

CHB turning challenges
into Opportunities



Chohung Bank is the most successfully restructured bank in Korea. As one of the country's major commercial banks, with over 450 branches and 9 million customers, we have achieved that distinction through leading by example. Besides providing premier financial services to the nation for more than a century, commitment to improvement has kept us at the forefront of the industry. That dedication has given us the strength to successfully transform our organization from the boardroom to the branches. And it ensures that, as Chohung Bank celebrates one hundred and five years of setting industry standards, the next stage of its development will find it in better shape than ever and ready to embark on a new era of success.



CHB's 105th Anniversary

"A Great History - A Great Leap Forward"

The emblem combines the rising sun with the universal cosmic icon from the Korean flag to produce a symbol of the proactive spirit that has fueled CHB's steady rise over the last one hundred and five years.

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HISTORY

- 1897 Han Sung Bank, now Chohung Bank, was founded as the nation's first financial institution.
- 1943 Han Sung Bank merged with Dong Il Bank and changed its name to Chohung Bank.
- 1963 Chohung Bank commenced its international banking business.
- 1982 The Bank commenced its credit card services.
- 1984 The Bank commenced its trust operations.
- 1985 To raise its profile, the Bank designed its corporate emblem which symbolize the rising sun.
- 1996 The Bank issued Global Depository Receipts (GDRs) of US\$180 million which were listed on the London Stock Exchange.
- 1997 The Bank celebrated its Centennial Anniversary (Feb. 19, 1997).
- 1999 The Bank merged with Chungbuk Bank (Apr. 30, 1999) and Kangwon Bank (Sep. 11, 1999).
- 2000 The Bank acquired a 40% stake in Firstvina, a leading Vietnamese bank (Aug. 28, 2000) and officially renamed it Chohung Vina Bank (Jan. 1, 2001).
- 2001 The Bank received the Grand Prix for Customer Satisfaction Management from the Korea Management Association for the second year running.

FINANCIAL HIGHLIGHTS

	Millions of Korean Won		Thousands of U.S. Dollars ¹⁾
	2000	2001	2001
Consolidated Basis			
For the Year			
Total income	W 5,801,572	W 5,619,298	\$ 4,237,462
Total expenses	5,702,550	5,267,570	3,972,227
Income before income taxes	99,022	351,728	265,235
Income tax expenses (benefits)	1,767	(176,340)	(132,976)
Net income	99,359	525,496	396,272
At Year-End			
Loans	W 30,550,447	W 33,915,348	\$ 25,575,257
Securities	13,759,126	15,001,113	11,312,203
Total assets	51,138,690	56,610,115	42,689,175
Deposits	35,426,396	40,600,836	30,616,723
Total liabilities	49,036,685	54,046,548	40,756,012
Total shareholders' equity	2,102,005	2,563,567	1,933,163
Financial Ratios (%)²⁾			
	2000	2001	
Return on assets (ROA)	0.21	1.01	
Return on shareholders' equity (ROE)	3.34	22.68	
Net interest margin (NIM)	3.53	4.34	
Non-performing loan (NPL) ratio	10.22	3.28	
BIS capital ratio	9.78	10.43	

Notes : 1) The Korean Won amounts are translated into U.S. dollars solely for the convenience of the reader at the exchange rate of W1,326.10 to US\$1.00, the prevailing rate on December 31, 2001.

2) All of the above financial ratios are based on Financial Supervisory Service (FSS) standards. The BIS capital ratio is based on consolidated data while ROA, ROE, NIM and NPL ratio calculations are based on non-consolidated data.



(Left) Sung-Bok Wee, *Chairman of the Board*
(Right) Serck-Joo Hong, *President and CEO*

Message from Management»»»»

First of all, we would like to extend our appreciation to our customers and shareholders for their continued support and encouragement over the past year.

Business Environment

The global economy in 2001 must inevitably be viewed in the shadow cast by the events of September 11. In their wake, economies around the world slowed and the prospect of prolonged global recession loomed. Despite this, the Korean economy continued to recover rapidly, with international confidence clearly signaled by the continuous upgrading of the nation's credit rating. One reason for the sustained economic progress was the ongoing structural change throughout the country's industries. In the financial sector, reform proved elemental to success, and Chohung Bank was as committed as ever to the restructuring that has propelled it back to the forefront of the industry.

Restructuring for Efficiency

Restructuring throughout its organization over the past few years has been the cornerstone in bringing the Bank back to profitability and preparing it for continued success. Corporate governance now places stronger emphasis on transparency through the appointment of external directors. Management accountability is also firmly rooted in the Bank's culture, with written contracts outlining performance goals agreed upon between the President and the head of each business group, and compensation policies based on results rather than seniority. Moreover, in an effort to reduce costs, branches and workforce have been extensively streamlined. Furthermore, an advanced management infrastructure has been implemented while integrated risk management systems have improved credit quality. Finally, in clear indication of the high priority the Bank places on customer satisfaction, a customer-oriented business unit system has been adopted.

In the year 2001, the Bank continued its restructuring drive, with the full implementation of customer-centered marketing and the expansion of low cost funding sources. Using our powerful Data Warehouse, we focused on identifying and segmenting customers by actual and potential profitability. We introduced a new Account Manager system to nurture high-net-worth customers, and a Deepening Customer Relationship Branches system to offer value-added services to target-customer groups. Customer satisfaction was still a priority, and the Bank was proud to receive the Customer Satisfaction Grand Prix from the Korea Management Association for the second year running. In addition, the Bank increased its low-cost funding by establishing itself as the dominant bank in the nation's central clearing system for alcoholic beverage transactions, as well as by becoming the sole custodian bank for the national sports lottery.

Results for FY2001

Outstanding results have rewarded our efforts. In FY 2001, the Bank's pre-provisioning operating income amounted to W1,081.2 billion, a sharp increase on the W884.9 billion of the previous year. Despite setting aside substantial provisions for possible loan losses, net income increased by 416.8% on the preceding year, to W522.5 billion. Asset quality also improved dramatically. At the end of 2001, NPL ratios decreased to 3.3%, compared to 16.5% in 1999 following the financial crisis. This impressive improvement was achieved through a concerted NPL reduction program that included sell-offs via international auctions and ABS issues, as well as write-offs. Moreover, our rigorous risk management infrastructure is ensuring that future asset quality will remain in line with international standards.

As a result, the Bank was comfortably able to meet the requirements laid out in its MOU with the government. At year-end, the Bank posted ROA and ROE ratios of 1.0% and 22.7%, respectively. These were significant improvements over the previous year. In addition, we enhanced our BIS ratio to 10.4%, up from 9.8% in 2000. This was largely due to the rise in net income and the successful issue of Won-denominated subordinated debt amounting to W300 billion. The figures not only exceeded the terms of the agreement, but also compared favorably to global standards. We are now in a position to concentrate on the challenges that lie ahead.

Market Outlook

The ability to achieve better economies of scale and to compete across a broad range of markets is increasing in importance. In 2001, the creation of a domestic mega-bank clearly illustrated the trend toward larger and more diverse enterprises. In addition, competition within each market sector is intensifying. The entry of foreign banks into the local market has raised the tempo within the industry, with considerably more aggressive marketing strategies being adopted in the pursuit of high-net-worth customers. To ensure its continued prosperity, Chohung Bank has formulated strategies that directly address each of these challenges.

Strategy

In order to ensure that 2002 marks the start of a new era of success, Chohung Bank is embracing market-oriented management focusing on investors and customers. Since the market is the ultimate judge of a corporation, it is crucial that management and operational standards are finely attuned to the market standards. More than ever, key decisions are being made with the market in mind in order to maximize shareholders' value. During 2002, Chohung plans to make every effort to reduce the government's stake in the Bank in accordance with the government's policy of early privatization of publicly funded banks. By issuing GDR during 2002, together with upcoming exchangeable bonds and warrants conversion, the government's share of the Bank

is expected to drop to below 50% before the end of the year.

Segmentation of customers by their profit contribution, central to our recently improved profitability, will remain a priority. We have already made great progress in segmenting and targeting each customer group more effectively. In the coming year, we will strengthen management and marketing infrastructures, not only to sharpen marketing focus but also to expand business scope. The small and medium-sized enterprises market is one area in particular in which we intend to nurture profitable growth. The Bank's strong franchise and existing operational network offer significant competitive advantages in developing this under-served middle-market. A project team will be established to locate potential customers. Relationship Managers will enhance customer relationships by offering one-on-one marketing and by providing advanced e-banking services, such as e-FMS, an on-line cash management system. By year-end, the middle market is expected to account for 45% of our loan portfolio, a 3.4% point increase from 2001.

Realizing that a considerable number of branch hours are spent processing back office operations, including issuing credit cards, loan assessment and post loan management, the Bank has established the Process Innovation Team to improve overall the operational process. The team will look for ways to simplify

day-to-day operations and enhance the Bank's efficiency. Back office operations will be centralized, so that branches can concentrate their resources on marketing. For example, the scope of the Phone Banking Center will be expanded to handle all customer inquiries, which were previously processed by branches.

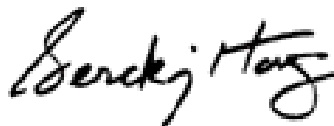
Growth through universal banking and specialization of business sectors, rather than expansion of loan portfolio alone, is also a key management strategy. In this regard, the Bank plans to establish a financial holding company. This will initially encompass such areas as commercial banking, credit card, and asset management and will expand gradually into private banking, investment banking, and bancassurance. Moreover, additional support from carefully selected consulting firms will help improve layout and formulate more effective strategies for our new corporate identity. In the meantime, through strategic alliances and repositioning, we will be able to provide high quality, innovative products in a variety of non-banking areas as well as in core businesses.

The year 2002 commemorates Chohung Bank's one hundred and fifth anniversary. Successful restructuring has revitalized the Bank, and we are confident of evolving into Korea's premier universal finance group. The inauguration of a financial holding company in 2002 will mark the beginning of a new era of success in Chohung Bank's history, with strengthened competitiveness through customer differentiation and product innovation. We look forward to celebrating future anniversaries as Korea's foremost comprehensive financial services enterprise.

Thank you.



Sung-Bok Wee
Chairman of the Board



Serck-Joo Hong
President and Chief Executive Officer



Leadership with a

Century of

Experience▶▶▶▶▶

Throughout its one hundred and five years of existence, Chohung Bank has been a pillar of the domestic banking industry and one of the nation's most respected enterprises. As the country's third largest commercial bank in terms of assets, it also plays a significant role in providing stability to the economy as a whole. The depth of Chohung's tradition, combined with its recent comprehensive restructuring, has equipped it with unique strengths that are driving value and improving profitability.

Strong Franchise & Brand

Chohung is the oldest financial institution in Korea and boasts the industry's most extensive deposit franchise and strong brand recognition. More than 9 million customers at over 450 branches at home and abroad rely on CHB to meet their core financial needs.

In particular, the Bank has held a longstanding dominance in deposits at prime locations that include universities, hospitals, airports, and courts. The network continued to strengthen in 2001, with the opening of branches at the new Incheon International Airport and Kangwon Land, the nation's first and only casino complex. Indeed, in a survey conducted by A.C. Neilson, Chohung Bank ranked high in brand awareness among retail consumers. Moreover, to enhance its franchise power, the Bank has reinforced e-banking infrastructure. From the early days of phone banking, to the strongest Internet and mobile phone banking services, Chohung has led the way in offering quality services that have helped create one of the most loyal and satisfied customer bases in its industry. In recognition of this, in 2001 the Bank was selected as the Best Internet Banking provider in Korea by the renowned business publication Global Finance.

Stable, Low Cost Funding

Chohung enjoys the lowest funding costs among domestic banks. The Bank's 46.0% of total deposits in Won is from low cost demand deposits. This in turn translates into net interest margins higher than any of its peers.

The Bank's dominance in this area is largely due to its long-established network of branches in strategic locations throughout the nation and a virtual monopoly on court escrow accounts. Chohung has remained ahead of its competitors in court deposits due to more than forty years of experience and the development of sophisticated systems to meet the diversified needs of customers. Furthermore, the Bank expanded its low-cost funding sources in 2001 by participating in the nation's liquor clearing system and by becoming the custodian bank for the national sports lottery.

Credit Card Business

The fast-growing credit card market is one of the Bank's most dynamic areas of growth. Chohung Bank is the largest participant among the 11 members of the BC credit card consortium and the fourth largest in Korea, with over 4 million cardholders. At the end of 2001, total charge volume amounted to W26.9 trillion, up by 47.4% from the previous year. In addition, average charge volume per cardholder reached W7.3 million, currently the highest in the industry. That distinction has been achieved thanks to the Bank's advanced Credit Scoring System and its sharply focused marketing strategy.

The strength of the Bank's credit card business makes it a great potential source of increased financial flexibility. This may be realized by a spin-off of this sector and an attraction of foreign capital.

Innovation & Restructuring

Commitment to restructuring throughout the organization has been a cornerstone in the Bank's return to profitability. First, Chohung has put extraordinary effort into enhancing transparency of corporate governance and into streamlining its organization. Branch and staff numbers have been reduced, and staff members are more accountable for their performance than ever before.

Advanced risk management and marketing systems, based around the Bank's Data Warehouse, are also central to the next stage of the Bank's development. The Bank's integrated Credit Management System evaluates and monitors credit risk more effectively from application to post management. Furthermore, in 2001, the Bank introduced two new marketing systems focusing on enhanced customer segmentation and management. The Account Manager system provides tailored products and services to premium customers based on their needs. These are delivered via the innovative Deepening Customer Relationship Branches. The new systems help to allocate resources more efficiently, enhance delivery channels, and improve customer service.



Business in 2001 ▶▶▶▶

*Increased net profit, assured response to changes in the marketplace,
and continued profitable growth were some of the highlights
that made 2001 another successful year for the Bank.*

▶▶ Market Environment

Economies worldwide experienced a slowdown in 2001. In response, central banks around the world took aggressive measures to stimulate economic activity, most noticeably by reducing interest rates. In the domestic banking industry, those measures spurred financial institutions to expand and diversify their portfolios in the pursuit of greater profits. Increasingly sophisticated information management systems facilitated rapid change and enabled more effective marketing techniques. Technology was also instrumental in the shift to profit-oriented management that characterized the transformation of the financial industry.

Chohung Bank responded to these changes by sharpening its focus on customers. In addition to continued concentration on its core businesses, the Bank implemented aggressive marketing methods that targeted and segmented consumer groups in all markets. At the same time, the Bank has strategically repositioned itself ahead of a planned transformation into a full-service financial holding company.

▶▶ Retail Banking

Sustained low interest rates, increased scale of business, and diversified customer needs contributed to heightened competition in the retail sector. In response, Chohung Bank substantially reformed its marketing system. The focus is now firmly on segmentation of customers by profit contribution. In addition, the Bank continued to expand its low-cost revenue sources. It is now the dominant bank in the nation's central clearing system for the alcoholic beverage trade, as well the sole custodian bank for the national sports lottery.

At the end of FY2001, key figures showed significant improvement over the previous year. Individual customers numbered 9,402,000, an increase of 14.1%. Of that total, 637,000 were high-net-worth customers, up by 18.8% over 2000. Total deposits also rose, by 13.2%, to W38,922.1 billion. The value of loans to individuals showed a remarkable increase of 68.5% over the previous year to stand at W9,072.3 billion. In addition, housing loans recorded a 95.2% growth rate. For retail credit management, Chohung utilizes a Credit Scoring System (CSS) for individual loans, credit card, and auto loans, etc. The adoption of CSS has substantially improved delinquency ratios in spite of the significant increase in retail loans.

Government encouragement of card use and aggressive marketing tactics drove growth in the credit card market. Chohung's more than 4 million cardholders continued to return healthy profits. At the end of FY2001, total charge volume rose by 47.4% over the previous year to W26,912.0 billion, and the Bank recorded a charge volume per cardholder of W7.3 million. This was the highest among banks and specialized card companies. Those figures represented a net gain of W812.1 billion, an increase of 57.8% over the year 2000. The success of the Bank's credit card operation is mainly attributable to its

high quality cardholders, advanced credit scoring system, and well-focused marketing strategy. The Bank plans to capitalize on these profits by forming an independent credit card company via attracting potential foreign partners. In anticipation of further considerable growth in the credit card sector and intensified competition among card issuers, the Bank plans to induce more advanced management expertise in such areas as product development, marketing capability and risk management from the foreign strategic partner.

In order to improve customer service and convenience and to reduce operating expenses, the Bank offers a wide variety of services through its advanced computer system. Chohung launched its phone banking services in May 1993 and commenced Internet banking services in July 1999. The Bank continues to lead the industry, and now offers 230 e-Banking services to individual and corporate customers. Loans made by Internet approval to Chohung's 1.8 million on-line customers rose sharply by 340.6% to W955.3 billion. Consequently, the Bank recorded the industry's largest volume of on-line loans in the year 2001. Thanks to its outstanding service, Global Finance magazine hailed Chohung as the "Best Internet Bank" stating, "Anything imaginable, they have it".

Chohung aims to become the number one domestic retail bank. It will pursue this goal by enhancing profitability and improving efficiency. First, the Bank will intensify its marketing efforts and put emphasis on the early development of new systems. It will also seek to maximize the value of its large customer

base by reforming its off and on-line networks. Furthermore, the Bank will concentrate on enhancing core businesses through the development of value-added products initiated by the recently launched Product Group. This packages a wide variety of products from different businesses, thus maximizing cross-selling potential. With the inauguration of the financial holding company, retail banking will be more competitive and profitable.

▶▶ Corporate Banking

Competition for prime customers in the corporate sector was fierce during the year 2001. In response, the Bank targeted the developing middle market of healthy small and medium-sized companies (SMEs) and sole-proprietorships. This is an important area of growth and an underdeveloped source of profit. Consequently, the Bank diversified its credit portfolio in favor of these markets while reducing its loan exposure to large corporations.

The Bank adopted a systematic approach to developing its middle market business. A marketing strategy task force team was established to evaluate client needs and develop products and services. In addition to more traditionally structured loans, specially tailored financial instruments were introduced along with management consulting. Moreover, Chohung's advanced risk management systems meant that credit extended in this market was not only of greater value, but also of higher quality.

Chohung extended its lead in the e-business sector, offering the widest choice and highest quality on-line financial services in the industry.

"Anything imaginable, they have it."



As of the end of 2001, Won-denominated corporate loans totaled W12,811.1 billion. This represented a slight increase on the previous year's figure of W12,722.7 billion. As a result of the Bank's portfolio restructuring, the value of loans to SMEs increased by 11.1% to W9,204.5 billion, while loans to large enterprises declined by 18.8% to W3,606.6 billion, mainly due to the substantial reduction of non-performing loans. However, foreign currency loans outstanding extended to corporations at the end of 2001 amounted to W2,210.3 billion, a decrease of 29.9% compared to the previous year. This resulted from the decline of the foreign currency demand due to a reduction in facility investment caused by the economic downturn.

In 2002, the Bank will continue to restructure its asset portfolio aggressively in an effort to gain a greater share of the middle-corporate market. The Bank plans to reduce loans to certain large conglomerates in order to avoid excessive concentration on certain business groups or industries and diversify its credit portfolio. To this end, the Bank will continue to focus on marketing to high-credit SMEs. Refining banking systems, such as the Bank's e-FMS, a solution specially developed for small and medium size corporate clients, will be a priority, designed to improve customer service. Relationship Managers, assisted by upgraded support teams, will continue to forge closer bonds with clients by providing professional, personalized advice and products to meet their growing demands.

▶▶ Capital Markets

During the year 2001, the Bank focused on reducing risk in its securities investment portfolio due to recent market volatility. The Bank's debt securities portfolio consists primarily of government bonds, bonds issued by state-run corporations such as Korea Asset Management Corporation (KAMCO) and Korea Deposit Insurance Corporation (KDIC), and corporate bonds with high credit quality, most of which are guaranteed by other banks or government-related funds. The Bank has discontinued trading stock since October 2000.

The Bank's total securities investments were up by 7.5% over the previous year, to W13,822.0 billion at the end of 2001. Based on the Bank's improved market risk management, the net gain on these investments was slightly up by 2.4%, to W975.7 billion despite valuation losses on debt-to-equity swap securities and a reduction of interest income on securities affected by low interest trends.

Due to the volatility of Asian capital markets in recent years, the Bank has reduced its international capital market activities and international securities investment portfolio. Investment in foreign currency securities decreased by 8.8% to W673.2 billion in 2001. The Bank continued to record excellent results in the won/dollar foreign exchange market, ranking first in terms of trading volume, with a value of US\$147.7 billion on an annual basis and a market share of 11.0%. On the other hand, foreign currency funding dropped from W7,493.6 billion in 2000 to W5,764.3 billion at the end of 2001, largely due to reduced demand from corporate customers and the repayment of high cost borrowing from the central bank.

The Bank is preparing for changes in market conditions and in interest rate trends by utilizing its VaR system. It will also seek to control liquidity in order to maximize income and reduce high cost funding to optimize efficiency.



▶▶ Trust Business

Since the Asian financial crisis, domestic banks have suffered from a significant reduction in their trust accounts. However, sustained low-interest rates have gradually drawn customers back to relatively high-interest bearing trusts. To capitalize on this, the Bank has initiated a strategy focused on expanding its fee-based income, while aggressively increasing sales of specialized investment trust companies' products such as beneficiary certificates.

At the end of 2001, the value of money trusts directly managed by the Bank rose slightly to W5,384.0 billion from W5,073.3 billion of the previous year, while cross-selling with investment trust companies leapt by 769.0% to W1,201.0 billion. Total combined trust deposits therefore amounted to W6,585.0

The Bank reinforced its fee-based income by increasing cross-sales of customized financial products and by recording outstanding results in project financing and M&A business in the investment banking sector.

billion, an increase of 26.4% over the year 2000. The Bank intends to expand cross-sales of a broad range of tailored financial products in order to satisfy increasingly sophisticated customer needs. Moreover, trust business returned to profit in 2001, with gains standing at W45.7 billion compared to losses of W49.2 billion in 2000, largely due to a substantial decrease in guaranteed return trust accounts.

During 2002, the Bank will focus on broadening its business scope in order to offer a complete range of services and products. In particular, it plans to strategically position itself in the REITS market, which will maximize the opportunities for development of property-related investments. In addition, the Bank plans to develop derivatives-related products to strengthen its competitive edge.

▶▶ **Merchant Banking**

Chohung Bank has considerable expertise in merchant banking products such as commercial paper, and project and leasing financing, as a result of the merger with Hyundai International Merchant Bank in 1999.

In the year 2001, total merchant account assets grew to W2,502.9 billion, an increase of 12.8% on the previous year's total of W2,218.0 billion. Loans in merchant accounts also showed a slight increase to W1,943.3

billion from W1,777.1 billion in 2000. Total deposits were at a similar level to the previous year, standing at W1,467.6 billion at the end of 2001.

Project financing and M&A markets were strong thanks to continued corporate restructuring in the year 2001. The Bank participated in LBO project financing and SOC projects in alliance with foreign financial institutions. At year-end, total commitments stood at W292.0 billion. Continued industrial restructuring stimulated asset-backed securities offerings. Although the CBO market deteriorated, the Bank co-arranged two CLOs, partly guaranteed by the Credit Guarantee Fund, and ABS (Asset Backed Securities) of W100.0 billion were issued. The Bank also outperformed its peers in M&A business, with the lead-management of seven M&As during 2001. A further eight M&As are currently under management.

With the anticipated establishment of an investment bank, the Bank will strategically ally itself with other investment banks, redeploy employees, and restructure its overall organization. The Bank plans to reinforce fee-based income through the expansion of investment banking business, and the vigorous development of short-term financial products.



CHB in the Community ▶▶▶▶

Investing in our Future

Chohung Bank takes its social responsibilities seriously. For many years, the Bank has been contributing to the protection of our environment and forging long-term community relationships.

National Environmental Photography Contest

Inaugurated in 1994, the annual National Environmental Photography Contest has grown to become one of the country's most prestigious photographic competitions. With themes such as "The Beauty of Nature", "Humankind and Nature in Harmony", and "Our Suffering Environment", prizewinning photographs tour the nation. Combined with the distribution of the winning portfolios and publications such as calendars, the contest promotes a greater appreciation of nature and raises awareness of the damage being inflicted on the environment.

Environmental Initiatives

The Bank is making a direct contribution to a greener environment. Since 1992, it has been donating environment friendly identification labels to woodlands and forests in 16 national parks throughout the country. At a local level, branch employees are actively involved in maintaining and improving the quality of their neighborhood environment. From preserving riverbanks and trails to cleaning sidewalks and drains, they have been working at grassroots level to make life a little better for everyone. In recognition of this commitment to environmental management, in February 2002 the Bank received a special award from the Citizens Committee for a Green Seoul, an organization founded by Seoul Metropolitan City.

The Chohung Centennial Foundation

Established as part of the Bank's centenary celebrations in 1996, the Foundation offers scholarships to students at home and abroad. It assists physically disadvantaged youth and ethnic Korean students in China, Kazakhstan, and Uzbekistan with their education. To date, it has granted scholarships to around 2,300 outstanding individuals.

Donation Scheme for the Disadvantaged

When sending money gifts on birthdays, weddings, and other special occasions, the Bank offers the general public the option of donating the money to charity. The proceeds help support several charitable institutions, including those for orphans, the elderly, and the physically challenged.

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Local Community Outreach Program

Staff members at every Chohung branch have a special relationship with a local welfare facility and regularly volunteer for social service activities. To date, the Bank's employees have participated in community-related activities more than 5,000 times. The program offers an opportunity for creating closer ties between members of staff and their community.

Youth Development and Support for the Elderly

The Bank is playing a part in supporting young and old alike. In cooperation with the Korea Institute for Youth Development, Chohung has developed a deposit account that offers special benefits to young people. Part of the interest on the account is donated to a fund for youth development programs, while teenage account holders receive preferential interest rates and charges as well as various additional services. Furthermore, the Bank is contributing to an improved quality of life for the elderly. After seven years of sponsorship of the Chohung Silver Gateball Championship, in 2001 the Bank sponsored the first National Silver Gateball Championship, which offered some of society's older members the opportunity to come together and enjoy the fun of friendly competition.

CHB

105 years old
and still growing

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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 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 Trusts Accounts". 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.

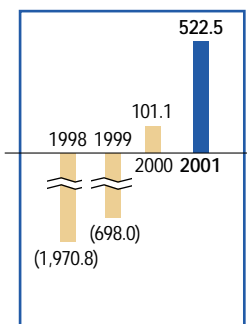
Business Highlights

Amidst growing signs of global economic recession and the low interest rate environment that evolved from the government's policy measures to stimulate the economy in 2001, CHB worked diligently to fulfill the Memorandum of Understanding (MOU) requirements by enhancing asset quality and achieving profitability results of a leading global bank.

During the year 2001, Chohung Bank increased its profitability through improved operating efficiency and a higher contribution from the retail sector. Net income surged to W522.5 billion, up 416.8% from the prior year, making it the third most profitable bank in Korea. Despite an increased loss in the sale of non-performing loans (NPLs), the Bank realized particularly strong growth in net income, driven by an enlarged net interest margin resulting from a significant expansion of high-yielding credit card activities and increased volume of average low cost deposits. The Bank's net income per share also jumped from W149 in 2000 to W799 in 2001. Net income in 2002 is expected to further improve because of the enhanced asset quality.

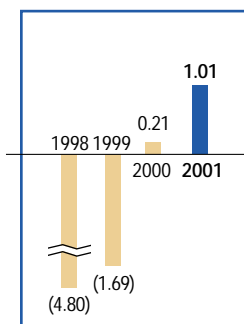
In addition, the Bank has made significant progress in its effort to reduce non-performing loans. The NPL ratio improved dramatically to 3.2% in 2001 from 10.1% in the previous year, through W1,946.6 billion worth of NPL sales and W1,039.0 billion worth of write-offs. CHB recorded total sales of W2,143.3 billion including W196.7 billion from trust accounts through international auctions and ABS issuance. Moreover, the NPL ratio based on the FSS reporting standards, which included guarantees and acceptances in off-balance and trust accounts, also fell to 3.3% from 10.2% in 2000. The Bank will strive to reduce its NPL ratio to below 3% in 2002 through the sale and write-off of existing NPLs and intensified monitoring of borrowers to prevent new problem loans. The Bank managed to raise its BIS-mandated capital adequacy ratio to 10.43% as of 2001 year-end, an improvement of 0.65 percentage points, primarily due to strong growth in net income.

