



ANNUAL

REPORT

2001

KEB

KOREA  EXCHANGE BANK



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PROFILE

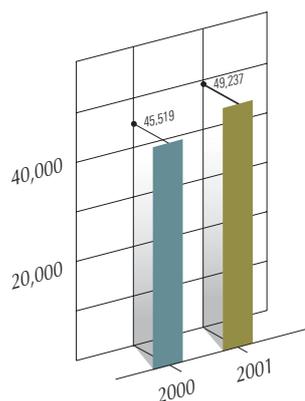
Korea Exchange Bank (KEB) was established as a government-owned bank in January 1967, when it was separated from the Bank of Korea to specialize in the foreign exchange and trade business. For the following decade, KEB was the only Korean bank to offer trade financing and foreign exchange services.

To keep pace with Korea's booming economic growth in the 1970s, the Bank expanded and diversified its activities to include a full range of commercial banking services with extensive financial networks at home and abroad. In 1977, when trade finance and foreign banking businesses were liberalized to spur the export-driven economy, the Bank ventured into commercial banking after losing its proprietary grip on these lucrative sectors. KEB, a latecomer to commercial banking steadfastly developed a wide range of innovative products and services, built up a strong customer base and established extensive branch networks while continuing to sharpen its traditional dominance in international banking. Following privatization in 1989, the Bank offered its shares

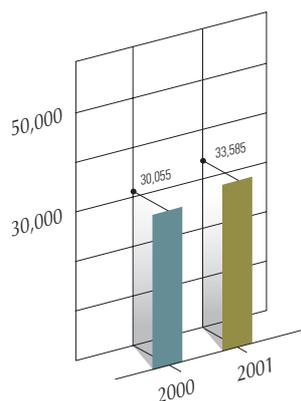
for public ownership in 1991 and all shares were listed on the Korea Stock Exchange in 1994. The Bank has since enjoyed the distinction of being one of the leading commercial banks in Korea. In July 1998, the Bank increased its capital to ₩1,175 billion by successfully attracting ₩350 billion capital participation from Commerzbank. The Bank, during April 1999, further increased its capital to ₩2,481 billion through a successful rights offering of ₩1,022 billion, in which Commerzbank increased its stake in the Bank by additionally investing ₩260 billion. Most recently, major shareholders participated in a capital increase of ₩610 billion during December 2000, when Commerzbank invested an additional ₩210 billion and Export Import Bank of Korea investing ₩400 billion. KEB is a banking pioneer on a number of fronts: it is the first Korean bank to establish overseas branches and subsidiaries, as well as the first to introduce cash dispensers, credit cards, and an on-line deposit/withdrawal system.

As of December 31, 2001, KEB had 262 branches and 4 subsidiaries in the domestic market and 21 branches, and 8 subsidiaries in overseas markets.

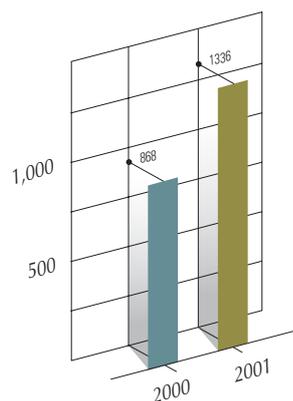
FINANCIAL HIGHLIGHTS



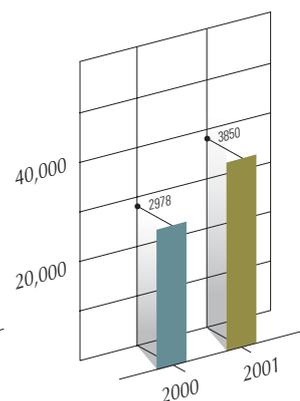
Total Assets
(In Billions of Korean Won)



Total Deposits
(In Billions of Korean Won)



Operating Income
(In Billions of Korean Won)



BIS Capital
(In Billions of Korean Won)

(In Billions of Korean Won)

Selected Non-consolidated Financial Data for Korea Exchange Bank	2001	2000
At Year's End		
Total Assets	49,237	45,519
Loans *	21,718	20,970
Deposits	33,585	30,055
Shareholders' Equity	1,675	1,413
For the Year		
Total Income	1,832	1,390
Total Expenses	496	522
(G&A Expenses)	(394)	(417)
Operating Income **	1,336	868
Net Income (Loss)	222	(404)

* Loans : excluding guarantees, bills bought, CP, CB, Leasing

** Pre-Provision

MESSAGE

FROM THE PRESIDENT



Selected as Korea's Best Trade Finance Bank

“KEB will focus on *sound management approaches*
and *operational growth*”

Active restructuring of the Korean financial industry continued apace in 2001, with the advent of Korea's first-ever financial holding company and the completion of a major bank merger. More of such mergers are currently under negotiation, while the “holding company” model continues to win new converts, thus radically altering the landscape of the country's financial service sector.

The global as well as the domestic economy remained mired in a slump for most of 2001, a situation exacerbated by the September 11 terrorist attacks in the United States. However, as concerns over global terrorism have subsided, increasingly clear signs of recovery have come to the fore.

Meanwhile, Korea Exchange Bank focused efforts to implement its Management Improvement Plan, which was formulated by the Bank in 2000. As a result, in 2001, we succeeded in cleaning up non-performing assets and securing capital adequacy. Various profitability indicators also improved, laying the groundwork for normalized operations. Consequently, the Financial Supervisory Service lifted its management improvement recommendation imposed on KEB in February 1998.

Operating income in 2001 surpassed ₩1.33

trillion, up 54% from the previous year's ₩868.3 billion.

On the other hand, net income recorded ₩222.5 billion due to loan loss provisions made to cover problem loans to the Hyundai Group and other large corporate entities. However, as non-performing loans (substandard and below loans) were virtually cleared off the books in 2001, it is expected that a greater portion of the operating income generated from 2002 onwards will comprise net income.

Our performance in fiscal year 2001 was remarkable in view of the daunting obstacles we faced in recent years. As part of restructuring, we were forced to make major reductions in personnel and bank branches, weakening our operational base. Moreover, the cost-cutting measures and salary freezes - implemented as part of the Bank's self-rescue effort - had an adverse impact on employee morale and public confidence in the Bank. In addition, when the Korean government imposed a limit on deposit guarantees, we lost some depositors and had difficulty in attracting new ones. In spite of these setbacks, we managed to overcome such difficulties and recorded the highest operating and net income in the Bank's history.

Most important among our 2001 achievements



was the major reduction in non-performing assets, which had accumulated excessively from the corporate bankruptcies that occurred in the wake of Korea's financial crisis in 1997-98. The Bank's reputation suffered as a result, causing the price of our stock to fall to about half its face value.

The level of substandard and below credit came to ₩3.5 trillion, or 10.3% of total credit at the end of December 2000. However, we worked hard in 2001 to relieve this burden through write-offs, recovery, normalization and sale, and issuance of asset-backed securities. Our determined efforts brought substandard and below credit down to below ₩1.19 trillion, or 3.57% of total credit by the end of 2001.

At the same time, our BIS capital adequacy ratio stood at 10.96% at year's end and most importantly, we recorded a positive net income (₩222.5 billion) for the first time in five years.

Indeed, our fundamentals improved remarkably during 2001. Our future is bright, and we aim to be even sounder and stronger in 2002. NPLs(non-performing loans) that had plagued us for four years were drastically reduced in 2001 and sufficient provisions have been set aside to cover any remaining.

Therefore, we expect operating income to reach ₩1.3 trillion in 2002. Our projected net income is around ₩500 billion, even after allowing for sufficient loan loss provisions to maintain the market's confidence in us. We will return to being a truly sound and strong bank in terms of capital adequacy, asset quality and profitability.

To achieve these goals, KEB will focus simultaneously on sound management approaches and operational growth. Specifically, our strategy will be to (1) cultivate and take advantage of our traditional strengths—namely foreign exchange, import/export, international banking, and corporate loans; (2) develop Internet banking services; and (3) bolster our retail banking business to attract many more high net worth customers.

In addition, our competencies will be concentrated on maximizing shareholder value, which in turn means maximizing the Bank's value. Since the Bank's value will ultimately be determined by its competitiveness, our priorities are placed in the following areas in order to enhance our competitiveness:

- The general trend in the Korean financial industry has been toward increasing operational scale. KEB, however, is focusing on service quality rather than size. Services are the products we provide, and we will do all we can to ensure our services are credible, convenient and cost competitive.
- The importance of brand value continues to grow in our industry. As much as "Foreign Exchange" is synonymous with "Korea Exchange Bank" in Korea, foreign exchange is our brand product, which we are proud of. We will not let up in our efforts to defend our market position in this field, and will continue striving to be the very best in not only Korea but the Asian market as well.
- The role and status of banks are changing.

*We are now ready and able to make KEB
a leading bank of the future.*

The focus of competition is therefore changing from net interest margin gains to selling the best products. Wells Fargo Bank of the U.S. coined the phrase, "Banking may die but the bank lives on," indicating the successful transition to a seller of products or a so-called "distributor."

- Banking, insurance and securities differ as products, but the function can be summed up in a single phrase: wealth management. Following this approach, we aim to strengthen our private banking business, the heart of retail wealth management.
- Operations will be centered more on customers than on products. We will offer customized services and products based on customer relationship management. Thus profitability, or shareholder value, will be increased.
- We will also continue to strengthen and expand our strategic partnerships. These alliances will cover all aspects of finance, while markets and costs – as well as risks – are shared. In this way, synergy effects can be maximized.

The all-encompassing strategy for reaching the above objectives will be based on the principle of "abandonment and focusing of resources" rather than "selection and focusing of resources", where profitability will be the criterion by which we will decide which businesses to abandon or continue.

In August 2001, KEB became the first Korean bank to offer full Internet banking services in English, enabling the bank to expand its online customer base. In October, KEB became the first in Korea to issue Euro-denominated traveler's

checks. Moreover, we successfully issued a total of ₩600 billion worth of subordinated bonds in May and November. These developments have served to bolster our operational base. In particular, KEB Credit Service, our credit card subsidiary, went public in December and will augment our retail banking business considerably.

Operating conditions are not expected to improve greatly this year over 2001. Although there are some signs of economic recovery, potentially destabilizing factors persist in terms of interest rates, oil prices, and prices for goods and services. Moreover, the competition among banks continues to escalate.

However, all of us at Korea Exchange Bank have demonstrated our strength and resourcefulness to work through adversities, most notably the recent Asian economic crisis. Despite further hardships that may lie ahead, we are now ready and able to overcome these obstacles in aiming to make KEB a leading bank of the future. At the same time, we intend to repay our customers for the loyalty they have shown by providing services that are second to none.

In closing, let me thank all KEB staff, shareholders and customers for their efforts and continued support during difficult times.



Kang-Won Lee
President and Chief Executive Officer

KEY DEVELOPMENTS

IN 2001

2001: Turnaround Year for KEB

Net income in 2001 came to ₩222.5 billion, returning the Bank to profitability after four consecutive years of red ink. A firm foundation is now in place for solid growth.

1
**KEB Back in
the Black**

In December, KEB Credit Service Co.LTD., a Korea Exchange Bank subsidiary, became the first Korean credit card company to be listed on the Korea Stock Exchange. The IPO is expected to improve the company's assessed value in the marketplace and further its development.

2
**KEB Credit
Service IPO**

In October, KEB became the first in Korea to issue Euro-currency traveler's checks (available in denominations of 500, 200, 100 and 50) in preparation for Europe's adoption of a single currency in January 2002. Importantly, no 500-Euro traveler's checks were ever issued before by any bank, even in Europe.

3
**Euro Traveler's
Checks**

An English-language version of the KEB Internet banking site was opened in August to expand the base of on-line customers. KEB became the first Korean bank to offer full Internet banking services in English. The Bank is committed to ongoing development of IT infrastructure to enhance competitiveness.

4
**Internet Banking
Site in English**



5 Korea's Best Trade Finance Bank

Global Finance, the US international finance monthly magazine, selected KEB as the "Best Trade Finance Bank" in Korea for 2001. Selection criteria include trade volume, market share, convenience, and innovative financial technology.

6 Subordinated Bond Sales

KEB raised a total of ₩600 billion through the sale of subordinated bonds in May and November. The interest shown in these bonds reaffirms the growing confidence of investors and the market in the Bank.

7 Global FX Remittance System

The overseas office network (spanning more than 40 locations) was linked via a remittance tracking system, launched in February. The new system enables real-time confirmation and immediate reporting of transactions anywhere in the world.

8 Return to Regular Hiring

In December, KEB hired its first new full-time employees in four years. A total of 100 recruits were employed amid fierce competition.





DOMESTIC BANKING

RETAIL BANKING

Overview

Profitability was the priority for KEB's retail banking sector, which earned ₩481.1 billion in income during 2001. One contributing factor was a 4.5 percentage point rise in low-cost deposits, from 21.9% to 26.4% of the retail deposit portfolio.

The number of credit cardholders increased by 288,000 persons during 2001. Credit card service fees were also up ₩4.2 billion, from ₩35.9 billion at the end of 2000 to ₩40.1 billion a year later.

Alliances were formed with Hyundai Marine & Fire Insurance and Dongbu Life Insurance in order to break into the bancassurance market. KEB established help desks at these two insurers, and 384 KEB employees were qualified as bancassurance agents after training.

Trust Business

The Trust Division continued to develop timely investment and special trust products in 2001. The success of these highly competitive new products boosted the Bank's trust portfolio 31.7% (₩1.3 trillion) year on year to surpass ₩5.4 trillion. This was the highest growth rate posted by any domestic bank, and KEB now holds a 6.92% share of the Korean trust market. Trust income came to ₩109 billion in 2001, an increase of ₩100 billion from the previous year.

One unique product of note is the "Safe-Retirement Annuity," which employs advanced financial engineering techniques to ensure stability and profitability. In December 2001, the Division also began selling the "KEB Real Estate Investment Trust," a fund that is expected to contribute to the increase in trust revenue.

Trust sales channels are being diversified and part of the VIP Customer Relationship Managers have been trained as trust fund specialists. Other



Household loan business and private banking are being cultivated as mainstay business lines.

employees are being cultivated into specialists in the management of stocks and bonds.

Private Banking

Private Banking (PB) is a line of special services for customers who meet or exceed a predetermined transaction volume. These customers receive bank fee waivers, preferred loan eligibility, free safety deposit boxes, a dedicated service desk, preferential foreign exchange and interest rates, and VIP Center access. Special attention has been given to improve PB services, therefore attracting and retaining the class of customers who contribute the most revenue to the Bank.

To this end, the number of branches that offer VIP customer relationship management was increased to 100 in 2001, from 64 at the end of 2000. VIP Centers were installed at ten more branch locations during 2001 to total 19 by year's end. There will be 50 more VIP Centers by the end of 2002, and the number will double to

100 during the following year. A total of 30 employees were trained as private banking specialists and dispatched to the VIP Centers to work for at least three years. The PB staff will be expanded to 110 by the end of 2003.

Foreign Exchange

KEB stepped up efforts to further its lead in the Korean foreign exchange business during 2001. A target marketing program, which includes the provision of information and other non-banking services, helped the Bank cultivate repeat foreign exchange customers.

Korean students studying abroad represent one of these target markets. Centers were established at eight branches to offer a full range of services for exchange students: counseling, paperwork processing, information on currency exchange and remittance, and exchange student insurance.

The number of centers catering to Korean emigrants was also increased from two to eleven locations around Korea during 2002. In addition,



KEB offers various services to help Koreans once they are overseas such as information on local finances, language, driving, hotel reservations, and emergency medical care.

Retail Lending

Total loans to households grew 68.1% (more than ₩2.61 trillion) year on year to ₩6.46 trillion at the end of 2001. Most of this increase (over ₩2.24 trillion) was in mortgaged loans, and income from household loans reached ₩140 billion for the year. Despite the higher volume, overdue loans were down from ₩85.2 billion at the end of 2000 to ₩52.6 billion the following year.

The sharp growth in household loans can be attributed to the development of retail loan products for such new market segments as well as an aggressive marketing program.

Electronic Banking

The KEB Internet banking site opened in early 2000 and attracted 637,000 users by year's end. That number grew 36.7% during 2001 to reach 871,000. Accessing banking services via the telephone also increased 35.3% during 2001 to total 1,495,000, while the number of companies using firm banking swelled 139% from 3,038 at the end of 2000 to 7,258 at the end of 2001. Online fee revenue rose 32.6% (₩2.94 billion) to reach ₩11.97 billion for the year.

CORPORATE BANKING

Overview

KEB has been working closely with Commerzbank, a strategic partner since Korea's financial crisis, to upgrade credit risk management activities. Today, the Bank has credit risk hardware in place that is on a par with the best in the industry. Asset soundness is managed on a FLC(Forward Looking Criteria) basis, and an integrated risk management system has been built that imposes separate risk limits on each division. Each month, operation results are reviewed to minimize risk and maximize revenue.

Portfolio targets are established for the Bank as a whole, and credit overexposure is reduced. More loans have been granted to SMEs and households, greatly improving the credit portfolio in 2001 over the previous years.

Moreover, the best quality assets have been expanded to generate revenue. This has been made possible by working hard to solicit business from foreign companies in Korea through intensive marketing campaigns.

Importantly, KEB has taken advantage of its unique strengths as the dominant player in trade finance market to increase its market share and ensure a solid foundation for non-interest income.

KEB has worked closely with Commerzbank, a strategic partner since Korea's financial crisis, to upgrade credit risk management activities.

Business with Foreign Companies in Korea

A priority was put on broadening and deepening relationships with foreign corporations to boost revenue, and direct marketing activities were aimed at Fortune 500 companies and their subsidiaries. Such intensive marketing campaigns resulted in expanding our market share, as the number of foreign companies doing business with KEB rose from 2,380 to 2,852 during the year. This sector, which generated ₩89.5 billion in 2000, contributed ₩106.9 billion in 2001.

SMEs

KEB offered diverse products and financial services to expand its SME-related business base in 2001. The best SME clients are invited to join the KEB Prime Business Club, which offers them preferential interest rates as well as other benefits. So far, 239 SMEs have qualified for Club membership, and this incentive has helped increase Won-denominated loans to small and medium enterprises 28.7% (more than W1.8 trillion) year on year to reach ₩8.3 trillion. Importantly, KEB attracted 4,664 new SME clients by year's end, significantly more than the original target of 4,000. The higher-than-expected number is due in part to special incentives provided by the Head Office to branches that increased their SME loan volume.

The twenty branches that provide the most SME loans were singled out to focus on SME business from July 1, 2001.

Large Corporate Lending

The Bank experienced major difficulties from the non-performing loans extended to Daewoo Group affiliates and some other major conglomerates.

However, most of those NPLs were sold or written off in 2001, strengthening asset soundness considerably. In addition, an adequate loan loss provision has been made to prevent additional losses from Hynix Semiconductor.

The total exposure limit system was tightened in 2001 to ease the overexposure to large domestic corporations, which was lowered from 34.3% of the loan portfolio at the end of 2000 to 20.7% a year later. Separate plans have been made to reduce loans further to those large corporate affiliates that have exceeded their legal credit limits.

Merchant Banking

The ability to carry out merchant banking activities is yet another strength of Korea Exchange Bank. The Bank's merchant bank subsidiary was merged with KEB in 1999, after which the Bank assumed a leadership position in Korean short-term financing. Commercial paper discounts to strong companies sensitive to interest rates have proven to be profitable as well as very helpful to customers. KEB boasts Korea's highest commercial paper brokerage performance, which has helped to diversify revenue.

Trade Finance

KEB has long been the leader in trade finance market and the bank was able to increase its market share by 2.3% to 23.6% from the previous year's 21.3%. The bank's status as the leader in this market was confirmed when Global Finance, the U.S. international finance monthly magazine, named KEB as the "Best Trade Finance Bank" in Korea for 2001. The bank's aggregate export and import transactions reached US\$68.9 billion for the year.



INTERNATIONAL BANKING

INVESTMENT BANKING

Overview

By continuously developing, promoting and aggressively marketing fee-based services, KEB stands to be a market leader in the investment banking business. KEB has been endeavoring to reinforce competitiveness in conventional investment banking which include syndicated loans and project finance as well as ABS(asset-backed securities) and M&A(mergers and acquisitions).

In 2001, KEB was the first commercial bank in Korea to provide advisory services for real estate sales and to set up an AMC(asset management company) for the REITS market. Along with providing such services to better adapt to market changes compared with other competitors, KEB also provides custody services, financial advisory services for private sector investors, etc. Furthermore, KEB has resumed market participation in the emerging Asian market which has been suspended since the IMF economic crisis.

M&As/Real Estate Sale

KEB was appointed the financial advisor in a consortium with Merrill Lynch to sell a Korean life insurance company, ranked third asset wise. This consortium was among the five teams to take part in final presentations for this ₩21 trillion deal in terms of asset size.

The newly formed Property Team, meanwhile, provided consultations to Prudential Life Insurance concerning the sale of the ₩106.6 billion Doosan Heavy Industries Head Office Building.

Asset-backed Securitization

ABS is an important investment banking product that allows issuers to reduce debt and improve their balance sheets.

Various institutions such as the arranger, trustee bank, credit rating agencies, law firms and accounting firms are involved in the ABS issuance process. In 2001, KEB was the originator and arranger of ₩879 billion worth of ABS issued against KEB loans and the Bank arranged an additional ₩475 billion ABS issue for KEB Credit Services.



Aggressive investment is being made to develop new revenue sources and expand opportunities for new business in the investment banking area of the bank.

Project Finance

KEB is a leading player in Korea's project finance market, backed by long experience in arranging financing for corporate and public infrastructure projects both domestic and foreign. The Bank has financed the acquisition of power plants, production facilities, hotels, office buildings and other commercial properties over the years. In 2001, the Bank was one of the lead arrangers in financing for Vivendi Water S.A.'s acquisition of a water/wastewater treatment plant from Hynix and JP Morgan Partners Asia's purchase of the confectionary unit from Haitai. The Bank is also participating in the financing of W400 billion for the construction, operation of the Seoul Beltway Project, sponsored by nine domestic construction companies.

Meanwhile, the Bank's financial advisory services have grown as the Korean central and local governments increase their involvement in infrastructure projects and foreign investors acquire more domestic businesses and assets. Presently, KEB is the financial advisor for the Kangnam Urban Ring Expressway Project as well as several sewage treatment facilities.

Custody & Fund Administration Services

The Bank's custody and fund administration business assets grew 42.2% during 2001, exceeding ₩25.6 trillion at year's end. This growth can be mainly attributed to the newly added value of the services the Bank provided to thirty investment trust companies and asset management firms as well as seven institutional investors, including the National Pension Corporation. At the same time, the scope of fund administration has been expanded to include trustee services for REITs and asset-backed securities as well as escrow agency.

KEB provides domestic and foreign clients with global standard services in cooperation with KEB Ireland Ltd., a Dublin-based subsidiary that specializes in custody and fund administration. No other Korean bank can boast such overseas support for this business.

KEB is now preparing to establish a custody & fund administration subsidiary in Korea and aims to be the most competitive domestic provider of these services.



GLOBAL

keb.co.kr

GLOBAL BANKING

Overseas Operations in 2001

In 2001, KEB was relieved of the heavy loan loss provision burden that had plagued overseas operations since Korea's financial crisis. Interest rates paid for funding dropped and stabilized, greatly improving profitability.

Total overseas assets, to include branches and subsidiaries, were reduced US\$1.7 billion (25.4%) year on year to US\$5.1 billion. This reduction was achieved by transferring unsound overseas credit to Korea, swapping debt for equity, narrowing exposure to large corporations, and disposing of marketable assets.

Pre-provision operating income from overseas operations, including branches and subsidiaries, came to US\$121 million in 2001, up US\$14 million from the previous year. The growth in income was boosted by an improved net interest margin. Better asset quality meant a lower loan

loss provision was required in 2001 than in 2000, helping to raise net income US\$43 million to reach US\$44 million.

KEB (Asia) Finance (a subsidiary in Hong Kong), KEB International (a subsidiary in London) and the Korea International Merchant Bank Hong Kong branch were all closed in 2001 as part of an ongoing restructuring of overseas operations to improve competitive position. At the same time, Pacific Union Bank, KEB's US-based subsidiary, opened a branch in Silicon Valley, California to expand operations. KEB operated 44 offices in 21 countries at the end of 2001, two offices fewer than a year earlier. The global network includes twenty branches (including the KEB Kumho liaison office in North Korea), one sub-branch, eight subsidiaries and fifteen branches attached to subsidiaries.

Overseas Operational Directives for 2002

Growing the China business is the first priority, and KEB plans to open new branches in Shanghai

*Operational efficiency will continue to be raised
at overseas offices.*

and Qingtao during 2002. The existing branches at Tianjin and Dalian are scheduled to begin handling transactions in Yuan currency. Moreover, a planned tie-up with the Bank of China will help promote new business and attract the business of Chinese tourists attending FIFA 2002 Korea/Japan World Cup.

Second, KEB will step up Euro marketing and be among the first in the Euro market, as Europe adopts a single currency in January 2002. Certain KEB branches will be designated to handle specific Euro-related services and KEB will partner with foreign banks in each geographical region to handle Euro-currency transactions. KEB will also remit Euros and perform Euro-denominated trade finance for other Korean banks.

Third, an upgraded Internet banking system will be adopted to improve overseas financial services. Software will be developed to provide a global cash management system, and new products will be created for the online link between domestic

and overseas operations.

Fourth, operational efficiency will continue to be raised at overseas offices. A new liaison office will be opened in Ho Chi Minh City in addition to the above-mentioned new branches in China. At the same time, the effort to sell off KEB's equity in Cairo Far East Bank will continue. KEB will conduct a feasibility study on establishing a holding company in Europe and will closely monitor overseas office performance. The KEB International Banking System continues to be upgraded as well to boost effectiveness.

Fifth, the overseas operational base will be expanded continuously. More loan assets will be earmarked for affiliates in the nation's 60 largest business groups as well as for outstanding small and mid-sized enterprises (SMEs). The business of purchasing export (usage) bills will be promoted aggressively. Moreover, customer deposits will increase steadily and the number of new low-interest credit lines will be increased to reduce reliance on borrowings from the Head Office.



The Americas

KEB's American network consists of 24 offices, including five branches, one subsidiary and 12 subsidiary branches in the US; one subsidiary and three subsidiary branches in Canada; a branch in Panama and a subsidiary in Brazil. American operations focus mainly on wholesale and retail commercial banking for both local and Korean firms. The Broadway and Chicago branches, which are responsible for retail financing, are to become subsidiaries of Pacific Union Bank to improve efficiency and achieve an economy of scale.

Europe & the Middle East

KEB operations in Europe and the Middle East spanned seven locations in 2001. The network includes branches in the UK, France, the Netherlands and Bahrain as well as subsidiaries in Germany, Ireland and Egypt. Wholesale commercial banking is the most important activity for KEB in this part of the world. Of course, these branches and subsidiaries also engage in investment banking, to include custody services and raising funds in the Euro market for Korean companies.

In the future, Europe & Middle East operations will be streamlined through specialization, and a holding company is planned to revamp the network and operational strategy. The focus will be on expanding Euro-currency transactions and promoting for clients.

Asia & Oceania

This network spans 11 locations, including three branches in China; a branch and liaison office in Hong Kong; branches in Singapore, the Philippines, and Vietnam; subsidiaries in Indonesia and Australia and a liaison office in North Korea. The focus is on wholesale commercial banking for Korean companies doing business in the region. Investment banking activities such as syndicated loans and project financing have been greatly curtailed, leading to the closure of KEB (Asia) Finance in Hong Kong in 2001.

