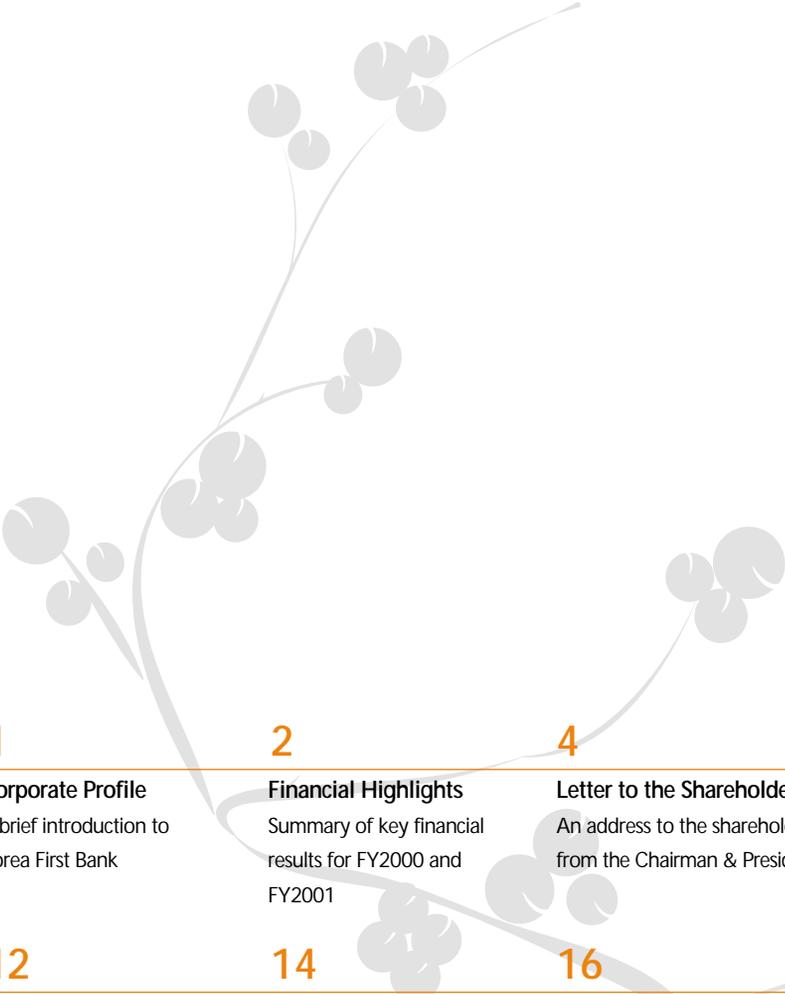


Investing

to serve you better



| | | | | |
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We

Korea First Bank offers a full line of financial services to consumers and businesses through a nationwide network that encompasses 391 branches, over 1810 ATM and cash dispensing machines, with access through alliances to another 2,333 machines, 24-hour telephone banking, and Internet banking services. Korea First Bank has a balanced mix of business in the retail, small business, and large corporate sectors. The Bank offers traditional retail and commercial banking services, in addition to trust and securities-related services.

Listen First

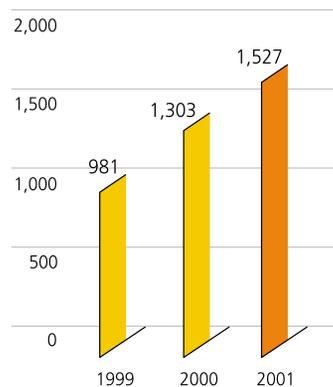
The controlling interest in Korea First Bank was acquired by Newbridge Capital in 2000 in a landmark transaction that heralded a major restructuring in the banking industry in Korea. Since then, Korea First Bank has been at the forefront of banking reform in Korea, having introduced world-class banking practices and systems that have led to considerable strengthening of the Bank's fundamental operations.

Financial Highlights

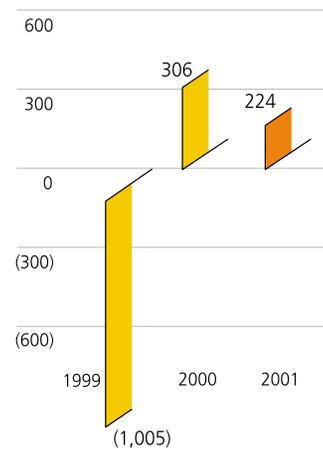
Korea First Bank has accomplished a remarkable turnaround, with two consecutive years of solid profitability following losses of W1 trillion in the year prior to the takeover.

As of December 31, 2001, the Bank had total assets of W26,492 billion and a diversified loan portfolio amounting to W15,641 billion. The Bank's net income for 2001 was just over W224 billion.

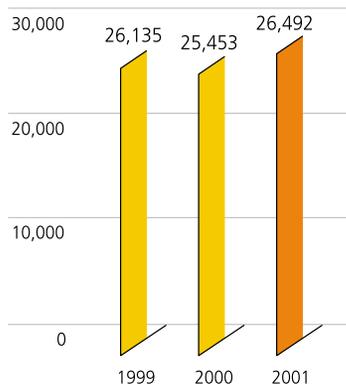
Total Shareholders' Equity
(Won in Billions)



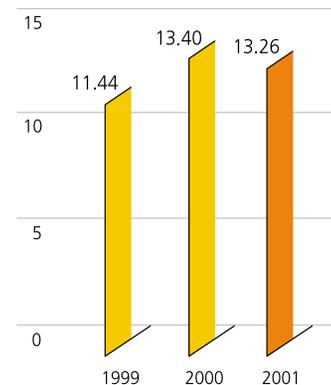
Net Income (Won in Billions)



Total Assets (Won in Billions)



BIS Capital Adequacy Ratio (%)



December 31, 2001 and 2000

BANKING ACCOUNTS**At Year-End**

| | (In billions of Korean Won) | | (In millions of U.S. Dollars*) | |
|----------------------------|-----------------------------|------------|--------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Loans | W 15,641 | w 14,304** | \$ 11,795 | \$ 10,786 |
| Securities | 6,383 | 7,140 | 4,813 | 5,384 |
| Total assets | 26,492 | 25,453 | 19,977 | 19,194 |
| Deposits | 17,800 | 16,904 | 13,423 | 12,747 |
| Borrowings | 3,935 | 4,974 | 2,968 | 3,751 |
| Total liabilities | 24,965 | 24,150 | 18,826 | 18,211 |
| Common stock | 981 | 981 | 739 | 739 |
| Total shareholders' equity | 1,527 | 1,303 | 1,151 | 983 |

For the Year

| | | | | |
|--|-------|-------|-------|-------|
| Interest income | 1,668 | 1,830 | 1,258 | 1,380 |
| Interest expenses | 1,147 | 1,294 | 865 | 976 |
| Net interest income | 521 | 536 | 393 | 404 |
| Provision for loan losses | 81 | 56 | 61 | 42 |
| Fees, commissions and other revenue, net | 283 | 232 | 213 | 175 |
| Income before taxes | 124 | 248 | 94 | 187 |
| Income taxes benefit | (100) | (58) | (75) | (44) |
| Net income | 224 | 306 | 169 | 231 |

Credit Quality

| | | | | |
|-------------------------|-----|-----|-----|-----|
| Non-performing loans | 392 | 33 | 296 | 25 |
| Reserve for loan losses | 745 | 789 | 562 | 595 |

TRUST ACCOUNTS**At year-end**

| | | | | |
|--------------|-------|-------|-------|-------|
| Total assets | 1,454 | 2,151 | 1,096 | 1,622 |
| Money trust | 1,148 | 1,587 | 866 | 1,197 |

CONSOLIDATED FINANCIAL DATA**BIS Capital Ratios**

| | | |
|----------------|--------|--------|
| Tier 1 capital | 8.67% | 8.56% |
| Tier 2 capital | 4.68% | 4.93% |
| Total capital | 13.26% | 13.40% |

* Korean Won accounts are translated solely for the convenience of readers into U.S. dollars at KRW1,326.1: US\$1, the rate prevailing at December 31, 2001.

** The loan balance in 2000 includes non-interest-earning interbank reconciliation call loans of W261 billion.

Letter to the Shareholders



A handwritten signature in black ink, appearing to read 'Robert T. Barnum', written over a white background.

Robert T. Barnum
Chairman, Board of Directors

Since we began rebuilding the Bank in 2000, there have been many changes. Those changes have all been put in place in order to rebuild the financial strength and stability of the Bank, to provide meaningful career opportunities for our employees, and to provide great products and services to our customers. In 2001, Wil Horie retired having completed the first phase of the Bank's transformation. I wish to thank Mr. Horie for his untiring efforts dedicated toward the Bank's transformation.

We are pleased that Mr. Robert Cohen, an experienced international banker who was on the Board of Directors of the Bank, accepted the role of Chief Executive Officer of Korea First Bank. Mr. Cohen was selected not only because of his extensive corporate and retail banking experience and consummate banking skills, but also for his total focus on what the Bank can do for its customers and creating a work environment which gives employees an opportunity to fulfill their career objectives. The Board of Directors is confident about the recovering Korean economy and looks forward to the results of the second phase of the Bank's transformation under the leadership of Mr. Cohen, the management of the Bank, and particularly all the Bank's dedicated staff.




Robert A. Cohen
President & CEO

***I** is an honor to write to you today as the new President and Chief Executive Officer of Korea First Bank. I served as a nonstanding director of the Bank from March 2000 until assuming my new role on October 27, 2001. This period gave me a unique opportunity to assess our bank and acquire familiarity with the Korean economy and the Korean culture.*

I have witnessed first-hand the developments and improvements that have taken place at Korea First Bank under Wil Horie's leadership and I certainly recognize the vast potential of our bank.

In my first "letter to the shareholders" I would like to develop three points - the investments we are making for the Bank's future, a picture of 2001, and the outlook for 2002.



Korea First Bank had several very bad years at the end of the 1990s, and one of the consequences was a lack of funds to invest in improvements to the Bank's operations, which was a serious shortcoming in this period of technological revolution.



In order to catch up, in 2001 we had to invest substantial amounts to bring our bank - within just a few years - to the top of the Korean banks. To mention only a few of the investments:

****We remodeled more than one third of our branches, changed hundreds of ATMs and developed a competitive E-banking system.*

****We rethought our whole technology support system, and we are in the process of making it both more modern and more flexible to enable us to centralize functions and to use our data with the most modern techniques.*

****We conceived, with the help of international consultants, a radical modernization of our network: specializing the branches, centering them on the client and supporting them by two up-to-date centralized service centers. The implementation of this ambitious project, "Pro-Branch", began in November 2001 and should be completed in March 2002.*

All of these investments are profoundly changing our bank and its ability to reach and serve our clients. These investments in change will be intensified in 2002 and should make Korea First Bank the most modern bank in Korea.



Following its near collapse during the 1997/1998 economic crisis, Korea First Bank was rescued and a large part of its assets were transferred to (or guaranteed by) state entities, leaving the Bank's balance sheet clean. The majority of the shares were bought in December 1999 by Newbridge Capital, giving to our bank a strong capital base and a management of international standing.

The challenge was then to rebalance the portfolio of the Bank (traditionally oriented to large corporate clients) between the retail and corporate businesses and to grow it back to pre-crisis levels. Here also, large investments were needed to create new products, to build a new and modern retail-risk management system and to reorient the branches' activities.

In spite of the net reduction in credit demand from the corporate sector, we succeeded in increasing our total loan portfolio by more than 12% in 2001. And in spite of the net reduction in interest rates - particularly harmful for our bank, which is showing a temporary decline in assets - we were able to show a profit of W224 billion, after taking into account extraordinary investments and restructuring charges.

We finished 2001 with shareholders' equity exceeding W1,500 billion and a very strong capital ratio (BIS) of 13.26%, giving us the means to capture future growth and further improve our ratings.

In 2001, we continued our policy of conservative provisioning against risk. We finished the year with a reserve for loan losses of 4.8% of our loan portfolio (nearly double the ratio of our non-performing loans not protected by the government).



Korea First Bank today is a healthy and well-capitalized bank that is in a position to take advantage of the expected economic take-off in 2002.

Over the past three years, the Korean economy has shown a remarkable resilience and in 2001 recorded 3% growth, one of the stronger growth rates in the world. With the help of the recovery in the U.S. and high-profile events such as the World Cup, we expect even greater growth in Korea in 2002. As a consequence, we are forecasting a better industrial environment, with less restructuring, and growing exports.

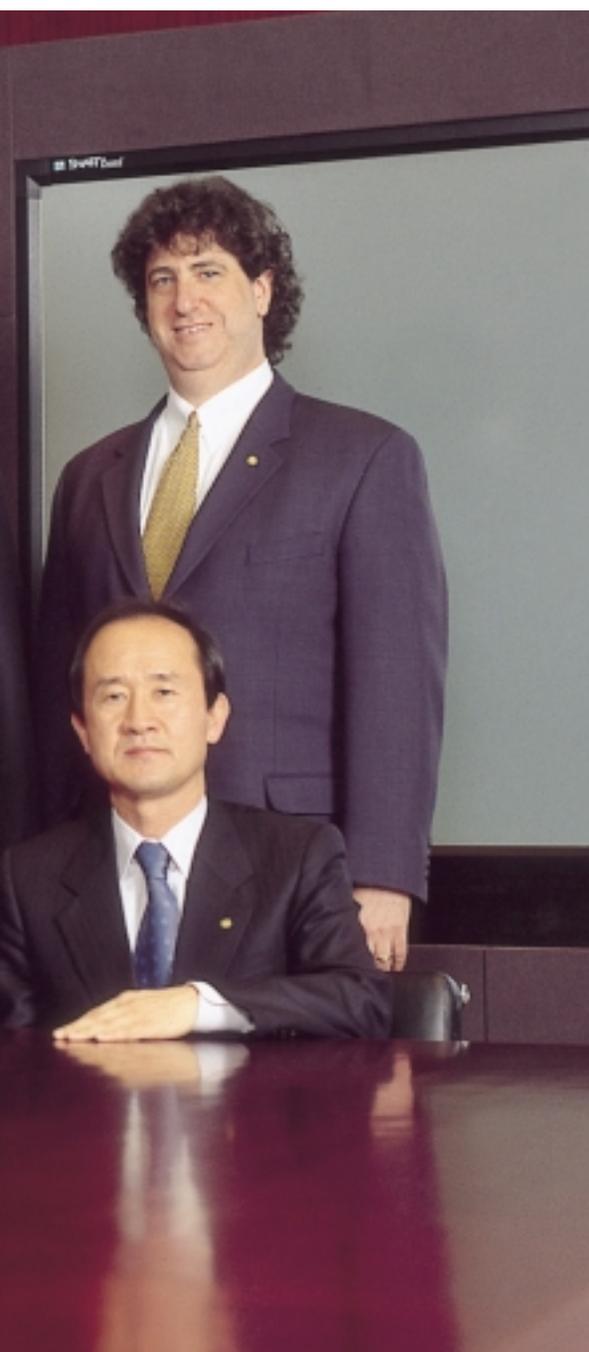
Korea First Bank's goals are now clearly stated and known by all employees: Growth and Profitability, 40 Trillion Won of Assets, and More Than 25% ROE (before tax). The first goal is to rebuild our assets to a level that is consistent with our human resources, and the second is to reach a profitability level that is up to international standards and that will enable us to sustain our growth by attracting capital.

With a new Executive Committee focused on these goals, a network focused squarely on the client and a large-scale training initiative - "Rising Up" - underway, we will completely transform our bank.

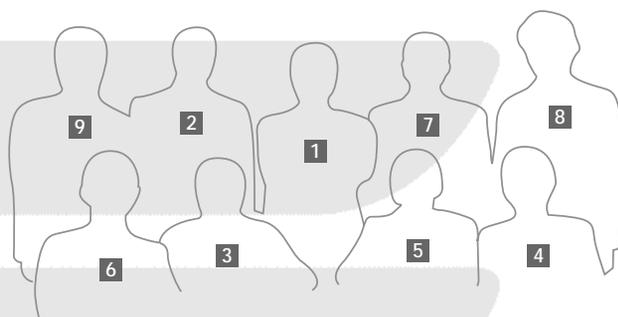
With the help of our highly dedicated staff, I am confident that we will make Korea First Bank, again, the best bank in Korea.

Executive Officers





- 1 Robert A Cohen**
President & Chief Executive Officer
- 2 Duncan Barker**
Executive Vice President & Chief Operating Officer
- 3 Ranvir Dewan**
Executive Vice President & Chief Financial Officer
- 4 Seung Yeal Yang**
Executive Vice President & Chief of Retail Network
- 5 Hak Yong Shim**
Executive Vice President & Chief of Corporate Network
- 6 Won Kyu Choi**
Executive Vice President & Chief of International Business
- 7 Soo Ho Lee**
Executive Vice President & Chief Credit Officer
- 8 Keith Shachat**
Executive Vice President & Chief Consumer Risk Officer
- 9 Jae Myung Hyun**
Executive Vice President & Chief Information Officer





Investing for the Future

Over the past year at Korea First Bank, we invested in a number of programs and initiatives that were designed to improve our customer service, increase sales, and enhance our efficiency. We believe that these investments will help to build a strong platform for growth and profitability, while creating shareholder value.



Investing for Our Customers

Investing for Better Risk Management

Investing in Technologies

Investing in Our Employees
and Community

Corporate Governance



Investing for Our Customers

In 2001, we described our plans to build a stronger product mix, driven mainly by customer input. Our new advertising campaign was shaped around the message that “we listen first” to our customers, regarding both their product needs and the way that we deliver those products.

During the year, mortgage finance, the cornerstone of our retail banking strategy, was expanded to provide new and more flexible products never seen before in the Korean market. Adding to our pioneering 30-year amortizing mortgage loans launched in 2000, in 2001 we introduced new flexible rate loans as well as hybrid structures that allowed our customers to choose between fixed and floating rates, as well as variable maturities. These new products were designed to meet the diverse needs and differing cash flows of our customers.

In the area of personal loans, we continued to record solid growth, based on new, more comprehensive credit and behavioral scoring models. These models, in conjunction with the CRM (Customer Relationship Management) tools we implemented in 2001, are helping us better serve our existing and potential customers with suitable product offerings, while actively managing the potential credit risk.

Our entry into automobile financing in 2001 proceeded more gradually, as the market continued to reflect certain idiosyncrasies that increased risk to a level higher than we were prepared to assume. We offer auto financing to selected clients, while being prudent about mass marketing this service offering.

During 2001, we continued a waiver of ATM fees instituted in late 2000 for customers using our network of machines. This

move was linked to the introduction of account maintenance fees in January 2001 for those new customers who maintained an average balance below a certain threshold. This was a first in Korea, and while it was met with some resistance at the outset, most major banks have followed with similar concepts.

We continued to broaden our wealth management practice in 2001 by launching the Platinum Banking Group, which is a service focused on answering the needs of higher value customers. Rather than developing many different internal funds, we expanded our relationships with world-class third-party investment management companies to broaden the range of professionally managed funds we offer to our customers. We continued to be the bank leader in sales of non-proprietary investment funds to Korean consumers in 2001.

As we refined the scoring models for qualifying new customers, we brought greater focus to building our credit card business in 2001. Mid-year, we launched a new revolving card (Select) that received a positive response because of its simplified approach. We consider the credit card sector an important growth business for the Bank, and several other new initiatives are under review for launch in 2002.

The on-line delivery channels continued to grow in importance in 2001, with the number of active customers growing substantially. We view account activity as a key benchmark of success for the on-line business, rather than the numbers of customer accounts. Our website continued to attract interest because of its good design and functionality, as well as the convenient new offerings that allow customers to transact business with us from the comfort of their homes and offices.

Pro-Branch program is intended to bring the Bank closer to its customers, by aligning most of the branch network with our retail customers, while at the same time providing a number of specialized branches to handle our corporate customers.

We also continued to refine our risk exposures and strategy to support our commercial customers during 2001. We value these relationships highly and look forward to building on them through the initiatives we have taken over the past year. Our focus on prudent risk exposure and on fee-generating services remains a key driver in building on our quality relationships.

None of the investments we made in 2001 would have been complete without our ongoing investment in upgrading the physical quality and functionality of our branch network. By the end of 2001, over one-third of our branches had been renovated to make them more customer friendly. At the same time, we have invested in our centralized facilities, to ensure that our employees have modern workstations and a fresh environment to reflect the important changes that have taken place in the new Bank.

During 2001 we embarked on a project called Pro-Branch to restructure the entire branch network. Pro-Branch stands for Professional branch, Progressive branch and Profitable branch. The program is intended to bring the Bank closer to its customers,

by aligning most of the branch network with our retail customers, while at the same time providing a number of specialized branches to handle our corporate customers. This specialization of our staff is intended to provide a higher level of professional support to each segment of our customer base.

While separation of branch function is not new, we have embarked on a linked strategy that is new to the market. This linked strategy involves our new Customer Service Center (CSC) that was launched in late 2001. The CSC houses our loan processing and underwriting, customer service, telesales, and collections activities for the retail branch network, as well as the support services for our credit card and mortgage activities, and eventually for small business services. The new CSC was launched first in Seoul, while another site in Busan, which will serve as a back-up facility, will open in the first quarter of 2002. From April 2002, our branches, with most of their administrative tasks centralized, will focus primarily on client relations, service, and sales - a unique system in Korea. And our clients will notice the difference!





Investing for Better Risk Management

The Bank's strategy is to achieve a more diversified asset mix. In 2001, we targeted an increase in consumer loans as part of our strategy to balance the loan portfolio between the corporate and retail sectors while emphasizing risk adjusted returns within the framework of our new credit policies. We succeeded in reaching our targets for the year. At December 31, 2001, 34% of our loan portfolio was in the corporate sector (17% to large corporations and 17% to small and medium enterprises), 56% was in the retail sector (including 26% in bulk consumer loans) and 10% was in loans to other sectors, including 2% to the public sector.

The Bank has an advanced loan policy and credit evaluation system, which was introduced over the past two years and has undergone continuous enhancement. The Bank has implemented new credit policies and

procedures and has moved away from outdated lending practices that were based mostly on collateral to making credit decisions based on a borrower's ability to repay from cash flow from core operations. Most credit approvals are now centralized and are based on procedures modeled on international best banking practices, allowing for better controls and a more consistent application of credit policies. The Bank has also instituted credit-training modules for its staff to facilitate the implementation of these new policies and procedures.

We also separated our corporate and consumer finance businesses to provide services matching the differing requirements of these two groups. The Bank is in the process of establishing a Credit Risk Management System (CRMS), a macro portfolio management tool for the corporate business. With the implementation of CRMS,



The Bank has an advanced loan policy and credit evaluation system, which was introduced over the past two years and has undergone continuous enhancement.

we will be able to measure more systematically the probability of default on each commercial loan. The Bank can use these measurements to establish loan loss reserves that more accurately reflect current overall risks facing the Bank. The CRMS also allows the Bank to adjust the interest rates applied to each loan by comparing Risk Adjusted Return on Capital (RAROC), an index of Risk Adjusted Performance Measurement (RAPM), with the profitability of each customer.

The Bank created a Decision Science group that is responsible for building analytic decision-making systems for consumer credit risk management and using the database for marketing. Decision Science contributes to the profitability of the Bank by allowing it to maximize its growth while scientifically controlling its consumer credit risk, thereby leading to more reliable and predictable revenue growth and credit quality.

Within Decision Science, the Customer Analysis and Modeling Team is responsible for building econometric models to predict consumer behavior. These statistical models are used in conjunction with profitability logic to make decisions on credit conditions. These models are also used to make individual credit decisions and formulate marketing offers.



The Customer Relationship Marketing team of the Decision Science group is responsible for using the database for marketing across the entire Bank. This group manages marketing campaigns across both product lines and delivery channels. Through a highly automated process, it is possible to have many marketing campaigns running simultaneously in the Bank and still control both the number and type of offers a customer receives and through which delivery channels.



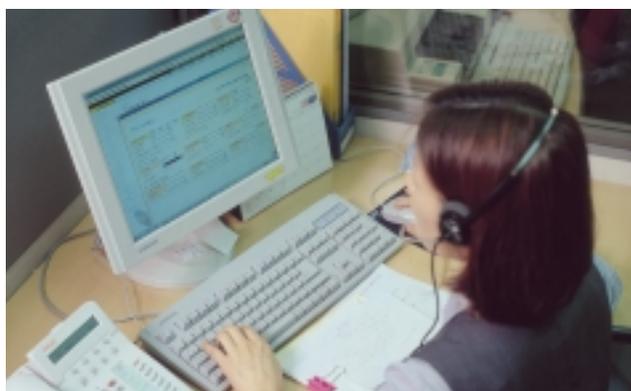
Investing in Technologies

Underpinning all of our activities is the need to constantly upgrade our technology to provide both our customers and bank staff with the tools required to deliver products and services, as well as the information to manage them.

Following a period of minimal investment in information technology in the three years leading up to 2000, we began investing heavily in our architecture, with the first year in our 3-year plan completed in 2001. Milestones achieved include the introduction of a new customer workstation for our employees that integrates branch sales activities, teller functions, loan origination, and customer service into a unified sales tool. We call this new capability SellStation, and it will be rolled out to all of our branches in 2002.

Supporting this new workstation environment is our new data warehouse, together with the relationship management tools that accompany it. This important capability was installed successfully in 2001 and it has since provided a wealth of information to better target our sales efforts. This type of technology, and the way we use it, has given us significant advantages over the traditional methods in use in the market.

In 2001, we also focused on the continuing development of our alternative delivery channels. We integrated and broadened banking services offered through the internet and telephone, while continuing to upgrade our ATM network, emphasizing the replacement of older equipment over the next two years to bring more products and services to our customers' fingertips.



As we have been building these new links to our customers, we are also mindful of the risks that these delivery channels may bring. Consequently, we are investing considerable ongoing efforts into ensuring a safe and stable environment for our on-line customers.

Facilitating business transactions for our commercial customers from their own offices has been an important strategy of the Bank for some time. In 2001, we completed the first stage of new web-linked services that will supplement our existing dedicated services for commercial customers. This new service will provide customers of all sizes with an economical method of transacting business in a time-efficient manner from their own office environment.

While most of our efforts are focused on developing functionality and services for our customers, we have also invested in our internal management systems to provide us with the vital information we need on a timely basis to run our businesses. We regard this as an absolutely indispensable investment.

Investing in Our Employees and Community

EMPLOYEES

Since its inception, the Bank has invested considerable resources in developing its employees. Employee skills are nurtured through in-bank training and external graduate school courses, overseas training, and internships.

During 2001, employee training at the Bank focused on developing the skills needed to implement our new initiatives and pursue our goals. One example is our enterprise-wide Sales and Service Mindset Training Program (SSMT), which began in mid-2000. The program was designed to educate all employees in customer service practices and concepts to support our shift to becoming a more customer-centered bank. SSMT has helped to transform customer service at the Bank through its emphasis on being 'Friendly, Helpful and Taking Action' as a formula for realizing high quality services. In 2002, the Bank will be offering another specialized training program for its employees, to support the Pro-Branch project.

Another key area where we aim to nurture employee expertise is scientific investment and risk management. To nurture specialists in these areas we support chosen employees as they seek to acquire the CFA (Chartered Financial Analyst) and FRM (Financial Risk Management) certificates. Other employees are undertaking the CFP (Certified Financial Planner) course for providing high quality financial services and the CIA (Certified Internal Auditor) program for the advancement of internal control and risk management through the application of advanced inspection technology.

In addition to product, sales and other operations-related training, we provide employees with leadership courses to help them better perform in the new environment. Our wide range of self-development training also gives employees the opportunity to develop their skills and enhance their value as an employee on their own initiative. KFB employees are also offered support for





KFB employees are offered a wide range of training opportunities to build their professional skills and knowledge.

language training and IT training. Meanwhile, with the establishment of the Training Team in 2001, which researches, develops and implements training programs, we have secured a strong basis for consistent and regular training activities long into the future.



COMMUNITY

“Care for your neighbors and experience the true joy of living.” This is the philosophy behind Korea First Bank’s diverse community service activities.

Over the past year, the Bank’s approach to social contribution has begun to shift from passive activities, such as sending donations, to a more active approach involving hands-on participation in community projects.

In 2001, the Bank continued its support of Korean education through the “Scholarships of Love” program, which awards scholarships to students who have achieved a record of academic excellence despite financial or physical difficulties. Korea First Bank also joined the Hansarang campaign of the Community Chest Korea and began a major campaign to involve all employees in this activity.

In June of 2001, Korea suffered from a severe drought that left many regions without adequate water supplies for agricultural or home use. We donated to a nationwide campaign to send water pumps to alleviate the difficulties in drought-affected regions.

Our campaign to preserve the natural environment of Mount Bukhan began in 2000 when we established a sisterhood relationship with Mount Bukhan National Park that continued in 2001. As part of the campaign, Korea First Bank employees collect trash and set up flags and pennants at mountain trail checkpoints urging people to “Prevent Forest Fires” and “Protect the Environment.”

With a more hands-on approach to investing in our community, in August 2001 20 executives and employees participated in the “Building a House of Love Project”, a special project that was part of the Jimmy Carter Habitat for Humanity 2001 initiative. Korea First Bank volunteers worked with other volunteers on this project to build 120 houses for homeless people. The event revealed the

KFB supports a range of charities,
and cultural and sports events to give back to the
communities it serves.



immense personal value of hands-on participation in community projects as opposed to simply providing monetary assistance.

In addition to sponsoring welfare groups and projects, Korea First Bank is also committed to promoting sports and cultural activities to enrich the lives of its employees and the general community.

In what is becoming a tradition at KFB, we continued to sponsor and directly participate in a number of marathon events as part of our goal to promote a healthy and balanced lifestyle for our employees. Since 2000, the Bank has participated in the Joongang Ilbo Seoul International Half Marathon as a sponsor, and in 2001 many of our employees participated in the fourth Seoul Marathon in March. The Bank also sponsored the 'Terry Fox Run 2001' Marathon, which was undertaken jointly by the Canadian Chamber of Commerce and the Korea Association of Cancer Patients to provide support to cancer research in Korea.

As part of our commitment to promoting cultural activities, we designated the two weeks from October 15, 2001 as 'Korea First Bank Culture Week' and held a series of 'Concerts at Noon' and a currency exhibition. A variety of performances were given which attracted enthusiastic responses from the general public, while the extensive collection of world currency displayed in the lobby of the head office building brought over 2,000 visitors. We also encouraged budding young artists once again in 2001 with our annual Calendar Drawing Contest, which attracted 2,300 entries from children around the country. Scholarships were granted to winning entrants, with the winning drawings being published in the Bank's 2002 calendar.

Through these diverse community activities, we are reaffirming our commitment by giving back to those communities that we serve.



Corporate Governance

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

The Board currently comprises one standing director and sixteen non-standing directors. The non-standing directors monitor governance of the Bank.

Currently, the Bank has four committees serving under the Board: the Executive, Audit, Compensation and Risk

Management and Financial Control committees. The Board determines the membership and responsibilities of each of the committees as required.

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

The Audit Committee of the Board of Directors is composed of non-standing directors and is responsible for recommending independent certified public accountants



KFB has a rigorous system of internal accounting control that ensures assets are safeguarded, all transactions are properly authorized, and reliable accounting records are generated.

for the Bank. The Audit Committee meets regularly with the independent certified public accountants and internal auditors to review the scope of their audits and audit reports and to discuss any action to be taken. The independent certified public accountants and the internal auditors have free access to the Audit Committee.

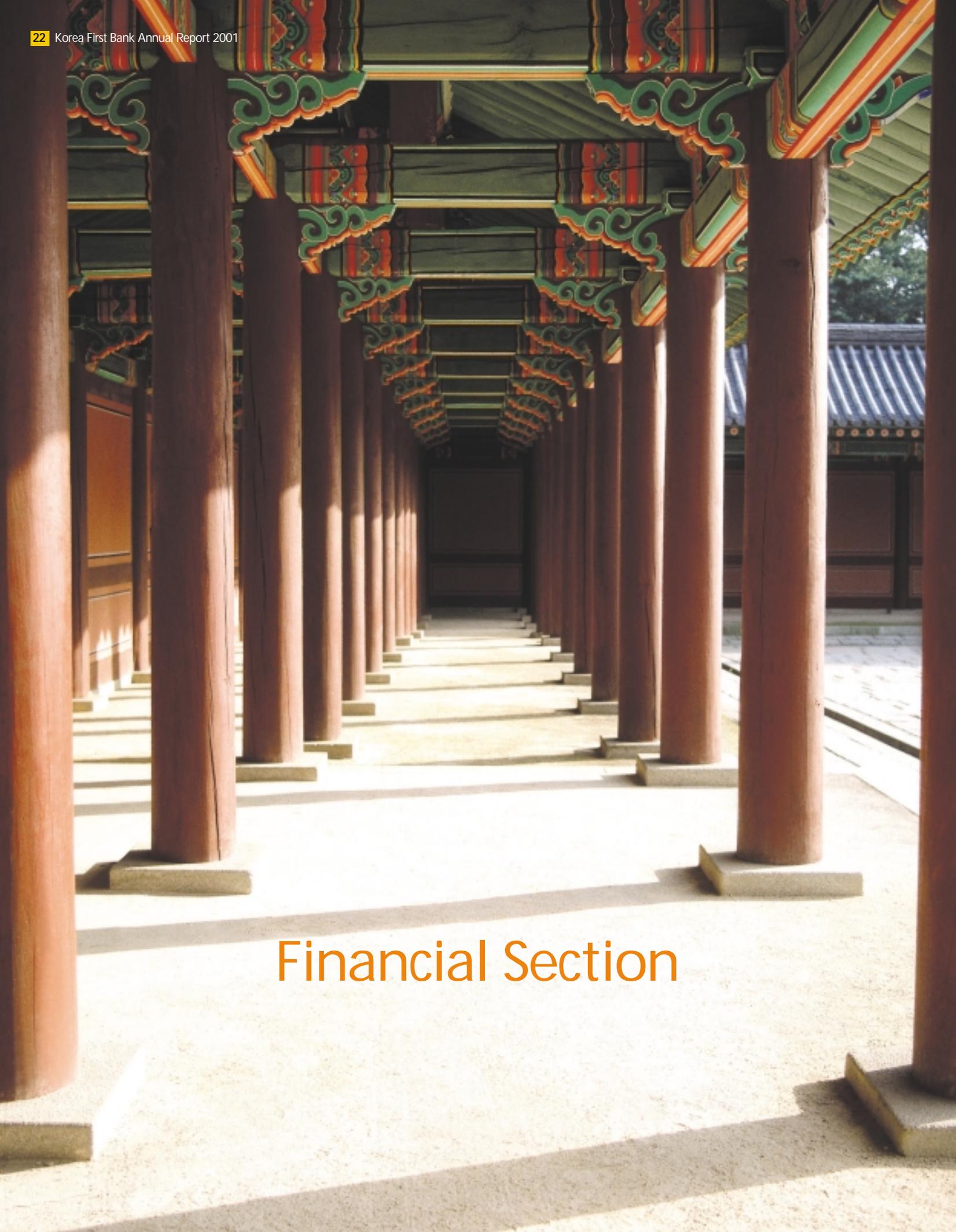
The Compensation Committee comprises four directors, all non-standing. The duties of the compensation committee include reviewing the compensation and performance of executive officers, reviewing the stock option program and granting stock options, reviewing the payment of executive bonuses, and reviewing and monitoring the Bank's labor relations.

The Risk Management and Financial Control Committee is composed of four directors. Its duties include supervising matters relating to the principal risk management guidelines for the Bank in accordance with the Bank's business strategies, and managing the Bank's risk positions, including credit, liquidity, currency and interest rate risk, as well as the use of derivative products in risk management. It is also responsible for establishing investment limits and loss-cut limits, supervising matters regarding risk-based capital allocation, reviewing the details of the financial situation of the Bank, supervising matters delegated by the Board and other matters

approved by the Chairman of the committee or the President and CEO.

The Bank's senior executives include both Korean and foreign executive officers, who are experts in all areas of banking and are responsible for the day-to-day management of the Bank as well as for the implementation of policies and directives from the Board and its committees.

The Bank maintains a system of internal accounting control, including an internal audit program, which is designed to provide assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are properly authorized, and that reliable accounting records are generated for the preparation of financial statements. The foundation of the system of internal accounting control rests upon careful selection and training of personnel, segregation of responsibilities, and application of formal policies and procedures that are consistent with the highest standards of business conduct. The system of internal accounting control is continually being modified and improved in response to changes in business conditions and operations.



