# CHOHUNG BANK

ANNUAL REPORT 2000


## CHB - Tradition, Innovation, Vision

Chohung Bank is proud of its long history and its unique position as not only the oldest bank but also the oldest business enterprise in Korea. However, the Bank is young in spirit. Its ability to take proactive measures is central in its quest to become once again a premier financial institution.

Securing our future through innovative practices - at Chohung Bank, it is a tradition.

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# Financial Highlights

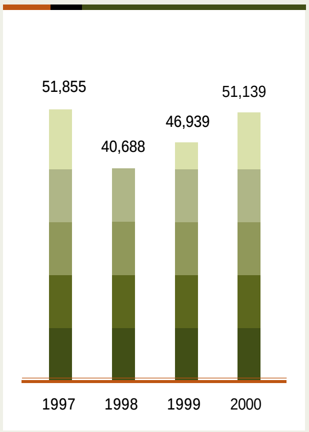
| Consolidated Basis | Millions of Korean Won 2000 | Millions of Korean Won 1999 | Thousands of U.S. Dollars[1] 2000 | Thousands of U.S. Dollars[1] 1999 |
|---|---|---|---|---|
| **For the Year** | | | | |
| Total income | **W 5,801,572** | W 5,802,615 | **$ 4,605,519** | $ 5,066,017 |
| Total expenses | **5,702,550** | 6,511,381 | **4,526,912** | 5,684,810 |
| Income (loss) before income taxes | **99,022** | (708,766) | **78,607** | (618,793) |
| Net income (loss) | **99,359** | (746,322) | **78,875** | (651,582) |
| **At Year-End** | | | | |
| Total assets | **W51,138,690** | W 46,939,185 | **$40,595,928** | $ 40,980,605 |
| Loans | **30,550,447** | 25,807,587 | **24,252,161** | 22,531,506 |
| Securities | **13,759,126** | 14,045,291 | **10,922,542** | 12,262,346 |
| Deposits | **35,426,396** | 30,334,444 | **28,122,883** | 26,483,712 |
| Total shareholders' equity | **2,102,005** | 2,193,103 | **1,668,656** | 1,914,705 |

| Financial Ratios (%)[2] | 2000 | 1999 |
|---|---|---|
| Return on assets (ROA) | **0.21%** | (1.69)% |
| Return on shareholders' equity (ROE) | **3.34%** | (24.72)% |
| BIS capital ratio | **9.78%** | 9.80% |

*Notes : 1) The Korean Won amounts are translated into U.S. dollars solely for the convenience of the reader at the exchange rate of W1,259.70 and W1,145.40 to US$1.00, the prevailing rate on December 31, 2000 and 1999, respectively.*

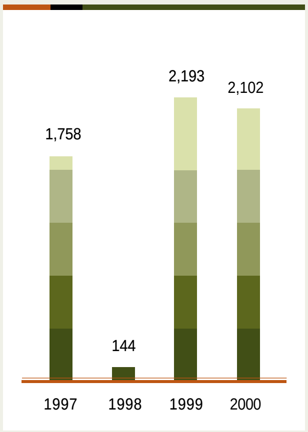
*2) ROA and ROE calculations are based on non-consolidated data, while the BIS capital ratio is based on consolidated data.*

**Total Assets**



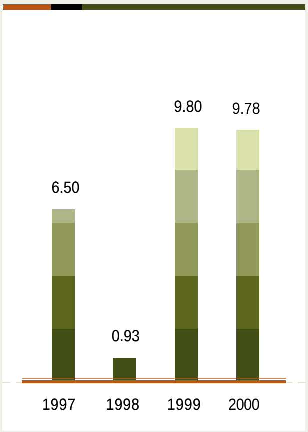

In Billions of Korean Won

**Total Shareholders' Equity**




In Billions of Korean Won

**BIS Capital Ratio**




In Percent

# Message from the President and CEO


**Sung-Bok Wee**
President and Chief Executive Officer

First of all, I would like to convey my sincere thanks to our customers and shareholders for their unwavering support and encouragement of Chohung Bank.

The year 2000 was a turbulent one for Korea, in both politics and society.  As economies and stock markets around the globe continued to converge, the influence they exerted became powerful enough to dictate the course of the Korean economy.  Despite experiencing a rapid recovery in the first half of the year, the national economy began to lose momentum as the year progressed, a slowdown attributable to inadequate restructuring efforts in general and an ineffective response to the changing situation.  In fact, the economy deteriorated to such an extent that it raised the possibility of yet further economic difficulties in the second half of the year.

Meanwhile, the digital revolution spread swiftly.  With the use of new technologies in the IT sector, customers' needs have changed and it has become more difficult to meet the sophisticated demand for financial services by conventional means alone.

In order to enhance managerial transparency and operational efficiency, Chohung Bank has built up six major infrastructures. The new structures consist of a Profitability Management System, a Credit Management System, a Credit Risk Rating System and Credit Scoring System, an Enterprise-Wide Risk Management System, an Individual Performance Management System, and a Data Warehouse System. These systems are currently being implemented and have already resulted in significantly improved efficiency. Of particular note, is our Credit Management System, which is the first of its kind in Korea. It is a newly developed integrated system that systemizes the entire credit process, from credit application and approval to ex-post facto management. Furthermore, the Bank has reoriented its entire organization toward becoming more customer and market-friendly. After a year of consistent efforts, we are beginning to see the benefits of this policy. The Bank is now able to respond proactively to changing financial circumstances both at home and abroad.

As a result of these efforts, in July 2000, the Financial Supervisory Commission (FSC) officially announced that CHB had no further potential losses to be added to its income statement for 2000. After an exhaustive assessment, the Management Evaluation Committee also declared the Bank capable of proceeding alone, without need of a further capital injection by government. By the end of the year, the Bank had firmly reestablished its standing by moving back into the black.

Asset quality significantly improved in 2000, largely resulting from the write-off and sale of bad loans and a strengthened credit system. At financial year-end, non-performing loans (NPLs) stood at W3,613 billion, down 35.6% from 1999, reducing the NPL ratio from 16.5% in 1999 to 10.2% in 2000. Also, the Bank reinforced its capital position by successfully issuing US$400 million of foreign currency denominated subordinated debt and W150 billion of local currency denominated subordinated debt, ending the financial year with a BIS ratio of 9.78%.

During fiscal 2000, the Bank's pre-provision operating income amounted to W885 billion. This figure was higher than any of our competitors' and was achieved mainly by our stable low-cost funding base and outstanding performance in credit card business. Despite setting aside W852 billion in loan loss provision, in compliance with stricter forward-looking criteria for asset classification, the Bank recorded a net income after taxes of W101 billion. This marked a return to profit for the first time in the past three years and paved the way for the Bank to re-emerge in better financial condition and be well prepared for generating greater profits in the future.

At this important moment in time, as we usher in the 21st century, the Bank has to take measures to respond to impending change. This calls for a firm understanding of fundamental changes in the banking industry and a clear insight into the shifting business paradigm.

Message

Korea's financial sector as a whole is witnessing dramatic changes. Conditions in the financial industry remain difficult due to the consequences of corporate restructuring and economic slowdown. In an effort to respond to the changing environment, and with the passage of the Financial Holding Company Act, the second stage of the banking sector's restructuring drive has been put into high gear. Hanvit Bank's launch of its financial holding company, Kookmin Bank and Housing & Commercial Bank's announced merger, and other expected mergers between some local banks, all mark the transformation of the domestic banking industry.

Following the process of reorganization and restructuring, mega-banks as well as foreign and domestic financial institutions are expected to be involved in fierce competition to dominate the Korean market. In the meantime, they are entering all out competition where those who fall behind now may never be able to gain lost ground. Thus, it is of the greatest importance to win the confidence of the market by gaining the upper hand at the earliest possible moment. To secure its future, it is necessary for the Bank to take proactive rather than reactive measures.

To take advantage of the changing financial conditions, the Bank has set three broad management goals: transformation, innovation, and becoming a major player in the future financial marketplace. With these goals in mind, we are committed to making every effort to improve our financial structure and sharpen our competitive edge. This will set the stage for the Bank to become a leading financial institution in the 21st century.

First, the Bank is committed to laying the foundations for financial competitiveness by achieving the government Memorandum of Understanding goals. This is the yardstick by which our status as a sound bank will be judged. To achieve those goals, the Bank will strive to maintain a BIS capital adequacy ratio of above 10% and an NPL ratio of below 4%. Moreover, the Bank intends to raise the per capita operating income to over W220 million and ROA to over 1% during 2001. Achieving these targets and endeavoring to repay public funds will be a major step in Chohung Bank's transformation into a renewed, stronger bank with an improved financial position and greater competitiveness.

Second, the Bank will make innovative changes in marketing. In an effort to secure a stable base for profit creation, the Bank has strengthened its marketing capability by taking advantage of its Data Warehouse and has improved marketing efficiency by means of an integrated profit management system. The Bank has also implemented advanced marketing techniques such as providing personalized solutions for individual customers while continuing to improve upon more conventional methods. At the same time, the Bank will seek to promote efficiency by creating a smaller, more efficient head office. We will carry out comprehensive reforms throughout the organization and close less profitable branch offices. All of these efforts will be instrumental in achieving an overall operations upgrade and ensuring the Bank's pre-

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eminence in the field of customer service. We are confident of setting the standard others will follow in terms of customer satisfaction.

Third, the Bank aims to retain its position as a leading financial institution and ensure its long-term prosperity. To achieve this, it is imperative for us to increase our potential for growth by improving profitability. To that end, the Bank will implement a comprehensive package of solutions that will include utilizing our advanced management systems to create a higher quality customer base, enhancing core products by focusing on price competitiveness, and advancing into new profitable ventures.

The Bank will also concentrate on generating new services, and thus further profits, in e-finance and investment banking. We have consolidated our position as the leader in the field of e-finance and significantly increased profitability in the increasingly important area of investment banking. Along with these efforts, we plan to inaugurate an asset management company to be established on a joint-venture basis by attracting the participation of foreign financial institutions. Moreover, we will create the basis for the Bank itself to become a financial holding company, encompassing asset management, investment banking, insurance, and brokerage. Overall, we will make every effort to prove that Chohung Bank, a leader in the financial sector in the 20th century, can regain the standing of a premier bank capable of leading the industry into the 21st century.

I sincerely wish the best to all our customers, shareholders, and correspondents and hope that I can count on your continued support and encouragement.

Thank you.

**Sung-Bok Wee**
President and Chief Executive Officer

# Highlights of 2000

<<< During the year 2000, the Bank achieved several notable financial and organizational goals. CHB clearly demonstrated its ability to proceed independently by successful recapitalization and the achievement of a sufficient capital adequacy ratio.


The Korea Herald

FSC approves proposals by Chohung.

The Financial Supervisory Commission (FSC) approved the management improvement plans of Chohung Bank yesterday, allowing them to stand on their own. But the financial watchdog nixed self-rescue plans from four other banks - Hanvit, peace, Kwangju and Cheju -- which will be required to submit revised reform plans by Nov. 22.

" The FSC gave the green light to the management improvement plans of Cho Hung and KEB since they are highly feasible, " said Nahm Sang-duk, an FSC director. " But the two banks should meet government-imposed conditions. "


| CHB - Best for Customer Service | Rehabilitation Plan Approved | Successful Issue of Subordinated Debt |
|---|---|---|
| In November, CHB received the Grand Prix for Customer Satisfaction Management, awarded by the Korea Management Association (KMA) in recognition of the Bank's outstanding effort in the field of customer care. At the same time, President Sung-Bok Wee received the " Best CEO Award " in recognition of his efforts to promote and implement initiatives aimed at providing better quality service for all the Bank's clients. The occasion marked the first time that a Korean bank received both awards simultaneously. | Also in November, the Financial Supervisory Commission (FSC) approved the Bank's rehabilitation plan. The decision, based on evaluation results prepared by the Management Evaluation Committee, was confirmation that the Bank had proven itself financially healthy enough to stand alone. While the announcement marked an important moment for the Bank, it came as little surprise to those in the financial sector. By improving asset quality and enhancing profitability in 2001, the Bank is positioning itself as a leader in the industry. | In March, CHB successfully issued US$400 million of global subordinated debt, which followed W150 billion of domestic subordinated debt. As the result of a series of recapitalization efforts, the Bank achieved a capital adequacy ratio of 9.78% at the end of 2000, right on track to achieve a BIS ratio in excess of 10% by the end of the year 2001. |

<<< The Korean financial authorities and business community both recognized and rewarded the quality of CHB's management and level of customer satisfaction.



## Introduction of the Business Unit System

In March, the Bank introduced the Business Unit System. This aimed at providing higher quality services for respective customers. The System's five profit center units are Retail, Corporate, Institutional, Trust, and Merchant banking. Of special note was the enhanced service offered to corporate clients. More than 160 Relationship Managers (RMs) provided services specifically tailored to the needs of corporate clients. Together, the introduction of Business Unit System has enhanced customers' satisfaction and helped to improve efficiency.

## CHB - No.1 for Internet Banking

CHB received two other awards from the KMA this year, this time for its outstanding achievements in the field of e-Banking. The Bank was awarded the Grand Prix at the "2000 KMA Internet Awards" in recognition of the quality of its expertise and services, while President Sung-Bok Wee received the "e-CEO Award" in recognition of his personal support and promotion of the Bank's e-Banking business and e-Business in general.

## CHB Acquires Vietnamese Bank - Chohung Vina Bank

In August, CHB acquired a 40% stake in Firstvina, a leading Vietnamese bank. Already the most profitable of the four joint-venture banks in Vietnam, the renamed Chohung Vina Bank is expected to show better performance due to Vietnam's rapid pace of economic growth. The takeover gives the Bank a strong position in the Vietnamese market, facilitates profits from international trade, and leaves it ideally placed to expand into other Southeast Asian markets.

# Key Investment Considerations

<<< *The year 2000 saw Chohung Bank make great strides in its effort to improve all aspects of management. The Bank is now looking to the future with a greater sense of certainty and purpose than ever.*

## Recovery & Beyond

How has Chohung Bank managed to succeed where others failed? And why will it continue to prosper and re-establish its place in the front rank of the Korean banking industry? The broad answer is management. CHB's management designed and implemented key strategies and programs aimed at consolidating core strengths and improving profitability. In so doing, they successfully put the Bank firmly back on the path to recovery and future prosperity.

## Core Strengths: Low Cost Funding, High Profit Businesses, Effective Management

### Low Cost Funding

The Bank is working efficiently. At year-end, its cost-income ratio stood at 28.4%, lower than any of its competitors. This was due to low funding costs, high profitability in key areas, successful restructuring, and management innovation.

CHB has one of the highest net interest margins in the industry thanks to having the lowest domestic funding costs. The Bank also has the highest share of core deposits among its peers, owing partly to its long history, which allowed the establishment of branches in prime locations, including hospitals, airports, and universities.

In the fiscal year 2000, increases in the value of deposits were seen across the board as customers regained their faith in the Bank. Reflecting its service-oriented approach to improved profitability, the Bank offered a wide range of deposit products targeting different customer segments, with each type of account tailored to the clients' financial profile. By concentrating on the quality of its product, the Bank believes it can build upon its reputation in the retail sector and thereby continue to generate low cost funding.

Another important area of low cost funding is court escrow deposit accounts. These deposits, made by litigants in connection with legal proceedings in Korean courts, carry interest at below market rates. Chohung Bank has been a designated bank for court escrow deposits for more than 40 years and currently has a total of 42 branches, 20 in major cities, handling this business. These deposits form an important source of low cost funding for the Bank and account for a significant proportion of total income.

CHB dominates this market, claiming approximately three-quarters of total market share. As a result of its extensive experience in court-related business, the Bank has developed an infrastructure of equipment, software, and personnel to service this area. The emphasis is firmly on customer satisfaction. CHB's computer network is connected to the court network, allowing swift processing for depositors, specialized personnel handle the deposits, and preferential services are extended to members of the legal profession. These are just a few of the ways the Bank is striving to provide the best possible service to its customers.

Although this area of business is becoming increasingly competitive, the Bank believes that it is better positioned than any other to perform it effectively. While there is no assurance of continued market dominance, the Bank is confident that its experience and customer-oriented strategy will keep it at the forefront of this important market.

# Key Investment Considerations

<<< *In the highly profitable credit card area, CHB stands apart from its peers. The Bank has more high-net-worth credit card holders than any other domestic bank, which translates into healthy net commission profits.*

## High Profit Businesses

### Credit Cards

Until quite recently, the credit card sector of the Korean financial market was underdeveloped. However, with the government's policy of encouraging credit card use, it has matured rapidly. Both the overall number of cardholders and the value of transactions have increased significantly in recent years, as has the average balance of credit card accounts. This trend looks set to continue as the market matures still further.

Currently, more than 3 million people use CHB credit cards. While that figure represents an increase of nearly 1 million users over the previous year and a greater number of users than any other bank, a more important aspect is the quality of those cardholders. Average spending per cardholder was greater than that of any of the 11 other banks participating in the BC card network, and the stable long-term delinquency ratio stood at below 2%. Income from credit card operations accounted for nearly a third of total income for the year.

The Bank's credit card business is highly competitive due to its focused and innovative strategy. In February 2001, the Bank became the first among the BC card affiliated banks to establish a system independent of the card company, enabling it to independently issue, manage and authorize cards, and operate its own credit card call center. This has led to significant operational savings in personnel and costs.

The Bank has also actively boosted its credit card business through marketing and improved customer care. Utilizing its Data Warehouse, the Bank launched a vigorous personalized marketing campaign aimed at attracting high quality customers. As a relatively recent innovation in Korea, this is a particularly effective recruitment measure. Also, customer service has been further improved by installing card issuing machines at 40 main branches nationwide, thus reducing both waiting times for customers and administrative costs for the Bank.

<<< *CHB leads the industry in Internet Banking, boasting the largest number of users in Korea and a number of awards, thanks to a combination of superior service and leading-edge technology.*

## e-Business

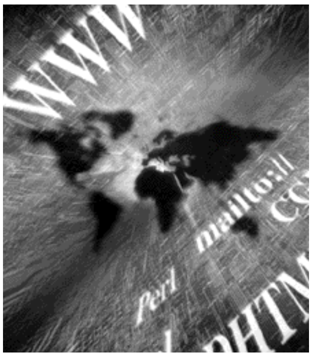
e-Business is rapidly changing the banking landscape. As with any emerging business sector, the importance of arriving early and creating a reputation for efficient, reliable products and services cannot be overstated. Chohung Bank not only pioneered Firm Banking, Phone Banking and Internet Banking, but it did them well.

Firm Banking and Phone Banking have each seen yearly increases in the number of users and transactions, but it is Internet Banking that has made the most impressive progress. While the number of Phone Banking customers rose steadily, from 1.4 million to 1.7 million users, the number of Internet Banking customers leapt from 17,000 at the end of 1999 to over 1 million at the end of 2000. This huge increase gave the Bank the largest customer base in the country and put it ahead of the industry in a rapidly expanding market. The Bank also boasted the nation's largest business client base, with over 1,500 companies affiliated with its online payment scheme.

Customers are turning to CHB Internet Banking because of the breadth and depth of its service. The basic banking functions of deposit accounts, such as the transfer of funds and account checking, were just the beginning. CHB customers can apply for and make interest payments on loans, deposit and remit foreign currency abroad, receive cash advances on and inquire about credit cards, as well as automate most types of payments from their accounts. In all, the Bank offers 179 different Internet Banking services.

Since first launching a full-scale Internet Banking operation in 1999, CHB has led the field. The Bank's accomplishments have been recognized with numerous awards and prizes including first prize in the "2000 Best Web Awards-Internet Banking Section" in May, followed by the Grand Prix in the "2000 KMA Internet Awards" and an "e-CEO Award" in October. In addition, the Bank received the Grand Prix at the "Korea Electronic Commerce Award 2000-Finance Section" from CommerceNet Korea, an organization affiliated with the Ministry of Information and Communication.

All of this represents another of the Bank's low-cost, high-profit income areas that is geared for future growth. However, the Bank is aware that it must constantly strive to be better, and it plans to develop its current Internet Banking service into a fully-fledged financial portal in alliance with securities companies, brokerage firms, insurance companies, and telecom carriers. This will be a true one-stop universal financial facility, and will position the Bank firmly at the center of the e-finance sector.



# Key Investment Considerations

<<< *From local branch level to the boardroom, the reorganization of CHB has led to better services for customers, improved returns for shareholders, and a more rewarding environment for employees.*

## Effective Management

Much of the Bank's recent increase in operational income has been generated due to the thorough overhaul of its internal structure. The Bank is continuing with the implementation of five discrete infrastructures, all based around the Bank's Data Warehouse, the sixth and central system. The Data Warehouse collates and processes all data relating to each infrastructure and serves as a central repository of customer information.

The Profit Management System analyses data on products and services and uses it to accurately evaluate the profitability contribution of each organization, product, and customer group. The Credit Management System, integrating the loan process from application to post management, has successfully reduced the operating costs of administering loans. The Credit Risk Rating System has helped reduce the risk of incurring NPLs from corporate clients, while the Credit Scoring System performs a similar function for retail customers. The Bank will implement an Enterprise-Wide Risk Management System, aimed at minimizing loss by integrating the data from different areas of operations, and in an effort to further improve customer care, an Individual Performance Management System will encourage and reward better job performance. Meanwhile, the Data Warehouse has enabled the Bank to effectively profile its customers and implement targeted marketing productively.

The Bank has also streamlined its business into five product and distribution business units, covering retail, corporate, institutional, trust, and merchant banking. In the corporate sector, 162 Relationship Managers will head specially assigned task forces and create closer ties with businesses to provide the kind of specialized service demanded by corporate clients. All together, the divisional reorganization has enhanced product delivery channels and customer service, and resulted in a more efficient allocation of resources.

# Further Ahead

<<< *CHB's long-term strategy is the creation of a universal banking entity that will provide a fully-fledged range of services. This will enable it to respond effectively to rapidly changing financial circumstances and more diversified customer needs.*

## Our Vision - CHB Holding Company

CHB sees the creation of a holding company as an essential step in providing diversified financial services. The holding company will consist of several major divisions. A Commercial Banking division will continue to encompass retail, wholesale and private banking sectors, as well as trust and credit card businesses, while the creation of a separate Investment Banking division will enable the Bank to diversify its services to include areas such as M&As and NPL sales. This will serve to reinforce its strengths and improve profitability in those fields. The growing demand for indirect investment and the expansion of managed assets will also see a need for a concentration of resources in the Asset Management division. With the establishment of this division, the Bank aims to become increasingly able to attract capital from foreign financial institutions. In order to stay abreast of international trends such as bancassurance, the Bank also intends to establish an Insurance division offering a comprehensive range of services in line with consumer demands. With regard to brokerage, we plan to inaugurate a cyber-trading company, which will handle all transactions online, in order to provide greater services to customers and reduce operating costs.

## Why a Holding Company?

As competition in the domestic banking industry escalates, the Bank needs to increase its competitiveness and market power or face a merger or worse. A holding company offers benefits in terms of financing, management, and synergy. The capital required by the Bank for the establishment of a division's subsidiary is reduced as it can take advantage of a leverage effect to secure a smaller overall stake. Also, financial security is heightened for companies in a holding company. Mutual investment is prohibited, and debt incurred by one company cannot be transferred, however indirectly, to another. Management efficiency is also enhanced. The separation of operational functions along company lines serves to improve management quality, and evaluation of the performance of each company becomes easier. Following this, it is easier to divert resources from poorly performing sectors to efficiently performing ones, thus enabling the holding company to increase its value by maintaining a high-performing portfolio. Financial transparency also increases as companies stand on their own ability, unencumbered by debts incurred in other parts of an organization, thus helping instill shareholder and customer confidence. The net effect is that subsidiaries under a holding company gain all the advantages of being part of an integrated organization with few of the problems associated with more traditional subsidiary companies.

## Making it Happen

The restructuring that has already taken place at CHB is laying the groundwork for the future. Competitiveness will be assured in the short term by meeting the terms of the MOU, reducing the government's stake to below 50%, and continuing the implementation of management reforms. The Bank will build upon this to create a sound revenue model, capable of complementing business areas and customer bases. When this is securely established and competitiveness fully restored, the Bank will push to make the transformation into an inter-industry financial holding company, providing a total banking service, and positioning CHB at the heart of the financial industry.

# Review of Operations

<<< *Despite another difficult year in the Korean financial sector, the defining theme for Chohung Bank was achievement. Against a background of corporate restructuring and market uncertainty, the Bank successfully strengthened its capital position, consolidated its profitable businesses, and posted a net profit for the year.*

## The Market Environment

During the year 2000, the Korean financial landscape underwent great change due to the rapid spread of information and telecommunications technology. Domestic banks had to react swiftly to the ever more demanding needs of customers and markets, and competition among local banks started to intensify as efforts were made to retain existing market share and capture new business. With the market becoming more diverse, financial institutions continued apace with reorganization in order to better serve an increasingly sophisticated market.

Chohung Bank took effective measures to respond to these changing conditions. The Bank made great progress in implementing its Business Unit System in the year 2000. The focus of the Bank's management was firmly on upgrading customer satisfaction. Capturing and retaining a quality customer base, in both the corporate and retail markets, proved to be the key to improved profitability.

The most significant result of the continuing efforts to increase profitability was the decision by the Financial Supervisory Commission to allow the Bank to stand alone, without further capital injection by government. The Bank is continuing to carry out reforms to ensure that transparency and efficiency of operations are more than a hollow refrain and it is fully committed to satisfying the demands of its shareholders and customers alike.

## Retail Banking

It has become clear that both the profit and growth of major corporations the world over is being driven less by the capture of market share than by the creation of customer satisfaction and loyalty. The Korean market is no exception to this. As customer segmentation has become more apparent, databases have become an important tool in researching markets and identifying target groups. In the financial industry the demand for more specialized products and services has led to alliances among companies with complementary areas of business such as insurance, securities, and trust management. By being amongst the first to adopt new technologies and exploit new developments, CHB has remained at the forefront of one of its traditionally strong areas of business.

As of the end of 2000, the Bank's total individual customers numbered 8,241,000, while high-net-worth customers totaled 249,838. Total deposits increased by W6,772 billion, or 24.5%, to W34,393 billion and the value of consumer loans stood at W5,392 billion, an increase of 23.2% over the prior year.

From March 2000, a change in regulations enabled commercial banks to handle housing subscription deposits and housing installment deposits. CHB quickly established a Housing Loan Division (now renamed the Consumer Finance Division), and at fiscal year-end housing subscription-related deposits stood at W1,102 billion. The growth of housing loans accelerated in 2000. Total housing loans recorded a 131.8% growth rate in 2000 over the previous year, the highest in the industry.

In the credit card area, cardholders increased significantly in number on the previous year, up by 46.9% to stand at over 3 million by year-end. Net commission income was more than double the figure for 1999, totaling W516 billion. This was an increase of 113.2% over the previous year in this highly profitable area of business. The upsurge was largely the result of the Bank's aggressive marketing activities, as well as the government's active encouragement of credit card usage aimed at promoting transparency in all financial transactions.

In the coming year, the Bank will continue to seek new ways to better profitability. It will pioneer new areas of growth in the market and intends to vigorously develop high-profit markets. Through the provision of innovative and excellent products and services, CHB will foster customer loyalty and consolidate its position as a premier retail bank.

# Review of Operations

<<< *The introduction of Relationship Mangers and the Credit Management System helped the Bank reinforce its position in the corporate banking sector during the past year, both in terms of enhancing customer service and minimizing credit risk.*

## Corporate Banking

The year 2000 saw a worsening environment for corporate banking. Continued corporate bankruptcies caused by the ongoing economic slowdown were major factors in this. However, there were also several underlying trends that had an effect. The corporate sector is undergoing a fundamental change, with the gap between developing industries and declining ones widening. Strong companies are increasingly turning to direct financing, and foreign financial institutions are encroaching upon the domestic market. All of these developments intensified competition and increased the likelihood of reduced profitability in this sector of the market.

To cope with the deteriorating conditions, the Bank established a Business Unit System organized by customer and market. Discrete market segments, such as public corporations, securities companies, and pension funds, are now each assigned a task force, headed by a Relationship Manager who has special responsibility for a given client. In addition, in September 2000, the Bank launched its Credit Management System (CMS). This enables the standardization and automation of the entire credit process, from approval to follow up. Not only does this lessen the probability of extending imprudent loans, but it manages credit more effectively and reduces the risk on current loans.

As of the end of 2000, the Bank's outstanding won-denominated corporate loans stood at W13,197 billion, up 12.4% on the previous year. However, foreign-currency loans decreased by 4.0% to total W3,297 billion. This drop was largely attributable to a reduction in demand for new loans and the repayment of foreign-currency loans extended to domestic leasing companies.

Looking ahead to 2001, the Bank aims to become a prime mover in the wholesale financial market by concentrating on providing clearly differentiated services for selected target customers. CHB plans to capitalize on the changes taking place in the corporate sector and position itself as a premier provider of corporate financial services.


## Securities

In 2000, the Korean stock market underwent a period of stagnation caused by continued corporate restructuring, liquidity problems at some major companies, and fears of recession. However, despite the unstable financial environment, market rates continued their downward trend. In general, interest rates were characterized by downward stabilization as financial institutions managed assets through low risk options such as government bonds, rather than riskier ventures such as corporate loans.

The Bank maintained a conservative portfolio management policy for securities investment. It strictly observed portfolio diversification and limited the growth of stock investments. Investment in debt securities included, primarily, government bonds and corporate bonds with relatively low credit risk. Corporate bonds invested in by the Bank were mostly guaranteed by banks or government-related funds.

The Bank's total securities investments at the year end were W12,859 billion, up 7.2% on the figure for 1999, while profits on these investments were down by 3.4%, to W953 billion. Losses on trading stock for the year amounted to W50 billion due to the overall bearish stock market condition. During the year, the Bank reduced its portfolio of trading stock and finally ceased trading in stock altogether. This was to avoid further losses incurred by sluggish market performance and increased risk. The Bank's investment in foreign currency securities also decreased to W738 billion, down 29.6% from the year before.

CHB will respond actively to expected continued low growth and low interest rates in the domestic economy. The Bank will increase its securities-related operations and concentrate on short-term investments. It will also improve market risk and interest risk management through hedging instruments, specialization in public bonds and securities trading, and the implementation of over-the-counter securities sales. Moreover, the Bank will cease trading in stocks in order to avoid the high risk associated with the current market volatility. In foreign currency securities, the Bank will concentrate on short-term rather than long-term investments in its efforts to generate operating income.

## Merchant Banking

Against a background of low interest rates induced by an abundant money supply, market liquidity centered on high interest bearing, short-term deposit products. The Bank's merchant banking business benefited from this in particular as, due to a deterioration of their credit rating, liquidities moved away from investment trust companies and merchant banks.

The Bank's merchant account assets reached W2,218 billion, a 12.3% increase over the previous year. Loans in merchant accounts posted a year-end balance of W1,859 billion with interest income of W219 billion. This was the result of aggressive marketing in the short-term money market. The Bank was also able to effectively capitalize on favorable market conditions created by the winding up of a number of merchant banks and increased its merchant account deposits to W1,457 billion, up 106.9% from the previous year.

# Review of Operations

*<<< During 2000, CHB boosted its share of the won/dollar foreign exchange market while at the same time raising its international profile with the takeover of the Firstvina Bank in Vietnam.*


There was an increase in LBO project financing for the acquisition of Korean companies undergoing restructuring. Through strategic alliances with foreign financial institutions, the Bank was involved in financial consulting management and participated in project financing. At year-end, total commitments stood at W350 billion.

Venture investment was difficult in 2000. Most venture companies postponed funding due to unfavorable market conditions stemming from poor performance on the KOSDAQ. However, the Bank continued to nurture companies specializing in information and technology, semiconductors, electronics, and biotechnology. Investment reached a total of W10 billion in 23 companies, and profits are expected from these investments from 2001.

The restructuring of the financial industry and the management of non-performing assets created the need for ABS (Asset Backed Securitization). CBOs (Collateralized Bond Obligations) for trust accounts of W105 billion were issued in March, while CLOs (Collateralized Loan Obligations) of W100 billion were issued in December, helping to ease the liquidity problems of corporate clients.

In order to increase its presence in the market, the Bank will concentrate on improving quality rather than quantity in the coming year. This will be achieved by upgrading credit structure through the diversification of corporate clients and the enhancement of asset quality. In investment banking, the Bank aims to increase competitiveness by improving infrastructure and strengthening the organization to create an exclusive sales base.

## Trust Business

The year 2000 was one of the most difficult for trust business in Korea due to concerns over the sluggish stock market performance, low corporate credit ratings. As corporate clients continued to withdraw deposits, the average balance of money trusts decreased substantially.

As of December 31, 2000, the balance of money trusts managed by the Bank totaled W5,073 billion. This represented a decrease of 46.1%, or W9,416 billion compared to the previous year, reflecting bearish conditions in the domestic stock market. The Bank managed trust funds by channeling them into securities, which made up approximately 70% of the Bank's trust assets balance. Securities investments consisted of government-related bonds, debentures and other securities.

The Bank commenced offering a wider range of trust deposit products aimed at addressing the needs of specific clients. These included trusts that allow additional credit as well as cancellation before maturity, retirement trusts, and tax trusts. The Bank also diversified its investment portfolio, moving into securitization bonds, collateralized CPs, and collateralized bonds. Moreover, in its efforts to diversify into profitable areas, the Bank commenced operations in real estate trusts.

Future plans will focus on transforming the Bank from a finance and trust-oriented business into a full service financial institution. This will enable the Bank to offer professional asset management skills, thus better serving the ever more specialized market. This should in turn lead to increased profits through a widened range of operations.

## International Banking

The year 2000 saw the Korean economy consolidating in the wake of extensive corporate restructuring. International trade increased in volume by 14.4% over the previous year to US$35,152 million. Foreign currency exchange increased by 4.5% to US$1,727 million, while remittances abroad were also up by 5.4%, to US$2,024 million. However, the net gain on foreign currency trading, including derivatives trading, decreased from W148 billion to W104 billion in 2000.

Both short-term and long-term funding spreads improved, from 1.84% to 0.92%, and from 1.73% to 1.00% respectively. This resulted from the stabilized capital market and the reduction in demand for foreign currency funds due to the Bank's improved credit rating and a reduction in non-performing foreign currency assets.

The Bank retained its position as a major player in the won/dollar foreign exchange market, boasting a market share of 10.3%. Total trading volume amounted to US$120 billion, which translated into a net gain of W10 billion.

In August, the Bank raised its overseas profile by completing the takeover of the Vietnamese bank Firstvina. After six months of negotiations with the Korea Deposit Insurance Corporation, CHB now holds a 40% stake and is in control of management of the bank, which has been renamed Chohung Vina Bank. The Bank was regarded as an ideal partner due to its management ability and experience in Vietnam. The acquisition provides the Bank with a good opportunity to penetrate not only the burgeoning Vietnamese market but also the Southeast Asian markets.

In the coming year, with the completion of its infrastructure reforms, the Bank will seek to generate further fee-based income in foreign exchange trading and in its expanded foreign retail banking operations.

CHOHUNG BANK

# Financial Section



www.chb.co.kr

# Overview

## Basis of Presentation

The following financial statement analysis is based on non-consolidated financial statements for Chohung Bank (the Bank). Therefore, the Bank's results of operations and financial conditions should be read in conjunction with the audited non-consolidated financial statements and notes unless otherwise specified. The information with respect to the trust accounts is set forth separately in the section titled "Analysis of Trust Account." All other financial information set forth below is presented on a non-consolidated basis unless otherwise specified.

Management's discussion and analysis may contain forward-looking statements that are provided to assist in the understanding of anticipated financial performance. Words such as "plans," "anticipates," "expects," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed in such statements.

## Business Highlights

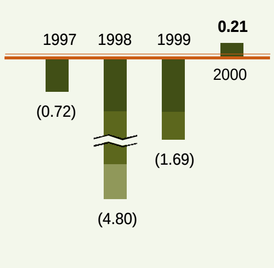
The Bank's financial position and recent results of operations for the periods under review have been significantly affected by economic and business conditions in Korea. From mid-2000, the Korean economy showed some clear signs of a gradual slowdown amid shrinking consumer consumption and facilities investment. Effects of the economic downturn on the banking industry include the burden of accumulating provisions for bankruptcies and decreases in income due to losses from securities investment. Such factors negatively impacted on the level of asset soundness and the profitability of the Bank.

The highlight of Chohung Bank's financial performance for the fiscal year 2000 was that the Bank turned in a profit for the first time since 1997. Net income for the period in review reached W101 billion, a remarkable turnaround from a net loss of W698 billion a year ago. Thus, the Bank is exhibiting clear signs of a full recovery from both the financial and performance difficulties flowing the 1997 financial crisis in Korea.

Net interest income for the year ended December, 2000 grew 23.4% to W1,504 billion in 2000 due primarily to a 24.1% rise in average interest-earning assets; specifically the dramatic growth of credit card loans. The provision for loan losses decreased 48.6% to W852 billion in 2000, from W1,658 billion in 1999, as a result of the Bank's strong asset management. After recognizing non-interest income and expenses, the Bank recorded 2000 net income of W149 per share, compared with a net loss of W1,505 per share in the prior year.

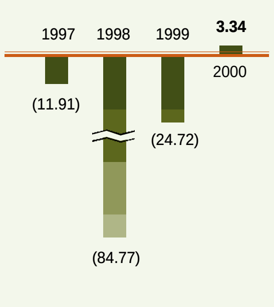
The Bank's non-performing loan(NPL) ratio improved to 10.2% in 2000, from 16.5% in 1999. The NPL ratio still remains high due to the tightening of the asset classification system and ongoing corporate restructuring. The level of non-performing loans increased greatly after the Daewoo crisis, but the sale of bad debts and write-down efforts have resulted in their reduction. In relation to capital adequacy, the Bank posted a strong capital ratio of 9.78% in 2000, well above the required ratio of 8%.