Chart 1. Net Income



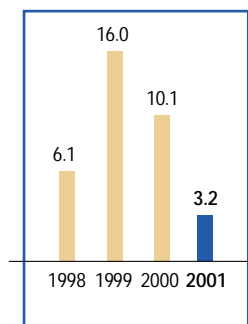
(Billions of Korean Won)

Chart 2. ROA



(In Percent)

Chart 3. NPL Ratio



(In Percent)

Table 1. Selected Financial Data

	(Billions of Korean Won)			
	1998	1999	2000	2001
Non-Consolidated Statements of Operations				
Interest income and dividends	W 3,847.6	W 3,322.9	W 4,212.2	W 4,316.1
Interest expenses	2,958.8	2,104.4	2,708.5	2,421.6
Net interest income	888.8	1,218.5	1,503.7	1,894.5
Provision for loan losses	598.5	1,658.0	852.3	751.3
Non-interest income	1,858.5	1,421.7	1,289.6	1,129.5
Non-interest expenses	4,117.2	1,676.6	1,853.9	1,936.3
Income (loss) before income taxes	(1,968.4)	(694.3)	104.6	336.4
Net income (loss)	(1,970.8)	(698.0)	101.1	522.5
Non-Consolidated Balance Sheets				
Loans	W 20,877.1	W 24,152.7	W 29,376.6	W 33,515.0
Allowance for loan losses	756.5	2,481.8	1,669.7	1,030.7
Securities	6,274.4	11,999.7	12,858.8	13,822.0
Total assets	33,168.0	43,430.7	50,331.5	55,080.9
Deposits	18,669.5	27,621.1	34,392.9	38,922.1
Borrowings	10,312.7	8,945.1	7,327.8	6,484.4
Total liabilities	33,032.9	41,212.6	48,246.5	52,545.1
Total shareholders' equity	135.1	2,218.1	2,084.9	2,535.8
Per Share Data:				
Weighted average number of shares (mil)	186.1	463.7	679.1	653.8
Net income (loss) per share (in Korean Won)	W (10,591)	W (1,505)	W 149	W 799
Dividends	-	-	-	-
Profitability Ratios (%) :				
Return on assets	(4.80)%	(1.69)%	0.21%	1.01%
Return on shareholders' equity	(84.77)	(24.72)	3.34	22.68
NIM	2.72	3.52	3.50	4.08
Korean Won	4.68	4.61	4.22	4.50
Foreign currencies	(0.08)	1.03	0.82	1.74
NIM (FSS standards)	n.a.	3.60	3.53	4.34
Korean Won	n.a.	4.62	4.21	4.77
Foreign currencies	n.a.	1.05	0.84	2.06
Asset Quality Ratios (%) :				
Bank account only				
NPL ratio	6.1%	16.0%	10.1%	3.2%
Precautionary and below ratio	24.1	24.3	15.1	9.1
Loan loss reserve/ NPLs	58.2	58.7	54.7	92.6
Loan loss reserve/ Total credits	3.6	9.4	5.5	3.0
Based on FSS reporting standards¹⁾				
NPL ratio	5.3	16.5	10.2	3.3
Precautionary and below ratio	22.1	25.0	15.7	9.2
Loan loss reserve/ NPLs	61.7	54.7	55.0	90.7
Loan loss reserve/ Total credits	3.3	9.0	5.6	3.0
BIS Capital Ratio (%)²⁾				
Tier I	0.93%	9.80%	9.78%	10.43%
Tier II	0.47	5.66	5.24	5.91
Tier II	0.46	4.18	4.54	4.53

1) Including confirmed guarantees and acceptances on off-balance sheet items and 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	2001
Interest on Loans	W 3,012.3	W 3,224.5
Interest on loans	1,963.0	1,909.0
Interest on credit card loans	560.7	890.8
Interest on bills bought in foreign currencies	224.9	163.4
Interest on advances for customers	19.4	27.2
Interest on call loans	27.5	22.9
Interest on bills discounted	102.9	71.8
Other	113.9	139.4
Interest on due from banks	83.6	56.8
Interest and dividends on securities		
Trading securities	98.9	66.3
Investment securities	897.2	872.7
Other interest income	120.2	95.8
Interest Income and Dividends	4,212.2	4,316.1
Interest on deposits	1,773.2	1,680.6
Interest on borrowings	546.9	409.1
Interest on debentures	257.2	204.1
Other interest expenses	131.3	127.8
Interest Expenses	2,708.5	2,421.6
Net Interest Income	W 1,503.7	W 1,894.5

With the low interest trend, net interest income in 2001 amounted to W1,894.5 billion, up 26.0% from the prior year. The Bank's total interest income rose by 2.5% in 2001 over the previous year to W4,316.1 billion, while interest expenses declined a further 10.6% to W2,421.6 billion. The impressive increase in net interest income was primarily attributable to an increase in interest income derived from a notable expansion of interest-earning assets in the local currency as well as a low cost funding structure.

Table 3. Net Interest Margin

	(In Percent)	
	2000	2001
NIM	3.50	4.08
Korean Won	4.22	4.50
Foreign currencies	0.82	1.74
NIM (FSS standards)*	3.53	4.34
Korean Won	4.21	4.77
Foreign currencies	0.84	2.06
NIS (Korean Won)	4.66	5.46

* Calculated by dividing net interest income calculated without deducting interest expenses paid out for demand deposits by average interest-earning asset balance

The net interest margin improved by 58 basis points(bp) to 4.08% in 2001 from 3.50% in 2000 thanks to a substantial reduction of NPLs and a strong upsurge in the high-yielding credit card business. The net interest margin in Won improved 28 bp to 4.50%, while the net interest margin in foreign currencies was up 92 bp to 1.74%, mainly attributable to an improvement in asset quality that related to the sale of foreign currency NPLs extended to leasing companies. The Bank's net interest margin, based on FSS guidelines, was also up 81 bp to 4.34% in 2001 from 3.53% in 2000 and the Bank has maintained the highest NIM among Korean banks.

The Bank steadily improved its net interest margin until the fourth quarter of 2001 from the first quarter of the year based on a low-cost funding structure, improved operating efficiency and higher contribution from the retail sector. In 2002, the Bank plans to maintain a reasonable net interest margin through an improvement in asset management and a steady expansion of low-cost deposits.

Table 4. Net Interest Margin vs Net Interest Spread in Won based on FSS Standards

	(In Percent)							
	1Q2000	2Q2000	3Q2000	4Q2000	1Q2001	2Q2001	3Q2001	4Q2001
NIM	3.37	3.61	3.54	3.53	3.79	3.83	4.05	4.34
NIS in Won	4.50	4.72	4.61	4.66	5.10	5.17	5.18	5.46

Interest Income

Table 5. Average Interest-Earning Assets

(Billions of Korean Won)

	2000			2001		
	Average balance	Interest	Rate	Average balance	Interest	Rate
Loans	W 28,277.7	W 3,012.3	10.65%	W 30,827.7	W 3,224.5	10.46%
Won	20,946.8	2,458.1	11.73	25,258.9	2,846.2	11.27
Credit Card	2,376.4	560.7	23.59	4,007.1	890.8	22.23
Foreign currencies	7,330.9	554.2	7.56	5,568.8	378.3	6.79
Due from banks	1,758.3	83.6	4.76	1,369.5	56.8	4.15
Won ¹⁾	1,085.4	52.4	4.83	879.3	43.0	4.89
Foreign currencies	673.0	31.2	4.63	490.2	13.9	2.83
Securities	12,204.3	996.2	8.16	13,544.1	939.0	6.93
Trading	1,436.0	98.9	6.89	1,090.4	66.3	6.08
Investment	10,768.3	897.2	8.33	12,453.7	872.7	7.01
Won	11,431.2	942.6	8.25	12,860.4	897.7	6.98
Foreign currencies	773.1	53.6	6.93	683.8	41.2	6.03
Other ²⁾	698.1	120.2	-	669.8	95.8	-
Won	418.9	86.7	-	383.6	77.7	-
Foreign currencies	279.2	33.5	-	286.2	18.1	-
Total Interest-Earning Assets	W 42,938.4	W 4,212.2	9.81%	W 46,411.1	W 4,316.1	9.30%

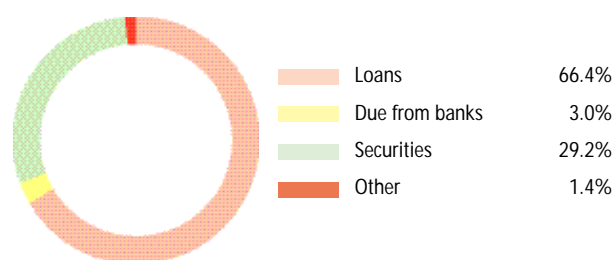
1) Excluding required reserves with the Bank of Korea (BOK) of W648.6 billion and W778.6 billion for 2000 and 2001, respectively.

2) Including miscellaneous income recognized as interest income without being tied to the corresponding assets.

The Bank's total interest income increased slightly by W103.9 billion in 2001 to W4,316.1 billion. This was primarily due to an 8.1% increase in average interest earning assets to W46,411.1 billion compared to W42,938.4 billion in 2000, which was partially offset by a general decline in interest rates in Korea.

Over the year 2001, average interest-earning assets increased mainly as a result of a sharp increase of 20.6% in Won-denominated loans boosted by the retail sector. The average balance of loans in Korean Won grew from W20,946.8 billion in 2000 to W25,258.9 billion in 2001. The increase was primarily due to the improving economic and liquidity condition in Korea, which resulted in increased lending activity. Loans to households made up a much more significant portion of the Bank's Won-denominated loans. This was a result of a major change in its lending policy of reducing exposure to large corporates and increasing exposure to households and SMEs, which have a lower credit risk and better profitability. At the end of 2001, the outstanding balance of loans to individuals and SMEs were up 68.5% and 11.1% to W9,072.3 billion and W9,204.5 billion, respectively.

Chart 4. Average Interest-Earning Assets Mix



The increase in loans in Korean Won for 2001 was also attributable to the robust growth of 68.6% in average high-yield credit card loans. Credit card average balance increased from W2,376.4 billion in 2000 to W4,007.1 billion in 2001. This increase was attributable to a sizeable increase by 1.1 million in new cardholders as well as a 47.4% rise in total charge volume.

Table 6. Credit Card Operations

	1999	2000	2001
Cardholders (in thousands)	2,049	3,010	4,121
Total charge volume	W 7,321.3	W 18,254.5	W 26,912.0
General	2,070.5	3,199.5	4,330.2
Installment	887.6	1,348.7	3,178.6
Cash advance	4,363.2	13,706.3	19,403.2
Credit card revenue	270.1	560.7	890.8
Merchant fees	141.0	185.6	319.5
Cash advance income	111.5	348.2	512.5
Others	17.6	26.9	58.8
Credit card costs	29.0	45.9	78.7
Delinquency ratio (%)*	1.65%	1.96%	2.49%

* Balance overdue for more than three months divided by credit card balance

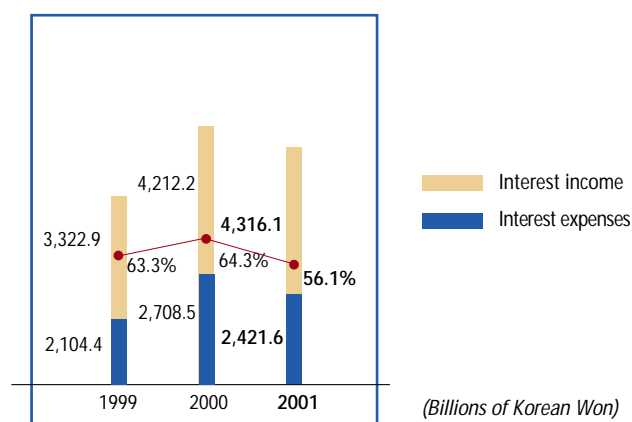
The credit card business continuously contributed as a core profit-making sector. The Bank's interest income on credit card loans surged 58.9% to W890.8 billion in 2001 from W560.7 billion of a year earlier with an average yield of 22.23% in 2001. Moreover, taking into consideration its funding cost, the net average yield of credit card business was 14.5% in 2001. This was higher than the average yield on average interest earning assets of 9.30%.

While the average balance of Due from banks after deducting the required reserve with BOK has not changed significantly from 2000, the average interest rate on Due from banks decreased by 0.61 to 4.15%, compared with 4.76% in 2000.

The average balance of securities was up 11.0% over the previous year to W13,544.1 billion in 2001 due to a 15.7% increase in its average investment securities holdings. This growth was due to an increase in Won-denominated investment securities such as Monetary Stabilization bonds for short-term liquidity control. Interest on securities was down 5.7% to W939.0 billion as a result of a decline in the market interest rates.

In terms of currency denomination, the average interest earning assets in foreign currencies decreased by 22.4% to W7,029.0 billion in 2001 primarily attributable to a general decrease in demand for foreign currency funds by Korean enterprises. As a result, the proportion of Won-denominated interest earning assets to the Bank's total interest earning assets increased from 78.9% to 84.9% in 2001.

Chart 5. Rate of Interest Expenses to Interest Income



The increase in the average balance of Won-denominated loans boosted by the retail sector was offset in part by a decrease in average interest rates. The yields on interest-earning assets declined to 9.30% in 2001 from 9.81% in 2000, sharply impacted by the general decline in the market interest rate environment in Korea and overseas. To raise yields on average interest-earning assets, the Bank put more emphasis on increasing retail loans that yield a higher interest margin.

Interest Expenses

Table 7. Average Interest-Bearing Liabilities

(Billions of Korean Won)

	2000			2001		
	Average balance	Interest	Rate	Average balance	Interest	Rate
Deposits	W 31,845.9	W 1,773.2	5.57%	W 36,069.0	W 1,680.6	4.66%
Won	29,956.3	1,660.3	5.54	34,242.4	1,611.3	4.71
Demand deposits	5,207.7	72.6	1.39	5,936.1	85.6	1.44
Saving deposits	7,230.2	237.2	3.28	8,916.5	236.2	2.65
Time deposits	13,485.4	1,057.0	7.84	15,480.9	1,069.1	6.91
Mutual installments	661.0	53.4	8.09	479.6	33.9	7.07
Certificates of deposits	1,890.8	146.2	7.73	1,495.3	88.2	5.90
Other	1,481.2	93.8	6.33	1,933.8	98.2	5.08
Foreign currencies	1,889.6	112.9	5.97	1,826.6	69.3	3.79
Borrowings	8,265.3	546.9	6.62	7,716.6	409.1	5.30
Won	3,120.7	161.0	5.16	4,402.5	238.5	5.42
Foreign currencies	5,144.6	385.9	7.50	3,314.0	170.6	5.15
Debentures	2,727.3	257.2	9.43	2,546.4	204.1	8.02
Won	1,633.1	161.3	9.88	1,363.3	116.8	8.57
Foreign currencies	1,094.2	95.9	8.76	1,183.1	87.3	7.38
Other*	270.8	131.3	-	352.9	127.8	-
Won	270.8	128.2	-	352.9	125.7	-
Foreign currencies	-	3.1	-	-	2.1	-
Total Interest-Bearing Liabilities	W 43,109.3	W 2,708.5	6.28%	W 46,684.9	W 2,421.6	5.19%

* Including miscellaneous expenses recognized as interest expenses without being tied to the corresponding liabilities.

Total interest expenses in 2001 were down 10.6% to W2,421.6 billion from W2,708.5 billion in 2000, whereas average interest-bearing liabilities were W46,684.9 billion, 8.3% higher than the previous year. The average funding cost improved to 5.19% in 2001, down from 6.28% in 2000, with falls reported in all funding costs for the interest-bearing liabilities that related to lower interest rate movements in Korea and overseas.

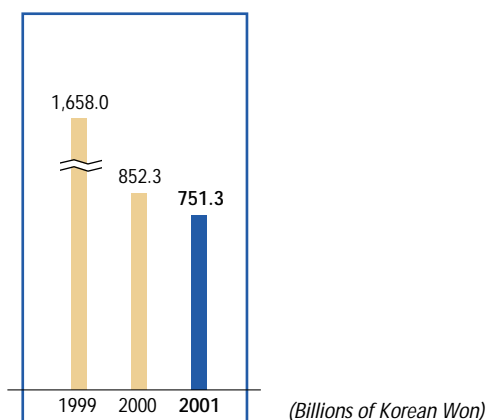
In comparison with 2000, average deposits were up 13.3% to W36,069.0 billion in 2001, primarily reflecting the expansion of average low-cost core deposits, including demand and savings deposits, which grew to W14,852.6 billion, up 19.4% from 2000. The growth of low-cost deposits, coupled with lower market rates, helped to improve the funding cost rate of deposits from 5.57% in 2000 to 4.66% in 2001. The proportion of total deposits accounted for 77.3% of total funding in 2001, a 3.4 percentage points increase from 73.9% in the prior year, thereby contributing to the decline in the Bank's overall funding cost. (See "Funding" in "Analysis of Financial Conditions")

Average borrowings in 2001 were down 6.6% from the previous year to W7,716.6 billion, reflecting the decreased volume of foreign currency borrowings. Foreign currency borrowings shrank 35.6% to W3,314.0 billion, while borrowings in Won were up 41.1% to W4,402.5 billion. The decline of foreign currency borrowings was derived mainly from W1,123.9 billion declines in foreign currency borrowings from the Bank of Korea (BOK) followed by the repayment of high cost borrowings. The funding cost of foreign currency borrowings improved markedly by 2.35 percentage points to 5.15% due to the low interest rate environment and the replacement of high cost borrowings based on the Bank's improved credit status.

Overall foreign currency funding in 2001 fell by 22.2% to W6,323.7 billion influenced by a decline in corporate demand of foreign currency funds. At the same time, funding in Won increased 15.4% to W40,361.2 billion due to the growth of low-cost core deposits. Average interest-bearing liabilities in Won accounted for 86.5% in 2001, compared with 81.1% in the previous year.

Provisions for Loan Losses

Chart 6. Provision for Loan Losses



Provisions for possible loan losses of W751.3 billion in 2001 showed a decline of W101.0 billion compared with the previous year's W852.3 billion. Notwithstanding the increased provisions for major financially troubled corporations, an improvement in overall asset quality resulting from the sale of NPLs as well as tightened credit approval and review standards through the Bank's Credit Scoring System, Credit Risk Rating System and Credit Management System helped to reduce the burden for provisions for possible credit losses.

Non-interest Income (Expenses) - net

Table 8. Non-Interest Income (Expenses) - net

	<i>(Billions of Korean Won)</i>	
	2000	2001
Fees and commissions	W 119.6	W 142.7
Guarantees	10.2	10.3
Other fees and commissions	109.4	132.4
Trading securities	(17.0)	45.7
Foreign currency trading	85.4	91.4
Derivative trading	18.4	13.7
Trust operations	(49.2)	45.7
Other	(25.1)	(433.3)
Sale of loans	(95.2)	(379.9)
Sub-total	132.1	(94.1)
General and administrative expenses	696.6	712.7
Total	W (564.5)	W (806.8)

Net non-interest income, excluding general and administration expenses decreased by W226.2 billion to a loss of W94.1 billion in 2001. The net loss was mainly affected by a significant increase in a loss on sale of loans, which offset the improvement in gain on trading securities and trust operations.

Fees and commissions in 2001 were up 19.3% over the prior year to W142.7 billion, reflecting growth in overall asset volume and transactions. Gains on foreign currency trading and derivative trading did not change from 2000, amounting to W91.4 billion and W13.7 billion in 2001, respectively.

The Bank recorded a gain on trading securities of W45.7 billion during 2001, a significant growth of W62.7 billion from a loss of W17.0 billion over the previous year. The positive results were primarily caused by the absence of a loss on stock trading, stemming from the cessation of trading in stock, compared with the stock trading loss of W49.6 billion in 2000.

Table 9. Trust Business

	<i>(Billions of Korean Won)</i>	
	2000	2001
Commission received from termination of trust account	W 10.3	W 2.4
Fees and commission from trust account	93.0	64.2
Payment to the guaranteed return trust account	152.1	20.9
	W (49.2)	W 45.7

Gains from trust business also surged to W45.7 billion for the year 2001, a W94.9 billion increase from a loss of W49.2 billion in the previous year. This improvement was primarily attributable to decreased payments to guaranteed return trust accounts. Payments to guaranteed return trust accounts were markedly reduced by 86.3% to W20.9 billion in 2001 from W152.5 billion in 2000 followed by the reduction of outstanding balances on guaranteed return trusts. Commissions received from termination of trust accounts and fees & commissions from trust accounts also decreased from W10.3 billion and W93.0 billion in 2000 to W2.4 billion and W64.2 billion in 2001, respectively. This was due to a decline in the daily average balance of money trusts to W5,090.8 billion in 2001 from a previous year's W7,152.4 billion. (See "Analysis of Trust Accounts")

The loss on the sale of loans increased substantially from W95.2 billion in 2000 to W379.9 billion in 2001 as a result of a huge amount of NPL sales. During the year 2001, the Bank sold NPLs of W1,946.6 billion through international auctions and the issuance of asset-backed securities (ABS).

General and administrative expenses showed a moderate increase of W16.1 billion or 2.3% over the year to W712.7 billion in 2001, reflecting wage freezes.

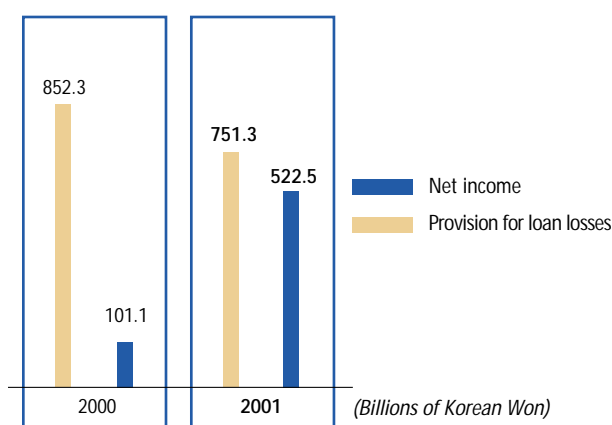
Net Income

Table 10. Net Income

	<i>(Billions of Korean Won)</i>	
	2000	2001
Net interest income	W 1,503.7	W 1,894.5
Provision for loan losses	852.3	751.3
Non-interest income (expenses) - net	(564.5)	(806.8)
Extraordinary gain	17.6	-
Income taxes expenses (benefits)	3.5	(186.1)
Net Income	W 101.1	W 522.5

The Bank's 2001 net income was up 416.8% over the previous year to W522.5 billion, primarily attributable to strong growth in net interest income and deferred income tax benefits.

Chart 7. Net Income & Provision for Loan Losses



The Bank's income tax expenses (benefits) turned around from expenses of W3.5 billion in 2000 to benefits of W186.1 billion. The Bank had significant tax loss carryforwards resulting from continued losses in 2000, 1999 and 1998. The Bank did not recognize deferred tax effects resulting from timing differences and loss carryforwards as of December 31, 2000 due to uncertainty of realization. Because the Bank's operations improved significantly in 2001 and the Bank projected that the improved results would continue, the Bank recognized deferred tax effects of W190.0 billion. (See "Note 25 of the Non-Consolidated Financial Statements")

Memorandum of Understanding

Table 11. Major Financial Targets on MOU

	2001	
	MOU Targets	Actual
ROA	1.0%	1.0%
ROE	15.0%	22.7%
Per capita operating income	W220 mil	W267 mil
Substandard and below ratio*	below 4%	3.3%
BIS ratio	over 10%	10.4%

* Based on FSS reporting standards

In response to the Asian Financial crisis and KDIC's capital contribution, the Bank agreed with KDIC and the FSC to undertake various restructuring measures which are set forth in the MOU entered into on November 12, 1999 and amended on May 1, 2000. In the second phase of the financial restructuring, Chohung Bank obtained approval from the FSC for its management improvement plan on Nov 9, 2000. Under this plan, CHB should meet the target by the end of 2001; the Bank was able to successfully meet all the management targets stipulated in the agreement.

The Bank entered into a new agreement on January 31, 2002, which replaces the previous memorandums of understanding, and management improvement plans. The 2002 MOU terminates when KDIC is no longer the largest shareholder of the Bank. The 2002 MOU further provides that if and when KDIC owns less than one-third of the total outstanding shares of the Bank, the parties shall discuss the possibility of termination of the 2002 MOU even if KDIC remains the largest shareholder.

Analysis of Financial Condition

Loans

Table 12. Loans

	(Billions of Korean Won)	
	2000	2001
Loans in Won*	W 18,605.7	W 22,121.2
Loans in foreign currencies	3,353.9	2,548.9
Bills bought in foreign currencies	2,629.4	2,094.4
Advances for customers	418.5	114.6
Credit card accounts	2,973.5	4,934.5
Call loans	454.4	84.7
Privately placed bonds	477.5	197.7
Bills discounted	709.0	1,294.3
Cash management accounts	435.0	242.4
Financing lease receivables	458.7	252.4
Other	702.5	690.2
	<u>31,218.1</u>	<u>34,575.3</u>
Less: Allowance for loan losses	1,669.7	1,030.7
Present value discount	171.8	29.6
	W 29,376.6	W 33,515.0

* Including discounted commercial notes of W2,626.0 billion and W1,953.9 billion in 2000 and 2001, respectively.

The outstanding balance of loans in 2001 increased by 14.1% over the prior year to W33,515.0 billion, largely due to sharp rises in retail loans including credit card loans.

Loans in Won surged by 18.9% billion to W22,121.2 billion boosted by a 68.5% increase in individual loans. Of particular note, housing loans recorded a 95.2% growth rate in 2001 over the previous year. However, the delinquency ratio on individual loans, calculated as balance overdue for more than one month divided by individual loan balance, improved by 0.66 percentage points from 1.42% to 0.76% in 2001.

Table 13. Retail Loan Portfolio

	(Billions of Korean Won)	
	2000	2001
Individual loans	W 5,385.4	W 9,072.3
(Housing loans)	(2,251.6)	(4,394.0)
Credit card loans	2,973.5	4,934.5
Retail Loans	W 8,358.9	W 14,006.8
% of Total loans*	26.8%	40.5%

* Before allowance for loan losses and present value discount

Credit card loans in 2001 rose by 66.0% over the prior year to W4,934.5 billion, reflecting a sharp increase in the number of cardholders and the government policy of encouraging credit card use by providing tax deductions on purchases on credit cards.

Retail loans, including loans in Won and credit card accounts loans, as a proportion of total loans soared to 40.5% in 2001 from 26.8% in 2000.

Table 14. Loans in Won Portfolio by Type of Borrower

	(Billions of Korean Won)	
	2000	2001
Large corporations	W 4,440.4	W 3,606.6
10 largest corporations	1,640.1	1,476.1
Small and medium-sized enterprises	8,282.3	9,204.5
Public sector enterprises and other	497.6	237.8
Individuals	5,385.4	9,072.3
	<u>W 18,605.7</u>	<u>W 22,121.2</u>

Breaking down the local currency loan portfolio by borrower type showed a significant change. Individual loans rose dramatically whereas corporate loans shrank in proportion.

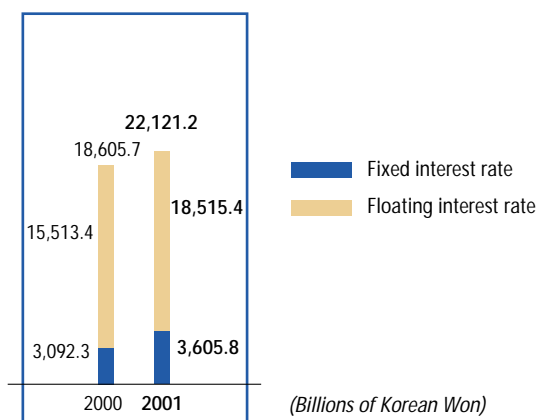
Loans to large corporations reduced to W3,606.6 billion in 2001, down 18.8% from the prior year, while loans to Korea's 10 top corporations also decreased, accounting for 6.7% of the Bank's total loans in Korean Won compared to 8.8% in 2000. These results reflected the Bank's loan portfolio policy to limit its exposure to large corporations it and the government's encouragement of companies to reduce their debt-to-equity ratio.

Although loans to SMEs grew 11.1% to W9,204.5 billion in 2001, the proportion of loans in Won made to SMEs, which accounted for the biggest portion, dropped to 41.6% from 44.5% in 2000.

On the other hand, the proportion of individual loans increased to 41.0% in 2001 from 28.9% in 2000. These changes related to the W2,142.4 billion increases in housing loans, such as mortgage loans, and the Bank's expansion of new high quality personal loans based on the Marketing Scoring System, which was the first independent Korean model, developed for finding potential customers. The Bank sought to expand its credit to individuals and SMEs in order to strengthen profitability and spread risks associated with lending activity.

Chart 8. Loans in Won Portfolio by Interest Rate

(Billions of Korean Won)



(Billions of Korean Won)

Over 80% of loans in Korean Won were on floating rate basis. Approximately 44.3% of the Bank's loans in Korean Won earned interest at spreads based on Chohung Bank's Won-base rate including prime rate. The Bank's Won-base rate was 9.0% for individuals and corporate customers at the end of 2001.

Table 15. Secured Loans by Collateral Type

(Billions of Korean Won)

	2000	2001
Real estate	W 5,995.0	W 6,896.6
Securities	38.4	131.6
Deposits	1,841.0	2,049.8
Guarantees*	1,658.8	1,944.8
Other	65.4	87.9
Secured Loans	9,598.6	11,110.7
Unsecured Loans	9,007.1	11,010.5
Total Loans in Won	W 18,605.7	W 22,121.2

*Including certificates issued by Korea Credit Guarantee Fund, Korea Technology Credit Guarantee Fund, and Korea Housing Guarantee Co., Ltd.

The secured portion of Won-denominated loans amounted to W11,110.7 billion in 2001, down 1.4 percentage points from the previous year's 51.6%. The type of collateral or credit support provided includes real estate, payment guarantees from other banks or institutions, marketable securities and deposits, with real estate constituting the largest source. Bank loans with cross-guarantees by affiliates of the borrower or officers or shareholders of the borrowers or guarantees made by merchant banks are not considered to be made on a guaranteed basis.

Depending on the type and the risk of the collateral or guarantees, loans are disbursed up to a maximum proportion (generally between 60% to 80%) of the appraised value (which at the time of the appraisal is 10% to 20% below fair market value) of the collateral or guarantees. The value of the collateral is reassessed at any time when there is concern about a significant drop in its value.