Ongoing efforts are being made to tighten credit risk management and improve asset quality. Moreover, KEB is working to expand the volume of import/export transactions with Korean enterprises in Asia and Oceania.

Japan

The KEB branches in Tokyo and Osaka provide loans to Korean companies working in Japan, support their import/export activities, and offer retail banking services to Korean residents. Efforts are focused on minimizing the occurrence of new NPLs stemming from the ongoing economic slump in Japan. At the same time, efforts to recover non-performing loans have been stepped up to bolster asset quality.

KEB has always been an early adopter of new technology and was Korea's first bank to offer on-line banking services.

INFORMATION TECHNOLOGY

KEB has always been an early adopter of new technology and was Korea's first bank to offer on-line banking services. In 2001, the Bank allocated W68 billion for acquiring information technology to bolster its advantages as competition intensifies among financial institutions and customer financial needs diversify. Moreover, IT investment will be more than doubled to around W170 billion in 2002.

Achievements during 2001 include an emergency backup system was also put in place to restore normal banking operations should the regular computer system be interrupted by a flood, earthquake, fire or other disaster within two

hours. This is far faster than the 12-24 hours required by other Korean financial institutions.

The foundation was laid in 2001 for an electronic data warehousing and computerized customer relationship management system. Enhanced data processing capabilities enable the Bank to better utilize data generated in the course of conducting business. As a result, customer services have improved, the customer base has expanded and new revenue sources have been created. KEB has begun construction of online infrastructure to offer customer information for marketing purposes.

STRATEGIC PROJECTS

CMSplus, Korea's first online cash management system for SMEs, was launched in 2001. The system can be used to transfer funds, pay or collect promissory notes, collect receivables and pay bills or taxes. Transactions related to deposits, loans and trusts can be carried out and L/Cs can be opened via this service.

The Bank also launched an Internet portal called FXKeb.com that provides information on foreign exchange and international business. The site

will be developed in the future to allow companies to buy or sell foreign currency or manage their foreign exchange risks.

In 2001, KEB joined Identrus LLC, a system of electronic identifications that enables customers to engage in secure B2B transactions with domestic and overseas trade partners. As a Level 1 Identrus LLC system authority, the Bank can offer online security infrastructure to Internet trade communities and shopping malls, as well as

The Bank has been upgrading and standardizing the risk management organization, work processes and IT infrastructure.

electronic payment, electronic trade financing and other online financial services. KEB is now in a position for greater involvement in domestic and global B2B transactions, online foreign exchange transactions and other e-commerce opportunities.

KEB also concluded an agreement with TradeCard Inc, a financial supply chain provider. TradeCard, facilitates application for and access to KEB's trade financing services online. KEB, meanwhile, has real-time access to these applications, expediting the approval process. In

addition to applying for export financing, importers and exports can initiate, conduct and settle their entire transaction online through a secure network.

Finally, KEB joined Bolero.net, a joint venture between TT Club and SWIFT that brings together over 12,500 forwarders, carriers, port authorities and more than 40 financial institutions worldwide. All documents and data can be exchanged via Bolero.net between all partners in the trade process.

RISK MANAGEMENT

KEB recognizes the growing importance of risk management as global financial markets integrate, competition among financial institutions intensifies, financial products diversify, and supervisory and credit rating agencies tighten their requirements. Therefore, the Bank has been upgrading and standardizing the risk management organization, work processes and IT infrastructure. Today, an advanced risk management system is being built and risk management activities continue to be strengthened.

Organizationally, the Risk Management Committee works directly for the Board of Directors to decide risk-related policies and directives for the Bank as a whole. The risk management units operate separately from the business divisions to maintain independence and perform an effective control function. Graduated

market risk and liquidity risk contingency plans are in place to provide the appropriate response to rapidly changing financial markets.

To manage credit risk, the failure and recovery rates are computed for each borrower credit rating, and credit VaR calculations are made to keep potential losses down to the appropriate probability level. Management of the credit portfolio has improved greatly as a result.

Market risk is managed by making mark-to-market valuations for all financial products that are influenced by market factors. Market VaR calculations take various interrelationships into account, while various sensitivity calculations and scenarios are analyzed to create the optimum portfolio. Moreover, an internal system is now available to cope with the new BIS standard being implemented in 2002 that considers market risk factors.



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Key Financial Data

Selected Non-consolidated Financial Data

	In Billions of Korean Won		
	2001	2000	Change YoY
Operating Results			
Total income	1,832.7	1,390.4	442.3
Total expenses (G&A expenses)	496.3(394.1)	522.1(417.0)	-35.8
Operating income	1,336.4	868.3	468.1
Net income	222.5	-403.7	626.2
Per Share Data (won)			
Earnings per common share	1,004	-1,835	2,839
Profitability Ratios			
Return on assets	0.48	-0.92	1.40
Return on shareholders' equity	14.08	-28.61	42.69
Net interest margin	2.23	1.85	0.38
Balance Sheet Data at Year's End			
Total assets	49,236.8	45,518.7	3718.1
*Total loans	21,718.1	20,969.8	748.3
Total deposits	33,585.1	30,055	3531
Asset Quality ratios(%)			
Gross **NPL ratio	3.57	10.30	-6.73
***Net NPL ratio	0.10	4.28	-4.18
****Capital Ratios at Year's End(%)			
Total capital ratio	10.96	9.19	1.77
Tier 1 capital	5.48	4.60	0.88
Tier 2 capital	5.48	4.59	0.89

* Loans : excluding guarantees, bills bought, CP, CB, Leasing

** NPL : Substandard & below

*** Net NPL : NPL - Loan loss reserve/Total credit

**** Capital Ratios : Consolidated

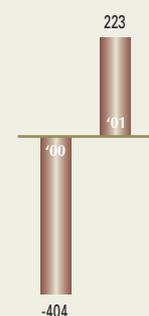
Overview

KEB achieved ₩222.5 billion in net income for 2001, the first profitable year since 1996. The key contributors to the turnaround were the increases in total income, up ₩442.3 billion to surpass ₩1.83 trillion, and in particular net interest income, which grew ₩288.9 billion to more than ₩1.09 trillion in 2001. The Bank's net interest margin rose 0.38 percentage points to reach 2.23% at year's end. Earnings per common share came to ₩1,004, while ROA and ROE rose to 0.48% and 14.08%, respectively.

Total assets rose nearly 3.72 trillion to just under ₩49.24 trillion at year's end. Total deposits also increased over ₩3.53 trillion to exceed ₩33.58 trillion. A determined effort enabled the Bank to reduce non-performing assets even while total assets grew by nearly 10%. The NPL ratio decreased by 6.73 percentage points from 10.30% at the end of 2000 to 3.57% a year later. Net income generation, the public listing of the bank's credit card subsidiary, and subordinated bond issuance pushed the BIS capital ratio up 1.77 percentage points to 10.96% despite the increase in risk-weighted assets.

Net Income

KEB's return to profitability in 2001 was due primarily to higher total income, which grew 31.8% to more than ₩1.83 trillion at year's end. By contrast, total expenses were down 4.9% to ₩496.3 billion. General and administrative expenses, which represent most of total expenses, were reduced 5.5% to ₩394.1 billion for the year. Strong performance in interest income and lower expenses helped boost operating income by 53.9% to over ₩1.33 trillion. The loan loss reserve of nearly ₩1.17 trillion was set aside during 2001, 4.9% lower than a year earlier. During 2001, the bank recorded a net profit of ₩222.5 billion compared to a deficit of ₩403.7 billion in 2000.



Net Income
(in Billions of Korean Won)

Summarized Income Statement

	In Billions of Korean Won			
	2001	2000	Change	
			Amt.	Pct.
Total income	1,832.7	1,390.4	442.3	31.8
Total expenses	496.3	522.1	-25.8	-4.9
(G&A expenses)	(394.1)	(417.0)	(-22.9)	(-5.5)
Operating income	1,336.4	868.3	468.1	53.9
Reserves	1,195.4	1,261.3	-65.9	-5.2
(Loan loss reserve)	(1,167.2)	(1,226.8)	(-59.6)	(-4.9)
Pre-tax income	141.0	-393.0	534.0	-135.9
Income tax	-81.5	10.7	-92.2	-861.7
Net income	222.5	-403.7	626.2	-155.1

Earnings Breakdown

Most of ₩442.3 billion increase in total income for 2001 came from interest income, which grew 36.0% to more than ₩1.09 trillion. Won-currency interest income was up 37.2% to ₩848.1 billion, while foreign-currency interest income rose 31.8% to reach ₩244.1 billion. This growth resulted from the improved net interest margin achieved through lower funding cost and enhancement of asset quality.

Non-interest income rose 9.2% year on year to reach ₩630.8 billion in 2001. Foreign exchange transactions profit was up 16.7% to ₩214.7 billion, while trading and valuation of securities profit rose 10.0% to ₩168.9 billion and fees & commissions income was 8.9% higher to total ₩239.5 billion for the year. Income from asset sales, on the other hand, was down ₩12.3 billion year on year to ₩7.7 billion.

Trust income for 2001 soared to ₩109.7 billion, an increase of ₩100 billion from the previous year. Trust fee was up 215.5% to ₩97.8 billion, and trading profit, which was ₩28.1 billion in the red for 2000, did not show any gain or loss in 2001.

	In Billions of Korean Won			
	2001	2000	Change	
			Amt.	Pct.
Interest Income	1,092.2	803.3	288.9	36.0
Won currency	848.1	618.1	230.0	37.2
Foreign currency	244.1	185.2	58.9	31.8
Non-interest Income	630.8	577.4	53.4	9.2
FX transactions profit	214.7	183.9	30.8	16.7
Trading & valuation of securities profit	168.9	153.6	15.3	10.0
Fees & commissions	239.5	219.9	19.6	8.9
Sales of assets	7.7	20.0	-12.3	-61.5
Trust Income	109.7	9.7	100.0	1,030.9
Trust fee	97.8	31.0	66.8	215.5
Sales of assets	11.9	6.8	5.1	75.0
Trading profit	0.0	-28.1	28.1	-
Total Income	1,832.7	1,390.4	442.3	31.8

Net Interest Spread and Margin

Overall market interest rates fell in 2001, bringing the average interest on loans received by the Bank down 0.96 percentage points to 7.62% for the year. Meanwhile, the average deposit interest rate paid by the Bank fell even further, 1.45 percentage points, to 4.67%, pushing the interest rate spread up 0.49 percentage points to 2.95%.

The Won-currency NIM increased 0.26 percentage points year on year to 2.44%, while the foreign-currency NIM was 0.54 percentage points higher to reach 1.80% in 2001. Overall NIM was up 0.38 percentage points to 2.23%. The improved NIM is attributable to a much enhanced asset quality and much improved funding cost.

	2001	2000	Change
Loan interest rate--Won	7.62%	8.58%	-0.96%
Deposit interest rate--Won	4.67%	6.12%	-1.45%
Net interest spread--Won	2.95%	2.46%	0.49%
Won NIM	2.44%	2.18%	0.26%
F/X NIM	1.80%	1.26%	0.54%
Total NIM	2.23%	1.85%	0.38%

Business Volume

Total assets rose 8.2% year on year to approach ₩49.24 trillion at the end of 2001. In addition, total deposits increased by 11.7%, an increase of 3.53 trillion, to surpass ₩33.58 trillion. Securities were up 20% to exceed ₩12.35 trillion, while loans were also ₩748.3 billion higher to almost ₩21.72 trillion.

	In Billions of Korean Won			
	2001	2000	Change	
			Amt.	Pct.
Total assets	49,236.8	45,518.7	3,718.1	8.2
Total deposits	33,585.1	30,055	3,531	11.7
Total loans	21,718.1	20,969.8	748.3	3.6
Securities	12,358.1	10,302.3	2,055.8	20

Foreign Exchange & Trade Finance Performance

The Bank's aggregate volume of export-import and foreign exchange transactions totaled US\$124.7 billion in 2001. Breaking this figure down, export transactions fell 6.5% to US\$35.8 billion, while import transactions edged up 0.6% to US\$33.1 billion. Foreign exchange came to US\$55.8 billion in 2001, a 4.0% drop from the year before.

In spite of the fall in transaction volume, KEB was able to expand on its market share of Korea's total export and import business. The Bank's export business market share rose 1.6 percentage points to 23.7%, while import business market share were also up 3 percentage points to 23.5%.

Trade Finance & Foreign Exchange

	In Bio. USD			
	2001	2000	Change	
			Amt.	Pct.
Export	35.8	38.3	-2.5	-6.5
(share% of Korean market)	23.7	22.1	1.6	7.2
Import	33.1	32.9	0.2	0.6
(share% of Korean market)	23.5	20.5	3.0	14.6
Foreign exchange	55.8	58.1	-2.3	-4.0
Total	124.7	129.3	-4.6	-3.6

Loans

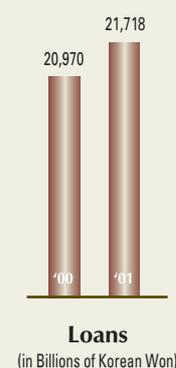
Loans (excluding guarantees & others) grew 3.6% during 2001 to reach almost ₩21.72 trillion at year's end.

Domestic loans (excluding loans at overseas branches) to large corporations were reduced by 35.4% to under ₩4 trillion. Foreign currency loans to large corporations were also down 51.8% year on year to less than ₩1.15 trillion. As a result, the Bank's large corporate loan portfolio dropped 13.6 percentage points to 20.7% during 2001.

By contrast, SME loans increased 21.6% to surpass ₩8.65 trillion, and household loans surged 68.1% to more than ₩6.46 trillion. As a result, the portion of household loans in the portfolio rose 12.1% year on year to reach 33.5%. These figures reflect a continuing effort by the Bank to maintain a balanced loan portfolio with the sharp increase in household loans being the market trend during 2001.

Loans by Borrower Segment

	In Billions of Korean Won					
	2001		2000		Change	
	Amt.	Pct.	Amt.	Pct.	Amt.	Pct.
Large corporations	3,988.7	20.7	6,173.6	34.3	-2,184.9	-35.4
(foreign currency)	1,147.9	73.9	2,380.0	76.9	-1,232.1	-51.8
SMEs	8,653.3	44.8	7,117.4	39.5	1,535.9	21.6
(foreign currency)	402.0	25.9	709.8	22.9	-307.8	-43.4
Households	6,464.7	33.5	3,844.9	21.4	2,619.8	68.1
Others	199.7	1.0	867.0	4.8	-667.3	-77.0
(foreign currency)	3.5	0.2	3.6	0.1	-0.1	-2.8
Total Domestic Loans	19,306.4	100.0	18,002.9	100.0	1,303.5	7.2
(foreign currency)	1,553.4		3,093.4		-1,540.0	-49.8
Loans in Overseas Branches	2,411.7		2,966.9		-555.2	-18.7
Total Loans	21,718.1		20,969.8		748.3	3.6



Asset Quality

Total credit came to just under ₩33.3 trillion at the end of 2001, a slight 0.8% lower than the year before, while the Bank made a concerted effort to dispose of non-performing loans during the year.

The amount of outstanding credit classified substandard & below was reduced 65.6% year on year to under ₩1.19 trillion. This brought the NPL ratio down 6.73 percentage points, from 10.30% at the end of 2000 to just 3.57% a year later. Likewise, outstanding precautionary & below credit dropped 21.0% to under ₩3.85 trillion at year's end. The precautionary & below ratio, therefore, went down 2.96 percentage points, from 14.51% at the beginning of 2001 to 11.55% of the total portfolio by year's end.

Total loans extended to households increased almost ₩2.62 trillion year on year, with the balance at the end of 2001 surpassing ₩6.46 trillion. Despite the growth, household loans classified substandard & below were lowered by ₩22 billion, from ₩46.1 billion at the end of 2000 to ₩24.1 billion a year later. As a result, the substandard & below ratio went down from 1.2% to a mere 0.37% of the total outstanding loans to households during 2001. Over the same period, overdue household loans were lowered from ₩85.2 billion to ₩52.6 billion, reducing the overdue loan ratio from 2.22% to 0.81%.

Loan Classification

	In Billions of Korean Won			
	2001	2000	Change	
			Amt.	Pct.
Normal	29,449.4	28,692.3	757.1	2.6
Precautionary	2,657.8	1,415.2	1,242.6	87.8
Substandard	649.9	1,713.7	-1,063.8	-62.1
Doubtful	489.7	1,524.1	-1,034.4	-67.9
Estimated loss	48.9	217.9	-169.0	-77.6
Total credit	33,295.7	33,563.2	-267.5	-0.8
Precautionary & below	3,846.4	4,870.9	-1,024.5	-21.0
Substandard & below	1,188.5	3,455.7	-2,267.2	-65.6
Provision for loan losses	1,153.6	2,017.7	-864.1	-42.8
Precautionary & below ratio(%)	11.55	14.51	-2.96	-20.4
Gross NPL ratio(%)	3.57	10.30	-6.73	-65.3
Net NPL ratio(%)	0.10	4.28	-4.18	-97.7

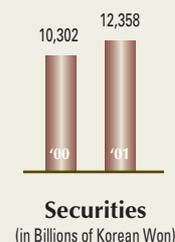
Asset Quality Trend – Household Loans

	In Billions of Korean Won				
	Dec. '00	Mar. '01	Jun. '01	Sept. '01	Dec. '01
Normal	3,780.9	4,304.6	4,605.8	5,597.9	6,421.0
Precautionary	17.9	19.2	21.9	24.5	19.6
Substandard	8.7	7.1	9.3	6.8	8.7
Doubtful	9.9	8.6	8.9	9.7	9.7
Estimated loss	27.5	22.8	7.7	6.3	5.7
Total credit	3,844.9	4,092.3	4,653.6	5,645.2	6,464.7
Substandard & below	46.1	38.5	25.9	22.8	24.1
Ratio (%)	1.20	0.94	0.56	0.40	0.37
Overdue loans	85.2	74.4	50.7	57.9	52.6
Ratio (%)	2.22	1.82	1.09	1.03	0.81

Securities

The Bank's total securities holdings grew 20% year on year to exceed ₩12.35 trillion at the end of 2001. Won-currency securities grew 5.5% to surpass ₩10.13 trillion.

	In Billions of Korean Won & In Millions of USD			
	2001	2000	Change	
			Amt.	Pct.
Won-currency Securities	10,135.7	9,604.8	530.9	5.5
Foreign-currency Securities	\$1,676	\$554	\$1,122	202.5
Domestic	\$1,559	\$456	\$1,103	241.9
Overseas	\$117	\$98	\$19	19.4
Total Securities	12,358.1	10,302.3	2,055.8	20



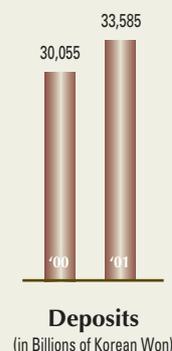
Note: The exchange rate at the end of December 2001 is applied: ₩1,326.10 to US\$1.00.

Deposits

Total deposits stood at more than ₩33.58 trillion at the end of 2001, up 11.7% from the previous year. Won-currency deposits rose 15.5% year on year, whereas foreign-currency deposits and merchant banking accounts fell. Won-currency deposits in banking accounts surpassed ₩24.77 trillion at the end of 2001, up 15.5% from the previous year. Demand deposits grew 21.4% to surpass ₩11.4 trillion, while savings accounts were 4.8% higher than in 2000.

Foreign-currency deposits, on the other hand, fell 8.4% to US\$6.21 billion, and merchant banking deposits were 16.4% lower to ₩787.7 billion at the end of 2001. Although KEB's foreign-currency deposits dropped during the year, the bank maintains a balance 3-4 times held by competing banks.

	In Billions of Korean Won & In Millions of USD			
	2001	2000	Change	
			Amt.	Pct.
Banking Account Deposits in Won	24,772.7	21,442.2	3,330.5	15.5
Demand Deposits	11,403.0	9,393.6	2,009.4	21.4
Savings Deposits	12,394.8	11,829.3	565.5	4.8
Mutual Installment Deposits	736.3	107.6	628.7	584.3
Housing Installment Deposits	238.5	111.8	126.7	113.3
Banking Account CD	566.9	62.7	504.2	804.1
Foreign-currency Deposits	\$6,218	\$6,788	-\$570	-8.4
Domestic	\$5,071	\$5,874	-\$803	-13.7
Overseas	\$1,147	\$914	\$233	25.5
Merchant Banking Account	787.7	942.3	-154.6	-16.4
Total Deposits	33,585.1	30,055	3,531	11.7

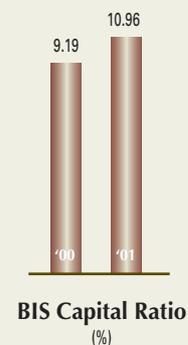


Capital Adequacy

Tier 1 capital came to more than ₩1.92 trillion at the end of 2001 with the same amount for Tier 2 capital. Total BIS capital came to ₩3.85 trillion, which was an increase of ₩872 billion compared to year 2000. Total risk-adjusted assets were over ₩35.11 trillion and the BIS ratio stood at 10.96% at year's end, 1.77 percentage points higher than the year before. Although risk-adjusted total assets were higher year on year, the generation of net income and public listing of KEB Credit Service Co., Ltd. drove Tier 1 capital up, while Tier 2 capital was also higher because of an increase in subordinated debt.

BIS Capital Ratio

	In Billions of Korean Won	
	2001	2000
Tier 1		
Paid-in capital	1,851	1,851
Capital surplus	145	173
Retained earnings	-139	-398
Minority interest	441	252
Capital adjustment	-373	-389
	1,925	1,489
Tier 2		
Reserve for loan losses	398	199
Asset revaluation surplus	99	94
Subordinated debt	963	744
Upper Tier2	465	452
	1,925	1,489
Total Capital	3,850	2,978
Risk-adjusted assets		
Balance sheet amount	30,206	27,047
Off-balance sheet amount	4,911	5,347
	35,117	32,394
Risk-adjusted Capital Ratios(%)		
Tier1	5.48%	4.60%
Total	10.96%	9.19%



NON-CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 2)	
	2001	2000	2001	2000
ASSETS :				
Cash and due from banks (Note 3)	₩ 3,412,376	₩ 5,164,628	US\$ 2,573,242	US\$ 3,894,599
Trading securities (Note 4)	2,053,953	1,542,907	1,548,867	1,163,492
Investment securities (Note 4)	10,304,090	8,008,045	7,770,221	6,038,794
Loans, net of allowance for loan losses (Note 5)	27,978,294	25,647,404	21,098,178	19,340,475
Premises and equipment, net (Note 6)	738,549	767,937	556,933	579,094
Accrued interest	258,295	383,999	194,778	289,570
Other assets (Note 7)	4,491,311	4,003,817	3,386,857	3,019,242
Total Assets	₩ 49,236,868	₩ 45,518,737	US\$ 37,129,076	US\$ 34,325,267
LIABILITIES AND SHAREHOLDERS' EQUITY :				
Liabilities :				
Deposits (Note 8)	₩ 33,585,099	₩ 30,055,177	US\$ 25,326,219	US\$ 22,664,337
Borrowings (Note 9)	5,357,300	7,065,950	4,039,891	5,328,369
Debentures (Note 10)	3,000,468	2,115,442	2,262,626	1,595,236
Accrued expenses	528,346	760,479	398,421	573,470
Other liabilities (Notes 11 and 12)	5,090,767	4,108,700	3,838,901	3,098,333
Total Liabilities	₩ 47,561,980	₩ 44,105,748	US\$ 35,866,058	US\$ 33,259,745
Commitments and Contingencies (Note 17)				
Shareholders' equity (Note 1) :				
Capital stock,				
1,000 million shares authorized;				
Common stock, ₩ 5,000 par value;				
222 million shares issued and outstanding				
in 2001 and 2000	₩ 1,110,875	₩ 1,110,875	US\$ 837,701	US\$ 837,701
Preferred stock, ₩ 5,000 par value;				
148 million shares issued and outstanding				
in 2001 and 2000	740,000	740,000	558,027	558,027
Accumulated deficit (Note 15)	(148,028)	(269,852)	(111,627)	(203,493)
Capital adjustments, net (Note 16)	(27,959)	(168,034)	(21,084)	(126,713)
Total Shareholders' Equity	₩ 1,674,888	₩ 1,412,989	US\$ 1,263,018	US\$ 1,065,522
Total Liabilities and Shareholders' Equity	₩ 49,236,868	₩ 45,518,737	US\$ 37,129,076	US\$ 34,325,267

The accompanying notes are an integral part of these financial statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2001 and 2000

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2001	2000	2001	2000
Revenue :				
Interest on due from banks	₩ 64,130	₩ 188,125	US\$ 48,360	US\$ 141,863
Interest on securities	610,262	745,094	460,193	561,869
Interest on loans	2,050,186	2,121,129	1,546,027	1,599,524
Other interest income	235,201	56,891	177,363	42,901
Total interest income	2,959,779	3,111,239	2,231,943	2,346,157
Fees and commissions income	276,353	254,388	208,395	191,832
Gains on foreign exchange transactions	1,544,004	969,376	1,164,319	730,998
Trust fee income	48,064	74,126	36,245	55,898
Other income (Note 18)	645,013	691,069	486,398	521,129
Total revenue	5,473,213	5,100,198	4,127,300	3,846,013
Expenses :				
Interest on deposits	1,393,820	1,671,772	1,051,067	1,260,668
Interest on borrowings and debentures	574,241	759,417	433,030	572,669
Other interest expense	24,248	45,851	18,285	34,576
Total interest expense	1,992,309	2,477,040	1,502,382	1,867,913
Fees and commissions expense	36,147	28,456	27,258	21,458
Losses on foreign exchange transactions	1,316,408	755,746	992,691	569,901
Provision for loan losses	975,421	1,157,536	735,556	872,887
General and administrative expenses	419,542	442,918	316,373	334,000
Provision for severance benefits	26,428	34,262	19,929	25,837
Depreciation and amortization	56,298	55,797	42,454	42,076
Compensation for trust accounts	-	147,693	-	111,374
Other expenses (Note 19)	509,577	393,761	384,267	296,932
Total expenses	5,332,130	5,493,209	4,020,911	4,142,379
Net income(loss) before income taxes	141,083	(393,011)	106,389	(296,366)
Income tax expenses (Note 20)	(81,464)	10,692	(61,431)	8,063
Net income(loss)	₩ 222,547	₩ (403,703)	US\$ 167,820	US\$ (304,429)
Ordinary income(loss) per share (Note 21) (in Korean Won)				
- Basic	₩ 953	₩ (2,038)	US\$ 719	US\$ (1,537)
- Diluted	₩ 572	₩ (2,038)	US\$ 431	US\$ (1,537)
Net income(loss) per share (Note 21) (in Korean Won)				
- Basic	₩ 1,004	₩ (1,835)	US\$ 757	US\$ (1,384)
- Diluted	₩ 602	₩ (1,835)	US\$ 454	US\$ (1,384)

The accompanying notes are an integral part of these financial statements

NON-CONSOLIDATED STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT

for the years ended December 31, 2001 and 2000

Date of disposition for 2001 : March 29, 2002

Date of disposition for 2000 : March 13, 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2001	2000	2001	2000
Accumulated deficit before disposition :				
Undisposed accumulated deficit				
carried over from the prior year	₩ (282,983)	₩ (1,055,801)	US\$ (213,395)	US\$ (796,170)
Cumulative effect of accounting change (Notes 2 and 15)	(104,595)	(64,118)	(78,874)	(48,351)
Net income(loss) for the year	222,547	(403,703)	(167,821)	(304,429)
	(165,031)	(1,523,622)	(124,448)	(1,148,950)
Disposition :				
Capital surplus	-	1,240,875	-	935,733
Others	(8,445)	(236)	(6,368)	(178)
Undisposed accumulated deficit to be carried forward to the subsequent year	₩ (173,476)	₩ (282,983)	US\$ (130,817)	US\$ (213,395)

The accompanying notes are an integral part of these financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2001 and 2000

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2001	2000	2001	2000
Cash flows from operating activities:				
Net income(loss)	₩ 222,547	₩ (403,703)	US\$ 167,821	US\$ (304,429)
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of securities, net	(20,027)	(48,655)	(15,102)	(36,690)
Valuation loss(gain) on securities, net	(4,456)	(80,650)	(3,360)	(60,817)
Gain on sales of loans, net	(9,172)	(19,989)	(6,917)	(15,074)
Allowance for loan losses	975,421	1,179,777	735,556	889,659
Provision for guarantees and acceptances	-	12,104	-	9,128
Depreciation and amortization	56,298	55,797	42,454	42,076
Provision for severance benefits	26,428	34,262	19,929	25,837
Amortization of present value discounts	(21,015)	(39,632)	(15,847)	(29,886)
Decrease in accrued income	125,704	21,959	94,792	16,559
Decrease(Increase) in accrued expenses	(232,133)	135,448	(175,049)	102,140
Others, net	(332,249)	(18,676)	(250,546)	(14,083)
Net cash provided by operating activities	787,346	828,042	593,730	624,419
Cash flows from investing activities:				
Increase (Decrease) in trading securities	(465,593)	497,311	(351,099)	375,018
Increase (Decrease) in investment securities	(2,277,700)	377,351	(1,717,593)	284,557
Net increase in loans	(3,276,648)	(4,740,759)	(2,470,891)	(3,574,963)
Acquisitions of premises and equipment	(28,921)	(32,037)	(21,809)	(24,159)
Decrease(Increase) in merchant banking assets	150,200	(77,303)	113,264	(58,293)
Others, net	554,351	(195,228)	418,031	(147,220)
Net cash used in investing activities	(5,344,311)	(4,170,665)	(4,030,097)	(3,145,061)
Cash flows from financing activities:				
Net increase in deposits	3,540,908	3,250,159	2,670,167	2,450,915
Net decrease in borrowings and debentures	(823,624)	(1,756,067)	(621,087)	(1,324,234)
Issuance of new shares for cash	-	610,000	-	459,995
Proceeds from disposal of treasury shares	2,930	-	2,209	-
Increase(Decrease) in merchant banking liabilities	(158,606)	498,488	(119,603)	375,905
Others, net	246,515	80,172	185,895	60,457
Net cash provided by financing activities	2,808,123	2,682,752	2,117,580	2,023,039
Net increase in cash and cash equivalents	(1,748,842)	(659,871)	(1,318,786)	(497,603)
Cash and cash equivalents at beginning of year	5,188,754	5,848,625	3,912,792	4,410,395
Cash and cash equivalents at end of year (Note 23)	₩ 3,439,912	₩ 5,188,754	US\$ 2,594,006	US\$ 3,912,792

The accompanying notes are an integral part of these financial statements

1. The Bank:

Korea Exchange Bank (the "Bank") was established in 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank provides primarily commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The Bank implemented a two-to-one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. (The resulting gain on capital reduction of ₩1,240,875 million was used for the disposition of accumulated deficit.) In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 80 million shares and 42 million shares were issued to The Export-Import Bank of Korea and Commerzbank A.G, respectively, in accordance with a resolution of board of directors on November 10, 2000.

