

**Building** **Trust**

YESTERDAY... TODAY... AND  
TOMORROW...

At 106 years old, we've never felt younger. Or better prepared to meet the challenges of the rapidly changing financial marketplace. We're making the most of our unique competitive strengths to advance into new markets and bring better value to our customers across a broad spectrum of financial services. And with the talent and commitment of our people, we're creating sustainable growth and long-term value.



## CHB – A Lifetime Companion

The symbol marking the 106th anniversary of Chohung Bank embodies the long reputation we enjoy as a bank for the people and the bright future we are creating with a new generation of customers.

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## ACHIEVEMENTS & AWARDS IN 2002

- February Commended for contribution to environmental protection by the Seoul Metropolitan Government
- April Released from government-mandated Prompt Corrective Action
- May Website voted industry's best in 2002 by the Korea Management Association
- July Cited for outstanding corporate governance by the Corporate Governance Service
- September Launched Private Banking Service
- November Named number one for customer satisfaction for the third year running by the Korea Management Association
- November Received award for support of industry from the Small and Medium Business Association

## FINANCIAL HIGHLIGHTS

Consolidated Basis		Millions of Korean Won		Thousands of U.S. Dollars <sup>1)</sup>	
		2001	2002	2001	2002
Net income	<b>For the Year</b>	525,496	(586,468)	(488,560)	
	Total income	W 5,619,298	W 5,587,761	\$ 4,654,916	
	Total expenses	5,267,570	6,188,888	5,155,688	
Loans	Income before income taxes	W 34,283,375	W 45,609,95	(601,127)	(500,772)
Securities	Income tax expenses (benefits)	15,255,413	(176,340)	\$ 37,995,627	(13,803)
			11,949,825	(16,569)	9,954,869
Total assets		57,555,475	67,270,429	56,040,011	
Deposits		40,600,836	46,529,737	38,761,860	
Total stockholders' equity		2,563,567	2,320,581	1,933,173	
<b>Financial Ratios (%) <sup>2)</sup></b>		<b>2001</b>	<b>2002</b>		
	Return on Assets (ROA)	1.01%	(0.19)%		
	Return on Stockholders' Equity (ROE)	22.68	(22.31)		
	BIS Capital Ratio	10.43	8.66		

Notes: 1) The Korean Won amounts are translated into U.S. dollars solely for the convenience of the reader at the exchange rate of W1,200.40 to US\$1.00, the prevailing rate on December 31, 2002.

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

## □□ MESSAGE FROM THE PRESIDENT AND CEO



I would like to extend my sincere appreciation for your continued support and encouragement of Chohung Bank during the past year.

### THE BUSINESS ENVIRONMENT IN 2002

The business environment for financial institutions in 2002 was adversely affected by developing economic uncertainty worldwide. After starting the year in confident mood, the Korean economy began to feel the effects of delayed global recovery and weakening consumer confidence at home. As a result, the tentative domestic recovery remained sluggish throughout the latter half of the year and looks unlikely to regain momentum until well into 2003.

### STRENGTHENED CORE BUSINESSES

It was against that background that we focused on improving the competitiveness of our core retail and corporate banking businesses. Customer segmentation and targeted marketing played an important role in achieving that aim, with advanced data mining allowing us to identify customers by banking behavior and anticipate their needs.

The establishment of our new Product Group centralized product development and enabled us to meet the needs of those customer groups more accurately, particularly in the rapidly growing retail market, with innovative products that helped to differentiate Chohung Bank from its competitors. We also took measures to strengthen the competitiveness of the services we offered to corporate clients. Among the most effective improvements we made during the year was the separation of retail and corporate management within individual branches. This allowed Relationship Managers to provide significantly enhanced levels of service to business clients, particularly at small and medium-sized enterprises (SMEs), which formed an increasingly important and profitable portion of our asset portfolio.

We also concentrated on extending the scope of our revenue sources. With the inauguration in September of a private banking (PB) business, we established an early and high-profile presence in a fast-growing and valuable market. CHB PB draws on the talent of some of the domestic industry's leading portfolio managers, financial advisors, fund managers, and tax specialists to provide comprehensive wealth management services. In addition to portfolio management, CHB PB offers life management services that include health care solutions and real estate services tailored to the unique needs of Korean clients.

#### **RECOGNITION OF OUR ACHIEVEMENTS**

Our continued progress in strengthening risk management, financial structure, and corporate governance over the past year resulted in several notable achievements. One of the most significant was the lifting of the Prompt Corrective Action mandate, in effect since 1998, under which we were required to meet financial and management performance targets set out by the government. Our improving financial structure also prompted a number of domestic and international credit rating agencies to upgrade our credit rating. The quality of our services, meanwhile, received recognition from several organizations. Our support for SMEs earned us an award from the Small & Medium Business Association while the Korea Management Association named our customer service the industry's best for an unprecedented third year running.

#### **OPERATING RESULTS FOR THE YEAR**

In fiscal 2002 we recorded healthy pre-provision income of W1,053.2 billion. However, restructuring costs of W1,297.0 billion resulted in a net loss of W586.0 billion for the year and saw our capital adequacy ratio slip to 8.66%. The causes of the unusually high restructuring costs were twofold: our determination to eliminate financial uncertainty stemming from exposure to corporations yet to overcome the effects of Asian financial crisis; and the need for additional provisioning against retail loans, which deteriorated in quality industry-wide. Nevertheless, our concerted effort combined with an emphasis on enhanced transparency has left us with a fundamentally sound financial structure that we believe will restore investor confidence in the Bank and form a strong foundation for profitable growth.

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### THE MARKET OUTLOOK AND STRATEGY FOR 2003

The domestic financial market is entering yet another phase in its rapid development. In recent years, competition has increased with the rise of large-scale financial institutions and holding companies formed through mergers between banks and other financial service providers. The industry is now facing a different kind of challenge with the arrival of competitors from outside the financial sector. Offering a variety of innovative, IT-based financial services, these new entrants are intensifying competition for market share and sending a clear message throughout the industry that the marketplace is no longer the exclusive domain of traditional financial service providers.

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### QUALITY MANAGEMENT AND QUALITATIVE GROWTH

In this dynamic environment, we believe the most effective strategy is one focused on quality management and qualitative growth. That means running our organization more efficiently and generating better returns from our businesses. We intend to achieve that by strengthening general risk management, developing new sources of income, and implementing upgraded management processes.

We will remain unrelenting in our efforts to enhance the quality of our financial structure as a basis for profitable growth and to that end will implement systemized procedures to strengthen general risk management. The systemization of credit assessment criteria for retail and credit card loan applications, for example, will enable us to measure risk more accurately. In addition, we intend to adopt an early warning system that alerts us to borrowers with poor credit histories. Meanwhile, regular evaluation of outstanding loans will identify new risk and allow us to take appropriate measures in a timely manner. The systematic evaluation of applicants will

enable us to price credit on a risk-weighted basis, while risk analysis data will be incorporated in designing and targeting new products.

We are also committed to increasing competitiveness by seeking new sources of profitable income. To do so, we intend to increase income from fees and commissions by continuing to develop our own specialized products and cross selling a variety of third-party financial products. After market deregulation, in August 2003, we expect also to offer insurance products in partnership with local and overseas insurance companies. We will also focus on emerging business sectors such as the small office home office market where specialized needs offer opportunities for tailored services and profitable price structuring. In addition, we will seek to attract high-net-worth individuals and migrate existing customers to higher profitability brackets by employing advanced marketing tools to offer value-added products and services. Furthermore, we will endeavor to reach consumers effectively by upgrading distribution channels both online and offline.

Quality management entails upgrading infrastructure and applying process innovations that enhance efficiency and meet increasingly varied consumer demands. In response to the changes in the market environment, we intend to continue upgrading infrastructure and will implement full-scale operational process innovations. The shift of back office operations to a dedicated Loan Center and Operation Center, which will enable staff at branches to focus more fully on customers, is one of the most significant changes. We expect to complete the transformation during 2003. Moreover, we believe that more efficient internal communications, which simplify decision-making processes and speed up operations, will enhance performance throughout the Bank.



Looking further ahead, we have revised our mid-to long-term goal of creating a holding company structure in favor of a new growth model. With the recent changes in the business environment, we believe that strengthening the competitiveness of our core businesses while seeking to establish a dominant presence in various emerging and niche markets is the optimum strategy for us to create value.

#### **INSPIRING CONFIDENCE AND CREATING VALUE**

We believe that lasting corporate value and customer satisfaction are built on confidence and trust. We are working hard to inspire shareholder confidence through enhanced management transparency, and can justly claim to be among the industry leaders in terms of frequency and quality of corporate disclosure. Meanwhile, we are redoubling our effort to improve service for clients and live up to our reputation as the first name in customer satisfaction. That has included the recent introduction of a quality management system based on the Moment of Truth model. The system enables in-depth mapping and evaluation of all points of contact that customers have with the Bank and will enable us to significantly improve the quality of service we offer.

In the coming year, the financial landscape is likely to change ever more rapidly and bring new challenges to financial institutions. At Chohung Bank, we have a wealth of experience in turning adversity into opportunity. At this crucial time, we will draw on that capacity and the foundation of a strong financial structure to meet those challenges with renewed confidence in our ability to continue evolving into a truly outstanding business that sets the highest standards in every area of its operations.

All of us at Chohung Bank are committed to ensuring its position as a leading domestic financial institution. As we strive to achieve that goal, we look forward to creating lasting value for shareholders and customers alike.

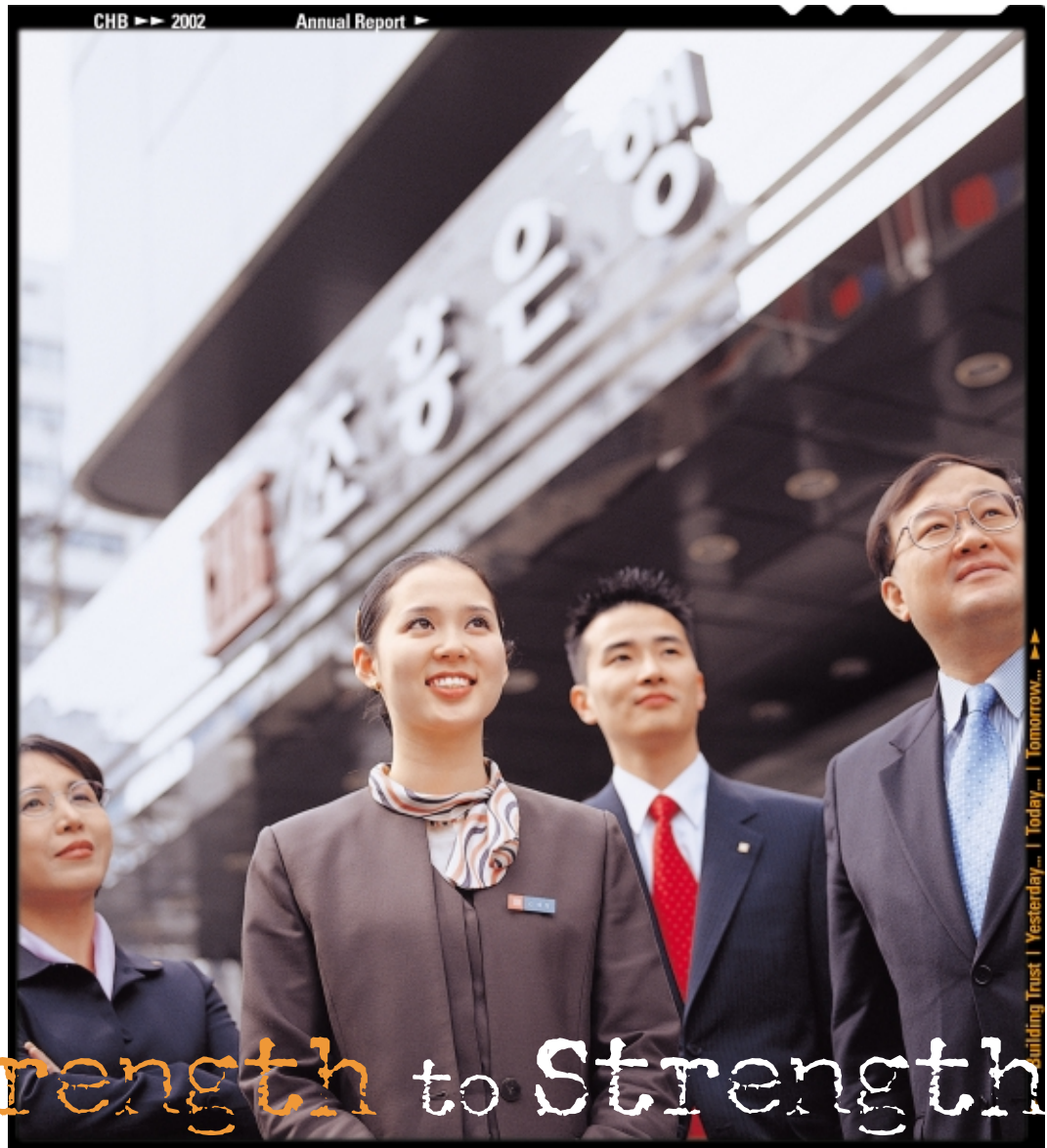
Thank you.

A handwritten signature in black ink that reads "Serck-Joo Hong". The signature is written in a cursive, flowing style.

**Serck-Joo Hong**

President and Chief Executive Officer

## ■ ■ CORE STRENGTHS



*Our advanced retail banking infrastructure, high-value franchise, and industry-leading customer service are improving profitability in a wide range of markets, while our long-established low-cost funding structure contributes significantly to our cost competitiveness.*



## FRANCHISE VALUE

### ***Our strong brand recognition and long tradition differentiate us from newcomers to the market***

The value of our franchise has long been one of our major competitive strengths. With over a century of providing financial services to individuals and businesses, we have become a trusted member of communities across the nation. And as the number of nonbanking and nontraditional financial service providers entering the retail financial services market rises, the value of that tradition is helping to set us apart from the crowd.

## Now and Forever, a Name to Trust

At CHB, we have earned the trust of generations of customers with the good old-fashioned virtues of honesty, reliability, and consistency. To consumers today, faced with a potentially bewildering array of financial services and providers, those qualities are more valuable than ever. Which is why CHB is still the name that people trust the most.

In a recent nationwide corporate image survey conducted by the Korea Management Association Consultancy, consumers named CHB as the bank they associated most closely with trust, awarding the Bank a higher rating than any of its competitors. What is more, Chohung Bank ranked first among the nine major domestic banks in several major categories. Participants in the survey placed Chohung ahead of its competitors for product and service quality, social contribution, and customer-oriented service. The results help to explain why so many people are turning to CHB to meet their financial needs.

Despite the rise of internet and mobile banking, branches remain the most important point of contact with customers. Which is why our unrivaled branch network gives us a major competitive edge. Our branches, serving communities throughout the nation, provide customers with convenient access to financial services and offer a premium channel of delivery. What is more, a large proportion of those branches occupy prime spots in and around hospitals, university campuses, airports, and courts.

## LOW-COST FUNDING AND HIGH NET INTEREST MARGIN

### ***A large customer base contributes to our low funding costs***

CHB's funding costs are among the lowest in the industry. In 2002, low-cost core deposits accounted for 39.7% of our total deposits in local currency, which was significantly higher than any of our peers. That competitive advantage is largely a result of our long history. With over a century of providing retail and corporate customers with financial services, we have established lasting relationships with clients and enjoy one of the largest and most stable customer bases in the industry. Chohung Bank is the preferred financial partner of around 10 million people, including more than 860,000 high-net-worth customers. Using our extensive network of strategically located branches for low-interest demand deposits and savings account deposits, those customers are an important and reliable source of our low-cost funding.

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Deposits in court escrow accounts, which are made by litigants in connection with legal cases in Korean courts and carry interest at below market rates, also contribute to low-cost funding. For more than 40 years we have been a designated custodian bank for these deposits and have over 40 branches, 20 in major cities, handling the business. Our dedicated online system interfaces directly with the court network, allowing swift processing of transactions, while specialized personnel ensure efficient operations and maximum customer satisfaction.

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As a consequence of the low cost of our funds and of our expertise in asset management, our net interest margin consistently rates among the best in the domestic industry. In 2002, we recorded a NIM of 3.36%, which was the second highest among peer banks.

## IT-based marketing systems are helping us target profitable customers and giving us a sharp competitive edge.

### ADVANCED RETAIL BANKING INFRASTRUCTURE

We are harnessing the power of technology to identify clients with greater accuracy, market targeted products tailored to their needs, and provide quality services that are attracting a whole new generation of customers. We have implemented sophisticated marketing strategies targeted at specific customer segments using systematic and scientific IT-based marketing tools.

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#### ***Segmenting customers with sophisticated data mining technology***

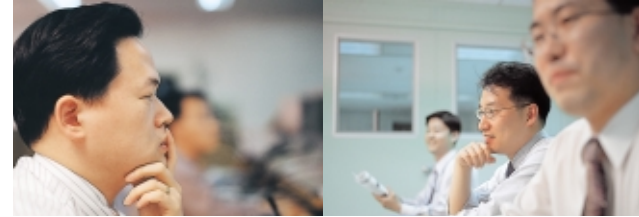
Using our independently developed Data Warehouse, we are able to conduct data mining that quickly and accurately identifies profitable customer demographics and their key characteristics. This is enabling us to significantly strengthen existing customer relationships. We are able to use the data to develop differentiated products that closely meet the needs of those clients. Algorithm marketing, which automates customer profiling, enables us to identify their needs immediately and offer consultation and recommend the most suitable products. The introduction of Deepening Customer Relationship Branches, remodeled branches focused on customer groups, has been especially successful in attracting and retaining high-income customers. Account Managers listen, advise and provide products and services that best suite to individual circumstances. Relationship Managers offer the same high level of personal attention to our corporate clients. Services include a wide range of financial solutions tailored to individual client needs through frequent company visits, seminars, and individual consultation.

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Our Marketing Database comprises advanced marketing tools such as the Economic Mapping System (EMS). With this state-of-the-art system, we are able to identify and analyze the potential profitability of customers based on detailed environmental, geographical and economic analysis. Using the results, management can develop and market targeted products, and set appropriate performance targets for branches serving the area.

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## *Everyday, at every Branch, with every Customer*



As a part of our commitment to prioritizing the needs of customers, in March 2003 we introduced a quality management system that maximizes the quality of service provided by Chohung Bank. Our MOT (Moment of Truth) quality management system, monitors every point of contact, or "moment of truth", that customers have with the Bank. By providing an integrated model for monitoring and evaluating customer interactions, the system is enabling us to provide a previously unattainable level of consistency in service quality throughout the Bank.

### **CUSTOMER SATISFACTION**

#### ***Management is leading by example***

The example set by our senior management is playing a major role in cultivating a customer-oriented culture at grass roots level throughout the Bank. Their lead is inspiring staff to listen to customers and develop relationships through face-to-face meetings and online consultations. The personal attention to individual needs is beneficial to both customers and the Bank. Through visits to more than 200 companies, for example, management has not only provided an exceptional quality of service, but has also directly contributed to a notable increase in loans to SMEs.

#### ***CS personnel and systems are setting new standards***

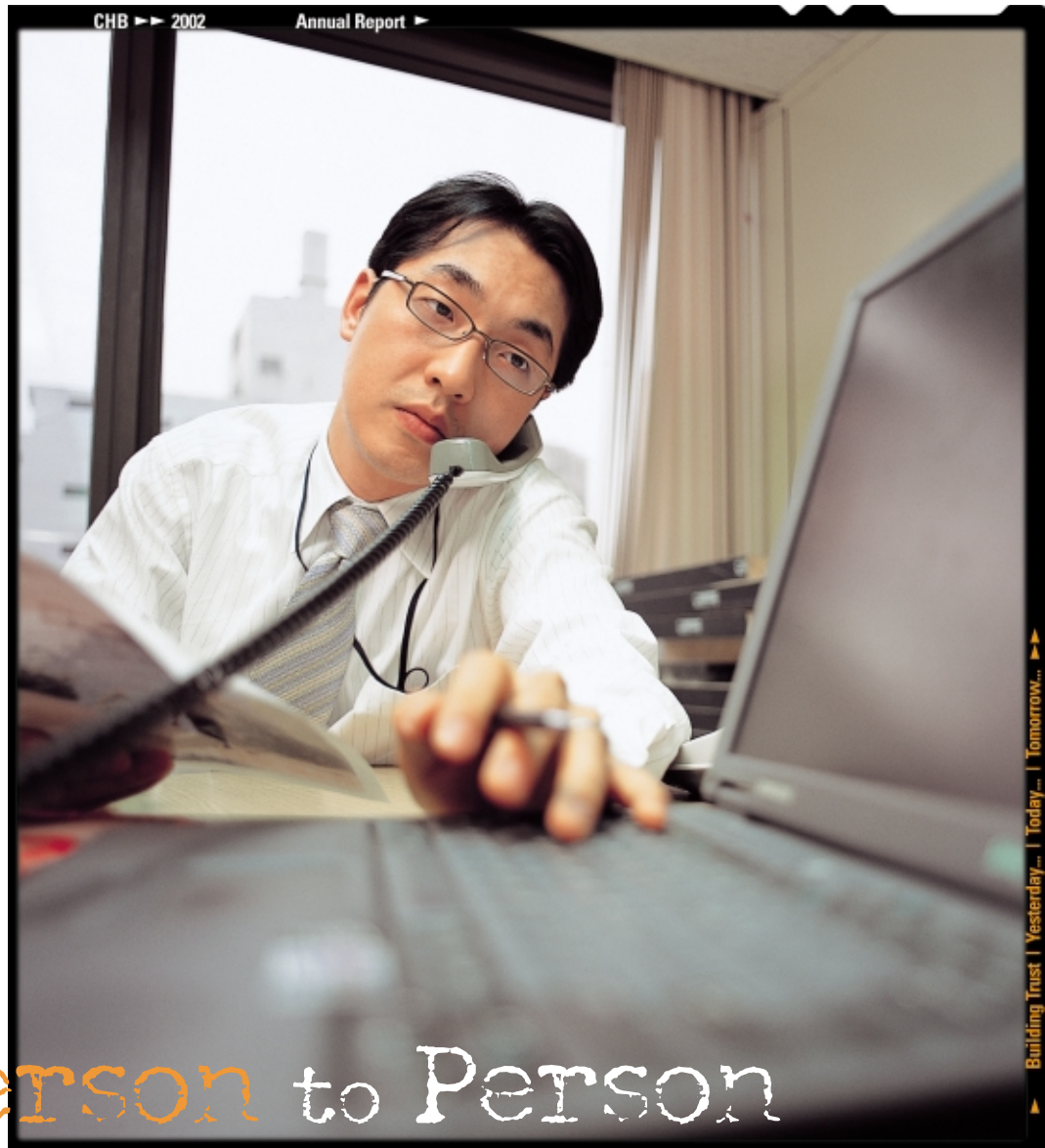
CS Leaders have been critical to our success in systematically raising service quality. Based at our newly independent Customer Satisfaction Center, at regional headquarters, and at strategic branches, they are tasked exclusively with devising, implementing and monitoring CS initiatives. As well as providing standard and customized training for headquarters and branch staff and reporting to the CS Center, CS Leaders are playing a central role in promoting a customer-oriented attitude throughout the organization. They are also responsible for nurturing new CS Leaders at branch level.

The CS Plaza is an integrated suite of systems that serves both consumers and employees. Through the internet part of the service, customers can not only submit comments and inquiries online, but can also learn about the Bank's efforts to improve customer satisfaction. CS Leaders analyze the feedback at the Customer Satisfaction Center and respond appropriately to address issues. In addition, a variety of intranet systems allow employees to communicate and receive up to date CS news.

#### ***The Voice of the Customer lets us listen and learn***

At CHB, we spend a great deal of our time listening to customers. Our Voice of the Customer system, which provides online and offline channels of communication for customers, has played an important role in facilitating that. In addition to responding to individual inquiries and complaints within 24 hours, the system enables us to monitor and evaluate service quality throughout the Bank. Through analysis of the collated data, we can pinpoint aspects of our service that require improvement and address them by developing training materials or enhanced processes.

■ ■ BUSINESS IN 2002



*Chohung Bank responded to the challenge of increasing competition in the domestic industry by strengthening the competitiveness of its core business. While advanced marketing and quality service improved performance in the retail and corporate markets, a commitment to improving financial structure laid a strong foundation for continued growth.*

## MARKET ENVIRONMENT

Competition in the Korean financial industry continued to intensify in 2002. Domestic banks sought growth by mergers and acquisitions and transformation into universal banking or holding company structures. After being forced to expand the size and scope of their operations in order to remain competitive, domestic banks were faced with a fresh challenge from non-financial institutions offering an array of innovative IT-based financial services, and from global financial institutions offering fee and commission based, personal financial services.

Chohung Bank (CHB) responded by focusing on strengthening its customer loyalty and the Chohung brand value by maximizing value and satisfaction. Through enhancing its channels of communications with clients, the Bank gained a deeper understanding of the unique needs of its customer segments and was able to anticipate them more effectively. Those efforts were rewarded not only by customers, who turned to Chohung for financial services in increasing numbers, but also by the Korea Management Association, which named CHB the number one bank for customer satisfaction for the third year running.

## Better Service, Better Business

### RETAIL BANKING

Low interest rates, diminishing product differentiation, and increasing customer expectations made for a competitive retail banking environment in 2002. In response to nontraditional banking competitors, the Bank strengthened its IT-based financial services offered through the internet and mobile banking. CHB also responded to increasing customer needs by forming strategic alliances with leading global institutions that offer quality asset management products and services. Furthermore, the Bank strengthened its marketing channels by segmenting customers by profitability and growth potential and targeting each group with customized products and services.

Examples of enhanced marketing channels included the inauguration of the Product Development Group, which centralized the development of products and services, and the establishment of a Private Banking (PB) Division. CHB PB employs some of the domestic industry's leading financial advisors, who offer comprehensive wealth management services to clients with assets of W1 billion or more. They also provide a one-stop total financial services solution, including health care solutions and real estate services, in partnership with renowned domestic and global companies.

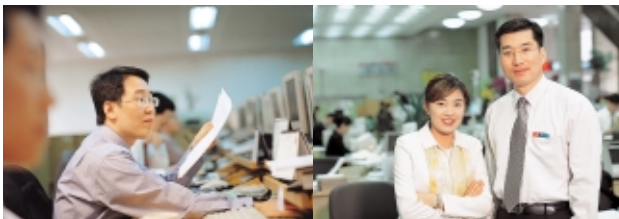
#### • *Customer Base and Retail Banking Business*

The number of people turning to Chohung Bank for financial services increased by around 530,000 in 2002, climbing to a total of about 9.9 million. This represented impressive growth of 5.6% over 2001, when customers numbered around 9.4 million. More notably, high-net-worth customers, who contribute most to profit, increased by 34.9% to 858,000 individuals at the end of 2002 compared with 636,000 at the end of the previous year.

Partly as a result of the sizeable increase in its customer base, the Bank's total deposits rose by 15.9% over the previous year to W45,125.8 billion. High-interest-yielding retail loans leapt by 70.4% to W15,456.5 billion from W9,072.3 billion year on year. Growth of mortgage loans, encouraged by low interest rates and a rise in housing prices, also increased by a healthy 79.6% to W6,755.7 billion at the end of the year compared with W3,761.7 billion in 2001. Moreover, the Bank consistently reduced the average loan-to-value ratio on mortgage loans to ensure good asset quality.

#### • **Credit Card Business**

The credit card market in Korea has experienced significant growth over the past several years. However, keen competition and government regulation of credit card operations influenced the growth of credit card business throughout the industry in 2002, with a restriction on credit card cash advances and tightened guidelines for loan provisioning affecting profitability. The Bank sought to segment both the market and its customer base by innovating credit card products for each segment. In January 2002, the Bank released its own credit card, *Forever*. The total number of cardholders increased by over 145,000 from the previous year to around 4.3 million in 2002 and total charge volume rose by 11.1% to W29,906.8 billion. The Bank, however, does not intend to pursue growth in the credit card market because of increased risks and delinquencies associated with the recent rapid growth in this market segment. CHB will continue to focus on profitability and assets soundness in its credit card operation.



*A Bank with a Future  
as Bright as its Past*

#### • **e-Banking**

The Bank offers various services through its non-branch customer interface system, including phone banking and internet banking services launched in 1993 and 1999 respectively. In 2002, Chohung Bank maintained its position as the leading provider of e-banking services in the domestic industry. While firm banking and phone banking continuously expanded in the number of users and transactions, internet banking showed most impressive growth during the year. The number of internet banking customers leapt from 1.5 million in the previous year to nearly 2 million at the end of 2002. The number of transactions increased by 53.2% from 7.9 million to over 12.1 million.

The continuing channel shift from offline to online for transactions such as transfers, bill payment and loan applications has improved convenience for customers and realized cost savings for the Bank. Of the 288 internet banking services the Bank provides, loan application and approval showed the most impressive growth in 2002. A rise in the number of online loans of 53.7% to 150,511 year-on-year maintained the Bank's lead in this area. In recognition of the diversity and quality of its internet banking operations, the Korea Management Association named CHB the industry's number one internet Banking provider in 2002 and presented it with the "Internet Product of the Year" award.

## CHB was named the industry's number one internet banking provider in 2002 by the Korea Management Association.

### • *Strategies for 2003*

In addition to heightened competition, the retail banking environment in 2003 is likely to be affected by weakening consumer demand and government-imposed restrictions on retail loans. The Bank intends to guard against possible market fluctuation by prioritizing risk management and choosing asset quality over quantitative growth. It will continue to focus on customer groups and expand its fee-based businesses. From August 2003, Korean banks will be allowed to participate in the bancassurance business. The Bank wishes to participate in the expected development of this sector in order to ensure that a comprehensive range of products is available to its customers and to develop this potential source of low-risk fee-based revenue. The Bank intends to establish early and effective presence in the market and is exploring partnerships with several leading domestic and overseas life and non-life insurance companies.

### CORPORATE BANKING

Small and medium-sized enterprises (SMEs) represented the main focus of competition in the corporate sector in 2002. Banks continued to shuffle their loan portfolios in favor of SMEs at the expense of larger corporations in an effort to diversify exposure and increase profits.

Chohung Bank implemented systematic measures during the year to expand its share of the SME market. Its marketing strategy focused on segmenting companies according to profitability to the Bank and targeting them with differentiated products that met their needs most effectively. The Bank also established a dedicated customer support team to strengthen its e-FMS service, which is CHB's advanced IT infrastructure for corporate clients. The service provides internet access to services such as B2B settlement and foreign exchange transactions, and offers an ERP program that allows users to manage company accounting. Moreover, the Chohung Enterprise Club, a network of leading SMEs, expanded by 34.9% to comprise 2,066 member companies. The Bank's endeavor was accorded recognition when it received the Prime Minister's Award for support of SMEs.

In 2002, the Bank's won-denominated corporate loans amounted to W16,955.5 billion, up 32.4% over the previous year, while the proportion of total won-denominated loans slipped to 51.7% from 57.9% in 2001 due to the dramatic growth of retail loans. Loans to SMEs increased by an impressive 43.6%, to W13,213.4 billion in 2002, while loans to large corporations increased by 3.8% to W3,742.1 billion. Meanwhile, foreign currency loans extended to corporations remained flat at W3,156.6 billion compared to W3,138.4 billion in 2001.

Competition in the corporate sector is expected to increase in 2003 due to shrinking demand in the retail market. The Bank will capitalize on the strong links it has forged with the business community to strengthen its presence in the SME market. This will include developing new products and services as well as nurturing growth areas such as the burgeoning small office home office (SOHO) market. The Bank also plans to implement a corporate customer marketing system (CTMS). The system is currently under development and is expected to be launched in 2003.

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## TREASURY AND CAPITAL MARKETS

The year 2002 saw a worsening environment in the domestic bond market brought about by the downward stabilization of interest rates and the contraction in the spread between short-term and long-term interest rates.

In making securities investment, the Bank's principal objectives are to maintain the stability and diversification of its assets and match the maturity of its funding and investment. At the end of December 2002, the Bank's total investment in securities stood at W11,072.6 billion, a decrease of 21.3% over the previous year. Investment in trading securities declined by 19.9% to W990.2 billion while investment securities shrank 21.5% to W10,082.4 billion. Net gain on trading securities decreased from W112.0 billion to W82.8 billion in 2002 affected by the contraction in the spread on short- and long-term interest rates and decreased trading volume.

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## Building Trust

### Yesterday... Today... and Tomorrow...

The Bank's treasury operations include trade-related services, foreign currency and derivative trading. In 2002, foreign exchange business was healthy. Trade volume was up 7.6% to US\$29,258 million and related profits amounted to W72.7 billion. Foreign currency exchange volume grew to US\$1,666 million, rising by 13.4%, while remittances abroad remained at US\$1,726 million. In won/dollar foreign exchange trading, the Bank again ranked first in terms of trading volume and achieved a market share of 12.2%. Trading volume for the year amounted to US\$158.0 billion, which generated a net gain of W7.0 billion. Meanwhile, foreign currency funding declined from W6,709.7 billion in the previous year to W6,266.4 billion in 2002, mainly due to the sluggish demand from corporate customers.

In February 2003, Chohung Vina Bank, a Vietnamese subsidiary of Chohung Bank, celebrated its 10th anniversary. The joint venture gives the Bank a strong presence in the Vietnamese market, facilitates profit from international trade, and provides a platform for expansion into other Southeast Asian markets. Chohung Vina Bank has grown more than 50% in terms of asset since the acquisition in 2000 and is a model of successful foreign investment.

In 2003, the Bank will concentrate on improving risk management and on strengthening its expertise in derivative products by exploring alliances with major foreign banks. In addition, the Bank will seek to maximize revenue by generating further fee-based business.

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## *Forging new Partnerships, Strengthening old ones*



### **TRUST BUSINESS**

Domestic banks experienced a significant reduction in trust accounts after the Asian financial crisis in 1997. However, a downturn in the stock market and low interest rates have begun to attract customers to trusts once again. The Bank aggressively promoted cross sales of competitive products such as beneficiary certificates and targeted niche markets with its own specialized investment products. In 2002, CHB became the first bank to offer beneficiary certificates and money market funds via the internet.