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 in arrears for more than one month and 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 - i) The secured portion of total credits in arrears for more than 3 months ii) 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 more than 3 months 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 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 16. Asset Classification based on FSS Standards

(Billions of Korean Won)

	2000				2001			
	Bank a/c ¹⁾	Guarantees & Acceptances ²⁾	Trust a/c ³⁾	Total ⁴⁾	Bank a/c ¹⁾	Guarantees & Acceptances ²⁾	Trust a/c ³⁾	Total ⁴⁾
Normal	W 25,660.0	W 2,291.0	W 1856.1	W 29,807.1	W 31,142.5	W 1,929.1	W 1,149.3	W 34,220.9
Precautionary	1,506.9	340.6	99.9	1,947.4	2,007.3	192.3	24.7	2,224.3
Substandard (a)	1,785.0	107.5	151.1	2,043.6	507.7	44.3	36.2	588.2
Doubtful (b)	873.6	42.0	186.7	1,102.3	447.2	23.7	12.2	483.1
Estimated loss (c)	393.0	1.0	73.0	467.0	158.0	1.3	5.9	165.2
Total Credits	W30,218.5	W2,782.1	W2,366.8	W35,367.4	W34,262.7	W2,190.7	W1,228.3	W 37,681.7
NPLs (a+b+c)	W 3,051.6	W 150.5	W 410.8	W 3,612.9	W 1,112.9	W 69.3	W 54.3	W 1,236.5
Precautionary and below	4,558.5	491.1	510.7	5,560.3	3,120.3	261.6	79.0	3,460.8
NPL Reduction	W 1,749.0	W -	W 286.1	W 2,035.1	W 2,985.6	W -	W 303.5	W 3,289.1
NPL Sales	W 295.5	W -	W 84.4	W 379.9	W 1,946.6	W -	W 196.7	W 2,143.3
Write-offs	1,453.5	-	201.7	1,655.2	1,039.0	-	106.7	1,145.7
Loan loss reserve	1,669.7	63.8	255.3	1,988.8	1,030.7	51.6	39.5	1,121.8
Asset Quality Ratios:								
NPL ratio	10.1%	5.4%	17.4%	10.2%	3.2%	3.2%	4.4%	3.3%
Precautionary and below ratio	15.1	17.7	21.6	15.7	9.1	11.9	6.4	9.2
Loan loss reserve/ NPLs	54.7	42.4	62.1	55.0	92.6	74.5	72.9	90.7
Loan loss reserve/ Total credits	5.5	2.3	10.8	5.6	3.0	2.4	3.2	3.0

* This classification of the Bank's credit exposure is based on current FSS standards, in which amounts are net of present value discounts.

- 1) "Loans" appearing on non-consolidated balance sheets of W33,515.0 billion in 2001 included W216.5 billion of inter-bank loans and W84.7 billion of call loans, and excluded W1,030.7 of allowance for loan losses, W15.8 billion of accounts receivables and suspense receivables that have credit attribution and subject to asset classification and W2.4 billion present value discounts with respect to sundry receivables that are not included in total credits for FSS reporting purpose. "Loans" of W29,376.6 billion in 2000 included W23.7 billion of inter-bank loans, W454.4 billion of call loans, and W400.0 billion of bonds bought under resale agreement, and excluded W1,669.7 of allowance for loan losses, W47.5 billion of accounts receivables and suspense receivables that have credit attribution and subject to asset classification and W2.8 billion present value discounts with respect to sundry receivables that are not included in total credits for FSS reporting purpose.
- 2) Includes confirmed guarantees and acceptances in off-balance sheet items, which consist of guarantees and acceptances relating to various payments, note issuances and trade-related guarantees.
- 3) Loans extended from guaranteed and non-guaranteed trust accounts.
- 4) In Korea, the general terms "total credits" and "NPL ratio" include trust accounts and confirmed guarantees and acceptances in off balance sheets items for the purpose of public comparison.

In 2001, the Bank extensively enhanced its asset quality through the sale of NPLs, write-offs and a strengthened credit system.

NPLs in bank accounts significantly improved both in amount and in ratio. Despite a 13.4% increase in total credits, non-performing loans in 2001 decreased by 63.5% to W1,112.9 billion over the previous year and the NPL ratio significantly improved by 6.9 percentage points from 10.1% in 2000 to 3.2% in 2001. The ratio of loans categorized as precautionary and below improved to 9.1% of total credit in 2001 from 15.1% in the previous year. Despite these improvements, the precautionary loans category expanded W500.4 billion to W2,007.3 billion,

primarily due to increased lending to Hynix Semiconductor Inc. and the deterioration in asset quality of Hyundai Merchant Marines Co., Ltd.

In Korea, the general terms "total credits" and "the NPL ratio" mean those on FSS reporting standards. The NPL ratio according to the FSS reporting standards, which included confirmed guarantees and acceptances in off-balance and trust account loans, also declined to 3.3% from 10.2% in 2000. Over the year 2001, the Bank reduced NPLs from bank and trust accounts totaling W3,289.1 billion through sales of W2,143.3 billion and write-offs of W1,145.7 billion.

Allowance for Loan Losses

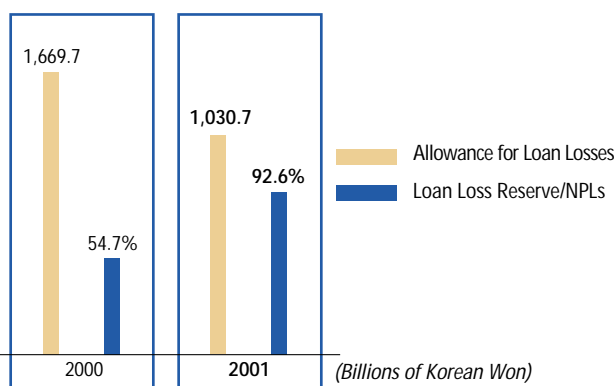
Table 17. Allowance for Loan Losses

	(Billions of Korean Won)	
	2000	2001
Balance at beginning of year	W 2,481.8	W 1,669.7
Provision for loan losses	852.3	751.3
Write-offs	(1,453.5)	(1,039.0)
Other changes*	(210.9)	(351.3)
Balance at end of year	W 1,669.7	W 1,030.7

* Including changes in allowances resulting from debt restructuring, debt relief and foreign exchange rate effects

The allowance for loan losses at the end of 2001 decreased by W639.0 billion over the previous year to W1,030.7 billion as a result of a significant decline in non-performing loans. The allowance for loan losses as a percentage of total non-performing bank account credits surged to 92.6% in 2001, compared with 54.7% a year ago. The allowance for loan losses as a percentage of total bank account credits accounted for 3.0%, down 2.5 percentage points from the prior year reflecting the increase in the total credits.

Chart 9. Allowance for Loan Losses & Coverage Ratio



Securities

Chohung Bank's investments in debt securities include primarily government-related bonds as well as corporate bonds, which are guaranteed by banks or government-related funds that Chohung Bank considers to have a low credit risk.

Total securities investment in 2001 was up 7.5% to W13,822.0 billion. Investment in trading securities was down 34.8% to W982.6 billion, while investment securities grew by 13.1% to W12,839.4 billion. At the end of 2001,

Table 18. Securities Portfolio

	(Billions of Korean Won)			
	2000		2001	
	Amount	% Total	Amount	% Total
Securities for trading				
Debt instruments	W 1,507.6	11.7%	W 982.6	7.1%
Securities for investment				
Debt instruments	10,956.0	85.2	12,204.9	88.3
Equities*	395.2	3.1	634.5	4.6
Total	W 12,858.8	100.0%	W13,822.0	100.0%

* Listed and unlisted securities. Includes equity securities that the Bank received in its equity conversions

CHB's investments in debt securities issued by Korea Deposit Insurance Corp. (KDIC) totaled W4,190.5 billion, which were classified as corporate bonds. Debt investments issued by KDIC consisted of trading securities of W631.4 billion and investment securities of W3,559.1 billion of which W2,476.3 billion was in connection with KDIC's capital contribution in the Bank in 1999.

The portfolio of trading securities in 2001 remained virtually unchanged from 2000. The average trading securities investments, such as government bonds, finance debentures and corporate bonds, accounted for 17.6%, 33.0% and 34.9%, respectively. As previously mentioned, corporate bonds totaling W631.4 billion were issued by KDIC. Capitalizing on a market interest rate forecasting mechanism, the Bank will strive to reduce the duration of its securities portfolio and maximize profitability.

The portfolio of investment securities also remained unchanged significantly in 2001 while finance debentures investment surged W1,916.5 billion to W3,243.1 billion, as the Bank invested available financial resources in the Monetary Stabilization Bonds issued by BOK. At the end of 2001, the Bank's investment in Monetary Stabilization Bonds for liquidity control amounted to W2,763.8 billion. Investment securities are classified as either held-to-maturity investment securities or available-for-sale investment securities at the time of purchase. Investments securities in this case are classified as available-for-sales according to current Korean GAAP, and as such are obliged to be sold before maturity when there is a temporary lack of liquidity. (See "Note 2. (2) and 6 of the Non-Consolidated Financial Statements)

Investments in securities denominated in foreign currencies are subject to certain limits and restrictions specified in Chohung Bank's internal guidelines relating to country, single issuer and type of security exposure and total investments by a branch.

Funding

Table 19. Funding Source

	(Billions of Korean Won)	
	2000	2001
Deposits	W 34,392.9	W 38,922.1
Won	32,726.4	37,064.3
Foreign currencies	1,666.5	1,857.8
Borrowings	7,327.8	6,484.4
Won	2,946.1	3,543.2
Foreign currencies	4,381.7	2,941.2
Debentures	3,036.6	2,419.7
Won	1,625.7	1,519.9
Foreign currencies	1,410.9	899.8
Other	3,489.3	4,718.9
Won	3,454.8	4,653.4
Foreign currencies	34.5	65.5
	W 48,246.5	W 52,545.1

CHB's principal funding source is customer deposits, reflecting its objective to maintain stable and low-cost funding. The Bank's total funding in 2001 increased by 8.9% to W52,545.1 billion from W48,246.5 billion in 2000

Deposits in Won, as a major funding source, accounted for 70.5% of the total funding as of 2001 year-end. The deposits in Won rose by 13.3% to W37,064.3 billion. The Bank's low cost deposits, including demand deposits and savings deposits, represented 46.0% of its total deposits in

Won, the highest in the industry. This partly due to its long history, which allowed the branches in prime locations including hospital, airports and universities, as well as court escrow deposits made by litigants in connection with legal proceedings in Korean courts.

In 2001, the Bank's total borrowings and debentures, in both amount and proportion of total funding, continuously declined, significantly impacted by the improvement and stabilization of financial market conditions in Korea.

Borrowings were W6,484.4 billion in 2001, representing an 11.5% drop from W7,327.8 billion in 2000. This decline was mainly a reflection of a reduction in foreign currency borrowings from the Bank of Korea. Borrowings from BOK in foreign currencies were W376.5 billion in 2001, down 77.4% from W1,663.1 billion in 2000. This was primarily attributable to the replacement of relatively high-interest borrowings from BOK with low-interest long-term borrowings, as the Bank's credit status has improved.

At the end of 2001, the Bank had W2,419.7 billion of debentures outstanding, a decrease of 20.3%, from W3,036.6 billion in 2000. During the year 2001, the Bank redeemed W550.0 billion of Won denominated debentures with warrants and issued W300.0 billion of subordinated debentures in local currency. Debentures in foreign currencies also decreased by 36.2% over the prior year to W899.8 billion in 2001 mainly due to the repayment of general debentures.

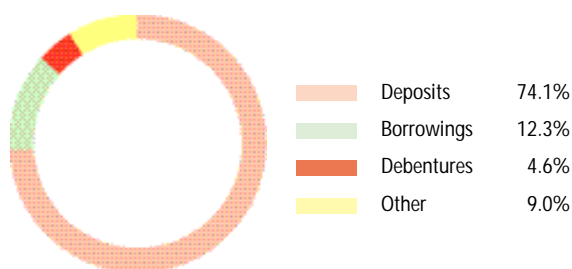
Table 20. Breakdown of Customer Deposits

	(Billions of Korean Won)					
	1998	1999	1H2000	2H2000	1H2001	2H2001
Deposits in Korean Won (A)	W16,583.6	W25,997.4	W31,001.0	W32,726.4	W33,588.1	W37,064.3
Deposit in Won	16,524.3	23,289.9	27,842.7	29,817.7	30,635.6	33,276.1
Low cost deposits (B=a+b)	8,559.9	12,520.4	13,458.5	14,011.6	15,329.1	17,044.9
Demand deposits (a)	4,525.6	6,051.5	6,224.2	5,968.6	6,769.3	7,158.2
Savings deposits (b)	4,034.3	6,468.9	7,234.3	8,043.0	8,559.8	9,886.7
Time deposits	7,350.1	10,169.8	13,740.8	15,245.6	14,841.0	15,745.0
Mutual installment deposits	614.3	599.7	643.4	560.5	465.5	486.2
CDs	59.3	2,003.5	1,464.6	1,452.1	1,199.1	2,320.5
Others	-	704.0	1,693.7	1,456.6	1,753.4	1,467.7
Low cost deposits ratio (B/A)	51.6%	48.2%	43.4%	42.8%	45.6%	46.0%
Deposit in foreign currencies	2,085.9	1,623.6	1,803.3	1,666.5	1,851.5	1,857.8
Total Deposits on B/S	W18,669.5	W27,621.0	W32,804.3	W34,392.9	W35,439.6	W38,922.1
RP	W 314.7	W 893.7	W 909.8	W 1,342.9	W 2,029.2	W 1,817.0
Bills sold	89.7	551.4	343.8	699.0	1,065.5	492.6

* RP and Bills sold were classified as borrowings based on the current Korean GAAP

In terms of currency denomination, funding in Korean Won as of 2001 year-end accounted for 89.0% or W46,780.8 billion of total funding, up 4.5 percentage points from the previous year, while funding in foreign currencies represented W5,764.3 billion, a decrease from W7,493.6 billion in 2000. The continuous drop in foreign currency funding since the Asian financial crisis was mainly attributable to disposal of insolvent foreign assets, coupled with a sluggish demand for foreign funds. Demand for foreign capital decreased due to a reduction in import and facility investment caused by the economic downturn.

Chart 10. Funding Sources



Shareholders' Equity

The total shareholders' equity as of 2001 year-end was up 21.6% to W2,535.8 billion. The main reason for this growth was a decrease of accumulated deficit derived from the realization of net income of W522.5 billion in 2001 despite an increase in valuation loss on investment securities. The loss on valuation of investment securities was up 33.4% to W408.3 billion in 2001 from W306.0 billion in the previous year due to the increased loss on debt for equity swap bonds for companies with short-term liquidity problems.

During 2001, the Bank sold 11,916,240 treasury shares with a book value of W88.8 billion and awarded 10,000 treasury shares with a book value of W74 million to employees. The loss on disposal of treasury shares of W59.4 billion was added to the accumulated deficit. As of December 31, 2001, the Bank had 17,313,650 treasury shares with a carrying value of W72.9 billion.

Capital Adequacy (Consolidated basis)

Table 21. Capital Adequacy Ratio

	<i>(Billions of Korean Won)</i>	
	2000	2001
Paid-up capital	W 3,395.4	W 3,395.4
Capital surplus	-	-
Retained earnings	(814.1)	(335.5)
Other	(830.8)	(923.5)
Tier 1 Capital	1,750.5	2,136.4
Allowance for loan losses	392.2	460.0
Upper tier 2 subordinated debt	247.6	260.7
Subordinated debt	875.3	917.4
Extraordinary capital surplus	-	-
Tier 2 Capital	1,515.1	1,638.1
Consolidation to unconsolidated Subsidiaries	-	(8.0)
Total Qualifying Capital	W 3,265.6	W 3,766.5
Balance sheet assets	W 29,574.2	W 33,246.6
Off balance sheet assets	3,832.7	2,881.6
Total Risk-Weighted Assets	W 33,406.9	W 36,128.2
Tier 1 capital ratio (%)	5.24%	5.91%
Tier 2 capital ratio (%)	4.54	4.53
BIS Capital Ratio (%)	9.78%	10.43%

Capital strength for Korean banks is regulated pursuant to guidelines issued by the Financial Supervisory Committee (FSC) based on standards issued by the Bank for International Settlements (BIS). The FSC regulates the capital adequacy ratio calculated on the consolidated financial statements.

Capital adequacy is measured by risk-weighted capital ratios. Risk-weighted capital ratios are calculated as the percentage of the amount of Tier I and Tier II capital (less any capital deductions) divided by the risk-weighted assets. Tier I capital is the core capital, which is the sum of paid-in capital, capital surplus, retained earnings, minority interests in consolidated subsidiaries and unpaid share dividends minus deductions. Tier II capital is the supplementary capital, including allowances for loan losses for credits classified as normal or precautionary up to 1.25% of total risk-weighted assets, subordinated debts with an initial maturity of at least five years and revaluation surplus. The amount of the risk-weighted assets is the sum of i) risk-weighted assets on the balance sheets and ii) other risk-weighted assets off the balance sheets multiplied by the applicable credit translation rate provided in the FSC guidelines.

The Bank's BIS capital ratio as at 2001 year-end was 10.43%, up by 0.65 percentage points from that in 2000. The Tier 1 capital ratio was 5.91% and Tier 2 capital ratio was 4.53%. A major factor behind the increased BIS capital ratio was the expansion of Tier 1 capital, which resulted from a significant increase in net income and decline in risk-weighted off balance sheet assets.

Total risk-weighted assets were up 8.1% to W36,128.2 billion in 2001 compared with the previous year of W33,406.9 billion. Risk-weighted balance sheet assets rose by W3,672.4 billion to W33,246.6 billion, while risk-weighted off-balance sheet assets dropped W951.1 billion to W2,881.6 billion in 2001 due to the reduction of confirmed guarantees and acceptances in foreign currencies.

Analysis of Trust Accounts

Table 22. Schedule of Trust Assets and Liabilities

(Billions of Korean Won)

	2000	2001
Assets		
Loans and discounts	W 1,578.6	W 278.0
Call loans	85.6	217.0
Securities	4,419.1	4,699.6
Loans to bank accounts	386.5	408.2
Other	169.1	103.6
Allowance for valuation of receivables	(255.2)	(39.5)
	W 6,383.7	W 5,666.9
Liabilities		
Money trusts	W 5,073.3	W 5,384.0
Borrowings	1,153.3	139.0
Special reserve	14.5	16.2
Other	142.6	127.7
	W 6,383.7	W 5,666.9

Under Korean law, assets in trust by a bank are segregated from other assets of the bank and are not available to satisfy the claims of the depositors or other creditors of the bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts.

Trust assets at the end of 2001 were W5,666.9 billion, down 11.2% from W6,383.7 billion in 2000. The largest portion of trusts assets were securities investments of W4,699.6 billion. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper.

Loans and discounts in 2001 declined by 82.4% to W278.0 billion from W1,578.6 billion a year earlier due to the repayment of W553.2 billion from KDIC, NPL sales and write-offs. During the year 2001, the Bank reduced its NPLs in trust accounts through NPL sales of W196.8 billion and write-offs of W106.7 billion.

The outstanding balance of the money trusts managed by the Bank was W5,384.0 billion as of 2001 year-end, a moderate increase of 6.1% over 2000 while the average balance of the money trusts declined by 28.8% to W5,090.8 billion in 2001.

Chohung Bank offers two basic types of money trust accounts: guaranteed fixed rate trusts and variable rate trusts. Chohung Bank maintains two types of guaranteed fixed rate accounts: general unspecified money trusts and development trusts. Korean banks have been restricted from establishing new general unspecified money trusts since January 1, 1996, and development trusts effective January 1, 1999. As a result, the size of guaranteed fixed rate trust accounts has decreased substantially and development trusts and general unspecified money trust matured by the end of 2001 and 2018, respectively. At the end of 2001, development trusts had no outstanding balance and general unspecified money trusts amounted to an aggregate of W8.2 billion.

Variable rate trust accounts are trust accounts for which the Bank does not guarantee the return on the trust account but, in certain instances described below, the principle of the trust account is guaranteed. In respect of variable rate trust accounts, the Bank is entitled to receive fixed fees. Chohung Bank also receives commissions upon the termination of trust accounts prior to their stated maturities. It is required to set aside an allowance for trust assets which are not marked to market and provide special reserves for principal guaranteed variable rate trust accounts in addition to guaranteed fixed rate trust accounts. Provision for variable rate trust assets that are not marked to market are reflected in the rate of return to customers, and thus, have no impact on Chohung Bank's income while provisions for guaranteed fixed rate or principal guaranteed trust products could reduce the Bank's income in case of deficiency of the payment of the guaranteed amount.

Korean banks are currently allowed to guarantee the principal of new deposits in only three types of variable rate trust accounts: pension trusts for the elderly, pension

trusts, and retirement trusts. However, Korean banks are allowed to guarantee the principal of four types of variable rate trust account products consisting of household money trusts, corporation money trusts and accumulated money trusts, which were underwritten prior to April 30, 1996, and individual pension trusts which were underwritten prior to December 31, 2000.

Table 23. Schedule of Revenues and Expenses of Trust Accounts

	<i>(Billions of Korean Won)</i>	
	2000	2001
Revenue		
Interest on loans and discounts	W 211.0	W 92.8
Interest on call loans	5.4	13.4
Interest and dividends on securities	435.8	278.3
Revenues related to securities	109.3	109.6
Interest on loans to bank accounts	12.4	9.9
Receipt from bank accounts for guaranteed trusts	152.5	20.9
Other	58.6	14.1
	W 985.0	W 539.0
Expenses		
Interest paid on trust deposits	W 527.5	W 340.1
Interest paid on borrowing	47.4	38.6
Expenses related to securities	175.3	42.3
Fees and commission to bank accounts	87.9	59.6
Provision for special reserve	3.1	4.8
Provision for valuation of receivables	102.5	13.0
Other	41.3	40.6
	W 985.0	W 539.0

Trust business influenced the Bank's operating results in both fee-based income and expenses. As previously mentioned, the Bank received two type of commission income from its trust business: commissions upon the termination of trust accounts before maturity; and trust funds operating fees.

However, the Bank needed to transfer funds from bank accounts to guaranteed return trusts for the amount of the insufficient funds. Although assets in the trust accounts are segregated from assets in the bank accounts, Chohung Bank is responsible for the principal of and/ or returns on certain trust accounts and may be required to transfer funds from the bank accounts to satisfy such obligations. If income from a guaranteed trust account is insufficient to pay the guaranteed amount, such deficiency must be satisfied from; firstly, reserves maintained in such trust accounts, secondly, trust fees and lastly, funds transferred from the bank account.

The Bank made payments of W20.9 billion from its bank accounts to cover such deficiencies during the year 2001, compared to W152.5 billion in 2000. A decrease in receipt from bank accounts for guaranteed trusts was primarily due to a decrease in the guaranteed fixed rate trust account balance. There can be no assurance that such transfers will not be required in the future.

Trust funds operating fees and commissions to bank accounts were down 32.2% to W59.6 billion in 2001 from W87.9 billion in 2000, primarily attributable to a decline in the average balance of money trusts. The average balance of money trust decreased by 28.8% to W5,090.8 billion in 2001 from W7,152.4 billion in 2000. Commissions upon the termination of trust account before maturity directly recorded on the statements of operations in bank accounts, which declined from W10.3 billion to W2.4 billion in 2001.

The provision for valuation of receivables plunged W13.0 billion in 2001 from W102.5 billion in 2000 influenced by the improvement of asset quality. The NPL ratio of trust accounts improved by 13.0 percentage points from 17.4% to 4.4% in 2001 as a result of W196.8 billion of NPL sales and W106.7 billion of write offs.

Consolidated Financial Statements

Chohung Bank's consolidated financial statements reflect Chohung Bank's guaranteed trust accounts and its significant subsidiaries. In 2001, one domestic subsidiary and four overseas subsidiaries were included in the Bank's consolidated financial statements.

For 2000 and 2001, the Bank's consolidated financial condition and results of operations were mainly attributable to its non-consolidated results. Chohung Bank's non-consolidated assets and liabilities as well as net income accounted for more than 95% of those on a consolidated basis. For further information on the Bank's consolidated financial condition and results of operations, see Chohung Bank's consolidated financial statements and the accompanying notes.

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 outside directors chairs the committee. The Risk Management Committee (RMC) oversees the Bank's overall risk management. The RMC consists of the Heads of the Planning Group, the Institutional Banking & Treasury Group, the Credit management Group, the Product 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 function of the RMC is 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.

Chohung Bank has implemented the following systems in its risk management infrastructure:

- implemented in September 2000, the Credit Risk Management System (CMS) measures default rates by credit rating and credit risk based on default volatility. The results are applied to credit portfolio management and management of the credit risk limit for each business unit;
- implemented in September 2000, the Market Risk Management System measures Value-at-Risk or VaR to be used for market risk limit management;
- upgraded in December 2000, the Asset-Liability System ensures accurate cash flow management and improved measurement of interest rate risk using Monte Carlo simulation; and
- implemented in April 2001, the Capital Allocation System and Risk Adjusted Performance Measurement System allocates risk adjusted capital, sets risk limits and

measures risk adjusted return on risk capital and economic value-added for risk adjusted performance measurement.

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. The Credit Management Group functions as a centralized policymaking and planning division and allocates and coordinates Chohung Bank's loan portfolios.

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: i) whether the loan has been approved in compliance with the credit approval procedures in place; ii) whether the loan's current asset quality and the borrower's credit rating are adequate; and iii) whether such a loan is profitable. Chohung Bank's loan review can be further divided into three types: review, periodic review and special review.

For efficient credit risk management, the Bank operates a Total Exposure Management System, Credit Scoring System, and Credit Risk Rating System.

Liquidity Risk Management

The objective of liquidity management is to ensure that Chohung 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. The Bank believes that liquidity management is critical to protecting its capital and maintaining market confidence.

Table 24. Liquidity Ratio

		(In Percent)	
Currency denomination		At the end of 2001	Required minimum ratio
In local currency	Liquidity ratio within 3 months ¹⁾	105.9%	100.0%
In foreign currencies	Liquidity ratio within 3 months ¹⁾	94.9	80.0
	Liquidity gap ratio within 7 days ²⁾	0.4	0.0
	Liquidity gap ratio within 1 month ³⁾	(3.6)	(10.0)

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

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

Table 25. Liquidity Gap in 2001

	<i>(Billions of Korean Won)</i>			
	Assets	Liabilities	Liquidity gap	Liquidity gap as a % of total assets
Korean Won				
Due in 3 months or less	W 19,183.2	W 18,676.6	W 1,106.6	2.3%
Due between 3 months and 6 months	4,594.1	4,238.8	355.3	0.7
Due between 6 months and 1 year	7,835.4	5,660.9	2,174.5	4.6
Due between 1 year and 3 years	3,308.7	2,899.1	409.6	0.9
Due after 3 years	11,880.7	15,926.7	(4,046.0)	(8.5)
	W 47,402.1	W 47,402.1	W -	0.0%
Foreign Currencies				
Due in 3 months or less	W 4,201.2	W 4,426.6	W (225.4)	(3.0)%
Due between 3 months and 6 months	757.0	1,142.2	(385.2)	(5.1)
Due between 6 months and 1 year	592.4	1,285.2	(692.8)	(9.1)
Due between 1 year and 3 years	641.0	159.2	481.8	6.4
Due after 3 years	1,391.5	895.3	496.2	6.5
	W 7,583.1	W 7,908.5	W (325.4)	(4.3)%

To manage liquidity risk, Chohung 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, receives periodic reports from the Risk Management Division and makes changes accordingly. The Treasury Group prepares monthly short-term funding plans.

In addition, the liquidity management teams of the Institutional Banking & Treasury Group monitor the overall liquidity risk of the Bank. In monitoring the market, the Treasury Group especially 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 Institutional Banking & 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.

The Table 24 presents the minimum liquidity ratio required by FSS and the Bank's liquidity ratios at the end of 2001.

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 activities arises as a result of sales and taking positions in the foreign exchange, interest rate and equity markets. The Risk Management Division manages this risk primarily through the management of VaR. 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 market movement.

For Chohung Bank's trading portfolio, the VaR (holding period 10-days, 99% confidence interval) was W36.2 billion as of December 31, 2001 and its market risk capital charge (required capital to manage market risk as determined according to the BIS standards) was W29.0 billion. The following table represents the 10-days VaRs at a 99% confidence interval, for interest rate risk, foreign exchange risk and equity risk relating to our trading activities at the end of 2001.

Table 26. VaR in 2001

	<i>(Billions of Korean Won)</i>	
	10-day VaR	Market risk capital charge
Interest rate	W 32.8	W 21.8
Equity	0.3	0.1
Foreign Exchange	9.3	7.1
Market Risk*	W 36.2	W 29.0

* Less than simple addition due to diversification effects among different types of market risks.

Chohung Bank also performs analysis on potential trading losses due to stressful events as a supplementary control on its market risk exposure. This is performed by 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.

Interest Rate Management and Sensitivity

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

As of December 31, 2001, 83.7% of Chohung Bank's Won-denominated lending and all of its loans in foreign currency accounts were in the form of floating rate loans and are funded 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, the maximum 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 most other Korean commercial banks, almost all of Chohung Bank's deposit products in Korean Won bear fixed rates of interest. Interest on approximately 21.2% of the Bank's deposit amounts are subject to regulation by the BOK in 2001. 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 rates of interest. Approximately 44.3% of the Bank's loans in Korean Won earn interest at spreads based on Chohung Bank's Won-base rate including prime rate. Chohung Bank adjusts its Won-base 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, as of December 31, 2001, interest rates on approximately 77.0% of its current deposits in Korean Won can be adjusted following a change in the Bank's minimum rates, and 83.7% of its Won-denominated loans carry floating interest rates, enabling Chohung Bank to match increases in the cost of funds with appropriate increases in lending rates.

To measure and manage interest rate risk, Chohung Bank uses 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 to be repriced within a specified cumulative calendar period is typically referred to as the "rate sensitivity position" or "gap position".