The preferred shareholders are entitled to non-cumulative and non-participating preferred dividends ranging from 5% to 9% of par value per annum. Preferred shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. For 26,000 thousand shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 thousand shares of newly issued convertible preferred stock will be converted at conversion date after three years from the issue date.

The Bank's shareholders as of December 31, 2001 and 2000 are as follows:

	Number of shares owned (shares)				Ownership(%)	
	Common stock	Preferred stock	Total (2001)	Total (2000)	2001	2000
Commerzbank A.G.	52,483,312	68,000,000	120,483,312	120,483,437	32.55	32.55
Bank of Korea	39,500,000	-	39,500,000	39,500,000	10.67	10.67
Export-Import Bank of Korea	40,134,387	80,000,000	120,314,387	120,314,387	32.50	32.50
Others	89,877,232	-	89,877,232	89,877,107	24.28	24.28
	222,174,931	148,000,000	370,174,931	370,174,931	100.00	100.00

As of December 31, 2001, the Bank has 291 branches, agencies and offices in domestic and overseas markets. The Bank has closed 9 domestic branches in 2001. The Bank plans to close 5 more domestic branches in 2002.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank in the preparation of the accompanying non-consolidated financial statements are summarized as follows:

Basis of Financial Statement Presentation

The official accounting records of the Bank are maintained in Korean Won in accordance with the relevant laws and regulations of the Republic of Korea.

The Bank operates both a commercial banking business and a trust business in which the Bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust funds are accounted for and reported separately from the Bank's own commercial banking business.

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

Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral is recognized on a cash basis in accordance with the generally accepted financial accounting standards of the Republic of Korea. At December 31, 2001 and 2000, the amount of interest not recognized due to such policy approximates ₩85,488 million and ₩68,840 million, respectively.

Allowances for Loan Losses

Commencing in 1999, The Bank applied Forward Looking Criteria ("FLC") in its loan classification to determine allowances for possible loan losses. Under this method, the borrowers' future debt service capacity as well as overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses were determined by applying the following minimum percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

The Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above.

Investments in Debt and Equity Securities

Investments in debt and equity securities are accounted as follows:

- All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.
- Investments in equity and debt securities that are bought and held principally for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.
- Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Bank's proportionate ownership of the underlying book value of the investees which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Investments in equity securities of companies over which the Bank exerts significant control or influence are recorded using the equity method of accounting. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investees are amortized over five years using the straight-line method. Under the equity method, the Bank records changes in its proportionate ownership of the book value of the investees as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book of the investees.
- Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investment in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums. Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Premises and Equipment

Premises and equipment are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see Note 14). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Intangible Assets

Intangible assets are recorded at cost and amortized over five years using the straight-line method.

Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

Gains or losses on disposal of foreclosed assets on an installment payment basis are recognized as other income or expenses as incurred.

Accrued Severance Benefits

Employees and executives with one year or more of service with the Bank are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance benefits of ₩26,314 million and ₩190,883 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2001 and 2000, respectively.

The Bank paid additional severance benefits to early-retired employees in addition to normal severance benefits as required by the relevant laws and the Bank's retirement policy. No accrual is provided for future early retirements. The Bank's actual payment of severance benefits in 2001 and 2000, approximated ₩190,758 million (including ₩187,924 of interim settlement of severance benefits) and ₩71,741 million (₩19,892 of additional early retirement benefits), respectively.

In accordance with the National Pension Act, the Bank deposits a portion of accrued severance benefits with the National Pension Fund presented as deduction from accrued severance benefits. The contributed deposit amount shall be refunded to employees and executives from the National Pension Fund on their retirement. In addition, the Bank has partially funded accrued severance benefits through group severance insurance plans.

Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expenses. Debenture issuance costs carried over from previous years continue to be amortized using the straight-line method consistent with the prior years' method in accordance with the financial accounting standards.

Present Value Discounts

The difference between the nominal value and the present value of accounts receivable arising from installment sales of foreclosed assets is amortized using the

effective interest rate method. Amortization of these discounts is included in other interest income.

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

Discounts on Capital Stock

Discounts on capital stock arising from payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized over three years by appropriations of retained earnings. However, due to accumulated deficits as of December 31, 2001 and 2000 there has been no amortization in 2001 and 2000.

Income Taxes

Current income taxes payable comprise corporate income tax and tax surcharges payable for the year. In addition, deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purpose are recognized for interperiod tax allocation purposes. The total income tax provision includes current tax expense under applicable tax regulations and the changes in the balance of deferred tax assets and liabilities. In addition, Deferred tax assets and liabilities recorded by overseas branches are included in other assets and liabilities and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying non-consolidated financial statements.

Tax credits are recognized as a reduction of income tax expense in the year they are incurred for tax purposes.

Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions.

The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the financial accounting standards.

The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 2001 and 2000 are ₩1,326.10:US\$1.

Stock Option

In accordance with financial accounting standards, compensation costs for stock options granted to employees and executives are recognized on the basis of fair value.

Under the fair value basis method, compensation costs for stock option plans are determined using an option-pricing model in which the Bank assumes no volatility of the underlying stock prices at grant dates and recognized as compensation expense equally over the vesting period.

Derivative Financial Instruments

Derivative financial instruments ("derivatives") are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operations. Unrealized gains or losses on derivatives for cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in the capital adjustment account and recorded in operations in the period when underlying transactions have effect on operations.

Trust Fees and Compensation to the Trust Accounts

The Bank receives trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations.

The Bank compensates for losses incurred in certain trust accounts with minimum return guarantees. The amount of compensation accounted as compensation for trust accounts was ₩147,693 million and there is no compensation for trust accounts in this year.

Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on an increased number of shares that would be outstanding assuming conversion of potentially dilutive securities as shown in Note 21.

Merchant Banking Operations

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from KIMB upon merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

- Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

- Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

- Lease Transactions

The Bank accounts for lease transactions as operating or financing leases, depending upon the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

Operating lease equipment are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets.

The Bank accrues estimated losses from future sales of operating lease properties. The provision for such unrealized losses recognized in 200 and 2000 amounts to ₩1,649 million and ₩2,541 million, respectively.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that related lease rental revenues are recognized. Foreign currency translation losses incurred and deferred in 2001 approximate ₩3,967 million and foreign currency translation gains incurred and deferred in 2000 approximate ₩10,190 million.

Reclassification of 2001 Amount

Certain amounts in 2000 financial statements have been reclassified to conform to the 2001 presentation. These reclassification have no effect on previously reported net income or shareholders' equity.

3. Cash and Due from Banks:

Cash and due from banks in Won at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
	2001.12.31	2001	2000
Cash on hand	-	₩ 1,209,902	₩ 1,282,903
Deposits with the Bank of Korea (reserve deposit)	-	614,011	679,412
Deposits with other banks	0%~9.7%	129,280	29,908
Deposits with other financial institutions	0%~14.704%	401,039	1,672,055
		₩ 2,354,232	₩ 3,664,278

Cash and due from banks in foreign currencies at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
	2001.12.31	2001	2000
Cash on hand	-	₩ 137,174	₩ 139,481
Deposits with the Bank of Korea Reserve deposit	-	331,902	282,046
Deposits with other Banks	1.25%~7.8%	-	52,286
Deposits with overseas financial institutions	(*)	589,068	1,026,537
		₩ 1,058,144	₩ 1,500,350

(*) Time deposits: 0.26~6.5%

Other deposits: 0.05%

Deposits with other bank in foreign currency:

(USD: Federal Fund rate - 0.5%, Other currencies: 0%)

Deposits with the Bank of Korea (reserve deposits) represent reserves the Bank is required to maintain for the payment of deposits in accordance with the Banking Act and the Bank of Korea Act. As of December 31, 2001 and 2000, foreign currency deposits with the Bank of Korea and other banks deposited in the course of transactions of derivative financial instruments amount to ₩1,677 million and ₩152 million, respectively, and won currency deposits with KorAm bank and other banks deposited related to asset-backed securitization and derivative financial instruments amount to ₩75,000 million and ₩15,181 million, respectively. Accordingly, the withdrawal of these deposits is restricted.

The scheduled maturities of due from banks as of December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 444,960	₩ 70,035	₩ 629,335	₩ 1,144,330
Due from Banks in foreign currencies	919,293	-	1,677	920,970
	₩ 1,364,253	₩ 70,035	₩ 631,012	₩ 2,065,300

4. Securities:

Securities at December 31, 2001 and 2000 are as follows:

	In Millions			
	Debt securities		Equity securities	
	2001	2000	2001	2000
Trading securities	₩ 2,053,953	₩ 1,542,907	₩ -	₩ -
Investment securities:				
Available for sale	7,968,800	5,980,589	521,530	305,861
Held-to-maturity	869,611	933,518	-	-
Investment in subsidiaries	-	-	944,149	788,077
	8,838,411	6,914,107	1,465,679	1,093,938
	₩ 10,892,364	₩ 8,457,014	₩ 1,465,679	₩ 1,093,938

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

Investments in Debt Securities

Investments in debt securities at December 31, 2001 and 2000 are as follows:

	Annual Interest Rate (%)	In Millions							
		2001				2000			
	2001.12.31	Nominal amount	Acquisition cost	Adjusted acquisition cost	Fair Value	Nominal amount	Acquisition cost	Adjusted acquisition cost	Fair Value
Trading securities:									
Monetary stabilization bonds	4.644~6.81	₩ 220,449	₩ 215,111	₩ 214,719	₩ 214,473	₩ 79,469	₩ 79,745	₩ 79,759	₩ 79,890
Bonds issued by the government	4.45~6.89	5,731	5,793	5,697	5,756	164,418	160,422	160,527	161,164
Bonds issued by corporations	-	-	-	-	-	734,065	762,189	762,514	755,984
Beneficiary certificates	-	305,288	305,288	305,302	316,884	518,887	518,887	518,887	540,635
Bonds denominated in foreign currencies	0~8.75	1,517,058	1,516,123	1,518,084	1,516,840	5,038	5,151	5,244	5,234
		2,048,526	2,042,315	2,043,802	2,053,953	1,501,877	1,526,394	1,526,930	1,542,907
Investment securities:									
Monetary stabilization bonds	3.985~8.86	1,335,221	1,312,011	1,308,458	1,302,769	1,353,400	1,275,827	1,276,476	1,280,494
Bonds issued by the government	5.00~10.84	616,800	619,324	622,147	621,226	962,594	921,224	928,062	929,554
Bonds guaranteed by the government	5.11~15.00	2,886,387	2,942,457	2,931,047	2,930,897	1,876,518	1,914,383	1,912,350	1,914,603
Bonds issued by corporations	2.00~16.00	3,199,019	3,185,092	3,191,774	3,127,241	2,255,879	2,254,508	2,254,336	2,251,871
Beneficiary certificates	-	320,300	320,300	320,300	358,374	5,346	5,346	5,346	9,163
Other securities	-	2,374	2,374	2,374	2,374	56,615	56,615	56,615	56,615
Bonds denominated in foreign currencies	0.25~12.75	562,006	511,434	444,968	494,803	561,865	511,015	512,635	433,254
Off-shore debt securities	0~6.58	15,715	10,495	2,218	727	52,929	49,423	49,737	38,553
		8,937,822	8,903,487	8,823,286	8,838,411	7,125,146	6,988,341	6,995,557	6,914,107
		₩10,986,348	₩10,945,802	₩10,867,088	₩10,892,364	₩8,627,023	₩8,514,735	₩8,522,487	₩8,457,014

The scheduled maturities of debt securities at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Monetary stabilization bonds	₩ 1,191,201	₩ 326,041	₩ -	₩ 1,517,242
Bonds issued by the government	445,954	179,478	1,550	626,982
Bonds guaranteed by the government	-	1,068,496	1,862,401	2,930,897
Bonds issued by corporations	1,470,038	1,418,150	239,053	3,127,241
Beneficiary certificates	675,258	-	-	675,258
Other securities	2,374	-	-	2,374
Bonds denominated in foreign currencies	1,587,111	133,504	291,028	2,011,643
Off-shore debt securities	-	-	727	727
	₩ 5,371,936	₩ 3,125,669	₩ 2,394,759	₩ 10,892,364

Debt securities in foreign currencies, classified by country, as of December 31, 2001 are as follows:

Countries	In Thousands (*)	In Millions	Ratio (%)
USA	US\$ 1,080,128	₩ 1,432,356	71.2
Korea	305,304	404,863	20.1
Philippines	14,394	19,087	0.9
Other	117,684	156,063	7.8
	US\$ 1,517,510	₩ 2,012,369	100.0

(*) Foreign currencies, except for U.S. dollars, are converted into equivalent U.S. dollar amounts using the exchange rate prevailing on December 31, 2001.

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for the years ended December 31, 2001 and 2000

Guarantee Deposits for Trust Operations

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits at December 31, 2001 and 2000 are ₩4,266 million (₩6,468 million) and ₩7,999 million (₩10,642 million), respectively.

Investments in Equity Securities

Investments in equity securities at December 31, 2001 and 2000 are as follows:

	Shares owned by the Bank(1,000 shares)		Ownership Ratio(%)		Acquisition Cost		Market or Net Asset Value		Carrying Value	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Investment securities:										
Equity securities in Won (*)	-	-	-	-	₩ 891,406	₩ 689,413	₩ 497,054	₩ 285,043	₩ 497,054	₩ 285,043
Equity securities denominated in foreign currencies	-	-	-	-	9,836	9,894	9,836	9,894	9,836	9,894
Other investments	-	-	-	-	14,013	17,350	14,640	10,923	14,640	10,923
Investment in domestic subsidiaries										
KEB Leasing Co., Ltd. ("KEBLS")	14,976	2,400	99.3	30.0	74,881	12,000	124,405	12,804	124,405	63,681
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")	18,795	18,795	45.0	51.1	87,975	87,975	305,759	199,777	305,759	200,348
KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")	2,760	2,760	46.0	46.0	13,800	13,800	15,328	17,160	15,328	17,160
KEB Future Co., Ltd. ("KEBFC")	3,000	3,000	100	100	15,000	15,000	15,263	13,766	15,263	13,766
Doosan Heavy Industries & Construction Co., Ltd.	16,400	16,400	15.7	15.7	82,000	82,000	276,061	270,578	276,061	270,578
					273,656	210,775	736,816	514,085	736,816	565,533
Investment in foreign subsidiaries										
Pacific Union Bank ("PUB")	5,914	5,377	62.5	62.5	38,493	38,493	74,569	60,129	74,569	60,129
Korea Exchange Bank of Canada ("KEBOC")	334	334	100	100	26,322	26,322	33,324	29,598	33,324	29,649
KEB (Asia) Finance Ltd. ("KAF")	-	4,680	-	80	-	54,775	-	-	-	-
KEB Australia Co., Ltd. ("KEBA")	55,000	40,000	100	100	38,527	28,346	11,628	13,757	11,628	14,192
KEB International Ltd. ("KEBI")		27,000		100		50,001		33,921		34,047
P.T. Korea Exchange Bank	1	1	85.0	85	16,453	16,453	28,796	26,858	28,796	27,438
Korea Exchange Bank (Deutschland) A.G. ("KEBD A.G.")	20	20	100	100	20,589	20,589	29,620	28,293	29,620	28,652
KEB Ireland Ltd. ("KEB Ire")	3,000	3,000	100	100	3,436	3,436	7,549	6,319	7,549	6,552
KEB Brazil ("KEBB")	24,000	17,890	100	100	13,632	11,290	14,103	12,913	14,103	12,913
Cairo Far East Bank S.A.E. ("CFEB")	8	8	31.5	31.5	8,281	8,281	7,744	7,842	7,744	7,842
					165,733	257,986	207,333	219,630	207,333	221,414
Investments in foreign subsidiaries at cost(**)										
KEB International Ltd. ("KEBI")	18,200	27,000	100	100	33,078	50,001	-	33,921	-	34,047
KIMB Finance, Ltd. ("KIMBF")	-	20,000	-	100	-	16,766	-	1,131	-	1,131
					-	66,767	-	35,052	-	35,178
					₩1,354,644	₩1,252,185	₩1,465,679	₩1,074,627	₩1,465,670	₩1,127,985

(*) ₩258,664 million of equity securities represent stock converted from debt securities or loan under debt restructuring agreements, disposition is restricted.

(**) The cost method was applied since the subsidiaries are in the process of sales or liquidation and accordingly, the Bank's control is temporary.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

As of December 31, 2001 details of investments in subsidiaries accounted for using the equity method are as follows:

					Increase (decrease) in equity of equity method investees			
	Acquisition Cost	Beginning balance under equity method	Acquisition (Disposition)	Translation adjustment	Equity in earnings	Accumulated deficit	Capital adjustment	Book value
PUB	₩ 38,493	₩ 60,129	₩ -	₩ 3,169	₩ 9,591	₩ (7,914)	₩ 9,594	₩ 74,569
KEBOC	26,322	29,649	-	(245)	3,920	-	-	33,324
KEBA	38,527	14,192	10,181	(499)	(12,246)	-	-	11,628
KEBD A.G.	20,589	28,652	(262)	(709)	1,939	-	-	29,620
KEBD	16,453	27,438	(9,708)	(838)	11,904	-	-	28,796
KEB Ire	3,436	6,552	-	345	1,554	(902)	-	7,549
KEBB	13,632	12,913	2,342	(1,527)	375	(1,140)	1,140	14,103
KEBCS	87,975	200,348	(11,244)	-	94,778	-	21,877	305,759
KEBLS	74,881	63,681	74,023	-	(2,930)	-11,143	774	124,405
KEBIT	13,800	17,160	-	-	(1,832)	-	-	15,328
KEBFC	15,000	13,766	-	-	1,497	-	-	15,263
Doosan Heavy Industries & Construction Co., Ltd.	82,000	270,578	-	-	(5,663)	-	11,146	276,061
CFEB	8,281	7,842	(442)	413	(69)	-	-	7,744
KEBI	33,078	34,047	(16,923)	765	(17,889)	20,193	(20,193)	-
	₩ 472,467	₩ 786,947	₩ 47,967	₩ 874	₩ 84,929	₩ (906)	₩ 24,338	₩ 944,149

As of December 31, 2000 details of investments in subsidiaries accounted for using the equity method are as follows:

					Increase (decrease) in equity of equity method investees			
	Acquisition Cost	Beginning balance under equity method	Acquisition (Disposition)	Translation adjustment	Equity in earnings	Accumulated deficit	Capital adjustment	Book value
PUB	₩ 57,270	₩ 64,648	₩ (21,886)	₩ 6,453	₩ 9,569	₩ (16,359)	₩ 17,704	₩ 60,129
KAF	54,775	-	-	-	-	-	-	-
KEBOC	26,322	24,356	-	1,613	3,680	-	-	29,649
KEBA	28,346	12,689	-	(721)	2,224	1,407	(1,407)	14,192
KEBI	50,001	33,070	-	518	459	-	-	34,047
KEBD A.G.	20,589	26,173	(13)	834	1,672	(14)	-	28,652
KEBD	16,453	33,651	(10,014)	(6,342)	10,143	(3,338)	3,338	27,438
KEB Ire	3,436	5,399	-	539	614	-	-	6,552
KEBB	11,290	12,449	-	301	163	-	-	12,913
KEBCS	87,975	143,250	(2,349)	-	56,368	(18,015)	21,094	200,348
KEBLS	12,000	8,450	-	-	56,610	451	(1,830)	63,681
KEBIT	13,800	20,097	-	-	(382)	(2,555)	-	17,160
KEBFC	10,000	9,280	5,000	-	(521)	207	(200)	13,766
Doosan Heavy Industries & Construction Co., Ltd.	82,000	271,683	(1,640)	-	4,758	(3,213)	(1,010)	270,578
CFEB	8,281	8,891	-	887	63	(1,999)	-	7,842
	₩ 482,538	₩ 674,086	₩ (30,901)	₩ 4,081	₩ 145,420	₩ (43,428)	₩ 37,689	₩ 786,947

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

Other Information

Securities denominated in foreign currencies at December 31, 2001 and 2000 are as follows:

	Currency	2001		2000	
		In Thousands	In Millions	In Thousands	In Millions
Government Bond	USD	1,279,686	1,696,992	84,517	₩ 106,466
	HKD	60,790	10,240	46,624	7,530
	SGD	5,532	3,932	5,477	3,973
	(*)	2,272	3,013	2,201	2,773
			1,714,177		120,742
Debentures issued by financial institutions	USD	170,117	225,592	181,319	228,408
Bonds issued by corporations	USD	53,068	70,373	98,944	124,640
	CHF	2,841	2,228	4,097	3,196
	(*)	-	-	43	55
			72,601		127,891
Equity securities	USD	7,417	9,836	7,417	9,343
	JPY	-	-	50,000	551
			9,836		9,894
Investments in subsidiaries	(*)	156,348	207,333	176,665	222,545
			₩ 2,229,539		₩ 709,480

(*) Securities denominated in other foreign currencies are presented at equivalent U.S. dollar amounts.

At December 31, 2001, the Bank provided debt securities amounting to ₩2,174,646 million as collateral for borrowings from the Bank of Korea and others (see Note 9) and has total debt securities amounting to ₩3,480,700 million available for re-discount to the Bank of Korea. Securities denominated in foreign currencies amounting to ₩5,304 million were deposited in connection with agreements of derivative financial instruments and accordingly, the withdrawals of such securities are restricted.

5. Loans:

Loans at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Loans in Won	₩ 16,094,618	₩ 12,420,229
Loans in foreign currencies	3,965,107	6,060,299
Bills bought in Won	1,608,057	2,057,166
Foreign exchange bills purchased	3,354,507	3,924,174
Call loans	197,363	1,887,343
Other	3,863,829	1,141,422
	29,083,481	27,490,633
Less: Allowance for loan losses	(987,759)	(1,623,100)
Present value discount	(117,428)	(220,129)
	₩ 27,978,294	₩ 25,647,404

Interest rates on the above loans are normally prime rates or effective market rates plus spreads of up to 5.0%, as determined based on the types and terms of loans. Most loans bear either floating interest rates or fixed rates which are subject to subsequent change as prime rates fluctuate.

Loans to Other Financial Institutions

Loans to other financial institutions at December 31, 2001 and 2000 are as follows:

	In Millions			
	Banks	Other Financial Institutions	Foreign Financial Institutional	Total
Loans in Won	₩ -	₩ 59,000	₩ -	₩ 59,000
Loans in foreign currencies	-	236,263	-	236,263
Bills bought	7,352	-	-	7,352
Call loans	80,207	-	66,372	146,579
2001	₩ 87,559	₩ 295,263	₩ 66,372	₩ 449,194
2000	₩ 352,485	₩ 261,248	₩ 1,565,188	₩ 2,178,921

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

Foreign Currency Loans By Nationality

At December 31, 2001 and 2000, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2001			2000		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 2,312,144	₩ 3,066,134	77.33	US\$ 4,012,588	₩ 5,054,657	83.41
Japan	403,767	535,435	13.5	485,705	611,842	10.1
Russia	110,000	145,871	3.68	110,000	138,567	2.29
Indonesia	38,425	50,955	1.29	16,060	20,231	0.33
China	17,173	22,773	0.57	39,341	49,558	0.82
Tailand	11,208	14,863	0.37	18,115	22,819	0.37
Other	97,334	129,076	3.26	129,098	162,625	2.68
	US\$ 2,990,051	₩ 3,965,107	100.0	US\$ 4,810,907	₩ 6,060,299	100.0

Loans By Industry

At December 31, 2001, the Bank's loans denominated in Korean Won, including trade bills discounted and corporate bills discounted(a portion of bills discounted), classified by industry, are as follows:

	2001		2000	
	In Millions	Ratio (%)	In Millions	Ratio (%)
Manufacturing	₩ 5,594,528	33.78	₩ 6,709,534	38.4
Financial and insurance	112,869	0.64	1,576,726	9.0
Telecommunication	117,966	0.67	93,677	0.5
Wholesale and retails/service	1,387,880	7.87	2,131,811	12.2
Construction	982,006	5.57	997,739	5.7
Individuals and households	6,405,286	36.34	3,675,167	21.0
Other	2,667,139	15.13	2,295,283	13.2
	17,627,674	100.0	17,479,937	100.0
Loans of overseas branches	2,411,740		2,966,874	
	₩ 20,039,414		₩ 20,446,811	

Loan Classification

The credit risk classification for loans and allowance for losses at December 31, 2001 and 2000 are as follows:

	In Million(*)						
	Current	Special mention	Substandard	Doubtful	Loss	Total	Allowance for loan losses
Loans :							
Loan in Won (**)	₩16,708,100	₩ 496,300	₩ 206,200	₩ 110,200	₩ 24,300	₩17,545,100	₩ 594,500
Loans in foreign Currencies	2,856,500	879,700	152,500	74,300	1,600	3,964,600	179,100
Foreign exchange bills bought(***)	3,195,400	100,900	72,400	44,700	100	3,413,500	55,000
Advance for customers	5,700	20,300	49,200	11,700	16,600	103,500	32,700
Factoring receivable	12,161	-	-	-	-	12,161	100
Call loans	196,063	1,300	-	-	-	197,363	-
Credit card account	1,458	-	-	-	-	1,458	-
Loans planed to be converted into equity security	-	561,500	-	39,082	-	600,582	30,800
Privately placed bonds	513,400	189,200	78,500	44,600	-	825,700	44,400
Interbank loans in foreign Currencies	251,076	-	-	-	-	251,076	-
Unsettled Exchange	58,722	-	-	-	-	58,722	-
Bonds purchased on resale agreements	2,000,000	-	-	-	-	2,000,000	-
	₩25,798,580	₩2,249,200	₩ 558,800	₩ 324,582	₩ 42,600	28,973,762	936,600
Others : (****)						987,900	51,159
2001						₩29,961,662	₩ 987,759
Loans :	₩23,579,440	₩ 1,083,100	₩ 1,380,100	₩ 1,073,761	₩ 167,200	27,283,601	1,567,300
Others :						1,119,200	55,800
2000						₩28,402,801	₩1,623,100

(*) These balances represent loan amount after deduction of present value discounts.

