,442)	(69,912)	
Currency options purchased	30,190	-	30,190	40,969	
	-	-	-	-	
Currency options sold	-	-	-	-	
	(20,937)	-	(20,937)	(36,112)	
	165,827	4,667	170,494	171,028	
	(192,190)	-	(192,190)	(191,247)	
Interest rate:					
Interest rate swaps (*)(*1)	88,096	12,558	100,654	99,408	
	(86,145)	(7,846)	(93,991)	(95,577)	
Interest rate options	-	-	-	-	
	(90)	-	(90)	(157)	
	88,096	12,558	100,654	99,408	
	(86,235)	(7,846)	(94,081)	(95,734)	
Stock:					
Stock index options	2,273	-	2,273	905	
	(2,197)	-	(2,197)	(2,354)	
	₩ 256,196	₩ 17,225	₩ 273,421	₩ 271,341	
	(280,622)	(7,846)	(288,468)	(289,335)	

(*) For transaction between Korean Won and foreign currencies, unsettled amount of transaction is presented using transaction basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies and foreign currencies, unsettled amount is presented using transaction basic foreign exchange rate based on foreign currencies purchased

(*1) Includes unrealized derivative gain or loss of cash flow hedges ₩ 1,912 million (US\$1,596 thousand) recorded in capital adjustments.

Outstanding contract amount and gain or loss on valuation for hedging purpose in the table included or resulted from both derivative instruments accounted for as hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70. Hedged items, to which fair value hedge accounting was applied, consisted of available-for-sale securities in foreign currencies, debentures in local currency and debentures in foreign currencies and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair value of hedged items resulting from interest rate changes. As a result of the valuation of hedged items accounted for as fair value hedges, gain on valuation of ₩2,552 million (US\$2,131 thousand) on available-for-sale securities, and loss on valuation of ₩3,951 million (US\$3,299 thousand) on available-for-sale securities and gain on valuation of ₩12,005 million (US\$10,023 thousand) on debentures and loss on valuation of ₩1,099 million (US\$918 thousand) on debentures were reflected in current operations (see Notes 4(2) and 13(2), (3)), and opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for as fair value hedge accounting were reflected in assets or liabilities.

26. TRUST ACCOUNTS:

(1) As of December 31, 2003 and 2002, major financial information related to the trust accounts and significant balances were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Operating revenue of trust operation:				
Trust fees and commissions from trust accounts	₩ 41,991	₩ 69,907	\$ 35,057	\$ 58,363
Interest income on loans to trust accounts	185	-	154	-
Commissions from early redemption in trust accounts	163	265	136	221
	₩ 42,339	₩ 70,172	\$ 35,347	\$ 58,584
Operating expenses of trust operation:				
Interest expense on borrowings from trust accounts	₩ 16,021	₩ 10,414	\$ 13,375	\$ 8,694
Assets:				
Accrued receivable trust fees	₩ 5,836	₩ 6,818	\$ 4,872	\$ 5,692
Liabilities:				
Borrowings from trust accounts	₩ 454,522	₩ 273,774	\$ 379,464	\$ 228,564

NOTES TO NON- CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

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(2) In connection with the guarantees for a fixed rate of return on, and the repayment of, principal, the possible losses the Bank account may bear due to the difference between the book value and the fair market value as of December 31, 2003 consisted of the following (Unit: Won in millions):

Classification	Book value		Fair market value		Charge to the Bank account
Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal:					
Development Money Trust	₩	7,849	₩	7,849	₩ -
Unspecified Monetary Trust		188		188	-
		8,037		8,037	-
Trust accounts guaranteeing the repayment of principal:					
Old age Pension Trust		96,819		96,593	-
Personal Pension Trust		244,769		244,935	-
Pension Trust		15,190		15,190	-
Retirement Trust		146,506		146,506	-
New Personal Pension Trust		17,882		17,882	-
New Old-age Pension Trust		31,512		31,512	-
		552,678		552,618	-
	₩	560,715	₩	560,655	₩ -

27. SEGMENT INFORMATION:

(1) As of December 31, 2003 and 2002, the Bank's operating segments are consumer banking, corporate banking, credit card operation, treasury operation of investment in securities (including derivatives) and funding, and other operations of general administration and trust. Geographical segment are segregated into two segments: domestic and overseas operations. As of December 31, 2003, financial information about the Bank's operating segments was as follows (Unit: Won in millions):

	Consumer	Corporate	Credit card	Treasury	Other	Total
Assets:						
Loans	₩ 10,543,080	₩ 14,673,557	₩ 2,053,268	₩ 1,029,790	₩ 968,471	₩ 29,268,166
Securities	-	-	-	8,850,483	439,932	9,290,415
Fixed assets	-	-	-	-	387,580	387,580
Other assets	-	-	-	-	4,055,067	4,055,067
	₩ 10,543,080	₩ 14,673,557	₩ 2,053,268	₩ 9,880,273	₩ 5,851,050	₩ 43,001,228
Operating revenue:	₩ 696,641	₩ 850,280	₩ 353,339	₩ 1,866,939	₩ 96,413	₩ 3,863,612

As of December 31, 2002, financial information about the Bank's operating segments was as follows (Unit: Won in millions):

	Consumer	Corporate	Credit card	Treasury	Other	Total
Assets:						
Loans	₩ 7,958,353	₩ 12,213,192	₩ 2,576,294	₩ 795,867	₩ 1,082,421	₩ 24,626,127
Securities	-	-	-	7,870,303	374,375	8,244,678
Fixed assets	-	-	-	-	389,828	389,828
Other assets	-	-	-	-	3,836,744	3,836,744
	₩ 7,958,353	₩ 12,213,192	₩ 2,576,294	₩ 8,666,170	₩ 5,683,368	₩ 37,097,377
Operating revenue:	₩ 558,826	₩ 729,719	₩ 438,075	₩ 1,640,578	₩ 171,241	₩ 3,538,439

NOTES TO NON- CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

(2) Financial information about the Bank's geographical segments as of December 31, 2003 and 2002 were as follows (Unit: Won in millions):

	2003			2002		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Assets:						
Loans	₩ 29,165,017	₩ 103,149	₩ 29,268,166	₩ 24,437,342	₩ 188,785	₩ 24,626,127
Securities	9,095,463	194,952	9,290,415	8,057,310	187,368	8,244,678
Fixed assets	387,529	51	387,580	389,724	104	389,828
Other assets	4,049,535	5,532	4,055,067	3,830,920	5,824	3,836,744
	₩ 42,697,544	₩ 303,684	₩ 43,001,228	₩ 36,715,296	₩ 382,081	₩ 37,097,377
Operating revenue:	₩ 3,849,939	₩ 19,673	₩ 3,863,612	₩ 3,509,748	₩ 28,691	₩ 3,538,439

28. TRANSACTIONS WITH RELATED PARTIES:

(1) Significant balances with related parties as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Assets:				
Trust accounts of the Bank (Note 26)	₩ 5,836	₩ 6,818	\$ 4,872	\$ 5,692
Hanmi Technology Investment	9	-	8	-
Hanmi Capital	4,450	9,090	3,715	7,589
Standard Chartered Bank (*)	247,993	-	207,040	-
Carlyle Korea	167	-	140	-
	₩ 258,455	₩ 15,908	\$ 215,775	\$ 13,281
Liabilities:				
Trust accounts of the Bank (Note 26)	₩ 454,522	₩ 273,774	\$ 379,464	\$ 228,564
Hanmi Technology Investment	1,513	4,329	1,263	3,614
Hanmi Capital	14,916	7,156	12,453	5,974
SK Investment Trust Management Co.	85	43	71	36
Standard Chartered Bank (*)	331,692	-	276,918	-
Carlyle Korea	-	512	-	428
	₩ 802,728	₩ 285,814	\$ 670,169	\$ 238,616

(*) Including receivables of unsettled spot foreign currency transactions of ₩247,976 million (US\$207,026 thousand) and payables of ₩247,846 million (US\$206,918 thousand)

(2) Significant transactions with related parties for the year ended December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Revenues:				
Trust accounts of the Bank (Note 26)	₩ 42,339	₩ 70,172	\$ 35,347	\$ 58,584
Hanmi Technology Investment	494	6	412	5
Hanmi Capital	2,255	15	1,883	13
Standard Chartered Bank	53,141	-	44,365	-
Carlyle Korea	19	15	16	13
	₩ 98,248	₩ 70,208	\$ 82,023	\$ 58,615
Expenses:				
Trust accounts of the Bank (Note 26)	₩ 16,021	₩ 10,414	\$ 13,375	\$ 8,694
Hanmi Technology Investment	234	181	196	151
Hanmi Capital	6,333	612	5,287	511
Standard Chartered Bank	50,916	-	42,508	-
Carlyle Korea	-	3	-	3
	₩ 73,504	₩ 11,210	\$ 61,366	\$ 9,359

(*) Transactions with Samsung Group, which is no longer a related party as of December 31, 2003, have been excluded.

NOTES TO NON- CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

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The Bank had derivatives transactions with Hanmi Capital and Standard Chartered Bank in 2003, and the outstanding contract amount as of December 31, 2003 were as follows (Unit: Won in millions):

Type	Hanmi Capital		Standard Chartered Bank	
Currency options sold	₩	-	₩	539,010
Currency options purchased		-		221,593
Currency forwards sold		19,165		722,518
Currency forwards purchased		18,970		727,210
	₩	38,135	₩	2,210,331

29. EMPLOYEE BENEFITS:

The Bank has employee benefits programs such as support for purchase or rent of houses, cafeteria, scholarship medical insurance, accident compensation, compensated leave, gym facilities and other benefits.

30. EXPERT TRAINING EXPENSES:

The Bank paid ₩2,505 million (US\$2,091 thousand) and ₩2,758 million (US\$2,303 thousand) for expert training to local and foreign training institutes for the years ended December 31, 2003 and 2002, respectively.

31. SUBSEQUENT EVENTS:

Certain credit card companies in Republic of Korea are facing shortage of funds due to delinquency in credit card receivables. LG Card Co., Ltd. one of the credit card companies, had received liquidity support of ₩2,000 billion (US\$1,670 million) on November 24, 2003 due to serious insolvency problem, and the Creditor Financial Institution Committee of LG Card Co., Ltd. has agreed to provide additional liquidity support of ₩1,600 billion (US\$1,336 million) and convert debts of ₩2,000 billion (US\$1,670 million) to equity interests in January 2004.

As of December 31, the Bank does not hold either loans or securities of LG Card Co., Ltd. in the bank account; however, the trust account holds commercial papers and public offered bonds of ₩127,516 million (US\$106,459 thousand) issued by LG Card Co., Ltd. including Specified Monetary Trust of ₩107,516 million (US\$89,762 thousand). The Board of Directors of the Bank has assented to participate in new liquidity support of ₩33.4 billion (US\$28 million) according to the creditor joint management program of LG Card Co., Ltd. Pursuant to such agreement, the Bank has provided funds of ₩10 billion (US\$8 million) and ₩13.4 billion (US\$11 million) on February 6 and 11, 2004, respectively. The collectibility of these loans may be affected by the progress of normalization of the business of LG Card Co., Ltd. under joint management of creditors.

32. STATEMENTS OF CASH FLOWS:

(1) Cash flows from operating activities are presented by the indirect method.

(2) Material transactions not involving cash inflows and outflows in the years ended December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Write-offs of loans	₩ 272,889	₩ 345,349	\$ 227,825	\$ 288,319
Debt to equity swap	84,878	102,267	70,862	85,379
Write-off of loan loss reserve resulting from the debt to equity swap	32,421	44,590	27,067	37,227
Increase in borrowings from trust accounts due to debt to equity swap in trust accounts	-	20,533	-	17,142
Changes in capital adjustments due to valuation of available-for-sale securities	2,402	40,487	2,005	33,801
Decrease in capital adjustments due to valuation of derivatives instruments	981	1,912	819	1,596
Increase of dividend payables	76,724	16,560	64,054	13,825

NOTES TO NON- CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002



	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Reduction of preferred stock through retirement of treasury stock	39,000	78,000	32,560	65,119
Increase in common stock due to conversion of preferred stock	100,000	-	83,486	-
Transfer of stock option cost (capital adjustment) to accrued expenses	3,515	-	2,935	-
Transfer of securities to loans (loans to be converted to equity securities)	6,078	-	5,074	-

33. DATE AND ORGANIZATION OF 2003 FINANCIAL STATEMENTS APPROVAL:

The board of directors of the Bank plans to approve the financial statements on February 18, 2004 for submission to the general meeting of shareholders' meeting.

34. FINANCIAL INFORMATION ON INTERIM PERIOD:

The Bank's operating revenues, operating income (loss), and net income (loss) for the three-month period ended December 31, 2003 and 2002 were as follows:

	Korean Won (In millions except per share amounts)		Translation into U.S. Dollars (Note 2) (In thousands except per share amounts)	
	2003 (Three-month)	2002 (Three-month)	2003 (Three-month)	2002 (Three-month)
OPERATING INCOME				
Interest income	₩ 539,846	₩ 534,930	\$ 450,698	\$ 446,594
Guarantee fees and commissions	84,042	86,499	70,164	72,215
Other operating income	359,127	292,243	299,822	243,983
	983,015	913,672	820,684	762,792
OPERATING EXPENSES				
Interest expenses	330,825	333,221	276,194	278,194
Commission expense	33,545	39,354	28,005	32,855
Other operating expenses	505,071	388,547	421,666	324,384
General and administrative expenses	121,884	137,000	101,757	114,377
	991,325	898,122	827,622	749,810
OPERATING INCOME (LOSS)	(8,310)	15,550	(6,938)	12,982
NON-OPERATING INCOME	35,011	61,135	29,229	51,039
NON-OPERATING EXPENSE	41,841	5,967	34,931	4,981
ORDINARY INCOME (LOSS)	(15,140)	70,718	(12,640)	59,040
EXTRAORDINARY ITEM	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	(15,140)	70,718	(12,640)	59,040
INCOME TAX EXPENSE	(2,223)	20,672	(1,856)	17,258
NET INCOME (LOSS)	₩ (12,917)	₩ 50,046	\$ (10,784)	\$ 41,782
NET INCOME (LOSS) PER COMMON SHARE	₩ (64)	₩ 246	\$ (0.05)	\$ 0.21

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

English Translation of a Report Originally Issued in Korean

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Anjin & Co.
14th Floor, Hanwha Securities Building,
23-5 Yoido-dong, Youngdeungpo-ku,
Seoul 150-717, Korea
Tel : 82-2-6676-1000, 1114
Fax : 82-2-785-4753, 786-0267
www.anjin.co.kr

**Deloitte
Touche
Tohmatsu**

To the Shareholder and Board of Directors of KorAm Bank :

We have audited the accompanying consolidated balance sheets of KorAm Bank (the "Bank") and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Hanmi Capital Co., Ltd., whose statements reflect total assets of 0.54 percent and total revenues of 0.86 percent of the related consolidated totals as of and for the year ended December 31, 2003, were reviewed by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

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

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

As explained in Note 2, The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Statements supersede the relative articles of existing accounting standards and constitutes generally accepted accounting standards of the Republic of Korea. The Bank has implemented SKAS No.1 (Accounting Changes and Correction of Errors) from January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Reporting) through No.9 (Convertible Securities), starting from January 1, 2003. The Bank restated the retained earnings of 2002 financial statements in accordance with SKAS No.6 (Events Occurring after the Balance Sheet Date), which decreased liabilities and increased net assets by ₩76,724 million (US\$64,054 thousand), compared to those accounted for using the previous method. In addition, in accordance with the initial adoption of SKAS No.8 (Investments in Securities) for the year ended December 31, 2003 and for comparative purposes, the Bank reclassified the 2002 financial statements relating to securities, which had no effects on the Bank's total assets, retained earnings and net income.