Table 27. Rate Sensitivity Gap in 2001

		0-1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	EaR
In Won (Won bn)	Assets	W 4,493.7	W 11,308.7	W 5,053.9	W 9,043.6	W 17,502.2	W 47,402.1	W 43.50
	Liabilities	10,692.1	4,306.8	4,260.3	5,816.7	22,326.2	47,402.1	
	Gap	W (6,198.4)	W 7,001.9	W 793.6	W 3,226.9	W (4,824.0)	W -	
In foreign currencies (US\$ mil)	Assets	\$ 1,788	\$ 1,453	\$ 886	\$ 83	\$ 550	\$ 4,760	\$ 4.15
	Liabilities	2,235	1,304	616	205	400	4,760	
	Gap	\$ (447)	\$ 149	\$ 270	\$ (122)	\$ 150	\$ -	

Foreign Exchange Risk Management

Chohung Bank monitors changes in, and matches of, foreign-currency assets and liabilities in order to reduce exposure to currency fluctuations. Risk relating to exchange rate fluctuations is 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 which 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, foreign exchange banks, including Chohung Bank, may, with certain exceptions, enter into derivative transactions without restriction so long as they are not linked with the credit risks of a party thereto or any third party, in which case a report to the BOK is necessary.

Chohung Bank enters into derivative contracts on behalf of its customers or to hedge its own position. In 2001, the Bank entered into forward 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\$2,087.3 million.

Operational Risk Management

The Bank monitors and assesses risk related to its business operations, including administrative risk, information technology risk, managerial risk, legal risk and reputation risk, which are regularly compared with checklists. The Risk Management Division reports the results to the RPC and RMC.



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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 (the "Bank") as of December 31, 2001 and 2000 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 financial statements referred to above present fairly, in all material respects, the financial position of Chohung Bank as of December 31, 2001 and 2000 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.

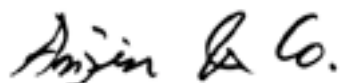
Without qualifying our opinion, we draw attention to Note 1 of the non-consolidated financial statements which states that the operations of the Bank have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Bank as of the balance sheet dates cannot presently be determined.

As discussed in Note 7 to the non-consolidated financial statements, in its bank accounts as of December 31, 2001, the Bank has outstanding credits including loans, payment guarantee and others to Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd. and Hyundai Petrochemical Co., Ltd. amounting to W592.2 billion (US\$446.6 million), W261.9 billion (US\$197.5 million), and W8.0 billion (US\$6.0 million), respectively and has provided an allowance for possible loan losses of totaling W277.8 billion (US\$209.5 million) for these credits. In addition, in its bank accounts, the Bank has outstanding credits including loans, payment guarantee and others to Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd., amounting to W425.5 billion (US\$320.9 million) and W196.8 billion (US\$148.4 million), respectively, and has provided an allowance for possible loan losses totaling W91.3 billion (US\$68.8 million) for these credits. The potential impact on the Bank's operations of the liquidity problems Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Hyundai Petrochemical Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

As discussed in Note 27 to the non-consolidated financial statements, the Bank sold W3,894.6 billion (US\$2,936.9 million) of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,142.3 billion (US\$1,615.5 million), which included W2,451.2 billion (US\$1,848.4 million) of special loans sold with recourse for W1,614.4 billion (US\$1,217.4 million), from December 15, 1997 to December 31, 2001. The outstanding balance of the loans sold of which the final selling price has not yet been decided due to the incompleteness of the borrowers' restructuring plan is W274.6 billion (US\$207.1 million) as of December 31, 2001. Notwithstanding the sale and the elimination of these assets from the balance sheet, as of December 31, 2001, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W718.5 billion (US\$541.8 million) at the sales price converted using the exchange rate as of December 31, 2001. KAMCO's ability to exercise its right of recourse depends on whether the borrowers comply with the restructuring commitments. Additional losses may be incurred if KAMCO is able to and does execute its right of recourse. In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts and trust accounts to special purpose companies (SPC) amounting to W90,000 million (US\$67,868 thousand) and W27,000 million in 2001 and 2000, respectively, which were intended to reinforce the credit of the asset-backed securities (ABS). No liabilities have been recorded in the Bank's non-consolidated financial statements for any such losses that may be incurred from these loans sold with recourse, which could have a material impact on the financial position and the result of operations of the Bank.

As explained in Notes 19 and 32 to the non-consolidated financial statements, on January 15, 1999, the Bank obtained approval from the Financial Supervisory Commission (FSC) for its management improvement plan. Pursuant to the approved plan, the Bank received a total of W2,717.9 billion as a capital injection from the Korea Deposit Insurance Corporation (KDIC) on February 19, 1999, May 7, 1999 and September 30, 1999. As a result of the capital injection by KDIC, the Bank entered into a compliance agreement with FSC and KDIC for its management improvement plan dated November 12, 1999. Under the agreement, the Bank has disposed of bad loans and non-performing tangible assets, reduced the number of employees, and closed unprofitable branch offices. As of December 31, 2001, the Bank has met the management index targets stipulated in the agreement. The Bank entered into a new agreement dated January 31, 2002 with KDIC, which contains the conditions that the Bank would lower the ratio of non-performing loans below 4.0 percent, meet the return on assets of 1.0 percent, achieve W230 million (US\$173 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002. Whether or not its revised management improvement plans are achieved may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. The new agreement on compliance with the revised management improvement plan will be terminated when KDIC is no longer in the position of being the largest stockholder unless there are any other special circumstances.

Accounting principles and auditing standards and their application in practice vary among countries. 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 other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.



Seoul, Korea
January 26, 2002

Non-Consolidated Balance Sheets (Bank Accounts)

December 31, 2001 and 2000

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
ASSETS			
Cash and due from banks			
(Notes 3, 4, 26, 28, 29 and 30)	W 3,038,995	W 2,020,528	\$ 1,523,662
Trading securities (Notes 5, 28 and 29)	1,507,637	982,626	740,989
Investment securities (Notes 6, 12, 28, 29 and 31)	11,351,183	12,839,355	9,682,041
Loans (Notes 7, 8, 9, 26, 27, 28 and 29)	29,376,591	33,515,013	25,273,368
Fixed assets (Notes 10 and 13)	1,699,394	1,565,775	1,180,737
Other assets (Notes 11 and 29)	3,357,652	4,157,639	3,135,238
Total Assets	W 50,331,452	W 55,080,936	\$ 41,536,035
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 14, 26, 28 and 29)	W 34,392,940	W 38,922,144	\$ 29,350,836
Borrowings (Notes 15, 26, 28 and 29)	7,327,756	6,484,371	4,889,806
Debentures (Notes 16 and 28)	3,036,577	2,419,676	1,824,656
Other liabilities (Notes 18 and 29)	3,489,253	4,718,923	3,558,497
Total Liabilities	48,246,526	52,545,114	39,623,795
Shareholders' Equity (Note 19):			
Common stock	3,395,391	3,395,391	2,560,433
Capital surplus	-	-	-
Other reserve	7,984	9,145	6,896
Accumulated deficit (net income of W522,531 million in 2001 and W101,085 million in 2000)	(850,329)	(388,792)	(293,184)
Capital adjustments	(468,120)	(479,922)	(361,905)
Total Shareholders' Equity	2,084,926	2,535,822	1,912,240
Total Liabilities and Shareholders' Equity	W 50,331,452	W 55,080,936	\$ 41,536,035

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Operations (Bank Accounts)

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Interest Income and Dividends (Note 26):			
Interest on due from banks	W 83,624	W 56,843	\$ 42,865
Interest and dividends on trading securities	98,933	66,247	49,956
Interest and dividends on investment securities	897,227	872,714	658,105
Interest on loans (Note 20)	3,012,240	3,224,486	2,431,556
Other interest income	120,165	95,804	72,245
	4,212,189	4,316,094	3,254,727
Interest Expenses (Note 26):			
Interest on deposits	1,773,172	1,680,584	1,267,313
Interest on borrowings	546,879	409,053	308,463
Interest on debentures	257,195	204,137	153,938
Other interest expenses (Note 20)	131,278	127,788	96,364
	2,708,524	2,421,562	1,826,078
Net Interest Income	1,503,665	1,894,532	1,428,649
Provision for Possible Loan Losses	852,313	751,295	566,545
Net Interest Income After Provision for Possible Loan Losses	651,352	1,143,237	862,104
Non-Interest Income:			
Fees and commissions (Note 21)	163,608	175,904	132,648
Gain on sale of trading securities	59,757	85,051	64,136
Gain on valuation of trading securities	9,854	3,657	2,758
Gain on foreign currency trading	284,205	202,946	153,040
Gain on derivatives trading	244,342	273,379	206,152
Fees and commissions from trust accounts (Note 2)	93,006	64,238	48,441
Other non-interest income (Note 22)	434,819	324,279	244,536
	1,289,591	1,129,454	851,711
Non-Interest Expenses:			
Commissions	33,674	30,733	23,175
General and administrative expenses (Note 23)	696,572	712,739	537,470
Loss on foreign currency trading	198,775	111,570	84,134
Loss on derivatives trading	225,900	259,668	195,813
Contribution to Credit Guarantee Fund	38,487	36,639	27,629
Loss on sale of loans (Note 7)	101,828	380,758	287,126
Loss on sale of trading securities	69,500	41,089	30,985
Loss on valuation of trading securities	17,111	1,915	1,444
Payments to guaranteed return trust accounts (Note 2)	152,481	20,946	15,795
Other non-interest expenses (Note 24)	319,577	340,209	256,549
	1,853,905	1,936,266	1,460,120
Ordinary Income	87,038	336,425	253,695
Extraordinary Gain (Note 6)	17,593	-	-
Income Before Income Tax Expense	104,631	336,425	253,695
Income Tax Expenses (Benefits) (Note 25)	3,546	(186,106)	(140,341)
Net Income	W 101,085	W 522,531	\$ 394,036
Ordinary Income per Common Share (in Currency Units) (Note 2)	W 131	W 799	\$ 0.60
Net Income per Common Share (in Currency Units) (Note 2)	W 149	W 799	\$ 0.60

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Disposition of Accumulated Deficit (Bank Accounts)

For the years ended December 31, 2001 and 2000

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Accumulated Deficit Before Disposition:			
Balance at beginning of year	W (877,047)	W (850,329)	\$ (641,225)
Cumulative effect of accounting changes (Notes 2 and 19)	(43,238)	1,176	887
Adjustment of retained earnings of subsidiaries valued using equity method (Note 19)	(28,176)	(270)	(204)
Net income	101,085	522,531	394,036
Other statutory reserves	(1,121)	(1,675)	(1,263)
Amortization of discount on stock issued below par (Note 19)	(1,633)	(816)	(615)
Loss on disposal of treasury stock (Note 19)	(199)	(59,409)	(44,800)
Balance at end of year	(850,329)	(388,792)	(293,184)
Disposition:	-	-	-
Undisposed Accumulated Deficit to be Carried Forward to Subsequent Year	W (850,329)	W (388,792)	\$ (293,184)

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Cash Flows (Bank Accounts)

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Cash Flows from Operating Activities:			
Net income	W 101,085	W 522,531	\$ 394,036
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	177,567	183,823	138,619
Provision for possible loan losses	852,313	751,295	566,545
Provision for severance benefits	30,100	19,517	14,718
Loss on disposal of fixed assets	9,092	4,365	3,292
Loss on sale of loans, net	95,209	379,933	286,504
Loss (gain) on sale of trading securities, net	10,710	(43,962)	(33,151)
Loss (gain) on valuation of trading securities, net	6,290	(1,742)	(1,314)
Payment of severance benefits	(38,209)	(129,740)	(97,836)
Other, net	161,575	(248,508)	(187,398)
Net Cash Provided by Operating Activities	1,405,732	1,437,512	1,084,015
Cash Flows from Investing Activities:			
Net increase in loans	(6,297,396)	(5,572,912)	(4,202,482)
Proceeds on sale of fixed assets	30,956	34,199	25,789
Purchase of fixed assets	(59,566)	(89,536)	(67,518)
Net increase in investment securities	(1,019,199)	(1,136,696)	(857,172)
Proceeds from sale of trading securities	17,783	570,715	430,371
Other, net	(600,723)	473,002	356,686
Net Cash Used in Investing Activities	W (7,928,145)	W (5,721,228)	\$ (4,314,326)
Cash Flows from Financing Activities:			
Net increase in deposits	W 6,771,882	W 4,529,204	\$ 3,415,432
Net decrease in borrowings	(1,617,294)	(843,385)	(635,989)
Net increase (decrease) in debentures	721,207	(636,892)	(480,275)
Disposition of treasury stock	-	29,417	22,183
Other, net	(46,298)	186,905	140,943
Net Cash Provided by Financing Activities	5,829,497	3,265,249	2,462,294
Net Decrease in Cash	(692,916)	(1,018,467)	(768,017)
Cash, Beginning of Year	3,731,911	3,038,995	2,291,679
Cash, End of Year (Note 30)	W 3,038,995	W 2,020,528	\$ 1,523,662

The accompanying notes are an integral part of these statements.

December 31, 2001 and 2000

1. GENERAL:

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of the 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 379 domestic branches, 67 depositary offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2001. 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.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Bank may be either directly or indirectly affected by the situation described above. The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Non-consolidated Financial Statement Presentation Footnote

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

The U.S. dollar amounts presented in these non-consolidated financial statements were computed by translating the Korean Won into US dollars based on the Bank of Korea (BOK) Basic Rate of W1,326.10 to US\$1.00 at December 31, 2001, 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.

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

Classification of Securities

Marketable debt and equity securities purchased and held principally for the purpose of generating gains on current resale are classified as trading securities and the others are classified as investment securities.

Valuation of Trading Securities

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

Valuation of Investment Securities

(1) Equity Securities

Equity securities held for investment (excluding those accounted for using the equity method discussed in the next paragraph) that are not actively quoted (unlisted securities) are stated at acquisition cost using, as determined by 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 a listed equity securities or the net equity value of an 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 15 percent or more, the Bank is considered being able to exercise significant influence in accordance with Bank Law) 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.

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 specific identification 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 the 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 using equity method or 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 fair 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 and the book value of the trading securities to be reclassified as of the balance sheet date is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. The fair value of trading securities to be reclassified consists the cost of reclassified investment securities. 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, including securities such as commercial paper, privately placed bonds and financing lease receivables, into ten categories according to past repayment history including any overdue period and the bankruptcy status of the borrower, and 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 the past repayment history.

The loans are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. The allowance for possible loan losses is then calculated on the category balances using the prescribed minimum percentages of 0.5 percent, 2 percent, 20 percent, 50 percent and 100 percent, respectively. However, the Bank does not provide 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, as it is not required by the accounting standards for the Banking Industry.

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 used for loan classification. An allowance is then calculated, using 20 percent for confirmed acceptances and guarantees classified as substandard, 50 percent for doubtful and 100 percent for estimated 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 or substandard. An allowance for possible loan losses on those credits is calculated on the balances using 2 percent and 20 percent for precautionary and substandard, respectively. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

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 the interest income earned on loans, call loans, long-term deposits with other banks and securities on an accrual basis, except for the interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to the 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 on a cash basis. The principal amount of loans of which accrued interest income was not recorded in the financial statements based on the stated criteria amounted to W4,209.8 billion (US\$3,174.6 million) and W4,393.4 billion as of December 31, 2001 and 2000, respectively, and the related accrued interest income which was not recognized amounted to W67.9 billion (US\$51.2 million) and W291.8 billion as of December 31, 2001 and 2000, 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 lease which prohibits the Company from canceling the contract during the lease period and has the following options; ownership of the lease property is transferred to the Company, to purchase the leased property at a price lower than the fair value, the lease period exceeds 75% of the estimated economic useful life of the leased property, or the present value of the basic lease payment exceeds 90 percent of the fair value of the leased property.

Under the operating method, the income is recognized as the lease payment becomes 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 the 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 acquisition 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 as 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 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 the estimated economic useful lives of related assets or activity method.

The excess of consideration distributed for business combinations over the 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 included in the goodwill the valuation loss from the treasury stock, which had not been disposed as of December 31, 2000 and amortized the valuation loss included in goodwill over the remaining useful life of the goodwill. The previous Accounting Standards for Business Combination in effect when the merger or acquisition was consummated required the Bank to account for the valuation loss from treasury stock amounting to W100,716 million as goodwill to be amortized for the remaining useful life, which will end in 2003 (see Note 19, (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 and depreciation is not applied for this asset. 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 that all eligible employees were to resign as of December 31, 2001 and 2000 are W20,688 million (US\$15,601 thousand) and W130,911 million, respectively. Actual payments of severance indemnities amounted to W129,740 million (US\$97,836 thousand) and W38,209 million in 2001 and 2000, respectively.

Funding of the severance liability is not required. However, in order to obtain a tax deduction, the Bank has purchased an employee retirement trust, which meet the funding requirements for tax saving purpose, and made deposits with Korea Exchange Bank as of December 31, 2001. The deposits, amounting to W10,000 million (US\$7,541 thousand) as of December 31, 2001, are presented as a deduction from accrued severance indemnities.

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 and is paid back at the termination of service by netting the receivable against the severance payment. Such receivables amount to nil and W7,625 million as of December 31, 2001 and 2000, respectively, 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.

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

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 purpose. 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 is 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.

According to the interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments, in case the fair value hedge accounting is applied to the transaction, the cumulative effect of accounting changes shall be added or deducted to the undisposed accumulated deficit carried over from prior years. Applying these accounting standards beginning in 2000 has decreased the undisposed accumulated deficit carried over from prior years of 2000 by W6,593 million and increased the net income of 2000 by W1,026 million.

Payments to Guaranteed Return Trust Accounts

With respect to certain trust account products, the Bank guarantees the repayment of the principal 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 orderly 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, 2001 and 2000, the Bank recorded W64,238 million (US\$48,441 thousand) and W93,006 million of trust management fee income and W2,446 million (US\$1,845 thousand) and W10,312 million of trust cancellation charge income, respectively. The Bank paid compensating contribution to guaranteed return trusts of W20,946 million (US\$15,795 thousand) and W152,481 million in 2001 and 2000, respectively, to cover 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 gain from the operation of trust business of W45,738 million (US\$34,491 thousand) and a loss from the operation of trust business of W49,163 million in 2001 and 2000, respectively.

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 general and administrative 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 Expenses

Income tax expenses are 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 (W1,326.10 and W1,259.70 to US\$1.00 at December 31, 2001 and 2000, 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 per Share

Ordinary income per common share and net income per common share are computed by dividing ordinary income (after deducting the tax effect) and net income, respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 654 million in 2001 and 679 million in 2000. Ordinary income and net income on common shares were as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Net income	W 101,085	W 522,531	\$ 394,036
Extraordinary gain	(17,593)	-	-
Income tax on extraordinary gain	5,417	-	-
Ordinary income	W 88,909	W 522,531	\$ 394,036

Diluted ordinary income per common share and diluted income per common share are not presented since the annual average stock price of the Bank is below the exercise price of the diluted securities such as bonds with warrants and stock options. The dilutive securities as of December 31, 2001 are as follows:

Item	Face value	Exercise period	Common stocks to be issued	Remarks
Warrants	-	By 2002.10.22	94,988,459 shares	Exercise price: 1 share per face value W5,790 of bonds, W5,790 paid in cash upon exercise
Stock options (See Note 19)	-	2003.03.28 ~ 2006.03.27	969,200 shares	W5,000 paid in cash upon exercise
Stock options (See Note 19)	-	2004.03.10 ~ 2007.03.09	664,000 shares	W5,000 paid in cash upon exercise

On November 22, 1999, the Bank issued callable bonds with warrants of W550.0 billion with three years maturity and 10 percent interest rate per annum. The warrants are separable from the bonds and exercisable until October 22, 2002 at an exercise price of W5,790 per share. During the year 2001, the bonds of W550,000 million were redeemed separately from the stock warrants, which are still outstanding as of December 31, 2001.

Effects of Changes in Financial Accounting Standards

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

Beginning in 2001, the Bank applied the accounting standards for newly established foreign exchange accounts based on the Detailed Enforcement Regulations of Bank Supervision Service. As a result of this change, the beginning accumulated deficit in 2001 decreased by W1,176 million (US\$887 thousand) and the net income for the year ended December 31, 2001 increased by W416 million (US\$314 thousand) as compared to the previous accounting standards. In addition, beginning in 2001, the Bank changed the method in determining the cost of bonds of trading securities from moving average method to specific identification method. This change does not affect total assets, liabilities, shareholders' equity and net income for the year then ended December 31, 2001. The details of the effects of these accounting changes as of December 31, 2001 are as follows:

	Decrease in beginning accumulated deficit		Increase in net income	
	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)
Establishment of the accounting standards for foreign exchange accounts	W 1,176	\$ 887	W 416	\$ 314
	W 1,176	\$ 887	W 416	\$ 314

Reclassifications

The Bank reclassified certain accounts for 2000 to conform to the 2001 presentation for comparative purposes. However, this reclassification has no effect on the net income or net asset value as of and for the year then ended December 31, 2000.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Cash and checks	W 973,844	W 1,346,084	\$ 1,015,070
Foreign currencies	63,948	67,944	51,236
Due from banks in local currency	1,443,070	442,137	333,411
Due from banks in foreign currencies	558,133	164,363	123,945
	W 3,038,995	W 2,020,528	\$ 1,523,662

4. RESTRICTED DUE FROM BANKS:

Restricted due from banks as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2000	2001	2001	Reference
Reserve deposits with the Bank of Korea	W 519,773	W 83,283	\$ 62,803	Required under the Banking Law
Other deposits (see Note 2)	122,800	73,500	55,426	Deposits for Severance Indemnities
Due from banks in foreign currencies	232,162	42,971	32,404	Required under the Banking Law, Borrowings and Derivative transaction
	W 874,735	W 199,754	\$ 150,633	

5. TRADING SECURITIES:

(1) Trading securities as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Government bonds	W 815,351	W 21,009	\$ 15,843
Finance debentures	90,142	212,655	160,361
Corporate bonds	373,338	631,434	476,159
Beneficiary certificates	173,588	-	-
Trading securities in foreign currencies	48,630	106,599	80,385
Other	6,588	10,929	8,241
	W 1,507,637	W 982,626	\$ 740,989

(2) The details of valuation of trading securities as of December 31, 2001 are as follows (in millions of Won):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (Book value)
Government bonds	W 20,000	W 21,172	W 21,058	W 21,009
Finance debentures	220,000	211,923	212,494	212,655
Corporate bonds	607,287	630,023	629,762	631,434
Trading securities in foreign currencies	96,627	103,102	-	106,599
Other	11,176	10,819	10,905	10,929
	W 955,090	W 977,039	W 874,219	W 982,626

Notes to the Non-Consolidated Financial Statements

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

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (Book value)
Government bonds	W 835,000	W 809,682	W 811,636	W 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	48,262	49,076	-	6,588
Other	7,100	6,260	6,419	48,630
	W 1,521,605	W 1,494,612	W 1,280,151	W 1,507,637

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, 2001 and 2000, respectively, announced by the Korea Securities Computer Co., Ltd.. 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 at December 31, 2001 and 2000.

(3) Trading securities, by country, as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001		2000	2001
Trading securities in local currency:					
Korea	W 1,459,007	W 876,027	\$ 660,604	96.77	89.15
Trading securities in foreign currencies:					
Korea	38,616	103,382	77,959	2.56	10.52
Mexico	10,014	3,217	2,426	0.67	0.33
	48,630	106,599	80,385	3.23	10.85
	W 1,507,637	W 982,626	\$ 740,989	100.00	100.00

(4) The portfolio of trading securities, by type, as of December 31, 2001 and 2000 is as follows (in millions of Won):

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001		2000	2001
Fixed rate bonds	W 1,247,289	W 343,488	\$ 259,021	82.73	34.96
Floating rate bonds	80,458	634,650	478,584	5.34	64.59
Convertible bonds	4,891	4,488	3,384	0.32	0.45
Others	174,999	-	-	11.61	-
	W 1,507,637	W 982,626	\$ 740,989	100.00	100.00

6. INVESTMENT SECURITIES:

(1) Investment securities as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Investment equity securities	W 368,957	W 594,645	\$ 448,416
Equity investments	26,285	39,854	30,054
Government bonds	2,340,376	1,748,561	1,318,574
Finance debentures	1,326,630	3,243,097	2,445,590
Corporate bonds	5,781,382	5,951,460	4,487,942
Beneficiary certificates	805,430	615,323	464,010
Investment securities in foreign currencies	689,639	566,583	427,255
Other	12,484	79,832	60,200
	W 11,351,183	W 12,839,355	\$ 9,682,041

(2) Investment equity securities accounted for using equity method as of December 31, 2001 are as follows (in millions of Won):

	Balance sheet date	Percentage of ownership (%)	Acquisition cost	Net asset value	Book value
Chohung Investment Trust and Management Co., Ltd.	2001.09.30	79.77	W 47,023	W 47,513	W 54,351
Chohung Finance Ltd., Hong Kong	2001.12.31	99.99	7,957	44,992	44,992
Chohung Bank of New York	2001.12.31	100.00	33,816	39,144	39,144
Chohung Bank (Deutschland) GmbH	2001.12.31	100.00	17,986	21,882	21,882
California Chohung Bank	2001.12.31	100.00	46,842	55,576	55,576
Chohung Vina Bank	2001.12.31	50.00	7,983	9,567	8,990
			W 161,607	W 218,674	W 224,935

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

	Balance sheet date	Percentage of ownership (%)	Acquisition cost	Net asset value	Book value
Chohung Investment Trust and Management Co., Ltd.	2000.09.30	79.77	W 60,969	W 41,052	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 189,242	W 198,801

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.

Notes to the Non-Consolidated Financial Statements

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. In 2000, the Bank valued these donated shares at W488,600 per share and recorded the total value of donated shares of W28,528 million as an extraordinary gain of W17,593 million in the bank accounts and W10,935 million in the trust accounts.

(3) The valuation of investment debt securities in local currency, by type, as of December 31, 2001 is summarized as follows (in millions of Won):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (Book value)
Available-for-sale:				
Government bonds	W 47,000	W 45,949	W 46,467	W 46,458
Finance debentures	3,053,421	2,992,798	3,009,231	3,001,008
Corporate bonds	2,005,267	1,817,108	1,816,935	1,638,014
	5,105,688	4,855,855	4,872,633	4,685,480
Held-to-maturity:				
Government bonds	1,672,014	1,653,814	1,702,103	1,702,103
Finance debentures	240,831	239,269	242,089	242,089
Corporate bonds	4,275,289	4,321,850	4,313,446	4,313,446
	6,188,134	6,214,933	6,257,638	6,257,638
	W 11,293,822	W 11,070,788	W 11,130,271	W 10,943,118

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

	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 outstanding balance of government bond, finance debentures and corporate bonds is the sum of fair value of available-for-sale investment debt securities and the book value of held-to-maturity investment debt securities which 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.

Notes to the Non-Consolidated Financial Statements

(4) The portfolio of investment securities, by country, as of December 31, 2001 and 2000 is summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001	2001	2000	2001
Investment securities in local currency:					
Korea	W 10,661,544	W 12,272,772	\$ 9,254,786	93.92	95.59
Investment securities in foreign currencies:					
Korea	235,536	157,868	119,047	2.08	1.23
United States	242,489	253,732	191,337	2.14	1.98
Thailand	30,978	6,631	5,000	0.27	0.05
The Philippines	16,883	14,116	10,645	0.15	0.11
Indonesia	3,113	1,355	1,022	0.03	0.01
Malaysia	26,454	13,617	10,268	0.23	0.10
Germany	18,973	21,882	16,501	0.17	0.17
Hong Kong	-	44,992	33,928	-	0.35
Other	115,213	52,390	39,507	1.01	0.41
	689,639	566,583	427,255	6.08	4.41
	W 11,351,183	W 12,839,355	\$ 9,682,041	100.00	100.00

(5) The portfolio of investment securities, by type, as of December 31, 2001 and 2000 is summarized as follows (in millions of Won):

Type	2000		2001	
	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 6,826,393	W 11,325
Floating rate notes	4,153,341	247,778	3,879,256	347,515
Convertible bonds	-	81,480	315,876	26,908
Stocks and equity	395,242	154,707	634,499	172,837
Other	817,914	22,421	616,748	7,998
	W 10,661,544	W 689,639	W 12,272,772	W 566,583

Type	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001	2001	2000	2001
Fixed rate notes	W 5,478,300	W 6,837,718	\$ 5,156,261	48.26	53.26
Floating rate notes	4,401,119	4,226,771	3,187,370	38.77	32.92
Convertible bonds	81,480	342,784	258,490	0.72	2.67
Stocks and equity	549,949	807,336	608,805	4.85	6.29
Other	840,335	624,746	471,115	7.40	4.86
	W 11,351,183	W 12,839,355	\$ 9,682,041	100.00	100.00

7. LOANS:

(1) Loans as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Loans in local currency	W 15,979,683	W 20,167,261	\$ 15,207,949
Loans in foreign currencies	3,353,856	2,548,851	1,922,065
Bills bought in local currency	2,677,685	2,001,203	1,509,089
Bills bought in foreign currencies	2,629,390	2,094,350	1,579,330
Advances for customers	418,537	114,580	86,404
Factoring receivables	250,805	181,272	136,696
Loan for debt-equity swap	-	461,833	348,264
Credit card accounts	2,973,502	4,934,460	3,721,032
Bonds bought under resale agreements	400,000	-	-
Call loans	454,411	84,669	63,848
Bills discounted	708,975	1,294,307	976,025
Cash management accounts	435,000	242,400	182,792
Privately placed bonds	477,544	197,722	149,100
Financing lease receivables	458,743	252,355	190,299
	31,218,131	34,575,263	26,072,893
Allowance for possible loan losses	(1,669,735)	(1,030,678)	(777,225)
Present value discounts (See Note 9)	(171,805)	(29,572)	(22,300)
	W 29,376,591	W 33,515,013	\$ 25,273,368

(2) Loans in local currency and foreign currencies as of December 31, 2001 and 2000 classified by borrower type are as follows (in millions of Won):

Type	2000		2001	
	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	W 11,727,942	W 1,378,443
Loans for equipment	1,012,437	1,365,537	1,083,118	831,905
Special loans	3,401	31,723	-	-
	12,722,722	3,151,209	12,811,060	2,210,348
Loans to households	5,385,420	6,621	9,072,299	-
Loans to the public sector and others:				
Loans for operation	240,084	145,208	145,632	137,641
Loans for equipment	233,767	115	76,569	-
Interbank Loans	23,657	50,703	15,604	200,862
	497,508	196,026	237,805	338,503
	W 18,605,650	W 3,353,856	W 22,121,164	W 2,548,851

Notes to the Non-Consolidated Financial Statements

Type	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001		2000	2001
Loans to enterprises:					
Loans for operation	W 13,460,833	W 13,106,385	\$ 9,883,406	61.30	53.13
Loans for equipment	2,377,974	1,915,023	1,444,102	10.83	7.76
Special loans	35,124	-	-	0.16	-
	15,873,931	15,021,408	11,327,508	72.29	60.89
Loans to households	5,392,041	9,072,299	6,841,338	24.55	36.77
Loans to the public sector and others:					
Loans for operation	385,292	283,273	213,614	1.75	1.15
Loans for equipment	233,882	76,569	57,740	1.07	0.31
Interbank loans	74,360	216,466	163,235	0.34	0.88
	693,534	576,308	434,589	3.16	2.34
	W 21,959,506	W 24,670,015	\$ 18,603,435	100.00	100.00

Discounted commercial notes of W1,953.9 billion (US\$1,473.4 million) and W2,626.0 billion were included in the loans in local currency as of December 31, 2001 and 2000, respectively, exhibited in (2) above, and (3) and (4) below.