Under Korean law, assets in trust accounts are accounted for and reported separately from the bank account. At the end of fiscal year 2002, the Bank had total trust assets of W5,532.6 billion, down 2.4% from W5,666.9 billion. However, total trust deposits including cross-sold products increased by 13.6% over the previous year to W7,482.5 billion from W6,584.9 billion. Of the total, money trusts directly managed by the Bank decreased by 4.3% over the previous year to W5,154.7 billion, while products cross sold with investment trust companies jumped by 93.8% from W1,201.0 billion to W2,327.8 billion. The Bank now ranks second in the domestic industry in terms of cross-sales volume. It plans to reinforce fee-based income by cross sales of customized financial products to meet diversified customer needs.

In the year ahead, the Bank will continue to diversify both products and sales channels and further increase internet marketing. It will also broaden the scope of the products on offer to include retirement fund trusts and develop other fee-based income.

### **MERCHANT BANKING**

The Bank's merchant banking business includes short-term financing and investment banking business. With the acquisition of Hyundai Merchant Bank in 1999, Chohung Bank gained considerable expertise in merchant banking.

In 2002, total merchant account assets rose to W2,542.7 billion, an increase of 1.6% over the previous year's W2,502.9 billion. The short-term money market in 2002 was affected by a slowdown in issuance of public purpose bonds by government organizations and reduced facility investment by companies that resulted in less commercial paper issuances. Loans remained at a similar level to the previous year, standing at W1,882.5 billion in 2002, whereas deposits were down 15.5% from W1,467.6 billion to W1,240.4 billion at the end of 2002.

The Bank's marketing initiative aimed at bolstering competitiveness in project financing brought positive results. Industry-leading specialists successfully attracted foreign investment to LBO projects, consulted on SOC financing, and negotiated and structured corporate financing. At year-end, total commitments on project financing reached W308.0 billion. The Bank also provided comprehensive M&A services, ABS underwriting, and financial consulting. Currently, eight M&As are under management.

In 2003, the Bank intends to reinforce fee income by expanding its investment banking business and short-term financing activities. It will sharpen marketing strategies and develop customized products focused on niche markets where it has competitive strength, such as M&A, project financing and commercial paper brokerage.

## ■ ■ CONTRIBUTION TO SOCIETY



# Generation to Generation

*Since its founding 106 years ago, Chohung Bank has played an important role in supporting the community it serves. In addition to a multitude of activities helping groups and individuals, it strives to promote a culture of giving in society as a whole.*



## *Chohung Bank's tradition of contributing to the community is as old as the company itself.*

### **SOCIAL WELFARE**

While the Bank contributes directly to a number of causes, it believes that it has a responsibility to promote a culture of giving throughout the community. By encouraging others to donate their time and money on a regular basis, Chohung is playing a small part in bringing about a better society for everyone and having an effect on people's lives far beyond the scope of its own charitable acts.

At the end of each year, Bank staff and their families donate their time organizing a holiday season festival to raise funds for the needy and people living in underprivileged neighborhoods. This year, events included musical performances, charity auctions and collections, as well as a special family-themed promotion of photographs and calligraphy scrolls.

In another campaign aimed at creating a more caring society, the Bank encourages employees to donate to the Korea Community Chest, a charitable organization that distributes donations to a variety of social welfare projects. In 2002, around 5,450 Bank employees contributed to the fund.

In addition to raising funds for the underprivileged, the Bank's employees and their families are deepening ties with local communities by regularly volunteering their time for a variety of causes. Activities include a campaign to distribute food to the elderly, disadvantaged, and unemployed in inner city neighborhoods, and supporting the community throughout the year.

### **EDUCATION**

The Bank believes it has a special responsibility to provide financial education for the youth of the nation. As part of its commitment to promoting financial awareness among young people, the Bank's financial education team has provided personal money management classes to around 4,000 high school students. Courses such as Money Talk, Getting to Grips with Credit Cards, and Money & Social Ills provide a firm grounding in personal financial management based on practical money skills and address important topical issues. Moreover, from next year the Bank plans to include the study of financial mechanisms and instruments through a regular program of classes at the Chohung Financial Museum.

In cooperation with the Maeil Business Newspaper, Chohung Bank runs special classes in basic economics for younger children. The classes are offered as a benefit of the Bank's Little Economist educational trust fund. Thirty percent of the profits from the trust are set aside for funding the classes, which give young children a unique introduction to the subjects of economics and finance.

### OPPORTUNITIES FOR STUDENTS IN RURAL COMMUNITIES

With the aim of deepening the ties between rural communities and urban centers, every May the Bank sponsors educational field trips that offer students the chance to see some of the capital city's sites of historical significance and major landmarks. This year, 50 children from various remote areas around the nation participated in trips that included visits to palaces, museums, financial institutions, and amusement parks.

### ENVIRONMENTAL CONTRIBUTIONS

Chohung Bank's contributions to environmental causes include annual labeling of woodland trees at national parks around the country and participation in the One Mountain One Company program. Under the scheme, employees and their families volunteer time to carry out various conservation activities in a designated area of natural beauty. The Chohung Environmental Photography Contest, inaugurated in 1994, is perhaps the Bank's most widely known environmental initiative and has become one of the nation's most prestigious photographic competitions. In 2002, it attracted more than 1,290 entries. The finalists' work was displayed during the 9th Environmental Photography Exhibition, held at the Kwanghwamun Gallery in Seoul, in an event that drew attention to the natural beauty of Korea and to the damage inflicted on it by humankind.

### SUPPORT FOR THE ARTS AND SPORTS

The Bank sponsors and organizes a number of cultural events from the arts to sports. At the Chohung Gallery, founded in 1997 to commemorate the Bank's centennial anniversary, it nurtures the nation's promising artists by providing a free space for exhibitions. The Bank also provides patronage for a wide range of arts organizations, such as the National Opera Company and the New Seoul Opera Company.

The Bank is contributing to health and fitness through contributions to organizations that promote sport in the community. In addition, the Bank sponsors several high-profile sporting events including the The Chosun Ilbo Chunchon Marathon and the Maeil Business Newspaper Golf Tournament. The Chunchon Marathon, the largest race in Korea, is an important event on the Korean sporting calendar that attracts competitors from both home and abroad. In 2002, around 150 members of the Chohung Athletics Club took part and completed the race.

*We are committed to encouraging  
a culture of giving in the community.*





■ ■ **FINANCIAL SECTION**

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## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

### 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.

### Changes in Accounting Guidelines in 2002

#### Provisioning Requirements

The Financial Supervisory Service (FSS) increased the minimum-reserve requirement for retail loans, including credit card balance, from 2002. For more detailed information on the calculation of minimum allowance for loan losses, see "Asset Classification" in Analysis of Financial Conditions and "Notes 2 - Allowance for possible loan losses and other losses".

#### Accounting Treatment of Banker's Usance

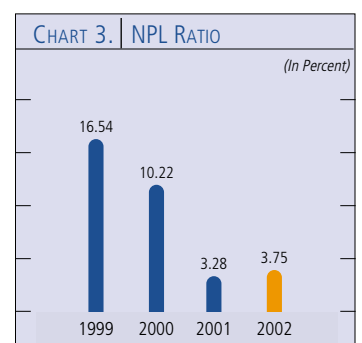
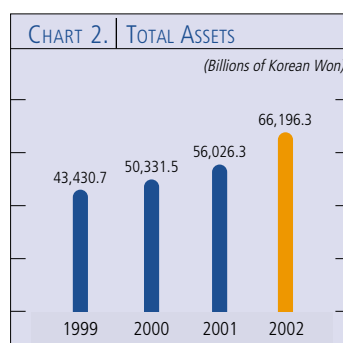
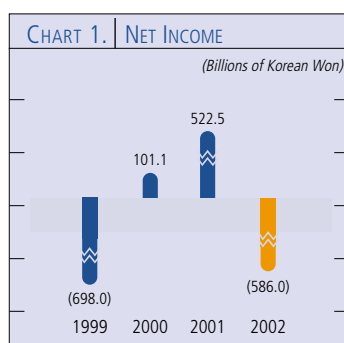
Beginning in December 2002, in accordance with a change in supervisory regulation of banking business by the FSS, confirmed banker's usance transactions previously accounted as "acceptances" were recorded as "loans and borrowings in foreign currencies". The Bank's balance sheet as of December 31, 2001 was restated to reflect such change. See "Note 2 - Changes in Accounting Principle and Estimates".

#### Accounting Treatment of Commercial Paper

Beginning 2002, commercial paper was recorded as "trading securities" and the related interest income as "interest income". Previously, such assets and income had been accounted as "other assets" and "other non-interest income". The Bank's balance sheet as of December 31, 2001 was restated to reflect such change.

#### Accounting Treatment of Credit Card Income

From June 2002, the FSS reporting standards calculation for net interest margin excludes interest income and assets related to both credit card purchases and installment or revolving payments. It includes only income and assets related to cash advances and card loans. Previously, all four kinds of credit card related income and assets had been included in the net interest margin calculation. In connection with these changes, the Bank included in its "interest income" only interest income relating to cash advances and card loans. Income relating to credit card purchases and installment payments was classified as "fees and commissions". The Bank's 2001 income statement was restated to reflect this change. See "Note 20. Interest on loans".



## MANAGEMENT'S DISCUSSION & ANALYSIS

**TABLE 1.** | SELECTED FINANCIAL DATA

	(Billions of Korean Won)			
	1999	2000	2001	2002
<b>Non-Consolidated Statements of Operations</b>				
Interest income and dividends	W 3,173.0	W 4,012.2	W 3,962.5	W 3,849.9
Interest expenses	2,071.8	2,663.4	2,344.1	2,106.2
Net interest income	1,101.2	1,348.8	1,618.4	1,743.7
Provision for loan losses	1,658.0	852.3	751.3	1,542.9
Non-interest income	1,571.6	1,489.6	1,483.0	1,606.9
Non-interest expenses	1,709.1	1,899.1	2,013.7	2,418.8
Income (loss) before income taxes	(694.3)	104.6	336.4	(611.1)
Net income (loss)	(698.0)	101.1	522.5	(586.0)
<b>Non-Consolidated Balance Sheets</b>				
Loans	W 24,152.7	W 29,376.6	W 34,443.0	W 45,328.5
Allowance for loan losses	2,481.8	1,669.7	1,030.7	1,604.6
Securities	11,999.7	12,858.8	14,076.3	11,072.6
Total assets	43,430.7	50,331.5	56,026.3	66,196.3
Deposits	27,621.1	34,392.9	38,922.1	45,125.8
Borrowings	8,945.0	7,327.8	7,429.7	6,843.7
Total liabilities	41,212.6	48,246.5	53,490.5	63,904.0
Total shareholders' equity	2,218.1	2,084.9	2,535.8	2,292.3
<b>Per Share Data:</b>				
Weighted average number of shares (mil)	463.7	679.1	653.8	673.6
Net income (loss) per share (In Korean Won)	(1,505)	149	799	(870)
Dividends	-	-	-	-
<b>Profitability Ratios (%):</b>				
Return on assets	(1.69)%	0.21%	1.01%	(0.97)%
Return on shareholders' equity	(24.72)	3.34	22.68	(22.31)
NIM	3.23	3.20	3.59	3.40
Korean Won	4.16	3.76	3.91	3.65
Foreign currencies	1.06	0.90	1.80	1.31
NIM (FSS standards)	3.26	3.18	3.57	3.36
Korean Won	4.10	3.75	3.81	3.59
Foreign currencies	1.43	0.96	2.23	1.35
<b>Asset Quality Ratios (%):</b>				
<b>- Based on FSS standards<sup>1)</sup></b>				
NPL (substandard and below) ratio	16.54	10.22	3.28	3.75
Precautionary and below ratio	24.98	15.72	9.18	7.59
Loan loss reserve/ NPLs	54.67	55.05	90.72	94.95
Loan loss reserve/ Total credits	9.04	5.62	2.98	3.56
<b>- Bank account only</b>				
NPL (substandard and below) ratio	16.01	10.10	3.25	3.55
Precautionary and below ratio	24.35	15.09	9.11	7.32
Loan loss reserve/ NPLs	58.70	54.72	92.61	98.12
Loan loss reserve/ Total credits	9.40	5.53	3.01	3.48
<b>BIS Capital Ratio (%)<sup>2)</sup></b>				
Tier I	9.80%	9.78%	10.43%	8.66%
Tier II	5.66	5.24	5.91	4.61
Tier III	4.18	4.54	4.53	4.07

\* Financial data were adjusted in line with the changes in accounting guidelines in 2002 except for accounting treatment of Banker's Usance. The Bank's balance sheet in 2001 was restated to reflect changes. The balance sheets for 1999 and 2000 were based on the previous accounting treatment. Financial ratios before 2002 were based on the previous accounting treatment method except for NIM. NIM was adjusted according to the new FSS standards.

1) Including guarantees and acceptances on off-balance sheet items and trust accounts.

2) Based on consolidated data.

## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

### OVERVIEW

The year 2002 was marked by considerable difficulty for financial institutions as a whole, primarily due to the deterioration of global economic conditions, including the economic slowdown in the United States. The uncertainty of world economic prospects in general continues to affect the Korean economy. Domestically, financial institutions saw their business performance worsen amid weakened consumer sentiment and a government initiative to improve asset soundness. In addition, the increased competition in retail lending and credit card business adversely impacted profitability and asset quality. Consequently, these led to a sharp falloff in earnings in the banking sector and overall, domestic financial institutions suffered a downturn in their operating results in 2002.

In response to these adverse business conditions, Chohung Bank focused on eliminating future uncertainty and enhancing its asset management capability to restore investor confidence in the Bank. In fiscal 2002, the Bank incurred a net loss of W586.0 billion compared to the previous year's net income of W522.5 billion. Despite healthy growth in operating income, the Bank recorded a net loss for the year mainly due to a significant increase in provision for retail loans and restructuring costs. During 2002, the Bank completely eliminated the financial uncertainty which would have adversely affected its earnings potential. As a result, a solid foundation is now in place for the Bank's profitable growth. In 2003, the Bank expects to turn in net income that reflects its enhanced financial structure.

The Bank reduced NPLs by W1,165.1 billion during the year 2002 through consecutive NPL sales of W64.4 billion and write-offs of W1,100.7 billion. The precautionary and below ratio improved from 9.18% in 2001 to 7.59%, while the NPL ratio worsened to 3.75% in 2002 from 3.28% in the previous year, mainly due to the reclassification of loans to Hynix Semiconductor and Sports TOTO from precautionary and normal to doubtful.

The Bank's BIS capital adequacy ratio declined by 1.77 percentage points to 8.66% in 2002, down from 10.43% a year ago as a result of a reduction in Tier 1 capital affected by the Bank's net loss.

### ANALYSIS OF THE STATEMENTS OF OPERATIONS

TABLE 2. | NET INTEREST INCOME

	<i>(Billions of Korean Won)</i>	
	2001	2002
Interest on Loans	W 2,867.9	W 3,031.1
Interest on loans	1,909.0	2,246.4
Interest on credit card loans	534.2	546.2
Interest on bills bought in foreign currency	163.4	75.0
Interest on advances for customers	27.2	14.3
Interest on bills discounted	71.8	71.8
Other	162.3	77.4
Interest on due from banks	56.8	22.0
Interest and dividends on securities	941.9	759.4
Trading securities	69.2	72.2
Investment securities	872.7	687.2
Other interest income	95.8	37.4
<b>Interest Income and Dividends</b>	<b>3,962.5</b>	<b>3,849.9</b>
Interest on deposits	1,680.6	1,508.1
Interest on borrowings	409.1	254.3
Interest on debentures	204.1	264.3
Other interest expenses	50.4	79.4
<b>Interest Expenses</b>	<b>2,344.1</b>	<b>2,106.2</b>
<b>Net Interest Income</b>	<b>W 1,618.4</b>	<b>W 1,743.7</b>

#### Net Interest Income

During the year 2002, market interest rates were in stable decline. The Bank implemented interest rate policies to obtain a reasonable net interest margin and to maximize income through low funding costs.

With the prevailing low interest trends, net interest income was up a healthy 7.7% compared to the prior year, amounting to W1,743.7 billion in 2002. The Bank's total interest income decreased by 2.8% over the year to W3,849.9 billion in 2002, while interest expenses declined a further 10.1% to W2,106.2 billion. The increase in net interest income was mainly attributable to a reduction in interest expenses based on the Bank's low-cost funding structure. Net interest income in local currency totaled W1,671.7 billion won, up 11.7% from W1,496.3 billion a year earlier, whereas net interest income in foreign currencies dropped to W72.0 billion in 2002 from W122.1 billion.



## MANAGEMENT'S DISCUSSION & ANALYSIS

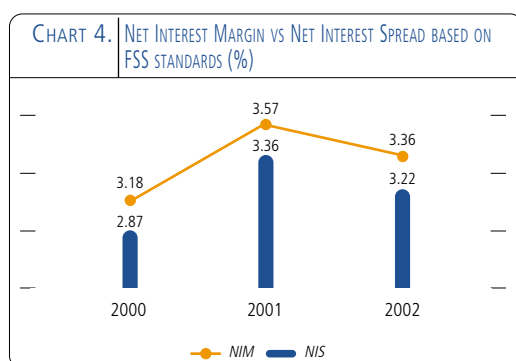
TABLE 3. | NIM AND NIS

	(In Percent)	
	2001	2002
<b>NIM<sup>1)</sup></b>	<b>3.59</b>	<b>3.40</b>
Korean Won	3.91	3.65
Foreign currencies	1.80	1.31
<b>NIM (FSS standards)<sup>1) 2)</sup></b>	<b>3.57</b>	<b>3.36</b>
Korean Won	3.81	3.59
Foreign currencies	2.23	1.35
<b>NIS (FSS standards)<sup>2)</sup></b>	<b>3.36</b>	<b>3.22</b>
Korean Won	4.84	4.19
Foreign currencies	3.44	2.25

1) Net interest margin is computed by dividing net interest income by average interest earning assets, calculated on a daily-average basis for the period. From 2002, interest income included income from credit card cash advances and card loans as interest on loans. Income from credit card purchases and installment payments, which were previously included in interest on loans, were classified as fees and commission. The income statements for 2001 and 2002 have been adjusted accordingly.

2) From June 30, 2002, NIM based on FSS standards excludes income related credit card purchases and installment payments from interest income and related assets from interest-earning assets, whereas it adds interest on demand deposits to interest expenses. NIM and NIS are adjusted according to the new FSS standards.

The Bank's net interest margin (NIM) in 2002 dropped by 19 basis points to 3.40% from 3.59% a year earlier, primarily reflecting the fiercer competition among financial institutions. NIM based on FSS standards deducts contributions to credit guarantee funds from interest income and adds insurance fees on deposits to interest expenses. The net interest margin, based on FSS standards, was down 21 basis points from 3.57% in 2001 to 3.36%. NIM in local currency declined to 3.59% in 2002 from 3.81% a year earlier, while NIM in foreign currency fell to 1.35% from 2.23%.



However, the Bank was able to maintain the second highest NIM among its peers thanks to its low-interest funding structure coupled with its large and extensive depositor base.

Net interest spread (NIS), which is the difference between average interest rates on average interest-earning assets and interest-bearing liabilities based on FSS standards, was down by 14 basis points to 3.22% in 2002 from 3.36% in the previous year. NIS in local currency declined from 4.84% to 4.19% in 2002 and NIS in foreign currency decreased from 3.44% in 2001 to 2.25%.

During the fiscal year 2002, the Bank's net interest margin declined due to the increased market saturation and competition. In 2003, the Bank will seek to maintain an appropriate NIM level through a steady reduction of its NPLs and expansion of low-cost deposits, while striving to improve its asset management.

### Interest income

The Bank's total interest income declined by W112.6 billion to W3,849.9 billion in 2002 primarily due to a 1.29 percentage point decline in the average interest rate for average interest-earning assets.

Average interest-earning assets rose 13.8% in 2002 from the prior year to W51,321.1 billion, mainly as a result of a sharp 39.5% growth in won-denominated loans boosted by the retail sector. With the exception of loans, most asset categories showed a decrease on an average basis compared with the previous year, reflecting the Bank's asset management focus on expansion of high-yielding loans in local currency. Meanwhile, the average interest rate on overall asset categories dropped, mainly impacted by the overall decline in market interest rates and increased competition.

The average interest rate on loans dropped 1.78 percentage points to 7.96% in 2002 from 9.74% a year ago. In particular, yield on credit card business slipped 4.84 percentage points year on year to 15.56%, compared with 20.40% in 2001 due in large part to a lowering of the ceiling on cash advances, and downward adjustments of interest on such transactions affected by increased competition and government regulation of credit card operation.

## MANAGEMENT'S DISCUSSION & ANALYSIS

TABLE 4. | AVERAGE INTEREST-EARNING ASSETS

*(Billions of Korean Won)*

	Average balance	2001 Interest	Rate	Average balance	2002 Interest	Rate
<b>Loans</b>	<b>W 29,439.4</b>	<b>W 2,867.9</b>	<b>9.74%</b>	<b>W 38,090.5</b>	<b>W 3,031.1</b>	<b>7.96%</b>
Won	24,109.6	2,489.6	10.33	33,622.3	2,862.0	8.51
Credit card	2,618.8	534.2	20.40	3,510.2	546.2	15.56
Foreign currencies	5,329.8	378.3	7.10	4,468.3	169.1	3.78
<b>Due from banks</b>	<b>1,369.5</b>	<b>56.8</b>	<b>4.15</b>	<b>560.7</b>	<b>22.0</b>	<b>3.93</b>
Won	879.3	43.0	4.89	371.3	20.8	5.60
Foreign currencies	490.2	13.9	2.83	189.4	1.2	0.65
<b>Securities</b>	<b>13,607.9</b>	<b>941.9</b>	<b>6.92</b>	<b>12,311.7</b>	<b>759.4</b>	<b>6.17</b>
Trading	1,154.2	69.2	6.00	1,195.4	72.2	6.04
Investment	12,453.7	872.7	7.01	11,116.3	687.2	6.18
Won	12,924.2	900.7	6.97	11,730.7	728.7	6.21
Foreign currencies	683.7	41.2	6.03	581.1	30.7	5.28
<b>Other*</b>	<b>669.8</b>	<b>95.8</b>	<b>-</b>	<b>358.2</b>	<b>37.4</b>	<b>-</b>
Won	383.6	77.7	-	110.8	28.0	-
Foreign currencies	286.2	18.1	-	247.4	9.4	-
<b>Total Interest- Earning Assets</b>	<b>W 45,086.6</b>	<b>W 3,962.5</b>	<b>8.79%</b>	<b>W 51,321.1</b>	<b>W 3,849.9</b>	<b>7.50%</b>

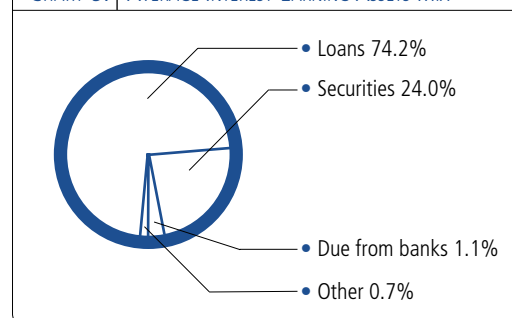
\* Including miscellaneous income recognized as interest income without being tied to the corresponding assets.

The average balance of loans grew exponentially to W38,090.5 billion in 2002, up 29.4% from W29,439.4 billion in 2001, reflecting a huge expansion of retail loans, in particular an increase in mortgage loans and a continued increase in the credit card accounts balance. However, interest on loans edged up by 5.7% to W3,031.1 billion, mainly as a result of steep falls in interest rates at home and abroad. In recent years, consumer debt has increased rapidly in Korea with the low interest rates and a sudden rise in housing prices. The growth of the Bank's retail lending, which offers higher margins than other lending activities, has contributed to the increase in interest income and profitability. The average balance of mortgage loans surged 114.6% year on year to W5,293.1 billion in 2002 from W2,466.9 billion a year earlier, while average credit card balance rose 34.0% to W3,510.2 billion in 2002 from W2,618.8 billion.

Interest on securities declined 19.4% in 2002 from the previous year to W759.4 billion, impacted by general declines in market interest rates and slippage in securities investment. Average interest rates on securities were down 0.75 percentage points to 6.92% in 2002 compared with 6.17% the previous year. The average balance of securities also contracted 9.5% to W12,311.7 billion in 2002 from W13,607.9 billion in 2001.

The overall average interest rate for average interest-earning assets decreased from 8.79% to 7.50% in 2002, influenced by a general decline in market interest rates. In terms of currency denomination, the average interest rate for won-denominated assets was 7.94%, down from 9.17% in 2001 and the average interest rate for foreign currency assets was 3.83%, down from 6.65% a year earlier. Average assets in local currency grew 19.7% to W45,835.0 billion, while average assets in foreign currencies shrank 19.2% to W5,486.1 billion in 2002. Average interest-earning assets in local currency accounted for 89.3% of total average interest-earning assets in 2002, up 4.4 percentage points from 84.9% in 2001.

CHART 5. | AVERAGE INTEREST-EARNING ASSETS MIX



## MANAGEMENT'S DISCUSSION & ANALYSIS

### Interest expenses

TABLE 5. | AVERAGE INTEREST-BEARING LIABILITIES

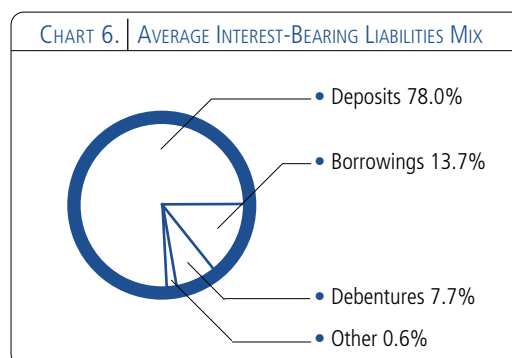
(Billions of Korean Won)

	Average balance	2001 Interest	Rate	Average balance	2002 Interest	Rate
<b>Deposits</b>	<b>W 36,069.0</b>	<b>W 1,680.6</b>	<b>4.66%</b>	<b>W 41,714.7</b>	<b>W 1,508.1</b>	<b>3.62%</b>
Won	34,242.4	1,611.3	4.71	40,208.9	1,483.8	3.69
Demand deposits	5,936.1	85.6	1.44	6,846.7	91.0	1.33
Saving deposits	8,916.6	236.2	2.65	10,091.8	173.5	1.72
Time deposits	15,480.9	1,069.1	6.91	17,579.1	938.0	5.34
Mutual installments	479.6	33.9	7.07	549.1	35.6	6.48
Certificates of deposits	1,495.3	88.2	5.90	3,211.4	161.4	5.03
Other	1,933.9	98.2	5.08	1,930.8	84.3	4.37
Foreign currencies	1,826.6	69.3	3.79	1,505.8	24.4	1.62
<b>Borrowings</b>	<b>7,716.6</b>	<b>409.1</b>	<b>5.30</b>	<b>7,349.3</b>	<b>254.3</b>	<b>3.46</b>
Won	4,402.6	238.5	5.42	4,319.6	188.0	4.35
Foreign currencies	3,314.0	170.6	5.15	3,029.7	66.3	2.19
<b>Debentures</b>	<b>2,546.4</b>	<b>204.1</b>	<b>8.02</b>	<b>4,107.0</b>	<b>264.3</b>	<b>6.44</b>
Won	1,363.3	116.8	8.57	3,311.7	218.2	6.59
Foreign currencies	1,183.1	87.3	7.38	795.3	46.1	5.79
<b>Other*</b>	<b>352.9</b>	<b>50.4</b>	<b>-</b>	<b>308.4</b>	<b>79.4</b>	<b>-</b>
Won	352.9	48.3	-	308.4	77.8	-
Foreign currencies	-	2.1	-	-	1.6	-
<b>Total Interest-Bearing Liabilities</b>	<b>W 46,684.9</b>	<b>W 2,344.1</b>	<b>5.02%</b>	<b>W 53,479.4</b>	<b>W 2,106.2</b>	<b>3.94%</b>

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

Total interest expenses shrank 10.1% from W2,344.1 billion to W2,106.2 billion in 2002, whereas average interest-bearing liabilities expanded 14.6% over the previous year to W53,479.4 billion in 2002, mainly due to improved funding costs. The overall funding cost ratio improved significantly from 5.02% a year ago to 3.94% in 2002, resulting from the overall decline in market interest rates worldwide and in Korea and an increase in the use of relatively low-cost funding sources such as demand and savings deposits.

The average interest rate of deposits declined to 3.62% in 2002 from 4.66% a year ago, influenced by the low cost deposit increase and declines in market interest rates. Average deposits were up 15.7% from W36,069.0 billion in 2001 to W41,714.7 billion in 2002 due to a 14.0% growth in low-cost core deposits, including demand and savings deposits, which increased from W14,852.7 billion a year ago to W16,938.5 billion in 2002. As a result, the proportion of deposits rose to 78.0% of total funding in 2002 from 77.3% a year ago.



The funding cost ratio of borrowings improved by 1.84 percentage points from 5.30% in 2001 to 3.46% while interest expenses on borrowings decreased by 37.8% to W254.3 billion in 2002. Average borrowings in 2002 contracted 4.8% to W7,349.3 billion, compared with W7,716.6 billion in the previous year, as a result of the reduction of borrowings from the Bank of Korea (BOK), which has withdrawn and reduced loans to financial institutions to control market liquidity.

## MANAGEMENT'S DISCUSSION & ANALYSIS

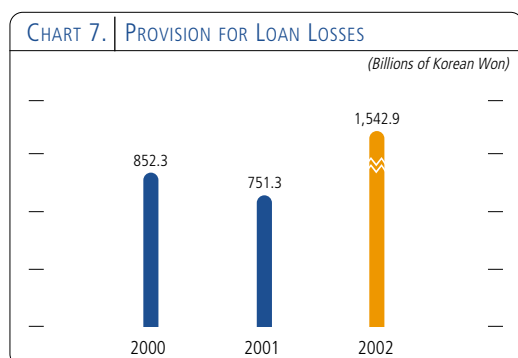
Borrowings in both local currency and foreign currencies shrank from W4,402.6 billion and W3,314.0 billion to W4,319.6 billion and W3,029.7 billion respectively. The decline of foreign currency borrowings derived from repayment to the BOK of borrowings with a relatively high funding cost.

Interest expenses on debentures rose 29.5% to W264.3 billion in 2002, reflecting the 61.3% increase in average balance of debentures, while the funding cost ratio on debentures was down 1.58 percentage points from 8.02% a year earlier to 6.44%, attributable to a favorable primary market condition.

The overall funding cost ratio, which is computed by dividing total interest expenses by average interest-bearing liabilities, dropped to 3.94% in 2002, compared with 5.02% a year ago, influenced by a general decline in market interest rates. In terms of currency denomination, the funding cost ratio for local currency declined by 0.9 percentage points to 4.09% and the funding cost ratio for foreign currencies decreased 2.61 percentage points from 5.21% to 2.60% in 2002, attributable to repayment of high-cost funding sources as well as the Bank's credit rating upgrade.

Won-denominated funding expanded W7,787.4 billion in 2002 from the previous year to W48,148.6 billion, while foreign currency funding fell 15.7% to W5,330.8 billion reflecting the general decline in corporate demand for foreign currency funds. As a consequence, local currency accounted for 90.0% of interest bearing liabilities in 2002, compared with 86.5% in 2001.

### Provision for Loan Losses



Provisions for loan losses in 2002 expanded exponentially by 105.4% from a year ago, to W1,542.9 billion. This was mainly the result of increased provisioning for the retail sector as well as for major ailing companies. The Bank provisioned W749.7 billion for credit card loans and W187.4 billion for retail loans. This included additional provisioning of W107.6 billion for credit card loans and W60.0 billion for retail loans in compliance with FSS requirements for increased provisioning. (See "Asset classification" in Analysis of Financial Conditions) The Bank also increased the provisioning level for unsecured loans to Hynix Semiconductor to 100% in 2002 from 40% in 2001.

### Non-interest income (loss) - net

TABLE 6. | NON-INTEREST INCOME (LOSS) - NET

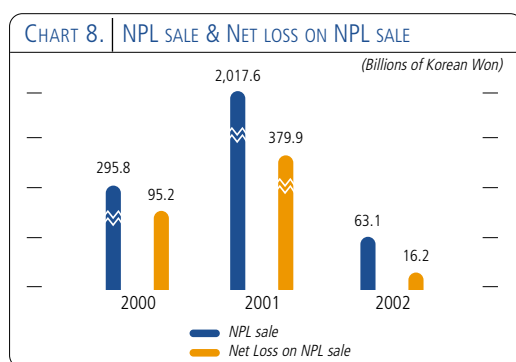
	(Billions of Korean Won)	
	2001	2002
Fees and commissions	W 421.9	W 596.7
Credit cards	279.2	450.7
Guarantees	10.3	10.1
Other fees and commissions	132.4	135.9
Trading securities	45.7	24.3
Foreign currency trading	91.4	40.8
Derivative trading	13.7	42.2
Trust operations	45.7	(8.3)
Other	(436.3)	(651.3)
Sale of loans	(379.9)	(16.2)
Impairment loss on investment securities	(58.3)	(448.0)
<b>Sub-total</b>	<b>182.1</b>	<b>44.4</b>
General and administrative expenses	712.7	856.3
<b>Total</b>	<b>W(530.6)</b>	<b>W(811.9)</b>

Non-interest income, excluding general and administrative expenses, fell by W137.7 billion to W44.4 billion in 2002, mainly because of the large increase in impairment losses on investment securities.

Fees and commissions surged by 41.4% to W596.7 billion, mainly due to growth in credit card fees. Fees and commission from credit card business jumped 61.4% from W279.2 billion year on year to W450.7 billion in 2002 due to growth in purchase charge volume, which rose by 28.9% from W7,508.8 billion to W9,682.5 billion in 2002.