As explained in Note 1, the Bank acquired additional equity interest of 1,705,970 and 991,911 shares issued by Hanmi Capital Co., Ltd. on June 3 and 23, 2003, respectively, and the Bank's equity interest of Hanmi Capital Co., Ltd. increased from 28.76 percent to 36.02 percent as of December 31, 2003. Accordingly, pursuant to the Rules for Preparation for Consolidated Financial Statements, Hanmi Capital Co., Ltd. has been included in the scope of consolidation as of June 30, 2003, which is assumed as the date on which the Bank obtained control over the subsidiary.

As disclosed in Notes 4, 5 and 12, as of December 31, 2003, the total credits (including confirmed acceptances and guarantees) owed by and the available-for-sale securities issued by SK Networks and its overseas affiliates amounted to ₩124,771 million (US\$104,167 thousand) and ₩40,860 million (US\$34,113 thousand), respectively. The Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩51,830 million (US\$43,271 thousand) in connection with the credits, and recognized loss on impairment of available-for-sale securities of ₩602 million (US\$503 thousand) for the year ended December 31, 2003. In October 2003, the Bank converted ₩80,356 million (US\$67,086 thousand) of loans and securities to equity interests issued by SK Networks under the restructuring plan agreed by the Creditor Financial Institution Committee of SK Networks. As of December 31, 2003, the book value of equity interests acquired through troubled debt restructuring consist of ₩20,932 million (US\$17,475 thousand) of common stock and ₩17,521 million (US\$14,628 thousand) of redeemable preferred stock. In addition, the Bank acquired ₩13,693 million (US\$11,432 thousand) of convertible debt and ₩6,550 million (US\$5,468 thousand) of loans to be converted to preferred stock, pursuant to troubled debt restructuring agreement in October 2003. As of December



31, 2003, the Bank has provided an allowance for possible loan losses of ₩7,545 million (US\$6,299 thousand) for the convertible debt and the loans to be converted to preferred stock. According to the Corporate Restructuring Promotions Law, the Creditor Financial Institution Committee of SK Networks has identified SK Networks as "possible insolvency company" in March 2003, and the negotiations for normalization of business are in process as of December 31, 2003. Going-concern issue of the company will highly depend on the future progress of the company's restructuring plan and effective support of financial creditors. Therefore, actual credit loss from this credit exposure may differ from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

As disclosed in Note 23, certain credit card companies in Republic of Korea are facing shortage of funds due to delinquency in credit card receivables. LG Card Co., Ltd., one of the credit card companies, had received liquidity support of ₩2,000 billion (US\$1,670 million) on November 24, 2003 due to serious insolvency problem, and the Creditor Financial Institution Committee of LG Card Co., Ltd. has agreed to provide additional liquidity support of ₩1,600 billion (US\$1,336 million) and convert debts of ₩2,000 billion (US\$1,670 million) to equity interests in January 2004. As of December 31, the Bank does not hold either loans or securities of LG Card Co., Ltd. in the bank account; however, the trust account holds commercial papers and public offered bonds of ₩127,516 million (US\$106,459 thousand) issued by LG Card Co., Ltd. including Specified Monetary Trust of ₩107,517 million (US\$89,762 thousand). The Board of Directors of the Bank has assented to participate in new liquidity support of ₩33.4 billion (US\$28 million) according to the creditors joint management program of LG Card Co., Ltd. Pursuant to such arrangement, the Bank has provided funds of ₩10 billion (US\$8 million) and ₩13.4 billion (US\$11 million) on February 6 and 11, 2004, respectively. The collectibility of these loans may be affected by the progress of normalization of the business of LG Card Co., Ltd. under the joint management of creditors.

As explained in Note 21, the Export-Import Bank of Korea (EIBK) filed a lawsuit against the Bank, demanding the issuance of the certification of payment guarantee amounting to US\$60 million in connection with the loans previously provided by EIBK to former Daewoo Corporation, or demanding the confirmation of existence of guarantee liabilities thereon. The local court ruled in the first trial on March 12, 2003 that the Bank would issue the guarantee letter, but rejected the demand of the confirmation of existence of guarantee liabilities. The Bank appealed to the High Court of Justice to reject for demanding the issuance of the certification of payment guarantee and the High Court has not yet rendered its judgment. The Bank intends to vigorously contest this lawsuit. The management of the Bank is unable to predict the ultimate outcome of this case, and based on the advice of legal counsel, the Bank cannot reasonably estimate the amount or range of possible loss relating to this case.

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 knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Anjin & Co.

Anjin Deloitte LLC
An Member Firm of Deloitte Touche Tohmatsu

Seoul, Korea
February 13, 2004

Notice to Readers

This report is effective as of February 13, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

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	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
ASSETS				
Cash and due from banks (Notes 3 and 15)	₩ 1,408,737	₩ 1,557,268	\$ 1,176,104	\$ 1,300,107
Securities (Notes 4, 8, 15, 21 and 22)	9,700,818	8,673,821	8,098,863	7,241,460
Loans (Notes 5 and 15)	29,431,655	24,705,248	24,571,427	20,625,520
Fixed assets (Note 6)	383,787	389,828	320,410	325,453
Other assets (Note 7)	2,774,777	2,295,343	2,316,561	1,916,300
	₩ 43,699,774	₩ 37,621,508	\$ 36,483,365	\$ 31,408,840
LIABILITIES AND SHAREHOLDERS' EQUITY				
EQUITY				
LIABILITIES				
Deposits (Notes 9, 15 and 21)	₩ 25,531,742	₩ 21,354,839	\$ 21,315,530	\$ 17,828,385
Borrowings (Notes 10 and 15)	8,489,900	6,701,034	7,087,911	5,594,451
Debentures (Notes 11, 15 and 21)	4,509,990	4,971,013	3,765,228	4,150,119
Other liabilities (Note 13)	3,480,579	2,896,051	2,905,811	2,417,809
	42,012,211	35,922,937	35,074,480	29,990,764
SHAREHOLDERS' EQUITY (Note 14)				
Capital stock	1,054,334	1,093,334	880,225	912,785
Capital surplus	155,006	152,472	129,409	127,294
Retained earnings (Net income of ₩46,186 million in 2003 and ₩260,354 million in 2002)	351,011	378,052	293,047	315,622
Capital adjustments	63,963	74,713	53,400	62,375
Minority interest	63,249	-	52,804	-
	1,687,563	1,698,571	1,408,885	1,418,076
	₩ 43,699,774	₩ 37,621,508	\$ 36,483,365	\$ 31,408,840

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002



	Korean Won		Translation into U.S. Dollars (Note 2)	
	(In millions except per share amounts)		(In thousands except per share amounts)	
	2003	2002	2003	2002
OPERATING REVENUE				
INTEREST INCOME:				
Interest on due from banks	₩ 13,737	₩ 4,774	\$ 11,468	\$ 3,985
Interest on securities	523,068	550,802	436,691	459,845
Interest on loans	1,630,130	1,446,820	1,360,937	1,207,898
Other (Note 22)	3,403	10,245	2,841	8,553
	2,170,338	2,012,641	1,811,937	1,680,281
GUARANTEE FEES AND COMMISSIONS	343,093	331,088	286,436	276,413
OTHER OPERATING INCOME:				
Gain on disposal of trading securities	18,006	18,775	15,033	15,675
Gain on valuation of trading securities	1,398	2,428	1,167	2,027
Dividends from trading securities	496	411	414	343
Dividends from investment securities	1,281	1,757	1,069	1,467
Foreign exchange trading income	397,916	298,185	332,206	248,944
Fees and commissions from trust accounts (Note 22)	33,800	49,307	28,218	41,165
Reversal of allowance for possible losses on acceptances and guarantees	-	20,413	-	17,042
Gain on derivatives trading (Notes 21 and 22)	941,740	817,312	786,225	682,344
Other	14,826	7,866	12,378	6,567
	1,409,463	1,216,454	1,176,710	1,015,574
Total operating income	3,922,894	3,560,183	3,275,083	2,972,268
OPERATING EXPENSES				
INTEREST EXPENSES:				
Interest on deposits	827,778	828,753	691,082	691,896
Interest on borrowings	256,150	233,174	213,851	194,668
Interest on debentures	267,089	189,409	222,983	158,131
Other (Note 22)	34,849	19,783	29,094	16,516
	1,385,866	1,271,119	1,157,010	1,061,211
COMMISSION EXPENSE	121,279	141,578	101,251	118,198
OTHER OPERATING EXPENSES:				
Loss on disposal of trading securities	13,477	12,586	11,252	10,508
Loss on valuation of trading securities	471	1,351	393	1,128
Foreign exchange trading loss	262,362	257,038	219,037	214,592
Loss on derivatives trading (Notes 21 and 22)	1,028,446	791,467	858,612	660,767
Provision for possible loan losses	440,926	230,535	368,113	192,465
Others	210,201	184,734	175,489	154,228
	1,955,883	1,477,711	1,632,896	1,233,688
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	439,581	410,626	366,990	342,817
Total operating expenses	3,902,609	3,301,034	3,258,147	2,755,914
OPERATING INCOME	20,285	259,149	16,936	216,354
NON-OPERATING INCOME (Note 17)	119,748	181,634	99,973	151,639
NON-OPERATING EXPENSES (Note 17)	68,976	69,419	57,586	57,955
ORDINARY INCOME	71,057	371,364	59,323	310,038
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	71,057	371,364	59,323	310,038
INCOME TAX EXPENSE (Note 18)	19,913	111,010	16,625	92,678
NET INCOME BEFORE MINORITY INTEREST	51,144	260,354	42,698	217,360
MINORITY INTEREST	4,958	-	4,139	-
NET INCOME	₩ 46,186	₩ 260,354	\$ 38,559	\$ 217,360
BASIC ORDINARY INCOME PER COMMON SHARE (Note 19)	₩ 239	₩ 1,326	\$ 0.20	\$ 1.11
BASIC NET INCOME PER COMMON SHARE (Note 19)	₩ 239	₩ 1,326	\$ 0.20	\$ 1.11
DILUTED ORDINARY INCOME PER COMMON SHARE (Note 19)	₩ 227	₩ 1,320	\$ 0.19	\$ 1.10
DILUTED NET INCOME PER COMMON SHARE (Note 19)	₩ 227	₩ 1,320	\$ 0.19	\$ 1.10

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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*Korean Won
(In millions)*

	Capital stock	Consolidated capital surplus	Consolidated retained earnings	Consolidated capital adjustments	Minority interest	Total
January 1, 2002	₩ 1,071,334	₩ 524	₩ 136,143	₩ 55,502	₩ -	₩ 1,263,503
Paid-in capital increase (Note 14)	100,000	152,405	-	-	-	252,405
Retirement of shares (Note 14)	(78,000)	-	-	78,000	-	-
Net income	-	-	260,354	-	-	260,354
Dividends	-	-	(16,560)	-	-	(16,560)
Amortization of stock issuance cost	-	-	(3,845)	-	-	(3,845)
Transferred to special reserve for the trust account	-	-	1,960	-	-	1,960
Treasury stock purchase	-	-	-	(83,655)	-	(83,655)
Disposition of Treasury Stock Fund	-	(457)	-	2,138	-	1,681
Change in capital adjustment	-	-	-	22,728	-	22,728
December 31, 2002	₩ 1,093,334	₩ 152,472	₩ 378,052	₩ 74,713	₩ -	₩ 1,698,571

*Translation into US Dollars (Note 2)
(In thousands)*

	Capital stock	Consolidated capital surplus	Consolidated retained earnings	Consolidated capital adjustments	Minority interest	Total
January 1, 2002	\$ 894,418	\$ 438	\$ 113,661	\$ 46,337	\$ -	\$ 1,054,854
Paid-in capital increase (Note 14)	83,486	127,238	-	-	-	210,724
Retirement of shares (Note 14)	(65,119)	-	-	65,119	-	-
Net income	-	-	217,360	-	-	217,360
Dividends	-	-	(13,825)	-	-	(13,825)
Amortization of stock issuance cost	-	-	(3,210)	-	-	(3,210)
Transferred to special reserve for the trust account	-	-	1,636	-	-	1,636
Treasury stock purchase	-	-	-	(69,840)	-	(69,840)
Disposition of Treasury Stock Fund	-	(382)	-	1,785	-	1,403
Change in capital adjustment	-	-	-	18,974	-	18,974
December 31, 2002	\$ 912,785	\$ 127,294	\$ 315,622	\$ 62,375	\$ -	\$ 1,418,076

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002



*Korean Won
(In millions)*

	Capital stock	Consolidated capital surplus	Consolidated retained earnings	Consolidated capital adjustments	Minority interest	Total
January 1, 2003	₩ 1,093,334	₩ 152,472	₩ 378,052	₩ 74,713	₩ -	₩ 1,698,571
Retirement of shares (Note 14)	(39,000)	-	-	39,000	-	-
Net income	-	-	46,186	-	-	46,186
Dividends (Note 20)	-	-	(76,724)	-	-	(76,724)
Transferred to special reserve for the trust account	-	-	1,232	-	-	1,232
Treasury stock purchase	-	-	-	(50,982)	-	(50,982)
Disposition of treasury stock	-	-	-	7,807	-	7,807
Stock option	-	2,539	-	-	-	2,539
Change in capital adjustment	-	-	-	(6,575)	-	(6,575)
Change in consolidation scope	-	-	-	-	58,291	58,291
Net income attributable to minority interest	-	-	-	-	4,958	4,958
Increase due to intercompany transaction	-	-	2,265	-	-	2,265
Others	-	(5)	-	-	-	(5)
December 31, 2003	₩ 1,054,334	₩ 155,006	₩ 351,011	₩ 63,963	₩ 63,249	₩ 1,687,563