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Management's Discussion & Analysis

Selected Financial Data Years ended December 31

| | 2001 | | 2000 | |
|---|---------------------------|---------|-----------------------------|----------|
| | In Billions of Korean Won | | In Millions of U.S. Dollars | |
| BANKING ACCOUNTS | | | | |
| Operating Results | | | | |
| Interest income ⁽¹⁾ | W 1,668 | W 1,830 | \$ 1,258 | \$ 1,380 |
| Interest expense | 1,147 | 1,294 | 865 | 976 |
| Net interest income | 521 | 536 | 393 | 404 |
| Provision for loan losses | 81 | 56 | 61 | 42 |
| Fees, commissions and other revenue, net | 283 | 232 | 213 | 175 |
| Operating expenses | 572 | 482 | 431 | 363 |
| Operating income | 151 | 230 | 114 | 173 |
| Net non-operating revenue / (expense) | (27) | 18 | (20) | 14 |
| Income before tax | 124 | 248 | 94 | 187 |
| Income tax (includes deferred tax) ⁽²⁾ | 100 | 58 | 75 | 44 |
| Net income | 224 | 306 | 169 | 231 |
| Balance Sheet | | | | |
| Loans net of loan provisions ⁽³⁾ | 14,886 | 13,236 | 11,225 | 9,981 |
| Securities | 6,383 | 7,140 | 4,813 | 5,384 |
| Other interest-earning assets ⁽³⁾ | 1,691 | 1,082 | 1,275 | 816 |
| Non-interest-earning assets | 3,532 | 3,995 | 2,664 | 3,013 |
| Total assets | 26,492 | 25,453 | 19,977 | 19,194 |
| Deposits ⁽⁴⁾ | 19,806 | 19,272 | 14,936 | 14,533 |
| Borrowings | 1,930 | 2,606 | 1,455 | 1,965 |
| Other interest-bearing liabilities | 950 | 689 | 716 | 519 |
| Non-interest-bearing liabilities | 2,279 | 1,583 | 1,719 | 1,194 |
| Total liabilities | 24,965 | 24,150 | 18,826 | 18,211 |
| Shareholders' equity | 1,527 | 1,303 | 1,151 | 983 |
| Total funding | 26,492 | 25,453 | 19,977 | 19,194 |
| TRUST ACCOUNTS | | | | |
| Guaranteed trust | 703 | 964 | | |
| Performance trust | 751 | 1,187 | | |
| Total guaranteed and performance | 1,454 | 2,151 | | |
| Money trust | 1,148 | 1,587 | | |
| CREDIT QUALITY | | | | |
| | BANKING | | CONSOLIDATED | |
| | 2001 | 2000 | 2001 | 2000 |
| Reserve for loan losses | 745 | 789 | 763 | 807 |
| Reserve as a percentage of gross loans ⁽⁵⁾ | 4.76% | 5.62% | 4.77% | 5.39% |
| KEY FINANCIAL RATIOS | | | | |
| Net interest margin | 2.34% | 2.47% | 2.37% | 2.21% |
| Efficiency ratio | 71.13% | 62.76% | 70.83% | 62.99% |
| Net income to average assets | 0.86% | 1.19% | 0.85% | 1.12% |
| Return on average equity (before tax) | 9.12% | 21.72% | 9.12% | 21.81% |
| Return on average equity (after tax) | 15.16% | 26.80% | 15.12% | 26.75% |
| Tier 1 capital | | | 8.67% | 8.56% |
| Tier 2 capital | | | 4.68% | 4.93% |
| Total capital | | | 13.26% | 13.40% |
| Full-time employees | 4,456 | 4,574 | | |
| Total employees | 5,511 | 5,469 | | |

(1) Excludes interest on credit cards which is included in Fees and Commissions

(2) Includes the recognition of a deferred tax asset to the value of W100 billion for 2001 and W59 billion for 2000

(3) During 2001, certain interbank loans were reclassified from due from banks (previously included in other interest-earning assets) to loans

(4) Deposits include customer repurchase agreements and cover bills which have deposit-like characteristics

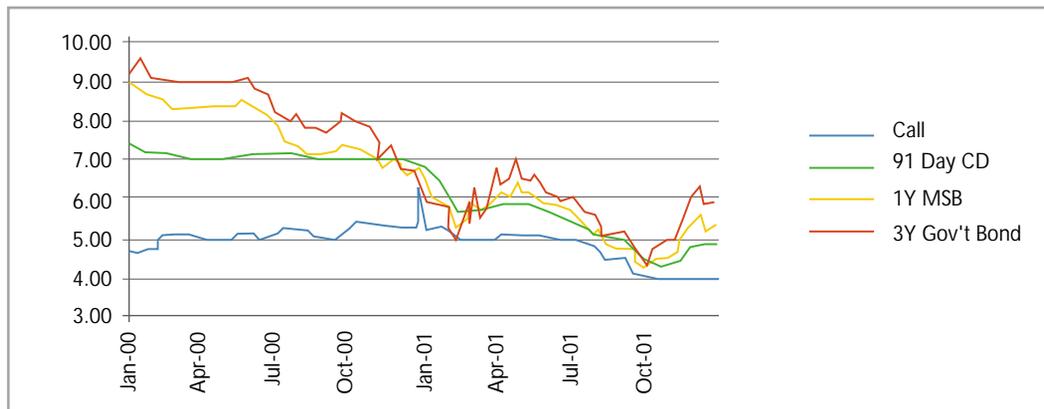
(5) Korean Won accounts are translated solely for the convenience of readers into U.S. dollars at KRW1,326.1 : US\$1, the rate prevailing at December 31, 2001

(6) All figures are rounded up or down to the nearest billion (Won) / Million (US\$)

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

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

Interest Rate Trends



Overview

The Bank's net income decreased from W306 billion in 2000 to W224 billion in 2001. The 2001 results reflect the weakened economic environment and the deterioration in credit quality, but mostly the decisive actions the Bank has taken in reorganizing the overall management of the business and investing for the future.

These actions have brought the Bank into 2002 with a strong capital position, a fortified balance sheet, improving customer service levels, strong financial disciplines and a broadened base of product offerings.

The Bank continues to maintain a strong capital base, with a consolidated Capital Adequacy Ratio of 13.26%, which is appreciably higher than the regulatory requirements for well-capitalized institutions. The maintenance of appropriate levels of capital is a management priority, particularly in these uncertain economic times, as capital provides a solid foundation for future anticipated asset growth and promotes depositor and investor confidence.

In 2001 the Bank continued the transformation of its branch network with particular focus on branch profitability. The branch re-engineering and branch reconfiguration initiatives have resulted in the specialization of branches into corporate focused branches and retail focused branches. In addition, the Customer Service Center serving retail customers is now fully operational. Focusing on bottom-line profitability and streamlining the branch network has led to the closure of 27 poorer performing branches as well as additional staff reductions that were achieved primarily through attrition and early retirement incentives.

The Bank's core businesses are now competitively repositioned for growth as the Korean economy starts to recover.

NET INCOME ANALYSIS

The Bank's net interest income for 2001 of W521 billion decreased by W15 billion, or 2.8%, when compared with net interest income in 2000 of W536 billion. The net interest margin dropped to 2.34% in 2001, 13 basis points less than the 2.47% in 2000. The decrease from 2000 is largely the result of a loss of interest earned on non-performing loans including loans to Hynix Semiconductor, continued competition in the banking sector and resultant pressure on margins as well as a reduction in the spread of the yield on KDIC bonds over the base rate in accordance with the terms of the bonds.

Net Income Analysis

| | 2001 | 2000 | (In Billions of Korean Won / %) | |
|------------------------------------|-------|-------|---------------------------------|---------|
| | | | Better / (Worse) | |
| | | | Amount | % |
| Interest income | 1,668 | 1,830 | (162) | (8.9%) |
| Interest expense | 1,147 | 1,294 | 147 | 11.4% |
| Net interest income | 521 | 536 | (15) | (2.8%) |
| Provision for loan losses | 81 | 56 | (25) | (44.6%) |
| Fees and commissions | 283 | 232 | 51 | 22.0% |
| Operating expenses | 572 | 482 | (90) | (18.7%) |
| Operating income | 151 | 230 | (79) | (34.3%) |
| Net non-operating income/(expense) | (27) | 18 | (45) | N/M |
| Income before tax | 124 | 248 | (124) | (50.0%) |
| Income tax (includes deferred tax) | 100 | 58 | 42 | 72.4% |
| Net income | 224 | 306 | (82) | (26.8%) |

The average yield on interest-earning assets decreased by 94 basis points to 7.49% in 2001 from 8.43% in 2000, while the rate paid on interest-bearing liabilities decreased by 67 basis points, to 5.16% in 2001 from 5.83% in 2000.

After taking into consideration the ongoing protection from the KDIC as well as the reallocation of a portion of the initial reserves recorded on the closing balance sheet at December 31, 1999, a net charge of W81 billion for loan loss provisions was booked in 2001 compared with W56 billion in 2000. This resulted in total loan loss reserves of W745 billion or 4.76% of the Bank's total loan portfolio at December 31, 2001.

Fees and commissions increased W51 billion, or 22.0%, to W283 billion in 2001 from W232 billion in 2000 primarily due to increases in credit card fees, banking fees and trust account revenue.

Operating expenses increased to W572 billion in 2001, an increase of W90 billion or 18.7%, from W482 billion in 2000. Staff costs increased by W33 billion to W310 billion, from W277 billion in 2000; administration expenses increased by W43 billion to W164 billion, from W121 billion in 2000; and depreciation, amortization and other expenses increased by W14 billion to W98 billion, from W84 billion in 2000.

Net non-operating expenses for 2001 amounted to W27 billion largely due to restructuring charges and write-downs of Hynix bonds.

In order to comply with accounting principles generally accepted in Korea, the Bank recorded a deferred tax benefit of W100 billion in 2001, compared with W59 billion in 2000. This benefit is based on the utilization of net operating losses which will be set off against future income for the purposes of calculating the Bank's tax liability. The Bank's return on average equity, excluding the benefit of deferred tax, was 9.12% for 2001 and 21.72% for 2000. ROAE was 15.16% after inclusion of deferred tax for 2001 compared with 26.80% in 2000.

Total assets of the Bank increased during 2001 to W26,492 billion at December 31, 2001, from W25,453 billion at December 31, 2000. Total gross loans grew W1,598 billion, or 11.4%, to W15,641 billion at December 31, 2001 from W14,043 billion at December 31, 2000. Securities decreased by W757 billion to W6,383 billion at December 31, 2001. Other interest-earning assets increased by W609 billion and non-interest-earning assets decreased by W463 billion, in each case, compared to December 31, 2000. On the funding side, deposits, including customer repurchase agreements and cover bills, both of which products have deposit-like characteristics, increased by W534 billion over the amount at December 31, 2000. Borrowings decreased W676 billion to W1,930 billion, other interest-bearing liabilities increased by W261 billion, non-interest-bearing liabilities increased by W696 billion and shareholders' equity increased by W224 billion.

NET INTEREST INCOME

For 2001, KFB reported interest income of W1,668 billion, a W162 billion, or 8.9%, decrease from 2000 interest income of W1,830 billion. This decrease was primarily due to a downward trend in interest rates. There was a decrease in interest expense of W147 billion, or 11.4%, to W1,147 billion in 2001 from W1,294 billion in 2000. As a result, net interest income decreased slightly to W521 billion, by W15

billion, or 2.8%, from W536 billion in 2000. Overall, the net interest margin decreased 13 basis points, to 2.34% in 2001 from 2.47% in 2000.

INTEREST INCOME ANALYSIS

Interest Income Analysis

| | 2001 | | | | 2000 | | | |
|--------------------------------|---------------------|--------------|-------------------|---------------|---------------------|--------------|-------------------|---------------|
| | Average: Balance | Rate | Interest Total | % | Average: Balance | Rate | Interest Total | % |
| Interest-Earning Assets | | | | | | | | |
| Loans | 14,047 | 8.28% | 1,162 | 69.7% | 12,555 | 9.34% | 1,173 | 64.1% |
| Securities | 7,012 | 6.53% | 458 | 27.4% | 7,516 | 7.55% | 568 | 31.0% |
| Due from banks | 905 | 3.28% | 30 | 1.8% | 907 | 3.85% | 35 | 1.9% |
| Other | 308 | 5.81% | 18 | 1.1% | 721 | 7.49% | 54 | 3.0% |
| Total | 22,272 | 7.49% | 1,668 | 100.0% | 21,699 | 8.43% | 1,830 | 100.0% |

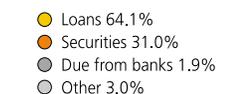
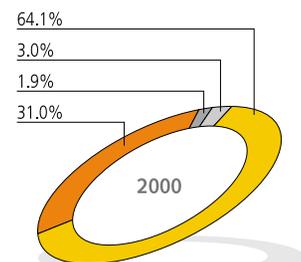
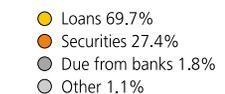
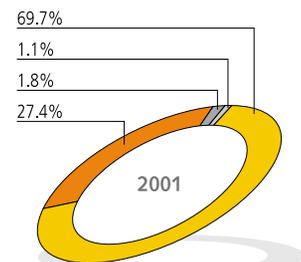
In line with market rates, the average yield on interest-earning assets fell 94 basis points to 7.49% in 2001 from 8.43% in 2000 with decreases taking place in all categories of interest-earning assets. This decrease in rates was somewhat offset by an increase in the average balance of interest-earning assets and an increase in the proportion of relatively higher interest yielding assets, particularly consumer loans, in the portfolio. Overall average interest-earning asset balances increased by W573 billion, or 2.6%, to W22,272 billion, from W21,699 billion in 2000.

Interest income on loans decreased in 2001 to W1,162 billion, by W11 billion or 0.9%, from W1,173 billion in 2000. This decrease was relatively small, despite the transfer of W2,445 billion of primarily loan assets to the KDIC in 2000 and W231 billion in 2001, pursuant to the Assistance Agreement. Increased lending in the consumer loan portfolio and purchases of consumer bulk loan portfolios resulted in increased interest income which largely offset the decrease in the corporate loan portfolio and substantial decrease in interest rates compared with 2000.

As overall market rates dropped, the average yield on loans decreased by 106 basis points to 8.28% in 2001, from 9.34% in 2000, with average yields on corporate loans decreasing by 112 basis points, from 8.97% in 2000 to 7.85% in 2001, and average yields on consumer loans (including consumer bulk loan portfolios for the purposes of this analysis) decreasing by 172 basis points from 10.55% to 8.83%. Since consumer lending yields include yields on purchased consumer bulk portfolios, which are lower than on other consumer lending, the growth in consumer bulk portfolio holdings contributed to the marked decrease in consumer yields. This was mitigated, however, by the increase of relatively higher yielding consumer lending as a percentage of the loan portfolio as a whole. Interest income on loans increased from 64.1% of total interest income in 2000 to 69.7% in 2001.

The largest contributors to the increase in average loan assets were the increase in mortgage loans and purchases of consumer bulk loan portfolios. The average balance of mortgage loans, which were introduced in June 2000, increased by W784 billion and the average balance of consumer bulk loan portfolios, which the Bank first began to acquire in the first quarter of 2000, increased by W2,025 billion. These increases were somewhat offset by a decrease in average corporate loans which dropped W1,650 billion in 2001. This was primarily due to the transfer of loans to the KDIC that took place as of June 2000 pursuant to the Assistance Agreement and the competitive market in Korea, as well as the lack of corporate credits meeting the Bank's stringent credit criteria.

Interest Income Composition Analysis
(In Billions of Korean Won)



The most notable drop in interest income came from interest on securities, which fell by W110 billion, or 19.4%, from W568 billion in 2000. This resulted from a decreased average balance in 2001 and from the lower average interest rates on securities, which fell 102 basis points from 7.55% in 2000 to 6.53% in 2001. The decrease in securities yields was driven mostly by the decrease in yields on KDIC bonds, which comprised the majority of the securities portfolio, and resulted primarily from:

- an overall decrease in market rates, which in turn reduced the reference rate (the weighted average cost of funds of the Bank including trust funding) which is used to calculate the yield on KDIC bonds; and
- a decrease in accordance with the terms of the KDIC bonds in the spread over this reference rate, by 25 basis points, from a spread of 125 basis points over the reference rate in 2000 to 100 basis points in 2001, which alone resulted in 6 basis points of the overall 13 basis point decrease in the Bank's net interest margin.

The average balance of securities of W7,012 billion in 2001 decreased by W504 billion from W7,516 billion in 2000. This was mostly attributable to the redemption of W366 billion of KDIC bonds at the end of each quarter during 2001 in line with their redemption schedule. This reduction was somewhat offset by purchases of both corporate and government marketable investment securities, which increased by W298 billion. Almost all trading securities were sold during the first two quarters of 2000 in line with the Bank's strategy to cease trading in securities. This resulted in a decrease of W259 billion in the average balance of trading securities from 2000.

Interest on balances due from banks fell in 2001 by W5 billion as a result of the decrease in interest rates by 57 basis points. There was a decrease in the interest earned on other interest-earning assets by W36 billion from W54 billion in 2000 to W18 billion in 2001. This resulted from a decrease in the average balance by W413 billion from W721 billion in 2000 to W308 billion in 2001, as well as a drop in the average rate from 7.49% in 2000 to 5.81% in 2001. The balance of other interest-earning assets in 2000 comprised the receivable from the KDIC resulting from the transfer of certain loans to the KDIC as of June 2000 and the balance lent by the Bank to the trust business to meet the liquidity requirements of guaranteed trusts. In 2001 the balance of other interest-earning assets comprised only the balance lent to the trust business, which increased from the average balance in 2000 to slightly offset the repayment of the balance receivable from the KDIC.

INTEREST EXPENSE ANALYSIS

Interest Expense Analysis

| | (In Billions of Korean Won / %) | | | | | | | |
|-------------------------------------|---------------------------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|
| | 2001 | | | | 2000 | | | |
| | Average: | | Interest | | Average: | | Interest | |
| | Balance | Rate | Total | % | Balance | Rate | Total | % |
| Interest-Bearing Liabilities | | | | | | | | |
| Deposits* | 18,962 | 5.02% | 953 | 83.0% | 16,797 | 5.57% | 936 | 72.4% |
| Borrowings | 2,485 | 5.33% | 133 | 11.6% | 4,519 | 6.66% | 301 | 23.2% |
| Financial debentures | 512 | 5.97% | 30 | 2.7% | 493 | 7.24% | 36 | 2.8% |
| Other | 266 | 11.83% | 31 | 2.7% | 373 | 5.55% | 21 | 1.6% |
| Total | 22,225 | 5.16% | 1,147 | 100.0% | 22,182 | 5.83% | 1,294 | 100.0% |

* Includes customer repurchase agreements and cover bills as these have deposit-like characteristics

The decrease of W147 billion in interest expenses from W1,294 billion in 2000 to W1,147 billion in 2001 was primarily the result of an overall drop in the interest rate on average interest-bearing liabilities, which fell 67 basis points to 5.16% in 2001 from 5.83% in 2000.

Overall average interest-bearing liabilities increased by W43 billion to W22,225 billion, from W22,182 billion in 2000, with average deposits increasing by W2,165 billion to W18,962 billion in 2001 and average borrowings decreasing by W2,034 billion to W2,485 billion in 2001 (for the purposes of this analysis customer repurchase agreements and cover bills, which have deposit-like characteristics, have been included in deposits rather than borrowings). Financial debentures increased by W19 billion and other average interest-bearing funding decreased by W107 billion in 2001.

The most significant increase in average deposits came from the Won denominated customer repurchase agreements, which increased W2,018 billion. The popularity of repurchase agreements with customers is due to the fact that they are effectively secured by high quality bonds. The average balance of cover bills increased W388 billion, also contributing to the increase in deposits.

Average interest rates paid on deposits decreased 55 basis points to 5.02% in 2001 from 5.57% in 2000. Average interest rates paid on borrowings decreased 133 basis points to 5.33% in 2001 from 6.66% in 2000. The primary reason for the substantial decrease in the rate paid on borrowings was the Bank's repayment of high cost foreign currency borrowings (primarily US dollars) from the Bank of Korea. The average interest rate on such balances also dropped substantially - by 201 basis points to 5.70% in 2001.

LOAN LOSS PROVISION

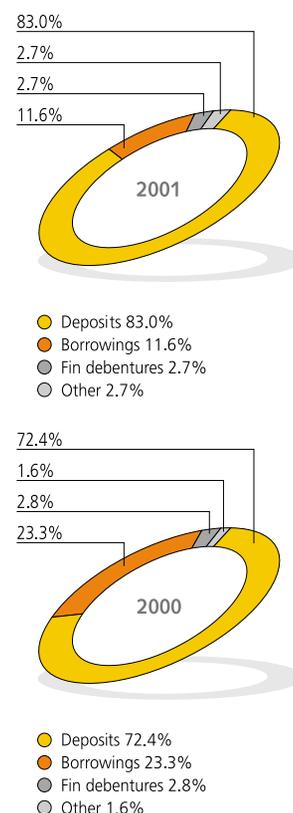
During the year, the Bank adopted a more robust provisioning methodology for its consumer portfolio. It also significantly strengthened loan loss reserves against problem credit exposures, including Hynix Semiconductor, that are not covered by ongoing loan protection under the Assistance Agreement between the Bank and the KDIC. This was achieved through a combination of reallocation of a portion of initial reserves recorded on the closing balance sheet at December 31, 1999 and a net charge of W81 billion against its current year's profits. At December 31, 2001 total loan loss reserves stood at 4.76% of the total loan portfolio. The Bank has provided W202 billion or 76.8% of its exposure against Hynix Semiconductor, including the write-down of bonds shown in non-operating expenses.

FEES AND COMMISSIONS

Fees And Commissions

| | (In Billions of Korean Won / %) | | | |
|-----------------------------------|---------------------------------|------------|------------------|--------------|
| | 2001 | 2000 | Better / (Worse) | |
| | | | Amount | % |
| Credit card fees | 143 | 116 | 27 | 23.3% |
| Banking fees & commissions | 81 | 64 | 17 | 26.6% |
| Trust account revenue | 25 | 7 | 18 | 257.1% |
| Foreign exchange | 33 | 42 | (9) | (21.4%) |
| Securities and other | 1 | 3 | (2) | (66.7%) |
| Total fees and commissions | 283 | 232 | 51 | 22.0% |

Interest Expense Composition Analysis
(In Billions of Korean Won)



Consistent with the Bank's strategy to grow this line of business, the increase in credit card fees came from a 21% increase in cards-in-force, to 1,061,000 cards at the end of December 2001 from 879,000 at the end of December 2000. This resulted in increased credit card charges and a W187 billion increase in the average outstanding credit card receivable balance to W678 billion in 2001 from W491 billion in 2000.

The increases in banking fees came from corporate banking fees, which increased W5 billion to W17 billion in 2001 due to new products and customer and transaction growth; beneficiary certificates fees, which increased by over W4 billion, primarily from the sale of third party mutual fund products, which were introduced late in 2000; and agency operation fees, which increased by over W2 billion chiefly due to the increase in the fees for administration of loans on behalf of the KDIC. The provision for guarantees, which is shown as an offset against banking fees, showed an improvement of W9 billion.

Trust account revenue increased in 2001 primarily as a result of the planned runoff of guaranteed trust accounts on which the Bank had paid W34 billion in subsidies on guaranteed trust deposit balances in 2000 compared to W66 million paid in 2001. Foreign exchange income, which is volatile in nature, dropped W9 billion from 2000 mainly as a result of the lower volume of foreign currency transactions and trade related business.

OPERATING EXPENSES

Operating Expenses

| | 2001 | 2000 | (In Billions of Korean Won / %) | |
|--------------------------------------|------------|------------|---------------------------------|----------------|
| | | | Better / (Worse) | |
| | | | Amount | % |
| Staff costs | 310 | 277 | (33) | (11.9%) |
| Administration expenses | 164 | 121 | (43) | (35.5%) |
| Depreciation, amortization and other | 98 | 84 | (14) | (16.7%) |
| Total operating expenses | 572 | 482 | (90) | (18.7%) |

There were four primary reasons for the increase in salary expenses: First, the Bank established a "job based merit system" and raised salaries further to bring them in line with industry standards. Second, certain one-time bonuses were paid in 2001. Third, the management team was strengthened in 2001 with the addition of new external hires. Finally, 2001 also saw the full year impact of salaries for management positions filled in 2000.

The most significant items contributing to the increase in administration expenses were legal fees, consulting fees, public dues and advertising expenses. Legal fees increased by W13 billion to W14 billion in 2001, mostly due to expenses in connection with the arbitration of claims under the Assistance Agreement. Consulting fees increased by W10 billion, to W28 billion in 2001, from W18 billion in 2000, due to the improvement initiatives which the Bank is implementing. These initiatives began during the second quarter of 2000 and involve projects covering all areas of the Bank with particular emphasis on branch re-engineering and reconfiguration. Public dues increased by W7 billion due to a contribution to the Bank's employee welfare fund, and advertising increased W5 billion, to W13 billion, in 2001, primarily due to a campaign aimed at rebuilding the image of the Bank and advertising new products. Other increases include computer service fees, up W2 billion, and other service related fees, which also increased by W2 billion.

The main increase in the depreciation, amortization and other expense category came from increased depreciation on information technology equipment, up almost W6 billion, and depreciation on buildings, up W4 billion. Increased depreciation charges result primarily from capital expenditures in 2000 and 2001 relating to upgrading the information technology function as well as branch reconfiguration and head office improvements. Deposit insurance expenses increased W2 billion in 2001 as a result of the increase in the deposit insurance rate, by 5 basis points in August 2000, to 10 basis points per year.

NET NON-OPERATING INCOME / (EXPENSE)

Non-Operating Income / (Expense)

| | (In Billions of Korean Won / %) | | | |
|------------------------------------|---------------------------------|------|------------------|---------|
| | 2001 | 2000 | Better / (Worse) | |
| | | | Amount | % |
| Non-operating income | 30 | 56 | (26) | (46.4%) |
| Non-operating expenses | (57) | (38) | (19) | (50.0%) |
| Net non-operating income/(expense) | (27) | 18 | (45) | N/M |

Non-operating income decreased in 2001 because non-operating income in 2000 included W38 billion received from the KDIC for purposes of restructuring the Bank. This was used for a number of restructuring initiatives to improve the overall efficiency of operations. Other non-operating income, including rental income, gains on the sale of securities, unclaimed deposits and income from affiliates accounted for by the equity method, increased W12 billion, from W18 billion in 2000 to W30 billion in 2001.

Non-operating expenses for 2001 include restructuring charges of W30 billion and write-downs of Hynix Semiconductor bonds of W21 billion. 2000's charge comprised restructuring costs that were covered by the subsidy by the KDIC included in non-operating income.

Balance Sheet In Brief

ASSET ANALYSIS

Asset Analysis

| | (In Billions of Korean Won / %) | | | |
|----------------------------------|---------------------------------|---------------|------------------|-------------|
| | 2001 | 2000 | Better / (Worse) | |
| | | | Amount | % |
| Loans net of provisions * ** | 14,886 | 13,236 | 1,650 | 12.5% |
| Securities | 6,383 | 7,140 | (757) | (10.6%) |
| Other interest-earning assets ** | 1,691 | 1,082 | 609 | 56.3% |
| Non-interest-earning assets * | 3,532 | 3,995 | (463) | (11.6%) |
| Total assets | 26,492 | 25,453 | 1,039 | 4.1% |

* The loan balance in 2000 excludes non-interest-earning interbank reconciliation call loans of W261 billion

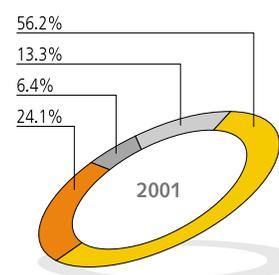
** During 2001, certain interbank loans were reclassified from due from banks (previously included in other interest-earning assets) to loans

During 2001, the overall balance sheet size increased by W1,039 billion, or 4.1%, to W26,492 billion at December 31, 2001 from W25,453 billion at December 31, 2000. On the asset side this change comprised an increase in loans net of provisions of W1,650 billion, a decrease in securities of W757 billion, an increase in other interest-earning assets of W609 billion and a decrease in non-interest-earning assets of W463 billion.

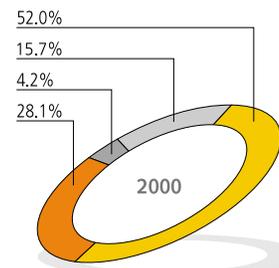
The increase in loans was attributable to growth in consumer loans and consumer bulk loan purchases. These increases were offset by a decrease in corporate loans and other loans. The loan composition analysis is discussed in greater detail below.

The decrease in securities was a result of the redemption of W366 billion of KDIC bonds at the end of each quarter in 2001 in line with the redemption schedule. This decrease was partially offset by acquisitions of both corporate and government investment securities during the year.

Asset Composition Analysis (In Billions of Korean Won)



- Loans net of provs 56.2%
- Securities 24.1%
- Other int-earning assets 6.4%
- Non-int-earning assets 13.3%



- Loans net of provs 52.0%
- Securities 28.1%
- Other int-earning assets 4.2%
- Non-int-earning assets 15.7%

The increase in other interest-earning assets from W1,082 billion at December 31, 2000 to W1,691 billion at December 31, 2001 was attributable to a large increase in balances due from banks, which was somewhat offset by a decrease in the lending to trust. The decrease in non-interest-earning assets resulted from a decrease in cash balances, a decrease in KDIC receivables relating to reserves on protected loans and a decrease in other accounts receivable. These decreases were slightly offset by a small increase in fixed assets.

LOAN ANALYSIS

Loan Analysis

(In Billions of Korean Won / %)

| | 2001 | 2000 | Better / (Worse) | |
|---------------------------------------|---------------|---------------|------------------|--------------|
| | | | Amount | % |
| Large Corporate | 2,673 | 3,456 | (783) | (22.7%) |
| SME | 2,723 | 2,737 | (14) | (0.5%) |
| Consumer (including card receivables) | 4,590 | 2,349 | 2,241 | 95.4% |
| Consumer bulk | 4,122 | 3,331 | 791 | 23.7% |
| Other * ** | 1,533 | 2,170 | (637) | (29.4%) |
| Total | 15,641 | 14,043 | 1,598 | 11.4% |

* The loan balance in 2000 excludes non-interest-earning interbank reconciliation call loans of W261 billion

** During 2001, certain interbank loans were reclassified from due from banks (previously included in other interest-earning assets) to loans

In 2001, total loans grew by W1,598 billion with the most significant contribution being growth of consumer loans (including credit card receivables but not purchased consumer bulk loan portfolios), which grew W2,241 billion, or 95.4%, to W4,590 billion at December 31, 2001 from W2,349 billion at December 31, 2000. Large corporate loans dropped by W783 billion to W2,673 billion, SME loans dropped slightly by W14 billion to W2,723 billion at December 31, 2001, consumer bulk loans increased W791 billion to W4,122 billion at December 31, 2001 and other loans dropped by W637 billion to W1,533 billion.

Of the W2,241 billion growth in consumer loans in 2001, mortgage loans, which were first offered in June 2000 and have been a focal part of the Bank's consumer strategy, grew by W1,277 billion. General consumer loans grew W536 billion, credit card receivables grew W266 billion and quick cash loans, which were introduced at the end of 2000, grew W126 billion. Corporate loans decreased, principally as a result of the weak economy as well as the fact that competition in this area continued to be strong.

PROTECTION STATUS AND NON-PERFORMING LOANS

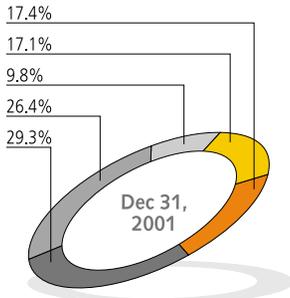
Non-performing loans comprise the loans classified as substandard, doubtful and estimated loss by the Bank's Asset Soundness Classification Criteria and are shown in the following table broken out according to loans the Bank believes are protected by the KDIC and loans the Bank believes are not protected by the KDIC.

Protection Status And Non-Performing Loans

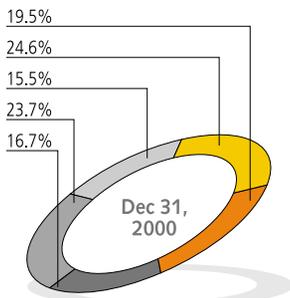
(In Billions of Korean Won / %)

| | Dec 2001 | | | Dec 2000 | | |
|--------------------------|-----------|---------------|--------|-----------|---------------|--------|
| | Protected | Non-Protected | Total | Protected | Non-Protected | Total |
| Loans | 2,142 | 13,499 | 15,641 | 4,172 | 9,871 | 14,043 |
| % of NPLs to total loans | 6.44% | 2.51% | 8.95% | 7.19% | 0.23% | 7.42% |

Loan Composition Analysis
(In Billions of Korean Won)



- Large corporate 17.1%
- SME 17.4%
- Consumer 29.3%
- Bulk 26.4%
- Other 9.8%



- Large corporate 24.6%
- SME 19.5%
- Consumer 16.7%
- Bulk 23.7%
- Other 15.5%

FUNDING ANALYSIS

Funding Analysis

| | (In Billions of Korean Won / %) | | | |
|------------------------------------|---------------------------------|---------------|------------------|-------------|
| | 2001 | 2000 | Better / (Worse) | |
| | | | Amount | % |
| Deposits * | 19,806 | 19,272 | 534 | 2.8% |
| Borrowings | 1,930 | 2,606 | (676) | (25.9%) |
| Other interest-bearing liabilities | 950 | 689 | 261 | 37.9% |
| Non-interest-bearing liabilities | 2,279 | 1,583 | 696 | 44.0% |
| Total liabilities | 24,965 | 24,150 | 815 | 3.4% |
| Shareholders' equity | 1,527 | 1,303 | 224 | 17.2% |
| Total funding | 26,492 | 25,453 | 1,039 | 4.1% |

* Includes customer repurchase agreements and cover bills as these have deposit-like characteristics

Total deposits, including customer repurchase agreements and cover bills, increased slightly, by W534 billion, to W19,806 billion at December 31, 2001 from W19,272 billion at December 31, 2000. Borrowings decreased by W676 billion in 2001, other interest-bearing liabilities increased by W261 billion and non-interest-bearing liabilities increased by W696 billion. Shareholders' equity increased by W224 billion to W1,527 billion at December 31, 2001.

The Bank has continued to focus on lowering its cost of funding and has managed to reduce its reliance on borrowings, which dropped from 10.3% of the Bank's funding as at December 31, 2000 to 7.3% as at December 31, 2001. The competition for customer deposits continues to be strong and the Bank has maintained its deposit funding at around 75% of the total funding of the Bank.

CAPITAL ADEQUACY

Capital Adequacy

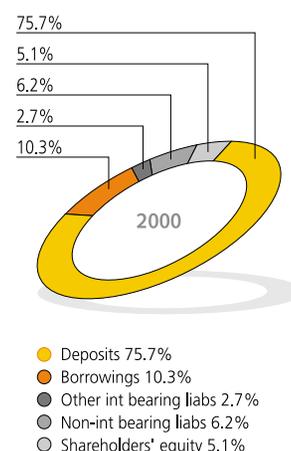
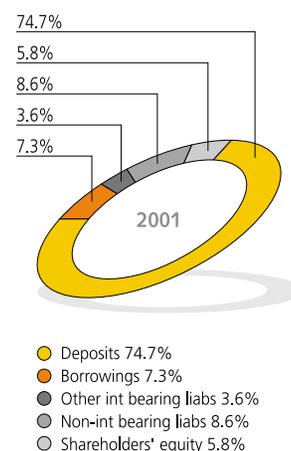
| | (In Billions of Korean Won / %) | |
|------------------------------|---------------------------------|----------|
| | Dec 2001 | Dec 2000 |
| Tier 1 | 8.67% | 8.56% |
| Tier 2 | 4.68% | 4.93% |
| Total Capital Adequacy Ratio | 13.26% | 13.40% |
| Risk-Adjusted Capital | 2,076 | 1,929 |
| Risk-Weighted Assets | 15,651 | 14,394 |

Under the Financial Supervisory Service guidelines, banks classified as first grade in Korea are required to maintain a capital adequacy ratio (Tier 1 plus Tier 2 capital as a percentage of risk-weighted assets) of 10% or more based on consolidated financial statements. At December 31, 2001 the Bank's Tier 1 and total risk-based capital ratios were 8.67% and 13.26%, respectively, compared with 8.56% and 13.40% at December 31, 2000. The Bank's total risk-adjusted capital at December 31, 2001 was W2,076 billion compared with W1,929 billion at December 31, 2000. The increase during 2001 was largely due to the increase in retained income.

Total risk-weighted assets amounted to W15,651 billion at December 31, 2001 compared with W14,394 billion at December 31, 2000. Of the total risk-weighted assets at December 31, 2001, 94.81% comprised on-balance sheet assets and 5.19% comprised off-balance sheet and guaranteed trust positions.

Funding Composition Analysis

(In Billions of Korean Won)



Trust Business

INCOME FROM TRUST BUSINESS

Income From Trust Business

| | 2001 | 2000 | (In Billions of Korean Won / %) | |
|--------------------------------|------|------|---------------------------------|---------|
| | | | Better / (Worse) | |
| | | | Amount | % |
| Payment for guaranteed returns | 0 | (34) | 34 | 100.0% |
| Trust management fees | 23 | 37 | (14) | (37.8%) |
| Early termination fees | 2 | 4 | (2) | (50.0%) |
| | 25 | 7 | 18 | 257.1% |

The Bank's trust products can be classified into three categories:

- principal and fixed-dividend guaranteed trusts,
- principal-only guaranteed trusts, and
- performance-based dividend trusts

In the case of principal and fixed-dividend guaranteed trusts, the Bank guarantees the return of the principal and a fixed return on maturity. This type of trust was closed to new depositors under the government's instruction in January 1999. Consequently, the balances on such trusts dropped from W42 billion at December 31, 2000 to W2 billion at December 31, 2001 as they matured. With the run-off of these balances and better performance on the trust investments of the guaranteed trust products, the subsidy paid to customers on guaranteed products dropped significantly from W34 billion in 2000 to W66 million in 2001. This has been the single most important factor in the improvement in the Bank's trust operations.

With principal-only guaranteed trusts, the Bank is required to pay customers any loss of principal as a result of investments by the trust. The only types of principal-only guaranteed trusts which the Bank has are trusts established for pensions and trusts established for customers' severance pay obligations. The Financial Supervisory Service must approve the establishment of new guaranteed trusts.

The performance-based dividend trusts guarantee neither principal nor interest, with returns being determined solely by the trust's investment performance. Performance-based trusts constitute the Bank's main ongoing trust business.

Overall, as a result of the drop in balance of trust accounts, management fees dropped from W37 billion to W23 billion. Early prepayment fees decreased from W4 billion in 2000 to W2 billion in 2001. Nevertheless, with the improvement in subsidies paid to guaranteed trusts, overall trust account returns increased from W7 billion to W25 billion.

RISK MANAGEMENT

The Bank's core directive in risk management is to maximize the earnings and return on capital within acceptable levels of risk. In managing risk, the Bank must operate not only within the parameters of its own internal policies but also in compliance with regulatory requirements imposed on the Bank by applicable regulatory authorities in the market in which the Bank operates.