(**) Including trade bills discounted and corporate bills discounted

(***) Including local L/C bills bought and exporting bills bought

(****) Comprising Due from Banks, suspense receivables, non-performing asset management fund, etc.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

Maturity Information

The scheduled repayments of loans at December 31, 2001 are as follows:

	In Millions		
	Won currency loans (*)	Foreign currency loans	Total
Due in one year or less	₩ 12,707,800	₩ 1,596,000	₩ 14,303,800
Due from one to three years	4,096,800	1,326,900	5,423,700
Due after three years	823,075	1,042,207	1,865,282
	₩ 17,627,675	₩ 3,965,107	₩ 21,592,782

(*) Including trade bills discounted and corporate bills discounted

Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the year ended December 31, 2001 and 2000 is as follows:

	In Millions	
	2001	2000
Balance at January 1	₩ 1,623,100	₩ 1,929,200
Provision for loan losses	975,421	1,157,536
Reversal of allowance	-	(57,891)
Loans charged off	(1,762,608)	(1,739,794)
Transfer from repurchase of loan from KAMCO and others	120,941	247,166
Translation adjustments	30,905	86,883
	(635,341)	(306,100)
Balance at December 31	₩ 987,759	₩ 1,623,100

Ratios of allowance for loan losses to total loans(Net of present value discount) for the years ended December 31, 2001, 2000 and 1999 are 3.4%, 6.0% and 8.1%, respectively.

At December 31, 2001 and 2000, the Bank's loans of which the balance had been already charged off but the Bank's legal claim rights against borrowers or guarantors have not expired amount to ₩2,773,242 million and ₩2,160,626 million, respectively.

Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipt specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 2001, ₩39,084 million(₩561,498 million of Hynix semiconductor Inc.'s debt to equity swap is not including) of loans subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2001, discounted using interest rates of 5.2% to 14.3%, are ₩117,428 million less than their nominal value of ₩1,108,989 million.

The changes in present value discount of the Bank's restructured loans in 2001 are as follows:

	In Millions			
	Beginning January 1	Addition	Deduction(*)	Balance at December 31
Loans restructured under work-out plan	₩ 118,725	₩ 26,705	₩ 120,632	₩ 24,798
Loans restructured under other similar rescheduling agreements	13,401	3,105	5,432	11,074
Loans in industry rationalization policy	88,003	-	6,447	81,556
	220,129	29,810	132,511	117,428

Other Information

The Bank recognized gains and losses on loan sales amounting to ₩10,835 million and ₩1,663 million, respectively, for the year ended December 31, 2001, and ₩19,989 million ₩34 million, respectively, for the year ended December 31, 2000 in connection with prior years' non-performing loan sales to Korea Asset Management Corporation ("KAMCO"), The sales prices of which are adjusted according to the results of actual subsequent collection of those loans (see Notes 18,19).

The Bank provides housing loans bearing interest at a rate of 7.25% per annum to directors and employees. The outstanding balance of those housing loans receivable as of December 31, 2001 and 2000 amounts to ₩26,132 million and ₩101,390 million, respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

6. Premises and Equipment:

Premises and equipment at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Buildings	₩ 410,751	₩ 414,039
Office facilities held on lease	36,873	32,238
Equipment	303,494	294,026
Foreclosed assets	1,881	9,117
	752,999	749,420
Less: Accumulated depreciation or allowance	(393,520)	(374,068)
	359,479	375,352
Construction in progress	288	2,842
Land	365,555	375,092
Intangible assets	13,227	14,651
	₩ 738,549	₩ 767,937

At December 31, 2001 and 2000, the value of the Bank's domestic lands as determined by the tax authorities for property tax assessment purpose amounts to ₩379,621 million and ₩390,869 million, respectively.

At December 31, 2001, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

7. Other Assets:

Other assets at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Merchant banking assets	₩ 1,296,162	₩ 1,446,176
Guarantee deposits	400,323	385,769
Accounts receivable	1,146,687	1,234,749
Prepaid expenses	143,693	204,788
Suspense receivable	55,956	34,654
Domestic exchange settlement	645,683	330,397
Loans to trust accounts	433,352	163,100
Deferred tax assets	103,182	3,329
Other	266,273	200,855
	₩ 4,491,311	₩ 4,003,817

Merchant banking assets at December 31, 2001 and 2000 comprise the following:

	In Millions	
	2001	2000
Notes discounted	₩ 671,826	₩ 576,560
CMA assets	162,281	171,520
Beneficiary certificates	9,076	9,599
Operating lease equipment, net	46,202	69,020
Financing leases receivable	360,989	582,963
Others	53,376	73,314
Less: Allowance for loan losses	(7,588)	(36,800)
	₩ 1,296,162	₩ 1,446,176

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

Notes Discounted

The merchant banking division of the Bank provides discounting of short-term notes and trade bills receivable maturing in 1 year or less.

Notes and trade bills discounted and held at December 31, 2001 and 2000 comprise the following:

	In Millions	
	2001	2000
Notes discounted		
Issued by eligible customers	₩ 671,676	₩ 574,866
Guaranteed by financial institutions	150	150
	671,826	575,016
Payment in subrogation for note guarantees	-	1,544
	₩ 671,826	₩ 576,560

The outstanding balance of notes discounted and sold without recourse is ₩9,514,689 million and ₩ 3,284,189 million at December 31, 2001 and 2000, respectively.

Cash Management Accounts

Cash management accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets at December 31, 2001 and 2000 comprise the following:

	In Millions	
	2001	2000
Notes discounted	₩ 101,540	₩ 108,505
Securities eligible for open market operation	-	49,723
Other securities	60,741	13,292
	₩ 162,281	₩ 171,520

Beneficiary Certificates

Under authorization by the Ministry of Finance and Economy, the merchant banking division of the Bank establishes and manages debt security investment trusts. The assets of these trusts, comprising primarily guaranteed corporate, government and public bonds, are deposited under trust deeds with Seoul Bank who is acting as trustee. As of December 31, 2001, the merchant banking division of the Bank operates various kinds of funds such as long-term debt security trusts, long-term benefit trusts and tax exempt trusts.

The merchant banking division of the Bank issues beneficiary certificates ("BCs") representing shares in the trusts. The BCs are sold at daily trade prices, determined based on the value of the net assets held by the trusts every day. The merchant banking division of the Bank has undertaken to repurchase, at the daily trade price, all BCs sold, when requested by the beneficiaries. The BCs recorded on the balance sheet represent the shares unsold or repurchased by the Bank. Total BCs issued and outstanding at December 31, 2001 and 2000 are 9,023 million shares and 10,504 million shares, respectively.

Operating Lease Equipment

The merchant banking division of the Bank purchases equipment to be leased for periods ranging from three to fifteen years. Lease contracts include the following general provisions:

- Leases are non-cancelable.
- In the event of early termination by the lessee, predetermined liquidation losses are assessed to the lessee.
- The lessee has the option to return the equipment to the merchant banking division of the Bank at the end of the lease term or to renew the lease contract on the basis of a predetermined price at a stated percentage of the original cost.
- The merchant banking division of the Bank is beneficiary of insurance policies.
- Interest rates applied in the computation of quarterly or monthly minimum lease payments is based on actual financing costs plus fixed margins as stated in the lease contract.
- In certain lease agreements, payment of the rentals and potential liquidation losses are partly covered by collateral, amounting up to 5% of acquisition costs of lease assets, in the form of lease contract guarantee deposits from the lessees or guarantees from other Korean financial institutions or the Korean Fidelity and Surety Insurance Company.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

Equipment held for lease classified by industry at December 31, 2001 and 2000 is as follows:

	In Millions	
	2001	2000
General industrial equipment	₩ 59,267	₩ 109,105
Shipping	50,780	50,780
Office equipment	500	6,219
Other	58	8,158
	110,605	174,262
Less: Accumulated depreciation	(62,754)	(102,701)
Allowance for estimated loss on future sales of operating lease assets (see Note 2)	(1,649)	(2,541)
	₩ 46,202	₩ 69,020

The estimated future rentals to be received on the operating leases as of December 31, 2001 are as follows:

For the year ending December 31,	In Millions		
	Foreign Currency Rentals (*)	Won Currency Rentals	Total
2002	₩ 18,395	₩ 6,955	₩ 25,350
2003	17,282	6,807	24,089
2004	16,101	6,286	22,387
2005	9,039	2,252	11,291
2006	4,531	527	5,058
2007 and thereafter	14,803	-	14,803
	₩ 80,151	₩ 22,827	₩ 102,978

(*) Future rentals of ₩80,151 million denominated in foreign currencies are equivalent to US\$ 60,441 thousand.

The estimated future lease payments in aggregate to be received on financing leases as of December 31, 2001 are as follows:

For the year ending December 31	In Millions
2002	124,616
2003	113,655
2004	117,109
2005	24,742
2006	14,690
2007 and thereafter	4,069
Total lease payments to be received	398,881
Less: Unearned interest income	(37,892)
Net financing leases receivable	360,989

8. Credit Risk Classification and Related Allowance for Loan Losses

The credit risk classification and allowance for loan losses of the accounts in the merchant banking division of the Bank as of December 31, 2001 and 2000 are as follows:

	In Million(*)						Allowance for estimated potential losses
	Current	Special mention	Substandard	Doubtful	Loss	Total	
Notes discounted	₩ 755,771	₩ 16,267	₩ 170	₩ 1,158	₩ -	₩ 773,366	₩ 4,752
Financing lease receivables	340,908	16,025	4,056	-	-	360,989	2,836
Others	4	-	-	-	-	4	-
2001	₩ 1,096,683	₩ 32,292	₩ 4,226	₩ 1,158	₩ -	₩ 1,134,359	₩ 7,588
2000	₩ 1,130,821	₩ 31,700	₩ 81,200	₩ 19,844	₩ 2,500	₩ 1,266,065	₩ 36,800

(*) These balances represent loan amounts after deduction of present value discounts.

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for the years ended December 31, 2001 and 2000

8. Deposits:

Deposits at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
Deposits in Won:			
Demand deposits	0.0~2.0	₩ 11,209,039	₩ 9,393,605
Saving deposits	3.8~6.9	13,563,661	12,048,684
		24,772,700	21,442,289
Deposits in foreign currencies:			
Demand deposits	0.0~4.45	1,966,509	1,730,618
Saving deposits	0.0~4.45	6,279,065	6,819,478
		8,245,574	8,550,096
Certificates of deposit	4.449~4.938	566,825	62,792
		₩ 33,585,099	₩ 30,055,177

Deposits from Other Financial Institutions

Deposits from other financial institutions at December 31, 2001 and 2000 are as follows:

	In Million							
	2001				2000			
	Banks (*)	Institutions other than banks	Foreign financial institutions	Total	Banks (*)	Institutions other than banks	Foreign financial institutions	Total
Deposits in Won :								
Demand deposits	₩ 5,327	₩792,441	₩ 11,794	₩809,562	₩ 3,422	₩949,627	₩ 6,933	₩959,982
Saving deposits	118,080	305,254	40,166	463,500	35,958	369,067	64,474	469,499
Deposits in foreign Currencies :								
Demand deposits	3,903	17,834	339	22,076	206	45,213	20	45,439
Saving deposits	549,688	1,065,949	-	1,615,637	2,556,823	630,830	12,927	3,200,580
	₩676,998	₩2,181,478	₩ 52,299	₩2,910,775	₩ 2,596,409	₩1,994,737	₩ 84,354	₩4,675,500

(*) Deposits in foreign currencies from banks represent deposits by the Bank of Korea.

Maturity Information

The scheduled maturities of deposits at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 22,965,751	₩ 1,161,785	₩ 645,164	₩ 24,772,700
Deposits in foreign currencies	6,609,959	93,352	1,542,263	8,245,574
Certificates of deposit	566,825	-	-	566,825
	₩ 30,142,535	₩ 1,255,137	₩ 2,187,427	₩ 33,585,099

9. Borrowings:

Borrowings at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
Borrowings in Won			
Borrowings from the Bank of Korea	2.5	₩ 1,213,360	₩ 580,344
Borrowings from the Governmental and Public fund	3.5 ~ 8.0	286,373	258,276
Borrowings from other banks	5.5	246,455	298,056
Borrowings from other financial institutions	6.7 ~ 10.625	120,000	270,000
Borrowings from others	0.5 ~ 11.0	324,960	255,156
		2,191,148	1,661,832

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December 31, 2001 and 2000

	Annual interest rate (%)	In Millions		
		2001.12.31	2001	2000
Borrowings in foreign currencies				
Medium and long-term borrowings	3ML+0.43		571,657	561,339
Short-term borrowings	2.1 ~ 4.1		1,222,737	2,056,120
Refinance	2.87 ~ 4.49		39,385	352,115
Borrowings from banks for subordinated loans	2.350~4.915		30,520	33,629
Others	3ML+0.05~ 6ML+0.01		208,895	211,633
			2,073,194	3,214,836
Securities sold under repurchase Agreements				
Covering notes sold	5.07		623,753	974,003
Call money	4 ~ 4.4		239,492	763,309
	1.9 ~ 3.85		229,713	451,970
			₩ 5,357,300	₩ 7,065,950

Subordinated borrowings

Subordinated borrowings at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions		
		2001.12.31	2001	2000
Subordinated borrowings in Won:				
Samsung Life Insurance, Co. and other, maturing through 2007	8.0 ~ 10.625		₩ 120,000	₩ 270,000
Subordinated borrowings in foreign currencies:				
Commerzbank, maturing through 2005	LIBOR+3.5		46,414	44,090
			(US\$35)	(US\$35)
			₩ 166,414	₩ 314,090

Subordinated borrowings have redemption periods of three to eight years and are due in lump sum at maturity.

Maturity Information

The scheduled maturities of borrowings at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,358,100	₩ 312,000	₩ 521,048	₩ 2,191,148
Borrowings in foreign currencies	1,749,900	166,600	156,694	2,073,194
	₩ 3,108,000	₩ 478,600	₩ 677,742	₩ 4,264,342

Other Information

At December 31, 2001, in the normal course of funding activities the Bank provided ₩2,174,646 million of securities as collateral for borrowings from the Bank of Korea and other financial institutions (see Note 4).

10. Debentures:

Debentures at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions		
		2001.12.31	2001	2000
Debentures in Won				
Debentures	4.97 - 10.5		₩ 800,314	₩ 214,308
Subordinated debentures	7.1 ~ 14.8(*)		1,185,300	585,300
Subordinated convertible debentures	4.0		200,000	200,000
Others	6.72 ~ 11.98		47	-
			2,185,661	999,608
Discounts on debentures			(12,220)	(1,596)
			2,173,441	998,012
Debentures in foreign currencies				
Debentures	6ML+0.95~13.75		831,890	1,125,370
Discounts on debentures			(4,863)	(7,940)
			827,027	1,117,430
			₩3,000,468	₩2,115,442

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

Subordinated Debentures

Subordinated debentures at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
	2001.12.31		
Fund invested by the Korean government, maturing through 2004	(*)	₩ 422,300	₩ 422,300
Samsung Life Insurance Co., maturing in 2007	14.8	13,000	13,000
Public	7.1 ~ 10.5	750,000	150,000
		1,185,300	585,300
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	3ML+2.0	265,220	251,940
		(US\$200)	(US\$200)
Credit Suisse First Boston(CSFB)	13.75	265,220	251,940
		(US\$200)	(US\$200)
		530,440	503,880
		₩ 1,715,740	₩ 1,089,180

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 2001 and 2000 are as follows:

	Periods of debentures	Annual interest rate (%)	In Millions	
			2001	2000
Subordinated convertible debentures (No. 4)	1999. 12. 6			
	~ 2009. 12. 6	4.0	₩ 100,000	₩ 100,000
Subordinated convertible debentures (No. 5)	1999. 12. 27			
	~ 2009. 12. 27	4.0	100,000	100,000
			₩ 200,000	₩ 200,000

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through October 31, 2004 and November 20, 2004, respectively, into common shares at a conversion price of ₩10,000 per share of common stock, as adjusted for the 2:1 capital reduction in 2001. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service ("FSS") on December 6, 2004 (fourth series) and December 27, 2004 (fifth series) at 150.82% of their principal amounts. If such options were not exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the remaining principal will be paid ten years from the issue date.

Repayment Schedules

The scheduled maturities of debentures at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 750,361	₩ 472,300	₩ 963,000	₩ 2,185,661
Debentures in foreign currencies	144,288	148,524	539,078	831,890
	₩ 894,649	₩ 620,824	₩ 1,502,078	₩ 3,017,551

11. Other Liabilities:

Other liabilities at December 31, 2001 and 2000 consist of the following:

	In Millions	
	2001	2000
Merchant banking liabilities	₩ 807,939	₩ 973,530
Unearned income	74,582	82,852
Net accrued severance benefits	4,778	179,913
Allowance for estimated losses on outstanding guarantees and acceptance contract	98,654	125,200
Due to trust accounts	1,476,162	668,491
Due to treasury agency	359,333	81,618
GIRO accounts	81,752	35,149
Account payable	1,101,908	1,062,119
Other	1,085,659	899,828
	₩ 5,090,767	₩ 4,108,700

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Merchant banking liabilities at December 31, 2001 and 2000 comprise the following:

	Annual interest rate (%)	In Millions	
		2001	2000
Notes payable	3.7~5.4	₩ 623,169	₩ 767,462
CMA deposits	3.53~5.25	164,532	174,853
Others		20,238	31,215
		₩ 807,939	₩ 973,530

Notes payable mature a maximum of one year from issue date and bear interest at varying rates according to market conditions and note terms.

12. Accrued Severance Benefit:

Accrued severance benefits at December 31, 2001 and 2000 are as following:

	In Millions	
	2001	2000
Balance at beginning of year	₩ 190,883	₩ 208,516
Provisions	26,428	34,262
Severance payments	(190,758)	(51,849)
Adjustments of foreign exchange transactions	(239)	(46)
	26,314	190,883
Cumulative Deposits to National Pension Fund	(870)	(10,970)
Deposits for Severance Payment	(20,666)	-
Balance at end of year	₩ 4,778	₩ 179,913

13. Monetary Assets and Liabilities Denominated in Foreign Currencies:

Monetary assets and liabilities denominated in foreign currencies at December 31, 2001 and 2000 are as follows:

	In Thousands of U.S. Dollars Equivalents		In Millions of Korean Won	
	2001	2000	2001	2000
ASSETS:				
Cash and due from banks	US\$ 797,937	US\$ 1,191,038	₩ 1,058,144	₩ 1,500,350
Trading securities	1,143,835	4,155	1,516,840	5,234
Investment securities	537,440	559,059	712,699	704,246
Loans	6,130,231	9,468,466	8,129,300	11,927,425
	US\$ 8,609,443	US\$ 11,222,718	₩ 11,416,983	₩ 14,137,255
LIABILITIES:				
Deposits	US\$ 6,217,913	US\$ 6,787,407	₩ 8,245,574	₩ 8,550,096
Borrowings	1,728,759	2,813,488	2,292,507	3,544,150
Debentures	627,321	893,363	831,890	1,125,370
Others	152,668	170,970	202,453	215,371
	US\$ 8,726,661	US\$ 10,665,228	₩ 11,572,424	₩ 13,434,987

Monetary assets and liabilities of the Bank denominated in other than U.S. Dollars were converted into equivalent U.S. Dollar amounts using the exchange rate prevailing on December 31, 2001 and 2000.

14. Capital Surplus:

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

15. Accumulated Deficit:

Accumulated deficit as of December 31, 2001 and 2000 is as follows:

	In Millions	
	2001	2000
Other statutory reserves	₩ 25,448	₩ 13,131
Accumulated deficit before disposition	(173,476)	(282,983)
	₩ (148,028)	₩ (269,852)

Other Statutory Reserves

Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of annual income after income taxes as a Japanese legal reserve, until such reserve equals ₩2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. In addition, Singapore branch's statutory reserves are included.

Disposition of Accumulated Deficits

Details of the recent three years' disposition of accumulated deficits approved by shareholders on March 13, 2001, March 25, 2000 and February 26, 1999 are as follows:

	In Millions		
	2001	2000	1999
Accumulated deficit before disposition	₩ 1,523,622	₩ 1,366,086	₩ 843,544
Disposition			
Transfer from gain on retirement of capital stock	1,240,875	-	-
Transfer from capital surplus	-	154,805	-
Transfer from asset revaluation surplus	-	156,017	203,591
Transfer from statutory reserve	-	-	195,634
Transfer from reserve for overseas investment losses	-	-	154,000
Transfer from business rationalization	-	-	31,800
Appropriation for other statutory reserves	(236)	(537)	(211)
Transfer from voluntary reserves	-	-	258,730
	1,240,639	310,285	843,544
Undisposed Accumulated deficit to be carried forward to subsequent year	₩ 282,983	₩ 1,055,801	₩ -

Details of adjustments to the beginning accumulated deficits reflecting the effect of retroactive application of new method accounting to conform with new requirements of the revised financial accounting standards are as follows:

	In Millions	
	2001	2000
Accumulated deficits before adjustments	₩ (282,983)	₩ (1,055,801)
Adjustments:		
Rescheduled loans	-	(15,152)
Equity method accounting for investment securities in subsidiaries	(906)	(46,150)
Reapplication of equity method accounting	(98,922)	-
Others, net	(4,767)	(2,816)
Accumulated deficits, as adjusted	₩ (387,578)	₩ (1,119,919)

16. Capital Adjustment:

Capital adjustments at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Valuation gains on investment in debt securities	₩ 43,001	₩ 30,815
Valuation losses on investment in debt securities	(92,892)	(53,151)
Valuation gains on investment in equity securities	175,613	175,280
Valuation losses on investment in equity securities	(144,109)	(308,620)
Treasury stocks	-	(2,930)
Discounts on capital stocks	(9,572)	(9,428)
	₩ (27,959)	₩ (168,034)

Stock Options

As of December 31, 2001, the Company has implemented stock option plans for employees and executives, under which they are entitled to receive options to purchase 1,024 thousand common shares of the Bank at ₩5,000 per share. The stock options may be exercised during the period from three to six years from the grant date.

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

- The risk-free interest rate: The interest rate for governmental bonds at the grant date
- The expected exercise period : In six years from the grant date
- The volatility of the underlying stock price: 0 %
- The expected dividend rate: 0 %

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Under the above assumptions, compensation costs under fair value basis method is in agreement with those under minimum value method. However, due to the exercise price of the stock option exceeding market value of the Bank's stock as of December 31, 2001, no compensation cost were accrued in 2001.

17. Commitments and Contingencies:

Guarantees and Acceptances

The Bank makes various commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding as of December 31, 2001 and 2000 are summarized as follows:

	In Millions	
	2001	2000
Guarantees:		
Won currency	₩ 616,352	₩ 542,300
Foreign currencies	1,986,182	2,556,321
	2,602,534	3,098,621
Acceptances in foreign currencies	2,159,940	2,466,529
	₩ 4,762,474	₩ 5,565,150

Credit risk classification of the guarantees and acceptances and allowances for estimated potential losses as of December 31, 2001 and 2000 are as follows respectively:

	In Millions	
	2001	2000
Current	₩ 4,324,594	₩ 5,088,850
Special mention	272,130	202,600
Substandard	16,950	102,900
Doubtful	146,200	160,900
Loss	2,600	9,900
Total	4,762,474	5,565,150
Allowance for estimated potential losses	₩ 98,653	₩ 125,200

The guarantees and acceptances, excluding acceptance in offshore branches and guarantees arising from merchant banking operations, classified by industry as of December 31, 2001 and 2000 are as follows:

	2001		2000	
	In Millions	Ratio (%)	In Millions	Ratio (%)
Manufacturing	₩ 2,565,429	57.41	₩ 3,422,102	65.54
Wholesale and retails/service	676,128	15.13	827,531	15.85
Construction	528,903	11.84	796,770	15.26
Financial insurance	159,220	3.56	82,239	1.58
Telecommunication	163,145	3.65	24,890	0.48
Other	375,597	8.41	67,596	1.29
	4,468,422	100.0	5,221,128	100.0
Acceptance in overseas branches	287,244		330,369	
Guarantees provided by merchant banking operations	6,808		13,653	
	₩ 4,762,474		₩ 5,565,150	

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2001 and 2000 are as follows:

	2001			2000		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 2,891,485	₩ 3,834,399	92.49	US\$ 3,606,211	₩ 4,542,744	90.44
France	131,454	174,321	4.20	222,661	280,486	5.58
Germany	19,975	26,489	0.64	23,288	29,336	0.58
United Kingdom	6,683	8,862	0.21	6,849	8,628	0.17
U.S.A	42,159	55,907	1.35	66,559	83,844	1.67
Japan	9,831	13,037	0.31	28,076	35,290	0.70
Other	24,966	33,108	0.80	33,756	42,522	0.86
	3,126,553	4,146,123	100.00	US\$ 3,987,400	₩ 5,022,850	100.00

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for the years ended December 31, 2001 and 2000

In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of the Bank's guarantees and acceptances without underlying liabilities of customers, provided in the normal course of business, as of December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Letters of credit issued but not yet being drawn	₩ 4,751,539	₩ 4,573,992
Other guarantees and acceptance	8,932	3,848
	₩ 4,760,471	₩ 4,577,840

The Bank's loan commitments as of December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Commitments on Loans in Won	₩ 30,000	₩ -
Commitments on Foreign Loans	109,426	112,351
Other Commitments in Foreign Currency	24,894	73,193
Total	₩ 164,320	₩ 185,544

Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought by the Bank are approximately ₩12,830 million as of December 31, 2001. The aggregate amounts of claims brought against the Bank are approximately ₩42,195 million as of December 31, 2001. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material ultimate losses on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying non-consolidated financial statements. The Bank has purchased US\$ 7 million (Book value: US\$ 1.9 million) of floating rate notes and paid US\$ 12 million in subrogation for offshore funds in Malaysia established by Anam Semiconductor ("The Company"), which is now undergoing a workout program. The Company has provided a letter of commitment ("LOC") which confirms the compensation of the loss arising from the funds, but is not performing. Accordingly, the Bank is undergoing a process to bring the case to the court, but the ultimate effect as of balance sheet date cannot presently be determined.

