As filed with the Securities and Exchange Commission on June 28, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934,
for the fiscal year ended December 31, 2000

Commission File Number: 1-15140

H&CB
(Exact name of registrant as specified in its charter)

N/A	**The Republic of Korea**
(Translation of registrant's name into English)	*(Jurisdiction of incorporation or organization)*

36-3, Yoido-dong, Youngdeungpo-gu
Seoul, Korea 150-758
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common stock, par value Won 5,000 per share*	New York Stock Exchange

* Not for trading, but only in connection with the listing of American Depositary Shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report:

At December 31, 2000, there were outstanding:
109,062,554 shares of common stock, par value of Won 5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes X No ____

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17____ Item 18 X

TABLE OF CONTENTS

CERTAIN DEFINED TERMS

All references to "Korea" or the "Republic" contained in this document mean The Republic of Korea. All references to the "government" mean the government of The Republic of Korea. All references to "H&CB" mean H&CB on a non-consolidated basis, and all references to "we" or "us" mean H&CB and, as the context may require, its subsidiaries.

All references to "Won" or "₩" in this document are to the currency of the Republic, and all references to "Dollars", "US Dollars", "$" or "US$" are to the currency of the United States of America.

Our fiscal year ends on December 31 of each year. All references to a particular year are to the year ended December 31 of that year.

Unless otherwise indicated, translations of Won amounts into Dollars in this document were made at the noon buying rate in The City of New York for cable transfers in Won per US$1.00 as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translations of Won into Dollars were made at the noon buying rate in effect on December 31, 2000, which was Won 1,267.00 to US$1.00.

Unless otherwise indicated, the financial information presented in this document has been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

We have included statements in this document which contain words or phrases such as "will", "aim", "will likely result", "believe", "expect", "will continue", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "project", "should", "will pursue", and similar expressions or variations of such expressions that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to successfully implement our strategy, future levels of non-performing loans, our growth and expansion, the adequacy or allowance for credit and investment losses, technological changes, investment income, cash flow projections and our exposure to market risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document could include, but are not limited to: general economic and political conditions in Korea, Southeast Asia, and the other countries which have an impact on our business activities or investments, the monetary and interest rate policies of Korea, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in Korea and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environments in Korea, and regional or general changes in asset valuations. For further discussion of the factors that could cause actual results to differ, see the discussion under "Item 3. Key Information — Risk Factors" contained in this document.

Readers are cautioned not to place undue reliance on the forward-looking statements contained in this document, which speak only as of the date hereof.

Items 1 and 2. Not applicable.

Item 3. KEY INFORMATION

SELECTED FINANCIAL DATA

Selected Consolidated Financial and Operating Data Under U.S. GAAP

The selected consolidated financial and operating data set forth below for the years ended December 31, 1998, 1999 and 2000 and as of December 31, 1998, 1999 and 2000 have been derived from our consolidated financial statements which have been prepared in accordance with U.S. GAAP. Our consolidated U.S. GAAP financial statements have been audited by PricewaterhouseCoopers, independent accountants.

You should read the following data with the more detailed information contained in "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements, included herein. Historical results do not necessarily predict the future. All per share data have been restated to reflect the effects of stock dividends. See "Item 8. Financial Information — Consolidated Statements and Other Financial Information — Dividend Policy".

Consolidated income statement data

	Year Ended December 31,			
	1998	1999	2000	2000[1]
	(in ₩ billion, except per common share data)			(in US$ million, except per common share data)
Interest and dividend income	4,571	4,242	5,255	4,148
Interest expense	(3,200)	(2,817)	(3,452)	(2,725)
Net interest income	1,371	1,425	1,803	1,423
Provision for loan losses, guarantees and acceptances	(396)	(298)	(377)	(297)
Non-interest income	531	790	636	502
Non-interest expense	(1,274)	(1,109)	(1,309)	(1,033)
Income tax expense	(102)	(267)	(244)	(193)
Minority interest	(2)	—	(3)	(2)
Net income	128	541	506	400
Per common share data:				
Net income — basic (in ₩/US$)[2]	1,249	4,753	4,218	3.33
Net income — diluted (in ₩/US$)[3][4]	1,242	3,116	3,569	2.82
Weighted average common shares outstanding — basic (in thousands of common shares)	102,451	113,748	119,969	—
Weighted average common shares outstanding — diluted (in thousands of common shares)	102,961	173,497	141,778	—
Cash dividend declared per common share (₩/US$)[5]	500	—	150	0.11
Common shares outstanding at the end of the year	89,233	109,063	119,969	

(1) Won amounts are expressed in US dollars at the rate of ₩1,267/US$, the noon buying rate in effect on December 31, 2000.