**Chart 1. ROA**



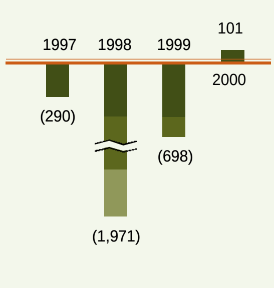

In Percent

**Chart 2. ROE**




In Percent

**Chart 3. Net Income**




In Billions of Korean Won

### Table 1. Selected Financial Data

(Billions of Korean Won)

| | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|
| **Non-Consolidated Statement of Operations Data** | | | | |
| Interest income and dividends | W 4,212 | W 3,323 | W 3,847 | W 2,991 |
| Interest expenses | 2,709 | 2,104 | 2,959 | 2,062 |
| Net interest income | 1,504 | 1,219 | 888 | 929 |
| Provision for loan losses | 852 | 1,658 | 598 | 393 |
| Non-interest income | 1,290 | 1,422 | 1,859 | 672 |
| Non-interest expenses | 1,854 | 1,677 | 4,117 | 1,488 |
| Extraordinary gain | 17 | - | - | - |
| Income (loss) before income taxes | 105 | (694) | (1,968) | (280) |
| Net income (loss) | 101 | (698) | (1,971) | (290) |
| **Non-Consolidated Balance Sheet Data** | | | | |
| Loans | W 29,377 | W 24,153 | W 20, 877 | W 26,492 |
| Allowance for loan losses | 1,670 | 2,482 | 756 | 643 |
| Securities | 12,859 | 12,000 | 6,274 | 5,573 |
| Total assets | 50,331 | 43,431 | 33,168 | 38,584 |
| Deposits | 34,393 | 27,621 | 18,669 | 16,876 |
| Borrowings | 7,328 | 8,945 | 10,313 | 16,067 |
| Total liabilities | 48,247 | 41,213 | 33,033 | 37,009 |
| Total shareholders' equity | 2,085 | 2,218 | 135 | 1,575 |
| **Per Share (in Korean Won)** | | | | |
| Net income (loss) | W 149 | W (1,505) | W (10,591) | W (1,556) |
| Dividends | - | - | - | - |
| **Profitability Ratios (%)**[1] | | | | |
| Return on assets | 0.21% | (1.69)% | (4.80)% | (0.72)% |
| Return on shareholders' equity | 3.34 | (24.72) | (84.77) | (11.91) |
| **BIS Capital Ratio (%)**[2] | 9.78% | 9.80% | 0.93% | 6.50% |
| Tier I | 5.24 | 5.66 | 0.47 | 3.50 |
| Tier II | 4.54 | 4.18 | 0.46 | 3.00 |

*1) Based on non-consolidated data, including trust accounts*

*2) Based on consolidated data*

# Analysis of the Statements of Operations

## Net Interest Income

**Table 2. Net Interest Income**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Interest on loans | W 3,012 | W 2,385 |
| Interest on loans in local currency | 1,702 | 1,414 |
| Interest on loans in foreign currencies | 261 | 320 |
| Interest on credit card loans | 561 | 270 |
| Interest on bills bought in foreign currencies | 225 | 260 |
| Interest on advances for customers | 19 | 32 |
| Interest on call loans | 27 | 19 |
| Interest on bills discounted | 103 | 24 |
| Other | 114 | 46 |
| Interest on due from banks | 103 | 115 |
| Interest and dividends on trading securities | 99 | 129 |
| Interest and dividends on investment securities | 897 | 645 |
| Other interest income | 101 | 49 |
| **Interest Income and Dividends** | **4,212** | **3,323** |
| Interest on deposits | 1,773 | 1,237 |
| Interest on borrowings | 547 | 642 |
| Interest on debentures | 257 | 127 |
| Other interest income | 132 | 98 |
| **Interest Expenses** | **2,709** | **2,104** |
| **Net Interest Income** | **W 1,504** | **W 1,219** |

During the year 2000, domestic market interest rates were stable and declining mainly due to the concentration of liquid assets in government bonds and corporate bonds with high credit ratings. The Bank implemented interest rate policies to obtain a reasonable net interest margin and to maximize income through low funding costs.

The Bank's total interest income and dividends in 2000 was W4,212 billion, an increase of 26.8% compared with W3,323 billion in 1999, while interest expenses increased a further 28.8% to W2,709 billion from W2,104 billion in 1999. This resulted in a 1% increase of interest expenses to interest income, from 63.3% in 1999 to 64.3% in 2000.

Although the spread between interest income and interest expenses slightly narrowed, net interest income in 2000 rose 23.4% to W1,504 billion from 1999. This growth was primarily attributable to a 40.7% rise in the average won currency interest-earning assets, particularly a W1,315 billion or 123.9% increase in average credit card loans, where market volume for credit card business was up considerably during the year.

Average interest-earning assets totaled W42,938 billion in 2000, up W8,340 billion or 24.1% from W34,598 billion in 1999, reflecting growth in most asset categories, with the exception of due from banks, on an average basis. Also, the average interest rate on average interest earning assets was 9.81% in 2000, up 0.21% from 1999. There was continued growth in major interest-earning assets including loans and securities. Average loans and securities in local currency surged 40.8% year-on-year, while average foreign currency denominated loans and securities shrank 9.7% to W8,104.0 billion, reflecting the Bank's policy of reducing its exposure to low-performing foreign currency assets.

Average loans in 2000 rose 25.7% to W28,278 billion from W22,489 billion in 1999, reflecting the huge increase in credit card billings. Credit card loans accounted for 8.4% of total loans, a 3.7% increase over the previous year. This resulted from a combination of the increase by 960,000 in new cardholders, and their average spending increase, up W10,932 billion or 149.3% to W18,255 billion in 2000. The increase in high yielding credit card loans was the most important factor in the increase in the average yield on loans. However, this was somewhat offset by the increase in non-performing credit, due especially to the exposure to the Daewoo Group and other companies in workout programs. The average interest rate on loans in 2000 rose slightly, up 4 basis points to 10.65% in 2000 from 10.61% in 1999.

While the average due from banks did not change significantly from 1999, the average interest rate on due from banks decreased 0.47% to 4.80%, compared with 5.27% in 1999. The decrease was a reflection of the 1.13% decrease in the average interest rate for due from banks in won, which was influenced by the downturn in domestic interest rates in 2000.

**Chart 4. Average Interest-Earning Assets Mix**

**Table 3. Average Interest-Earning Assets**

(Billions of Korean Won)

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest | Rate | Average balance | Interest | Rate |
| Loans | W 28,277.7 | W 3,012.2 | 10.65% | W 22,488.7 | W 2,385.4 | 10.61% |
| Won | 20,946.8 | 2,458.1 | 11.73 | 14,534.0 | 1,768.8 | 12.17 |
| Credit card | 2,376.4 | 560.7 | 23.59 | 1,061.3 | 270.1 | 25.45 |
| Foreign currencies | 7,330.9 | 554.1 | 7.56 | 7,954.7 | 616.5 | 7.75 |
| Due from banks | 2,145.7 | 103.0 | 4.80 | 2,192.1 | 115.4 | 5.27 |
| Won | 1,472.7 | 71.8 | 4.87 | 1,045.4 | 62.7 | 6.00 |
| Foreign currencies | 673.0 | 31.2 | 4.63 | 1,146.7 | 52.7 | 4.60 |
| Securities | 12,204.3 | 996.2 | 8.16 | 9,480.6 | 773.6 | 8.16 |
| Trading | 1,436.0 | 98.9 | 6.89 | 1,714.4 | 128.5 | 7.49 |
| Investment | 10,768.3 | 897.2 | 8.33 | 7,766.2 | 645.1 | 8.31 |
| Won | 11,431.2 | 942.6 | 8.25 | 8,458.0 | 715.1 | 8.45 |
| Foreign currencies | 773.1 | 53.6 | 6.93 | 1,022.6 | 58.5 | 5.72 |
| Other | 310.7 | 100.8 | - | 436.7 | 48.5 | - |
| **Total Interest-Earning Assets** | **W 42,938.4** | **W 4,212.2** | **9.81%** | **W 34,598.1** | **W 3,322.9** | **9.60%** |

The average balance of securities grew 28.7% to W12,204 billion in 2000 from W9,481 billion in 1999, with particularly strong growth in investment securities. Interest on securities improved to W996 billion in 2000, from W774 billion in 1999, and the average interest rate on securities in 2000 was essentially unchanged from 1999.

In terms of currency denomination, the average assets in won grew 40.7% to W33,882 billion, while the average assets in foreign currencies shrank 13.8% to W9,056 billion in 2000. Average interest-earning assets in won represented 78.9% of total average interest-earning assets in 2000, up 9.3% from 69.6% in 1999.

**Table 4. Average Interest-Bearing Liabilities**

(Billions of Korean Won)

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest | Rate | Average balance | Interest | Rate |
| Deposits | 31,809.3 | 1,773.2 | 5.57% | 22,244.7 | 1,236.6 | 5.56% |
| Won | 29,919.8 | 1,660.3 | 5.55 | 20,258.0 | 1,122.1 | 5.54 |
| Demand deposits | 5,207.7 | 72.6 | 1.39 | 4,583.5 | 64.3 | 1.40 |
| Time deposits | 7,230.2 | 237.2 | 3.28 | 5,271.8 | 177.8 | 3.37 |
| Savings deposits | 13,485.4 | 1,057.0 | 7.84 | 8,979.5 | 761.5 | 8.48 |
| Mutual installments | 624.4 | 50.3 | 8.05 | 336.6 | 38.9 | 11.54 |
| Certificates of deposits | 1,890.8 | 146.2 | 7.73 | 768.5 | 59.3 | 7.72 |
| Other | 1,481.2 | 97.0 | 6.55 | 318.1 | 20.2 | 6.37 |
| Foreign currencies | 1,889.6 | 112.9 | 5.97 | 1,986.6 | 114.5 | 5.77 |
| Borrowings | 8,265.3 | 546.9 | 6.62 | 9,854.4 | 642.3 | 6.52 |
| Won | 3,120.7 | 161.0 | 5.16 | 3,361.2 | 185.5 | 5.52 |
| Foreign currencies | 5,144.6 | 385.9 | 7.50 | 6,493.2 | 456.8 | 7.04 |
| Debentures | 2,727.3 | 257.2 | 9.43 | 1,730.2 | 127.0 | 7.34 |
| Won | 1,633.1 | 161.3 | 9.88 | 746.7 | 73.0 | 9.77 |
| Foreign currencies | 1,094.2 | 95.9 | 8.76 | 983.5 | 54.0 | 5.49 |
| Other | - | 131.3 | - | - | 98.5 | - |
| **Total Interest-Bearing Liabilities** | **W 42,801.9** | **W 2,708.5** | **6.33%** | **W 33,829.2** | **W 2,104.4** | **6.22%** |

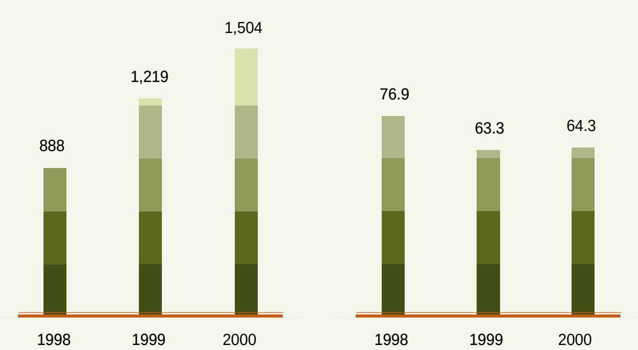
The Bank reported total interest-bearing liabilities of W42,802 billion, up W8,973 billion or 26.5% from W33,829 billion in 1999. The increase stemmed from a 43.0% increase in average deposits and a 57.6% increase in debentures, while average borrowings decreased by 16.1%.

The average funding costs increased 11 basis points to 6.33%, compared with 6.22% in 1999, with increases in all funding costs for the interest-bearing liabilities. Deposit pricing strategies, brought about by increased competition, offset the downward movement of interest rates in Korea, resulting in a slight increase in the funding costs of deposits to 5.57% in 2000 from 5.56% in 1999. However, the Bank's funding cost remained relatively low compared with other banks in Korea. This was attributable to the large proportion of low-cost deposits, such as court deposits, and the large number of individual demand deposits, achieved by focusing on retail banking, traditionally an area of strength for the Bank.

The funding cost of borrowings in 2000 rose 10 basis points to 6.62% from 6.52%. With the decline in domestic interest rates, the funding cost of borrowings in won decreased 0.36% to 5.16%. However the funding cost of borrowings in foreign currencies increased 0.46% to 7.50% due to high interest rate movements in the international financial market.

The funding costs of debentures increased substantially from 7.34% in 1999 to 9.43% in 2000 with the issuing of subordinate debentures, specifically foreign currency subordinated debt. Funding costs of subordinate debentures largely exceeded the average funding cost.

**Chart 5. Net Interest Income**
**Rate of Interest Expenses to Interest Income**




**Net Interest Income** (In Billions of Korean Won)

**Rate of Interest Expenses to Interest Income** (In Percent)

For the year 2000, the average three-month London Inter-Bank Offered (LIBO) rate, the basic interest rate for floating rate funding, was 6.3562%, up 94 basis points from 5.4130% in 1999. This meant that the average funding cost of interest-bearing liabilities in foreign currencies increased by 0.8% to 7.4% in 2000 from 6.6% in 1999, despite the repayment of high interest-bearing liabilities in foreign currencies and improved spread following the Bank's credit rating upgrade.

In terms of currency denomination, interest-bearing liabilities in won were up 42.3% to W34,674 billion, while interest-bearing liabilities in foreign currency were down 14.1% to W8,128 billion in 2000. Average interest-bearing liabilities in won accounted for 81.0% of total average interest-bearing liabilities in 2000, compared to 72.0% in 1999.

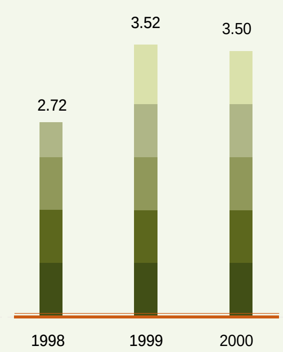
The net interest margin (NIM) dropped slightly, by 2 basis points, to 3.50% in 2000 from 3.52% in 1999. The decline was primarily attributable to outstanding credit exposure to the Daewoo Group and other companies in workout as well as increased competition in the domestic market. However, the Bank enjoys one of the highest net interest margins in the industry, thanks to low domestic funding costs. This is primarily attributable to the Bank's long history, which allowed it to establish branches in prime locations, including hospitals, airports, and universities, and a 74% market share in court escrow deposits.

**Table 5. Net Interest Margin**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Net interest income | W 1,503.7 | W 1,218.5 |
| Average interest-earning assets | W 42,938.4 | W 34,598.1 |
| **Net Interest Margin** | **3.50 %** | **3.52 %** |

**Chart 6. Net Interest Margin**

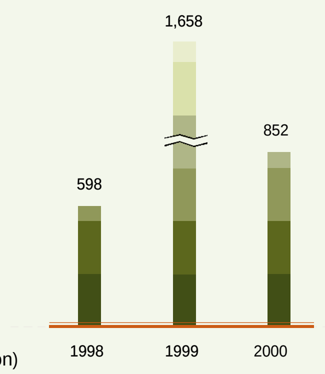



(In Percent)

## Provision for Loan Losses

The provision for loan losses was W852 billion in 2000, down 48.6% from W1,658 billion in 1999. Owing to the setting aside of a sufficient allowance for loan losses in 1999, in accordance with FSC guidelines, and the Bank's strengthened credit management system, this decrease was anticipated. The improvement in overall asset quality led to a decrease in the provision for loan losses in 2000.

**Chart 7. Provision for Loan Losses**




## Non-Interest Income

**Table 6. Non-Interest Income**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Fees and commissions | W 164 | W 157 |
| Guarantees | 10 | 11 |
| Commissions received from termination of trust accounts | 10 | 19 |
| Service charges on other financial services | 144 | 127 |
| Gain on trading securities | 70 | 270 |
| Gain on foreign currency trading | 284 | 475 |
| Gain on derivative trading | 244 | 8 |
| Fees and commissions from trust accounts | 93 | 122 |
| Other | 435 | 390 |
| **Non-Interest Income** | **W1,290** | **W 1,422** |

Non-interest income includes market-driven revenues, fee-based revenues and other items. Market-driven revenues primarily consist of gains on trading securities, foreign currency and derivative trading. Fee-based revenues generally come from fees and charges on financial services and trust accounts. Other non-interest income includes gains on sales of investment securities, gains on sales of loans, recoveries from investment bond impairment losses and bad debts.

Total non-interest income declined W132 billion, or 9.3%, to W1,290 billion in 2000, from W1,422 billion in 1999. This was largely a result of a decrease in market driven revenues.

Fee-based revenues totaled W257 billion in 2000, down W22 billion, or 7.9%, from W279 billion in 1999. Fees and commissions in general financial services rose 4.5% from W157 billion in 1999, attributable to the introduction of new revenue resources, including fee commissions from electronic banking business, etc., and the overall growth in financial services provided by the Bank during 2000. However, fees and commissions from trust accounts decreased W29 billion or 23.8% in 2000 compared with W122 billion in 1999. This was related to the overall decline in trust business in Korea due primarily to the bearish stock market.

Market-driven revenues decreased substantially in 2000 due to a recession in the stock market in Korea. Market-driven revenues were W598 billion in 2000, down W155 billion, or 20.6%, from W753 billion in 1999. More specifically, gains on trading securities decreased by 74.1% in 2000. A change in the accounting rule for derivatives caused the changes in gains on foreign currency trading and derivative trading. From the beginning of 2000, the Bank has accounted for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. Refer to the notes in the non-consolidated financial statements: Accounting for Financial Derivatives. As a result of these changes, the gain (loss) on derivative trading in 2000 increased while the gain (loss) on foreign currency trading in 2000 decreased compared with 1999.

**Chart 8. Non-Interest Income Mix**


For analytical purposes, losses on trading securities, losses on foreign currency trading, and losses on sales of loans, which are reported as non-interest expenses on the income statement under Korean GAAP, have been netted against related non-interest income in conformity with US GAAP.

The investment in trading securities generated net losses of W17 billion, compared with a net gain of W198 billion in 1999. The net losses on trading securities were related to the losses incurred from beneficiary certificates issued by the Daewoo Group and sluggish stock market conditions. Foreign currency trading and derivatives activities generated net gains of W85 billion and W18 billion respectively. Overall gains from foreign currency and derivative trading declined to W103 billion in 2000, down W45 billion from a year earlier. A further W95 billion in net losses on sales of loans were incurred in relation to the sales of non-performing loans.

**Table 7. Non-Interest Income (Loss) - net**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Trading securities | W (17) | W 198 |
| Foreign currency trading | 85 | 147 |
| Derivative trading | 18 | 1 |

## Non-Interest Expenses

**Table 8. Non-Interest Expenses**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Commissions | W 34 | W 46 |
| General and administrative expenses | 697 | 619 |
| Loss on foreign currency trading | 199 | 328 |
| Loss on derivative trading | 226 | 7 |
| Loss on sale of loans | 102 | 202 |
| Loss on trading securities | 87 | 72 |
| Payments to return-guaranteed trust accounts | 152 | 187 |
| Other | 357 | 216 |
| **Non-Interest Expenses** | **W 1,854** | **W 1,677** |

Non-interest expenses reported in the statement of operations include commissions, general and administrative expenses, losses on various financial instruments, and the loss on sale of loans. Total non-interest expenses in 2000 were W1,854 billion, up W177 billion, or 10.6%, from W1,677 billion in 1999.

Commissions paid in 2000 decreased by W12 billion, or 26.1%, from W46 billion in 1999. The decrease in commissions paid was largely caused by a decrease in foreign currency related commissions. The Bank redeemed the large part of its foreign debentures, which required a government guarantee for a maturity extension, and foreign borrowings. As a result, the Bank was able to save W8 billion in guarantee fees and W2 billion in commissions paid on foreign currency borrowings.

One of reasons for the increase in operating expenses was the rise in general and administrative expenses, an increase of W78 billion or 12.6%. More specifically, salaries and benefits costs and rent expenses amounted to W341 billion and W18 billion respectively in 2000. While rent expenses were flat, staffing increases from the mergers with Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999 caused the increase in salaries and benefits costs. Amortization expenses increased by W25 billion, or 28.2%, to W113 billion in 2000 from W88 billion in 1999, due primarily to continued write-offs of the goodwill from the acquisition of the banks.

Payments to return-guaranteed trust accounts decreased by W35 billion, or 18.7%, in 2000, from W187 billion in 1999. This improvement was mainly due to a decrease in the size of development trusts, which guarantee a fixed rate of return, and a reduction of the relevant loan loss provisions.

During 2000, the Bank sold interests in subsidiaries, including 51% ownership of Chohung Securities Co., Ltd., 100% ownership of Chohung Mutual Savings and Finance Co., Ltd., 100% ownership of Kangeun Mutual Savings and Finance Co., Ltd. and its 69.6% ownership of Chohung Capital Co., Ltd. As a result of these transactions, the Bank incurred losses amounting to W90 billion from the sale of its subsidiaries; Chohung Securities at W20 billion, and Chohung Capital at W30 billion, etc.

## Net Income

The Bank posted W101 billion in net income in 2000, up W799 billion from a net loss of W698 billion in 1999. The huge net income growth in 2000 was primarily caused by a decrease in the provision for loan losses and partially by a volume increase in interest-earning assets.

The Bank's increasing profitability, even in the midst of challenging circumstances in 2000, has given it confidence in setting goals for 2001. The projected net income of W570 billion, in particular, certainly looks within the Bank's reach. The Bank should have little trouble reaching that target by virtue of its high level of operating income and a shrinking provisioning burden.

**Table 9. Net Income**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Net interest income | W 1,504 | W 1,219 |
| Provision for loan losses | 852 | 1,658 |
| Non-interest income | 1,290 | 1,422 |
| Non-interest expenses | 1,854 | 1,677 |
| Extraordinary gain | 17 | - |
| Income taxes | 4 | 4 |
| **Net Income (Loss)** | **W 101** | **W (698)** |

# Analysis of Financial Condition

## Loans

**Table 10. Loans**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Loans in local currency | W 18,606 | W 15,445 |
| Bills bought in local currency* | 2,626 | 2,578 |
| Loans in foreign currencies | 3,354 | 4,149 |
| Bills bought in foreign currencies | 2,629 | 2,928 |
| Advances for customers | 419 | 610 |
| Credit card accounts | 2,974 | 1,422 |
| Call loans | 454 | 48 |
| Privately placed bonds | 478 | 257 |
| Bills discounted | 676 | 615 |
| Cash management accounts | 435 | 109 |
| Financing lease receivables | 459 | 607 |
| Other | 734 | 593 |
| | 31,218 | 26,783 |
| Less : Allowance for loan losses | 1,670 | 2,482 |
| Present value discount | 171 | 148 |
| | **W 29,377** | **W 24,153** |

** Excluding local L/C bills bought of W52 billion and W75 billion in 2000 and 1999, respectively*

Loans continued to increase in 2000, with the total amount recorded as W29,377 billion. This was up W5,224 billion, or 21.6%, from the previous year's balance of W24,153 billion, reflecting increases in all loan portfolios under the Bank's management, with the exception of loans in foreign currencies and other miscellaneous items.

Loans in won increased 20.5% to W18,606 billion in 2000 from W15,445 billion in 1999, while loans in foreign currencies decreased 19.2% to W3,354 billion in 2000 from W4,149 billion in 1999, a result of the limiting or selling off of low-profit foreign currency assets. The Bank plans to expand the portion of won currency loans in order to improve profitability, based on improved lending stability following the introduction of its advanced risk management system.

Credit card loans surged 109.1% to W2,974 billion in 2000, from W1,422 billion the year before, reflecting a sharp increase in the number of cardholders and total usage, as merchants and consumers were encouraged by national tax authorities to exploit credit cards in purchasing goods and services as part of the effort to prevent tax avoidance.

Privately placed bonds stood at W478 billion, up W221 billion or 86.0% from W257 billion, a reflection of debt restructuring for the Ssangyong group companies and other companies under workout.

Loans in merchant accounts including bills discounted, cash management accounts, financing lease receivables, bills overdue, and factoring receivables, rose 11.0% to W1,859 billion in 2000 from W1,675 billion in 1999. The increase came mostly from strong growth in merchant banking accounts following the restructuring of the merchant banking industry and the closure of many merchant banking corporations.

**Table 11. Won-Denominated Loan by Borrower**

(Billions of Korean Won)

| | 2000 | | 1999 | |
|---|---|---|---|---|
| Small and medium-sized enterprises | W 8,282 | 44.5% | W 7,392 | 47.9% |
| Large corporations | 4,440 | 23.9 | 4,079 | 26.4 |
| Public sector enterprises and other | 499 | 2.7 | 309 | 2.0 |
| Individuals | 5,385 | 28.9 | 3,665 | 23.7 |
| | **W18,606** | **100%** | **W15,445** | **100%** |

Breaking down the local currency loan portfolio by borrower group revealed a notable change. Loans to individuals increased substantially whereas those to small and medium-sized enterprises (SMEs) and large corporations decreased in proportion. During 2000, the proportion of loans in won made to SMEs, which accounted for the biggest portion of total loans, slipped to 44.5% from 47.9% in 1999. Loans to large corporations also decreased to 23.9% of the total won-denominated loans, down from 26.4% in 1999, resulting from a significant increase in write-offs and collections of problem loans.

In contrast, the portion of individual loans in won increased to 28.9% in 2000 from 23.7% in 1999. These changes related to the W1,280 billion increase in housing loans, such as mortgage loans, collective apartment loans and auctioned-property mortgage loans and the Bank's loan management strategy, which entailed reducing the total exposure limit to large corporations and loans offered to them, and expanding the proportion of loans to high quality SMEs and household loans.

**Table 12. Won-Denominated Loan by Industry Sector**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Corporations | W 13,221 | W 11,780 |
| Agro-fishery & mining | 57 | 70 |
| Manufacturing | 7,305 | 6,636 |
| Construction | 1,435 | 1,177 |
| Wholesale & retail | 1,788 | 1,632 |
| Transportation/warehouse /telecommunications | 732 | 852 |
| Finance/insurance | 512 | 332 |
| Real estate | 440 | 304 |
| Other | 952 | 777 |
| Households | 5,385 | 3,665 |
| | **W 18,606** | **W 15,445** |

By industry, the Bank extended 39.3% of its loans in local currency in 2000 to manufacturing concerns, the largest segment, with W7,305 billion outstanding. The wholesale and retail industry as well as the construction industry also showed a large portion of commercial loans in won. The most notable increase was in the household sector. Household loans recorded a huge increase, up by 46.9%, or W1,720 billion, over the year, to reach W5,385 billion in 2000.

## Non-Performing Loans

The Korean Financial Supervisory Commission (FSC) requires banks in Korea to analyze and classify their credits into one of five categories. In accordance with the Accounting Standards for the Banking Industry applied from 1999, the Bank classifies loans to corporate borrowers whose credit limit, including that for securities, exceeds W10 billion, into ten categories according to past repayment history and future debt repayment capability. Loans to other corporations and individuals are also classified into ten categories based only on past repayment history. The loans are reclassified into five categories; normal (categories 1-6), precautionary (7), substandard (8), doubtful (9) and estimated loss (10). The criteria of the FSC guidelines are as set forth below:

*Normal* - Sound credit exposure. 0.5% or more reserves required.

*Precautionary* - Credits that are in arrears for one month or more but less than 3 months, or credit extended to customers judged to have potential risk with respect to their capability to repay the credits in the future. 2% or more reserves required.

*Substandard* - The secured portion of total credits that are in arrears 3 months or more, or credit extended to customers judged to have incurred considerable risk of default in repayment as their capability to repay has deteriorated. 20% or more reserves required.

*Doubtful* - The unsecured portion of credits 3 months or more but less than twelve months overdue, or credit extended to customers judged to have incurred serious risk of default in repayment due to a noticeable deterioration in their capability to repay. 50% or more reserves required.

*Estimated Loss* - The unsecured portion of credits that are in arrears for twelve months or more, or credit extended to customers judged to have to be accounted as lost as the inability to repay is certain. 100% reserves required.

**Table 13. Non-Performing Loans**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Normal | W 29,807 | W 25,458 |
| Precautionary | 1,947 | 2,866 |
| Substandard | 2,044 | 3,665 |
| Doubtful | 1,102 | 1,428 |
| Estimated loss | 467 | 519 |
| Non-performing loans | 3,613 | 5,612 |
| **Total Credits*** | **W 35,367** | **W 33,936** |
| **NPL Ratio** | **10.2%** | **16.5%** |

* *This classification of the Bank's credit exposure is based on current FSC standards.*

With this efficient credit risk management and write-offs policy, the Bank's non-performing loans (NPLs) decreased both in amount and in ratio. Non-performing loans as of the year-end stood at W3,613 billion, an improvement of W1,999 billion, or 35.6%, over the previous year.

The Bank's NPL ratio also improved by 6.3%, from 16.5% in 1999 to 10.2% in 2000. Despite the strengthened credit management system, the NPL ratio still remains high. This is mainly due to the tightening of the asset classification rules, ongoing corporate restructuring and the slowdown in the domestic economy. The level of non-performing loans increased greatly after the Daewoo crisis, but the sale and write-down of bad debts have resulted in a reduction in the non-performing loans.

To improve credit quality even further, the Bank sold non-performing loans totaling W3,581 billion to the Korea Asset Management Corporation, from December 15, 1997 to December 31, 2000. The Bank further agreed to transfer additional non-performing loans of W688 billion to Lone Star Fund and KL Investment 2 Inc. in an international bid on December 1, 2000.

Bad loans, which include doubtful and estimated losses, decreased to W1,569 billion in 2000, down W378 billion, or 19.4%, over the previous year. As for credit exposure in 2000, the portion of normal loans to total credit reached 84.3%. Precautionary loans and substandard category loans accounted for 5.5% and 5.8% of total credit exposure respectively.

An emphasis on the quality of assets after the second half of 1999 has minimized the increase in bad assets. In addition, the corporate restructuring vehicle to be established in 2001 is also expected to reduce the level of bad assets.

**Table 14. Credit Exposure in 2000**

(Billions of Korean Won)

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total |
|---|---|---|---|---|---|---|
| Loans in Won[1)] | W 16,722.2 | W 530.1 | W 775.4 | W 263.2 | W 219.1 | W 18,510.0 |
| Loans in foreign currencies[2)] | 2,086.6 | 357.2 | 638.1 | 144.9 | 80.5 | 3,307.3 |
| Other loan items[3)] | 75.9 | 99.5 | 66.6 | 111.4 | 50.4 | 403.8 |
| Additional loan items[4)] | 4,987.8 | 409.9 | 32.7 | 187.9 | 36.3 | 5,654.6 |
| Bank account credits | 23,872.5 | 1,396.7 | 1,512.8 | 707.4 | 386.3 | 27,875.7 |
| Guarantees and acceptances[5)] | 2,232.4 | 340.4 | 107.5 | 42.0 | 1.0 | 2,723.3 |
| Trust account loans[6)] | 1,301.5 | 74.2 | 71.8 | 58.1 | 73.0 | 1,578.6 |
| Other credits[7)] | 1.9 | 4.8 | 31.2 | 2.4 | 5.6 | 45.9 |
| Merchant accounts | 1,639.6 | 77.1 | 144.2 | 49.3 | 0.1 | 1,910.3 |
| Privately placed bonds | 202.9 | 28.5 | 96.8 | 114.5 | 1.0 | 443.7 |
| Commercial paper | 556.3 | 25.7 | 79.3 | 128.6 | - | 789.9 |
| **Total Credits*** | **29 807.1** | **1,947.4** | **2,043.6** | **1,102.3** | **467.0** | **35,367.4** |
| Other exposure[8)] | 2,403.1 | 11.8 | 1.8 | 0.9 | 4.4 | 2,422.0 |
| Credit Exposure | 32,210.2 | 1,959.2 | 2,045.4 | 1,103.2 | 471.4 | 37,789.4 |

** This classification of the Bank's credit exposure is based on current FSC standards.*

1) *Excluding interbank loans, but reflecting present value discounts*
2) *Including offshore loans and domestic import usance bills*
3) *Including advances for customers*
4) *Including foreign bills purchased, local L/C bills purchased and credit card loans*
5) *Including non-loan trade finance. Trade finance extended in the form of a loan is included in "other loan items"*
6) *Including loans extended from the trust account (whether guaranteed or non-guaranteed), but excludes commercial papers*
7) *Including other miscellaneous receivables and suspended receivables*
8) *Including call loans and bonds bought under repurchase agreements*

## Allowance for Loan Losses

The allowance for loan losses has been maintained at a level sufficient to absorb possible losses in loan and off-balance sheet financial instruments, such as acceptances and guarantees. The evaluation of the individual elements, as well as the overall allowance, is based on FSC guidelines and the credit risk management system.

The allowance for loan losses at the end of 2000 fell 32.7% to W1,670 billion due to a significant increase in write-offs. The overall loan loss coverage ratio - the ratio of the actual allowance to the minimum allowance required by the FSC - was maintained at 124.6%, well above the required ratio of 100%. More specifically, the loan loss coverage ratio of acceptances and guarantees increased to 146.3%, while that of bank account loans decreased to 124.1%.

**Table 15. Allowance for Loan Losses**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Balance at beginning of year | W 2,482 | W 756 |
| Provision for loan losses | 852 | 1,658 |
| Reversal of allowance for loan losses | (4) | (37) |
| Write-offs | (1,150) | (322) |
| Adjustments (Recoveries) | (510) | 427 |
| **Balance at end of year** | **W 1,670** | **W 2,482** |

**Table 16. Loan Loss Coverage Ratio**

(Billions of Korean Won)

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | Possible loan loss | Allowance balance | Ratio | Possible loan loss | Allowance balance | Ratio |
| Allowance for loan losses (Bank accounts) | W 1,345.3 | W 1,669.7 | 124.1% | W 1,681.3 | W 2,481.8 | 147.6% |
| Allowance for possible losses of acceptances and guarantees (Bank accounts) | 43.6 | 63.8 | 146.3 | 151.2 | 172.2 | 113.9 |
| Allowance for valuation of receivables (Trust accounts) | 207.8 | 255.3 | 122.9 | 348.3 | 414.6 | 119.0 |
| **Total** | **W 1,596.7** | **W1,988.8** | **124.6%** | **W2,180.8** | **W3,068.6** | **140.7%** |

## Securities

**Table 17. Securities**

(Billions of Korean Won)

| | Trading securities | | Investment securities | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Stocks | W - | W 182 | W 369 | W 509 |
| Government bonds | 815 | 411 | 2,340 | 1,557 |
| Finance debentures | 90 | 433 | 1,327 | 1,176 |
| Corporate bonds | 373 | 182 | 5,781 | 4,999 |
| Other securities | 181 | 281 | 844 | 1,221 |
| Securities denominated in foreign currencies | 49 | 53 | 690 | 995 |
| Offshore securities | - | 23 | 98 | 193 |
| | **W 1,508** | **W 1,542** | **W 11,351** | **W 10,457** |

The Bank continued its conservative policy towards securities investment. It has limited the growth of its stock portfolio, which is more volatile and risky than debt securities. The Korean economy showed a gradual slowdown and experienced additional difficulties. The loss was particularly severe from stock investment as the Korean stock market plunged.

The investment in debt securities primarily includes government bonds and corporate bonds with relatively lower credit risk. In October 2000, the Bank became a certified primary dealer of government bonds and actively invested in government bonds and in underwriting.

Corporate bonds invested were mostly guaranteed by banks or government-related funds. The Bank's securities investments at the year-end amounted to W12,859 billion, up W860 billion or 7.2% from 1999.

### Trading Securities

During the year 2000, the Bank continuously reduced its investment in stocks due to the recession of the stock market and the rise in market risk, and showed no year-end balance in stock. The volume of government bonds increased sharply to W815 billion in 2000, up W404 billion, or 98.3%, over the previous year.

Investment in corporate bonds surged by W191 billion, or 104.9%, over 1999 to W373 billion, mainly due to high yield and liquidity. However, the Bank downsized the investment volume of finance debentures since the average yield of finance debentures was relatively lower than other securities.

### Investment Securities

The volume of investment securities slightly increased by 8.5% from 1999, to W11,351 billion. The Bank expanded its investment in both government bonds and corporate bonds. In particular, corporate bonds grew to W5,781 billion, up 15.6% or W782 billion from 1999. Also, the investment in government bonds grew 50.3% and generated stable investment income.

Meanwhile, the Bank's investment securities in foreign currencies dropped by 30.7% over 1999 to W690 billion, reflecting the settlement and sales of low-performing securities issued by Russia and other East-Asian countries. The Bank plans to focus on trading-purpose investment to realize short-term transaction gains on securities in foreign currencies.