Asset Backed Securitization

At December 6, 1999, the Bank sold certain non-performing loans to amounting to ₩106,772 million to a Special Purpose Company (1st SPC) and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

At February 1, 2001, the Bank sold certain non-performing loans to leasing companies amounting to ₩589,175 million to a Special Purpose Company (5th SPC) and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), the Bank entered into credit Line commitment in the amount of ₩110 billion with Korea Development Bank. For this commitment, the bank provided government and public bonds equivalent to ₩55 billion as collateral to Korea development Bank.

And at May 25, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company (6th SPC) and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), the Bank entered into credit Line commitment in the amount of ₩30 billion with Kookmin Bank. For this commitment, the bank provided government and public bonds equivalent to ₩60 billion as collateral to Kookmin Bank.

And at October 30, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company(7th SPC) and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), Korea Development Bank offered ₩7 billion of Credit Line.

In relation to the business transaction agreement (the "Agreement") which governs the sale of non-performing loans to the 1st, 5th, 6th and 7th SPC, the transferee and the trustee could claim damage for the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset become unqualified to the condition of the contract or when the asset value is reduced with the significant misstatement of the due diligence report for the assets or when the obligor delayed his payment of the principal more than 6 months. Also, when the duty occurred, the bank should pay the damage amount to the transferee with cash within 7 business days from document notification.

The limit of the damage to indemnity relating to fifth, sixth, seventh asset securitization amounts to US \$84 million (equivalent to ₩110,040 million), ₩130,000 million, ₩26,000 million respectively(27%, 34%,36% of the total proceeds, respectively). The bank reserved ₩35,700 million of allowance for loan losses for this contingencies.

Loans Sold under Repurchase Agreements

The Korea Asset Management Corporation ("KAMCO") can resell some of the loans previously purchased from the Bank under certain conditions including the following;

- When it is considered impossible to collect the loans and interest because borrowers delay their repayment of loans and interests over 6 months
- When it is considered impossible to collect the loans and interests due to the abrogation of court-receivership process and the cancellation of mediation

As of December 31, 2001, KAMCO may exercise the resale option for the loans amounting to ₩402,778 million.

As of December 31, 2001, the Bank estimated loss on repurchase of the loans amounting to ₩177,400 and accrued this amount as allowance for loan losses in 2001.

Stock of Samsung Life Insurance

On September 26, 2000, The Bank received 117,638 shares of stock of Samsung Life Insurance in accordance with contribution contract with Gun-Hee Lee, the chairman of Samsung Group, subsequent to the agreement to be compensated against estimated loan losses arising from Samsung Motors.

Evaluation of the plan for the Bank management improvement

On November 8, 2000, The Financial Supervisory Commission approved the Bank's management improvement plan submitted on September 30, 2000 by the Bank, based on the following abstract of evaluation for the Bank's plan by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently without additional capital injection from the Korean Government, since the Bank's capital

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adequacy ratio as of December 31, 2001 was meet the target ratio, subject to the certain conditions described below:

- To provide against the situation that the Bank would not be able to increase its capital through public offerings, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds
- The ratio of non-performing loans(NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.
- The target ratio of financial profitability will be reached through increase of operating revenue and reduction of expenses.

Debt to Equity Swap

Under the debt restructuring agreement between creditors and Hyundai Constructions Co., Ltd, the Bank acquired common stock of that company at par value of ₩5,000 in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bond newly issued by Hyundai Constructions Co., Ltd. for the purpose of financial support. Furthermore, in accordance with resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. in 2001, the Bank acquired newly issued convertible bonds of that company in exchange for ₩726,000 million of existing loans and convertible bonds and provided ₩79,000 million of new additional loans to Hynix Semiconductor Inc. for the purpose of financial support.

Economic uncertainties

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices

The Korean economy continues to experiencing difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the continued availability of short-term financing. The Bank may be either directly or indirectly affected by the situation described above.

Uncertainties still exist related to the economy in Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. The Bank's outstanding loans and guarantees to the affiliated companies of Daewoo Group and other companies, under workout programs amount to ₩536,900 million and ₩345,100 million before present value discounts of ₩16,300 million and ₩9,200 million, respectively. The Bank has accrued ₩95,200 million and ₩58,100 million, respectively, of allowance for such loan losses (including allowance for losses for guarantees and acceptances) as of December 31, 2000. In addition, as of December 31,2000, The Bank's outstanding loans and guarantees to Hyundai Group companies, including Hyundai Construction Co. Ltd and Hynix Semiconductor Inc. amount to ₩2,224,100 million. Actual loan losses to the above companies can differ from allowances for such loan losses accrued by the Bank.

Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price

A summary of derivative financial instrument information as of December 31, 2001 is as follows (unit : In Millions of Korean Won):

2001	Outstanding			Valuation gains or losses (I/S)(***)						Valuation gains or losses (B/S)	
				Trading		Hedging		Total		Assets	Liabilities
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses		
Foreign Currency Related Contracts											
Forward contracts(*)	₩4,884,076	₩ 398,171	₩5,282,247	₩ 53,127	₩- 10,237	₩ 5,905	₩ 17,129	₩ 59,032	₩ 6,892	₩ 117,079	₩ 86,087
Futures contracts(*)											
Futures contracts purchased	181,222	-	181,222	-	-	-	-	-	-	-	-
Swap contracts(*)	360,268	96,388	456,656	34	10,366	930	-	964	10,366	215	21,513
Option contracts											
Option contracts purchased	354,068	-	354,068	3,607	-	-	-	3,607	-	23,125	-
Option contracts sold	372,634	-	372,634	-	3,612	-	-	-	3,612	-	23,130
	6,152,268	494,559	6,646,827	56,768	3,741	6,835	17,129	63,603	20,870	140,419	130,730
Interest Rate Related Contracts											
Futures contracts(**)											
Futures contracts purchased	1,400	-	1,400	-	-	-	-	-	-	-	-
Futures contracts sold	2,288,848	-	2,288,848	-	-	-	-	-	-	-	-
CD contracts(**)	-	-	-	-	-	-	-	-	-	-	-
Swap contracts	1,622,128	263,520	1,885,648	18,398	31,936	4,573	1,239	22,971	33,175	70,704	73,017
Option contracts											
Option contracts purchased	198,915	-	198,915	- 240	-	-	-	- 240	-	-	-
Option contracts sold	198,915	-	198,915	-	- 240	-	-	-	- 240	-	-
	4,310,206	263,520	4,573,726	18,158	31,696	4,573	1,239	22,731	32,935	70,704	73,017
Preemptive Right	4,949	-	4,949	4,949	-	-	-	4,949	-	8,307	-
	₩10,467,423	₩ 758,079	₩11,225,502	₩ 79,875	₩ 35,437	₩ 11,408	₩ 18,368	₩ 91,283	₩ 53,805	₩ 219,430	₩ 203,747

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

A summary of derivative financial instrument information as of December 31, 2000 is as follows (unit : In Millions of Korean Won):

	Valuation gains or losses (I/S)(***)									Valuation gains or losses (B/S)	
	Outstanding			Trading		Hedging		Total		Assets	Liabilities
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses		
Foreign Currency Related Contracts											
Forward contracts(*)	₩1,563,403	₩ 815,632	₩2,379,035	₩ 58,690	₩ 100,152	₩ 24,965	₩ 8,576	₩ 83,655	₩ 108,728	₩ 83,626	₩ 101,790
Futures contracts(*)											
Futures contracts purchased	22,688	-	22,688	-	-	-	-	-	-	-	-
Swap contracts(*)	3,294	88,122	91,416	181	168	-	12,840	181	13,008	181	12,077
Option contracts										19,517	
Option contracts purchased	34,019	-	34,019	19,517	-	-	-	19,517	-		
Option contracts sold	340,251	-	340,251	-	19,518	-	-	-	19,518	-	19,518
	1,963,655	903,754	2,867,409	78,388	119,838	24,965	21,416	103,353	141,254	103,324	133,385
Interest Rate Related Contracts											
Futures contracts(**)											
Futures contracts purchased	100,570	-	100,570	-	-	-	-	-	-	-	-
Futures contracts sold	165,525	-	165,525	-	-	-	-	-	-	-	-
CD contracts(**)	-	-	-	-	-	-	-	-	-	-	-
Swap contracts	1,689,907	125,970	1,815,877	41,339	36,851	9,975	2,851	51,314	39,702	49,250	39,703
Option contracts											
Option contracts purchased	234,140	-	234,140	240	-	-	-	240	-	240	-
Option contracts sold	188,955	-	188,955	-	240	-	-	-	240	-	240
	2,379,097	125,970	2,505,067	41,579	37,091	9,975	2,851	51,554	39,942	49,490	39,943
	₩4,342,752	₩ 1,029,724	₩5,372,476	₩ 119,967	₩ 156,929	₩ 34,940	₩ 24,267	₩ 154,907	₩ 181,196	₩ 152,814	₩ 173,328

(*) The currency related derivative financial instruments or interest rate swap contracts that accompany both purchased and sold position are recorded at foreign currency contract amount for the contracts between Korean Won and foreign currency, and purchased foreign currency contracts amount for the contract between foreign currencies, translated into the exchange rate as of the balance sheet date.

(**) The valuation gains or losses are not recorded since the settlement gain or losses are transferred to transaction gains or losses the as of balance sheet date.

(***) The above gains or losses are included in gains or losses on foreign exchange transaction.

18. Other Income:

Details of other income for the year ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Operating income from merchant banking operations	₩ 187,479	₩ 188,122
Gain on disposal of trading securities	56,407	39,134
Gain on disposal of investment securities	163,490	81,448
Gain on valuation of securities	150,554	182,145
Gain on sales of loans	10,835	19,989
Gain on disposal of premises and equipment	4,209	19,614
Lease rental earned	3,002	3,118
Deferred tax revenue	1,940	7
Other	67,097	157,492
	₩ 645,013	₩ 691,069

Details of operating income from merchant banking operations for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Interest income, including interest on financing lease receivable	₩ 112,002	₩ 128,950
Fees and commissions income	773	961
Lease rentals earned	31,507	43,385
Gain on disposal of operating lease assets	14,412	4,911
Gain on disposal of beneficiary certificates	47	1,359
Gain on foreign currency translations	-	262
Other	11,837	8,294
	₩ 187,479	₩ 188,122

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

19. Other Expenses:

Details of other expenses for the year ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Operating expenses from merchant banking operations	₩ 95,459	₩ 118,338
Loss on disposal of trading securities	55,140	49,330
Loss on disposal of investment securities	144,730	22,597
Loss on disposal of premises and equipment	7,243	3,188
Loss on valuation of securities	146,098	101,495
Loss on sales of loans	1,663	34
Deferred tax expenses	2,262	5,634
Other	56,982	93,145
	₩ 509,577	₩ 393,761

Details of operating expenses from merchant banking operations for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Interest expense, including interest on CMA deposits	₩ 63,560	₩ 58,044
Depreciation on operating lease assets	14,829	22,345
Provision for loan losses	-	22,241
Loss on disposal of operating lease assets	587	3
Provision for losses on disposal of operating lease assets	690	2,351
Other	15,793	13,354
	₩ 95,459	₩ 118,338

20. Income Taxes:

The statutory income tax rates applicable to the Bank, including resident tax surcharges, approximate 30.8%. The current income tax expenses represent income taxes paid by overseas branches.

The components of differences between taxable income and accounting income for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Net Income (loss)	₩ 222,547	₩ (403,703)
Temporary differences:		
Restructuring of loans	117,428	220,129
Allowance for loan losses	345,290	303,600
Accrued interests, net	39,115	6,168
Gain on valuation at securities, net	120,339	14,733
Allowance for estimated losses on outstanding guarantees and acceptances contract	98,654	125,200
Others	(913,085)	(744,558)
	(192,259)	(74,728)
Permanent differences:		
Adjustments to accumulated deficits	(99,828)	(64,976)
Others	(7,507)	(11,809)
	(107,335)	(76,785)
Net taxable loss / operating loss carry-forward	(77,047)	(555,216)
Operating loss carry forward	(2,026,615)	(1,685,457)
Taxable income	₩ -	₩ -

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

The details of temporary differences and deferred tax assets as of December 31, 2001 are as follows:

	In Millions				
	Balance at January 1, 2001 (*)	Adjustments for foreign currency translation	Increase (Decrease)	Balance at December 31, 2001	Deferred tax assets (liabilities)
Loss on valuation of securities	₩ (69,648)	₩ 2,601	₩ (40,900)	₩ (107,947)	₩ (32,060)
Gain on valuation of long-term debt securities	(6,526)	(379)	17,578	10,673	3,170
Accrued interest	(121,726)	-	39,115	(82,611)	(24,535)
Allowance for loan losses	303,600	-	41,690	345,290	102,551
Loans charged off	66,213	-	-	66,213	19,665
Allowance for losses from Guarantees and acceptances	125,200	-	(26,546)	98,654	29,300
Restructuring of loans	220,129	-	(102,701)	117,428	34,876
Others, net	56,748	-	(120,495)	(63,747)	(18,933)
Sub-total	₩ 573,990	₩ 2,222	₩ (192,259)	₩ 383,953	₩ 114,034
Operating loss carry-forward	₩ 2,026,615	₩ -	₩ 77,047	₩ 2,103,662	₩ 624,787
Deferred tax assets					738,821
Allowance for deferred tax assets					638,821
Deferred tax assets, net					₩ 100,000

(*) Reflect the adjustment of prior year tax return

The details of income tax expenses for the years ended December 31, 2001 and 2000 are as follow:

	In Millions	
	2001	2000
Income tax expenses paid by overseas branches	₩ 18,536	₩ 10,692
Deferred income tax expenses (benefit)	(100,000)	-
	₩ 81,464	₩ 10,692

21. Earnings Per Share and Ordinary Income Per Share:

Basic earnings per shares and ordinary income per share for the years ended December 31, 2001 and 2000 are calculated as follows:

The weighted average numbers of common shares outstanding for year ended December 31, 2001 are calculated as follows:

	2001		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	590,672	365	(215,595,554)
			80,878,254,261

Weighted average number of shares outstanding:

80,878,254,261 shares / 365 day = 221,584,258 shares

The weighted average numbers of common shares outstanding for year ended December 31, 2000 are calculated as follows:

	2000		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	2,157,442	365	(787,466,330)
			80,306,383,485

Weighted average number of shares outstanding:

80,306,383,485 shares / 365 day = 220,017,489 shares

Earnings per share:

	2001	2000
Net income (losses)	₩222,547,276,430	₩(403,702,912,090)
Preferred stock dividends		-
Net income (losses) allocated to common stock	222,547,276,430	(403,703,912,090)
Weighted average number of common shares outstanding (in shares)	221,584,258	220,017,489
Basic net income (losses) per share (in Won)	₩ 1,004	₩ (1,835)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000

Basic ordinary income per share:

	2001	2000
Net income	₩222,547,276,430	₩(403,702,912,090)
Extraordinary gain(losses)	11,288,963,012	44,675,452,919
Income tax related to ordinary income	-	-
Ordinary income (losses) allocated to common stock	211,258,313,418	(448,378,356,009)
Weighted average number of common shares outstanding (in shares)	221,584,258	220,017,489
Basic ordinary income (losses) per share (in Won)	₩ 953	₩ (2,038)

For the years ended December 31, 2000, diluted net earnings per share and diluted ordinary income per share are equal to basic net loss per share and basic ordinary loss per share due to the anti-dilutive effect of all potentially dilutive securities.

The number of diluting shares for the year ended December 31, 2001 are calculated as follows:

	2001		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Convertible preferred shares	148,000,000	365	54,020,000,000

Number of diluting shares:

54,020,000,000 shares / 365 days = 148,000,000 shares

Diluted earnings per shares and diluted ordinary income per share for the years ended December 31, 2001 is calculated as follows:

Diluted earnings per shares :

	2001
Net income allocated to common stock	₩222,547,276,430
Preferred stock dividends	-
Diluted net income	222,547,276,430
Weighted average number of common shares before dilution (in shares)	222,584,258
Diluting shares	148,000,000
Diluted weighted average number of Common shares outstanding(in shares)	369,584,258
Diluted earnings per share (in Won)	₩ 602

Diluted ordinary income per share :

	2001
Ordinary income allocated to common stock	₩211,258,313,418
Preferred stock dividends	-
Weighted average number of common shares before dilution (in shares)	211,258,313,418
Diluting shares	148,000,000
Diluted weighted average number of Common shares outstanding(in shares)	369,584,258
Diluted ordinary income per share (in Won)	₩ 572

Potential common share information as of December 31, 2001 is as follows;

	Face value (In millions)	Exercise period	Number of common shares to be issued upon conversion
Convertible preferred shares	₩ 740,000	(*)	148,000,000
Subordinated convertible debentures (No. 4)	100,000	From Mar. 7, 2000 to Nov.6, 2009	10,000,000
Subordinated convertible debentures (No. 5)	100,000	From Mar. 28, 2000 to Nov.27, 2009	10,000,000

(*) For 26,000 thousand shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 thousand shares of newly issued convertible preferred stock will be converted at conversion date after five years from the issue date.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

22. Supplemental Cash Flows Information:

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Cash on hand	₩ 1,347,076	₩ 1,422,384
Deposits in Won	1,144,330	2,381,375
Deposits in foreign currencies	920,970	1,360,869
Marketable securities	27,536	24,126
	₩ 3,439,912	₩ 5,188,754

Significant non-cash flow transactions for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Decrease in loans by charge-off	₩ 1,777,168	₩ 1,739,795
Decrease in allowance for loan losses by offsetting present value discounts	29,810	70,865
Gain/Loss on investment securities(capital adjustment)	137,289	207,675
Domestic exchange settlement	1,053,233	1,015,076

23. Related Party Transaction:

Significant transactions made in the normal course of business with subsidiaries during the years ended 2001 and 2000, and related account balances as of December 31, 2001 and 2000 are summarized as follows (In Millions of Korean Won):

	KEBA	KEBOC	KEBIT	KEBI	KEBLS	KEBCS	KEBD A.G	KEBD	KEB Ire	Trust	Others	Total		
												2001	2000	
ASSETS:														
Due from banks in Won	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 5,000	₩ 5,000	₩ -	
Due from banks in foreign currency	-	37	-	8,743	-	-	3,777	51,157	-	-	149	63,863	324,737	
Loans in Won	-	-	-	-	43,000	140,000	-	-	-	-	-	1803,000	369,340	
Loans in Foreign currency	54,740	10,690	-	-	164,082	1,458	107,972	69,266	30,951	-	1,463	440,622	475,696	
Others	83	27	-	-	4,494	2,167	331	191	1,540	435,685	9	444,527	178,247	
LIABILITIES:														
Deposits in Won	-	-	24,359	-	10,498	23,633	-	-	-	-	1,396	59,886	35,434	
Deposits in Foreign currency	-	79	-	-	-	-	545	-	218	-	636	1,478	41,723	
Borrowings	-	-	-	-	-	-	-	35,808	8,938	326,080	-	370,826	1,257,631	
Others	-	-	402	-	2,246	4,691	774	-	967	-	85	9,165	217,664	
REVENUES:														
Interest income in Won	-	-	-	-	4,785	6,751	-	-	-	54,969	176	66,681	54,223	
Interest income in Foreign currency	198	1,077	-	-	11,421	52	-	-	1,407	-	-	14,155	52,502	
Fees and commissions	-	-	-	-	-	36,080	-	-	-	-	-	36,080	33,840	
Others	-	-	-	-	157	235	-	-	-	12,560	-	12,952	36,387	
EXPENSES:														
Interest in Won currency	-	-	1,867	-	-	510	-	-	-	5,703	33	8,113	55,147	
Interest in foreign currency	-	70	-	-	243	-	-	-	493	-	-	806	3,577	
Fees and commissions	-	-	-	-	-	17	-	-	-	-	-	17	174	
Others	-	-	-	-	-	67	-	-	-	-	-	67	157,951	

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To the Shareholders and Board of Directors of

KOREA  EXCHANGE BANK

We have audited the accompanying non-consolidated balance sheets of Korea Exchange Bank ("the Bank") as of December 31, 2001 and 2000, and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We did not audit the financial statements of certain foreign branches of the Bank, which statements reflect 3.0% and 6.0% of total assets as of December 31, 2001 and 2000, respectively, and 2.8% and 6.4%, of total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these branches, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2001 and 2000, and the results of its operations, the changes in its accumulated deficit and its cash flows for the years then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 1 to the accompanying non-consolidated financial statements, the Bank implemented a two-to-one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 80 million shares and 42 million shares were issued to The Export-Import Bank of Korea and Commerzbank A.G, respectively, in accordance with a resolution of board of directors on November 10, 2001. Through the issuance of new preferred stock subsequent to the capital reduction, the Bank's paid-in capital amounts to ₩1,850,875 million as of December 31, 2001 and the ownership of Commerzbank A.G. and The Export-Import Bank of Korea changed from 31.6% and 16.3% to 32.55% and 32.50%, respectively. No new capital was issued in 2001.

As discussed in Note 18 to the accompanying non-consolidated financial statements, the Bank's self-rescue plans received "conditional approval" while allowing their independent management, based on the following abstract of evaluation for the Bank's plan submitted on September 30, 2000 by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently, since the Bank's capital adequacy ratio as of December 31, 2001 is expected to meet the target ratio, subject to the certain conditions described below:

- To provide against the situation that the Bank would not be able to increase its capital through public offerings, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds
- The ratio of non-performing loans(NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.
- The target ratio of financial profitability will be reached through the increase of operating revenue and reduction of expenses.

As discussed in note 17 to the accompanying non-consolidated financial statements, under the debt restructuring agreement between creditors and Hyundai Constructions Co. Ltd, the Bank acquired common stock of that company at par value of ₩5,000 in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bond newly issued by Hyundai Constructions Co., Ltd. for the purpose of financial support. Furthermore, in accordance with a resolution of Financial Creditors Committee of Hynix Semiconductor Inc. In 2001, the Bank acquired newly issued convertible bonds of that company in exchange for ₩726,000 million of existing loans and convertible bonds and provided ₩79,000 million of additional new loans to Hynix Semiconductor Inc. for the purpose of financial support.

Without qualifying our opinion, we draw attention to Note 17 of the non-consolidated financial statements. Which states that the operations of the Bank have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring their debt under workout and other similar programs. As of December 31, 2001, the Bank's outstanding loans and guarantees to Daewoo Group companies and other companies, under workout programs amount to ₩536,900 million and ₩345,100 million before present value discounts of ₩16,300 million and ₩9,200 million, respectively. The Bank has accrued ₩95,200 million and ₩58,100 million, respectively, of allowance for such loan losses (including allowances for losses for guarantees and acceptances) as of December 31, 2001. In addition, as of December 31, 2001, the Bank's outstanding loans and guarantees to Hyundai Group companies Including Hyundai Construction Co. Ltd. and Hynix Semiconductor Inc. amount to ₩2,224,100 million. Actual losses on the above loans and guarantees may differ from allowances for such losses accrued by the Bank. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined.