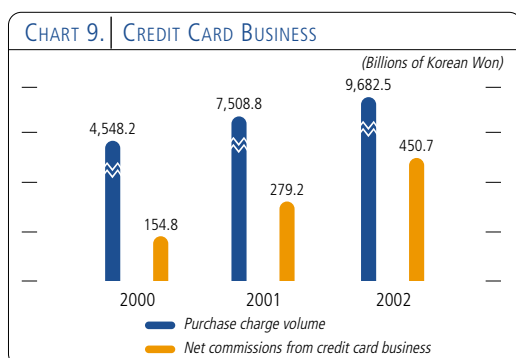
## MANAGEMENT'S DISCUSSION & ANALYSIS

Net gains from trust operations decreased by W54.0 billion, resulting in a loss of W8.3 billion due to the loss from the repurchase of Hanbo Steel exposures, which were sold to KAMCO on a recourse basis.



The loss on sale of loans fell to W16.2 billion in 2002 from W379.9 billion in 2001, whereas the impairment loss on investment securities expanded to W448.0 billion from W58.3 billion in 2001. The significant increase of impairment loss on investment securities resulted from W150.7 billion for Hyundai Engineering & Construction, W98.4 billion for Ssangyong Construction, W49.2 billion for Anam Semiconductor and W41.1 billion for Hynix Semiconductor.

General and administrative expenses amounted to W856.3 billion, an increase of 20.1% over the previous year due to rises in salaries and establishment costs of innovative Deepening Customer Relations Branches (DCRBs).



## Net Income

TABLE 7. NET INCOME

	(Billions of Korean Won)	
	2001	2002
Net interest income	W 1,618.4	W 1,743.7
Provision for loan losses	751.3	1,542.9
Non-interest income (loss) - net	(530.6)	(811.9)
Income (loss) before income tax	336.4	(611.1)
Income tax expenses (benefits)	(186.1)	(25.1)
<b>Net Income</b>	<b>W 522.5</b>	<b>W (586.0)</b>

In spite of the increase in operating income, the Bank recorded a net loss of W586.0 billion in 2002 compared with a net profit of W522.5 billion a year ago as a consequence of the increase in provisioning for retail sector and restructuring costs. However, over the year 2002, the Bank was able to establish the foundation for profitable growth through eliminating future uncertainty and strengthening its financial structure. Reflecting deferred tax effects, the Bank realized income tax benefits of W25.1 billion in 2002. (See "Note 25 of the Non-consolidated Financial Statements")

## Major Financial Indicators

TABLE 8. MAJOR FINANCIAL INDICATORS

	(Billions of Korean Won, %)	
	2001	2002
Return on average assets	1.01%	(0.97)%
Return on average equity	22.68	(22.31)
Per capita deposits	W 5.9	W 6.9
Per capita loans	3.4	4.5
Deposits per branch	91.9	98.8
Loans per branch	53.0	65.1

In 2002, the Bank's profitability ratios deteriorated, affected by the net loss. ROA and ROE were (0.97)% and (22.31)% in 2002, down from 1.01% and 22.68% in the previous year. However, the productivity ratios improved reflecting streamlining of operations. Since the Asian financial crisis, the Bank has implemented various restructuring measures to enhance its efficiency. As a result, per capita deposits and loans increased from W5.9 billion and W3.4 billion to W6.9 billion and W4.5 billion in 2002. Per branch deposits and loans also rose from W91.9 billion and W53.0 billion in 2001 to W98.8 billion and W65.1 billion in 2002. To enhance its financial condition, the Bank undertook various restructuring measures and streamlining of the organizational structure.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### ANALYSIS OF FINANCIAL CONDITION

#### Loans

TABLE 9. | LOANS

	(Billions of Korean Won)	
	2001	2002
Loans in Won*	W 22,121.2	W 32,781.9
Loans in foreign currencies	3,476.9	3,480.7
Bills bought in foreign currencies	2,094.4	1,775.6
Advances for customers	114.6	79.7
Credit card accounts	4,934.5	5,898.5
Call loans	84.6	655.8
Privately placed bonds	197.7	185.2
Bills discounted	1,294.3	1,481.8
Cash management accounts	242.4	134.6
Financing lease receivables	252.3	182.6
Other	690.4	297.2
	35,503.3	46,953.6
Less: Allowance for loan losses	1,030.7	1,604.6
present value discount	29.6	20.5
	<b>W 34,443.0</b>	<b>W 45,328.5</b>

\* Including discounted commercial note of W1,953.9 billion and W1,857.7 billion in 2001 and 2002, respectively.

TABLE 10. | LOANS IN WON PORTFOLIO BY TYPE OF BORROWER

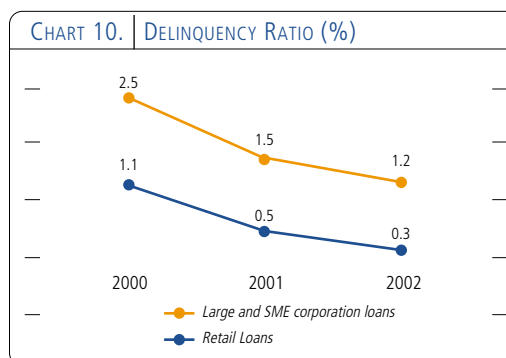
	(Billions of Korean Won)			
	2001		2002	
Large corporations	W 3,606.6	16.3%	W 3,742.1	11.4%
SMEs	9,204.5	41.6	13,213.4	40.3
Public sector and other	237.8	1.1	369.9	1.1
Individuals	9,072.3	41.0	15,456.5	47.2
Mortgage loans	3,761.7	17.0	6,755.7	20.6
	<b>W22,121.2</b>	<b>100.0%</b>	<b>W32,781.9</b>	<b>100.0%</b>

In 2002, the balance of outstanding loans surged 31.6% from the prior year, to W45,328.5 billion, primarily attributable to rapid growth of retail loans and credit card balance.

Loans in Won expanded 48.2% year on year to W32,781.9 billion, an increase of W10,660.7 billion from W22,121.2 billion in 2001 mainly attributable to a 70.4% increase in retail loans. Loans in local currency extended to retail customers jumped sharply from W9,072.3 billion in 2001 to W15,456.5 billion due to balanced growth in both secured and unsecured loans with low delinquency ratio. This was primarily attributable to the Bank's efforts to increase its lending to retail customers, which provide higher interest rates and lower risk compared to loans to large corporations as a substantial portion of such loans is secured by collateral. Mortgage loans soared 79.6% to W6,755.7 billion in 2002, compared with the previous year of W3,761.7 billion, driven by low interest rates

coupled with the upward movement of housing prices. In contrast, lending to large corporations edged up a nominal 3.8%, reaching W3,472.1 billion. Loans to SMEs were up 43.6% in 2002 from a year earlier, totaling W13,213.4 billion.

As a result of the dramatic growth of retail loans, the proportion of loans to large corporations and to SMEs of total won-denominated loans slipped to 11.4% and 40.3% in 2002, respectively, from 16.3% and 41.6% in 2001.



The delinquency ratio, calculated as balance overdue for more than 3 months divided by loan balance, continued to decline in both corporate and retail sector. The delinquency ratio of loans to households improved 0.2 percentage points from 0.5% a year ago to 0.3% in 2002. The delinquency ratio of loans to corporations also decreased, from 1.5% in 2001 to 1.2%.

The Bank's credit card business has also shown rapid growth in recent years, driven by a rapid expansion of private spending. Credit card balance was W5,898.5 billion in 2002, up 19.5% from W4,934.5 billion, led by the Bank's drive to increase the number of its cardholders and government tax incentives encouraging credit card use. Total charge volume on credit cards rose by 11.1% to W29,906.8 billion in 2002 from W26,912.0 billion the previous year.

TABLE 11. | LOANS IN WON PORTFOLIO BY INTEREST RATE

	(Billions of Korean Won)			
	2001		2002	
	Amount	% Total	Amount	% Total
Floating interest rates	W18,515.4	83.7%	W28,309.4	86.4%
Fixed interest rates	3,605.8	16.3	4,472.5	13.6
	<b>W22,121.2</b>	<b>100.0%</b>	<b>W32,781.9</b>	<b>100.0%</b>

## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

Of the Bank's won-denominated loan portfolio in 2002, 86.4% was on a floating rate basis, an increase of 2.7 percentage points over the previous year. Of floating interest rate loans, 46.1% earned interest at spread based on the Bank's Won-base rate. The Bank's won-based rate for both individual and corporate borrowers remained unchanged in 2002 at 9.0%. Meanwhile, as of December 31, 2002, most loans in foreign currencies were made on a floating rate of interest based on LIBOR.

TABLE 12. | SECURED LOANS BY COLLATERAL TYPE

	<i>(Billions of Korean Won)</i>	
	2001	2002
Real estate	W 6,896.6	W 12,448.3
Deposits	2,049.8	1,636.5
Securities	131.6	166.3
Guarantees*	1,944.8	2,049.3
Other	87.9	211.4
Secured loans	11,110.7	16,511.8
Unsecured loans	11,010.5	16,270.1
<b>Total Loans in local currency</b>	<b>W 22,121.2</b>	<b>W 32,781.9</b>

1) Includes certificates issued by Korea Credit Guarantee Fund, Korea Technology Credit Guarantee Fund, and Korea Housing Guarantee Co., Ltd.

The secured portion of loans in local currency increased by 48.6% to W16,511.8 billion in 2002 from W11,110.7 billion a year ago while the proportion of secured loans rose 0.14 percentage points to 50.37% from 50.23% in 2001. Real estate comprised the largest portion in 2002, accounting for 75.4% of total collateral, up from 62.1% in 2001. Cross-guarantees made by affiliates of borrowers, officers or shareholders of borrowers, and guarantees made by merchant banks, are not considered as guaranteed.

With respect to real estate collateral, the Bank appraises the value of the underlying collateral by multiplying the average ratio of the value obtainable upon sale of such collateral in a court-administered action (which is generally 20% to 30% below fair market value) by either the lowest fair market value or the appraisal value of such collateral, at the Bank's discretion. The Bank appraises the collateral value of real estate by multiplying its value at public auction (which averages 20% to 30% below fair market value) by either the lowest fair market value or its appraisal value of such collateral by property appraisal companies.

With respect to securities collateral, the Bank appraises the value of the underlying collateral at 70% of the closing price on the Korean Stock Exchange on the previous Friday and generally lends up to 90% of the resulting value of such securities collateral.

The Bank appraises the value of real estate collateral quarterly and that of securities collateral monthly. In addition, the value of collateral is reassessed at any time when there is concern of a significant drop in its value.

### Asset Classification

The Korean Financial Supervisory Commission (FSC) requires banks in Korea to analyze and classify their credit 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 repayment history and future debt repayment capability. Loans to other corporations and individuals are also classified into ten categories based only on repayment history. The loans are classified into five categories: normal (categories 1-6), precautionary (7), substandard (8), doubtful (9) and estimated loss (10). The criteria for the FSC guidelines are as set forth below:

Normal - Sound credit exposure.

Precautionary - Credit 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.

Substandard - i) The secured portion of total credit that is 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.

Doubtful - The unsecured portion of credit 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.

Estimated Loss - The unsecured portion of credit that is 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.

## MANAGEMENT'S DISCUSSION & ANALYSIS

In 2002, the FSS increased the minimum-reserve requirement ratios for retail loans and credit card balance, which were previously the same as for corporate loans. The ratios for corporate loans were unchanged. The details are as follows:

	In 2002		
	Corporate loans	Retail loans	Credit card balance
Normal	0.5% or more	0.75% or more	1% or more
Precautionary	2% or more	8% or more	12% or more
Substandard	20% or more	20% or more	20% or more
Doubtful	50% or more	55% or more	60% or more
Estimated loss	100%	100%	100%

For more detailed information on the calculation of minimum allowance for loan losses, see "Notes 2 - Allowance for possible loan losses and other losses" in "Notes to the non-consolidated financial statements".

### Asset Quality

In bank accounts, the precautionary and below ratio improved from 9.18% in 2001 to 7.32%, while the NPL ratio increased from 3.25% to 3.55% in 2002 mainly due to the reclassification of loans to Hynix Semiconductor and Sports TOTO. During the year 2002, the Bank reduced NPLs in bank account by W970.2 billion through consecutive NPL sales of W63.1 billion and write-offs of W907.1 billion.

TABLE 13. | ASSET CLASSIFICATION BASED ON FSS STANDARDS

	2001				2002			
	Bank a/c <sup>1)</sup>	G & A <sup>2)</sup>	Trust a/c <sup>3)</sup>	Total	Bank a/c <sup>1)</sup>	G & A <sup>2)</sup>	Trust a/c <sup>3)</sup>	Total
Normal	W 31,142.5	W 1,929.1	W 1,149.3	W 34,220.9	W 42,717.4	W 960.4	W 1,869.0	W 45,546.8
Precautionary	2,007.3	192.3	24.7	2,224.3	1,740.4	134.2	17.0	1,891.6
Substandard (a)	507.7	44.3	36.2	588.2	407.7	2.2	67.6	477.5
Doubtful (b)	447.2	23.7	12.2	483.1	1,009.4	140.1	0.9	1,150.4
Estimated loss (c)	158.0	1.3	5.9	165.2	218.2	0.7	1.8	220.7
<b>Total credits</b>	<b>W34,262.7</b>	<b>W2,190.7</b>	<b>W1,228.3</b>	<b>W37,681.7</b>	<b>W46,093.1</b>	<b>W1,237.6</b>	<b>W1,956.3</b>	<b>W49,287.0</b>
NPLs (a+b+c)	1,112.9	69.3	54.3	1,236.5	1,635.3	143.0	70.3	1,848.6
Precautionary and below	3,120.2	261.6	79.0	3,460.8	3,375.7	277.2	87.3	3,740.2
<b>Loan loss reserve</b>	<b>W 1,030.7</b>	<b>W 51.6</b>	<b>W 39.5</b>	<b>W 1,121.8</b>	<b>W 1,604.6</b>	<b>W 125.9</b>	<b>W 24.6</b>	<b>W 1,755.1</b>
<b>NPL Reduction:</b>	<b>W 3,056.6</b>	<b>W -</b>	<b>W 316.0</b>	<b>W 3,372.6</b>	<b>W 970.2</b>	<b>W -</b>	<b>W 194.9</b>	<b>W 1,165.1</b>
NPL Sales	2,017.6	-	209.3	2,226.9	63.1	-	1.3	64.4
Write-offs	1,039.0	-	106.7	1,145.7	907.1	-	193.6	1,100.7
<b>Asset Quality Ratios (%):</b>								
NPL ratio	3.25%	3.16%	4.42%	3.28%	3.55%	11.55%	3.59%	3.75%
Precautionary and below ratio	9.11	11.94	6.43	9.18	7.32	22.40	4.46	7.59
Loan loss reserve/ NPLs	92.61	74.46	72.74	90.72	98.12	88.04	34.99	94.94
Loan loss reserve/ Total credits	3.01	2.36	3.22	2.98	3.48	10.17	1.26	3.56

\* 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 W45,328.5 billion in 2002 included W189.5 billion of inter-bank loans and W655.8 billion of call loans, and excluded W1,604.6 billion of allowance for loan losses, W3.3 billion of accounts receivables and suspense receivables that have credit attribution and subject to asset classification and W2.1 billion present value discounts with respect to sundry receivables that are not included in total credit for FSS standards. "Loans" appearing on non-consolidated balance sheets of W34,443.0 billion in 2001 included W216.5 billion of inter-bank loans, W84.7 billion of call loans and W928.0 billion of domestic usance L/C in accordance with a change in accounting treatment of Banker's usance, and excluded W1,030.7 billion of allowance for loan losses, W15.8 billion of accounts receivables and suspense receivables that have credit attribution and are 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 standards.
- 2) Includes confirmed guarantees and acceptance 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.



## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

In Korea, the general terms "total credit" and "NPL ratio" mean those conforming to FSS reporting standards. The FSS reporting standards include on-balance items in bank accounts, confirmed guarantees and acceptances in off-balance items as well as the trust accounts credits.

In 2002, the Bank's NPL ratio worsened by 0.47 percentage points to 3.75% from 3.28% in the previous year, primarily because of the reclassification of loans to Hynix and Sports TOTO. Loans to Hynix Semiconductors and Sports TOTO, amounting to W375.2 billion and W139.8 billion respectively, were reclassified as doubtful from precautionary and normal. However, the precautionary and below ratio improved 1.59 percentage points to 7.59% in 2002, compared to 9.18% in 2001.

The Bank reduced its NPLs through sales of W64.4 billion and write-offs of W1,100.7 billion in 2002, including trust accounts. Meanwhile, normal loans were up a sharp 33.1% in 2002 over the previous year, reaching W45,546.8 billion, thereby increasing the proportion of normal loans to total credits to 92.4% in 2002 from 90.8% a year ago.

In 2003, the Bank will focus on risk management, rather than on expanding volume growth, in order to enhance asset quality and guard against uncertainty caused by changes in the retail environment.

### Allowance for Loan Losses

TABLE 14. ALLOWANCE FOR LOAN LOSSES

	<i>(Billions of Korean Won)</i>	
	2001	2002
Balance at beginning of year	W 1,669.7	W 1,030.7
Provision for loan losses	751.3	1,542.9
Write-offs	(1,039.0)	(907.1)
Other changes*	(351.3)	(61.9)
<b>Balance at end of year</b>	<b>W 1,030.7</b>	<b>W 1,604.6</b>

\* Includes changes in allowances resulting from debt restructuring, debt relief and foreign exchange rate effects.

The allowance for loan losses in bank accounts increased by W573.9 billion from the previous year to W1,604.6 billion in 2002, primarily due to rises in both the provisioning ratio for ailing companies and the minimum required provisioning level for retail lending and credit card balance. The increased provisioning level improved the overall coverage ratio. The allowance for loan losses as a percentage of total non-performing bank account credits grew to 98.12% in 2002 from 92.62% in 2001. Moreover, the allowance for loan losses as a percentage of total bank accounts credits expanded to 3.48% in 2002, compared with 3.01% in 2001.

As of December 31, 2002, the Bank made allowance for loan losses totaling W1,755.1 billion, including W125.9 billion for confirmed guarantees and acceptances and W24.6 billion for trust accounts. The overall coverage ratio, the allowance for loan losses as a percentage of total credit, stood at 3.56% in 2002, an improvement of 0.58 percentage points from 2.98% a year ago.

### Securities

TABLE 15. SECURITIES PORTFOLIO

	<i>(Billions of Korean Won)</i>			
	2001		2002	
	Amount	% of Total	Amount	% of Total
Securities for trading	W 1,236.9	8.8%	W 990.2	8.9%
Debt instruments <sup>1)</sup>	1,236.9	8.8	990.2	8.9
Equities <sup>2)</sup>	-	-	-	-
Securities for investment	12,839.4	91.2	10,082.4	91.1
Debt instruments <sup>1)</sup>	12,032.1	85.5	9,240.0	83.5
Equities <sup>2)</sup>	807.3	5.7	842.4	7.6
	<b>W14,076.3</b>	<b>100.0%</b>	<b>W11,072.6</b>	<b>100.0%</b>

1) Includes government and corporate debt instruments, beneficiary certificates and other non-equity securities.

2) Includes listed and unlisted securities. Includes equity securities that Chohung Bank received in its equity conversions.

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

The Bank's securities investments in 2002 fell 21.3% over the previous year to W11,072.6 billion, reflecting reduced investment securities holdings. Investment in trading securities was down 19.9% year on year to W990.2 billion, while investment securities shrank 21.5% to W10,082.4 billion.

As of December 31, 2001 and 2002, of securities in local currency held by the Bank, corporate bonds constituted 46.8% and 53.6% respectively. Debt securities issued by the Korea Deposit Insurance Corp., which are classified as corporate bonds, were up 4.6% from the previous year to W4,417.8 billion. At the end of the years 2001 and 2002, finance debentures constituted 24.6% and 13.7%, and government bonds constituted 12.6% and 17.2% respectively. Securities in foreign currencies constituted 4.8% and 4.7% respectively of such securities. 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.

## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

### Funding

TABLE 16. | FUNDING

	(Billions of Korean Won)			
	2001		2002	
<b>Deposits</b>	<b>W38,922.1</b>	<b>72.8</b>	<b>W45,125.8</b>	<b>70.6%</b>
Won	37,064.3	69.3	43,930.5	68.7
Foreign currencies	1,857.8	3.5	1,195.3	1.9
<b>Borrowings</b>	<b>7,429.7</b>	<b>13.9</b>	<b>6,843.7</b>	<b>10.7</b>
Won	3,543.1	6.6	2,476.5	3.9
Foreign currencies	3,886.6	7.3	4,367.2	6.8
<b>Debentures</b>	<b>2,419.7</b>	<b>4.5</b>	<b>5,672.4</b>	<b>8.9</b>
Won	1,519.9	2.8	5,026.4	7.9
Foreign currencies	899.8	1.7	646.0	1.0
<b>Other</b>	<b>4,718.9</b>	<b>8.8</b>	<b>6,262.1</b>	<b>9.8</b>
Won	4,653.4	8.7	6,204.2	9.7
Foreign currencies	65.5	0.1	57.9	0.1
	<b>W53,490.5</b>	<b>100.0%</b>	<b>W63,904.0</b>	<b>100.0%</b>

Customer deposits, the Bank's principal funding source, accounted for 70.6% of total funding at 2002 year-end. Deposits in Won were up by 18.5%, amounting to W43,930.5 billion. Of special note, low-cost deposits including demand deposits and savings deposits, totaled W17,447.1 billion and represented 39.7% of total deposits in local currency, the highest in the industry. A notable portion of such deposits was made by litigants in connection with legal processing in Korean courts. Court deposits, which carry interest rates that are generally lower than market rates, totaled W3,872.0 billion or 8.8% of total deposits in local currency in 2002.

In comparison with 2001, funding from borrowings fell 7.9% to W6,843.7 billion in 2002. As a proportion of total funding it was also down, to 10.7% from 13.9%, as a result of decreased borrowings in local currency, which derived in large part from the Bank of Korea's efforts to control liquidity by lowering its ceiling on loans to commercial banks. Borrowings from the central bank in foreign currencies decreased to W14.4 billion in 2002 from W376.5 billion in 2001, whereas total foreign currency borrowings expanded by 12.4% to W4,367.2 billion in 2002 from W3,886.6 billion in 2001. During 2002, the Bank replaced relatively high-interest borrowings from the central bank with low-interest long-term borrowings from overseas, in line with the Bank's improved credit status.

The Bank's debentures outstanding at 2002 year-end swelled 134.4% from the previous year to W5,672.4 billion, influenced by favorable primary market conditions as well as the need to observe the minimum long-term liquidity ratio required by the FSS.

In terms of currency denomination, funding in local currency accounted for 90.2% or W57,637.6 billion of total funding, up 2.7 percentage points from the previous year, while foreign currencies represented W6,266.4 billion, a decline from W6,709.7 billion in 2001. The continuous decrease in foreign currency fund raising since the Asian financial crisis was mainly attributable to disposal of insolvent foreign-currency assets coupled with sluggish demand for foreign currency funding.

TABLE 17. | BREAKDOWN OF CUSTOMER DEPOSITS

	(Billions of Korean Won)				
	1998	1999	2000	2001	2002
<b>Deposits in Korean Won (A)</b>	<b>W 16,583.6</b>	<b>W 25,997.5</b>	<b>W 32,726.4</b>	<b>W 37,064.3</b>	<b>W 43,930.5</b>
Deposit in Won	16,524.3	23,289.9	29,817.7	33,276.2	38,538.3
<b>Low cost deposits (B=a+b)</b>	<b>8,559.9</b>	<b>12,520.4</b>	<b>14,011.6</b>	<b>17,044.9</b>	<b>17,447.1</b>
Demand deposits (a)	4,525.6	6,051.5	5,968.6	7,158.2	7,845.9
Savings deposits (b)	4,034.3	6,468.9	8,043.0	9,886.7	9,601.2
Time deposits	7,350.1	10,169.8	15,245.6	15,745.1	20,411.7
Mutual installment deposits	614.3	599.7	560.5	486.2	679.5
CDs	59.3	2,003.5	1,452.1	2,320.5	4,151.9
Others	-	704.1	1,456.6	1,467.6	1,240.4
<b>Low cost deposits ratio (B/A)</b>	<b>51.6%</b>	<b>48.2%</b>	<b>42.8%</b>	<b>46.0%</b>	<b>39.7%</b>
<b>Deposit in foreign currencies</b>	<b>2,085.9</b>	<b>1,623.6</b>	<b>1,666.5</b>	<b>1,857.8</b>	<b>1,195.3</b>
<b>Total Deposit on B/S</b>	<b>18,669.5</b>	<b>27,621.1</b>	<b>34,392.9</b>	<b>38,922.1</b>	<b>45,125.8</b>
RP	314.7	893.7	1,342.9	1,817.0	995.3
Bills sold	89.7	551.4	699.0	492.7	900.5

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

## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

### Shareholders' Equity

Total shareholders' equity as of the end of 2002 was down 9.6% from the previous year to W2,292.3 billion. The main reason for this reduction was an increase of accumulated deficit derived from the net loss of W586.0 billion in 2002.

The Bank's capital adjustments accounts improved from W(497.9) billion in the previous year to W(182.6) billion in 2002, mainly due to the reduction of valuation loss on investment securities. In 2002, the Bank recorded unrealized valuation loss on investment securities of W448.2 billion in current operations as impairment loss. This was previously included in the capital adjustment account as valuation loss. Therefore, net valuation loss on investment securities decreased by W223.3 billion to W185.0 billion in 2002, compared with W408.3 billion in 2001. On the other hand, the Bank sold 17,313,650 treasury shares with book value of W72.9 billion and used gain on sale of treasury shares of W45.2 billion for disposition of accumulated deficit. At the end of 2002, the Bank held no treasury shares.

### Capital Adequacy (Consolidated Basis)

Capital strength for Korean banks is regulated pursuant to guidelines issued by the Financial Supervisory Committee based on standards issued by the Bank for International Settlements (BIS). The FSC regulates capital ratios on a consolidated basis.

Capital adequacy is measured by risk-weighted capital ratios, calculated by dividing Tier 1 and Tier 2 capital by risk-weighted assets. Tier 1 capital is core capital, which is the sum of paid-in capital, capital surplus, retained earnings and minority interests on a consolidated basis. Tier 2 capital is supplementary capital (up to a maximum of 100% of Tier 1 capital), including allowances for loan losses for credits classified as normal or precautionary up to 1.25% of total risk-weighted assets and subordinated debts with an initial maturity of at least five years. Risk-weighted assets are the sum of risk-weighted assets on the balance sheet and other risk-weighted assets off the balance sheet multiplied by the applicable credit translation rate provided in the FSC guidelines.

Beginning in 2002, the FSC adopted revisions for calculating capital adequacy ratio outlined by the BIS, which take into account market risks relating to trading securities and derivative transactions. Risk weightings for such assets were calculated in accordance with a formula based on market risk.

TABLE 18. | CAPITAL ADEQUACY RATIO

	<i>(Billions of Korean Won)</i>	
	2001	2002
Paid-up capital	W 3,395.4	W 3,395.6
Capital surplus	-	-
Retained earnings	(342.3)	(883.9)
Other	(916.7)	(538.6)
<b>Tier 1 Capital</b>	<b>2,136.4</b>	<b>1,973.1</b>
Allowance for loan losses	460.0	520.4
Upper tier 2 subordinated debt	260.7	236.0
Subordinated debt	917.4	986.5
Extraordinary capital surplus	-	-
<b>Tier 2 Capital</b>	<b>1,638.1</b>	<b>1,742.9</b>
Consolidation to unconsolidated subsidiaries (-)	(8.0)	(7.2)
<b>Total Qualifying Capital</b>	<b>W 3,766.5</b>	<b>W 3,708.8</b>
Balance sheet assets	W 33,246.6	W 41,273.3
Off-balance sheet assets	2,881.6	1,567.6
<b>Total Risk-Weighted Assets</b>	<b>W36,128.2</b>	<b>W 42,840.9</b>
Tier 1 capital ratio (%)	5.91%	4.61%
Tier 2 capital ratio (%)	4.53	4.05
<b>BIS Capital Ratio (%)</b>	<b>10.43%</b>	<b>8.66%</b>

In November 2002, the FSC increased the risk-weighting for retail loans secured by housing to 60%-70% from 50% in cases the loans are in arrears or the borrowers' debt-to-equity ratio is over 250%. The revised guidelines applied to newly extended housing loans starting from November 13, 2002.

At the end of year 2002, total qualifying capital had decreased from W3,766.5 billion in 2001 to W3,708.8 billion, while total risk-weighted assets increased by 18.6% year on year to W42,840.9 billion. Impacted by this, the Bank's BIS capital adequacy ratio stood at 8.66%, down 1.77 percentage points from 10.43% at the end of the previous year. The Tier 1 and Tier 2 capital ratios in 2002 were 4.61% and 4.05% respectively.

The decline in the BIS ratio was mainly due to reductions in Tier 1 capital. Tier 1 capital decreased from W2,136.4 billion a year ago to W1,973.1 billion, affected by the net loss of W586.5 billion on a consolidated basis in fiscal year 2002, while Tier 2 capital increased slightly from W1,638.1 billion to W1,742.9 billion in 2002. Despite the Bank's efforts to improve its BIS capital ratio by issuing subordinated debts, the reduction in Tier 1 capital precluded subordinated debt of W103.5 billion from qualification as Tier 2 capital. Subordinated debt is recognized as Tier 2 capital only up to 50% of Tier 1 capital.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### ANALYSIS OF TRUST ACCOUNTS

TABLE 19. | SCHEDULE OF TRUST ASSETS AND LIABILITIES

	(Billions of Korean Won)	
	2001	2002
<b>Assets</b>		
Loans and discounts	W 278.0	W 170.5
Call loans	217.0	241.0
Securities	4,699.6	4,723.9
Loans to bank accounts	408.2	285.4
Other	103.6	136.4
Allowance for valuation of receivables	(39.5)	(24.6)
	<b>W5,666.9</b>	<b>W5,532.6</b>
<b>Liabilities</b>		
Money trusts	W5,384.0	W5,154.7
Property in trusts	-	62.8
Borrowings	139.0	145.4
Special reserve	16.2	20.8
Other	127.7	148.9
	<b>W5,666.9</b>	<b>W5,532.6</b>

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

Trust assets as of the end of 2002 amounted to W5,532.6 billion, down 2.4% from the previous year. The largest portion of trust assets was securities investment of W4,723.9 billion, up from the previous year's W4,699.6 billion. Securities investments comprised corporate bonds, government-related bonds, and other securities, primarily commercial paper.

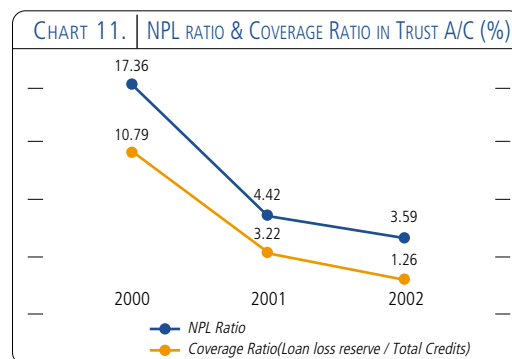
The outstanding balance of money trusts managed by the Bank was W5,154.7 billion at 2002 year-end, which represented a decline of 4.3% over the previous year.

Chohung Bank offers two basic types of money trust accounts: guaranteed fixed-rate trusts and variable-rate trusts. The Bank maintains two types of guaranteed fixed-rate accounts: general unspecified money trusts and development trusts. Korean banks have been prohibited from establishing new general unspecified money trusts since January 1, 1996, and development trusts from January 1, 1999. As a result, guaranteed fixed-rate trust accounts have decreased in size substantially and most development trusts and general unspecified money trusts matured or will mature by the end of

2001 and 2018 respectively. As of December 31, 2002, development trusts had no outstanding balance and general unspecified money trusts amounted to an aggregate of W8.5 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 allowance for trust assets which are not market 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 market 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 would reduce the Bank's income. The Bank provides special reserves with respect to guaranteed fixed-rate and principal-guaranteed variable-rate trust account credit by deducting the required amounts for such trust accounts from trust fees.

Korean banks are currently allowed to guarantee principal of new deposits in only three types of variable-rate trust accounts: pension trusts for the elderly, pension trusts, and retirement trusts. In addition, Korean banks are allowed to guarantee the principal of four types of variable-rate trust account products: household money trusts; corporation money trusts underwritten prior to April 30, 1996; accumulated money trusts underwritten prior to April 30, 1996; and individual pension trusts underwritten prior to December 31, 2000.



## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

TABLE 20. | SCHEDULE OF REVENUES AND EXPENSES OF TRUST ACCOUNTS

*(Billions of Korean Won)*

	2001	2002
<b>Revenue</b>		
Interest on loans and discounts	W 92.8	W 20.8
Interest on call loans	13.4	5.4
Interest and dividends on securities	278.3	273.6
Revenues related to securities	109.6	36.4
Interest on loans to bank accounts	9.9	7.0
Receipt from bank accounts for guaranteed trusts	20.9	57.7
Other	14.1	24.7
	<b>W 539.0</b>	<b>W 425.6</b>
<b>Expenses</b>		
Interest paid on trust deposits	W 340.1	W 261.4
Interest paid on borrowing	38.6	4.0
Expenses related to securities	42.3	35.1
Fees and commission to bank accounts	59.6	44.1
Provision for special reserve	4.8	4.7
Provision for valuation of receivables	13.0	73.6
Other	40.6	2.7
	<b>W 539.0</b>	<b>W 425.6</b>

Although assets in trust accounts are segregated from assets in bank accounts, Chohung Bank is responsible for the principal of and/or return on certain trust accounts and may be required to transfer funds from 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 the following sources: first, reserves maintained in such trust accounts; second, trust fees; and lastly, receipt from bank accounts for guaranteed trusts.