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

ALCO

The ALCO is responsible for establishing risk management standards and methodologies; reviewing liquidity positions and monitoring alternative funding sources; reviewing interest rate risk management reports; comparing exposures to policy limits and assessing potential impact of anticipated major funding shifts or changes in overall growth, risks, asset mix and quality, regulatory requirements and dividend policy; reviewing the outlook for interest rates and the economy; developing alternative strategies as deemed appropriate taking into account interest rate levels and trends, deposit and loan products and markets, banking regulation and monetary and fiscal policy; developing parameters for pricing and maturity distributions of deposits, loans and investments and determining the framework for transfer pricing.

CREDIT RISK MANAGEMENT

Credit risk means the possible loan loss that can be incurred by the default of debtors (borrowers of loans or issuers of bonds). For loans or other transactions related to a foreign country, country risk and risk resulting from the specific economic condition of the country should be considered in assessing credit risk.

The loan policy is designed to strengthen credit approval procedures. The corporate loan approval process has been changed in that a majority of loan applications are decided at the Head Office, where 100 experienced loan officers handle credit applications using lending criteria and the Bank's Credit Risk Rating System, which the Bank developed to rate each customer's creditworthiness.

The Bank is monitoring all loan accounts to prevent extensive exposure to a specific customer or industry as well as to prevent extending credits in excess of the Bank's ability to recover. Considering the customer's future available cash flow, the Bank implemented a system through which its officers can impose a credit limit on each customer under the concept of Total Exposure.

Another important part of enhancing the Bank's credit risk management is the Credit Review Department, which was newly established to maintain soundness of outstanding loans by keeping close watch on changes in the credit rating of borrowers.

Also, the Bank embarked upon the establishment of another system, the Credit Risk Management System (CRMS) which will allow the Bank to better predict credit risk for corporate lending according to scientific and quantitative methods. CRMS is a macro portfolio management tool. With the implementation of CRMS, the Bank is expected to be able to better measure each customer's default probability. Based on this measurement, the Bank can maintain adequate capital establishing loan loss reserves proportionately to the current overall risks facing the Bank. One more advantage of CRMS will be that the Bank can reasonably adjust the pricing of interest rates applied to each loan customer.

The consumer credit risk function has been strengthened significantly in the past year with substantial investment both in people and technology. The consumer credit risk management policy is driven primarily by statistical models and logic to determine to whom and how much to lend. The Bank has also deployed sophisticated account management techniques to manage loan balance and collection efforts.

MARKET RISK MANAGEMENT

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

Interest rate risk principally results from timing differences in the maturity or re-pricing of an institution's assets, liabilities and off-balance sheet contracts. If more liabilities than assets re-price in a given period, and market rates are declining, then the cost of the re-priced liabilities will fall. This increases the interest rate spread and net interest income. Conversely, if more assets than liabilities re-price in a given period, a decline in market rates will reduce the interest rate spread and also reduce the net interest income. Rising market rates will have the opposite effect in the foregoing situations. This risk is measured by the gap or difference between interest rate-sensitive assets and

interest rate-sensitive liabilities over the specified future periods. Other causes of interest rate risk are the effect of embedded options, such as call or convertible options, loan prepayments, interest rate caps and deposit withdrawals; unexpected shifts in the yield curve; and differences in behaviour of lending and funding rates - for example when floating rate assets and liabilities with identical re-pricing characteristics are based on imperfectly correlated market indices.

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

The Bank's primary tools in managing interest rate risk in this manner are net interest income simulation models and the asset/liability funding matrix. Net interest income simulation involves applying gradual interest rate change assumptions to the asset and funding structure and measuring the effect of these on net interest income. The funding matrix is similar to gap analysis but presents the maturity data graphically. These tools are used to quantify the potential impact of changing interest rates on earnings over a two-year simulation horizon and to identify the expected earnings trends given longer term rate cycles. Standard gap reports are also used to provide supporting detailed information, and another method the Bank uses in monitoring interest rate risk is to measure net portfolio value or economic value of equity (EVE). EVE is the present value of the Bank's assets, less the present value of the Bank's liabilities plus or minus the net present value of any off-balance sheet items.

Price risk means the variations in the value of assets such as securities that can be caused by price fluctuations in the market. Subject items include trading securities and financial derivatives. The Bank did not hold trading securities for the purpose of short term capital gains during 2001. The Bank evaluates investment securities against their market prices on a daily basis and analyzes profit and loss and monitors the observance of the loss-cut guidelines using the Securities Integrated Management System (SIMS). The Bank's policy on derivative products limits the Bank's transactions to those for customers and those for the purposes of hedging economic risk arising from the Bank's assets. Daily analysis and evaluation of derivative transactions using the Catalyst System are conducted.

FOREIGN EXCHANGE MANAGEMENT

Foreign exchange position risk means the possible loss resulting from the foreign exchange position as the foreign exchange rate varies. Management strategies include maintaining the assessed risk level within a set limit and minimizing foreign exchange risk by setting investment ceilings per instrument and per dealer and stop-loss limits, watching positions of each foreign currency, maintaining a square position, and conducting mark-to-market evaluation.

LIQUIDITY RISK MANAGEMENT

Liquidity risk means a possible loss that can be caused by a sudden, large withdrawal of money or by the maturity gap between assets and liabilities. Managing risks using the liquidity gap analysis technique and adjusting the liquidity gap structure through ALCO are liquidity risk management strategies.

The Bank strives to maintain liquidity at 5%, applying the basic surplus method to measure the Bank's ability to provide cash.

The basic surplus is a measure of the cash a financial institution can raise within a thirty day time frame without principal loss, adjusted for funding that might be lost in the event of loss of confidence in the institution. As the funding for loan growth was provided by borrowings and non-core deposits, the Bank's basic surplus was estimated at W2,163 billion or 8.2% of total assets at the end of 2001. Management believes that this provides sufficient liquidity to satisfy depositors' normal and expected withdrawal claims.

Independent Auditors' Report



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The Board of Directors and Shareholders of Korea First Bank

We have audited the accompanying balance sheets of Korea First Bank (the "Bank") as of December 31, 2001 and 2000, and the related statements of income, appropriations of unappropriated retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea First Bank at December 31, 2001 and 2000, and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The preparation of financial statements for the Bank in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Without qualifying our opinion, we draw attention to Note 17 of the financial statements. As discussed in Note 17, certain assumptions were made regarding the resolution of disagreements that have arisen as to the interpretation of agreements negotiated between the Bank and the Korea Deposit Insurance Corporation. These differences will be resolved through negotiations or legal proceedings and the outcome of those agreements may be different from assumptions used by management, which could materially impact the Bank's future financial results.

Without qualifying our opinion, we draw attention to Note 26 of the 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. The ultimate effect of these 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 financial statements.

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

February 21, 2002

Non-Consolidated Balance Sheets (Banking Accounts)

December 31, 2001 and 2000

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|-------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| <i>Assets</i> | | | | |
| Cash & due from banks (Note 5) | W 2,457,344 | W 1,821,857 | \$ 1,853,061 | \$ 1,373,846 |
| Investment securities (Note 6) | 1,900,381 | 1,193,269 | 1,433,060 | 899,833 |
| KDIC bonds (Notes 4 and 6) | 4,483,076 | 5,947,076 | 3,380,647 | 4,484,636 |
| Loans (Note 7) | 15,641,361 | 14,303,784 | 11,795,009 | 10,786,354 |
| Present value discounts for loans | (10,197) | (18,269) | (7,689) | (13,776) |
| Allowance for possible loan losses (Note 7) | (744,705) | (788,869) | (561,575) | (594,879) |
| | 14,886,459 | 13,496,646 | 11,225,745 | 10,177,699 |
| Receivable from KDIC (Note 4) | 366,333 | 416,521 | 276,248 | 314,095 |
| Fixed assets (Note 8) | 1,177,510 | 1,103,751 | 887,949 | 832,328 |
| Other assets (Note 9) | 1,220,605 | 1,473,452 | 920,447 | 1,111,117 |
| Total assets | W26,491,708 | W25,452,572 | \$19,977,157 | \$19,193,554 |
| <i>Liabilities and Shareholders' Equity</i> | | | | |
| Deposits (Note 10) | W17,800,406 | W16,903,780 | \$13,423,125 | \$12,746,987 |
| Borrowings (Note 11) | 3,935,233 | 4,974,072 | 2,967,524 | 3,750,903 |
| Financial debentures (Note 12) | 598,293 | 485,010 | 451,167 | 365,742 |
| Accrued severance and retirement benefits (Note 13) | 4,361 | 176,490 | 3,289 | 133,089 |
| Other liabilities (Note 15) | 2,626,884 | 1,610,011 | 1,980,909 | 1,214,095 |
| Total liabilities | 24,965,177 | 24,149,363 | 18,826,014 | 18,210,816 |
| Commitments and contingencies (Note 17) | | | | |
| <i>Shareholders' equity</i> | | | | |
| Common stock (Note 18) | 980,584 | 980,584 | 739,450 | 739,450 |
| Retained earnings (Note 19) | | | | |
| Legal reserves | 53,141 | 30,641 | 40,073 | 23,106 |
| Other reserves | 14,036 | 14,860 | 10,584 | 11,206 |
| Unappropriated retained earnings | 458,159 | 258,098 | 345,494 | 194,629 |
| Total retained earnings | 525,336 | 303,599 | 396,151 | 228,941 |
| Capital adjustments | 20,611 | 19,026 | 15,542 | 14,347 |
| Total shareholders' equity | 1,526,531 | 1,303,209 | 1,151,143 | 982,738 |
| Total liabilities and shareholders' equity | W26,491,708 | W25,452,572 | \$19,977,157 | \$19,193,554 |

See accompanying notes

Non-Consolidated Statements of Income (Banking Accounts)

Years ended December 31, 2001 and 2000

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|------------|---------------------------------------|------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Interest income | | | | |
| Loans | W1,162,522 | W1,173,189 | \$ 876,647 | \$ 884,691 |
| Trading securities | - | 18,038 | - | 13,603 |
| Investment securities | 121,140 | 110,606 | 91,351 | 83,407 |
| KDIC bonds | 336,901 | 438,956 | 254,054 | 331,013 |
| Due from banks | 29,706 | 34,941 | 22,401 | 26,349 |
| Other | 17,914 | 53,928 | 13,509 | 40,666 |
| | 1,668,183 | 1,829,658 | 1,257,962 | 1,379,729 |
| Interest expense | | | | |
| Deposits | 771,020 | 908,599 | 581,419 | 685,166 |
| Borrowings | 314,128 | 328,857 | 236,881 | 247,988 |
| Financial debentures | 30,583 | 35,733 | 23,062 | 26,946 |
| Other | 31,592 | 20,818 | 23,824 | 15,699 |
| | 1,147,323 | 1,294,007 | 865,186 | 975,799 |
| Net interest income before provision | 520,860 | 535,651 | 392,776 | 403,930 |
| Provision for loan and other losses | 81,463 | 56,269 | 61,431 | 42,432 |
| Net interest income after provision | 439,397 | 479,382 | 331,345 | 361,498 |
| Fees, commissions, other revenue (expense), net | | | | |
| Banking fees | 81,493 | 63,892 | 61,453 | 48,180 |
| Card fees | 142,593 | 116,255 | 107,528 | 87,667 |
| Trust account | 25,101 | 7,047 | 18,929 | 5,314 |
| Securities | 1,215 | 2,961 | 916 | 2,233 |
| Foreign exchange | 32,731 | 42,354 | 24,682 | 31,939 |
| Other | (445) | (801) | (336) | (604) |
| | 282,688 | 231,708 | 213,172 | 174,729 |
| Operating expense | | | | |
| Staff cost | 309,574 | 277,101 | 233,447 | 208,959 |
| Administration expense | 164,027 | 120,651 | 123,691 | 90,982 |
| Depreciation and other | 97,949 | 83,844 | 73,862 | 63,226 |
| | 571,550 | 481,596 | 431,000 | 363,167 |
| Operating income | 150,535 | 229,494 | 113,517 | 173,060 |
| Non-operating revenue | 29,768 | 56,559 | 22,447 | 42,650 |
| Non-operating expense | 56,584 | 37,751 | 42,669 | 28,468 |
| Net non-operating income (loss) | (26,816) | 18,808 | (20,222) | 14,182 |
| Income before taxes | W 123,719 | W 248,302 | \$ 93,295 | \$ 187,242 |
| Income tax benefit (Note 20) | (100,375) | (58,098) | (75,692) | (43,811) |
| Net income | W 224,094 | W 306,400 | \$ 168,987 | \$ 231,053 |
| Ordinary earnings per share (Note 21) | W 1,143 | W 1,369 | \$ 0.86 | \$ 1.03 |
| Net earnings per share (Note 21) | W 1,143 | W 1,562 | \$ 0.86 | \$ 1.18 |

(Korean Won and U.S. Dollar in units)

See accompanying notes

Non-Consolidated Statements of Appropriations of Unappropriated Retained Earnings (Banking Accounts)

Years ended December 31, 2001 and 2000

| | 2001 | | 2000 | |
|--|---------------------------|----------------|---------------------------------------|----------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Retained earnings before appropriations | | | | |
| Unappropriated retained earnings (accumulated deficit) at January 1 | W 258,098 | W (14,125) | \$ 194,629 | \$ (10,652) |
| Net income | 224,094 | 306,400 | 168,987 | 231,053 |
| Other | 9 | (15) | 8 | (11) |
| | 482,201 | 292,260 | 363,624 | 220,390 |
| Appropriations of unappropriated retained earnings | | | | |
| Legal reserve | 22,500 | 30,641 | 16,967 | 23,106 |
| Amortization of discounts on stock issuance | 1,124 | 2,531 | 848 | 1,908 |
| Other statutory reserves | 418 | 990 | 315 | 747 |
| | 24,042 | 34,162 | 18,130 | 25,761 |
| Unappropriated retained earnings at December 31 | W 458,159 | W 258,098 | \$ 345,494 | \$ 194,629 |

See accompanying notes

Non-Consolidated Statements of Cash Flows (Banking Accounts)

Years ended December 31, 2001 and 2000

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|-------------|---------------------------------------|-------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| <i>Cash flows from operating activities:</i> | | | | |
| Net income | W 224,094 | W 306,400 | \$ 168,987 | \$ 231,053 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Provision for loan and other losses | 81,463 | 56,269 | 61,431 | 42,432 |
| Depreciation | 50,002 | 39,062 | 37,706 | 29,456 |
| Provision for severance and retirement benefits | 38,760 | 41,122 | 29,229 | 31,010 |
| Loss on impairment of investment securities | 20,511 | - | 15,467 | - |
| Interest on KDIC receivables | (32,142) | (26,095) | (24,238) | (19,678) |
| Other, net | 581 | (46,936) | 438 | (35,394) |
| Changes in operating assets and liabilities, net | (76,245) | (59,700) | (57,496) | (45,019) |
| Net cash provided by operating activities | 307,024 | 310,122 | 231,524 | 233,860 |
| <i>Cash flows from investing activities:</i> | | | | |
| Due from banks | (925,477) | 312,172 | (697,894) | 235,406 |
| Securities | (657,333) | 1,278,164 | (495,689) | 963,852 |
| KDIC bonds | 1,464,000 | - | 1,103,989 | - |
| Loans (*) | (1,414,961) | (1,518,904) | (1,067,009) | (1,145,392) |
| Acquisition of fixed assets | (125,200) | (40,973) | (94,412) | (30,897) |
| Other, net | 264,870 | 460,332 | 199,736 | 347,132 |
| Net cash provided by (used in) investing activities | (1,394,101) | 490,791 | (1,051,279) | 370,101 |
| <i>Cash flows from financing activities:</i> | | | | |
| Deposits | 896,626 | 1,205,766 | 676,138 | 909,257 |
| Borrowings | (1,038,839) | (1,255,347) | (783,379) | (946,646) |
| Financial debentures | 100,000 | (66,010) | 75,409 | (49,778) |
| Borrowing from trust account | 148,213 | (682,201) | 111,766 | (514,442) |
| Domestic exchange obligation payable | 808,785 | (307,021) | 609,897 | (231,522) |
| Other, net | 35,691 | 10,248 | 26,915 | 7,729 |
| Net cash provided by (used in) financing activities | 950,476 | (1,094,565) | 716,746 | (825,402) |
| Net decrease in cash and cash equivalents | (136,601) | (293,652) | (103,009) | (221,441) |
| Cash and cash equivalents at beginning of year | 1,327,673 | 1,621,325 | 1,001,186 | 1,222,627 |
| Cash and cash equivalents at end of year (Note 5) | W1,191,072 | W1,327,673 | \$ 898,177 | \$1,001,186 |

(*) Net of amounts transferred to KDIC of W230,749 million and W2,444,737 million for the years ended December 31, 2001 and 2000, respectively.

See accompanying notes

Notes to Financial Statements

1. Organization and Business

Korea First Bank ("the Bank") was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 391 local branches and 4 overseas networks as of December 31, 2001.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. However, in connection with recapitalization by the Korea Deposit Insurance Corporation ("KDIC") in July 1999, the Bank's shares were suspended from trading on the Korean Stock Exchange. The par value of the Bank's common stock outstanding at December 31, 2001 is W981 billion.

As of December 31, 2001, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the KDIC on December 30, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 4. As of December 31, 2001, the KDIC and Ministry of Finance and Economy own 45.92% and 3.09%, respectively, of the Bank's common stock.

2. Summary of Significant Accounting Policies

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

Basis of Presenting Financial Statements

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

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

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

Cash and cash equivalents include time deposits with a maturity of 3 months or less but exclude deposits restricted in use (see Note 5).

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

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2001 and 2000. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

Recognition of Interest and Fee Income

Interest income on loans and investments, including those guaranteed by the KDIC (see Note 4), is recognized on an accrual basis, while interest income on other overdue and dishonored loans, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Loan fees and certain direct origination costs are recognized when received or paid.

Equity Securities in Controlled Investees

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

Equity Securities in Non-Controlled Investees

Marketable equity securities held for short-term capital gain purposes are classified as trading securities. Other equity securities are classified as investment securities.

Equity securities held for trading are carried at fair value at the balance sheet date. Unrealized gains and losses on trading securities are included in current operations.

Marketable equity securities of non-controlled investees held for investment are carried at fair value. Temporary changes in fair value are accounted for as capital adjustments, a component of shareholders' 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 or other future changes in fair value are recorded in the capital adjustment account.

Non-marketable equity securities of non-controlled investees held for investment are carried at cost, except for declines in the Bank's proportionate ownership of underlying book value of the investee that 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.

Debt Securities

Debt securities are classified as trading or investment securities. Investment debt securities are further classified as available-for-sale or held-to-maturity. The cost of debt securities includes the premium paid or discount received at the time of purchase. Debt securities held for trading are stated at fair value with gains and losses recorded in income.

Available-for-sale debt securities are stated 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 or other future changes in fair value are recorded in the capital adjustment account.

Investments 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 (amortized cost) using the effective interest method. Declines in the fair value of debt securities that are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Allowance for Possible Loan Losses

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

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

| Credit ratings | Loan classifications | Minimum provision percentages |
|----------------|----------------------|-------------------------------|
| 1 ~ 4 | Normal | 0.5% or above |
| 5 | Precautionary | 2% or above |
| 6 | Substandard | 20% or above |
| 7 | Doubtful | 50% or above |
| 8 | Estimated loss | 100% |

For household and credit card loans, the Bank calculated the allowance for possible loan losses by applying the above minimum provision percentages to loans based on the applicable credit ratings, which are determined based on the number of delinquent periods, value of collateral, and reasonably estimated collectability, through the fiscal year 2000. However, for fiscal year 2001, the Bank determines loss percentages using a historical migration loss model. The resulting loss percentage calculated by the historical migration loss model is compared to the above minimum provision percentages and the Bank records a provision based on the higher percentage of the two methods. As a result, the allowance for household and credit card loans was increased by W9,348 million in 2001.

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

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

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

Present Value Discounts

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

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

Fixed Assets

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

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

| | Estimated useful lives |
|------------------|------------------------|
| Buildings | 4 ~ 60 years |
| Structures | 5 years |
| Movable property | 3 ~ 20 years |

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

New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from capital adjustments and the amounts of debenture issuance, respectively. New stock issuance costs are amortized as an appropriation of retained earnings over 3 years. Debenture issuance costs are amortized as interest expense over the redemption period using the straight-line method.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2001 and 2000 is sufficient to state the liability under the Korean Labor Standards Law and the Bank's policies at the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2001 and 2000. Funding of this liability is not required by Korean law. Actual payments of severance and retirement benefits for the year ended December 31, 2001 were W59,446 million.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W153,389 million at December 31, 2001. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2001, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

Reserve for Acceptances and Guarantees

Pursuant to the revised financial accounting standards, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides a minimum allowance percentage on confirmed guarantees of 0.5% for companies classified as "normal", 2% for "precautionary", 20% for "substandard," 50% for "doubtful" and 100% for "estimated loss." Refer to Note 4 for discussion of guarantees protected by the KDIC.

Income Tax Expense

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

The Bank has tax basis net operating loss carryforwards of approximately W4,736 billion as of December 31, 2001.

Derivative Financial Instruments

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

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

All derivative financial instruments as of December 31, 2001 and 2000 were accounted for as trading transactions.

Contingent liabilities

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

Trust accounts

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

The Bank has a consignment contract for sale of beneficiary certificates and mutual funds with an investment trust company. Beneficiary certificates sold for an outside investment trust company amounted to W804 billion as of December 31, 2001.

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. All Won amounts expressed in U.S. Dollars are at the rate of W1,326.10 : US\$1, the basic exchange rate on December 31, 2001. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

The 2000 U.S. Dollar amounts, which were previously expressed at W1,259.70 : US\$1, the rate prevailing at December 31, 2000 have been restated to reflect the exchange rate in effect at December 31, 2001.

4. Government Assistance

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

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

Depending on the type and circumstances of the particular Remaining Loan, these protections may take the form of: (i) the Bank's right to transfer the Remaining Loan to the Resolution Finance Corporation ("RFC"), the entity designated by the KDIC, and obtain payment from the KDIC equal to the adjusted book value, or (ii) the Bank's right to obtain payment from the KDIC for certain specific allowances which the Bank determines to take against the Remaining Loan. Certain guarantees and commitments of the Bank are also subject to credit protection.

The periods of credit protection provided by the KDIC vary depending on the type of asset involved. The protection periods are generally (i) through December 31, 2002 for Remaining Loans that were or had been subject to certain workout procedures under the "Agreement among Financial Institutions for the Promotion of Corporate Restructuring" dated June 25, 1998 as of Closing, (ii) through December 31, 2002 for Remaining Loans to certain financial institutions, and (iii) through December 31, 2001 for other Remaining Loans. The protection period for commitments range from one to three years, depending on the type of commitment involved. Certain actions will cause loans to lose their protection and, in general, loans originated after December 31, 1999 have no protection. Loans with an outstanding principal balance totaling W13,499 billion and commitments and guarantees amounting to W504 billion are considered by the Bank to have no protection as of December 31, 2001, respectively.

In general, the types of protection available depends on whether the Remaining Loan is (i) one of certain specified Remaining Loans to the Daewoo group chaebol, (ii) one of specified Remaining Loans to borrowers subject to workout procedures and classified as substandard or

below as of Closing, or one of specified Remaining Loans that as of Closing were or had been the subject of certain private restructuring arrangements, or (iii) any other Remaining Loan.

In addition, the KDIC guarantees the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio, until each such security matures, is sold, or is otherwise liquidated by the Bank. In general, the guaranteed rate is the annualized weighted average interest rate applied by the Bank to its deposits and other interest bearing liabilities shown on the Bank's consolidated balance sheet, plus 106 basis points. As of December 31, 2001, fixed income securities, primarily government bonds, with an outstanding principal balance totaling W1,286 billion have no principal or yield guarantee.

Except to the extent that it is permitted to pay in cash, the KDIC has and will in the future pay for its obligations by issuing one or more notes that have an initial maturity of three years and a declining interest rate based on a spread over specified liabilities of the Bank.

Receivables from the KDIC at December 31, 2001 and 2000 are W366,333 million and W416,521 million, respectively. Receivables are primarily for reserves, settlement of asset transfers, and other settlements.

5. Cash and Due from Banks

Cash and due from banks at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| | 2001 | 2000 |
|--------------------------------------|-------------------|-------------------|
| Cash on hand | W1,019,331 | W1,211,400 |
| Foreign currencies | 30,333 | 28,083 |
| Due from banks in Korean Won | 1,233,992 | 419,904 |
| Due from banks in foreign currencies | 173,688 | 162,470 |
| | W2,457,344 | W1,821,857 |

Due from banks denominated in Korean Won at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------------------|-------------------|------------------------------|-------------------|
| December 31, 2001 | | | |
| Checking accounts | - | Bank of Korea | W1,231,971 |
| Other deposits | 0.00 ~ 8.10 | Harvit Bank, etc. | 2,021 |
| | | | W1,233,992 |
| December 31, 2000 | | | |
| Checking accounts | - | Bank of Korea | W 173,927 |
| Employee's retirement deposit | 7.50 | Samsung Life Insurance, etc. | 163,350 |
| Other deposits | 0.00 ~ 8.10 | Harvit Bank, etc. | 82,627 |
| | | | W 419,904 |

Due from trust accounts amounting to W500,000 million at December 31, 2000, included in other deposits, was reclassified to other assets to conform to the current year's presentation.

Due from banks denominated in foreign currencies at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------|-------------------|--------------------------|-----------------|
| December 31, 2001 | | | |
| Demand deposits | - | Bank of Korea and others | W 59,713 |
| Time deposits | 2.29 ~ 2.90 | Korea First Finance, HK | 113,647 |
| Other deposits | Sibid - 1.75 | HSBC Futures and others | 328 |
| | | | W173,688 |
| December 31, 2000 | | | |
| Demand deposits | - | Bank of Korea and others | W 56,416 |
| Time deposits | 6.65 ~ 7.62 | Korea First Finance, HK | 96,555 |
| Other deposits | 0.00 ~ 6.45 | HSBC Futures and others | 9,499 |
| | | | W162,470 |

W42,830 million of due from banks in foreign currencies at December 31, 2000 was reclassified to loans in foreign currencies to conform to the current year's presentation.

Restricted balances in due from banks at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Type | Depository | Total | Restriction |
|-------------------------------|------------------------------|-------------------|--|
| December 31, 2001 | | | |
| Checking accounts | Bank of Korea | W1,231,971 | Reserve for payment of deposits |
| Demand deposits | Bank of Korea | 25,790 | Reserve for payment of deposits |
| Time deposits | Hanvit Bank | 1,722 | Escrow accounts |
| Other deposits | HSBC Futures, etc. | 556 | Deposits for Stock Index Futures, etc. |
| | | W1,260,039 | |
| December 31, 2000 | | | |
| Checking accounts | Bank of Korea | W 173,927 | Reserve for payment of deposits |
| Demand deposits | Bank of Korea | 10,728 | Reserve for payment of deposits |
| Time deposits | Hanvit Bank | 8,036 | Escrow accounts |
| Employee's retirement deposit | Samsung Life Insurance, etc. | 163,350 | Group severance deposits |
| Other deposits | Kyobo Life Insurance, etc. | 74,250 | Deposits for the subordinated borrowings |
| | HSBC Futures, etc. | 908 | Deposits for Stock Index Futures, etc. |
| | | W 431,199 | |

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

The term structure of amounts of due from banks at December 31, 2001 is as follows (millions of Won):

| Year ending December 31, | Due from banks in Korean Won | Due from banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|-------------|
| 2002 | W 1,233,992 | W 173,688 | W 1,407,680 |

The term structure of amounts of due from banks at December 31, 2000 is as follows (millions of Won):

| Year ending December 31, | Due from banks in Korean Won | Due from banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|------------------|
| 2001 | W 180,582 | W 162,470 | W 343,052 |
| 2002 | 46,272 | - | 46,272 |
| After 2003 | 193,050 | - | 193,050 |
| | W 419,904 | W 162,470 | W 582,374 |

Major transactions not resulting in cash flows for the years ended December 31, 2001 and 2000 are as follows (millions of Won):

| | 2001 | 2000 |
|--|----------|---------|
| Transfer of deposits for group severance and retirement benefits | W153,389 | W - |
| Bonds issued in exchange for KDIC bonds | - | 91,076 |
| Loss reserve - KDIC receivable | 114,201 | 366,058 |
| Present value discount - KDIC receivable | 591 | 9,149 |
| Loans in Won currency converted to equity | 64,351 | - |

Cash and cash equivalents at December 31, 2001 and 2000 are comprised as follows (millions of Won):

| | 2001 | 2000 |
|------------------------------------|-------------------|-------------------|
| Cash on hand | W1,019,331 | W1,211,400 |
| Foreign currencies | 30,333 | 28,083 |
| Due from banks in Won | 71 | 59 |
| Due from banks in foreign currency | 141,337 | 88,131 |
| | W1,191,072 | W1,327,673 |

6. Investment Securities

Investment securities at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|---|------------|------------|
| Equity securities held for investment | | |
| Korean Won | | |
| Affiliated companies | W 4,654 | W 4,264 |
| Listed companies | 104,906 | 36,574 |
| Unlisted companies | 13,340 | 62,830 |
| | 122,900 | 103,668 |
| Foreign currency - affiliated companies | 59,861 | 52,178 |
| | 182,761 | 155,846 |
| Debt securities held for investment | | |
| Bonds available-for-sale | | |
| Korean Won | 1,312,260 | 650,031 |
| Foreign currencies | 82,232 | 58,238 |
| | 1,394,492 | 708,269 |
| Bonds held-to-maturity | | |
| Korean Won | 264,053 | 266,266 |
| Foreign currencies | 59,075 | 62,888 |
| | 323,128 | 329,154 |
| Total investment securities | 1,900,381 | 1,193,269 |
| KDIC bonds held-to-maturity | 4,483,076 | 5,947,076 |
| | W6,383,457 | W7,140,345 |

Equity Securities Held for Investment

Equity investments in affiliated companies denominated in Korean Won as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value |
|-----------------------------------|------------------|---------------|------------------|-----------------|------------|
| December 31, 2001 | | | | | |
| Korea First Data System Co., Ltd. | 400,000 | 100.0 | W 2,000 | W 4,654 | W 4,654 |
| December 31, 2000 | | | | | |
| Korea First Data System Co., Ltd. | 400,000 | 100.0 | W 2,000 | W 4,264 | W 4,264 |

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. In 2001, W470 million of gains from affiliated companies are included in current operations, and a W9 million increase in retained earnings is credited to the opening balance of unappropriated retained earnings. In 2000, W168 million of gains from affiliated companies are included in current operations, and a W15 million decrease in retained earnings is debited to the opening balance of accumulated deficit. The Bank received W89 million and W160 million of dividends in 2001 and 2000, respectively.

The Bank sold its investment in First Citicorp Leasing for W27,600 million on October 26, 2000 and recorded a gain of W1,749 million and accrued equity income of W4,608 million, which is included in other income.

Equity securities of listed companies denominated in Korean Won as of December 31, 2001 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|--|-------------------|---------------|------------------|
| Korea Development Leasing Corp. | 2,491,010 | 9.69 | W 12,502 |
| Daewoo Electronics Co., Ltd. | 2,288,571 | 2.55 | 15,900 |
| Daewoo Heavy Industries & Machinery Ltd. | 1,583,479 | 0.94 | 7,917 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 1,380,239 | 0.70 | 14,865 |
| Ssang Yong Motor | 1,000,000 | 2.63 | 5,000 |
| Dong Yang Steel Pipe Co., Ltd. | 910,390 | 1.44 | 5,462 |
| Hanmi Capital Co., Ltd. | 631,400 | 1.71 | 3,157 |
| Chohung Capital | 509,800 | 1.73 | 2,549 |
| ETRONICS | 296,420 | 0.46 | 2,075 |
| Shin Won Co. | 296,400 | 0.18 | 1,482 |
| Maxon Telecom Co. | 285,441 | 0.55 | 28,069 |
| Keangnam Enterprises Co., Ltd. | 200,753 | 0.76 | 1,512 |
| Anam Semiconductor Corp. | 136,250 | 0.12 | 1,090 |
| Haitai Stores Co., Ltd. | 103,140 | 1.48 | 3,094 |
| Sepoong Corp. | 36,600 | 0.21 | 183 |
| The Korea Express Co., Ltd. | 1,960 | 0.03 | 49 |
| | 12,151,853 | | W 104,906 |

All listed investment securities, totalling W104,906 million, were received when outstanding loans were converted to equity in connection with a workout or private restructuring. These securities are scheduled to be transferred to the KDIC and are stated at their loan book value prior to conversion.

Equity securities of listed companies denominated in Korean Won as of December 31, 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|---------------------------------|------------------|---------------|-----------------|
| Korea Development Leasing Corp. | 2,491,010 | 9.76 | W 12,502 |
| Maxon Telecom Co. | 1,382,800 | 3.15 | 6,914 |
| Ssang Yong Motor | 1,000,000 | 2.63 | 5,000 |
| Hanmi Capital Co., Ltd. | 631,400 | 1.71 | 3,157 |
| Chohung Capital | 509,800 | 1.73 | 2,549 |
| ETRONICS | 407,140 | 0.63 | 2,850 |
| Shin Won Co. | 296,400 | 0.24 | 1,482 |
| Keangnam Enterprises Co., Ltd. | 169,400 | 0.61 | 847 |
| Anam Semiconductor Corp. | 136,250 | 0.12 | 1,090 |
| Sepoong Corp. | 36,600 | 0.21 | 183 |
| | 7,060,800 | | W 36,574 |

Unlisted equity securities denominated in Korean Won as of December 31, 2001 and 2000 are as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value |
|--|------------------|---------------|------------------|-----------------|-----------------|
| December 31, 2001 | | | | | |
| Korea Securities Finance Corporation | 1,500,000 | 2.21 | W 7,500 | W 11,088 | W 7,500 |
| BC Card | 653,400 | 14.85 | 5,840 | 19,545 | 5,840 |
| | <u>2,153,400</u> | | <u>W 13,340</u> | <u>W 30,633</u> | <u>W 13,340</u> |
| December 31, 2000 | | | | | |
| Daewoo Heavy Industries & Machinery Ltd. (*) | 4,525,386 | 2.72 | W 31,032 | W - | W 31,032 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. (*) | 1,713,804 | 0.86 | 18,458 | - | 18,458 |
| Korea Securities Finance Corporation | 1,500,000 | 2.21 | 7,500 | 9,687 | 7,500 |
| BC Card | 653,400 | 14.85 | 5,840 | 13,724 | 5,840 |
| | <u>8,392,590</u> | | <u>W 62,830</u> | <u>W 23,411</u> | <u>W 62,830</u> |

(*) Loans converted to equity in connection with a workout or private restructuring.

Equity securities denominated in foreign currencies at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Owner-ship (%) | Acquisition cost | Equity method | Net asset value | Book Value |
|-----------------------------|------------------|----------------|------------------|-----------------|-----------------|-----------------|
| December 31, 2001 | | | | | | |
| Qingdao International Bank | - | 50.0 | W 13,261 | W 10,794 | W 10,794 | W 10,794 |
| Korea First Finance Ltd, HK | 7,000 | 100.0 | 3,978 | 49,067 | 49,067 | 49,067 |
| | | | <u>W 17,239</u> | <u>W 59,861</u> | <u>W 59,861</u> | <u>W 59,861</u> |
| December 31, 2000 | | | | | | |
| Qingdao International Bank | - | 50.0 | W 12,597 | W 10,184 | W 10,184 | W 10,184 |
| Korea First Finance Ltd, HK | 7,000 | 100.0 | 3,779 | 41,994 | 41,994 | 41,994 |
| | | | <u>W 16,376</u> | <u>W 52,178</u> | <u>W 52,178</u> | <u>W 52,178</u> |

Equity securities in foreign currency are valued by the equity method. W4,932 million and W3,141 million of gains from affiliated companies are included in current operations as of December 31, 2001 and 2000, respectively.

Debt Securities Held for Investment

Bonds available-for-sale denominated in Korean Won as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Amortized cost | Impairment | Capital adjustment | Carrying value (*) |
|--------------------------|-------------------|--------------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| December 31, 2001 | | | | | | | |
| Government bonds | 5.00 ~ 11.49 | W 862,243 | W 880,827 | W 872,412 | W - | W 7,320 | W 879,732 |
| Beneficiary certificates | - | 30,070 | 30,070 | 30,070 | - | - | 30,070 |
| Financial debentures | 5.05 ~ 7.80 | 200,000 | 198,078 | 196,302 | - | 105 | 196,407 |
| Corporate debentures | 1.00 ~ 11.50 | 228,007 | 240,420 | 224,646 | (20,511) | 1,916 | 206,051 |
| | | <u>W 1,320,320</u> | <u>W 1,349,395</u> | <u>W 1,323,430</u> | <u>W (20,511)</u> | <u>W 9,341</u> | <u>W 1,312,260</u> |
| December 31, 2000 | | | | | | | |
| Government bonds | 5.00 ~ 12.49 | W 428,371 | W 417,868 | W 420,443 | W - | W 23,416 | W 443,859 |
| Beneficiary certificates | - | 58,131 | 58,131 | 58,131 | - | - | 58,131 |
| Financial debentures | 6.39 ~ 7.45 | 135,000 | 131,763 | 131,470 | - | 2,139 | 133,609 |
| Corporate debentures | 1.00 ~ 8.35 | 16,976 | 14,432 | 14,432 | - | - | 14,432 |
| | | <u>W 638,478</u> | <u>W 622,194</u> | <u>W 624,476</u> | <u>W -</u> | <u>W 25,555</u> | <u>W 650,031</u> |

(*) The above carrying values are estimated using the base yield of bonds announced by the Korea Securities Dealers Association at December 31, 2001 and 2000.

Bonds available-for-sale are stated at their market value. For the years ended December 31, 2001 and 2000, W9,341 million and W25,555 million of unrealized gains were recorded in the capital adjustments account, respectively. Beneficiary certificates were reclassified from trading securities to investment securities from July 1, 2000.