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

Samil Accounting Corporation

Seoul, Korea

January 28, 2002

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2001	2000	2001	2000
ASSETS :				
Cash and due from banks (Note 4)	₩ 3,480,531	₩ 3,966,470	US\$ 2,624,637	US\$ 2,991,079
Trading securities (Note 5)	3,370,872	2,266,451	2,541,944	1,709,110
Investment securities (Note 5)	10,203,216	8,016,562	7,694,153	6,045,217
Loans, net of allowance for loan losses (Notes 6 and 9)	34,711,837	32,113,771	26,175,882	24,216,704
Premises and equipment, net (Note 8)	908,687	979,596	685,233	738,704
Accrued interest	402,814	483,839	303,758	364,859
Goodwill (Note 23)	-	-	-	-
Other assets (Notes 10)	2,974,649	2,583,747	2,243,156	1,948,380
Total Assets	₩ 56,052,606	₩ 50,410,436	US\$ 42,268,763	US\$ 38,014,053
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY :				
Liabilities :				
Deposits (Note 11)	₩ 37,204,284	₩ 32,760,639	US\$ 28,055,414	US\$ 24,704,501
Borrowings (Note 12)	6,006,048	8,156,765	4,529,106	6,150,943
Debentures (Note 13)	5,680,825	3,827,682	4,283,859	2,886,420
Accrued expenses	768,092	905,582	579,211	682,891
Other liabilities (Notes 14 and 15)	4,265,194	3,170,694	3,216,344	2,390,992
Total Liabilities	53,924,443	48,821,362	40,663,934	36,815,747
Minority interests in consolidated subsidiaries	440,928	252,053	332,500	190,071
Commitments and Contingencies (Note 19)				
Shareholders' equity (Note 1) :				
Capital stock,				
1,000 million shares authorized;				
Common stock, ₩5,000 par value;				
444 million shares issued and outstanding	1,110,875	1,110,875	837,701	837,701
Preferred stock, ₩5,000 par value;				
52 million shares issued and outstanding	740,000	740,000	558,027	558,027
Capital surplus (Note 16)	244,002	267,191	184,000	201,486
Accumulated deficit (Note 17)	(139,489)	(398,513)	(105,187)	(300,515)
Capital adjustments, net (Note 18)	(268,153)	(382,532)	(202,212)	(288,464)
Total Shareholders' Equity	1,687,235	1,337,021	1,272,329	1,008,235
Total Liabilities, Minority Interests				
Total Liabilities and Shareholders' Equity	₩ 56,052,606	₩ 50,410,436	US\$ 42,268,763	US\$ 38,014,053

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2001 and 2000

	In Millions of Korean Won (Except for EPS data)		In Thousands of U.S.Dollars (Note 3) (Except for EPS data)	
	2001	2000	2001	2000
Revenue :				
Interest on due from banks	₩ 67,247	₩ 147,240	US\$ 50,710	US\$ 111,032
Interest on securities	762,737	852,541	575,173	642,893
Interest on loans	2,609,989	2,578,888	1,968,169	1,944,716
Other interest income	234,197	114,663	176,606	86,466
Total interest income	3,674,170	3,693,332	2,770,658	2,785,107
Fees and commissions income	992,244	768,720	748,242	579,685
Gains on foreign exchange transactions	1,637,036	991,181	1,234,474	747,441
Trust fee income	51,343	68,240	38,717	51,459
Other income (Note 20)	531,084	446,215	400,486	336,487
Total revenue	6,885,877	5,967,688	5,192,577	4,500,179
Expenses :				
Interest on deposits	1,552,546	1,919,910	1,170,761	1,447,787
Interest on borrowings	408,516	627,392	308,058	473,111
Interest on debentures	413,499	328,714	311,816	247,880
Other interest expense	34,515	56,191	26,027	42,373
Total interest expenses	2,409,076	2,932,207	1,816,662	2,211,151
Fees and commissions expense	249,536	169,207	188,173	127,597
Losses on foreign exchange transactions	1,428,888	785,077	1,077,511	592,019
Provision for possible loan losses (Note 6)	1,155,192	1,316,438	871,120	992,714
General and administrative expenses	561,550	558,944	423,460	421,495
Provision for severance benefits	32,888	40,906	24,801	30,847
Depreciation and amortization	109,889	106,591	82,866	80,379
Other expenses (Note 21)	555,333	454,313	418,772	342,593
Total expenses	6,502,352	6,363,683	4,903,365	4,798,796
Net income (loss) before income tax expenses	383,525	(395,995)	289,212	(298,616)
Income tax expenses (Note 22)	34,887	81,002	26,308	61,083
Net income (loss) before minority interests	348,638	(476,997)	262,904	(359,699)
Minority interests in earnings (losses) of consolidated subsidiaries, net	(121,507)	(9,842)	(91,627)	(7,422)
Net income (loss)	₩ 227,131	₩ (486,839)	US\$ 171,277	US\$ (367,121)
Basic and diluted ordinary income (loss) per share (Note 24)				
(in Korean Won)				
Basic	₩ 878	₩ (2,387)	US\$ 662	US\$ (1,800)
Diluted	₩ 526	₩ (2,387)	US\$ 397	US\$ (1,800)
Basic and diluted earnings (net loss) per share (Note 24)				
(in Korean Won)				
Basic	₩ 1,025	₩ (2,213)	US\$ 773	US\$ (1,669)
Diluted	₩ 615	₩ (2,213)	US\$ 464	US\$ (1,669)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2001 and 2000

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2001	2000	2001	2000
Capital stock				
Capital stock at the beginning of year	₩ 1,850,875	₩ 2,481,749	US\$ 1,395,728	US\$ 1,871,464
Capital reduction	-	(1,240,874)	-	(935,732)
Paid in capital increase	-	610,000	-	459,995
Capital stock at the end of year	1,850,875	1,850,875	1,395,728	1,395,727
Consolidated capital surplus				
Consolidated capital surplus at the beginning of year	267,191	222,727	201,486	167,956
The effect on subsidiary's capital increase	22,649	-	17,079	-
The effect on equity method applied company's capital increase	14,095	-	10,629	-
Capital reduction	-	1,240,874	-	935,732
Transfer of gain on capital reduction to deficit	-	(1,240,874)	-	(935,732)
Transfer of subsidiary's retained earnings to capital	9,054	3,338	6,828	2,517
The effect on change of shareholder's equity ratio	-	35,472	-	26,749
Gain on foreign exchange translations	1,902	6,134	1,434	4,626
The effect on change of consolidation company	(64,556)	-	(48,681)	-
Others	(6,333)	(480)	(4,776)	(362)
Consolidated capital surplus at the end of year	244,002	267,191	183,999	201,486
Consolidated deficit				
Consolidated deficit at the beginning of year	(398,513)	(1,140,057)	(300,515)	(859,707)
The effect on subsidiary's capital increase	(4,566)	-	(3,443)	-
Transfer of gain on capital reduction to deficit	-	1,240,874	-	935,732
The effect on change of consolidation company	128,361	54,894	96,796	41,395
The effect on change of equity method applied company	-	(7,328)	-	(5,526)
Consolidated net income (loss) for the year	227,131	(486,839)	171,277	(367,121)
Adjustment accumulated deficit for restarting equity method	(98,922)	-	(74,596)	-
Excess loss of minority interest	-	(36,776)	-	(27,732)
Reversal of excess of minority interest	41,451	-	31,258	-
Transfer of subsidiary's retained earnings to capital	(9,054)	(3,338)	(6,828)	(2,517)
The effect on change of shareholder's equity ratio	-	(17,834)	-	(13,448)
Loss on foreign exchange translations	(582)	(9,656)	(439)	(7,282)
Cash dividends	(22,011)	(21,760)	(16,598)	(16,409)
Others	(2,784)	29,307	(2,099)	22,100
Consolidated deficit at the end of year	(139,489)	(398,513)	(105,187)	(300,515)
Consolidated capital adjustment				
Consolidated capital adjustment at the beginning of year	(382,532)	(149,658)	(288,464)	(112,856)
The effect on equity method applied company's capital increase	(2,948)	-	(2,223)	-
The increase (decrease) in consolidated capital adjustment	117,327	(232,874)	88,475	(175,608)
Consolidated capital adjustment at the end of year	(268,153)	(382,532)	(202,212)	(288,464)
Minority interest equity				
Minority interest equity at the beginning of year	252,053	149,714	190,071	112,898
Increase in minority interest equity	188,875	102,339	142,429	77,173
Minority interest equity at the end of year	440,928	252,053	332,500	190,071
Total shareholders' equity	₩ 2,128,163	₩ 1,589,074	US\$ 1,604,828	US\$ 1,198,305

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2001 and 2000

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2001	2000	2001	2000
Cash flows from operating activities:				
Net income (loss)	₩ 227,131	₩ (486,839)	US\$ 171,277	US\$ (367,121)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:				
Gain on disposal of securities, net	(30,950)	(23,586)	(23,339)	(17,786)
Valuation gain on securities, net	83,449	66,348	62,928	50,032
Gain on sales of loans, net	(9,172)	(26,801)	(6,917)	(20,210)
Provision for loan losses, net	1,155,192	1,255,542	871,120	946,793
Provision for guarantees and acceptances	14	64,301	11	48,489
Amortization of present value discounts	(21,015)	(39,362)	(15,847)	(29,683)
Depreciation and amortization	109,889	106,591	82,866	80,379
Provision for severance benefits	32,888	40,906	24,801	30,847
Minority interests in earnings (losses) of consolidated subsidiaries	121,507	9,842	91,627	7,422
Equity in loss (earnings) of equity method investees	23,621	(4,821)	17,812	(3,635)
Severance benefit payments	(192,238)	(52,496)	(144,965)	(39,587)
Decrease (Increase) in accrued income	77,017	(1,114)	58,078	(840)
Decrease in accrued expenses	(133,642)	(203,794)	(100,778)	(153,679)
Others, net	(643,512)	52,796	(485,267)	39,813
Net cash provided by operating activities	800,179	757,513	603,407	571,234
Cash flows from investing activities:				
Proceeds from acquisitions (disposal) of trading securities	(1,055,058)	323,355	(795,610)	243,839
Purchases of investment securities	(2,429,253)	-	(1,831,878)	-
Net increase in loans	(3,785,756)	(6,200,591)	(2,854,804)	(4,675,810)
Disposals and acquisitions of premises and equipment	(41,272)	46,850	(31,123)	35,329
Net increase of cash due to changes in consolidated subsidiaries	(3,932)	(47)	(2,965)	(35)
Others, net	(858,766)	843,450	(647,588)	636,038
Net cash used in investing activities	(8,174,037)	(4,986,983)	(6,163,968)	(3,760,639)
Cash flows from financing activities:				
Net increase in deposits	4,443,645	2,573,171	3,350,912	1,940,405
Net decrease in borrowings	(1,808,698)	(1,429,259)	(1,363,923)	(1,077,791)
Net increase (decrease) in debentures	1,853,142	623,060	1,397,438	469,844
Issuance of new shares for cash, net	(144)	606,997	(109)	457,731
Proceeds from disposal of treasury shares	2,930	452	2,209	341
Net increase of minority interests in consolidated subsidiaries	100,000	59,844	75,409	45,128
Dividends paid	(12,469)	(3,452)	(9,403)	(2,603)
Others, net	2,312,923	202,045	1,744,154	152,360
Net cash provided by financing activities	6,891,329	2,632,858	5,196,687	1,985,415
Net decrease in cash and cash equivalents	(482,529)	(1,596,612)	(363,874)	(1,203,990)
Cash and cash equivalents at beginning of the year (Note 25)	3,990,595	5,587,207	3,009,272	4,213,262
Cash and cash equivalents at end of the year (Note 25)	₩ 3,508,066	₩ 3,990,595	US\$ 2,645,398	US\$ 3,009,272

The accompanying notes are an integral part of these consolidated financial statements.

1. The Consolidated Companies:

The accompanying consolidated financial statements include the banking and certain trust accounts of Korea Exchange Bank (the "Bank") and its consolidated subsidiaries. General information of the Bank, its consolidated subsidiaries, its non-consolidated subsidiaries and equity method investees are described below.

The Bank

Korea Exchange Bank (the "Bank") was established in 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank provides primarily commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The Bank implemented a two-to-one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. The resulting gain on capital reduction of ₩124,100 million was used for the disposition of accumulated deficit. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 42 million shares and 80 million shares were issued to Commerzbank A.G and the Export-Import Bank of Korea, in accordance with a resolution of board of directors on November 10, 2000.

The preferred shareholders are entitled to non-cumulative and non-participating preferred dividends ranging from 5% to 9% of par value per annum. Preferred shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. For 26,000 thousand shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 thousand shares of newly issued convertible preferred stock will be converted at conversion date after three years from the issue date.

The Bank's shareholders as of December 31, 2001 and 2000 are as follows:

	Number of shares owned (shares)				Ownership(%)	
	Common stock	Preferred stock	Total (2001)	Total (2000)	2001	2000
Commerzbank A.G.	52,483,312	68,000,000	120,483,312	120,483,437	32.55	32.55
Bank of Korea	39,500,000	-	39,500,000	39,500,000	10.67	10.67
Export-Import Bank of Korea	40,314,387	80,000,000	120,314,387	120,314,387	32.50	32.50
Others	89,877,232	-	89,877,232	89,877,107	24.28	24.28
	222,174,931	148,000,000	370,174,931	370,174,931	100.00	100.00

As of December 31, 2001, the Bank has 291 branches, agencies and offices in domestic and overseas markets. The Bank has closed 9 domestic branches in 2001. The Bank is in the process of closing five domestic branches in 2002.

Consolidated Subsidiaries

Summarized information regarding the consolidated subsidiaries as of December 31, 2001 and 2000 are as follows:

	Number of Invested Shares (In Thousands)		Ownership (Ratio)	
	2001	2000	2001	2000
Domestic				
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")	18,795	18,795	45.0%	51.1%
KEB Leasing Co., Ltd ("KEBLS")	14,976	2,400	99.3%	30.0%
KEB Commerz Investment Trust Management Co., Ltd ("KEBIT")	2,760	2,760	46.0%	46.0%
KEB Futures Co., Ltd. ("KEBFC")	3,000	3,000	100.0%	100.0%
Foreign				
Pacific Union Bank ("PUB")	5,914	5,377	62.5%	62.5%
Korea Exchange Bank of Canada ("KEBOC")	334	334	100.0%	100.0%
KEB Australia Ltd. ("KEBA")	55,000	40,000	100.0%	100.0%
KEB Deutschland A.G. ("KEBD A.G.")	20	20	100.0%	100.0%
P.T.KEB Danamon ("KEBD")	1	1	85.0%	85.0%
KEB Ireland Ltd. ("KEB Ire")	3,000	3,000	100.0%	100.0%
Banco KEB do Brazil S.A. ("KEBB")	24,000	17,890	100.0%	100.0%

The Bank operates both a commercial banking business and a trust business in which the Bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust accounts are accounted for and reported separately from the Bank's own commercial banking business. Certain trust accounts are consolidated in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities.

Condensed balance sheet and income statement information of consolidated subsidiaries as of December 31, 2001 and for the year then ended are as follows:

– Condensed Balance Sheet Information (*):

	In Millions of Korean Won				
	KEBC	PUB	KEBLS	Others (**)	Total
Cash and due from banks	₩ 39,845	₩ 34,577	₩ 10,498	₩ 116,824	₩ 201,744
Securities	162,601	187,271	44,607	1,393,838	1,788,317
Loans	3,992,732	803,497	122,791	1,636,171	6,555,191
Fixed assets	59,701	12,384	46,999	6,283	125,367
Other assets	166,724	10,518	79,969	61,873	319,084
Total assets	₩ 4,421,603	₩ 1,048,247	₩ 304,864	₩ 3,214,989	₩ 8,989,703
Deposits	₩ -	₩ 918,658	₩ -	₩ 2,034,487	₩ 2,953,145
Borrowings and debentures	3,314,774	-	232,834	903,159	4,450,767
Other liabilities	428,815	10,293	28,852	88,442	556,402
Total liabilities	3,743,589	928,951	261,686	3,026,088	7,960,314
Capital stock	208,870	75,349	75,400	164,842	524,461
Capital surplus	133,193	21,033	-	2,997	157,223
Accumulated earnings (deficit)	333,636	20,824	(24,423)	21,136	351,173
Capital adjustments	2,315	2,090	(7,799)	(74)	(3,468)
Total shareholders' equity	678,014	119,296	43,178	188,901	1,029,389
Total liabilities and Shareholders' equity	₩ 4,421,603	₩ 1,048,247	₩ 304,864	₩ 3,214,989	₩ 8,989,703

	In Millions of Korean Won				
	KEBC	PUB	KEBLS	Others (**)	Total
Operating revenue	₩ 1,057,058	₩ 86,551	₩ 75,821	₩ 417,891	₩ 1,637,321
Operating expenses	748,600	62,447	95,186	408,798	1,315,031
Operating income (loss)	308,458	24,104	(19,365)	9,093	322,290
Non-operating income	15,825	153	657	22,534	39,169
Non-operating expenses	16,736	12	1,848	15,064	33,660
Ordinary income (loss)	307,547	24,245	(20,556)	16,563	327,799
Extraordinary gain	-	-	38,697	-	38,697
Extraordinary loss	-	-	2,787	-	2,787
Income tax expenses	97,155	8,899	401	9,897	116,352
Net income (loss)	₩ 210,392	₩ 15,346	₩ 14,953	₩ 6,666	₩ 247,357

(*) Condensed balance sheet and income statement information is based on the consolidated subsidiaries' financial statements before consolidation adjustments.

(**) Others include financial statement data of "KEBIT", "KEBFC", consolidated trust accounts and other foreign consolidated subsidiaries.

The brief explanation of the primary business activities of the consolidated subsidiaries is as follows:

(1) Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")

KEBC was established on May 19, 1988 under the Financial Law Specialized in Credit Business. KEBC's credit card operations include consumer installment financing, factoring and providing payment guarantees. The company offered its shares for public ownership and all shares were listed on the Korean Stock Exchange on December 21, 2001. The Bank retains 45.0% equity ownership as of December 31, 2001. The capital stock of the company amounts to ₩208,870 million through several stock issuances as of December 31, 2001

(2) KEB Leasing Co., Ltd. ("KEBLS")

KEBLS was incorporated on September 11, 1989 to engage in leasing industrial equipment. KEBLS implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction or execution of stock selling option with ₩800 per share on the shares owned by other individuals shareholders and employee stock ownership association as of November 9, 2001 for the purpose of debt restructuring due to work-out process, based on the resolution of shareholders' meeting on October 13, 2001. This capital reduction resulted in gain on capital reduction of ₩34,725 million.

In addition, on November 9, 2001, KEBLS 14,805 thousand shares of common stock for cash at par value to the Bank, based on the resolution of board of directors on October 26, 2001. The proceeds of new stock issuance were used for repayment of borrowings amounting ₩74,024 million from the Bank.

As of December 31, 2001, the Bank retains 99.3% equity ownership as of December 31, 2001. The capital stock of the KEBLS amounts to ₩75,400 million through several stock issuances.

(3) KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")

KEBIT was established on April 6, 1988 to provide investment consulting and information services under the name of Korea Securities Investment Management Co., Ltd. which was changed to KEB Investment Management Co., Ltd. on September 16, 1992 and KEB Investment Trust Management Co., Ltd. on July 8, 1997 and KEB Commerz Investment Trust Management Co., Ltd. on May 28, 1999. As of December 31, 2001, its capital stock is ₩30,000 million.

(4) KEB Futures Co., Ltd. ("KEBFC")

KEBFC was incorporated on September 24, 1997 to engage in brokerage or agency of financial futures. As of December 31, 2001, KEBFC's capital stock is ₩15,000 million.

(5) Pacific Union Bank ("PUB")

PUB was established in L.A. on September 24, 1974 to provide financial services to Korean companies or Korean residents in L.A. with 100% investment of the Bank. PUB made a public offer on August 1, 2000 and filed with NASDAQ (stock exchange in U.S.), for the first for the Korea financial institutions. The Bank retains 62.5% equity ownership as of December 31, 2001. As of December 31, 2001, the capital stock of PUB amounts to US\$ 56,820 thousand through several stock issuances and 12 branches in U.S. have been affiliated with PUB.

(6) KEB Australia Ltd. ("KEBA")

KEBA was established in Sydney in Australia on July 6, 1986 to provide financial services to Korean companies. The Bank retains 100% equity ownership as of December 31, 2001. The capital stock of the company amounts to AUD 55,000 thousand through several stock issuances as of December 31, 2001.

(7) Korea Exchange Bank of Canada ("KEBOC")

KEBOC was established in Toronto in Canada on October 6, 1981 to provide financial services to Korean companies or Korean residents in Toronto. The Bank retains 100% equity ownership as of December 31, 2001. The capital stock of the company amounts to CAD 33,400 thousand through several stock issuances as of December 31, 2001.

All consolidated subsidiaries including certain trust accounts are consolidated in the accompanying 2001 consolidated financial statements.

In 2001, KEB (Asia) Finance Ltd. ("KAF") was liquidated and KEB International Ltd. ("KEBI") is in the process of liquidation. Accordingly, these subsidiaries over which the Bank has temporary control are not included in the consolidated financial statements.

Condensed balance sheet of KEBI as of December 31, 2001 and its income statements for the year then ended are as follows:

– Condensed Balance Sheet Information:

	In Millions
	KEBI
Cash and due from banks	₩ 8,743
Securities	–
Loans	–
Fixed assets	–
Other assets	209
Total assets	₩ 8,952
Borrowings	₩
Other liabilities	8,953
Total liabilities	8,953
Capital stock	35,000
Accumulated deficit	(35,001)
Total shareholders' equity	(1)
Total liabilities and shareholders' equity	₩ 8,952

– Condensed Income Statement Information

	In Millions
	KEBI
Operating revenue	₩ 2,954
Operating expenses	9,077
Operating loss	(6,123)
Non-operating income (loss)	(11,637)
Net income (loss)	₩ (17,760)

Equity Method Investees

In accordance with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea and relevant laws, the Bank's investment in Doosan Heavy Industries & Construction Co., Ltd. (before, Korea Heavy Industries Co., Ltd.), a 15.7% owned subsidiary, and Cairo Far East Bank S.A.E. ("CFEB"), a 31.5% owned subsidiary, are accounted for on an equity basis.

(1) Cairo Far East Bank S.A.E. ("CFEB")

CFEB was established on October 1, 1978 to engage in doing a general financial business. The Bank has 31.5% equity ownership as of December 31, 2001.

(2) Doosan Heavy Industries & Construction Co., Ltd. (before, Korea Heavy Industries Co., Ltd.)

Doosan Heavy Industries & Construction Co., Ltd. (before, Korea Heavy Industries Co., Ltd.) was incorporated on September 20, 1962 to supply power plants, industrial plants, iron & steel facilities and construction service. As of December 31, 2001, its capital stock is ₩521,000 million.

Trust Accounts

Trust accounts, for which no guarantees of minimum return or repayment of principals are provided, are excluded from the Bank's consolidated financial statements in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank and consolidated subsidiaries in the preparation of the accompanying consolidated financial statements are summarized below:

Basis of Consolidated Financial Statement Presentation

The official accounting records of the domestic and overseas consolidated branches and subsidiaries, on which the Korean language financial statements are based, are maintained in accordance with the relevant laws and regulations of the Republic of Korea and local countries, respectively.

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

The preparation of consolidated financial statements requires management to make estimates and assumptions that effect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Financial statements for the twelve-month period ended December 31, 2001 were used for consolidation of KEBLS, KEBIT and KEBFC having a fiscal year ending March 31. The financial statements of KEBOC for the twelve-month period ended October 31, 2001 were used for consolidation since difference between the fiscal year of the Bank and KEBOC is less than three months.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its consolidated subsidiaries (together, the "consolidated companies").

The Bank records differences between the investment account and corresponding capital account of subsidiaries as a goodwill (negative goodwill), which is amortized over five years using the straight-line method. The differences between the investment account and corresponding capital account for equity-method investee companies at the date of acquisition of the investment are amortized over five years using the straight-line method. Such amortization is included in determination of equity in earnings (losses) of equity-method investees.

All significant intercompany transactions and balances among the consolidated companies have been eliminated in consolidation (see Note 26).

Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral is recognized on a cash basis in accordance with the generally accepted financial accounting standards of the Republic of Korea. At December 31, 2001 and 2000, the amount of interest not recognized due to such policy approximates ₩85,488 and ₩68,840 million, respectively.

Allowance for Loan Losses

Commencing in 1999, the Bank applied Forward Looking Criteria ("FLC") in its loan classification to determine allowances for possible loan losses. Under this method, the borrowers' future debt service capacity as well as overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses were determined by applying the following minimum percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

Consolidated subsidiaries provide allowances for loan losses according to the relevant laws and regulations, or based on the aggregate estimated collectability of the loans and receivables.

The Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above.

Investments in Debt and Equity Securities

Investments in debt and equity securities are accounted as follows:

- All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.
- Investments in equity and debt securities that are bought and held principally for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.
- Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Bank's proportionate ownership of the underlying book value of the investees which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Investments in equity securities of companies over which the Bank exerts significant control or influence are recorded using the equity method of accounting. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investees are amortized over five years using the straight-line method. Under the equity method, the Bank records changes in its proportionate ownership of the book value of the investees as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book of the investees.
- Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investment in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums. Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.
- Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Premises and Equipment

Premises and equipment are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see Note 16). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Intangible Assets

Intangible assets are recorded at cost and amortized over the estimated useful lives using the straight-line method.

Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

Gains or losses on disposal of foreclosed assets on an installment payment basis are recognized as other income or expenses as incurred.

Accrued Severance Benefits

Employees and executives with one year or more of service with the Bank and domestic subsidiaries are entitled to receive a lump-sum payment upon termination of their employment with the Bank and subsidiaries, based on their length of service and rate of pay at the time of termination. Accrued severance benefits of ₩47,386 million and ₩206,736 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2001 and 2000, respectively.

Accrued Severance Benefits, Continued

The Bank and domestic subsidiaries paid additional severance benefits to early-retired employees in addition to normal severance benefits as required by the relevant laws and retirement policy of the Bank and domestic subsidiaries. No accrual is provided for future early retirements.

Actual payment of severance benefits of the Bank and domestic subsidiaries in 2001 and 2000 approximated ₩192,238 million (including ₩187,924 million of interim payment of accrued severance benefits) and ₩52,496 million (including ₩19,892 million of additional early retirement benefits), respectively.

In accordance with the National Pension Act, the Bank and subsidiaries deposit a portion of accrued severance benefits with the National Pension Fund and those deposits are presented as deduction from accrued severance benefits. The contributed deposit amount shall be refunded to employees and executives from the National Pension Fund on their retirement. In addition, the Bank and domestic subsidiaries have partially funded accrued severance benefits through group severance insurance plans and the amounts funded under these insurance plans are included in cash and due from banks in the accompanying consolidated balance sheet or deducted from accrued severance benefits.

Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expenses.

Present Value Discounts

The difference between the nominal value and the present value of accounts receivable arising from installment sales of foreclosed assets is amortized using the effective interest rate method. Amortization of these discounts is included in other interest income.

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

Discounts on Capital Stock

Discounts on capital stock arising from payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized over three years by appropriations of retained earnings. However, due to accumulated deficits as of December 31, 2001 and 2000, there has been no amortization in 2001 and 2000.

Income Taxes

Current income taxes payable comprise corporate income tax and tax surcharges payable for the year. In addition, deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purpose are recognized for interperiod tax allocation purposes. The total income tax provision includes current tax expense under applicable tax regulations and the changes in the balance of deferred tax assets and liabilities. In addition, deferred tax assets and liabilities recorded by overseas branches are included in other assets and liabilities and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying consolidated financial statements.

Tax credits are recognized as a reduction of income tax expense in the year they are incurred for tax purposes.

Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions.

The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the financial accounting standards.

The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 2001 and 2000 are ₩1,326.10 : US\$ 1 and ₩1,259.70 : US\$ 1, respectively.

Stock Options

In accordance with financial accounting standards, compensation costs for stock options granted to employees and executives are recognized on the basis of fair value.

Under the fair value basis method, compensation costs for stock option plans are determined using an option-pricing model in which the Bank assumes no volatility of the underlying stock prices at grant dates and recognized as compensation expense equally over the vesting period.

Guarantees and Acceptances

The Bank provides allowances for losses on determinable outstanding guarantees and acceptances contracts applying the same method used in estimating allowances for losses on the loan portfolio.

Derivative Financial Instruments

Derivative financial instruments ("derivatives") are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operations. Unrealized gains or losses on derivatives for cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in the capital adjustment account and recorded in operations in the period when underlying transactions have effect on operations.

Trust Fees

The Bank's banking accounts receive trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The banking accounts are also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations. These trust fees arising from consolidated trust accounts are eliminated in consolidation.

Merchant Banking Operations

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from KIMB upon merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

- Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

- Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

Lease Transactions

The merchant banking accounts of the Bank and KEBS, a consolidated subsidiary, account for lease transactions as operating or financing leases, depending upon the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

Operating lease equipment are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets. The Bank accrues estimated losses from future sales of operating lease properties.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that related lease rental revenues are recognized.

Accounting for Trust Accounts

As explained in Note 1, guaranteed trust accounts operated and managed by the Bank as a fiduciary are consolidated in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities. The significant accounting policies in the preparation of the accompanying financial statements of the consolidated trust accounts are summarized as follows:

- Revenues and Expenses of Trust Accounts

Consolidated trust accounts comprise trust operating revenues and expenses, trust fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The non-consolidated trust accounts' trust fees to the Bank are recognized as income of the banking accounts of the Bank.

- Interest Income Recognition

Interest income on loans and investment securities held by the consolidated trust accounts are recognized using the same method as the banking accounts of the Bank, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral is recognized on a cash basis.

- Deposits at the Bank's Banking Accounts

The Bank's consolidated trust accounts deposit certain amounts for drawing of unspecified money trust, and account for them as deposits at the Bank's banking accounts. Interest on these deposits is computed and recorded daily. These deposits at the Bank and their interests are eliminated in consolidation.

- Special Allowance

Certain consolidated money trust agreements provide that the Bank guarantees a minimum rate of return. In relation to such guarantees, the Bank is required to set up a minimum 25% of trust fees as a special allowance, until the total allowance equals 5% of the related money trust balance. If the current income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or from the Bank's banking business operations. These special allowances amounting ₩12,346 million and ₩10,657 million, respectively at December 31, 2001 and 2000 are reclassified into consolidated retained earnings.

- Allowance for Loan Losses

Allowance for loan losses of consolidated trust account assets which are not carried at market value (including loans, commercial paper and certain corporate debentures) are provided based on a credit risk classification of the loan portfolio as of December 31. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank.

The allowance for loan losses of consolidated trust accounts with a guaranteed minimum rate of return at December 31, 2001 and 2000 amounts to ₩46,904 million and ₩226,986 million, respectively, and the charge-offs recorded by the trust accounts of the Bank in 2001 and 2000 amount to ₩164,376 million and ₩175,792 million, respectively.

- Investment Securities

Pursuant to the laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, equity securities and beneficiary certificates held by the Bank's consolidated trust accounts are stated at market or net asset value. Certain debt securities including corporate debentures, except for debt securities included in the consolidated trust accounts established subsequent to November 15, 1998, which are stated at market or net asset value, are stated at cost as permitted by the Trust Business Act and relevant related regulations.