(3) Loans in local currency and foreign currencies, by industry, as of December 31, 2001 and 2000 are as follows (in millions of Won):

Industry	2000		2001	
	Loans in local currency	Loans in foreign currencies	Loans in local currency	Loans in foreign currencies
Manufacturing	W 7,304,861	W 777,957	W 6,785,571	W 393,326
Finance and insurance	511,707	1,160,539	244,470	1,065,838
Wholesales, retails and fixing customer goods	1,788,261	427,505	2,143,987	318,601
Construction	1,435,132	69,499	1,134,431	14,111
Other	7,565,689	918,356	11,812,705	756,975
	W 18,605,650	W 3,353,856	W 22,121,164	W 2,548,851

Industry	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001		2000	2001
Manufacturing	W 8,082,818	W 7,178,897	\$ 5,413,541	36.81	29.10
Finance and insurance	1,672,246	1,310,308	988,092	7.62	5.31
Wholesales, retails and fixing customer goods	2,215,766	2,462,588	1,857,015	10.09	9.98
Construction	1,504,631	1,148,542	866,105	6.85	4.66
Other	8,484,045	12,569,680	9,478,682	38.63	50.95
	W 21,959,506	W 24,670,015	\$ 18,603,435	100.00	100.00

Notes to the Non-Consolidated Financial Statements

(4) Loans in local currency and foreign currencies, by country, as of December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001		2000	2001
Loans in local currency:					
Korea	W 18,605,650	W 22,121,164	\$ 16,681,370	84.73	89.67
Loans in foreign currencies:					
Korea	1,003,295	2,067,276	1,558,914	4.57	8.38
Japan	434,996	73,164	55,172	1.98	0.30
Russia	193,400	131,284	99,000	0.88	0.53
Hong Kong	39,411	-	-	0.18	-
Indonesia	60,516	31,055	23,418	0.27	0.12
United States	1,095,820	223,637	168,643	4.99	0.91
Other	526,418	22,435	16,918	2.40	0.09
	3,353,856	2,548,851	1,922,065	15.27	10.33
	W 21,959,506	W 24,670,015	\$ 18,603,435	100.00	100.00

(5) Loans to financial institutions as of December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001		2000	2001
Loans in Korean Won:					
Loans to banks	W 431	W 353	\$ 266	0.08	0.14
Loans to leasing companies	208,368	11,351	8,560	40.72	4.64
Loans to credit cards and installment financing companies	204,822	86,412	65,163	40.03	35.35
Others	98,086	146,354	110,364	19.17	59.87
	W 511,707	W 244,470	\$ 184,353	100.00	100.00
Loans in foreign currencies:					
Loans to banks	W 250,580	W 336,845	\$ 254,012	21.59	31.60
Loans to leasing companies	509,753	322,003	242,820	43.93	30.21
Loans to credit cards and installment financing companies	387,537	252,821	190,650	33.39	23.72
Others	12,669	154,169	116,257	1.09	14.47
	W 1,160,539	W 1,065,838	\$ 803,739	100.00	100.00

(6) Loans to Daewoo Group Companies

Daewoo Group Companies were placed under a workout plan in August 1999 due to liquidity problems and are undergoing a workout plan or court receivership as of December 31, 2001. As of December 31, 2001, the Bank has loans outstanding to Daewoo Group Companies (including confirmed acceptances and guarantees and loans in guaranteed return trust accounts) of W526.1 billion (US\$396.7 million) for which an allowance for possible loan losses of W147.4 billion (US\$111.2 million), after deducting present value discounts of W0.1 billion (US\$0.1 million), has been provided based on prescribed loan classifications. The recovery of loans outstanding to Daewoo Group Companies is mainly dependent on the results of its on-going business restructuring which is under a workout plan or court receivership. The potential impact on the Bank's operations of the restructuring plan and difficulties Daewoo Group Companies is facing cannot presently be determined.

(7) Restructured loans to the companies under workout programs

As of December 31, 2001 the Bank's total exposure (including confirmed guarantees and acceptances and loans in guaranteed return trust accounts) to companies other than Daewoo Group Companies under workout programs amounted to W266.4 billion (US\$200.9 million). The Bank has provided an allowance for possible loan losses (including confirmed acceptances and guarantees and those in guaranteed return trust accounts) of W48.4 billion (US\$36.5 million), after deducting the present value discounts of W1.5 billion (US\$1.1 million). 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.

(8) Loans to Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Hyundai Petrochemical Co., Ltd., Ssangyong Corporation, and Ssangyong Cement Industrial Co., Ltd.

As of December 31, 2001, the Bank has outstanding credits including loans, payment guarantee and others to Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd. and Hyundai Petrochemical Co., Ltd. amounting to W592.2 billion (US\$446.6 million), W261.9 billion (US\$197.5 million), and W8.0 billion (US\$6.0 million), respectively and has provided an allowance for possible loan losses of totaling W277.8 billion (US\$209.5 million) for these credits. In addition, in its bank accounts, the Bank has outstanding credits including loans, payment guarantee and others to Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd., amounting to W425.5 billion (US\$320.9 million) and W196.8 billion (US\$148.4 million), respectively, and has provided an allowance for possible loan losses totaling W91.3 billion (US\$68.8 million) for these credits. The potential impact on the Bank's operations of the liquidity problems Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Hyundai Petrochemical Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

(9) Details of loans restructured for the year 2001, including swaps of debts to equity or mandatory convertible bonds, are as follows (in millions of Won):

Borrowers	Status of borrowers	Date of restructuring	Loans before restructuring	Principal forgiveness	Loans to be swapped into equity	Loans swapped into equity	Loans swapped into CB	Other changes in terms
Hynix Semiconductor Inc.	Others	2001.10.31	W 694,907	W -	W 289,881	W -	W 133,600	W 271,426
Ssangyong Motor Co., Ltd.	Work-out	2001.11.22	246,999	-	145,424	-	-	101,575
Hyundai Engineering & Construction Co., Ltd.	Others	2001.11.28	245,221	4,319	-	153,302	87,600	-
Jindo Corporation	Court receivership	2001.10.31	31,600	-	24,976	-	-	6,624
Haitai Confectionery Co., Ltd.	Court receivership	2001.08.29	31,490	31,490	-	-	-	-
Youngnam Textile Co., Ltd.	Court receivership	2001.11.30	26,416	-	-	9	11,599	14,808
Segye Corporation	Court receivership	2000.11.23	20,544	-	-	20,544	-	-
Hyundai Petrochemical Co., Ltd.	Others	2001.10.17	17,846	11,759	-	6,087	-	-
Ssangyong Engineering & Construction Co., Ltd.	Work-out	2001.06.07	15,450	-	-	-	15,450	-
Other (17 borrowers)			50,478	4,839	-	31,167	-	14,472
			W1,380,951	W 52,407	W 460,281	W 211,109	W 248,249	W 408,905

Loans to be swapped into equity are the receivables that were committed for swap against equity securities in the future. In addition to the above amount, as of December 31, 2001, loans to be swapped into equity include W1,552 million to Kukje Corporation, for which court receivership was approved by the court before 2001.

(10) Sales of non-performing loans

The Bank sold loans during 2001 and the details are summarized below.

Loans sold through international auction are as follows (in millions of Won):

Description	Principal amount		
	Bank accounts	Trust accounts	Total
1 st international auction	W 743,039	W 80,316	W 823,355
2 nd international auction	409,999	-	409,999
3 rd international auction	404,561	43,709	448,270
	W 1,557,599	W 124,025	W 1,681,624

Loans sold to special purpose company (SPC) are as follows (in millions of Won):

Special purpose companies	Principal amount		
	Bank accounts	Trust accounts	Total
CHB NPL 1st SPC (*1)	W 673,808	W 108,012	W 781,820
CHB Value Meet SPC (*2)	660,076	72,236	732,312
CHB Value Meet SPC (*2)	83,350	5,796	89,146
	W 1,417,234	W 186,044	W 1,603,278

(*1) In order to reinforce the credit of asset-backed securities (ABS) issued, the Bank assumed a recourse obligation of W90,000 million (US\$67,868 thousand) and provided a collateral of investment securities of W40,000 million (US\$30,164 thousand).

(*2) On July 10, 2001, the Bank established C&V Asset Management Co., Ltd., a joint-venture asset management company, with capital stock investment amounting to W1,000 million (US\$754 thousand). The Bank and Value Meet Investment own 49% and 51% of its equity, respectively.

Besides the sales of loans described above, there are sales of small amounts of offshore loans in foreign currencies and some domestic loans to KAMCO.

The Bank recognized the loss on sales of loans of W380,757 million (US\$287,125 thousand) and W37,029 million (US\$27,923 thousand) in bank accounts and trust accounts in 2001, respectively, through these sales of loans.

8. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) The allowances for possible loan losses as of December 31, 2001 and 2000 are summarized as follows:

	Billions of Korean Won		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Loans in local currency	W 804.9	W 420.2	\$ 316.9
Loans in foreign currencies	328.6	90.2	68.0
Advances for customers on payment guarantees	130.7	16.9	12.7
Bills bought in foreign currencies	147.7	103.1	77.7
Credit card accounts	54.5	146.4	110.4
Privately placed bonds	115.3	14.8	11.2
Investment in direct financing leases	-	3.5	2.6
Loans to be swapped into equity	33.6	202.6	152.8
Other	54.4	33.0	24.9
	W 1,669.7	W 1,030.7	\$ 777.2

Notes to the Non-Consolidated Financial Statements

(2) Details, by increase and decrease, of the allowance for possible loan losses in 2001 and 2000 are as follows:

	Billions of Korean Won		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Beginning balance	W 2,481.8	W 1,669.7	\$ 1,259.1
Provision for loan losses	852.3	751.3	566.5
Write-offs	(1,453.5)	(1,039.0)	(783.5)
Other changes (*)	(210.9)	(351.3)	(264.9)
Ending balance	W 1,669.7	W 1,030.7	\$ 777.2

(*) Other changes are the net of decrease and increase by debts to equity swap, sales of loans, repurchases of loans sold by recourse obligation and collection of loan charge-offs.

(3) The allowance for possible loan losses compared to total credits in bank accounts as of December 31, 2001, 2000 and 1999 is as follows:

	Total credits		Allowance for possible loan losses		Coverage ratio (%)
	Billions of Korean Won	Millions of U.S. Dollars (Note 2)	Billions of Korean Won	Millions of U.S. Dollars (Note 2)	
December 31, 2001	W 34,262.7	\$ 25,837.2	W 1,030.7	\$ 777.2	3.01
December 31, 2000	30,218.5	23,988.6	1,669.7	1,325.5	5.53
December 31, 1999	26,427.0	23,072.3	2,481.8	2,166.8	9.39

BOK Basic Rate was W1,259.70 and W1,145.40 to US\$1.00 as of December 31, 2000 and 1999, respectively.

(4) The following tables set forth the classification of total credits in bank account as of December 31, 2001 and 2000 (in billion of Won):

	2001					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	W20,723.2	W 821.7	W 387.3	W 88.1	W 62.0	W22,082.3
Loans in foreign currencies	1,874.4	405.9	49.8	14.0	3.7	2,347.8
Bills bought in foreign currencies	1,858.1	215.5	0.4	67.7	-	2,141.7
Advances for customers on payment guarantees	61.2	4.5	34.2	5.5	6.3	111.7
Credit card accounts	4,617.0	153.4	0.1	87.6	76.4	4,934.5
Privately placed bonds	137.4	24.2	23.6	10.1	-	195.3
Investment in direct financing leases	228.2	18.8	2.2	3.2	-	252.4
Loans for debt to equity swap	-	289.9	-	170.4	1.5	461.8
Other	1,643.0	73.4	10.1	0.6	8.1	1,735.2
	W31,142.5	W 2,007.3	W 507.7	W 447.2	W 158.0	W34,262.1

Total credits described above present the amount after deducting the present value discounts of W27.2 billion (US\$20.5 million) and excluded W15.6 billion (US\$11.8 million) of inter-bank loans in local currency, W200.9 billion (US\$151.5 million) of inter-bank loans in foreign currency, and W84.7 billion (US\$63.9 million) of call loans and included W15.8 billion (US\$11.9 million) of accounts receivable and suspense receivables that have credit attribution and subject to asset classification.

Notes to the Non-Consolidated Financial Statements

As of December 31, 2001, the Bank classified W592.2 billion credit exposures as precautionary but provided more than 20% possible loan loss provision amounting to W236.9 billion.

	2000					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	W16,722.2	W 530.1	W 775.4	W 263.2	W 219.1	W18,510.0
Loans in foreign currencies	2,086.6	357.2	638.1	144.9	80.5	3,307.3
Bills bought in foreign currencies	2,157.6	326.0	32.7	146.4	18.4	2,681.1
Advances for customers on payment guarantees	75.9	99.5	66.6	111.4	50.4	403.8
Credit card accounts	2,830.2	83.9	-	41.5	17.9	2,973.5
Privately placed bonds	202.9	28.5	96.8	114.5	1.0	443.7
Investment in direct financing leases	283.8	18.0	142.5	6.7	-	451.0
Other	1,300.8	63.7	32.9	45.0	5.7	1,448.1
	W25,660.0	W 1,506.9	W 1,785.0	W 873.6	W 393.0	W30,218.5

Total credits described above present the amounts after deducting the present value discounts of W169.1 billion and excluded W23.7 billion of inter-bank loans in local currency, W454.4 billion of call loans, and W400.0 billion of bonds purchased under resale agreements and included W47.6 billion of accounts receivable and suspense receivables that have credit attribution and subject to asset classification.

9. PRESENT VALUE DISCOUNTS:

(1) Present value discounts in relation to the restructured loans as of December 31, 2001 are summarized as follows:

Borrower	Face value			Maturity date	Unamortized present value discounts	
	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)	Discount rate (%)		Millions of Korean Won	Thousands U.S. Dollars (Note 2)
Daelim Industrial Co., Ltd.	W 75,380	\$ 56,843	11.50	2008.09.08	W 15,865	\$ 11,964
Samho International Co., Ltd.	26,250	19,795	11.50	2006.09.08	72	54
Dongbang Textile & Mart Co., Ltd.	23,601	17,797	9.41	2002.12.31	124	94
Anam Semiconductor, Inc.	20,000	15,082	12.75	2003.12.31	494	373
Dongbang Transport Logistics Co., Ltd.	15,974	12,046	10.00	2002.12.31	271	204
Choongnam Spinning Co., Ltd.	8,767	6,611	10.00	2003.12.31	463	349
Kia Steel Co., Ltd.	5,830	4,396	13.00	2008.12.31	2,440	1,840
Hanjin Shipping Co., Ltd.	4,809	3,627	11.50	2017.10.01	4,050	3,054
Renault Samsung Motors Co., Ltd.	4,242	3,199	10.00	2015.03.13	2,235	1,685
Daewoo Heavy Industry & Machinery Co., Ltd.	3,366	2,538	5.50	2002.12.31	98	74
Others (14 companies)	199,593	150,511			3,460	2,609
	W 387,812	\$ 292,445			W 29,572	\$ 22,300

Notes to the Non-Consolidated Financial Statements

(2) Present value discounts in relation with restructured loans as of December 31, 2000 are summarized as follows:

Borrower	Face value			Maturity date	Unamortized present value discounts
	Millions of Korean Won	Discount rate (%)			Millions of Korean Won
Korea Development Lease	W 257,736	10.00		2009.06.30	W 49,171
Jindo	210,352	9.89		2004.12.31	46,082
Sepoong Co.	139,065	10.63		2004.12.31	13,614
Daelim Industrial Co., Ltd.	130,190	11.50		2008.09.08	5,525
Hanmi Capital	51,757	7.13		2005.08.31	963
Chohung Capital Co., Ltd.	34,921	8.22		2005.12.31	593
Chungbu Leasing Co., Ltd.	28,861	8.26		2009.03.31	1,526
Korea Housing Guarantee Co., Ltd.	28,460	10.40		2009.12.31	2,463
Kyoungnam Leasing Co., Ltd.	27,417	7.68		2008.08.30	1,657
Samho International Co., Ltd.	26,250	11.50		2006.09.08	172
Other (66 companies)	261,243				50,039
	<u>W 1,196,252</u>				<u>W 171,805</u>

(3) Changes in present value discounts during the year 2001 are as follows (in millions of Won):

Conditions of borrowers	Beginning balance	Increase	Decrease	Ending balance
Court receivership	W 12,625	W -	W 6,551	W 6,074
Court mediation	44	-	44	-
Work-out programs	91,737	4,661	94,774	1,624
Industrial rationalization	12,005	14,144	4,275	21,874
Others	55,394	-	55,394	-
	<u>W 171,805</u>	<u>W 18,805</u>	<u>W 161,038</u>	<u>W 29,572</u>

10. FIXED ASSETS:

Fixed assets as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Land	W 925,523	W 900,551	\$ 679,097
Buildings	400,234	404,229	304,826
Leasehold improvements	33,317	36,176	27,280
Furniture and equipment	385,469	407,035	306,941
Construction in progress	5,463	6,025	4,543
Total tangible assets	1,750,006	1,754,016	1,322,687
Accumulated depreciation	(392,494)	(417,356)	(314,724)
Goodwill	336,074	224,043	168,949
Other intangible assets	5,266	4,876	3,677
Non-business use properties	682	208	157
Valuation allowances	(140)	(12)	(9)
	<u>W 1,699,394</u>	<u>W 1,565,775</u>	<u>\$ 1,180,737</u>

As of December 31, 2001 and 2000, the published value of land was W681,179 million (US\$513,671 thousand) and W719,982 million, 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.

Notes to the Non-Consolidated Financial Statements

11. OTHER ASSETS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Guarantee deposits	W 428,386	W 427,152	\$ 322,111
Accounts receivable	1,240,638	936,602	706,283
Accrued income	460,533	355,610	268,162
Prepaid expenses	10,096	6,987	5,269
Deferred income tax assets	9,524	200,248	151,005
Domestic exchange settlement account - debit	160,025	1,436,041	1,082,906
Adjustment for valuation of financial derivatives	36,549	68,261	51,475
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	206,058	173,520	130,850
Loans to trust accounts	600,000	139,000	104,819
Accounts receivables - other	57,924	23,848	17,984
Other	147,919	390,370	294,374
	W 3,357,652	W 4,157,639	\$ 3,135,238

12. COLLATERALIZED ASSETS:

Collateralized assets as of December 31, 2001 and 2000 are summarized as follows:

Collateralized assets	Provided to	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Provided for
		2000	2001	2001	
Investment securities	Bank of Korea	W 1,655,000	W 1,400,000	\$ 1,055,727	RP of Bank of Korea (BOK)
"	"	246,700	276,100	208,204	Settlement risk
"	"	966,800	1,026,300	773,923	Borrowings from BOK
"	"	210,000	735,000	554,257	Intra-day overdraft from BOK
"	Sumitomo Bank				
"	Seoul and other	1,219,700	789,000	594,978	Borrowings in foreign currency
"	Customer RP	700,000	1,650,000	1,244,250	Customer RP
"	Samsung Futures				
"	Inc. and other	-	8,500	6,410	Futures transaction
"	KAMCO	202,672	26,743	20,167	Settlement of sales of non-performing loans
"	ING Seoul	-	26,300	19,832	Interest rate swap
"	SPC	-	40,000	30,164	Collateral regarding the issuance of ABS
"	Seoul Guarantee Insurance Co. and other	-	78,802	59,424	Securities lent
Real estate for business purpose	Lessees	10,930	16,291	12,285	Key money deposit for rent
		W 5,211,802	W 6,073,036	\$ 4,579,621	

Notes to the Non-Consolidated Financial Statements

13. INSURED ASSETS:

Assets insured as of December 31, 2001 and 2000 are as follows (in millions of Won):

Type of insurance	Assets	Book Value		Insured Amount	
		2000	2001	2000	2001
Fire	Buildings	W 346,362	W 338,037	W 361,338	W 349,779
	Furniture and Equipment	72,239	83,932	57,081	115,103
		W 418,601	W 421,969	W 418,419	W 464,882

14. DEPOSITS:

(1) Deposits as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Deposits in local currency	W 29,817,744	W 33,276,165	\$ 25,093,255
Deposits in foreign currencies	1,666,492	1,857,807	1,400,955
Negotiable certificates of deposits	1,452,086	2,320,531	1,749,891
Deposits in bills issued	1,022,991	1,226,611	924,976
Trust of cash management accounts	433,627	241,030	181,759
	W 34,392,940	W 38,922,144	\$ 29,350,836

(2) Deposits from other banks and financial institutions as of December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001	2001	2000	2001
Bank of Korea	W 1,320,259	W 283,920	\$ 214,101	43.50	12.74
Commercial banks	3,474	128,364	96,798	0.11	5.76
Securities companies	417,102	485,863	366,385	13.75	21.79
Insurance companies	531,912	177,712	134,011	17.53	7.97
Savings institutions	594,533	934,908	705,006	19.59	41.93
Investment institutions	167,508	191,764	144,607	5.52	8.60
Other financial institutions	60	27,024	20,379	0.00	1.21
	W 3,034,848	W 2,229,555	\$ 1,681,287	100.00	100.00

15. BORROWINGS:

Borrowings as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Borrowings in local currency:			
General borrowings	W 1,425,850	W 1,577,563	\$ 1,189,626
Subordinated borrowings	268,500	88,500	66,737
	1,694,350	1,666,063	1,256,363
Borrowings in foreign currencies	1,782,221	1,834,190	1,383,146
Bonds sold under repurchase agreements	1,342,957	1,816,983	1,370,170
Bills sold	698,967	492,655	371,507
Due to Bank of Korea in foreign currencies	1,663,130	376,506	283,920
Call money	146,131	297,974	224,700
	W 7,327,756	W 6,484,371	\$ 4,889,806

Notes to the Non-Consolidated Financial Statements

16. DEBENTURES:

(1) Debentures as of December 31, 2001 and 2000 are summarized as follows:

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
		2000	2001	2001
Debentures in local currency:				
General debentures	4.80~8.56%	W 300,000	W 450,000	\$ 339,341
Subordinated debentures	7.70~18.00%, Prime rate+1~2%	775,700	1,075,700	811,176
Debenture with warrants	10.00%	550,000	-	-
		1,625,700	1,525,700	1,150,517
Discounts on debentures		-	(5,836)	(4,401)
		1,625,700	1,519,864	1,146,116
Debentures in foreign currencies:				
General debentures	3M Libor+1.30%, 6M Libor+0.23~1.20%	598,213	205,546	155,000
Subordinated debentures	6M Libor+1.25~4.95%, 11.50~11.88%	822,053	704,443	531,214
		1,420,266	909,989	686,214
Discounts on debentures		(9,389)	(10,177)	(7,674)
		1,410,877	899,812	678,540
		W 3,036,577	W 2,419,676	\$ 1,824,656

17. ALLOWANCE FOR POSSIBLE LOSSES ON CONFIRMED ACCEPTANCES AND GUARANTEES:

(1) The classifications of confirmed acceptances and guarantees as of December 31, 2001 and 2000 are as follows (in billions of Won):

	2001					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Confirmed acceptances and guarantees	W 1,929.1	W 192.3	W 44.3	W 23.7	W 1.3	W 2,190.7
Required ratio of allowance for credit losses to credit balances	0%	0%	20%	50%	100%	
Minimum required allowance for credit losses	W -	W -	W 8.9	W 11.8	W 1.3	W 22.0
Allowance for credit losses recorded	W -	W 29.1	W 8.9	W 12.3	W 1.3	W 51.6
	2000					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Confirmed acceptances and guarantees	W 2,290.9	W 340.6	W 107.5	W 42.0	W 1.0	W 2,782.0
Required ratio of allowance for credit losses to credit balances	0%	0%	20%	50%	100%	
Minimum required allowance for credit losses	W -	W -	W 21.5	W 21.0	W 1.0	W 43.5
Allowance for credit losses recorded	W -	W 16.6	W 22.9	W 23.3	W 1.0	W 63.8

Notes to the Non-Consolidated Financial Statements

(2) Percentages of allowances for acceptances and guarantees outstanding on the aggregate amount of acceptances and guarantees outstanding for the last three years are as follows (in billions of Won):

	As of December 31, 1999	As of December 31, 2000	As of December 31, 2001
Aggregate amount of acceptances and guarantees confirmed	W 3,562.0	W 2,782.0	W 2,190.7
Allowances for acceptances and guarantees confirmed	W 172.2	W 63.8	W 51.6
Percentage (%)	4.83	2.29	2.36

18. OTHER LIABILITIES:

Other liabilities as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Accrued severance benefits (see Note 2)	W 130,911	W 20,688	\$ 15,601
Transfer to National Pension Fund (see Note 2)	(7,625)	-	-
Deposit with employee retirement trust (see Note 2)	-	(10,000)	(7,541)
Allowance for possible losses on acceptances and guarantees	63,819	51,565	38,885
Borrowings from trust accounts	499,811	655,804	494,536
Foreign exchange remittances pending	34,540	65,452	49,357
Accounts payable	971,125	776,137	585,278
Accrued expenses	990,035	892,923	673,345
Unearned revenues	116,200	106,280	80,145
Deposits for letters of guarantees and other	64,643	89,360	67,385
Domestic exchange settlement account - credit	156,372	1,203,420	907,488
Accounts payable - other	84,860	362,578	273,417
Adjustment for valuation of financial derivatives	78,437	24,268	18,300
Other	306,125	480,448	362,301
	W 3,489,253	W 4,718,923	\$ 3,558,497

19. SHAREHOLDERS' EQUITY:

(1) Common stock

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 679,078,115 common shares were issued and 661,764,465 common shares outstanding as of December 31, 2001.

In accordance with the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at the rate of 4.5045 shares to one share under a capital reduction without consideration. The capital reduction resulted in a decrease of W723.9 billion in the common stock and a gain for 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 by a total of W2,717.9 billion by issuing 544 million shares to Korea Deposit Insurance Corporation (KDIC) at par value. In addition, the Bank increased its common stock by W196.2 billion as a result of the acquisitions of Chungbuk Bank and Kangwon Bank. On November 23, 1999, the Bank increased its

common stock by W275.0 billion through an offering of 55,000,000 shares of common stock for an aggregate offer price of approximately W302.5 billion. The common stock as of December 31, 2001 amounted to W3,395.4 billion (US\$2,560.4 million), of which KDIC owns 80.05 percent.

(2) Disposition of accumulated deficit

To dispose the accumulated deficit, on February 28, 1998, the Bank transferred voluntary reserves amounting to W279.3 billion and on February 18, 1999, capital surplus, statutory reserve and other voluntary reserve totaling to W1,196.0 billion were additionally transferred. On February 12, 1999, the Bank disposed its accumulated deficits using the gain on reduction of capital stock of W723.9 billion, which was recognized by the resolution in a temporary general meeting of shareholders held on January 27, 1999.

(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 2001, beginning balance of other reserve was W7,984 million and ending balance was W9,145 million (US\$6,896 thousand), reflecting W1,675 million (US\$1,263 thousand) of appropriation and W514 million (US\$388 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, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Net cumulative effect to prior years of changes in accounting principles (see Note 2):	W (43,238)	W 1,176	\$ 887
Adjustment of retained earnings of subsidiaries valued using the equity method	(28,176)	(270)	(204)
	W (71,414)	W 906	\$ 683

(5) Capital adjustments

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Discounts on stock issuance	W (816)	W -	\$ -
Stock option cost	412	1,321	996
Treasury stock	(161,728)	(72,902)	(54,975)
Loss on valuation of investment securities, net	(305,988)	(408,341)	(307,926)
	W (468,120)	W (479,922)	\$ (361,905)

1) Discount on stock issuance

Discount on stock issuance of W816 million as of December 31, 2000 was fully amortized in 2001. The amortization of discount on stock issuance of W816 million (US\$615 thousand) in 2001 was debited to the accumulated deficit.

2) Treasury stock

As of December 31, 1999, the Bank had 29,279,890 shares of treasury stock with a carrying value of W262,742 million arising from the purchase of the shares of dissenters on the acquisition of Kangwon Bank. In 2000, the

Bank disposed of the treasury stock with a carrying value of W298 million by awarding the shares to employees and added the valuation loss on treasury stock of W100,716 million to goodwill which is being amortized over the remaining useful life up to 2003 using the straight-line method. In 2001, the Bank sold 11,916,240 shares of treasury stock with a book value of W88,752 million (US\$66,927 thousand) and awarded 10,000 shares of treasury stock with a book value of W74 million (US\$56 thousand) to employees. The loss on sales of treasury stock of W59,409 million (US\$44,800 thousand), which resulted from these transactions in 2001, was added to the accumulated deficit.

