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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

OR

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

Commission file number 001-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one share of Common Stock	**New York Stock Exchange Inc.**
Common Stock, par value (Won)5,000 per share	**New York Stock Exchange Inc.***

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

None

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

None

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

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

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

x Yes ¨ No

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

¨ Item 17 x Item 18

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

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

¨ Yes ¨ No

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

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

In this annual report:

- references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger with H&CB, the former Kookmin Bank;
- references to Korea are to the Republic of Korea;
- references to the government are to the government of the Republic of Korea;
- references to Won or (Won) are to the currency of Korea; and
- references to U.S. dollars, $ or US$ are to United States dollars.

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

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

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FORWARD-LOOKING STATEMENTS

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

Words and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, future, goal, intend, predict, positioned, project, risk, seek to, shall, should, will, will likely result, will pursue, plan and words and terms of sin connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 4B. Business Overview regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

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

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- our exposure to market risks; and

- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on our income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

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

- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- foreign exchange rates;

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- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and internationally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see the discussion under Item 3D. Risk Factors contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this annual report.

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

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Item 3. KEY INFORMATION

Item 3A. ***Selected Financial Data***

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

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

Consolidated income statement data

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

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

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.

(3) For the purpose of calculating earnings per share, all historical per share and share amounts have been restated to reflect (a) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB, and (b) a 6% stock dividend approved on March 22, 2002.

(4) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors and employees. In prior periods, we had two additional categories of potentially dilutive common shares, which were shares issuable on conversion of convertible debentures and shares issuable on conversion of preferred shares.

(5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

(6) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to stockholders who were registered in our stockholder registry on December 31, 2001. No stock dividends were declared for the fiscal years ended December 31, 2000, 2002, 2003 or 2004.

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Consolidated balance sheet data

	Year ended December 31,					
	2000	2001 (1)	2002	2003	2004	2004 (2)
			(in billions of Won)			(in millions of US$)
Assets						
Cash and cash equivalents	(Won) 1,701	(Won) 3,041	(Won) 3,328	(Won) 3,170	(Won) 2,818	$ 2,722
Restricted cash	1,540	4,373	1,580	2,770	1,822	1,760
Interest-bearing deposits in other banks	1,587	592	564	563	597	577
Call loans and securities purchased under resale agreements	2,491	2,012	229	3,959	2,993	2,892
Trading assets	3,104	6,874	6,368	3,517	6,096	5,889
Investments (3)	17,702	26,231	24,223	22,427	23,095	22,312
Loans (net of allowance for loan losses of (Won)2,394 billion in 2000, (Won)3,508 billion in 2001, (Won)5,195 billion in 2002 and (Won)5,772 billion in 2003, (Won)4,461 billion in 2004)	57,041	117,452	140,756	140,213	133,794	129,257
Due from customers on acceptances	1,916	1,887	881	605	743	718
Premises and equipment, net	1,126	1,846	2,121	1,909	1,637	1,581
Accrued interest and dividends receivable	1,107	1,160	1,116	995	871	841
Security deposits	690	1,244	1,337	1,331	1,285	1,242
Goodwill	176	162	162	395	422	408
Other intangible assets	406	581	469	423	308	297
Other assets	204	697	965	1,702	1,055	1,020
Total assets	(Won) 90,791	(Won) 168,152	(Won) 184,099	(Won) 183,979	(Won) 177,536	(Won) 171,516
Liabilities and Stockholders Equity						
Deposits:						
Interest bearing	(Won) 54,201	(Won) 110,895	(Won) 118,654	(Won) 128,144	(Won) 123,203	$ 119,026
Non-interest bearing	1,982	4,141	3,745	3,460	3,017	2,915
Call money	581	2,701	306	225	652	630
Trading liabilities	718	287	625	762	2,297	2,219
Acceptances outstanding	1,916	1,887	881	605	743	718
Other borrowed funds	6,369	10,812	15,856	12,895	9,514	9,192
Accrued interest payable	2,311	4,617	4,463	3,938	3,495	3,376
Secured borrowings	1,468	5,501	7,864	8,207	6,121	5,913
Long-term debt	14,797	16,626	20,165	16,607	17,899	17,292
Other liabilities	2,482	2,742	2,634	2,552	2,900	2,800
Total liabilities	(Won) 86,825	(Won) 160,209	(Won) 175,193	(Won) 177,395	(Won) 169,841	$ 164,081
Minority interest	221	308	71	16	13	13
Common stock	1,498	1,588	1,641	1,682	1,682	1,625
Additional paid-in capital	1,242	4,960	5,146	5,393	5,400	5,217
Other	1,005	1,087	2,048	(507)	600	580

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

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US$1.00, the noon buying rate in effect on December 31, 2004 as quoted by the Federal Reserve Bank of New York in the United States.