## Deposits

### Table 18. Deposits

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Deposits in local currency | W 29,818 | W 23,290 |
| Demand deposits | 5,969 | 6,051 |
| Time deposits | 8,043 | 6,469 |
| Savings deposits | 15,246 | 10,170 |
| Mutual installments received | 463 | 600 |
| Mutual installments for housing | 97 | - |
| Negotiable certificates of deposit | 1,452 | 2,003 |
| Deposits in foreign currencies | 1,666 | 1,624 |
| Deposits in bills issued | 1,023 | 596 |
| Trust of cash management accounts | 434 | 108 |
| | **W 34,393** | **W 27,621** |

The Bank seeks to maintain stable and low cost funding. The principal source of funding is customer deposits. Total deposits rose 24.5% from 1999, posting W34,393 billion in 2000. Based on daily balances, as of December 31, 2000, deposits constituted 68.3% of the total funding sources. Compared to 1999, the portion of deposits to total funding increased by 4.7%.

More specifically, deposits in won increased by W6,528 billion or 28.0% to W29,818 billion in 2000, representing the main source of total deposit growth. A notable portion of such deposits is court escrow deposits made by litigants in connection with legal proceedings in Korean courts. By product type, time & savings deposits increased sharply to W23,289 billion in 2000 from W16,639 billion in 1999. While CDs decreased 27.5% to W1,452 billion, deposits in bills issued and trust of cash management accounts increased 71.6% and 301.9% to W1,023 billion and W434 billion in 2000 respectively. Deposits in foreign currencies repeated last year's performance, slightly increasing to W1,666 billion from W1,624 billion in 1999. However, the portion of foreign currency deposits decreased to 4.8% in 2000 from 5.9% in 1999.

## Borrowings

### Table 19. Borrowings

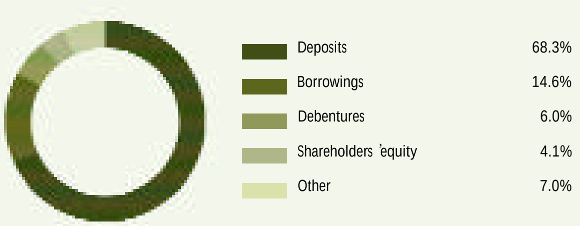
(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Borrowings in local currency | W 1,695 | W 1,764 |
| Borrowings in foreign currencies | 1,782 | 2,785 |
| Onshore borrowings | 1,782 | 2,696 |
| Offshore borrowings | - | 89 |
| Due to BOK in foreign currencies | 1,663 | 2,694 |
| Bonds sold under repurchase agreement | 1,343 | 894 |
| Bills sold | 699 | 551 |
| Call money | 146 | 257 |
| | **W 7,328** | **W 8,945** |

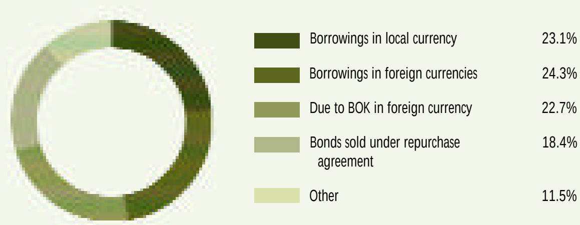
During the year 2000, the Bank's total borrowing, in both amount and the portion of the total funding, continuously declined following the improvement and stabilization of financial market conditions in Korea. Total borrowings in 2000 were W7,328 billion, representing a W1,617 billion decrease from W8,945 billion in 1999 and accounting for 14.6% of total funding sources. The decline was mainly attributable to a 37.1% drop in foreign currency borrowings, which constituted 47.0% of the total. Both borrowings and due to Bank of Korea (BOK) in foreign currencies decreased W1,003 billion, or 36.0%, and W1,031 billion, or 38.3%, from 1999 respectively because of the replacement of high-interest-bearing borrowings and due to BOK with low-interest long-term bonds in foreign currencies.

Both bonds sold under repurchase agreement and bills sold increased by W449 billion and W148 billion over the year to W1,343 billion and W699 billion in 2000 respectively, reflecting a growth in short-term liquidity available for money market instruments, caused by the worsening stock market conditions.

### Chart 9. Total Funding Source Mix




### Chart 10. Borrowings



## Debentures

**Table 20. Debentures**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Debentures in local currency | W 1,626 | W 1,605 |
| General | 300 | 429 |
| Subordinate | 776 | 626 |
| Warrants | 550 | 550 |
| Debentures in foreign currencies | 1,420 | 690 |
| General | 598 | 576 |
| Subordinate | 822 | 114 |
| Discount | (9) | (2) |
| | **W3,037** | **W2,293** |

From 1997, commercial banks in Korea were permitted to issue won-denominated debentures in Korea subject to certain procedural requirements. As of December 31, 2000, the Bank had W3,037 billion of debentures outstanding, an increase of W744 billion, or 32.4%, from W2,293 billion in 1999. This stemmed from the issuance of US$400 million and W150 billion of subordinate debt in 2000.

## Shareholders' Equity

The Bank's total shareholders' equity as of the end of 2000 was W2,085 billion, down 6.0% from 1999. The decrease can be attributed to the loss on valuation of investment securities, which in turn led year-end capital adjustments to decrease from W(307) billion to W(468) billion.

## Capital Adequacy

Capital management is an important objective for the Bank. It requires balancing the desire for strong, competitive capital ratios and for maintaining high credit ratings with the need to provide solid returns to shareholders. The Bank is committed to maintaining strong capital ratios through the issuance of subordinate debt and controlled growth in risk-weighted assets.

Capital strength for Korean banks is regulated pursuant to guidelines issued by the Financial Supervisory Committee based on standards issued by the Bank for International Settlements (BIS). The FSC regulates capital ratios on a consolidated basis. Therefore, capital ratios should be read in conjunction with the audited consolidated financial statements and notes. Total regulatory capital, which differs from capital recorded on the balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent forms of capital. Capital adequacy ratios were calculated by dividing Tier 1 and Tier 2 capital by risk-weighted assets.

The year-end BIS capital ratio stood at 9.78%, representing a slight dip when compared with the previous year's figure of 9.80%. The Tier 1 capital ratio was reduced to W1,751 billion in 2000 from W1,818 billion in 1999. The major factor contributing to the decrease in Tier 1 capital was a W328 billion loss from the valuation of investment securities. Tier 2 capital increased by 12.8%, thanks mainly to subordinated debt issues of US$400 million and W150 billion.

During the year 2000, total qualifying capital and total risk-weighted assets increased by 3.7% and 4.0% to W3,266 billion and W33,407 billion respectively. Risk-weighted balance sheet assets grew 9.9%, while risk-weighted off-balance sheet assets decreased significantly by 26.5%.

**Chart 11. BIS Capital Ratio**

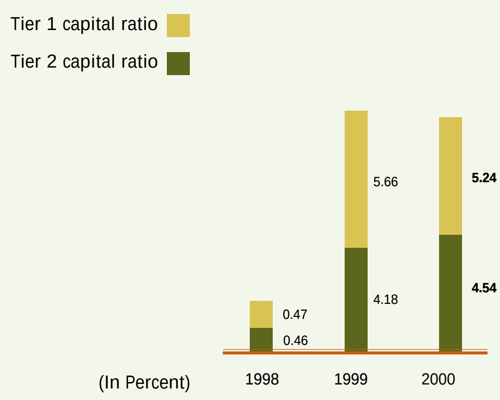



**Table 21. Capital Adequacy**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| Paid-up capital | W 3,395 | W 3,395 |
| Capital surplus | - | - |
| Retained earnings | (814) | (1,029) |
| Other | (830) | (548) |
| **Tier 1 Capital** | **1,751** | **1,818** |
| Allowance for loan losses | 392 | 434 |
| Upper tier 2 subordinated debt | 248 | - |
| Subordinated debt | 875 | 909 |
| Extraordinary capital surplus | - | - |
| **Tier 2 Capital** | **1,515** | **1,343** |
| Consolidation to unconsolidated subsidiaries | - | (13) |
| **Total Qualifying Capital** | **3,266** | **3,148** |
| Balance sheet assets | 29,574 | 26,907 |
| Off-balance sheet assets | 3,833 | 5,214 |
| **Total Risk-Weighted Assets** | **W 33,407** | **W 32,121** |
| Tier 1 capital ratio (%) | 5.24% | 5.66% |
| Tier 2 capital ratio (%) | 4.54 | 4.18 |
| **BIS Capital Ratio (%)** | **9.78%** | **9.80%** |

## Analysis of Trust Accounts

**Table 22. Schedule of Trust Assets and Liabilities**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Loans and discounts | W 1,579 | W 2,857 |
| Call loans | 86 | 250 |
| Securities | 4,419 | 7,171 |
| Loans to bank accounts | 387 | 424 |
| Other | 169 | 423 |
| Allowance for valuation of receivables | (256) | (415) |
| | **W 6,384** | **W 10,710** |
| **Liabilities** | | |
| Money trusts | W 5,073 | W 9,416 |
| Borrowings | 1,153 | 553 |
| Special reserves | 14 | 11 |
| Other | 144 | 730 |
| | **W 6,384** | **W10,710** |

* *According to the new accounting rules for trust accounts, securities investment trusts were excluded.*

The history of trust accounts in Korea dates back to the early 1970s when the government began liberalizing the financial sector and allowed non-banking financial institutions to compete with commercial banks. In compliance with the Trust Act and the Trust Business Act, assets accepted in trust accounts by the bank are segregated from other assets of the Bank and are not available to satisfy the claims of the depositors of other creditors of the Bank. Trust account product, generally require higher minimum deposits and longer deposit periods compared with comparable bank account deposit products.

Trust assets at the end of 2000 were W6,384 billion, a sharp decrease of W4,326 billion, or 40.4%, compared to 1999, reflecting the decrease of W2,752 billion in securities and the decrease of W1,278 billion in loans and discounts over the previous period. This was mainly due to a decrease in injections of new money in trust deposits stemming from the stock market crash in 2000. The Bank's trust assets were comprised principally of securities investments of W4,419 billion and loans in the principal amount of W1,579 billion. Securities investments consisted of government-related bonds, debentures and other securities. Loans made by trust accounts are similar in type to those made by the bank accounts. However, trust account loans are made only in Korean Won.

The balance of the money trusts managed by the Bank was W5,073 billion as of December 31, 2000, a dramatic decrease of 46.1% compared to December 31, 1999. This was a result of a decline in the rate of return on trust accounts influenced by the bearish stock market conditions. Development trusts also decreased by W1,720 billion, a sharp decrease of almost 100%. However, specified money trusts were W1,086 billion, which almost doubled the amount from W555 billion in 1999.

**Table 23. Schedule of Revenues and Expenses of Trust Accounts**

(Billions of Korean Won)

| | 2000 | 1999 |
|---|---|---|
| **Revenue** | | |
| Interest on loans and discounts | W 211 | W 326 |
| Interest on call loans | 5 | 9 |
| Interest and dividends on securities | 436 | 740 |
| Revenues related to securities | 109 | 303 |
| Interest on loans to bank accounts | 12 | 19 |
| Receipts from bank accounts for guaranteed trusts | 152 | 187 |
| Other | 60 | 17 |
| | **W 985** | **W 1,601** |
| **Expenses** | | |
| Interest paid on trust deposits | W 527 | W 1,048 |
| Interest paid on borrowings | 47 | 27 |
| Expenses related to securities | 175 | 149 |
| Fees and commission to bank accounts | 88 | 113 |
| Provision for special reserve | 3 | 5 |
| Provision for valuation of receivables | 103 | 236 |
| Other | 42 | 23 |
| | **W 985** | **W 1,601** |

Trust revenue plunged 38.5%, or W616 billion, over the previous year to W985 billion in 2000 due to the sluggish capital market. Interest income from securities represented 44.3% of total trust income, but their contribution to total trust income dropped by 1.9%, compared to 46.2% of 1999.

The Bank maintains two types of fixed-rate trust accounts; general unspecified money trusts and development trusts. In respect of certain trust account products, the Bank guarantees the principal of the trust account and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amounts, such a deficiency must be satisfied from either reserves maintained in the trusts or funds transferred from the bank accounts of the Bank. Receipts from bank accounts for guaranteed trusts declined from W187 billion a year earlier to W152 billion in 2000 due to the decline of the guaranteed trust balance.

## Risk Management

The Bank's overall risk management is set by the Risk Policy Committee (RPC), which consists of three non-standing directors and two standing directors. One of the three non-standing directors chairs the committee. The Bank's overall risk management is overseen by the Risk Management Committee (RMC). This is comprised of the Heads of the Planning Group, the Treasury Group, the Credit Management Group, the Trust Business Group, the Risk Management Group and whichever additional group is responsible for the matter under review. The Head of the Risk Management Group chairs the RMC. The primary functions of the RMC are risk reduction within the overall aim of durable profit improvement. The RMC regularly reviews various risk profiles of the Bank together with its liquidity position and uses the information to adjust the direction and strategy of the Bank.

For the risk management infrastructure, the Bank has developed three computer-based systems to evaluate and manage risk exposure. The Bank completed the development of the Enterprise-wide Risk Management System (ERMS) with IBM in late 2000. For the Capital Allocation System (CAS) and Risk Adjusted Performance Measure System (RAPMS), development is currently underway and expected to be completed by April 2001.

### Credit Risk Management

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to fulfill payment obligations. It also occurs from losses in market value due to the deterioration in the financial position of a counter-party.

The Credit Management Group functions as a centralized policy-making and planning division and allocates and coordinates the Bank's loan portfolios. One of the main objectives of the guidelines is to construct a policy framework to meet the Bank's objectives of strengthening the Bank's retail and SME business and enhancing asset quality.

In order to ensure the quality of its assets, the Bank established the Loan Review Division, which reviews and monitors its existing loans. In reviewing a loan, the Bank focuses on (1) whether the loan has been approved in compliance with the credit approval procedures in place, (2) whether the loan's current asset quality and the borrower's credit rating are adequate and (3) whether such a loan is profitable. The Bank's loan review can be further divided into three types: review, periodic review and special review.

For efficient credit risk management the Bank is operating the following systems: Total Exposure Management System, Credit Scoring System, and Credit Risk Rating System. The Total Exposure Management System (TEMS) enables the Bank to make real-time inquiries on exposure to customers by company or by business group and to manage the credit limits for all kinds of business transactions.

The Bank developed a new world-class Credit Risk Rating System (CRRS) with the aid of Booz Allen & Hamilton which was implemented on July 10, 1999. CRRS provides a standardized tool for the Bank's credit decisions and enables it to make risk-based pricing decisions. The system was designed to aid the Bank in focusing more on the quality of its assets rather than its market share or asset size. The system focuses on forward-looking criteria by estimating the probability of recovery of the extended credits and calibrating the likelihood of defaults. It is also designed to perform sensitivity analysis with respect to macroeconomic indices such as interest rates or foreign exchange rates.

For individual client credit, the Bank operates a Credit Scoring System (CSS). CSS is an automated credit approval system used to evaluate loan applications by assigning a credit score to each application based on a predetermined set of criteria. One of the principal benefits of these systems is that they significantly limit the scope of employee discretion in the loan assessment and approval process. CSS is applied to the extension of credit of W50 million or less to individuals and the issuance of credit cards.

The CMS (Credit Management System), the first of its kind among local financial institutions, efficiently manages the entire process from loan application, approval, extension, credit ratings, and limit control, to follow-up management, and credit risk management. The system has been developed in consultation with the Boston Consulting Group since November 1999 and was implemented at the Bank in September 2000. It consists of the following ten unit systems:

- Credit Risk Control: measurement of credit risk, portfolio management
- Loan Approval: loan application, credit rating, financial analysis
- Follow-up: follow-up support, default/delinquent accounts control

Under the system, credit risk is measured based on Unexpected Loss which can be calculated by the Default Volatility Model.

### Liquidity Risk Management

The objective of liquidity management is to ensure that the Bank has the ability to generate sufficient cash or its equivalent, either from internal or external resources, in a timely and cost effective manner, to meet its commitments as they fall due. Liquidity management is critical to protecting the Bank's capital, maintaining market confidence, and ensuring that the Bank can expand into profitable business opportunities.

**Table 24. Liquidity Ratio**

(Billions of Korean Won)

| Currency denominations | Ratio at December 31, 2000 | | Required ratio |
|---|---|---|---|
| In local currency | Liquidity ratio within 3 months[1] | 120.3% | 100% |
| In foreign currencies | Liquidity ratio within 3 months[1] | 93.15% | 80% |
| | Liquidity gap ratio within 7 days[2] | 5.20% | 0% |
| | Liquidity gap ratio within 1 month[3] | 5.97% | -10% |

1) *Calculated as assets due within 3 months divided by liabilities due within 3 months in each currencies' denomination.*

2) *Calculated as foreign currency liquid assets due within 7 days less foreign currency liabilities due within 7 days divided by total foreign currency assets.*

3) *Calculated as foreign currency liquid assets due within a month less foreign currency liabilities due within a month divided by total foreign currency assets*

In dealing with liquidity risk, the following procedures are followed. The Bank reviews its strategy for the sources and uses of funds, with each division submitting projected sources and uses after targets have been set. The RMC continually tracks the performance of each decision, receiving periodic reports from the Risk Management Division and making changes accordingly.

The RMC also deals with potential liquidity problems. Every fortnight, the Treasury Group prepares short-term funding plans to proactively meet the changes in the funding market. This is then distributed throughout the Bank.

In coordination with the liquidity management teams of the Treasury Group and the Trust Business Group, the Risk Management Group monitors the overall liquidity risk of the Bank. In monitoring the market, the Treasury Group specifically watches the monetary policies of the BOK, analyzing money supply figures, government credit policies and market rate trends to predict future market liquidity and rates. All market information is centralized at the Treasury Group and is then channeled to the working levels of all branches and divisions. Booklets on interest rates and market liquidity are also distributed on a timely basis, both for internal use and for customer marketing purposes.

Starting from January 1, 1999, the FSC required each Korean bank to maintain a won liquidity ratio in excess of 100% and to make quarterly reports to the FSC. The FSC also required each Korean bank to (1) maintain a foreign currency liquidity ratio in excess of 80% and to make monthly reports to the FSC, (2) maintain a foreign currency liquidity gap ratio within seven days above 0%, and (3) maintain a foreign currency liquidity gap ratio within a month above negative 10%.

The Bank's liquidity ratio for won accounts was set at 100% or higher. The ratio was 80% or higher for foreign currency accounts.

The table 24 shows that the Bank's liquidity ratios for all categories was well above the required percentages.

## Market Risk Management

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates and equity prices.

### Trading Activities

The market risk associated with trading actives is a result of market-entry, positioning and sales activities in the foreign exchange, interest rate, equity markets. This risk is managed primarily through a Value-At-Risk (VAR) methodology in the Risk Management Division. VAR is a generally accepted risk measurement concept that uses statistical models to estimate, within a given level of confidence, the maximum loss in market value that the bank would experience in its trading portfolio from an adverse 1-day movement in market rates and price.

For the Bank's trading portfolio, the VAR (holding period 10-days, 99% confidence interval) was W82.9 billion at December 30, 2000 and 60 day average VAR was W63.2 billion.

The Bank also performs analysis on potential trading losses due to stressful events as a supplementary control on its market risk exposure. This is accomplished through applying historical and internally developed scenarios to the daily trading positions to monitor the effect of extreme market movement on VAR. Also, other strategic, tactical and operational limits have been established to control market risk by the RPC.

**Table 25. Value-at-Risk in Trading Portfolio**

(Billions of Korean Won)

| | December 30, 2000 | 60-day average |
|---|---|---|
| Interest rate | W 81.5 | W 54.6 |
| Equity | 5.3 | 6.0 |
| Foreign exchange | 10.2 | 10.9 |
| **Total** | **82.9** | **63.2** |

## Interest Rate Management and Sensitivity

Core banking activities, such as deposit receipt and lending, expose the bank to market risk, mostly in the form of interest rate risk. A key component of the Bank's asset and liability management policy is the management of interest rate sensitivity. Exposure to interest rate movements arises where there is a mismatch between interest sensitive assets and liabilities and off-balance sheet items.

The imbalance of the Bank's assets and liabilities, and the gap resulting from such composition, may cause net interest income to be affected by changes in the prevailing level of interest rates. Over 83% of the Bank's lending for won accounts and none of its loans in foreign currency accounts is in the form of floating rate loans and is funded primarily with demand, savings and time deposits and borrowings. Interest rates applicable to interest earning assets and interest bearing liabilities in Korean Won, other than demand deposits and certain savings deposits, the interest on which is subject to regulation by the BOK, are generally based on Bank-determined minimum rates, which are adjusted periodically based on market and other conditions.

As in the case of other Korean commercial banks, almost all won currency deposit products of the Bank bear fixed rates of interest, and interest on approximately 20% of the Bank's deposit amounts are subject to regulation by the BOK. Adjustments in interest rates offered on deposit products are not subject to impacts on interest paid or accrued although such interest rates can be adjusted only upon rollover of the deposits. In addition, most of the Bank's won currency borrowings bear fixed rates of interest.

However, approximately 63% of the Bank's won currency loans earn interest at a spread above the Bank's prime rate, and any adjustments have immediate effect. The Bank adjusts its prime rate and its lending spreads based on its average cost of funds. In determining its cost of funds, the Bank takes into account any changes in rates applicable to its deposits. The Bank believes that its interest rate sensitivity is limited because interest rates on approximately one half of its current won currency deposits can be adjusted following a change in the Bank's minimum rates, and over 83% of its loans carry floating interest rates, enabling the Bank to match increases in the cost of funds with appropriate increases in lending rates.

A majority of the Bank's interest earned and interest paid on foreign currency assets and liabilities is based on floating rates of interest. Due to the financial and economic crisis of late 1997, the Bank was exposed to a significant maturity mismatch with respect to foreign currency assets and liabilities, which greatly increased the Bank's foreign currency funding costs. As a result, the Bank made efforts to reduce its foreign currency assets and liabilities.

The Bank's primary method in measuring and managing interest rate risk is Earnings-At-Risk (EAR), calculated by the Monte-Carlo simulation. Static gap analysis is another tool that may be used for interest rate risk measurement. The net difference between the amount of assets and liabilities repricing within a cumulative

**Table 26. Interest Rate Sensitivity Gap**

| | | 0-1month | 2-3 months | 4-6months | 7-12months | Over 1 year | Total | EaR |
|---|---|---|---|---|---|---|---|---|
| In local currency | Assets | 14,906 | 3,413 | 1,251 | 1,797 | 20,407 | 41,774 | 10.6 |
| (Billions of Korean Won) | Liabilities | 7,047 | 4,762 | 3,733 | 4,882 | 21,350 | 41,774 | |
| | Gap | 7,859 | -1,349 | -2,482 | -3,085 | - 943 | 0 | |
| In foreign currencies | Assets | 2,390 | 2,199 | 1,199 | 69 | 767 | 6,624 | 5.60 |
| (Millions of U.S. Dollars) | Liabilities | 2,141 | 2,036 | 1,492 | 42 | 913 | 6,624 | |
| | Gap | 249 | 163 | -293 | 27 | -146 | 0 | |

calendar period is typically referred to as the "rate sensitivity position" or "gap position". The table 26 sets forth the Bank's rate sensitivity gap positions as of December 31, 2000.

### Foreign Exchange Risk Management

The Bank monitors changes in, and matches of, foreign-currency assets and liabilities in order to reduce exposure to currency fluctuations. Risks relating to exchange rate fluctuations are also managed through the Bank's foreign exchange dealing, which is conducted by the Treasury Dealing & Investment Department at the Bank's headquarters and overseas branches. The foreign exchange dealings conducted by the Bank are primarily on behalf of the Bank's customers. Counter-parties are restricted to domestic and foreign financial institutions and banks for whom the International Business Division has established a foreign exchange dealing limit. Foreign exchange dealing is primarily in the won/dollar market and is subject to what the Bank considers to be conservative daily maximum and closing limits and stop loss limits.

### Derivatives

Pursuant to the Foreign Exchange Transaction Regulations of Korea effective from April 1, 1999, a foreign exchange bank, such as the Bank, may, with certain exceptions, enter into derivative transactions without restriction so long as those are not linked with the credit risks of a party thereto or any third party, in which case a report to the Bank of Korea is necessary.

All of the derivative products purchased by the Bank are on behalf of its customers or to hedge the Bank's own position. As of December 31, 2000, the Bank had entered into forward exchange contracts and contracts related to interest rate transactions, including interest rate swaps, options and futures contracts, with an aggregate notional amount equivalent to approximately US$2,676 million.

### Operational Risk Management

The Bank monitors and assesses risk related to the Bank's business-wide operations. This could include administrative risks, EDPS risks, managerial risks, legal risks, and reputation risks, which are regularly checked through checklists, the results of which are reported to the RPC and RMC by the Risk Management Division.

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**To the Shareholders and Board of Directors of**
**Chohung Bank:**

We have audited the accompanying non-consolidated balance sheets of the Bank Accounts of Chohung Bank as of December 31, 2000 and 1999 and the related statements of operations, disposition of accumulated deficit and cash flows for the years then ended, all expressed in Korean won. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chohung Bank as of December 31, 2000 and 1999 and the results of its operations, changes in its accumulated deficit and its cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying non-consolidated financial statements have been translated into US dollars, solely for the convenience of the reader, on the basis set forth in Note 2 to the non-consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 1 to the non-consolidated financial statements. The operations of Chohung Bank (the Bank) have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet dates cannot presently be determined and, accordingly, no adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

As discussed in Note 2 to the non-consolidated financial statements, beginning in 2000, the Bank applied the revised financial accounting standards for financial derivatives and restructured loans in trust accounts in accordance with the revision of the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivatives and the new accounting standards for trust accounts. As a result of these changes, beginning accumulated deficit in 2000 increased by W43.2 billion (US$34.3 million) and net income for the year ended December 31, 2000 increased by W37.9 billion (US$30.1 million) when compared to the those which would have been reported using the previous accounting policies.

As discussed in Note 2 to the non-consolidated financial statements, beginning in 1999, the Bank changed its accounting policies with respect to, among others, the allowance for guarantees and acceptances, and accounting for restructured loans and valuation of securities, in accordance with the accounting standards for the banking industry applied from January 1, 1999. As a result of these changes, the beginning accumulated deficit in 1999 increased by W140.5 billion (US$122.7 million) and the net loss for the year ended December 31, 1999 increased by W122.2 billion (US$106.7 million) when compared to the those which would have been reported using the previous accounting policies.

As discussed in Note 20 to the non-consolidated financial statements, from December 15, 1997 to December 31, 2000, the Bank sold non-performing loans totaling W3,580.8 billion (US$2,842.6 million), including W6.5 billion (US$5.2 million) in 2000, from the bank accounts and trust accounts to Korea Asset Management Corporation ("KAMCO") at a price of W1,957.9 billion (US$1,554.3 million). As of December 31, 2000, the outstanding balance of the loans sold for which the final selling price has not yet been decided, due to the incompleteness of the borrowers restructuring plan, is W595.4 billion (US$472.7 million). Notwithstanding the sale and the elimination of these assets from the balance sheet, the Bank remains liable to KAMCO for the selling price of non-performing assets that were sold on a recourse basis totaling W1,533.1 billion (US$1,217.0 million) including the W595.4 billion (US$472.7 million) loans on which the selling price may change. KAMCO's ability to execute its right of recourse is dependent on whether the borrowers comply with their restructuring commitments. Additional losses may be incurred if KAMCO is able to and does execute the right of recourse. No liability has been recorded in the Bank's non-consolidated financial statements for any such losses, which could have a material adverse effect on the financial position and results of operations of the Bank.

As disclosed in Note 34 to the non-consolidated financial statements, the Bank sold its 51 percent ownership in Chohung Securities Co., Ltd. to KGI Korea Ltd. on January 7, 2000 and its 100 percent ownership in Chohung Mutual Savings and Finance Co., Ltd. to Shin An Co., Ltd. and its related party on January 10, 2000. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W19.7 billion (US$15.6 million) and W24.4 billion (US$19.4 million), respectively, in 2000. Also, the Bank sold its 100 percent ownership in Kangeun Mutual Savings and Finance Co., Ltd. to Choonchun Mutual Savings and Finance Co., Ltd. on April 6, 2000 and its 69.55 percent ownership in Chohung Capital Co., Ltd. to KEP Electronic Co., Ltd. and Samai Industrial Co., Ltd. on November 23, 2000. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W1.8 billion (US$1.5 million) and W29.9 billion (US$23.7 million), respectively, in 2000.

As explained in Note 35 to the non-consolidated financial statements, on January 15, 1999, the Bank obtained approval for its management improvement plan from the Financial Supervisory Commission (FSC) and, pursuant to the plan, implemented a capital reduction without consideration and received a capital injection from the Korea Deposit Insurance Corporation (KDIC) (see Note 18). As a result of the capital injection by KDIC, the Bank entered into an agreement dated November 12, 1999 with FSC and KDIC to fully execute the management improvement plan of the Bank. Pursuant to the agreement, the Bank has disposed of bad loans, non-performing tangible assets and closed domestic branch offices and its subsidiaries to improve its financial indicators including its capital adequacy ratio. As a result of these efforts, at the end of 2000, the Bank achieved the management index targets contained in the agreement. In the second phase of the financial industry restructuring, the Bank obtained approval from FSC for its adjusted management improvement plan, which allows the Bank to survive independently subject to the conditions that it would lower the ratio of non-performing loans below 6 percent by the end of June, 2001, and below 4 percent by the end of December, 2001 and achieve W220 million (US$175 thousand) of operating income before provisions for possible loan losses per employee. Whether or not its management improvement plan and adjusted management improvement plan are achieved may have a great impact on the Bank's operating, investing and financing activities including any capital increase or capital reduction. Under the agreement on compliance with the management improvement plan, the agreement will terminate when the Bank fully complies with the plan for more than 2 years from the effective date of the agreement and KDIC's percentage of ownership in the Bank decreases to less than 50 percent of the Bank's common shares with voting rights through the selling of KDIC's stake in the Bank.

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

Seoul, Korea
February 2, 2001

Anjin & Co.

**December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **ASSETS** | | | | |
| Cash and due from banks (Notes 3, 4, 19, 21, 22 and 30) | W 3,638,995 | W 3,731,911 | $ 2,888,779 | $ 3,258,173 |
| Trading securities (Notes 5, 21, 22 and 32) | 1,507,637 | 1,542,420 | 1,196,822 | 1,346,621 |
| Investment securities (Notes 6, 12, 21, 22, 32 and 34) | 11,351,183 | 10,457,262 | 9,011,021 | 9,129,790 |
| Loans (Notes 7, 8, 9, 19, 20, 21, 22, 31, 32 and 33) | 29,376,591 | 24,152,738 | 23,320,307 | 21,086,728 |
| Fixed assets (Notes 10 and 13) | 1,699,394 | 1,756,339 | 1,349,047 | 1,533,385 |
| Other assets (Notes 11 and 22) | 2,757,652 | 1,790,057 | 2,189,134 | 1,562,822 |
| **Total Assets** | W 50,331,452 | W 43,430,727 | $ 39,955,110 | $ 37,917,519 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Liabilities:** | | | | |
| Deposits (Notes 14, 19, 21 and 22) | W 34,392,940 | W 27,621,058 | $ 27,302,485 | $ 24,114,770 |
| Borrowings (Notes 15, 19, 21 and 22) | 7,327,756 | 8,945,050 | 5,817,064 | 7,809,543 |
| Debentures (Notes 16 and 21) | 3,036,577 | 2,292,870 | 2,410,556 | 2,001,807 |
| Other liabilities (Notes 17 and 22) | 3,489,253 | 2,353,631 | 2,769,908 | 2,054,855 |
| **Total Liabilties** | 48,246,526 | 41,212,609 | 38,300,013 | 35,980,975 |
| **Shareholders' Equity (Note 18):** | | | | |
| Common stock, W5,000 par value | | | | |
| Authorized - 2,000,000,000 shares | | | | |
| Issued and outstanding - 679,078,115 shares | 3,395,391 | 3,395,391 | 2,695,396 | 2,964,371 |
| Capital surplus | - | - | - | - |
| Other reserve | 7,984 | 6,520 | 6,338 | 5,692 |
| Accumulated deficit (net income of W101,085 million in 2000 and net loss of W698,043 million in 1999) | (850,329) | (877,047) | (675,025) | (765,712) |
| Capital adjustments | (468,120) | (306,746) | (371,612) | (267,807) |
| **Total Shareholders' Equity** | 2,084,926 | 2,218,118 | 1,655,097 | 1,936,544 |
| **Total Liabilities and Shareholders' Equity** | W 50,331,452 | W 43,430,727 | $ 39,955,110 | $ 37,917,519 |

*The accompanying notes are an integral part of these non-consolidated statements.*

**For the years ended December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Interest Income and Dividends (Note 19):** | | | | |
| Interest on due from banks | W 102,951 | W 115,420 | $ 81,727 | $ 100,768 |
| Interest and dividends on trading securities | 98,933 | 128,467 | 78,537 | 112,159 |
| Interest and dividends on investment securities | 897,227 | 645,100 | 712,254 | 563,209 |
| Interest on loans (Note 23) | 3,012,240 | 2,385,374 | 2,391,236 | 2,082,569 |
| Other interest income | 100,838 | 48,533 | 80,049 | 42,372 |
| **Total Interest Income and Dividends** | 4,212,189 | 3,322,894 | 3,343,803 | 2,901,077 |
| **Interest Expenses (Note 19):** | | | | |
| Interest on deposits | 1,773,172 | 1,236,588 | 1,407,614 | 1,079,612 |
| Interest on borrowings | 546,879 | 642,290 | 434,134 | 560,756 |
| Interest on debentures | 257,195 | 126,978 | 204,172 | 110,859 |
| Other interest expenses (Note 23) | 131,278 | 98,511 | 104,214 | 86,006 |
| **Total Interest Expenses** | 2,708,524 | 2,104,367 | 2,150,134 | 1,837,233 |
| **Net Interest Income** | 1,503,665 | 1,218,527 | 1,193,669 | 1,063,844 |
| **Provision for Possible Loan Losses** | 852,313 | 1,657,994 | 676,600 | 1,447,524 |
| **Net Interest Income (Loss) after Provision for Possible Loan Losses** | 651,352 | (439,467) | 517,069 | (383,680) |
| **Non-Interest Income:** | | | | |
| Fees and commissions (Note 24) | 163,608 | 157,319 | 129,879 | 137,348 |
| Gain on sale of trading securities | 59,757 | 183,492 | 47,437 | 160,199 |
| Gain on valuation of trading securities | 9,854 | 86,184 | 7,823 | 75,244 |
| Gain on foreign currency trading | 284,205 | 475,448 | 225,613 | 415,093 |
| Gain on derivatives trading | 244,342 | 7,613 | 193,968 | 6,647 |
| Fees and commissions from trust accounts (Note 2) | 93,006 | 121,622 | 73,832 | 106,183 |
| Other non-interest income (Note 25) | 434,819 | 390,040 | 345,177 | 340,527 |
| **Total Non-Interest Income** | 1,289,591 | 1,421,718 | 1,023,729 | 1,241,241 |
| **Non-Interest Expenses:** | | | | |
| Commissions | 33,674 | 45,851 | 26,732 | 40,030 |
| General and administrative expenses (Note 26) | 696,572 | 618,863 | 552,967 | 540,303 |
| Loss on foreign currency trading | 198,775 | 327,819 | 157,796 | 286,205 |
| Loss on derivatives trading | 225,900 | 7,351 | 179,328 | 6,418 |
| Contribution to Credit Guarantee Fund | 38,487 | 27,787 | 30,553 | 24,260 |
| Loss on sale of loans (Note 20) | 101,828 | 202,085 | 80,835 | 176,432 |
| Loss on sale of trading securities | 69,500 | 19,282 | 55,172 | 16,834 |
| Loss on valuation of trading securities | 17,111 | 52,459 | 13,583 | 45,800 |
| Payments to guaranteed return trust accounts (Note 2) | 152,481 | 187,398 | 121,045 | 163,609 |
| Other non-interest expenses (Note 27) | 319,577 | 187,692 | 253,693 | 163,866 |
| **Total Non-Interest Expenses** | 1,853,905 | 1,676,587 | 1,471,704 | 1,463,757 |
| **Ordinary Income (Loss)** | 87,038 | (694,336) | 69,094 | (606,195) |
| **Extraordinary Gain (Note 6)** | 17,593 | - | 13,966 | - |
| **Income (Loss) before Income Tax Expense** | 104,631 | (694,336) | 83,060 | (606,195) |
| **Income Tax Expense (Note 28)** | 3,546 | 3,707 | 2,815 | 3,237 |
| **Net Income (Loss)** | W 101,085 | W (698,043) | $ 80,245 | $ (609,432) |
| **Ordinary Income (Loss) per Common Share (in currency units) (Note 2)** | W 131 | W (1,505) | $ 0.10 | $ (1.31) |
| **Net Income (Loss) per Common Share (in currency units) (Note 2)** | W 149 | W (1,505) | $ 0.12 | $ (1.31) |

*The accompanying notes are an integral part of these non-consolidated statements.*

**For the years ended December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Accumulated Deficit before Disposition:** | | | | |
| Balance at beginning of year | W (877,047) | W (774,839) | $ (696,235) | $ (676,479) |
| Cumulative effect on prior years of accounting changes (Notes 2 and 18) | (43,238) | (140,573) | (34,324) | (122,728) |
| Loss on valuation of investments in subsidiaries using equity method (Note 18) | (28,176) | - | (22,367) | - |
| Prior period adjustments, net (Note 29) | - | 3,924 | - | 3,426 |
| Gain on capital reduction (Note 18) | - | 723,874 | - | 631,984 |
| Net income (loss) | 101,085 | (698,043) | 80,245 | (609,432) |
| Other statutory reserves | (1,121) | - | (890) | - |
| Amortization of discount on stock issued below par (Note 18) | (1,633) | - | (1,296) | - |
| Loss on disposal of treasury stock | (199) | - | (158) | - |
| Balance at end of year | (850,329) | (885,657) | (675,025) | (773,229) |
| **Disposition:** | | | | |
| Transfer from capital surplus | - | 8,610 | - | 7,517 |
| | - | 8,610 | - | 7,517 |
| **Undisposed Accumulated Deficit to be Carried Forward to Subsequent Year** | W (850,329) | W (877,047) | $ (675,025) | $ (765,712) |

*The accompanying notes are an integral part of these non-consolidated statements.*

**For the years ended December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Cash Flows from Operating Activities:** | | | | |
| Net income (loss) | W 101,085 | W (698,043) | $ 80,245 | $ (609,432) |
| Adjustments to reconcile net income (loss) | | | | |
| to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 177,567 | 147,853 | 140,960 | 129,084 |
| Provision for possible loan losses | 852,313 | 1,657,994 | 676,600 | 1,447,524 |
| Provision for severance benefits | 30,100 | 43,300 | 23,895 | 37,803 |
| Loss on disposal of fixed assets | 9,092 | 1,019 | 7,218 | 890 |
| Loss (Gain) on sale of loans, net | 95,209 | (6,144) | 75,581 | (5,364) |
| Loss (Gain) on sale of trading securities, net | 10,710 | (164,210) | 8,502 | (143,365) |
| Loss (Gain) on valuation of trading securities,net | 6,290 | (33,725) | 4,993 | (29,444) |
| Payment of severance benefits | (38,209) | (187,192) | (30,332) | (163,429) |
| Other, net | 161,575 | 43,195 | 128,264 | 37,712 |
| **Net Cash Provided by Operating Activities** | 1,405,732 | 804,047 | 1,115,926 | 701,979 |
| **Cash Flows from Investing Activities:** | | | | |
| Net increase in loans | (6,430,428) | (2,102,783) | (5,104,729) | (1,835,850) |
| Proceeds on sale of fixed assets | 30,956 | 4,144 | 24,574 | 3,618 |
| Purchase of fixed assets | (59,566) | (39,730) | (47,286) | (34,686) |
| Net increase in investment securities | (1,019,199) | (3,333,391) | (809,081) | (2,910,242) |
| Proceeds from sale of trading securities | 17,783 | 163,228 | 14,117 | 142,507 |
| Cash acquired from mergers | - | 310,589 | - | 271,162 |
| Other, net | 132,309 | 80,577 | 105,032 | 70,348 |
| **Net Cash Used in Investing Activities** | (7,328,145) | (4,917,366) | (5,817,373) | (4,293,143) |
| **Cash Flows from Financing Activities:** | | | | |
| Net increase in deposits | 6,771,882 | 4,995,675 | 5,375,789 | 4,361,511 |
| Net decrease in borrowings | (1,617,294) | (3,172,552) | (1,283,872) | (2,769,820) |
| Net increase (decrease) in debentures | 721,207 | (47,670) | 572,523 | (41,619) |
| Proceeds from issuance of capital stock | - | 2,999,012 | - | 2,618,310 |
| Other, net | (46,298) | (150,344) | (36,753) | (131,259) |
| **Net Cash Provided by Financing Activities** | 5,829,497 | 4,624,121 | 4,627,687 | 4,037,123 |
| **Net Increase (Decrease) in Cash** | (92,916) | 510,802 | (73,760) | 445,959 |
| **Cash, Beginning of Year** | 3,731,911 | 3,221,109 | 2,962,539 | 2,812,214 |
| **Cash, End of Year (Note 30)** | W 3,638,995 | W 3,731,911 | $ 2,888,779 | $ 3,258,173 |

*The accompanying notes are an integral part of these non-consolidated statements.*

December 31, 2000 and 1999

## 1. General:

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of a merger of Han Sung Bank, which was established on February 19, 1897 and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. In addition to the head office in Seoul, the Bank operates 392 domestic branches, 70 depositary offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2000. The shares of the Bank were listed on the Korea Stock Exchange on March 3, 1956 and on the London Stock Exchange for Global Depositary Receipts (GDRs) on December 5, 1996. The Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian Financial Crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices. Through early 2000, it was widely accepted that the economic situation had stabilized, but not fully recovered, from the 1997 crisis.