Bonds available-for-sale denominated in foreign currencies at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|------------|------------------|----------------|
| December 31, 2001 | | | | |
| USD | 3.36 ~ 7.57 | W 82,395 | W 82,114 | W 82,232 |
| December 31, 2000 | | | | |
| USD | 7.02 | W 51,449 | W 51,167 | W 50,107 |
| MYR | - | 7,991 | 4,201 | 4,224 |
| JPY | 1.40 | 3,574 | 3,574 | 3,580 |
| IDR | 18.00 | 324 | 324 | 327 |
| | | W 63,338 | W 59,266 | W 58,238 |

Bonds available-for-sale in foreign currencies are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are receivable from the KDIC until sale or maturity.

Bonds held-to-maturity denominated in Korean Won as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Carrying value | Market value |
|--------------------------|-------------------|------------|------------------|----------------|--------------|
| December 31, 2001 | | | | | |
| KDIC bonds (*) | 1.00 ~ 5.78 | W4,483,076 | W4,483,076 | W4,483,076 | W4,484,702 |
| Corporate debentures (*) | 1.00 ~ 11.00 | 167,514 | 171,906 | 167,352 | 167,350 |
| Financial debentures (*) | 8.74 | 90,000 | 90,000 | 90,000 | 90,000 |
| Government bonds | 3.00 ~ 11.95 | 6,551 | 6,521 | 6,701 | 8,275 |
| | | W4,747,141 | W4,751,503 | W4,747,129 | W4,750,327 |
| December 31, 2000 | | | | | |
| KDIC bonds (*) | 1.00 ~ 7.19 | W5,947,076 | W5,947,076 | W5,947,076 | W5,947,076 |
| Corporate debentures (*) | 1.00 ~ 11.00 | 167,561 | 167,503 | 167,503 | 167,503 |
| Financial debentures (*) | 8.74 ~ 11.00 | 90,004 | 90,004 | 90,004 | 90,004 |
| Government bonds | 3.00 ~ 11.95 | 8,670 | 8,494 | 8,759 | 9,548 |
| | | W6,213,311 | W6,213,077 | W6,213,342 | W6,214,131 |

(*) W20 billion of financial debentures, W110 billion of corporate debentures and W4,483 billion of KDIC bonds are guaranteed by the government as of December 31, 2001. W20 billion of financial debentures, W110 billion of corporate debentures and W5,947 billion of KDIC bonds are guaranteed by the government as of December 31, 2000.

Bonds intended to be held to maturity are initially stated at their acquisition cost which may be subsequently adjusted for amortization of premiums or discounts. If the market value of such bonds deteriorates significantly and is not expected to recover, they are reduced to their market value and then reclassified to bonds available-for-sale.

As of December 31, 2001 and 2000, W5,132 billion and W6,190 billion of bonds denominated in Korean Won are pledged as collateral for certain borrowings and key money deposits, respectively.

Bonds held-to-maturity denominated in foreign currencies as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|------------|------------------|----------------|
| December 31, 2001 | | | | |
| USD | 6.33 ~ 8.50 | W 55,014 | W 53,550 | W 53,992 |
| JPY | 0.55 | 5,046 | 5,051 | 5,083 |
| | | W 60,060 | W 58,601 | W 59,075 |
| December 31, 2000 | | | | |
| USD | 8.36 | W 58,557 | W 56,757 | W 57,375 |
| JPY | 0.55 | 5,498 | 5,503 | 5,513 |
| | | W 64,055 | W 62,260 | W 62,888 |

As of December 31, 2001 and 2000, US\$21 million of bonds denominated in foreign currencies are pledged as collateral for bonds sold under repurchase agreement.

Investment Securities Concentrations

At December 31, 2001 and 2000, information about investment securities by geography, issuer, industry and character are summarized as follows (millions of Won):

| By Geography | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|----------------------|-----------------------------|-----------------------------------|-------------------|---------------|
| December 31, 2001 | | | | |
| Korea | W6,182,289 | W 70,137 | W6,252,426 | 97.95 |
| China | - | 59,861 | 59,861 | 0.94 |
| Japan | - | 44,866 | 44,866 | 0.70 |
| Malaysia | - | 13,204 | 13,204 | 0.21 |
| Thailand | - | 6,639 | 6,639 | 0.10 |
| Indonesia | - | 6,461 | 6,461 | 0.10 |
| | W6,182,289 | W 201,168 | W6,383,457 | 100.00 |
| December 31, 2000 | | | | |
| Korea | W6,967,041 | W 79,933 | W7,046,974 | 98.69 |
| China | - | 52,178 | 52,178 | 0.73 |
| Thailand | - | 17,443 | 17,443 | 0.24 |
| Malaysia | - | 11,772 | 11,772 | 0.17 |
| Indonesia | - | 6,465 | 6,465 | 0.09 |
| Japan | - | 5,513 | 5,513 | 0.08 |
| | W6,967,041 | W 173,304 | W7,140,345 | 100.00 |
| | | | | |
| By Issuer | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
| December 31, 2001 | | | | |
| Public | W5,551,509 | W 19,836 | W5,571,345 | 87.28 |
| Financial business | 469,611 | 106,292 | 575,903 | 9.02 |
| Large corporate | 151,053 | 75,040 | 226,093 | 3.54 |
| Others | 10,116 | - | 10,116 | 0.16 |
| | W6,182,289 | W 201,168 | W6,383,457 | 100.00 |
| December 31, 2000 | | | | |
| Public | W6,695,525 | W 19,528 | W6,715,053 | 94.04 |
| Financial business | 173,843 | 16,865 | 190,708 | 2.67 |
| Large corporate | 96,412 | 84,733 | 181,145 | 2.54 |
| Others | 1,261 | 52,178 | 53,439 | 0.75 |
| | W6,967,041 | W 173,304 | W7,140,345 | 100.00 |
| | | | | |
| By Industry | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
| December 31, 2001 | | | | |
| Public | W5,551,509 | W 19,836 | W5,571,345 | 87.28 |
| Financial business | 469,611 | 106,292 | 575,903 | 9.02 |
| Manufacturing | 121,400 | 75,040 | 196,440 | 3.08 |
| Wholesale and retail | 38,257 | - | 38,257 | 0.60 |
| Construction | 1,512 | - | 1,512 | 0.02 |
| | W6,182,289 | W 201,168 | W6,383,457 | 100.00 |
| December 31, 2000 | | | | |
| Public | W6,773,487 | W 63,812 | W6,837,299 | 95.75 |
| Financial business | 173,842 | 16,865 | 190,707 | 2.67 |
| Manufacturing | 19,712 | 80,848 | 100,560 | 1.41 |
| Wholesale and retail | - | 7,555 | 7,555 | 0.11 |
| Construction | - | 4,224 | 4,224 | 0.06 |
| | W6,967,041 | W 173,304 | W7,140,345 | 100.00 |

| By Character | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|--------------------------|-----------------------------|-----------------------------------|-------------------|---------------|
| December 31, 2001 | | | | |
| Stocks | W 122,900 | W 59,861 | W 182,761 | 2.86 |
| Fixed rate bonds | 1,629,512 | 52,067 | 1,681,579 | 26.34 |
| Floating rate bonds | 4,393,421 | 89,240 | 4,482,661 | 70.23 |
| Convertible bonds | 6,386 | - | 6,386 | 0.10 |
| Beneficiary certificates | 30,070 | - | 30,070 | 0.47 |
| | W6,182,289 | W 201,168 | W6,383,457 | 100.00 |
| December 31, 2000 | | | | |
| Stocks | W 103,668 | W 52,178 | W 155,846 | 2.18 |
| Fixed rate bonds | 807,242 | 65,588 | 872,830 | 12.22 |
| Floating rate bonds | 5,998,000 | 55,538 | 6,053,538 | 84.79 |
| Beneficiary certificates | 58,131 | - | 58,131 | 0.81 |
| | W6,967,041 | W 173,304 | W7,140,345 | 100.00 |

Maturity Schedule

The maturities of investment securities, except equity securities, at December 31, 2001 are summarized as follows (millions of Won):

| Year ending December 31 | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Securities in foreign currencies | Total |
|----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------------|-------------------|
| 2002 | W 91,701 | W 236,407 | W4,412,258 | W 30,070 | W 42,971 | W4,813,407 |
| 2003 | 271,797 | 20,000 | 236,549 | - | - | 528,346 |
| 2004 | 480,260 | - | 195,629 | - | 6,443 | 682,332 |
| 2005 | 32,460 | 30,000 | 3,931 | - | - | 66,391 |
| 2006 | 10,215 | - | - | - | - | 10,215 |
| Thereafter | - | - | 8,112 | - | 91,893 | 100,005 |
| | W 886,433 | W 286,407 | W4,856,479 | W 30,070 | W 141,307 | W6,200,696 |

The maturities of investment securities, except equity securities, at December 31, 2000 are summarized as follows (millions of Won):

| Year ending December 31 | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Securities in foreign currencies | Total |
|----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------------|-------------------|
| 2001 | W 181,223 | W 133,613 | W 10,000 | W 58,131 | W 15,969 | W 398,936 |
| 2002 | 92,732 | 40,000 | 5,866,000 | - | 41,505 | 6,040,237 |
| 2003 | 5,859 | 20,000 | 111,483 | - | - | 137,342 |
| 2004 | 143,360 | 30,000 | 127,097 | - | 6,120 | 306,577 |
| 2005 | 12,018 | - | - | - | - | 12,018 |
| Thereafter | 17,426 | - | 14,431 | - | 57,532 | 89,389 |
| | W 452,618 | W 223,613 | W6,129,011 | W 58,131 | W 121,126 | W6,984,499 |

(*) Corporate debentures include KDIC bonds.

7. Loans

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

| Account | 2001 | | 2000 | |
|------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Loans in Korean Won | | | | |
| Corporate loans | 5.80 ~ 11.33 | W3,805,114 | 6.95 ~ 11.80 | W3,786,547 |
| Household loans | 4.42 ~ 17.56 | 7,887,417 | 3.89 ~ 17.36 | 5,032,610 |
| Loans to public sector | 5.95 ~ 7.83 | 217,051 | 7.44 ~ 9.65 | 234,002 |
| Other loans | 4.85 ~ 7.74 | 168,818 | 9.55 | 239,727 |
| Notes bought | 6.99 ~ 12.78 | 530,813 | 8.95 ~ 12.42 | 1,018,332 |
| Advances to customers | - | 191,174 | 7.19 | 87,736 |
| Credit card accounts | - | 795,380 | - | 530,793 |
| Private placement corporate bonds | 7.96 | 383,356 | 0.52 | 306,422 |
| Call loans | - | - | 0.00 ~ 4.52 | 392,400 |
| | | <u>13,979,123</u> | | <u>11,628,569</u> |
| Loans in foreign currencies | | | | |
| Loans (*) | 4.70 ~ 6.40 | 743,695 | 5.83 ~ 8.54 | 1,018,823 |
| Call loans | 4.22 | 76,251 | 6.03 | 416,331 |
| Off-shore loans | 6.09 | 267,353 | 7.93 | 284,463 |
| Bills bought (*) | 5.18 | 570,931 | 8.43 | 950,970 |
| Notes bought (*) | 5.71 | 4,008 | 6.01 ~ 8.60 | 4,628 |
| | | <u>1,662,238</u> | | <u>2,675,215</u> |
| Total loans | | <u>W15,641,361</u> | | <u>W14,303,784</u> |

(*) Certain interbank loans at December 31, 2000 were reclassified from due from banks to loans in foreign currencies and local L/Cs in foreign currencies at December 31, 2000 were reclassified from notes bought to bills bought to conform to the current year's presentation.

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

| | Account | Annual interest rate (%) | Millions of Won |
|--------------------------|---------------------------------------|--------------------------|------------------|
| December 31, 2001 | | | |
| Domestic bank | Interbank loans | 6.52 | W 168,691 |
| Overseas bank | Loans in foreign currencies | 3.07 | 22,544 |
| | Interbank loans in foreign currencies | 2.81 | 58,348 |
| Other | General loans | 6.83 | 88,216 |
| | Private placement corporate bonds | 8.27 | 108,392 |
| | Overdrafts | 8.85 | 1,289 |
| | Loans in foreign currencies | 4.30 | 169,935 |
| | Bills bought | 3.96 | 1,012 |
| | | | <u>W 618,427</u> |
| December 31, 2000 | | | |
| Domestic bank | Interbank loans | 9.55 | W 239,727 |
| Overseas bank | Interbank loans in foreign currencies | 7.23 | 42,830 |
| Other | General loans | 9.57 | 49,745 |
| | Loans for energy saving equipment | 7.00 | 284 |
| | Other bills discounted | 9.03 | 30,000 |
| | Overdrafts | 10.37 | 9,761 |
| | Loans in foreign currencies | 8.59 | 347,754 |
| | | | <u>W 720,101</u> |

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection from the KDIC on 96.5% of the principal balances of loans outstanding as of December 31, 1999. The Bank has established additional allowances for new loans and existing loans that the Bank does not believe are protected by assistance from the KDIC.

Changes in the allowance for possible loan losses at December 31, 2001 and 2000 are as follows (millions of Won):

| | 2001 | 2000 |
|---|-----------|-----------|
| Beginning balance | W 788,869 | W 439,673 |
| Increase (decrease) in reserves for protected loans | (112,504) | 401,515 |
| Provision for loan losses on unprotected loans | 74,313 | 61,252 |
| Put and call to KDIC | (5,848) | (84,084) |
| Written off | (7,326) | - |
| Other changes | 7,201 | (29,487) |
| Ending balance | W 744,705 | W 788,869 |

The ratios of allowance for loan losses to total loans as of December 31, 2001, 2000 and 1999 are 4.76%, 5.54% and 3.50%, respectively. Provision for loan and other losses per the statements of income includes a provision for other losses of W7,150 million for the year ended December 31, 2001 and a reversal for other losses of W4,983 million for the year ended December 31, 2000.

At December 31, 2001 and 2000, loans (excluding call loans and credit card accounts) by geography, borrower type and industry are summarized as follows (millions of Won):

| By Geography | 2001 | | 2000 | |
|--------------|-------------|---------|-------------|---------|
| | | | | |
| Korea | W14,284,517 | 96.71% | W12,604,328 | 97.22% |
| Japan | 229,389 | 1.55 | 171,105 | 1.32 |
| China | 58,348 | 0.40 | 42,830 | 0.33 |
| Other | 197,476 | 1.34 | 145,997 | 1.13 |
| | W14,769,730 | 100.00% | W12,964,260 | 100.00% |

| By Borrower Type | 2001 | | 2000 | |
|------------------|-------------|---------|-------------|---------|
| | | | | |
| Corporate | W 6,374,478 | 43.16% | W 7,612,719 | 58.72% |
| Household | 7,891,555 | 53.43 | 5,033,672 | 38.83 |
| Public and other | 503,697 | 3.41 | 317,869 | 2.45 |
| | W14,769,730 | 100.00% | W12,964,260 | 100.00% |

| By Industry | 2001 | | 2000 | |
|-----------------------------|-------------|---------|-------------|---------|
| | | | | |
| Manufacturing | W 3,978,522 | 26.94% | W 4,089,649 | 31.55% |
| Household | 7,891,555 | 53.43 | 5,040,490 | 38.88 |
| Wholesale and retail trade | 721,863 | 4.89 | 1,254,543 | 9.68 |
| Financial business | 618,427 | 4.18 | 808,052 | 6.23 |
| Construction | 218,010 | 1.48 | 398,252 | 3.07 |
| Transport and communication | 233,443 | 1.58 | 362,597 | 2.80 |
| Other | 1,107,910 | 7.50 | 1,010,677 | 7.79 |
| | W14,769,730 | 100.00% | W12,964,260 | 100.00% |

The maturities of loans in Korean Won and foreign currencies at December 31, 2001 are summarized as follows (millions of Won):

| Year ending December 31, | Loans in Korean Won | Loans in foreign currencies | Total |
|--------------------------|---------------------|-----------------------------|-------------|
| 2002 | W 9,287,884 | W 1,032,313 | W10,320,197 |
| 2003 ~ 2004 | 3,413,528 | 282,754 | 3,696,282 |
| 2005 ~ 2006 | 353,268 | 165,919 | 519,187 |
| Thereafter | 924,443 | 181,252 | 1,105,695 |
| | W13,979,123 | W 1,662,238 | W15,641,361 |

The maturities of loans in Korean Won and foreign currencies at December 31, 2000 are summarized as follows (millions of Won):

| Year ending December 31, | Loans in Korean Won | Loans in foreign currencies | Total |
|--------------------------|---------------------|-----------------------------|--------------------|
| 2001 | W 5,367,555 | W 1,781,298 | W 7,148,853 |
| 2002 ~ 2003 | 5,044,414 | 46,872 | 5,091,286 |
| 2004 ~ 2005 | 904,266 | 75,483 | 979,749 |
| Thereafter | 312,334 | 771,562 | 1,083,896 |
| | W 11,628,569 | W 2,675,215 | W14,303,784 |

The classification and allowance for loan losses outstanding at December 31, 2001 are summarized as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total | Allowance percentage |
|-----------------------------|---------------------|------------------|------------------|--------------------|-----------------|---------------------|----------------------|
| Loans in Won | W 11,713,968 | W 67,321 | W 78,957 | W 582,511 | W 12,021 | W 12,454,778 | |
| (Allowance) | (102,814) | (2,043) | (27,221) | (181,776) | (7,958) | (321,812) | 2.58 |
| Loans in foreign currencies | 809,465 | 7,534 | 123,048 | 133,587 | 10,504 | 1,084,138 | |
| (Allowance) | (37,448) | (479) | (47,916) | (93,164) | (9,555) | (188,562) | 17.39 |
| Notes bought | 532,211 | 818 | 146 | 1,410 | 236 | 534,821 | |
| (Allowance) | (3,176) | (49) | (36) | (1,398) | (143) | (4,802) | 0.90 |
| Bills bought | 332,071 | 7,853 | 57,634 | 173,358 | 15 | 570,931 | |
| (Allowance) | (2,210) | (157) | (28,302) | (67,633) | (15) | (98,317) | 17.22 |
| Advances to customers | 6,231 | 50 | 23,219 | 151,442 | 10,174 | 191,116 | |
| (Allowance) | (1,551) | (1) | (3,088) | (75,985) | (8,415) | (89,040) | 46.59 |
| Credit card | 704,008 | 49,657 | 16,905 | 9,312 | 15,498 | 795,380 | |
| (Allowance) | (17,686) | (993) | (3,381) | (4,657) | (15,455) | (42,172) | 5.30 |
| Total (*) | W 14,097,954 | W 133,233 | W 299,909 | W 1,051,620 | W 48,448 | W 15,631,164 | |
| (Allowance) (**) | (164,885) | (3,722) | (109,944) | (424,613) | (41,541) | (744,705) | 4.76 |
| Allowance percentage | 1.17 | 2.79 | 36.66 | 40.38 | 85.74 | 4.76 | |

(*) Net of present value discounts amounting to W10,197 million.

(**) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W527,252 million based on the agreement between the Bank and KDIC.

The classification and allowance for loan losses outstanding at December 31, 2000 are summarized as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total | Allowance percentage |
|-----------------------------|---------------------|------------------|------------------|------------------|----------------|---------------------|----------------------|
| Loans in Won | W 9,055,903 | W 294,640 | W 57,415 | W 568,093 | W 3,198 | W 9,979,249 | |
| (Allowance) | (199,920) | (17,131) | (9,756) | (164,843) | (3,198) | (394,848) | 3.96 |
| Loans in foreign currencies | 1,245,555 | 262,062 | 132,293 | 31,861 | - | 1,671,771 | |
| (Allowance) | (30,262) | (13,578) | (41,883) | (1,249) | - | (86,972) | 5.20 |
| Notes bought | 1,016,095 | 6,271 | 184 | 217 | 193 | 1,022,960 | |
| (Allowance) | (46,523) | (291) | (40) | (167) | (193) | (47,214) | 4.62 |
| Bills bought | 737,244 | 14,333 | 12,546 | 186,847 | - | 950,970 | |
| (Allowance) | (40,687) | (287) | (2,949) | (179,644) | - | (223,567) | 23.51 |
| Advances to customers | 51,130 | 5,985 | 4,382 | 24,344 | 1,101 | 86,942 | |
| (Allowance) | (1,491) | (329) | (974) | (9,290) | (1,101) | (13,185) | 15.17 |
| Credit card | 469,208 | 42,475 | 11,139 | 6,499 | 1,472 | 530,793 | |
| (Allowance) | (14,541) | (1,573) | (2,240) | (3,257) | (1,472) | (23,083) | 4.35 |
| Total (*) | W 12,575,135 | W 625,766 | W 217,959 | W 817,861 | W 5,964 | W 14,242,685 | |
| (Allowance) (**) | (333,424) | (33,189) | (57,842) | (358,450) | (5,964) | (788,869) | 5.54 |
| Allowance percentage | 2.65 | 5.30 | 26.54 | 43.83 | 100.00 | 5.54 | |

(*) Net of present value discounts amounting to W18,269 million. Loans in foreign currencies at December 31, 2000 did not include due from banks amounting to W42,830 million which was reclassified to loans to conform to the current year's presentation.

(**) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W420,518 million based on the agreement between the Bank and KDIC.

The restructured loans at December 31, 2001 are summarized as follows (millions of Won):

| | Corporations under liquidation | Court ordered restructuring | Work-out | Industry rationalization | Private restructuring | Total |
|-----------------------------|-----------------------------------|--------------------------------|-----------|-----------------------------|--------------------------|-----------|
| Period | 9.6~18.6 yrs | 1.7~5.4 yrs | 3.4~9 yrs | 8.5~19.5 yrs | 2~6.9 yrs | |
| Balance before restructured | W 7,970 | W 1,721 | W 310,831 | W 37,685 | W104,317 | W 462,524 |
| D/E swap stock | 5,511 | - | 83,520 | - | 5,706 | 94,737 |
| D/E swap CB | - | - | 225,150 | - | - | 225,150 |
| Interest rate reduction | 2,459 | 1,721 | 2,161 | 37,685 | 98,611 | 142,637 |
| Balance at end of year | W 7,268 | W 1,047 | W 310,456 | W 31,797 | W 58,526 | W 409,094 |
| Restructuring loss | W 244 | W 222 | W - | W - | W - | W 466 |

The restructured loans at December 31, 2000 are summarized as follows (millions of Won):

| | Corporations under liquidation | Court ordered restructuring | Work-out | Industry rationalization | Private restructuring | Total |
|-----------------------------|-----------------------------------|--------------------------------|-------------|-----------------------------|--------------------------|-----------|
| Period | 18~18.6 yrs | 5.4~9.3 yrs | 1.9~5.3 yrs | 8.5~19.5 yrs | 4 yrs | |
| Balance before restructured | W 492 | W 2,316 | W 295,706 | W 46,669 | W 90,529 | W 435,712 |
| D/E swap stock | - | - | 72,508 | - | 5,706 | 78,214 |
| D/E swap CB | - | - | 158,082 | - | - | 158,082 |
| Interest rate reduction | 492 | 2,316 | 65,116 | 46,669 | 84,823 | 199,416 |
| Balance at end of year | W 387 | W 1,471 | W 288,341 | W 38,615 | W 63,663 | W 392,477 |
| Restructuring loss | W - | W 594 | W - | W - | W - | W 594 |

The Bank has W99,891 million and W199,415 million of loans discounted to present value (amounting to W10,197 million and W18,269 million) due to debt restructuring as of December 31, 2001 and 2000, respectively.

Loans, which were scheduled to be converted to stock amounting to W91,190 million and W262,436 million at December 31, 2001 and 2000, respectively, were recorded at book value and not fair value based on the agreement between the Bank and KDIC.

The Bank transferred loans through monthly put claims amounting to W230,749 million and W110,959 million to the KDIC in 2001 and 2000, respectively, according to the agreement between the Bank and the KDIC.

8. Fixed Assets

Premises and equipment at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | Acquisition cost | Accumulated depreciation | Net book value |
|--------------------------|------------------|--------------------------|----------------|
| December 31, 2001 | | | |
| Premises and equipment | | | |
| Land | W 797,004 | W - | W 797,004 |
| Buildings and structures | 384,986 | 94,860 | 290,126 |
| Movable property | 196,488 | 126,135 | 70,353 |
| | 1,378,478 | 220,995 | 1,157,483 |
| Intangible assets | 20,027 | - | 20,027 |
| | W1,398,505 | W 220,995 | W1,177,510 |
| December 31, 2000 | | | |
| Premises and equipment | | | |
| Land | W 796,589 | W - | W 796,589 |
| Buildings and structures | 342,946 | 78,281 | 264,665 |
| Movable property | 153,823 | 113,085 | 40,738 |
| | 1,293,358 | 191,366 | 1,101,992 |
| Intangible assets | 1,759 | - | 1,759 |
| | W1,295,117 | W 191,366 | W1,103,751 |

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2001 and 2000, the government-posted prices of the Bank's land used for tax assessment purposes are W598,366 million and W597,628 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

9. Other Assets

Other assets at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|--|------------|------------|
| Other accounts receivable | W 268,371 | W 341,912 |
| Guarantee money | 297,475 | 300,438 |
| Unsettled exchange | 59,032 | 61,496 |
| Accrued revenues receivables | 110,256 | 143,918 |
| Prepaid expenses | 15,202 | 35,500 |
| Bills unsettled | 17,912 | 7,853 |
| Present value discount of other assets | (34) | (136) |
| Credit loss reserves of other assets | (10,453) | (686) |
| Regulatory and legal deposits (*) | 4,433 | 3,737 |
| Deferred income tax assets | 159,625 | 59,200 |
| Loans to trust accounts | 282,000 | 500,000 |
| Others | 16,786 | 20,220 |
| | W1,220,605 | W1,473,452 |

(*) Regulatory and legal deposits include W4,420 million and W3,691 million of securities held in escrow at December 31, 2001 and December 31, 2000, respectively.

10. Deposits

Deposits at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | Banks | Other financial institutions | Others | Total |
|--------------------------------|-----------|------------------------------|-------------|-------------|
| December 31, 2001 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 8,512 | W 214,567 | W 2,001,606 | W 2,224,685 |
| Time & saving deposits | 124,327 | 1,589,243 | 12,093,396 | 13,806,966 |
| | 132,839 | 1,803,810 | 14,095,002 | 16,031,651 |
| Deposits in foreign currencies | 95 | 184,358 | 436,029 | 620,482 |
| Certificates of deposit | 117,217 | 940,938 | 90,118 | 1,148,273 |
| | W 250,151 | W2,929,106 | W14,621,149 | W17,800,406 |
| December 31, 2000 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 1,435 | W 328,710 | W 2,179,846 | W 2,509,991 |
| Time & saving deposits | 96,848 | 2,146,061 | 10,731,004 | 12,973,913 |
| | 98,283 | 2,474,771 | 12,910,850 | 15,483,904 |
| Deposits in foreign currencies | 307 | 66,890 | 506,394 | 573,591 |
| Certificates of deposit | 783,107 | 3,712 | 59,466 | 846,285 |
| | W 881,697 | W2,545,373 | W13,476,710 | W16,903,780 |

The maturities of deposits at December 31, 2001 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|-----------------------------------|----------------------------|--------------------|
| 2002 | W15,132,504 | W 618,887 | W 1,148,273 | W16,899,664 |
| 2003 | 545,655 | 1,595 | - | 547,250 |
| 2004 | 189,334 | - | - | 189,334 |
| 2005 | 82,266 | - | - | 82,266 |
| 2006 | 36,181 | - | - | 36,181 |
| Thereafter | 45,711 | - | - | 45,711 |
| | W16,031,651 | W 620,482 | W 1,148,273 | W17,800,406 |

The maturities of deposits at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|-----------------------------------|----------------------------|--------------------|
| 2001 | W12,532,802 | W 573,561 | W 840,055 | W13,946,418 |
| 2002 | 2,451,786 | 2 | 6,230 | 2,458,018 |
| 2003 | 295,280 | - | - | 295,280 |
| 2004 | 128,458 | 2 | - | 128,460 |
| 2005 | 51,370 | 26 | - | 51,396 |
| Thereafter | 24,208 | - | - | 24,208 |
| | W15,483,904 | W 573,591 | W 846,285 | W16,903,780 |

11. Borrowings

Borrowings at December 31, 2001 and 2000 are comprised of the following:

| | 2001 | | 2000 | |
|--|--------------------------|--------------------|--------------------------|--------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Borrowings in Korean Won: | | | | |
| Aggregate limit borrowings | 2.50 | W 113,970 | 3.00 | W 204,149 |
| Call money | 3.00 ~ 3.85 | 145,900 | 4.10 ~ 4.70 | 155,600 |
| Other | 2.00 ~ 8.49 | 508,744 | 3.00 ~ 9.20 | 621,468 |
| | | 768,614 | | 981,217 |
| Borrowings in foreign currencies: | | | | |
| Bank of Korea | 1.91 ~ 3.91 | 54,753 | 6.21 ~ 7.93 | 363,087 |
| Other borrowings | 0.78 ~ 5.28 | 680,027 | 0.50 ~ 8.34 | 615,646 |
| Off-shore borrowings | 2.11 ~ 3.13 | 204,750 | 6.94 ~ 7.65 | 183,916 |
| Call money | 0.55 ~ 1.95 | 26,146 | 5.50 ~ 7.65 | 25,790 |
| | | 965,676 | | 1,188,439 |
| Bonds sold under repurchase agreements | 2.30 ~ 6.28 | 2,194,156 | 6.21 ~ 8.22 | 2,183,411 |
| Bills sold | 7.19 | 6,787 | 6.78 | 621,005 |
| | | W 3,935,233 | | W 4,974,072 |

At December 31, 2001 and 2000, borrowings by borrower type are summarized as follows (millions of Won):

| | Commercial | | Other | | Total (*) |
|--|------------------|--------------------|-----------------------|------------------|--------------------|
| | Bank of Korea | banks | financial institution | Others | |
| December 31, 2001 | | | | | |
| Borrowings in Korean Won | W 114,025 | W 150,150 | W 351,500 | W 152,939 | W 768,614 |
| Borrowings in foreign currencies | 54,753 | 893,850 | 13,791 | 3,282 | 965,676 |
| Bonds sold under repurchase agreements | - | 195,385 | - | - | 195,385 |
| | W 168,778 | W 1,239,385 | W 365,291 | W 156,221 | W 1,929,675 |

| | Bank of Korea | Commercial banks | Other financial institution | Others | Total (*) |
|--|------------------|--------------------|-----------------------------|------------------|--------------------|
| December 31, 2000 | | | | | |
| Borrowings in Korean Won | W 204,683 | W 104,984 | W 455,600 | W 215,950 | W 981,217 |
| Borrowings in foreign currencies | 363,087 | 820,848 | 1,386 | 3,118 | 1,188,439 |
| Bonds sold under repurchase agreements | - | 436,231 | - | - | 436,231 |
| | W 567,770 | W 1,362,063 | W 456,986 | W 219,068 | W 2,605,887 |

(*) W1,998,771 million and W1,747,180 million of bonds sold under repurchase agreements and W6,787 million and W 621,005 million of bills sold to the public at December 31, 2001 and 2000, respectively, are not included.

The maturities of borrowings at December 31, 2001 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|--------------------------|--------------------------|----------------------------------|--|----------------|--------------------|
| 2002 | W 341,561 | W 965,676 | W 2,194,156 | W 6,787 | W 3,508,180 |
| 2003 | 29,610 | - | - | - | 29,610 |
| 2004 | 53,067 | - | - | - | 53,067 |
| 2005 | 46,972 | - | - | - | 46,972 |
| 2006 | 65,920 | - | - | - | 65,920 |
| Thereafter | 231,484 | - | - | - | 231,484 |
| | W 768,614 | W 965,676 | W 2,194,156 | W 6,787 | W 3,935,233 |

The maturities of borrowings at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|--------------------------|--------------------------|----------------------------------|--|------------------|--------------------|
| 2001 | W 374,330 | W 1,188,439 | W 2,183,411 | W 621,005 | W 4,367,185 |
| 2002 | 108,652 | - | - | - | 108,652 |
| 2003 | 52,582 | - | - | - | 52,582 |
| 2004 | 65,546 | - | - | - | 65,546 |
| 2005 | 62,548 | - | - | - | 62,548 |
| Thereafter | 317,559 | - | - | - | 317,559 |
| | W 981,217 | W 1,188,439 | W 2,183,411 | W 621,005 | W 4,974,072 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 2001 are comprised of the following:

| Lender | Issue date | Due date | Annual interest rate (%) | Millions of Won |
|------------------------|------------|------------|--------------------------|------------------|
| Korea Life Insurance | 12-31-1996 | 12-31-2006 | 6.52 | W 20,000 |
| Korea Life Insurance | 6-13-1997 | 6-13-2007 | 6.52 | 78,500 |
| Samsung Life Insurance | 12-31-1996 | 12-31-2011 | 7.71 | 30,000 |
| Kyobo Life Insurance | 6-13-1997 | 6-13-2007 | 6.52 | 57,100 |
| Kumho Life Insurance | 12-31-1996 | 12-31-2006 | 6.52 | 20,000 |
| | | | | W 205,600 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 2000 are comprised of the following:

| Lender | Issue date | Due date | Annual interest rate (%) | Millions of Won |
|------------------------|------------|------------|--------------------------|------------------|
| Korea Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | W 20,000 |
| Korea Life Insurance | 6-13-1997 | 6-13-2007 | 8.54 | 78,500 |
| Samsung Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | 30,000 |
| Samsung Life Insurance | 6-13-1997 | 6-13-2002 | 8.55 | 64,400 |
| Kyobo Life Insurance | 6-13-1997 | 6-13-2007 | 8.54 | 57,100 |
| Kyobo Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | 30,000 |
| Kumho Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | 20,000 |
| | | | | W 300,000 |

12. Debentures

Debentures at December 31, 2001 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|------------------------|------------|------------------|--------------------------|------------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W 142,000 | Public rate +2 | 3-31-2003 |
| Subordinated | 10-28-2001 | 100,000 | 7.23 | 7-28-2007 |
| Bonds with Warrants | 1-31-2000 | 91,076 | - | 12-31-2006 |
| Discount on debentures | | (3) | | |
| | | <u>333,073</u> | | |
| Foreign currency | | | | |
| Subordinated FRN (*) | 6-26-1996 | <u>265,220</u> | 6ML + 2 | 6-26-2006 |
| | | W 598,293 | | |

Debentures at December 31, 2000 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|------------------------|------------|------------------|--------------------------|------------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W 142,000 | Public rate+2 | 3-31-2003 |
| Bonds with Warrants | 1-31-2000 | 91,076 | - | 12-31-2006 |
| Discount on debentures | | (6) | | |
| | | <u>233,070</u> | | |
| Foreign currency | | | | |
| Subordinated FRN (*) | 6-26-1996 | <u>251,940</u> | 6ML + 0.85 | 6-26-2006 |
| | | W 485,010 | | |

(*) The Bank has the right to redeem the note (call option) at the end of year 5 and annually thereafter.

The maturities of debentures at December 31, 2001 are as follows (millions of Won):

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|--------------------------|---------------------------------|---|------------------|
| 2002 | W - | W - | W - |
| 2003 | 141,997 | - | 141,997 |
| 2004 | - | - | - |
| 2005 | - | - | - |
| 2006 | 91,076 | 265,220 | 356,296 |
| Thereafter | 100,000 | - | 100,000 |
| | <u>W 333,073</u> | <u>W 265,220</u> | <u>W 598,293</u> |

The maturities of debentures at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|--------------------------|---------------------------------|---|------------------|
| 2001 | W - | W - | W - |
| 2002 | - | - | - |
| 2003 | 141,994 | - | 141,994 |
| 2004 | - | - | - |
| 2005 | - | - | - |
| Thereafter | 91,076 | 251,940 | 343,016 |
| | <u>W 233,070</u> | <u>W 251,940</u> | <u>W 485,010</u> |

13. Accrued Severance and Retirement Benefits

The changes in accrued severance and retirement benefits for the year ended December 31, 2001 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|--|-------------------|--------------------|-----------------|----------------|
| Accrued severance and retirement benefits | W 185,206 | W 38,760 | W 59,446 | W 164,520 |
| Prepayments to National Pension Corp. | (8,716) | - | (1,946) | (6,770) |
| Deposits for group severance and retirement benefits | - | (153,389) | - | (153,389) |
| | W 176,490 | W (114,629) | W 57,500 | W 4,361 |

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

The changes in accrued severance and retirement benefits for the year ended December 31, 2000 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|---|-------------------|-----------------|------------------|------------------|
| Accrued severance and retirement benefits | W 256,907 | W 41,122 | W 112,823 | W 185,206 |
| Prepayments to National Pension Corp. | (12,358) | - | (3,642) | (8,716) |
| | W 244,549 | W 41,122 | W 109,181 | W 176,490 |

14. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|--|------------------|-------------------|
| Acceptances and guarantees in Korean Won | | |
| Corporate debentures | W 5,600 | W 7,560 |
| Other | 122,303 | 157,272 |
| | 127,903 | 164,832 |
| Acceptances and guarantees in foreign currencies | | |
| Acceptances | 440,877 | 642,885 |
| Stand-by letters of credit | 82,039 | 96,797 |
| Letters of guarantee | 15,316 | 22,017 |
| Other | 18,763 | 132,288 |
| | 556,995 | 893,987 |
| | W 684,898 | W1,058,819 |

Contingent acceptances and guarantees outstanding at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|------------|------------------|------------------|
| Import L/C | W 230,312 | W 304,375 |
| Local L/C | 215,312 | 279,630 |
| Other | 1,775 | 5,059 |
| | W 447,399 | W 589,064 |

According to the agreement between the KDIC and the Bank, all rights and responsibilities for guarantees and acceptances outstanding as of December 31, 1999 were assumed by the KDIC as of December 31, 1999. Therefore, the Bank did not provide any reserves on confirmed acceptances and guarantees which the Bank believes are protected by the KDIC amounting to W181,097 million and W457,831 million as of December 31, 2001 and 2000, respectively.