(3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

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Profitability ratios and other data

	Year ended December 31,				
	(percentages)				
	2000	2001	2002	2003	2004
Net income as a percentage of:					
Average total assets (1)	1.15%	0.92%	0.71%	(0.49)%	0.56%
Average stockholders equity (1)	29.42	20.59	13.50	(7.17)	13.36
Dividend payout ratio (2)	1.61	15.06	1.80		16.33
Net interest spread (3)	3.17	3.17	3.71	3.68	3.62
Net interest margin (4)	3.68	3.57	4.02	4.01	3.84
Efficiency ratio (5)	44.80	44.06	44.70	43.17	43.00
Cost-to-average assets ratio (6)	2.01	2.17	2.49	2.28	2.19
Won loans (gross) as a percentage of Won deposits	101.53	104.25	115.68	108.30	108.00
Total loans (gross) as a percentage of total deposits	105.72	105.09	119.14	110.83	109.43

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

Capital ratios

	As of December 31,				
	(percentages)				
	2000	2001	2002(1)	2003(1)	2004(1)
Total capital adequacy ratio (2)	11.18%	10.23%	10.41%	9.81%	11.01%
Tier I capital adequacy ratio (2)	6.82	7.09	6.62	6.03	6.67
Tier II capital adequacy ratio (2)	4.36	3.18	3.79	3.78	4.34
Average stockholders equity as a percentage of average total assets	3.92	4.45	5.26	6.83	4.20

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

Credit portfolio ratios and other data

	As of December 31,				
	(in billions of Won, except percentages)				
	2000	2001	2002	2003	2004
Total loans	(Won) 59,397	(Won) 120,894	(Won) 145,832	(Won) 145,858	(Won) 138,124
Total non-performing loans (1)	1,762	3,376	3,912	4,116	3,175
Other impaired loans not included in non-performing loans	4,145	3,513	2,680	3,072	2,034
Total of non-performing loans and other impaired loans	5,907	6,889	6,592	7,188	5,209
Total allowance for loan losses	2,394	3,508	5,195	5,772	4,461
Non-performing loans as a percentage of total loans	2.97%	2.79%	2.68%	2.82%	2.30%
Non-performing loans as a percentage of total assets	1.94	2.01	2.13	2.24	1.79
Total of non-performing loans and other impaired loans as a percentage of total loans	9.94	5.70	4.52	4.93	3.77
Allowance for loan losses as a percentage of total loans	4.03	2.90	3.56	3.96	3.23

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

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Selected Statistical Information

Average Balance Sheets and Related Interest

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

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

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

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	Year ended December 31,								
	2002 (1)			2003			2004		
	Average balance (2)	Interest expense	Average cost	Average balance (2)	Interest expense	Average cost	Average balance (2)	Interest expense	Average cost
	(in billions of Won, except percentages)								
Liabilities									
Deposits:									
Demand deposits	(Won) 598	(Won) 4	0.67%	(Won) 667	(Won) 2	0.30%	(Won) 620	(Won) 1	0.16%
Certificates of deposit	2,120	102	4.81	4,068	181	4.45	6,107	248	4.06
Other time deposits	66,454	3,260	4.91	67,733	2,964	4.38	68,230	2,716	3.98
Savings deposits	35,206	413	1.17	38,368	348	0.91	39,042	309	0.79
Mutual installment deposits	12,235	764	6.24	11,946	642	5.37	12,105	560	4.63
Deposits (total)	116,613	4,543	3.90	122,782	4,137	3.37	126,104	3,834	3.04
Call money	1,803	71	3.94	1,802	65	3.61	1,267	42	3.31
Borrowings from the Bank of Korea	1,337	33	2.47	1,020	25	2.45	911	22	2.41
Other short-term borrowings	9,077	488	5.38	13,250	573	4.32	8,150	310	3.80
Secured borrowings	5,888	325	5.52	8,150	476	5.84	7,400	366	4.95
Long-term debt	20,260	1,274	6.29	19,678	1,186	6.03	16,749	942	5.62
Total average interest bearing liabilities	154,978	6,734	4.35	166,682	6,462	3.88	160,581	5,516	3.44
Demand deposits	2,934			2,961			2,832		
Foreign exchange spot contracts and derivatives	752			2,384			4,840		
Acceptances to customers	536			883			652		
Liabilities of discontinued operations	795								
Other non-interest bearing liabilities	7,110			7,161			7,472		
Total average non-interest bearing liabilities	12,127			13,389			15,796		
Total average liabilities	167,105	6,734	4.03	180,071	6,462	3.59	176,377	5,516	3.13
Stockholders equity	9,272			13,204			7,725		