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

## 2. Summary of Significant Accounting Policies:

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

### Basis of Non-consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean won and prepares its statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with financial accounting standards and banking accounting standards in the Republic of Korea. Certain financial accounting and banking accounting standards applied by the Bank that conform with those generally accepted in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, the accompanying non-consolidated financial statements are not intended for use by those who are not informed about Korean accounting principles and practices.

The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the statutory Korean language non-consolidated financial statements. The U.S. dollar amounts presented in these non-consolidated financial statements were computed by translating the Korean Won into U.S. dollars based on the Bank of Korea (BOK) Basic Rate (W1,259.70 and W1,145.40 to US$1.00 at December 31, 2000 and 1999, respectively) solely for the convenience of the reader. The convenience translations into US dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted into US dollars at this or any other rate of exchange.

### Valuation of Trading Securities

Trading equity and debt securities are stated at acquisition cost. If fair value of trading securities differs from the book value determined by the moving average method, trading securities are stated at fair value and the unrealized gain or loss is reflected in current operations.

### Valuation of Investment Securities

*(1)* Equity Securities

Equity securities held for investment (excluding those of affiliates and subsidiaries discussed in the next paragraph) that are not actively quoted (unlisted security) are stated at acquisition cost using the moving average method. Actively quoted (listed) securities, including those traded over-the-counter, are stated at fair value with a valuation gain or loss recorded as a capital adjustment. If the fair value of listed equity securities or the net equity value of unlisted equity securities held for investment declines compared to acquisition cost and is not expected to recover (impaired investment securities), the value of the equity securities is adjusted to fair value or net equity value, with the valuation loss charged to current operations.

Equity securities held for investment that are in companies in which the Bank is able to exercise significant influence over the investees (if the Bank held 20 percent or more, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustment of the Bank consistent with the manner reflected in investees' financial statements.

The investment in the Stock Market Stabilization Fund (SMSF) is stated at fair value with the valuation gain or loss credited or charged to current operations. The stocks distributed by SMSF are recorded as trading or investment securities at fair value and treated as a return of investment. Cash distributed by SMSF as dividends or as a return of investment equity are also treated as a return of investment.

*(2)* Debt Securities
Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Investments in debt securities of the types indicated below are classified as available-for-sale investment debt securities.

All held-to-maturity investment debt securities if some portion was sold during current period
Securities obliged to be sold before maturity by legal regulations
Securities to be accounted for as investment securities impairment loss

Held-to-maturity investment debt securities are stated at acquisition cost, as determined by the individual moving average method. When the face value of held-to-maturity investment debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. Available-for-sale investment debt securities are stated at fair value, with resulting valuation gains or losses recorded as a capital adjustment. If fair value of a held-to-maturity or a available-for-sale investment debt securities declines compared to the acquisition cost and is not expected to recover (impaired investment securities), the carrying value of the debt securities is adjusted to fair value with resulting valuation loss charged to current operations.

*(3)* Gain or Loss on Valuation of Investment Securities
The net unrealized gain or loss, except for gain or loss on valuation of investment equity in SMSF, is presented as gain or loss on valuation of investment securities in capital adjustments. An unrealized valuation gain or loss of investment securities incurred in subsequent periods is deducted from or added to the previous balance of unrealized valuation gain or loss of investment securities. When investment securities are sold, the unrealized valuation gain or loss of investment securities included in the capital adjustment account is added to or deducted from gain or loss on disposal. With respect to impaired investment securities, any unrealized valuation gain or loss on the securities previously included in the capital adjustment account is reversed.

*(4)* Recovery of Impaired Investment Securities
If the value of any investment equity securities or investment debt securities previously recognized as impaired subsequently recovers, in the case of marketable equity securities and available-for-sale debt securities, the increase in value is recorded in current operations up to the amount of the previously recognized impairment loss and any excess is recorded as a capital adjustment. In the case of unlisted equity securities and held-to-maturity debt securities, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss.

*(5)* Reclassification of Securities
If the Bank's objectives change, trading securities can be reclassified to investment securities, but only as of a balance sheet date. The difference between the fair value of the securities as of the balance sheet date and the book value is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. Investment securities cannot be reclassified to trading securities.

## Allowance for Possible Loan Losses

In accordance with the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to corporate borrowers, whose credit limit, including that for securities such as commercial paper and privately placed bonds and financing lease receivables, exceeds W10.0 billion (US$8.7 million), into ten categories according to (1) past repayment history including overdue period and bankruptcy status of the borrower, and (2) future debt repayment capability based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to other corporate borrowers and individuals are also classified into ten categories based only on past repayment history. The loans are classified, as of the balance sheet dates, as 'normal', 'precautionary,' 'substandard', 'doubtful' and 'loss'. The allowance for possible loan losses is then calculated at 0.5 percent of loan balances classified in categories 1 to 6 (normal), and 2 percent, 20 percent, 50 percent and 100 percent of the loan balances classified in categories 7 (precautionary), 8 (substandard), 9 (doubtful) and 10 (loss), respectively. However, the Bank does not provide, and the Accounting Standards for the Banking Industry does not require, allowances for loans to the Korean government and local government entities, and call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as category 1 to 6.

The Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same criteria of loan classification. An allowance is then calculated, using 20 percent for 'substandard,' 50 percent for 'doubtful' and 100 percent for 'loss'. No allowance is provided for those confirmed acceptances and guarantees classified as 'normal' and 'precautionary.'

Confirmed acceptances and guarantees for companies in workout process are classified as 'precautionary' and 'substandard.' An allowance is then calculated, using 2 percent or more for acceptances and guarantees to workout companies classified as 'precautionary' and 20 percent or more for companies classified as 'substandard.' An allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

As of December 31,1999, loans for companies under workout process were classified into the following five categories: precautionary I, precautionary II, precautionary III, substandard I and substandard II. An allowance for these loans was computed using percentages of 2 percent for precautionary I, 5 percent for precautionary II, 10 percent for precautionary III, 15 percent for substandard I and 20 percent for substandard II. Confirmed acceptances and guarantees for companies under workout process were classified as 'precautionary' and 'substandard' and an allowance was calculated, using from 2 percent to 10 percent for acceptances and guarantees to workout companies classified as 'precautionary' and from 15 percent to 20 percent for companies classified as 'substandard'.

### Restructuring of Loans

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

### Recognition of Interest Income

The Bank recognizes interest income earned on loans, call loans, long-term deposits with other banks and securities on an accrual basis, except for interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to customers that are bankrupt, given a grace period or a reduction or exemption of interest payments, or listed as watch list clients by the Korean Banking Authorities, where interest income is recognized when amounts are collected. Unrecorded accrued interest income for these reasons amounted to W291,820 million (US$231,658 thousand) and W190,544 million (US$166,356 thousand) as of December 31, 2000 and 1999, respectively.

### Accounting for Leases

The Bank accounts for its leasing business using either the operating method or the direct financing method, depending on the terms of the lease. Direct financing leases contain, with a non-cancelable term, a transfer of ownership option in the lease agreements, a bargain purchase option, a term which exceeds the estimated economic useful life of the leased property (75 percent of the useful life for leases entered into after April 1, 1998), or for the leases entered into after April 1, 1998, a term in which the present value of the minimum lease payment is 90 percent or more of the fair value of the leased property.

Under the operating method, income is accrued as lease payments become receivable over the life of the lease.

Under the direct financing method, the excess of the present value of the total lease payments to be recorded during the lease term over the cost of the leased property (with no residual value) constitutes unearned interest income which is recognized as revenue over the term of the lease using the interest method.

### Valuation of Receivables and Payables at Present Value

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

### Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at cost, except for the effect of any upward revaluation made in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed at the time incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as prescribed by the Corporate Income Tax Law of Korea as follows:

| | In Years |
|---|---|
| Buildings | 40 ~ 60 |
| Equipment and furniture | 5 |
| Leasehold improvements | 5 |

### Intangible Assets

Intangible assets other than goodwill included in fixed assets are recorded at the production cost or purchase cost plus incidental expenses less accumulated amortization. Intangible assets are amortized using straight-line method over a period based on the nature of the assets. The excess of consideration distributed for business combinations over net assets transferred is classified as goodwill, which is amortized using the straight-line method over 5 years. Goodwill was recognized from the acquisitions of Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively. In addition, the Bank added to goodwill the valuation loss resulting from treasury stock, which had not been disposed of by the end of current year and amortizes the valuation loss included in goodwill over the remaining useful life of the goodwill. Since the Bank has not disposed of, as of December 31, 2000, its treasury stock acquired through the mergers and acquisitions ("M&A"), the previous Accounting Standards for Business Combination in effect when the M&A was consummated, required the Bank to account for the valuation loss from the treasury stock amounting to W100,716 million as goodwill to be amortized for the next 4 years including the current year (See Note 18(5)).

### Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the auction price is lower than book value, the difference is provided as a valuation allowance with the valuation loss charged to current operations.

### Amortization of Discount (Premium) on Debentures

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

### Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance indemnities which would be payable assuming all eligible employees were to resign as of December 31, 2000 and 1999 were W130,911 million (US$103,922 thousand) and W139,020 million (US$121,372 thousand), respectively. Actual payments of severance indemnities amounted to W38,209 million (US$30,332 thousand) in 2000 and W187,192 million (US$163,429 thousand) in 1999.

Funding of the severance liability is not required. However, in order to obtain a full tax deduction, at least 60percent of the liability must be funded. The Bank has purchased employee group severance indemnity insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. The withdrawal of these deposits is restricted to the payment of severance benefits. The deposits, amounting to W122,800 million (US$97,484 thousand) and W135,200 million (US$118,037 thousand) as of December 31, 2000 and 1999, respectively, are presented in due from banks in local currency.

Before April 1999, the Bank and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Bank paid half of the employees '6 percent, which was paid as an advance for the future severance payment and deducted from the total severance indemnity payable at the termination. Such advance payment, totaling W7,625 million (US$6,053 thousand) as of December 31, 2000 and W9,490 million (US$8,285 thousand) as of December 31, 1999, are presented as a deduction from accrued severance indemnities. Since April 1999, according to a revision in the National Pension Law, the Bank and its employees each pay 4.5 percent of monthly pay to the Fund under their respective accounts.

### Bonds under Resale or Repurchase Agreements

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

### Accounting for Financial Derivatives

From the beginning of 2000, the Bank has accounted for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability.

Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk, are reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is reflected in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the occurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability. The accumulated gain or loss on both hedging derivative instruments and hedged items, which occurred prior to January 1, 2000 and to which fair value hedge accounting is applied, was reflected in beginning accumulated deficit as cumulative effect of changes in accounting principles for financial derivative instruments. There were no cash flow hedging activities prior to January 1, 2000.

Prior to 2000, financial derivatives were classified into hedging transactions or trading transactions. Hedging derivative instruments, whose underlying assets were recorded at market value (including translations into Korean Won of foreign currency denominated assets or liabilities) or trading derivative instruments were accounted for at market value with valuation gain or loss reflected in current operations. The gain or loss on hedging derivative instruments, whose underlying assets were not recorded at market value, was reflected in current operations at the time the gain or loss on the underlying assets was recorded in current operations. However, the underlying transactions of foreign currency forward contracts and foreign currency swaps was recorded at the contract foreign exchange rates. For foreign currency forward contracts, the difference between the revalued amounts of the underlying transaction using the spot rate and the contract rate was classified as a deferred loss (gain) on foreign currency forward contracts. This difference was amortized equally over the contract period.

### Payments to Guaranteed Return Trust Accounts

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. For the years ended December 31, 2000 and 1999, the

Bank recorded W93,006 million (US$73,832 thousand) and W121,622 million (US$106,183 thousand) of trust management fee income and W10,312million (US$8,186 thousand) and W19,230 million (US$16,789 thousand ) of trust cancellation charge income, respectively. However, in return, the Bank paid compensating contribution to guaranteed return trusts of W152,481 million (US$121,045 thousand) in 2000 and W187,398 million (US$163,609 thousand) in 1999 to cover such deficiencies which were reflected as a non-interest expense of the bank accounts and as other income of the trust accounts. As a result, the Bank recorded a loss from the operation of trust business of W49,163 million (US$39,028 thousand) in 2000 and W46,546 million (US$ 40,637 thousand) in 1999. There is no assurance that the Bank will not be required to make such compensating transfers in the future or that the amounts of such transfers may not be significantly greater in the future.

### Accounting for Stock Options

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

### Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the change in deferred income tax. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

### Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on BOK Basic Rate (W1,259.70 and W1,145.40 to US$1.00 at December 31, 2000 and 1999, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses on foreign currency denominated assets and liabilities are credited or charged to operations. Financial statements of overseas branches and subsidiaries in which investments are accounted for using equity method are translated based on BOK Basic Rate as of the balance sheet dates.

### Earnings (Loss) per Share

Ordinary income (loss) per common share and net income (loss) per common share are computed by dividing ordinary income (loss) (after deducting the tax effect) and net income (loss), respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 679 million in 2000 and 464 million in 1999. Ordinary income (loss) and net income (loss) on common shares were as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Net income (loss) | W 101,085 | W (698,043) | $ 80,245 | $ (609,432) |
| Extraordinary income | (17,593) | - | (13,966) | - |
| Income tax on extraordinary income | 5,417 | - | 4,300 | - |
| Ordinary income (loss) | W 88,909 | W (698,043) | $ 70,579 | $ (609,432) |

Diluted ordinary income (loss) per common share and diluted income (loss) per common share are not computed since the annual average stock price of the Bank is below the exercise price of the dilutive securities such as bonds with warrants and stock options. The dilutive securities are as follows:

| Item | Face value (In millions) | Exercise period | Common stocks to be issued | Remarks |
|---|---|---|---|---|
| Bonds with warrants | W 550,000 | By 2002.10.22 | 94,991,364 shares | Exercise price : 1 share per face value W5,790 of bonds, W5,790 paid in cash upon exercise |
| Stock options | - | 2003.3.28 ~ 2006.3.27 | 969,200 shares | W5,000 paid in cash upon exercise |

## Effects of Changes in Financial Accounting Standards

The effects of changes in financial accounting standards on financial statements are reflected directly in beginning accumulated deficit.

Beginning in 2000, the Bank applied the revised financial accounting standards for financial derivatives and restructured loans in trust accounts in accordance with the revision of the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivatives and the new accounting standards for trust accounts. As a result of these changes, the beginning accumulated deficit in 2000 increased by W43.2 billion (US$34.3 million) and the net income for the year ended December 31, 2000 increased by W37.9 billion (US$30.1 million) when compared to those which would have been reported using the previous accounting policies. The details of the effects of these accounting changes as of December 31, 2000 are as follows:

| | Beginning accumulated deficit (increase) decrease | | 2000 net income (increase) decrease | |
|---|---|---|---|---|
| | Billions of Korean Won | Millions of U.S. Dollars(Note 2) | Billions of Korean Won | Millions of U.S. Dollars(Note 2) |
| Accounting for derivative instruments | W 6.6 | $ 5.2 | W 1.0 | $ 0.8 |
| Accounting for restructured loans in trust accounts | (49.8) | (39.5) | 36.9 | 29.3 |
| | W (43.2) | $ (34.3) | W 37.9 | $ 30.1 |

Beginning in 1999, significant changes were introduced to the financial accounting standard in the Republic of Korea and new accounting standards for the banking industry were introduced. These changes included, among others, changes in accounting for allowance for guarantees and acceptances, restructured loans in bank accounts and valuation of securities. As a result of these changes, the beginning accumulated deficit in1999 increased by W140.5 billion (US$122.7 million) and the net loss for the year ended December 31, 1999 increased by W122.2 billion (US$106.7 million) when compared to those which would have been reported using the previous accounting policies. The details of the effects of these accounting changes as of December 31, 1999 are as follows:

| | Beginning accumulated deficit (increase) decrease | | 1999 net loss (increase) decrease | |
|---|---|---|---|---|
| | Billions of Korean Won | Millions of U.S. Dollars(Note 2) | Billions of Korean Won | Millions of U.S. Dollars(Note 2) |
| Allowance for guarantees and acceptances | W (41.3) | W (36.1) | $ (67.6) | $ (59.0) |
| Accounting for restructured loans | (85.5) | (74.6) | (63.0) | (55.0) |
| Trading and investment securities | (13.8) | (12.1) | 8.5 | 7.4 |
| Other | 0.1 | 0.1 | (0.1) | (0.1) |
| | W (140.5) | W (122.7) | $ (122.2) | $ (106.7) |

## Reclassifications

The Bank reclassified certain accounts for 1999 to conform with the 2000 presentation for comparative purposes. However, this reclassification has no effect on the net loss or net asset value as of and for the year then ended December 31, 1999.

## 3. Cash and Due from Banks:

Cash and due from banks as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Cash and checks | W 973,844 | W 1,210,358 | $ 773,076 | $ 1,056,712 |
| Foreign currencies | 63,948 | 56,525 | 50,764 | 49,350 |
| Due from banks in local currency | 2,043,070 | 1,629,077 | 1,621,870 | 1,422,278 |
| Due from banks in foreign currencies | 558,133 | 835,951 | 443,069 | 729,833 |
| | W 3,638,995 | W 3,731,911 | $ 2,888,779 | $ 3,258,173 |

## 4. Restricted Due from Banks:

The Bank has certain due from banks restricted in use under the banking regulations in the Republic of Korea. Restricted due from banks as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | Reference |
| Reserve deposits with the Bank of Korea (BOK) | W 519,773 | W 612,568 | $ 412,616 | $ 534,807 | Required under the Banking Law |
| Other deposits (see Note 2) | 122,800 | 135,200 | 97,484 | 118,038 | Deposits for Severance Indemnities |
| Due from banks on demand in foreign currencies | 232,162 | 285,835 | 184,299 | 249,550 | Required under the Banking Law |
| | W 874,735 | W 1,033,603 | $ 694,399 | $ 902,395 | |

## 5. Trading Securities:

*(1)* Trading securities as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Stocks | W - | W 182,351 | $ - | $ 159,203 |
| Government bonds | 815,351 | 410,578 | 647,258 | 358,458 |
| Finance debentures | 90,142 | 433,451 | 71,558 | 378,428 |
| Corporate bonds | 373,338 | 182,360 | 296,371 | 159,211 |
| Beneficiary certificates | 173,588 | 270,863 | 137,801 | 236,479 |
| Trading securities in foreign currencies | 48,630 | 53,063 | 38,604 | 46,327 |
| Other | 6,588 | 9,754 | 5,230 | 8,515 |
| | W 1,507,637 | W 1,542,420 | $ 1,196,822 | $ 1,346,621 |

*(2)* The details of valuation of trading securities as of December 31, 2000 are as follows (Unit: Won in millions):

| | Face value | Acquisition cost | Adjusted by effective interest method | Fair value (Book value) |
|---|---|---|---|---|
| Government bonds | W 835,000 | W 809,682 | $ 811,636 | $ 815,351 |
| Finance debentures | 92,500 | 90,010 | 89,820 | 90,142 |
| Corporate bonds | 371,744 | 372,484 | 372,276 | 373,338 |
| Beneficiary certificates | 166,999 | 167,100 | - | 173,588 |
| Trading securities in foreign currencies | 7,100 | 6,260 | - | 48,630 |
| Other | 48,262 | 49,076 | - | 6,588 |
| | W 1,521,605 | W 1,494,612 | $ 1,273,732 | $ 1,507,637 |

The details of valuation of trading securities as of December 31, 1999 are as follows (Unit : Won in millions):

| | Face value | Acquisition cost | Adjusted by effective interest method | Fair value (Book value) |
|---|---|---|---|---|
| Stock | W - | W 112,048 | $ - | $ 182,351 |
| Government bonds | 423,580 | 413,231 | 456,289 | 410,578 |
| Finance debentures | 440,500 | 414,368 | 433,722 | 433,451 |
| Corporate bonds | 180,000 | 183,070 | 182,072 | 182,360 |
| Beneficial certificates | 290,459 | 289,434 | - | 270,863 |
| Trading securities in foreign currencies | - | 53,198 | - | 53,063 |
| Other | 9,148 | 9,251 | 9,180 | 9,754 |
| | W 1,343,687 | W 1,474,600 | $ 1,081,263 | $ 1,542,420 |

Fair value of trading debt securities including government and public bonds in local currency is determined based on closing yields of bonds on December 31, 2000 and 1999, respectively, announced by the Korea Securities Computer Co., Ltd. and accrued interest income was excluded from fair value amounts. Fair value of trading securities in foreign currencies is determined by the latest market prices provided by reputable market price information providers or by the yields provided by professional dealers. Acquisition costs of trading securities in foreign currencies are Korean Won equivalents of foreign currency denominated acquisition costs based on BOK Basic Rate on December 31, 2000 and 1999.

*(3)* Trading securities, by country, as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | Percentage (%) | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Trading securities in local currency: | | | | | | |
| Korea | W 1,459,007 | W 1,489,357 | $ 1,158,218 | $ 1,300,294 | 100.00 | 100.00 |
| Trading securities in foreign currencies: | | | | | | |
| Korea | 38,616 | 11,164 | 30,655 | 9,747 | 79.41 | 21.04 |
| Mexico | 10,014 | 14,917 | 7,949 | 13,023 | 20.59 | 28.11 |
| The Philippines | - | 12,338 | - | 10,772 | - | 23.25 |
| Other | - | 14,644 | - | 12,785 | - | 27.60 |
| | 48,630 | 53,063 | 38,604 | 46,327 | 100.00 | 100.00 |
| | W 1,507,637 | W 1,542,420 | $ 1,196,822 | $ 1,346,621 | | |

## 6. Investment Securities:

*(1)* Investment securities as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Investment equity securities | W 368,957 | W 508,631 | $ 292,893 | $ 444,064 |
| Equity investments | 26,285 | 817,415 | 20,866 | 713,650 |
| Government bonds | 2,340,376 | 1,557,535 | 1,857,884 | 1,359,818 |
| Finance debentures | 1,326,630 | 1,176,170 | 1,053,132 | 1,026,864 |
| Corporate bonds | 5,781,382 | 4,999,191 | 4,589,491 | 4,364,581 |
| Beneficiary certificates | 805,430 | 391,722 | 639,382 | 341,996 |
| Investment securities in foreign currencies | 689,639 | 994,960 | 547,463 | 868,657 |
| Other | 12,484 | 11,638 | 9,910 | 10,160 |
| | W 11,351,183 | W 10,457,262 | $ 9,011,021 | $ 9,129,790 |

*(2)* Investment equity securities accounted for using equity method as of December 31, 2000 are as follows (Unit: Won in millions):

| | Balance sheet date | Percentage of ownership(%) | Acquisition cost | Net asset value | Book value |
|---|---|---|---|---|---|
| Chohung Investment Trust and Management Co., Ltd. | 2000. 9.30 | 79.77 | W 60,969 | W 51,463 | W 50,611 |
| Chohung Finance Ltd., Hong Kong | 2000.12.31 | 99.99 | 7,558 | 35,976 | 35,976 |
| Chohung Bank of New York | 2000.12.31 | 100.00 | 32,122 | 36,911 | 36,911 |
| Chohung Bank (Deutschland) GmbH | 2000.12.31 | 100.00 | 18,211 | 18,972 | 18,972 |
| California Chohung Bank | 2000.12.31 | 100.00 | 44,496 | 49,219 | 49,219 |
| Chohung Vina Bank | 2000.12.31 | 40.00 | 6,299 | 7,112 | 7,112 |
| | | | W 169,655 | W 199,653 | W 198,801 |

Investment equity securities accounted for using equity method as of December 31, 1999 are as follows (Unit: Won in millions):

| | Balance sheet date | Percentage of ownership(%) | Acquisition cost | Net asset value | Book value |
|---|---|---|---|---|---|
| Chohung Mutual Savings and Finance Co., Ltd. | 1999. 6.30 | 100.00 | W 32,831 | W 15,731 | W 15,731 |
| Chohung Securities Co., Ltd. | 1999. 9.30 | 59.75 | 64,521 | 148,980 | 89,015 |
| Chohung Investment Trust and Management Co., Ltd. | 1999. 9.30 | 49.00 | 11,200 | 46,886 | 22,974 |
| Chohung Capital Co., Ltd. | 1999. 9.30 | 33.40 | 20,012 | (117,482) | - |
| Kangeun Mutual Savings and Finance Co., Ltd. | 1999. 6.30 | 100.00 | 2,231 | 2,231 | 2,231 |
| Chohung Finance Ltd., Hong Kong | 1999.12.31 | 99.99 | 6,872 | 27,894 | 27,894 |
| Chohung Bank of New York | 1999.12.31 | 100.00 | 29,208 | 31,388 | 31,388 |
| Chohung Bank of Canada | 1999.12.31 | 100.00 | 9,457 | 10,754 | 10,754 |
| Chohung Bank (Deutschland) GmbH | 1999.12.31 | 100.00 | 17,648 | 18,322 | 18,322 |
| California Chohung Bank | 1999.12.31 | 100.00 | 40,459 | 40,517 | 40,517 |
| Chohung Bank (Moscow) Ltd. | 1999.12.31 | 99.29 | 15,921 | 1,834 | 1,834 |
| Hyundai Finance (Asia) Ltd. HK | 1999.12.31 | 100.00 | 7,445 | 7,445 | 7,445 |
| | | | W 257,805 | W 234,500 | W 268,105 |

Net asset values of investment equity securities were based on recent financial statements.

On August 24, 1999, 16 creditors of Samsung Motors, including the Bank, Kun Hee Lee, the chairman of Samsung Group and 31 Samsung Group companies including Samsung Electronics, entered into an agreement that the chairman of Samsung Group would donate 3,500 thousand shares of Samsung Life Insurance Co., Ltd. to creditors as compensation for their anticipated credit loss in connection with the restructuring of Samsung Motors.

In accordance with the agreement, the chairman of Samsung Group donated 58,387 shares of Samsung Life Insurance Co., Ltd. owned by him to the Bank on June 29, 2000. The Bank valued these donated shares at W488,600 (US$388) per share and recorded the total value of donated shares of W28,528 million (US$22,647 thousand) as an extraordinary gain of W17,593 million (US$13,966 thousand) in the bank accounts and W10,935 million (US$8,681 thousand) in the trust accounts.

*(3)* The valuation of investment debt securities in local currency, by type, as of December 31, 2000 is summarized as follows (Unit: Won in millions):

| | Face value | Acquisition cost | Adjusted by effective interest method | Fair value (Book value) |
|---|---|---|---|---|
| Available-for-sale: | | | | |
| Government bonds | W 440,951 | W 434,684 | W 436,250 | W 442,325 |
| Finance debentures | 735,200 | 717,625 | 717,775 | 720,506 |
| Corporate bonds | 1,574,333 | 1,528,776 | 1,528,476 | 1,517,760 |
| | 2,750,484 | 2,681,085 | 2,682,501 | 2,680,591 |
| Held-to-maturity: | | | | |
| Government bonds | 1,900,922 | 1,870,044 | 1,898,051 | 1,898,051 |
| Finance debentures | 609,328 | 588,485 | 606,124 | 606,124 |
| Corporate bonds | 4,260,956 | 4,276,464 | 4,263,622 | 4,263,622 |
| | 6,771,206 | 6,734,993 | 6,767,797 | 6,767,797 |
| | W 9,521,690 | W 9,416,078 | W 9,450,298 | W 9,448,388 |

The valuation of investment debt securities in local currency, by type, as of December 31, 1999 is summarized as follows (Unit: Won in millions):

| | Face value | Acquisition cost | Adjusted by effective interest method | Fair value (Book value) |
|---|---|---|---|---|
| Available-for-sale: | | | | |
| Finance debentures | W 275,200 | W 275,200 | W 275,200 | W 275,974 |
| Corporate bonds | 1,583,416 | 1,560,059 | 1,561,351 | 1,567,605 |
| | 1,858,616 | 1,835,259 | 1,836,551 | 1,843,579 |
| Held-to-maturity: | | | | |
| Government bonds | 1,470,871 | 1,448,206 | 1,557,535 | 1,557,535 |
| Finance debentures | 902,634 | 789,817 | 900,196 | 900,196 |
| Corporate bonds | 3,368,553 | 3,386,747 | 3,431,586 | 3,431,586 |
| | 5,742,058 | 5,624,770 | 5,889,317 | 5,889,317 |
| | W 7,600,674 | W 7,460,029 | W 7,725,868 | W 7,732,896 |

The book value of available-for-sale securities is the sum of fair values of government and public bonds, finance debentures and corporate bonds. The book value of held-to-maturity securities was adjusted using the effective interest method.

The fair values of available-for-sale investment debt securities in local currency were calculated based on the closing market interest rate announced by Korea Securities Computer Co., Ltd.

*(4)* The portfolio of investment securities, by country, as of December 31, 2000 and 1999 is summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | Percentage(%) | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Investment securities in local currency: | | | | | | |
| Korea | W10,661,544 | W 9,462,302 | $ 8,463,558 | $ 8,261,133 | 100.00 | 100.00 |
| Investment securities in foreign currencies: | | | | | | |
| Korea | 382,598 | 601,794 | 303,722 | 525,401 | 55.48 | 60.48 |
| United States | 95,427 | 120,851 | 75,754 | 105,510 | 13.84 | 12.14 |
| Thailand | 30,978 | 83,091 | 24,592 | 72,543 | 4.49 | 8.35 |
| The Philippines | 16,883 | 27,477 | 13,402 | 23,989 | 2.45 | 2.76 |
| Indonesia | 3,113 | 28,160 | 2,471 | 24,585 | 0.45 | 2.83 |
| Malaysia | 26,454 | 21,763 | 21,000 | 19,000 | 3.83 | 2.19 |
| Russia | - | 20,176 | - | 17,615 | - | 2.03 |
| Other | 134,186 | 91,648 | 106,522 | 80,014 | 19.46 | 9.22 |
| | 689,639 | 994,960 | 547,463 | 868,657 | 100.00 | 100.00 |
| | W11,351,183 | W10,457,262 | $ 9,011,021 | $ 9,129,790 | | |

*(5)* The portfolio of investment securities, by type, as of December 31,2000 and 1999 is summarized as follows (Unit: Won in millions):

| | 2000 | | 1999 | |
|---|---|---|---|---|
| **Type** | Investment securities in local currency | Investment securities in foreign currencies | Investment securities in local currency | Investment securities in foreign currencies |
| Fixed rate notes | W 5,295,047 | W 183,253 | W 5,889,317 | W 219,984 |
| Floating rate notes | 4,153,341 | 247,778 | 1,840,231 | 531,585 |
| Convertible bonds | - | 81,480 | 3,348 | 85,418 |
| Stocks and equity | 395,241 | 154,707 | 1,326,046 | 139,396 |
| Other investments | 817,915 | 22,421 | 403,360 | 18,577 |
| | W 10,661,544 | W 689,639 | W 9,462,302 | W 994,960 |

Total

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | Percentage (%) | |
|---|---|---|---|---|---|---|
| **Type** | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Fixed rate notes | W 5,478,300 | W 6,109,301 | $ 4,348,893 | $ 5,333,771 | 48.26 | 58.42 |
| Floating rate notes | 4,401,119 | 2,371,816 | 3,493,783 | 2,070,731 | 38.77 | 22.68 |
| Convertible bonds | 81,480 | 88,766 | 64,682 | 77,498 | 0.72 | 0.85 |
| Stocks and equity | 549,948 | 1,465,442 | 436,571 | 1,279,415 | 4.84 | 14.01 |
| Other investments | 840,336 | 421,937 | 667,092 | 368,375 | 7.41 | 4.04 |
| | W11,351,183 | W 10,457,262 | $ 9,011,021 | $ 9,129,790 | 100.00 | 100.00 |

## 7. Loans:

*(1)* Loans as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Loans in local currency | W 15,979,683 | W 12,867,368 | $ 12,685,308 | $ 11,233,951 |
| Loans in foreign currencies | 3,353,856 | 4,149,132 | 2,662,424 | 3,622,431 |
| Bills bought in local currency | 2,677,685 | 2,652,391 | 2,125,653 | 2,315,690 |
| Bills bought in foreign currencies | 2,629,390 | 2,928,116 | 2,087,314 | 2,556,413 |
| Advances for customers | 418,537 | 610,085 | 332,251 | 532,639 |
| Factoring receivables | 250,805 | 307,281 | 199,099 | 268,274 |
| Credit card accounts | 2,973,502 | 1,421,762 | 2,360,484 | 1,241,280 |
| Bonds bought under resale agreements | 400,000 | 198,345 | 317,536 | 173,167 |
| Call loans | 454,411 | 47,726 | 360,730 | 41,668 |
| Bills discounted | 675,992 | 615,432 | 536,629 | 537,307 |
| Cash management accounts | 435,000 | 108,807 | 345,320 | 94,995 |
| Bills overdue | 32,983 | 12,717 | 26,183 | 11,103 |
| Privately placed bonds | 477,544 | 257,362 | 379,093 | 224,691 |
| Financing lease receivables | 458,743 | 606,525 | 364,171 | 529,531 |
| | 31,218,131 | 26,783,049 | 24,782,195 | 23,383,140 |
| Allowance for possible loan losses | (1,669,735) | (2,481,785) | (1,325,502) | (2,166,740) |
| Present value discounts (See Note 9) | (171,805) | (148,526) | (136,386) | (129,672) |
| | W 29,376,591 | W 24,152,738 | $ 23,320,307 | $ 21,086,728 |

*(2)* Loans in local currency and foreign currencies as of December 31, 2000 and 1999 classified by borrower type are as follows (Unit: Won in millions):

| | 2000 | | 1999 | |
|---|---|---|---|---|
| **Type** | Loans in local currency | Loans in foreign currencies | Loans in local currency | Loans in foreign currencies |
| Loans to enterprises: | | | | |
| Loans for operation | W 11,706,884 | W 1,753,949 | W10,835,609 | W 1,293,212 |
| Loans for equipment | 1,012,437 | 1,365,537 | 631,947 | 2,142,200 |
| Special loans | 3,401 | 31,723 | 3,401 | - |
| | 12,722,722 | 3,151,209 | 11,470,957 | 3,435,412 |
| Loans to households | 5,385,420 | 6,621 | 3,664,475 | 713,720 |
| Loans to the public sector and other | | | | |
| Loans for operation | 240,084 | 145,208 | 80,588 | - |
| Loans for equipment | 233,767 | 115 | 193,467 | - |
| Interbank loans | 23,657 | 50,703 | 35,759 | - |
| | 497,508 | 196,026 | 309,814 | - |
| | W 18,605,650 | W 3,353,856 | W15,445,246 | W 4,149,132 |

| Type | Total: Millions of Korean Won 2000 | Total: Millions of Korean Won 1999 | Total: Thousands of U.S. Dollars (Note 2) 2000 | Total: Thousands of U.S. Dollars (Note 2) 1999 |
|---|---|---|---|---|
| Loans to enterprises: | | | | |
| Loans for operation | W 13,460,833 | W 12,128,821 | $ 10,685,745 | $ 10,589,157 |
| Loans for equipment | 2,377,974 | 2,774,147 | 1,887,730 | 2,421,990 |
| Special loans | 35,124 | 3,401 | 27,883 | 2,969 |
| | 15,873,931 | 14,906,369 | 12,601,358 | 13,014,116 |
| Loans to households | 5,392,041 | 4,378,195 | 4,280,417 | 3,822,416 |
| Loans to the public sector and other: | | | | |
| Loans for operation | 385,292 | 80,588 | 305,860 | 70,358 |
| Loans for equipment | 233,882 | 193,467 | 185,665 | 168,908 |
| Interbank loans | 74,360 | 35,759 | 59,030 | 31,220 |
| | 693,534 | 309,814 | 550,555 | 270,486 |
| | W 21,959,506 | W 19,594,378 | $ 17,432,330 | $ 17,107,018 |

Discounted commercial notes of W2,626.0 billion (US$2,084.6 million) and W2,577.9 billion (US$2,250.7 million) were included in loans in local currency as of December 31, 2000 and 1999, respectively exhibited in (2) above, and (3) and (4) below.