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2001 are as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total (*) | Allowance percentage |
|--|----------------------|-------------------|---------------|-------------------|----------------|----------------------|----------------------|
| Acceptances & guarantees in Won (Allowance) | W 112,674 (559) | W 14,771 - | W - - | W 458 - | W - - | W 127,903 (559) | 0.44 |
| Acceptances & guarantees in foreign currencies (Allowance) | 369,490 (1,770) | 40,498 (755) | 58,723 - | 80,408 (134) | 7,876 - | 556,995 (2,659) | 0.48 |
| Total (Allowance) | W 482,164 (2,329) | W 55,269 (755) | W 58,723 - | W 80,866 (134) | W 7,876 - | W 684,898 (3,218) | 0.47 |
| Allowance percentage | 0.48 | 1.37 | - | 0.17 | - | 0.47 | |

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2000 are as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total (*) | Allowance percentage |
|--|----------------------|-------------------|---------------------|----------------|------------------|------------------------|----------------------|
| Acceptances & guarantees in Won (Allowance) | W 110,125 (521) | W 46,185 (627) | W 895 - | W 7,621 - | W 6 - | W 164,832 (1,148) | 0.70 |
| Acceptances & guarantees in foreign currencies (Allowance) | 625,520 (2,213) | 24,031 (171) | 97,386 (2,888) | 134,446 - | 12,604 (87) | 893,987 (5,359) | 0.60 |
| Total (Allowance) | W 735,645 (2,734) | W 70,216 (798) | W 98,281 (2,888) | W 142,067 - | W 12,610 (87) | W 1,058,819 (6,507) | 0.61 |
| Allowance percentage | 0.37 | 1.14 | 2.94 | - | 0.69 | 0.61 | |

The ratio of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2001, 2000 and 1999 was 0.47%, 0.61% and 0%, respectively.

At December 31, 2001 and 2000, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

| By Geography | Confirmed acceptances and guarantees | | Contingent acceptances and guarantees | | Total | |
|-------------------|---|----------|--|----------|-------------|----------|
| December 31, 2001 | | | | | | |
| Korea | W 650,654 | 95.00 % | W 447,399 | 100.00 % | W 1,098,053 | 96.98 % |
| Other | 34,244 | 5.00 | - | - | 34,244 | 3.02 |
| | W 684,898 | 100.00 % | W 447,399 | 100.00 % | W 1,132,297 | 100.00 % |
| December 31, 2000 | | | | | | |
| Korea | W1,020,572 | 96.39 % | W 587,516 | 99.73 % | W 1,608,088 | 97.58 % |
| Japan | 37,822 | 3.57 | 217 | 0.04 | 38,039 | 2.31 |
| Other | 425 | 0.04 | 1,331 | 0.23 | 1,756 | 0.11 |
| | W1,058,819 | 100.00 % | W 589,064 | 100.00 % | W 1,647,883 | 100.00 % |

| By Concentration | Confirmed acceptances and guarantees | | Contingent acceptances and guarantees | | Total | |
|-----------------------------|---|-----------------|--|-----------------|--------------------|-----------------|
| December 31, 2001 | | | | | | |
| Manufacturing | W 488,971 | 71.39 % | W 226,839 | 50.70 % | W 715,810 | 63.22 % |
| Wholesale and retail | 101,432 | 14.81 | 179,208 | 40.05 | 280,640 | 24.78 |
| Construction | 26,250 | 3.83 | 29,652 | 6.63 | 55,902 | 4.94 |
| Financial business | 6,234 | 0.91 | 7,028 | 1.57 | 13,262 | 1.17 |
| Transport and communication | 23,460 | 3.42 | 689 | 0.15 | 24,149 | 2.13 |
| Other | 38,551 | 5.64 | 3,983 | 0.90 | 42,534 | 3.76 |
| | W 684,898 | 100.00 % | W 447,399 | 100.00 % | W1,132,297 | 100.00 % |
| December 31, 2000 | | | | | | |
| Manufacturing | W 831,552 | 78.53 % | W 419,345 | 71.19 % | W1,250,897 | 75.91 % |
| Wholesale and retail | 90,090 | 8.51 | 163,426 | 27.74 | 253,516 | 15.38 |
| Construction | 29,928 | 2.83 | 494 | 0.09 | 30,422 | 1.85 |
| Financial business | 37,985 | 3.59 | 2,413 | 0.41 | 40,398 | 2.45 |
| Transport and communication | 22,398 | 2.11 | 1,386 | 0.23 | 23,784 | 1.44 |
| Other | 46,866 | 4.43 | 2,000 | 0.34 | 48,866 | 2.97 |
| | W1,058,819 | 100.00 % | W 589,064 | 100.00 % | W1,647,883 | 100.00 % |
| By Borrower Type | Confirmed acceptances and guarantees | | Contingent acceptances and guarantees | | Total | |
| December 31, 2001 | | | | | | |
| Corporate | W 666,213 | 97.27 % | W 447,399 | 100.00 % | W 1,113,612 | 98.35 % |
| Public & other | 18,685 | 2.73 | - | - | 18,685 | 1.65 |
| | W 684,898 | 100.00 % | W 447,399 | 100.00 % | W 1,132,297 | 100.00 % |
| December 31, 2000 | | | | | | |
| Corporate | W 1,058,819 | 100.00 % | W 589,064 | 100.00 % | W 1,647,883 | 100.00 % |

15. Other Liabilities

Other liabilities at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|--------------------------------------|--------------------|--------------------|
| Borrowing from trust account | W 351,986 | W 203,773 |
| Foreign exchange payable | 46,368 | 28,896 |
| Accounts payable | 331,419 | 312,413 |
| Accrued expenses | 418,745 | 372,277 |
| Unearned revenues | 20,343 | 39,091 |
| Domestic exchange obligation payable | 1,205,021 | 396,236 |
| Others | 253,002 | 257,325 |
| | W 2,626,884 | W 1,610,011 |

16. Interest Bearing Assets and Liabilities

Interest bearing assets and liabilities at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| | 2001 | | 2000 | |
|--------------------------------------|-------------------------------|-------------------|-------------------------------|-------------------|
| | Average amount of assets | Interest revenue | Average amount of assets | Interest revenue |
| <i>Assets</i> | | | | |
| Due from banks in Won | W 656,304 | W 20,228 | W 685,580 | W 23,696 |
| Due from banks in foreign currencies | 248,998 | 9,478 | 220,523 | 11,245 |
| Trading securities | 89 | - | 259,507 | 18,038 |
| Investment securities | 7,011,344 | 458,041 | 7,256,982 | 549,562 |
| Loans in Won | 11,451,247 | 992,290 | 9,158,362 | 887,221 |
| Loans in foreign currencies | 1,340,362 | 76,052 | 1,672,244 | 127,567 |
| Notes bought | 16,601 | 2,245 | 24,275 | 3,082 |
| Private placement corporate bonds | 386,819 | 29,193 | 242,520 | 17,509 |
| Bills bought | 711,046 | 52,463 | 1,309,330 | 118,926 |
| Advances to customers | 140,796 | 10,279 | 149,071 | 18,884 |
| Loans to trust accounts and other | 308,121 | 17,914 | 721,494 | 53,928 |
| | W22,271,727 | W1,668,183 | W21,699,888 | W1,829,658 |
| <i>Liabilities</i> | | | | |
| | Average amount of liabilities | Interest expense | Average amount of liabilities | Interest expense |
| Deposits in Won | W14,939,639 | W 718,176 | W15,122,013 | W 835,224 |
| Deposits in foreign currencies | 642,851 | 15,858 | 777,660 | 37,159 |
| Certificate of deposits | 585,663 | 36,986 | 472,516 | 36,216 |
| Borrowings in Won | 1,133,092 | 61,664 | 1,931,651 | 108,217 |
| Borrowings in foreign currencies | 965,839 | 49,176 | 2,208,908 | 164,492 |
| Bonds sold on repurchase agreements | 2,710,318 | 169,538 | 723,020 | 50,649 |
| Cover bills sold | 469,308 | 33,750 | 80,881 | 5,499 |
| Debentures in Won | 254,276 | 13,578 | 225,600 | 15,030 |
| Debentures in foreign currencies | 258,095 | 17,005 | 267,666 | 20,703 |
| Borrowings from trust accounts | 266,068 | 31,592 | 372,646 | 20,818 |
| | W22,225,149 | W1,147,323 | W22,182,561 | W1,294,007 |

17. Commitments and Contingencies

KDIC Agreement Issues

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

The Bank has other disagreements which will be resolved through negotiations or legal proceedings. The outcome of these negotiations and proceedings may be different from assumptions used by management, which could materially impact the Bank's future financial results. However, management believes their assumptions are supported and any losses that result from the disposition of these matters are not currently measurable. These are described as follows:

(i) Losses on Derivative Positions - Prior to Closing, the Bank attempted to transfer derivative contracts along with underlying assets to the KDIC. However, because the KDIC is not a financial institution, the Bank's derivative counter-parties did not agree to such a transfer. As the underlying hedged assets have been transferred to the KDIC, the Bank has not recorded mark-to-market valuation losses relating to the derivative positions. Realized and unrealized losses claimable from the KDIC are estimated at approximately W43.8 billion at December 31, 2001.

(ii) Post Closing Adjusting Entries - In accordance with the Acquisition Agreement, Newbridge submitted a claim requesting that KDIC pay to the Bank an additional amount of W44.5 billion for adjustment or correction of the Closing Balance Sheet with respect to the acquisition of a controlling interest in the Bank by Newbridge effective December 31, 1999. The amount claimed included W31.9 billion for mark-to-market valuations related to derivative positions at Closing discussed in (i) above. The KDIC submitted counterclaims requesting that the Bank pay W97.9 billion to KDIC for adjustment or correction of the Closing Balance Sheet. The Bank believes that most of the KDIC's counterclaims are based on incorrect interpretations of the Acquisition Agreement. If the KDIC were to prevail in each of its positions, the Bank's loss would be approximately W29.3 billion, which is the amount the Bank had recorded in income in respect of such items as of December 31, 2001.

(iii) Other Claims - The KDIC is disputing various other claims made by the Bank. At December 31, 2001, approximately W78.8 billion of such other claims are reflected in the Bank's financial statements as loans or other assets.

Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts and interest rate futures contracts. At December 31, 2001, those derivative contracts aggregated a notional amount of W1,406,890 million. As of December 31, 2001 and 2000, the Bank has derivative financial instruments which are all designated as trading, as follows (millions of Won):

| | Currency forwards | Currency swaps | Currency options | Interest rate swaps | Interest rate futures | Total |
|-------------------|----------------------|-------------------|---------------------|------------------------|--------------------------|--------------------|
| December 31, 2001 | | | | | | |
| Purchase | W 553,727 | W - | W - | W 118,741 | W - | W 672,468 |
| Sell | 266,917 | - | - | 118,741 | 348,764 | 734,422 |
| | W 820,644 | W - | W - | W 237,482 | W 348,764 | W 1,406,890 |
| December 31, 2000 | | | | | | |
| Purchase | W 364,000 | W 22,030 | W 5,039 | W 175,827 | W - | W 566,896 |
| Sell | 389,508 | - | 5,039 | 175,612 | 581,981 | 1,152,140 |
| | W 753,508 | W 22,030 | W 10,078 | W 351,439 | W 581,981 | W 1,719,036 |

For the years ended December 31, 2001 and 2000, W8,405 million and W7,631 million of gains and W5,322 million and W23,340 million of losses, respectively, on valuation of derivative contracts were recorded in fees, commissions, and other revenues and expenses.

| | Recognized during the year | | Accumulated balance of valuation | |
|-----------------------|----------------------------|-----------------|----------------------------------|-----------------|
| | Valuation gain | Valuation loss | Asset | Liability |
| December 31, 2001 | | | | |
| Currency forwards | W 5,343 | W 4,071 | W 5,343 | W 4,071 |
| Interest rate futures | - | - | - | - |
| Interest rate swaps | 3,062 | 1,251 | 3,215 | 2,467 |
| | W 8,405 | W 5,322 | W 8,558 | W 6,538 |
| December 31, 2000 | | | | |
| Currency forwards | W 7,312 | W 23,340 | W 7,647 | W 23,396 |
| Interest rate futures | - | - | - | - |
| Interest rate swaps | 319 | - | 3,171 | 3,856 |
| | W 7,631 | W 23,340 | W 10,818 | W 27,252 |

Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2001, commitments and endorsed notes aggregated W5,420 million and W9,372 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2001, total loan commitments are W13,491 billion and unused commitments are W9,799 billion.

The Bank has been named as defendant in 6 legal actions not indemnified by KDIC amounting to W1,391 million and is plaintiff in 235 legal actions not indemnified by KDIC amounting to W20,870 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

18. Common Stock

As of December 31, 2001 and 2000, the authorized common shares and the outstanding common shares are 1,600 million shares and 196,116,800 shares (at a par value of W5,000), respectively. The Bank's paid in capital is W980,584 million as of December 31, 2001 and 2000 (see Note 1).

During 2000, the Bank granted stock options to employees and directors. A total of 5,273,217 options were granted initially at an exercise price of W5,079.60 per share. The option share price was subsequently challenged by the Financial Supervisory Commission, which ordered the exercise price to be set at a minimum of W9,834 per share. During 2001, the board of directors revised the number of options granted to 5,228,773 and approved the revised exercise price. In 2001, the board of directors also granted 1,171,531, additional options at an exercise price of W12,497 per share. Both grants were approved by shareholders. The first option grant is exercisable after three years from March 30, 2000 until ten years after that date. The second option grant is exercisable after three years from October 19, 2001 until ten years after that date. On December 13, 2001, the board of directors cancelled stock options of 4,128,775 which were previously granted to the former President & Chief Executive Officer.

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. The bonds mature in 2006 and carry a stated interest rate of 0 percent. The warrants are convertible to 9,805,840 shares of the Bank's common stock at a price of W5,000 per share. The warrant exercise price escalates at an annual rate of 9.25%. The warrants are non-detachable, non-transferable and exercisable between December 31, 2002 and December 31, 2006.

19. Retained Earnings

The Bank should reserve as a minimum 10% of its annual net income as a legal reserve in accordance with Korean Banking Regulations. The Tokyo branch also should reserve up to 10% of its annual net income as an other reserve until the amount reaches 2 billion Yen in accordance with Japanese Banking Regulations. These legal reserves cannot be used to pay dividends.

20. Income Tax Expense

Up to December 31, 2001, the Bank had been subject to corporate income taxes, including resident surtax, at aggregate rates of 17.6% on taxable income up to W100 million and 30.8% on taxable income in excess of W100 million. Starting on January 1, 2002, such corporate tax rates will be reduced by one percentage point resulting in revised aggregate rates of 16.5% and 29.7%, respectively. The income tax benefit for the years ended December 31, 2001 and 2000 is comprised of the following (millions of Won):

| | 2001 | 2000 |
|--|-----------|----------|
| Income tax expense | W 50 | W 1,102 |
| Changes in deferred income taxes due to loss carryforwards | (100,425) | (59,200) |
| Income tax benefit | (100,375) | (58,098) |
| Deferred income tax asset at end of the year | 159,625 | 59,200 |
| Deferred income tax asset at beginning of the year | 59,200 | - |
| Changes in deferred income tax asset | W 100,425 | W 59,200 |

The Bank has tax basis net operating loss carryforwards ("NOLs") of approximately W4,736 billion as of December 31, 2001. For tax purposes, net operating losses in Korea may be carried forward for five years against future earnings.

Adjustments of income before income taxes to taxable income for the year ended December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|---------------------------------------|-----------|-----------|
| Income before income tax expense | W 123,719 | W 248,302 |
| Adjustment to increase taxable income | | |
| Permanent differences | 12,564 | 10,427 |
| Temporary differences | 152,837 | 224,229 |
| | 165,401 | 234,656 |
| Adjustment to decrease taxable income | | |
| Permanent differences | 463 | 1,259 |
| Temporary differences | 99,934 | 310,351 |
| | 100,397 | 311,610 |
| Taxable income | W 188,723 | W 171,348 |

Deferred income taxes reflect the net tax effects of the tax loss carryforward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2001 are comprised of the following (in millions of Won):

| | January 1, 2001 (*) | Increase | Decrease | December 31, 2001 |
|--|------------------------|------------|------------|----------------------|
| Interest receivable on securities | W (74,886) | W (42,268) | W (74,886) | W (42,268) |
| Gain on valuation of derivatives | (7,566) | (8,558) | (7,566) | (8,558) |
| Profit from valuation of equity method | (35,970) | (5,411) | - | (41,381) |
| Present value discounts | 9,689 | 143 | 9,655 | 177 |
| Loss on valuation of derivatives | 23,275 | 6,538 | 23,275 | 6,538 |
| Depreciation | 12,186 | 8,441 | - | 20,627 |
| Loss on valuation of equity method | 3,830 | - | - | 3,830 |
| Deemed dividends | 6,690 | 3,001 | - | 9,691 |
| Retirement benefits | 2,478 | - | 2,478 | - |
| Other | (9,687) | 32,506 | (11,467) | 34,286 |
| Tax loss carryforward | 4,924,673 | - | 188,723 | 4,735,950 |
| Total | 4,854,712 | W (5,608) | W 130,212 | 4,718,892 |
| Tax rate | 30.8% | | | 29.7% |
| Deferred income tax asset | 1,495,251 | | | 1,401,511 |
| Allowance | (1,436,051) | | | (1,241,886) |
| Net deferred income tax asset | W 59,200 | | | W 159,625 |

(*) The amounts are different from those in the prior year's audit report to reflect the 2000 final tax return filed in March 2001.

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income. Based on substantial operating losses prior to 2000 and the difficulty in forecasting multiple years of future income, management has elected to recognize a portion of the net operating loss carryforwards available and recorded a deferred tax asset of W159,625 million, which is included in other assets.

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2000 are comprised of the following (in millions of Won):

| | January 1, 2000 | Increase | Decrease | December 31, 2000 |
|--|--------------------|------------|-------------|----------------------|
| Interest receivable on securities | W(116,764) | W (74,886) | W (116,764) | W(74,886) |
| Gain on valuation of securities | (24,205) | - | (24,205) | - |
| Profit from valuation of equity method | (43,579) | (3,309) | (10,918) | (35,970) |
| Excess of loan loss reserve | 185,541 | - | 185,541 | - |
| Present value discounts | 308 | 8,510 | 308 | 8,510 |
| Loss on valuation of derivatives | 13,867 | 23,275 | 13,867 | 23,275 |
| Depreciation | 6,506 | 6,250 | - | 12,756 |
| Loss on valuation of equity method | 5,266 | - | 1,436 | 3,830 |
| Loss on valuation of securities | 9,208 | - | 9,208 | - |
| Retirement benefits | 962 | 2,478 | 962 | 2,478 |
| Other | (21,558) | 2,402 | (8,593) | (10,563) |
| Tax loss carryforward | 5,096,640 | - | 171,348 | 4,925,292 |
| Total | 5,112,192 | W (35,280) | W 222,190 | 4,854,722 |
| Tax rate | 30.8% | | | 30.8% |
| Deferred income tax asset | 1,574,555 | | | 1,495,254 |
| Allowance | (1,574,555) | | | (1,436,054) |
| Net deferred income tax asset | W - | | | W 59,200 |

21. Per Share Amounts

Per share amounts for the years ended December 31, 2001 and 2000 are calculated as follows (in Korean Won):

| | 2001 | 2000 |
|--|-------------------|-------------------|
| Ordinary earnings per share | | |
| Ordinary earnings before income tax expenses | W 123,719,361,727 | W 210,298,519,289 |
| Income tax benefits related to ordinary earnings | (100,374,530,000) | (58,098,480,000) |
| | 224,093,891,727 | 268,396,999,289 |
| Weighted average number of common shares (*) | 196,116,800 | 196,116,800 |
| Ordinary earnings per share | W 1,143 | W 1,369 |
| Net earnings per share | | |
| Net earnings after income tax expenses | W 224,093,891,727 | W 306,400,153,616 |
| Weighted average number of common shares (*) | 196,116,800 | 196,116,800 |
| Net earnings per share | W 1,143 | W 1,562 |

(*) The number of common shares outstanding at December 31, 2001 and 2000 was 196,116,800. There were no shareholder transactions during the years ended December 31, 2001 and 2000.

As of December 31, 2001, the Bank's shares were suspended from trading on the Korean Stock Exchange. As a market value for the Bank's shares cannot be readily determined, the diluted impact on earnings per share from bonds with warrants and stock options has not been calculated.

22. Application of the Equity-method

Equity investments at December 31, 2001 and 2000 are as follows (millions of Won):

| | Korea First Finance Ltd., HK | First Citicorp Leasing Inc. | Qingdao International Bank | Korea First Data System Co., Ltd. |
|---|------------------------------------|-----------------------------------|----------------------------------|---|
| January 1, 2000 | W 35,425 | W 23,219 | W 9,163 | W 4,271 |
| Equity in net income of affiliates | 3,034 | - | 107 | 168 |
| Exchange rate fluctuation | 3,535 | - | 914 | - |
| Dividends received | - | - | - | (160) |
| Equity in retained earnings of affiliates | - | - | - | (15) |
| Accrued equity income through sale date | - | 4,608 | - | - |
| Offset of capital adjustment recorded in prior year | - | (1,976) | - | - |
| Disposed | - | (25,851) | - | - |
| December 31, 2000 | W 41,994 | - | 10,184 | 4,264 |
| Equity in net income of affiliates | 4,859 | - | 73 | 470 |
| Exchange rate fluctuation | 2,214 | - | 537 | - |
| Dividends received | - | - | - | (89) |
| Equity in retained earnings of affiliates | - | - | - | 9 |
| December 31, 2001 | W 49,067 | W - | W 10,794 | W 4,654 |

23. Related Party Transactions

Significant transactions between the Bank, its controlled subsidiary, and equity-method investees for the year ended December 31, 2001 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|----------------------|----------|-------------------|-----------|
| | Account | Amount | Account | Amount |
| Korea First Finance Ltd., Hong Kong | Interest income | W 7,791 | Due from banks | W 115,019 |
| | | | Loans | 55,696 |
| | | | Borrowings | 789 |
| Qingdao International Bank | Interest income | 2,485 | Loans | 39,783 |
| | Interest expense | 2,504 | Deposits | 149 |
| | | | Borrowings | 40,313 |
| Korea First Data System Co., Ltd. | Interest income | 11 | Deposits | 2,869 |
| | Other revenue | 38 | Other liabilities | 361 |
| | Interest expense | 198 | | |
| | Other expense | 6,632 | | |
| | Revenue Transactions | W 10,325 | Receivables | W 210,498 |
| | Expense Transactions | W 9,334 | Payables | W 44,481 |

Significant transactions between the Bank, its controlled subsidiary, and equity-method investees for the year ended December 31, 2000 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|----------------------|----------|-------------------|-----------|
| | Account | Amount | Account | Amount |
| Korea First Finance Ltd., Hong Kong | Interest income | W 7,991 | Due from banks | W 89,960 |
| | Interest expense | 8 | Loans | 21,415 |
| Qingdao International Bank | Interest income | 3,477 | Due from banks | 51,648 |
| | Interest expense | 3,878 | Deposits | 52,638 |
| Korea First Data System Co., Ltd. | Interest income | 4 | Deposits | 2,238 |
| | Other revenue | 76 | Borrowings | 1,200 |
| | Interest expense | 227 | Other liabilities | 137 |
| | Other expense | 3,486 | | |
| | Revenue Transactions | W 11,548 | Receivables | W 163,023 |
| | Expense Transactions | W 7,599 | Payables | W 56,213 |

24. Employee Welfare

The Bank provided W36,090 million and W59,162 million of housing allowances for its employees at December 31, 2001 and 2000, respectively.

Expenditures for the training of specialists for 2001, 2000 and 1999 are as follows (millions of Won):

| Type | 2001 | 2000 | 1999 |
|---------------------------|--------------|--------------|--------------|
| Korea Banking Institute | W 218 | W 97 | W 85 |
| Special skill training | 583 | 198 | 113 |
| Foreign language training | 45 | 88 | 10 |
| Overseas service training | 99 | 21 | 8 |
| | W 945 | W 404 | W 216 |

25. Book Value and Fair Value of Trust Accounts

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

| | Book value | Provisions | Fair value | Charge on Bank accounts |
|--|----------------|---------------|----------------|-------------------------|
| Principal guaranteed trust accounts | 405,708 | 13,272 | 412,007 | - |
| Principal and dividend guaranteed trust accounts | 231,931 | 7,224 | 228,434 | - |
| | 637,639 | 20,496 | 640,441 | - |

26. Korean Economy

Beginning in 1997, the Republic of 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 experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing consolidations and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Independent Auditors' Report



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Chief Executive Officer and Trust Beneficiaries of Korea First Bank

We have audited the accompanying balance sheets of Korea First Bank's trust accounts (the "Trust") as of December 31, 2001 and 2000, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of Korea First Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to Note 10 of the financial statements which states that the operations of the Trust 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. The ultimate effect of these uncertainties on the financial position of the Trust 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 financial statements.

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

February 21, 2002

Non-Consolidated Balance Sheets (Trust Accounts)

December 31, 2001 and 2000

| | 2001 | | 2000 | |
|--|---------------------------|-------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| <i>Assets</i> | | | | |
| Securities (Notes 5 and 6) | W 1,230,780 | W 1,708,565 | \$ 928,120 | \$ 1,288,413 |
| Loans (Notes 6 and 7) | 85,034 | 238,313 | 64,123 | 179,710 |
| Present value discounts for loans (Note 7) | (1,217) | (1,247) | (917) | (940) |
| Allowance for possible loan and securities losses (Note 6) | (32,487) | (35,088) | (24,498) | (26,460) |
| Call loans (Note 8) | - | 50,000 | - | 37,705 |
| Due from the Bank Account | 128,217 | 135,612 | 96,687 | 102,264 |
| Accrued income | 29,354 | 36,437 | 22,136 | 27,477 |
| Other assets | 14,369 | 18,855 | 10,835 | 14,218 |
| | W 1,454,050 | W 2,151,447 | \$ 1,096,486 | \$ 1,622,387 |
| <i>Liabilities</i> | | | | |
| Money trusts (Note 1) | W 1,147,637 | W 1,586,714 | \$ 865,422 | \$ 1,196,527 |
| Borrowings | 282,000 | 500,000 | 212,654 | 377,045 |
| Other liabilities | 19,247 | 60,873 | 14,514 | 45,904 |
| Reserve for future trust losses | 5,166 | 3,860 | 3,896 | 2,911 |
| | W 1,454,050 | W 2,151,447 | \$ 1,096,486 | \$ 1,622,387 |

See accompanying notes

Non-Consolidated Statements of Operations (Trust Accounts)

Years ended December 31, 2001 and 2000

| | 2001 | 2000 | 2001 | 2000 |
|--|---------------------------|-----------|---------------------------------------|------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| <i>Revenues</i> | | | | |
| Interest on securities | W 104,393 | W 233,301 | \$ 78,722 | \$ 175,930 |
| Interest on loans | 12,143 | 57,616 | 9,157 | 43,448 |
| Interest on call loans | 12 | 6,242 | 9 | 4,707 |
| Interest on due from the Bank Account | 8,657 | 17,525 | 6,528 | 13,216 |
| Gain on securities valuation and transactions | 18,932 | 31,251 | 14,277 | 23,566 |
| Other income | 8,941 | 109,206 | 6,742 | 82,351 |
| | W 153,078 | W 455,141 | \$ 115,435 | \$ 343,218 |
| <i>Expenses</i> | | | | |
| Interest on borrowings | W 20,668 | W 10,009 | \$ 15,586 | \$ 7,548 |
| Trust fees to the Bank | 20,609 | 34,462 | 15,541 | 25,987 |
| Loss on securities valuation and transactions | 34,515 | 79,607 | 26,027 | 60,031 |
| Other expenses | 2,468 | 6,039 | 1,861 | 4,554 |
| Provision for future trust losses | 1,306 | 1,849 | 985 | 1,394 |
| Provision for possible loan and securities losses (Note 6) | 1,497 | 9,477 | 1,129 | 7,147 |
| | 81,063 | 141,443 | 61,129 | 106,661 |
| Dividends of trust profit to beneficiaries | W 72,015 | W 313,698 | \$ 54,306 | \$ 236,557 |

See accompanying notes

Non-Consolidated Statements of Cash Flows (Trust Accounts)

Years ended December 31, 2001 and 2000

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|-------------|---------------------------------------|-------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Cash flows from operating activities: | | | | |
| Loss on securities transactions, net | W 12,276 | W 46,157 | \$ 9,257 | \$ 34,807 |
| Unrealized loss on securities, net | 3,307 | 2,199 | 2,494 | 1,658 |
| Provision for possible loan and securities losses | 1,497 | 9,477 | 1,129 | 7,146 |
| Reversal of allowance for possible loan and securities losses | (1,994) | (7,835) | (1,504) | (5,908) |
| Other, net | (9,324) | (13,050) | (7,031) | (9,841) |
| Changes in operating assets and liabilities, net | (31,913) | (416,455) | (24,065) | (314,045) |
| Net cash used in operating activities | (26,151) | (379,507) | (19,720) | (286,183) |
| Cash flows from investment activities: | | | | |
| Decrease in securities | 469,054 | 1,933,780 | 353,709 | 1,458,246 |
| Decrease in loans & discounts | 144,016 | 935,166 | 108,601 | 705,200 |
| Decrease in call loans | 50,000 | 224,000 | 37,705 | 168,916 |
| Other, net | 14,459 | (27,056) | 10,903 | (20,402) |
| Net cash provided by investment activities | 677,529 | 3,065,890 | 510,918 | 2,311,960 |
| Cash flows from financing activities: | | | | |
| Decrease in money trust | (439,077) | (3,498,635) | (331,104) | (2,638,289) |
| Decrease in borrowings | (218,000) | - | (164,392) | - |
| Increase in borrowings | - | 105,578 | - | 79,615 |
| Other, net | (1,696) | 3,356 | (1,279) | 2,531 |
| Net cash used in financing activities | (658,773) | (3,389,701) | (496,775) | (2,556,143) |
| Net decrease in cash and cash equivalents | (7,395) | (703,318) | (5,577) | (530,366) |
| Cash and cash equivalents at beginning of year | 135,612 | 838,930 | 102,264 | 632,630 |
| Cash and cash equivalents at end of year | W 128,217 | W 135,612 | \$ 96,687 | \$ 102,264 |

See accompanying notes

Notes to Financial Statements (Trust Accounts)

1. Trust Accounts

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

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

P: Principal

D: Dividend

Mixed: Principal guaranteed for certain trust beneficiaries

2. Summary of Significant Accounting Policies

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

Basis of Presenting Financial Statements

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

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

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

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

Equity Securities

Listed equity securities, including those registered in secondary markets such as KOSDAQ, are valued at market value. Unlisted equity securities or securities held in the Specified Money Trust are carried at cost.

Debt Securities

Listed debt securities, for which market prices were quoted for more than 10 days a month during the consecutive 3 months prior to the period end, are valued at the closing price as of the valuation date. However, unlisted debt securities are valued at prices converted from adjustment yields supplied by the Korea Securities Dealers Association. These adjustment yields reflect remaining time, credit risk, and current interest rates. Debt securities for which adjustment yield ratios cannot be applied are valued at fair value as calculated by the Trust's valuation committee.

In accordance with Korean Trust Business Supervisory Regulations, debt securities in non-specified money trusts established prior to November 15, 1998 are recorded at cost plus accrued interest. The Trust calculates an allowance for possible losses on those debt securities, except for those issued by the Korean Government and local governments, based on the issuers' future debt service capacity using the same credit rating and provisioning model as it uses for corporate loans (See "Allowance for Possible Loan Losses" below). Provisions are determined by applying the following percentages to the various credit ratings: Normal: 0% (0.5% for the trusts for which dividends are guaranteed) or above, Precautionary: 2% or above, Substandard: 20% or above, Doubtful: 50% or above, Estimated loss: 100%.

Debt securities held in the Specified Money Trust are recorded at cost.

Beneficiary Certificates

Beneficiary certificates are valued at the standard price announced by the issuing company as of the valuation date. Beneficiary certificates in the Specified Money Trust are carried at cost.

Allowance for Possible Loan Losses

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

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

| Credit ratings | Loan classifications | Provision percentages |
|----------------|----------------------|-----------------------|
| 1 ~ 4 | Normal | 0% (*) or above |
| 5 | Precautionary | 2% or above |
| 6 | Substandard | 20% or above |
| 7 | Doubtful | 50% or above |
| 8 | Estimated loss | 100% |

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

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

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

Present Value Discounts

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

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

Due from the Bank Account

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

Recognition of Interest Income

Interest income on loans and securities is recognized on an accrual basis, while interest income on overdue and dishonored loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonored loans or securities, which is not recognized, amounted to W1,234 million and W40 million as of December 31, 2001 and 2000, respectively.

Income Taxes

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

Compensation from the Bank

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

In relation to such guarantees, the Trust is required to set up a special reserve equal to 25% of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the guaranteed rate of return, the deficiency will be recovered from previously established special reserves and trust fees paid to the Bank, and then compensated by the Bank if special reserves or previously paid fees are insufficient. During the year ended December 31, 2001, W66 million (W26,847 million as of December 31, 2000) of such deficiencies were compensated by the Bank.

Calculation of Trust Profits

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

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

Trust profits = Trust deposit balance × Average yield rate

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

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

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

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

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

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

Standard price = Net assets ÷ Total number of shares of each trust

Trust Fees to the Bank

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

Securities Investment Trusts

The Bank acts as a custodian of assets and liabilities for securities investment trusts which are managed by securities investment trust companies. The Bank receives predetermined fees from the securities investment trust companies and does not bear any risk from results of operations for those companies. According to the Korean Trust Business Supervisory Regulations, assets belonging to the securities investments trusts are excluded from the 2001 and 2000 financial statements of the Trust Accounts.

3. United States Dollars Amounts

The Trust 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. All Won amounts expressed in U.S. Dollars are at the rate of W1,326.10 : US\$1, the basic exchange rate on December 31, 2001. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

The 2000 U.S. Dollar amounts, which were previously expressed at W1,259.70 : US\$1, the rate prevailing at December 31, 2000 have been restated to reflect the exchange rate in effect at December 31, 2001.

4. Classification of Trust Accounts

Assets and liabilities of trust accounts at December 31, 2001 and 2000 are classified into principal or dividend guaranteed trusts, mixed guaranteed trusts, and non-guaranteed trusts as follows (millions of Won):

| | Principal or dividends guaranteed | Mixed guaranteed (*) | Non- guaranteed | Total |
|---|---|-------------------------|--------------------|--------------------|
| December 31, 2001 | | | | |
| Securities | W 565,604 | W 78,528 | W 586,648 | W 1,230,780 |
| Loans | 51,425 | 9,464 | 24,145 | 85,034 |
| Other assets | 20,398 | 3,069 | 20,256 | 43,723 |
| Due from the Bank Account | 57,524 | 14,852 | 55,841 | 128,217 |
| Present value discounts | (1,217) | - | - | (1,217) |
| Allowance for possible loan and securities losses | (12,269) | (4,856) | (15,362) | (32,487) |
| Total Assets | W 681,465 | W 101,057 | W 671,528 | W 1,454,050 |
| Money trust | W 383,584 | W 98,019 | W 666,034 | W 1,147,637 |
| Borrowings | 282,000 | - | - | 282,000 |
| Other liabilities | 12,539 | 1,214 | 5,494 | 19,247 |
| Reserve for future trust losses | 3,342 | 1,824 | - | 5,166 |
| Total Liabilities | W 681,465 | W 101,057 | W 671,528 | W 1,454,050 |

(*) Mixed guaranteed trusts represent trusts for which principal is guaranteed only for certain beneficiaries who entered into the trust agreements prior to April 30, 1996. House Money Trust, Business Money Trust and Reserving Objective Money Trust (Performance) are classified as mixed guaranteed trusts.

| | Principal or dividends guaranteed | Mixed guaranteed (*) | Non- guaranteed | Total |
|---|---|-------------------------|--------------------|--------------------|
| December 31, 2000 | | | | |
| Securities | W 753,884 | W 139,837 | W 814,844 | W 1,708,565 |
| Loans | 102,215 | 55,616 | 80,482 | 238,313 |
| Call loans | 20,000 | 5,000 | 25,000 | 50,000 |
| Other assets | 23,304 | 4,453 | 27,535 | 55,292 |
| Due from the Bank Account | 41,091 | 24,610 | 69,911 | 135,612 |
| Present value discounts | (1,247) | - | - | (1,247) |
| Allowance for possible loan and securities losses | (11,625) | (6,295) | (17,168) | (35,088) |
| <i>Total Assets</i> | W 927,622 | W 223,221 | W 1,000,604 | W 2,151,447 |
| Money trust | W 407,514 | W 216,751 | W 962,449 | W 1,586,714 |
| Borrowings | 500,000 | - | - | 500,000 |
| Other liabilities | 18,072 | 4,646 | 38,155 | 60,873 |
| Reserve for future trust losses | 2,036 | 1,824 | - | 3,860 |
| <i>Total Liabilities</i> | W 927,622 | W 223,221 | W 1,000,604 | W 2,151,447 |

(*) Mixed guaranteed trusts represent trusts for which principal is guaranteed only for certain beneficiaries who entered into the trust agreements prior to April 30, 1996. House Money Trust, Business Money Trust and Reserving Objective Money Trust (Performance) are classified as mixed guaranteed trusts.