Receipt from bank account for guaranteed trusts in 2002 increased by W36.8 billion to W57.7 billion from W20.9 billion a year earlier. This increase stemmed from the losses from incurred from write-off of KAMCO repurchase obligations amounting to W72.5 billion.

Trust fund operating fees and commissions to bank accounts fell 26.0% in 2002 to W44.1 billion as a result of reductions in the average outstanding balance of money trusts.

## 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 Bank's overall risk management is overseen by the Risk Management Committee (RMC). The RMC consists of the Heads of the Planning Group, the Treasury & International Business 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 (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.

## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

### 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.

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 & International Group prepares monthly short-term funding plans.

In addition, the liquidity management teams of the Treasury & International Group monitor the overall liquidity risk of the Bank. In monitoring the market, the Treasury & International Group especially watch the monetary policies of the BOK, analyzing money supply figures, government credit policies and market rate trends to predict future market liquidity and rates. All market information is centralized at the Treasury & International 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.

Table 21 shows the minimum liquidity ratio required by FSS and the Bank's liquidity ratios at the end of 2002.

### 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. This risk is managed primarily through VaR methodology by the Risk Management Division. VaR is a generally accepted risk measurement concept that uses statistical models to estimate, within a given level of confidence, the maximum loss in market value that the Bank would experience in its trading portfolio from an adverse market movement.

TABLE 21. | LIQUIDITY RATIO (%)

Currency denomination		At the end of 2002	Required minimum ratio
In local currency	Liquidity ratio within 3 months <sup>1)</sup>	115.9%	100.0%
In foreign currencies	Liquidity ratio within 3 months <sup>1)</sup>	96.6	80.0
	Liquidity gap ratio within 7 days <sup>2)</sup>	3.0	0.0
	Liquidity gap ratio within 1 month <sup>3)</sup>	2.9	(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.

## MANAGEMENT'S DISCUSSION & ANALYSIS

TABLE 22. LIQUIDITY GAP IN 2002

	<i>(Billions of Korean Won, %)</i>			
	Assets	Liabilities	Liquidity gap	As a % of total assets
<b>Korean Won</b>				
Due in 3 months or less	W 20,078	W 17,086	W 2,992	5.1%
Due between 3 months and 6 months	6,451	5,745	706	1.2
Due between 6 months and 1 year	9,686	9,745	(59)	(0.1)
Due between 1 year and 3 years	8,079	5,535	2,544	4.3
Due after 3 years	14,229	20,412	(6,183)	(10.6)
	<b>W58,523</b>	<b>W58,523</b>	<b>W -</b>	<b>0.0%</b>
<b>Foreign currencies</b>				
Due in 3 months or less	W 3,478	W 3,379	W 99	1.6%
Due between 3 months and 6 months	905	859	46	0.7
Due between 6 months and 1 year	756	946	(190)	(3.0)
Due between 1 year and 3 years	418	1,023	(605)	(9.5)
Due after 3 years	795	145	650	10.2
	<b>W 6,352</b>	<b>W 6,352</b>	<b>W -</b>	<b>0.0%</b>

TABLE 23. VAR IN 2002 *(Billions of Korean Won)*

	10-day VaR	Market risk capital charge
Interest rate	W 30.3	W 20.7
Equity	0.4	0.2
Foreign Exchange	5.3	2.0
Market risk *	31.8	21.2

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

For Chohung Bank's trading portfolio, the VaR (holding period 10-days, 99% confidence interval) was W31.8 billion as of December 31, 2002 and its market risk capital charge (required capital to manage market risk as determined according to the BIS standards) was W21.2 billion. The following table represents the 10-day VaR at a 99% confidence interval, for interest rate risk, foreign exchange risk and equity risk relating to trading activities at the end of 2002.

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 by the RPC to control market risk.

### 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, 2002, 86.4% of Chohung Bank's won-denominated lending and all of its loans in foreign currency accounts are in the form of floating-rate loans and are funded primarily with demand, savings and time deposits and borrowings. Interest rates applicable to interest-earning assets and interest-bearing liabilities in Korean Won, other than demand deposits, 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 Korean commercial banks, almost all of Chohung Bank's deposit products in Korean won bear fixed rates of interest. Interest on approximately 20.0% of the Bank's deposit amounts was subject to regulation by the BOK in 2002. 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 39.7% of the Bank's loans in Korean Won earn interest at spreads based on Chohung Bank's Won-based rate. Chohung Bank adjusts its Won-based 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, 2002, interest rates on approximately 77.9% of its current deposits in Korean Won can be adjusted following a change in the Bank's minimum rates. In addition, 86.4% of its loans in local currency carry floating interest rates, enabling the Bank to match increases in the cost of funds with appropriate increases in lending rates.

## □ MANAGEMENT'S DISCUSSION & ANALYSIS □

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".

### 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 & International Group 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 a 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 2002, the Bank entered into forward exchange contracts and contracts related to interest-rate transactions, including interest-rate swaps, options and futures contracts, with an aggregate notional amount equivalent to approximately US\$2,916.4 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.

Under the New Basel Capital Accord that is due to take effect in 2006, the Bank will be required to provision regulatory capital for operational risk. The Basel Committee on Banking Supervision prepared the New Basel Accord. The Bank put in place a task force in October 2002 to launch a quantitative impact study on operational risk.

TABLE 24. | RATE SENSITIVITY GAP AS OF DECEMBER 31, 2002

		0-1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	EaR
In Won (Won bn)	Assets	W 8,013	W 20,779	W 3,968	W 5,281	W 20,482	W 58,523	
	Liabilities	9,529	7,959	6,435	7,431	27,169	58,523	
	Gap	W (1,516)	W 12,820	W (2,467)	W (2,150)	W (6,687)	W -	W 396
In foreign currencies (US\$ mil)	Assets	\$ 1,841	\$ 2,165	\$ 1,117	\$ 39	\$ 130	\$ 5,292	
	Liabilities	1,948	2,271	655	81	337	5,292	
	Gap	\$ (107)	\$ (106)	\$ 462	\$ (42)	\$ (207)	\$ -	\$ 4.6



**Deloitte  
Touche  
Tohmatsu**



**NON-CONSOLIDATED AND  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2002 AND 2001  
TOGETHER WITH  
INDEPENDENT PUBLIC ACCOUNTANTS' REPORT**



**Anjin & Co**

## □ INDEPENDENT PUBLIC ACCOUNTANTS' REPORT □

English Translation of a Report Originally Issued in Korean

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Touche  
Tohmatsu**

### 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 2002 and the related statements of operations, disposition of accumulated deficit and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chohung Bank as of December 31, 2001 and 2002 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 financial statements have been translated into US dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 7 (8), as of December 31, 2002, amounts owed by Hynix Semiconductor Inc. and Hyundai Merchant Marine Co., Ltd., which include loans, payment guarantees and others, amounted to W375.2 billion (US\$312.6 million) and W197.8 billion (US\$164.8 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W333.1 billion (US\$277.5 million). In addition, amounts owed by Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd., which include loans, payment guarantees and others, amounted to W424.2 billion (US\$353.4 million) and W137.2 billion (US\$114.3 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W258.3 billion (US\$215.2 million). The potential impact on the Bank's operations of the liquidity problems and uncertain business environment Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

As discussed in Note 27 (7), from December 15, 1997 to December 31, 2002, the Bank sold W3,894.6 billion (US\$ 3,244.4 million) of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.5 billion (US\$1,769.8 million), which included W2,451.2 billion (US\$2,042.0 million) of special loans sold with recourse for W1,596.6 billion (US\$1,330.1 million). Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2002, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W273.0 billion (US\$227.4 million) at its sale price converted using the exchange rate at December 31, 2002. In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion in 2001, which was intended to reinforce the credit of the asset-backed securities (ABS) issued by the SPC. The Bank estimated and reserved W30.0 billion (US\$25.0 million) allowance for possible losses for these obligations.

As explained in Notes 19 and 31, 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. Based on

the agreement, the Bank has disposed of bad loans and non-performing tangible assets, reduced the number of employees, and closed its unprofitable branches. 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 is required to achieve the ratio of non-performing loans below 4.0 percent and 3.5 percent in 2002 and 2003, respectively, meet the BIS capital adequacy ratio of 10.0 percent by December 31, 2002, 10.3 percent by March 31, 2003, 10.5 percent by June 30, 2003, 10.7 percent by September 30, 2003 and 11.0 percent by December 31, 2003, meet the return on assets of 0.5 percent by June 30, 2002, 0.8 percent by September 30, 2002 and 1.0 percent by December 31, 2002 and 2003, achieve W230 million (US\$192 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002 and 2003. Whether or not the revised management improvement plans are achieved, it may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. As of December 31, 2002, the Bank failed to achieve the "return on assets" (ROA) target of 1.0 percent and BIS ratio target of 10.0 percent among the required management index targets contained in the agreement. As of the report date, the Bank has not received any request or order from FSC or KDIC and does not expect to receive a request or order as penalty for the non-attainment of management index targets mentioned above. 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.

As explained in Note 32, on January 23, 2003, the KDIC, which owns 80.04% of the Bank, selected a consortium led by Shinhan Financial Group as the prime bidder for the sale of its shares in accordance with the resolution of Public Fund Oversight Committee (PFOC). The change in major shareholder might cause change in the Bank's operational environment. However, the change in major shareholder itself and the potential impact of the change on the Bank's operations cannot presently be determined.

As explained in Note 2, beginning in 2002, the Bank has increased its minimum rates of loss provision and has provided additional provision for unused credit and others in accordance with the request of the Financial Supervisory Service, and based on the significant increase in the household loans and credit card accounts and deterioration of their delinquency ratios. As a result of this change in accounting estimates, the Bank has provided additional W165.1 billion (US\$137.5 million) of loan loss provision and other allowance in 2002 when compared with the previous method.

As explained in Note 33, as of December 31, 2002, the total credit exposure of the bank to SK Global amounts to W463,040 million (US\$385,738 thousand), including corporate loans of W460,856 million (US\$383,919 thousand). As of the date of this report, the top management of SK Business Conglomerate including SK Global was indicted and being investigated by the public prosecutor for undisclosed side arrangement by SK Global's subsidiaries regarding equity transaction of SK Securities Co., Ltd. The unfavorable outcome of the above investigation might deteriorate significantly the financial status of SK Global, which may consequently affect the collectibility of the credit exposure of the Bank to SK Global. Actual credit loss from this credit exposure may differ materially from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

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

Anjin & Co.  
An associate member firm of Deloitte Touche Tohmatsu



Seoul, Korea  
January 30, 2003

#### Notice to Readers

This report is effective as of January 30, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

## □ Non-Consolidated Balance Sheets □

December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>ASSETS</b>			
Cash and due from banks			
(Notes 3, 4, 26, 28 and 29)	W 2,037,861	W 2,698,816	\$ 2,248,264
Trading securities (Notes 5, 28 and 29)	1,236,926	990,179	824,874
Investment securities (Notes 6, 12, 28 and 29)	12,839,355	10,082,398	8,399,199
Loans (Notes 7, 8, 9, 26, 27, 28 and 29)	34,443,040	45,328,520	37,761,179
Fixed assets (Notes 10, 12, 13 and 29)	1,565,775	1,415,312	1,179,034
Other assets (Notes 11 and 29)	3,903,339	5,681,063	4,732,641
<b>Total assets</b>	<b>W 56,026,296</b>	<b>W 66,196,288</b>	<b>\$ 55,145,191</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits (Notes 14, 26, 28 and 29)	W 38,922,144	W 45,125,839	\$ 37,592,335
Borrowings (Notes 15, 26, 28 and 29)	7,429,731	6,843,721	5,701,201
Debentures (Notes 16, 28 and 29)	2,419,676	5,672,349	4,725,382
Other liabilities (Notes 17, 18, 28 and 29)	4,718,923	6,262,081	5,216,662
<b>Total liabilities</b>	<b>53,490,474</b>	<b>63,903,990</b>	<b>53,235,580</b>
<b>SHAREHOLDERS' EQUITY (Notes 19 and 29):</b>			
Common stock	3,395,391	3,395,592	2,828,717
Capital surplus	-	-	-
Other reserves	9,145	10,619	8,846
Accumulated deficit (net income of W522,531 million in 2001 and net loss of W586,045 million in 2002)	(388,792)	(931,362)	(775,877)
Capital adjustments	(479,922)	(182,551)	(152,075)
<b>Total shareholders' equity</b>	<b>2,535,822</b>	<b>2,292,298</b>	<b>1,909,611</b>
<b>Total liabilities and shareholders' equity</b>	<b>W 56,026,296</b>	<b>W 66,196,288</b>	<b>\$ 55,145,191</b>

See accompanying notes to non-consolidated financial statements.

## □ Non-Consolidated Statements of Operations □

For the years ended December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>INTEREST INCOME AND DIVIDENDS (Note 26):</b>			
Interest on due from banks	W 56,843	W 22,023	\$ 18,346
Interest and dividends on trading securities	69,240	72,172	60,123
Interest and dividends on investment securities	872,714	687,155	572,438
Interest on loans (Note 20)	2,867,906	3,031,095	2,525,071
Other interest income	95,804	37,404	31,160
	<u>3,962,507</u>	<u>3,849,849</u>	<u>3,207,138</u>
<b>INTEREST EXPENSES (Note 26):</b>			
Interest on deposits	1,680,584	1,508,118	1,256,346
Interest on borrowings	409,053	254,333	211,874
Interest on debentures	204,137	264,338	220,208
Other interest expense	50,365	79,382	66,130
	<u>2,344,139</u>	<u>2,106,171</u>	<u>1,754,558</u>
<b>NET INTEREST INCOME</b>	<b>1,618,368</b>	<b>1,743,678</b>	<b>1,452,580</b>
<b>PROVISION FOR POSSIBLE LOAN LOSSES</b>	<b>751,295</b>	<b>1,542,948</b>	<b>1,285,361</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN LOSSES</b>	<b>867,073</b>	<b>200,730</b>	<b>167,219</b>
<b>NON-INTEREST INCOME:</b>			
Fees and commissions (Note 21)	532,484	763,691	636,197
Gain on sale of trading securities	85,051	24,201	20,161
Gain on valuation of trading securities	3,657	5,856	4,878
Gain on foreign currency trading	202,946	145,089	120,868
Gain on derivatives trading	273,379	440,856	367,258
Fees and commissions from trust accounts (Note 2)	64,238	49,012	40,829
Other non-interest income (Note 22)	321,286	178,186	148,439
	<u>1,483,041</u>	<u>1,606,891</u>	<u>1,338,630</u>
<b>NON-INTEREST EXPENSES:</b>			
Commissions	108,156	166,603	138,789
General and administrative expenses (Note 23)	712,739	856,328	713,369
Loss on foreign currency trading	111,570	104,270	86,863
Loss on derivatives trading	259,668	398,694	332,135
Contribution to Credit Guarantee Fund	36,639	45,249	37,695
Loss on sale of loans (Note 7)	380,757	16,641	13,863
Loss on sale of trading securities	41,089	5,590	4,657
Loss on valuation of trading securities	1,915	150	124
Payments to guaranteed return trust accounts (Note 2)	20,946	57,675	48,046
Other non-interest expenses (Note 24)	340,210	767,581	639,438
	<u>2,013,689</u>	<u>2,418,781</u>	<u>2,014,979</u>
<b>ORDINARY INCOME (LOSS)</b>	<b>336,425</b>	<b>(611,160)</b>	<b>(509,130)</b>
<b>EXTRAORDINARY GAIN (LOSS)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSE</b>	<b>336,425</b>	<b>(611,160)</b>	<b>(509,130)</b>
<b>INCOME TAX EXPENSE (BENEFITS) (Note 25)</b>	<b>(186,106)</b>	<b>(25,115)</b>	<b>(20,922)</b>
<b>NET INCOME (LOSS)</b>	<b>W 522,531</b>	<b>W (586,045)</b>	<b>\$ (488,208)</b>
<b>NET INCOME (LOSS) PER COMMON SHARE</b> (in Currency Units) (Note 2)	<b>W 799</b>	<b>W (870)</b>	<b>\$ (0.72)</b>

See accompanying notes to non-consolidated financial statements.

## □ STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT □

For the years ended December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>ACCUMULATED DEFICIT BEFORE DISPOSITION:</b>			
Balance at beginning of year	W (850,329)	W (388,792)	\$ (323,886)
Cumulative effect of accounting changes (Note 2)	1,176	-	-
Adjustment of retained earnings of subsidiaries valued using the equity method (Note 19)	(270)	36	30
Net income (loss)	522,531	(586,045)	(488,208)
Other statutory reserves	(1,675)	(1,740)	(1,450)
Amortization of discount on stock issued below par value (Note 19)	(816)	-	-
Loss on disposal of treasury stock (Note 19)	(59,409)	-	-
Balance at end of year	(388,792)	(976,541)	(813,514)
<b>DISPOSITION:</b>			
Disposition of capital in excess of par value	-	24	20
Disposition of other capital surplus	-	45,155	37,617
	-	45,179	37,637
<b>UNDISPOSED ACCUMULATED DEFICIT TO BE CARRIED FORWARD TO SUBSEQUENT YEAR</b>	<b>W (388,792)</b>	<b>W (931,362)</b>	<b>\$ (775,877)</b>

See accompanying notes to non-consolidated financial statements.

## □ STATEMENTS OF CASH FLOWS □

For the years ended December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	W 522,531	W (586,045)	\$ (488,208)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	183,823	189,790	158,106
Provision for possible loan losses	751,295	1,542,948	1,285,362
Provision for severance benefits	19,517	32,763	27,293
Loss on disposal of fixed assets, net	4,365	10,230	8,522
Loss on sale of loans, net	379,933	16,238	13,527
Gain on sale of trading securities, net	(43,962)	(18,611)	(15,504)
Gain on valuation of trading securities, net	(1,742)	(5,706)	(4,753)
Payment of severance benefits	(129,740)	(1,891)	(1,575)
Other, net	(248,508)	454,459	378,590
Net cash provided by operating activities	<b>1,437,512</b>	<b>1,634,175</b>	<b>1,361,359</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in loans	(5,572,912)	(12,629,682)	(10,521,228)
Proceeds on sale of fixed assets	34,199	75,475	62,875
Purchase of fixed assets	(89,536)	(126,713)	(105,559)
Net decrease (increase) in investment securities	(1,136,696)	2,867,349	2,388,661
Proceeds from sale of trading securities	570,715	271,064	225,811
Other, net	473,002	(5,477)	(4,562)
Net cash used in investing activities	<b>(5,721,228)</b>	<b>(9,547,984)</b>	<b>(7,954,002)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in deposits	4,529,204	6,203,695	5,168,023
Net decrease in borrowings	(826,052)	(703,035)	(585,667)
Net increase (decrease) in debentures	(636,892)	3,172,501	2,642,870
Disposition of treasury stock	29,417	118,057	98,348
Issuance of common stock other	-	225	187
Other, net	186,905	(216,679)	(180,506)
Net cash provided by financing activities	<b>3,282,582</b>	<b>8,574,764</b>	<b>7,143,256</b>
NET INCREASE (DECREASE) IN CASH	(1,001,134)	660,955	550,612
CASH, BEGINNING OF YEAR	3,038,995	2,037,861	1,697,652
CASH, END OF YEAR (Note 30)	<b>W 2,037,861</b>	<b>W 2,698,816</b>	<b>\$ 2,248,264</b>

See accompanying notes to non-consolidated financial statements.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

December 31, 2001 and 2002

### 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 467 domestic branches, and 69 depositary offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2002. 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.

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's 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 Financial Statement Presentation

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 financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position or results of operations, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into US dollars based on the Bank of Korea (BOK) Basic Rate of W1,200.40 to US\$1.00 at December 31, 2002, 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 at this or any other rate of exchange.

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

#### Classification of Securities

In accordance with the banking accounting standards, marketable debt and equity securities purchased for short-term trading 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 the moving average method for stocks and the specific identification method for bonds, the securities are stated at fair value and the valuation gain or loss is reflected in current operations.



## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 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 determined by the moving average method. Actively quoted (listed) securities, including those traded over the counter, are stated at fair value with the valuation gain or loss recorded as a capital adjustment. If the fair value of listed equity securities or the net equity value of unlisted equity securities held for investment declines compared to the 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 the Bank Law), are accounted for using the equity method. The Bank's share in net income or net loss of the investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of the 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 are classified as available-for-sale investment debt securities as follows.

- 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 determined by the 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 the resulting valuation gains or losses recorded as a capital adjustment. If the fair value of held-to-maturity or available-for-sale investment debt securities declines compared to the acquisition cost and is not expected to recover (impaired investment securities), the carrying value of the debt 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 the 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 recorded in current operations as an impairment loss.

#### (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

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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 is the new cost basis of reclassified investment securities. Investment securities cannot be reclassified to trading securities.

### Allowance for Possible Loan Losses and Other Losses

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires providing the minimum rate of loss provision for each category as described in the next paragraph. In accordance with the Supervisory Regulation and the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to corporate borrowers, including the securities that have credit attributes such as commercial paper, privately placed bonds and financing lease receivables, into ten categories according to past repayment history including any overdue period, 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 individual business operations and households are also classified into ten categories based only on the past repayment history.

As required by the FSC, the loans to enterprises 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 or more, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. However, the Bank does not provide allowances for the loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as normal, as it is not required by the Accounting Standards for the Banking Industry. The loans to households and the credit card receivables are also classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. Beginning in 2002, the Bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card receivables were raised to 1 percent or more, 12 percent or more, and 60 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary.

As required by the FSC, 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 or more for confirmed acceptances and guarantees classified as substandard, 50 percent or more for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. Additionally, as prescribed in the debt restructuring accounting standard, loans on companies that were applied for debt restructuring due to the work-out, court receivership or composition and other restructuring process, an allowance for possible loan losses is provided for the residual amount after deducting the present value. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities. This additional provision is included in the non-interest expense.

In addition, beginning in 2002, the Bank provides other allowance in other liabilities, which includes (i) 1 percent for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year and, (ii) for the expected future expenses due to the bonus point given to credit card users and, (iii)

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

expected losses from the recourse obligation provided to KAMCO in relation to sales of non-performing loans and (iv) expected losses from the pending lawsuits. The Bank accounts for these other bad debts expense in the caption of non-interest expense.

### Restructuring of Loans

A loan, whose contractual terms are modified in a troubled debt restructuring through execution of workout plan, court receivership, commencement of corporate reorganization and mutual agreement, is accounted for at the present value of expected future cash flows, if the book value of the loan differs from the present value. The difference between the book value and present value is offset against the allowance for possible loan losses, and 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. As of December 31, 2001 and 2002, the principal amount of loans of which the accrued interest income was not recorded in the financial statements based on the stated criteria amounted to W3,633.6 billion and W6,927.7 billion (US\$ 5,771.2 million), respectively, and the related accrued interest income not recognized amounted to W290.1 billion and W855.0 billion (US\$712.3 million), 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. A direct financing lease prohibits the lessee from canceling the contract during the lease period and has the following options; ownership of the lease property is transferred to the lessee, the right to purchase the leased property at a price lower than the fair value, the lease period exceeds 75percent 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, 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 unearned interest income, which is recognized as revenue over the term of the lease using the effective 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 the 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 assets revalued upward 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 the extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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 costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated economic useful lives of the related assets or the activity method.

The excess of the consideration paid 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, and adjusted subsequently due to the revaluation of treasury stocks acquired in relation to those business combinations.

### Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral on a foreclosed mortgage. No depreciation is provided for this asset. However, if the auction price of the foreclosed asset is lower than the 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 that would be payable assuming all eligible employees were to resign as of December 31, 2001 and 2002 are W20,688 million and W51,560 million (US\$42,952 thousand), respectively. Actual payments of severance indemnities amounted to W129,740 million and W1,891 million (US\$1,575.3 thousand) in the years ended December 31, 2001 and 2002, respectively. The actual payment of severance indemnities included interim settlements of severance pay of W126,063 million for the year ended December 31, 2001 and W8 million of amounts increased due to the fluctuation of exchange rates for the year ended December 31, 2002.

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 meets the funding requirements for tax purposes, and made deposits with Korea Exchange Bank as of December 31, 2002. The deposits amounting to W30,000 million (US\$24,992 thousand) as of December 31, 2002 are presented as a deduction from accrued severance benefits.

### 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.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### Accounting for Financial Derivatives

The Bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or a 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 (a hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged items 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 capital adjustment is reclassified into 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 incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

### 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 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 2002, the Bank recorded trust management fees of W64,238 million and W49,013 million (US\$40,831 thousand), respectively, and trust cancellation charge income of W2,446 million and W377 million (US\$314 thousand), respectively. The Bank paid compensating contributions to guaranteed return trusts of W20,946 million and W57,675 million (US\$48,046 thousand) in 2001 and 2002, respectively, to cover deficiencies, which were reflected as non-interest expenses 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 and loss of W8,285 million (US\$6,902 thousand) for the years ended December 31, 2001 and 2002, 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 Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in the deferred income taxes. The difference between the amount currently payable for the period and the 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

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

translated in these financial statements based on the BOK Basic Rate (W1,326.10 and W1,200.40 to US\$1.00 at December 31, 2001 and 2002, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches and subsidiaries in which investments are accounted for using the equity method are translated based on BOK Basic Rate at the balance sheet dates.

### Earnings per Share

Ordinary income (loss) per common share and net income (loss) per common share are computed by dividing ordinary income (loss) (after deducting the tax effect) and net income (loss), respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 654 million and 674 million in 2001 and 2002, respectively. Ordinary income (loss) and net income (loss) on common shares were as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Net income (loss)	W 522,531	W (586,045)	\$ (488,208)
Extraordinary gain	-	-	-
Income tax on extraordinary gain	-	-	-
<b>Ordinary income (loss)</b>	<b>W 522,531</b>	<b>W (586,045)</b>	<b>\$ (488,208)</b>

Diluted ordinary income (loss) per common share and net income (loss) per common share represent the ordinary income (loss) and net income (loss) divided by the number of common shares and diluted securities. Stock options have a certain dilution effect on earnings per share as the average stock price of the Bank's common shares for the year ended December 31, 2002 (W5,502) is above the exercise price of the stock options (W5,000). However, dilution effect from stock options was not ultimately incurred as the increase in the ratio in the denominator is less than that of the numerator. As a result, the diluted ordinary income (loss) per common share and diluted net income (loss) per common share are equal to the ordinary income (loss) and net income (loss) per common share. The diluted securities for the year ended December 31, 2002 are 673,757,609 shares. Stock warrants and stock options have no dilution effects on earnings per share for the year ended December 31, 2001 because the average stock prices of the Bank for the year ended December 31, 2001 (W2,516) are below the exercise prices of the stock options (W5,000 and W5,790). For this reason, diluted ordinary income (loss) per common share and net income (loss) per common share were not calculated for the year ended December 31, 2001 and 2002. The dilutive securities as of December 31, 2002 are summarized as follows:

Item	Face value (In millions)	Exercise period	Common stocks to be issued	Remarks
Stock options (see Note 19)	-	2003.3.28 ~ 2006.3.27	969,200 shares	W5,000 paid in cash upon exercise
Stock options (see Note 19)	-	2004.3.10 ~ 2007.3.9	664,000 shares	W5,000 paid in cash upon exercise
Stock options (see Note 19)	-	2004.3.30 ~ 2007.3.29	312,000 shares	W5,657 paid in cash upon exercise

The detachable stock warrants were granted with separable type on November 22, 1999 when the Bank issued bonds with warrants amounting to W550,000 million with three year maturity and 10 percent coupon rate per annum. The subscription right given to these stock warrants was 1 share for each W5,790 bond par value, which expired on October 22, 2002 after 40,314 warrants were exercised during 2002.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### Changes in Accounting Principle and Estimates

Beginning in 2002, in accordance with the change in the Executive Guideline of the Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, the accounting treatment applied to Banker's Usance transactions was changed by the Bank; all banker's usance, regardless of whether the Bank provides funded credit directly or not, are now accounted for as "loans and borrowings in foreign currencies" rather than accounted for as "acceptance" using contra accounts as an off-balance items. Due to the changes in this accounting treatment, W928,027 million loans in foreign currencies, W17,333 million other deposits and W945,360 million borrowings in foreign currencies increased and W1,037,268 million loans in foreign currencies, W25,078 million other deposits and W1,062,346 million borrowings in foreign currencies increased as of December 31, 2001 and 2002, respectively, compared to the previous accounting treatment. Solely for the comparative purpose, the financial statements of 2001 were restated based on the change in the regulation of banking business issued by the Financial Supervisory Service.

To reflect the economic substance of transactions and appropriately match revenues to expenses, the Bank changed its depreciation method from half-year basis to monthly basis for newly acquired tangible fixed assets. This change in depreciation method is accounted for as a change in accounting estimate, however, the effect on the financial statements is considered immaterial.

The Bank previously set the allowance for possible loan losses on the households and credit card accounts at 0.5 percent or more of the loan balances classified as normal, and 2 percent or more and 50 percent or more of the loan balances classified as precautionary and doubtful, respectively. However, beginning in 2002, the bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card accounts were raised to 1 percent or more, 12 percent or more, and 60 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if its collateral is real estate and located in the highly-speculative residential areas designated by the Korean Government and the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary. In addition, beginning in 2002, the Bank provides other provision, which includes 1 percent for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The aforementioned changes in allowance ratio for possible loan losses resulted from the recent sudden increase of loans to households and credit card accounts and it was requested by the Financial Supervisory Service and also based on historical migration analysis on default and collection of such loans. As a result of these changes in accounting estimates, the Bank provided W164.2 billion (US\$136.8 million) additional allowance for possible loan losses and W0.9 billion (US\$0.7 million) other provision for the loss from the unused cash advance facilities as of December 31, 2002.

### Reclassifications

The Bank reclassified certain accounts for the year ended December 31, 2001 in order to conform to the presentation of the current period for comparative purposes. However, these reclassifications have no effect on the net income or the net asset value as of and for the year ended December 31, 2001.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Cash and checks	W 1,346,084	W 1,174,976	\$ 978,821
Foreign currencies	67,944	76,065	63,366
Due from banks in local currency	442,137	1,255,581	1,045,969
Due from banks in foreign currencies	181,696	192,194	160,108
	<b>W 2,037,861</b>	<b>W 2,698,816</b>	<b>\$ 2,248,264</b>

### 4. RESTRICTED DUE FROM BANKS:

Restricted due from banks as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Reference
	2001	2002	2002	
Reserve deposits with the Bank of Korea	W 83,283	W 1,224,944	\$ 1,020,446	Required under the Banking Law
Due from banks in local currency	73,500	-	-	Required under the Subordinated Borrowings
Due from banks in foreign currencies	42,971	46,094	38,399	Required under the Banking Law, borrowings and derivative transactions
	<b>W 199,754</b>	<b>W 1,271,038</b>	<b>\$ 1,058,845</b>	

### 5. TRADING SECURITIES:

(1) Trading securities as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Government bonds	W 21,009	W 174,802	\$ 145,620
Finance debentures	212,655	-	-
Corporate bonds	631,434	308,086	256,653
Trading securities in foreign currencies	106,599	100,108	83,395
Other	265,229	407,183	339,206
	<b>W 1,236,926</b>	<b>W 990,179</b>	<b>\$ 824,874</b>

(2) The details of valuation of trading securities as of December 31, 2002 are as follows (in millions of Won):

	Face value	Acquisition cost	Adjusted by effective interest method	Fair value (Book value)
Government bonds	W 170,000	W 173,177	W 173,079	W 174,802
Corporate bonds	298,387	305,353	305,353	308,086
Trading securities in foreign currencies	85,326	94,848	94,848	100,108
Other	410,613	405,184	407,065	407,183
	<b>W 964,326</b>	<b>W 978,562</b>	<b>W 980,345</b>	<b>W 990,179</b>



## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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	103,102	106,599
Other	265,476	261,231	265,205	265,229
	<b>W 1,209,390</b>	<b>W 1,227,451</b>	<b>W 1,231,621</b>	<b>W 1,236,926</b>

Beginning in 2002, the fair values of trading debt securities in local currency were determined by the prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and NICE Co., Ltd., while in 2001, the trading debt securities were valued using the closing yields of bonds announced by the Korea Securities Computer Co., Ltd.. The fair values of trading securities in foreign currencies are 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 currencies denominated acquisition costs based on BOK Basic Rate at December 31, 2002 and 2001.