*Translation into US Dollars (Note 2)
(In thousands)*

	Capital stock	Consolidated capital surplus	Consolidated retained earnings	Consolidated capital adjustments	Minority interest	Total
January 1, 2003	\$ 912,785	\$ 127,294	\$ 315,622	\$ 62,375	\$ -	\$ 1,418,076
Retirement of shares (Note 14)	(32,560)	-	-	32,560	-	-
Net income	-	-	38,559	-	-	38,559
Dividends (Note 20)	-	-	(64,054)	-	-	(64,054)
Transferred to special reserve for the trust account	-	-	1,029	-	-	1,029
Treasury stock purchase	-	-	-	(42,563)	-	(42,563)
Disposition of treasury stock	-	-	-	6,517	-	6,517
Stock option	-	2,119	-	-	-	2,119
Change in capital adjustment	-	-	-	(5,489)	-	(5,489)
Change in consolidation scope	-	-	-	-	48,665	48,665
Net income attributable to minority interest	-	-	-	-	4,139	4,139
Increase due to intercompany transaction	-	-	1,891	-	-	1,891
Others	-	(4)	-	-	-	(4)
December 31, 2003	\$ 880,225	\$ 129,409	\$ 293,047	\$ 53,400	\$ 52,804	\$ 1,408,885

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩ 46,186	₩ 260,354	\$ 38,559	\$ 217,360
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss on disposal of trading securities	13,477	12,586	11,251	10,508
Loss on valuation of trading securities	471	1,351	393	1,128
Loss on derivatives instruments	348,881	288,468	291,268	240,831
Provision for possible loan losses	440,926	230,535	368,113	192,465
Provision for severance benefits	21,754	20,246	18,162	16,903
Depreciation and amortization	69,218	44,021	57,788	36,752
Loss on disposal of tangible assets	2,139	2,115	1,786	1,766
Loss on disposal of available-for-sale securities	5,507	24,430	4,598	20,396
Available-for-sale securities impairment loss	51,273	38,450	42,806	32,101
Loss on sales of loans	11	621	9	518
Other expenses not involving cash outflows	155,617	119,133	129,919	99,459
Gain on disposal of trading securities	(18,006)	(18,775)	(15,033)	(15,675)
Gain on valuation of trading securities	(1,398)	(2,428)	(1,167)	(2,027)
Gain on derivatives instruments	(344,791)	(273,421)	(287,854)	(228,269)
Reversal of allowance for possible loss on acceptances and guarantees	-	(20,413)	-	(17,042)
Gain on disposal of tangible assets	(65)	(5,672)	(54)	(4,735)
Gain on valuation using the equity method	(2,849)	(7,150)	(2,379)	(5,969)
Gain on disposal of investment securities	(48,788)	(75,608)	(40,731)	(63,122)
Recovery of investment securities impairment loss	(5,200)	(22,352)	(4,341)	(18,661)
Gain on valuation of investment equity in fund	-	(765)	-	(639)
Gain on sales of loans	(31,813)	(31,438)	(26,560)	(26,246)
Other revenues not involving cash inflows	(20,682)	(24,693)	(17,266)	(20,616)
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in accounts receivable - other	43,105	(542,541)	35,987	(452,948)
Decrease (increase) in accrued income	(38,636)	4,804	(32,256)	4,010
Decrease (increase) in prepaid expenses	21,674	(2,615)	18,095	(2,183)
Decrease in deferred income tax assets	12,586	86,277	10,508	72,030
Increase in operating lease	(26,579)	-	(22,190)	-
Increase (decrease) in accounts payable-other	(102,019)	524,266	(85,172)	437,691
Increase (decrease) in accrued expenses	652	54,386	545	45,405
Increase (decrease) in unearned income	(10,307)	4,401	(8,605)	3,674
Payment of severance benefits	(7,729)	(4,571)	(6,453)	(3,816)
Other, net	(25,901)	14,539	(21,624)	12,138
Net cash provided by operating activities	548,714	698,541	458,102	583,187
CASH FLOWS FROM INVESTING ACTIVITIES:				
Decrease (increase) in trading securities	(478,395)	70,369	(399,395)	58,749
Decrease (increase) in available-for-sale securities	(484,577)	193,922	(404,556)	161,898
Increase in loans	(5,107,169)	(6,977,020)	(4,263,791)	(5,824,862)
Proceeds from disposal of tangible assets	567	15,134	473	12,635
Acquisition of tangible assets	(52,495)	(86,050)	(43,826)	(71,840)
Decrease (increase) in other assets	(99,879)	29,874	(83,385)	24,940
Other, net	18,956	11,683	15,826	9,754
Net cash used in investing activities	(6,202,992)	(6,742,088)	(5,178,654)	(5,628,726)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in deposits	4,176,903	2,775,153	3,487,146	2,316,875
Increase in borrowings	1,707,964	605,230	1,425,918	505,285
Increase (decrease) in debentures	(600,429)	3,366,051	(501,277)	2,810,195
Increase (decrease) in other liabilities	328,226	(63,563)	274,023	(53,067)
Proceeds from issuance of capital stock	-	252,405	-	210,724
Other, net	(120,692)	(98,517)	(100,761)	(82,249)
Net cash provided by financing activities	5,491,972	6,836,759	4,585,049	5,707,763
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(162,306)	793,212	(135,503)	662,224
NET INCREASE DUE TO CHANGE IN CONSOLIDATION SCOPE	13,775	-	11,500	-
CASH AND DUE FROM BANKS, BEGINNING OF THE YEAR	1,557,268	764,056	1,300,107	637,883
CASH AND DUE FROM BANKS, END OF THE YEAR (Note 24)	₩ 1,408,737	₩ 1,557,268	\$ 1,176,104	\$ 1,300,107

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002



1. GENERAL:

KorAm Bank (the "Bank") was established in 1983 and is engaged in the commercial banking business under the Banking Act, trust business under the Trust Business Act and foreign exchange business with approval from the Bank of Korea (BOK) and the Ministry of Finance and Economy (MOFE). The Bank's head office is in Seoul, Korea and operates through 222 domestic branches and 3 overseas networks as of December 31, 2003. The Bank's common stock was listed on the Korea Securities Exchange on November 11, 1989. As of December 31, 2003, the Bank's common stock and preferred stock amounts to ₩1,015,334 million (US\$847,665 thousand), consisting of 203.1 million common shares issued and outstanding, and ₩39,000 million (US\$32,560 thousand), consisting of 7.8 million preferred shares issued and outstanding, respectively.

Based on the decision of the Financial Supervisory Commission in accordance with the Act of the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Kyungki Bank ("the P&A") in June 1998.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Bank and its subsidiaries maintain their official accounting records in Korean Won and prepares statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea consisting of the Financial Accounting Standards, the Rules for Accounting for Banks, the Rules for Preparation of Consolidated Financial Statements and banking regulations promulgated by Financial Supervisory Commission in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform with the accounting principles and accounting standards generally accepted in the Republic of Korea may not conform with accounting principles and banking accounting practices generally accepted in other countries. Accordingly, the accompanying financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank and its subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

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

Scope of Consolidation and Accounting using the Equity Method

The consolidated financial statements include the banking accounts, the trust accounts of the Bank and accounts of Hanmi Capital Co., Ltd. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission in the Republic of Korea. The trust accounts and the accounts of Hanmi Capital Co., Ltd. included in the consolidation as of December 31, 2003 and 2002 are as follows (Unit: Won in millions):

Subsidiaries	Total assets		Total revenue	
	2003	2002	2003	2002
Trust accounts	₩ 560,715	₩ 578,186	₩ 30,652	₩ 26,612
Hanmi Capital (*)	237,620	-	33,576	-

(*) Total revenue of Hanmi Capital Co., Ltd. is the revenue for the six-month period ended December 31, 2003.

Subsidiaries accounted for using the equity method as of December 31, 2003 are as follows (Unit: Won in millions):

	Capital stock	Business	Share owned	Percentage of ownership (%)	Closing month
Hanmi Technology Investment Co., Ltd.	₩ 17,867	Investment	919,520	25.73	December
SK Investment Trust Management Co., Ltd.	30,000	Trust management	1,200,000	20.00	March

The balance sheet dates of the financial statements of the companies used for equity method were December 31, 2003 and 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Change in Scope of Consolidation

The Bank acquired additional equity interest of 1,705,970 and 991,911 shares issued by Hanmi Capital Co., Ltd. on June 3 and 23, 2003, respectively, and the Bank's equity interest of Hanmi Capital Co., Ltd. increased from 28.76 percent to 36.02 percent as of December 31, 2003. Accordingly, pursuant to the Rules for Preparation for Consolidated Financial Statements, Hanmi Capital Co., Ltd. has been included in the scope of consolidation as of June 30, 2003, which is assumed as the date on which the Bank obtained control over the subsidiary.

Basis of Consolidated Financial Statement Preparation

(1) Offset of investments and equity accounts of subsidiaries

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiaries. The differences between the amounts of investment and the equity accounts are recorded as goodwill, which is amortized using a straight-line method over 5 years.

(2) Inter-company Transactions and Balances

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

(3) Equity Method

For investments in affiliates accounted for using the equity method, the difference between acquisition cost and net assets acquired at the acquisition date is added to or deducted from the carrying amount of investments and is being amortized in equal annual amounts for five years from the year incurred. Changes in the Bank's portion of net assets of affiliates accounted for using the equity method are added to or deducted from the carrying amount of investments.

(4) Special Reserve in Trust Accounts

A special reserve provided for possible future losses on certain trust accounts under the arrangement of guaranteed fixed rate of return and/or repayment of the principal each year is included in retained earnings in the consolidated financial statements.

(5) Fiscal years of the subsidiaries

Balance sheet date for the consolidated financial statements is the closing date of the Bank, the parent company; the accounts of consolidated subsidiaries whose fiscal years are different from those of the Bank have been adjusted to reflect balances as of December 31, 2003 and 2002.

(6) Minority interest

Non-controlling, outside ownership interest in a subsidiary's shareholders' equity is presented as minority interest. Income (loss) attributable to minority interest is presented as deduction from consolidated net income.

Significant accounting policies followed in preparing the accompanying consolidated financial statements are summarized below.

Interest Income Recognition

The Bank and its subsidiaries apply the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income and future interest income is recognized on cash basis in accordance with the accounting standards of the banking industries.

The unrecorded accrued interest income on such loans based on the above criteria amounted to ₩19,249 million (US\$16,070 thousand) and ₩23,762 million (US\$19,838 thousand) as of December 31, 2003 and 2002, respectively.

Classification of Securities

At acquisition, the Bank and its subsidiaries classify securities into one of the following categories: trading, available-for-sale, held-to-maturity and securities accounted for using the equity method, depending on marketability, purpose of acquisition and ability to hold. Debt and equity securities that are bought and held for the purpose of selling them in the near term and actively traded over-the-counter are classified as trading securities. Debt securities with fixed and determinable payments and fixed maturity that the Bank and its subsidiaries have the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that should be accounted for using the equity method are classified as securities using the equity method. Debt and equity securities not classified as the above are categorized as available-for-sale securities.

If the objective and ability to hold securities of the Bank and its subsidiaries change, available-for-sale securities can be reclassified to held-to-maturity securities and held-to-maturity securities can be reclassified to available-for-sale securities. Whereas, if the Bank and its subsidiaries sell held-to-maturity securities or exercise early redemption right of securities to issuer in the current year or the proceeding two years, and if they reclassify held-to-maturity securities to available-for-sale securities, all debt securities that are owned or purchased cannot be classified as held-to-maturity securities. On the other hand,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

trading securities cannot be recategorized to available-for-sale securities or held-to-maturity securities and vice versa. Nevertheless, trading securities can be reclassified to available-for-sale securities only when the trading securities lose their marketability.

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specific identification method for debt securities). When the face value of trading debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the valuation gain or loss is included in current operations.

(2) Valuation of Held-to-maturity Securities

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

(3) Valuation of Available-for-sale Securities

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

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

(4) Valuation of Securities Accounted for using the Equity Method

Equity securities held for investment in companies in which the Bank is able to exercise significant influence over the investees (in accordance with the Banking Act, if the Bank holds 15 percent or more of the issued shares, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is included in current operations. Changes in capital surplus and the retained earnings of the investee are reflected in the capital surplus or retained earnings, respectively. Other capital accounts of the investee are reflected as gain or loss on valuation of securities using the equity method in capital adjustments.

(5) Reversal of Loss on Impairment of Available-for-sale Securities and Held-to-maturity Securities

If the reasons for impairment losses of available-for-sale securities no longer exist, the recovery is recorded in current non-operations up to amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in capital adjustment as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded on gain or loss on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current non-operations within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized as reversal of loss on impairment of held-to-maturity securities.

(6) Reclassification of Securities

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

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Transfer of Securities

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

Allowance for Possible Losses on Credits

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires the Bank to provide the minimum rate of loss provision for each category balance using the prescribed minimum percentages. The Bank complies with the minimum regulatory guidelines and the Bank's policy on the calculation of allowance for possible losses on credits are described below.

As required by the Supervisory Regulation, the Bank classifies corporate credits (loans, confirmed acceptances and guarantees) based on borrowers' capability to repay in consideration of borrowers' business operation, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria). Credits to small companies and to households, however, are classified not by evaluating the debt repayment capability of a borrower or customer but by past due period and status of bankruptcy proceedings. The Bank generally classifies all credits to a single borrower in the same category of classification but credits guaranteed or credits collateralized by bank deposits, real estate and other assets may be classified differently based on the guarantor's capability to service such guarantee or based on the value of collateral securing such credits.

Based on the Bank's corporate credit evaluation model, credits to a borrower are classified into fourteen grades from one to ten (1, 2, 3, 4, 5⁺, 5, 5⁻, 6⁺, 6, 6⁻, 7, 8, 9, 10). Credits of grades of 1 to 6⁻ are classified as normal, credits of grade 7 as precautionary, credits of grade 8 as substandard, credits of grade 9 as doubtful, and credits of grade 10 as estimated loss. Credits are finally classified reflecting past due period and bankruptcy considerations.