5. Securities

Equity Securities

Equity securities as of December 31, 2001 are as follows (millions of Won):

| Company | Number of shares | Acquisition cost | Market value |
|--|-------------------|------------------|-----------------|
| Daewoo Engineering & Construction Co., Ltd. | 7,949,600 | W 39,748 | W 39,748 |
| Daewoo International Corporation | 1,236,800 | 6,184 | 6,184 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 415,187 | 5,422 | 5,408 |
| Ssangyong Motor Company | 1,042,000 | 5,210 | 5,210 |
| Daewoo Heavy Industries & Machinery Ltd. | 326,344 | 4,421 | 4,421 |
| Saehan Industries Inc. | 675,400 | 3,377 | 1,459 |
| Shinwon Corporation | 565,800 | 2,829 | 2,829 |
| Daewoo Electronics Co., Ltd. | 400,000 | 2,000 | 2,000 |
| Kyung Nong Corporation | 128,710 | 1,499 | 1,499 |
| The Korea Express Co., Ltd. | 50,280 | 1,337 | 1,257 |
| Chohung Leasing Corp. | 153,200 | 766 | 766 |
| Hanmi Capital Co., Ltd. | 151,800 | 759 | 759 |
| Korea Development Leasing Corp. | 117,100 | 632 | 632 |
| Ilyung Telesys Inc. | 163,153 | 394 | 394 |
| Samsung Electronics Co., Ltd. | 1,000 | 256 | 279 |
| Sepoong Corporation | 49,400 | 247 | 247 |
| LG Cable Ltd. | 16,180 | 246 | 233 |
| Samsung Heavy Industries Co., Ltd. | 55,000 | 219 | 207 |
| Daelim Industrial Co., Ltd. | 15,000 | 193 | 206 |
| Others | 106,311 | 1,128 | 1,205 |
| | 13,618,265 | W 76,867 | W 74,943 |

Equity securities as of December 31, 2000 are as follows (millions of Won):

| Company | Number of shares | Acquisition cost | Market value |
|--|------------------|------------------|-----------------|
| Daewoo Heavy Industries & Machinery Ltd. | 1,755,000 | W 23,880 | W 23,880 |
| Daewoo Heavy Industries & Machinery Ltd. Preferred | 50,000 | 571 | 571 |
| Samsung Electronics Co., Ltd. | 10,390 | 1,740 | 1,641 |
| Samsung Heavy Industries Co., Ltd. | 80,000 | 371 | 353 |
| Samsung SDI Co., Ltd. | 5,910 | 279 | 278 |
| Sepoong Corporation | 49,400 | 247 | 247 |
| Shinwon Corporation | 565,800 | 2,829 | 2,829 |
| Ssangyong Motor Company | 1,042,000 | 5,210 | 5,210 |
| Cheil Communications Inc. | 8,160 | 675 | 506 |
| Chohung Leasing Corp. | 153,200 | 766 | 766 |
| Chung Bu Leasing Corp. | 505,800 | 2,529 | 2,529 |
| Tae Young Corporation | 6,500 | 182 | 146 |
| Pohang Iron & Steel Co., Ltd. | 4,191 | 361 | 321 |
| Korea Development Leasing Corp. | 117,100 | 632 | 632 |
| Korea Telecom Corp. | 28,080 | 1,948 | 1,881 |
| Korea Electric Power Corp. | 53,884 | 1,365 | 1,272 |
| Hanmi Capital Co., Ltd. | 151,800 | 759 | 759 |
| Hyundai Motor Company | 61,890 | 799 | 749 |
| SK Telecom Co. | 5,500 | 1,479 | 1,392 |
| Others | 129,414 | 551 | 521 |
| | 4,784,019 | W 47,173 | W 46,483 |

Debt Securities

Debt securities as of December 31, 2001 are as follows (millions of Won):

| Type | Face value | Acquisition cost | Fair value |
|--------------------------------------|------------------|------------------|------------------|
| Government bonds | | | |
| Korea treasury bonds | W 60,700 | W 63,152 | W 62,494 |
| Korea housing bonds | 145,740 | 134,868 | 135,422 |
| Foreign exchange stabilization bonds | 50,000 | 55,318 | 54,536 |
| | 256,440 | 253,338 | 252,452 |
| Financial debentures | | | |
| Monetary stabilization bonds | 130,000 | 130,284 | 130,068 |
| Others | 55,993 | 53,440 | 53,417 |
| | 185,993 | 183,724 | 183,485 |
| Local government bonds | 20,165 | 18,687 | 18,726 |
| Corporate bonds | 292,323 | 292,503 | 291,842 |
| | W 754,921 | W 748,252 | W 746,505 |

Debt securities as of December 31, 2000 are as follows (millions of Won):

| Type | Face value | Acquisition cost | Fair value |
|--------------------------------------|------------|------------------|------------|
| Government bonds | | | |
| Korea treasury bonds | W 102,700 | W 102,784 | W 102,775 |
| Korea housing bonds | 19,150 | 16,773 | 16,773 |
| Korea housing bonds 1 | 45,504 | 40,684 | 40,572 |
| Korea housing bonds 2 | 708 | 471 | 471 |
| Grain bonds | 10,000 | 11,114 | 11,066 |
| Foreign exchange stabilization bonds | 11,000 | 11,630 | 11,623 |
| | 189,062 | 183,456 | 183,280 |
| Financial debentures | | | |
| Monetary stabilization bonds | 271,767 | 264,033 | 264,380 |
| KDB bonds | 27,000 | 26,819 | 26,971 |
| | 298,767 | 290,852 | 291,351 |
| Local government bonds | 15,095 | 13,750 | 13,626 |
| Corporate bonds | 254,811 | 243,427 | 242,127 |
| | W 757,735 | W 731,485 | W 730,384 |

Bills Bought

Bills bought as of December 31, 2001 and 2000 are as follows (millions of Won):

| | Face value | Acquisition cost | Fair value |
|-------------------|------------|------------------|------------|
| December 31, 2001 | | | |
| Bills issued | W 70,931 | W 70,931 | W 70,931 |
| Commercial paper | 312,444 | 312,444 | 312,444 |
| | W 383,375 | W 383,375 | W 383,375 |

| | Face value | Acquisition cost | Fair value |
|-----------------------------|------------|------------------|------------|
| December 31, 2000 | | | |
| Guaranteed commercial paper | W 34,600 | W 34,600 | W 34,600 |
| Bills issued | 85,198 | 85,198 | 85,198 |
| Commercial paper | 686,768 | 686,768 | 686,768 |
| | W 806,566 | W 806,566 | W 806,566 |

Other Securities

Other securities as of December 31, 2001 and 2000 are as follows (millions of Won):

| | Face value | Acquisition cost | Fair value |
|--|------------|------------------|------------|
| December 31, 2001 | | | |
| Beneficiary certificates of bond type trusts | W 25,884 | W 25,664 | W 25,957 |

| | Face value | Acquisition cost | Fair value |
|--|------------|------------------|------------|
| December 31, 2000 | | | |
| Beneficiary certificates of development trusts | W 5,000 | W 5,471 | W 5,481 |
| Beneficiary certificates of bond type trusts | 106,469 | 110,219 | 109,706 |
| Negotiable certificates of deposit | 10,000 | 9,834 | 9,945 |
| | W 121,469 | W 125,524 | W 125,132 |

6. Asset Classification and Allowance for Possible Loan and Securities Losses

The classification of loans and securities at December 31, 2001 and 2000 is as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | PVD | Total |
|-------------------|------------------|-----------------|-----------------|------------------|----------------|----------------|------------------|
| December 31, 2001 | | | | | | | |
| Loans | W 44,195 | W 11,388 | W 3,462 | W 23,649 | W 1,124 | W 1,216 | W 85,034 |
| Corporate bonds | 181,976 | 27,338 | 17,638 | 64,890 | - | - | 291,842 |
| Bills bought | 242,087 | - | 32,389 | 108,287 | 612 | - | 383,375 |
| | W 468,258 | W 38,726 | W 53,489 | W 196,826 | W 1,736 | W 1,216 | W 760,251 |

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | PVD | Total |
|-------------------|------------------|-----------------|------------------|------------------|----------------|----------------|--------------------|
| December 31, 2000 | | | | | | | |
| Loans | W 168,370 | W 17,350 | W 17,641 | W 30,700 | W 3,005 | W 1,247 | W 238,313 |
| Corporate bonds | 132,582 | 13,866 | 30,275 | 62,456 | 2,948 | - | 242,127 |
| Bills bought | 509,925 | 48,192 | 58,598 | 189,104 | 747 | - | 806,566 |
| | W 810,877 | W 79,408 | W 106,514 | W 282,260 | W 6,700 | W 1,247 | W 1,287,006 |

Protected assets and Specified Money Trust assets were excluded from the allowance for possible loan and securities losses. Credit losses on protected assets are guaranteed by the Korea Deposit Insurance Corporation ("KDIC") according to the Assistance Agreement between the KDIC and the Bank. Specified Money Trust assets are excluded in accordance with Korean Trust Business Supervisory Regulations. Details of protected assets and Specified Money Trust assets at December 31, 2001 and 2000 are as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | PVD | Total |
|-------------------|------------------|-----------------|-----------------|------------------|----------------|------------|------------------|
| December 31, 2001 | | | | | | | |
| Loans | W - | W 9,857 | W - | W 15,457 | W - | W - | W 25,314 |
| Corporate bonds | 35,620 | 27,338 | 17,638 | 61,512 | - | - | 142,108 |
| Bills bought | 167,025 | - | 32,389 | 94,723 | - | - | 294,137 |
| | W 202,645 | W 37,195 | W 50,027 | W 171,692 | W - | W - | W 461,559 |

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | PVD | Total |
|-------------------|------------------|-----------------|-----------------|------------------|----------------|------------|------------------|
| December 31, 2000 | | | | | | | |
| Loans | W - | W 9,857 | W - | W 22,309 | W - | W - | W 32,166 |
| Corporate bonds | 15,800 | 7,362 | 30,275 | 62,456 | 2,948 | - | 118,841 |
| Bills bought | 222,404 | 13,198 | 38,626 | 189,104 | - | - | 463,332 |
| | W 238,204 | W 30,417 | W 68,901 | W 273,869 | W 2,948 | W - | W 614,339 |

The allowance for possible loan and securities losses as of December 31, 2001 and 2000 is as follows (millions of Won):

| | Principal or dividends guaranteed | Mixed guaranteed | Non-guaranteed | Total |
|-------------------|--------------------------------------|------------------|----------------|----------|
| December 31, 2001 | | | | |
| Allowance | W 12,269 | W 4,856 | W 15,362 | W 32,487 |

| | Principal or dividends guaranteed | Mixed guaranteed | Non-guaranteed | Total |
|-------------------|--------------------------------------|------------------|----------------|----------|
| December 31, 2000 | | | | |
| Allowance | W 11,625 | W 6,295 | W 17,168 | W 35,088 |

7. Restructured Loans

Restructured loans at December 31, 2001 and 2000 are as follows (millions of Won):

| | Corporations under liquidation | Work-out | Private restructuring | Total |
|------------------------------|-----------------------------------|-----------|-----------------------|-----------|
| December 31, 2001 | | | | |
| Period | 8.2 yrs | 1 ~ 3 yrs | 2 ~ 3 yrs | |
| Balance before restructuring | W 1,505 | W 119,590 | W 16,341 | W 137,436 |
| D/E swap stock | 1,257 | 59,595 | - | 60,852 |
| D/E swap CB | - | 59,995 | - | 59,995 |
| D/E swap bond | 248 | - | - | 248 |
| Interest rate reduction | - | - | 16,341 | 16,341 |
| Balance at end of year | W 1,505 | W 117,672 | W 7,616 | W 126,793 |
| December 31, 2000 | | | | |
| Period | | 2 ~ 4 yrs | 3 ~ 4 yrs | |
| Balance before restructuring | | W 58,051 | W 15,372 | W 73,423 |
| D/E swap stock | | 8,286 | - | 8,286 |
| D/E swap CB | | 49,765 | - | 49,765 |
| D/E swap bond | | - | - | - |
| Interest rate reduction | | - | 15,372 | 15,372 |
| Balance at end of year | | W 58,051 | W 10,219 | W 68,270 |

The Trust has W8,833 million and W11,466 million of loans discounted to present value (amounting to W1,217 million and W1,247 million) due to debt restructurings as of December 31, 2001 and 2000, respectively.

Loans, which were scheduled to be converted to stock amounting to W47,091 million and W147,414 million at December 31, 2001 and 2000, respectively, were recorded at book value and not fair value based on the agreement between the Bank and KDIC.

8. Call Loans

Call loans as of December 31, 2000 (none as of December 31, 2001) consisted of the following (millions of Won):

| | Interest rate | Amount |
|---|---------------|----------|
| The Chase Manhattan Bank - Seoul Branch | 6.0% | W 50,000 |

9. Income Statement for Management of the Trust Accounts

Pro forma income statements for management of the trust accounts for the years ended December 31, 2001 and 2000, which are prepared and disclosed in accordance with the Korean Trust Business Supervisory Regulations, are as follows (millions of Won):

| | 2001 | 2000 |
|--|----------|-----------|
| Operating income | | |
| 1. Trust fees, net of subsidy for trust deficiencies | W 23,290 | W 10,508 |
| 2. Commissions received from early redemptions | 1,811 | 3,817 |
| | 25,101 | 14,325 |
| 1. Salaries & employee benefits | 5,051 | 6,262 |
| 2. Administration expenses | 5,478 | 6,993 |
| 3. Taxes & dues | 258 | 299 |
| 4. Amortization | 1,359 | 1,559 |
| 5. Provision for severance and retirement benefits | 1,063 | 1,707 |
| | 13,209 | 16,820 |
| Net income (loss) | W 11,892 | W (2,495) |

(*) Operating expenses are derived by allocating the Bank's operating expenses to the Trust according to activity of the Trust, which is based on amount of each account and number of transactions of the Trust.

10. Korean Economy

Beginning in 1997, the Republic of 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 experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing consolidations and uncertainty exists with regard to the continued availability of financing. The Trust may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Trust. Actual results may differ materially from management's current assessment.

Independent Auditors' Report



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The Board of Directors and Shareholders of Korea First Bank

We have audited the accompanying consolidated balance sheets of Korea First Bank and subsidiaries (the "Bank") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in capital surplus and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea First Bank and subsidiaries at December 31, 2001 and 2000, and the consolidated results of its operations, changes in capital surplus and retained earnings, and cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The preparation of consolidated financial statements for the Bank in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Without qualifying our opinion, we draw attention to Note 16 of the consolidated financial statements. As discussed in Note 16, certain assumptions were made regarding the resolution of disagreements that have arisen as to the interpretation of agreements negotiated between the Bank and the Korea Deposit Insurance Corporation. These differences will be resolved through negotiations or legal proceedings and the outcome of those agreements may be different from assumptions used by management, which could materially impact the Bank's future financial results.

Without qualifying our opinion, we draw attention to Note 24 of the 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. The ultimate effect of these uncertainties on the consolidated 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.

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

February 21, 2002

Consolidated Balance Sheets

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|-------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| <i>Assets</i> | | | | |
| Cash & due from banks (Note 5) | W 2,343,592 | W 1,732,341 | \$ 1,767,281 | \$ 1,306,343 |
| Investment securities (Note 6) | 1,891,546 | 1,168,919 | 1,426,398 | 881,471 |
| KDIC bonds (Notes 4 and 6) | 4,483,076 | 5,947,076 | 3,380,647 | 4,484,636 |
| Trust securities | 448,549 | 415,674 | 338,247 | 313,456 |
| Loans (Note 7) | 16,003,781 | 14,961,904 | 12,068,306 | 11,282,636 |
| Present value discounts for loans | (11,414) | (19,516) | (8,607) | (14,717) |
| Allowance for possible loan losses (Note 7) | (763,354) | (806,653) | (575,638) | (608,290) |
| | 15,229,013 | 14,135,735 | 11,484,061 | 10,659,629 |
| Receivable from KDIC (Note 4) | 379,218 | 432,072 | 285,965 | 325,822 |
| Fixed assets (Note 8) | 1,177,608 | 1,103,902 | 888,023 | 832,443 |
| Other assets (Note 9) | 949,921 | 984,186 | 716,327 | 742,166 |
| Total assets | W26,902,523 | W25,919,905 | \$20,286,949 | \$19,545,966 |
| <i>Liabilities and Shareholders' Equity</i> | | | | |
| Deposits (Note 10) | W18,252,726 | W17,391,793 | \$13,764,215 | \$13,114,994 |
| Borrowings (Note 11) | 3,934,445 | 4,974,072 | 2,966,929 | 3,750,903 |
| Financial debentures (Note 12) | 598,293 | 485,010 | 451,167 | 365,742 |
| Accrued severance and retirement benefits (Note 13) | 4,361 | 176,490 | 3,289 | 133,089 |
| Other liabilities (Note 15) | 2,581,001 | 1,585,471 | 1,946,310 | 1,195,589 |
| Total liabilities | 25,370,826 | 24,612,836 | 19,131,910 | 18,560,317 |
| Commitments and contingencies (Note 16) | | | | |
| <i>Shareholders' equity</i> | | | | |
| Common stock (Note 17) | 980,584 | 980,584 | 739,450 | 739,450 |
| Capital surplus | 4,831 | 5,039 | 3,643 | 3,800 |
| Retained earnings (Note 18) | 530,502 | 307,459 | 400,047 | 231,852 |
| Capital adjustments | 15,780 | 13,987 | 11,899 | 10,547 |
| Total shareholders' equity | 1,531,697 | 1,307,069 | 1,155,039 | 985,649 |
| Total liabilities and shareholders' equity | W26,902,523 | W25,919,905 | \$20,286,949 | \$19,545,966 |

See accompanying notes

Years ended December 31, 2001 and 2000

Consolidated Statements of Income

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|-------------|---------------------------------------|------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Interest income | | | | |
| Loans | W 1,192,364 | W 1,292,383 | \$ 899,151 | \$ 974,574 |
| Trading securities | - | 18,038 | - | 13,602 |
| Investment securities | 124,515 | 112,014 | 93,896 | 84,469 |
| KDIC bonds | 336,901 | 438,956 | 254,054 | 331,013 |
| Trust securities | 33,538 | 43,549 | 25,291 | 32,840 |
| Due from banks | 18,338 | 28,295 | 13,828 | 21,337 |
| Other | 1,974 | 54,360 | 1,488 | 40,992 |
| | 1,707,630 | 1,987,595 | 1,287,708 | 1,498,827 |
| Interest expense | | | | |
| Deposits | 794,037 | 1,087,728 | 598,776 | 820,246 |
| Borrowings | 314,128 | 328,854 | 236,881 | 247,986 |
| Financial debentures | 30,583 | 35,733 | 23,063 | 26,946 |
| Other | 29,730 | 15,791 | 22,419 | 11,907 |
| | 1,168,478 | 1,468,106 | 881,139 | 1,107,085 |
| Net interest income before provision | 539,152 | 519,489 | 406,569 | 391,742 |
| Provision for loan and other losses | 81,490 | 50,793 | 61,451 | 38,303 |
| Net interest income after provision | 457,662 | 468,696 | 345,118 | 353,439 |
| Fees, commissions, other revenue (expense), net | | | | |
| Banking fees | 82,502 | 65,122 | 62,214 | 49,108 |
| Card fees | 142,814 | 116,255 | 107,695 | 87,667 |
| Trust account | 14,390 | 24,848 | 10,851 | 18,737 |
| Securities | (236) | 2,667 | (178) | 2,011 |
| Foreign exchange | 32,748 | 42,370 | 24,695 | 31,951 |
| Other | (666) | (801) | (502) | (604) |
| | 271,552 | 250,461 | 204,775 | 188,870 |
| Operating expense | | | | |
| Staff cost | 310,530 | 278,016 | 234,168 | 209,649 |
| Administration expense | 165,153 | 121,758 | 124,540 | 91,817 |
| Depreciation and other | 98,525 | 85,367 | 74,297 | 64,374 |
| | 574,208 | 485,141 | 433,005 | 365,840 |
| Operating income | 155,006 | 234,016 | 116,888 | 176,469 |
| Non-operating revenue | 25,581 | 53,524 | 19,291 | 40,362 |
| Non-operating expense | 56,589 | 37,790 | 42,673 | 28,497 |
| Net non-operating income (loss) | (31,008) | 15,734 | (23,382) | 11,865 |
| Income before taxes | 123,998 | 249,750 | 93,506 | 188,334 |
| Income tax benefit (Note 19) | (100,096) | (56,650) | (75,481) | (42,719) |
| Consolidated net income | W 224,094 | W 306,400 | \$ 168,987 | \$ 231,053 |
| Ordinary earnings per share (Note 20) | W 1,143 | W 1,369 | \$ 0.86 | \$ 1.03 |
| Net earnings per share (Note 20) | W 1,143 | W 1,562 | \$ 0.86 | \$ 1.18 |

See accompanying notes

Consolidated Statement of Changes in Capital Surplus and Retained Earnings

Year ended December 31, 2001

| | Capital stock | Capital surplus | Retained earnings | Capital adjustment | Total |
|--|------------------|--------------------|----------------------|-----------------------|--------------------|
| (In Millions of Korean Won) | | | | | |
| Beginning balances at January 1, 2001 | W 980,584 | W 5,039 | W 307,459 | W 13,987 | W 1,307,069 |
| Consolidated net income | - | - | 224,094 | - | 224,094 |
| Increase in other reserves | - | - | 1,306 | - | 1,306 |
| Equity in retained earnings of affiliates | - | - | 9 | - | 9 |
| Amortization of discounts on stock issuance | - | - | (1,124) | 1,124 | - |
| Gain on valuation of investment securities | - | - | - | 669 | 669 |
| Decrease due to foreign currency translation | - | (208) | (1,242) | - | (1,450) |
| Ending balances at December 31, 2001 | W 980,584 | W 4,831 | W 530,502 | W 15,780 | W 1,531,697 |

(In Thousands of U.S. Dollars, see Note 3)

| | | | | | |
|--|-------------------|-----------------|-------------------|------------------|---------------------|
| Beginning balances at January 1, 2001 | \$ 739,450 | \$ 3,800 | \$ 231,852 | \$ 10,547 | \$ 985,649 |
| Consolidated net income | - | - | 168,987 | - | 168,987 |
| Increase in other reserves | - | - | 985 | - | 985 |
| Equity in retained earnings of affiliates | - | - | 8 | - | 8 |
| Amortization of discounts on stock issuance | - | - | (848) | 848 | - |
| Gain on valuation of investment securities | - | - | - | 504 | 504 |
| Decrease due to foreign currency translation | - | (157) | (937) | - | (1,094) |
| Ending balances at December 31, 2001 | \$ 739,450 | \$ 3,643 | \$ 400,047 | \$ 11,899 | \$ 1,155,039 |

See accompanying notes

Consolidated Statement of Changes in Capital Surplus and Retained Earnings

Year ended December 31, 2000

| | Capital stock | Capital surplus | Retained earnings | Capital adjustment | Total |
|--|------------------|--------------------|----------------------|-----------------------|--------------------|
| (In Millions of Korean Won) | | | | | |
| Beginning balances at January 1, 2000 | W 980,584 | W 4,582 | W - | W (4,582) | W 980,584 |
| Consolidated net income | - | - | 306,400 | - | 306,400 |
| Increase in other reserves | - | - | 3,605 | - | 3,605 |
| Equity in retained earnings of affiliates | - | - | (15) | - | (15) |
| Amortization of discounts on stock issuance | - | - | (2,531) | 2,531 | - |
| Gain on valuation of investment securities | - | - | - | 16,038 | 16,038 |
| Increase due to foreign currency translation | - | 457 | - | - | 457 |
| Ending balances at December 31, 2000 | W 980,584 | W 5,039 | W 307,459 | W 13,987 | W 1,307,069 |

(In Thousands of U.S. Dollars, see Note 3)

| | | | | | |
|--|-------------------|-----------------|-------------------|------------------|-------------------|
| Beginning balances at January 1, 2000 | \$ 739,450 | \$ 3,455 | \$ - | \$ (3,455) | \$ 739,450 |
| Consolidated net income | - | - | 231,053 | - | 231,053 |
| Increase in other reserves | - | - | 2,718 | - | 2,718 |
| Equity in retained earnings of affiliates | - | - | (11) | - | (11) |
| Amortization of discounts on stock issuance | - | - | (1,908) | 1,908 | - |
| Gain on valuation of investment securities | - | - | - | 12,094 | 12,094 |
| Increase due to foreign currency translation | - | 345 | - | - | 345 |
| Ending balances at December 31, 2000 | \$ 739,450 | \$ 3,800 | \$ 231,852 | \$ 10,547 | \$ 985,649 |

See accompanying notes

Consolidated Statements of Cash Flows

| | 2001 | 2000 | 2001 | 2000 |
|---|---------------------------|-------------|---------------------------------------|-------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| <i>Cash flows from operating activities:</i> | | | | |
| Consolidated net income | W 224,094 | W 306,400 | \$ 168,987 | \$ 231,053 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Provision for loan and other losses | 81,490 | 50,793 | 61,451 | 38,303 |
| Depreciation | 50,064 | 39,131 | 37,753 | 29,508 |
| Provision for severance and retirement benefits | 38,781 | 41,141 | 29,244 | 31,024 |
| Loss on impairment of investment securities | 20,511 | - | 15,467 | - |
| Interest on KDIC receivables | (42,674) | (31,207) | (32,180) | (23,533) |
| Other, net | 7,120 | (39,506) | 5,369 | (29,791) |
| Changes in operating assets and liabilities, net | (81,147) | (430,739) | (61,192) | (324,816) |
| Net cash provided by (used in) operating activities | 298,239 | (63,987) | 224,899 | (48,252) |
| <i>Cash flows from investing activities:</i> | | | | |
| Due from banks | (982,594) | 306,172 | (740,965) | 230,882 |
| Securities | (663,063) | 1,587,322 | (500,010) | 1,196,985 |
| KDIC bonds | 1,464,000 | - | 1,103,989 | - |
| Loans (*) | (1,169,199) | (130,041) | (881,682) | (98,063) |
| Acquisition of fixed assets | (125,217) | (40,968) | (94,425) | (30,894) |
| Other, net | 62,860 | 553,468 | 47,402 | 417,366 |
| Net cash provided by (used in) investing activities | (1,413,213) | 2,275,953 | (1,065,691) | 1,716,276 |
| <i>Cash flows from financing activities:</i> | | | | |
| Deposits | 860,933 | (825,369) | 649,221 | (622,403) |
| Borrowings | (1,039,627) | (1,255,348) | (783,974) | (946,647) |
| Financial debentures | 100,000 | (66,010) | 75,409 | (49,778) |
| Borrowing from trust account | 132,960 | (89,038) | 100,264 | (67,143) |
| Domestic exchange obligation payable | 808,785 | (307,021) | 609,897 | (231,522) |
| Other, net | 34,334 | 12,926 | 25,893 | 9,748 |
| Net cash provided by (used in) financing activities | 897,385 | (2,529,860) | 676,710 | (1,907,745) |
| Net decrease in cash and cash equivalents | (217,589) | (317,894) | (164,082) | (239,721) |
| Cash and cash equivalents at beginning of year | 1,301,142 | 1,619,036 | 981,179 | 1,220,900 |
| Cash and cash equivalents at end of year (Note 5) | W1,083,553 | W1,301,142 | \$ 817,097 | \$ 981,179 |

(*) Net of amounts transferred to KDIC of W302,410 million and W3,145,396 million for the years ended December 31, 2001 and 2000, respectively.

See accompanying notes

Notes to Consolidated Financial Statements

1. Organization and Business

Korea First Bank ("the Bank") was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 391 local branches and 4 overseas networks as of December 31, 2001.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. However, in connection with recapitalization by the Korea Deposit Insurance Corporation ("KDIC") in July 1999, the Bank's shares were suspended from trading on the Korean Stock Exchange. The par value of the Bank's common stock outstanding at December 31, 2001 is W981 billion.

As of December 31, 2001, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the KDIC on December 30, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 4. As of December 31, 2001, the KDIC and Ministry of Finance and Economy own 45.92% and 3.09%, respectively, of the Bank's common stock.

2. Summary of Significant Accounting Policies

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

Basis of Presenting Consolidated Financial Statements

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

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

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

Cash and cash equivalents include time deposits with a maturity of 3 months or less but exclude deposits restricted in use (see Note 5).

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

Scope of Consolidation

The accompanying consolidated financial statements include the banking accounts and certain trust accounts (money trusts which are subject to a guaranteed principal repayment or a fixed rate of return) of the Bank and its controlled subsidiary. General information describing the Bank's controlled subsidiary and equity-method investees are provided below.

A summary of the Bank's controlled subsidiary as of December 31, 2001 is as follows:

| Subsidiaries | Number of invested shares | Percentage of ownership |
|-------------------------------------|---------------------------|-------------------------|
| Korea First Finance Ltd., Hong Kong | 7,000 | 100.00 |

Korea First Finance Ltd., Hong Kong ("KFF") was established on May 23, 1980. KFF is engaged in banking according to the provision of the local general banking act. KFF's common stock outstanding at December 31, 2001 is US\$7 million.

A summary of the Bank's equity-method investees as of December 31, 2001 is as follows:

| Subsidiaries | Number of invested shares | Percentage of ownership |
|-----------------------------------|---------------------------|-------------------------|
| Qingdao International Bank | Limited company | 50.00 |
| Korea First Data System Co., Ltd. | 400,000 | 100.00 (*) |

(*) The equity-method is applied since total assets are less than W7 billion.

Qingdao International Bank, in Qingdao China, is engaged in banking according to the provisions of the local general banking act. Qingdao International Bank's total equity outstanding at December 31, 2001 is US\$20 million.

Korea First Data System Co., Ltd was established in May 1, 1990 for the purpose of offering services and developing computer software. Korea First Data System Co., Ltd.'s total common stock outstanding at December 31, 2001 is W2 billion.

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

Accounting Standards for Consolidated Financial Statements

Inter-company transactions and balances

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

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

Translation of foreign subsidiary financial statements

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

Accounting for trust accounts

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

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

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2001 and 2000. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

Recognition of Interest and Fee Income

Interest income on loans and investments, including those guaranteed by the KDIC (see Note 4), is recognized on an accrual basis, while interest income on other overdue and dishonored loans, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Loan fees and certain direct origination costs are recognized when received or paid.

Equity-method Investees

Investments in 20% to 50% owned companies (except for consolidated companies) are recorded using the equity method of accounting.

The Bank records changes in its proportionate ownership of the net book value of the investee as current operations, capital adjustments and or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Equity Securities

Marketable equity securities held for short-term capital gain purposes are classified as trading securities. Other equity securities are classified as investment securities.

Equity securities held for trading are carried at fair value at the balance sheet date. Unrealized gains and losses on trading securities are included in current operations.

Marketable equity securities of non-controlled investees held for investment are carried at fair value. Temporary changes in fair value are accounted for as a capital adjustment, a component of shareholders' 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 or other future changes in fair value are recorded in the capital adjustment account.

Non-marketable equity securities of non-controlled investees held for investment are carried at cost, except for declines in the Bank's proportionate ownership of the underlying book value of the investee that 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.

Debt Securities

Debt securities are classified as trading or investment securities. Investment debt securities are further classified as available-for-sale or held-to-maturity. The cost of debt securities includes the premium paid or discount received at the time of purchase. Debt securities held for trading are stated at fair value with gains and losses recorded in income.

Available-for-sale debt securities are stated 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 or other future changes in fair value are recorded in the capital adjustment account.

Investments 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 (amortized cost) using the effective interest method. Declines in the fair value of debt securities that are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Allowance for Possible Loan Losses

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

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

| Credit ratings | Loan classifications | Minimum provision percentages |
|----------------|----------------------|-------------------------------|
| 1 - 4 | Normal | 0.5% or above |
| 5 | Precautionary | 2% or above |
| 6 | Substandard | 20% or above |
| 7 | Doubtful | 50% or above |
| 8 | Estimated loss | 100% |

For household and credit card loans, the Bank calculated the allowance for possible loan losses by applying the above minimum provision percentages to loans based on the applicable credit ratings, which are determined based on the number of delinquent periods, value of collateral, and reasonably estimated collectability, through the fiscal year 2000. However, for fiscal year 2001, the Bank determines loss percentages using a historical migration loss model. The resulting loss percentage calculated by the historical migration loss model is compared

to the above minimum provision percentages and the Bank records a provision based on the higher percentage of the two methods. As a result, the allowance for household and credit card loans was increased by W9,348 million in 2001.

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

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

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

Present Value Discounts

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

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

Fixed Assets

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

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

| | Estimated useful lives |
|------------------|------------------------|
| Buildings | 4 ~ 60 years |
| Structures | 5 years |
| Movable property | 3 ~ 20 years |

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

New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from capital adjustments and the amounts of debenture issuance, respectively. New stock issuance costs are amortized as an appropriation of retained earnings over 3 years. Debenture issuance costs are amortized as interest expense over the redemption period using the straight-line method.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2001 and 2000 is sufficient to state the liability under the Korean Labor Standards Law and the Bank's policies at the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2001 and 2000. Funding of this liability is not required by Korean law. Actual payments of severance and retirement benefits for the year ended December 31, 2001 were W59,102 million.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W153,754 million at December 31, 2001. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2001, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

Reserve for Acceptances and Guarantees

Pursuant to the revised financial accounting standards, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides a minimum allowance percentage on confirmed guarantees of 0.5% for companies classified as "normal", 2% for "precautionary", 20% for "substandard," 50% for "doubtful" and 100% for "estimated loss." Refer to Note 4 for discussion of guarantees protected by the KDIC.

Income Tax Expense

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

The Bank has tax basis net operating loss carryforwards of approximately W4,736 billion as of December 31, 2001.

Derivative Financial Instruments

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

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

All derivative financial instruments as of December 31, 2001 and 2000 were accounted for as trading transactions.

Contingent liabilities

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

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. All Won amounts expressed in U.S. Dollars are at the rate of W1,326.10 : US\$1, the basic exchange rate on December 31, 2001. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

The 2000 U.S. Dollar amounts, which were previously expressed at W1,259.70 : US\$1, the rate prevailing at December 31, 2000 have been restated to reflect the exchange rate in effect at December 31, 2001.

4. Government Assistance

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

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

Depending on the type and circumstances of the particular Remaining Loan, these protections may take the form of: (i) the Bank's right to transfer the Remaining Loan to the Resolution Finance Corporation ("RFC"), the entity designated by the KDIC, and obtain payment from the KDIC equal to the adjusted book value, or (ii) the Bank's right to obtain payment from the KDIC for certain specific allowances which the Bank determines to take against the Remaining Loan. Certain guarantees and commitments of the Bank are also subject to credit protection.

The periods of credit protection provided by the KDIC vary depending on the type of asset involved. The protection periods are generally (i) through December 31, 2002 for Remaining Loans that were or had been subject to certain workout procedures under the "Agreement among Financial Institutions for the Promotion of Corporate Restructuring" dated June 25, 1998 as of Closing, (ii) through December 31, 2002 for Remaining Loans to certain financial institutions, and (iii) through December 31, 2001 for other Remaining Loans. The protection period for commitments range from one to three years, depending on the type of commitment involved. Certain actions will cause loans to lose their protection and, in general, loans originated after December 31, 1999 have no protection. Loans with an outstanding principal balance totaling W13,651 billion and commitments and guarantees amounting to W488 billion are considered by the Bank to have no protection as of December 31, 2001, respectively.

In general, the types of protection available depends on whether the Remaining Loan is (i) one of certain specified Remaining Loans to the Daewoo group chaebol, (ii) one of specified Remaining Loans to borrowers subject to workout procedures and classified as substandard or below as of Closing, or one of specified Remaining Loans that as of Closing were or had been the subject of certain private restructuring arrangements, or (iii) any other Remaining Loan.

In addition, the KDIC guarantees the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio, until each such security matures, is sold, or is otherwise liquidated by the Bank. In general, the guaranteed rate is the annualized weighted average interest rate applied by the Bank to its deposits and other interest bearing liabilities shown on the Bank's consolidated balance sheet, plus 106 basis points. As of December 31, 2001, fixed income securities, primarily government bonds, with an outstanding principal balance totaling W1,320 billion have no principal or yield guarantee.

Except to the extent that it is permitted to pay in cash, the KDIC has and will in the future pay for its obligations by issuing one or more notes that have an initial maturity of three years and a declining interest rate based on a spread over specified liabilities of the Bank.

Receivables from the KDIC at December 31, 2001 and 2000 are W379,218 million and W432,072 million, respectively. Receivables are primarily for reserves, settlement of asset transfers, and other settlements.

5. Cash and Due from Banks

Cash and due from banks at December 31, 2001 and 2000 are summarized as follows (millions of Korean Won):

| | 2001 | 2000 |
|--------------------------------------|-------------------|-------------------|
| Cash on hand | W1,019,331 | W1,211,400 |
| Foreign currencies | 30,337 | 28,086 |
| Due from banks in Korean Won | 1,233,992 | 419,904 |
| Due from banks in foreign currencies | 59,932 | 72,951 |
| | W2,343,592 | W1,732,341 |

Due from banks denominated in Korean Won at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------------------|-------------------|------------------------------|--------------------|
| December 31, 2001 | | | |
| Checking accounts | - | Bank of Korea | W 1,231,971 |
| Other deposits | 0.00 ~ 8.10 | Hanvit Bank, etc. | 2,021 |
| | | | W 1,233,992 |
| December 31, 2000 | | | |
| Checking accounts | - | Bank of Korea | W 173,927 |
| Employee's retirement deposit | 7.50 | Samsung Life Insurance, etc. | 163,350 |
| Other deposits | 0.00 ~ 8.10 | Hanvit Bank, etc. | 82,627 |
| | | | W 419,904 |

Due from banks denominated in foreign currencies at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------|-------------------|----------------------------|-----------------|
| December 31, 2001 | | | |
| Demand deposits | - | Bank of Korea and others | W 59,604 |
| Other deposits | Sibid ~ 1.75 | HSBC Futures and others | 328 |
| | | | W 59,932 |
| December 31, 2000 | | | |
| Demand deposits | - | Bank of Korea and others | W 54,446 |
| Time deposits | 0.00 ~ 6.94 | Qingdao International Bank | 9,006 |
| Other deposits | 0.00 ~ 6.45 | HSBC Futures and others | 9,499 |
| | | | W 72,951 |

W42,830 million of due from banks in foreign currencies at December 31, 2000 was reclassified to loans in foreign currencies to conform to the current year's presentation.