Total liabilities and stockholders equity	(Won) 176,377	(Won) 6,734	3.82%	(Won) 193,275	(Won) 6,462	3.34%	(Won) 184,102	(Won) 5,516	3.00%

(1) Average balances and interest income and expenses for all periods have been restated to exclude the assets, liabilities and results of disposed subsidiaries that qualify for discontinued operations. See Note 4 to our consolidated financial statements.

(2) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.

(3) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.

(4) We do not invest in any tax-exempt securities.

(5) Interest income from credit cards includes principally cash advance fees of (Won)1,719 billion, (Won)1,517 billion and (Won)1,148 billion and interest on credit card loans of (Won)830 billion, (Won)591 billion and (Won)430 billion for the years ended December 31, 2002, 2003 and 2004, respectively.

(6) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders equity.

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

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

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

Analysis of Changes in Net Interest Income Volume and Rate Analysis

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

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

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

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Exchange Rates

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

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

Source: Federal Reserve Bank of New York.

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

Item 3B. ***Capitalization and Indebtedness***

Not Applicable

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

Not Applicable

Item 3D. ***Risk Factors***

Risks relating to our retail credit portfolio

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

In recent years, consumer debt has increased rapidly in Korea. This has also resulted in increased delinquencies. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, and the aggregate outstanding balance of our credit card accounts (particularly cash advances and credit card loans) have grown from (Won)16,219 billion and (Won)8,321 billion, respectively, as of December 31, 2000 to (Won)83,928 billion and (Won)9,421 billion, respectively, as of December 31, 2004, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2004, our retail loans and credit card accounts represented 60.8% and 6.8% of our total lending, respectively. Within our retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans is often unsecured and therefore tends to carry a higher credit risk, has increased from (Won)8,151 billion, or 33.2% of our total outstanding retail loans, as of December 31, 2000 to (Won)25,963 billion, or 27.8% of our total outstanding retail loans, as of December 31, 2004. The growth of our retail lending and credit card businesses offered higher margins than other lending activities and contributed significantly to the increase in our interest income and our profitability. However, in 2003 and 2004, we were generally unable to sustain this growth due to increasing delinquencies, market saturation, competition and government regulation in the retail and credit card segments and other factors, and we may not be able to achieve such growth in the future, which may hurt our future performance and prospects. In particular, the outstanding balance of our credit card accounts decreased significantly in 2003 and 2004 after reaching (Won)22,643 billion as of December 31, 2002.

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to our strategy

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

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

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

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

Risks relating to competition

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

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

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

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

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

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

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

Risks relating to our large corporate loan portfolio

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

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

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

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

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

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

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

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

	As of December 31, 2004				
	Outstanding exposure (1)	% of Total exposure	% of Exposure classified as impaired loans	Allowance for loan losses, guarantees and acceptances	Allowance for loan losses, guarantees and acceptances as a % of exposure
	(in billions of Won, except percentages)				
Former Hyundai Group (Total) (2)	(Won) 1,331	0.79%	2.10%	(Won) 20	1.50%
Hyundai Group (3)	102	0.06		1	0.98
Hyundai Engineering and Construction	80	0.05	36.25	2	2.50
Hyundai Heavy Industries	394	0.23		8	2.03
Former Daewoo Group (Total) (4)	337	0.20	20.47	9	2.67
Daewoo International	23	0.01			
Daewoo Electronics	23	0.01	69.57	1	4.35
Ssangyong Motors	98	0.06	54.08	6	6.12
Ssangyong Group (Total)	55	0.03	89.09	6	10.91
Ssangyong Cement Industrial	55	0.03	89.09	6	10.91
LG Group (Total) (5)	647	0.39	36.79	14	2.16
LG Card (6)	416	0.25	57.21	12	2.88

(1) Includes loans, debt and equity securities (including collateralized bond obligations) and guarantees and acceptances.
(2) Includes amounts from the former Hyundai Group, including Hyundai Engineering and Construction and Hyundai Heavy Industry.
(3) Recognized as the successor to the former Hyundai Group, which includes Hyundai Corporation and Hyundai Merchant Marine. Substantially all of the outstanding exposure of Hyundai Merchant Marine relates to ship financing to a special purpose company guaranteed by Hyundai Heavy Industries.
(4) Includes our exposures to former Daewoo Group companies.
(5) Includes LG Electronics, LG International, LG Card and LG Chem.
(6) LG Card was disaffiliated from the LG Group in 2004.