*(3)* Loans in local currency and foreign currencies, by industry, as of December 31, 2000 and 1999 are as follows (Unit: Won in Millions):

| Industry | 2000: Loans in local currency | 2000: Loans in foreign currencies | 1999: Loans in local currency | 1999: Loans in foreign currencies |
|---|---|---|---|---|
| Manufacturing | W 7,304,861 | W 777,957 | W 6,636,048 | W 1,732,951 |
| Finance and insurance | 511,707 | 1,160,539 | 367,611 | 1,942,592 |
| Wholesales, retails and fixing customer goods | 1,788,261 | 427,505 | 1,631,627 | 606 |
| Construction | 1,435,132 | 69,499 | 1,177,028 | 9,000 |
| Other | 7,565,689 | 918,356 | 5,632,932 | 463,983 |
| | W18,605,650 | W 3,353,856 | W 15,445,246 | W 4,149,132 |

| Industry | Total: Millions of Korean Won 2000 | Total: Millions of Korean Won 1999 | Total: Thousands of U.S. Dollars (Note 2) 2000 | Total: Thousands of U.S. Dollars (Note 2) 1999 | Total: Percentage (%) 2000 | Total: Percentage (%) 1999 |
|---|---|---|---|---|---|---|
| Manufacturing | W 8,082,818 | W 8,368,999 | $ 6,416,463 | $ 7,306,617 | 36.81 | 42.71 |
| Finance and insurance | 1,672,246 | 2,310,203 | 1,327,495 | 2,016,940 | 7.62 | 11.79 |
| Wholesales, retails and fixing customer goods | 2,215,766 | 1,632,233 | 1,758,963 | 1,425,033 | 10.01 | 8.33 |
| Construction | 1,504,631 | 1,186,028 | 1,194,436 | 1,035,471 | 6.85 | 6.05 |
| Other | 8,484,045 | 6,096,915 | 6,734,973 | 5,322,957 | 38.71 | 31.12 |
| | W 21,959,506 | W 19,594,378 | $ 17,432,330 | $ 17,107,018 | 100.00 | 100.00 |

*(4)* Loans in local currency and foreign currencies, by country, as of December 31, 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | Percentage (%) | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Loans in local currency: | | | | | | |
| Korea | W 18,605,650 | W 15,445,246 | $ 14,769,906 | $ 13,484,587 | 100.00 | 100.00 |
| Loans in foreign currencies: | | | | | | |
| Korea | W 1,003,295 | W 3,650,659 | $ 796,455 | $ 3,187,235 | 29.91 | 87.99 |
| Japan | 434,996 | 174,612 | 345,317 | 152,446 | 12.97 | 4.21 |
| Russia | 193,400 | 128,285 | 153,529 | 112,000 | 5.77 | 3.09 |
| Hong Kong | 39,411 | 29,844 | 31,286 | 26,056 | 1.18 | 0.72 |
| Indonesia | 60,516 | 58,782 | 48,040 | 51,320 | 1.80 | 1.42 |
| United States | 1,095,820 | 6,764 | 869,906 | 5,905 | 32.67 | 0.16 |
| Other | 526,418 | 100,186 | 417,891 | 87,469 | 15.70 | 2.41 |
| | 3,353,856 | 4,149,132 | 2,662,424 | 3,622,431 | 100.00 | 100.00 |
| | W 21,959,506 | W 19,594,378 | $ 17,432,330 | $ 17,107,018 | | |

## 8. Allowance for Possible Loan Losses:

*(1)* The allowance for possible loan losses as of December 31, 2000 and 1999 is summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Loans in local currency | W 919,334 | W 1,248,697 | $ 729,804 | $ 1,090,184 |
| Loans in foreign currencies | 298,086 | 474,975 | 236,633 | 415,554 |
| Advances for customers on payment guarantees | 126,051 | 286,028 | 100,064 | 249,719 |
| Bills bought in foreign currencies | 115,398 | 295,509 | 91,608 | 257,996 |
| Credit card accounts | 54,500 | 23,981 | 43,264 | 20,937 |
| Privately placed bonds | 79,237 | 30,700 | 62,901 | 26,803 |
| Other | 77,129 | 121,895 | 61,228 | 105,548 |
| | W 1,669,735 | W 2,481,785 | $ 1,325,502 | $ 2,166,741 |

*(2)* The allowance for possible loan losses compared to total loans after deducting present vaule discounts as of December 31, 2000, 1999 and 1998 is as follows:

| | Total loans | | Allowance for possible loan losses | | Percentage (%) |
|---|---|---|---|---|---|
| | Billions of Korean Won | Millions of U.S. Dollars (Note 2) | Billions of Korean Won | Millions of U.S. Dollars (Note 2) | |
| December 31,2000 | W 31,046 | $ 24,645 | W 1,670 | $ 1,325 | 5.38 |
| December 31,1999 | 26,635 | 23,253 | 2,482 | 2,166 | 9.32 |
| December 31,1998 | 21,584 | 17,870 | 757 | 626 | 3.50 |

Total loans are the amounts after deducting present value discounts. In addition, BOK Basic Rate was W1,207.80 to US$1.00 at December 31, 1998.

## 9. Restructured Loans:

Restructured loans as of December 31, 2000 are summarized as follows:

| | Face Value | | | | Unamortized present value discounts | |
|---|---|---|---|---|---|---|
| Borrower | Millions of Korean Won | Thousands of U.S. Dollars(Note 2) | Interest rate | Maturity date | Millions of Korean Won | Thousands of U.S. Dollars(Note 2) |
| Korea Development Lease | W 257,736 | $ 204,601 | 6.18 ~ 10.00 | 2004. 6.30 ~ 2009. 6.30 | W 49,171 | $ 39,034 |
| Jindo | 210,352 | 166,986 | 9.89 ~ 21.75 | 2002.12.31 ~ 2004.12.31 | 46,082 | 36,582 |
| Sepoong Co. | 139,065 | 110,395 | 9.14 ~ 10.63 | 2002.12.31 ~ 2004.12.31 | 13,614 | 10,807 |
| Daelim Industry | 130,190 | 103,350 | 11.50 | 2006. 9. 8 ~ 2008. 9. 8 | 5,525 | 4,386 |
| Hanmi Capital | 51,757 | 41,087 | 6.95 ~ 7.13 | 2005. 8.31 | 963 | 764 |
| Chohung Capital Co., Ltd. | 34,921 | 27,722 | 8.10 ~ 8.22 | 2005.12.31 | 593 | 471 |
| Chungbu Leasing Co., Ltd. | 28,861 | 22,911 | 6.59 ~ 8.26 | 2006. 9.30 ~ 2009. 3.31 | 1,526 | 1,211 |
| Korea Housing Guarantee Co., Ltd. | 28,460 | 22,593 | 9.40 ~ 10.40 | 2003.12.31 ~ 2009.12.31 | 2,463 | 1,955 |
| Kyoungnam Leasing Co., Ltd. | 27,417 | 21,765 | 5.50 ~ 7.68 | 2007. 9.30 ~ 2008. 8.30 | 1,657 | 1,315 |
| Samho | 26,250 | 20,838 | 11.50 | 2006. 9. 8 | 172 | 137 |
| Other (66 companies) | 261,243 | 207,384 | | | 50,039 | 39,724 |
| | W 1,196,252 | $ 949,632 | | | W 171,805 | $ 136,386 |

Restructured loans as of December 31, 1999 are summarized as follows:

| | Face Value | | | | Unamortized present value discounts | |
|---|---|---|---|---|---|---|
| Borrower | Millions of Korean Won | Thousands of U.S. Dollars(Note 2) | Interest rate | Maturity date | Millions of Korean Won | Thousands of U.S. Dollars(Note 2) |
| Korea Development Lease | W 278,690 | $ 243,312 | 6.18 ~ 10.00 | 2004. 6.30 ~ 2009. 6.30 | W 55,460 | $ 48,420 |
| Daelim Industry | 185,000 | 161,516 | 11.50 | 2006. 9. 8 ~ 2008. 9. 8 | 522 | 456 |
| Jindo | 173,991 | 151,904 | 9.89 ~ 21.75 | 2002.12.31 ~ 2004.12.31 | 31,660 | 27,641 |
| Ssangyong Motors | 159,618 | 139,356 | 7.00 ~ 10.00 | 2000.12.31 | 11,602 | 10,129 |
| Hanmi Capital | 136,402 | 119,087 | 6.95 ~ 7.13 | 2005. 8.31 | 4,784 | 4,177 |
| Daesung Timber | 31,200 | 27,239 | 18.25 | 2004.12.31 | 6,751 | 5,894 |
| Samho | 30,000 | 26,192 | 11.50 | 2001.12.31 | 307 | 268 |
| Dongbang T&C | 23,601 | 20,605 | 9.89 ~ 10.87 | 2002. 3.12 | 3,122 | 2,726 |
| Anam Semiconductor | 20,000 | 17,461 | 12.75 | 2003.12.31 | 1,225 | 1,069 |
| Shinho Paper | 18,983 | 16,573 | 9.89 ~ 18.75 | 2002.12.31 | 3,378 | 2,949 |
| Other (45 companies) | 132,003 | 115,247 | | | 29,715 | 25,943 |
| | W 1,189,488 | $ 1,038,492 | | | W 148,526 | $ 129,672 |

## 10. Fixed Assets:

Fixed assets as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Land | W 925,523 | W 955,386 | $ 734,717 | $ 834,107 |
| Buildings | 400,234 | 403,867 | 317,722 | 352,599 |
| Leasehold improvements | 33,317 | 31,769 | 26,448 | 27,736 |
| Furniture and equipment | 385,469 | 354,170 | 306,001 | 309,211 |
| Construction in progress | 5,463 | 5,254 | 4,336 | 4,587 |
| Total tangible assets | 1,750,006 | 1,750,446 | 1,389,224 | 1,528,240 |
| Accumulated depreciation | (392,494) | (347,422) | (311,577) | (303,319) |
| Goodwill | 336,074 | 347,424 | 266,789 | 303,321 |
| Other intangible assets | 5,266 | 5,127 | 4,180 | 4,476 |
| Non-business use property | 682 | 933 | 541 | 815 |
| Valuation allowances | (140) | (169) | (110) | (148) |
| | W 1,699,394 | W 1,756,339 | $ 1,349,047 | $ 1,533,385 |

As of December 31, 2000 and 1999, the published value of land was W719,982 million (US$571,550 thousand) and W702,618 million (US$613,426 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

## 11. Other Assets:

Other assets as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Guarantee deposits | W 428,386 | W 441,677 | $ 340,070 | $ 385,609 |
| Accounts receivable | 1,240,638 | 289,371 | 984,868 | 252,638 |
| Accrued income | 460,533 | 251,632 | 365,589 | 219,689 |
| Prepaid expenses | 10,096 | 7,241 | 8,015 | 6,322 |
| Deferred income tax assets | 9,524 | 9,705 | 7,561 | 8,473 |
| Domestic exchange settlement account - debit | 160,025 | 300,105 | 127,034 | 262,009 |
| Adjustment for valuation of financial derivatives | 36,549 | 19,299 | 29,014 | 16,849 |
| Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties | 206,058 | 241,485 | 163,577 | 210,830 |
| Accounts receivables - other | 57,924 | 52,259 | 45,982 | 45,625 |
| Other | 147,919 | 177,283 | 117,424 | 154,778 |
| | W 2,757,652 | W 1,790,057 | $ 2,189,134 | $ 1,562,822 |

## 12. Collateralized Assets:

Collateralized assets as of December 31, 2000 and 1999 are summarized as follows:

| | | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | |
|---|---|---|---|---|---|---|
| Collateralized assets | Provided to | 2000 | 1999 | 2000 | 1999 | Provided for |
| Investment securities | Bank of Korea | W 1,655,000 | W 2,311,522 | $ 1,313,805 | $ 2,018,091 | RP of Bank of Korea (BOK) |
| 〃 | 〃 | 246,700 | 281,900 | 195,840 | 170,980 | Settlement risk |
| 〃 | 〃 | 966,800 | 549,661 | 767,484 | 670,058 | Borrowings from BOK |
| 〃 | 〃 | 210,000 | - | 166,706 | - | Daily borrowings from BOK |
| 〃 | Deutsche Bank AG | 1,219,700 | 668,717 | 968,246 | 583,828 | Borrowings in foreign currency |
| 〃 | Customer RP | 700,000 | 623,074 | 555,688 | 543,979 | Customer RP |
| 〃 | Samsung Securities Co., Ltd. | - | 984 | - | 859 | Futures |
| 〃 | KAMCO | 202,672 | 205,318 | 160,890 | 64,218 | Settlement of non-performing loans |
| | | W 5,200,872 | W 4,641,176 | $ 4,128,659 | $ 4,052,013 | |

## 13. Insured Assets:

Assets insured as of December 31, 2000 and 1999 are as follows (Unit: Won in millions):

| | | Net book value | | Insured amount | |
|---|---|---|---|---|---|
| Type of insurance | Assets | 2000 | 1999 | 2000 | 1999 |
| Fire | Buildings | W 346,362 | W 362,914 | W 356,916 | W 370,442 |
| | Furniture and equipment | 72,105 | 71,827 | 89,237 | 81,880 |
| | | W 418,467 | W 434,741 | W 446,153 | W 452,322 |

## 14. Deposits:

Deposits as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Deposits in local currency | W 29,817,744 | W 23,289,996 | $ 23,670,512 | $ 20,333,504 |
| Deposits in foreign currencies | 1,666,492 | 1,623,625 | 1,322,928 | 1,417,518 |
| Negotiable certificates of deposits | 1,452,086 | 2,003,511 | 1,152,724 | 1,749,179 |
| Deposits in bills issued | 1,022,991 | 595,874 | 812,091 | 520,233 |
| Trust of cash management accounts | 433,627 | 108,052 | 344,230 | 94,336 |
| | W 34,392,940 | W 27,621,058 | $ 27,302,485 | $ 24,114,770 |

## 15. Borrowings:

Borrowings as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Borrowings in local currency: | | | | |
| General borrowings | W 1,425,850 | W 1,368,830 | $ 1,131,896 | $ 1,195,067 |
| Subordinated borrowings | 268,500 | 395,000 | 213,146 | 344,858 |
| | 1,694,350 | 1,763,830 | 1,345,042 | 1,539,925 |
| Borrowings in foreign currencies | 1,782,221 | 2,784,691 | 1,414,798 | 2,431,195 |
| Bonds sold under repurchase agreements | 1,342,957 | 893,696 | 1,066,093 | 780,248 |
| Bills sold | 698,967 | 551,362 | 554,868 | 481,371 |
| Due to Bank of Korea in foreign currencies | 1,663,130 | 2,694,630 | 1,320,259 | 2,352,567 |
| Call money | 146,131 | 256,841 | 116,004 | 224,237 |
| | W 7,327,756 | W 8,945,050 | $ 5,817,064 | $ 7,809,543 |

## 16. Debentures:

Debentures as of December 31, 2000 and 1999 are summarized as follows:

| | | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|---|
| | Interest rate per annum | 2000 | 1999 | 2000 | 1999 |
| Debentures in local currency: | | | | | |
| General debentures | 8.56 ~ 12.00% | W 300,000 | W 429,253 | $ 238,152 | $ 374,763 |
| Subordinated debentures | 10.20 ~ 18.00%<br>prime rate + 1 ~ 2% | 775,700 | 625,700 | 615,782 | 546,272 |
| Debenture with warrants | 10.00% | 550,000 | 550,000 | 436,611 | 480,181 |
| | | 1,625,700 | 1,604,953 | 1,290,545 | 1,401,216 |
| Debentures in foreign currencies: | | | | | |
| General debentures | 3M Libor + 1.30%,<br>6M Libor + 0.23 ~ 1.20% | 598,213 | 575,564 | 474,885 | 502,500 |
| Subordinated debentures | 6M Libor + 1.25 ~ 4.95%,<br>11.50 ~ 11.875% | 822,053 | 114,540 | 652,579 | 100,000 |
| | | 1,420,266 | 690,104 | 1,127,464 | 602,500 |
| Discounts on debentures | | (9,389) | (2,187) | (7,453) | (1,909) |
| | | W 3,036,577 | W 2,292,870 | $ 2,410,556 | $ 2,001,807 |

## 17. Other Liabilities:

Other liabilities as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Accrued severance benefits (see Note 2) | W 130,911 | W 139,020 | $ 103,922 | $ 121,372 |
| Transfer to National Pension Fund (see Note 2) | (7,625) | (9,490) | (6,053) | (8,285) |
| Allowance for possible losses on acceptances and guarantees | 63,819 | 172,228 | 50,662 | 150,365 |
| Borrowings from trust accounts | 499,811 | 501,437 | 396,770 | 437,783 |
| Foreign exchange remittances pending | 34,540 | 29,381 | 27,419 | 25,651 |
| Accounts payable | 971,125 | 933 | 770,918 | 815 |
| Accrued expenses | 990,035 | 750,387 | 785,929 | 655,131 |
| Unearned revenues | 116,200 | 101,529 | 92,244 | 88,641 |
| Deposits for letters of guarantees and other | 64,643 | 53,986 | 51,316 | 47,133 |
| Domestic exchange settlement account - credit | 156,372 | 75,159 | 124,134 | 65,618 |
| Accounts payable - other | 84,860 | 262,950 | 67,365 | 229,570 |
| Adjustment for valuation of financial derivatives | 78,437 | 42,125 | 62,266 | 36,778 |
| Other | 306,125 | 233,986 | 243,016 | 204,283 |
| | W 3,489,253 | W 2,353,631 | $ 2,769,908 | $ 2,054,855 |

## 18. Shareholders' Equity:

*(1)* Common stock

In accordance with the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at the rate of 4.505 shares to one share under a capital reduction without consideration. Due to this reduction, the common stock of the Bank was reduced by W723.9 billion (US$632.0 million) with the resulting gain of the same amount being transferred to offset accumulated deficit in 1999. On February 19, 1999, May 7, 1999 and September 30, 1999, the Bank increased its common stock in total by W2,717.9 billion (US$2,372.9 million) by issuing a total of 544 million shares to Korea Deposit Insurance Corporation ("KDIC") at par value. In addition, the Bank increased its common stock by W196.0 billion (US$171.1 million) as a result of the acquisitions of Chungbuk Bank and Kangwon Bank, and by W275 billion (US$240.1 million) through a public offering. As a result, the balance of the Bank's common stock as of December 31, 2000 and 1999 is W3,395.4 billion (US$2,695.4 million in 2000 and US$2,964.4 million in 1999) ,with KDIC having an ownership interest of 80.05 percent of the Bank's common shares issued.

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 679,078,115 common share have been issued as of December 31, 2000 and 1999. The changes in common stock during 1999 (there were no changes in 2000) are

| | Millions of Korean Won | Thousands of U.S. Dollars (Note 2) | Date |
|---|---|---|---|
| Beginning balance | W 930,429 | $ 812,318 | 1998.12.31 |
| Capital reduction without consideration | (723,913) | (632,018) | 1999. 2.12 |
| Investment by KDIC | 2,112,300 | 1,844,159 | 1999. 2.19 |
| Price for acquisition of Chungbuk Bank | 1 | 1 | 1999. 5. 3 |
| Investment by KDIC | 212,250 | 185,306 | 1999. 5. 7 |
| Price for acquisition of Kangwon Bank | 196,024 | 171,140 | 1999. 9.13 |
| Investment by KDIC | 393,300 | 343,374 | 1999. 9.30 |
| Public offering | 275,000 | 240,091 | 1999.11.23 |
| Ending balance | W 3,395,391 | $ 2,964,371 | |

On November 23, 1999, the Bank completed an offering in the Republic of Korea of 55,000,000 shares of common stock for an aggregate offer price of approximately W302.5 billion (US$261.7 million). In connection with such offering of common stock, on November 22, 1999, the Bank also issued bonds with warrants in the aggregate principal amount of W550.0 billion (US$475.8 million). The subscriptions for these offerings, which were not fully subscribed but fully underwritten, took place on November 17 and November 18,1999. The bonds have a maturity of three years with one year's put and call options and pay interest at 10 percent per annum. The warrants are separable from the bonds upon issuance of the bonds. The warrants are exercisable from February 23, 2000 until October 22, 2002 at an exercise price of W5,790 per share.

*(2)* Disposition of accumulated deficit

To dispose the accumulated deficit, the Bank transferred capital surplus, statutory reserve and other voluntary reserve amounting to W1,196.0 billion (US$949.4 million) on February 18, 1999 and voluntary reserve amounting to W279.3 billion (US$221.7million) on February 28, 1998, respectively.

*(3)* Other reserve

Other reserve was appropriated in the branches located in Tokyo and Mumbai according to the banking laws of Japan and India, respectively, and may be used to offset a deficit incurred in those branches. In 2000, beginning balance of other reserve was W6,520 million (US$5,175.8 thousand) and ending balance was W7,984 million (US$6.338.0 thousand), reflecting W1,582 million (US$1,255.9 thousand) of appropriation and W118 million (US$93.7 thousand) of foreign currency translation gain.

*(4)* Changes in undisposed accumulated deficit brought forward from prior years

Changes in undisposed accumulated deficit brought forward from prior years for the period from January 1 to December 31, 2000 are as follow:

| | Millions of Korean Won | Thousands of U.S. Dollars (Note 2) |
|---|---|---|
| Net cumulative effect on prior years of changes in accounting principles for: | | |
| financial derivative instruments | W 6,593 | $ 5,234 |
| Restructured loans in trust accounts | (49,831) | (39,558) |
| | (43,238) | (34,324) |
| Loss on valuation of investments in subsidiaries using equity method | (28,176) | (22,367) |
| | W (71,414) | $ (56,691) |

*(5)* Capital adjustments

Capital adjustments as of December 31, 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Discounts on stock issuance | W (816) | W (2,449) | $ (648) | $ (2,138) |
| Stock option cost | 412 | - | 327 | - |
| Treasury stock | (161,728) | (262,742) | (128,386) | (229,389) |
| Loss (Gain) on valuation of investment securities, net | (305,988) | (41,555) | (242,905) | (36,280) |
| | W (468,120) | W (306,746) | $ (371,612) | $ (267,807) |

*1) Discount on stock issuance*

Discount on stock issuance of W2,449 million (US$2,138 thousand) as of December 31, 1999 was amortized by W1,633 million (US$1,296 thousand) in 2000 including prior year's unamortized portion due to net loss in 1999. As a result of this amortization in 2000, the balance of discount on stock issuance as of December 31, 2000 was W816 million (US$648 thousand) and the amortization of discount on stock issuance of W1,633 million (US$1,296 thousand) was debited to deficit.

*2) Treasury stock*

As of December 31,1999, the Bank had 29,279,890 shares of treasury with a carrying value of W262,742 million (US$229,389 thousand) arising from the purchase of the shares of dissenters to the acquisition of Kangwon Bank. The Bank disposed of the treasury stock by awarding them to employees, with W298 million (US$237 thousand) of loss on disposal of treasury stock debited to deficit. Also, valuation loss on treasury stock of W100,716 million was added to goodwill and is being amortized over the remaining useful life of 4 years, including the current year using the straight-line method (See Note 2).

*3) Stock option cost*

On March 27, 2000, the Bank granted stock options, which give the right to buy the Bank's shares at the exercise price of W5,000 per share, to 19 directors including the president and vice-president. The number of stock options granted will be determined depending on the relative stock price increase rate of the Bank over the banking industry's stock price increase rate, the Bank's ratio of non-performing loans, and BIS Capital ratio. The maximum exercisable number of stock options is 969,200 shares. The stock options are exercisable during a three-year period beginning after three years from the grant date. The Bank has the option to choose one of the settlement methods either through issuance of new shares or payment of the difference between the market price and the exercise price in cash or treasury stock, if the stock options are exercised.

*4) Loss on valuation of investment securities, net*

Loss on valuation of investment securities as of December 31, 2000 and 1999 consists of:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Valuation using equity method | W 23,129 | W (27,367) | $ 18,361 | $ (23,893) |
| Marketable equity securities of overseas branches | (4,869) | (3,378) | (3,865) | (2,949) |
| Marketable equity securities of headquarters | (324,248) | (10,810) | (257,401) | (9,438) |
| | W (305,988) | W (41,555) | $ (242,905) | $ (36,280) |

*(6)* Merger

Chungbuk Bank and Kangwon Bank were merged with the Bank on April 30, and September 11, 1999, respectively. The assets and liabilities of the merged Banks were recorded at book value in the balance sheet of the Bank and the excess of the consideration distributed for the business combinations over the net assets transferred was recorded as goodwill amounting to W120,115 million (US$104,867 thousand) and W314,091 million (US$274,219 thousand), respectively.

## 19. Transactions with Affiliated Companies:

*(1)* Significant balances with related parties as of December 31, 2000 are as follows (Unit: Won in millions):

| **Assets** | Due from banks in foreign currencies | Loans in foreign currencies | Call loans |
|---|---|---|---|
| Chohung Finance Ltd., Hong Kong | W 123,445 | W 20,155 | W - |
| Chohung Bank of New York | 33,387 | - | - |
| Chohung Bank (Deutschland) GmbH | 58,363 | 9,172 | 12,597 |
| California Chohung Bank | 168 | - | - |
| | W 215,363 | W 29,327 | W 12,597 |

| **Liabilities** | Deposits in local currency | Deposits in foreign currencies | Borrowings in foreign currencies | Call money |
|---|---|---|---|---|
| Chohung Investment Trust and Management Co., Ltd. | W 49,566 | W - | W - | W - |
| Chohung Finance Ltd., Hong Kong | - | 19,012 | 6,676 | - |
| Chohung Bank (Deutschland) GmbH | - | - | 5 | 18,211 |
| | W 49,566 | W 19,012 | W 6,681 | W 18,211 |

Significant transactions with related parties during the year ended December 31, 2000 are as follows (Unit: Won in millions):

| | Interest income | Interest expense |
|---|---|---|
| Chohung Investment Trust and Management Co., Ltd. | W - | W 2,943 |
| Chohung Finance Ltd., Hong Kong | 920 | 1,662 |
| Chohung Bank of New York | 2,676 | 518 |
| Chohung Bank (Deutschland) GmbH | 5,495 | 4,577 |
| | W 9,091 | W 9,700 |

*(2)* Significant balances with related parties as of December 31, 1999 are as follows (Unit: Won in millions):

| **Assets** | Due from banks in foreign currencies | Loans in foreign currencies | Call loans |
|---|---|---|---|
| Chohung Capital Co., Ltd. | W - | W 112,888 | W - |
| Chohung Finance Ltd., Hong Kong | 132,502 | 18,326 | - |
| Chohung Bank of New York | 36,704 | - | - |
| Chohung Bank (Deutschland) GmbH | 33,430 | 8,824 | 22,908 |
| California Chohung Bank | 5,540 | - | - |
| | W 208,176 | W 140,038 | W 22,908 |

| **Liabilities** | Deposits in local currency | Deposits in foreign currencies | Borrowings in foreign currencies | Call money |
|---|---|---|---|---|
| Chohung Securities Co., Ltd. | W 3,005 | W - | W - | W - |
| Chohung Mutual Savings and Finance Co., Ltd. | 9,068 | - | - | - |
| Chohung Capital Co., Ltd. | 15,698 | 8,518 | - | - |
| Kangeun Mutual Savings and Finance Co., Ltd. | 3,670 | - | - | - |
| Chohung Investment Trust and Management Co., Ltd. | 31,992 | - | - | - |
| Chohung Finance Ltd., Hong Kong | - | 18,125 | 19,472 | - |
| Chohung Bank (Deutschland) GmbH | - | - | 4,412 | 18,236 |
| | W 63,433 | W 26,643 | W 23,884 | W 18,236 |

Significant transactions with related parties during the year ended December 31, 1999 are as follows (Unit: Won in millions):

| | Interest Income | Interest expenses |
|---|---|---|
| Chohung Securities Co., Ltd. | W 3,125 | W 345 |
| Chohung Mutual Savings and Finance Co., Ltd. | 507 | 12 |
| Chohung Capital Co., Ltd. | 13,126 | 543 |
| Kangeun Mutual Savings and Finance Co., Ltd. | - | 326 |
| Chohung Investment Trust and Management Co., Ltd. | 2,142 | - |
| Chohung Finance Ltd., Hong Kong | 3,211 | 628 |
| Chohung Bank of New York | 1,984 | 815 |
| California Chohung Bank | - | - |
| Chohung Bank (Deutschland) GmbH | 3,877 | 2,550 |
| Chohung Leasing and Finance (Hong Kong) Ltd. | - | 1,924 |
| | W 27,972 | W 7,143 |

*(3)* Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | |
|---|---|---|---|---|---|
| **Beneficiary** | 2000 | 1999 | 2000 | 1999 | Description |
| Chohung Finance Ltd., Hong Kong | W 4,396 | W 770 | $ 3,490 | $ 672 | L/C Guarantees |
| Chohung Bank (Deutschland) GmbH | 1,851 | 19,144 | 1,469 | 16,714 | Guarantees for L/C and borrowings |

## 20. Commitments and Contingencies:

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

*(1)* Guarantees and acceptances provided by the Bank as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Confirmed:** | | | | |
| Local currency: | | | | |
| Corporate debentures | W 110,947 | W 627,751 | $ 88,074 | $ 548,063 |
| Financing | 50,645 | 94,890 | 40,204 | 82,844 |
| Other | 259,699 | 251,623 | 206,159 | 219,681 |
| **Foreign currencies:** | | | | |
| Acceptance | 1,684,184 | 1,694,950 | 1,336,972 | 1,479,789 |
| Letters of guarantee - trade finance | 78,495 | 59,122 | 62,312 | 51,617 |
| Other | 598,064 | 833,712 | 474,768 | 727,878 |
| | W 2,782,034 | W 3,562,048 | $ 2,208,489 | $ 3,109,872 |
| **Unconfirmed:** | | | | |
| Issuance of letters of documentary credit | W 1,798,780 | W 2,238,338 | $ 1,427,943 | $ 1,954,198 |
| Other | 130,337 | 143,388 | 103,467 | 125,186 |
| | W 1,929,117 | W 2,381,726 | $ 1,531,410 | $ 2,079,384 |

*(2)* The amounts of financial derivatives contracts as of December 31, 2000 are summarized as follows.

As of and for the year ended December 31, 2000, outstanding contract amount, gain or loss on valuation of financial derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheet are as follows (Unit: Won in millions):

| | Outstanding contract amount(*) | | Gain (loss) on valuation | | Accumulated valuation |
|---|---|---|---|---|---|
| **Type** | Trading | Hedging | Trading | Hedging | gain (loss) |
| Currency forward | W 415,232 | W 1,027,828 | W 2,794 | W (18,194) | W (34,554) |
| Currency swap | 251,940 | 42,810 | (20,262) | 2,534 | (10,151) |
| Currency option | 140,969 | - | 63 | - | (1) |
| | 808,141 | 1,070,638 | (17,405) | (15,660) | (44,706) |
| Interest rate swap | - | 1,465,389 | 16,368 | - | 2,818 |
| | - | 1,465,389 | 16,368 | - | 2,818 |
| | W 808,141 | W 2,536,027 | W (1,037) | W (15,660) | W (41,888) |

(*) In translation of derivative contracts for Korean Won to foreign currency and foreign to foreign currency transactions, contract exchange rate against foreign currency and market exchange rate as of the balance sheet date against purchased foreign currency are applied, respectively.

Outstanding contract amount and gain or loss on valuation for hedging purpose in the table included and resulted from both derivative instruments accounted for as hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70 and derivative instruments used for hedging activities but not accounted for as hedge accounting. As of December 31, 2000, the Bank does not have derivative instruments used for cash flow hedging activities or accounted for using cash flow hedge accounting. However, the Bank had derivative instruments accounted for using fair value hedge accounting as of December 31, 2000.

Hedged items, to which fair value hedge accounting was applied, consisted of investment securities and subordinated notes issued and hedging derivative instruments such as currency swaps and interest rate swaps which were used to cover exposures to changes in fair value of hedged items resulting from interest rate changes.

Resulting from valuation of hedged items accounted for as fair value hedge accounting, in 2000, gain on valuation of W9,685 million (US$7,688 thousand) and loss on valuation of W1,521 million (US$1,207 thousand) on investment securities and loss on valuation of W21,055 million (US$16,714 thousand) on subordinated notes issued were reflected in current operations. The opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for as fair value hedge accounting were also reflected in current operations.

Stock index futures traded in Korea Stock Exchange and currency futures and interest rate futures traded in Korea Futures Exchange were subjected to mark-to-market accounting with valuation gain or loss recorded as settlement accounts in the balance sheet. For derivative contracts cleared or carried forward to subsequent year, the difference between purchase price (settlement price at the end of prior year for the contracts carried over from prior year) and clearing price (market price for the contract carried forward to subsequent year without clearing) was reflected in gain or loss on futures trading. However, there were no unsettled futures contracts as of December 31, 2000.

*(3) Other commitments as of December 31, 2000 and 1999 are summarized as follows:*

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Commitments | W 43,450 | W 59,247 | $ 34,492 | $ 51,726 |
| Bills endorsed | 245,703 | 948,892 | 195,049 | 828,437 |
| Unsettled foreign exchange spot transactions | - | 1,060,245 | - | 925,655 |
| Loan charge - offs | 2,696,176 | 1,294,307 | 2,140,332 | 1,130,004 |
| OTC government and public bonds sold | - | 689 | - | 602 |
| Loans sold under repurchase agreements | 961,782 | 1,180,411 | 763,501 | 1,030,567 |
| | W 3,947,111 | W 4,543,791 | $ 3,133,374 | $ 3,966,991 |

*(4)* Litigation

The Bank is a party to certain legal actions as the plaintiff for delinquent and written-off loans amounting to W241,282 million (US$ 191,539 thousand ) and W123,837 million (US$108,117 thousand ) as of December 31, 2000 and December 31, 1999, respectively, and as the defendant against the exercise of commitments amounting to W53,364 million (US$42,362 thousand ) and W2,477,381 million (US$ 2,162,896 thousand ) as of December 31, 2000 and December 31, 1999, respectively. As for the proceedings pending against or involving the Bank, management does not expect the aggregate liability or loss, if any, to have a material adverse effect on the financial position of the Bank.

*(5)* Sale of non-performing loans

From December 15, 1997 to December 31, 2000, the Bank sold non-performing loans totaling W3,580.8 billion (US$2,842.6 million), including W6.5 billion (US$5.2 million) in 2000, from the bank accounts and trust accounts to Korea Asset Management Corporation (“KAMCO”) at a price of W1,957.9 billion (US$1,554.3 million).

As of December 31, 2000, the outstanding balance of the loans sold for which the final selling price has not yet been decided, due to the incompleteness of the borrowers restructuring plan, is W595.4 billion (US$472.7 million). Notwithstanding the sale and the elimination of these assets from the balance sheet, the Bank remains liable to KAMCO for the selling price of non-performing assets that were sold on a recourse basis totaling W1,533.1 billion (US$1,217.0 million) including the W595.4 billion (US$472.7 million) loans on which the selling price may change.

KAMCO’s ability to exercise its right of recourse depends on whether the borrowers comply with their restructuring commitments. Additional losses may be incurred if KAMCO is able to and does execute its right of recourse. No liability has been recorded in the

Bank's non-consolidated financial statements for any such losses, which could have a material adverse effect on the financial position and results of operations of the Bank.