Restricted balances in due from banks at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Type | Depository | Total | Restriction |
|-------------------------------|------------------------------|-------------------|--|
| December 31, 2001 | | | |
| Checking accounts | Bank of Korea | W1,231,971 | Reserve for payment of deposits |
| Demand deposits | Bank of Korea | 25,790 | Reserve for payment of deposits |
| Time deposits | Hanvit Bank | 1,722 | Escrow accounts |
| Other deposits | HSBC Futures, etc. | 556 | Deposits for Stock Index Futures, etc. |
| | | <u>W1,260,039</u> | |
| December 31, 2000 | | | |
| Checking accounts | Bank of Korea | W 173,927 | Reserve for payment of deposits |
| Demand deposits | Bank of Korea | 10,728 | Reserve for payment of deposits |
| Time deposits | Hanvit Bank | 8,036 | Escrow accounts |
| Employee's retirement deposit | Samsung Life Insurance, etc. | 163,350 | Group severance deposits |
| Other deposits | Kyobo Life Insurance, etc. | 74,250 | Deposits for the subordinated borrowings |
| | HSBC Futures, etc. | 908 | Deposits for Stock Index Futures, etc. |
| | | <u>W 431,199</u> | |

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

The term structure of amounts due from banks at December 31, 2001 is as follows (millions of Won):

| Year ending December 31, | Due from banks in Korean Won | Due from banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|-------------|
| 2002 | W 1,233,992 | W 59,932 | W 1,293,924 |

The term structure of amounts due from banks at December 31, 2000 is as follows (millions of Won):

| Year ending December 31, | Due from banks in Korean Won | Due from banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|------------------|
| 2001 | W 180,582 | W 72,951 | W 253,533 |
| 2002 | 46,272 | - | 46,272 |
| After 2005 | 193,050 | - | 193,050 |
| | <u>W 419,904</u> | <u>W 72,951</u> | <u>W 492,855</u> |

Major transactions not resulting in cash flows for the years ended December 31, 2001 and 2000 are as follows (millions of Won):

| | 2001 | 2000 |
|--|----------|---------|
| Transfer of deposits for group severance and retirement benefits | W153,754 | W - |
| Bonds issued in exchange for KDIC bonds | - | 91,076 |
| Loss reserve - KDIC Receivable | 111,415 | 366,131 |
| Present value discount - KDIC Receivable | 524 | 9,149 |
| Loans in Won currency converted to equity | 64,351 | - |
| Loans in Trust converted to equity | 47,990 | - |

Cash and cash equivalents at December 31, 2001 and 2000 are comprised as follows (millions of Won):

| | 2001 | 2000 |
|------------------------------------|------------|------------|
| Cash on hand | W1,019,331 | W1,211,400 |
| Foreign currencies | 30,337 | 28,086 |
| Due from banks in Won | 71 | 59 |
| Due from banks in foreign currency | 33,814 | 61,597 |
| | W1,083,553 | W1,301,142 |

6. Investment Securities

Investment securities at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|---|-------------|-------------|
| Equity securities held for investment | | |
| Korean Won | | |
| Affiliated companies | W 4,654 | W 4,264 |
| Listed companies | 104,906 | 36,574 |
| Unlisted companies | 13,340 | 62,830 |
| | 122,900 | 103,668 |
| Foreign currency - affiliated companies | 10,794 | 10,184 |
| | 133,694 | 113,852 |
| Debt securities held for investment | | |
| Bonds available-for-sale | | |
| Korean Won | 1,312,260 | 650,031 |
| Foreign currencies | 82,232 | 58,238 |
| | 1,394,492 | 708,269 |
| Bonds held-to-maturity | | |
| Korean Won | 4,747,129 | 6,213,342 |
| Foreign currencies | 99,307 | 80,532 |
| | 4,846,436 | 6,293,874 |
| Total investment securities | 1,891,546 | 1,168,919 |
| KDIC bonds held-to-maturity | 4,483,076 | 5,947,076 |
| | W 6,374,622 | W 7,115,995 |

Equity Securities Held for Investment

Equity investments in affiliated companies denominated in Korean Won as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value |
|-----------------------------------|------------------|---------------|------------------|-----------------|------------|
| December 31, 2001 | | | | | |
| Korea First Data System Co., Ltd. | 400,000 | 100.00 | W 2,000 | W 4,654 | W 4,654 |
| December 31, 2000 | | | | | |
| Korea First Data System Co., Ltd. | 400,000 | 100.00 | W 2,000 | W 4,264 | W 4,264 |

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. In 2001, W470 million of gains from affiliated companies are included in current operations, and a W9 million increase in retained earnings is credited to the opening balance of unappropriated retained earnings. In 2000, W168 million of gains from affiliated companies are included in current operations, and a W15 million decrease in retained earnings is debited to the opening balance of accumulated deficit. The Bank received W89 million and W160 million of dividends in 2001 and 2000, respectively.

The Bank sold its investment in First Citicorp Leasing for W27,600 million on October 26, 2000 and recorded a gain of W1,749 million and accrued equity income of W4,608 million, which is included in other income.

Equity securities of listed companies denominated in Korean Won as of December 31, 2001 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|--|-------------------|---------------|------------------|
| Korea Development Leasing Corp. | 2,491,010 | 9.69 | W 12,502 |
| Daewoo Electronics Co., Ltd. | 2,288,571 | 2.55 | 15,900 |
| Daewoo Heavy Industries & Machinery Ltd. | 1,583,479 | 0.94 | 7,917 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. | 1,380,239 | 0.70 | 14,865 |
| Ssang Yong Motor | 1,000,000 | 2.63 | 5,000 |
| Dong Yang Steel Pipe Co., Ltd. | 910,390 | 1.44 | 5,462 |
| Hanmi Capital Co., Ltd. | 631,400 | 1.71 | 3,157 |
| Chohung Capital | 509,800 | 1.73 | 2,549 |
| ETRONICS | 296,420 | 0.46 | 2,075 |
| Shin Won Co. | 296,400 | 0.18 | 1,482 |
| Maxon Telecom Co. | 285,441 | 0.55 | 28,069 |
| Keangnam Enterprises Co., Ltd. | 200,753 | 0.76 | 1,512 |
| Anam Semiconductor Corp. | 136,250 | 0.12 | 1,090 |
| Haitai Store Co., Ltd. | 103,140 | 1.48 | 3,094 |
| Sepoong Corp. | 36,600 | 0.21 | 183 |
| The Korea Express Co., Ltd. | 1,960 | 0.03 | 49 |
| | 12,151,853 | | W 104,906 |

All listed investment securities, totalling W104,906 million, were received when outstanding loans were converted to equity in connection with a workout or private restructuring. These securities are scheduled to be transferred to the KDIC and are stated at their loan book value prior to conversion.

Equity securities of listed companies denominated in Korean Won as of December 31, 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|---------------------------------|------------------|---------------|----------------|
| Korea Development Leasing Corp. | 2,491,010 | 9.76 | W12,502 |
| Maxon Telecom Co. | 1,382,800 | 3.15 | 6,914 |
| Ssang Yong Motor | 1,000,000 | 2.63 | 5,000 |
| Hanmi Capital Co., Ltd. | 631,400 | 1.71 | 3,157 |
| Chohung Capital | 509,800 | 1.73 | 2,549 |
| ETRONICS | 407,140 | 0.63 | 2,850 |
| Shin Won Co. | 296,400 | 0.24 | 1,482 |
| Keangnam Enterprises Co., Ltd. | 169,400 | 0.61 | 847 |
| Anam Semiconductor Corp. | 136,250 | 0.12 | 1,090 |
| Sepoong Corp. | 36,600 | 0.21 | 183 |
| | 7,060,800 | | W36,574 |

Unlisted equity securities denominated in Korean Won as of December 31, 2001 and 2000 are as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value |
|--|------------------|---------------|------------------|-----------------|-----------------|
| December 31, 2001 | | | | | |
| Korea Securities Finance Corporation | 1,500,000 | 2.21 | W 7,500 | W 11,088 | W 7,500 |
| BC Card | 653,400 | 14.85 | 5,840 | 19,545 | 5,840 |
| | <u>2,153,400</u> | | <u>W 13,340</u> | <u>W 30,633</u> | <u>W 13,340</u> |
| December 31, 2000 | | | | | |
| Daewoo Heavy Industries & Machinery Ltd. (*) | 4,525,386 | 2.72 | W 31,032 | W - | W 31,032 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. (*) | 1,713,804 | 0.86 | 18,458 | - | 18,458 |
| Korea Securities Finance Corporation | 1,500,000 | 2.21 | 7,500 | 9,687 | 7,500 |
| BC Card | 653,400 | 14.85 | 5,840 | 13,724 | 5,840 |
| | <u>8,392,590</u> | | <u>W 62,830</u> | <u>W 23,411</u> | <u>W 62,830</u> |

(*) Loans converted to equity in connection with a workout or private restructuring.

Equity securities denominated in foreign currencies at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Company | Ownership (%) | Acquisition cost | Equity method | Net asset value | Book value |
|----------------------------|---------------|------------------|---------------|-----------------|------------|
| December 31, 2001 | | | | | |
| Qingdao International Bank | 50.00 | W13,261 | W10,794 | W10,794 | W10,794 |
| December 31, 2000 | | | | | |
| Qingdao International Bank | 50.00 | W12,597 | W10,184 | W10,184 | W10,184 |

Equity securities in foreign currency are valued by the equity method. W73 million and W107 million of gains from affiliated companies are included in current operations as of December 31, 2001 and 2000, respectively.

Debt Securities Held for Investment

Bonds available-for-sale denominated in Korean Won as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Amortized cost | Impairment | Capital adjustment | Carrying value (*) |
|--------------------------|-------------------|-------------------|-------------------|-------------------|------------------|--------------------|--------------------|
| December 31, 2001 | | | | | | | |
| Government bonds | 5.00 ~ 11.49 | W 862,243 | W 880,827 | W 872,412 | W - | W 7,320 | W 879,732 |
| Beneficiary certificates | - | 30,070 | 30,070 | 30,070 | - | - | 30,070 |
| Financial debentures | 5.05 ~ 7.80 | 200,000 | 198,078 | 196,302 | - | 105 | 196,407 |
| Corporate debentures | 1.00 ~ 11.50 | 228,007 | 240,420 | 224,646 | (20,511) | 1,916 | 206,051 |
| | | <u>W1,320,320</u> | <u>W1,349,395</u> | <u>W1,323,430</u> | <u>W(20,511)</u> | <u>W 9,341</u> | <u>W1,312,260</u> |
| December 31, 2000 | | | | | | | |
| Government bonds | 5.00 ~ 12.49 | W 428,371 | W 417,868 | W 420,443 | W - | W23,416 | W 443,859 |
| Beneficiary certificates | - | 58,131 | 58,131 | 58,131 | - | - | 58,131 |
| Financial debentures | 6.39 ~ 7.45 | 135,000 | 131,763 | 131,470 | - | 2,139 | 133,609 |
| Corporate debentures | 1.00 ~ 8.35 | 16,976 | 14,432 | 14,432 | - | - | 14,432 |
| | | <u>W 638,478</u> | <u>W 622,194</u> | <u>W 624,476</u> | <u>W -</u> | <u>W25,555</u> | <u>W 650,031</u> |

(*) The above carrying values are estimated using the base yield of bonds announced by the Korea Securities Dealers Association at December 31, 2001 and 2000.

Bonds available-for-sale are stated at their market value. For the years ended December 31, 2001 and 2000, W9,341 million and W25,555 million of unrealized gains were recorded in the capital adjustments account, respectively. Beneficiary certificates were reclassified from trading securities to investment securities from July 1, 2000.

Bonds available-for-sale denominated in foreign currencies at December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|------------|------------------|----------------|
| December 31, 2001 | | | | |
| USD | 3.36 ~ 7.57 | W82,395 | W82,114 | W82,232 |
| December 31, 2000 | | | | |
| USD | 7.02 | W51,449 | W51,167 | W50,107 |
| MYR | - | 7,991 | 4,201 | 4,224 |
| JPY | 1.40 | 3,574 | 3,574 | 3,580 |
| IDR | 18.00 | 324 | 324 | 327 |
| | | W63,338 | W59,266 | W58,238 |

Bonds available-for-sale in foreign currencies are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are receivable from the KDIC until sale or maturity.

Bonds held-to-maturity denominated in Korean Won as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Carrying value | Market value |
|--------------------------|-------------------|------------|------------------|----------------|--------------|
| December 31, 2001 | | | | | |
| KDIC bonds (*) | 1.00 ~ 5.78 | W4,483,076 | W4,483,076 | W4,483,076 | W4,484,702 |
| Corporate debentures (*) | 8.74 ~ 11.00 | 167,514 | 171,906 | 167,352 | 167,350 |
| Financial debentures (*) | 8.74 | 90,000 | 90,000 | 90,000 | 90,000 |
| Government bonds | 3.00 ~ 11.95 | 6,551 | 6,521 | 6,701 | 8,275 |
| | | W4,747,141 | W4,751,503 | W4,747,129 | W4,750,327 |
| December 31, 2000 | | | | | |
| KDIC bonds (*) | 1.00 ~ 7.19 | W5,947,076 | W5,947,076 | W5,947,076 | W5,947,076 |
| Corporate debentures (*) | 1.00 ~ 11.00 | 167,561 | 167,503 | 167,503 | 167,503 |
| Financial debentures (*) | 8.74 ~ 11.00 | 90,004 | 90,004 | 90,004 | 90,004 |
| Government bonds | 3.00 ~ 11.95 | 8,670 | 8,494 | 8,759 | 9,548 |
| | | W6,213,311 | W6,213,077 | W6,213,342 | W6,214,131 |

(*) W20 billion of financial debentures, W110 billion of corporate debentures and W4,483 billion of KDIC bonds are guaranteed by the government as of December 31, 2001. W20 billion of financial debentures, W110 billion of corporate debentures and W5,947 billion of KDIC bonds are guaranteed by the government as of December 31, 2000.

Bonds intended to be held to maturity are initially stated at their acquisition cost which may be subsequently adjusted for amortization of premiums or discounts. If the market value of such bonds deteriorates significantly and is not expected to recover, they are reduced to their market value and then reclassified to bonds available-for-sale.

As of December 31, 2001 and 2000, W5,132 billion and W6,190 billion of bonds denominated in Korean Won are pledged as collateral for certain borrowings and key money deposits, respectively.

Bonds held-to-maturity denominated in foreign currencies as of December 31, 2001 and 2000 are summarized as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|------------|------------------|----------------|
| December 31, 2001 | | | | |
| USD | 6.33 ~ 8.50 | W 95,460 | W 94,005 | W 94,224 |
| JPY | 0.55 | 5,046 | 5,051 | 5,083 |
| | | W100,506 | W 99,056 | W 99,307 |
| December 31, 2000 | | | | |
| USD | 8.36 | W 76,193 | W 74,393 | W 75,018 |
| JPY | 0.55 | 5,498 | 5,503 | 5,514 |
| | | W 81,691 | W 79,896 | W 80,532 |

As of December 31, 2001 and 2000, US\$26 million of bonds denominated in foreign currencies are pledged as collateral for bonds sold under repurchase agreement.

At December 31, 2001 and 2000, information about investment securities by geography, issuer, industry and character are summarized as follows (millions of Won):

| By Geography | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|--------------------------|-------------------------------------|---|-------------------|-------------------|
| December 31, 2001 | | | | |
| Korea | W6,182,289 | W103,736 | W6,286,025 | 98.61 |
| Japan | - | 44,866 | 44,866 | 0.70 |
| Malaysia | - | 13,204 | 13,204 | 0.21 |
| China | - | 10,794 | 10,794 | 0.17 |
| Thailand | - | 6,639 | 6,639 | 0.11 |
| USA | - | 6,633 | 6,633 | 0.10 |
| Indonesia | - | 6,461 | 6,461 | 0.10 |
| | W6,182,289 | W192,333 | W6,374,622 | 100.00 |
| December 31, 2000 | | | | |
| Korea | W6,967,041 | W 97,577 | W7,064,618 | 99.28 |
| Thailand | - | 17,443 | 17,443 | 0.24 |
| Malaysia | - | 11,772 | 11,772 | 0.17 |
| China | - | 10,184 | 10,184 | 0.14 |
| Indonesia | - | 6,465 | 6,465 | 0.09 |
| Japan | - | 5,513 | 5,513 | 0.08 |
| | W6,967,041 | W148,954 | W7,115,995 | 100.00 |
| By Issuer | | | | |
| | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
| December 31, 2001 | | | | |
| Public | W5,551,509 | W 31,557 | W5,583,066 | 87.58 |
| Financial business | 469,611 | 57,225 | 526,836 | 8.27 |
| Large corporate | 151,053 | 81,670 | 232,723 | 3.65 |
| Others | 10,116 | 21,881 | 31,997 | 0.50 |
| | W6,182,289 | W192,333 | W6,374,622 | 100.00 |
| December 31, 2000 | | | | |
| Public | W6,695,525 | W 19,528 | W6,715,053 | 94.37 |
| Financial business | 173,843 | 16,865 | 190,708 | 2.67 |
| Large corporate | 96,412 | 84,733 | 181,145 | 2.55 |
| Others | 1,261 | 27,828 | 29,089 | 0.41 |
| | W6,967,041 | W148,954 | W7,115,995 | 100.00 |

| By Industry | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|----------------------|-----------------------------|-----------------------------------|-------------------|---------------|
| December 31, 2001 | | | | |
| Public | W5,551,509 | W 31,557 | W5,583,066 | 87.58 |
| Financial business | 469,611 | 57,225 | 526,836 | 8.27 |
| Manufacturing | 121,400 | 103,551 | 224,951 | 3.53 |
| Wholesale and retail | 38,257 | - | 38,257 | 0.60 |
| Construction | 1,512 | - | 1,512 | 0.02 |
| | W6,182,289 | W192,333 | W6,374,622 | 100.00 |
| December 31, 2000 | | | | |
| Public | W6,773,487 | W 39,462 | W6,812,949 | 95.74 |
| Financial business | 173,842 | 16,865 | 190,707 | 2.68 |
| Manufacturing | 19,712 | 80,848 | 100,560 | 1.41 |
| Wholesale and retail | - | 7,555 | 7,555 | 0.11 |
| Construction | - | 4,224 | 4,224 | 0.06 |
| | W6,967,041 | W148,954 | W7,115,995 | 100.00 |

| By Character | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|--------------------------|-----------------------------|-----------------------------------|-------------------|---------------|
| December 31, 2001 | | | | |
| Stocks | W 122,900 | W 10,794 | W 133,694 | 2.10 |
| Fixed rate bonds | 1,629,512 | 58,701 | 1,688,213 | 26.48 |
| Floating rate bonds | 4,393,421 | 122,838 | 4,516,259 | 70.85 |
| Convertible bonds | 6,386 | - | 6,386 | 0.10 |
| Beneficiary certificates | 30,070 | - | 30,070 | 0.47 |
| | W6,182,289 | W192,333 | W6,374,622 | 100.00 |
| December 31, 2000 | | | | |
| Stocks | W 103,668 | W 10,184 | W 113,852 | 1.60 |
| Fixed rate bonds | 807,242 | 71,894 | 879,136 | 12.35 |
| Floating rate bonds | 5,998,000 | 66,876 | 6,064,876 | 85.23 |
| Beneficiary certificates | 58,131 | - | 58,131 | 0.82 |
| | W6,967,041 | W148,954 | W7,115,995 | 100.00 |

Maturity Schedule

The maturities of investment securities, except equity securities, at December 31, 2001 are summarized as follows (millions of Won):

| Year ending December 31 | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Securities in foreign currencies | Total |
|----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|--|-------------------|
| 2002 | W 91,701 | W236,407 | W4,412,258 | W30,070 | W 56,235 | W4,826,671 |
| 2003 | 271,797 | 20,000 | 236,549 | - | 21,881 | 550,227 |
| 2004 | 480,260 | - | 195,629 | - | 6,443 | 682,332 |
| 2005 | 32,460 | 30,000 | 3,931 | - | - | 66,391 |
| 2006 | 10,215 | - | - | - | - | 10,215 |
| Thereafter | - | - | 8,112 | - | 96,980 | 105,092 |
| | W886,433 | W286,407 | W4,856,479 | W30,070 | W181,539 | W6,240,928 |

The maturities of investment securities, except equity securities, at December 31, 2000 are summarized as follows (millions of Won):

| Year ending December 31 | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Securities in foreign currencies | Total |
|----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|--|-------------------|
| 2001 | W181,223 | W133,613 | W 10,000 | W58,131 | W 15,969 | W 398,936 |
| 2002 | 92,732 | 40,000 | 5,866,000 | - | 54,110 | 6,052,842 |
| 2003 | 5,859 | 20,000 | 111,483 | - | - | 137,342 |
| 2004 | 143,360 | 30,000 | 127,097 | - | 6,120 | 306,577 |
| 2005 | 12,018 | - | - | - | - | 12,018 |
| Thereafter | 17,426 | - | 14,431 | - | 62,571 | 94,428 |
| | W452,618 | W223,613 | W6,129,011 | W58,131 | W138,770 | W7,002,143 |

(*) Corporate debentures include KDIC bonds.

7. Loans

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

| Account | 2001 | | 2000 | |
|---|--------------------------|--------------------|--------------------------|--------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Loans in Korean Won | | | | |
| Corporate loans | 5.80 ~ 11.33 | W 3,805,114 | 6.95 ~ 11.80 | W 3,786,547 |
| Household loans | 4.42 ~ 17.56 | 7,887,417 | 3.89 ~ 17.36 | 5,032,610 |
| Loans to public sector | 5.95 ~ 7.83 | 217,051 | 7.44 ~ 9.65 | 234,002 |
| Trust loans | 4.05 | 128,261 | 5.33 | 420,660 |
| Other loans | 4.85 ~ 7.83 | 168,818 | 9.55 | 239,727 |
| Notes bought | 6.99 ~ 12.78 | 530,813 | 8.95 ~ 12.42 | 1,018,332 |
| Advances to customers | - | 191,174 | - | 87,736 |
| Credit card accounts | - | 795,380 | - | 530,794 |
| Private placement corporate bonds-bank | 7.96 | 383,356 | 0.52 | 306,422 |
| Private placement corporate bonds-trust | 0.87 | 56,752 | 0.52 | 49,765 |
| Call loans | - | - | 0.00 ~ 4.52 | 413,443 |
| | | 14,164,136 | | 12,120,038 |
| Loans in foreign currencies | | | | |
| Loans (*) | 2.81 ~ 6.40 | 944,662 | 5.83 ~ 8.54 | 1,205,921 |
| Call loans | 4.22 | 70,946 | 6.17 | 413,521 |
| Off-shore loans | 6.09 | 248,788 | 7.74 | 266,827 |
| Bills bought (*) | 5.18 | 571,241 | 8.43 | 950,969 |
| Notes bought (*) | 5.71 | 4,008 | 6.01 ~ 8.60 | 4,628 |
| | | 1,839,645 | | 2,841,866 |
| Total loans | | W16,003,781 | | W14,961,904 |

(*) Certain interbank loans at December 31, 2000 were reclassified from due from banks to loans in foreign currencies and local L/Cs in foreign currencies at December 31, 2000 were reclassified from notes bought to bills bought to conform to the current year's presentation.

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

| Account | | Annual interest rate (%) | Millions of Won |
|-------------------|---------------------------------------|--------------------------|-----------------|
| December 31, 2001 | | | |
| Domestic banks | Interbank loans | 6.52 | W168,691 |
| | Domestic import usance bills | 3.88 | 103,171 |
| Overseas banks | Loans in foreign currencies | 3.07 | 3,978 |
| | Interbank loans in foreign currencies | 2.81 | 26,522 |
| Other | General loans | 6.83 | 88,216 |
| | Private placement corporate bonds | 8.27 | 108,392 |
| | Overdrafts | 8.85 | 1,289 |
| | Loans in foreign currencies | 4.30 | 171,912 |
| | Bills bought | 3.96 | 1,012 |
| | | | W673,183 |
| December 31, 2000 | | | |
| Domestic banks | Interbank loans | 9.55 | W239,727 |
| Overseas banks | Interbank loans in foreign currencies | 7.23 | 42,830 |
| Other | General loans | 9.57 | 49,745 |
| | Loans for energy saving equipment | 7.00 | 284 |
| | Other bills discounted | 9.03 | 30,000 |
| | Overdrafts | 10.37 | 9,761 |
| | Loans in foreign currencies | 8.59 | 437,729 |
| | Call loans in foreign currencies | 6.62 | 969 |
| | | | W811,045 |

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection from the KDIC on 96.5% of the principal balances of loans outstanding as of December 31, 1999. The Bank has established additional allowances for new loans and existing loans that the Bank does not believe are protected by assistance from the KDIC.

Changes in the allowance for possible loan losses at December 31, 2001 and 2000 are as follows (millions of Won):

| | 2001 | 2000 |
|---|-----------|-----------|
| Beginning balance | W806,653 | W491,901 |
| Increase (decrease) in reserves for protected loans | (109,720) | 403,070 |
| Provision for loan losses on unprotected loans | 74,340 | 50,793 |
| Put and call to KDIC | (8,325) | (108,832) |
| Written off | (7,598) | - |
| Other changes | 8,004 | (30,279) |
| Ending balance | W763,354 | W806,653 |

The ratios of the allowance for loan losses to total loans (excluding trust loans and private placement corporate bonds - trust) as of December 31, 2001, 2000 and 1999 are 4.74%, 5.50% and 3.50%, respectively. Provision for loan and other losses per the statements of income includes a provision for other losses of W7,150 million for the year ended December 31, 2001.

At December 31, 2001 and 2000, loans (excluding call loans, credit card accounts, trust loans and private placement corporate bonds - trust) by geography, borrower type and industry are summarized as follows (millions of Won):

| By Geography | 2001 | | 2000 | |
|--------------|-------------|-------------|-------------|-------------|
| | Korea | W14,517,044 | 97.10% | W12,749,989 |
| Japan | 229,389 | 1.53 | 171,105 | 1.30 |
| China | 7,957 | 0.05 | 25,195 | 0.19 |
| Other | 198,052 | 1.32 | 187,432 | 1.43 |
| | W14,952,442 | 100.00% | W13,133,721 | 100.00% |

| By Borrower Type | 2001 | | 2000 | |
|------------------|-------------|-------------|-------------|-------------|
| | Corporate | W 6,442,561 | 43.09% | W 7,653,785 |
| Household | 7,891,753 | 52.78 | 5,033,802 | 38.33 |
| Public and Other | 618,128 | 4.13 | 446,134 | 3.39 |
| | W14,952,442 | 100.00% | W13,133,721 | 100.00% |

| By Industry | 2001 | | 2000 | |
|-----------------------------|---------------|-------------|-------------|-------------|
| | Manufacturing | W 4,010,017 | 26.82% | W 4,107,978 |
| Household | 7,891,753 | 52.78 | 5,040,619 | 38.38 |
| Wholesale and retail trade | 746,183 | 4.99 | 1,261,832 | 9.61 |
| Financial business | 673,183 | 4.50 | 897,027 | 6.83 |
| Construction | 218,010 | 1.46 | 398,252 | 3.03 |
| Transport and communication | 245,711 | 1.64 | 378,046 | 2.88 |
| Other | 1,167,585 | 7.81 | 1,049,967 | 7.99 |
| | W14,952,442 | 100.00% | W13,133,721 | 100.00% |

The maturities of loans in Korean Won and foreign currencies (excluding trust loans and private placement corporate bonds - trust) at December 31, 2001 are summarized as follows (millions of Won):

| Year ending December 31, | Loans in Korean Won | Loans in foreign currencies | Total |
|--------------------------|---------------------|-----------------------------|-------------|
| 2002 | W 9,288,819 | W1,139,344 | W10,428,163 |
| 2003~2004 | 3,412,592 | 303,761 | 3,716,353 |
| 2005~2006 | 353,268 | 207,027 | 560,295 |
| Thereafter | 924,444 | 189,513 | 1,113,957 |
| | W13,979,123 | W1,839,645 | W15,818,768 |

The maturities of loans in Korean Won and foreign currencies (excluding trust loans and private placement corporate bonds - trust) at December 31, 2000 are summarized as follows (millions of Won):

| Year ending December 31, | Loans in Korean Won | Loans in foreign currencies | Total |
|--------------------------|---------------------|-----------------------------|-------------|
| 2001 | W 5,390,484 | W1,872,773 | W 7,263,257 |
| 2002~2003 | 5,042,527 | 50,336 | 5,092,863 |
| 2004~2005 | 904,267 | 77,539 | 981,806 |
| Thereafter | 312,335 | 841,218 | 1,153,553 |
| | W11,649,613 | W2,841,866 | W14,491,479 |

The classification and allowance for loan losses outstanding at December 31, 2001 (excluding trust loans and private placement corporate bonds - trust) are summarized as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total (*) | Allowance percentage |
|-----------------------------|--------------------|-----------------|-----------------|-------------------|----------------|--------------------|----------------------|
| Loans in Won | W11,713,968 | W 67,321 | W 78,957 | W 582,511 | W12,021 | W12,454,778 | |
| (Allowance) | (102,814) | (2,043) | (27,221) | (181,776) | (7,958) | (321,812) | 2.58 |
| Loans in foreign currencies | 982,053 | 12,043 | 123,048 | 133,587 | 10,504 | 1,261,235 | |
| (Allowance) | (41,821) | (639) | (47,916) | (93,164) | (9,555) | (193,095) | 15.31 |
| Notes bought | 532,211 | 818 | 146 | 1,410 | 236 | 534,821 | |
| (Allowance) | (3,176) | (49) | (36) | (1,398) | (143) | (4,802) | 0.90 |
| Bills bought | 332,381 | 7,853 | 57,634 | 173,358 | 15 | 571,241 | |
| (Allowance) | (2,213) | (157) | (28,302) | (67,633) | (15) | (98,320) | 17.21 |
| Advances to customers | 6,231 | 50 | 23,219 | 151,442 | 10,174 | 191,116 | |
| (Allowance) | (1,551) | (1) | (3,088) | (75,985) | (8,415) | (89,040) | 46.59 |
| Credit card | 704,008 | 49,657 | 16,905 | 9,312 | 15,498 | 795,380 | |
| (Allowance) | (17,686) | (993) | (3,381) | (4,657) | (15,455) | (42,172) | 5.30 |
| Total | W14,270,852 | W137,742 | W299,909 | W1,051,620 | W48,448 | W15,808,571 | |
| (Allowance) (**) | (169,261) | (3,882) | (109,944) | (424,613) | (41,541) | (749,241) | 4.74 |
| Allowance percentage | 1.19 | 2.82 | 36.66 | 40.38 | 85.74 | 4.74 | |

(*) Net of present value discounts amounting to W10,197 million (excluding present value discounts in trust account amounting to W1,217 million).

(**) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W527,252 million based on the agreement between the Bank and KDIC.

The classification and allowance for loan losses outstanding at December 31, 2000 (excluding trust loans and private placement corporate bonds - trust) are summarized as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total (*) | Allowance percentage |
|-----------------------------|--------------------|-----------------|-----------------|-----------------|----------------|--------------------|----------------------|
| Loans in Won | W 9,076,945 | W294,640 | W 57,415 | W568,093 | W3,198 | W10,000,291 | |
| (Allowance) | (199,920) | (17,131) | (9,756) | (164,843) | (3,198) | (394,848) | 3.95 |
| Loans in foreign currencies | 1,405,703 | 267,920 | 132,938 | 31,861 | - | 1,838,422 | |
| (Allowance) | (34,043) | (13,806) | (42,090) | (1,249) | - | (91,188) | 4.96 |
| Notes bought | 1,016,095 | 6,272 | 184 | 217 | 193 | 1,022,961 | |
| (Allowance) | (46,523) | (291) | (40) | (167) | (193) | (47,214) | 4.62 |
| Bills bought | 737,244 | 14,333 | 12,546 | 186,846 | - | 950,969 | |
| (Allowance) | (40,687) | (287) | (2,949) | (179,644) | - | (223,567) | 23.51 |
| Advances to customers | 51,131 | 5,985 | 4,382 | 24,344 | 1,101 | 86,943 | |
| (Allowance) | (1,491) | (329) | (974) | (9,290) | (1,101) | (13,185) | 15.17 |
| Credit card | 469,208 | 42,475 | 11,139 | 6,500 | 1,472 | 530,794 | |
| (Allowance) | (14,541) | (1,573) | (2,240) | (3,257) | (1,472) | (23,083) | 4.35 |
| Total | W12,756,326 | W631,625 | W218,604 | W817,861 | W5,964 | W14,430,380 | |
| (Allowance) (**) | (337,205) | (33,417) | (58,049) | (358,450) | (5,964) | (793,085) | 5.50 |
| Allowance percentage | 2.64 | 5.29 | 26.55 | 43.83 | 100.00 | 5.50 | |

(*) Net of present value discounts amounting to W18,269 million (excluding present value discounts in trust account amounting to W1,247 million). Loans in foreign currencies at December 31, 2000 did not include due from banks amounting to W42,830 million which was reclassified to loans to conform to the current year's presentation.

(**) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W420,518 million based on the agreement between the Bank and KDIC.

The restructured loans at December 31, 2001 are summarized as follows (millions of Won):

| | Corporations under liquidation | Court ordered restructuring | Work-out | Industry rationalization | Private restructuring | Total |
|--------------------------------|--------------------------------------|--------------------------------|-----------|-----------------------------|--------------------------|----------|
| Period | 9.6~18.6 yrs | 1.7~5.4 yrs | 3.4~9 yrs | 8.5~19.5 yrs | 2~6.9 yrs | |
| Balance before restructured | W7,970 | W1,721 | W423,859 | W37,685 | W120,658 | W591,893 |
| D/E swap stock | 5,511 | - | 139,796 | - | 5,706 | 151,013 |
| D/E swap CB | - | - | 281,902 | - | - | 281,902 |
| Interest rate reduction | 2,459 | 1,721 | 2,161 | 37,685 | 114,952 | 158,978 |
| Balance at end of year | W7,268 | W1,047 | W514,674 | W31,797 | W 66,143 | W620,929 |
| Restructuring loss | W 244 | W 222 | W - | W - | W - | W 466 |

The restructured loans at December 31, 2000 are summarized as follows (millions of Won):

| | Corporations under liquidation | Court ordered restructuring | Work-out | Industry rationalization | Private restructuring | Total |
|--------------------------------|--------------------------------------|--------------------------------|-------------|-----------------------------|--------------------------|----------|
| Period | 18~18.6 yrs | 5.4~9.3 yrs | 1.9~5.3 yrs | 8.5~19.5 yrs | 4 yrs | |
| Balance before restructured | W492 | W2,316 | W353,757 | W46,669 | W105,901 | W509,135 |
| D/E swap stock | - | - | 80,794 | - | 5,706 | 86,500 |
| D/E swap CB | - | - | 207,847 | - | - | 207,847 |
| Interest rate reduction | 492 | 2,316 | 65,116 | 46,669 | 100,195 | 214,788 |
| Balance at end of year | W387 | W1,471 | W550,907 | W38,615 | W 75,623 | W667,003 |
| Restructuring loss | W - | W 594 | W - | W - | W - | W 594 |

The Bank has W108,724 million and W210,881 million of loans discounted to present value (amounting to W11,414 million and W19,516 million) due to debt restructuring as of December 31, 2001 and 2000, respectively.

Loans, which were scheduled to be converted to stock amounting to W138,281 million and W409,851 million at December 31, 2001 and 2000, respectively, were recorded at book value and not fair value based on the agreement between the Bank and KDIC.

The Bank transferred loans through monthly put claims amounting to W302,410 million and W118,425 million to the KDIC in 2001 and 2000, respectively, according to the agreement between the Bank and the KDIC.

8. Fixed Assets

Premises and equipment at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | Acquisition cost | Accumulated depreciation | Net book value |
|--------------------------|-------------------|--------------------------|-------------------|
| December 31, 2001 | | | |
| Premises and equipment | | | |
| Land | W 797,004 | W - | W 797,004 |
| Buildings and structures | 384,986 | 94,860 | 290,126 |
| Movable property | 196,586 | 126,135 | 70,451 |
| | 1,378,576 | 220,995 | 1,157,581 |
| Intangible assets | 20,027 | - | 20,027 |
| | W1,398,603 | W220,995 | W1,177,608 |
| December 31, 2000 | | | |
| Premises and equipment | | | |
| Land | W 796,589 | W - | W 796,589 |
| Buildings and structures | 342,946 | 78,281 | 264,665 |
| Movable property | 153,974 | 113,085 | 40,889 |
| | 1,293,509 | 191,366 | 1,102,14 |
| Intangible assets | 1,759 | - | 1,759 |
| | W1,295,268 | W191,366 | W1,103,902 |

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2001 and 2000, the government-posted prices of the Bank's land used for tax assessment purposes are W598,366 million and W597,628 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

9. Other Assets

Other assets at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|--|-----------------|-----------------|
| Other accounts receivable | W268,371 | W341,912 |
| Guarantee money | 297,773 | 300,667 |
| Unsettled exchange | 59,032 | 61,496 |
| Accrued revenues receivable | 121,274 | 154,423 |
| Prepaid expenses | 15,202 | 35,500 |
| Bills unsettled | 17,912 | 7,853 |
| Present value discount of other assets | (34) | (136) |
| Credit loss reserves of other assets | (10,453) | (686) |
| Regulatory and legal deposits (*) | 4,433 | 3,737 |
| Deferred income tax assets | 159,625 | 59,200 |
| Other | 16,786 | 20,220 |
| | W949,921 | W984,186 |

(*) Regulatory and legal deposits include W4,420 million and W3,691 million of securities held in escrow at December 31, 2001 and 2000, respectively.