3) Stock option cost

On March 27, 2000 and March 9, 2001, the Bank granted stock options, which give the grantee the right to buy the Bank's shares at the exercise price of W5,000 per share, to the management of the Bank 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 non-performing loans ratio, and BIS capital ratio. The stock options are exercisable during a three-year period beginning after three years from the grant date. If the stock options are exercised, the Bank has the option either to issue new shares or shares held as treasury stock, or to pay the difference between the market price and the exercise price in cash.

The summary of stock options granted as of December 31, 2001 is as follows:

Description	First grant	Second grant
Exercisable number of shares	969,200 shares	664,000 shares
Type	Share issue	Share issue
Exercise price	W5,000 per share	W5,000 per share
Exercisable period	2003.3.28~2006.3.27	2004.3.10~2007.3.9
Valuation method	Fair value approach	Fair value approach

The summary of stock option costs over the exercisable period is as follows (in millions of Won):

Description	First grant	Second grant	Total
Total stock option costs	W 989	W 912	W 1,901
Amortized in prior periods	412	-	412
Amortized in current nine month period	529	380	909
To be amortized after current period	48	532	580

The Bank estimated stock option costs using Black & Scholes Pricing Model of which detail is as follows:

Description	Application
Risk free rate	Yield of 3 year treasury bond (9.07% for first and 5.99% for second)
Expected exercising period	4.5 year (average holding period)
Expected variable of stock price	81% for the first and 95% for the second that are the annualized standard deviation of expected stock investment yield based on continuous compounding method
Weight average of exercise price	W5,000 per share
Weight average of fair value	W989 million for the first and W912 million for the second

Notes to the Non-Consolidated Financial Statements

4) Loss on valuation of investment securities, net

Loss on valuation of investment securities as of December 31, 2001 and 2000 consists of:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Valuation of investment securities of subsidiaries using equity method	W 23,129	W 23,081	\$ 17,405
Marketable equity securities of overseas branches	(4,869)	(1,263)	(952)
Marketable equity securities of headquarters	(324,248)	(430,159)	(324,379)
	W (305,988)	W (408,341)	\$ (307,926)

(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 which amounted to W120,115 million and W314,091 million, respectively. In addition, the Bank included in the goodwill the valuation loss from the treasury stock, which had not been disposed as of December 31, 2000 and amortized the valuation loss included in goodwill over the remaining useful life, which will end in 2003. 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 remaining useful life including the year of purchase.

20. FEES AND COMMISSIONS AND COMMISSIONS ON CREDIT CARD ACCOUNTS:

Interest on loans included fees and commissions on credit card accounts amounting to W890.8 billion (US\$671.7 million) and W560.7 billion in 2001 and 2000, respectively. Also, other interest expenses included certain commissions on credit card accounts amounting to W77.4 billion (US\$58.4 million) and W45.2 billion in 2001 and 2000, respectively.

21. FEES AND COMMISSIONS:

Fees and commissions for the years ended December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Guarantee fees	W 10,175	W 10,338	\$ 7,796
Commissions received from termination of trust accounts	10,312	2,446	1,845
Service charge on other financial services	143,121	163,120	123,007
	W 163,608	W 175,904	\$ 132,648

22. OTHER NON-INTEREST INCOME:

Other non-interest income for the years ended December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Gain on sale of investment securities	W 72,093	W 49,164	\$ 37,074
Recovery of investment bonds impairment loss	10,541	21,375	16,119
Gain on valuation of stock market stabilization fund	23,353	20,071	15,135
Gain on sale of loans	6,619	824	621
Reversal of allowance for possible losses of acceptances and guarantees	90,700	19,400	14,630
Gain on valuation of investments using equity method	5,977	22,112	16,674
Other	225,536	191,333	144,283
	W 434,819	W 324,279	\$ 244,536

23. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Salaries	W 205,113	W 206,639	\$ 155,825
Provision for severance benefits	30,100	19,517	14,718
Other employee benefits	105,650	107,224	80,857
Rent	17,532	21,191	15,980
Entertainment	8,366	7,533	5,680
Depreciation	64,217	70,693	53,309
Amortization of intangible assets	113,350	113,130	85,310
Taxes and dues	37,388	32,347	24,392
Advertising	10,103	13,477	10,163
Other	104,753	120,988	91,236
	W 696,572	W 712,739	\$ 537,470

24. OTHER NON-INTEREST EXPENSES:

Other non-interest expenses for the years ended December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Loss on disposal of investment securities	W 86,677	W 54,597	\$ 41,171
Investment securities impairment loss	34,037	79,647	60,061
Insurance expenses	22,659	28,005	21,119
Other	176,204	177,960	134,198
	W 319,577	W 340,209	\$ 256,549

25. INCOME TAXES:

Annual tax charge takes into account current income taxes on taxable income and expenses for the year, and deferred taxes resulting from timing differences and loss carryforward. Deferred taxes are calculated according to liability method for the timing differences added or deducted during the year and loss carryforward using the future year's estimated tax rate. The Bank is subject to a number of taxes based on earnings, which result in the normal tax rate of 30.8percent in 2001 and 2000. Beginning 2002, it will be decreased to 29.7 percent.

(1) Income tax expense for the years ended December 31, 2001 and 2000 consists of the following:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Domestic offices:			
Tax effect on cumulative temporary differences	W -	W (46,168)	\$ (34,815)
Tax effect on tax loss carryforward	-	(143,861)	(108,484)
	-	(190,029)	(143,299)
Overseas offices:			
Income taxes to be paid	3,365	4,618	3,482
Changes in deferred income tax assets or liabilities	181	(695)	(524)
	3,546	3,923	2,958
Income tax expenses	W 3,546	W (186,106)	\$ (140,341)

(2) For the years ended December 31, 2001 and 2000, the differences between income before income taxes 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	2001	2001
Income before income taxes	W 104,631	W 336,425	\$ 253,695
Permanent differences	(151,579)	(59,839)	(45,124)
Temporary differences	(118,223)	113,321	85,454
	(165,171)	389,907	294,025
Tax loss carryforward	-	389,907	294,025
Taxable income (Tax loss)	W (165,171)	W -	\$ -

Notes to the Non-Consolidated Financial Statements

(3) Details of cumulative temporary differences and loss carryforward, including their increase and decrease, for the current year are as follows (in millions of Won):

Accounts	Beginning balance	Increase	Decrease	Ending balance
Allowance for possible loan losses	W 324,591	W 330,026	W 324,591	W 330,026
Reserve for loss on overseas investments	(8,567)	-	(8,567)	-
Accrued interest	(231,700)	(126,192)	(160,735)	(197,157)
Goodwill	(336,061)	-	(112,020)	(224,041)
Allowance for possible losses of confirmed acceptances and guarantees	63,819	47,255	63,819	47,255
Present value discounts	171,805	18,129	171,805	18,129
Gain on valuation of derivatives	41,888	(43,993)	41,888	(43,993)
Treasury stock	100,716	22,862	41,079	82,499
Other	71,079	233,258	6,164	298,173
	197,570	481,345	368,024	310,891
Tax loss carryforward	3,174,991	-	389,907	2,785,084
	W 3,372,561	W 481,345	W 757,931	W 3,095,975

(4) The deferred income tax assets as of December 31, 2001 and 2000 are as follows (in millions of Won):

	As of December 31, 2000	Increase	As of December 31, 2001
Domestic offices	W -	W 190,029	W 190,029
Overseas offices	9,524	695	10,219
	W 9,524	W 190,724	W 200,248

The Bank did not recognize the deferred income tax assets resulting from temporary difference and loss carry forward as of December 31, 2000 due to uncertainty of realization. Since the Bank's operations improved significantly in 2001 and the bank projected that the improved results will continue, the Bank recognized deferred tax assets resulting from temporary differences and loss carryforwards.

(5) Tax loss carryforwards are subject to a five year carryforward period. The details of tax loss carryforwards together with their effective period as of December 31, 2001 are as follows (in millions of Won):

Year incurred	Amount	Use in current year	Remaining balance as of December 31, 2001	Period deductible
1998	W 2,102,128	W 389,907	W 1,712,221	By 2003
1999	907,692	-	907,692	By 2004
2000	165,171	-	165,171	By 2005
	W 3,174,991	W 389,907	W 2,785,084	

The tax loss carryforward incurred in 1999 was taken over from Kangwon Bank and Chungbuk Bank by the merger. However, this loss carryforward is deductible only when the business division reports taxable income.

26. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Subsidiaries as of December 31, 2001 are as follows (in millions of Won):

Subsidiaries	Capital stock	Number of shares	Equity ownership (%)
In Korea			
Chohung Investment Trust and Management Co., Ltd.	45,000	7,179,678 shares	79.77%
Outside of Korea			
Chohung Finance Ltd., Hong Kong	19,892	149,999 shares	99.99%
Chohung Bank of New York	18,565	400,000 shares	100.00%
Chohung Bank (Deutschland) GmbH	17,986	Limited partnership	100.00%
California Chohung Bank	40,686	3,068,070 shares	100.00%
Chohung Vina Bank	26,522	Limited partnership	50.00%

(2) Significant balances with related parties as of December 31, 2001 are as follows (in millions of Won):

	Due from banks in foreign currencies	Loans in foreign currencies	Call loans
Assets			
Chohung Finance Ltd., Hong Kong	W -	W 90,175	W 2,652
Chohung Bank of New York	997	13,261	-
Chohung Bank (Deutschland) GmbH	832	101,710	23,870
California Chohung Bank	226	-	-
	W 2,055	W 205,146	W 26,522

	Deposits in local currency	Deposits in foreign currencies	Borrowings in foreign currencies	Call money
Liabilities				
Chohung Investment Trust and Management Co., Ltd.	W 53,260	W -	W -	W -
Chohung Finance Ltd., Hong Kong	-	759	-	-
Chohung Bank (Deutschland) GmbH	-	-	36,651	14,071
Chohung Vina Bank	-	-	50,392	3,978
	W 53,260	W 759	W 87,043	W 18,049

Significant transactions with related parties during the year ended December 31, 2001 are as follows (in millions of Won):

	Interest income	Interest expenses
Chohung Investment Trust and Management Co., Ltd.	W -	W 3,319
Chohung Finance Ltd., Hong Kong	703	969
Chohung Bank of New York	1,394	12
Chohung Bank (Deutschland) GmbH	4,516	4,596
Chohung Vina Bank	-	2,287
	W 6,613	W 11,183

Notes to the Non-Consolidated Financial Statements

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

	Due from banks in foreign currencies		Loans in foreign currencies		Call loans			
	W		W		W			
Assets								
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		
	Deposits in local currency		Deposits in foreign currencies		Borrowings in foreign currencies		Call money	
	W		W		W		W	
Liabilities								
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
Chohung Vina Bank		-		-		33,382		-
	W	49,566	W	19,012	W	40,063	W	18,211

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

	Interest income		Interest expenses	
	W		W	
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
Chohung Vina Bank		-		75
	W	9,091	W	9,775

(4) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2001 and 2000 are summarized as follows:

Beneficiary	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)		Description
	2000	2001	2001		
Chohung Finance Ltd., Hong Kong	W 4,396	W 7,744	\$ 5,840		L/C Guarantees
Chohung Bank (Deutschland) GmbH	1,851	2,313	1,744		Guarantees for L/C and borrowings

27. 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, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Confirmed:			
Local currency:			
Corporate debentures	W 110,947	W 37,444	\$ 28,236
Financing	50,645	79,294	59,795
Other	259,699	398,619	300,595
Foreign currencies:			
Acceptance	1,684,184	1,359,076	1,024,867
Letters of guarantee - trade finance	78,495	39,439	29,741
Other	598,064	276,830	208,755
	W 2,782,034	W 2,190,702	\$ 1,651,989
Unconfirmed:			
Issuance of letters of documentary credit	W 1,798,780	W 1,179,569	\$ 889,502
Other	130,337	337,012	254,138
	W 1,929,117	W 1,516,581	\$ 1,143,640

(2) Details, by industry sector, of acceptances and guarantees as of December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001	2001	2000	2001
Manufacturing	W 3,437,683	W 2,804,681	\$ 2,114,985	72.97	75.65
Whole sale/ retail	1,014,859	802,238	604,960	21.54	21.64
Finance/ Insurance	39,434	40,910	30,850	0.84	1.11
Construction	50,686	30,893	23,296	1.07	0.83
Others	168,489	28,561	21,538	3.58	0.77
Total	W 4,711,151	W 3,707,283	\$ 2,795,629	100.00	100.00

(3) Details, by borrower type, of acceptances and guarantees as of December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2000	2001	2001	2000	2001
Enterprises	W 4,531,392	W 3,664,502	\$ 2,763,368	96.18	98.85
Households	11,270	14,220	10,723	0.24	0.38
Public sector and others	168,489	28,561	21,538	3.58	0.77
Total	W 4,711,151	W 3,707,283	\$ 2,795,629	100.00	100.00

(4) The financial derivatives contracts as of December 31, 2001 and 2000 are summarized as follows. As of and for the year ended December 31, 2001, 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 sheets are as follows (in millions of Won):

Type	Outstanding contract amount (*)		Gain (Loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forward	W 1,403,576	W 329,290	W 14,380	W 20,019	W 4,934
Currency swap	45,724	9,283	12,458	393	2,930
Currency option (Buy)	39,865	-	(790)	-	(790)
Currency option (Sell)	46,661	-	790	(59)	784
	1,535,826	338,573	26,838	20,353	7,858
Interest rate swap	168,643	724,944	(88)	23,905	36,135
	168,643	724,944	(88)	23,905	36,135
	W 1,704,469	W 1,063,517	W 26,750	W 44,258	W 43,993

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 sheets are as follows (in millions of Won):

Type	Outstanding contract amount (*)		Gain (Loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
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 (Buy)	67,335	-	(974)	-	974
Currency option (Sell)	73,634	-	1,037	-	(975)
	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)

*Derivative contracts for Korean Won to foreign currency is translated into Korean Won using contract exchange rate against foreign currency and the contracts for foreign currency to foreign currency is translated into Korean Won using market exchange rate as of the balance sheet date against purchased foreign currency.

The outstanding contract amount and the gain or loss on valuation for hedging purpose as described in the table above includes both the derivative transactions accounted for using hedge accounting, pursuant to the Interpretations on Financial Accounting Standards 53-70, and derivative transactions used for hedging activities but not accounted for as hedges. As of December 31, 2001, the Bank does not have derivative transactions used for cash flow hedging activities or accounted for as cash flow hedges. However, the Bank had derivative instruments accounted for as fair value hedges. Hedged items, to which fair value hedge accounting was applied, consist of investment securities and subordinated bonds issued. The hedging derivative instruments such as currency swap and interest rate swap were used to cover exposures to changes in fair value of hedged items resulting from the fluctuations in interest rates.

Resulting from valuation of hedged items accounted for using fair value hedge accounting, and the gain on valuation of investment securities amounting to W3,936 million (US\$2,968 thousand) and W9,685 million, the loss on valuation of investment securities amounting to W137 million (US\$103 thousand) and W1,521 million and the loss on valuation of subordinated notes issued amounting to W19,563 million (US\$14,752 thousand) and W21,055 million in 2001 and 2000, respectively, were reflected in current operations. The gain or loss on valuation of derivative instruments accounted for using fair value hedge accounting, which amounted to the opposite corresponding amounts resulting from valuation of hedged items, were also reflected in current operations.

With regard to accounting for the stock index futures traded in Korea Stock Exchange, and the currency futures and the interest rate futures traded in Korea Futures Exchange, the gain or loss on valuation accounted for as settlement accounts in the balance sheet is subject to mark-to-market accounting. For the derivative contracts cleared or carried forward to the subsequent year, the difference between the purchase price (settlement price at the end of prior year for the contracts carried over from prior year) and the clearing price (market price for the contract carried forward to subsequent year without clearing) was accounted for as gain or loss on futures trading. However, there were no unsettled futures contracts as of December 31, 2001 and 2000.

(5) Other commitments as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Commitments	W 43,450	W 53,788	\$ 40,561
Bills endorsed	245,703	6,735,030	5,078,825
Loans charge - offs	2,696,176	2,351,530	1,773,267
Loans sold under repurchase agreements	961,782	835,481	630,029
	W 3,947,111	W 9,975,829	\$ 7,522,682

(6) Litigation

In the normal course of its business, the Bank regular files lawsuits and takes other legal actions in connection with its business, primarily with respect to collection actions.

As of December 31, 2001 and 2000, the Bank is a plaintiff in 515 lawsuits claiming W242,343 million (US\$182,749 thousand) and 533 lawsuits claiming W241,282 million, respectively, including the case related to collection of debts. The Bank is a defendant in 70 lawsuits claiming W941,435 million (US\$709,928 thousand) and 43 lawsuits claiming W53,364 million as of December 31, 2001 and 2000, respectively.

Among the lawsuits in the Bank is a defendant, the Bank and other two domestic commercial banks are named as defendants in lawsuits for damages of US\$657 million (W871.2 billion) filed in the United States. The plaintiff alleges the defendants to be jointly liable for the losses arising from the Lernout & Hauspie's (L&H) bankruptcy. It is alleged that L&H filed fraudulent financial statements and the Bank and the other banks are accused of aiding and assisting, through that the banks factored trade receivables with L&H Korea Co., Ltd.. Different from the allegation of plaintiff, the Bank placed general loans collateralized by time deposits to L&H Korea rather than factoring of trade receivables. Management of the Bank does not anticipate the outcome of this lawsuit will have significant effects on the financial condition or operations of the Bank.

(7) Sales of non-performing loans

The Bank has sold W3,894.6 billion (US\$2,936.9 million) of non-performing loans from bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for of W2,142.3 billion (US\$1,615.5 million) from December 15, 1997 to December 31, 2001, which included W2,451.2 billion (US\$1,848.4 million) of special loans sold with recourse for W1,614.4 billion (US\$1,217.4 million).

As of December 31, 2001, the outstanding balance of the loans sold of which the final selling price has not yet been decided due to the incompleteness of the borrowers' restructuring plan, was W274.6 billion (US\$207.1 million). Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2001, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W718.5 billion (US\$541.8 million) at its sale price converted using exchange rate as of December 31, 2001 (W702.3 billion (US\$528.8 million) at its sale price converted using the exchange rate at the disposition date). 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.

Notes to the Non-Consolidated Financial Statements

In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts and trust accounts to special purpose companies (SPC) amounting to W90,000 million (US\$67,868 thousand) and W27,000 million in 2001 and 2000, respectively, which were intended to reinforce the credit of the assets-backed securities (ABS). No liabilities have been recorded in the Bank's non-consolidated financial statements for any such losses that may be incurred from these loans sold with recourse, which could have a material impact on the financial position and the result of operations of the Bank.

28. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2001 and 2000 are summarized as follows:

	Thousands of U.S. Dollars		Translation into Millions of Korean Won	
	2000	2001	2000	2001
Assets				
Cash and due from banks	\$ 493,832	\$ 175,181	W 622,081	W 232,307
Securities	586,067	507,640	738,269	673,182
Loans	5,429,387	3,725,309	6,839,399	4,940,132
	\$ 6,509,286	\$ 4,408,130	W 8,199,749	W 5,845,621
Liabilities				
Deposits	\$ 1,322,928	\$ 1,400,955	W 1,666,492	W 1,857,807
Borrowings	3,478,335	2,217,971	4,381,658	2,941,252
Debentures	1,127,464	686,215	1,420,266	909,989
Other liabilities	27,419	49,357	34,540	65,452
	\$ 5,252,424	\$ 3,894,321	W 6,616,478	W 5,164,259

29. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of assets and liabilities for disclosing purpose to Financial Supervisory Service (FSS) which exclude merchant accounts as of December 31, 2001 is as follows (in billions of Won):

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Classified substandard and below	Total
Due from banks:							
Local currency	W 285.1	W 356.3	W 358.8	W 358.8	W 83.3	W -	W 442.1
Foreign currencies	154.5	155.3	156.3	156.3	8.1	-	164.4
Securities:							
Local currency	11,264.9	11,264.9	11,264.9	11,264.9	1,661.1	222.8	13,148.8
Foreign currencies	151.8	153.3	215.7	228.8	393.2	7.5	629.5
Loans:							
Local currency	5,645.1	10,048.6	17,506.6	20,786.9	862.1	585.3	22,234.3
Foreign currencies	2,605.7	3,205.6	3,493.0	3,964.1	793.4	130.3	4,887.8
Other Assets:							
Local currency	3,229.8	3,352.3	3,729.0	3,770.6	7,587.0	219.3	11,576.9
Foreign currencies	154.2	156.6	302.9	337.0	108.3	18.3	463.6
	W23,491.1	W28,692.9	W37,027.2	W40,867.4	W11,496.5	W1,183.5	W53,547.4
Deposits:							
Local currency	W14,881.6	W18,518.7	W23,803.5	W25,848.6	W 9,748.1	W -	W35,596.7
Foreign currencies	1,406.0	1,524.8	1,857.6	1,857.8	-	-	1,857.8
Borrowings:							
Local currency	807.4	854.8	924.5	1,194.8	471.3	-	1,666.1
Foreign currencies	1,313.7	2,129.8	2,742.2	2,893.0	695.1	-	3,588.1
Other Liabilities and Equity:							
Local currency	2,579.3	3,133.6	3,446.2	4,019.9	6,119.4	-	10,139.3
Foreign currencies	120.3	120.3	252.9	252.9	446.5	-	699.4
	W21,108.3	W26,282.0	W33,026.9	W36,067.0	W17,480.4	W -	W53,547.4

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.

Material transactions not involving cash inflows and outflows during 2001 and 2000 are as follows:

	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)
	2000	2001
Debt to equity swap	W 228,325	W 459,358
Write-off of loans resulting from the debt to equity swap	61,455	-
Increase in loss on valuation of investment securities	264,433	102,353
Increase in allowance for possible losses of acceptances and guarantees resulting from repurchase of the loans sold	-	7,146
Transfer to goodwill from valuation loss on treasury stock	100,716	-
	W 654,929	W 568,857
		\$ 428,970

31. SALE OF SUBSIDIARIES:

The Bank sold its 51 percent ownership in Chohung Securities Co., Ltd. (presently KGI 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 of Chohung Investment Trust and Management Co., Ltd. for W26.4 billion and assumed the liabilities on convertible bonds of W40.8 billion issued by Chohung Securities Co., Ltd.. In relation to the sale of Chohung Securities Co., Ltd. and Chohung Mutual Savings and Finance Co., Ltd., the Bank recorded a loss on sale of investment securities of W19.7 billion and W24.4 billion, 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 to maintain the liquidity of Kangeun Mutual Savings and Finance Co., Ltd. for next 3 years. In relation to the sale of Kangeun Mutual Savings and Finance Co., Ltd. and Chohung Capital Co., Ltd., the Bank recorded a loss on sale of investment securities of W1.8 billion and W29.9 billion, respectively, in 2000.

32. AGREEMENT ON IMPLEMENTATION OF MANAGEMENT IMPROVEMENT PLAN:

On January 15, 1999, the Bank obtained approval from the Financial Supervisory Commission (FSC) for its management improvement plan. Pursuant to the approved plan, the Bank received a total of W2,717.9 billion capital injection from the Korea Deposit Insurance Corporation (KDIC) on February 19, 1999, May 7, 1999 and September 30, 1999. As a result of the capital injection by KDIC, the Bank entered into a compliance agreement with FSC and KDIC for its management improvement plan dated November 12, 1999. Under the agreement, the Bank has disposed of bad loans and non-performing tangible assets, reduced the number of employees, and closed unprofitable branch offices. As of December 31, 2001, the Bank has achieved the management index targets stipulated in the agreement. The Bank entered into a new agreement dated January 31, 2002 with KDIC which contains the conditions that the Bank would lower the ratio of non-performing loans below 4.0 percent, meet the return on assets of 1.0 percent, achieve W230 million (US\$173 thousand) of the operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002. Whether or not its revised management improvement plans are achieved may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. The new agreement on compliance with the revised management improvement plan will be terminated when KDIC is no longer the largest stockholder unless there are special circumstances.



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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, 2001 and 2000 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 Chohung Bank (Deutschland) GmbH and California Chohung Bank, which statements reflect total assets and total revenues of 0.69 percent and 0.58 percent in 2001 and 0.58 percent and 0.58 percent in 2000, 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 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, 2001 and 2000, 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.

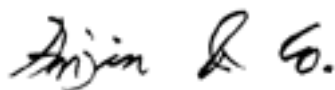
Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which states that the operations of the Bank and its subsidiaries have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Bank as of the balance sheet dates cannot presently be determined.

As discussed in Note 7 to consolidated financial statements, in its bank accounts as of December 31, 2001, the Bank has outstanding credits including loans, payment guarantee and others to Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd. and Hyundai Petrochemical Co., Ltd. amounting to W592.2 billion (US\$446.6 million), W261.9 billion (US\$197.5 million), and W8.0 billion (US\$6.0 million), respectively and has provided an allowance for possible loan losses of totaling W277.8 billion (US\$209.5 million) for these credits. In addition, in its bank accounts, the Bank has outstanding credits including loans, payment guarantee and others to Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. amounting to W425.5 billion (US\$320.9 million) and W196.8 billion (US\$148.4 million), respectively, and has provided an allowance for possible loan losses totaling W91.3 billion (US\$68.8 million) for these credits. The potential impact on the Bank's operations of the liquidity problems Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Hyundai Petrochemical Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

As discussed in Note 21 to the consolidated financial statements, the Bank sold W3,894.6 billion (US\$2,936.9 million) of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,142.3 billion (US\$1,615.5 million), which included W2,451.2 billion (US\$1,848.4 million) of special loans sold with recourse for W1,614.4 billion (US\$1,217.4 million), from December 15, 1997 to December 31, 2001. 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 W274.6 billion (US\$207.1 million) as of December 31, 2001. Notwithstanding the sale and the elimination of these assets from the balance sheet, as of December 31, 2001, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W718.5 billion (US\$541.8 million) at the sales price converted using the exchange rate as of December 31, 2001. KAMCO's ability to exercise its right of recourse depends on whether the borrowers comply with the restructuring commitments. Additional losses may be incurred if KAMCO is able to and does execute its right of recourse. In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts and trust accounts to special purpose companies (SPC) amounting to W90,000 million (US\$67,868 thousand) and W27,000 million in 2001 and 2000, respectively, which were intended to reinforce the credit of the asset-backed securities (ABS). No liabilities have been recorded in the Bank's consolidated financial statements for any such losses that may be incurred from these loans sold with recourse, which could have a material impact on the financial position and the result of operations of the Bank.

As explained in Note 24 to the consolidated financial statements, on January 15, 1999, the Bank obtained approval from the Financial Supervisory Commission (FSC) for its management improvement plan. Pursuant to the approved plan, the Bank received a total of W2,717.9 billion as a capital injection from the Korea Deposit Insurance Corporation (KDIC) on February 19, 1999, May 7, 1999 and September 30, 1999. As a result of the capital injection by KDIC, the Bank entered into a compliance agreement with FSC and KDIC for its management improvement plan dated November 12, 1999. Under the agreement, the Bank has disposed of bad loans and non-performing tangible assets, reduced the number of employees, and closed unprofitable branch offices. As of December 31, 2001, the Bank has met the management index targets stipulated in the agreement. The Bank entered into a new agreement dated January 31, 2002 with KDIC, which contains the conditions that the Bank would lower the ratio of non-performing loans below 4.0 percent, meet the return on assets of 1.0 percent, achieve W230 million (US\$173 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002. Whether or not its revised management improvement plans are achieved may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. The new agreement on compliance with the revised management improvement plan will be terminated when KDIC is no longer in the position of being the largest stockholder unless there are any other special circumstances.