*(6)* Plan for sale of non-performing loans

The Bank agreed to transfer non-performing loans having a face value of W688.0 billion (US$546.2 million) to Lone Star Fund and KL Investment 2 Inc. through an international bid held on December 1, 2000. The due diligence review on the loans to be transferred is in progress as of February 2, 2001. The disposal and the disposal value will be determined based on the results of the due diligence review. The outcome of the transfer cannot be reasonably estimated at this time.

## 21. Assets and Liabilities Denominated in Foreign Currencies:

Assets and liabilities denominated in foreign currencies as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Assets** | | | | |
| Cash and due form banks | W 622,081 | W 892,476 | $ 493,832 | $ 779,183 |
| Securities | 738,269 | 1,048,023 | 586,067 | 914,984 |
| Loans | 6,839,399 | 7,644,564 | 5,429,387 | 6,674,144 |
| | W 8,199,749 | W 9,585,063 | $ 6,509,286 | $ 8,368,311 |
| **Liabilities** | | | | |
| Deposits | W 1,666,492 | W 1,623,625 | $ 1,322,928 | $ 1,417,518 |
| Borrowings | 3,495,180 | 5,546,557 | 2,774,613 | 4,842,463 |
| Debentures | 1,420,266 | 690,104 | 1,127,464 | 602,500 |
| Other liabilities | 34,540 | 29,381 | 27,419 | 25,651 |
| | W 6,616,478 | W 7,889,667 | $ 5,252,424 | $ 6,888,132 |

## 22. Term Structure of Assets and Liabilities:

The term structure of assets and liabilities as of December 31, 2000 is as follows (Won in hundreds of millions):

| | Less than 3 months | Less than 6 months | Less than 1 year | Less than 3 years | More than 3 years | Substandard Asset Classification | Total |
|---|---|---|---|---|---|---|---|
| Due from banks: | | | | | | | |
| Local currency | W 6,403 | W 6,431 | W 12,669 | W 15,233 | W 5,198 | W - | W 20,431 |
| Foreign currencies | 4,740 | 5,346 | 5,466 | 5,466 | - | - | 5,466 |
| Securities: | | | | | | | |
| Local currency | 105,814 | 105,814 | 105,814 | 105,814 | 14,561 | 830 | 121,205 |
| Foreign currencies | 572 | 692 | 873 | 1,857 | 2,834 | 173 | 4,864 |
| Loans: | | | | | | | |
| Local currency | 55,063 | 90,873 | 139,065 | 160,259 | 12,641 | 13,156 | 186,056 |
| Foreign currencies | 9,704 | 13,298 | 16,204 | 25,693 | 11,200 | 872 | 37,765 |
| Other assets: | | | | | | | |
| Local currency | 23,698 | 25,053 | 26,155 | 26,393 | 44,789 | 5,904 | 77,086 |
| Foreign currencies | 26,542 | 30,624 | 31,185 | 31,618 | 3,457 | 936 | 36,011 |
| | W 232,536 | W 278,131 | W 337,431 | W 372,333 | W 94,680 | W 21,871 | W 488,884 |
| Deposits: | | | | | | | |
| Local currency | W 128,712 | W 164,258 | W 210,176 | W 225,946 | W 86,752 | W - | W 312,698 |
| Foreign currencies | 14,242 | 28,774 | 29,398 | 30,474 | 2,822 | - | 33,296 |
| Borrowings: | - | | | | | | |
| Local currency | 6,552 | 6,958 | 7,769 | 11,014 | 5,930 | - | 16,944 |
| Foreign currencies | 18,717 | 23,193 | 28,529 | 31,899 | 6,534 | - | 38,433 |
| Other Liabilities and equity: | | | | | | | |
| Local currency | 17,161 | 18,703 | 24,991 | 38,881 | 36,255 | - | 75,136 |
| Foreign currencies | 3,174 | 3,174 | 5,630 | 5,630 | 6,747 | - | 12,377 |
| | W 188,558 | W 245,060 | W 306,493 | W 343,844 | W145,040 | W - | W 488,884 |

The amounts of assets and liabilities denominated in foreign currencies other than the US dollar are translated into US dollar using the BOK Basic Rate or cross rates as of the balance sheet date.

## 23. Fees and Commissions on Credit Card Accounts:

Interest on loans included fees and commissions on credit card accounts amounting to W560.7 billion (US$445.1 million) in 2000 and W270.1 billion (US$235.8 million) in 1999. Also, other interest expenses included certain commissions on credit card accounts amounting to W45.2 billion (US$35.8 million) in 2000 and W28.3 billion (US$24.7 million) in 1999.

## 24. Fees and Commissions:

Fees and Commissions for the years ended December 31, 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Guarantee fees | W 10,175 | W 11,359 | $ 8,077 | $ 9,917 |
| Commissions received from termination of commodities | 10,312 | 19,230 | 8,186 | 16,789 |
| Service charge on other financial services | 143,121 | 126,730 | 113,616 | 110,642 |
| | W 163,608 | W 157,319 | $ 129,879 | $ 137,348 |

## 25. Other Non-Interest Income:

Other non-interest income for the years ended December 31, 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Gain on sale of investment securities | W 72,093 | W 17,471 | $ 57,230 | $ 15,253 |
| Recovery of investment bonds impairment loss | 10,541 | 10,209 | 8,368 | 8,913 |
| Recovery of bad debt | - | 34,621 | - | 30,226 |
| Gain on valuation of stock market stabilization fund | 23,353 | 17,106 | 18,539 | 14,934 |
| Gain on sale of loans | 6,619 | 208,199 | 5,254 | 181,770 |
| Reversal of allowance for possible loan losses | 4,353 | 37,326 | 3,456 | 32,588 |
| Other | 317,860 | 65,108 | 252,330 | 56,843 |
| | W 434,819 | W 390,040 | $ 345,177 | $ 340,527 |

## 26. General and Administrative Expenses:

General and administrative expenses for the years ended December 31, 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Salaries | W 205,113 | W 177,000 | $ 162,827 | $ 154,531 |
| Provision for severance benefits | 30,100 | 43,300 | 23,895 | 37,803 |
| Other employee benefits | 105,650 | 86,786 | 83,869 | 75,769 |
| Rent | 17,532 | 17,040 | 13,918 | 14,877 |
| Entertainment | 8,366 | 9,076 | 6,641 | 7,924 |
| Depreciation | 64,217 | 59,407 | 50,978 | 51,866 |
| Amortization of intangible assets | 113,350 | 88,446 | 89,982 | 77,218 |
| Taxes and dues | 37,388 | 34,887 | 29,680 | 30,459 |
| Advertising | 10,103 | 10,655 | 8,020 | 9,302 |
| Other | 104,753 | 92,266 | 83,157 | 80,554 |
| | W 696,572 | W 618,863 | $ 552,967 | $ 540,303 |

## 27. Other Non-Interest Expenses:

Other non-interest expenses for the years ended December 31, 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Loss on disposal of investment securities | W 86,677 | W 11,480 | $ 68,808 | $ 10,023 |
| Provision for possible losses on confirmed acceptances and guarantees | - | 67,600 | - | 59,019 |
| Investment bonds impairment loss | 27,367 | 29,433 | 21,725 | 25,697 |
| Insurance expenses | 22,659 | 11,279 | 17,988 | 9,847 |
| Other | 182,874 | 67,900 | 145,172 | 59,280 |
| | W 319,577 | W 187,692 | $ 253,693 | $ 163,866 |

## 28. Income Taxes:

The Bank is subject to a number of taxes based upon earnings, which result in the normal tax rate of 30.8 percent.

Income tax expense for the years ended December 31, 2000 and 1999 consists of the following:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Income tax currently payable in overseas branches | W 3,365 | W 3,707 | $ 2,671 | $ 3,236 |
| Changes in deferred income tax assets of overseas branches | 181 | - | 144 | - |
| Income tax expense | W 3,546 | W 3,707 | $ 2,815 | $ 3,236 |

For the years ended December 31, 2000 and 1999, the differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Income (loss) before income taxes | W 104,631 | W (694,336) | $ 83,060 | $ (606,195) |
| Permanent differences | (16,369) | 300,596 | (12,994) | 262,437 |
| Temporary differences | (166,720) | 647,619 | (132,349) | 565,409 |
| | W (78,458) | W 253,879 | $ (62,283) | $ 221,651 |
| Tax loss carry forward | - | 253,879 | - | 221,651 |
| Taxable income | W - | W - | $ - | $ - |

Losses determined under the Korea Corporate Tax Law can be carried forward for five years. The Bank has a tax loss carry forward amounting to W3,127.9 billion (US$2,483.1 million) as of December 31, 2000 which may be offset against taxable income of the Bank in the future.

The tax effects on temporary differences that gave rise to significant portions of the deferred tax assets as of December 31, 2000 are presented below (Unit: Won in millions):

| | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Allowance for possible loan losses | W 800,485 | W 324,434 | W 800,485 | W 324,434 |
| Reserve for loss on overseas' investment | (24,618) | - | (16,052) | (8,566) |
| Loss on valuation of investment securities | 60,675 | 19,410 | - | 80,085 |
| Goodwill | (347,366) | (100,716) | (112,020) | (336,062) |
| Allowance for possible losses on confirmed acceptances and guarantees | 101,815 | 1,274 | 46,380 | 56,709 |
| Present value discount account | 130,201 | 95,632 | 54,029 | 171,804 |
| Gain on derivatives trading | (8,383) | 41,888 | (8,383) | 41,888 |
| Treasury stock | - | 100,716 | - | 100,716 |
| Other | (397,015) | 82,296 | (32,785) | (281,934) |
| Tax loss carry forward | 3,049,452 | 78,458 | - | 3,127,910 |
| | W 3,365,246 | W 643,392 | W 731,654 | W 3,276,984 |
| Income tax rate (%) | 30.8% | | | 30.8% |
| Deferred tax assets | W 1,036,496 | | | W 1,009,311 |

The Bank did not recognize deferred income tax assets resulting from tax loss carryforwards and cumulative temporary differences (except for deferred income tax assets recorded in overseas branches of the Bank) since the deferred income tax assets are not likely to be realized in the future.

## 29. Prior Period Adjustments, Net:

Prior period adjustments, net included in accumulated deficit for the years ended December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Loss on prior period adjustments: | | | | |
| Payment of other income in prior period | W - | W (1,367) | $ - | $ (1,193) |
| Repayment of excess interest in prior period | - | (43) | - | (38) |
| | - | (1,410) | - | (1,231) |
| Gain on prior period adjustments: | | | | |
| Reversal of interest recorded in prior period | - | 5,253 | - | 4,586 |
| Reversal of other expenses recorded in prior period | - | 81 | - | 71 |
| | - | 5,334 | - | 4,657 |
| | W - | W 3,924 | $ - | $ 3,426 |

## 30. Statements of Cash Flows:

Cash flows from operating activities are presented by the indirect method. Cash for the purposes of the cash flow statements is cash and due from banks as of December 31, 2000 and 1999.

Material transactions not involving cash inflows and outflows in 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Write-offs of loans | W 360,930 | W 1,632,394 | $ 286,521 | $ 1,425,174 |
| Debt to equity swap | 228,325 | 177,800 | 181,253 | 155,230 |
| Write-off of loans resulting from the debt to equity swap | 61,455 | - | 48,785 | - |
| Increase in loss on valuation of investment securities | 264,433 | 41,555 | 209,917 | 36,280 |
| Increase in assets due to mergers | - | 6,635,110 | - | 5,792,832 |
| Increase in liabilities due to mergers | - | 6,866,590 | - | 5,994,927 |
| Transfer to goodwill from treasury stock | 100,716 | - | 79,953 | - |
| | W 1,015,859 | W 15,353,449 | $ 806,429 | $ 13,404,443 |

## 31. Restructured Loans under Workout Program:

As of December 31, 2000, the Bank's outstanding total exposure (including loans, confirmed guarantees and acceptances and those in trust accounts) to companies, other than Daewoo Group companies (see Note 32), under workout plans amounted to W1,063.2 billion (US$844.0 million). A total allowance for possible loan losses (including confirmed acceptances and guarantees and trust accounts) of W267.6 billion (US$212.4 million), after deducting present value discounts of W136.7 billion (US$108.6 million), has been provided related to this aggregate exposure. The financial statements of the Bank reflect management's current assessment of the collectibility of these loans to date and actual results may differ materially from management's current assessment.

## 32. Loans to Daewoo Group Companies:

Daewoo Group Companies, which were placed under a workout plan in August 1999 due to liquidity problems, are undergoing a workout plan or court receivership as of December 31, 2000. As of December 31, 2000, the Bank has loans outstanding to Daewoo Group Companies (including confirmed acceptances and guarantees and trust accounts) of W1,003.2 billion (US$796.4 million) for which an allowance for possible loan losses of W494.3 billion (US$392.4 million) after deducting present value discounts of W9.8 billion (US$7.8 million) has been provided according to provisioning requirements based on loan classifications. The Bank also has securities issued by Daewoo Group Companies (including trust accounts) of W234.5 billion (US$186.2 million) for which loss on valuation of trading securities and investment bonds impairment loss of W96.3 billion (US$76.4 million) has been recognized. The recovery of loans outstanding to Daewoo Group Companies is mainly dependent upon the results of the business restructuring which continues to be under a workout plan or court receivership as of December 31, 2000. The ultimate effect that these significant uncertainties will have on the financial position of the Bank cannot presently be determined.

## 33. Credits to Hyundai Engineering & Construction Industrial Co., Ltd., Hyundai Electronics Industries Co., Ltd., Ssangyong Corporation, and Ssangyong Cement Industrial Co., Ltd.:

In its bank accounts as of December 31, 2000, the Bank has credit exposures such as loans, bills purchased, payment guarantee and others to Hyundai Engineering & Construction Co., Ltd. and Hyundai Electronics Industries Co., Ltd. amounting to W70.3 billion (US$55.8 million) and W388.8 billion (US$308.6 million), respectively. These credit exposures were classified as "precautionary" and, in 2000, related provisions were made amounting to W6.7 billion (US$5.3 million) and W19.4 billion (US$15.4 million), respectively. In addition, in its bank accounts and guaranteed trust accounts, the Bank has credit exposures such as loans, bills purchased, payment guarantee, and others to SsangYong Corporation and SsangYong Cement Industrial Co., Ltd. amounting to W428.6 billion (US$340.2 million) and W339.6 billion (US$269.6 million), respectively. These credit exposures were classified as "precautionary" and, in 2000, related provisions were made amounting to W39.3 billions (US$31.2 million) and W5.7 billion (US$4.5 million), respectively. These borrowers are presently experiencing liquidity shortage. The financial statements of the Bank reflect management's current assessment of the collectibility of these loans to date and actual results may differ materially from management's current assessment.

## 34. Sale of Subsidiary:

The Bank sold its 51 percent ownership in Chohung Securities Co., Ltd. to KGI Korea Ltd. on January 7, 2000 and its 100 percent ownership in Chohung Mutual Savings and Finance Co., Ltd. to Shin An Co., Ltd. and its related party on January 10, 2000. In relation to the sale of Chohung Securities Co., Ltd., the Bank purchased the shares issued by Chohung Investment Trust and Management Co., Ltd. at W26.4 billion and assumed the liabilities on convertible bonds of W40.8 billion issued by Chohung Securities Co., Ltd.. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W19.7 billion (US$15.6 million) and W24.4 billion (US$19.4 million), respectively, in 2000. Also, the Bank sold its 100 percent ownership in Kangeun Mutual Savings and Finance Co., Ltd. to Choonchun Mutual Savings and Finance Co., Ltd. on April 6, 2000 and its 69.55 percent ownership in Chohung Capital Co., Ltd. to KEP Electronic Co., Ltd. and Samai Industrial Co., Ltd. on November 23, 2000. In relation to the sale of Kangeun Mutual Savings and Finance Co., Ltd., the Bank increased its equity investment by W3.5 billion as a compensation to equalize the assets and liabilities of Kangeun Mutual Savings and Finance Co., Ltd. and committed to provide a credit line for the balancing of liquidity of Kangeun Mutual Savings and Finance Co., Ltd. for next 3 years. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W1.8 billion (US$1.5 million) and W29.9 billion (US$23.7 million), respectively, in 2000.

## 35. Agreement on Implementation of Management Improvement Plan:

On January 15, 1999, the Bank obtained approval for its management improvement plan from the Financial Supervisory Commission (FSC) and, pursuant to the plan, implemented a capital reduction without consideration and received capital injection from Korea Deposit Insurance Corporation (KDIC) (see Note 18). As a result of the capital injection by KDIC, the Bank entered into an agreement dated November 12, 1999 with FSC and KDIC to fully execute the management improvement plan of the Bank. Pursuant to the agreement, the Bank has disposed of bad loans, non-performing tangible assets and closed domestic branch offices and its subsidiaries to improve its financial indicators including its capital adequacy ratio. As a result of these efforts, at the end of 2000, the Bank achieved the management index targets contained in the agreement. In the second phase of the financial industry restructuring, the Bank obtained approval from the FSC for its adjusted management improvement plan, which allows the Bank to survive independently subject to the conditions that it would lower the ratio of non-performing loans below 6 percent by the end of June, 2001, and below 4 percent by the end of December, 2001 and achieve W220 million (US$175 thousand) of operating income before provisions for possible loan losses per employee. Whether or not its management improvement plan and adjusted management improvement plan are achieved may have a great impact on the Bank's operating, investing and financing activities including any capital increase or capital reduction. Under the agreement on compliance of the management improvement plan, the agreement will terminate when the Bank fully complies with the plan for more than 2 years from the effective date of the agreement and KDIC's percentage of ownership in the Bank decreases to less than 50 percent of the Bank's common shares with voting rights through the selling of KDIC's stake in the Bank.

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**To the Shareholders and Board of Directors of Chohung Bank:**

We have audited the accompanying consolidated balance sheets of Chohung Bank (the Bank) and its subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean won. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets and total revenues of 1.44 percent and 1.8 percent in 2000 and 3.9 percent and 12.0 percent in 1999, respectively, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, of the financial position of the Bank and its subsidiaries as of December 31, 2000 and 1999, and the results of its operations, changes in its shareholders' equity and cash flows for the years then ended in conformity with financial accounting standards in the Republic of Korea (see Note 2).

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

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements. The operations of Chohung Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet dates cannot presently be determined and, accordingly, no adjustments have been made in the accompanying consolidated financial statements related to such uncertainties.

As discussed in Note 2 to the consolidated financial statements, since the Bank sold or liquidated certain subsidiaries -Chohung Securities Co., Ltd., Chohung Mutual Savings and Finance Co., Ltd., Chohung Leasing & Finance (Hong Kong) Ltd., and Kangeun Mutual Savings and Finance Co., Ltd.-therefore those Companies were excluded from the consolidated financial statements as of December 31, 2000.

As discussed in Note 2 to the consolidated financial statements, beginning in 2000, the Bank applied the revised financial accounting standards for financial derivatives and restructured loans in trust accounts in accordance with the revision of the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivatives and the new accounting standards for trust accounts. As a result of these changes, beginning accumulated deficit in 2000 increased by W43.2 billion (US$34.3 million) and net income for the year ended December 31, 2000 increased by W37.9 billion (US$30.1 million) when compared to the those which would have been reported using the previous accounting policies.

As discussed in Note 2 to the consolidated financial statements, beginning in 1999, the Bank and its subsidiaries changed its accounting policies with respect to among others, the allowance for guarantees and acceptances, and accounting for restructured loans and valuation of securities, in accordance with the accounting standards for the banking industry applied from January 1, 1999. As a result of these changes, the beginning accumulated deficit in 1999 increased by W128.4 billion (US$112.1 million) and net loss for the year ended December 31, 1999 increased by W145.2 billion (US$126.8 million) when compared to the those which would have been reported using the previous accounting policies.

As discussed in Note 20 to the consolidated financial statements, from December 15, 1997 to December 31, 2000, the Bank sold non-performing loans totaling W3,580.8 billion (US$2,842.6 million), including W6.5 billion (US$5.2 million) in 2000, from the bank accounts and trust accounts to Korea Asset Management Corporation ("KAMCO") at a price of W1,957.9 billion (US$1,554.3 million). As of December 31, 2000, the outstanding balance of the loans sold for which the final selling price has not yet been decided, due to the incompleteness of the borrowers restructuring plan, is W595.4 billion (US$472.7 million). Notwithstanding the sale and the elimination of these assets from the balance sheet, the Bank remains liable to KAMCO for the selling price of non-performing assets that were sold on a recourse basis totaling W1,533.1 billion (US$1,217.0 million) including the W595.4 billion (US$472.7 million) loans on which the selling price may change. KAMCO's ability to execute its right of recourse is dependent on whether the borrowers comply with their restructuring commitments. Additional losses may be incurred if KAMCO is able to and does execute its right of recourse. No liability has been recorded in the Bank's consolidated financial statements for any such losses, which could have a material adverse effect on the financial position and results of operations of the Bank.

As discussed in Note 25 to the consolidated financial statements, the Bank sold its 51 percent ownership in Chohung Securities Co., Ltd. to KGI Korea Ltd. on January 7, 2000 and its 100 percent ownership in Chohung Mutual Savings and Finance Co., Ltd. to Shin An Co., Ltd. and its related party on January 10, 2000. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W19.7 billion (US$15.6 million) and W24.4 billion (US$19.4 million), respectively, in 2000. Also, the Bank sold its 100 percent ownership in Kangeun Mutual Savings and Finance Co., Ltd. to Choonchun Mutual Savings and Finance Co., Ltd. on April 6, 2000 and its 69.55 percent ownership in Chohung Capital Co., Ltd. to KEP Electronic Co., Ltd. and Samai Industrial Co., Ltd. on November 23, 2000. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W1.8 billion (US$1.5 million) and W29.9 billion (US$23.7 million), respectively, in 2000.

As explained in Note 26 to the consolidated financial statements, on January 15, 1999, the Bank obtained approval for its management improvement plan from the Financial Supervisory Commission (FSC) and, pursuant to the plan, implemented a capital reduction without consideration and received a capital injection from Korea Deposit Insurance Corporation (KDIC) (see Note 16). As a result of the capital injection by KDIC, the Bank entered into an agreement dated November 12, 1999 with FSC and KDIC to fully execute the management improvement plan of the Bank. Pursuant to the agreement, the Bank has disposed of bad loans, non-performing tangible assets and closed domestic branch offices and its subsidiaries to improve its financial indicators including its capital adequacy ratio. As a result of these efforts, at the end of 2000, the Bank achieved the management index targets contained in the agreement. In the second phase of the financial industry restructuring, the Bank obtained approval from the FSC for its adjusted management improvement plan that allows the Bank to survive independently subject to the conditions that it would lower the ratio of non-performing loans below 6 percent by the end of June, 2001, and below 4 percent by the end of December, 2001 and achieve W220 million (US$175 thousand) of operating income before provisions for possible loan losses per employee. Whether or not its management improvement plan and adjusted management improvement plan are achieved may have a great impact on the Bank's operating, investing and financing activities including any capital increase or capital reduction. Under the agreement on compliance of the management improvement plan, the agreement will terminate when the Bank fully complies with the plan for more than 2 years from the effective date of the agreement and KDIC's percentage of ownership in the Bank decreases to less than 50 percent of the Bank's common shares with voting rights through the selling of KDIC's stake in the Bank.

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

Seoul, Korea
February 2, 2001

Anjin & Co.

**December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **ASSETS** | | | | |
| Cash and due from banks (Notes 3, 4 19 and 27) | W 2,307,594 | W 3,143,406 | $ 1,831,860 | $ 2,744,374 |
| Trading securities (Notes 5 and 22) | 2,530,402 | 3,694,215 | 2,008,734 | 3,225,262 |
| Investment securities (Notes 6, 7, 20, 22 and 25) | 11,228,724 | 10,351,076 | 8,913,808 | 9,037,084 |
| Loans (Notes 8, 9, 19, 20, 22, 23 and 24) | 30,550,447 | 25,807,587 | 24,252,161 | 22,531,506 |
| Fixed assets (Note 10) | 1,711,947 | 1,810,784 | 1,359,012 | 1,580,918 |
| Other assets (Note 11) | 2,809,576 | 2,132,117 | 2,230,353 | 1,861,461 |
| **Total Assets** | W 51,138,690 | W 46,939,185 | $ 40,595,928 | $ 40,980,605 |
| | | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Liabilities:** | | | | |
| Deposits (Notes 12 and 19) | W 35,426,396 | W 30,334,444 | $ 28,122,883 | $ 26,483,712 |
| Borrowings (Notes 13 and 19) | 7,337,104 | 9,284,909 | 5,824,485 | 8,106,259 |
| Debentures (Note 14) | 3,032,824 | 2,392,463 | 2,407,576 | 2,088,758 |
| Other liabilities (Note 15) | 3,240,361 | 2,734,266 | 2,572,328 | 2,387,171 |
| **Total Liabilities** | 49,036,685 | 44,746,082 | 38,927,272 | 39,065,900 |
| | | | | |
| **Shareholders' Equity (Note 16):** | | | | |
| Common stock, par value W5,000 | | | | |
| Authorized - 2,000,000,000 shares | | | | |
| Issued and outstanding - 679,078,115 shares | 3,395,391 | 3,395,391 | 2,695,397 | 2,964,371 |
| Capital surplus | - | - | - | - |
| Accumulated deficit (net income of W99,359 million in 2000 and net loss of W746,322 million in 1999 and loss in excess of minority interest of nil in 2000 and of W44,579 million in 1999) | (814,083) | (1,028,582) | (646,251) | (898,011) |
| Capital adjustments | (490,483) | (230,946) | (389,365) | (201,629) |
| Minority interests | 11,180 | 57,240 | 8,875 | 49,974 |
| **Total Shareholders' Equity** | 2,102,005 | 2,193,103 | 1,668,656 | 1,914,705 |
| | | | | |
| **Total Liabilities and Shareholders' Equity** | W 51,138,690 | W 46,939,185 | $ 40,595,928 | $ 40,980,605 |

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

**For the years ended December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Interest Income and dividends:** | | | | |
| Interest income in local currency(Note 19) | W 2,202,663 | W 1,925,261 | $ 1,748,561 | $ 1,680,863 |
| Interest income in foreign currencies (Note 19) | 600,321 | 675,520 | 476,559 | 589,768 |
| Interest and dividends on trading securities | 204,037 | 346,832 | 161,973 | 302,804 |
| Interest and dividends on investment securities | 902,550 | 660,990 | 716,480 | 577,082 |
| Other interest income (Note 17) | 560,654 | 270,110 | 445,070 | 235,822 |
| **Total Interest Income and Dividends** | 4,470,225 | 3,878,713 | 3,548,643 | 3,386,339 |
| **Interest Expenses:** | | | | |
| Interest expense in local currency(Note 19) | 2,238,658 | 1,935,420 | 1,777,136 | 1,689,733 |
| Interest expense in foreign currencies (Note 19) | 614,858 | 636,850 | 488,099 | 556,007 |
| Other interest expenses (Note 17) | 45,164 | 28,309 | 35,853 | 24,715 |
| **Total Interest Expenses** | 2,898,680 | 2,600,579 | 2,301,088 | 2,270,455 |
| **Net Interest Income** | 1,571,545 | 1,278,134 | 1,247,555 | 1,115,884 |
| **Provision for Possible Loan Losses** | (960,102) | (1,936,987) | (762,167) | (1,691,101) |
| **Net Interest Income (Loss) after Provision for Possible Loan Losses** | 611,443 | (658,853) | 485,388 | (575,217) |
| **Non- Interest Income:** | | | | |
| Fees and commissions | 197,096 | 321,335 | 156,463 | 280,544 |
| Gain on sale and valuation of trading securities | 98,628 | 451,837 | 78,295 | 394,480 |
| Gain on sale and valuation of investment securities | 719 | 64,922 | 571 | 56,681 |
| Gain on sale of loans | 6,619 | 280,199 | 5,254 | 244,630 |
| Gain on foreign currency trading | 284,728 | 506,011 | 226,028 | 441,777 |
| Gain on sale of leasing assets | 6,542 | 44,905 | 5,193 | 39,205 |
| Other | 719,422 | 254,691 | 571,106 | 222,359 |
| **Total Non-Interest Income** | 1,313,754 | 1,923,900 | 1,042,910 | 1,679,676 |
| **Non- Interest Expenses:** | | | | |
| Commissions | 70,552 | 89,092 | 56,007 | 77,782 |
| Loss on sale and valuation of trading securities | 132,208 | 176,899 | 104,952 | 154,443 |
| Loss on sale and valuation of investments securities | - | 64,046 | - | 55,916 |
| Selling and administration expenses | 715,869 | 741,291 | 568,286 | 647,190 |
| Loss on sale of loans | 135,197 | 184,444 | 107,325 | 161,030 |
| Provision for possible losses of acceptances and guarantees | - | 67,600 | - | 59,019 |
| Contribution to fund | 38,487 | 27,787 | 30,552 | 24,260 |
| Loss on foreign currency trading | 198,775 | 370,283 | 157,795 | 323,278 |
| Provision for severance benefits | 30,100 | 44,947 | 23,895 | 39,241 |
| Other | 522,230 | 207,418 | 414,567 | 181,088 |
| **Total Non-Interest Expenses** | 1,843,418 | 1,973,807 | 1,463,379 | 1,723,247 |
| **Ordinary Income (Loss)** | 81,779 | (708,760) | 64,919 | (618,788) |
| **Extraordinary Gain (Note 6)** | 17,593 | 2 | 13,966 | 2 |
| **Extraordinary Losses** | 350 | 8 | 278 | 7 |
| **Income(Loss) before Income Taxes** | 99,022 | (708,766) | 78,607 | (618,793) |
| **Income Taxes (Note 18)** | 1,767 | 31,781 | 1,403 | 27,747 |
| **Net Income (Loss) before Minority Interest** | 97,255 | (740,547) | 77,204 | (646,540) |
| **Income (Loss) Attributable to Minority Interests** | 2,104 | (5,775) | 1,671 | (5,042) |
| **Net Income (Loss)** | W 99,359 | W (746,322) | $ 78,875 | $ (651,582) |
| **Ordinary Income (Loss) per Share (in currency units) (Note 2)** | W 126 | W (1,597) | $ 0.1 | $ (1.39) |
| **Net Income (loss) per Share (in currency units) (Note 2)** | W 146 | W (1,609) | $ 0.1 | $ (1.40) |

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

**For the years ended December 31, 2000 and 1999**

(Unit: Millions of Korean Won)

| Description | Capital stock | Consolidated capital surplus | Consolidated accumulated deficit | Consolidated capital adjustment | Minority interests | Total |
|---|---|---|---|---|---|---|
| As of January 1, 1999 | W 930,429 | W 6,381 | W (834,903) | W (11,550) | W 53,184 | W 143,541 |
| Decrease in capital | (723,913) | - | - | - | - | (723,913) |
| Capital injection by KDIC | 2,717,850 | - | - | - | - | 2,717,850 |
| Increase due to mergers | 196,025 | - | - | - | - | 196,025 |
| Paid-in capital increase | 275,000 | - | - | - | - | 275,000 |
| Paid-in capital in excess of par value | - | 8,610 | - | - | - | 8,610 |
| Deficit recovery | - | (8,610) | 732,484 | - | - | 723,874 |
| Tax on assets revaluation | - | (6,381) | - | - | - | (6,381) |
| Loss on valuation of investment securities | - | - | - | (19,283) | - | (19,283) |
| Bank's stocks owned by subsidiaries | - | - | - | 29 | - | 29 |
| Discount on stock issuance | - | - | - | (2,552) | - | (2,552) |
| Treasury stock | - | - | - | (262,742) | - | (262,742) |
| Liabilities for debt-equity swap | - | - | - | 65,152 | - | 65,152 |
| Gain on prior period adjustments (Note 21) | - | - | 5,334 | - | - | 5,334 |
| Adjustment by change in foreign exchange rate | - | - | 4,336 | - | - | 4,336 |
| Change in consolidation scope | - | - | 2,866 | - | (1,719) | 1,147 |
| Consolidated net loss | - | - | (746,322) | - | - | (746,322) |
| Cumulative effect of accounting changes | - | - | (128,396) | - | - | (128,396) |
| Gain attributable to minority interests | - | - | - | - | 5,775 | 5,775 |
| Loss in excess of minority interests (Note 16) | - | - | (44,579) | - | - | (44,579) |
| Loss on prior period adjustments (Note 21) | - | - | (19,402) | - | - | (19,402) |
| As of December 31, 1999 | W 3,395,391 | W - | W (1,028,582) | W (230,946) | W 57,240 | W 2,193,103 |
| As of January 1, 2000 | W 3,395,391 | W - | W (1,028,582) | W (230,946) | W 57,240 | W 2,193,103 |
| Consolidated net income | - | - | 99,359 | - | - | 99,359 |
| Change in consolidation scope | - | - | 164,375 | (65,045) | (43,956) | 55,374 |
| Additional reserve for subsidiary's bad debt | - | - | 25,214 | - | - | 25,214 |
| Cumulative effect of accounting changes | - | - | (43,238) | - | - | (43,238) |
| Loss on valuation of investments in subsidiaries using equity method | - | - | (28,176) | - | - | (28,176) |
| Amortization of discount on stock issuance | - | - | (1,633) | 1,633 | - | - |
| Transferred-in of loss on disposal of treasury stock | - | - | (199) | - | - | (199) |
| Adjustment by change in foreign exchange rate | - | - | (1,203) | - | - | (1,203) |
| Stock options | - | - | - | 412 | - | 412 |
| Loss on valuation of investment securities | - | - | - | (297,500) | - | (297,500) |
| Decrease in treasury stock | - | - | - | 101,014 | - | 101,014 |
| Discount on stock issuance | - | - | - | (51) | - | (51) |
| Loss attributable to minority interests | - | - | - | - | (2,104) | (2,104) |
| As of December 31, 2000 | W 3,395,391 | W - | W (814,083) | W (490,483) | W 11,180 | W 2,102,005 |

*(continued)*

**For the years ended December 31, 2000 and 1999**

(Unit: Thousands of U.S. Dollars)

| Description | Capital stock | Consolidated capital surplus | Consolidated accumulated deficit | Consolidated capital adjustment | Minority interests | Total |
|---|---|---|---|---|---|---|
| As of January 1, 1999 | $ 812,318 | $ 5,571 | $ (728,918) | $ (10,084) | $ 46,432 | $ 125,319 |
| Decrease in capital | (632,018) | - | - | - | - | (632,018) |
| Capital injection by KDIC | 2,372,839 | - | - | - | - | 2,372,839 |
| Increase due to mergers | 171,141 | - | - | - | - | 171,141 |
| Paid-in capital increase | 240,091 | - | - | - | - | 240,091 |
| Paid-in capital in excess of par value | - | 7,517 | - | - | - | 7,517 |
| Deficit recovery | - | (7,517) | 639,501 | - | - | 631,984 |
| Tax on assets revaluation | - | (5,571) | - | - | - | (5,571) |
| Loss on valuation of investment securities | - | - | - | (16,835) | - | (16,835) |
| Bank's stocks owned by subsidiaries | - | - | - | 25 | - | 25 |
| Discount on stock issuance | - | - | - | (2,228) | - | (2,228) |
| Treasury stock | - | - | - | (229,389) | - | (229,389) |
| Liabilities for debt-equity swap | - | - | - | 56,882 | - | 56,882 |
| Gain on prior period adjustments (Note 21) | - | - | 4,657 | - | - | 4,657 |
| Adjustment by change in foreign exchange rate | - | - | 3,786 | - | - | 3,786 |
| Change in consolidation scop | - | - | 2,502 | - | (1,500) | 1,002 |
| Consolidated net loss | - | - | (651,582) | - | - | (651,582) |
| Cumulative effect of accounting changes | - | - | (112,097) | - | - | (112,097) |
| Gain attributable to minority interests | - | - | - | - | 5,042 | 5,042 |
| Loss in excess of minority interests (Note 16) | - | - | (38,920) | - | - | (38,920) |
| Loss on prior period adjustments (Note 21) | - | - | (16,939) | - | - | (16,939) |
| As of December 31, 1999 | $ 2,964,371 | $ - | $ (898,010) | $ (201,629) | $ 49,974 | $ 1,914,706 |
| As of January 1, 2000 | $ 2,695,397 | $ - | $ (816,529) | $ (183,334) | $ 45,439 | $ 1,740,973 |
| Consolidated net income | - | - | 78,875 | - | - | 78,875 |
| Change in consolidation scope | - | - | 130,487 | (51,636) | (34,894) | 43,957 |
| Additional reserve for subsidiary's bad debt | - | - | 20,016 | - | - | 20,016 |
| Cumulative effect of accounting changes | - | - | (34,324) | - | - | (34,324) |
| Loss on valuation of investments in subsidiaries using equity method | - | - | (22,367) | - | - | (22,367) |
| Amortization of discount on stock issuance | - | - | (1,296) | 1,296 | - | - |
| Transferred-in of loss on disposal of treasury stock | - | - | (158) | - | - | (158) |
| Adjustment by change in foreign exchange rate | - | - | (955) | - | - | (955) |
| Stock options | - | - | - | 327 | - | 327 |
| Loss on valuation of investment securities | - | - | - | (236,167) | - | (236,167) |
| Decrease in treasury stock | - | - | - | 80,189 | - | 80,189 |
| Discount on stock issuance | - | - | - | (40) | - | (40) |
| Loss attributable to minority interests | - | - | - | - | (1,670) | (1,670) |
| As of December 31, 2000 | $ 2,695,397 | $ - | $ (646,251) | $ (389,365) | $ 8,875 | $ 1,668,656 |

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

**For the years ended December 31, 2000 and 1999**

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Cash Flows from Operating Activities:** | | | | |
| Net income (loss) | W 99,359 | W (746,322) | $ 78,875 | $ (651,582) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | | |
| Provision for possible loan losses | 960,102 | 1,936,987 | 762,167 | 1,691,101 |
| Provision for severance benefits | 30,239 | 44,947 | 24,005 | 39,241 |
| Loss (Gain) on sale and valuation of trading securities, net | 33,580 | (274,938) | 26,657 | (240,037) |
| Loss (Gain) on sale and valuation of investment securities, net | (719) | 14,171 | (571) | 12,372 |
| Income (Loss) attributable to minority interests | (2,104) | 5,775 | (1,670) | 5,042 |
| Payment of severance benefits | (40,015) | (190,478) | (31,766) | (166,298) |
| Decrease in key money deposits | 11,568 | 92,977 | 9,183 | 81,174 |
| Decrease (Increase) in other liabilities | 761,312 | (618,590) | 604,360 | (540,064) |
| Other, net | (338,817) | (16,721) | (268,966) | (14,598) |
| **Net Cash Provided by Operating Activities** | 1,514,505 | 247,808 | 1,202,274 | 216,351 |
| **Cash Flows from Investing Activities:** | | | | |
| Net decrease in trading securities | 1,130,233 | 2,549,203 | 897,224 | 2,225,601 |
| Net increase in investment securities | (1,057,188) | (3,661,467) | (839,238) | (3,196,671) |
| Proceeds on sale of fixed assets | 87,600 | 395,226 | 69,541 | 345,055 |
| Net increase in loans | (5,702,962) | (175,501) | (4,527,238) | (153,223) |
| Cash acquired from mergers | - | 310,589 | - | 271,162 |
| Other, net | 112,251 | (1,234) | 89,109 | (1,077) |
| **Net Cash Used in Investing Activities** | (5,430,066) | (583,184) | (4,310,602) | (509,153) |
| **Cash Flows from Financing Activities:** | | | | |
| Net increase in deposits | 5,091,952 | 1,972,704 | 4,042,194 | 1,722,284 |
| Net decrease in borrowings | - | (976,354) | - | (852,413) |
| Net increase in debentures | 640,361 | 55,965 | 508,344 | 48,860 |
| Proceeds from issuance of capital stock | - | 2,999,012 | - | 2,618,310 |
| Other, net | (2,652,564) | (3,130,348) | (2,105,711) | (2,732,974) |
| **Net Cash Provided by Financing Activities** | 3,079,749 | 920,979 | 2,444,827 | 804,067 |
| **Net Increase (Decrease) in Cash** | (835,812) | 585,603 | (663,501) | 511,265 |
| **Cash, Beginning of Year** | 3,143,406 | 2,557,803 | 2,495,361 | 2,233,109 |
| **Cash, End of Year (Note 27)** | W 2,307,594 | W 3,143,406 | $ 1,831,860 | $ 2,744,374 |

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

December 31, 2000 and 1999

## 1. General:

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of a merger of Han Sung Bank, which was established on February 19, 1897 and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. In addition to the head office in Seoul, the Bank operates 401 domestic branches, 75 depositary offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2000. The Bank's shares were listed on the Korea Stock Exchange on March 3, 1956 and on the London Stock Exchange for Global Depositary Receipts (GDRs) on December 5, 1996. The Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian Financial Crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices. Through early 2000, it was widely accepted that the economic situation had stabilized, but not fully recovered, from the 1997 crisis.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing forced consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. 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.