The Historical Repayment Criteria are set forth as follows:

- Normal Loans in arrears for less than one month
- Precautionary Loans in arrears for one month or more but less than three months
- Substandard Collectible portion of loans in arrears for three months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to the final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses
- Doubtful Amount in excess of collectible portion of loans in arrears for three months or more but less than twelve months and/or loans extended to customers who are determined by the court to begin final restructuring plan prepared through court receivership or court mediation
- Estimated loss Amount in excess of collectible portion of loans in arrears for twelve months or more and/or loans extended to customers who are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses

The Forward Looking Criteria based on ability to repay are set forth as follows:

- Grade 1 (Exceptional) Credits extended to the customers, who have exceptionally strong debt-repay ability with very excellent stability, substantial equity and adequate diversification; Bank's credit risk to these customers is minimal.
- Grade 2 (Very Strong) Credits extended to the customers, who have very strong debt-repay ability with very good stability, substantial equity and adequate diversification, but slightly fall short of Grade 1; Bank's credit risk to these customers is very low.
- Grade 3 (Strong) Credits extended to the customers, who have strong debt-repay ability with good stability and balance sheet but fall short of Grade 1 and 2; Bank's credit risk to these customers is relatively low.
- Grade 4 (Good) Credits extended to the customers, who have mostly good stability and balance sheet; Bank's credit risk to these customers is not so high.
- Grade 5⁺ (Satisfactory) Credits extended to the customers, whose stability and balance sheet are somewhat better than those of industry average; Bank's credit risk to these customers is adequate.
- Grade 5 (Average) Credits extended to the customers whose stability and balance sheet are commensurate with those of industry average; Bank's credit risk to these customers is average.
- Grade 5⁻ Credits extended to the customers whose balance sheet strength, profitability and cash flow

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(Below Average)	are somewhat fall short with those of industry average; Bank's credit risk to these customers is somewhat higher than average.
• Grade 6+ (Somewhat Unsatisfactory)	Credits extended to the customers whose balance sheet strength, profitability and cash flow are somewhat low; Bank's credit risk to these customers is relatively high.
• Grade 6 (Unsatisfactory)	Credits extended to the customers whose overall creditworthiness including balance sheet, profitability and cash flow is unsatisfactory; Bank's credit risk to these customers is high.
• Grade 6- (Marginal)	Credits extended to the customers, bank's exposure to whom currently is not at risk yet; their business performance is so bad or highly volatile that they may cause loss to the Bank if the current trend is not improved.
• Grade 7 (Special Mention)	Credits extended to the customers, who have potential weaknesses that may result in deterioration of ability to repay debt; they can cause loss to the Bank if the weaknesses are not corrected in near future.
• Grade 8 (Substandard)	Collectible portion of credits extended to the customers, which are judged to have incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows.
• Grade 9 (Doubtful)	Amount in excess of collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows.
• Grade 10 (Estimated loss)	Amount in excess of collectible portion of credits extended to customers, which are judged to have to be accounted for as loss as the inability to repay became certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows.

An allowance is then calculated on the category balances using the prescribed percentages of 0.5 - 1.9 percent for normal, 2 - 19.9 percent for precautionary, 20 - 49.9 percent for substandard, 50 - 99.9 percent for doubtful and 100 percent for estimated loss. However, the Bank does not provide allowances for loans to the Korean government and local government entities, bonds bought under resale agreements and inter-bank loans that are classified as normal, as it is not required by the Accounting Standards for the Banking Industry.

In addition, as required by the Supervisory Regulation, based on the classification of household loans and credit card receivables by past due period and status of bankruptcy proceedings, allowance for household loans and credit card receivables are then calculated on the category balances using the prescribed minimum percentages of 0.75 percent and 1 percent for normal, 8 percent and 12 percent for precautionary, 20 percent for substandard, 55 percent and 60 percent for doubtful and 100 percent for estimated loss. In addition, as required by the Financial Supervisory Service, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for normal and 10 percent or more for precautionary instead of providing 0.75 percent or more for normal and 8 percent or more for precautionary.

As required by the Supervisory Regulation, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same loan classification criteria. An allowance is then calculated, using from 20 to 49.9 percent for substandard, from 50 to 99.9 percent for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. However, an allowance for confirmed acceptances and guarantees to companies under workout classified as precautionary is provided from 2 to 19.9 percent. The allowance for possible losses on confirmed acceptances and guarantees is included in other liabilities.

In addition, for loans sold to Korea Asset Management Company ("KAMCO") with repurchase agreements, the Bank and its subsidiaries provide other allowance for loans which are likely to be repurchased. When the loan's estimated value (collectible value) under forward looking criteria is less than the sale price, the Bank and its subsidiaries assume it is probable that the loans will be repurchased, and provides allowance for expected losses which may incur in case the loans are repurchased.

In addition, as required by the Financial Supervisory Service, from the third quarter of 2002, the Bank provides an additional other allowance of 1 percent for certain portions of the unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The Bank also provides other allowance for expenses likely to occur with regard to the credit card reward points.

Restructuring of Loans

A loan, whose contractual terms are modified in a troubled debt restructuring due to mutual agreements such as commencement of reorganization, court mediation and workout plans, is accounted for at the present value of expected future cash flows, if the book value of the loan differs from the present value. The difference between the book value and present value is offset against the allowance for possible loan losses, and any remaining amounts are charged to operations as bad debt expense. The difference between the book value of a loan and its present value is recorded as present value

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discount, which is presented as a deduction from the loan. The present value discount is amortized over the remaining restructuring period using the effective interest rate method, and the amortization amount is recorded as interest income.

Valuation of Receivables and Payables at Present Value

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

Tangible Assets and Depreciation

Tangible assets included in fixed assets are recorded at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea, which was effective up to December 31, 2000. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings	40 ~ 50
Equipment	5
Leasehold improvements	3 ~ 7

Intangible Assets

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

Recognition of Impairment of Assets

When the book value of assets (other than trading securities, investment securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, those book value of assets are adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the recoverable value equals the book value of the assets that would have been measured had no impairment loss been recognized.

Amortization of Discount (Premium) on Debentures

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

Bonds under Resale or Repurchase Agreements

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank and its subsidiaries, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign amount to ₩78,831 million (US\$65,813 thousand) and ₩64,046 million (US\$53,470 thousand) as of December 31, 2003 and 2002, respectively. The accrued severance benefits are included in other liabilities.

The funding of the severance liability is not required. However, the Bank and its subsidiaries have insured a portion of its obligations for severance benefits in order to obtain the related tax benefits, by making deposits with life insurance companies. The Bank and its subsidiaries have purchased severance insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. The individual severance insurance deposits, amounting to ₩50,884 million (US\$42,481 thousand) and ₩52,682 million (US\$43,982 thousand) as of December 31, 2003 and 2002, respectively, are presented as a deduction from accrued severance benefits because the severance insurance's beneficiaries are the Bank and its subsidiaries' employees.

Before April 1999, the Bank and its subsidiaries and their employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Bank and its subsidiaries paid half of the employees' 6 percent portion, which was paid as an advance for the future severance payment and deducted from the total severance indemnity payable at the termination. Such advanced payment, totaling ₩2,353 million (US\$1,964 thousand) and ₩2,571 million (US\$2,146 thousand) as of December 31, 2003 and 2002, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension

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Law, the Bank and its subsidiaries and their employees each pay 4.5 percent of monthly pay to the Fund.

Actual payment of severance indemnities amounted to ₩7,729 million (US\$6,453 thousand) and ₩4,571 million (US\$3,816 thousand) in the years ended December 31, 2003 and 2002, respectively.

Accounting for Derivative Instruments

The Bank and its subsidiaries account for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrance of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Accounting for Stock Options

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

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and is offset by income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank and its subsidiaries maintain their accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on BOK Basic Rate (₩1,197.80 and ₩1,200.40 to US\$1.00 as of December 31, 2003 and 2002, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on BOK Basic Rate at balance sheet dates.

Accounting for Guaranteed Trust Accounts

Significant accounting policies applied to certain trust accounts, which the Bank guarantees a fixed rate of return and/or repayment of the principal, are summarized below.

(1) Valuation of Securities

The fair values of debt securities as of December 31, 2003 and 2002 were assessed by applying the average of base prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and KIS Pricing Inc. However, debt securities managed in unspecified trust accounts established prior to November 15, 1998 are recorded as acquisition cost plus accrued interest

Stocks are stated at acquisition cost determined by the individual moving average method plus incidental expenses. Stocks, which are traded on the Korea Stock Exchange or Korea Securities Dealers Automated Quotation, are stated at market value and unlisted stocks are stated at acquisition cost.

(2) Allowance for Possible Credit Losses

An allowance for possible losses on assets, which are managed in unspecified trust accounts but not recorded at market value, is provided based on asset quality classification criteria of the bank accounts reflecting the asset quality classification criteria regulated by the Korea Financial Supervisory Services. The assets are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or loss. An allowance is then calculated on the category balances using the prescribed percentages of more than zero percent (more than 0.5 percent for trust accounts for which the Bank guarantees a fixed rate of return), more than 2 percent, more than 20 percent, more than 50 percent, and 100 percent, respectively.

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Accounting for Accounts of Hanmi Capital Co., Ltd.

Significant accounting policies applied to the accounts of Hanmi Capital Co., Ltd. are summarized below.

(1) Accounting for leases

As for leases which transfer substantially all of the benefits and risks of ownership are accounted for as a financing lease, and other leases are accounted for as an operating lease.

A financing lease is recorded as lease receivable at an amount equal to the fair value of the leased property at the inception of the lease term. During the lease term, lease payments are allocated between the collection of the lease receivable and the interest income component, which are amortized and recognized as interest income.

An operating lease is recorded as operating lease property at its acquisition cost plus incidental expenses at the inception of the lease and depreciated following the normal depreciation policy. Rents collected during the lease term are recorded as rental income on operating lease.

(2) Allowance for Possible Credit Losses

The receivables are classified as normal, doubtful and uncollectible based on the client's past due period, business operation, historical write-off record, and industry practice.

As for receivables classified as normal, Hanmi Capital Co., Ltd. provides allowance for possible credit losses of 1 percent for loans and instalment loans, and 0.5 percent for other receivables, respectively. As for receivables classified as doubtful, Hanmi Capital Co., Ltd. breaks down the receivables into 3 categories based on their past due period, and provides allowance for possible credit losses of minimum 2 percent, 20 percent, 75 percent for loans and instalment loans, and minimum 1 percent, 20 percent, 75 percent for other receivables. As for receivables classified as uncollectible, Hanmi Capital Co., Ltd. provides allowance for possible credit losses of 100 percent.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Statements supersede the relative articles of existing accounting standards and constitutes generally accepted accounting standards of the Republic of Korea. The Bank and its subsidiaries have implemented SKAS No.1 (Accounting Changes and Correction of Errors) from January 1, 2002 and adopted the rest of SKAS, from No.2 (Interim Financial Reporting) through No.9 (Convertible Securities), starting from January 1, 2003. The Bank restated the retained earnings of 2002 financial statements in accordance with SKAS No.6 (Events Occurring after the Balance Sheet Date), which decreased liabilities and increased net assets by ₩76,724 million (US\$64,054 thousand), compared to those accounted for using the previous method. In addition, in accordance with the initial adoption of SKAS No.8 (Investments in Securities) for the year ended December 31, 2003 and for comparative purposes, the Bank and its subsidiaries reclassified the 2002 financial statements relating to securities, which had no effects on the Bank's total assets, retained earnings and net income.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes. However, those reclassifications had no effect on the previously reported prior period net income or shareholders' equity of the Bank.

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Cash and checks	₩ 434,246	₩ 707,022	\$ 362,536	\$ 590,267
Foreign currencies	41,544	30,617	34,684	25,561
Due from banks in local currency	835,507	740,956	697,535	618,598
Due from banks in foreign currencies	97,440	78,673	81,349	65,681
	₩ 1,408,737	₩ 1,557,268	\$ 1,176,104	\$ 1,300,107

(2) Restricted due from banks in local currency and foreign currencies as of December 31, 2003 and 2002 consisted of the following:

Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason for restriction
	2003	2002	2003	2002	
Reserve deposits BOK	₩ 728,092	₩ 655,970	\$ 607,858	\$ 547,646	BOK Act
Other deposits Samsung Life Insurance Co.	-	22,000	-	18,367	Subordinated borrowings

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Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason for restriction
	2003	2002	2003	2002	
Woori Bank	2,199	-	1,836	-	Escrow account for Daewoo Telecom Alcatel
Woori Bank	-	3,998	-	3,338	Escrow account for Daewoo Telecom
Korea Stock Exchange	236	360	197	300	Deposits for securities transaction
Kookmin Bank	-	4,533	-	3,784	Bond Market Stabilization Fund
Ace American Insurance Co.	3	-	2	-	Individual severance insurance deposit
Due from banks in foreign currencies					
BOK	31,615	33,349	26,394	27,842	BOK Act
	₩ 762,145	₩ 720,210	\$ 636,287	\$ 601,277	

4. SECURITIES:

(1) Securities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Trading securities	₩ 1,179,516	₩ 693,486	\$ 984,735	\$ 578,967
Available-for-sale securities	4,982,189	5,012,325	4,159,450	4,184,609
Held-to-maturity securities	3,525,443	2,937,939	2,943,265	2,452,779
Securities accounted for using the equity method	13,670	30,071	11,413	25,105
	₩ 9,700,818	₩ 8,673,821	\$ 8,098,863	\$ 7,241,460

(2) Trading securities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Equity securities	₩ 17,713	₩ 14,889	\$ 14,788	\$ 12,430
Government and public bonds	237,211	144,390	198,039	120,546
Finance debentures	633,123	299,490	528,572	250,034
Corporate bonds	240,708	204,373	200,958	170,624
Others	50,761	30,344	42,378	25,333
	₩ 1,179,516	₩ 693,486	\$ 984,735	\$ 578,967

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

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Equity securities	₩ 205,779	₩ 147,178	\$ 171,798	\$ 122,874
Equity investments	14,568	5,237	12,162	4,372
Government and public bonds	1,579,689	1,604,368	1,318,825	1,339,429
Finance debentures	1,971,102	1,609,211	1,645,602	1,343,472
Corporate bonds	736,694	1,306,014	615,039	1,090,344
Other securities in foreign currencies	468,316	340,291	390,980	284,096
Others	6,041	26	5,044	22
	₩ 4,982,189	₩ 5,012,325	\$ 4,159,450	\$ 4,184,609

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

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Government and public bonds	₩ 333,845	₩ 395,031	\$ 278,715	\$ 329,797
Finance debentures	2,646,290	1,872,441	2,209,292	1,563,233
Corporate bonds	364,928	603,566	304,665	503,896
Other securities in foreign currencies	150,380	66,901	125,547	55,853
Others	30,000	-	25,046	-
	₩ 3,525,443	₩ 2,937,939	\$ 2,943,265	\$ 2,452,779

(5) Securities accounted for using the equity method

Securities accounted for using the equity method as of December 31, 2003 were as follows (Unit: Won in millions):

	Book value before valuation	Dividends	Gain (Loss) on valuation using the equity method	Presented in capital adjustments	Book value after valuation
Hanmi Technology					
Investment Co., Ltd.	₩ 8,289	₩ (230)	₩ (1,334)	₩ 21	₩ 6,746
SK Investment Trust					
Management Co., Ltd.	6,756	(120)	171	117	6,924
	₩ 15,045	₩ (350)	₩ (1,163)	₩ 138	₩ 13,670

Investment equity securities issued by Hanmi Capital Co., Ltd. has been accounted for using the equity method for the six-month period ended June 30, 2003, and the Bank has recognized gain on valuation using the equity method of ₩4,012 million (US\$3,349 thousand) thereof.