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



Seoul, Korea
February 1, 2002

Consolidated Balance Sheets

December 31, 2001 and 2000

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
ASSETS			
Cash and due from banks (Notes 3, 4, 20 and 23)	W 2,307,594	W 2,054,266	\$ 1,549,103
Trading securities (Note 5)	2,530,402	2,302,241	1,736,099
Investment securities (Notes 6, 7, and 22)	11,228,724	12,698,872	9,576,104
Loans (Notes 8, 9, 20, and 21)	30,550,447	33,915,348	25,575,257
Fixed assets (Notes 7 and 10)	1,711,947	1,578,212	1,190,116
Other assets (Note 11)	2,809,576	4,061,176	3,062,496
Total Assets	W 51,138,690	W 56,610,115	\$ 42,689,175
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 12 and 20)	W 35,426,396	W 40,600,836	\$ 30,616,723
Borrowings (Notes 13 and 20)	7,337,104	6,468,301	4,877,687
Debentures (Note 14)	3,032,824	2,415,679	1,821,641
Other liabilities (Note 15)	3,240,361	4,561,732	3,439,961
Total Liabilities	49,036,685	54,046,548	40,756,012
Shareholders' Equity (Note 16) :			
Common stock	3,395,391	3,395,391	2,560,434
Accumulated deficit (net income of W525,496 million in 2001 and net income of W99,359 million in 2000)	(814,083)	(342,332)	(258,149)
Capital adjustments	(490,483)	(502,297)	(378,778)
Minority interests	11,180	12,805	9,656
Total Shareholders' Equity	2,102,005	2,563,567	1,933,163
Total Liabilities and Shareholders' Equity	W 51,138,690	W 56,610,115	\$ 42,689,175

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

For the years ended December 31, 2001 and 2000

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Interest Income and Dividends:			
Interest income in local currency (Note 20)	W 2,202,663	W 2,156,628	\$ 1,626,294
Interest income in foreign currencies (Note 20)	600,321	406,371	306,441
Interest and dividends on trading securities	204,037	159,278	120,109
Interest and dividends on investment securities	902,550	876,898	661,261
Other interest income (Note 17)	560,654	890,811	671,753
	4,470,225	4,489,986	3,385,858
Interest Expenses:			
Interest expense in local currency (Note 20)	2,238,658	2,083,472	1,571,128
Interest expense in foreign currencies (Note 20)	614,858	342,609	258,358
Other interest expenses (Note 17)	45,164	77,424	58,385
	2,898,680	2,503,505	1,887,871
Net Interest Income	1,571,545	1,986,481	1,497,987
Provision for Possible Loan Losses	960,102	764,917	576,817
Net Interest Income after Provision for Possible Loan Losses	611,443	1,221,564	921,170
Non-Interest Income:			
Fees and commissions	197,096	207,591	156,542
Gain on sale and valuation of trading securities	98,628	114,226	86,137
Gain on sale and valuation of investment securities	111,964	125,233	94,437
Gain on sale of loans	6,619	824	621
Gain on foreign currency trading	284,728	204,292	154,055
Gain on sale of leasing assets	6,542	7,402	5,582
Gain on derivatives trading	244,342	273,382	206,155
Other non-interest income	363,835	196,362	148,075
	1,313,754	1,129,312	851,604
Non-Interest Expenses:			
Commissions	70,552	31,930	24,078
Loss on sale and valuation of trading securities	132,208	59,869	45,147
Loss on sale and valuation of investments securities	138,907	134,244	101,232
General and administrative expenses (Note 18)	715,869	733,678	553,260
Loss on sale of loans	135,197	417,258	314,650
Contribution to fund	40,859	38,404	28,960
Loss on foreign currency trading	198,775	111,677	84,215
Loss on derivatives trading	225,900	259,678	195,821
Other non-interest expenses	185,151	212,410	160,176
	1,843,418	1,999,148	1,507,539
Ordinary Income	81,779	351,728	265,235
Extraordinary Gain (Note 6)	17,593	-	-
Extraordinary Losses	350	-	-
Income before Income Taxes	99,022	351,728	265,235
Income Tax Expenses (Benefits) (Note 19)	1,767	(176,340)	(132,976)
Net Income before Minority Interest	97,255	528,068	398,211
(Income) Loss Attributable to Minority Interests	2,104	(2,572)	(1,939)
Net Income	W 99,359	W 525,496	\$ 396,272
Ordinary Income per Share (in Currency Units) (Note 2)	W 126	W 808	\$ 0.6
Net Income per Share (in Currency Units) (Note 2)	W 146	W 804	\$ 0.6

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2001 and 2000

Description	Millions of Korean Won					
	Capital stock	Consolidated capital surplus	Consolidated accumulated deficit	Consolidated capital adjustment	Minority interests	Total
As of January 1, 2000	W3,395,391	W -	W(1,028,582)	W(230,946)	W57,240	W2,193,103
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)
Adjustment of retained earnings of subsidiaries valued 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	W3,395,391	W -	W(814,083)	W(490,483)	W11,180	W2,102,005
As of January 1, 2001	W3,395,391	W -	W(814,083)	W(490,483)	W11,180	W2,102,005
Consolidated net income	-	-	525,496	-	-	525,496
Cumulative effect of accounting changes	-	-	1,176	-	-	1,176
Adjustment of retained earnings of subsidiaries valued using equity method	-	-	(270)	-	-	(270)
Amortization of discount on stock issuance	-	-	(836)	847	(11)	-
Loss on disposal of treasury stock	-	-	-	(59,409)	-	(59,409)
Transferred-in of loss on disposal of treasury stock	-	-	(59,409)	59,409	-	-
Adjustment by change in foreign exchange rate	-	-	(514)	-	-	(514)
Stock options	-	-	-	909	-	909
Loss on valuation of investment securities	-	-	-	(102,396)	-	(102,396)
Increase in other reserves	-	-	4,198	-	-	4,198
Decrease in treasury stock	-	-	-	88,826	-	88,826
Dividends received	-	-	-	-	(910)	(910)
Gain attributable to minority interests	-	-	-	-	2,572	2,572
Other	-	-	1,910	-	(26)	1,884
As of December 31, 2001	W3,395,391	W -	W(342,332)	W(502,297)	W12,805	W2,563,567

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2001 and 2000

Description	Thousands of U.S. Dollars (Note 2)					Total
	Capital stock	Consolidated capital surplus	Consolidated accumulated deficit	Consolidated capital adjustment	Minority interests	
As of January 1, 2001	\$2,560,434	\$ -	\$(613,893)	\$(369,869)	\$8,431	\$1,585,103
Consolidated net income	-	-	396,272	-	-	396,272
Cumulative effect of accounting changes	-	-	887	-	-	887
Adjustment of retained earnings of subsidiaries valued using equity method	-	-	(204)	-	-	(204)
Amortization of discount on stock issuance	-	-	(630)	639	(9)	-
Loss on disposal of treasury stock	-	-	-	(44,800)	-	(44,800)
Transferred-in of loss on disposal of treasury stock	-	-	(44,800)	44,800	-	-
Adjustment by change in foreign exchange rate	-	-	(387)	-	-	(387)
Stock options	-	-	-	685	-	685
Loss on valuation of investment securities	-	-	-	(77,216)	-	(77,216)
Increase in other reserves	-	-	3,166	-	-	3,166
Decrease in treasury stock	-	-	-	66,983	-	66,983
Dividends received	-	-	-	-	(686)	(686)
Gain attributable to minority interests	-	-	-	-	1,940	1,940
Other	-	-	1,440	-	(20)	1,420
As of December 31, 2001	\$2,560,434	\$ -	\$(258,149)	\$(378,778)	\$9,656	\$1,933,163

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2001 and 2000

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Cash Flows from Operating Activities:			
Net income	W 99,359	W 525,496	\$ 396,272
Adjustments to reconcile net loss to net cash provided by operating activities:			
Provision for possible loan losses	960,102	764,917	576,817
Depreciation	65,731	71,977	54,277
Provision for severance benefits	30,239	19,738	14,884
Amortization of intangible assets	113,674	113,161	85,334
Loss on sale of loans, net	128,578	416,434	314,029
Loss (gain) on sale and valuation of trading securities, net	33,580	(54,357)	(40,990)
Loss on sale and valuation of investment securities, net	26,943	9,011	6,795
Salaries	412	909	685
Other non-interest expenses	3,110	4,802	3,621
Other non-interest income	-	(1,119)	(844)
Income (loss) attributable to minority interests	(2,104)	2,572	1,939
Payment of severance benefits	(40,015)	(130,015)	(98,043)
Increase in other assets	(677,459)	(1,251,600)	(943,820)
Increase in other liabilities	922,027	1,159,796	874,592
Other, net	2,048	(2,374)	(1,790)
Net Cash Provided by Operating Activities	1,666,225	1,649,348	1,243,758
Cash Flows from Investing Activities:			
Net decrease in trading securities	1,130,233	282,518	213,044
Net increase in investment securities	(1,088,372)	(2,039,261)	(1,537,788)
Net decrease (increase) in fixed assets	21,869	(50,694)	(38,228)
Net increase in loans	(5,831,540)	(4,079,748)	(3,076,501)
Other, net	(1,423)	(709)	(534)
Net Cash Used in Investing Activities	(5,769,233)	(5,887,894)	(4,440,00)
Cash Flows from Financing Activities:			
Net increase in deposits	5,091,952	5,174,440	3,901,998
Net decrease in borrowings	(2,012,957)	(868,803)	(655,156)
Net increase (decrease) in debentures	640,361	(615,969)	(464,497)
Other, net	(452,160)	295,550	222,872
Net Cash Provided by Financing Activities	3,267,196	3,985,218	3,005,217
Net Decrease in Cash	(835,812)	(253,328)	(191,032)
Cash, Beginning of Year	3,143,406	2,307,594	1,740,135
Cash, End of Year (Note 23)	2,307,594	2,054,266	1,549,103

The accompanying notes are an integral part of these statements.

December 31, 2001 and 2000

1. GENERAL:

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of the 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 379 domestic branches, 67 depositary offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2001. 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.

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

Basis of Consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean won and prepares statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles and banking accounting standards generally accepted in the Republic of Korea. Certain accounting principles and banking accounting standards applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles and banking accounting practices in other countries. Accordingly, these consolidated financial statements are intended for use by those who are 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 Korean language consolidated financial statements. Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these consolidated financial statements were computed by translating the Korean Won into US dollars based on the Bank of Korea (BOK) Basic Rate of W1,326.10 to US\$1.00 at December 31, 2001, 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 rates.

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

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, 2001 and 2000 are as follows:

Subsidiaries	Percentage of ownership		Fiscal year-end	Date of acquisition of controlling interest
	2000	2001		
Consolidation:				
Chohung Investment Trust and Management Co., Ltd.	79.77%	79.77%	Mar. 31	Nov. 19, 1992
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
Accounting for using equity method:				
Chohung Vina Bank	40.00%	50.00%	Dec. 31	Nov. 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, 2001, its capital stock amounts to W45,000 million (US\$33,934 thousand), of which the Bank owns 79.77 percent and KGI Securities Co, Ltd. owns the remaining 20.23 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, 2001, 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, 2001, 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, 2001, 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, 2001, its capital stock amounts to US\$30,681 thousand when it purchased the 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 November 24, 2000 from Korea Depositary Insurance Corporation (KDIC). The name of First Vina Bank was subsequently changed to Chohung Vina Bank. The capital stock of Chohung Vina Bank is US\$20,000 thousand as of December 31, 2001 of which the Bank owns 50 percent as a result of acquiring 10 percent from Daewoo Securities Co., Ltd. on November 23, 2001.

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 are eliminated in consolidated financial statements.

(3) Minority Interest

The portion of a subsidiary's shareholders' equity not attributable to the Bank, in cases when the Bank has a controlling of 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, 2001 and 2000, respectively.

(6) Translation of financial statements of foreign subsidiaries

Financial statements of foreign subsidiaries are translated into Korean Won at the Bank of Korea (BOK) basic rates (W1,326.10 and W1,259.70 to US\$1.00 at December 31, 2001 and 2000, respectively) or cross rates for other currencies 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.

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

Classification of Securities

Marketable debt and equity securities purchased and held principally for the purpose of generating gains on current resale are classified as trading securities and the others are classified as investment securities.

Valuation of Trading Securities

Trading equity and debt securities are recorded at acquisition cost. If the fair value of securities differs from the book value determined by moving average method for stocks and specific identification method for bonds, the securities are stated at fair value and the valuation gain or loss is reflected in current operations.

Valuation of Investment Securities

(1) Equity Securities

Equity securities held for investment (excluding those accounted for using the equity method discussed in the next paragraph) that are not actively quoted (unlisted securities) are stated at acquisition cost using, as determined by 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 a listed equity securities or the net equity value of an 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 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 adjustments.

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 specific identification 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 security 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 using equity method or 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 an impaired investment security, 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 fair 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 and the book value of the trading securities to be reclassified as of the balance sheet date is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. The fair value of trading securities to be reclassified consists the cost of reclassified investment securities. Investment securities cannot be reclassified to trading securities.

Recognition of Interest Income

The Bank recognizes the interest income earned on loans, call loans, long-term deposits with other banks and securities on an accrual basis, except for the interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to the 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 on a cash basis. The principal amounts of loans of which accrued interest income was not recorded in the financial statements for these reasons, amounted to W4,209.8 billion (US\$3,174.6 million) and W4,393.4 billion as of December 31, 2001 and 2000, respectively, and the related accrued interest income which was not recognized amounted to W67.9 billion (US\$51.2 million) and W291.8 billion as of December 31, 2001 and 2000, 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, including securities such as commercial paper, privately placed bonds and financing lease receivables, into ten categories according to past repayment history including any overdue period and the bankruptcy status of the borrower, and 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 the past repayment history.

The loans are classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. The allowance for possible loan losses is then calculated on the category balances using the prescribed minimum percentages of 0.5 percent, 2 percent, 20 percent, 50 percent and 100 percent, respectively. However, the Bank does not provide 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, as it is not required by the accounting standards for the Banking Industry.

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 used for loan classification. An allowance is then calculated, using 20 percent for confirmed acceptances and guarantees classified as substandard, 50 percent for doubtful and 100 percent for estimated 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 or substandard. An allowance for possible loan losses on those credits is calculated on the balances using 2 percent and 20 percent for precautionary and substandard, respectively. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

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.

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 acquisition 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 as 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 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 the estimated economic useful lives of related assets or activity method. The excess of consideration distributed for business combinations over the 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 included in the goodwill the valuation loss from the treasury stock, which had not been disposed as of December 31, 2000 and amortized the valuation loss included in goodwill over the remaining useful life of the goodwill. The previous Accounting Standards for Business Combination in effect when the merger or acquisition was consummated required the Bank to account for the valuation loss from treasury stock amounting to W100,716 million as goodwill to be amortized for the remaining useful life, which will end in 2003 (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 and depreciation is not applied for this asset. 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, 2001 and 2000 are W20,826 million (US\$15,705 thousand) and W131,103 million, respectively. Actual payments of severance indemnities amounted to W130,015 million (US\$98,043 thousand) and W40,015 million in 2001 and 2000, respectively.

Funding of the severance liability is not required. However, in order to obtain a tax deduction, the Bank has purchased an employee retirement trust, which meet the funding requirements for tax saving purpose, and made deposits with Korea Exchange Bank as of December 31, 2001. The deposits, amounting to W10,000 million (US\$7,541 thousand) as of December 31, 2001, are presented as a deduction from accrued severance indemnities.

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 and is paid back at the termination of service by netting the receivable against the severance payment. Such receivables amount to nil and W7,625 million as of December 31, 2001 and 2000, respectively, 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.

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

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 purpose. 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 is 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.

According to the interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments, in case the fair value hedge accounting is applied to the transaction, the cumulative effect of accounting changes shall be added or deducted to the undisposed accumulated deficit carried over from prior years. Applying these accounting standards beginning in 2000 has decreased the undisposed accumulated deficit carried over from prior years of 2000 by W6,593 million and increased the net income of 2000 by W1,026 million. There were no cash flow hedging activities prior to January 1, 2000.

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 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 orderly satisfied by using special reserves maintained in the trust accounts. For the years ended December 31, 2001 and 2000, the Bank recorded W64,238 million (US\$48,441 thousand) and W93,006 million of trust management fee income and W2,446 million (US\$1,845 thousand) and W10,312 million of trust cancellation charge income, respectively. The Bank paid compensating contribution to guaranteed return trusts of W20,946 million (US\$15,795 thousand) and W152,481 million in 2001 and 2000, respectively, to cover 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 gain from the operation of trust business of W45,738 million (US\$34,491 thousand) and a loss from the operation of trust business of W49,163 million in 2001 and 2000, respectively.

Income Tax Expenses

Income tax expenses are 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 (W1,326.10 and W1,259.70 to US\$1.00 at December 31, 2001 and 2000, 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 per Share

Ordinary income per common share and net income per common share are computed by dividing ordinary income (after deducting the tax effect) and net income, respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 654 million in 2001 and 679 million in 2000. Ordinary income and net income on common shares were as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Net income	W 99,359	W 525,496	\$ 396,272
Extraordinary gain	(17,593)	-	-
Extraordinary loss	350	-	-
Income tax on extraordinary gain	5,417	-	-
Income tax on extraordinary loss	(108)	-	-
Income (loss) attributable to minority interests	(2,104)	2,572	1,939
Ordinary income	W 85,321	W 528,068	\$ 398,211

Diluted ordinary income per common share and diluted income per common share are not presented since the annual average stock price of the Bank is below the exercise price of the diluted securities such as bonds with warrants and stock options. The dilutive securities as of December 31, 2001 are as follows:

Item	Face value	Exercise period	Common stocks to be issued	Remark
Warrants	-	By 2002.10.22	94,988,459 shares	Exercise price: 1 share per face value W5,790 of bonds, W5,790 paid in cash upon exercise
Stock options	-	2003.03.28 ~ 2006.03.27	969,200 shares	W5,000 paid in cash upon exercise
Stock options	-	2004.03.10 ~ 2007.03.09	664,000 shares	W5,000 paid in cash upon exercise

On November 22, 1999, the Bank issued callable bonds with warrants of W550.0 billion with three years maturity and 10 percent interest rate per annum. The warrants are separable from the bonds and exercisable until October 22, 2002 at an exercise price of W5,790 per share. In 2001, the bonds of W550,000 million were redeemed separately from the stock warrants, which are still outstanding as of December 31, 2001.

Effects of Changes in Financial Accounting Standards

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

Beginning in 2001, the Bank applied the accounting standards for newly established foreign exchange accounts based on the Detailed Enforcement Regulations of Bank Supervision Service. As a result of this change, the beginning accumulated deficit in 2001 decreased by W1,176 million (US\$887 thousand) and the net income for the year ended December 31, 2001 increased by W416 million (US\$314 thousand) as compared to the previous accounting standards. In addition, beginning in 2001, the Bank changed the method in determining the cost of bonds of trading securities from moving average method to specific identification method. This change does not affect total assets, liabilities, shareholders' equity and net income for the year then ended December 31, 2001. The details of the effects of these accounting changes as of December 31, 2001 are as follows:

	Decrease in beginning accumulated deficit		Increase in net income	
	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)
Establishment of the accounting standards for foreign exchange accounts	W 1,176	\$ 887	W 416	\$ 314
	W 1,176	\$ 887	W 416	\$ 314

Reclassifications

The Bank reclassified certain accounts for 2000 to conform to the 2001 presentation for comparative purposes. However, this reclassification has no effect on the net income or net asset value as of and for the year then ended December 31, 2000.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Cash and checks	W 973,845	W 1,346,084	\$ 1,015,070
Foreign currencies	69,585	74,071	55,856
Due from banks in local currency	889,844	442,141	333,414
Due from banks in foreign currencies	374,320	191,970	144,763
	W 2,307,594	W 2,054,266	\$ 1,549,103

4. RESTRICTED DUE FROM BANKS:

Restricted due from banks as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Reserve deposits with the Bank of Korea	W 519,773	W 83,283	\$ 62,803
Group severance deposits (see Note 2)	122,805	3	2
Other	232,162	116,471	87,830
	W 874,740	W 199,757	\$ 150,635

5. TRADING SECURITIES:

Trading securities as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Stocks	W -	W 727	\$ 548
Government bonds	886,964	333,710	251,648
Finance debentures	188,552	665,106	501,550
Corporate bonds	813,724	1,053,674	794,566
Trading securities in foreign currencies	54,992	113,230	85,386
Other	586,170	135,794	102,401
	W 2,530,402	W 2,302,241	\$ 1,736,099

6. INVESTMENT SECURITIES:

(1) Investment securities as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Investment equity securities	W 318,345	W 540,294	\$ 407,431
Government bonds	2,340,376	1,748,561	1,318,574
Finance debentures	1,326,630	3,243,097	2,445,590
Corporate bonds	5,781,382	5,955,081	4,490,672
Investment securities in foreign currencies	617,464	476,502	359,326
Other	844,527	735,337	554,511
	W 11,228,724	W 12,698,872	\$ 9,576,104

Notes to Consolidated Financial Statements

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. In 2000, the Bank valued these donated shares at W488,600 per share and recorded the total value of donated shares of W28,528 million as an extraordinary gain of W17,593 million in the bank accounts and W10,935 million in the trust accounts.

(2) Investment equity securities valued using equity method

As of December 31, 2001 and 2000, the investment equity security valued using equity method is the investment in Chohung Vina Bank and the change in equity is as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Book value before valuation	W 6,299	W 7,112	\$ 5,363
Additional acquisition	-	1,304	983
Changes due to valuation using equity method	813	151	114
Translation gain or loss	-	423	319
Investment valued using equity method	W 7,112	W 8,990	\$ 6,779

7. COLLATERALIZED ASSETS:

Details of collateralized assets of the Bank as of December 31, 2001 and 2000 are as follows:

Collateralized asset	Provided to	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Provided for
		2000	2001	2001	
Bank					
Investment securities	Bank of Korea	W1,655,000	W1,400,000	\$1,055,727	RP of Bank of Korea (BOK)
"	"	246,700	276,100	208,204	Settlement risk
"	"	966,800	1,026,300	773,923	Borrowings from BOK
"	"	210,000	735,000	554,257	Intra-day overdraft from BOK
"	Sumitomo Bank				
"	Seoul and other	1,219,700	789,000	594,978	Borrowings in foreign currency
"	ING Seoul	-	26,300	19,832	Interest rate swap
"	Customer RP	700,000	1,650,000	1,244,250	Customer RP
"	Samsung Futures				
"	Inc. and other	-	8,500	6,410	Futures
"	KAMCO	202,672	26,743	20,167	Settlement of non-performing loans
"	SPC	-	40,000	30,164	Collateral regarding the issuance of ABS
"	Seoul Guarantee Insurance Co. and other	-	78,802	59,424	Securities lent
Real estate for business purpose	Lessees	10,930	16,291	12,285	Key money deposit for rent
Subsidiaries					
Investment securities and other	State of California and other	-	12,452	9,390	Time certificated deposit, lien and other
		W5,211,802	W6,085,488	\$4,589,011	

8. LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) Loans and allowance for possible loan losses as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Loans in local currency	W 18,541,773	W 22,028,629	\$ 16,611,590
Loans in foreign currencies	3,812,363	2,893,699	2,182,112
Other	10,296,440	10,094,557	7,612,214
	32,650,576	35,016,885	26,405,916
Allowance for possible loan losses	(1,924,792)	(1,071,950)	(808,348)
Present value discounts:			
The Bank (see Note 9)	(171,805)	(29,572)	(22,300)
Subsidiaries	(3,532)	(15)	(11)
	(175,337)	(29,587)	(22,311)
	W 30,550,447	W 33,915,348	\$ 25,575,257

(2) Loans to Daewoo Group Companies

Daewoo Group Companies were placed under a workout plan since August 1999 due to liquidity problems and are undergoing a workout plan or court receivership as of December 31, 2001. As of December 31, 2001, the Bank has loans outstanding to Daewoo Group Companies (including confirmed acceptances and guarantees and loans in guaranteed return trust accounts) of W526.1 billion (US\$396.7 million) for which an allowance for possible loan losses of W147.4 billion (US\$111.2 million), after deducting present value discounts of W0.1 billion (US\$0.1 million), has been provided based on prescribed loan classifications. The recovery of loans outstanding to Daewoo Group Companies is mainly dependent on the results of its on-going business restructuring which is under a workout plan or court receivership. The potential impact on the Bank's operations of the restructuring plan and difficulties Daewoo Group Companies is facing cannot presently be determined.

(3) Restructured loans to the companies under workout programs

As of December 31, 2001 the Bank's total exposure (including confirmed guarantees and acceptances and loans in guaranteed return trust accounts) to companies other than Daewoo Group Companies under workout programs amounted to W266.4 billion (US\$200.9 million). The Bank has provided an allowance for possible loan losses (including confirmed acceptances and guarantees and those in guaranteed return trust accounts) of W48.4 billion (US\$36.5 million), after deducting the present value discounts of W1.5 billion (US\$1.1 million).

(4) Loans to Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Hyundai Petrochemical Co., Ltd., Ssangyong Corporation, and Ssangyong Cement Industrial Co., Ltd.

As of December 31, 2001, the Bank has outstanding credits including loans, payment guarantee and others to Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd. and Hyundai Petrochemical Co., Ltd. amounting to W592.2 billion (US\$446.6 million), W261.9 billion (US\$197.5 million), and W8.0 billion (US\$6.0 million), respectively and has provided an allowance for possible loan losses of totaling W277.8 billion (US\$209.5 million) for these credits. In addition, in its bank accounts, the Bank has outstanding credits including loans, payment guarantee and others to Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. amounting to W425.5 billion (US\$320.9 million) and W196.8 billion (US\$148.4 million), respectively, and has provided an allowance for possible loan losses totaling W91.3 billion (US\$68.8 million) for these credits. The potential impact on the Bank's operations of the liquidity problems Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Hyundai Petrochemical Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

9. PRESENT VALUE DISCOUNTS:

Present value discounts in relation to the restructured loans as of December 31, 2001 are summarized as follows:

Borrower	Face value			Maturity date	Unamortized present value discounts	
	Millions of Korean Won	Thousands of U.S. Dollars (Note 2)	Discount rate (%)		Millions of Korean Won	Thousands U.S. Dollars (Note 2)
Daelim Industrial Co., Ltd.	W 75,380	\$ 56,843	11.50	2008.09.08	W 15,865	\$ 11,964
Samho International Co., Ltd.	26,250	19,795	11.50	2006.09.08	72	54
Dongbang Textile & Mart Co., Ltd.	23,601	17,797	9.41	2002.12.31	124	94
Anam Semiconductor, Inc.	20,000	15,082	12.75	2003.12.31	494	373
Dongbang Transport Logistics Co., Ltd.	15,974	12,046	10.00	2002.12.31	271	204
Choongnam Spinning Co., Ltd.	8,767	6,611	10.00	2003.12.31	463	349
Kia Steel Co., Ltd.	5,830	4,396	13.00	2008.12.31	2,440	1,840
Hanjin Shipping Co., Ltd.	4,809	3,627	11.50	2017.10.01	4,050	3,054
Renault Samsung Motors Co., Ltd.	4,242	3,199	10.00	2015.03.13	2,235	1,685
Daewoo Heavy Industry & Machinery Co., Ltd.	3,366	2,538	5.50	2002.12.31	98	74
Others (14 companies)	199,593	150,511			3,460	2,609
	<u>W 387,812</u>	<u>\$ 292,445</u>			<u>W 29,572</u>	<u>\$ 22,300</u>

Present value discounts in relation to the restructured loans as of December 31, 2000 are summarized as follows:

Borrower	Face value			Maturity date	Unamortized present value discounts
	Millions of Korean Won		Discount rate (%)		Millions of Korean Won
Korea Development Lease	W 257,736		10.00	2009.06.30	W 49,171
Jindo	210,352		9.89	2004.12.31	46,082
Sepoong Co.	139,065		10.63	2004.12.31	13,614
Daelim Industrial Co., Ltd.	130,190		11.50	2008.09.08	5,525
Hanmi Capital	51,757		7.13	2005.08.31	963
Chohung Capital Co., Ltd.	34,921		8.22	2005.12.31	593
Chungbu Leasing Co., Ltd.	28,861		8.26	2009.03.31	1,526
Korea Housing Guarantee Co., Ltd.	28,460		10.40	2009.12.31	2,463
Kyoungnam Leasing Co., Ltd.	27,417		7.68	2008.08.30	1,657
Samho International Co., Ltd.	26,250		11.50	2006.09.08	172
Other (66 companies)	261,243				50,039
	<u>W 1,196,252</u>				<u>W 171,805</u>

10. FIXED ASSETS:

Fixed assets as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Land and buildings	W 1,337,350	W 1,316,607	\$ 992,842
Equipment	392,609	414,788	312,788
Leasehold improvements	35,906	39,166	29,535
Construction in progress	5,463	6,025	4,543
Total tangible assets	1,771,328	1,776,586	1,339,708
Accumulated depreciation	(401,410)	(427,605)	(322,453)
Goodwill	336,074	224,043	168,949
Other intangible assets	5,413	4,992	3,764
Non-business use properties	682	208	157
Valuation allowances	(140)	(12)	(9)
	W 1,711,947	W 1,578,212	\$ 1,190,116

11. OTHER ASSETS:

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Guarantee deposits	W 430,109	W 429,893	\$ 324,178
Accounts receivables	1,257,014	940,624	709,316
Accrued income	487,933	378,466	285,398
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	206,058	173,520	130,850
Local exchange remittances receivables	160,025	1,436,041	1,082,905
Deferred tax assets (see Note 19)	15,691	203,613	153,543
Other	252,746	499,019	376,306
	W 2,809,576	W 4,061,176	\$ 3,062,496

Notes to the Consolidated Financial Statements

12. DEPOSITS:

Deposits as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Deposits in local currency:			
Bank-banking accounts	W 31,224,796	W 34,690,546	\$ 26,159,827
Bank-trust accounts	872,744	1,406,674	1,060,760
Subsidiaries	11	10	8
	32,097,551	36,097,230	27,220,595
Deposits in foreign currencies	1,876,759	2,183,075	1,646,237
Negotiable certificates of deposits	1,452,086	2,320,531	1,749,891
	W 35,426,396	W 40,600,836	\$ 30,616,723

13. BORROWINGS:

Borrowings as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Borrowings in local currency:			
General borrowings	W 1,425,850	W 1,577,563	\$ 1,189,626
Subordinated borrowings	268,500	88,500	66,737
	1,694,350	1,666,063	1,256,363
Borrowings in foreign currencies	1,805,696	1,832,192	1,381,639
Bonds sold under repurchase agreements	1,342,957	1,816,983	1,370,170
Bills sold	698,967	492,655	371,507
Due to Bank of Korea in foreign currencies	1,663,130	376,506	283,920
Call money	132,004	283,902	214,088
	W 7,337,104	W 6,468,301	\$ 4,877,687

Notes to the Consolidated Financial Statements

14. DEBENTURES:

Debentures as of December 31, 2001 and 2000 are summarized as follows:

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
		2000	2001	2001
Debentures in local currency:				
General debentures	4.80~8.56%	W 300,000	W 450,000	\$ 339,341
Subordinated debentures	7.70~18.00%			
	Prime rate + 1~2%	775,700	1,075,700	811,176
Debenture with warrants	10.00%	550,000	-	-
		1,625,700	1,525,700	1,150,516
Discounts on debentures		-	(5,836)	(4,401)
		1,625,700	1,519,864	1,146,115
Debentures in foreign currencies:				
General debentures	3M Libor+1.30%			
	6M Libor +0.23~1.20%	598,213	205,546	155,000
Subordinated debentures	6M Libor +1.25~4.95%			
	11.50~11.88%	822,053	704,443	531,214
		1,420,266	909,989	686,214
Discounts on debentures		(9,389)	(10,177)	(7,674)
		1,410,877	899,812	678,540
		3,036,577	2,419,676	1,824,655
Internal transactions		(3,753)	(3,997)	(3,014)
		W 3,032,824	W 2,415,679	\$ 1,821,641

15. OTHER LIABILITIES:

Other liabilities as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Accrued severance benefits (see Note 2)	W 131,103	W 20,826	\$ 15,705
Deposit with employee retirement trust (see Note 2)	-	(10,000)	(7,541)
Transfer to National Pension Fund (see Note 2)	(7,626)	-	-
Allowance for possible losses on acceptances and guarantees	63,819	51,565	38,885
Other allowances	108	1,465	1,105
Borrowings from trust accounts	220,333	456,987	344,610
Foreign exchange remittances pending	36,190	66,616	50,234
Deposits for letters of guarantees and other	65,705	89,550	67,529
Accrued expenses	999,881	917,010	691,509
Domestic exchange settlement account - credit	156,372	1,203,420	907,488
Unearned revenue	119,401	107,398	80,988
Accounts payable - other	84,860	367,506	277,133
Liability incurred by agency relationship	139,919	287,478	216,784
Giro account	40,378	78,186	58,959
Other	1,189,918	923,725	696,573
	W 3,240,361	W 4,561,732	\$ 3,439,961

16. SHAREHOLDERS' EQUITY:**(1) Common Stock**

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 679,078,115 common shares and 661,764,465 common shares were issued and outstanding as of December 31, 2001 and December 31, 2000, respectively.