(3) Trading securities, by country, as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Trading securities in local currency:					
Korea	W 1,130,327	W 890,071	\$ 741,479	91.38	89.89
Trading securities in foreign currencies:					
Korea	103,382	96,809	80,647	8.36	9.78
Mexico	3,217	3,299	2,748	0.26	0.33
	106,599	100,108	83,395	8.62	10.11
	<b>W 1,236,926</b>	<b>W 990,179</b>	<b>\$ 824,874</b>	<b>100.00</b>	<b>100.00</b>

(4) The portfolio of trading securities, by type, as of December 31, 2001 and 2002 is as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Fixed rate bonds	W 343,488	W 274,114	\$ 228,352	27.77	27.68
Floating rate bonds	634,650	332,113	276,669	51.31	33.54
Others	258,788	383,952	319,853	20.92	38.78
	<b>W 1,236,926</b>	<b>W 990,179</b>	<b>\$ 824,874</b>	<b>100.00</b>	<b>100.00</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 6. INVESTMENT SECURITIES:

(1) Investment securities as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
	2001	2002	2002	
Investment equity securities	W 594,645	W 642,138	\$ 534,937	
Equity investments	39,854	26,779	22,308	
Government bonds	1,748,561	1,733,911	1,444,444	
Finance debentures	3,243,097	1,517,309	1,264,003	
Corporate bonds	5,951,460	5,625,283	4,686,174	
Beneficiary certificates	615,323	60,399	50,316	
Investment securities in foreign currencies	566,583	424,644	353,752	
Other	79,832	51,935	43,265	
	<b>W 12,839,355</b>	<b>W 10,082,398</b>	<b>\$ 8,399,199</b>	

(2) Investment equity securities accounted for using the equity method as of December 31, 2002 are summarized as follows (in millions of Won):

	Balance sheet date	Percentage of ownership (%)	Acquisition cost	Net asset value	Book value
Chohung Investment Trust Management Co., Ltd.	2002.09.30	79.77	W 50,761	W 54,300	W 58,862
Chohung Finance Ltd., Hong Kong	2002.12.31	99.99	7,202	46,510	46,510
Chohung Bank of New York	2002.12.31	100.00	30,610	36,167	36,167
Chohung Bank (Deutschland) GmbH	2002.12.31	100.00	16,246	28,614	28,614
California Chohung Bank	2002.12.31	100.00	42,402	52,435	52,435
Chohung Vina Bank	2002.12.31	50.00	7,226	8,972	8,972
			<b>W 154,447</b>	<b>W 226,998</b>	<b>W 231,560</b>

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

	Balance sheet date	Percentage of ownership (%)	Acquisition cost	Net asset value	Book value
Chohung Investment Trust 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
			<b>W 161,607</b>	<b>W 218,674</b>	<b>W 224,935</b>

(3) The valuation of investment debt securities in local currency, by type, as of December 31, 2002 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 10,000	W 10,789	W 10,707	W 10,966
Finance debentures	910,000	889,434	900,249	903,070
Corporate bonds	1,440,119	1,110,635	1,264,698	1,033,424
	2,360,119	2,010,858	2,175,654	1,947,460
Held-to-maturity:				
Government bonds	1,719,671	1,689,882	1,722,945	1,722,945
Finance debentures	610,033	613,394	614,239	614,239
Corporate bonds	4,552,043	4,612,444	4,591,859	4,591,859
	6,881,747	6,915,720	6,929,043	6,929,043
	<b>W 9,241,866</b>	<b>W 8,926,578</b>	<b>W 9,104,697</b>	<b>W 8,876,503</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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
		<u>5,105,688</u>		<u>4,855,855</u>		<u>4,872,633</u>		<u>4,685,480</u>
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
		<u>6,188,134</u>		<u>6,214,933</u>		<u>6,257,638</u>		<u>6,257,638</u>
	<b>W</b>	<b>11,293,822</b>	<b>W</b>	<b>11,070,788</b>	<b>W</b>	<b>11,130,271</b>	<b>W</b>	<b>10,943,118</b>

The outstanding balance of government bonds, finance debentures and corporate bonds is the sum of the 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.

Beginning in 2002, the fair values of trading debt securities in local currency were determined by the prices of the latest trading day from the balance sheet date, provided by Korea Bond Pricing & KMCC Co. and NICE Co., Ltd., while in 2001, the trading debt securities were valued using the closing yields of bonds announced by the Korea Securities Computer Co., Ltd..

(4) The portfolio of investment securities, by country, as of December 31, 2001 and 2002 is summarized as follows:

Type	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Investment securities in local currency:					
Korea	W 12,272,772	W 9,657,754	\$ 8,045,447	95.59	95.79
Investment securities in foreign currencies:					
Korea	157,868	64,869	54,040	1.23	0.64
United States	253,732	244,024	203,286	1.98	2.42
Hong Kong	44,992	46,511	38,746	0.35	0.46
Germany	21,882	28,614	23,837	0.17	0.28
India	15,417	11,768	9,803	0.12	0.12
Bermuda	-	951	792	-	0.01
Malaysia	13,617	-	-	0.10	-
Philippines	14,116	5,981	4,983	0.11	0.06
Vietnam	-	8,972	7,474	-	0.09
Other	44,959	12,954	10,791	0.35	0.13
	<u>566,583</u>	<u>424,644</u>	<u>353,752</u>	<u>4.41</u>	<u>4.21</u>
	<b>W 12,839,355</b>	<b>W 10,082,398</b>	<b>\$ 8,399,199</b>	<b>100.00</b>	<b>100.00</b>

(5) The portfolio of investment securities, by type, as of December 31, 2001 and 2002 is summarized as follows (in millions of Won):

Type	2001		2002	
	Investment securities in local currency	Investment securities in foreign currencies	Investment securities in local currency	Investment securities in foreign currencies
Fixed rate notes	W 6,826,393	W 11,325	W 5,290,126	W 14,251
Floating rate notes	3,879,256	347,515	3,381,227	229,771
Convertible bonds	315,876	26,908	205,150	4,877
Stocks and equity	634,499	172,837	668,917	173,524
Other	616,748	7,998	112,334	2,221
	<u>W 12,272,772</u>	<u>W 566,583</u>	<u>W 9,657,754</u>	<u>W 424,644</u>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

Type	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Fixed rate notes	W 6,837,718	W 5,304,377	\$ 4,418,841	53.26	52.61
Floating rate notes	4,226,771	3,610,998	3,008,162	32.92	35.81
Convertible bonds	342,784	210,027	174,964	2.67	2.08
Stocks and equity	807,336	842,441	701,801	6.29	8.36
Other	624,746	114,555	95,431	4.86	1.14
	<b>W 12,839,355</b>	<b>W 10,082,398</b>	<b>\$ 8,399,199</b>	<b>100.00</b>	<b>100.00</b>

(6) Conversion of loans for debt to equity swap of Hynix Semiconductor Inc. into equity:

As determined by the Financial Institutional Creditors' meeting held on October 31, 2001, the Bank acquired mandatory convertible bonds issued by Hynix Semiconductor Inc. amounting to W423,481 million of face value, which were recorded as loans to be swapped into equity before the actual swap occurs. As of June 1, 2002, the Bank converted all of such convertible bonds into equity at the conversion price of W708 and acquired 598,137,005 shares. As a result of this conversion, the Bank recorded W127,044 million of investment securities based on the book value of the loans swapped into equity, which was W212 per share. The shares of Hynix Semiconductor Inc. are traded on the Korea Stock Exchange, but most of the converted shares are held by the Financial Institutional Creditors including the Bank and restricted in disposal until the end of 2006. For this reason, the Bank does not consider the price quoted on the Korea Stock Exchange as fair value. Accordingly, the Bank recorded the equity securities at acquisition cost as of December 31, 2002. Additionally, on December 30, 2002, the Financial Institutional Creditors' Committee resolved second debt restructuring, which mainly consist of non-compensatory capital reduction by the ratio of twenty one shares into one share and debt to equity swap totaling W1,900.0 billion (US\$1,582.8 million), therefore, the Bank is supposed to convert its loan to equity amounting to the W160.1 billion (US\$133.4 million) as of December 31, 2002.

### 7. LOANS :

(1) Loans as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Loans in local currency	W 20,167,261	W 30,924,206	\$ 25,761,584
Loans in foreign currencies	3,476,878	3,480,755	2,899,662
Bills bought in local currency	2,001,203	1,903,887	1,586,044
Bills bought in foreign currencies	2,094,350	1,775,599	1,479,173
Advances for customers	114,580	79,682	66,379
Factoring receivables	181,272	121,681	101,367
Loan for debt-equity swap	461,833	129,384	107,784
Credit card accounts	4,934,460	5,898,452	4,913,739
Call loans	84,669	655,798	546,316
Bills discounted	1,294,307	1,481,776	1,234,402
Cash management accounts	242,400	134,609	112,137
Privately placed bonds	197,722	185,168	154,255
Financing lease receivables	252,355	182,596	152,113
	<b>35,503,290</b>	<b>46,953,593</b>	<b>39,114,955</b>
Allowance for possible loan losses	(1,030,678)	(1,604,607)	(1,336,727)
Present value discounts (See Note 9)	(29,572)	(20,466)	(17,049)
	<b>W 34,443,040</b>	<b>W 45,328,520</b>	<b>\$ 37,761,179</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(2) Loans in local currency and foreign currencies as of December 31, 2001 and 2002 classified by borrower type are summarized as follows (in millions of Won):

Type	2001		2002	
	Loans in local currency	Loans in foreign currencies	Loans in local currency	Loans in foreign currencies
Loans to enterprises:				
Loans for operations	W 11,727,942	W 2,306,470	W 15,415,596	W 2,254,793
Loans for equipment	1,083,118	831,905	1,539,906	901,764
	12,811,060	3,138,375	16,955,502	3,156,557
Loans to households	9,072,299	-	15,456,478	-
Loans to the public sector and others:				
Loans for operations	145,632	137,641	254,016	151,416
Loans for equipment	76,569	-	99,147	-
Inter-bank loans	15,604	200,862	16,745	172,782
	237,805	338,503	369,908	324,198
	<b>W 22,121,164</b>	<b>W 3,476,878</b>	<b>W 32,781,888</b>	<b>W 3,480,755</b>

Type	Total				
	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Loans to enterprises:					
Loans for operations	W 14,034,412	W 17,670,389	\$ 14,720,418	54.83	48.73
Loans for equipment	1,915,023	2,441,670	2,034,047	7.48	6.73
	15,949,435	20,112,059	16,754,465	62.31	55.46
Loans to households	9,072,299	15,456,478	12,876,106	35.44	42.62
Loans to the public sector and others:					
Loans for operations	283,273	405,432	337,747	1.10	1.12
Loans for equipment	76,569	99,147	82,595	0.30	0.28
Inter-bank loans	216,466	189,527	157,887	0.85	0.52
	576,308	694,106	578,229	2.25	1.92
	<b>W 25,598,042</b>	<b>W 36,262,643</b>	<b>\$ 30,208,800</b>	<b>100.00</b>	<b>100.00</b>

Discounted commercial notes of W1,953.9 billion and W1,857.7 billion (US\$1,547.6 million) were included in the loans in local currency as of December 31, 2001 and 2002, respectively, represented in (2) above, and (3) and (4) below.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(3) Loans in local currency and foreign currencies, by industry, as of December 31, 2001 and 2002 are summarized as follows (in millions of Won):

Industry	2001		2002	
	Loans in local currency	Loans in foreign currencies	Loans in local currency	Loans in foreign currencies
Manufacturing	W 6,785,571	W 1,321,353	W 7,669,058	W 851,447
Finance and insurance	244,470	1,065,838	300,429	483,463
Wholesale and retail	2,143,987	318,601	2,991,310	790,015
Construction	1,134,431	14,111	1,559,255	19,790
Others	11,812,705	756,975	20,261,836	1,336,040
	<b>W 22,121,164</b>	<b>W 3,476,878</b>	<b>W 32,781,888</b>	<b>W 3,480,755</b>

Industry	Total				
	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Manufacturing	W 8,106,924	W 8,520,505	\$ 7,098,055	31.67	23.50
Finance and insurance	1,310,308	783,892	653,026	5.12	2.16
Wholesale and retail	2,462,588	3,781,325	3,150,054	9.62	10.43
Construction	1,148,542	1,579,045	1,315,432	4.49	4.35
Others	12,569,680	21,597,876	17,992,233	49.10	59.56
	<b>W 25,598,042</b>	<b>W 36,262,643</b>	<b>\$ 30,208,800</b>	<b>100.00</b>	<b>100.00</b>

(4) Loans in local currency and foreign currencies, by country, as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Loans in local currency:					
Korea	W 22,121,164	W 32,781,888	\$ 27,309,137	86.42	90.40
Loans in foreign currencies:					
Korea	2,995,303	3,098,678	2,581,371	11.70	8.55
United States	223,637	133,396	111,126	0.87	0.37
Japan	73,164	84,232	70,170	0.29	0.23
Russia	131,284	118,840	99,000	0.51	0.33
Indonesia	31,055	22,281	18,562	0.12	0.06
Others	22,435	23,328	19,434	0.09	0.06
	<b>3,476,878</b>	<b>3,480,755</b>	<b>2,899,663</b>	<b>13.58</b>	<b>9.60</b>
	<b>W 25,598,042</b>	<b>W 36,262,643</b>	<b>\$ 30,208,800</b>	<b>100.00</b>	<b>100.00</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(5) Loans to financial institutions as of December 31, 2002 and 2001 are summarized as follows:

	2002				
	Millions of Korean Won			Thousands of U.S. Dollars (Note 2)	Percentage (%)
	local currency	foreign currencies	Total		
Loans to banks	W 16,745	W 172,782	W 189,527	\$ 157,887	24.18
Loans to leasing companies	-	63,820	63,820	53,166	8.14
Loans to credit cards and installment financing companies	208,907	-	208,907	174,031	26.65
Others	74,777	246,861	321,638	267,942	41.03
	<b>W 300,429</b>	<b>W 483,463</b>	<b>W 783,892</b>	<b>\$ 653,026</b>	<b>100.00</b>

	2001				
	Millions of Korean Won			Total	Percentage (%)
	local currency	foreign currencies	Total		
Loans to banks	W 15,604	W 200,862	W 216,466	216,466	16.52
Loans to leasing companies	11,351	322,003	333,354	333,354	25.44
Loans to credit cards and installment financing companies	86,412	252,821	339,233	339,233	25.89
Others	131,103	290,152	421,255	421,255	32.15
	<b>W 244,470</b>	<b>W 1,065,838</b>	<b>W 1,310,308</b>	<b>W 1,310,308</b>	<b>100.00</b>

(6) Loans to Daewoo Group Companies:

Daewoo Group Companies were placed under workout programs in August 1999 due to liquidity problems and are undergoing workout programs or court receivership as of December 31, 2002. As of December 31, 2002, the amounts owed by Daewoo Group Companies (including confirmed acceptances and guarantees and loans in guaranteed return trust accounts) of W246.7 billion (US\$205.5 million) for which an allowance for possible loan losses (including allowance for possible losses on acceptances and guarantees and allowance for valuation of receivable in trust accounts) of W32.4 billion (US\$27.0 million) has been provided based on prescribed loan classifications. The recovery of amounts owed by Daewoo Group Companies is mainly dependent on the results of its on-going business restructuring, which is under a workout program or court receivership. The potential impact on the Bank's operations of the restructuring plan and difficulties Daewoo Group Companies are facing cannot presently be determined.

(7) Restructured loans to the companies under workout programs:

As of December 31, 2002, the amounts owed (including confirmed guarantees and acceptances and loans in guaranteed return trust accounts) by companies other than Daewoo Group Companies and Ssangyong Group Companies under workout programs amounted to W124.1 billion (US\$103.4 million). The Bank has provided an allowance for possible loan losses (including confirmed acceptances and guarantees and those in guaranteed return trust accounts) of W30.4 billion (US\$25.3 million), after deducting the present value discounts of W0.2 billion (US\$0.2 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., Ssangyong Corporation, and Ssangyong Cement Industrial Co., Ltd.:

As of December 31, 2002, the amounts owed by Hynix Semiconductor Inc. and Hyundai Merchant Marine Co., Ltd., which include loans, payment guarantee and others, amounted to W375.2 billion (US\$312.6 million) and W197.8 billion (US\$164.8 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W333.1 billion (US\$277.5 million). In addition, the amounts owed by Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd., which include loans, payment guarantee and others, amounted to W424.2 billion (US\$353.4 million) and W137.2 billion (US\$114.3 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W258.3 billion (US\$215.2 million). The potential impact on the Bank's operations of the liquidity problems Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(9) Details of loans restructured for the year ended December 31, 2002 including swaps of debts to equity or mandatory convertible bonds are summarized 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
Ssangyong Corporation	Restructuring Promotion Law	2002.02.08	W 470,627	W -	W 128,220	W 10,000	W -	W 332,407
Hynix Semiconductor Inc.	Restructuring Promotion Law	2002.12.30	160,108	-	-	160,108	-	-
Ssangyong Corporation	Restructuring Promotion Law	2002.12.24	57,866	-	-	57,866	-	-
Dongbang Textile & Mart Co., Ltd.	Others	2002.03.23	39,783	-	-	-	-	39,783
Daewoo Electronics Corp.	Work-Out Court	2002.11.18	28,973	-	-	28,973	-	-
Dongsu Industrial Co., Ltd.	receivership Court	2002.01.23	17,025	-	-	2,769	-	14,256
Bumyang Shipping Co., Ltd.	receivership Court	2002.02.06	10,700	-	-	10,700	-	-
Other (7 borrowers)			25,182	8,975	-	15,020	-	1,187
			<b>W 810,264</b>	<b>W 8,975</b>	<b>W 128,220</b>	<b>W 285,436</b>	<b>W -</b>	<b>W 387,633</b>

Loans to be swapped into equity are the receivables that were committed for swaps against equity securities in the future. As of December 31, 2002, loans to be swapped into equity in the balance sheet include W128,220 million (US\$106,814 thousand) with Ssangyong Corporation, which was committed in 2002, and W1,164 million (US\$970 thousand) with Kukje Corporation, which has been under court receivership since 2001.

Details of loans restructured for the year ended December 31, 2001 including swaps of debts to equity or mandatory convertible bonds are summarized 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
			<b>W 1,380,951</b>	<b>W 52,407</b>	<b>W 460,281</b>	<b>W 211,109</b>	<b>W 248,249</b>	<b>W 408,905</b>

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 in the balance sheet include W1,552 million to Kukje Corporation, for which court receivership was approved by the court.



## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(10) Establishment of a corporate restructuring company (CRC) and sales of non-performing loans:

The Bank, by joint investment with Goldman Sachs, established C&G Partners Corporation, a corporate restructuring company (CRC), on July 18, 2002, which is intended to professionally manage non-performing loans and perform corporate restructuring. Its common stock is W10.0 billion. The Bank owns 51% of total outstanding shares of capital stock including the outstanding shares of preferred stock (8% of common stock and 43% of preferred stock convertible to common stock).

During 2002, the Bank has sold the written-off receivables of W102,692 million (US\$85,548 thousand) [W101,337 million (US\$84,419 thousand) in bank accounts and W1,355 million (US\$1,129 thousand) in trust accounts] to CHB Value Meet 2002 1st SPC for W24,800 million (US\$20,660 thousand) and written-off receivables of W272,877 million (US\$227,322 thousand) in bank accounts to JinHeung Bank and others. In addition, the Bank has disposed W13,754 million (US\$11,458 thousand) loans and securities due from Orion Electricity Co., Ltd. to Orion Electricity CRV for W1,975 million (US\$1,645 thousand) in 2002. Also, the Bank has disposed the loans and written-off receivables of W203,896 million (US\$169,857 thousand) for W25,756 million (US\$21,456 thousand) to C&G 1st SPC in 2002. As a result of these transactions, the Bank recognized W16,641 million (US\$13,863 thousand) of loss on disposal of loans for the year ended December 31, 2002.

The Bank sold loans for the year ended December 31, 2001 and the details are summarized below.

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

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

Loans sold to special purpose companies (SPC) are summarized 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
	<b>W 1,417,234</b>	<b>W 186,044</b>	<b>W 1,603,278</b>

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

(\*2) On July 10, 2001, the Bank established C&V Asset Management Co., Ltd., a joint-venture asset management company, with capital stock amounting to W1,000 million. 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 and W37,029 million in bank accounts and trust accounts in 2001, respectively, through these sales of loans.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 8. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) As of December 31, 2002 and 2001, the Bank complied with the minimum regulatory guideline for loan loss provision, as described in Note 2, announced by the Korean Financial Supervisory Commission (FSC). The allowance for possible loan losses as of December 31, 2001 and 2002 is summarized as follows:

	Billions of Korean Won		Millions of U.S. Dollars (Note 2)
	2001	2002	2002
Loans in local currency	W 420.2	W 797.8	\$ 664.6
Loans in foreign currencies	90.2	81.1	67.6
Bills bought in foreign currencies	103.1	126.7	105.4
Advances for customers on payment guarantees	16.9	26.0	21.7
Credit card accounts	146.4	465.6	387.9
Privately placed bonds	14.8	9.4	7.8
Loans to be swapped into equity	202.6	65.3	54.4
Investment in direct financing leases	3.5	9.7	8.1
Other	33.0	23.0	19.2
	<b>W 1,030.7</b>	<b>W 1,604.6</b>	<b>\$ 1,336.7</b>

(2) The changes in allowance for possible loan losses in 2001 and 2002 were as follows:

	Billions of Korean Won		Millions of U.S. Dollars (Note 2)
	2001	2002	2002
Beginning balance	W 1,669.7	W 1,030.7	\$ 858.6
Provision for allowance	751.3	1,542.9	1,285.3
Write-offs	(1,039.0)	(907.1)	(755.6)
Other changes (*)	(351.3)	(61.9)	(51.6)
Ending balance	<b>W 1,030.7</b>	<b>W 1,604.6</b>	<b>\$ 1,336.7</b>

(\*) Other changes are due to equity swaps, sales of loans, repurchases of loans sold by recourse obligation and collection of loan written offs.

(3) The allowance for possible loan losses compared to total credits in bank accounts as of December 31, 2000, 2001 and 2002 is summarized 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, 2002	W 46,093.1	\$ 38,398.1	W 1,604.6	\$ 1,336.7	3.48
December 31, 2001	34,262.7	25,837.2	1,030.7	777.2	3.01
December 31, 2000	30,218.5	23,988.6	1,669.7	1,325.5	5.53

BOK Basic Rate was W1,326.10 and W1,259.70 to US\$ 1.00 as of December 31, 2001 and 2000, respectively. Allowance for possible loan losses of 2002 includes W20.0 billion (\$16.7 million) of loss estimate from the recourse obligation provided to KAMCO in relation to the sale of non-performing loans.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(4) The following tables set forth the classification of total credits in bank accounts as of December 31, 2002 and 2001 (in billion of Won):

2002						
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	W 31,163.2	W 719.4	W 310.2	W 488.4	W 65.6	W 32,746.8
Loans in foreign currencies	2,970.1	273.1	37.1	18.0	9.6	3,307.9
Bills bought in foreign currencies	1,622.9	110.5	0.6	87.6	0.2	1,821.8
Advances for customers on						
payment guarantees	11.3	20.3	29.4	16.1	0.7	77.8
Credit card accounts	4,969.4	407.0	0.6	386.1	135.4	5,898.5
Privately placed bonds	136.0	24.9	24.2	0.1	-	185.2
Loans for debt to equity swaps	-	128.2	-	-	1.2	129.4
Investment in direct financing leases	167.6	-	2.1	12.9	-	182.6
Others	1,676.9	57.0	3.5	0.2	5.5	1,743.1
	<b>W 42,717.4</b>	<b>W 1,740.4</b>	<b>W 407.7</b>	<b>W 1,009.4</b>	<b>W 218.2</b>	<b>W 46,093.1</b>

Total credits described above present the amount after deducting the present value discounts of W18.5 billion (US\$15.4 million) and excluded W16.7 billion (US\$13.9 million) of inter-bank loans in local currency, W172.8 billion (US\$144.0 million) of inter-bank loans in foreign currencies, and W655.8 billion (US\$546.3 million) of call loans and included W3.3 billion (US\$2.7 million) of accounts receivable and suspense receivables that have credit attribution and subject to asset classification.

The Bank provides more than the minimum rate of loan loss provision required by the FSC for certain loans with restructuring companies under the Restructuring Promotion Law after the approvals of the executive directors committee and board of directors. As of December 31, 2002, the Bank provided more than 20 percent of allowance for possible loan losses amounting to W258.1 billion (US\$215.0 million) for W516.1 billion (US\$429.9 million) of credit exposures as precautionary

2001						
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in local currency	W 20,723.2	W 821.7	W 387.3	W 88.1	W 62.0	W 22,082.3
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
Loans for debt to equity swap	-	289.9	-	170.4	1.5	461.8
Investment in direct financing leases	228.2	18.8	2.2	3.2	-	252.4
Other	1,643.0	73.4	10.1	0.6	8.1	1,735.2
	<b>W 31,142.5</b>	<b>W 2,007.3</b>	<b>W 507.7</b>	<b>W 447.2</b>	<b>W 158.0</b>	<b>W 34,262.7</b>

Total credits above present the amounts after deducting the present value discounts of W27.2 billion and excluded W15.6 billion of inter-bank loans in local currency and W200.9 billion of inter-bank loans in foreign currencies and W847 billion of call loans, but included W15.8 billion of accounts receivable and suspense receivables that have credit attribution and subject to asset classification.

As explained in Note 2, solely for comparative purpose, the Banker's usance as of December 31, 2001, amounting to W928,027 million has been reclassified into loans in foreign currencies from the acceptance accounts consisting off-balance items in accordance with the change in the regulation of banking business issued by the Financial Supervisory Service.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 9. PRESENT VALUE DISCOUNTS:

(1) Present value discounts in relation to the restructured loans as of December 31, 2002 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 of U.S Dollars (Note 2)
Daelim Industrial Co., Ltd.	W 75,380	\$ 62,796	11.50	2008.09.08	W 10,906	\$ 9,085
Hanjin Shipping Co., Ltd.	4,809	4,006	11.50	2017.10.01	3,797	3,163
Renault Samsung Motors Co., Ltd.	4,243	3,534	10.00	2015.03.13	2,034	1,695
Korea Industry Development Co., Ltd.	8,976	7,478	12.42	2011.12.30	1,147	956
Korean Air Lines Co., Ltd.	2,349	1,957	10.00	2009.12.31	815	679
Doosung Sbtech Co., Ltd.	2,797	2,330	16.50	2011.03.31	659	549
Hanjin Transportation Co., Ltd.	880	733	11.50	2017.10.01	309	257
Hanjin Heavy Industries & Construction Co., Ltd.	880	733	11.50	2008.04.20	309	257
Jungseok Enterprise Co., Ltd.	589	491	11.50	2017.10.01	210	175
Korean Airport Service	805	671	11.50	2017.10.01	126	105
Others (11 companies)	21,210	17,669			154	128
	<b>W 122,918</b>	<b>\$ 102,398</b>			<b>W 20,466</b>	<b>\$ 17,049</b>

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

Borrower	Face value		Discount rate (%)	Maturity date	Unamortized present value discounts
	Millions of Korean Won				Millions of Korean Won
Daelim Industrial Co., Ltd.	W 75,380		11.50	2008.09.08	W 15,865
Samho International Co., Ltd.	26,250		11.50	2006.09.08	72
Dongbang Textile & Mart Co., Ltd.	23,601		9.41	2002.12.31	124
Anam Semiconductor, Inc.	20,000		12.75	2003.12.31	494
Dongbang Transport Logistics Co., Ltd.	15,974		10.00	2002.12.31	271
Choongnam Spinning Co., Ltd.	8,767		10.00	2003.12.31	463
Kia Steel Co., Ltd.	5,830		13.00	2008.12.31	2,440
Hanjin Shipping Co., Ltd.	4,809		11.50	2017.10.01	4,050
Renault Samsung Motors Co., Ltd.	4,242		10.00	2015.03.13	2,235
Daewoo Heavy Industry & Machinery Co., Ltd.	3,366		5.50	2002.12.31	98
Others (14 companies)	199,593				3,460
	<b>W 387,812</b>				<b>W 29,572</b>

(3) Changes in present value discounts for the year ended December 31, 2002 are summarized as follows (in millions of Won):

Conditions of borrowers	Beginning balance	Increase	Decrease	Ending balance
Work-out programs	W 1,624	W -	W 1,470	W 154
Industrial rationalization	21,874	-	5,402	16,472
Court receivership	6,074	3,996	6,230	3,840
	<b>W 29,572</b>	<b>W 3,996</b>	<b>W 13,102</b>	<b>W 20,466</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 10. FIXED ASSETS:

Fixed assets as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Land	W 900,551	W 846,517	\$ 705,196
Buildings	404,229	394,438	328,589
Leasehold improvements	36,176	45,465	37,875
Furniture and equipment	407,035	485,598	404,530
Construction in progress	6,025	817	681
Total tangible assets	1,754,016	1,772,835	1,476,871
Accumulated depreciation	(417,356)	(474,016)	(394,882)
Goodwill	224,043	112,020	93,319
Other intangible assets	4,876	4,300	3,582
Non-business use properties	208	173	144
Valuation allowances	(12)	-	-
	<b>W 1,565,775</b>	<b>W 1,415,312</b>	<b>\$ 1,179,034</b>

As of December 31, 2001 and 2002, the published value of land was W681,179 million and W624,995 million (US\$520,656 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

### 11. OTHER ASSETS:

Other assets as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Guarantee deposits	W 427,152	W 460,949	\$ 383,996
Accounts receivable	936,602	1,528,507	1,273,331
Accrued income	355,610	336,856	280,619
Prepaid expenses	6,987	6,286	5,237
Deferred income tax assets (see Note 25)	200,248	227,067	189,159
Domestic exchange settlement account - debit	1,436,041	2,533,003	2,110,133
Adjustment for valuation of financial derivatives	68,261	139,933	116,571
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	173,520	152,121	126,725
Loans to trust accounts	139,000	145,400	121,126
Accounts receivables - other	23,848	25,129	20,934
Other	136,070	125,812	104,810
	<b>W 3,903,339</b>	<b>W 5,681,063</b>	<b>\$ 4,732,641</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 12. COLLATERALIZED ASSETS:

Collateralized assets as of December 31, 2001 and 2002 are summarized as follows:

Collateralized assets	Provide to	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	
		2001	2002	2002	Provided for
Investment securities	Bank of Korea	W 1,400,000	W 1,400,000	\$ 1,166,278	RP of Bank of Korea (BOK)
"	"	1,026,300	1,050,000	874,708	Borrowings from BOK
"	"	735,000	735,000	612,296	Intra-day overdraft from BOK
"	"	276,100	146,700	122,209	Settlement risk
"	Development Bank of Singapore and others	789,000	857,700	714,512	Borrowings in foreign currencies
"	Customer RP	1,650,000	695,000	578,974	Customer RP
"	ING Seoul	26,300	-	-	Collateral for interest rate swap
"	Korea Securities Finance Corporation	-	65,000	54,149	Fund of government bonds
"	Samsung Futures Inc. and other	8,500	19,500	16,245	Futures transaction
"	KAMCO	26,743	25,988	21,649	Settlement of sales of non-performing loans
"	CHB NPL 1st SPC	40,000	40,000	33,322	Collateral regarding the issuance of ABS
"	Seoul Guarantee Insurance Co. and other	78,802	78,802	65,647	Securities lent
Real estate for business purpose	Lessees	16,291	12,015	10,009	Key money deposit for rent
		<b>W 6,073,036</b>	<b>W 5,125,705</b>	<b>\$ 4,269,998</b>	

### 13. INSURED ASSETS:

Assets insured as of December 31, 2001 and 2002 are as follows (in millions of Won):

Type of insurance	Assets	Book Value		Insured Amount	
		2001	2002	2001	2002
Fire	Buildings	W 338,037	W 319,173	W 349,779	W 312,958
	Furniture and Equipment	83,932	132,312	115,103	143,824
		<b>W 421,969</b>	<b>W 451,485</b>	<b>W 464,882</b>	<b>W 456,782</b>

### 14. DEPOSITS:

(1) Deposits as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Deposits in local currency	W 33,276,165	W 38,538,270	\$ 32,104,523
Deposits in foreign currencies	1,857,807	1,195,292	995,745
Negotiable certificates of deposits	2,320,531	4,151,898	3,458,762
Deposits in bills issued	1,226,611	1,106,525	921,797
Trust of cash management accounts	241,030	133,854	111,508
		<b>W 38,922,144</b>	<b>\$ 37,592,335</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(2) Deposits in local currency and foreign currencies from other banks and financial institutions as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Commercial banks	W 412,284	W 1,415,175	\$ 1,178,920	18.49	45.50
Securities companies	485,863	471,969	393,176	21.79	15.18
Insurance companies	177,712	247,007	205,771	7.97	7.94
Savings institutions	934,908	696,889	580,547	41.93	22.41
Other financial institutions	218,788	279,113	232,517	9.82	8.97
	<b>W 2,229,555</b>	<b>W 3,110,153</b>	<b>\$ 2,590,931</b>	<b>100.00</b>	<b>100.00</b>

### 15. BORROWINGS:

Borrowings as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Borrowings in local currency:			
General borrowings	W 1,577,563	W 1,288,124	\$ 1,073,079
Subordinated borrowings	88,500	15,000	12,496
	1,666,063	1,303,124	1,085,575
Borrowings in foreign currencies	2,779,550	3,536,020	2,945,701
Bonds sold under repurchase agreements	1,816,983	995,311	829,149
Bills sold	492,655	900,459	750,133
Due to Bank of Korea in foreign currencies	376,506	14,372	11,973
Call money	297,974	94,435	78,670
	<b>W 7,429,731</b>	<b>W 6,843,721</b>	<b>\$ 5,701,201</b>

### 16. DEBENTURES:

(1) Debentures as of December 31, 2001 and 2002 are summarized as follows:

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
		2001	2002	2002
Debentures in local currency:				
General debentures	4.60~8.56%			
CD+0.24~0.35		W 450,000	W 4,108,792	\$ 3,422,852
Subordinated debentures	7.15~18.00%, Prime rate+1~2%	1,075,700	1,002,000	834,722
		1,525,700	5,110,792	4,257,574
Discounts on debentures		(5,836)	(84,399)	(70,309)
		1,519,864	5,026,393	4,187,265
Debentures in foreign currencies:				
General debentures	6M Libor +0.50~1.20%	205,546	-	-
Subordinated debentures	6M Libor +4.95%, 11.50~11.88%	704,443	653,834	544,680
		909,989	653,834	544,680
Discounts on debentures		(10,177)	(7,878)	(6,563)
		899,812	645,956	538,117
		<b>W 2,419,676</b>	<b>W 5,672,349</b>	<b>\$ 4,725,382</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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

(1) The classifications of confirmed acceptances and guarantees as of December 31, 2002 and 2001 are summarized as follows (in billions of Won):

	2002					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Confirmed acceptances and guarantees	W 960.4	W 134.2	W 2.2	W 140.1	W 0.7	W 1,237.6
Required ratio of allowance for credit losses to credit balances	0%	0%	20%	50%	100%	
Minimum required allowance for credit losses	W -	W -	W 0.4	W 70.1	W 0.7	W 71.2
Allowance for credit losses recorded	W -	W 54.7	W 0.4	W 70.1	W 0.7	W 125.9

	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

As explained in Note 2, the Banker's usance as of December 31, 2001, amounting to W928,027 million has been reclassified into loans in foreign currencies from the acceptance accounts consisting off-balance item and included in the total credits above.