## 2. Summary of Significant Accounting Policies:

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

### Basis of Consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean won and prepares its statutory consolidated financial statements in the Korean language (Hangul) in conformity with financial accounting standards and banking accounting standards in the Republic of Korea. Certain financial accounting and banking accounting standards applied by the Bank that conform with those generally accepted in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, the accompanying consolidated financial statements are not intended for use by those who are not informed about Korean accounting principles and practices.

The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the statutory Korean language consolidated financial statements.

The U.S. dollar amounts presented in these consolidated financial statements were computed by translating the Korean Won into U.S.dollars based on the Bank of Korea (BOK) Basic Rate (W1,259.70 and W1,145.40 to US$1.00 at December 31, 2000 and 1999, respectively) solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rates.

### Scope of Consolidation and Accounting Using Equity Method

The consolidated financial statements include the banking accounts and the trust accounts of the Bank and its wholly or partially owned subsidiaries. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission ("FSC"). Subsidiaries of the Bank as of December 31, 2000 and 1999 are as follows:

| Subsidiaries | Percentage of ownership 2000 | 1999 | Fiscal year-end | Date of acquisition of controlling interest |
|---|---|---|---|---|
| Consolidation: | | | | |
| Chohung Securities Co., Ltd. | - | 59.76% | Mar. 31 | Dec. 31, 1984 |
| Chohung Mutual Savings and Finance Co., Ltd. | - | 100.00% | Jun. 30 | Dec. 31, 1984 |
| Chohung Capital Co., Ltd. | - | 33.40% | Mar. 31 | Aug. 23, 1989 |
| Chohung Investment Trust and Management Co., Ltd. | 79.77% | 49.00% | Mar. 31 | Nov. 19, 1992 |
| Kangeun Mutual Savings and Finance Co., Ltd. | - | 100.00% | Jun. 30 | Sep. 11, 1999 |
| Chohung Finance Ltd., Hong Kong | 99.99% | 99.99% | Dec. 31 | Dec. 31, 1984 |
| Chohung Bank of New York | 100.00% | 100.00% | Dec. 31 | Oct. 31, 1990 |
| Chohung Bank (Deutschland) GmbH | 100.00% | 100.00% | Dec. 31 | Oct. 10, 1994 |
| California Chohung Bank | 100.00% | 100.00% | Dec. 31 | Apr. 11, 1995 |
| Chohung Leasing & Finance (Hong Kong) Ltd. | - | 100.00% | Mar. 31 | Mar. 27,1995 |
| Accounting for using equity method: | | | | |
| Chohung Vina Bank | 40.00% | - | Dec. 31 | Oct. 24, 2000 |

*(1)* Chohung Investment Trust and Management Co., Ltd.

Chohung Investment and Trust Management Co., Ltd. was established in 1988 and engages in securities management services and surveying the economic and capital markets. In 1997, the company changed its name from Chohung Investment Management Co., Ltd. to Chohung Investment Trust and Management Co., Ltd. As of December 31, 2000, its capital stock amounts to W45,000 million (US$ 35,723 thousand), of which the Bank owns 79.77 percent.

*(2)* Chohung Finance Ltd., Hong Kong

Chohung Finance Ltd., Hong Kong is a subsidiary of the Bank and engages in various merchant banking activities in Hong Kong. As of December 31, 2000, its capital stock amounts to Us $ 15,000 thousand, of which the Bank owns 99.99 percent.

*(3)* Chohung Bank of New York

Chohung Bank of New York is a wholly-owned subsidiary of the Bank that offers full banking services mainly to Korean residents and businesses in the New York metropolitan area. As of December 31, 2000, its capital stock amounts to US$14,000 thousand.

*(4)* Chohung Bank (Deutschland) GmbH

Chohung Bank (Deutschland) GmbH was established in 1994 as wholly-owned subsidiary of the Bank. As of December 31, 2000, its capital stock amounts to EUR 15,339 thousand.

*(5)* California Chohung Bank

California Chohung Bank was established in 1995 as wholly-owned subsidiary of the Bank. As of December 31, 2000, its capital stock amounts to US $ 30,681 thousand by purchasing of retail banking business of Seoul Bank of California from Seoul Bank.

*(6)* Chohung Vina Bank

Chohung Bank purchased 40 percent of share issued and outstanding of First Vina Bank of Vietnam on October 24, 2000 from Korea Depositary Insurance Corporation (KDIC). The name of First Vina Bank subsequently changed into Chohung Vina Bank and the capital stock of Chohung Vina Bank is US $20 million as of December 31, 2000.

## Basis of Consolidated Financial Statement Preparation

*(1)* Offset of investments and shareholders' equity

The investment account of the Bank and the equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiary. Any differences were accounted for as consolidation adjustment, which is amortized using the straight-line method over five years.

*(2)* Inter-company transactions and balances

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

*(3)* Minority Interest

The portion of a subsidiary's shareholders' equity not attributable to the Bank, in cases when the Bank has a controlling but less than 100 percent interest, are presented as minority interest.

*(4)* Capital stock owned by subsidiary companies
Capital stock of the Bank owned by subsidiaries in which the Bank has controlling interests, are presented as capital stock owned by subsidiaries in the consolidated balance sheets.

*(5)* Fiscal years of subsidiaries
The accounts of consolidated subsidiaries whose fiscal year are different from those of the Bank have been adjusted to reflect balances as of December 31, 2000 and 1999.

*(6)* Translation of financial statements of foreign subsidiaries
Financial statements of foreign subsidiaries are translated into Korean Won at current rates of exchange as of the balance sheet date. Gain and losses resulting from translation of financial statements of foreign subsidiaries are recorded as adjustments to accumulated deficit.

## Valuation of Trading Securities

Trading equity and debt securities are stated at acquisition cost. If fair value of trading securities differs from the book value determined by the moving average method, trading securities are stated at fair value and the unrealized gain or loss is reflected in current operations.

## Valuation of Investment Securities

*(1)* Equity Securities
Equity securities held for investment (excluding those of affiliates and subsidiaries discussed in the next paragraph) that are not actively quoted (unlisted security) are stated at acquisition cost using the moving average method. Actively quoted (listed) securities, including those traded over-the-counter, are stated at fair value with a valuation gain or loss recorded as a capital adjustment. If the fair value of listed equity securities or the net equity value of unlisted equity securities held for investment declines compared to acquisition cost and is not expected to recover (impaired investment securities), the value of the equity securities is adjusted to fair value or net equity value, with the valuation loss charged to current operations.

Equity securities held for investment that are in companies in which the Bank is able to exercise significant influence over the investees (if the Bank held 20 percent or more, the Bank is considered being able to exercise significant influence) are accounted for using the equity method. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustment of the Bank consistent with the manner reflected in investees' financial statements.

The investment in the Stock Market Stabilization Fund (SMSF) is stated at fair value with the valuation gain or loss credited or charged to current operations. The stocks distributed by SMSF are recorded as trading or investment securities at fair value and treated as a return of investment. Cash distributed by SMSF as dividends or as a return of investment equity are also treated as a return of investment

*(2)* Debt Securities
Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Investments in debt securities of the types indicated below are classified as available-for-sale investment debt securities.

① All held-to-maturity investment debt securities if some portion of them is sold during current period
② Securities obliged to be sold before maturity by legal regulations
③ Securities to be accounted for as investment securities impairment loss

Held-to-maturity investment debt securities are stated at acquisition cost, as determined by the individual moving average method. When the face value of held-to-maturity investment debt securities differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the securities. Available-for-sale investment debt securities are stated at fair value, with resulting valuation gains or losses recorded as a capital adjustment. If fair value of a held-to-maturity or available-for-sale investment debt securities declines compared to the acquisition cost and is not expected to recover (impaired investment securities), the carrying value of the debt security is adjusted to fair value with resulting valuation loss charged to current operations.

*(3)* Gain or Loss on Valuation of Investment Securities
The net unrealized gain or loss, except for gain or loss on valuation of investment equity in SMSF, is presented as gain or loss on valuation of investment securities in capital adjustments. An unrealized valuation gain or loss of investment securities incurred in

subsequent periods is deducted from or added to the previous balance of unrealized valuation gain or loss of investment securities. When investment securities are sold, the unrealized valuation gain or loss of investment securities included in the capital adjustment account is added to or deducted from gain or loss on disposal. With respect to impaired investment securities, any unrealized valuation gain or loss on the securities previously included in the capital adjustment account is reversed.

*(4)* Recovery of Impaired Investment Securities

If the value of any investment equity securities or investment debt securities previously recognized as impaired subsequently recovers, in the case of marketable equity securities and available-for-sale debt securities, the increase in value is recorded in current operations up to the amount of the previously recognized impairment loss and any excess is recorded as a capital adjustment. In the case of unlisted equity securities and held-to-maturity debt securities, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss.

*(5)* Reclassification of Securities

If the Bank's objectives change, trading securities can be reclassified to investment securities, but only as of a balance sheet date. The difference between the fair value of the securities as of the balance sheet date and the book value is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. Investment securities cannot be reclassified to trading securities.

## Recognition of Interest Income

The Bank recognizes interest income earned on loans, call loans, long-term deposits with other banks and securities on an accrual basis, except for interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to customers that are bankrupt, given a grace period or a reduction or exemption of interest payments, or listed as watch list clients by the Korean Banking Authorities, where interest income is recognized when amounts are collected. Unrecorded accrued interest income for these reasons amounted to W291,820 million (US$231,658 thousand) and W190,544 million (US$166,356 thousand) as of December 31, 2000 and 1999, respectively.

## Allowance for Possible Loan Losses

In accordance with the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to corporate borrowers, whose credit limit, including that for securities such as commercial papers and privately placed bonds and financing lease receivables, exceeds W10.0 billion (US$8.7 million), into ten categories according to (1) past repayment history including overdue period and bankruptcy status of the borrower, and (2) future debt repayment capability based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to other corporate borrowers and individuals are also classified into ten categories based only on past repayment history. The loans are classified, as of the balance sheet dates, as 'normal,' 'precautionary,' 'substandard,' 'doubtful' and 'loss.' The allowance for possible loan losses is then calculated at 0.5 percent of loan balances classified in categories 1 to 6 (normal), and 2 percent, 20 percent, 50 percent and 100 percent of the loan balances classified in categories 7 (precautionary), 8 (substandard), 9 (doubtful) and 10 (loss), respectively. However, the Bank does not provide, and the Accounting Standards for the Banking Industry does not require, allowances for loans to the Korean government and local government entities, and call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as category 1 to 6.

The Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same criteria of loan classification. An allowance is then calculated, using 20 percent for 'substandard,' 50 percent for 'doubtful' and 100 percent for 'loss.' No allowance is provided for those confirmed acceptances and guarantees classified as 'normal' and 'precautionary.'

Confirmed acceptances and guarantees for companies in workout process are classified as 'precautionary' and 'substandard.' An allowance is then calculated, using 2 percent or more for acceptances and guarantees to workout companies classified as 'precautionary' and 20 percent or more for companies classified as 'substandard.' An allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

As of December 31,1999, loans for companies under workout process were classified into the following five categories: precautionary I, precautionary II, precautionary III, substandard I and substandard II. An allowance for these loans was computed using percentages of 2 percent for precautionary I, 5 percent for precautionary II, 10 percent for precautionary III, 15 percent for substandard I and 20 percent for substandard II. Confirmed acceptances and guarantees for companies under workout process were classified as 'precautionary' and 'substandard' and an allowance was calculated, using from 2 percent to 10 percent for acceptances and guarantees to workout companies classified as 'precautionary' and from 15 percent to 20 percent for companies classified as 'substandard'.

### Restructuring of Loans

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

### Accounting for Leases

The Bank accounts for its leasing business using either the operating method or the direct financing method, depending on the terms of the lease. Direct financing leases contain, with a non-cancelable term, a transfer of ownership option in the lease agreements, a bargain purchase option, a term which exceeds the estimated economic useful life of the leased property (75 percent of the useful life for leases entered into after April 1, 1998), or for the leases entered into after April 1, 1998, a term in which the present value of the minimum lease payment is 90 percent or more of the fair value of the leased property.

Under the operating method, income is accrued as lease payments become receivable over the life of the lease.

Under the direct financing method, the excess of the present value of the total lease payments to be recorded during the lease term over the cost of the leased property (with no residual value) constitutes unearned interest income which is recognized as revenue over the term of the lease using the interest method.

### Valuation of Receivables and Payables at Present Value

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

### Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at cost, except for the effect of any upward revaluation made in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed at the time incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as prescribed by the Corporate Income Tax Law of Korea as follows:

| | In Years |
|---|---|
| Buildings | 40 ~ 60 |
| Equipment and furniture | 5 |
| Leasehold improvements | 5 |

### Intangible Assets

Intangible assets other than goodwill included in fixed assets are recorded at the production cost or purchase cost plus incidental expenses less accumulated amortization. Intangible assets are amortized using straight-line method for a reasonable period based on the nature of the assets. The excess of consideration distributed for business combinations over net assets transferred is classified as goodwill, which is amortized using the straight-line method over 5 years. Goodwill was recognized from the acquisitions of Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively. In addition, the Bank added to goodwill the valuation loss resulting from treasury stock, which had not been disposed of by the end of current year and amortizes the valuation loss included in goodwill for the remaining useful life of the goodwill. Since the Bank has not disposed of, as of December 31, 2000, its treasury stock acquired through the mergers and acquisitions (‘ M&A ’), the previous Accounting Standards for Business

Combination in effect when the M&A was consummated, required the Bank to account for the valuation loss from the treasury stock amounting to W100,716 million as goodwill to be amortized for the next 4 years including the current year (See Note 16).

### Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the auction price is lower than book value, the difference is provided as a valuation allowance with the valuation loss charged to current operations. In addition, the Bank added to goodwill the valuation loss resulting from treasury stock, which had not been disposed of by the end of current year and amortizes the valuation loss included in goodwill for the remaining useful life of goodwill.

### Amortization of Discount (Premium) on Debentures

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

### Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Bank, based on their length of service and rate of pay at the time of termination. The accrued severance indemnities which would be payable assuming all eligible employees were to resign as of December 31, 2000 and 1999 were W131,103 million (US$104,075 thousand) and W140,879 million (US$122,995 thousand), respectively. Actual payments of severance indemnities amounted to W40,015 million (US$31,766 thousand) in 2000 and W190,478 million (US$166,298 thousand) in 1999.

Funding of the severance liability is not required. However, in order to obtain a full tax deduction, at least 60percent of the liability must be funded. The Bank has purchased employee group severance indemnity insurance, which meets the funding requirement for tax purposes, and made deposits with Samsung Life Insurance and others. The withdrawal of these deposits is restricted to the payment of severance benefits. The deposits, amounting to W122,805 million (US$97,487 thousand) and W135,597 million (US$118,384 thousand) as of December 31, 2000 and 1999, respectively, are presented in due from banks in local currency.

Before April 1999, the Bank and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Bank paid half of the employees ’6 percent, which was paid as an advance for the future severance payment and deducted from the total severance indemnity payable at the termination. Such advance payment, totaling W7,626 million (US$6,054 thousand) as of December 31, 2000 and W9,674 million (US$8,446 thousand) as of December 31, 1999, are presented as a deduction from accrued severance indemnities. Since April 1999, according to a revision in the National Pension Law, the Bank and its employees each pay 4.5 percent of monthly pay to the Fund under their respective accounts.

### Bonds under Resale or Repurchase Agreements

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

### Accounting for Financial Derivatives

From the beginning of 2000, the Bank has accounted for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability.

Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk, are reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is reflected in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the occurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability. The accumulated gain or loss on both hedging derivative instruments and hedged items, which occurred prior to January 1, 2000 and to which fair value hedge accounting is applied, was reflected in beginning accumulated deficit as cumulative effect of changes in accounting principles for financial derivative instruments. There were no cash flow hedging activities prior to January 1, 2000.

Prior to 2000, financial derivatives were classified into hedging transactions or trading transactions. Hedging derivative instruments, whose underlying assets were recorded at market value (including translations into Korean Won of foreign currency denominated assets or liabilities) or trading derivative instruments were accounted for at market value with valuation gain or loss reflected in current operations. The gain or loss on hedging derivative instruments, whose underlying assets were not recorded at market value, was reflected in current operations at the time the gain or loss on the underlying assets was recorded in current operations. However, the underlying transactions of foreign currency forward contracts and foreign currency swaps was recorded at the contract foreign exchange rates. For foreign currency forward contracts, the difference between the revalued amounts of the underlying transaction using the spot rate and the contract rate was classified as a deferred loss (gain) on foreign currency forward contracts. This difference was amortized equally over the contract period.

### Accounting for Stock Options

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

### Payments to Guaranteed Return Trust Accounts

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. For the years ended December 31, 2000 and 1999, the Bank recorded W93,006 million (US$ 73,832 thousand) and W121,622 million (US$106,183 thousand) of trust management fee income and W10,312million (US$ 8,186 thousand) and W19,230 million (US$16,789 thousand ) of trust cancellation charge income, respectively. However, in return, the Bank paid compensating contribution to guaranteed return trusts of W152,481 million (US$ 121,045 thousand) in 2000 and W187,398 million (US$ 163,609 thousand) in 1999 to cover such deficiencies which were reflected as a non-interest expense of the bank accounts and as other income of the trust accounts. As a result, the Bank recorded a loss from the operation of trust business of W49,163 million (US$ 39,028 thousand) in 2000 and W46,546 million (US$ 40,637 thousand) in 1999. There is no assurance that the Bank will not be required to make such compensating transfers in the future or that the amounts of such transfers may not be significantly greater in the future.

### Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the change in deferred income tax. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

### Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on BOK Basic Rate (W1,259.70 and W1,145.40 to US$1.00 at December 31, 2000 and 1999, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses on foreign currency denominated assets and liabilities are credited or charged to operations. Financial statements of overseas branches and subsidiaries in which investments are accounted for using equity method are translated based on BOK Basic Rate as of the balance sheet dates.

### Earning (Loss) per Share

Ordinary income (loss) per common share and net income (loss) per common share are computed by dividing ordinary income (loss) (after deducting the tax effect) and net income (loss), respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 679 million in 2000 and 464 million in 1999. Ordinary income (loss) and net income (loss) on common shares were as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Net income (loss) | W 99,359 | W (746,322) | $ 78,875 | $ (651,582) |
| Extraordinary income | (17,593) | (2) | (13,966) | (2) |
| Extraordinary loss | 350 | 8 | 278 | 7 |
| Income tax on extraordinary income | 5,417 | - | 4,300 | - |
| Income tax on extraordinary loss | (108) | - | (86) | - |
| Income attributable to minority interests | (2,104) | 5,775 | (1,671) | 5,042 |
| Ordinary income (loss) | W 85,321 | W (740,541) | $ 67,730 | $ (646,535) |

Diluted ordinary income (loss) per common share and diluted income (loss) per common share are not computed since the annual average stock price of the Bank is below the exercise price of the dilutive securities such as bonds with warrants and stock options. The dilutive securities as of December 31, 2000 are as follows:

| Item | Face value (In million) | Exercise period | Common stocks to be issued | Remarks |
|---|---|---|---|---|
| Bonds with warrants | W 550,000 | By 2002.10.22 | 94,991,364 shares | Exercise price: 1 share per face value W5,790 of bonds, W5,790 paid in cash upon exercise |
| Stock options | - | 2003.3.28 ~ 2006.3.27 | 969,200 shares | W5,000 paid in cash upon exercise |

### Effects of Changes in Financial Accounting Standards

The effects of changes in financial accounting standards on financial statements are reflected directly in beginning retained earnings. Beginning in 2000, the Bank applied the revised financial accounting standards for financial derivatives and restructured loans in trust accounts in accordance with the revision of the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivatives and the new accounting standards for trust accounts. As a result of these changes, beginning accumulated deficit in 2000 increased by W43.2 billion (US$34.3 million) and net income for the year ended December 31, 2000 increased by W37.9 billion (US$30.1 million) when compared to those which would have been reported using the previous accounting policies. The details of the effects of these accounting changes as of December 31, 2000 are as follows:

| | Beginning accumulated deficit (increase) decrease | | 2000 net income (increase) decrease | |
|---|---|---|---|---|
| | Billions of Korean Won | Millions of U.S. Dollars(Note 2) | Billions of Korean Won | Millions of U.S. Dollars(Note 2) |
| Accounting for derivative instruments | W 6.6 | $ 5.2 | W 1.0 | $ 0.8 |
| Accounting for restructured loans in trust accounts | (49.8) | (39.5) | 36.9 | 29.3 |
| | W (43.2) | $ (34.3) | W 37.9 | $ 30.1 |

Beginning in 1999, significant changes were introduced to the financial accounting standard in the Republic of Korea and new accounting standards for the banking industry were introduced. These changes included, among others, changes in accounting for allowance for guarantees and acceptances, restructured loans and valuation of securities. As a result of these changes, the beginning accumulated deficit of the Bank and subsidiaries in 1999 increased by W128.4 billion (US$112.1 million) and the net loss for the year ended December 31, 1999 increased by W145.2 billion (US$126.8 million) when compared to those which would have been reported using the previous accounting policies. The details of the effects of these accounting changes as of December 31, 1999 are as follows:

| | Beginning accumulated deficit (increase) decrease | | 1999 net loss (increase) decrease | |
|---|---|---|---|---|
| | Billions of Korean Won | Millions of U.S. Dollars (Note 2) | Billions of Korean Won | Millions of U.S. Dollars (Note 2) |
| Allowance for guarantees and acceptances | W (41.3) | $ (36.1) | W (81.5) | $ (71.2) |
| Accounting for restructured loans | (86.0) | (75.1) | (68.8) | (60.0) |
| Deferred income taxes | 14.9 | 13.0 | - | - |
| Trading and investment securities | (13.9) | (12.1) | 7.0 | 6.1 |
| Other | W (2.1) | $ (1.8) | W (1.9) | $ (1.7) |
| | (128.4) | (112.1) | (145.2) | (126.8) |

### Reclassifications

The Bank reclassified certain accounts for 1999 to conform with the 2000 presentation for comparative purposes. However, this reclassification has no effect on the net loss or net asset value as of and for the year then ended December 31, 1999.

## 3. Cash and Due from Banks:

Cash and due from banks as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Cash and checks | W 973,845 | W 1,210,399 | $ 773,077 | $ 1,056,748 |
| Foreign currencies | 69,585 | 60,830 | 55,239 | 53,108 |
| Due from banks in local currency | 889,844 | 1,222,857 | 706,394 | 1,067,624 |
| Due from banks in foreign currencies | 374,320 | 649,320 | 297,150 | 566,894 |
| | W 2,307,594 | W 3,143,406 | $ 1,831,860 | $ 2,744,374 |

## 4. Restricted Due from Banks:

The Bank and its subsidiaries have certain due from banks restricted in use under the banking regulations in the Republic of Korea. Restricted due from banks as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Reserve deposits with the Bank of Korea | W 519,773 | W 615,857 | $ 412,616 | $ 537,678 |
| Group severance deposits (see Note 2) | 122,805 | 135,597 | 97,487 | 118,384 |
| Other | 232,162 | 359,199 | 184,300 | 313,602 |
| | W 874,740 | W 1,110,653 | $ 694,403 | $ 969,664 |

## 5. Trading Securities:

Trading securities as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Stocks | W - | W 245,031 | $ - | $ 213,926 |
| Government bonds | 886,964 | 536,835 | 704,108 | 468,688 |
| Finance debentures | 188,552 | 653,721 | 149,680 | 570,736 |
| Corporate bonds | 813,724 | 471,680 | 645,966 | 411,804 |
| Trading securities in foreign currencies | 54,992 | 54,854 | 43,655 | 47,891 |
| Other | 586,170 | 1,732,094 | 465,325 | 1,512,217 |
| | W 2,530,402 | W 3,694,215 | $ 2,008,734 | $ 3,225,262 |

## 6. Investment Securities:

*(1)* Investment securities as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Investment equity securities | W 318,345 | W 381,723 | $ 252,715 | $ 333,266 |
| Government bonds | 2,340,376 | 1,557,570 | 1,857,884 | 1,359,848 |
| Finance debentures | 1,326,630 | 1,176,170 | 1,053,132 | 1,026,864 |
| Corporate bonds | 5,781,382 | 5,000,664 | 4,589,491 | 4,365,867 |
| Investment securities in foreign currencies | 617,464 | 970,093 | 490,168 | 846,947 |
| Other | 844,527 | 1,264,856 | 670,418 | 1,104,292 |
| | W11,228,724 | W10,351,076 | $ 8,913,808 | $ 9,037,084 |

On August 24, 1999, 16 creditors of Samsung Motors, including the Bank, Kun Hee Lee as chairman of Samsung Group and 31 Samsung Group companies including Samsung Electronics, entered into an agreement that the chairman of Samsung Group would donate 3,500 thousand shares of Samsung Life Insurance to creditors as compensation for their anticipated credit loss in connection with the restructuring of Samsung Motors.

In accordance with the agreement, the chairman of Samsung Group donated 58,387 shares of Samsung Life Insurance Co., Ltd. owned by him to the Bank on June 29, 2000. The Bank valued these donated shares at W488,600 (US$388) per share and recorded the total value of donated shares of W28,528 million (US$22,647 thousand) as an extraordinary gain of W17,593 million (US$13,966 thousand) in the bank accounts and W10,935 million (US$8,681 thousand) in the trust accounts.

*(2)* Investment equity securities valued using equity method

As of December 31, 2000, the investment equity security valued using equity method is the investment in Chohung Vina Bank and the change in equity of which is as follows:

| | Millions of Korean Won | Thousands of U.S. Dollars (Note 2) |
|---|---|---|
| Acquisition costs | W 6,299 | $ 5,000 |
| Capital adjustments | 813 | 645 |
| Investment valued using equity method | W 7,112 | $ 5,645 |

## 7. Collateralized Assets:

Details of collateralized assets of the Bank as of December 31, 2000 and 1999 are as follows:

| | | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | |
|---|---|---|---|---|---|---|
| Collateralized assets | Provided to | 2000 | 1999 | 2000 | 1999 | Provided for |
| Investment securities | Bank of Korea | W 1,655,000 | W 2,311,522 | $ 1,313,805 | $ 2,018,091 | RP of Bank of Korea (BOK) |
| 〃 | 〃 | 246,700 | 281,900 | 195,840 | 170,980 | Settlement risk |
| 〃 | 〃 | 966,800 | 549,661 | 767,484 | 670,058 | Borrowings from BOK |
| 〃 | 〃 | 210,000 | - | 166,706 | - | Daily borrowings from BOK |
| 〃 | Deutsche Bank AG | 1,219,700 | 668,717 | 968,246 | 583,828 | Borrowings in foreign currency |
| 〃 | Customer RP | 700,000 | 623,074 | 555,688 | 543,979 | Customer RP |
| 〃 | Samsung Securities Co., Ltd. | - | 984 | - | 859 | Futures |
| 〃 | KAMCO | 202,672 | 205,318 | 160,890 | 64,218 | Settlement of non-performing loans |
| | | W 5,200,872 | W 4,641,176 | $ 4,128,659 | $ 4,052,013 | |

## 8. Loans and Allowance for Possible Loan Losses:

Loans and allowance for possible loan losses as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Loans in local currency | W 21,167,740 | W 19,079,022 | $ 16,803,795 | $ 16,657,082 |
| Loans in foreign currencies | 3,812,363 | 4,345,567 | 3,026,405 | 3,793,930 |
| Other | 7,670,473 | 5,570,962 | 6,089,127 | 4,863,770 |
| | 32,650,576 | 28,995,551 | 25,919,327 | 25,314,782 |
| Allowance for possible loan losses | (1,924,792) | (3,030,943) | (1,527,977) | (2,646,187) |
| Present value discounts: | | | | |
| The Bank (see Note 9) | (171,805) | (148,526) | (136,385) | (129,672) |
| Subsidiaries | (3,532) | (8,495) | (2,804) | (7,417) |
| | (175,337) | (157,021) | (139,189) | (137,089) |
| | W 30,550,447 | W 25,807,587 | $ 24,252,161 | $ 22,531,506 |

## 9. Restructured Loans:

Restructured loans as of December 31, 2000 are summarized as follows:

| | Face Value | | | | Unamortized Present Value Discounts | |
|---|---|---|---|---|---|---|
| Borrower | Millions of Korean Won | Thousands of U.S. Dollars | Interest rate | Maturity date | Millions of Korean Won | Thousands of U.S. Dollars |
| Korea Development Lease | W 257,736 | $ 204,601 | 6.18 ~ 10.00 | 2004. 6.30 ~ 2009. 6.30 | W 49,171 | $ 39,034 |
| Jindo | 210,352 | 166,986 | 9.89 ~ 21.75 | 2002.12.31 ~ 2004.12.31 | 46,082 | 36,582 |
| Sepoong Co. | 139,065 | 110,395 | 9.14 ~ 10.63 | 2002.12.31 ~ 2004.12.31 | 13,614 | 10,807 |
| Daelim Industry | 130,190 | 103,350 | 11.50 | 2006. 9. 8 ~ 2008. 9. 8 | 5,525 | 4,386 |
| Hanmi Capital | 51,757 | 41,087 | 6.95 ~ 7.13 | 2005. 8.31 | 963 | 764 |
| Chohung Capital Co., Ltd. | 34,921 | 27,722 | 8.10 ~ 8.22 | 2005.12.31 | 593 | 471 |
| Chungbu Leasing Co., Ltd. | 28,861 | 22,911 | 6.59 ~ 8.26 | 2006. 9.30 ~ 2009. 3.31 | 1,526 | 1,211 |
| Korea Housing Guarantee Co., Ltd. | 28,460 | 22,593 | 9.40 ~ 10.40 | 2003.12.31 ~ 2009.12.31 | 2,463 | 1,955 |
| Kyoungnam Leasing Co., Ltd. | 27,417 | 21,765 | 5.50 ~ 7.68 | 2007. 9.30 ~ 2008. 8.30 | 1,657 | 1,315 |
| Samho | 26,250 | 20,838 | 11.50 | 2006. 9. 8 | 172 | 137 |
| Other (66 companies) | 261,243 | 207,384 | | | 50,039 | 39,723 |
| | W 1,196,252 | $ 949,632 | | | W 171,805 | $136,385 |

Restructured loans as of December 31, 1999 are summarized as follows:

| | Face Value | | | | Unamortized present value discounts | |
|---|---|---|---|---|---|---|
| Borrower | Millions of Korean Won | Thousands of U.S. Dollars(Note 2) | Interest rate | Maturity date | Millions of Korean Won | Thousands of U.S. Dollars(Note 2) |
| Korea Development Lease | W 278,690 | $ 243,312 | 6.18 ~ 10.00 | 2004. 6.30 ~ 2009. 6.30 | W 55,460 | $ 48,420 |
| Daelim Industry | 185,000 | 161,516 | 11.50 | 2006. 9. 8 ~ 2008. 9. 8 | 522 | 456 |
| Jindo | 173,991 | 151,904 | 9.89 ~ 21.75 | 2002.12.31 ~ 2004.12.31 | 31,660 | 27,641 |
| Ssangyong Motors | 159,618 | 139,356 | 7.00 ~ 10.00 | 2000.12.31 | 11,602 | 10,129 |
| Hanmi Capital | 136,402 | 119,087 | 6.95 ~ 7.13 | 2005. 8.31 | 4,784 | 4,177 |
| Daesung Timber | 31,200 | 27,239 | 18.25 | 2004.12.31 | 6,751 | 5,894 |
| Samho | 30,000 | 26,192 | 11.50 | 2001.12.31 | 307 | 268 |
| Dongbang T&C | 23,601 | 20,605 | 9.89 ~ 10.87 | 2002. 3.12 | 3,122 | 2,726 |
| Anam Semiconductor | 20,000 | 17,461 | 12.75 | 2003.12.31 | 1,225 | 1,069 |
| Shinho Paper | 18,983 | 16,573 | 9.89 ~ 18.75 | 2002.12.31 | 3,378 | 2,949 |
| Other (45 companies) | 132,003 | 115,247 | | | 29,715 | 25,943 |
| | W 1,189,488 | $ 1,038,492 | | | W 148,526 | $ 129,672 |

## 10. Fixed Assets:

Fixed assets as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Land and buildings | W 1,337,350 | W 1,398,812 | $ 1,061,642 | $ 1,221,243 |
| Equipment | 392,609 | 377,996 | 311,669 | 330,012 |
| Leasehold improvements | 35,906 | 32,560 | 28,504 | 28,427 |
| Construction in progress | 5,463 | 5,254 | 4,336 | 4,587 |
| Total tangible assets | 1,771,328 | 1,814,622 | 1,406,151 | 1,584,269 |
| Accumulated depreciation | (401,410) | (367,457) | (318,655) | (320,810) |
| Goodwill | 336,074 | 347,424 | 266,789 | 303,321 |
| Other intangible assets | 5,413 | 5,300 | 4,297 | 4,627 |
| Non-business use property | 682 | 11,064 | 541 | 9,659 |
| Valuation allowances | (140) | (169) | (111) | (148) |
| | W 1,711,947 | W 1,810,784 | $ 1,359,012 | $ 1,580,918 |

## 11. Other Assets:

Other assets as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Guarantee deposits | W 430,109 | W 441,677 | $ 341,438 | $ 385,609 |
| Accounts receivables | 1,257,014 | 310,316 | 997,868 | 270,924 |
| Accrued income | 487,933 | 367,686 | 387,341 | 312,012 |
| Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties | 206,058 | 358,132 | 163,577 | 312,669 |
| Local exchange remittances receivables | 160,025 | 300,105 | 127,034 | 262,009 |
| Other | 268,437 | 354,201 | 213,095 | 318,238 |
| | W 2,809,576 | W 2,132,117 | $ 2,230,353 | $ 1,861,461 |

## 12. Deposits:

Deposits as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Deposits in local currency: | | | | |
| Bank-banking accounts | W 31,224,796 | W 23,930,919 | $ 24,787,486 | $ 20,893,067 |
| Bank-trust accounts | 872,744 | 2,463,506 | 692,819 | 2,150,782 |
| Subsidiaries | 11 | 178,000 | 9 | 155,405 |
| | 32,097,551 | 26,572,425 | 25,480,314 | 23,199,254 |
| Deposits in foreign currencies | 1,876,759 | 1,758,508 | 1,489,846 | 1,535,279 |
| Negotiable certificates of deposits | 1,452,086 | 2,003,511 | 1,152,723 | 1,749,179 |
| | W 35,426,396 | W 30,334,444 | $ 28,122,883 | $ 26,483,712 |

## 13. Borrowings:

Borrowings as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Borrowings in local currency: | | | | |
| General borrowings | W 1,425,850 | W 1,401,970 | $ 1,131,896 | $ 1,224,000 |
| Subordinated borrowings | 268,500 | 395,000 | 213,146 | 344,858 |
| | 1,694,350 | 1,796,970 | 1,345,042 | 1,568,858 |
| Borrowings in foreign currencies | 1,805,696 | 3,060,059 | 1,433,433 | 2,671,607 |
| Bonds sold under repurchase agreements | 1,342,957 | 893,702 | 1,066,093 | 780,253 |
| Bills sold | 698,967 | 551,362 | 554,868 | 481,371 |
| Due to Bank of Korea in foreign currencies | 1,663,130 | 2,694,630 | 1,320,259 | 2,352,567 |
| Call money | 132,004 | 288,186 | 104,790 | 251,603 |
| | W 7,337,104 | W 9,284,909 | $ 5,824,485 | $ 8,106,259 |

## 14. Debentures:

Debentures as of December 31, 2000 and 1999 are summarized as follows:

| | | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|---|
| | Interest rate per annum | 2000 | 1999 | 2000 | 1999 |
| Debentures in local currency: | | | | | |
| General debentures | 8.56 ~ 12.00% | W 300,000 | W 529,534 | $ 238,152 | $ 462,314 |
| Subordinated debentures | 10.20 ~ 18.00%<br>prime rate + 1 ~ 2% | 775,700 | 625,700 | 615,782 | 546,272 |
| Debenture with warrants | 10.00% | 550,000 | 550,000 | 436,611 | 480,182 |
| | | 1,625,700 | 1,705,234 | 1,290,545 | 1,488,768 |
| Debentures in foreign currencies: | | | | | |
| General debentures | 3M Libor + 1.30%,<br>6M Libor + 0.23 ~ 1.20% | 594,460 | 575,564 | 471,906 | 502,500 |
| Subordinated debentures | 6M Libor + 1.25 ~ 4.95%,<br>11.50 ~ 11.875% | 822,053 | 114,540 | 652,578 | 100,000 |
| | | 1,416,513 | 690,104 | 1,124,484 | 602,500 |
| Discounts on debentures | | (9,389) | (2,875) | (7,453) | (2,510) |
| | | W 3,032,824 | W 2,392,463 | $ 2,407,576 | $ 2,088,758 |

## 15. Other Liabilities:

Other liabilities as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Accrued severance benefits (see Note 2) | W 131,103 | W 140,879 | $ 104,075 | $ 122,995 |
| Transfer to National Pension Fund (see Note 2) | (7,626) | (9,674) | (6,054) | (8,446) |
| Allowance for possible losses on acceptances and guarantees | 63,819 | 189,892 | 50,662 | 165,787 |
| Other allowances | 108 | 61,482 | 86 | 53,677 |
| Borrowings from trust accounts | 220,333 | 634,568 | 174,909 | 554,014 |
| Foreign exchange remittances pending | 36,190 | 30,159 | 28,729 | 26,331 |
| Deposits for letters of guarantees and other | 65,705 | 60,327 | 52,159 | 52,669 |
| Accrued expenses | 999,881 | 751,913 | 793,745 | 656,463 |
| Domestic exchange settlement account - credit | 156,372 | 75,159 | 124,134 | 65,618 |
| Unearned revenue | 119,401 | 105,798 | 94,785 | 92,368 |
| Accounts payable - other | 84,860 | 289,918 | 67,365 | 253,115 |
| Other | 1,370,215 | 403,845 | 1,087,733 | 352,580 |
| | W 3,240,361 | W 2,734,266 | $ 2,572,328 | $ 2,387,171 |

## 16. Shareholders' Equity:

*(1)* Common Stock

In accordance with the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at the rate of 4.505 shares to one share under a capital reduction without consideration. Due to this reduction, the common stock of the Bank was reduced by W723.9 billion (US$632.0 million) with the resulting gain of the same amount being transferred to offset accumulated deficit in 1999. On February 19, 1999, May 7, 1999 and September 30, 1999, the Bank increased its common stock in total by W2,717.9 billion (US$2,372.9 million) by issuing a total of 544 million shares to Korea Deposit Insurance Corporation ("KDIC") at par value. In addition, the Bank increased its common stock by W196.0 billion (US$171.1 million) as a result of the acquisitions of Chungbuk Bank and Kangwon Bank, and by W275 billion (US$240.1 million) through a public offering. As a result, the balance of the Bank's common stock as of December 31, 2000 and 1999 is W3,395.4 billion (US$2,695.4 million in 2000 and US$2,964.4 million in 1999), with KDIC having an ownership interest of 80.05 percent of the Bank's common shares issued.