In accordance with the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at the rate of 4.5045 shares to one share under a capital reduction without consideration. The capital reduction resulted in a decrease of W723.9 billion in the common stock and a gain for 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 by a total of W2,717.9 billion by issuing 544 million shares to Korea Deposit Insurance Corporation (KDIC) at par value. In addition, the Bank increased its common stock by W196.2 billion as a result of the acquisitions of Chungbuk Bank and Kangwon Bank. On November 23, 1999, the Bank increased its common stock by W275.0 billion through an offering of 55,000,000 shares of common stock for an aggregate offer price of approximately W302.5 billion. The common stock as of December 31, 2001 amounted to W3,395.4 billion (US\$2,560.4 million), of which KDIC owns 80.05 percent.

(2) Capital Adjustment

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

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Treasury stock	W (161,728)	W (72,902)	\$ (54,975)
Loss on valuation of investment securities, net	(328,300)	(430,696)	(324,784)
Discounts on stock issuance	(867)	(20)	(15)
Bank's stocks owned by subsidiaries	-	-	-
Debt for equity conversion	-	-	-
Other	412	1,321	996
	W (490,483)	W (502,297)	\$ (378,778)

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 and W314,091 million respectively. In addition, as of December 31, 1999, the Bank had 29,279,890 shares of treasury stock with a carrying value of W262,742 million arising from the purchase of the shares of dissenters on the acquisition of Kangwon Bank. In 2000, the Bank disposed of the treasury stock with its carrying value of W298 million by awarding them to employees and added the valuation loss on treasury stock of W100,716 million to goodwill which is being amortized over the remaining useful life up to 2003 using the straight-line method. In 2001, the Bank sold 11,916,240 shares of treasury stock with the book value of W88,752 million (US\$66,927 thousand) and awarded 10,000 shares of treasury stock with a book value of W74 million (US\$56 thousand) to employees. The loss on sales of treasury stock of W59,409 million (US\$44,800 thousand), which resulted from these transactions in 2001, was added to the accumulated deficit.

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. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administration expenses for the years ended December 31, 2001 and 2000 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Salaries	W 212,601	W 215,409	\$ 162,438
Provision for severance benefits	30,239	19,738	14,884
Other employee benefits	106,056	108,969	82,173
Rent	19,162	23,457	17,689
Depreciation	65,731	71,977	54,277
Amortization of intangible assets	113,674	113,161	85,334
Taxes and dues	37,905	32,832	24,758
Other	130,501	148,135	111,707
	W 715,869	W 733,678	\$ 553,260

19. INCOME TAXES:

Annual tax charge takes into account current income taxes on taxable income and expenses for the year, and deferred taxes resulting from timing differences and loss carryforward. Deferred taxes are calculated according to liability method for the timing differences added or deducted during the year and loss carryforward using the future year's estimated tax rate. The Bank is subject to a number of taxes based on earnings, which result in the normal tax rate of 30.8 percent in 2001 and 2000. Beginning 2002, it will be decreased to 29.7 percent.

(1) Income tax expense of the Bank and its subsidiaries for the years ended December 31, 2001 and 2000 consists of the following:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
The Bank:			
Income taxes to be paid	W 3,365	W 4,618	\$ 3,482
Tax effect on cumulative temporary differences	181	(46,863)	(35,339)
Tax effect on tax loss carryforward	-	(143,861)	(108,484)
	W 3,546	W (186,106)	\$ (140,341)
Subsidiaries:			
Income taxes to be paid	W 2,853	W 7,007	\$ 5,284
Changes in deferred income taxes assets or liabilities	(4,632)	2,759	2,081
	W (1,779)	W 9,766	\$ 7,365
Income tax expenses	W 1,767	W (176,340)	\$ (132,976)

Notes to the Consolidated Financial Statements

(2) For the years ended December 31, 2001 and 2000, the differences between income before income taxes 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	2001	2001
Income before income taxes	W 104,631	W 336,425	\$ 253,695
Permanent differences	(151,579)	(59,839)	(45,124)
Temporary differences	(118,223)	113,321	85,454
	W (165,171)	W 389,907	\$ 294,025
Tax loss carryforward	-	389,907	294,025
Taxable income (Tax loss)	W (165,171)	W -	\$ -

(3) The tax effects on temporary differences and loss carryforward that gave rise to significant portions of the deferred tax assets of the Bank as of December 31, 2001 are presented below (in millions of Won):

Accounts	Beginning balance	Increase	Decrease	Ending balance
Allowance for possible loan losses	W 324,591	W 330,026	W 324,591	W 330,026
Reserve for loss on overseas investments	(8,567)	-	(8,567)	-
Accrued interest	(231,700)	(126,192)	(160,735)	(197,157)
Goodwill	(336,061)	-	(112,020)	(224,041)
Allowance for possible losses on confirmed acceptances and guarantees	63,819	47,255	63,819	47,255
Present value discounts	171,805	18,129	171,805	18,129
Gain on valuation of derivatives	41,888	(43,993)	41,888	(43,993)
Treasury stock	100,716	22,862	41,079	82,499
Other	71,079	233,258	6,164	298,173
	197,570	481,345	368,024	310,891
Tax loss carryforward	3,174,991	-	389,907	2,785,084
	W 3,372,561	W 481,345	W 757,931	W 3,095,975

(4) The deferred income tax assets (liabilities) as of December 31, 2001 and 2000 are as follows (in millions of Won).

	As of December 31, 2000	Increase (Decrease)	As of December 31, 2001
The Bank			
Deferred income tax assets due to temporary differences	W 9,524	W 46,863	W 56,387
Deferred income tax assets due to the undisposed accumulated deficit carried over	-	143,861	143,861
	9,524	190,724	200,248
Subsidiaries			
Deferred income tax assets due to temporary differences	6,167	(2,802)	3,365
Deferred income tax liabilities due to temporary differences	(44)	43	(1)
	6,123	(2,759)	3,364
Deferred income tax assets	W 15,691	W 187,922	W 203,613
Deferred income tax liabilities	W (44)	W 43	W (1)

Notes to the Consolidated Financial Statements

The Bank did not recognize the deferred income tax assets resulting from temporary difference and loss carryforward as of December 31, 2000 due to uncertainty of realization. Since the Bank's operations improved significantly in 2001 and the Bank projected that the improved results will continue, the Bank recognized deferred tax assets resulting from temporary differences and loss carryforwards.

(5) Tax loss carryforwards are subject to a five year carryforward period. The details of tax loss carryforward together with their effective period as of December 31, 2001 are as follows (in millions of Won):

Year incurred	Amount	Use in current year	Remaining balance as of December 31, 2001	Period deductible
1998	W 2,102,128	W 389,907	W 1,712,221	By 2003
1999	907,692	-	907,692	By 2004
2000	165,171	-	165,171	By 2005
	W 3,174,991	W 389,907	W 2,785,084	

The tax loss carryforward incurred in 1999 was taken over from Kangwon Bank and Chungbuk Bank by the merger. However, this loss carryforward is deductible only when the business division reports taxable income.

20. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant balances with related parties as of December 31, 2001 are as follows (in millions of Won):

	Due from banks in local currencies	Due from banks in foreign currencies	Loans in foreign currencies	Call loans
Assets				
Trust account	W 139,000	W -	W -	W -
Chohung Finance Ltd., Hong Kong	-	-	90,175	2,652
Chohung Bank of New York	-	997	13,261	-
Chohung Bank (Deutschland) GmbH	-	832	101,710	23,870
California Chohung Bank	-	226	-	-
	W 139,000	W 2,055	W 205,146	W 26,522
Liabilities				
Trust account	W 198,817	W -	W -	W -
Chohung Investment Trust and Management Co., Ltd.	53,260	-	-	-
Chohung Finance Ltd., Hong Kong	-	759	-	-
Chohung Bank (Deutschland) GmbH	-	-	36,651	14,071
	W 252,077	W 759	W 36,651	W 14,071

Notes to the Consolidated Financial Statements

Significant transactions with related parties during the year ended December 31, 2001 are as follows (in millions of Won):

	Interest income	Interest expenses
Trust account	W 38,578	W 3,578
Chohung Investment Trust and Management Co., Ltd.	-	3,319
Chohung Finance Ltd., Hong Kong	703	969
Chohung Bank of New York	1,394	12
Chohung Bank (Deutschland) GmbH	4,516	4,596
	W 45,191	W 12,474

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

	Due from banks in local currencies	Due from banks in foreign currencies	Loans in foreign currencies	Call loans
Assets				
Trust account	W 1,153,232	W -	W -	W -
Chohung Finance Ltd., Hong Kong	-	123,445	20,155	-
Chohung Bank of New York	-	33,387	-	-
Chohung Bank (Deutschland) GmbH	-	58,363	9,172	12,597
California Chohung Bank	-	168	-	-
	W 1,153,232	W 215,363	W 29,327	W 12,597
	Deposits in local currency	Deposits in foreign currencies	Borrowings in foreign currencies	Call money
Liabilities				
Trust account	W 279,478	W -	W -	W -
Chohung Investment Trust and Management Co., Ltd.	49,566	-	-	-
Chohung Finance Ltd., Hong Kong	-	19,012	6,676	-
Chohung Bank (Deutschland) GmbH	-	-	5	18,211
	W 329,044	W 19,012	W 6,681	W 18,211

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

	Interest income	Interest expenses
Trust account	W 47,372	W 2,576
Chohung Investment Trust and Management Co., Ltd.	-	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 56,463	W 12,276

(3) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2001 and 2000 are summarized as follows:

Beneficiary	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Description
	2000	2001	2001	
Chohung Finance Ltd., Hong Kong	W 4,396	W 7,744	\$ 5,840	L/C Guarantees
Chohung Bank (Deutschland) GmbH	1,851	2,313	1,744	Guarantees for L/C and borrowings

Notes to the Consolidated Financial Statements

(4) As of December 31, 2001 and 2000, the receivables and payables and also the transactions with the subsidiary accounted for using equity method, which are reflected in the income statement, are as follows:

Beneficiary	Accounts	Millions of Korean Won	
		2000	2001
Chohung Vina Bank	Borrowings in foreign currencies	W 33,382	W 50,392
	Call money	-	3,978
	Interest expenses	75	2,287

21. 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, acceptances and other commitments provided by the Bank as of December 31, 2001 and 2000 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Confirmed	W 2,788,874	W 2,186,991	\$ 1,649,190
Unconfirmed	1,962,366	1,541,476	1,162,413
Bills endorsed	245,703	6,735,030	5,078,825
Commitments	43,450	53,788	40,561
Loans charge - offs	2,896,878	2,351,536	1,773,272
Loans sold under repurchase agreements	961,782	835,481	630,029

(2) The financial derivatives contracts of the Bank as of December 31, 2001 and 2000 are summarized as follows: As of and for the year ended December 31, 2001, 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 of the Bank are as follows (in millions of Won):

Type	Outstanding contract amount (*)		Gain (Loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forward	W 1,403,576	W 320,290	W 14,380	W 20,019	W 4,934
Currency swap	45,724	9,283	12,458	393	2,930
Currency option (Buy)	39,865	-	(790)	-	(790)
Currency option (Sell)	46,661	-	790	(59)	784
	1,535,826	338,573	26,838	20,353	7,858
Interest rate swap	168,643	724,944	(88)	23,905	36,135
	168,643	724,944	(88)	23,905	36,135
	W 1,704,469	W 1,063,517	W 26,750	W 44,258	W 43,993

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 of the Bank are as follows (in millions of Won):

Type	Outstanding contract amount (*)		Gain (Loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
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 (Buy)	67,335	-	(974)	-	974
Currency option (Sell)	73,634	-	1,037	-	(975)
	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)

(*) Derivative contracts for Korean Won to foreign currency is translated into Korean Won using contract exchange rate against foreign currency and the contracts for foreign currency to foreign currency is translated into Korean Won using market exchange rate as of the balance sheet date against purchased foreign currency.

The outstanding contract amount and the gain or loss on valuation for hedging purpose as described in the table above includes both the derivative transactions accounted for using hedge accounting, pursuant to the Interpretations on Financial Accounting Standards 53-70, and derivative transactions used for hedging activities but not accounted for as hedges. As of December 31, 2001, the Bank does not have derivative transactions used for cash flow hedging activities or accounted for as cash flow hedges. However, the Bank had derivative instruments accounted for as fair value hedges. Hedged items, to which fair value hedge accounting was applied, consist of investment securities and subordinated bonds issued. The hedging derivative instruments such as currency swap and interest rate swap were used to cover exposures to changes in fair value of hedged items resulting from the fluctuations in interest rates.

Resulting from valuation of hedged items accounted for using fair value hedge accounting, the gain on valuation of investment securities amounting to W3,936 million (US\$2,968 thousand) and W9,685 million, the loss on valuation of investment securities amounting to W137 million (US\$103 thousand) and W1,521 million and the loss on valuation of subordinated notes issued amounting to W19,563 million (US\$14,752 thousand) and W21,055 million in 2001 and 2000, respectively, were reflected in current operations. The gain or loss on valuation of derivative instruments accounted for using fair value hedge accounting, which amounted to the opposite corresponding amounts resulting from valuation of hedged items, were also reflected in current operations.

With regard to accounting for the stock index futures traded in Korea Stock Exchange, the currency futures and the interest rate futures traded in Korea Futures Exchange, the gain or loss on valuation accounted for as settlement accounts in the balance sheet is subject to mark-to-market accounting. For the derivative contracts cleared or carried forward to the subsequent year, the difference between the purchase price (settlement price at the end of prior year for the contracts carried over from prior year) and the clearing price (market price for the contract carried forward to subsequent year without clearing) was accounted for as gain or loss on futures trading. However, there were no unsettled futures contracts as of December 31, 2001 and 2000.

(3) Litigation

In the normal course of its business, the Bank regular files lawsuits and takes other legal actions in connection with its business, primarily with respect to collection actions.

As of December 31, 2001 and 2000, the Bank is a plaintiff in 515 lawsuits claiming W242,343 million (US\$182,749 thousand) and 533 lawsuits claiming W241,282 million, respectively, including cases related to collection of debts. The bank is a defendant in 70 lawsuits claiming W941,435 million (US\$709,928 thousand) and 43 lawsuits

claiming W53,364 million as of December 31, 2001 and 2000, respectively.

Among the lawsuits in the Bank is a defendant, the Bank and other two domestic commercial banks are named as defendants in lawsuits for damages of US\$657 million (W871.2 billion) filed in the United States. The plaintiff alleges the defendants to be jointly liable for the losses arising from the Lernout & Hauspie's (L&H) bankruptcy. It is alleged that L&H filed fraudulent financial statements and the Bank and the other banks are accused of aiding and assisting, through that the banks factored trade receivables with L&H Korea Co., Ltd.. This action is based on US Security law. Different from the allegation of plaintiff, the bank placed general loans collateralized by time deposits to L&H Korea rather than factoring of trade receivables. Management of the Bank does not anticipate the outcome of this lawsuit will have significant effects on the financial condition or operations of the Bank.

(4) Sale of non-performing loans

The Bank has sold W3,894.6 billion (US\$2,936.9 million) of non-performing loans from bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for of W2,142.3 billion (US\$1,615.5 million) from December 15, 1997 to December 31, 2001, which included W2,451.2 billion (US\$1,848.4 million) of special loans sold with recourse for W1,614.4 billion (US\$1,217.4 million).

As of December 31, 2001, the outstanding balance of the loans sold for which the final selling price has not yet been decided due to incompleteness of borrowers' restructuring plan, was W274.6 billion (US\$207.1 million). Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2001, the bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W718.5 billion (US\$541.8 million) at its sale price converted using exchange rate as of December 31, 2001 (W702.3 billion (US\$528.8 million) at its sale price converted using the exchange rate at the disposition date). 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.

In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts and trust accounts to special purpose companies (SPC) amounting to ₩90,000 million (US\$67,868 thousand) and W27,000 million in 2001 and 2000, respectively, which were intended to reinforce the credit of the assets-backed securities (ABS). No liabilities have been recorded in the bank's consolidated financial statements for any such losses that may be incurred from these loans sold with recourse, which could have a material impact on the financial position and the results of operations of the Bank.

22. SALE OF SUBSIDIARY:

The Bank sold its 51 percent ownership in Chohung Securities Co., Ltd. (presently KGI 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. In relation to the sale of Chohung Securities Co., Ltd. and Chohung Mutual Savings and Finance Co., Ltd., the Bank recorded a loss on sale of investment securities of W19.7 billion and W24.4 billion, 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. In relation to the sale of Kangeun Mutual Savings and Finance Co., Ltd. and Chohung Capital Co., Ltd., the Bank recorded a loss on sale of investment securities of W1.8 billion and W29.9 billion, respectively, in 2000.

23. 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, 2001 and 2000.

Material transactions not involving cash inflows and outflows in 2001 and 2000 are as follows:

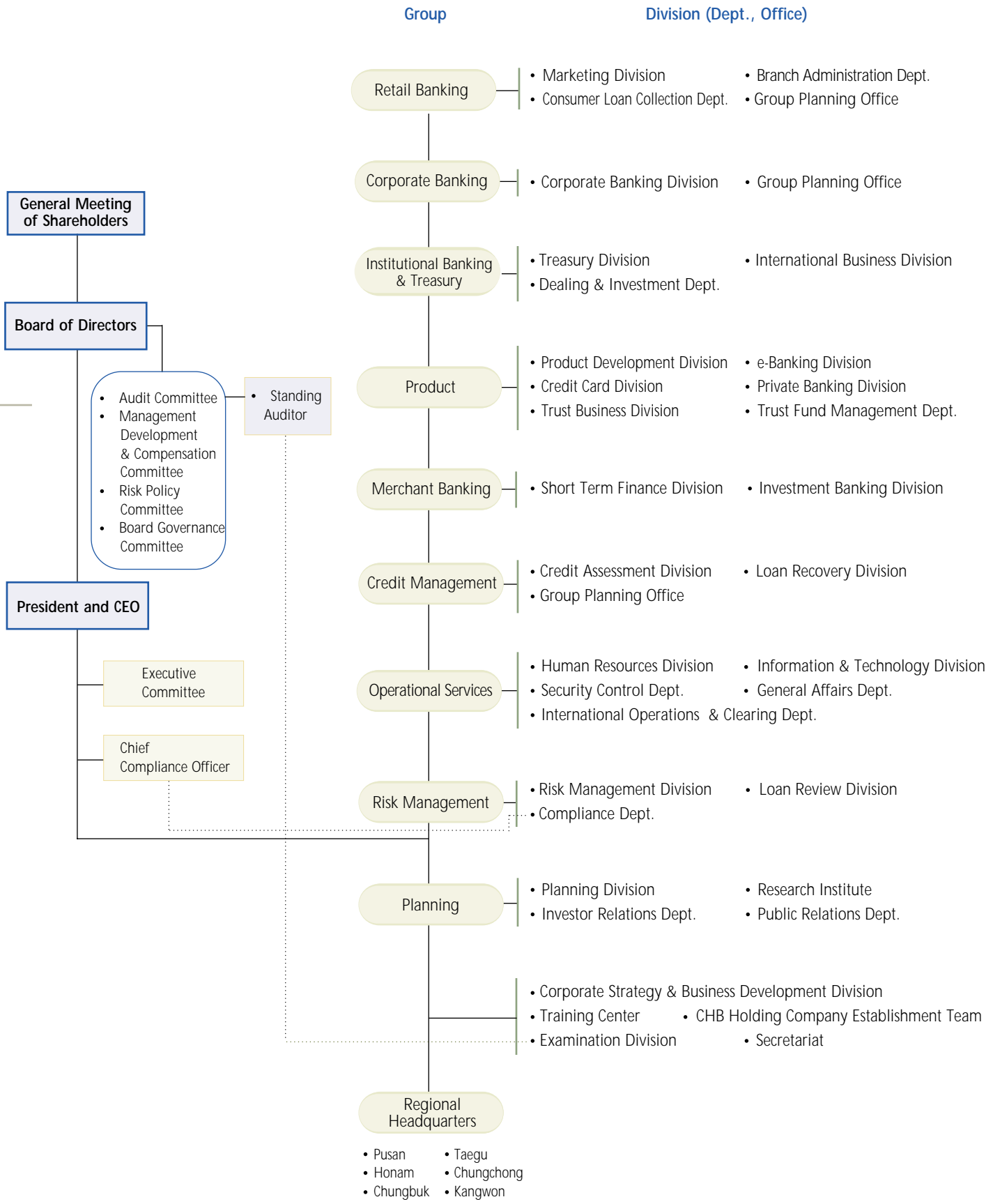
	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2000	2001	2001
Increase in loss on valuation of investment securities	W 264,433	W 102,396	\$ 77,216
Increase in investment securities due to debt-equity swap	228,325	459,358	346,397
Increase in allowance for possible losses of acceptances and guarantees resulting from repurchase of the loans sold	-	7,146	5,389
Transfer to goodwill from valuation loss on treasury stock	100,716	-	-
	W 593,474	W 568,900	\$ 429,002

24. AGREEMENT ON IMPLEMENTATION OF MANAGEMENT IMPROVEMENT PLAN:

On January 15, 1999, the Bank obtained approval from the Financial Supervisory Commission (FSC) for its management improvement plan. Pursuant to the approved plan, the Bank received a total of W2,717.9 billion capital injection from the Korea Deposit Insurance Corporation (KDIC) on February 19, 1999, May 7, 1999 and September 30, 1999. As a result of the capital injection by KDIC, the Bank entered into a compliance agreement with FSC and KDIC for its management improvement plan dated November 12, 1999. Under the agreement, the Bank has disposed of bad loans and non-performing tangible assets, reduced the number of employees, and closed unprofitable branch offices. As of December 31, 2001, the Bank has achieved the management index targets stipulated in the agreement. The Bank entered into a new agreement dated January 31, 2002 with KDIC, which contains the conditions that the Bank would lower the ratio of non-performing loans below 4.0 percent, meet the return on assets of 1.0 percent, achieve W230 million (US\$173 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002. Whether or not its revised management improvement plans are achieved may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. The new agreement on compliance with the revised management improvement plan will be terminated when KDIC is no longer the largest stockholder unless there are special circumstances.

Organization Chart

www.chb.co.kr



Board of Directors

Standing Directors



Sung-Bok Wee

Chairman of the Board
Born 1939
Appointed 2002



Serck-Joo Hong

President and Chief Executive Officer
Born 1953
Appointed 2002



Chil Sun Hong

Director and Deputy President
Head of Retail Banking Group
Born 1946
Appointed 2002



Sang-Woo Kim

Standing Auditor
Born 1945
Appointed 2001

Non-Standing Directors



Jong Hyuk Kim

Director
Former Standing Auditor of Kangwon Bank
Born 1942
Appointed 2001



Jeong Myung Lee

Director
Former Advisor of Yonhap News Agency
Born 1942
Appointed 2002



Wan Young Yu

Director
President & CEO of Orion Electric Co., Ltd.
Born 1944
Appointed 2001



Jin Soon Lee

Director
Professor of Soongsil University
Born 1950
Appointed 2002



Chang Seong Jang

Director
Head of Planning and Coordination, Korea Deposit Insurance Corporation
Born 1955
Appointed 2001



Woo Jin Kim

Director
Researcher of Korea Institute of Finance
Born 1964
Appointed 2002



David J. Behling

Director
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Born 1939
Appointed 2002

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SWIFT : CHOH US 33
<http://www.chbny.com>
E-Mail : br@chbny.com
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241 Fifth Avenue
New York, NY 10016, U.S.A.
Phone : (1-212) 679-7900
Fax : (1-212) 447-7477
Telex : 6730116 CHBONY
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<http://www.chbny.com>
E-Mail : chbnymain@aol.com
Keun Taek Han
President and General Manager

Chohung Bank of New York

Flushing Branch

136-68, Roosevelt Avenue, Flushing
NY 11354, U.S.A.
Phone : (1-718) 939-9595
Fax : (1-718) 939-3229, 886-9157
Telex : 6732491 CHBNFL
SWIFT : CHNY US 33 FLU
<http://www.chbny.com>
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Nam Soo Heo, *General Manager*

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(A wholly owned subsidiary)
3000 West Olympic Boulevard
Los Angeles, CA 90006, U.S.A.
Phone : (1-213) 380-8300
Fax : (1-213) 386-7208
Telex : 188486 CCHB
SWIFT : CCHO US 6L
<http://www.cchbla.com>
E-Mail : cchbla@cchbla.com
Dong Keon Sohn, *President and CEO*

Europe

London Branch

1 Minster Court, Mincing Lane
London EC3R 7AA United Kingdom
Phone : (44-20) 7623-7791
Fax : (44-20) 7648-1421
Telex : 8951125 CHOBNK G
SWIFT : CHOH GB 2L
E-Mail : chbcom@dircon.co.uk
Jung-Kee Min, *General Manager*

Chohung Bank (Deutschland) GmbH

(A wholly owned subsidiary)
MesseTurm, Friedrich-Ebert-Anlage 49
60327 Frankfurt Am Main, Germany
Phone : (49-69) 975-7130
Fax : (49-69) 741-0506
Telex : 410181 CHOHFMD
SWIFT : CHOH DE FF
E-Mail : chb@euko.de
Yong Jin Yoon, *Managing Director*
Ernst-Dieter Kircher, *Managing Director*

Head Office

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Chung-ku, Seoul 100-757
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Seoul 100-629, Korea
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Fax : (82-2) 3700-4971/2
Telex : CHOBANK K23321/2
SWIFT : CHOH KR SE
http: //www.chb.co.kr

Retail Banking Group

Chil Sun Hong
Director & Deputy President
Head of Retail Banking Group

Corporate Banking Group

Won Il Choi
Managing Director
Head of Corporate Banking Group

Institutional Banking & Treasury Group

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

Product Group

Joo-Won Lee
Managing Director
Head of Product Group

Merchant Banking Group

Nae Soon Park
Managing Director
Head of Merchant Banking Group

Credit Management Group

Byung Rak Han
Managing Director
Head of Credit Management Group

Operational Services Group

Dong-Gerl Lee
Managing Director
Head of Operational Services Group

Sa-Neung Hong
Senior Deputy Group Head of Operational Services Group

Risk Management Group

Kun-Ho Lee
Managing Director
Head of Risk Management Group

Planning Group

Chan-Il Park
Managing Director
Head of Planning Group

▶ International Business Division
Sung-Yoon Kim
General Manager
Phone : (82-2) 3700-4246

▶ Correspondent Banking
Bwo-Hun Lee
Deputy General Manager
Phone : (82-2) 3700-4037

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

▶ Trade Finance (Operations)
Soon Hee Lee
Head of International Operations & Clearing Dept.
Phone : (82-2) 734-0547

Pusan Regional Headquarters

130-3, Pujon 1-dong, Pusanjin-ku
Pusan 614-031, Korea
Phone : (82-51) 816-2300
Fax : (82-51) 817-2738
Telex : K52236, K53544 CHOBANK
SWIFT : CHOH KR SE 498
Chang Sik Lee
Regional Head

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Seoi Chung O
Regional Head

Honam Regional Headquarters

290, Book-dong, Book-ku
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Fax : (82-62) 512-2311
Kee-Euon Rha
Regional Head

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Fax : (82-42) 253-5215
In Ki Song
Regional Head

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Dong-Myun Lee
Managing Director
Regional Head

Kangwon Regional Headquarters

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200-706, Kangwon-do, Korea
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Fax : (82-33) 240-3318
Suk-Kyu Han
Managing Director
Regional Head

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

446 (1,496 including automated cash lobbies)

Overseas Network

6 Branches
5 Subsidiaries

Number of Employees

6,553

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

75,994

Major Shareholders

Korea Deposit Insurance Corporation	80.05%
Hyundai Group	2.40%
Hyundai Motor Company	1.01%

General Meeting of Shareholders

March 29, 2002

Stock Listing

Korea Stock Exchange
London Stock Exchange (GDRs)

Independent Accountants

Anjin & Co

Investor Relations

Phone: (82-2) 3700-4588, 4674
Fax: (82-2) 3700-4923
E-Mail: ir@chb.co.kr

СНБ

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