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

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

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

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

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

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

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

Other risks relating to our business

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

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to liquidity and capital management

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to government regulation and policy

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

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

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

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

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

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

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

- building more residential apartments and houses;
- enforcing more stringent supervision of property speculation; and
- increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

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

- raised the residential property tax applicable to residential properties in cases where such property represents the third or more residential property owned by a single individual;
- placed a ceiling on the sale price of newly constructed residential properties and, under certain circumstances, required developers to disclose the costs incurred in connection with the construction of such properties; and
- amended the Urban and Residential Environment Improvement Act to require that at least 25% of any increased floor space resulting from the redevelopment of existing residential properties be devoted to the construction of rental residential properties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to Korea

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

Relations between Korea and North Korea have been tense over most of Korea s history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. A third round

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

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

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

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

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

- financial problems relating to *chaebols,* or their suppliers, and their potential adverse impact on Korea s financial sector;
- failure of restructuring of large troubled companies, including LG Card and other troubled credit card companies and financial institutions;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including continued weakness of the U.S. dollar or a depreciation of the Chinese renminbi or Japanese yen), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries such as the United States, China and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;

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

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

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

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

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

Labor unrest in Korea may adversely affect our operations.

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

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

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

Risks relating to our common stock and ADSs

Ownership of our common stock is restricted under Korean law.

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

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

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

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

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

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

(1) the aggregate number of common shares we have deposited or we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

(2) the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless

(A) our consent with respect to such deposit has been obtained; or

(B) such consent is no longer required under Korean laws and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Risks

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

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

Item 4. INFORMATION ON THE COMPANY

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

History of the Former Kookmin Bank

The former Kookmin Bank was established by the Korean government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small- and medium-sized enterprises. See Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking for an exact definition of small- and medium-sized enterprises. In September 1994, we completed our initial public offering in Korea and listed our shares on the Stock Market Division of the Korea Exchange. In December 2003, the Korean government sold all of our common stock it held through an auction process, as a result of which we were the winning bidder. We subsequently sold all of these shares in an over-the-counter transaction in June 2005.

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

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

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

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

History of H&CB

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

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

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to acquire 9,914,777 new common shares of H&CB representing 9.99999% of H&CB s outstanding common shares. As of December 31, 2004, ING Groep N.V. beneficially owned 4.06% of our outstanding common stock.

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

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

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

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

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

The Merger of the Former Kookmin Bank and H&CB

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

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

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

The Merger with Kookmin Credit Card

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

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

The goals of this merger were to:

- alleviate the difficulties that Kookmin Credit Card was experiencing with respect to its liquidity and capital adequacy;
- maximize management efficiency and further enhance our credit card business;
- assist us in developing a leading credit card business in Korea;
- enable us to effectively cross-sell our financial products by integrating our database; and
- develop and launch products and services that integrated our credit card and banking businesses.

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

Business

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

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

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

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

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

(2) Includes (Won)9,211 billion, (Won)10,038 billion and (Won)9,062 billion of overdraft loans as of December 31, 2002, 2003 and 2004, respectively.

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

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

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

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

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

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

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

Strategy

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

The key elements of our strategy are as follows:

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

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

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

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

Improved customer relationship management technology. Management has devoted substantial resources toward development of our customer relationship management system, which is designed to provide our employees with the needed information to continually improve the level of service and incentives offered to our preferred customers. Our system is based on an integrated customer database, which allows for better customer management and streamlines our customer reward system. We have also developed state-of-the-art call centers and online Internet capabilities to provide shorter response times to customers seeking information or to execute transactions. Our goals are to continually focus on improving customer service to satisfy our customer s needs through continuing efforts to deliver new and improved services and to upgrade our customer relationship management system to provide the best possible service to our customers in the future.