(2) Percentages of allowances for acceptances and guarantees outstanding on the aggregate amount of acceptances and guarantees outstanding as of as of December 31, 2000, 2001 and 2002 are summarized as follows (in billions of Won):

	As of December 31, 2000	As of December 31, 2001	As of December of 31, 2002
Aggregate amount of acceptances and guarantees confirmed	W 2,782.0	W 2,190.7	W 1,237.6
Allowances for acceptances and guarantees confirmed	W 63.8	W 51.6	W 125.9
Coverage ratio (%)	2.29	2.36	10.17

(3) The Bank has provided W159,840 million (US\$133,156 thousand) of performance bond to the Sports Toto Co., Ltd. in relation to Sports Toto lottery business, which would contribute to sport promotion as a funding vehicle. As of December 31, 2002, this Company went bankrupt and experienced a serious liquidity shortage together with the uncertainty in its going concern. These uncertainties heavily depend on restoring and normalization of lottery business through the successful implementation of financial and operational reorganization plan. In this connection, the Bank has classified this company as "doubtful" and provided 50 percent of allowances for the outstanding credit of W139,840 million (US\$116,495 thousand) performance bond without deducting W20,000 million of deposit collateral as of December 31, 2002.



## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 18. OTHER LIABILITIES:

Other liabilities as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Accrued severance benefits (see Note 2)	W 20,688	W 51,560	\$ 42,952
Deposits with employee retirement trust (see Note 2)	(10,000)	(30,000)	(24,992)
Allowance for possible losses on acceptances and guarantees	51,565	125,923	104,901
Other allowance for bad debts	-	15,357	12,793
Borrowings from trust accounts	655,804	446,698	372,124
Foreign exchange remittances pending	65,452	57,879	48,217
Accounts payable	776,137	1,444,027	1,202,955
Accrued expenses	892,923	889,362	740,888
Unearned revenues	106,280	99,788	83,129
Deposits for letters of guarantees and other	89,360	63,133	52,593
Domestic exchange settlement account - credit	1,203,420	2,318,345	1,931,310
Accounts payable - other	362,578	168,580	140,437
Adjustment for valuation of financial derivatives	24,268	80,986	67,466
Others	480,448	530,443	441,889
	<b>W 4,718,923</b>	<b>W 6,262,081</b>	<b>\$ 5,216,662</b>

The other allowance for bad debts consists of (i) 1 percent of the portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year and, (ii) for the expected future expenses due to the bonus point given to credit card users and, (iii) expected losses from the recourse obligation provided to KAMCO in relation to sales of non-performing loans and (iv) expected losses from pending lawsuits. The Bank records this other bad debts expense as non-interest expense.

### 19. SHAREHOLDERS' EQUITY:

(1) Common stock:

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 679,118,429 common shares were issued and outstanding as of December 31, 2002.

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, which was offset against 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 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. For the year ended December 31, 2002, the Bank increased its common stock by 40,314 shares amounting to W201 million (US\$167 thousand) through the exercise of stock warrants. The common stock as of December 31, 2002 amounted to W3,395.6 billion (US\$2,828.7 million) of which KDIC owns 80.04 percent.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### (2) Disposition of accumulated deficit:

To dispose of 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 reserves and other voluntary reserves totaling to W1,196.0 billion were also transferred. On February 12, 1999, the Bank disposed of its accumulated deficits using the gain on reduction of capital stock of W723.9 billion, which was recognized by resolution in a temporary general meeting of shareholders held on January 27, 1999. In 2002, the Bank disposed of its accumulated deficits using capital in excess of par value of W24 million (US\$20 thousand) derived from the execution of the stock warrants and gains on disposal of treasury stock (classified as other capital surplus) of W45,155 million (US\$37,617 thousand).

### (3) Other reserves:

Other reserves were 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 exclusively. The beginning balance of other reserves for the current period was W9,145 million and ending balance was W10,619 million (US\$8,846 thousand), reflecting W1,740 million (US\$1,450 thousand) of appropriation and W266 million (US\$222 thousand) of foreign currency translation gain.

### (4) Capital adjustments:

Capital adjustments as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Stock option cost	W 1,321	W 2,456	\$ 2,046
Treasury stock	(72,902)	-	-
Loss on valuation of investment securities, net	(408,341)	(185,007)	(154,121)
	<b>W (479,922)</b>	<b>W (182,551)</b>	<b>\$ (152,075)</b>

#### 1) Treasury stock:

As of December 31, 1999, the Bank had 29,279,890 shares held as 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 40,000 shares held as 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 held as treasury stock with the book value of W88,752 million and awarded 10,000 shares held as treasury stock with the book value of W74 million to employees. The loss on disposal of treasury stock of W59,409 million, which resulted from these transactions in 2001, was added to the accumulated deficit. In 2002, the Bank sold 17,313,650 treasury shares with the book value of W72,902 million, which resulted in W45,155 million (US\$37,617 thousand) gain on disposal of treasury stock considered as capital surplus. This W45,155 million disposal gain was used for disposition of accumulated deficit in 2002.

#### 2) Stock option costs:

On March 27, 2000, March 9, 2001 and March 29, 2002, the Bank granted stock options, which give the grantee the right to buy the Bank's shares, to the management of the Bank including the president and deputy-president. The number of stock options granted will be determined depending on the relative stock price increase rate of the Bank over the banking industry's stock price increase rate, the Bank's non-performing loans ratio, and BIS capital ratio. 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 or with treasury stocks.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

The summary of stock options granted as of December 31, 2002 is summarized as follows:

Description	First grant	Second grant	Third grant
Exercisable number of shares	969,200 shares	664,000 shares	312,000 shares
Type	Share issue	Share issue	Share issue
Exercise price	W5,000 per share	W5,000 per share	W5,657 per share
Exercisable period	2003.3.28~2006.3.27	2004.3.10~2007.3.9	2004.3.30~2007.3.29
Valuation method	Fair value approach	Fair value approach	Fair value approach

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

Description	First grant	Second grant	Third grant	Total
Total stock option costs	W 989	W 912	W 1,451	W 3,352
Amortized in prior periods	941	380	-	1,321
Amortized for the year ended December 31, 2002	48	482	605	1,135
To be amortized after current period	-	50	846	896

The Bank estimated stock option costs using the Black/Scholes Pricing Model as follows:

Description	Application
Risk free rate	Yield of 3 year treasury bond (9.07% for the first, 5.99% for the second and 6.39% for the third)
Expected exercising period	4.5 years for the first and second, 3.5 years for the third
Expected variable of stock price	81% for the first, 95% for the second and 93% for the third, which are the annualized standard deviation of expected stock investment yield based on continuous compounding method
Weight average of exercise price	W5,000 per share (for the first and second) and W5,657 (for the third)
Weight average of fair value	W989 million (for the first), W912 million (for the second) and W1,451 million (for the third)

3) Loss on valuation of investment securities, net:

Loss on valuation of investment securities as of December 31, 2001 and 2002 consisted of:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Valuation of investment securities of subsidiaries using the equity method	W 23,081	W 23,385	\$ 19,481
Loss on valuation of investment securities of overseas branches	(1,263)	(451)	(376)
Loss on valuation of investment securities of headquarters	(430,159)	(207,941)	(173,226)
	<b>W (408,341)</b>	<b>W (185,007)</b>	<b>\$ (154,121)</b>

(5) 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 subsequently adjusted the goodwill by W100,716 million in 2000 due to the revaluation of treasury stocks acquired in relation to those business combinations.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 20. INTEREST ON LOANS:

For the years ended December 31, 2001 and 2002, the interest on loans included income from credit card cash advance and card loans amounting to W534.2 billion and W546.2 billion (US\$455.0 million), respectively, which is classified as interest income.

### 21. FEES AND COMMISSIONS:

Fees and commissions for the years ended December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Guarantee fees	W 10,338	W 10,129	\$ 8,438
Fees and Commission on credit card accounts	356,580	560,419	466,860
Commissions received from early termination of trust accounts	2,446	378	315
Service charges on other financial services	163,120	192,765	160,584
	<b>W 532,484</b>	<b>W 763,691</b>	<b>\$ 636,197</b>

Fees and commissions included income from credit card purchases and installment payments.

### 22. OTHER NON-INTEREST INCOME:

Other income of non-interest income for the years ended December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Reversal of allowance for possible losses of acceptances and guarantees	W 19,400	W -	\$ -
Gain on disposal of fixed assets	1,596	7,396	6,161
Gain on valuation of investments using the equity method	22,113	22,388	18,650
Gain on sale of investment securities	49,164	48,958	40,785
Recovery of investment bonds impairment loss	21,357	223	186
Gain on valuation of stock market stabilization fund	20,071	2,838	2,364
Gain on sale of loans	824	403	336
Other	186,761	95,980	79,957
	<b>W 321,286</b>	<b>W 178,186</b>	<b>\$ 148,439</b>

### 23. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Salaries	W 206,639	W 338,648	\$ 282,113
Provision for severance benefits	19,517	32,763	27,294
Other employee benefits	107,224	67,422	56,166
Rent	21,191	25,875	21,555
Entertainment	7,533	7,701	6,415
Depreciation	70,693	76,987	64,135
Amortization of intangible assets	113,130	112,803	93,971
Taxes and dues	32,347	39,756	33,119
Advertising	13,477	16,383	13,648
Other	120,988	137,990	114,953
	<b>W 712,739</b>	<b>W 856,328</b>	<b>\$ 713,369</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 24. OTHER NON-INTEREST EXPENSES:

Other expenses of non-interest expenses for the years ended December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Loss on disposal of investment securities	W 54,597	W 57,304	\$ 47,738
Loss on disposal of fixed assets	5,961	17,626	14,683
Investment securities impairment loss	79,647	448,236	373,406
Insurance	28,005	32,077	26,722
Other	172,000	212,338	176,889
	<b>W 340,210</b>	<b>W 767,581</b>	<b>\$ 639,438</b>

### 25. INCOME TAX EXPENSE:

The annual tax charge takes into account current income tax on taxable income and expenses for the year, and deferred taxes resulting from timing differences and loss carryforward. Deferred taxes are calculated according to the 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. Beginning 2002, it decreased to 29.7 percent.

(1) Income tax expense (benefits) for the years ended December 31, 2001 and 2002 consisted of the following:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Domestic offices:			
Income tax to be paid	W -	W 99	\$ 83
Tax effect on changes in cumulative temporary differences	(46,168)	(78,082)	(65,047)
Tax effect on changes in tax loss carryforward	(143,861)	48,082	40,055
	<b>W (190,029)</b>	<b>W (29,901)</b>	<b>\$ (24,909)</b>
Overseas offices:			
Income tax to be paid	W 4,618	W 1,605	\$ 1,337
Tax effect on changes in cumulative temporary differences	(695)	3,181	2,650
	3,923	4,786	3,987
Income tax expense (benefits)	<b>W (186,106)</b>	<b>W (25,115)</b>	<b>\$ 20,922</b>

(2) For the years ended December 31, 2001 and 2002, the differences between the income before income tax in financial accounting and the taxable income pursuant to Corporate Income Tax Law of Korea are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Income before income tax	W 336,425	W (611,160)	\$ (509,130)
Permanent differences	(66,306)	39,595	32,985
Temporary differences	(57,682)	699,110	582,397
	212,437	127,545	106,252
Tax loss carryforward	212,437	127,545	106,252
Taxable income (Tax loss)	<b>W -</b>	<b>W -</b>	<b>\$ -</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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

Accounts	Beginning balance	Increase	Decrease	Ending balance
Allowance for possible loan losses	W 351,679	W 388,134	W 351,679	W 388,134
Goodwill	(224,046)	-	(112,025)	(112,021)
Accrued interest	(219,091)	(91,132)	(126,081)	(184,142)
Allowance for possible losses of confirmed acceptances and guarantees	51,565	125,923	51,565	125,923
Present value discounts	13,617	-	5,910	7,707
Gain on valuation of derivatives	(43,993)	(58,946)	(43,993)	(58,946)
Treasury stock	82,498	-	82,498	-
Trading securities	107,762	448,236	-	555,998
Other	17,598	182,196	85,748	114,046
	137,589	994,411	295,301	836,699
Tax loss carryforward	2,949,737	-	127,545	2,822,192
	<b>W 3,087,326</b>	<b>W 994,411</b>	<b>W 422,846</b>	<b>W 3,658,891</b>

Some of the estimated amounts of cumulative temporary differences as of December 31, 2001 were differently finalized in filing its tax return. These differences reflected and accounted for prospectively and the beginning balance of cumulative temporary differences of the year ended December 31, 2002 are based on the actual tax return file of prior year.

(4) Deferred income tax assets as of December 31, 2002 are summarized as follows (in millions of Won):

	As of December 31, 2001	Increase (Decrease)	As of December 31, 2002
Domestic offices	W 190,029	W 30,000	W 220,029
Overseas offices	10,219	(3,181)	7,038
	<b>W 200,248</b>	<b>W 26,819</b>	<b>W 227,067</b>

The Bank recognized the deferred income tax assets resulting from temporary difference and loss carryforward as of December 31, 2001 due to the likelihood of its realization. Although the Bank incurred net loss in 2002, the Bank has projected that results will continue to improve and the Bank has recognized the deferred income 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, 2002 are summarized as follows (in millions of Won):

Year incurred	As of December 31, 2001	Use in current period	Remaining balance as of December 31, 2002	Period deductible
1998	W 1,889,691	W 127,545	W 1,762,146	By 2003
1999	894,875	-	894,875	By 2004
2000	165,171	-	165,171	By 2005
	<b>W 2,949,737</b>	<b>W 127,545</b>	<b>W 2,822,192</b>	

The tax loss carryforwards incurred in 1999 were taken over from Kangwon Bank and Chungbuk Bank through the merger. However, for taxation purpose, this loss carryforward is separately maintained and deductible only when the related business division reports taxable income.

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 26. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Subsidiaries as of December 31, 2002 are summarized as follows (in millions of Won):

Subsidiaries	Capital stock	Number of shares	Equity ownership (%)
In Korea:			
Chohung Investment Trust Management Co., Ltd.	45,000	7,179,678	79.77
Outside of Korea:			
Chohung Finance Ltd., Hong Kong	18,006	149,999	99.99
Chohung Bank of New York	16,806	400,000	100.00
Chohung Bank (Deutschland) GmbH	19,286	Limited partnership	100.00
California Chohung Bank	36,829	3,068,070	100.00
Chohung Vina Bank	24,008	Limited partnership	50.00

(2) Significant balances with related parties as of December 31, 2002 are summarized as follows (in millions of Won):

Assets

	Due from banks in foreign currencies	Loans in foreign currencies	Call loans
Chohung Finance Ltd., Hong Kong	W -	W 69,623	W -
Chohung Bank of New York	1,154	10,804	-
Chohung Bank (Deutschland) GmbH	2,834	104,150	8,517
California Chohung Bank	847	-	-
Chohung Vina Bank	-	-	3,001
	<b>W 4,835</b>	<b>W 184,577</b>	<b>W 11,518</b>

Liabilities

	Deposits in local currency	Deposits in foreign currencies	Borrowings in foreign currencies	Call money
Chohung Investment Trust Management Co., Ltd.	W 55,939	W -	W -	W -
Chohung Finance Ltd., Hong Kong	-	372	77,370	3,082
Chohung Bank (Deutschland) GmbH	-	-	136,141	14,495
Chohung Vina Bank	-	-	54,018	-
	<b>W 55,939</b>	<b>W 372</b>	<b>W 267,529</b>	<b>W 17,577</b>

Significant transactions with related parties for the year ended December 31, 2002 are summarized as follows (in millions of Won):

	Interest income	Interest expense
Chohung Investment Trust Management Co., Ltd.	W -	W 2,448
Chohung Finance Ltd., Hong Kong	269	443
Chohung Bank of New York	265	7
Chohung Bank (Deutschland) GmbH	3,027	4,239
Chohung Vina Bank	7	1,122
	<b>W 3,568</b>	<b>W 8,259</b>

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

Assets

	Due from banks in foreign currencies	Loans in foreign currencies	Call loans
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	-	-
	<b>W 2,055</b>	<b>W 205,146</b>	<b>W 26,522</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### Liabilities

	Deposits in local currency	Deposits in foreign currencies	Borrowings in foreign currencies	Call money
Chohung Investment Trust 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
	<b>W 53,260</b>	<b>W 759</b>	<b>W 87,043</b>	<b>W 18,049</b>

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

	Interest income	Interest expense
Chohung Investment Trust 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
	<b>W 6,613</b>	<b>W 11,183</b>

(4) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2001 and 2002 are summarized as follows:

Beneficiary	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Description
	2001	2002	2002	
Chohung Finance Ltd., Hong Kong	W 7,744	W 1,921	\$ 1,600	L/C guarantees
Chohung Bank (Deutschland) GmbH	2,313	158	132	Guarantees for L/C and borrowings
Chohung Bank of New York	-	2,281	1,900	L/C guarantees
	<b>W 10,057</b>	<b>W 4,360</b>	<b>\$ 3,632</b>	

## 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 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Confirmed:			
Local currency:			
Corporate debentures	W 37,444	W 27,169	\$ 22,633
Financing	79,294	94,516	78,737
Other	398,619	455,141	379,158
Foreign currencies:			
Acceptance	431,049	317,046	264,117
Letters of guarantee - trade finance	39,439	61,592	51,310
Other	276,830	282,160	235,055
	<b>W 1,262,675</b>	<b>W 1,237,624</b>	<b>\$ 1,031,010</b>
Unconfirmed:			
Issuance of letters of credit	W 1,179,569	W 1,199,663	\$ 999,386
Other	337,012	307,712	256,341
	<b>W 1,516,581</b>	<b>W 1,507,375</b>	<b>\$ 1,255,727</b>



## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

(2) Details, by industry sector, of acceptances and guarantees as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Manufacturing	W 1,876,654	W 1,953,201	\$ 1,627,125	67.52	71.15
Wholesale / retail	802,238	618,458	515,210	28.87	22.53
Finance / insurance	40,910	64,132	53,426	1.47	2.34
Construction	30,893	19,352	16,121	1.11	0.71
Others	28,561	89,856	74,855	1.03	3.27
	<b>W 2,779,256</b>	<b>W 2,744,999</b>	<b>\$ 2,286,737</b>	<b>100.00</b>	<b>100.00</b>

(3) Details, by borrower type, of acceptances and guarantees as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Percentage (%)	
	2001	2002	2002	2001	2002
Enterprises	W 2,736,475	W 2,640,900	\$ 2,200,017	98.46	96.21
Households	14,220	14,243	11,865	0.51	0.52
Public sector and others	28,561	89,856	74,855	1.03	3.27
	<b>W 2,779,256</b>	<b>W 2,744,999</b>	<b>\$ 2,286,737</b>	<b>100.00</b>	<b>100.00</b>

(4) The financial derivatives contracts as of December 31, 2002 are summarized as follows:

As of and for the year ended December 31, 2002, 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 summarized as follows (in millions of Won):

Type	Outstanding contract amount (*)		Gain (Loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forwards	W 2,135,827	W 164,086	W 8,798	W (1,838)	W 4,417
Currency swaps	243,969	148,690	(7,479)	(274)	(4,391)
Currency options (Buy)	1	-	-	-	-
Currency options (Sell)	1	-	-	(4)	-
	<b>2,379,798</b>	<b>312,776</b>	<b>1,319</b>	<b>(2,116)</b>	<b>26</b>
Interest rate futures	340,916	-	-	-	-
Interest rate swaps	2,415,602	762,503	(4,068)	22,464	58,898
	<b>2,756,518</b>	<b>762,503</b>	<b>(4,068)</b>	<b>22,464</b>	<b>58,898</b>
Stock option (Buy)	5	-	14	-	22
Stock option (Sell)	5	-	-	-	-
	<b>10</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>22</b>
	<b>W 5,136,326</b>	<b>W 1,075,279</b>	<b>W(2,735)</b>	<b>W 20,348</b>	<b>W 58,946</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

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 summarized 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
	<u>1,535,826</u>	<u>338,573</u>	<u>26,838</u>	<u>20,353</u>	<u>7,858</u>
Interest rate swap	168,643	724,944	(88)	23,905	36,135
	<u>168,643</u>	<u>724,944</u>	<u>(88)</u>	<u>23,905</u>	<u>36,135</u>
	<b>W 1,704,469</b>	<b>W 1,063,517</b>	<b>W 26,750</b>	<b>W 44,258</b>	<b>W 43,993</b>

(\*) Derivative contracts for Korean Won to foreign currency is translated into Korean Won using market exchange rate against foreign currency and the contracts for foreign currency to foreign currency is translated into Korean Won using market exchange rate at 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, which include both the derivative transactions accounted for using hedge accounting, pursuant to the Interpretations on Financial Accounting Standards 53-70, and the derivative transactions used for hedging activities but not accounted for as hedges. As of December 31, 2002, the Bank does not have derivative transactions used for cash flow hedging activities or accounted for as cash flow hedges. However, the Bank has derivative instruments accounted for as fair value hedges. The hedged items, to which the fair value hedge accounting was applied, consist of investment securities and subordinated bonds issued. The hedging derivative instruments, such as currency swaps and interest rate swaps, were used to cover exposures to changes in fair value of hedged items resulting from the fluctuations in interest rates.

As a result of the valuation of hedged items accounted for using fair value hedge accounting, the gain on valuation of investment securities amounting to W2,182 million (US\$1,818 thousand), the loss on valuation of investment securities amounting to W233 million (US\$194 thousand) and the loss on valuation of subordinated notes issued amounting to W19,239 million (US\$16,027 thousand) for the year ended December 31, 2002 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. There were unsettled interest rate futures amounting to W340,916 million (US\$284,002 thousand) as of December 31, 2002.

(5) Other commitments as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Commitments	W 53,788	W 47,196	\$ 39,317
Bills endorsed	6,735,030	25,175,677	20,972,740
Loans charge - offs	2,351,530	2,431,322	2,025,426
Loans sold under repurchase agreements	835,481	363,025	302,420
	<b>W 9,975,829</b>	<b>W 28,017,220</b>	<b>\$ 23,339,903</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### (6) Litigation

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

As of December 31, 2001 and 2002, the Bank is a plaintiff in 515 lawsuits claiming W242,343 million and 310 lawsuits claiming W282,189 million (US\$235,079 thousand), respectively, including the case related to collection of debts. The bank is a defendant in 70 lawsuits claiming W854,462 million and 72 lawsuits claiming W627,987 million (US\$523,148 thousand) as of December 31, 2001 and 2002, respectively.

Among the lawsuits in which the Bank is a defendant as of December 31, 2002, the Bank and two other domestic commercial banks are named as defendants in two lawsuits claiming damages of US\$ 441.6 million (W530.1 billion) filed in the United States. The plaintiffs allege the defendants to be jointly liable for the losses arising from the Lernout & Hauspie (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, when the banks factored trade receivables with L&H Korea Co., Ltd. The Bank have filed the motions to dismiss the cases, on the grounds that the Bank placed general loans collateralized by time deposits to L&H Korea rather than factoring of trade receivables. The court has accepted the Bank's motion to dismiss one lawsuit. However, the plaintiff was given 30 days to amend their complaint and has filed a lawsuit again on May 16, 2002. Management of the Bank does not anticipate that the outcome of these lawsuits will have a significant effect on the financial condition or operations of the Bank.

### (7) Sales of non-performing loans with the right of recourse

From December 15, 1997 to December 31, 2002, the Bank sold W3,894.6 billion (US\$3,244.4 million) of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.5 billion (US\$1,769.8 million), which included W2,451.2 billion (US\$2,042.0 million) of special loans sold with recourse for W1,596.6 billion (US\$1,330.1 million). 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 executes its right of recourse.

Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2002, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W273.0 billion (US\$227.4 million) at its sale price converted using the exchange rate at December 31, 2002.

Also, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion in 2001, which was intended to reinforce the credit of the assets-backed securities (ABS) issued by SPC.

As of December 31, 2002, the Bank provided an allowance amounting to W30.0 billion (US\$25.0 million) in relation to the recourse obligation provided to KAMCO in conjunction with the sales of non-performing loans.

## 28. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2001 and 2002 are summarized as follows:

	Thousands of U.S. Dollars (Note 2)		Millions of Korean Won	
	2001	2002	2001	2002
<b>Assets:</b>				
Cash and due from banks	\$ 188,251	\$ 223,474	W 249,640	W 268,259
Securities	507,641	437,148	673,182	524,752
Loans	4,425,125	4,802,762	5,868,159	5,765,235
	<b>\$ 5,121,017</b>	<b>\$ 5,463,384</b>	<b>W 6,790,981</b>	<b>W 6,558,246</b>
<b>Liabilities:</b>				
Deposits	\$ 1,400,956	\$ 995,745	W 1,857,807	W 1,195,292
Borrowings	2,930,858	3,638,112	3,886,612	4,367,189
Debentures	686,214	544,680	909,989	653,834
Other liabilities	49,357	48,216	65,452	57,879
	<b>\$ 5,067,385</b>	<b>\$ 5,226,753</b>	<b>W 6,719,860</b>	<b>W 6,274,194</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 29. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of assets and liabilities for disclosing purpose to Financial Supervisory Service (FSS) as of December 31, 2002, which exclude merchant accounts, is summarized 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 (85.0)	W (82.2)	W (74.0)	W (74.0)	W 1,329.6	W -	W 1,255.6
Foreign currencies	140.7	188.9	189.3	192.2	-	-	192.2
Securities:							
Local currency	9,180.9	9,180.9	9,180.9	9,180.9	744.6	242.0	10,167.5
Foreign currencies	126.4	126.4	133.1	154.4	352.8	6.3	513.5
Loans:							
Local currency	7,547.7	13,680.7	22,900.2	30,861.2	1,088.2	910.4	32,859.8
Foreign currencies	2,771.2	3,618.2	4,242.6	4,614.5	287.6	155.8	5,057.9
Other Assets:							
Local currency	3,434.7	3,749.7	4,207.4	4,325.7	9,355.2	559.2	14,240.1
Foreign currencies	439.3	449.3	573.6	596.3	(17.2)	9.6	588.7
	<b>W 23,555.9</b>	<b>W 30,911.9</b>	<b>W 41,353.1</b>	<b>W 49,851.2</b>	<b>W 13,140.8</b>	<b>W 1,883.3</b>	<b>W 64,875.3</b>
Deposits:							
Local currency	W 14,738.5	W 19,951.1	W 27,720.0	W 30,671.7	W 12,018.5	W -	W 42,690.2
Foreign currencies	803.0	864.2	1,195.2	1,195.3	-	-	1,195.3
Borrowings:							
Local currency	499.6	532.8	601.2	854.9	448.2	-	1,303.1
Foreign currencies	2,521.3	3,279.0	3,894.5	4,917.2	1.3	-	4,918.5
Other Liabilities and Equity:							
Local currency	1,847.6	2,346.8	4,254.6	6,584.6	7,945.1	-	14,529.7
Foreign currencies	54.7	94.6	94.6	94.6	143.9	-	238.5
	<b>W 20,464.7</b>	<b>W 27,068.5</b>	<b>W 37,760.1</b>	<b>W 44,318.3</b>	<b>W 20,557.0</b>	<b>W -</b>	<b>W 64,875.3</b>

### 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 2002 and 2001 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Debt to equity swap	W 459,358	W 316,242	\$ 263,447
Increase in allowance for possible losses of acceptances and guarantees resulting from repurchase of the loans sold	7,146	-	-
Increase (Decrease) in loss on valuation of investment securities	102,353	(225,283)	(187,673)
	<b>W 568,857</b>	<b>W 90,959</b>	<b>\$ 75,774</b>

## □ NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS □

### 31. 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 its unprofitable branches. 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 is required to achieve the ratio of non-performing loans below 4.0 percent and 3.5 percent in 2002 and 2003, respectively, meet the BIS capital adequacy ratio of 10.0 percent by December 31, 2002, 10.3 percent by March 31, 2003, 10.5 percent by June 30, 2003, 10.7 percent by September 30, 2003 and 11.0 percent by December 31, 2003, meet the return on assets of 0.5 percent by June 30, 2002, 0.8 percent by September 30, 2002 and 1.0 percent by December 31, 2002 and 2003, achieve W230 million (US\$192 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002 and 2003. Whether or not the revised management improvement plans are achieved, it may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. As of December 31, 2002, the Bank failed to achieve the "return on assets" (ROA) target of 1.0 percent and BIS ratio target of 10.0 percent among the required management index targets contained in the agreement. As of the report date, the Bank has not received any request or order from FSC or KDIC and does not expect to receive a request or order as penalty for the non-attainment of the management index targets mentioned above. 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.

### 32. SELECTION OF THE PRIME BIDDER FOR GOVERNMENT'S STAKE SALES:

On January 23, 2003, the Korea Deposit Insurance Corporation (KDIC), which owns 80.04% of the Bank, selected a consortium led by Shinhan Financial Group as the prime bidder for the sale of its shares in accordance with the resolution of Public Fund Oversight Committee (PFOC). As of January 30, 2003, it is generally understood that KDIC and PFOC intend to sell the shares and continue their efforts for the sale of the shares.

### 33. SUBSEQUENT EVENT AFTER BALANCE SHEET DATE:

Total credit exposure of the Bank to SK Global amounts to W463,040 million (US\$385,738 thousand), including corporate loans of W460,856 million (US\$383,919 thousand) as of December 31, 2002. As of January 30, 2003, the top management of SK Business Conglomerate including SK Global was indicted and being investigated by the public prosecutor for undisclosed side arrangement by SK Global's subsidiaries regarding equity transaction of SK Securities Co., Ltd. The unfavorable outcome of the above investigation might deteriorate significantly the financial status of SK Global, which may consequently affect the collectibility of the credit exposure of the Bank to SK Global. Actual credit loss from this credit exposure may differ materially from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

## □ INDEPENDENT PUBLIC ACCOUNTANTS' REPORT □

English Translation of a Report Originally Issued in Korean

### Anjin & Co

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**Deloitte  
Touche  
Tohmatsu**

### 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 2002 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 financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We 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 0.60 percent and 0.49 percent in 2002, 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, the financial position of the Bank and its subsidiaries as of December 31, 2001 and 2002, 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 financial statements have been translated into US dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 8, as of December 31, 2002, amounts owed by Hynix Semiconductor Inc. and Hyundai Merchant Marine Co., Ltd., which include loans, payment guarantees and others, amounted to W375.2 billion (US\$312.6 million) and W197.8 billion (US\$164.8 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W333.1 billion (US\$277.5 million). In addition, amounts owed by Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd., which include loans, payment guarantees and others, amounted to W424.2 billion (US\$353.4 million) and W137.2 billion (US\$114.3 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W258.3 billion (US\$215.2 million). The potential impact on the Bank's operations of the liquidity problems and uncertain business environment Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

As discussed in Note 21, from December 15, 1997 to December 30, 2002, the Bank sold W3,894.6 billion (US\$ 3,244.4 million) of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.5 billion (US\$1,769.8 million), which included W2,451.2 billion (US\$ 2,042.0 million) of special loans sold with recourse for W1,596.6 billion (US\$1,330.1 million). Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2002, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W273.0 billion (US\$227.4 million) at its sale price converted using the exchange rate at December 31, 2002. In addition, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion in 2001, which was intended to reinforce the credit of the asset-backed securities (ABS) issued by the SPC. The Bank estimated and reserved W30.0 billion (US\$25.0 million) allowance for possible losses for these obligations.

As explained in Notes 16 and 23, 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. Based on the agreement, the Bank has disposed of bad loans and non-performing tangible assets, reduced the number of employees, and closed its unprofitable branches. 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 is required to achieve the ratio of non-performing loans below 4.0 percent and 3.5 percent in 2002 and 2003, respectively, meet the BIS capital adequacy ratio of 10.0 percent by December 31, 2002, 10.3 percent by March 31, 2003, 10.5 percent by June 30, 2003, 10.7 percent by September 30, 2003 and 11.0 percent by December 31, 2003, meet the return on assets of 0.5 percent by June 30, 2002, 0.8 percent by September 30, 2002 and 1.0 percent by December 31, 2002 and 2003, achieve W230 million (US\$192 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002 and 2003. Whether or not the revised management improvement plans are achieved, it may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. As of December 31, 2002, the Bank failed to achieve the "return on assets" (ROA) target of 1.0 percent and BIS ratio target of 10.0 percent among the required management index targets contained in the agreement. As of the report date, the Bank has not received any request or order from FSC or KDIC and does not expect to receive a request or order as penalty for the non-attainment of management index targets mentioned above. 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.

As explained in Notes 24, on January 23, 2003, the KDIC, which owns 80.04% of the Bank, selected a consortium led by Shinhan Financial Group as the prime bidder for the sale of its shares in accordance with the resolution of Public Fund Oversight Committee (PFOC). The change in major shareholder might cause change in the Bank's operational environment. However, the change in major shareholder itself and the potential impact of the change on the Bank's operations cannot presently be determined.

As explained in Note 2, beginning in 2002, the Bank has increased its minimum rates of loss provision and has provided additional provision for unused credit and others in accordance with the request of the Financial Supervisory Service, and based on the significant increase in the household loans and credit card accounts and deterioration of their delinquency ratios. As a result of this change in accounting estimates, the Bank has provided additional W165.1 billion (US\$137.5 million) of loan loss provision and other allowance in 2002 when compared with the previous method.