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 679,078,115 common share have been issued as of December 31, 2000 and 1999. The changes in common stock during 1999 (there were no changes during 2000)

| Description | Millions of Korean Won | Thousands of U.S. Dollars (Note 2) | Date |
|---|---|---|---|
| Beginning balance | W 930,429 | $ 812,318 | 1998.12. 31 |
| Decrease due to reduction of shares | (723,913) | (632,018) | 1999. 2. 12 |
| Investment by KDIC | 2,112,300 | 1,844,159 | 1999. 2. 19 |
| Price for acquisition of Chungbuk Bank | 1 | 1 | 1999. 5. 3 |
| Investment by KDIC | 212,250 | 185,306 | 1999. 5. 7 |
| Price for acquisition of Kangwon Bank | 196,024 | 171,140 | 1999. 9. 13 |
| Investment by KDIC | 393,300 | 343,374 | 1999. 9. 30 |
| Issuance of new shares | 275,000 | 240,091 | 1999.11. 23 |
| Ending balance | W 3,395,391 | $ 2,964,371 | |

On November 23, 1999, the Bank completed an offering in the Republic of Korea of 55,000,000 shares of common stock for an aggregate offer price of approximately W302.5 billion (US$261.7 million). In connection with such offering of common stock, on November 22, 1999, the Bank also issued bonds with warrants in the aggregate principal amount of W550.0 billion (US$475.8 million). The subscriptions for these offerings, which were not fully subscribed but fully underwritten, took place on November 17 and November 18,1999. The bonds have a maturity of three years with one year's put and call options and pay interest at 10 percent per annum. The warrants are separable from the bonds upon issuance of the bonds. The warrants are exercisable from February 23, 2000 until October 22, 2002 at an exercise price of W5,790 per share.

*(2)* Capital Adjustment

Capital adjustments as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Treasury stock | W (161,728) | W (262,742) | $ (128,386) | $ (229,389) |
| Loss on valuation of investment securities, net | (328,300) | (30,800) | (260,618) | (26,890) |
| Discounts on stock issuance | (867) | (2,552) | (688) | (2,228) |
| Bank's stocks owned by subsidiaries | - | (4) | - | (4) |
| Debt for equity conversion | - | 65,152 | - | 56,882 |
| Other | 412 | - | 327 | - |
| | W (490,483) | W (230,946) | $ (389,365) | $ (201,629) |

Chungbuk Bank and Kangwon Bank were merged with the Bank on April 30, and September 11, 1999, respectively. The assets and liabilities of the merged Banks were recorded at book value in the balance sheet of the Bank and the excess of the consideration distributed for the business combinations over the net assets transferred was recorded as goodwill amounting to W120,115 million (US$104,867 thousand) and W314,091 million (US$274,219 thousand), respectively. In addition, as of December 31,1999, the Bank had W29,279,890 shares of treasury with a carrying value of W262,742 million (US$229,389 thousand) arising from the purchase of the shares of dissenters to the acquisition of Kangwon Bank. The Bank disposed of the treasury stock by awarding them to employees, with W298 million (US$237 thousand) of loss on disposal of treasury stock debited to deficit. Also, valuation loss on treasury stock of W100,716 million was added to goodwill and is being amortized over the remaining useful life of 4 years, including the current year using the straight-line method (see Note 2).

*(3)* Loss in excess of minority interests

Loss of nil in excess of minority interests in 2000 and Loss of W44.6 billion (US$38.9 million) in excess of minority interests in 1999 was charged to accumulated deficit, not to minority interests.

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Chohung Leasing & Finance (Hong Kong) Ltd. | W - | W 44,579 | $ - | $ 38,920 |

## 17. Other Interest Income and Other Interest Expenses:

Other interest income and other interest expenses are commissions received on credit card and commissions paid on credit card.

## 18. Income Taxes:

The Bank is subject to a number of taxes based upon earnings, which result in the normal tax rate of 30.8 percent.

Income tax expense of the Bank and its subsidiaries for the years ended December 31, 2000 and 1999 consists of the following:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Income tax currently payable | | | | |
| The Bank | W 3,365 | W 3,707 | $ 2,671 | $ 3,236 |
| Subsidiaries | 2,853 | 10,289 | 2,265 | 8,983 |
| | W 6,218 | W 13,996 | $ 4,936 | $ 12,219 |
| Changes in deferred income taxes assets | | | | |
| The Bank | W 181 | W - | $ 144 | $ - |
| Subsidiaries | (4,632) | 17,785 | (3,677) | 15,528 |
| | W (4,451) | W 17,785 | $ (3,533) | $ 15,528 |
| Income tax expense | W 1,767 | W 31,781 | $ 1,403 | $ 27,747 |

For the years ended December 31, 2000 and 1999, the differences between income before tax in financial accounting and taxable income of the Bank pursuant to Corporate Income Tax Law of Korea are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Income (loss) before income taxes | W 104,631 | W (694,336) | $ 83,060 | $ (606,195) |
| Permanent differences | (16,369) | 300,596 | (12,994) | 262,437 |
| Temporary differences | (166,720) | 647,619 | (132,349) | 565,409 |
| | W (78,458) | W 253,879 | $ (62,283) | $ 221,651 |
| Tax loss carry forward | - | 253,879 | - | 221,651 |
| Taxable income | W - | W - | $ - | $ - |

Losses determined under the Korea Corporate Tax Law can be carried forward for five years. The Bank has a tax loss carry forward amounting to W3,127.9 billion (US$2,483.1 million) as of December 31, 2000 which may be offset against taxable income of the Bank in the future.

The tax effects on temporary differences that gave rise to significant portions of the deferred tax assets as of December 31, 2000 are presented below (Unit: Won in millions):

| | Beginning balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Allowance for possible loan losses | W 800,485 | W 324,434 | W 800,485 | W 324,434 |
| Reserve for loss on overseas' investment | (24,618) | - | (16,052) | (8,566) |
| Loss on valuation of investment securities | 60,675 | 19,410 | - | 80,085 |
| Goodwill | (347,366) | (100,716) | (112,020) | (336,062) |
| Allowance for possible losses on confirmed acceptances and guarantees | 101,815 | 1,274 | 46,380 | 56,709 |
| Present value discount account | 130,201 | 95,632 | 54,029 | 171,804 |
| Gain on derivatives trading | (8,383) | 41,888 | (8,383) | 41,888 |
| Treasury stock | - | 100,716 | - | 100,716 |
| Other | (397,015) | 82,296 | (32,785) | (281,934) |
| Tax loss carry forward | 3,049,452 | 78,458 | - | 3,127,910 |
| | 3,365,246 | W 643,392 | W 731,654 | 3,276,984 |
| Income tax rate (%) | 30.8% | | | 30.8% |
| Deferred tax assets | W 1,036,496 | | | W 1,009,311 |

The Bank did not recognize deferred income tax assets resulting from tax loss carryforwards and cumulative temporary differences (except for deferred income tax assets recorded in overseas branches of the Bank) since the deferred income tax assets are not likely to be realized in the future.

## 19. Transactions with Affiliated Companies:

*(1)* Significant balances with related parties as of December 31, 2000 are as follows (Unit: Won in millions):

| **Assets** | Due from banks in foreign currencies | Loans in foreign currencies | Call loans |
|---|---|---|---|
| Chohung Finance Ltd., Hong Kong | W 123,445 | W 20,155 | W - |
| Chohung Bank of New York | 33,387 | - | - |
| Chohung Bank (Deutschland) GmbH | 58,363 | 9,172 | 12,597 |
| California Chohung Bank | 168 | - | - |
| | W 215,363 | W 29,327 | W 12,597 |

| Liabilities | Deposits in local currency | Deposits in foreign currencies | Borrowings in foreign currencies | Call money |
|---|---|---|---|---|
| Chohung Investment Trust and Management Co., Ltd. | W 49,566 | W - | W - | W - |
| Chohung Finance Ltd., Hong Kong | - | 19,012 | 6,676 | - |
| Chohung Bank (Deutschland) GmbH | - | - | 5 | 18,211 |
| | W 49,566 | W 19,012 | W 6,681 | W 18,211 |

Significant transactions with related parties during the year ended December 31, 2000 are as follows (Unit: Won in millions):

| | Interest income | Interest expenses |
|---|---|---|
| Chohung Investment Trust and Management Co., Ltd. | W - | W 2,943 |
| Chohung Finance Ltd., Hong Kong | 920 | 1,662 |
| Chohung Bank of New York | 2,676 | 518 |
| Chohung Bank (Deutschland) GmbH | 5,495 | 4,577 |
| | W 9,091 | W 9,700 |

*(2)* Significant balances with related parties as of December 31, 1999 are as follows (Unit: Won in millions):

| Assets | Due from bank in foreign currencies | Loans in foreign currencies | Call loans |
|---|---|---|---|
| Chohung Capital Co., Ltd. | W - | W 112,888 | W - |
| Chohung Finance Ltd., Hong Kong | 132,502 | 18,326 | - |
| Chohung Bank of New York | 36,704 | - | - |
| Chohung Bank (Deutschland) GmbH | 33,430 | 8,824 | 22,908 |
| California Chohung Bank | 5,540 | - | - |
| | W 208,176 | W 140,038 | W 22,908 |

| Liabilities | Deposits in local currency | Deposits in foreign currencies | Borrowings in foreign currencies | Call money |
|---|---|---|---|---|
| Chohung Securities Co., Ltd. | W 3,005 | W - | W - | W - |
| Chohung Mutual Savings and Finance Co., Ltd. | 9,068 | - | - | - |
| Chohung Capital Co., Ltd. | 15,698 | 8,518 | - | - |
| Kangeun Mutual Savings and Finance Co., Ltd. | 3,670 | - | - | - |
| Chohung Investment Trust and Management Co., Ltd. | 31,992 | - | - | - |
| Chohung Finance Ltd., Hong Kong | - | 18,125 | 19,472 | - |
| Chohung Bank (Deutschland) GmbH | - | - | 4,412 | 18,236 |
| | W 63,433 | W 26,643 | W 23,884 | W 18,236 |

Significant transactions with related parties during the year ended December 31, 1999 were as follows (Unit: Won in millions):

| | Interest Income | Interest expenses |
|---|---|---|
| Chohung Securities Co., Ltd. | W 3,125 | W 345 |
| Chohung Mutual Savings and Finance Co., Ltd. | 507 | 12 |
| Chohung Capital Co., Ltd. | 13,126 | 543 |
| Kangeun Mutual Savings and Finance Co., Ltd. | - | 326 |
| Chohung Investment Trust and Management Co., Ltd. | 2,142 | - |
| Chohung Finance Ltd., Hong Kong | 3,211 | 628 |
| Chohung Bank of New York | 1,984 | 815 |
| California Chohung Bank | - | - |
| Chohung Bank (Deutschland) GmbH | 3,877 | 2,550 |
| Chohung Leasing and Finance (Hong Kong) Ltd. | - | 1,924 |
| | W 27,972 | W 7,143 |

*(3)* Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | | |
|---|---|---|---|---|---|
| Company | 2000 | 1999 | 2000 | 1999 | Description |
| Chohung Finance Ltd., Hong Kong | W 4,396 | W 770 | $ 3,490 | $ 672 | L/C Guarantees |
| Chohung Bank (Deutschland) GmbH | 1,851 | 19,144 | 1,469 | 16,714 | Guarantees for L/C and borrowings |

## 20. Commitments and Contingencies:

In the normal course of its commercial banking business, the Bank and its subsidiaries makes various commitments and incurs certain contingent liabilities which are not recorded in the financial statements.

*(1)* Guarantees and acceptances provided by the Bank as of December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Confirmed | W 2,788,874 | W 3,573,326 | $ 2,213,919 | $ 3,119,719 |
| Unconfirmed | 1,962,366 | 2,411,346 | 1,557,804 | 2,105,244 |
| Indorsed note | 245,703 | 948,892 | 195,049 | 828,437 |

*(2)* The amounts of financial derivatives contracts as of December 31, 2000 and 1999 are summarized as follows:

As of and for the year ended December 31, 2000, outstanding contract amount, gain or loss on valuation of financial derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheet are as follows (Unit: Won in millions):

| | Outstanding contract amount(*) | | Gain (loss) on valuation | | Accumulated valuation |
|---|---|---|---|---|---|
| **Type** | Trading | Hedging | Trading | Hedging | gain (loss) |
| Currency forward | W 415,232 | W 1,027,828 | W 2,794 | W (18,194) | W (34,554) |
| Currency swap | 251,940 | 42,810 | (20,262) | 2,534 | (10,151) |
| Currency option | 140,969 | - | 63 | - | (1) |
| | 808,141 | 1,070,638 | (17,405) | (15,660) | (44,706) |
| Interest rate swap | - | 1,465,389 | 16,368 | - | 2,818 |
| | - | 1,465,389 | 16,368 | - | 2,818 |
| | W 808,141 | W 2,536,027 | W (1,037) | W (15,660) | W (41,888) |

(*) In translation of derivative contracts for Korean Won to foreign currency and foreign to foreign currency transactions, contract exchange rate against foreign currency and market exchange rate as of the balance sheet date against purchased foreign currency are applied, respectively.

Outstanding contract amount and gain or loss on valuation for hedging purpose in the table included or resulted from both derivative instruments accounted for as hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70 and derivative instruments used for hedging activities but not accounted for using hedge accounting. As of December 31, 2000, the Bank does not have derivative instruments used for cash flow hedging activities or accounted for using cash flow hedge accounting. However, the Bank had derivative instruments accounted for using fair value hedge accounting as of December 31, 2000.

Hedged items, to which fair value hedge accounting was applied, consisted of investment securities and subordinated notes issued and hedging derivative instruments such as currency swaps and interest rate swaps which were used to cover exposures to changes in fair value of hedged items resulting from interest rate changes

Resulting from valuation of hedged items accounted for as fair value hedge accounting, in 2000, gain on valuation of W355 million (US$282 thousand) on loans, gain on valuation of W21,823 million (US$17,324 thousand) and loss on valuation of W3,106 million (US$2,466 thousand) on investment securities, gain on valuation of W286 million (US$227 thousand) and loss on valuation of W48,936 million (US$38,847 thousand) on notes issued were reflected in current operations. The opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for as fair value hedge accounting were also reflected in current operations.

Stock index futures traded in Korea Stock Exchange and currency futures and interest rate futures traded in Korea Futures Exchange were subjected to market to market accounting with valuation gain or loss recorded as settlement accounts in the balance sheet. For derivative contracts cleared or carried forward to subsequent year, the difference between purchase price (settlement price at the end of prior year for the contracts carried over from prior year) and clearing price (market price for the contract carried forward to subsequent year without clearing) was reflected in gain or loss on futures trading. However, there were no unsettled futures contracts as of December 31, 2000.

*(3)* Litigation

The Bank is a party to certain legal actions as the plaintiff for delinquent and written-off loans amounting to W241,282 million (US$ 191,539 thousand) and W123,837 million (US$108,117 thousand) as of December 31, 2000 and December 31, 1999, respectively, and as the defendant against the exercise of commitments amounting to W53,364 million (US$42,362 thousand) and W2,477,381 million (US$ 2,162,896 thousand) as of December 31, 2000 and December 31, 1999, respectively. As for the proceedings pending against or involving the Bank, management does not expect the aggregate liability or loss, if any, to have a material adverse effect on the financial position of the Bank.

*(4)* Sale of non-performing loans

From December 15, 1997 to December 31, 2000, the Bank sold non-performing loans totaling W3,580.8 billion (US$2,842.6 million), including W6.5 billion (US$5.2 million) in 2000, from the bank accounts and trust accounts to Korea Asset Management Corporation (“KAMCO”) at a price of W1,957.9 billion (US$1,554.3 million).

As of December 31, 2000, the outstanding balance of the loans sold for which the final selling price of has not yet been decided, due to the incompleteness of the borrowers restructuring plan, is W595.4 billion (US$472.7 million). Notwithstanding the sale and the elimination of these assets from the balance sheet, the Bank remains liable to KAMCO for the selling price of non-performing assets that were sold on a recourse basis totaling W1,533.1 billion (US$1,217.0 million) including the W595.4 billion (US$472.7 million) loans on which the selling price may change.

KAMCO’s ability to exercise its right of recourse right depends on whether the borrowers comply with their restructuring commitments. Additional losses may be incurred if KAMCO is able to and does execute its right of recourse. No liability has been recorded in the Bank's consolidated financial statements for any such losses, which could have a material adverse effect on the financial position and results of operations of the Bank.

*(5)* Plan for sale of non-performing loans

The Bank agreed to transfer non-performing loans having a face value of W688.0 billion (US$546.2 million) to Lone Star Fund and KL Investment 2 Inc. through an international bid held on December 1, 2000. The due diligence review on the loans to be transferred is in progress as of February 2, 2001. The disposal and the disposal value will be determined based on the results of the due diligence review. The outcome of the transfer cannot be reasonably estimated at this time.

## 21. Prior Period Adjustments:

Prior period adjustments included in accumulated deficit for the years ended December 31, 2000 and 1999 are summarized as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Loss on prior period adjustments: | | | | |
| Payment of other income in prior period | W - | W (1,613) | $ - | $ (1,408) |
| Repayment of excess interest in prior period | - | (43) | - | (38) |
| Amortization of exchange adjustment | - | (17,746) | - | (15,493) |
| | W - | W (19,402) | $ - | $ (16,939) |
| Gain on prior period adjustments: | | | | |
| Reversal of interest recorded in prior period | W - | W 5,253 | $ - | $ 4,586 |
| Reversal of other expense recorded in prior period | - | 81 | - | 71 |
| | W - | W 5,334 | $ - | $ 4,657 |
| | W - | W (14,068) | $ - | $ (12,282) |

## 22. Loans to Daewoo Group:

Daewoo Group Companies, which were placed under a workout plan in August 1999 due to liquidity problems, are undergoing a workout plan or court receivership as of December 31, 2000. As of December 31, 2000, the Bank has loans outstanding to Daewoo Group Companies (including confirmed acceptances and guarantees and trust accounts) of W1,003.2 billion (US$796.4 million) for which an allowance for possible loan losses of W494.3 billion (US$392.4 million) after deducting present value discounts of W9.8 billion (US$7.8 million) has been provided according to provisioning requirements based on loan classifications. The Bank also has securities issued by Daewoo Group Companies (including trust accounts) of W234.5 billion (US$186.2 million) for which loss on valuation of trading securities and investment bonds impairment loss of W96.3 billion (US$76.4 million) has been recognized. The recovery of loans outstanding to Daewoo Group Companies is mainly dependent upon the results of the business restructuring which continues to be under a workout plan or court receivership as of December 31, 2000. The ultimate effect that these significant uncertainties will have on the financial position of the Bank cannot presently be determined.

## 23. Restructured Loans under Workout Program:

As of December 31, 2000, the Bank's outstanding total exposure (including loans, confirmed guarantees and acceptances and those in trust accounts) to companies, other than Daewoo Group companies (see Note 22), under workout plans amounted to W1,063.2 billion (US$844.0 million). A total allowance for possible loan losses (including confirmed acceptances and guarantees and trust accounts) of W267.6 billion (US$212.4 million), after deducting present value discounts of W136.7 billion (US$108.6 million), has been provided related to this aggregate exposure. The financial statements of the Bank reflect management's current assessment of the collectibility of these loans to date and actual results may differ materially from management's current assessment.

## 24. Credits To Hyundai Engineering & Construction Industrial Co., Ltd., Hyundai Electronics Industries Co., Ltd., Ssangyong Corporation, and Ssangyong Cement Industrial Co., Ltd.:

In its bank accounts as of December 31, 2000, the Bank has credit exposures such as loans, bills purchased, payment guarantees and others to Hyundai Engineering & Construction Co., Ltd. and Hyundai Electronics Industries Co., Ltd. amounting to W70.3 billion (US$55.8 million) and W388.8 billion (US$308.6 million), respectively. These credit exposures were classified as "precautionary" and, in 2000, related provisions were made amounting to W6.7 billion (US$5.3 million) and 19.4 billion (US$15.4 million), respectively. In addition, in its bank accounts and guaranteed trust accounts the Bank has credit exposures such as loans, bills purchased, payment guarantee, and others to SsangYong Corporation and SsangYong Cement Industrial Co., Ltd. amounting to W428.6 billion (US$340.2 million) and W339.6 billion (US$269.6 million), respectively. These credit exposures were classified as "precautionary" and, in 2000, related provisions were made amounting to W39.3 billions (US$31.2 million) and W5.7 billion (US$4.5 million), respectively. These borrowers are presently experiencing liquidity shortage. The consolidated financial statements of the Bank reflect management's current assessment of the collectibility of these loans to date and actual results may differ materially from management's current assessment.

## 25. Sale of Subsidiary:

The Bank sold its 51 percent ownership in Chohung Securities Co., Ltd. to KGI Korea Ltd. on January 7, 2000 and its 100percent ownership in Chohung Mutual Savings and Finance Co., Ltd. to Shin An Co., Ltd. and its related party on January 10, 2000. In relation to the sale of Chohung Securities Co., Ltd., the Bank purchased the shares issued by Chohung Investment Trust and Management Co., Ltd. at W26.4 billion and assumed the liabilities on convertible bonds of W40.8 billion issued by Chohung Securities Co., Ltd.. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W19.7 billion (US$15.6 million) and W24.4 billion (US$19.4 million), respectively, in 2000. Also, the Bank sold its 100 percent ownership in Kangeun Mutual Savings and Finance Co., Ltd. to Choonchun Mutual Savings and Finance Co., Ltd. on April 6, 2000 and its 69.55 percent ownership in Chohung Capital Co., Ltd. to KEP Electronic Co., Ltd. and Samai Industrial Co., Ltd. on November 23, 2000. In relation to the sale of Kangeun Mutual Savings and Finance Co., Ltd., the Bank increased its equity investment by W3.5 billion as a compensation to equalize the assets and liabilities of Kangeun Mutual Savings and Finance Co., Ltd. and committed to provide a credit line for the balancing of liquidity of Kangeun Mutual Savings and Finance Co., Ltd. for next 3 years. As a result of these transactions, the Bank recorded a loss on sale of investment securities of W1.8 billion (US$1.5 million) and W29.9 billion (US$23.7 million), respectively, in 2000.

## 26. Agreement on Implementation of Management Improvement Plan:

On January 15, 1999, the Bank obtained approval for its management improvement plan from the Financial Supervisory Commission (FSC) and, pursuant to the plan, implemented a capital reduction without consideration and received capital injection from Korea Deposit Insurance Corporation (KDIC) (see Note 16). As a result of the capital injection by KDIC, the Bank entered into an agreement dated November 12, 1999 with FSC and KDIC to fully execute the management improvement plan of the Bank. Pursuant to the agreement, the Bank has disposed of bad loans, non-performing tangible assets and closed domestic branch offices and its subsidiaries to improve its financial indicators including its capital adequacy ratio. As a result of these efforts, at the end of 2000, the Bank achieved the management index targets contained in the agreement. In the second phase of the financial industry restructuring, the Bank obtained approval from the FSC for its adjusted management improvement plan that allows the Bank to survive independently subject to the conditions that it would lower the ratio of non-performing loans below 6 percent by the end of June, 2001, and below 4 percent by the end of December, 2001 and achieve W220 million (US$175 thousand) of operating income before provisions for possible loan losses per employee. Whether or not its management improvement plan and adjusted management improvement plan are achieved may have a great impact on the Bank's operating, investing and financing activities including any capital increase or capital reduction. Under the agreement on compliance of the management improvement plan, the agreement will terminate when the Bank fully complies with the plan for more than 2 years from the effective date of the agreement and KDIC's percentage of ownership in the Bank decreases to less than 50 percent of the Bank's common shares with voting rights through the selling of KDIC's stake in the Bank.

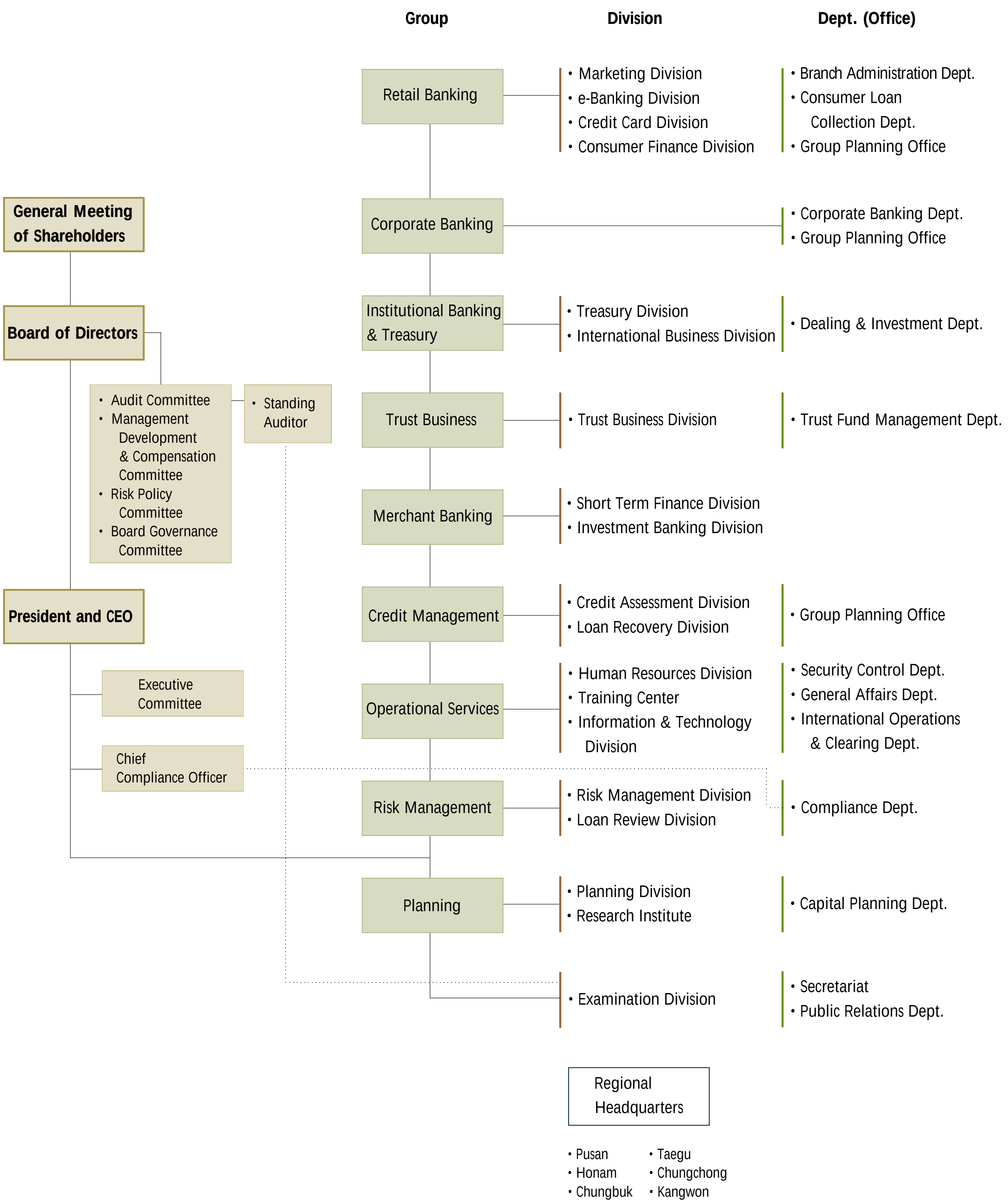
## 27. Consolidated Statements of Cash Flows:

Cash flows from operating activities are presented by the indirect method. Cash for the purposes of the consolidated cash flow statements is cash and due from banks as of December 31, 2000 and 1999.

Material transactions not involving cash inflows and outflows in 2000 and 1999 are as follows:

| | Millions of Korean Won | | Thousands of U.S. Dollars (Note 2) | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Transfer to goodwill from treasury stock | W 100,716 | W - | $ 79,953 | $ - |

# Organization Chart



# Board of Directors

## Standing Directors

**Sung-Bok Wee**

President and Chief Executive Officer
Born 1939
Appointed 1992
Appointed President & CEO April 1999

**Kang Ryung Lee**

Director and Deputy President
Head of Operational Services Group
Born 1943
Appointed 1998

**Wan Lee**

Director and Deputy President
Head of Retail Banking Group
Born 1944
Appointed 1998

**Sang-Woo Kim**

Standing Auditor
Born 1945
Appointed 2001

## Non-Standing Directors

**Choong Yong Ahn**

Chairman of the Board
Professor of Chung Ang University
Born 1941
Elected Chairman February 1999

**Seong Kee Kim**

Director
Attorny at law, Chung & Hyun Law Office
Born 1941
Appointed 1997

**Bong Youn Cho**

Director
President & CEO of Oriens Capital Ltd.
Born 1948
Appointed 1999

**Jong Hyuk Kim**

Director
Ex-Standing Auditor of Kangwon Bank
Professor of Sungkyunkwan University
Born 1942
Appointed 2001

**Wan Young Yu**

Director
President & CEO of Eastel Systems Co.
Born 1944
Appointed 2001

**Sang Ho Sohn**

Director
Senior Researcher, Korea Institute
of Finance
Born 1957
Appointed 2001

**Chang Seong Jang**

Director
Head of Planning & Coordination,
Korea Deposit Insurance Company
Born 1955
Appointed 2001

# International Banking Directory

## Overseas Network

### Asia

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Minato-ku, Tokyo 105, Japan
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Chang Ho Maeng, *General Manager*

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Telex: 25049 CHOBANK
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Ha-Wook Park, *General Manager*

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Ki-Sop Kim, *General Manager*

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Ill Hwan Roh, *General Manager*

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Keun Taek Han
*President and General Manager*

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Nam Soo Heo, *General Manager*

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Dong Keon Sohn, *President and CEO*

### Europe

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Ki Dae Kim, *Managing Director*
Ernst-Dieter Kircher, *Managing Director*

**Chohung Vina bank**
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SWIFT: FIRV VN VN
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Shin-Seong Kang, *General Director*

# Domestic Network

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http: //www.chb.co.kr

**Retail Banking Group**
Wan Lee
*Director & Deputy President*
*Head of Retail Banking Group*

**Corporate Banking Group**
Dong-Gerl Lee
*Managing Director*
*Head of Corporate Banking Group*

**Institutional Banking & Treasury Group**
Dong-Hyun Ji
*Managing Director*
*Head of Institutional Banking & Treasury Group*

**Trust Business Group**
Soon-Hong Kee
*Managing Director*
*Head of Trust Business Group*

**Merchant Banking Group**
Nae Soon Park
*Managing Director*
*Head of Merchant Banking Group*

**Credit Management Group**
Chil Sun Hong
*Managing Director*
*Head of Credit Management Group*

**Operational Services Group**
Kang Ryung Lee
*Director & Deputy President*
*Head of Operational Services Group*

**Risk Management Group**
Kun-Ho Lee
*Managing Director*
*Head of Risk Management Group*

**Planning Group**
Serck-Joo Hong
*Managing Director*
*Head of Planning group*

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- Correspondent Banking
  Kang Hyun Cho
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  Phone: (82-2) 3700-4037

- Investor Relations
  Yarng -Won Yoon
  *Head of Capital Planning Dept.*
  Phone: (82-2) 734-0542

- Trade Finance (Operations)
  Soon Hee Lee
  *Head of International Operations & Clearing Dept.*
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Chang Sik Lee
*Regional Head*

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Seoi Chung O
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Kee-Euon Rha
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Dong-Myun Lee
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*Head of Chungbuk Regional Headquarters*

**Kangwon Regional Headquarters**
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Suk-Kyu Han
*Managing Director*
*Head of Kangwon Regional Headquarters*

# Corporate Data

**As of December 31, 2000**

**Date of Establishment**
February 19, 1897

**Head Office**
14, 1-ka, Namdaemun-ro
Chung-ku, Seoul 100-757, Korea
Phone: (82-2) 733-2000
Fax: (82-2) 3700-4971/2

**Domestic Network**
1,437 (including automated cash lobbies)

**Overseas Network**
6 Branches
5 Subsidiaries

**Number of Employees**
6,809

**Paid-up Capital**
3,395 billion Korean Won

**Number of Shares of Common Stock**
Authorized: 2,000,000,000 shares
Issued: 679,078,115 shares

**Number of Shareholders**
80,359

**Major Shareholders**

| | |
|---|---|
| Korea Deposit Insurance Corporation | 80.05% |
| Hyundai Group | 2.77% |
| Hyundai Motor Company | 1.01% |
| Daewoo Securities | 0.63% |

**General Meeting of Shareholders**
March 9, 2001

**Independent Accountants**
Anjin & Co

**Investor Relations**
Capital Planning Department
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