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

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

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

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

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

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

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

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

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

Strengthening internal risk management capabilities

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

Strengthening underwriting procedures with advanced credit scoring techniques. We have recently centralized our credit management operations into our credit group. Our prior structure had divided such operations into four groups and ten teams. As a result of such centralization, we aim to enhance our credit management expertise and improve our system of checks-and-balances with respect to our credit portfolio. We are also improving our ability to evaluate the credit of our small- and medium-sized enterprise customers through assigning experienced credit loan officers to our regional credit offices. We have also introduced a policy requiring the same officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which will enhance expertise and improve efficiency and accountability of such officer, while enabling us to maintain a consistent credit policy. We have also, as a general matter, implemented enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our asset quality through improvement of our early monitoring systems and collection procedures.

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

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

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

Branch Network

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

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

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

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

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

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

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

Retail Banking

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

Lending Activities

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

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

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

Our retail loans consist of:

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

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

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

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

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

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

Mortgage and Home Equity Lending

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

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

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

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

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

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

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

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

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

Other Consumer Loans

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

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

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

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Deposit-taking Activities

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

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

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

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

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

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

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

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

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

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

Housing subscription installment savings deposits, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Law. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between two and five years and accrue interest at fixed or variable rates depending on the term. These deposit products target low- and middle-income households.

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

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

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

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

Credit Cards

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

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

	As of and for the year ended December 31,				
	2002		2003		2004
	(in billions of Won, except number of holders, accounts and percentages)				
	Kookmin Card	BC Card	Kookmin Card	BC Card	KB Card (1)
Number of credit cardholders (at year end) (thousands)					
General accounts	12,614	4,748	10,991	3,899	11,362
Corporate accounts	154	58	148	53	182
Total	12,768	4,806	11,139	3,952	11,544
Number of merchants (at year end) (thousands)	1,569	312	1,528	310	1,492
Active ratio (at year end) (2)	72%	61%	53.6%	50.1%	54.9%
Credit card fees					
Merchant fees (3)	(Won) 745	(Won) 236	(Won) 690	(Won) 203	(Won) 788
Installment and cash advance fees	1,106	555	543	508	919
Annual membership fees	39	12	38	14	45
Other fees	158	237	669	223	885
Total	(Won) 2,048	(Won) 1,040	(Won) 1,940	(Won) 948	(Won) 2,637
Charge volume (4)					
General purchase	(Won) 18,708	(Won) 4,329	(Won) 21,481	(Won) 4,664	(Won) 25,373
Installment purchase	11,026	4,362	7,574	3,223	7,520
Cash advance	57,166	18,198	41,155	13,204	33,456
Card loan (5)	5,108	8,784	956	5,078	2,999
Total	(Won) 92,008	(Won) 35,673	(Won) 71,166	(Won) 26,169	(Won) 69,348
Outstanding balance (at year end) (6)					
General purchase	(Won) 1,199	(Won) 591	(Won) 1,117	(Won) 491	(Won) 2,320
Installment purchase	2,932	1,747	1,459	959	1,344
Cash advance	2,370	2,184	1,638	1,428	2,605
Card loan (5)	2,739	1,227	2,178	979	1,375
Total (7)	(Won) 9,240	(Won) 5,749	(Won) 6,392	(Won) 3,857	(Won) 7,644
Average outstanding balances (6)					
General purchase	(Won) 1,567	(Won) 582	(Won) 1,212	(Won) 625	(Won) 1,637
Installment purchase	3,381	1,599	2,110	1,358	1,835
Cash advance	3,910	2,389	1,669	1,949	2,787

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

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

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

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

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

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

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

- strengthening cross-sales to existing customers and offering integrated financial services;
- offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;
- offering gold cards, platinum cards and other preferential members cards, which have a higher credit limit and provide additional services in return for a higher fee;
- acquiring new customers through strategic alliances and cross-marketing with wholesalers and retailers;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features, such as revolving credit cards, travel services and insurance;
- developing fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet; and
- issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

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

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

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

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

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

Corporate Banking

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

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

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

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

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

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

Small- and Medium-sized Enterprise Banking

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

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

Lending Activities

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

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

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

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

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

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

Pricing

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

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

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

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

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

Large Corporate Banking

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

Lending Activities

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

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

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

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

Pricing

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

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Capital Markets Activities and International Banking

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

Securities Investment and Trading

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

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

- held-to-maturity debt securities accounted for (Won)11,134 billion, (Won)6,137 billion and (Won)6,168 billion or 50.7%, 26.0% and 24.2%, respectively;
- available-for-sale debt securities accounted for (Won)9,030 billion, (Won)14,925 billion and (Won)15,898 billion or 41.2%, 63.1% and 62.3%, respectively; and
- trading debt securities accounted for (Won)1,777 billion, (Won)2,565 billion and (Won)3,446 billion or 8.1%, 10.9% and 13.5%, respectively.