As explained in Note 25, as of December 31, 2002, the total credit exposure of the bank to SK Global amounts to W463,040 million (US\$385,738 thousand), including corporate loans of W460,856 million (US\$383,919 thousand). As of the date of this report, the top management of SK Business Conglomerate including SK Global was indicted and being investigated by the public prosecutor for undisclosed side arrangement by SK Global's subsidiaries regarding equity transaction of SK Securities Co., Ltd. The unfavorable outcome of the above investigation might deteriorate significantly the financial status of SK Global, which may consequently affect the collectibility of the credit exposure of the Bank to SK Global. Actual credit loss from this credit exposure may differ materially from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

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

Anjin & Co.  
An associate member firm of Deloitte Touche Tohmatsu



Seoul, Korea  
February 7, 2003

#### Notice to Readers

This report is effective as of February 7, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

## CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>ASSETS</b>			
Cash and due from banks (Notes 3, 4, 20 and 22)	W 2,071,599	W 2,728,954	\$ 2,273,371
Trading securities (Note 5)	2,556,541	2,036,580	1,696,584
Investment securities (Notes 6 and 7)	12,698,872	9,913,245	8,258,285
Loans (Notes 8, 9, 20, and 21)	34,843,375	45,609,951	37,995,627
Fixed assets (Notes 7 and 10)	1,578,212	1,426,248	1,188,144
Other assets (Notes 11 and 20)	3,806,876	5,555,451	4,628,000
<b>Total assets</b>	<b>W 57,555,475</b>	<b>W 67,270,429</b>	<b>\$ 56,040,011</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits (Notes 12 and 20)	W 40,600,836	W 46,529,737	\$ 38,761,860
Borrowings (Notes 13 and 20)	7,413,661	6,647,053	5,537,365
Debentures (Note 14)	2,415,679	5,672,349	4,725,383
Other liabilities (Notes 15 and 20)	4,561,732	6,100,709	5,082,230
<b>Total liabilities</b>	<b>54,991,908</b>	<b>64,949,848</b>	<b>54,106,838</b>
<b>SHAREHOLDERS' EQUITY (Note 16):</b>			
Common stock	3,395,391	3,395,592	2,828,717
Accumulated deficit (net income of W525,496 million in 2001 and net loss of W586,468 million in 2002)	(342,332)	(883,898)	(736,336)
Capital adjustments	(502,297)	(204,918)	(170,708)
Minority interests	12,805	13,805	11,500
<b>Total shareholders' equity</b>	<b>2,563,567</b>	<b>2,320,581</b>	<b>1,933,173</b>
<b>Total liabilities and shareholders' equity</b>	<b>W 57,555,475</b>	<b>W 67,270,429</b>	<b>\$ 56,040,011</b>

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>INTEREST INCOME AND DIVIDENDS:</b>			
Interest income in local currency (Note 20)	W 2,156,628	W 2,412,742	\$ 2,009,948
Interest income in foreign currencies (Note 20)	406,371	178,363	148,586
Interest and dividends on trading securities	162,271	148,767	123,931
Interest and dividends on investment securities	877,772	690,015	574,821
Other interest income (Note 17)	534,231	564,247	470,050
	4,137,273	3,994,134	3,327,336
<b>INTEREST EXPENSE:</b>			
Interest expense in local currency (Note 20)	2,083,472	2,019,187	1,682,095
Interest expense in foreign currencies (Note 20)	342,609	143,834	119,822
	2,426,081	2,163,021	1,801,917
<b>NET INTEREST INCOME</b>	1,711,192	1,831,113	1,525,419
<b>PROVISION FOR POSSIBLE LOAN LOSSES</b>	764,917	1,617,622	1,347,569
<b>NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN LOSSES</b>	946,275	213,491	177,850
<b>NON-INTEREST INCOME:</b>			
Fees and commissions	564,171	774,086	644,857
Gain on sale and valuation of trading securities	114,226	38,375	31,969
Gain on sale and valuation of investment securities	125,233	74,414	61,991
Gain on sale of loans	824	403	336
Gain on foreign currency trading	204,292	146,052	121,669
Gain on sale of leasing assets	7,402	312	260
Gain on derivatives trading	273,382	441,205	367,548
Other non-interest income	192,495	118,780	98,950
	1,482,025	1,593,627	1,327,580
<b>NON-INTEREST EXPENSES:</b>			
Commissions	109,354	167,703	139,706
Loss on sale and valuation of trading securities	59,869	16,526	13,767
Loss on sale and valuation of investments securities	134,244	506,825	422,213
General and administrative expenses (Note 18)	733,678	877,599	731,089
Loss on sale of loans	417,258	16,643	13,864
Contribution to Credit Guarantee Fund	38,404	46,578	38,802
Loss on foreign currency trading	111,677	104,375	86,950
Loss on derivatives trading	259,678	399,567	332,862
Other non-interest expenses	212,410	272,429	226,949
	2,076,572	2,408,245	2,006,202
<b>ORDINARY INCOME (LOSS)</b>	351,728	(601,127)	(500,772)
<b>EXTRAORDINARY GAIN (LOSS)</b>	-	-	-
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSE</b>	351,728	(601,127)	(500,772)
<b>INCOME TAX EXPENSE (BENEFITS) (Note 19)</b>	(176,340)	(16,569)	(13,803)
<b>NET INCOME (LOSS) BEFORE MINORITY INTEREST</b>	528,068	(584,558)	(486,969)
<b>INCOME ATTRIBUTABLE TO MINORITY INTERESTS</b>	(2,572)	(1,910)	(1,591)
<b>NET INCOME (LOSS)</b>	<b>W 525,496</b>	<b>W (586,468)</b>	<b>\$ (488,560)</b>
<b>ORDINARY INCOME (LOSS) PER SHARE (in Currency Units) (Note 2)</b>	<b>W 808</b>	<b>W (868)</b>	<b>\$ (0.72)</b>
<b>NET INCOME (LOSS) PER SHARE (in Currency Units) (Note 2)</b>	<b>W 804</b>	<b>W (871)</b>	<b>\$ (0.73)</b>

See accompanying notes to consolidated financial statements.

## □ CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY □

For the years ended December 31, 2001 and 2002

Millions of Korean Won						
Description	Capital stock	Consolidated capital Surplus	Consolidated accumulated deficit	Consolidated capital adjustment	Minority interests	Total
As of January 1, 2001	W 3,395,391	W -	W (814,083)	W (490,483)	W 11,180	W 2,102,005
Consolidated net income-	-	-	525,496	-	-	525,496
Cumulative effect of accounting changes	-	-	1,176	-	-	1,176
Adjustment of retained earnings of subsidiaries valued using the 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 on the 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
<b>As of December 31, 2001</b>	<b>W 3,395,391</b>	<b>W -</b>	<b>W (342,332)</b>	<b>W (502,297)</b>	<b>W 12,805</b>	<b>W 2,563,567</b>
As of January 1, 2002	W 3,395,391	W -	W (342,332)	W (502,297)	W 12,805	W 2,563,567
Consolidated net loss	-	-	(586,468)	-	-	(586,468)
Increase in authorized shares of controlling company	201	24	-	-	-	225
Adjustment of retained earnings of subsidiaries valued using the equity method	-	-	36	-	-	36
Disposition of capital in excess of par value	-	(24)	24	-	-	-
Disposition of other capital surplus	-	(45,155)	45,155	-	-	-
Amortization of discount on stock issuance	-	-	(20)	20	-	-
Adjustment on the change in foreign exchange rate	-	-	(266)	-	-	(266)
Stock options cost	-	-	-	1,134	-	1,134
Loss on valuation of investment securities	-	-	-	223,323	-	223,323
Decrease in treasury stock	-	45,155	-	72,902	-	118,057
Dividends received	-	-	-	-	(910)	(910)
Gain attributable to minority interests	-	-	-	-	1,910	1,910
Other	-	-	(27)	-	-	(27)
<b>As of December 31, 2002</b>	<b>W 3,395,592</b>	<b>W -</b>	<b>W (883,898)</b>	<b>W (204,918)</b>	<b>W 13,805</b>	<b>W 2,320,581</b>

## □ CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY □

For the Years Ended December 31, 2001 AND 2002

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, 2002	\$ 2,828,550	\$ -	\$ (285,182)	\$ (418,442)	\$ 10,667	\$ 2,135,593
Consolidated net loss	-	-	(488,560)	-	-	(488,560)
Increase in authorized shares of controlling company	167	20	-	-	-	187
Adjustment of retained earnings of subsidiaries valued using the equity method	-	-	30	-	-	30
Disposition of capital in excess of par value	-	(20)	20	-	-	-
Disposition of other capital surplus	-	(37,617)	37,617	-	-	-
Amortization of discount on stock issuance	-	-	(17)	17	-	-
Adjustment on the change in foreign exchange rate	-	-	(222)	-	-	(222)
Stock options cost	-	-	-	945	-	945
Loss on valuation of investment securities	-	-	-	186,041	-	186,041
Decrease in treasury stock	-	37,617	-	60,731	-	98,348
Dividends received	-	-	-	-	(758)	(758)
Gain attributable to minority interests	-	-	-	-	1,591	1,591
Other	-	-	(22)	-	-	(22)
<b>As of December 31, 2002</b>	<b>\$ 2,828,717</b>	<b>\$ -</b>	<b>\$ (736,336)</b>	<b>\$ (170,708)</b>	<b>\$ 11,500</b>	<b>\$ 1,933,173</b>

See accompanying notes to consolidated financial statements.

## □ CONSOLIDATED STATEMENTS OF CASH FLOWS □

For the years ended December 31, 2001 and 2002

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	W 525,496	W (586,468)	\$ (488,560)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for possible loan losses	764,917	1,617,622	1,347,569
Depreciation	71,977	77,970	64,953
Provision for severance benefits	19,738	33,078	27,556
Amortization of intangible assets	113,161	112,803	93,971
Loss on sale of loans, net	416,434	16,240	13,528
Gain on sale and valuation of trading securities, net	(54,357)	(21,849)	(18,202)
Loss on sale and valuation of investment securities, net	9,011	432,411	360,223
Salaries	909	1,135	946
Other non-interest expenses	4,802	8	7
Other non-interest income	(1,119)	(266)	(222)
Income attributable to minority interests	2,572	1,910	1,591
Payment of severance benefits	(130,015)	(2,240)	(1,866)
Increase in other assets	(1,251,600)	(1,748,575)	(1,456,660)
Increase in other liabilities	1,157,422	1,701,349	1,417,319
Net cash provided by operating activities	<u>1,649,348</u>	<u>1,635,128</u>	<u>1,362,153</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net decrease in trading securities	282,518	541,810	451,358
Net decrease (increase) in investment securities	(2,039,261)	2,576,539	2,146,400
Net increase in fixed assets	(50,694)	(38,578)	(32,138)
Net increase in loans	(4,079,748)	(12,400,438)	(10,330,255)
Other, net	(709)	(231)	(192)
Net cash used in investing activities	<u>(5,887,894)</u>	<u>(9,320,898)</u>	<u>(7,764,827)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in deposits	5,174,440	5,928,901	4,939,105
Net decrease in borrowings	(851,470)	(766,608)	(638,627)
Net increase (decrease) in debentures	(615,969)	3,256,670	2,712,987
Other, net	295,550	(75,838)	(63,177)
Net cash provided by financing activities	<u>4,002,551</u>	<u>8,343,125</u>	<u>6,950,288</u>
NET INCREASE (DECREASE) IN CASH	(235,995)	657,355	547,614
CASH, BEGINNING OF YEAR	2,307,594	2,071,599	1,725,757
CASH, END OF YEAR (Note 22)	<u>W 2,071,599</u>	<u>W 2,728,954</u>	<u>\$ 2,273,371</u>

See accompanying notes to consolidated financial statements.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

December 31, 2001 and 2002

### 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 467 domestic branches, and 69 depositary offices throughout the Republic of Korea and 6 overseas branches as of December 31, 2002. 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.

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Bank and its subsidiaries may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying consolidated financial statements reflect management's 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 financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Bank's financial position or results of operations, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into US dollars based on the Bank of Korea (BOK) Basic Rate of W1,200.40 to US\$1.00 at December 31, 2002, 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 at this or any other rate of exchange.

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

#### Scope of Consolidation and Accounting using the 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 these financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission ("FSC"). Subsidiaries of the Bank as of December 31, 2001 and 2002 are as follows:

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

Subsidiaries	Percentage of ownership		Fiscal year-end	Date of acquisition of controlling interest
	2001	2002		
Consolidated:				
Chohung Investment Trust 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
Accounted for using the equity method:				
Chohung Vina Bank	50.00%	50.00%	Dec. 31	Nov. 24, 2000

### (1) Chohung Investment Trust Management Co., Ltd.

Chohung Investment Trust Management Co., Ltd. was established in 1988 and engages in securities management services and conducts surveys of the economic and capital markets. In 1997, the company changed its name from Chohung Investment Management Co., Ltd. to Chohung Investment Trust Management Co., Ltd. As of December 31, 2002, its capital stock amounts to W 45,000 million (US\$ 37,488 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, 2002, 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, 2002, its capital stock amounts to US\$ 14,000 thousand.

### (4) Chohung Bank (Deutschland) GmbH

Chohung Bank (Deutschland) GmbH was established in 1994 as a wholly owned subsidiary of the Bank. As of December 31, 2002, its capital stock amounts to EUR 15,339 thousand.

### (5) California Chohung Bank

California Chohung Bank was established in 1995 as a wholly owned subsidiary of the Bank. As of December 31, 2002, 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, 2002 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.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### (2) Inter-company transactions and balances

All inter-company transactions are eliminated in the 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 2002, 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 W1,200.40 to US\$1.00 at December 31, 2001 and 2002, 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.

## Classification of Securities

In accordance with the banking accounting standards, marketable debt and equity securities purchased for short-term trading 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 the moving average method for stocks and the 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 determined by the moving average method. Actively quoted (listed) securities, including those traded over the counter, are stated at fair value with the valuation gain or loss recorded as a capital adjustment. If the fair value of listed equity securities or the net equity value of unlisted equity securities held for investment declines compared to the 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 the Bank Law), are accounted for using the equity method. The Bank's share in net income or net loss of the investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of the investees are accounted for as an adjustment to retained earnings or to capital adjustments.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

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

### (2) Debt Securities

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Investments in debt securities are classified as available-for-sale investment debt securities as follows.

- 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 determined by the 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 the resulting valuation gains or losses recorded as a capital adjustment. If the fair value of held-to-maturity or available-for-sale investment debt securities declines compared to the acquisition cost and is not expected to recover (impaired investment securities), the carrying value of the debt 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 the 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 recorded in current operations as an impaired loss.

### (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 is the new cost basis 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. As of December 31, 2001 and 2002, the principal amount of loans of which the accrued interest income was not recorded in the financial statements based on the stated criteria



## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

amounted to W3,633.6 billion and W6,927.7 billion (US\$5,771.2 million), respectively, and the related accrued interest income not recognized amounted to W290.1 billion and W85.5 billion (US\$71.2 million), respectively.

### Allowance for Possible Loan Losses

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (FSC) requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires providing the minimum rate of loss provision for each category as described in the next paragraph. In accordance with the Supervisory Regulation and the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to corporate borrowers, including the securities that have credit attributes such as commercial paper, privately placed bonds and financing lease receivables, into ten categories according to past repayment history including any overdue period, 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 individual business operations and households are also classified into ten categories based only on the past repayment history.

As required by the FSC, the loans to enterprises 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 or more, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent, respectively. However, the Bank does not provide allowances for the loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as normal, as it is not required by the Accounting Standards for the Banking Industry. The loans to households and the credit card receivables are also classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. Beginning in 2002, the Bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card receivables were raised to 1 percent or more, 12 percent or more, and 60 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary.

As required by the FSC, 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 or more for confirmed acceptances and guarantees classified as substandard, 50 percent or more for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. Additionally, as prescribed in the debt restructuring accounting standard, loans on companies that were applied for debt restructuring due to the work-out, court receivership or composition and other restructuring process, an allowance for possible loan losses is provided for the residual amount after deducting the present value discounts. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

In addition, beginning in 2002, the Bank provides other allowance in other liabilities, which includes (i) 1 percent for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year and, (ii) for the expected future expenses due to the bonus point given to credit card users and, (iii) expected losses from the recourse obligation provided to KAMCO in relation to sales of non-performing loans and (iv) expected losses from the pending lawsuits. The Bank accounts for these other bad debts expense in the caption of non-interest expenses.

### Restructuring of Loans

A loan, whose contractual terms are modified in a troubled debt restructuring through execution of workout plan, court receivership, commencement of corporate reorganization and mutual agreement, is accounted for at the present value of expected future cash flows,

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

if the book value of the loan differs from the present value. The difference between the book value and present value is offset against the allowance for possible loan losses, and 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 the 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 assets revalued upward 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 the 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 costs or purchase costs plus incidental expenses less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated economic useful lives of the related assets or the activity method.

The excess of the consideration paid 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, and adjusted subsequently due to the revaluation of treasury stocks acquired in relation to those business combinations.

### Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral on a foreclosed mortgage. No depreciation is provided for this asset. However, if the auction price of the foreclosed asset is lower than the 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.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 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 that would be payable assuming all eligible employees were to resign as of December 31, 2001 and 2002 are W20,826 million and W51,644 million (US\$43,022 thousand), respectively. Actual payments of severance indemnities amounted to W130,015 million and W2,240 million (US\$1,866 thousand) in the years ended December 31, 2001 and 2002, respectively. The actual payment of severance indemnities included interim settlements of severance pay of W126,063 million for the year ended December 31, 2001 and W8 million of amounts increased due to the fluctuation of exchange rates for the year ended December 31, 2002.

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 meets the funding requirements for tax purposes, and made deposits with Korea Exchange Bank as of December 31, 2002. The deposits, amounting to W10,000 million and W30,000 million (US\$24,992 thousand) as of December 31, 2001 and 2002, respectively, are presented as a deduction from accrued severance benefits.

### 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 accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purposes. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or a 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 (a hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged items 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 capital adjustment is reclassified into 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 incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

### 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.

### 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

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. For the years ended December 31, 2001 and 2002, the Bank recorded trust management fees of W64,238 million and W49,013 million (US\$40,831 thousand), respectively, and trust cancellation charge income of W2,446 million and W377 million (US\$314 thousand), respectively. The Bank paid compensating contributions to guaranteed return trusts of W20,946 million and W57,675 million (US\$48,046 thousand) in 2001 and 2002, respectively, to cover deficiencies, which were reflected as non-interest expenses 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 and loss of W8,285 million (US\$6,902 thousand) for the years ended December 31, 2001 and 2002, respectively.

### Income Tax Expense (Benefits)

Income tax expense (benefits) is the amount currently payable for the period added to or deducted from the changes in the deferred income taxes. The difference between the amount currently payable for the period and the 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 the BOK Basic Rate (W1,326.10 and W1,200.40 to US\$1.00 at December 31, 2001 and 2002, respectively) or cross rates for other currencies as of the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches and subsidiaries in which investments are accounted for using the equity method are translated based on BOK Basic Rate at the balance sheet dates.

### Earning per Share

Ordinary income (loss) per common share and net income (loss) per common share are computed by dividing ordinary income (loss)(after deducting the tax effect) and net income (loss), respectively, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per share was 654 million and 674 million in 2001 and 2002, respectively. Ordinary income (loss) and net income (loss) on common shares were summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Net income (loss)	W 525,496	W (586,468)	\$ (488,560)
Extraordinary gain	-	-	-
Extraordinary loss	-	-	-
Income tax on extraordinary gain	-	-	-
Income tax on extraordinary loss	-	-	-
Income attributable to minority interests	2,572	1,910	1,591
Ordinary income (loss)	<b>W 528,068</b>	<b>W (584,558)</b>	<b>\$ (486,969)</b>

Diluted ordinary income (loss) per common share and diluted net income (loss) per common share represent the ordinary income (loss) and net income (loss) divided by the number of common shares and diluted securities. Stock options have a certain dilution effect on earnings per share as the average stock price of the Bank's common shares for the year ended December 31, 2002 (W5,502) is above the exercise price of the stock options (W5,000). However, dilution effect from stock options was not ultimately incurred as the increase in the ratio in the denominator is less than that of the numerator. As a result, the diluted ordinary income (loss) per common share and diluted net income (loss) per common share are equal to the ordinary income (loss) and net income (loss) per common share. The diluted securities for the year ended December 31, 2002 are 673,757,609 shares. Stock warrants and stock options have no dilution effects on earning per share for the year ended December 31, 2001 because the average stock prices of the Bank for the year ended December 31, 2001 (W2,516) are below the exercise prices of the stock options (W5,000 and W5,790). For this reason, diluted ordinary income (loss) per common share and diluted net income (loss) per common share were not calculated for the year ended December 31, 2001 and

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

2002. The diluted securities as of December 31, 2002 are summarized as follows:

Item	Face value (In millions)	Exercise period	Common stocks to be issued	Remarks
Stock options (see Note 19)	-	2003.3.28 ~ 2006.3.27	969,200 shares	W5,000 paid in cash upon exercise
Stock options (see Note 19)	-	2004.3.10 ~ 2007.3.9	664,000 shares	W5,000 paid in cash upon exercise
Stock options (see Note 19)	-	2004.3.30 ~ 2007.3.29	312,000 shares	W5,657 paid in cash upon exercise

The detachable stock warrants were granted on November 22, 1999 when the Bank issued bonds with warrants amounting to W550,000 million with three year maturity and 10 percent coupon rate per annum. The subscription right given to these stock warrants was 1 share for each W5,790 bond par value, which expired on October 22, 2002 after 40,314 warrants were exercised during 2002.

### Changes in Accounting Principle and Estimates

Beginning in 2002, in accordance with the change in the Executive Guideline of the Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, the accounting treatment applied to Banker's Usance transactions was changed by the Bank; all banker's usance, regardless of whether the Bank provides funded credit directly or not, are now accounted for as "loans and borrowings in foreign currencies" rather than accounted for as "acceptance" using contra accounts as off-balance items. Due to the changes in this accounting treatment, W928,027 million loans in foreign currencies, W17,333 million other deposits and W945,360 million borrowings in foreign currencies increased and W1,037,268 million loans in foreign currencies, W25,078 million other deposits and W1,062,346 million borrowings in foreign currencies increased as of December 31, 2001 and 2002, respectively, compared to the previous accounting treatment. Solely for comparative purposes, the financial statements of 2001 were restated based on the change in the supervisory regulation of banking business issued by the Financial Supervisory Service.

To reflect the economic substance of transactions and appropriately match revenues to expenses, the Bank changed its depreciation method from half-year basis to monthly basis for newly acquired tangible fixed assets. This change in depreciation method is accounted for as a change in accounting estimate, however, the effect on the financial statements is considered immaterial.

The Bank previously set the allowance for possible loan losses on the households and credit card accounts at 0.5 percent or more of the loan balances classified as normal, and 2 percent or more and 50 percent or more of the loan balances classified as precautionary and doubtful, respectively. However, beginning in 2002, the bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card accounts were raised to 1 percent or more, 12 percent or more, and 60 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary. In addition, beginning in 2002, the Bank provides other provision, which includes 1 percent for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The aforementioned changes in allowance ratio for possible loan losses resulted from the recent sudden increase of loans to households and credit card accounts and it was requested by the Financial Supervisory Service and also based on historical migration analysis on default and collection of such loans. As a result of these changes in accounting estimates, the Bank provided W164.2 billion (US\$136.8 million) additional allowance for possible loan losses and W0.9 billion (US\$0.7 million) other provision for the loss from the unused cash advance facilities as of December 31, 2002.

### Reclassifications

The Bank reclassified certain accounts for the year ended December 31, 2001 in order to conform to the presentation of the current period for comparative purposes. However, these reclassifications have no effect on the net income or the net asset value as of and for the year ended December 31, 2001.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 3. CASH AND DUE FROM BANKS:

Cash and due from banks as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Cash and checks	W 1,346,084	W 1,174,976	\$ 978,821
Foreign currencies	74,071	84,488	70,383
Due from banks in local currency	442,141	1,255,582	1,045,970
Due from banks in foreign currencies	209,303	213,908	178,197
	<b>W 2,071,599</b>	<b>W 2,728,954</b>	<b>\$ 2,273,371</b>

### 4. RESTRICTED DUE FROM BANKS:

Restricted due from banks as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Reserve deposits with the Bank of Korea	W 83,283	W 1,224,944	\$ 1,020,446
Group severance deposits (see Note 2)	3	-	-
Other	116,471	46,094	38,399
	<b>W 199,757</b>	<b>W 1,271,038</b>	<b>\$ 1,058,845</b>

### 5. TRADING SECURITIES:

Trading securities as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Stocks	W 727	W 806	\$ 671
Government bonds	333,710	239,772	199,743
Finance debentures	665,106	622,174	518,306
Corporate bonds	1,053,674	609,873	508,058
Trading securities in foreign currencies	113,230	106,432	88,664
Other	390,094	457,523	381,142
	<b>W 2,556,541</b>	<b>W 2,036,580</b>	<b>\$ 1,696,584</b>

### 6. INVESTMENT SECURITIES:

(1) Investment securities as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Investment equity securities	W 540,294	W 583,276	\$ 485,902
Government bonds	1,748,561	1,733,911	1,444,444
Finance debentures	3,243,097	1,517,309	1,264,003
Corporate bonds	5,955,081	5,630,739	4,690,719
Investment securities in foreign currencies	476,502	308,569	257,055
Other	735,337	139,441	116,162
	<b>W 12,698,872</b>	<b>W 9,913,245</b>	<b>\$ 8,258,285</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

As determined by the Financial Institutional Creditors' meeting held on October 31, 2001, the Bank acquired mandatory convertible bonds issued by Hynix Semiconductor Inc. amounting to W423,481 million of face value, which were recorded as loans to be swapped into equity before the actual swap occurs. As of June 1, 2002, the Bank converted all of such convertible bonds into equity at the conversion price of W708 and acquired 598,137,005 shares. As a result of this conversion, the Bank recorded W127,044 million of investment securities based on the book value of the loans swapped into equity, which was W212 acquisition cost per share. The shares of Hynix Semiconductor Inc. are traded on the Korea Stock Exchange, but most of the converted shares are held by the Financial Institutional Creditors including the Bank and restricted in disposal until the end of 2006. For this reason, the Bank does not consider the price quoted on the Korea Stock Exchange as fair value. Accordingly, the Bank recorded the equity securities at acquisition cost as of December 31, 2002. Additionally, on December 30, 2002, the Financial Institutional Creditors' Committee resolved second debt restructuring, which mainly consist of non-compensatory capital reduction by the ratio of twenty one shares into one share and debt to equity swap totaling W1,900.0 billion (US\$1,582.8 million), therefore, the Bank is supposed to convert its loans to equity amounting to the W160.1 billion (US\$133.4 million) as of December 31, 2002.

(2) Investment equity securities valued using the equity method:

As of December 31, 2001 and 2002, the investment equity security valued using the equity method is the investment in Chohung Vina Bank and the changes in equity are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Book value before valuation	W 7,112	W 8,990	\$ 7,489
Additional acquisition	1,304	-	-
Changes due to valuation using the equity method	151	834	695
Translation gain or loss	423	(852)	(710)
Investment valued using the equity method	<b>W 8,990</b>	<b>W 8,972</b>	<b>\$ 7,474</b>

## 7. COLLATERALIZED ASSETS:

Details of collateralized assets of the Bank as of December 31, 2001 and 2002 are summarized as follows:

Collateralized assets	Provided to	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Provided for
		2001	2002	2002	
Bank					
Investment securities	Bank of Korea	W 1,400,000	W 1,400,000	\$ 1,166,278	RP of Bank of Korea (BOK)
"	"	1,026,300	1,050,000	874,708	Borrowings from BOK
"	"	735,000	735,000	612,296	Intra-day overdraft from BOK
"	"	276,100	146,700	122,209	Settlement risk
"	Development Bank of Singapore and others	789,000	857,700	714,512	Borrowings in foreign currencies
"	Customer RP	1,650,000	695,000	578,974	Customer RP
"	ING Seoul	26,300	-	-	Collateral for interest rate swap
"	Korea Securities Finance Corporation	-	65,000	54,149	Fund of government bonds
"	Samsung Futures Inc. and other	8,500	19,500	16,245	Futures transaction
"	KAMCO	26,743	25,988	21,649	Settlement of sales of non-performing loans
"	CHB NPL 1st SPC	40,000	40,000	33,322	Collateral regarding the issuance of ABS
"	Seoul Guarantee Insurance Co. and other	78,802	78,802	65,647	Securities lent
Real estate for business purpose	Lessees	16,291	12,015	10,009	Key money deposit for rent
Subsidiaries					
Investment securities and other	State of California and other	12,452	25,131	20,935	Time certificated deposit, lien and other
		<b>W 6,085,488</b>	<b>W 5,150,836</b>	<b>\$ 4,290,933</b>	

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 8. LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) As of December 31, 2002 and 2001, the Bank complied with the minimum regulatory guideline for loan loss provision, as described in Note 2, announced by the Korean Financial Supervisory Commission (FSC). Loans and allowance for possible loan losses of the Bank and its subsidiaries as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Loans in local currency	W 22,028,629	W 32,657,020	\$ 27,205,115
Loans in foreign currencies	3,821,726	3,785,541	3,153,566
Other	10,094,557	10,825,835	9,018,523
	<u>35,944,912</u>	<u>47,268,396</u>	<u>39,377,204</u>
Allowance for possible loan losses	(1,071,950)	(1,637,979)	(1,364,528)
Present value discounts:			
The Bank (see Note 9)	(29,572)	(20,466)	(17,049)
Subsidiaries	(15)	-	-
	<u>(29,587)</u>	<u>(20,466)</u>	<u>(17,049)</u>
	<b>W 34,843,375</b>	<b>W 45,609,951</b>	<b>\$ 37,995,627</b>

The Bank provides more than the minimum rate of loan loss provision required by the FSC for certain loans with restructuring companies under the Restructuring Promotion Law after the approvals of the executive directors committee and board of directors. As of December 31, 2002, the Bank provided more than 20 percent of allowance for possible loan losses amounting to W258.1 billion (US\$215.0 million) for W516.1 billion (US\$429.9 million) of credit exposures as precautionary.

#### (2) Loans to Daewoo Group Companies:

Daewoo Group Companies were placed under workout programs in August 1999 due to liquidity problems and are undergoing workout programs or court receivership as of December 31, 2002. As of December 31, 2002, the amounts owed by Daewoo Group Companies (including confirmed acceptances and guarantees and loans in guaranteed return trust accounts) of W246.7 billion (US\$205.5 million) for which an allowance for possible loan losses (including allowance for possible losses on acceptances and guarantees and allowance for valuation of receivable in trust accounts) of W32.4 billion (US\$27.0 million) has been provided based on prescribed loan classifications. The recovery of amounts owed by Daewoo Group Companies is mainly dependent on the results of its on-going business restructuring, which is under a workout program or court receivership. The potential impact on the Bank's operations of the restructuring plan and difficulties Daewoo Group Companies are facing cannot presently be determined.

#### (3) Restructured loans to the companies under workout programs:

As of December 31, 2002, the amounts owed (including confirmed guarantees and acceptances and loans in guaranteed return trust accounts) by companies other than Daewoo Group Companies and Ssangyong Group Companies under workout programs amounted to W124.1 billion (US\$103.4 million). The Bank has provided an allowance for possible loan losses (including confirmed acceptances and guarantees and those in guaranteed return trust accounts) of W30.4 billion (US\$25.3 million), after deducting the present value discounts of W0.2 billion (US\$0.2 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.

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

As of December 31, 2002, the amounts owed by Hynix Semiconductor Inc. and Hyundai Merchant Marine Co., Ltd., which include loans, payment guarantee and others, amounted to W375.2 billion (US\$312.6 million) and W197.8 billion (US\$164.8 million), respectively, and the Bank has provided an allowance for possible loan losses amounting to W333.1 billion (US\$277.5 million). In addition, the amounts owed by Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd., which include loans, payment guarantee and others, amounted to W424.2 billion (US\$353.4 million) and W137.2 billion (US\$114.3 million), respectively, and the Bank has provided an



## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

allowance for possible loan losses amounting to W258.3 billion (US\$215.2 million). The potential impact on the Bank's operations of the liquidity problems Hynix Semiconductor Inc., Hyundai Merchant Marine Co., Ltd., Ssangyong Corporation and Ssangyong Cement Industrial Co., Ltd. are facing cannot presently be determined.