10. Deposits

Deposits at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | Banks | Other financial institutions | Others | Total |
|--------------------------------|-----------------|------------------------------------|--------------------|--------------------|
| December 31, 2001 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 8,512 | W 214,567 | W 2,001,606 | W 2,224,685 |
| Money trust | - | - | 402,891 | 402,891 |
| Time & saving deposits | 124,327 | 1,589,243 | 12,093,396 | 13,806,966 |
| | 132,839 | 1,803,810 | 14,497,893 | 16,434,542 |
| Deposits in foreign currencies | | | | |
| Certificates of deposit | 43,061 | 184,358 | 442,492 | 669,911 |
| | 117,217 | 940,938 | 90,118 | 1,148,273 |
| | W293,117 | W2,929,106 | W15,030,503 | W18,252,726 |
| December 31, 2000 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 1,435 | W 328,710 | W 2,179,846 | W 2,509,991 |
| Money trust | - | - | 441,378 | 441,378 |
| Time & saving deposits | 96,848 | 2,146,061 | 10,731,004 | 12,973,913 |
| | 98,283 | 2,474,771 | 13,352,228 | 15,925,282 |
| Deposits in foreign currencies | | | | |
| Certificates of deposit | 307 | 66,890 | 553,029 | 620,226 |
| | 783,107 | 3,712 | 59,466 | 846,285 |
| | W881,697 | W2,545,373 | W13,964,723 | W17,391,793 |

The maturities of deposits (excluding money trust deposits) at December 31, 2001 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|--------------------------------------|----------------------------|--------------------|
| 2002 | W15,132,504 | W668,316 | W1,148,273 | W16,949,093 |
| 2003 | 545,655 | 1,595 | - | 547,250 |
| 2004 | 189,334 | - | - | 189,334 |
| 2005 | 82,266 | - | - | 82,266 |
| 2006 | 36,181 | - | - | 36,181 |
| Thereafter | 45,711 | - | - | 45,711 |
| | W16,031,651 | W669,911 | W1,148,273 | W17,849,835 |

The maturities of deposits (excluding money trust deposits) at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|--------------------------------------|----------------------------|--------------------|
| 2001 | W12,532,802 | W620,196 | W840,055 | W13,993,053 |
| 2002 | 2,451,786 | 2 | 6,230 | 2,458,018 |
| 2003 | 295,280 | - | - | 295,280 |
| 2004 | 128,458 | 2 | - | 128,460 |
| 2005 | 51,370 | 26 | - | 51,396 |
| Thereafter | 24,208 | - | - | 24,208 |
| | W15,483,904 | W620,226 | W846,285 | W16,950,415 |

11. Borrowings

Borrowings at December 31, 2001 and 2000 are comprised of the following:

| | 2001 | | 2000 | |
|---|--------------------------|-------------------|--------------------------|-------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Borrowings in Korean Won | | | | |
| Aggregate limit borrowings | 2.50 | W 113,970 | 3.00 | W 204,149 |
| Call money | 3.00 ~ 3.85 | 145,900 | 4.10 ~ 4.70 | 155,600 |
| Other | 2.00 ~ 8.49 | 508,744 | 3.00 ~ 9.20 | 621,468 |
| | | <u>768,614</u> | | <u>981,217</u> |
| Borrowings in foreign currencies | | | | |
| Bank of Korea | 1.91 ~ 3.91 | 54,753 | 6.21 ~ 7.93 | 363,087 |
| Other borrowings | 0.78 ~ 5.28 | 679,239 | 0.50 ~ 8.34 | 615,646 |
| Off-shore borrowings | 2.11 ~ 3.13 | 204,750 | 6.94 ~ 7.65 | 183,916 |
| Call money | 0.55 ~ 1.95 | 26,146 | 5.50 ~ 7.65 | 25,790 |
| | | <u>964,888</u> | | <u>1,188,439</u> |
| Bonds sold under repurchase agreements | 2.30 ~ 6.28 | 2,194,156 | 6.21 ~ 8.22 | 2,183,411 |
| Bills sold | 7.19 | 6,787 | 6.78 | 621,005 |
| | | <u>W3,934,445</u> | | <u>W4,974,072</u> |

At December 31, 2001 and 2000, borrowings by borrower type are summarized as follows (millions of Won):

| | Bank of Korea | Commercial banks | Other financial institution | Others | Total (*) |
|--|-----------------|-------------------|-----------------------------|-----------------|-------------------|
| December 31, 2001 | | | | | |
| Borrowings in Korean Won | W114,025 | W 150,150 | W351,500 | W152,939 | W 768,614 |
| Borrowings in foreign currencies | 54,753 | 893,062 | 13,791 | 3,282 | 964,888 |
| Bonds sold under repurchase agreements | - | 195,385 | - | - | 195,385 |
| | <u>W168,778</u> | <u>W1,238,597</u> | <u>W365,291</u> | <u>W156,221</u> | <u>W1,928,887</u> |
| December 31, 2000 | | | | | |
| Borrowings in Korean Won | W204,683 | W 104,984 | W455,600 | W215,950 | W 981,217 |
| Borrowings in foreign currencies | 363,087 | 820,848 | 1,386 | 3,118 | 1,188,439 |
| Bonds sold under repurchase agreements | - | 436,231 | - | - | 436,231 |
| | <u>W567,770</u> | <u>W1,362,063</u> | <u>W456,986</u> | <u>W219,068</u> | <u>W2,605,887</u> |

(*) W1,998,771 million and W1,747,180 million of bonds sold under repurchase agreements and W6,787 million and W621,005 million of bills sold to the public at December 31, 2001 and 2000, respectively, are not included.

The maturities of borrowings at December 31, 2001 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|-----------------------------|-----------------------------|--|--|---------------|-------------------|
| 2002 | W341,561 | W964,888 | W2,194,156 | W6,787 | W3,507,392 |
| 2003 | 29,610 | - | - | - | 29,610 |
| 2004 | 53,067 | - | - | - | 53,067 |
| 2005 | 46,972 | - | - | - | 46,972 |
| 2006 | 65,920 | - | - | - | 65,920 |
| Thereafter | 231,484 | - | - | - | 231,484 |
| | W768,614 | W964,888 | W2,194,156 | W6,787 | W3,934,445 |

The maturities of borrowings at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|-----------------------------|-----------------------------|--|--|-----------------|-------------------|
| 2001 | W374,330 | W1,188,439 | W2,183,411 | W621,005 | W4,367,185 |
| 2002 | 108,652 | - | - | - | 108,652 |
| 2003 | 52,582 | - | - | - | 52,582 |
| 2004 | 65,546 | - | - | - | 65,546 |
| 2005 | 62,548 | - | - | - | 62,548 |
| Thereafter | 317,559 | - | - | - | 317,559 |
| | W981,217 | W1,188,439 | W2,183,411 | W621,005 | W4,974,072 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 2001 are comprised of the following:

| Lender | Issue date | Due date | Annual interest rate (%) | Millions of Won |
|------------------------|------------|------------|-----------------------------|--------------------|
| Korea Life Insurance | 12-31-1996 | 12-31-2006 | 6.52 | W 20,000 |
| Korea Life Insurance | 6-13-1997 | 6-13-2007 | 6.52 | 78,500 |
| Samsung Life Insurance | 12-31-1996 | 12-31-2011 | 7.71 | 30,000 |
| Kyobo Life Insurance | 6-13-1997 | 6-13-2007 | 6.52 | 57,100 |
| Kumho Life Insurance | 12-31-1996 | 12-31-2006 | 6.52 | 20,000 |
| | | | | W205,600 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 2000 are comprised of the following:

| Lender | Issue date | Due date | Annual interest rate (%) | Millions of Won |
|------------------------|------------|------------|-----------------------------|--------------------|
| Korea Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | W 20,000 |
| Korea Life Insurance | 6-13-1997 | 6-13-2007 | 8.54 | 78,500 |
| Samsung Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | 30,000 |
| Samsung Life Insurance | 6-13-1997 | 6-13-2002 | 8.55 | 64,400 |
| Kyobo Life Insurance | 6-13-1997 | 6-13-2007 | 8.50 | 57,100 |
| Kyobo Life Insurance | 12-31-1996 | 12-31-2006 | 8.54 | 30,000 |
| Kumho Life Insurance | 12-31-1996 | 12-31-2006 | 8.50 | 20,000 |
| | | | | W300,000 |

12. Debentures

Debentures at December 31, 2001 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|-------------------------|------------|-----------------|--------------------------|------------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W142,000 | Public rate+2 | 3-31-2003 |
| Subordinated | 10-28-2001 | 100,000 | 7.23 | 7-28-2007 |
| Bonds with warrants | 1-31-2000 | 91,076 | - | 12-31-2006 |
| Discount on debentures | | (3) | | |
| | | <u>333,073</u> | | |
| Foreign currency | | | | |
| Subordinated FRN (*) | 6-26-1996 | 265,220 | 6ML+2 | 6-26-2006 |
| | | <u>W598,293</u> | | |

Debentures at December 31, 2000 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|-------------------------|------------|-----------------|--------------------------|------------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W142,000 | Public rate+2 | 3-31-2003 |
| Bonds with warrants | 1-31-2000 | 91,076 | - | 12-31-2006 |
| Discount on debentures | | (6) | | |
| | | <u>233,070</u> | | |
| Foreign currency | | | | |
| Subordinated FRN (*) | 6-26-1996 | 251,940 | 6ML+0.85 | 6-26-2006 |
| | | <u>W485,010</u> | | |

(*) The Bank has the right to redeem the note (call option) at the end of year 5 and annually thereafter.

The maturities of debentures at December 31, 2001 are as follows (millions of Won):

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|--------------------------|---------------------------------|---|-----------------|
| 2002 | W - | W - | W - |
| 2003 | 141,997 | - | 141,997 |
| 2004 | - | - | - |
| 2005 | - | - | - |
| 2006 | 91,076 | 265,220 | 356,296 |
| Thereafter | 100,000 | - | 100,000 |
| | <u>W333,073</u> | <u>W265,220</u> | <u>W598,293</u> |

The maturities of debentures at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|--------------------------|---------------------------------|---|-----------------|
| 2001 | W - | W - | W - |
| 2002 | - | - | - |
| 2003 | 141,994 | - | 141,997 |
| 2004 | - | - | - |
| 2005 | - | - | - |
| Thereafter | 91,076 | 251,940 | 343,016 |
| | <u>W233,070</u> | <u>W251,940</u> | <u>W485,010</u> |

13. Accrued Severance and Retirement Benefits

The changes in accrued severance and retirement benefits for the year ended December 31, 2001 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|--|----------------------|-------------------|----------------|-------------------|
| Accrued severance and retirement benefits | W185,206 | W 38,781 | W59,102 | W164,885 |
| Prepayments to National Pension Corp. | (8,716) | - | (1,946) | (6,770) |
| Deposits for group severance and retirement benefits | - | (153,754) | - | (153,754) |
| | W176,490 | W(114,973) | W57,156 | W 4,361 |

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

The changes in accrued severance and retirement benefits for the year ended December 31, 2000 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|---|----------------------|----------------|-----------------|-------------------|
| Accrued severance and retirement benefits | W256,908 | W41,141 | W112,843 | W185,206 |
| Prepayments to National Pension Corp. | (12,358) | - | (3,642) | (8,716) |
| | W244,550 | W41,141 | W109,201 | W176,490 |

14. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|--|-----------------|-------------------|
| Acceptances and guarantees in Won currency | | |
| Corporate debentures | W 5,600 | W 7,560 |
| Other | 122,303 | 157,272 |
| | 127,903 | 164,832 |
| Acceptances and guarantees in foreign currencies | | |
| Acceptances | 440,877 | 642,885 |
| Stand-by letters of credit | 61,671 | 81,689 |
| Letters of guarantee | 15,316 | 22,017 |
| Other | 18,763 | 132,289 |
| | 536,627 | 878,880 |
| | W664,530 | W1,043,712 |

Contingent acceptances and guarantees outstanding at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|------------|-----------------|-----------------|
| Import L/C | W238,733 | W313,151 |
| Local L/C | 215,312 | 279,630 |
| Other | 1,775 | 5,059 |
| | W455,820 | W597,840 |

According to the agreement between the KDIC and the Bank, all rights and responsibilities for guarantees and acceptances outstanding as of December 31, 1999 were assumed by the KDIC as of December 31, 1999. Therefore, the Bank did not provide any reserves on confirmed acceptances and guarantees which the Bank believes are protected by the KDIC amounting to W176,323 million and W442,640 million as of December 31, 2001 and 2000, respectively.

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2001 are as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total | Allowance percentage |
|--|----------------------------|-------------------------|---------------------|-------------------------|--------------------|----------------------------|----------------------|
| Acceptances & guarantees in Won (Allowance) | W112,674 (559) | W14,771 - | W - - | W 458 - | W - - | W127,903 (559) | 0.44 |
| Acceptances & guarantees in foreign currencies (Allowance) | 349,122 (1,770) | 40,498 (755) | 58,723 - | 80,408 (134) | 7,876 - | 536,627 (2,659) | 0.50 |
| Total (Allowance) | W461,796 (2,329) | W55,269 (755) | W58,723 - | W80,866 (134) | W7,876 - | W664,530 (3,218) | 0.48 |
| Allowance percentage | 0.50 | 1.37 | - | 0.17 | - | 0.48 | |

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2000 are as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total | Allowance percentage |
|--|----------------------------|-------------------------|---------------------------|----------------------|------------------------|------------------------------|----------------------|
| Acceptances & guarantees in Won (Allowance) | W110,125 (521) | W46,185 (627) | W 895 - | W 7,621 - | W 6 - | W 164,832 (1,148) | 0.70 |
| Acceptances & guarantees in foreign currencies (Allowance) | 610,413 (2,213) | 24,031 (171) | 97,386 (2,888) | 134,446 - | 12,604 (87) | 878,880 (5,359) | 0.61 |
| Total (Allowance) | W720,538 (2,734) | W70,216 (798) | W98,281 (2,888) | W142,067 - | W12,610 (87) | W1,043,712 (6,507) | 0.62 |
| Allowance percentage | 0.38 | 1.14 | 2.94 | - | 0.69 | 0.62 | |

The ratios of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2001, 2000 and 1999 are 0.48%, 0.62% and 0%, respectively.

At December 31, 2001 and 2000, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

| By Geography | Confirmed acceptances and guarantees | | Contingent acceptances and guarantees | | Total | |
|-------------------|--------------------------------------|----------------|---------------------------------------|----------------|-------------------|----------------|
| December 31, 2001 | | | | | | |
| Korea | W 630,232 | 94.84% | W455,820 | 100.00% | W1,086,052 | 96.94% |
| Other | 34,298 | 5.16 | - | - | 34,298 | 3.06 |
| | W 664,530 | 100.00% | W455,820 | 100.00% | W1,120,350 | 100.00% |
| December 31, 2000 | | | | | | |
| Korea | W1,005,381 | 96.33% | W596,292 | 99.74% | W1,601,673 | 97.57% |
| Japan | 37,822 | 3.62 | 217 | 0.04 | 38,039 | 2.32 |
| Other | 509 | 0.05 | 1,331 | 0.22 | 1,840 | 0.11 |
| | W1,043,712 | 100.00% | W597,840 | 100.00% | W1,641,552 | 100.00% |

| By Concentration | Confirmed acceptances and guarantees | | Contingent acceptances and guarantees | | Total | |
|-----------------------------|---|----------------|--|----------------|-------------------|----------------|
| December 31, 2001 | | | | | | |
| Manufacturing | W 468,549 | 70.51% | W226,839 | 49.77% | W 695,388 | 62.07% |
| Wholesale and retail | 101,435 | 15.26 | 187,629 | 41.16 | 289,064 | 25.80 |
| Construction | 26,250 | 3.95 | 29,652 | 6.51 | 55,902 | 4.99 |
| Financial business | 6,234 | 0.94 | 7,028 | 1.54 | 13,262 | 1.18 |
| Transport and communication | 23,511 | 3.54 | 689 | 0.15 | 24,200 | 2.16 |
| Other | 38,551 | 5.80 | 3,983 | 0.87 | 42,534 | 3.80 |
| | W 664,530 | 100.00% | W455,820 | 100.00% | W1,120,350 | 100.00% |
| December 31, 2000 | | | | | | |
| Manufacturing | W 816,361 | 78.22% | W419,345 | 70.15% | W1,235,706 | 75.28% |
| Wholesale and retail | 90,093 | 8.63 | 172,202 | 28.81 | 262,295 | 15.98 |
| Construction | 29,928 | 2.87 | 494 | 0.08 | 30,422 | 1.85 |
| Financial business | 37,985 | 3.64 | 2,413 | 0.40 | 40,398 | 2.46 |
| Transport and communication | 22,479 | 2.15 | 1,386 | 0.23 | 23,865 | 1.45 |
| Other | 46,866 | 4.49 | 2,000 | 0.33 | 48,866 | 2.98 |
| | W1,043,712 | 100.00% | W597,840 | 100.00% | W1,641,552 | 100.00% |

| By Borrower Type | Confirmed acceptances and guarantees | | Contingent acceptances and guarantees | | Total | |
|-------------------|---|----------------|--|----------------|-------------------|----------------|
| December 31, 2001 | | | | | | |
| Corporate | W 645,845 | 97.19% | W455,820 | 100.00% | W1,101,665 | 98.33% |
| Public & other | 18,685 | 2.81 | - | - | 18,685 | 1.67 |
| | W 664,530 | 100.00% | W455,820 | 100.00% | W1,120,350 | 100.00% |
| December 31, 2000 | | | | | | |
| Corporate | W1,043,712 | 100.00% | W597,840 | 100.00% | W1,641,552 | 100.00% |

15. Other Liabilities

Other liabilities at December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|--------------------------------------|-------------------|-------------------|
| Borrowing from trust account | W 289,474 | W 156,514 |
| Foreign exchange payable | 46,368 | 28,896 |
| Accounts payable | 339,467 | 321,608 |
| Accrued expenses | 425,786 | 381,577 |
| Unearned revenues | 20,741 | 41,963 |
| Domestic exchange obligation payable | 1,205,021 | 396,236 |
| Others | 254,144 | 258,677 |
| | W2,581,001 | W1,585,471 |

16. Commitments and Contingencies

KDIC Agreement Issues

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

The Bank has other disagreements which will be resolved through negotiations or legal proceedings. The outcome of these negotiations and proceedings may be different from assumptions used by management, which could materially impact the Bank's future financial results.

However, management believes their assumptions are supported and any losses that result from the disposition of these matters are not currently measurable. These are described as follows:

(i) Losses on Derivative Positions - Prior to Closing, the Bank attempted to transfer derivative contracts along with underlying assets to the KDIC. However, because the KDIC is not a financial institution, the Bank's derivative counter-parties did not agree to such a transfer. As the underlying hedged assets have been transferred to the KDIC, the Bank has not recorded mark-to-market valuation losses relating to the derivative positions. Realized and unrealized losses claimable from the KDIC are estimated at approximately W43.8 billion at December 31, 2001.

(ii) Post Closing Adjusting Entries - In accordance with the Acquisition Agreement, Newbridge submitted a claim requesting that KDIC pay to the Bank an additional amount of W44.5 billion for adjustment or correction of the Closing Balance Sheet with respect to the acquisition of a controlling interest in the Bank by Newbridge effective December 31, 1999. The amount claimed included W31.9 billion for mark-to-market valuations related to derivative positions at Closing discussed in (i) above. The KDIC submitted counterclaims requesting that the Bank pay W98.3 billion to KDIC for adjustment or correction of the Closing Balance Sheet. The Bank believes that most of the KDIC's counterclaims are based on incorrect interpretations of the Acquisition Agreement. If the KDIC were to prevail in each of its positions, the Bank's loss would be approximately W29.7 billion, which is the amount the Bank had recorded in income in respect of such items as of December 31, 2001.

(iii) Other Claims - The KDIC is disputing various other claims made by the Bank. At December 31, 2001, approximately W78.8 billion of such other claims are reflected in the Bank's financial statements as loans or other assets.

Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts and interest rate futures contracts. At December 31, 2001, those derivative contracts aggregated a notional amount of W1,420,150 million. As of December 31, 2001 and 2000, the Bank has derivative financial instruments which are all designated as trading, as follows (millions of Won):

| | Currency forwards | Currency swaps | Currency options | Interest rate swaps | Interest rate futures | Total |
|-------------------|-------------------|----------------|------------------|---------------------|-----------------------|-------------------|
| December 31, 2001 | | | | | | |
| Purchase | W553,727 | W - | W - | W125,371 | W - | W 679,098 |
| Sell | 266,917 | - | - | 125,371 | 348,764 | 741,052 |
| | W820,644 | W - | W - | W250,742 | W348,764 | W1,420,150 |
| December 31, 2000 | | | | | | |
| Purchase | W364,000 | W22,030 | W 5,039 | W182,125 | W - | W 573,194 |
| Sell | 389,508 | - | 5,039 | 181,911 | 581,981 | 1,158,439 |
| | W753,508 | W22,030 | W10,078 | W364,036 | W581,981 | W1,731,633 |

For the years ended December 31, 2001 and 2000, W8,405 million and W7,631 million of gains and W5,322 million and W23,340 million of losses, respectively, on valuation of derivative contracts were recorded in fees, commissions, and other revenues and expenses.

| | Recognized during the year | | Accumulated balance of valuation | |
|-------------------------|----------------------------|----------------|----------------------------------|----------------|
| | Valuation gain | Valuation loss | Asset | Liability |
| December 31, 2001 | | | | |
| Currency forwards | W5,343 | W 4,071 | W 5,343 | W 4,071 |
| Interest rate swaps | 3,062 | 1,251 | 3,215 | 2,467 |
| | W8,405 | W 5,322 | W 8,558 | W 6,538 |
| December 31, 2000 | | | | |
| Currency forwards | W7,312 | W23,340 | W 7,645 | W20,098 |
| Currency swaps | - | - | - | 3,296 |
| Currency options bought | - | - | 2 | - |
| Currency options sold | - | - | - | 2 |
| Interest rate swaps | 319 | - | 3,171 | 3,856 |
| | W7,631 | W23,340 | W10,818 | W27,252 |

Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2001, commitments and endorsed notes aggregated W5,420 million and W9,372 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2001, total loan commitments are W13,491 billion and unused commitments are W9,799 billion.

The Bank has been named as defendant in 6 legal actions not indemnified by KDIC amounting to W1,391 million and is plaintiff in 235 legal actions not indemnified by KDIC amounting to W20,870 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

17. Common Stock

As of December 31, 2001 and 2000, the authorized common shares and the outstanding common shares are 1,600 million shares and 196,116,800 shares (at a par value of W5,000), respectively. The Bank's paid in capital is W980,584 million as of December 31, 2001 and 2000 (see Note 1).

During 2000, the Bank granted stock options to employees and directors. A total of 5,273,217 options were granted initially at an exercise price of W5,079.60 per share. The option share price was subsequently challenged by the Financial Supervisory Commission, which ordered the exercise price to be set at a minimum of W9,834 per share. During 2001, the board of directors revised the number of options granted to 5,228,773 and approved the revised exercise price. In 2001, the board of directors also granted 1,171,531 additional options at an exercise price of W12,497 per share. Both grants were approved by shareholders. The first option grant is exercisable after three years from March 30, 2000 until ten years after that date. The second option grant is exercisable after three years from October 19, 2001 until ten years after that date. On December 13, 2001, the board of directors cancelled stock options of 4,128,775 which were previously granted to the former President & Chief Executive Officer.

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. The bonds mature in 2006 and carry a stated interest rate of 0 percent. The warrants are convertible to 9,805,840 shares of the Bank's common stock at a price of W5,000 per share. The warrant exercise price escalates at an annual rate of 9.25%. The warrants are non-detachable, non-transferable and exercisable between December 31, 2002 and December 31, 2006.

18. Retained Earnings

The Bank should reserve as a minimum 10% of its annual net income as a legal reserve in accordance with Korean Banking Regulations. The Tokyo branch also should reserve up to 10% of its annual net income as an other reserve until the amount reaches 2 billion Yen in accordance with Japanese Banking Regulations. These legal reserves cannot be used to pay dividends.

19. Income Tax Expense

Up to December 31, 2001, the Bank had been subject to corporate income taxes, including resident surtax, at aggregate rates of 17.6% on taxable income up to W100 million and 30.8% on taxable income in excess of W100 million. Starting on January 1, 2002, such corporate tax rates will be reduced by one percentage point resulting in revised aggregate rates of 16.5% and 29.7%, respectively. The income tax benefit for the years ended December 31, 2001 and 2000 is comprised of the following (millions of Won):

| | 2001 | 2000 |
|--|------------|-----------|
| Income tax expense | W 329 | W 2,550 |
| Changes in deferred income taxes due to loss carryforwards | (100,425) | (59,200) |
| Income tax benefit | W(100,096) | W(56,650) |
| Deferred income tax asset at end of the year | W 159,625 | W 59,200 |
| Deferred income tax asset at beginning of the year | 59,200 | - |
| Changes in deferred income tax asset | W 100,425 | W 59,200 |

The Bank has tax basis net operating loss carryforwards ("NOLs") of approximately W4,736 billion as of December 31, 2001. For tax purposes, net operating losses in Korea may be carried forward for five years against future earnings.

Adjustments of income before income taxes to taxable income for the years ended December 31, 2001 and 2000 are comprised of the following (millions of Won):

| | 2001 | 2000 |
|---------------------------------------|----------|----------|
| Income before income tax expense | W123,998 | W249,750 |
| Adjustment to increase taxable income | | |
| Permanent differences | 12,564 | 10,427 |
| Temporary differences | 152,837 | 224,229 |
| | 165,401 | 234,656 |
| Adjustment to decrease taxable income | | |
| Permanent differences | 742 | 1,259 |
| Temporary differences | 99,934 | 310,351 |
| | 100,676 | 311,610 |
| Taxable income | W188,723 | W172,796 |

Deferred income taxes reflect the net tax effects of the tax loss carryforward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2001 are comprised of the following (millions of Won):

| | January 1, 2001 (*) | Increase | Decrease | December 31, 2001 |
|--|------------------------|-----------|------------|----------------------|
| Interest receivable on securities | W(74,886) | W(42,268) | W (74,886) | W (42,268) |
| Profit from valuation of equity method | (35,970) | (5,411) | - | (41,381) |
| Gain on valuation of derivatives | (7,566) | (8,558) | (7,566) | (8,558) |
| Present value discounts | 9,689 | 143 | 9,655 | 177 |
| Loss on valuation of derivatives | 23,275 | 6,538 | 23,275 | 6,538 |
| Depreciation | 12,186 | 8,441 | - | 20,627 |
| Loss on valuation of equity method | 3,830 | - | - | 3,830 |
| Retirement benefits | 2,478 | - | 2,478 | - |
| Deemed dividends | 6,690 | 3,001 | - | 9,691 |
| Other | (9,687) | 32,506 | (11,467) | 34,286 |
| Tax loss carryforward | 4,924,673 | - | 188,723 | 4,735,950 |
| Total | 4,854,712 | W (5,608) | W130,212 | 4,718,892 |
| Tax rate | 30.8% | | | 29.7% |
| Deferred income tax asset | 1,495,251 | | | 1,401,511 |
| Allowance | (1,436,051) | | | (1,241,886) |
| Net deferred income tax asset | W 59,200 | | | W159,625 |

(*) The amounts are different from those in the prior year's audit report to reflect the 2000 final tax return filed in March 2001.

Utilization of the operating loss carryforwards will depend on the Bank's ability to generate future income. Based on substantial operating losses prior to 2000 and the difficulty in forecasting multiple years of future income, management has elected to recognize a portion of the operating loss carryforwards available and recorded a deferred tax asset of W159,625 million, which is included in other assets.

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2000 are comprised of the following (millions of Won):

| | January 1, 2000 | Increase | Decrease | December 31, 2000 |
|--|--------------------|-----------|------------|----------------------|
| Interest receivable on securities | W(116,764) | W(74,886) | W(116,764) | W(74,886) |
| Gain on valuation of securities | (24,205) | - | (24,205) | - |
| Profit from valuation of equity method | (43,579) | (3,309) | (10,918) | (35,970) |
| Excess of loan loss reserve | 185,541 | - | 185,541 | - |
| Present value discounts | 308 | 8,510 | 308 | 8,510 |
| Loss on valuation of derivatives | 13,867 | 23,275 | 13,867 | 23,275 |
| Depreciation | 6,506 | 6,250 | - | 12,756 |
| Loss on valuation of equity method | 5,266 | - | 1,436 | 3,830 |
| Loss on valuation of securities | 9,208 | - | 9,208 | - |
| Retirement benefits | 962 | 2,478 | 962 | 2,478 |
| Other | (21,558) | 2,402 | (8,593) | (10,563) |
| Tax loss carryforward | 5,096,640 | - | 172,796 | 4,923,844 |
| Total | 5,112,192 | W(35,280) | W 223,638 | 4,853,274 |
| Tax rate | 30.8 % | | | 30.8% |
| Deferred income tax asset | 1,574,555 | | | 1,494,808 |
| Allowance | (1,574,555) | | | (1,435,608) |
| Net deferred income tax asset | W - | | | W 59,200 |

20. Consolidated Per Share Amounts

Consolidated per share amounts for the years ended December 31, 2001 and 2000 are calculated as follows (in Korean Won):

| | 2001 | 2000 |
|--|-------------------|------------------|
| Consolidated ordinary earnings per share | | |
| Consolidated ordinary earnings before incometax expenses | W123,997,796,486 | W211,747,316,635 |
| Income tax benefit related to ordinary earnings | (100,096,095,241) | (56,649,682,654) |
| | 224,093,891,727 | 268,396,999,289 |
| Weighted average number of common shares (*) | 196,116,800 | 196,116,800 |
| Consolidated ordinary earnings per share | W 1,143 | W 1,369 |

| | 2001 | 2000 |
|---|------------------|------------------|
| Consolidated net earnings per share | | |
| Consolidated net earnings after income tax expenses | W224,093,891,727 | W306,400,153,616 |
| Weighted average number of common shares (*) | 196,116,800 | 196,116,800 |
| Consolidated net earnings per share | W 1,143 | W 1,562 |

(*) The number of common shares outstanding at December 31, 2001 and 2000 was 196,116,800. There were no shareholder transactions during the years ended December 31, 2001 and 2000.

As of December 31, 2001, the Bank's shares were suspended from trading on the Korean Stock Exchange. As a market value for the Bank's shares cannot be readily determined, the diluted impact on earnings per share from bonds with warrants and stock options has not been calculated.

21. Application of the Equity-method

Equity investments at December 31, 2001 and 2000 are as follows (millions of Won):

| | First Citicorp Leasing Inc. | Qingdao International Bank | Korea First Data System Co., Ltd. |
|---|-----------------------------------|----------------------------------|---|
| January 1, 2000 | W23,219 | W 9,163 | W4,271 |
| Equity in net income of affiliates | - | 107 | 168 |
| Exchange rate fluctuation | - | 914 | - |
| Dividends received | - | - | (160) |
| Equity in retained earnings of affiliates | - | - | (15) |
| Accrued equity income through sale date | 4,608 | - | - |
| Offset of capital adjustment recorded in prior year | (1,976) | - | - |
| Disposed | (25,851) | - | - |
| December 31, 2000 | W - | W10,184 | W4,264 |
| Equity in net income of affiliates | - | 73 | 470 |
| Exchange rate fluctuation | - | 537 | - |
| Dividends received | - | - | (89) |
| Equity in retained earnings of affiliates | - | - | 9 |
| December 31, 2001 | W - | W10,794 | W4,654 |

22. Related Party Transactions

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2001 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|--------------------------|---------|-------------------|----------|
| | Account | Amount | Account | Amount |
| Trust accounts | Interest income | W20,668 | Other assets | W282,000 |
| | Commissions received | 1,619 | Other liabilities | 62,512 |
| | Trust fees & commissions | 7,852 | | |
| | Compensation | 66 | | |
| | Interest expense | 3,313 | | |
| Korea First Finance Ltd., Hong Kong | Interest income | 7,791 | Due from banks | 115,019 |
| | | | Loans | 55,696 |
| | | | Borrowings | 789 |
| | Revenue transactions | W37,930 | Receivables | W452,715 |
| | Expense transactions | W 3,379 | Payables | W 63,301 |

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2000 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|----------------------|---------|-------------------|----------|
| | Account | Amount | Account | Amount |
| Trust accounts | Interest income | W10,009 | Other assets | W500,000 |
| | Other revenue | 7,197 | Other liabilities | 47,259 |
| | Interest expense | 8,097 | | |
| | Compensation | 26,847 | | |
| Korea First Finance Ltd., Hong Kong | Interest income | 7,991 | Due from banks | 89,960 |
| | Interest expense | 8 | Loans | 21,415 |
| | Revenue transactions | W25,197 | Receivables | W611,375 |
| | Expense transactions | W34,952 | Payables | W 47,259 |

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 2001 are as follows (millions of Won):

| | Transactions | | Account balances | |
|-----------------------------------|----------------------|----------|-------------------|---------|
| | Account | Amount | Account | Amount |
| Qingdao International Bank | Interest income | W2,485 | Loans | W39,783 |
| | Interest expense | 2,504 | Deposits | 149 |
| Korea First Data System Co., Ltd. | | | Borrowings | 40,313 |
| | Interest income | 11 | Deposits | 2,869 |
| | Other revenue | 38 | Other liabilities | 361 |
| | Interest expense | 198 | | |
| | Other expense | 6,632 | | |
| | Revenue transactions | W2,534 | Receivables | W39,783 |
| Expense transactions | W9,334 | Payables | W43,692 | |

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 2000 are as follows (millions of Won):

| | Transactions | | Account balances | |
|-----------------------------------|----------------------|--------|-------------------|---------|
| | Account | Amount | Account | Amount |
| Qingdao International Bank | Interest income | W3,477 | Due from banks | W51,648 |
| | Interest expense | 3,878 | Deposits | 52,638 |
| Korea First Data System Co., Ltd. | Interest income | 4 | Deposits | 2,238 |
| | Other revenue | 76 | Borrowings | 1,200 |
| | Interest expense | 227 | Other liabilities | 137 |
| | Other expense | 3,486 | | |
| | Revenue transactions | W3,557 | Receivables | W51,648 |
| | Expense transactions | W7,591 | Payables | W56,213 |

23. Employee Welfare

The Bank provided W36,090 million and W59,162 million of housing allowances for its employees at December 31, 2001 and 2000, respectively.

Expenditures for the training of specialists for 2001, 2000, and 1999 are as follows (millions of Won):

| Type | 2001 | 2000 | 1999 |
|---------------------------|-------------|-------------|-------------|
| Korea Banking Institute | W218 | W 97 | W 85 |
| Special skill training | 583 | 198 | 113 |
| Foreign language training | 45 | 88 | 10 |
| Overseas service training | 99 | 21 | 8 |
| | W945 | W404 | W216 |

24. Korean Economy

Beginning in 1997, the Republic of 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 experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing consolidations and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Board of Directors



Robert T. Barnum

Chairman, Board of Directors, Non-Standing Director,
Executive Committee, Risk Management & Financial
Control Committee

Chulsu Kim

Vice-Chairman, Board of Directors,
Non-Standing Director

Robert A. Cohen

President, Chief Executive Officer, Executive Committee

Thomas J. Barrack, Jr.

Non-Standing Director

Richard C. Blum

Non-Standing Director, Executive Committee

David Bonderman

Non-Standing Director

Daniel A. Carroll

Non-Standing Director, Audit Committee,
Compensation Committee

Paul H. Chen

Non-Standing Director

Michael O'Hanlon

Non-Standing Director, Audit Committee

Michael "Mickey" Kantor

Non-Standing Director, Compensation Committee

Kazuhiko Kasai

Non-Standing Director

Jong-Tae Kim

Non-Standing Director, Audit Committee

Yoon-Jae Lee

Non-Standing Director, Executive Committee,
Compensation Committee

Frank N. Newman

Non-Standing Director, Executive Committee,
Compensation Committee, Risk Management &
Financial Control Committee

Seonghwan Oh

Non-Standing Director, Risk Management & Financial
Control Committee

Weijian Shan

Non-Standing Director, Executive Committee, Risk
Management & Financial Control Committee

Francis Yeo Teng Yang

Non-Standing Director, Audit Committee



Business Network



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Corporate Communications Department

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INTERNATIONAL BUSINESS- RELATED DEPARTMENTS

Trade Banking Department

Foreign Exchange Information
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Center (Ext: 4795)
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Import Section (Ext: 3887)
Remittance (Ext: 3879)
L/C Advising (Ext: 3912)
Reconciliation (Ext: 3912)
SWIFT/Telex (Ext: 3895)
Marketing (Ext: 3503)

Telex: K24249, K24479, K25363,
K26535, K28784,
K28785 FIRSTBK
Fax: 82-2-3702-4933~8

Correspondent Banking

(Ext: 3844)

Treasury Department

Term Borrowing (Ext: 4401)
Custody (Ext: 4463)
Marketing (Ext: 4410)
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DOMESTIC NETWORK

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Fax: 82-2-2129-6131

Busan

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Tel: 82-51-661-7114
Fax: 82-51-661-7124

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Fax: 82-2-222-2441



Corporate Data

As of December 31, 2001



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Internet: www.kfb.co.kr
E-mail: ir@kfb.co.kr

DATE OF ESTABLISHMENT

July 1, 1929

PAID-IN CAPITAL

W980.6 Billion

NUMBER OF EMPLOYEES

4,456

NUMBER OF OFFICES

Domestic: 391

Overseas: 4

DISTRIBUTION OF SHAREHOLDERS

| | |
|---------------------------------------|--------|
| KFB Newbridge Holdings (private) Ltd. | 50.99% |
| Korea Deposit Insurance Corp. | 45.92% |
| Ministry of Finance & Economy | 3.09% |

NUMBER OF DOMESTIC OFFICES

| | |
|--------------------|------------|
| Retail Branches | 334 |
| Corporate Branches | 57 |
| Total | 391 |

DISTRIBUTION OF DOMESTIC BRANCHES

| Region | 2001 |
|-----------------|------------|
| Seoul | 205 |
| Busan | 22 |
| Daegu | 13 |
| Incheon | 9 |
| Gwangju | 6 |
| Daejeon | 7 |
| Ulsan | 4 |
| Gyeonggi-do | 57 |
| Gangwon-do | 11 |
| Choongcheong-do | 14 |
| Jeolla-do | 17 |
| Gyeongsang-do | 23 |
| Jeju-do | 3 |
| Total | 391 |





Investing for the Future

In Korea, these *bokchori* are delivered to houses at Lunar New Year. They represent the good fortune and potential of the coming year.

We listen first



KOREA FIRST BANK

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