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

- (Won)8,735 billion, (Won)5,228 billion and (Won)4,748 billion, or 78.5%, 85.2% and 77.0%, respectively, of our held-to-maturity debt securities;
- (Won)4,096 billion, (Won)4,996 billion and (Won)3,735 billion, or 45.4%, 33.5% and 23.5%, respectively, of our available-for-sale debt securities; and
- (Won)840 billion, (Won)1,419 billion and (Won)916 billion, or 47.3%, 55.3% and 26.6%, respectively, of our trading debt securities.

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

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

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

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

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

	As of December 31, 2002			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 4,022	(Won) 82	(Won) 8	(Won) 4,096
Corporate (1)	2,041	54	27	2,068
Financial institutions (2)	2,622	33	6	2,649
Foreign governments	17	3		20
Asset-backed securities	155	42		197
Subtotal	8,857	214	41	9,030
Marketable equity securities	3,360	97	5	3,452
Total available-for-sale securities	(Won) 12,217	(Won) 311	(Won) 46	(Won) 12,482
Held-to-maturity securities:				
Korean Treasury securities and government agencies	(Won) 8,735	(Won) 294	(Won)	(Won) 9,029
Corporate (3)	313	30	2	341
Financial institutions (4)	933	9		942
Foreign governments	49	1	1	49
Asset-backed securities	1,104	15		1,119
Total held-to-maturity securities	(Won) 11,134	(Won) 349	(Won) 3	(Won) 11,480

	As of December 31, 2003			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 5,024	(Won) 11	(Won) 39	(Won) 4,996
Corporate (1)	1,845	95	10	1,930
Financial institutions (2)	7,900	21	21	7,900
Foreign governments	30	9		39
Asset-backed securities	59	1		60
Subtotal	14,858	137	70	14,925
Marketable equity securities	734	30		764
Total available-for-sale securities	(Won) 15,592	(Won) 167	(Won) 70	(Won) 15,689

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

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

(1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)183 billion as of December 31, 2002, (Won)77 billion as of December 31, 2003 and (Won)16 billion as of December 31, 2004.

(2) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)2,217 billion as of December 31, 2002, (Won)7,390 billion as of December 31, 2003 and (Won)10,206 billion as of December 31, 2004. These financial institutions are controlled by the Korean government.

(3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)88 billion as of December 31, 2002, (Won)36 billion as of December 31, 2003 and (Won)30 billion as of December 31, 2004.

(4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)876 billion as of December 31, 2002, (Won)265 billion as of December 31, 2003 and (Won)1,144 billion as of December 31, 2004. These financial institutions are controlled by the Korean government.

Derivatives Trading

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

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

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

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

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

equity options on the KOSPI index.

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

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

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

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

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

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

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

Asset Securitization Transactions

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

Call Loans

We make call loans and borrow call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Won or foreign currencies, in amounts exceeding (Won)100 million, with maturities of 30 days or less. Typically, call loans have maturities of one day. As of December 31, 2004, we had made call loans of (Won)2,993 billion and borrowed call money of (Won)652 billion, compared to (Won)2,459 billion and (Won)225 billion, respectively, as of December 31, 2003.

Investment Banking

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

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

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

- structured finance and venture financing.

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

International Banking

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

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

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

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

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

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

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

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

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

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

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

- holding securities for the benefit of the securities investment trust;
- receiving and making payments made in respect of such securities;
- executing trades in respect of such securities on behalf of the securities investment trust, based on instructions from the relevant securities investment trust management company;
- in certain cases, authenticating beneficiary certificates issued by the securities investment trust and handling settlements in respect of such beneficiary certificates;
- clearing and settlement in the domestic and foreign securities markets;
- providing foreign exchange services for overseas investment and foreign investors; and
- providing fund-related administration and accounting services.

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

Other Businesses

Trust Account Management Services

Money Trust Management Services

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

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

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

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

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

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

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

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

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

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

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

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

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

Property Trust Management Services

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

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

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

Investment Trust Management

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

Management of the National Housing Fund

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

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

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

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

Bancassurance

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

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

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

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

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Other Distribution Channels

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

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

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

Phone Banking

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

- advise clients with respect to deposits, loans and credit cards and to provide our customers a way to report any emergencies with respect to their accounts;
- allow our customers to conduct transactions with respect to their accounts, such as transfers or payments, opening or closing accounts, processing loans through automated systems, conducting credit card transactions and offering lottery-related services;
- conduct telemarketing to our customers or potential customers to advertise products or services through phone, fax or text messaging; and
- provide automated banking services, mobile services or other services relating to affinity programs.