(6) The Bank and its subsidiaries had available-for-sale securities issued by Daewoo Group companies of ₩48,030 million (US\$40,099 thousand), which was the net amount after deducting loss on impairment of available-for-sale securities of ₩1,268 million (US\$1,059 thousand) for the year ended December 31, 2003. In addition, the Bank and its subsidiaries had available-for-sale securities of workout companies (including private workout) other than Daewoo Group companies amounting to ₩9,857 million (US\$8,229 thousand), which was the net amount after deducting loss on impairment of available-for-sale securities of ₩3,019 million (US\$2,520 thousand) for the year ended December 31, 2003.

(7) The Bank and its subsidiaries had available-for-sale securities issued by Hyundai Engineering and Construction of ₩9,706 million (US\$8,103 thousand), which was the net amount after deducting loss on impairment of available-for-sale securities of ₩2,126 million (US\$1,775 thousand) for the year ended December 31, 2003. In addition, the Bank had available-for-sale securities issued by Hynix of ₩1,034 million (US\$863 thousand).

(8) The Bank had ₩40,860 million (US\$34,113 thousand) of available-for-sale securities issued by SK Networks and its overseas affiliates, which was the net amount after deducting loss on impairment of available-for-sale securities of ₩602 million (US\$503 thousand) for the year ended December 31, 2003. The securities include ₩20,932 million (US\$17,475 thousand) of common stock and ₩17,521 million (US\$14,628 thousand) of redeemable preferred stock, which were acquired pursuant to the troubled debt restructuring agreement made through the Creditor Financial Institution Committee of SK Networks. As the common stocks are restricted for disposition until 2007, the fair value as of December 31, 2003 was based on the pricing report provided by Korea Bond Pricing Co., Ltd.

5. LOANS:

(1) Loans as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Loans in local currency	₩ 21,192,930	₩ 16,923,003	\$ 17,693,213	\$ 14,128,404
Loans in foreign currencies	1,389,147	1,098,931	1,159,748	917,458
Bills bought in local currency	749,851	788,269	626,024	658,097
Bills bought in foreign currencies	1,331,465	1,259,804	1,111,592	1,051,765
Advances for customers	2,347	2,784	1,959	2,324
Credit card accounts	1,998,321	2,506,454	1,668,326	2,092,548
Call loans	999,639	795,867	834,563	664,441

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	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Privately placed bonds	1,080,709	760,306	902,245	634,752
Loans to be converted to equity securities	20,242	22,626	16,899	18,890
Domestic import usance	689,692	653,673	575,799	545,728
Factoring receivables	425,277	246,451	355,049	205,753
Loans bought under repurchase agreement	5,000	-	4,174	-
	29,884,620	25,058,168	24,949,591	20,920,160
Allowance for possible loan losses	(451,593)	(348,329)	(377,019)	(290,807)
Present value discounts	(1,372)	(4,591)	(1,145)	(3,833)
	₩ 29,431,655	₩ 24,705,248	\$ 24,571,427	\$ 20,625,520

(2) As of December 31, 2003, the total credits (including confirmed acceptances and guarantees) of the Bank to SK Networks amounted to ₩124,771 million (US\$104,167 thousand), and in connection with these credits, the Bank provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩51,830 million (US\$43,271 thousand). The above loans include ₩13,693 million (US\$11,432 thousand) of convertible debt and ₩6,550 million (US\$5,468 thousand) of loans to be converted to preferred stock, which the Bank acquired pursuant to troubled debt restructuring agreement in October 2003. The Bank has provided an allowance for possible loan losses of ₩7,545 million (US\$6,299 thousand) for the convertible debt and the loans to be converted to preferred stock.

According to the Corporate Restructuring Promotions Law, the Creditor Financial Institution Committee of SK Networks has identified SK Networks as "possible insolvency company" in March 2003, and the negotiations for normalization of business are in process as of December 31, 2003. Going-concern issue of the company will highly depend on the future progress of the company's restructuring plan and effective support of financial creditors. Therefore, actual credit loss from this credit exposure may differ from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

(3) Daewoo Group companies, which were placed under workout in August 1999 due to their liquidity problems, are undergoing a workout or court receivership as of December 31, 2003. As of December 31, 2003, the Bank and its subsidiaries had loans outstanding (including confirmed acceptances and guarantees) to Daewoo Group companies of ₩89,418 million (US\$74,652 thousand). For these credits, the Bank and its subsidiaries provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩10,129 million (US\$8,456 thousand) based on its loan classification.

The recovery of loans outstanding to Daewoo Group companies is highly dependent on the results of the business restructuring; accordingly, the potential impact on the operations of the Bank and its subsidiaries of the workout program and the difficulties Daewoo Group companies are facing cannot presently be determined.

(4) As of December 31, 2003, amounts owed to the Bank and its subsidiaries by companies under workout program excluding Daewoo Group companies amounted to ₩9,246 million (US\$7,719 thousand). After deducting present value discounts of ₩1,243 million (US\$1,038 thousand), the Bank and its subsidiaries provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩933 million (US\$779 thousand).

The collectibility of these loans may be affected by the outcome of the restructuring of these companies under workout program.

(5) As of December 31, 2003, amounts owed to the Bank and its subsidiaries by Hyundai Group companies, which include Hyundai Merchant Marine, Hyundai Engineering & Construction Co., Ltd. and Hyundai Petrochemical Co., Ltd. amounted to ₩19,032 million (US\$15,889 thousand) including confirmed acceptances and guarantees. The Bank and its subsidiaries have provided an allowance for possible loan losses (including allowance for possible losses on confirmed acceptances and guarantees) of ₩1,504 million (US\$1,256 thousand) based on its loan classification.

Hyundai Group companies are presently undergoing a liquidity problem and the potential impact on the Bank's operation of the difficulties these companies are facing cannot presently be determined.

(6) The Banks sold its non-performing loans of ₩306,062 million (US\$255,520 thousand) in 3 different batches to KAMCO since December 1997. As of December 31, 2003, the unsettled amount was ₩32,184 million (US\$26,869 thousand). The Bank has provided other allowance totaling ₩21,567 million (US\$18,006 thousand).

(7) For the year ended December 31, 2003, the Bank and its subsidiaries sold certain non-performing loans with principal amount of ₩32,521 million (US\$27,151 thousand) to JP Morgan Chase Bank and others for ₩25,065 million (US\$20,926 thousand), and recognized gain on sales of loans of ₩6,597 million (US\$5,508 thousand). In addition, the Bank sold charged-off loans with principle amount of ₩74,605 million (US\$62,285 thousand) to Global Asset Management Company and others, and recognized the proceeds from the sale of ₩18,132 million (US\$15,138 thousand) as gain on sales of loans. The Bank also sold credit card receivables with principal amount of ₩216,564 million (US\$180,801 thousand) to Seoul Guarantee Insurance Company and recognized gain on sale of loans of ₩7,084 million (US\$5,914 thousand). There are no recourse obligations related to the above sales.

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6. FIXED ASSETS:

Fixed assets as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Tangible assets				
Land	₩ 124,326	₩ 119,045	\$ 103,795	\$ 99,387
Buildings	156,418	149,003	130,588	124,397
Equipment and furniture	234,299	224,141	195,608	187,127
Leasehold improvements	43,641	40,712	36,434	33,989
Construction in progress	654	654	546	546
	559,338	533,555	466,971	445,446
Less: Accumulated depreciation	(190,250)	(159,220)	(158,833)	(132,927)
Intangible assets	23,759	15,493	19,836	12,934
Negative goodwill	(9,060)	-	(7,564)	-
	₩ 383,787	₩ 389,828	\$ 320,410	\$ 325,453

The Bank amortizes the negative goodwill which is associated with the offset of investments and the equity accounts of subsidiaries, using a straight-line method over 5 years. Accordingly, the Bank recognized gain on reverse of negative goodwill of ₩2,361 million (US\$1,971 thousand) in the year ended December 31, 2003.

As of December 31, 2003 and 2002, the published value of land was ₩89,555 million (US\$74,766 thousand) and ₩71,524 million (US\$59,713 thousand), respectively, using the disclosed public land price announced annually by the government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

7. OTHER ASSETS:

(1) Other assets as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Guarantee deposits	₩ 276,239	₩ 264,488	\$ 230,622	\$ 220,811
Accounts receivable (Note 21)	1,065,354	1,107,313	889,426	924,456
Accrued income (Note 2)	319,178	273,516	266,470	228,349
Prepaid expenses	117,307	138,936	97,935	115,993
Deferred income tax assets (Note 18)	35,589	48,175	29,712	40,220
Derivatives assets (Note 21)	627,401	271,341	523,794	226,533
Domestic exchange settlements debits	220,175	181,679	183,816	151,677
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	102,372	-	85,467	-
Sundry assets	11,162	9,895	9,319	8,261
	₩ 2,774,777	₩ 2,295,343	\$ 2,316,561	\$ 1,916,300

(2) Sundry assets as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Suspense receivables	₩ 5,194	₩ 6,521	\$ 4,336	\$ 5,444
Deposit money to court	3,076	1,701	2,568	1,420
Cash sent to other banks	500	1,673	418	1,397
Others	2,392	-	1,997	-
	₩ 11,162	₩ 9,895	\$ 9,319	\$ 8,261

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8. COLLATERALIZED ASSETS:

As of December 31, 2003 and 2002, collateralized assets, all of which were available-for-sale securities, consisted of the following:

Provided to	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Provided for
	2003	2002	2003	2002	
Korea Securities Depository	₩ 1,866,509	₩ 1,326,254	\$ 1,558,281	\$ 1,107,242	Customer RP
Bank of Korea	1,324,758	1,445,161	1,105,993	1,206,513	RP of Bank of Korea
Bank of Korea	419,538	203,369	350,257	169,785	Inter-bank settlement
Bank of Korea	743,255	522,057	620,517	435,847	Loans with credit limit from Bank of Korea
Bank of Korea	96,079	106,482	80,213	88,898	Borrowings from Bank of Korea
Korea Asset Management Corporation	-	14,079	-	11,754	Settlement of non- performing loans
Seoul Guarantee Insurance Company	18,405	35,921	15,365	29,989	Guarantee for construction execution
Korea Construction Financial Cooperative	10,083	26,309	8,418	21,964	Guarantee for construction execution
HSBC	82,333	-	68,737	-	Repo transaction
UBS Warburg	-	75,091	-	62,691	Repo transaction
LG Investment & Securities Co., Ltd. and other	39,857	41,742	33,275	34,849	Futures
	₩ 4,600,817	₩ 3,796,465	\$ 3,841,056	\$ 3,169,532	

9. DEPOSITS:

Deposits as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Deposits in local currency	₩ 21,474,776	₩ 19,516,636	\$ 17,928,516	\$ 16,293,735
Deposits in foreign currencies	945,373	583,706	789,258	487,315
Certificates of deposits	3,111,593	1,254,497	2,597,756	1,047,335
	₩ 25,531,742	₩ 21,354,839	\$ 21,315,530	\$ 17,828,385

10. BORROWINGS:

Borrowings as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Borrowings in local currency	₩ 1,668,510	₩ 1,507,186	\$ 1,392,979	\$ 1,258,295
Less: Discounts	(277)	-	(231)	-
Borrowings in foreign currencies	2,568,958	2,468,345	2,144,730	2,060,732
Less: Discounts	(672)	-	(561)	-
Bonds sold under repurchase agreements	1,622,447	1,298,781	1,354,522	1,084,305
Bills sold	334,518	26,376	279,277	22,020
Due to BOK in foreign currencies	3,816	15,334	3,186	12,802
Call money	2,292,600	1,385,012	1,914,009	1,156,297
	₩ 8,489,900	₩ 6,701,034	\$ 7,087,911	\$ 5,594,451

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11. DEBENTURES:

Debentures as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Debentures in local currency	₩ 3,922,847	₩ 4,619,392	\$ 3,275,043	\$ 3,856,564
Less: Discounts	(51,381)	(94,900)	(42,896)	(79,229)
Debentures in foreign currencies	643,479	451,600	537,218	377,024
Less: Discounts	(4,955)	(5,079)	(4,137)	(4,240)
	₩ 4,509,990	₩ 4,971,013	\$ 3,765,228	\$ 4,150,119

12. CONFIRMED ACCEPTANCES AND GUARANTEES AND ALLOWANCE FOR POSSIBLE LOSSES:

(1) Confirmed acceptances and guarantees and allowance for possible losses as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debenture	₩ 59	₩ 658	\$ 49	\$ 549
Payment guarantee for loan	10,507	19,867	8,772	16,586
Others	189,417	192,973	158,137	161,107
	199,983	213,498	166,958	178,242
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letter of credit	₩ 78,180	₩ 120,645	\$ 65,270	\$ 100,722
Letters of guarantees for importers	46,899	41,048	39,154	34,270
Guarantees on credit derivatives	119,780	84,028	100,000	70,152
Others	72,559	150,789	60,577	125,888
	317,418	396,510	265,001	331,032
Total confirmed acceptances and guarantees	₩ 517,401	₩ 610,008	\$ 431,959	\$ 509,274
Allowance for possible losses	₩ 620	₩ 100	\$ 518	\$ 83
Ratio (%)	0.12	0.02	0.12	0.02

(2) As of December 31, 2003, confirmed acceptances and guarantees to Daewoo Group companies, and SK Networks (including its foreign subsidiaries) amounted to ₩10 million (US\$8 thousand) and ₩1,179 million (US\$984 thousand), respectively. For SK Networks (including its foreign subsidiaries), an allowance for possible losses of ₩578 million (US\$483 thousand) had been provided based on the Bank's loan classification.

13. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Accrued severance benefits (Note 2)	₩ 78,831	₩ 64,046	\$ 65,813	\$ 53,470
Less: Transfer to National Pension	(2,353)	(2,571)	(1,964)	(2,146)
Less: Individual severance insurance deposits	(50,884)	(52,682)	(42,481)	(43,982)
Allowance for possible losses on confirmed acceptances and guarantees (Notes 5 and 12)	620	100	518	83
Borrowings from trust accounts (Note 22)	414,006	219,719	345,639	183,436
Foreign exchange remittance pending	31,752	75,748	26,509	63,239
Accounts payable (Note 21)	1,000,760	1,099,808	835,498	918,190
Accrued expenses	454,433	444,171	379,390	370,822

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	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Unearned revenues	41,477	51,507	34,628	43,001
Deposits for letter of guarantees and other liabilities (Note 21)	82,846	27,116	69,165	22,638
Local exchange settlement credits	421,679	329,073	352,045	274,731
Other allowance (Note 5)	40,083	9,777	33,464	8,163
Sundry liabilities	318,333	340,904	265,764	284,609
	₩ 3,480,579	₩ 2,896,051	\$ 2,905,811	\$ 2,417,809

(2) Sundry liabilities as of December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Suspense payable	₩ 60,471	₩ 50,058	\$ 50,485	\$ 41,792
Cash received from other banks	500	1,100	417	918
Withholding taxes	27,268	30,999	22,765	25,880
Guarantee deposits for securities subscription	4,049	27,381	3,380	22,860
Liabilities incurred by agency relationship	186,024	152,422	155,305	127,252
Account for agency businesses	36,947	54,196	30,846	45,246
Others	3,074	24,748	2,566	20,661
	₩ 318,333	₩ 340,904	\$ 265,764	\$ 284,609

14. SHAREHOLDERS' EQUITY:

(1) Common stock and preferred stock

The Bank has 600 million authorized shares (₩5,000 par value) as of December 31, 2003 and 2002, of which 203,066,765 shares (₩1,015,334 million) and 183,066,765 shares (₩915,334 million) had been issued as common stock, and 7,800,000 shares (₩39,000 million) and 35,600,000 shares (₩178,000 million) had been issued as preferred stock as of December 31, 2003 and 2002, respectively. The Bank's major shareholders of common stock were J.P. Morgan & Carlyle Consortium (36.55 percent) and Standard Chartered Bank (9.76 percent) as of December 31, 2003. For the year ended December 31, 2003, one of the major shareholders, Samsung Group sold their shares to Standard Chartered Bank and the latter became the second largest shareholder of the Bank as of December 31, 2003. In addition, the Bank's largest shareholder J.P. Morgan & Carlyle Consortium is proceeding with the negotiation to sell its shares.

On January 29, 2003, the Bank paid ₩39,000 million (US\$32,560 thousand) to acquire 7,800,000 shares of preferred stock, which were issued to the Korea Deposit Insurance Corporation in accordance with the P&A agreement for Kyunggi Bank. The acquired treasury stock was reduced on April 25, 2003, with the approval at the general shareholders' meeting held on March 21, 2003. The remaining preferred stock of 7,800,000 shares (₩39,000 million) held by Korea Deposit Insurance Corporation was redeemed on January 29, 2004.

Except for the preferred stock held by Korea Deposit Insurance Corporation, the Bank's preferred stock consisted of cumulative, participating preferred stock, which was issued in the form of public placement on June 30, 2000 (20,000,000 shares, issue amount per share: ₩5,000, total issue amount: ₩100,000 million). The preferred stock could be converted to common stock after stipulated dividends (7.5 percent per annum) paid for three years (i.e. 7.5% X 3 years = 22.5%). As of December 31, 2003, the Bank paid all the stipulated dividends, and the preferred stock was converted into common stock on July 1, 2003.

(2) Capital surplus

The Bank entered into an agreement to issue 20,000,000 global depository shares (GDSs) on April 25, 2002 and brought in US\$198,730 thousand from the issuance of GDSs on April 30, 2002. The GDSs represent 20 million shares of common stock (issuance price: ₩13,000) and accordingly, ₩100,000 million (US\$83,486 thousand) was recorded as capital stock and ₩152,405 million (US\$127,238 thousand), net of issuance cost, was recorded as paid-in-capital in excess of par value in capital surplus.

Capital surplus, other than described above, amounting to ₩2,606 million (US\$2,176 thousand) consisted of gain on disposition of Treasury Stock Fund and treasury stock, and the transferred amount of capital adjustment (stock options cost).

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(3) Retained earnings

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

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Legal reserve	₩ 45,700	₩ 19,600	\$ 38,153	\$ 16,363
Voluntary reserve	248,900	91,400	207,798	76,307
Unappropriated accumulated retained earnings	56,411	267,052	47,096	222,952
	₩ 351,011	₩ 378,052	\$ 293,047	\$ 315,622

1) Legal reserve

The Korean Banking Law requires a bank to appropriate at least 10 percent of net income after income tax to legal reserve, until such reserve equals 100 percent of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

2) Reserve for financial structure improvement (voluntary reserve)

In 2002, the Finance Supervisory Service recommended banks to appropriate at least 10 percent of net income after accumulated deficit to reserve for financial structure improvement, until simple capital ratio equals 5.5 percent. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

3) Retained earnings appropriated for accumulated deficit conservation

The Bank appropriated capital surplus, legal reserve and other reserve amounting to ₩348,363 million (US\$290,836 thousand) for accumulated deficit conservation, pursuant to the approval at the shareholders' meeting on March 9, 2001.

(4) Capital adjustments

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

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Treasury stock	₩ (9,830)	₩ (5,655)	\$ (8,207)	\$ (4,721)
Gain on valuation of available-for-sale securities-net	72,692	75,315	60,688	62,878
Loss on valuation of equity securities using the equity method	(1,247)	(1,468)	(1,041)	(1,226)
Stock option cost	3,279	8,433	2,737	7,040
Other	(931)	(1,912)	(777)	(1,596)
	₩ 63,963	₩ 74,713	\$ 53,400	\$ 62,375

1) Treasury stock

The Bank deposited ₩10,000 million (US\$8,349 thousand) on the Treasury Stock Fund of Daehan Investment Trust Securities in 1998. With the disposition of Treasury Stock Fund in 2002, the Bank recorded gain on disposal of treasury stock in capital surplus amounting to ₩67 million (US\$56 thousand).

The Bank acquired 650,000 and 1,493,760 common shares in 2002 and 2003, respectively, in preparation for the exercise of the stock option and stated the treasury stock at acquisition cost of ₩5,655 million (US\$4,721 thousand) and ₩11,982 million (US\$10,003 thousand), respectively. In 2003, 948,900 shares of treasury stock (acquisition cost ₩7,807 million) were disposed following the exercise of stock options, and the resulting gain on disposal of treasury stock of ₩2,370 million (US\$1,979 thousand) was recorded in capital surplus.

2) Stock option cost

On March 20, 2000, the Bank granted stock options to purchase 1,620,500 shares to 460 employees and directors (first-awarded stock options) at the exercise price of ₩7,190 per share (a third of the granted shares were accounted for at ₩7,730 per share as of December 31, 2003, by reflecting the increase in the average stock price index of banking industry on the minimum exercise price stipulated in the relevant regulation). When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock. The stock options are exercisable during a three-year period beginning after three years from the grant date. As three years have passed since the grant date, 874,480 shares have become exercisable beginning March 20, 2003. For the year ended December 31, 2003, 668,260 shares have been exercised and settled through issuance of treasury stock, and 48,440 shares expired unexercised.

In addition, on May 17, 2001, the Bank granted stock options to purchase 3,560,500 shares to 480 employees and directors including the president (second-awarded stock options) at the exercise price of ₩7,310 per share. The stock options with a

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graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock. Except for cancellation of options due to the retirement of employees during the contractual service period, 1,256,080 shares, which accounts for 40 percent of total stock options granted, have become exercisable, and 280,640 shares have been exercised and settled through issuance of treasury stock for the year ended December 31, 2003.

In addition, on March 22, 2002, the Bank granted stock options to purchase 1,366,000 shares to 51 employees and directors including the president (third-awarded stock options) at the exercise price of ₩12,580 per share. The stock options with a graded vesting schedule are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock.

In addition, on March 21, 2003, the Bank granted stock options to purchase 157,000 shares to 77 employees and directors (fourth-awarded stock options) at the exercise price of ₩7,270 per share. The stock options are exercisable during an eight-year period, after minimum two years from the grant date, beginning at an irrevocable date set by the board of directors. When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock, or through payment of the difference between the market price and the exercise price in cash or treasury stock.

When the selling of shares held by the majority shareholder is settled, the second-awarded stock options, third awarded stock options and fourth-awarded stock options, which were granted 2 years prior to the settlement date of selling of shares, may be immediately exercisable regardless of the conditional service period.

The Bank has changed the settlement method for stock options that are exercisable starting from 2004 from granting the treasury stock to the employee at exercise price to paying the difference between the market price and the exercise price in cash. Due to the change in settlement method, the Bank has recomputed the compensation expense for the stock options that become exercisable from December 31, 2003 according to intrinsic value, and the effect of the change has been applied prospectively. Due to such accounting change, the Bank has recognized additional expense of ₩2,604 million (US\$2,174 thousand) for the year ended December 31, 2003.

In respect to stock options, the Bank recorded expenses of ₩7,461 million (US\$6,229 thousand) and ₩4,580 million (US\$3,824 thousand) for the years ended December 31, 2003 and 2002, respectively.

15. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2003 and 2002 consisted of the following:

	2003		2002	
	U.S. Dollar equivalent (In millions)	KRW equivalent (In thousands)	U.S. Dollar equivalent (In millions)	KRW equivalent (In thousands)
Assets				
Foreign currencies	\$ 34,684	₩ 41,544	\$ 25,506	₩ 30,617
Due from banks in foreign currencies	81,349	97,440	65,539	78,673
Available-for-sale securities in foreign currencies	390,980	468,316	283,482	340,291
Held-to-maturity securities in foreign currencies	125,547	150,380	55,732	66,901
Loans in foreign currencies	1,159,748	1,389,147	915,471	1,098,931
Bills bought in foreign currencies	1,111,592	1,331,465	1,049,487	1,259,804
Domestic import usance	575,799	689,692	544,546	653,673
Call loans	424,000	507,867	163,168	195,867
Privately placed bonds	1,426	1,708	1,846	2,216
Other assets	601,157	720,066	433,681	520,591
	\$ 4,506,282	₩ 5,397,625	\$ 3,538,458	₩ 4,247,564
Liabilities				
Deposits in foreign currencies	\$ 789,258	₩ 945,373	\$ 486,260	₩ 583,706
Borrowings in foreign currencies	2,144,730	2,568,958	2,056,269	2,468,345
Due to BOK	3,186	3,816	12,774	15,334
Call money	-	-	5,287	6,347
Debentures in foreign currencies	542,686	650,029	374,934	450,071
Foreign exchange remittance pending	26,509	31,752	63,102	75,748
Other liabilities	591,303	708,263	682,904	819,758
	\$ 4,097,672	₩ 4,908,191	\$ 3,681,530	₩ 4,419,309

(*) Foreign currencies other than US dollars were translated into US dollars at the appropriate exchange rates at balance sheet dates.

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16. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Salaries	₩ 189,486	₩ 169,163	\$ 158,195	\$ 141,228
Provision for severance benefits	21,754	20,246	18,162	16,903
Other employee benefits	31,294	29,626	26,126	24,734
Rent	6,816	7,857	5,690	6,560
Entertainment	4,318	4,558	3,605	3,804
Depreciation	46,960	42,862	39,205	35,784
Amortization of intangible assets	4,587	1,159	3,830	968
Taxes and dues	41,922	48,686	34,999	40,646
Advertising	12,032	19,930	10,045	16,639
Others	80,412	66,539	67,133	55,551
	₩ 439,581	₩ 410,626	\$ 366,990	\$ 342,817

17. NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31, 2003 and 2002 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Non-operating income:				
Gain on disposal of tangible assets	₩ 65	₩ 5,672	\$ 54	\$ 4,735
Rent income	1,848	1,851	1,543	1,545
Gain on valuation using the equity method (Note 4)	2,849	7,150	2,379	5,969
Gain on disposal of available-for-sale securities	48,788	75,608	40,731	63,122
Recovery of available-for-sale securities impairment loss	5,200	22,352	4,341	18,661
Gain on valuation of investment equity in fund	-	765	-	639
Gain on sales of loans (Note 5)	31,813	31,438	26,560	26,246
Reverse of negative goodwill (Note 6)	2,361	-	1,971	-
Other	26,824	36,798	22,394	30,722
	₩ 119,748	₩ 181,634	\$ 99,973	\$ 151,639
Non-operating expenses:				
Loss on disposal of tangible assets	₩ 2,139	₩ 2,115	\$ 1,786	\$ 1,766
Loss on disposal of available-for-sale securities	5,507	24,430	4,598	20,396
Available-for-sale securities impairment loss	51,273	38,450	42,806	32,101
Loss on sales of loans	11	621	9	518
Other	10,046	3,803	8,387	3,174
	₩ 68,976	₩ 69,419	\$ 57,586	\$ 57,955

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18. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended December 31, 2003 and 2002 are summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Income before income tax	₩ 66,099	₩ 371,364	\$ 55,184	\$ 310,038
Taxable and non-deductible items				
Temporary difference	282,470	335,718	235,824	280,279
Permanent difference	26,114	29,422	21,801	24,563
	308,584	365,140	257,625	304,842
Deductible and non-taxable items				
Temporary difference	(306,454)	(488,822)	(255,847)	(408,100)
Permanent difference	(36,026)	(19,122)	(30,077)	(15,964)
	(342,480)	(507,944)	(285,924)	(424,064)
Tax loss carryforwards	-	(136,711)	-	(114,135)
Taxable income	₩ 32,203	₩ 91,849	\$ 26,885	\$ 76,681

(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets for the year ended December 31, 2003 were as follows:

	January 1, 2002 (*)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		Deduction	Addition	December 31, 2002	December 31, 2002
Allowance for possible losses of confirmed acceptances and guarantees	₩ 100	₩ 100	₩ 620	₩ 620	\$ 518
Accrued income	(151,867)	(21,140)	(41,596)	(172,323)	(143,866)
Restructuring of loans	4,104	4,104	1,264	1,264	1,055
Valuation of securities	151,510	177,216	153,363	127,657	106,576
Valuation loss on derivatives financial instruments	9,271	9,271	9,542	9,542	7,966
Valuation loss from debt-for-equity swap	85,192	16,657	17,566	86,101	71,883
Others	55,976	57,510	78,975	77,441	64,652
	154,286	243,718	219,734	130,302	108,784
Tax loss carryforwards	-	-	-	-	-
	154,286	₩ 243,718	₩ 219,734	130,302	108,784
Statutory tax rate	29.7%			29.7, 27.5%	29.7, 27.5%
Deferred income tax assets	₩ 45,823			₩ 35,589	\$ 29,712

(*) Adjusted based on the final tax return.

Temporary differences expected to be realized in 2004 were applied 29.70 percent and other temporary differences expected to be realized after 2005 were applied 27.5 percent for the computation of tax effect in accordance with the revised tax law.