- Compensation to the Trust Accounts

The Bank compensates for losses incurred in certain consolidated trust accounts subject to minimum return guarantees. Such compensations are accounted for as compensation for trust accounts of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

The amount of compensations accounted for other income of the consolidated trust accounts in year 2000 was ₩147,693 million and there is no compensation in year 2001. Compensation to the trust accounts is eliminated in consolidation.

- Present Value Discounts

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

Reclassification of 2000 Amounts

Certain amounts in 2000 consolidated financial statements have been reclassified to conform to the 2001 presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

3. United States Dollar Amounts:

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. The 2000 Korean Won amounts are expressed in U.S. Dollars at the rate ₩1,326.10:US\$ 1, the rate in effect on December 31, 2001. This presentation is not in accordance with accounting principles generally accepted in either Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 2000 U.S. Dollar amounts, which were previously expressed at ₩1,259.70:US\$1, the rate prevailing on December 31, 2000, have been restated to reflect the exchange rate in effect on December 31, 2001.

4. Cash and Due from Banks:

Cash and due from banks which are restricted as to withdrawal at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Reserve Deposits with the Bank of Korea		
- In Won	₩ 614,011	₩ 679,412
- In Foreign Currency	331,902	282,046
Deposits for severance payments	-	161,351
Foreign currency deposits	1,677	580
Won currency deposits	203,391	153,942
	₩ 1,150,981	₩ 1,277,331

Deposits with the Bank of Korea (reserve deposits) represent reserves the Bank is required to maintain for the payment of deposits in accordance with the Banking Act and the Bank of Korea Act. Foreign currency deposits deposited in the course of transactions of derivative financial instruments. Won currency deposits are composed of deposits in KorAm bank and other banks deposited related to asset-backed securitization (see Note 19) and deposits for opening checking account related to domestic subsidiaries. Accordingly, the withdrawal of these deposits is restricted.

The scheduled maturities of due from banks as of December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 465,918	₩ 70,035	₩ 627,102	₩ 1,163,055
Due from Banks in foreign currencies	935,181	-	1,677	936,858
	₩ 1,401,099	₩ 70,035	₩ 628,779	₩ 2,099,913

5. Securities:

Securities at December 31, 2001 and 2000 are as follows:

	In Millions			
	Debt securities		Equity securities	
	2001	2000	2001	2000
Trading securities	₩ 3,370,471	₩ 2,266,451	₩ 401	₩ -
Investment securities:				
Available for sale	8,196,440	6,211,703	618,801	310,570
Held-to-maturity	1,102,300	1,215,869	1,870	-
Investment in subsidiaries	-	-	283,805	278,420
	9,298,740	7,427,572	904,476	588,990
	₩ 12,669,211	₩ 9,694,023	₩ 904,877	₩ 588,990

At December 31, 2001 and 2000 trading securities included in Cash Management Accounts ("CMA") managed by the merchant banking division of the Bank amount to ₩60,741 million and ₩63,015 million, respectively.

Beneficiary Certificates

Under authorization by the Ministry of Finance and Economy, the merchant banking division of the Bank establishes and manages debt security investment trusts. The assets of these trusts, comprising primarily guaranteed corporate, government and public bonds, are deposited under trust deeds with the Seoul Bank who is acting as trustee. As of December 31, 2001, the merchant banking division of the Bank operates various kinds of funds such as long-term debt security trusts, long-term benefit trusts, tax exempt trusts and other types of trusts.

The merchant banking division of the Bank issues beneficiary certificates ("BCs") representing shares in the trusts. The BCs are sold at daily trade prices, determined based on the value of the net assets held by the trusts every day. The merchant banking division of the Bank has undertaken to repurchase, at the daily trade price, all BCs sold, when requested by the beneficiaries. The BCs recorded on the balance sheet represent the shares unsold or repurchased by the Bank. Total BCs issued and outstanding at December 31, 2001 and 2000 are 9,023 million and 10,504 million shares, respectively.

Investments in Debt Securities

At December 31, 2001, the Bank provided debt securities amounting to ₩2,286,984 million as collateral for borrowings from the Bank of Korea and has total debt securities amounting to ₩3,480,700 million available for rediscountable to the Bank of Korea. Securities denominated in foreign currencies amounting to ₩5,304 million were deposited in the course of selling securities under repurchase agreements and accordingly, the withdrawals are restricted (see Note 12).

The scheduled maturities of debt securities at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Public and national bonds	₩ 2,453,460	₩ 1,598,392	₩ 2,023,625	₩ 6,075,477
Bonds issued by corporations	1,899,330	1,596,053	239,053	3,734,436
Beneficiary certificates	676,765	-	-	676,765
Other securities in Won	125,059	-	40,547	165,606
Foreign currencies and off-shore debt Securities	1,587,111	134,089	295,727	2,016,927
	₩ 6,741,725	₩ 3,328,534	₩ 2,598,952	₩ 12,669,211

Debt securities in foreign currencies, classified by nationality of issuer, as of December 31, 2001 are as follows:

Countries	In Thousands (*)	In Millions	Ratio (%)
U.S.A	US\$ 1,221,345	₩ 1,619,626	66.9
Korea	469,542	622,659	25.7
Philippines	14,393	19,087	0.8
Brazil	7,945	10,536	0.4
Others	111,971	148,485	6.1
	US\$ 1,825,196	₩ 2,420,393	100.0

(*) Foreign currencies, except for U.S. dollars, are converted into equivalent U.S. dollar amounts using the exchange rate prevailing on December 31, 2001.

Investments in Equity Securities

As of December 31, 2001, details of investments in subsidiaries accounted for using equity method are as follows:

	In Millions					
	Acquisition cost	Equity in earnings of equity method investees	Adjustments to beginning accumulated surplus	Capital surplus	Capital adjustments	Book value
CFEB	₩ 8,281	₩ (69)	₩ (468)	₩ -	₩ -	₩ 7,744
Doosan Heavy Industries & Construction	82,000	(5,663)	94,892	108,038	(3,206)	276,061
KEBI	33,078	(17,889)	(15,189)			
	₩ 123,359	₩ (23,621)	₩ 79,235	₩ 108,038	₩ (3,206)	₩ 283,805

6. Loans

Foreign Currency Loans By Nationality

At December 31, 2001 and 2000, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2001			2000		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 3,336,880	₩ 4,425,037	78.9	US\$ 5,013,831	₩ 6,315,923	81.2
Japan	403,767	535,435	9.6	485,681	611,812	7.9
Russia	110,000	145,871	2.6	110,000	138,567	1.8
Indonesia	38,425	50,955	0.9	95,619	120,452	1.5
Other	337,877	448,059	8.0	469,087	590,909	7.6
	US\$ 4,226,949	₩ 5,605,357	100.0	US\$ 6,174,218	₩ 7,777,663	100.0

Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the year ended December 31, 2001 and 2000 is as follows:

	In Millions	
	2001	2000
Balance at January 1	₩ 1,989,792	₩ 2,569,319
Provision for loan losses	1,155,192	1,316,438
Reversal of allowance	-	(60,896)
Loans charged off	(2,009,609)	(1,893,855)
Transfer from repurchase of loan from KAMCO and others	120,941	(28,097)
Translation adjustments	(130,226)	86,883
	(863,702)	(579,527)
Balance at December 31	₩ 1,126,090	₩ 1,989,792

Ratios of allowance for loan losses to total loans for the years ended December 31, 2001, 2000 and 1999 are 3.1%, 5.8% and 9.3%, respectively.

At December 31, 2001 and 2000, the Bank's loans of which the balance had been already charged off but the Bank's legal claim rights against borrowers or guarantors have not expired amount to ₩2,937,618 million and ₩2,159,887 million, respectively.

Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipt specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 2001, ₩39,084 million of loans subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2001, discounted using interest rates of 5.2% to 14.3%, are ₩117,428 million less than their nominal value of ₩1,108,989 million. Amortization of these discounts of ₩39,903 million in 2001 are included in other interest income.

The changes in present value discount of the Bank's restructured loans in 2001 are as follows:

	In Millions			
	Balance at January 1	Addition	Deduction (*)	Balance at December 31
Loans restructured under work-out plan	₩ 118,725	₩ 26,705	₩ 120,632	₩ 24,798
Loans restructured under other similar				
Rescheduling agreements	13,401	3,105	5,432	11,074
Loans in industry rationalization policy	88,003	-	6,447	81,556
	₩ 220,129	₩ 29,810	₩ 132,511	₩ 117,428

Other Information

The Bank recognized gains and losses on loan sales amounting to ₩21,648 million and ₩1,711 million, respectively, for the year ended December 31, 2001, and gains and losses on loan sales amounting to ₩26,835 million and ₩34 million, respectively, for the year ended December 31, 2000 in connection with prior years' non-performing loan sales to Korea Asset Management Corporation ("KAMCO"), the sales prices of which are adjusted according to the results of actual subsequent collection of those loans (see Notes 20 and 21).

The Bank provides housing loans bearing interest at a rate of 7.25% per annum to directors and employees. The outstanding balance of housing loans receivable as of December 31, 2001 and 2000 amounts to ₩26,132 million and ₩101,390 million, respectively.

7. Guarantee Deposits for Trust Operations:

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits at December 31, 2001 and 2000 are ₩4,246 million (₩6,468 million) and ₩7,999 million (₩10,642 million), respectively.

8. Premises and Equipment:

Premises and equipment at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Buildings	₩ 432,923	₩ 446,118
Office facilities held on lease	49,078	105,950
Equipment	641,056	673,428
Foreclosed assets	1,881	10,397
	1,124,938	1,235,893
Less: Accumulated depreciation or allowance	(622,585)	(676,439)
	502,353	559,454
Construction in progress	288	2,842
Land	390,254	399,595
Intangible assets	15,792	17,705
	₩ 908,687	₩ 979,596

At December 31, 2001 and 2000, the value of the domestic lands of the Bank and subsidiaries as determined by the tax authorities for property tax assessment purpose amounts to ₩396,398 million (₩386,080 million of book value) and ₩407,646 million (₩395,616 million of book value), respectively.

At December 31, 2001, a substantial portion of buildings, equipment and foreclosed assets of the Bank and subsidiaries are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

9. Cash Management Accounts :

Cash Management Accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily.

CMA assets and CMA deposits at December 31, 2001 and 2000 comprise the following:

	In Millions	
	2001	2000
CMA assets		
Notes discounted	₩ 101,540	₩ 108,505
Securities	60,741	63,015
	₩ 162,281	₩ 171,520
CMA deposits	₩ 164,532	₩ 174,853

10. Other Assets:

Other assets at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Guarantee deposits	₩ 442,154	₩ 407,260
Accounts receivable	1,186,480	1,276,477
Prepaid expenses	149,923	213,538
Non-Performing Loan Management Fund	36,680	36,680
Adjustments related to derivatives	2,069	-
Suspense receivable	60,395	35,477
Domestic exchange settlement	645,683	330,397
Deferred foreign currency translation losses for operating lease transactions	31,143	-
Deferred tax assets	114,634	3,329
Others	305,488	280,589
	₩ 2,974,649	₩ 2,583,747

11. Deposits:

The scheduled maturities of deposits at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 23,705,726	₩ 1,161,785	₩ 2,265,250	₩ 27,132,761
Deposits in foreign currencies	7,397,196	109,591	1,997,910	9,504,698
Certificates of deposit	566,825	-	-	566,825
	₩ 33,289,380	₩ 1,271,376	₩ 2,643,527	₩ 37,204,284

12. Borrowings:

Borrowings at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
Borrowings in Won			
Borrowings from the Bank of Korea	3.0	₩ 1,213,360	₩ 580,344
Borrowings from the governmental and public fund	3.5 ~ 8.0	286,373	258,276
Borrowings from other banks	6.0	276,455	298,056
Borrowings from other financial institutions	6.7 ~ 10.625	535,000	272,000
Borrowings from others	0.5 ~ 11.0	326,960	759,756
		2,638,148	2,168,432
Borrowings in foreign currencies			
Long-term borrowings	3ML+0.43	576,432	707,671
Short-term borrowings	2.1 ~ 4.1	1,433,960	2,171,552
Refinance	2.87 ~ 4.49	39,385	371,305
Borrowings from banks for subordinated loans	2.35 ~ 4.92	30,859	53,859
Others	3ML+0.05~6ML+0.01	226,060	211,633
		2,306,696	3,516,020
Securities sold under repurchase agreements	5.07	623,753	974,003
Covering notes sold	4.0 ~ 4.4	239,492	763,340
Call money	3.7 ~ 5.1	65,400	405,656
	1.9 ~ LIBOR+1.03	132,559	329,314
		₩ 6,006,048	₩ 8,156,765

Subordinated borrowings

Subordinated borrowings at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
Subordinated borrowings in Won:			
Samsung Life Insurance, Co. and other, maturing through 2007	8.0 - 10.625	₩ 120,000	₩ 270,000
Subordinated borrowings in foreign currencies			
Commerzbank, maturing through 2005	LIBOR+3.5	46,414	44,090
		(US\$ 35,000)	(US\$ 35,000)
		₩ 166,414	₩ 314,090

Subordinated borrowings have redemption periods of 4 to 6 years and are due in lump sum at maturities.

Maturity Information

The scheduled maturities of borrowings at December 31, 2001 are as follows:

	In Millions (In Thousands)			
	Due in one year or less	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,805,100	₩ 312,000	₩ 521,048	₩ 2,638,148
Borrowings in foreign currencies	1,966,818	170,396	169,482	2,306,696
	₩ 3,771,918	₩ 482,396	₩ 690,530	₩ 4,944,844

Other Information

At December 31, 2001, in the normal course of funding activities the Bank provided ₩2,286,984 million of securities as collateral for borrowings from the Bank of Korea and other financial institutions (see Note 5).

13. Debentures:

Debentures at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
	2001.12.31		
Debentures in Won			
Debentures	4.97-10.50	₩ 3,479,314	₩ 1,931,308
Subordinated debentures	7.1-14.8(*)	1,185,300	585,300
Subordinated convertible debentures	4.0	200,000	200,000
Others	6.72-11.98	47	-
		4,864,661	2,716,608
Discounts on debentures		(12,903)	(1,919)
		4,851,758	2,714,689
Debentures in foreign currencies			
Debentures	6ML+0.95-13.75	833,930	1,120,933
Discounts on debentures		(4,863)	(7,940)
		829,067	1,112,993
		₩ 5,680,825	₩ 3,827,682

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Debentures

Subordinated debentures at December 31, 2001 and 2000 are as follows:

	Annual interest rate (%)	In Millions	
		2001	2000
	2001.12.31		
Fund invested by the Korean Government, maturing through 2004	(*)	₩ 422,300	₩ 422,300
Samsung Life Insurance Co., maturing in 2007	14.80	13,000	13,000
Public	10.50	750,000	150,000
		1,185,300	585,300
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	3ML+2.0	265,220	251,940
		(US\$200)	(US\$200)
Credit Suisse First Boston (CSFB)	13.75	265,220	251,940
		(US\$200)	(US\$200)
		530,440	503,880
		₩ 1,715,740	₩ 1,089,180

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 2001 and 2000 are as follows:

	Periods of debentures	Annual interest rate (%)	In Millions	
			2001	2000
		2001. 12. 31		
Subordinated convertible debentures (No. 4)	1999. 12. 6			
	~ 2009. 12. 6	4.0	₩ 100,000	₩ 100,000
Subordinated convertible debentures (No. 5)	1999. 12. 27			
	~ 2009. 12. 27	4.0	100,000	100,000
			₩ 200,000	₩ 200,000

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through October 31, 2004 and November 20, 2004, respectively, into common shares at a conversion price of ₩10,000 per share of common stock, as adjusted for the 2:1 capital reduction in 2000. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service ("FSS") on December 6, 2004 (fourth series) and December 27, 2004 (fifth series) at 150.82% of their principal amounts. If such options were not exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the remaining principal will be paid ten years from the issue date.

Repayment Schedules

The scheduled maturities of debentures at December 31, 2001 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 1,824,361	₩ 1,542,300	₩ 1,498,000	₩ 4,864,661
Debentures in foreign Currencies	146,328	148,524	539,078	833,930
	₩ 1,970,689	₩ 1,690,824	₩ 2,037,078	₩ 5,698,591

14. Other Liabilities:

Other liabilities at December 31, 2001 and 2000 consist of the following:

	In Millions	
	2001	2000
Unearned income	₩ 81,746	₩ 95,009
Accrued severance benefits	12,725	194,530
Allowance for estimated losses on outstanding guarantees and acceptances contract	98,690	125,200
Due to trust accounts	1,150,083	471,819
Due to treasury agency	359,333	81,618
GIRO accounts	81,752	35,149
Deferred tax liabilities	-	83
Accounts payable	1,245,499	1,148,706
Suspense payable	421,132	435,522
Withholding taxes	27,332	43,679
Guarantee money received	113,830	150,437
Factoring payable	12,161	9,000
Deterred foreign currency translation gains for operating lease transactions	75,023	-
Other	585,888	379,942
	₩ 4,265,194	₩ 3,170,694

15. Accrued Severance Benefits:

Accrued severance benefits at December 31, 2001 and 2000 are as following:

	In Millions	
	2001	2000
Balance at beginning of the year	₩ 206,736	₩ 221,599
Provisions	32,888	40,906
Severance payments	(192,238)	(52,496)
Adjustments of foreign exchange transactions	-	(3,273)
	47,386	206,736
Cumulative deposits to national pension fund	(2,068)	(12,206)
Deposits for severance payment	(32,593)	-
Balance at end of the year	₩ 12,725	₩ 194,530

16. Capital Surplus:

Consolidated capital surplus as of December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Capital stock of consolidated subsidiaries transferred from accumulated earnings	₩ 65,712	₩ 121,252
The Bank's ownership in capital surplus of consolidated subsidiaries	70,252	51,996
The Bank's ownership in capital surplus of equity method investees	108,038	93,943
	₩ 244,002	₩ 267,191

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, out of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

17. Accumulated Deficit:

Consolidated accumulated deficit as of December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Legal reserve	₩ 41,501	₩ 18,114
Other statutory reserves	25,448	13,131
Voluntary reserves	14,556	399
Accumulated deficit before disposition	(220,994)	(388,706)
Deficit in excess of minority interests	-	(41,451)
	₩ (139,489)	₩ (398,513)

Legal Reserve

The Banking Act requires the Bank to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income, until such reserve equals 100% of its capital stock. This reserve is not available for payment of cash dividends but may be transferred to capital stock by an appropriate resolution by the Bank's board of directors or used to reduce accumulated deficit, if any, by appropriate resolution of the Bank's shareholders.

The Korean Commercial Code requires the domestic subsidiaries to appropriate an amount equal to a minimum of 10% of cash dividends as a legal reserve, until such reserve equals 50% of its paid-in capital. The reserve is not available for the payment of dividends. However, it may be transferred to common stock or used to reduce accumulated deficit, if any.

Other Statutory Reserves

Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of the Japanese branches' annual income after income taxes as a Japanese legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. In addition, Singapore branch's statutory reserves are included. In addition, Singapore branch's statutory reserves are included in other statutory reserves.

Voluntary Reserve

The Bank and its subsidiaries appropriate a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

Deficit in excess of minority interests

Deficit in excess of minority interests as of December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
KEB (Asia) Finance Ltd.	₩ -	₩ 11,575
KEB Leasing Co. Ltd.	-	29,876
	₩ -	₩ 41,451

Disposition of Accumulated Deficits

Details of the recent three years' disposition of accumulated deficits approved by shareholders of the Bank are as follows:

Date of disposition	In Millions		
	2001. 3. 13	2000. 3. 25	1999. 2. 26
Accumulated deficit before disposition	₩ 1,523,622	₩ 1,366,086	₩ 843,544
Disposition			
Transfer from capital surplus	-	154,805	-
Transfer from gain on capital reduction	1,240,875	-	-
Transfer from asset revaluation surplus	-	156,017	203,591
Transfer from statutory reserve	-	-	195,634
Transfer from reserve for overseas investment losses	-	-	154,000
Transfer from business rationalization	-	-	31,800
Appropriation for other statutory reserves	(236)	(537)	(211)
Transfer from voluntary reserves	-	-	258,730
	1,240,639	310,285	843,544
Undisposed accumulated deficit to be carried forward to subsequent year	₩ 282,983	₩ 1,055,801	₩ -

18. Capital Adjustments:

Capital adjustments at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Valuation losses on investment in debt securities	₩ (45,486)	₩ (22,645)
Valuation losses on investment in equity securities	(212,659)	(347,455)
Treasury stocks	-	(2,930)
Discounts on capital stocks	(10,008)	(9,502)
	₩ (268,153)	₩ (382,532)

Stock Options

As of December 31, 2001, the Company has implemented stock option plans for employees and executives, under which they are entitled to receive options to purchase 1,024 thousand common shares of the Bank at ₩5,000 per share. The stock options may be exercised during the period from three to six years from the grant date.

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

- The risk-free interest rate: The interest rate for governmental bonds at the grant date
- The expected exercise period: In six years from the grant date
- The volatility of the underlying stock price: 0
- The expected dividend rate: 0 %

Under the above assumptions, compensation costs under fair value basis method is in agreement with those under minimum value method. However, due to the exercise price of the stock option exceeding market value of the Bank's stock at December 31, 2001, no compensation cost was accrued in 2001.

19. Commitments and Contingencies:**Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the banking regulatory authorities. Under capital adequacy guidelines, the Bank shall report to the regulatory banking authorities its capital adequacy information as measured based on the accompanying consolidated financial statements. The capital guidelines involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to quantitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain a minimum 8% of total adjusted capital to risk weighted assets based on the accompanying consolidated financial statements (the BIS capital ratio).

Guarantees and Acceptances

The Bank and subsidiaries makes various commitments whereby they accept contingencies or guarantees for customers as liabilities of customers in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding at December 31, 2001 and 2000 are summarized as follows:

	In Millions	
	2001	2000
Guarantees:		
Won currency	₩ 616,352	₩ 542,099
Foreign currencies	1,995,468	2,604,628
	2,611,820	3,146,727
Acceptances in foreign currencies:	2,188,093	2,473,329
	₩ 4,799,913	₩ 5,620,056

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2001 and 2000 are as follows:

	2001			2000		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 2,891,485	₩ 3,834,399	92.49	US\$ 3,606,211	₩ 4,542,744	90.44
France	131,454	174,321	4.20	222,661	280,486	5.58
Germany	19,975	26,489	0.64	23,288	29,336	0.58
United Kingdom	6,683	8,862	0.21	6,849	8,628	0.17
U.S.A	42,159	55,907	1.35	66,559	83,844	1.67
Japan	9,831	13,037	0.31	28,076	35,290	0.70
Others	24,966	33,107	0.80	33,756	42,522	0.86
	US\$ 3,126,553	₩ 4,146,122	100.00	US\$ 3,987,400	₩ 5,022,850	100.00

In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of guarantees and acceptances of the Bank and subsidiaries without underlying liabilities of customers, provided in the normal course of business, at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Letters of credit issued but not yet being drawn	₩ 4,766,665	₩ 4,590,835
Other guarantees and acceptance	27,974	35,150
	₩ 4,794,639	₩ 4,625,985

Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought by the Bank are approximately ₩212,830 million as of December 31, 2001. The aggregate amounts of claims brought against the Bank are approximately ₩42,195 million as of December 31, 2001. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material ultimate losses on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying non-consolidated financial statements. The Bank has purchased US\$ 7 million (Book value: US\$ 1.9 million) of floating rate notes and paid US\$ 12 million in subrogation for offshore funds in Malaysia established by Anam Semiconductor ("the Company"), which is now undergoing a workout program. The Company has provided a letter of commitment ("LOC") which confirms the compensation of the loss arising from the funds, but is not performing. Accordingly, the Bank is undergoing a process to bring the case to the court, but the ultimate effect as of balance sheet date cannot presently be determined.

Asset Backed Securitization

At December 6, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company (1st SPC) and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

At February 1, 2001, the Bank sold certain non-performing loans to leasing companies amounting to ₩589,175 million to a Special Purpose Company (5th SPC) and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), the Bank entered into a credit line commitment in the amount of ₩110 billion with Korea Development Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩55 billion as collateral to Korea Development Bank.

And at May 25, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company (6th SPC) and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this ABS, the Bank entered into a credit line commitment in the amount of ₩30 billion with Kookmin Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩60 billion as collateral to Kookmin Bank.

And at October 30, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company(7th SPC) and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. In relation to this ABS, Korea Development Bank offered ₩7 billion of Credit Line.

In relation to the business transaction agreement (the "Agreement") which governs the sale of non-performing loans 1st, 5th, 6th and 7th SPC, the transferee and the trustee could claim damage for the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset become unqualified to the condition of the contract or when the asset value is reduced with the significant misstatement of the due diligence report for the assets or when the obligor delayed his payment of the principal more than 6 months. Also, when the duty occurred, the Bank must pay the damage amount to the transferee with cash within 7 business days from document notification.

The limit of the indemnity damage relating to the fifth, sixth and seventh asset securitization amounts to US \$84 million (equivalent to ₩110,040 million), ₩130,000 million, ₩26,000 million, respectively (27%, 34%, 36% of the total proceeds, respectively). The Bank reserved ₩35,700 million of allowance for loan losses for these contingencies.

Loans Sold under Repurchase Agreements

The Korea Asset Management Corporation ("KAMCO") can resell some of the loans previously purchased from the Bank under certain conditions including the following;

- When it is considered impossible to collect the loans and interest because borrowers delay their repayment of loans and interests over 6 months
- When it is considered impossible to collect the loans and interests due to the abrogation of court-receivership process and the cancellation of mediation

As of December 31, 2001, KAMCO may exercise the resale option for the loan amounting to ₩402,778 million.

As of December 31, 2001, the Bank estimated loss on repurchase of the loans amounting to ₩177,400 and accrued this amount as allowance for loan losses in 2001.

Stock of Samsung Life Insurance

On September 26, 2000, the Bank received 117,638 shares of stock of Samsung Life Insurance in accordance with contribution contract with Gun-Hee Lee, the chairman of Samsung Group, subsequent to the agreement to be compensated against estimated loan losses arising from Samsung Motors.

Evaluation of the plan for the Bank management improvement

On November 8, 2000, the Financial Supervisory Commission approved the Bank's management improvement plan submitted on September 30, 2000 by the Bank, based on the following abstract of evaluation for the Bank's plan by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently without additional capital injection from the Korean Government, since the Bank's capital adequacy ratio as of December 31, 2001 has met the target ratio, subject to the certain conditions described below:

- To provide against the situation that the Bank would not be able to increase its capital through public offerings, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds

- The ratio of non-performing loans (NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.
- The target ratio of financial profitability will be reached through increase of operating revenue and reduction of expenses.

Debt to Equity Swap.

Under the debt restructuring agreement between creditors and Hyundai Construction Co. Ltd, the Bank acquired common stock of that company at par value of ₩5,000 in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bonds newly issued by Hyundai Construction Co. Ltd. for the purpose of financial support. Furthermore, in accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. in 2001, the Bank acquired newly issued convertible bonds of that company in exchange for ₩726,000 million of existing loans and convertible bonds and provided ₩79,000 million of new additional loans to Hynix Semiconductor Inc. for the purpose of financial support.

Economic uncertainties

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices

The Korean economy continues to currently experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and uncertainty exists with regard to the continued availability of short-term financing. The Bank may be either directly or indirectly affected by the situation described above.