### 9. PRESENT VALUE DISCOUNTS:

(1) Present value discounts of the Bank in relation to the restructured loans as of December 31, 2002 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 of U.S Dollars (Note 2)
Daelim Industrial Co., Ltd.	W 75,380	\$ 62,796	11.50	2008.09.08	W 10,906	\$ 9,085
Hanjin Shipping Co., Ltd.	4,809	4,006	11.50	2017.10.01	3,797	3,163
Renault Samsung Motors Co., Ltd.	4,243	3,534	10.00	2015.03.13	2,034	1,695
Korea Industry Development Co., Ltd.	8,976	7,478	12.42	2011.12.30	1,147	956
Korean Air Lines Co., Ltd.	2,349	1,957	10.00	2009.12.31	815	679
Doosung Sbtech Co., Ltd.	2,797	2,330	16.50	2011.03.31	659	549
Hanjin Transportation Co., Ltd.	880	733	11.50	2017.10.01	309	257
Hanjin Heavy Industries & Construction Co., Ltd.	880	733	11.50	2008.04.20	309	257
Jungseok Enterprise Co., Ltd.	589	491	11.50	2017.10.01	210	175
Korean Airport Service	805	671	11.50	2017.10.01	126	105
Others (11 companies)	21,210	17,669			154	128
	<b>W 122,918</b>	<b>\$ 102,398</b>			<b>W 20,466</b>	<b>\$ 17,049</b>

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

Borrower	Face value		Discount rate (%)	Maturity date	Unamortized present value discounts
	Millions of Korean Won	Millions of Korean Won			
Daelim Industrial Co., Ltd.	W 75,380	11.50	2008.09.08	W 15,865	
Samho International Co., Ltd.	26,250	11.50	2006.09.08	72	
Dongbang Textile & Mart Co., Ltd.	23,601	9.41	2002.12.31	124	
Anam Semiconductor, Inc.	20,000	12.75	2003.12.31	494	
Dongbang Transport Logistics Co., Ltd.	15,974	10.00	2002.12.31	271	
Choongnam Spinning Co., Ltd.	8,767	10.00	2003.12.31	463	
Kia Steel Co., Ltd.	5,830	13.00	2008.12.31	2,440	
Hanjin Shipping Co., Ltd.	4,809	11.50	2017.10.01	4,050	
Renault Samsung Motors Co., Ltd.	4,242	10.00	2015.03.13	2,235	
Daewoo Heavy Industry & Machinery Co., Ltd.	3,366	5.50	2002.12.31	98	
Others (14 companies)	199,593			3,460	
	<b>W 387,812</b>			<b>W 29,572</b>	

(3) Changes in present value discounts for the year ended December 31, 2002 are summarized as follows (in millions of Won):

Conditions of borrowers	Beginning balance	Increase	Decrease	Ending balance
Work-out programs	W 1,624	W -	W 1,470	W 154
Industrial rationalization	21,874	-	5,402	16,472
Court receivership	6,074	3,996	6,230	3,840
	<b>W 29,572</b>	<b>W 3,996</b>	<b>W 13,102</b>	<b>W 20,466</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 10. FIXED ASSETS:

Fixed assets as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Land and buildings	W 1,316,607	W 1,251,660	\$ 1,042,702
Equipment	414,788	492,584	410,350
Leasehold improvements	39,166	48,204	40,157
Construction in progress	6,025	817	681
Total tangible assets	1,776,586	1,793,265	1,493,890
Accumulated depreciation	(427,605)	(483,653)	(402,910)
Goodwill	224,043	112,020	93,319
Other intangible assets	4,992	4,443	3,701
Non-business use properties	208	173	144
Valuation allowances	(12)	-	-
	<b>W 1,578,212</b>	<b>W 1,426,248</b>	<b>\$ 1,188,144</b>

### 11. OTHER ASSETS:

Other assets as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Guarantee deposits	W 429,893	W 463,825	\$ 386,392
Accounts receivables	940,624	1,533,478	1,277,473
Accrued income	378,466	340,984	284,059
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	173,520	152,121	126,725
Local exchange remittances receivables	1,436,041	2,533,003	2,110,132
Deferred income tax assets (see Note 19)	203,613	231,039	192,468
Other	244,719	301,001	250,751
	<b>W 3,806,876</b>	<b>W 5,555,451</b>	<b>\$ 4,628,000</b>

### 12. DEPOSITS:

Deposits as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Deposits in local currency:			
Bank-banking accounts	W 34,690,546	W 39,722,710	\$ 33,091,228
Bank-trust accounts	1,406,674	1,145,227	954,038
Subsidiaries	10	14	11
	36,097,230	40,867,951	34,045,277
Deposits in foreign currencies	2,183,075	1,509,888	1,257,821
Negotiable certificates of deposits	2,320,531	4,151,898	3,458,762
	<b>W 40,600,836</b>	<b>W 46,529,737</b>	<b>\$ 38,761,860</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 13. BORROWINGS:

Borrowings as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Borrowings in local currency:			
General borrowings	W 1,577,563	W 1,288,124	\$ 1,073,079
Subordinated borrowings	88,500	15,000	12,496
	<u>1,666,063</u>	<u>1,303,124</u>	<u>1,085,575</u>
Borrowings in foreign currencies	2,777,552	3,354,414	2,794,414
Bonds sold under repurchase agreements	1,816,983	995,311	829,149
Bills sold	492,655	900,459	750,132
Due to Bank of Korea in foreign currencies	376,506	14,372	11,973
Call money	283,902	79,373	66,122
	<u>W 7,413,661</u>	<u>W 6,647,053</u>	<u>\$ 5,537,365</u>

### 14. DEBENTURES:

Debentures as of December 31, 2001 and 2002 are summarized as follows:

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
		2001	2002	2002
Debentures in local currency:				
General debentures	4.60~8.56%			
Subordinated debentures	CD+0.24~0.35 7.15~18.00%, Prime rate+1~2%	W 450,000 1,075,700	W 4,108,792 1,002,000	\$ 3,422,852 834,722
		<u>1,525,700</u>	<u>5,110,792</u>	<u>4,257,574</u>
Discounts on debentures		(5,836)	(84,399)	(70,309)
		<u>1,519,864</u>	<u>5,026,393</u>	<u>4,187,265</u>
Debentures in foreign currencies:				
General debentures	6M Libor +0.50~1.20%	205,546	-	-
Subordinated debentures	6M Libor +4.95%, 11.50~11.88%	704,443	653,834	544,680
		<u>909,989</u>	<u>653,834</u>	<u>544,680</u>
Discounts on debentures		(10,177)	(7,878)	(6,562)
		<u>899,812</u>	<u>645,956</u>	<u>538,118</u>
		<u>W 2,419,676</u>	<u>W 5,672,349</u>	<u>\$ 4,725,383</u>
Internal transactions		(3,997)	-	-
		<u>W 2,415,679</u>	<u>W 5,672,349</u>	<u>\$ 4,725,383</u>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 15. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Accrued severance benefits (see Note 2)	W 20,826	W 51,664	\$ 43,039
Deposits with employee retirement trust (see Note 2)	(10,000)	(30,000)	(24,992)
Allowance for possible losses on acceptances and guarantees	51,565	125,923	104,901
Other allowance for bad debts	1,465	17,482	14,563
Borrowings from trust accounts	456,987	271,403	226,094
Foreign exchange remittances pending	66,616	58,990	49,142
Deposits for letters of guarantees and other	89,550	63,833	53,177
Accrued expenses	917,010	891,848	742,959
Domestic exchange settlement account - credit	1,203,420	2,318,345	1,931,310
Unearned revenue	107,398	100,267	83,528
Accounts payable - other	367,506	171,329	142,727
Liabilities incurred by agency relationship	287,478	342,412	285,248
Account for agency business	78,186	75,875	63,208
Deferred income tax liabilities (see Note 19)	1	-	-
Other	923,724	1,641,338	1,367,326
	<b>W 4,561,732</b>	<b>W 6,100,709</b>	<b>\$ 5,082,230</b>

(2) Allowance for possible losses on acceptances and guarantees:

The Bank has provided W159,840 million (US\$133,156 thousand) of performance bond to the Sports Toto Co., Ltd. in relation to Sports Toto lottery business, which would contribute to sport promotion as a funding vehicle. As of December 31, 2002, this Company went bankrupt and experienced a serious liquidity shortage together with the uncertainty in its going concern. These uncertainties heavily depend on restoring and normalization of lottery business through the successful implementation of financial and operational reorganization plan. In this connection, the Bank has classified this company as "doubtful" and provided 50 percent of allowances for the outstanding credit of W139,840 million (US\$116,495 thousand) performance bond without deducting W20,000 million of deposit collateral as of December 31, 2002.

### 16. SHAREHOLDERS' EQUITY:

(1) Common Stock:

The Bank has 2,000,000,000 authorized shares of common stock, W5,000 par value, of which 679,118,429 common shares were issued and outstanding as of December 31, 2002.

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, which was offset against 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 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. For the year ended December 31, 2002, the Bank increased its common stock by 40,314 shares amounting to W201 million (US\$167 thousand) through the exercise of stock warrants. The common stock as of December 31, 2002 amounted to W3,395.6 billion (US\$2,828.7 million) of which KDIC owns 80.04 percent.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### (2) Capital Adjustments:

Capital adjustments as of December 31, 2002 and 2001 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Treasury stock	W (72,902)	W -	\$ -
Loss on valuation of investment securities, net	(430,696)	(207,373)	(172,753)
Discounts on stock issuance	(20)	-	-
Other	1,321	2,455	2,045
	<b>W (502,297)</b>	<b>W (204,918)</b>	<b>\$ (170,708)</b>

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 subsequently adjusted by W100,716 million in 2000 due to the revaluation of treasury stocks acquired in relation to those business combinations. In 2001, the Bank sold 11,916,240 shares held as treasury stock with the book value of W88,752 million and awarded 10,000 shares held as treasury stock with the book value of W74 million to employees. The loss on disposal of treasury stock of W59,409 million, which resulted from these transactions in 2001, was added to the accumulated deficit. For the year ended December 31, 2002, the Bank sold 17,313,650 shares held as treasury stock with the book value of W72,902 million, which resulted in W45,155 million (US\$37,617 thousand) gain on disposal of treasury stock considered as capital surplus. Additionally, the Bank disposed of its accumulated deficits using capital in excess of par value of W24 million (US\$20 thousand) derived from the execution of the stock warrants and gains on disposal of treasury stock (classified as other capital surplus) of W45,155 million (US\$37,617 thousand) in 2002.

### 17. OTHER INTEREST INCOME:

For the years ended December 31, 2001 and 2002, the other interest income included income from credit card cash advances and card loans amounting to W534.2 billion and W546.2 billion (US\$455.0 million), respectively, which is classified as interest income.

### 18. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administration expenses for the years ended December 31, 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Salaries	W 215,409	W 347,985	\$ 289,891
Provision for severance benefits	19,738	33,078	27,556
Other employee benefits	108,969	68,358	56,946
Rent	23,457	27,632	23,019
Depreciation	71,977	77,970	64,953
Amortization of intangible assets	113,161	112,803	93,971
Taxes and dues	32,832	40,180	33,472
Other	148,135	169,593	141,281
	<b>W 733,678</b>	<b>W 877,599</b>	<b>\$ 731,089</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 19. INCOME TAX EXPENSE:

The annual tax charge takes into account current income tax on taxable income and expenses for the year, and deferred taxes resulting from timing differences and loss carryforward. Deferred taxes are calculated according to the 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. Beginning 2002, it decreased to 29.7 percent.

(1) Income tax expense (benefits) for the years ended December 31, 2001 and 2002 consisted of the following:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
<b>The Bank:</b>			
Income tax to be paid	W 4,618	W 1,704	\$ 1,420
Tax effect on changes in cumulative temporary differences	(46,863)	(74,901)	(62,397)
Tax effect on changes in tax loss carryforward	(143,861)	48,082	40,055
	<b>W (186,106)</b>	<b>W (25,115)</b>	<b>\$ (20,922)</b>
<b>Subsidiaries:</b>			
Income tax to be paid	W 7,007	W 9,154	\$ 7,626
Tax effect on changes in cumulative temporary differences	2,759	(608)	(507)
	9,766	8,546	7,119
Income tax expense (benefits)	<b>W (176,340)</b>	<b>W (16,569)</b>	<b>\$ (13,803)</b>

(2) For the years ended December 31, 2001 and 2002, the differences between the income before income tax in financial accounting and the taxable income pursuant to Corporate Income Tax Law of Korea are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Income before income tax	W 336,425	W (611,160)	\$ (509,130)
Permanent differences	(66,306)	39,595	32,985
Temporary differences	(57,682)	699,110	582,397
	212,437	127,545	106,252
Tax loss carryforward	212,437	127,545	106,252
Taxable income (Tax loss)	<b>W -</b>	<b>W -</b>	<b>\$ -</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

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

Accounts	Beginning balance	Increase	Decrease	Ending balance
Allowance for possible loan losses	W 351,679	W 388,134	W 351,679	W 388,134
Goodwill	(224,046)	-	(112,025)	(112,021)
Accrued interest	(219,091)	(91,132)	(126,081)	(184,142)
Allowance for possible losses of				
confirmed acceptances and guarantees	51,565	125,923	51,565	125,923
Present value discounts	13,617	-	5,910	7,707
Gain on valuation of derivatives	(43,993)	(58,946)	(43,993)	(58,946)
Treasury stock	82,498	-	82,498	-
Trading securities	107,762	448,236	-	555,998
Other	17,598	182,196	85,748	114,046
	137,589	994,411	295,301	836,699
Tax loss carryforward	2,949,737	-	127,545	2,822,192
	<b>W 3,087,326</b>	<b>W 994,411</b>	<b>W 422,846</b>	<b>W 3,658,891</b>

Some of the estimated amounts of cumulative temporary differences as of December 31, 2001 were differently finalized in filing its tax return. These differences reflected and accounted for prospectively and the beginning balance of cumulative temporary differences of the year ended December 31, 2002 are based on the actual tax return file of prior year.

(4) The deferred income tax assets (liabilities) as of December 31, 2001 and 2002 are summarized as follows (in millions of Won).

	As of December 31, 2001	Increase (Decrease)	As of December 31, 2002
The Bank			
Deferred income tax assets due to temporary differences	W 56,387	W 74,901	W 131,288
Deferred income tax assets due to the undisposed accumulated deficit carried over	143,861	(48,082)	95,779
	200,248	26,819	227,067
Subsidiaries			
Deferred income tax assets due to temporary differences	3,365	607	3,972
Deferred income tax liabilities due to temporary differences	(1)	1	-
	3,364	608	3,972
Deferred income tax assets	W 203,613	W 27,426	W 231,039
Deferred income tax liabilities	<b>W (1)</b>	<b>W -</b>	<b>W -</b>

The Bank recognized the deferred income tax assets resulting from temporary difference and loss carryforward as of December 31, 2001 due to the likelihood of its realization. Although the Bank incurred net loss in 2002, the Bank has projected that results will continue to improve and the Bank has recognized the deferred income 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, 2002 are summarized as follows (in millions of Won):

Year incurred	As of December 31, 2001	Use in current period	Remaining balance as of December 31, 2002	Period deductible
1998	W 1,889,691	W 127,545	W 1,762,146	By 2003
1999	894,875	-	894,875	By 2004
2000	165,171	-	165,171	By 2005
	<b>W 2,949,737</b>	<b>W 127,545</b>	<b>W 2,822,192</b>	

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

The tax loss carryforwards incurred in 1999 were taken over from Kangwon Bank and Chungbuk Bank through the merger. However, for taxation purpose, this loss carryforward is separately maintained and deductible only when the related business division reports taxable income.

### 20. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant balances with related parties as of December 31, 2002 are summarized as follows (in millions of Won):

#### Assets

	Due from banks in foreign currencies	Loans in foreign currencies	Call loans	Other assets
Trust account	W -	W -	W -	W 145,400
Chohung Finance Ltd., Hong Kong	-	69,623	-	-
Chohung Bank of New York	1,154	10,804	-	-
Chohung Bank (Deutschland) GmbH	2,834	104,150	8,517	-
California Chohung Bank	847	-	-	-
	<b>W 4,835</b>	<b>W 184,577</b>	<b>W 8,517</b>	<b>W 145,400</b>

#### Liabilities

	Deposits in foreign currencies	Borrowings in foreign currencies	Call money	Other liabilities
Trust account	W -	W -	W -	W 190,555
Chohung Investment Trust Management Co., Ltd.	-	-	-	55,939
Chohung Finance Ltd., Hong Kong	372	77,370	3,082	-
Chohung Bank (Deutschland) GmbH	-	136,141	14,495	-
	<b>W 372</b>	<b>W 213,511</b>	<b>W 17,577</b>	<b>W 246,494</b>

Significant transactions with related parties during the year ended December 31, 2002 are summarized as follows (in millions of Won):

	Interest income	Interest expense
Trust account	W 3,986	W 2,124
Chohung Investment Trust Management Co., Ltd.	-	2,448
Chohung Finance Ltd., Hong Kong	269	443
Chohung Bank of New York	265	7
Chohung Bank (Deutschland) GmbH	3,027	4,239
	<b>W 7,547</b>	<b>W 9,261</b>



## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

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

### Assets

	Due from banks in foreign currencies	Loans in foreign currencies	Call loans	Other assets
Trust account	W -	W -	W -	W 139,000
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	-	-	-
	<b>W 2,055</b>	<b>W 205,146</b>	<b>W 26,522</b>	<b>W 139,000</b>

### Liabilities

	Deposits in foreign currencies	Borrowings in foreign currencies	Call money	Other liabilities
Trust account	W -	W -	W -	W 198,817
Chohung Investment Trust Management Co., Ltd.	-	-	-	53,260
Chohung Finance Ltd., Hong Kong	759	-	-	-
Chohung Bank (Deutschland) GmbH	-	36,651	14,071	-
	<b>W 759</b>	<b>W 36,651</b>	<b>W 14,071</b>	<b>W 252,077</b>

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

	Interest income	Interest expense
Trust account	W 38,578	W 3,578
Chohung Investment Trust 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
	<b>W 45,191</b>	<b>W 12,474</b>

(3) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2002 and 2001 are summarized as follows:

Beneficiary	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)	Description
	2001	2002	2002	
Chohung Finance Ltd., Hong Kong	W 7,744	W 1,921	\$ 1,600	L/C guarantees
Chohung Bank (Deutschland) GmbH	2,313	158	132	Guarantees for L/C and borrowings
Chohung Bank of New York	-	2,281	1,900	L/C guarantees
	<b>W 10,057</b>	<b>W 4,360</b>	<b>\$ 3,632</b>	

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

(4) As of December 31, 2001 and 2002, the receivables and payables and also the transactions with the subsidiary accounted for using the equity method, which are reflected in the income statement, are summarized as follows (in millions of Won):

Beneficiary	Accounts	2001	2002
Chohung Vina Bank	Call loans	W -	W 3,001
	Borrowings in foreign currencies	50,392	54,018
	Call money	3,978	-
	Interest income	-	7
	Interest expense	2,287	1,122

### 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 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Confirmed	W 1,258,964	W 1,238,062	\$ 1,031,375
Unconfirmed	1,541,476	1,526,861	1,271,960
Bills endorsed	6,735,030	25,175,677	20,972,740
Commitments	53,788	47,196	39,317
Loans charge - offs	2,351,530	2,431,322	2,025,427
Loans sold under repurchase agreements	835,481	363,025	302,420

(2) The financial derivatives contracts of the Bank as of December 31, 2002 and 2001 are summarized as follows:

As of and for the year ended December 31, 2002, 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 summarized as follows (in millions of Won):

Type	Outstanding contract amount (*)		Gain (Loss) on valuation		Accumulated valuation gain (loss)
	Trading	Hedging	Trading	Hedging	
Currency forwards	W 2,135,827	W 164,086	W 8,798	W (1,838)	W 4,417
Currency swaps	243,969	148,690	(7,479)	(274)	(4,391)
Currency options (Buy)	1	-	-	-	-
Currency options (Sell)	1	-	-	(4)	-
	2,379,798	312,776	1,319	(2,116)	26
Interest rate futures	340,916	-	-	-	-
Interest rate swaps	2,415,602	762,503	(4,068)	22,464	58,898
	2,756,518	762,503	(4,068)	22,464	58,898
Stock option (Buy)	5	-	14	-	22
Stock option (Sell)	5	-	-	-	-
	10	-	14	-	22
	<b>W 5,136,326</b>	<b>W 1,075,279</b>	<b>W (2,735)</b>	<b>W 20,348</b>	<b>W 58,946</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

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 summarized 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
	<b>W 1,704,469</b>	<b>W1,063,517</b>	<b>W 26,750</b>	<b>W 44,258</b>	<b>W 43,993</b>

(\*) Derivative contracts for Korean Won to foreign currency is translated into Korean Won using market exchange rate against foreign currency and the contracts for foreign currency to foreign currency is translated into Korean Won using market exchange rate at 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, which include both the derivative transactions accounted for using hedge accounting, pursuant to the Interpretations on Financial Accounting Standards 53-70, and the derivative transactions used for hedging activities but not accounted for as hedges. As of December 31, 2002, the Bank does not have derivative transactions used for cash flow hedging activities or accounted for as cash flow hedges. However, the Bank has derivative instruments accounted for as fair value hedges. The hedged items, to which the fair value hedge accounting was applied, consist of investment securities and subordinated bonds issued. The hedging derivative instruments, such as currency swaps and interest rate swaps, were used to cover exposures to changes in fair value of hedged items resulting from the fluctuations in interest rates.

As a result of the valuation of hedged items accounted for using fair value hedge accounting, the gain on valuation of investment securities amounting to W2,182 million (US\$1,818 thousand), the loss on valuation of investment securities amounting to W233 million (US\$194 thousand) and the loss on valuation of subordinated notes issued amounting to W19,239 million (US\$16,027 thousand) for the year ended December 31, 2002 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. There were unsettled interest rate futures amounting to W340,916 million (US\$284,002 thousand) as of December 31, 2002.

### (3) Litigation

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

As of December 31, 2001 and 2002, the Bank is a plaintiff in 515 lawsuits claiming W242,343 million and 310 lawsuits claiming W 282,189 million (US\$ 235,079 thousand), respectively, including the case related to collection of debts. The bank is a defendant in 70 lawsuits claiming W854,462 million and 72 lawsuits claiming W627,987 million (US\$ 523,148 thousand) as of December 31, 2001 and 2002, respectively.

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

Among the lawsuits in which the Bank is a defendant as of December 31, 2002, the Bank and two other domestic commercial banks are named as defendants in two lawsuits claiming damages of US\$ 441.6 million (W530.1 billion) filed in the United States. The plaintiffs allege the defendants to be jointly liable for the losses arising from the Lernout & Hauspie (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, when the banks factored trade receivables with L&H Korea Co., Ltd. The Bank have filed the motions to dismiss the cases, on the grounds that the Bank placed general loans collateralized by time deposits to L&H Korea rather than factoring of trade receivables. The court has accepted the Bank's motion to dismiss one lawsuit. However, the plaintiff was given 30 days to amend their complaint and has filed a lawsuit again on May 16, 2002. Management of the Bank does not anticipate that the outcome of these lawsuits will have a significant effect on the financial condition or operations of the Bank.

### (4) Sale of non-performing loans

From December 15, 1997 to December 31, 2002, the Bank sold W3,894.6 billion (US\$ 3,244.4 million) of non-performing loans from the bank accounts and trust accounts to Korea Asset Management Corporation (KAMCO) for W2,124.5 billion (US\$1,769.8 million), which included W2,451.2 billion (US\$ 2,042.0 million) of special loans sold with recourse for W1,596.6 billion (US\$1,330.1 million). 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 executes its right of recourse.

Notwithstanding the sale and the elimination of these assets from the balance sheet as of December 31, 2002, the Bank remains liable to KAMCO for the sales of non-performing loans with recourse amounting to W273.0 billion (US\$227.4 million) at its sale price converted using the exchange rate at December 31, 2002.

Also, the Bank has granted the right of recourse for the sale of loans from bank accounts to special purpose companies (SPC) amounting to W90.0 billion in 2001, which was intended to reinforce the credit of the assets-backed securities (ABS) issued by SPC.

As of December 31, 2002, the Bank provided an allowance amounting to W30.0 billion (US\$25.0 million) in relation to the recourse obligation provided to KAMCO in conjunction with the sales of non-performing loans.

## 22. 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 2002.

Material transactions not involving cash inflows and outflows during 2001 and 2002 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (Note 2)
	2001	2002	2002
Debt to equity swap	W 459,358	W 316,242	\$ 263,447
Increase in allowance for possible losses of acceptances and guarantees resulting from repurchase of the loans sold	7,146	-	-
Increase (Decrease) in loss on valuation of investment securities	102,396	(223,323)	(186,041)
	<b>W 568,900</b>	<b>W 92,919</b>	<b>\$ 77,406</b>

## □ Notes To CONSOLIDATED FINANCIAL STATEMENTS □

### 23. 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 its unprofitable branches. 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 is required to achieve the ratio of non-performing loans below 4.0 percent and 3.5 percent in 2002 and 2003, respectively, meet the BIS capital adequacy ratio of 10.0 percent by December 31, 2002, 10.3 percent by March 31, 2003, 10.5 percent by June 30, 2003, 10.7 percent by September 30, 2003 and 11.0 percent by December 31, 2003, meet the return on assets of 0.5 percent by June 30, 2002, 0.8 percent by September 30, 2002 and 1.0 percent by December 31, 2002 and 2003, achieve W230 million (US\$192 thousand) of operating income before provisions for possible loan losses per employee and other management index targets by the end of December 2002 and 2003. Whether or not the revised management improvement plans are achieved, it may have a significant impact on the Bank's operating, investing, and financing activities including any capital increase or capital reduction and ownership structure. As of December 31, 2002, the Bank failed to achieve the "return on assets" (ROA) target of 1.0 percent and BIS ratio target of 10.0 percent among the required management index targets contained in the agreement. As of the report date, the Bank has not received any request or order from FSC or KDIC and does not expect to receive a request or order as penalty for the non-attainment of management index targets mentioned above. 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.

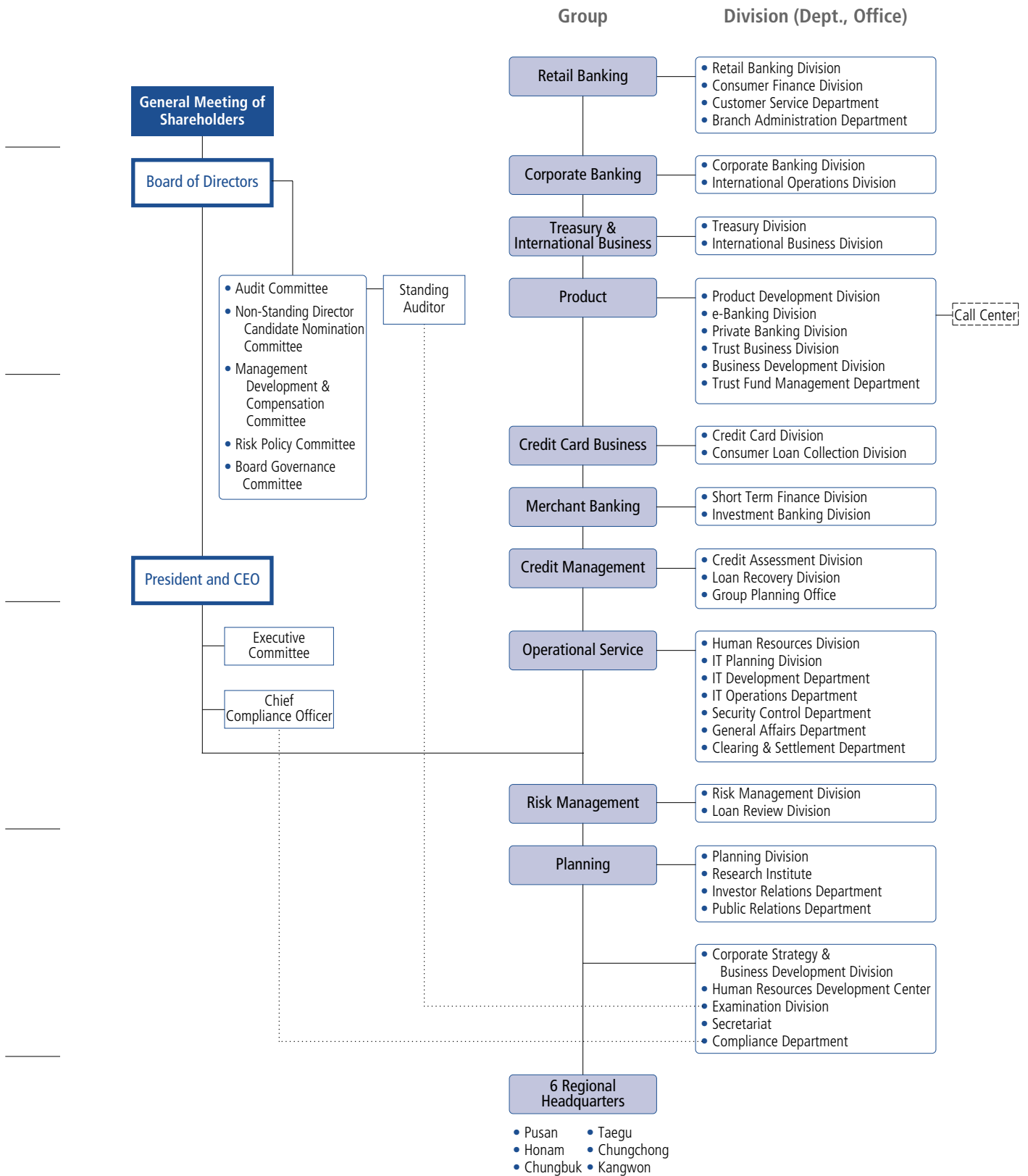
### 24. SELECTION OF THE PRIME BIDDER FOR GOVERNMENT'S STAKE SALES:

On January 23, 2003, the Korea Deposit Insurance Corporation (KDIC), which owns 80.04% of the Bank, selected a consortium led by Shinhan Financial Group as the prime bidder for the sale of its shares in accordance with the resolution of Public Fund Oversight Committee (PFOC). As of January 30, 2003, it is generally understood that KDIC and PFOC intend to sell the shares and continue their efforts for the sale of the shares.

### 25. SUBSEQUENT EVENT AFTER BALANCE SHEET DATE:

Total credit exposure of the Bank to SK Global amounts to W463,040 million (US\$385,738 thousand), including corporate loans of W460,856 million (US\$383,919 thousand) as of December 31, 2002. As of January 30, 2003, the top management of SK Business Conglomerate including SK Global was indicted and being investigated by the public prosecutor for undisclosed side arrangement by SK Global's subsidiaries regarding equity transaction of SK Securities Co., Ltd. The unfavorable outcome of the above investigation might deteriorate significantly the financial status of SK Global, which may consequently affect the collectibility of the credit exposure of the Bank to SK Global. Actual credit loss from this credit exposure may differ materially from management's current assessment. The accompanying financial statements do not include any possible adjustments that may result from this uncertainty.

## ORGANIZATION CHART



## □□ 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  
Kangwon Bank  
Born 1942  
Appointed 2001



**Jeong Myung Lee**  
Director  
Former Advisor  
Yonhap News Agency  
Born 1942  
Appointed 2002



**Wan Young Yu**  
Director  
President & CEO  
Orion Electric Co., Ltd.  
Born 1944  
Appointed 2001



**Jin Soon Lee**  
Director  
Professor  
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  
Korea Institute of Finance  
Born 1964  
Appointed 2002



**David J. Behling**  
Director  
Visiting Professor  
KDI School of  
Public Policy and Management  
Born 1939  
Appointed 2002

## INTERNATIONAL BANKING DIRECTORY

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Chang Ho Maeng, General Manager

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Yong Jin Yoon, Managing Director



## 《Domestic Network》

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### Retail Banking Group

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Director and Deputy President  
Head of Retail Banking Group

### Corporate Banking Group

Won Il Choi  
Director and Deputy President  
Head of Corporate Banking Group

### Treasury & International Business Group

Dong-Hyun Ji  
Director and Deputy President  
Head of Treasury & International Business

### Product Group

Joo-Won Lee  
Director and Deputy President  
Head of Product Group

### Credit Card Business Group

Dong-Hyun Ji  
Director and Deputy President  
Head of Credit Card Business Group

### Merchant Banking Group

Nae Soon Park  
Director and Deputy President  
Head of Merchant Banking Group

### Credit Management Group

Byung Rak Han  
Director and Deputy President  
Head of Credit Management Group

### Operational Services Group

Dong-Gerl Lee  
Director and Deputy President  
Head of Operational Services Group

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

### Risk Management Group

Kun-Ho Lee  
Director and Deputy President  
Head of Risk Management Group

### Planning Group

Chan-Il Park  
Director and Deputy President  
Head of Planning Group

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General Manager  
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#### Correspondent Banking

Hern-Jeen Park  
Deputy General Manager  
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#### • International Operations Division

Tae-Wan Kim  
General Manager  
Phone : (82-2) 2010-2690

#### • Investor Relations

Hee-Sung Park  
Head of Investor Relations Department  
Phone : (82-2) 2010-2581

### Pusan Regional Headquarters

130-3, Pujon 1-dong, Pusanjin-ku  
Pusan 614-030, Korea  
Phone : (82-51) 816-2300  
Fax : (82-51) 819-8205  
SWIFT : CHOH KR SE 498  
Hak-Bok Kim  
Regional Head

### Taegu Regional Headquarters

1317-3, Pisan 7-dong, Seo-ku  
Taegu 703-819, Korea  
Phone : (82-53) 354-2204/5  
Fax : (82-53) 354-3050  
Yung-Koo Jun  
Regional Head

### Honam Regional Headquarters

290, Book-dong, Book-ku  
Kwangju 500-050, Korea  
Phone : (82-62) 512-0871  
Fax : (82-62) 512-2311  
Ki-Hyun Kim  
Regional Head

### Chungchong Regional Headquarters

51-1, Won-dong, Dong-ku  
Taejeon 300-010, Korea  
Phone : (82-42) 253-5212  
Fax : (82-42) 253-5215  
Pil Joong Yun  
Regional Head

### Chungbuk Regional Headquarters

86-3, Young-dong, Sangdang-ku  
Chongju 360-200, Chungchongbuk-do, Korea  
Phone : (82-43) 220-7114  
Fax : (82-43) 220-7039  
Dong-Myun Lee  
Managing Director  
Head of Chungbuk Regional Headquarters

### Kangwon Regional Headquarters

72-3, Woonkyo-dong, Chooncheon 200-706  
Kangwon-do, Korea  
Phone : (82-33) 240-3114  
Fax : (82-33) 240-3318  
Suk-Kyu Han  
Managing Director  
Head of Kangwon Regional Headquarters

## □□ CORPORATE DATA

As of December 31, 2002

### Date of Establishment

February 19, 1897

### Head Office

14, 1-ka, Namdaemun-ro  
Chung-ku, Seoul 100-757, Korea  
Phone : (82-2) 2010-2114  
Fax : (82-2) 3700-4923

### Domestic Network

537 (1,673 including automated cash lobbies)

### Overseas Network

6 Branches  
5 Subsidiaries  
(As of March 24, 2003, Chohung Bank of New York acquired California Chohung Bank and changed its name to CHB America Bank. Therefore, the Bank currently has 4 overseas subsidiaries.)

### Number of Employees

6,637

### Paid-up Capital

W3,396 billion

### Number of Shares of Common Stock

Authorized : 2,000,000,000 shares  
Issued : 679,118,429 shares

### Number of Shareholders

77,228

### Major Shareholders

Korea Deposit Insurance Corporation 80.04%  
Hyundai Heavy Industries 1.78%  
Hyundai Motor Company 1.01%

### General Meeting of Shareholders

March 28, 2003

### Stock Listing

Korea Stock Exchange  
London Stock Exchange (GDRs)

### Independent Accounts

Anjin & Co.  
An associate member firm of  
Deloitte Touche Tohmatsu

### Investor Relations

Phone : (82-2) 2010-2463, 2488  
Fax : (82-2) 3700-4923  
E-Mail : ir@chb.co.kr

[www.chb.co.kr](http://www.chb.co.kr)

**CHB** **CHOHUNG BANK**

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