Internet Banking

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

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

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

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

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

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Mobile Banking

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

Lottery Business

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

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

Other Channels

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

Competition

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

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

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

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

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

Information Technology

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

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

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

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

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

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

and

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

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

Assets and Liabilities

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

Loan Portfolio

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

Loan Types

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

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

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

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

Loan Concentrations

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

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20 Largest Exposures by Borrower

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

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

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

As of December 31, 2004, we had total exposures of (Won)416 billion to LG Card in the form of loans and equity securities issued by LG Card. Commencing in late 2003, LG Card, one of Korea s largest credit card companies, experienced significant liquidity and asset quality problems. In 2003 and 2004, the principal creditor banks of LG Card, led by the Korea Development Bank, agreed to a series of rescue measures pursuant to which the maturities of outstanding LG Card debt were extended, new funding was provided by the creditor banks to LG Card (in the form of loans and purchases of debt securities) and LG Card debt was exchanged by the creditor banks into equity of LG Card. In conjunction with these rescue measures, LG Group made additional capital contributions of approximately (Won)1,175 billion into LG Card and agreed to several capital write-downs which reduced its ownership interest in LG Card to 10.6%. In addition, the creditor banks of LG Card formed a normalization steering committee to jointly oversee LG Card s management and business operations.

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

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

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

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

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

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

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

Exposure to Chaebols

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

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

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

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

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

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

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

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

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

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

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

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

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

Loan Concentration by Industry

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

Industry

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

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Loan Concentration by Size of Loans

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

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

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

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

Maturity Analysis

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

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

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

Interest Rate Sensitivity

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

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

Total gross loans	(Won)	138,124

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

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

Credit Exposures to Companies in Workout, Corporate Reorganization and Composition

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

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

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

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

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

A portion of our loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2004, (Won)1,095 billion or 0.7% of our total loans and debt securities were in workout or restructuring. This included (Won)685 billion of loans to and debt securities of large corporate borrowers and (Won)410 billion of loans to and debt securities of small- and medium-sized enterprises.

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

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

Provisioning Policy

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

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

We consider the following corporate loans to be impaired loans:

- loans classified as substandard or below according to the Financial Supervisory Commission s asset classification guidelines;
- loans that are over 30 days past due;
- loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and
- loans, which are troubled debt restructurings as defined under U.S. GAAP.

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

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

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

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

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

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

Loan Aging Schedule

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

As of December 31,	%	%	%	%

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

Non-Accrual Loans and Past Due Accruing Loans

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

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

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

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

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

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

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

Troubled Debt Restructurings

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

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

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

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Potential Problem Loans

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

Other Problematic Interest Earning Assets

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

Non-Performing Loans

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

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

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

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

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

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Analysis of Non-Performing Loans

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

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

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Top 20 Non-Performing Loans

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

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

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

Non-Performing Loan Strategy

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

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

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

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

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

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

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

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

Methods for resolving non-performing loans include the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- selling our non-performing loans to third parties including the Korea Asset Management Corporation; and
- entering into asset securitization transactions with respect to our non-performing loans.

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

Allocation of Allowance for Loan Losses

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

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

Foreign (1)	194	1.8	132	0.9	70	1.0	61	1.0	38	0.8
Total allowance for loan losses	(Won) 2,394	100.%	(Won) 3,508	100.0%	(Won) 5,195	100.0%	(Won) 5,772	100.0%	(Won) 4,461	100.0%

(1) Consists of loans to corporations.

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

Analysis of Allowance for Loan Losses

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

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

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

Loan Charge-Offs

Basic Principles

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

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

Loans To Be Charged Off

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

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectible amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that have been overdue for more than six months;
- payments in arrears on unsecured consumer loans which have been overdue for more than six months; or
- the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