Uncertainties still exist related to the economy in Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. The Bank's outstanding loans and guarantees to the affiliated companies of Daewoo Group and other companies under workout programs amount to ₩643,625 million and ₩380,540 million, respectively before present value discounts of ₩18,567 million and ₩26,482 million, respectively. The Bank has accrued ₩121,102 million and ₩68,693 million, respectively, of allowance for loan losses (including allowance for losses for guarantees and acceptances) as of December 31, 2001. In addition, as of December 31, 2001, Bank's outstanding loans and guarantees to Hyundai Group companies, including Hyundai Construction Co. Ltd and Hynix Semiconductor Inc. amount to ₩2,284,100 million. Actual loan losses related to the above companies may differ from allowances for such loan losses accrued by the Bank.

Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price.

A summary of derivative financial instrument information at December 31, 2001 is as follows (In Millions of Korean Won):

	Outstanding			Trading		Hedging		Total		Valuation gains or losses (B/S)	
										Valuation gains or losses (I/S) (***)	
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses	Assets	Liabilities
Foreign Currency Related Contracts											
Forward contracts (*)	₩4,884,076	₩ 396,252	₩5,280,328	₩ 53,127	₩ -10,237	₩ 6,036	₩ 17,068	₩ 59,163	₩ 6,831	₩ 117,216	₩ 87,354
Futures contracts (*)											
Futures contracts purchased	181,222	-	181,222	-	-	-	-	-	-	-	-
Swap contracts (*)	360,268	96,388	456,656	34	10,366	930	-	964	10,366	215	21,513
Option contracts											
Option contracts purchased	354,068	-	354,068	3,607	-	-	-	3,607	-	23,125	-
Option contracts sold	372,634	-	372,634	-	3,612	-	-	-	3,612	-	23,130
	6,152,268	492,640	6,644,908	56,768	3,741	6,966	17,068	63,734	20,809	140,556	131,997
Interest Rate Related Contracts											
Futures contracts											
Futures contracts purchased (**)	1,400	-	1,400	-	-	-	-	-	-	-	-
Futures contracts sold (**)	2,288,848	-	2,288,848	-	-	-	-	-	-	-	-
CD contracts (**)	-	-	-	-	-	-	-	-	-	-	-
Swap contracts	1,622,128	263,520	1,885,648	18,398	31,936	4,573	1,239	22,971	33,175	70,704	73,017
Option contracts											
Option contracts purchased	200,376	-	200,376	396	467	-	-	396	467	1,461	-
Option contracts sold	202,779	-	202,779	1,865	288	-	-	1,865	288	-	5,330
	4,315,531	263,520	4,579,051	20,659	32,691	4,573	1,239	25,232	33,930	72,165	78,347
Preemptive Right	4,949	-	4,949	4,949	-	-	-	4,949	-	8,307	-
	₩10,472,748	₩756,160	₩11,228,908	₩ 82,376	₩ 36,432	₩ 11,539	₩ 18,307	₩ 93,915	₩ 54,739	₩ 221,028	₩ 210,344

(*) The currency related derivative financial instruments or interest rate swap contracts that accompany both purchased and sold position are recorded at foreign currency contract amount for the contracts between Korean Won and foreign currency, and purchased foreign currency contracts amount for the contract between foreign currencies, translated into the exchange rate as of the balance sheet date.

(**) The valuation gains or losses are not recorded since the settlement gain or losses are transferred to transaction gains or losses the as of balance sheet date.

(***) The above gains or losses are included in gains or losses on foreign exchange transaction.

December 31, 2001 and 2000

Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price.

A summary of derivative financial instrument information at December 31, 2000 is as follows (In Millions of Korean Won):

	Outstanding			Valuation gains or losses (I/S)(***)						Valuation gains or losses (B/S)	
				Trading		Hedging		Total		Assets	Liabilities
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses		
Foreign Currency Related Contracts											
Forward contracts (*)	₩1,477,583	₩815,632	₩2,293,215	₩ 58,690	₩100,152	₩ 24,965	₩ 8,576	₩ 83,655	₩108,728	₩ 83,626	₩101,790
Futures contracts (*)											
Futures contracts purchased	32,244	62,481	94,725	-	-	-	-	-	-	-	-
Swap contracts (*)	3,294	91,165	94,459	181	168	-	12,840	181	13,008	181	12,077
Option contracts											
Option contracts purchased	34,019	-	34,019	19,517	-	-	-	19,517	-	19,517	-
Option contracts sold	340,251	-	340,251	-	19,518	-	-	-	19,518	-	19,518
	1,887,391	969,278	2,856,669	78,388	119,838	24,965	21,416	103,353	141,254	103,324	133,385
Interest Rate Related Contracts											
Futures contracts											
Futures contracts purchased (**)	100,570	-	100,570	-	-	-	-	-	-	-	-
Futures contracts sold (**)	165,525	176,178	341,703	-	-	-	-	-	-	-	-
CD contracts (**)	-	-	-	-	-	-	-	-	-	-	-
Swap contracts	1,642,166	129,749	1,771,915	41,339	36,851	9,975	2,851	51,314	39,702	49,250	39,703
Option contracts											
Option contracts purchased	234,140	-	234,140	240	-	-	-	240	-	240	-
Option contracts sold	188,955	-	188,955	-	240	-	-	-	240	-	240
	2,331,356	305,927	2,637,283	41,579	37,091	9,975	2,851	51,554	39,942	49,490	39,943
	₩4,218,747	₩1,275,205	₩5,493,952	₩ 119,967	₩156,929	₩ 34,940	₩ 24,267	₩154,907	₩181,196	₩152,814	₩173,328

(*) The currency related derivative financial instruments or interest rate swap contracts that accompany both purchased and sold position are recorded at foreign currency contract amount for the contracts between Korean Won and foreign currency, and purchased foreign currency contracts amount for the contract between foreign currencies, translated into the exchange rate as of the balance sheet date.

(**) The valuation gains or losses are not recorded since the settlement gain or losses are transferred to transaction gains or losses the as of balance sheet date.

(***) The above gains or losses are included in gains or losses on foreign exchange transaction.

20. Other Incomes:

Details of other income for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Gain on disposal of trading securities	₩ 89,928	₩ 60,821
Gain on disposal of investment securities	163,492	77,653
Gain on valuation of securities	60,037	37,646
Gain on sales of loans	21,648	26,835
Gain on disposal of premises and equipment	19,288	26,625
Gain from liabilities forgiven	49,683	8,800
Recovery of loans charged off	4,287	2,764
Lease rental earned	2,543	2,824
Deferred tax revenue	1,940	7
Gain on valuation of equity-method investments	-	4,821
Other	118,238	197,419
	₩ 531,084	₩ 446,215

21. Other Expenses:

Details of other expenses for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Loss on disposal of trading securities	₩ 77,740	₩ 91,005
Loss on disposal of investment securities	144,730	23,883
Loss on valuation of securities	149,692	103,994
Loss on sales of loans	1,711	34
Loss on disposal of premises and equipment	9,930	10,233
Deferred tax expenses	2,262	8,354
Provision for guarantee and acceptance	14	64,301
Contribution to non-refundable mandatory funds	55,765	46,064
Other	113,489	106,445
	₩ 555,333	₩ 454,313

22. Income Taxes:

The statutory income tax rates applicable to the Bank and subsidiaries, including resident tax surcharges, approximate 30.8%. No current income tax expenses represent income taxes paid by overseas branches.

The components of differences between the Bank's taxable income and accounting income for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Net income (loss)	₩ 222,547	₩ (403,703)
Temporary differences:		
Restructuring of loans	117,428	220,129
Allowance for loan losses	345,290	303,600
Accrued interests, net	39,115	6,168
Gain on valuation at securities, net	120,339	14,733
Allowance for estimated losses on outstanding guarantees and acceptances contract	98,654	125,200
Other	(913,085)	(744,558)
	(192,259)	(74,728)
Permanent differences:		
Adjustments to accumulated deficits	(99,828)	(64,976)
Other	(7,507)	(11,809)
	(107,335)	(76,785)
Net taxable loss / operating loss carry-forward	(77,047)	(555,216)
Operating loss carry-forward	(2,026,615)	(1,685,457)
Taxable income	₩ -	₩ -

Details of the Bank's temporary differences and deferred tax assets as of December 31, 2001 are as follows:

	In Millions				
	Balance at January 1, 2001	Adjustments for foreign currency translation	Increase (Decrease)	Balance at December 31, 2001	Deferred tax assets (liabilities)
Loss on valuation of securities	₩ (69,648)	₩ 2,601	₩ (40,900)	₩ (107,947)	₩ (32,060)
Gain on valuation of long-term debt securities	(6,526)	(379)	17,578	10,673	3,170
Accrued interest	(121,726)	-	39,115	(82,611)	(24,535)
Allowance for loan losses	303,600	-	41,690	345,290	102,551
Loans charged off	66,213	-	-	66,213	19,665
Allowance for losses from guarantees and acceptances	125,200	-	(26,546)	98,654	29,300
Restructuring of loans	220,129	-	(102,701)	117,428	34,876
Other, net	56,748	-	(120,495)	(63,747)	(18,933)
	₩ 573,990	₩ 2,222	₩ (192,259)	₩ 383,953	₩ 114,034
Operating loss carry-forward	₩ 2,026,615	₩ -	₩ 77,047	₩ 2,103,662	₩ 624,787
Deferred tax assets					738,821
Allowance for deferred tax assets					638,821
Deferred tax assets, net					₩ 100,000

23. Goodwill:

Since the goodwill arising from investments into subsidiaries before prior years was fully amortized, there is no amortization expenses on goodwill in 2001.

24. Earnings Per Share and Ordinary Income Per Share:

Basic earnings per share and ordinary income per share for the years ended December 31, 2001 and 2000 are calculated as follows:

The weighted average number of common shares outstanding for the year ended December 31, 2001 are calculated as follows:

	2001		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	590,672	365	(215,595,554)
			80,878,254,261

Weighted average number of shares outstanding:

80,878,254,261 shares / 365 days = 221,584,258 shares

The weighted average number of common shares outstanding for the year ended December 31, 2000 are calculated as follows:

	2000		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	2,157,442	365	(787,466,330)
			80,306,383,485

Weighted average number of shares outstanding:

80,306,383,485 shares / 365 days = 220,017,489 shares

Basic Earnings per share:

	2001	2000
Net income (losses)	₩227,130,686,373	₩(486,839,423,576)
Preferred stock dividends	-	-
Net income (losses) allocated to common stock	227,130,686,373	(486,839,423,576)
Weighted average number of common shares outstanding (in shares)	221,584,258	220,017,489
Basic net income (losses) per share	₩ 1,025	₩ (2,213)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2001 and 2000

Basic ordinary income per share:

	2001	2000
Net income	₩227,130,686,373	₩(486,839,423,576)
Extraordinary gain (losses)	49,986,369,894	55,705,609,577
Extraordinary losses	2,786,586,527	176,109,400
Income tax related to extraordinary income	14,537,533,277	17,103,086,055
Ordinary income (losses) allocated to common stock	194,468,436,283	(525,265,837,698)
Weighted average number of common shares outstanding (in shares)	221,584,258	220,017,489
Basic ordinary income (losses) per share	₩ 878	₩ (2,387)

For the years ended December 31, 2000, diluted net loss per share and diluted ordinary loss per share are equal to basic net loss per share and basic ordinary loss per share due to the anti-dilutive effect of all potentially dilutive securities.

The number of diluting shares for the year ended December 31, 2001 are calculated as follows:

	2001		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Convertible preferred shares	148,000,000	365	54,020,000,000

Number of diluting shares:

54,020,000,000 shares / 365 days = 148,000,000 shares

Diluted earnings per share and diluted ordinary income per share for the years ended December 31, 2001 is calculated as follows:

Diluted earnings per share:

	2001
Net income allocated to common stock	₩ 227,130,686,373
Preferred stock dividends	-
Diluted net income	227,130,686,373
Weighted average number of common shares before dilution (in shares)	221,584,258
Diluting shares	148,000,000
Diluted weighted average number of common shares outstanding (in shares)	369,584,258
Diluted earnings per share	₩ 615

Diluted ordinary income per share:

	2001
Ordinary income allocated to common stock	₩ 194,468,436,283
Preferred stock dividends	-
Diluted ordinary income	194,468,436,283
Weighted average number of common shares before dilution (in shares)	221,584,258
Diluting shares	148,000,000
Diluted weighted average number of common shares outstanding (in shares)	369,584,258
Diluted ordinary income per share	₩ 526

Potential common share information as of December 31, 2001 is as follows;

	Face value (In millions)	Exercise period	Number of common shares to be issued upon conversion
Convertible preferred shares	₩ 740,000	(*)	148,000,000
Subordinated convertible debentures (No. 4)	100,000	From Mar. 7, 2000 to Nov.6, 2009	10,000,000
Subordinated convertible debentures (No. 5)	100,000	From Mar. 28, 2000 to Nov.27, 2009	10,000,000

(*)For 26,000 thousand shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 thousand shares of newly issued convertible preferred stock will be converted at conversion date after five years from the issue date.

25. Supplemental Cash Flows Information:

The Bank and subsidiaries consider cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents at December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Cash on hand	₩ 1,380,618	₩ 1,461,313
Deposits in Won	1,163,055	1,318,092
Deposits in foreign currencies	936,858	1,187,065
Marketable securities	27,535	24,125
	₩ 3,508,066	₩ 3,990,595

Significant non-cash flow transactions for the years ended December 31, 2001 and 2000 are as follows:

	In Millions	
	2001	2000
Decrease in loans by charge-off	₩ 1,777,168	₩ 1,739,795
Increase in net asset by excluding consolidation company	23,957	91,624
Decrease in allowance for loan losses by offsetting present value discounts	29,810	70,865
Domestic exchange settlement	1,053,233	1,015,076

26. Related Party Transaction:

Significant transactions made in the normal course of business with subsidiaries during the years ended 2001 and 2000, and related account balances as of December 31, 2001 and 2000 are summarized as follows (In Millions of Korean Won):

	KEB	KEBA	KEBLS	KEBD	KEBDAG	KEBIRE	KEBD IT	KEBLS	KEBOC	Trust	Others	Total		
												2001	2000	
ASSETS:														
Due from banks in Won	₩438,352	₩ -	₩23,633	₩ -	₩ -	₩ -	₩ 24,359	₩ 10,498	₩ -	₩ -	₩ 1,578	₩ 498,420	₩ 1,285,576	
Due from banks in foreign currency	55,119	-	-	-	545	218	-	-	79	-	1,085	57,046	365,334	
Loans in Won	183,000	-	-	-	-	-	-	-	-	-	-	183,000	369,341	
Loans in Foreign currency	444,433	-	-	35,808	-	25,069	-	-	-	326,080	-	831,390	484,625	
Other	38,991	-	4,691	-	774	980	402	2,246	-	-	85	48,169	29,530	
LIABILITIES:														
Deposits in Won	60,068	-	-	-	-	-	-	-	-	-	5,000	65,068	36,872	
Deposits in Foreign currency	1,478	-	-	51,157	3,777	-	-	-	486	-	149	57,047	133,029	
Borrowings in Won	-	-	140,000	-	-	-	-	43,000	-	-	-	183,000	1,421,372	
Borrowings in Foreign currency	44,746	54,740	1,458	69,266	124,103	30,951	-	167,894	10,690	-	1,463	505,311	716,931	
Other	366,871	83	2,167	191	344	-	-	682	1,567	435,685	9	807,599	226,202	
REVENUES:														
Interest income in Won	76,720	-	510	-	-	-	1,867	17	-	5,703	33	84,850	62,620	
Interest income in Foreign currency	14,155	-	-	-	-	507	-	243	70	-	-	14,975	55,886	
Fees and commissions	36,080	-	17	-	-	-	-	-	-	-	-	36,097	33,863	
Other	12,952	-	67	-	-	-	-	-	-	-	-	13,019	195,149	
EXPENSES:														
Interest in Won currency	18,150	-	6,766	-	-	-	-	4,785	-	54,972	176	84,849	64,017	
Interest in foreign currency	807	198	52	-	14	1,407	-	11,421	1,077	-	-	14,976	55,886	
Fees and commissions	17	-	36,080	-	-	-	-	-	-	-	-	36,097	32,466	
Other	67	-	235	-	-	-	-	157	-	12,560	-	13,019	195,149	

REPORT OF INDEPENDENT ACCOUNTANTS

For the years ended December 31, 2001 and 2000

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To the Shareholders and Board of Directors of

KOREA  EXCHANGE BANK

We have audited the accompanying consolidated balance sheets of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries and foreign branches of the Bank, which statements reflect 4.3% and 17.3% of total assets as of December 31, 2001 and 2000, respectively, and 3.4% and 22.6% of total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for these branches, is based solely on the reports of the other auditors.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2001 and 2000, and the results of their operations, the changes in their shareholder's equity and their cash flows for the years then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 1 to the accompanying consolidated financial statements, the Bank implemented a two-to-one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. The resulting gain on capital reduction of ₩1,241 billion was used for the disposition of accumulated deficit. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 42 million shares and 80 million shares were issued to Commerzbank A.G and the Export-Import Bank of Korea, respectively, in accordance with a resolution of board of directors on November 10, 2000. Through the issuance of new preferred stock subsequent to the capital reduction, the Bank's paid-in capital amounts to ₩1,850,875 million as of December 31, 2000 and the ownership of Commerzbank A.G. and Export-Import Bank of Korea changed from 31.6% and 16.3%, respectively, to 32.55% and 32.50%, respectively. No new capital was issued in 2001.

KEB Leasing Co., Ltd., a consolidated subsidiary, implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction or execution of stock selling option with ₩800 per share on the shares owned by other individuals shareholders and employee stock ownership association as of November 9, 2001 for the purpose of debt restructuring due to work-out process, based on the resolution of shareholders on October 13, 2001. This capital reduction resulted in gain on capital reduction of ₩34,725 million.

In addition, on November 9, 2001, KEB Leasing Co., Ltd. issued 14,805 thousand shares of common stock for cash at par value to the Bank, based on the resolution of board of directors on October 26, 2001. The proceeds of new stock issuance were used for repayment of borrowings amounting ₩74,024 million from the Bank. Through the issuance of new common stock subsequent to the capital reduction, the Bank's ownership of KEB Leasing Co., Ltd. has increased to 99.3% from 30.0%.

As described in Note 1 to the accompanying consolidated financial statements, Korea Exchange Bank Credit Service Co., Ltd., a consolidated subsidiary, offered its shares for public ownership and all shares were listed on the Korean Stock Exchange on December 21, 2001. On December 14, 2001, Korea Exchange Bank Credit Service Co., Ltd. increased its capital by issuing 5 million new shares without the Bank's participation, which resulted in decrease of ownership to 45.0% from 51.1%.

As discussed in Note 19 to the accompanying consolidated financial statements, the Bank's self-rescue plans received "conditional approval" while allowing their independent management, based on the following abstract of evaluation for the Bank's plan submitted on September 30, 2000 by the Bank Management Evaluation Committee:

For the years ended December 31, 2001 and 2000

The Bank is classified as a bank which may operate independently, since the Bank's capital adequacy ratio as of December 31, 2001 has met the target ratio, subject to the certain conditions described below:

- To provide against the situation that the Bank would not be able to increase its capital through public offerings, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds
- The ratio of non-performing loans (NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.
- The target ratio of financial profitability will be reached through the increase of operating revenue and reduction of expenses.

As discussed in Note 19 to the accompanying consolidated financial statements, under the debt restructuring agreement between creditors and Hyundai Construction Co., Ltd., the Bank acquired common stock of that company at par value of ₩5,000 in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bonds newly issued by Hyundai Construction Co., Ltd. for the purpose of financial support. Furthermore, in accordance with a resolution of Financial Creditors Committee of Hynix Semiconductor Inc. in 2001, the Bank acquired newly issued convertible bonds of that company in exchange for ₩726,000 million of existing loans and convertible bonds and provided ₩79,000 million of additional new loans to Hynix Semiconductor Inc. for the purpose of financial support.

Without qualifying our opinion, we draw attention to Note 19 of the consolidated financial statements. Operations of the Bank have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring their debt under workout and other similar programs. As of December 31, 2001, the Bank's outstanding loans and guarantees to Daewoo Group companies and other companies under workout programs, amount to ₩643,625 million and ₩380,540 million, respectively before present value discounts of ₩18,567 million and ₩26,482 million, respectively. The Bank has accrued ₩121,102 million and ₩68,693 million, respectively, of allowance for loan losses (including allowances for losses for guarantees and acceptances) as of December 31, 2001. In addition, as of December 31, 2001, the Bank's outstanding loans and guarantees to Hyundai Group companies including Hyundai Construction Co., Ltd. and Hynix Semiconductor Inc. amount to ₩2,284,100 million. Actual losses on the above loans and guarantees may differ from allowances for such losses accrued by the Bank. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined.

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

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

Samil Accounting Corporation

Seoul, Korea

February 9, 2002

STANDING DIRECTORS



Kyung-Lim Kim
Chairman of the Board of
Directors



Kang-Won Lee
President and
Chief Executive Officer



Manfred Drost
Senior Managing Director
and Deputy President



**Hans-Bernhard
Merforth**
Senior Managing Director



Hak-Joong Hwang
Executive Managing
Director



Jin-Kon Park
Executive Managing
Director



Pyoung-Wan Har
Standing Auditor

MANAGING DIRECTORS

Dae-Hyun Kook
Managing Director

Sung-Kyu Choi
Managing Director

Yoon-Sup Kwack
Managing Director

Young-Woo Kim
Managing Director

NON-STANDING DIRECTORS



Jürgen Lemmer
Non-standing Director



Thomas Naumann
Non-standing Director



Moon-Soo Chung
Non-standing Director



Keum-Ryong Lee
Non-standing Director



Baek-In Cha
Non-standing Director



Yung-Dae Kim
Non-standing Director



Eung-Seon Kang
Non-standing Director

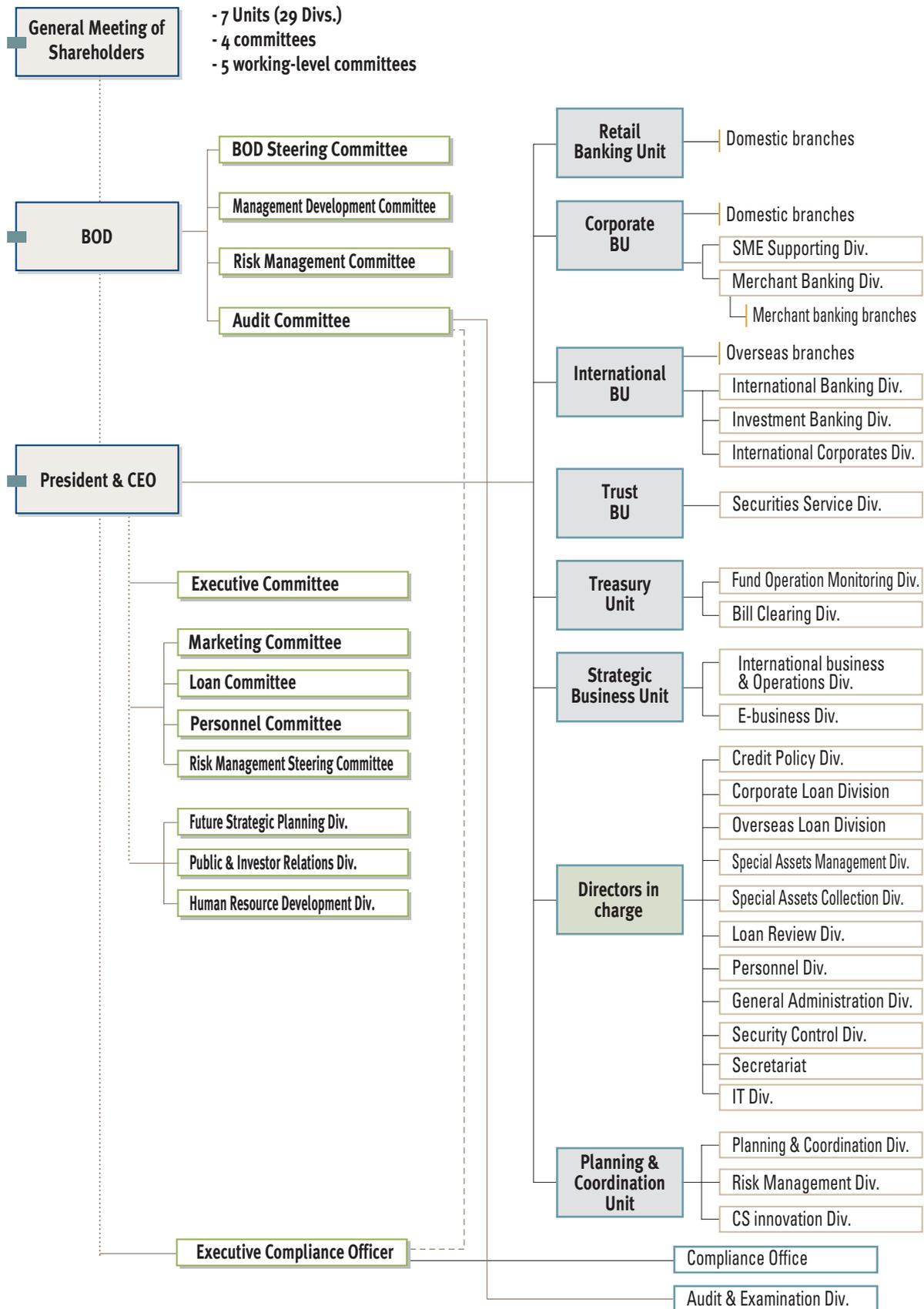


Gap-Yong Kim
Non-standing Director



Suk-Ho Sonu
Non-standing Director

ORGANIZATION CHART



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Deputy General Manager: Chang-Sub Hong
Tel: (82-2) 729-8581
Deputy General Manager: Se-Il Moon
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GLOBAL DIRECTORY

OVERSEAS NETWORK

Branches & Representative Offices

The Americas

Regional Headquarters for Americas

Regional Director of RHAM:
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NY 10022, U.S.A.
Tel: 1-212-838-4949
Fax: 1-212-752-3964

New York Branch

General Manager: Tae-Sung Park
14th Fl., 460 Park Avenue
New York, NY 10022, U.S.A.
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Tlx: 668184
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Los Angeles Agency

General Manager: Yong-Koo Kim
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Chicago Branch

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Chicago, IL 60602, U.S.A.
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Seattle Branch

General Manager: Chang-Soo Ko
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Fax: 1-206-343-5874

Broadway Branch

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Panama Branch

General Manager: Kwang-Suck Koh
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Tlx: 2189/3352
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Europe & Middle East

London Branch

General Manager: Beom Yoon
30 Old Jewry, London EC2R 8EY, U.K.
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Fax: 44-20-7606-9968

Paris Branch

General Manager: Chan Noh
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Tel: 33-1-5367-1200
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Amsterdam Branch

General Manager: Yong-Kun Kim
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Bahrain Branch

General Manager: Jong-Ho Yoon
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Asia & Oceania

Regional Headquarters for Japan

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Tokyo Branch

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Osaka Branch

General Manager: Hang-Sup Oh
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Hong Kong Branch

General Manager: Kwang Kook Sohn
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Kowloon Sub-branch

Manager: Joo-Yun Lee
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Singapore Branch

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Manila Branch

General Manager: Tae-Hong Jin
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Regional Office for China

Senior Vice President & Chief of ROC
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GLOBAL DIRECTORY

DOMESTIC NETWORK

Tianjin Branch

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Dalian Branch

General Manager: Hoi-Heon Kim
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Hanoi Branch

General Manager: Myung-Keun Oh
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KEB Kumho Representative Office

General Manager: Tae-Beom Lee
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SUBSIDIARIES

Pacific Union Bank

President: Woon-Seok Hyun

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Korea Exchange Bank of Canada

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