The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets for the year ended December 31, 2002 were as follows:

	January 1, 2002 (*)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		Deduction	Addition	December 31, 2002	December 31, 2002
Allowance for possible loan losses	₩ 140,948	₩ 140,948	₩ -	₩ -	\$ -
Allowance for possible losses of confirmed acceptances and guarantees	20,923	20,923	100	100	83
Accrued income	(144,465)	(23,980)	(28,287)	(148,772)	(124,204)
Restructuring of loans	9,936	9,936	4,104	4,104	3,426
Valuation of securities	102,968	148,585	201,467	155,850	130,114
Valuation loss on derivatives financial instruments	19,061	19,061	9,271	9,271	7,740

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	January 1, 2002 (*)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		Deduction	Addition	December 31, 2002	December 31, 2002
Valuation loss from debt-for-equity swap	79,609	39,007	44,590	85,192	71,124
Others	86,330	82,075	52,206	56,461	47,137
	315,310	436,555	283,451	162,206	135,420
Tax loss carryforwards	136,711	136,711	-	-	-
	452,021	₩ 573,266	₩ 283,451	162,206	135,420
Statutory tax rate	29.7%			29.7%	29.7%
Deferred income tax assets	₩ 134,250			₩ 48,175	\$ 40,220

(*) Adjusted based on the final tax return.

(3) Income tax expense for the years ended December 31, 2003 and 2002 is summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Income tax currently payable	₩ 9,679	₩ 24,733	\$ 8,081	\$ 20,649
Changes in deferred tax assets				
Tax effect on cumulative temporary differences	10,234	45,674	8,544	38,131
Tax effect on tax loss carryforwards	-	40,603	-	33,898
Income tax expense	₩ 19,913	₩ 111,010	\$ 16,625	\$ 92,678

(4) The Bank is subject to corporate income tax at 15 percent of the first ₩100 million of taxable income and 27 percent of the excess. Added to this is a resident surtax of 10 percent of the corporate income tax due. Due to the differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law, the effective income tax rate is approximately 30.13 percent and 29.89 percent for the years ended December 31, 2003 and 2002, respectively.

19. EARNINGS PER SHARE:

(1) Ordinary income per share and net income per share

Ordinary income per share and net income per share were calculated for common stock by dividing ordinary income and net income available to common shareholders by the weighted average number of outstanding common stock.

Net income per share for common stock for the year ended December 31, 2003 was computed as follows (Korean Won in millions except per share amounts):

	Common stock
Net income (*)	45,796
Number of shares outstanding	191,518,672
Net income per share	₩ 239

(*) net income adjusted by deducting preferred stock dividends

Earnings per share in 2002 were calculated for common stock and for participating preferred stock by dividing net income available to common shareholders and participating preferred shareholders, respectively, by the weighted average number of outstanding common stock of 176,522,872 shares and outstanding participating preferred stock of 20,000,000 shares.

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Earnings per share for common stock and preferred stock for the year ended December 31, 2002 were computed as follows (Korean Won in millions except per share amounts):

	Common stock	Participating preferred stock	Ordinary preferred stock	Total
Dividends (Note 20)	₩ 68,444	₩ 7,500	₩ 780	₩ 76,724
Income available for additional dividends (*)	165,544	18,086	-	183,630
Net income	233,988	25,586	₩ 780	₩ 260,354
Number of shares outstanding	176,522,872	20,000,000		
Net income per share	₩ 1,326	₩ 1,279		

(*) Income available for additional dividends = Net income - Dividends
 Income available for additional dividends attributable to common stock
 = ₩183,630 million × 915,334 million ÷ (915,334 million + 100,000 million)
 = ₩165,544 million
 Income available for additional dividends attributable to participating preferred stock
 = ₩183,630 million × 100,000 million ÷ (915,334 million + 100,000 million)
 = ₩18,086 million

Since there is no extraordinary gain or loss for the years ended December 31, 2003 and 2002, ordinary income available to common stock and preferred stock are same with the net income available to common stock and preferred stock. Accordingly, ordinary income per share is the same with net income per share.

(2) Diluted ordinary income per share and diluted net income per share

Diluted net income (ordinary income) per share in 2003 represents diluted net income (ordinary income) divided by the number of common shares and diluted securities. Diluted net income (ordinary income) was computed by adding the interest expense, net of tax, of the convertible bonds to net income (ordinary income) to common stock. Convertible preferred stock, which has been converted in 2003, and convertible bonds were assumed to have been converted to common stock at the beginning of the year. Stock options were excluded from the computation of diluted earnings per share due to their anti-dilutive effects.

Diluted net income (ordinary income) per share for the year ended December 31, 2003 was computed as follows:

1) Number of diluted securities:

	Common stocks to be issued	Fraction of period	Weighted-average shares
Convertible bonds	68,434	365/365	68,434
Convertible preferred stock	20,000,000	181/365	9,917,808
			9,986,242

2) Diluted net income (ordinary income) (Unit: Won in millions):

	Amount
Income available to common stock	₩ 45,796
Income impact of assumed conversions: Interest on convertible bonds, net of tax	1
Diluted net income	₩ 45,797

3) Diluted net income (ordinary income) per share

= ₩45,797 million ÷ (191,518,672 shares + 9,986,242 shares) = ₩227

Diluted net income (ordinary income) per share in 2002 represents diluted net income (ordinary income) divided by the number of common shares and diluted securities. Diluted net income (ordinary income) was computed by adding net income to convertible preferred stock (dividends and income available for additional dividends attributable to participating preferred stock) and the interest expense, net of tax, of the convertible bonds to net income (ordinary income) to common stock. Convertible preferred stock and convertible bonds were assumed to be converted to common stock at the beginning of the year.

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Diluted net income (ordinary income) per share for the year ended December 31, 2002 was computed as follows:

1) Number of diluted securities:

	Common stocks to be issued	Fraction of period	Weighted- average shares
Convertible bonds	68,434	365/365	68,434
Convertible preferred stock	20,000,000	365/365	20,000,000
			20,068,434

2) Diluted net income (ordinary income) (Unit: Won in millions):

	Amount	
Income available to common stock	₩	233,988
Income impact of assumed conversions:		
Income available to preferred stock	₩	25,586
Interest on convertible bonds, net of tax		2
Diluted net income	₩	259,576

3) Diluted net income (ordinary income) per share

$$= \frac{₩259,576 \text{ million}}{(176,522,872 \text{ shares} + 20,068,434 \text{ shares})} = ₩1,320$$

(3) As of December 31, 2003, dilutive securities are summarized as follows (Unit: Won in millions, shares):

	Face value	Exercise period	Common stocks to be issued	Remark
Convertible bonds	₩ 1,212	1997. 9. 25 - 2007. 7. 26	68,434	
Stock option	-	2003. 3. 21 - 2006. 3. 20	157,780	See Note 14
Stock option	-	2003. 5. 18 - 2009. 5. 17	975,440	See Note 14

Stock options, which will be settled through payment of the difference between the market price and the exercise price in cash, were not considered as dilutive securities as the compensation costs are computed based on intrinsic value.

20. DIVIDENDS:

(1) Dividends per share in 2003 were ₩150 for common stock and ₩50 for ordinary preferred stock. Details of dividends were as follows:

Shares	No. of shares subject to receive dividend	Par value	Dividends rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				Dividends	Dividends	Dividends	Dividends
Common stock:	201,871,905	₩ 5,000	3.0	₩ 30,281	\$ 25,280		
Preferred stock:							
Ordinary	7,800,000	5,000	1.0	390	326		
	209,671,905			₩ 30,671	\$ 25,606		

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Dividends per share in 2002 were ₩375 for common stock and participating preferred stock, ₩50 for ordinary preferred stock. Details of dividends were as follows:

Shares	No. of shares subject to receive dividend	Par value	Dividends rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				₩		\$	
Common stock (*):	182,516,765	₩ 5,000	7.5	₩ 68,444		\$ 57,142	
Preferred stock:							
Participating	20,000,000	₩ 5,000	7.5	₩ 7,500		\$ 6,261	
Ordinary	15,600,000	₩ 5,000	1.0	₩ 780		\$ 651	
	218,116,765			₩ 76,724		\$ 64,054	

(*) includes 100,000 shares of treasury stock, which has been acquired after date of record.

(2) Propensity to dividend and dividend yield ratio in 2003 and 2002 were as follows:

Classification	Computation	2003	2002	Remarks
Propensity to dividend	Dividend amount / Net income	66.41%	29.47%	
Dividend yield ratio (*)	Dividend per share / Stock price (Closing price at balance sheet date)	1.07%	5.07%	Common stock
			5.21%	Participating preferred stock

(*) Yield of ordinary preferred stock that has no closing price available is not calculated.

21. CONTINGENCIES AND COMMITMENTS:

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

(1) Unconfirmed acceptances and guarantees as of December 31, 2003 and 2002 were ₩751,531 million (US\$627,426 thousand) and ₩515,605 million (US\$430,460 thousand), respectively.

(2) As of December 31, 2003, the Bank has ₩4,417 million (US\$3,688 thousand) of endorsed notes for sales, which had been purchased on discount.

(3) The Bank and its subsidiaries manages written-off loans whose time period for legal claim has not elapsed amounting to ₩1,454,542 million (US\$1,214,345 thousand) as of December 31, 2003.

(4) The Bank and its subsidiaries sold its non-performing loans of ₩306,062 million (US\$255,520 thousand) in 3 different batches to Korea Asset Management Corporation since December 1997. As of December 31, 2003, the amount of these unsettled non-performing loans is ₩32,184 million (US\$26,869 thousand).

(5) As of December 31, 2003, the Bank has receivables of unsettled spot foreign currency transactions of ₩963,385 million (US\$804,295 thousand) and payables of ₩963,232 million (US\$804,168 thousand).

(6) The Export-Import Bank of Korea (EIBK) filed a lawsuit against the Bank, demanding the issuance of the certification of payment guarantee amounting to US\$60 million in connection with the loans previously provided by EIBK to former Daewoo Corporation, or demanding the confirmation of existence of guarantee liabilities thereon. The local court ruled in the first trial on March 12, 2003 that the Bank would issue the guarantee letter, but rejected the demand of the confirmation of existence of guarantee liabilities. The Bank appealed to the High Court of Justice to reject for demanding the issuance of the certification of payment guarantee and the High Court has not yet rendered its judgment. The Bank intends to vigorously contest this lawsuit. The management of the Bank is unable to predict the ultimate outcome of this case, and based on the advice of legal counsel, the Bank cannot reasonably estimate the amount or range of possible loss relating to this case.

In addition, there are pending legal actions instituted by the Bank in the normal course of business such as claims for auction concerning compensation of loans. The outcome of these lawsuits cannot presently be determined.

As of December 31, 2003, the Bank has been engaged to provide credit line commitment with the limit of ₩1,588,701 million (US\$1,326,349 thousand), for the support of payments for bonds issued by New Millennium Special Purpose

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Company and others. As of December 31, 2003, ₩51,235 million (US\$42,774 thousand) had been used. In addition, as of December 31, 2003, the Bank has provided credit line commitment with the limit of ₩17,967 million (US\$15,000 thousand) in connection with the payment of loans in foreign currencies. In addition, the Bank has provided credit line commitment with the limit of ₩80,000 million (US\$66,789 thousand), for the support of payments for bonds issued by the 30th Credipia Special Purpose Company of which underlying assets are credit card receivables of LG Card Co., Ltd.

(7) As of December 31, 2003, Hanmi Capital Co., Ltd., a subsidiary of the Bank has provided 3 promissory notes to creditors as collateral for loan agreements.

(8) Derivative instruments as of December 31, 2003 were as follows (Unit: Won in millions):

				<i>Outstanding contract amount</i>			
Type	Trading		Hedging		Total		
Currency:							
Currency forwards (*)	₩	12,587,370	₩	-	₩	12,587,370	
Currency futures (*)		72,227		-		72,227	
Currency swaps (*)		1,928,211		31,090		1,959,301	
Currency options purchased		4,797,936		-		4,797,936	
Currency options sold		6,064,838		-		6,064,838	
		25,450,582		31,090		25,481,672	
Interest rate:							
Interest rate swaps (*)		7,915,760		1,081,993		8,997,753	
Interest rate futures		102,942		-		102,942	
Interest rate options		10,000		-		10,000	
		8,028,702		1,081,993		9,110,695	
Stock:							
Stock index futures		9,939		-		9,939	
Stock index options		2,096,604		-		2,096,604	
		2,106,543		-		2,106,543	
	₩	35,585,827	₩	1,113,083	₩	36,698,910	
				<i>Gain (loss) on valuation (P/L)</i>		<i>Gain (loss) on valuation (B/S)</i>	
Type	Trading		Hedging		Total		
Currency:							
Currency forwards (*)	₩	115,323	₩	-	₩	115,323	
		(131,910)		-		(131,910)	
Currency swaps (*)		19,460		3,544		23,004	
		(17,668)		(1,006)		(18,674)	
Currency options purchased		63,368		-		63,368	
Currency options sold		-		-		-	
		(40,486)		-		(40,486)	
		198,151		3,544		201,695	
		(190,064)		(1,006)		(191,070)	
Interest rate:							
Interest rate swaps (*)(*1)		24,453		4,866		29,319	
		(33,349)		(14,828)		(48,177)	
Interest rate options		55		-		55	
		-		-		-	
		24,508		4,866		29,374	
		(33,349)		(14,828)		(48,177)	
Stock:							
Stock index options		113,722		-		113,722	
		(109,634)		-		(109,634)	
	₩	336,381	₩	8,410	₩	344,791	
		(333,047)		(15,834)		(348,881)	

(*1) Includes unrealized derivative gain or loss of cash flow hedges ₩931 million (US\$777 thousand) recorded in capital adjustments.