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

Treatment of Loans Charged Off

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

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

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

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

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

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

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

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

Investment Portfolio

Investment Policy

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

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

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

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

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

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

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

Book Value and Market Value

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

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

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

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Maturity Analysis

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

	As of December 31, 2004											
	Within 1 year	**Weighted average yield (1)**	**Over 1 but within 5 years**	**Weighted average yield (1)**	**Over 5 but within 10 years**	**Weighted average yield (1)**	**Over 10 years**	**Weighted average yield (1)**	**Securities not due at a single maturity**	**Weighted average yield (1)**	**Total**	**Weighted average yield (1)**
	(in billions of Won, except percentages)											
Available-for-sale securities												
Korean treasury securities and government agencies	(Won) 364	4.54%	(Won) 2,807	3.28%	(Won) 563	1.08%	(Won)		(Won) 1	1.05%	(Won) 3,735	3.07%
Debt securities issued by financial institutions	6,887	1.99	4,180	1.49					69	13.08	11,136	1.87
Corporate debt securities	444	2.67	271	8.92	32	1.42	1	6.24%	70	4.26	818	4.83
Debt securities issued by foreign governments	10	0.72	31	9.26					1	10.40	42	7.23
Asset-backed securities	90	3.15	77	1.28						0.00	167	2.28
Total	(Won) 7,795	2.16%	(Won) 7,366	2.48%	(Won) 595	1.10%	(Won) 1	6.24%	(Won) 141	8.62%	(Won) 15,898	2.32%
Held-to-maturity securities												
Korean treasury securities and government agencies	(Won) 1,474	6.91%	(Won) 2,899	4.27%	(Won) 368	3.90%			(Won) 7	5.16%	(Won) 4,748	5.06%
Debt securities issued by financial institutions	403	1.62	839	0.76							1,242	1.04
Corporate debt securities	60	7.71			5	2.69					65	7.31
Asset-backed securities	60	6.62	33	4.35	20	5.51					113	5.76
Total	(Won) 1,997	5.85%	(Won) 3,771	3.49%	(Won) 393	3.97%			(Won) 7	5.16%	(Won) 6,168	4.29%
Trading securities												
Korean treasury securities and government agencies	(Won) 41	1.31%	(Won) 783	1.55%	(Won) 93	0.22%					(Won) 917	1.40%
Debt securities issued by financial	1,184	2.27	1,294	1.63							2,478	1.93

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

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

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Concentrations of Risk

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

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

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

Funding

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

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

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

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

Deposits

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

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

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

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

Certificates of Deposit and Other Time Deposits

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

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

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

Long-term debt

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

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

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

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Short-term borrowings

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

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

(1) Average outstanding balances have been calculated using quarterly averages.
(2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by securities totaling (Won)1,024 billion as of December 31, 2004.

Supervision and Regulation

Legal and Regulatory Framework

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

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

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

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

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

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

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

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;

- mergers with other financial institutions;
- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Principal Regulations Applicable to Banks

Capital Adequacy and Allowances

The Bank Act requires nationwide banks, such as us, to maintain a minimum paid-in capital of (Won)100 billion and regional banks to maintain a minimum paid-in capital of (Won)25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

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

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

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

(1) if the home mortgage loans are overdue for at least 30 consecutive days as of the date of calculating the bank s BIS capital adequacy ratio, or there were at least 30 overdue days during the one year period preceding the date on which the bank s BIS capital adequacy ratio is calculated; and

(2) the borrower s debt ratio (which is the ratio of the borrowers total outstanding borrowings, including borrowings from other financial institutions, to the borrower s annual income) exceeds 250%.

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

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

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

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

20% of substandard credits;

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

100% of estimated loss credits.

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

Liquidity

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

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

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 0%; and
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%.

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

- 5% of average balances for Won currency demand deposits outstanding;
- 1% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and
- 2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

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

Financial Exposure to Any Individual Customer and Major Shareholder

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

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

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

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

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

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

Interest Rates

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

Lending to Small- and Medium-sized Enterprises

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

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

- lower the bank s credit limit.

Disclosure of Management Performance

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

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

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

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

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Restrictions on Lending

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

- loans for the purpose of speculation in commodities or securities;
- loans directly or indirectly secured by a pledge of a bank s own shares, or secured by a pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);
- loans directly or indirectly to enable a natural or juridical person to buy the bank s own shares;
- loans directly or indirectly to finance political campaigns or related activities;
- loans to any of the bank s officers or employees, other than petty loans of up to (Won)20 million in the case of a general loan, (Won)50 million in the case of a general loan plus a housing loan or (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to (Won)20 million or general and housing loans of up to (Won)50 million in the aggregate.

Recent Regulations Relating to Retail Household Loans

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

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

Estimated loss	100.0%	100.0%

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

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

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

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

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

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

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

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

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

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

Restrictions on Investments in Property

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

Restrictions on Shareholdings in Other Companies

Under the Ban