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Derivative instruments as of December 31, 2002 were as follows (Unit: Won in millions):

Type	Outstanding contract amount		
	Trading	Hedging	Total
Currency:			
Currency forwards (*)	₩ 6,584,886	₩ -	₩ 6,584,886
Currency futures (*)	420	-	420
Currency swaps (*)	1,551,068	16,715	1,567,783
Currency options purchased	1,115,772	-	1,115,772
Currency options sold	1,406,925	-	1,406,925
	10,659,071	16,715	10,675,786
Interest rate:			
Interest rate swaps (*)	5,564,636	482,237	6,046,873
Interest rate futures	224,985	19,601	244,586
Interest rate options	10,000	-	10,000
	5,799,621	501,838	6,301,459
Stock:			
Stock index futures	9,302	-	9,302
Stock index options	94,782	-	94,782
	104,084	-	104,084
	₩ 16,562,776	₩ 518,553	₩ 17,081,329

Type	Gain (loss) on valuation (P/L)			Gain (loss) on valuation (B/S)	
	Trading	Hedging	Total		
Currency:					
Currency forwards (*)	₩ 69,191	₩ -	₩ 69,191	₩ 69,191	₩ 67,940
	(92,811)	-	(92,811)	(92,811)	(85,223)
Currency swaps (*)	66,446	4,667	71,113	71,113	62,119
	(78,442)	-	(78,442)	(78,442)	(69,912)
Currency options purchased	30,190	-	30,190	30,190	40,969
	-	-	-	-	-
Currency options sold	-	-	-	-	-
	(20,937)	-	(20,937)	(20,937)	(36,112)
	165,827	4,667	170,494	170,494	171,028
	(192,190)	-	(192,190)	(192,190)	(191,247)
Interest rate:					
Interest rate swaps (*)(*1)	88,096	12,558	100,654	100,654	99,408
	(86,145)	(7,846)	(93,991)	(93,991)	(95,577)
Interest rate options	-	-	-	-	-
	(90)	-	(90)	(90)	(157)
	88,096	12,558	100,654	100,654	99,408
	(86,235)	(7,846)	(94,081)	(94,081)	(95,734)
Stock:					
Stock index options	2,273	-	2,273	2,273	905
	(2,197)	-	(2,197)	(2,197)	(2,354)
	₩ 256,196	₩ 17,225	₩ 273,421	₩ 273,421	₩ 271,341
	(280,622)	(7,846)	(288,468)	(288,468)	(289,335)

(*) For transaction between Korean Won and foreign currencies, unsettled amount of transaction is presented using transaction basic foreign exchange rate based on the contract amount in foreign currencies. For transaction between foreign currencies and foreign currencies, unsettled amount is presented using transaction basic foreign exchange rate based on foreign currencies purchased.

(*1) Includes unrealized derivative gain or loss of cash flow hedges ₩ 1,912 million (US\$1,596 thousand) recorded in capital adjustments.

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Outstanding contract amount and gain or loss on valuation for hedging purpose in the table included or resulted from both derivative instruments accounted for as hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70. Hedged items, to which fair value hedge accounting was applied, consisted of available-for-sale securities in foreign currencies, debentures in local currency and debentures in foreign currencies and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair value of hedged items resulting from interest rate changes. As a result of the valuation of hedged items accounted for as fair value hedges, gain on valuation of ₩2,552 million (US\$2,131 thousand) on available-for-sale securities, and loss on valuation of ₩3,951 million (US\$3,299 thousand) on available-for-sale securities and gain on valuation of ₩12,005 million (US\$10,023 thousand) on debentures and loss on valuation of ₩1,099 million (US\$918 thousand) on debentures were reflected in current operations, and opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for as fair value hedge accounting were reflected in assets or liabilities

22. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant transactions with related parties of the Bank in 2003 and 2002, which were eliminated in the consolidation, were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Revenue of the Bank:				
Interest income on loans to trust accounts	₩ 185	₩ -	\$ 154	\$ -
Trust fees and commissions from trust accounts	8,190	20,600	6,838	17,198
Gain on derivatives instruments	855	-	714	-
Others	3	-	2	-
	₩ 9,233	₩ 20,600	\$ 7,708	\$ 17,198
Expenses of the Bank:				
Interest expense on borrowings from trust accounts	₩ 561	₩ 1,557	\$ 469	\$ 1,300
Loss from derivatives instruments	489	-	408	-
Interest on deposits	278	-	232	-
Others	78	-	65	-
	₩ 1,406	₩ 1,557	\$ 1,174	\$ 1,300

(2) Significant balances of the Bank with related parties as of December 31, 2003 and 2002, which were eliminated in the consolidation, were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Assets:				
Available-for-sale securities (*)	₩ 4,415	₩ -	\$ 3,686	\$ -
Liabilities:				
Borrowings from trust accounts	₩ 40,517	₩ 54,055	\$ 33,826	\$ 45,129
Deposits	14,291	-	11,931	-
Others	314	-	262	-
	₩ 55,122	₩ 54,055	\$ 46,019	\$ 45,129

(*) Due to the cancellation of available-for-sale securities impairment loss, actual offset amounted to ₩11,325 million (US\$9,455 thousand).

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(3) Significant transactions with related parties accounted for using the equity method as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Revenues:				
Hanmi Technology Investment	₩ 494	₩ 6	\$ 412	\$ 5
Hanmi Capital	-	15	-	13
	₩ 494	₩ 21	\$ 412	\$ 18
Expenses:				
Hanmi Technology Investment	₩ 234	₩ 181	\$ 195	\$ 151
Hanmi Capital	-	612	-	511
	₩ 234	₩ 793	\$ 195	\$ 662

(4) Significant balances with related parties accounted for using the equity method as of December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Assets:				
Hanmi Technology Investment	₩ 9	₩ -	\$ 8	\$ -
Hanmi Capital	-	9,090	-	7,589
	₩ 9	₩ 9,090	\$ 8	\$ 7,589
Liabilities:				
Hanmi Technology Investment	₩ 1,513	₩ 4,329	\$ 1,263	\$ 3,614
Hanmi Capital	-	7,156	-	5,974
SK Investment Trust Management Co.	85	43	71	36
	₩ 1,598	₩ 11,528	\$ 1,334	\$ 9,624

23. SUBSEQUENT EVENTS:

Certain credit card companies in Republic of Korea are facing shortage of funds due to delinquency in credit card receivables. LG Card Co., Ltd., one of the credit card companies, had received liquidity support of ₩2,000 billion (US\$1,670 million) on November 24, 2003 due to serious insolvency problem, and the Creditor Financial Institution Committee of LG Card Co., Ltd. has agreed to provide additional liquidity support of ₩1,600 billion (US\$1,336 million) and convert debts of ₩2,000 billion (US\$1,670 million) to equity interests in January 2004.

As of December 31, the Bank does not hold either loans or securities of LG Card Co., Ltd. in the bank account; however, the trust account holds commercial papers and public offered bonds of ₩127,516 million (US\$106,459 thousand) issued by LG Card Co., Ltd. including Specified Monetary Trust of ₩107,517 million (US\$89,762 thousand). The Board of Directors of the Bank has assented to participate in new liquidity support of ₩33.4 billion (US\$28 million) according to the creditors joint management program of LG Card Co., Ltd. Pursuant to such arrangement, the Bank has provided funds of ₩10 billion (US\$8 million) and ₩13.4 billion (US\$11 million) on February 6 and 11, 2004, respectively. The collectibility of these loans may be affected by the progress of normalization of the business of LG Card Co., Ltd. under the joint management of creditors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

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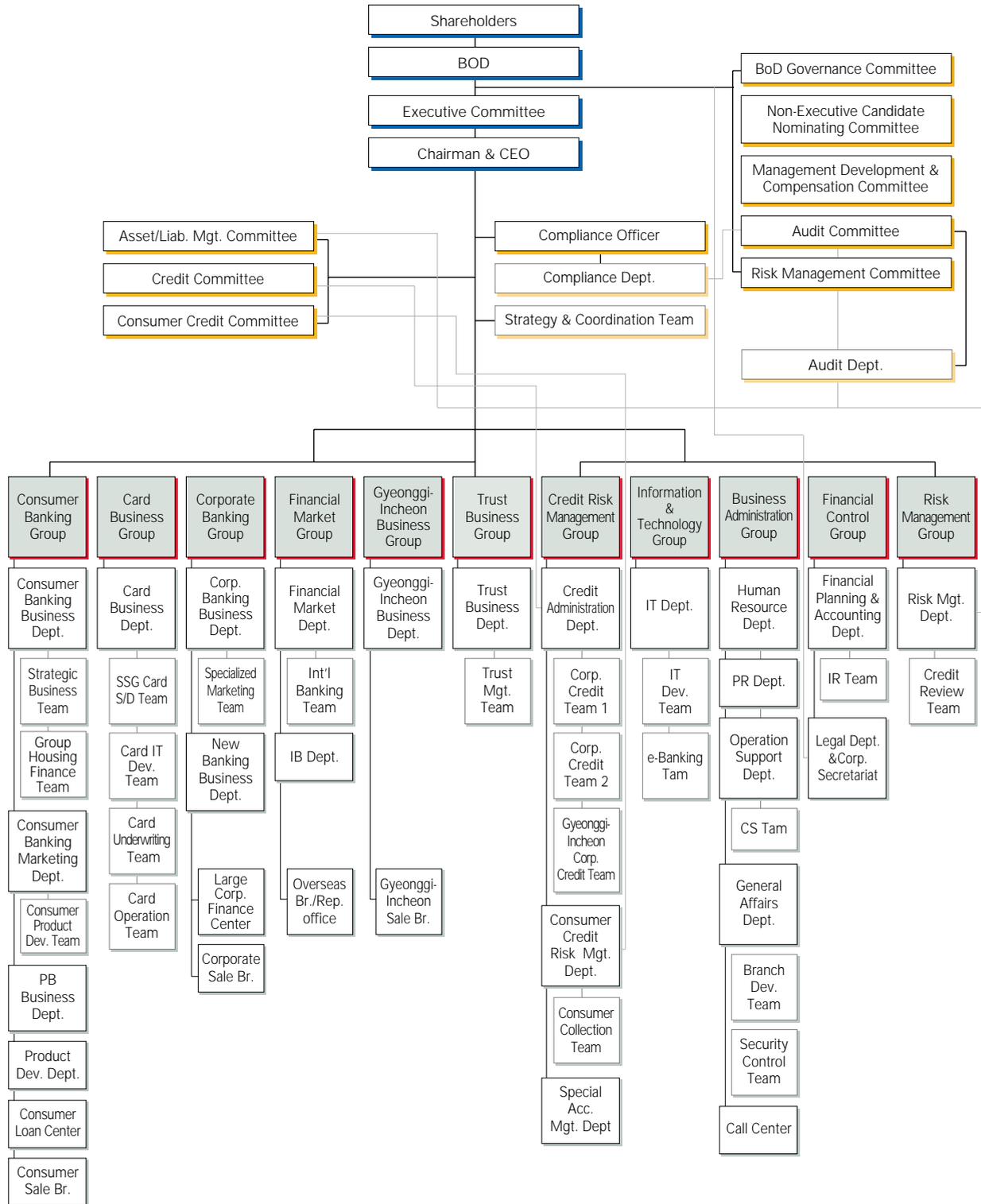
24. STATEMENTS OF CASH FLOWS:

(1) Cash flows from operating activities are presented by the indirect method.

(2) Significant transactions not involving cash inflows and outflows for the years ended December 31, 2003 and 2002 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2003	2002	2003	2002
Write-offs of loans	₩ 285,155	₩ 345,601	\$ 238,066	\$ 288,530
Debt to equity swap	84,878	127,258	70,862	106,243
Write-off of loan loss reserve resulting from the debt to equity swap	32,421	49,048	27,067	40,948
Increase in borrowings from trust accounts due to debt to equity swap in trust accounts	-	20,533	-	17,142
Changes in capital adjustments due to valuation of investment securities	2,402	40,487	2,005	33,801
Changes in capital adjustments due to valuation of derivatives instruments	981	1,912	819	1,596
Increase of dividends payable	76,724	16,560	64,054	13,825
Reduction of preferred stock through retirement of treasury stock	39,000	78,000	32,560	65,119
Increase in common stock due to conversion of preferred stock	100,000	-	83,486	-
Transfer of stock option cost (capital adjustment) to accrued expenses	3,515	-	2,935	-
Transfer of securities to loans (loans to be converted to equity securities)	6,078	-	5,074	-

Organization Chart (as of Jan. 7, 2004)



Executive Committee Members & Standing Auditor

Yung-Ku Ha
Chairman & CEO



Myung-Sup Lee
Director & Executive Vice President
Credit Risk Management Group
Human Resources Team



Sung-Hee Lee
Director & Standing Audit Committee Member
Audit Team



Yong-Soo Ahn
Executive Vice President
Corporate Banking Group



Soo-Hwa Lee
Executive Vice President
Gyeonggi-Incheon Business Group

Corporate Data (As of December 31, 2003)

Head Office

Address: #39, Da-dong, Joong-gu, Seoul,
Korea 100-180
Tel : 82-2-3455-2114/Fax:82-2-3455-2966
TLX : K27814KORAMBK
SWIFT:KOAMKRSE
Reuter Dealing Code : KRBH
Homepage : <http://www.goodbank.com>

Date of Establishment

March 16, 1983

Network

Domestic : 222 Branches
Overseas : 2 Branches,
1 Representative Offices

Number of Employees

3,007

Paid-in Capital

₩1,054.3 billion

Number of Shares Outstanding

203,066,765

Major Shareholders

Carlyle & J.P. Morgan Consortium : 36.55%
Standard Chartered Bank : 9.76%



Jin-Hei Park

Director & Executive Vice President
Financial Control Group &
Financial Market Group



In-Ho Rhi

Executive Vice President
Risk Management Group
Business Administration Group



Shin-Won Kang

Executive Vice President
Retail Banking Group



Hark Bae

Executive Vice President
Trust Business Group
Information & Technology Group



Kyung-Hong Kim

Executive Vice President
Card Business Group

Affiliates

Hanmi Capital Co., Ltd.

1038-1, Ingye-dong, Paldal-gu, Suwon City,
Gyeonggi-do, Korea
Tel: 82-2-3475-3600, Fax: 82-2-3475-3799

Hanmi Technology Investment Co., Ltd.

837-12, Yeoksam-dong, Gangnam-gu, Seoul, Korea
Tel: 82-2-6446-7114, Fax: 82-2-6446-7199

SK Investment Trust Management Co., Ltd.

23-10, Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea
Tel: 82-2-767-9900, Fax: 82-2-783-6882



International Directory

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Head Office

Correspondent Banking

Tel: 82-2-3455-2530, Fax: 82-2-3455-2966
Dong-Hoon, Song (Head of International Banking Team)

Foreign Exchange Operation

Tel: 82-2-3455-2580, Fax: 82-2-3455-2957
Hong-Uk, Paik (Head of Operation Support Team)

OVERSEAS NETWORK

Hong Kong Branch

Suite 1002-3, 10th Floor, Two Exchange Square, 8 Connaught Place,
Central, Hong Kong
Tel: 85-2-2801-5000, Fax: 85-2-2522-4826
TLX: 70628, SWIFT/BIC: KOAMHKHH
Branch Manager: Hae-Ryong, Huh

London Branch

2nd Floor, 30-40 Eastcheap, London, EC3M 1HD, U.K.
Tel: 44-20-7283-0833, Fax: 44-20-7626-8828
TLX: 922678, SWIFT/BIC: KOAMGB2L
Branch Manager: Jong-Bum, Lee

New York Representative Office

Suite 7D, 140 West 57th St., New York, NY 10019, U.S.A.
Tel: 1-212-397-3228, Fax: 1-212-397-6342
Chief Representative: Jong-Tae, Kim