(2) Basic earnings per share is calculated by dividing the net income applicable to common shares outstanding by the weighted average number of common shares outstanding for the period.

(3) Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stocks. Also, for purposes of diluted earnings per share, net income available for common stock is adjusted, if applicable, for any convertible preferred stock dividends, convertible debt interest or any other changes in income that could result from the assumed conversion of securities and other contracts. We have two categories of dilutive potential common shares: shares issuable upon exercise of share options granted to directors and employees and shares issuable upon conversion of convertible preferred shares.

(4) In the diluted earnings per share calculation, the convertible preferred shares are assumed to have been converted into common shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the out shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the common

shares outstanding for the purpose of computing the dilution; for the share options calculation, no adjustment is made to net profit.

(5) U.S. GAAP requires that dividends are recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

Consolidated balance sheet data

	As of December 31,			
	1998	1999	2000	2000(1)
		(in ₩ billion)		(in US$ million)
Cash and deposits	1,871	1,599	1,484	1,171
Restricted deposits	663	931	426	336
Call loans and securities purchased under resale agreements	467	76	720	568
Trading assets	1,184	2,371	2,549	2,012
Securities available for sale	7,768	4,360	5,782	4,564
Held-to-maturity securities	225	2,660	2,182	1,722
Loans, net	25,110	30,869	44,927	35,460
Premises and equipment, net	677	745	827	653
Other assets	2,372	1,666	2,059	1,625
Total assets	40,337	45,277	60,956	48,110
Deposits	27,544	33,379	47,279	37,316
Short-term borrowings	2,621	2,225	2,267	1,789
Secured borrowings	437	533	1,247	984
Long-term debt	4,759	3,776	3,703	2,923
Other liabilities	3,867	3,608	4,097	3,233
Total liabilities	39,228	43,521	58,593	46,245
Minority interest	6	—	7	5
Stockholders' equity	1,103	1,756	2,356	1,860
Total liabilities, minority interest and stockholders' equity	40,337	45,277	60,956	48,110

(1) Won amounts are expressed in US dollars at the rate of ₩1,267/US$, the noon buying rate in effect on December 31, 2000.

Profitability ratios

	As of December 31,		
	1998	1999	2000
	(percentages)		
Net income as a percentage of:			
Average total assets(1)	0.34	1.29	0.91
Average stockholders' equity(1)	14.98	34.61	25.88
Dividend payout ratio(2)	25.11	—	2.93
Net interest spread(3)	3.26	3.10	2.95
Net interest margin(4)	3.85	3.58	3.44
Cost-to-income ratio(5)	66.98	50.07	53.67
Cost-to-average assets ratio(6)	3.39	2.65	2.36

(1) Average balances are based upon quarterly balances.
(2) Represents the ratio of total cash dividends paid on common stock as a percentage of net income.
(3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
(4) Represents the ratio of net interest income to average interest earning assets.
(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

	As of December 31,		
	1998	1999	2000
	(percentages)		
Total capital adequacy (BIS) ratio for H&CB[1]	10.79	11.74	9.92[2]
Tier 1 capital adequacy ratio	5.64	6.93	5.48
Tier 2 capital adequacy ratio	5.15	4.81	4.57
Average stockholders' equity as a percentage of average total assets	2.27	3.72	3.52

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Service (FSS). The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See "Item 5. Operating and Financial Review and Prospects — Financial Condition — Capital".

(2) We have a minority equity investment in 2000 in ING Life Insurance Korea Co., which is deducted from total capital pursuant to the guidelines of the FSS instead of being deducted directly from Tier 1 or Tier 2.

Asset quality ratios

	As of December 31,		
	1998	1999	2000
	(percentages)		
Non-performing loans as a percentage of total loans[1]	9.97	7.59	4.55
Non-performing loans as a percentage of total assets[1]	6.47	5.39	3.45
Allowance for loan losses as a percentage of non-performing loans	47.91	52.75	62.58
Allowance for loan losses as a percentage of total loans	4.78	4.01	2.85

(1) Non-performing loans are defined as those loans which are past due more than 90 days.

Selected Statistical Information

Average Balance Sheet and Related Interest

The following table shows our average balances and interest rates for the past three years.

	Year Ended December 31,								
	1998			1999			2000		
	Average Balance(1)	Interest Income(2)(3)(5)	Average Yield	Average Balance(1)	Interest Income(2)(3)(5)	Average Yield	Average Balance(1)	Interest Income(2)(3)(5)	Average Yield
	(in ₩ billion, except percentages)								
Assets									
Cash and interest-bearing deposits in other banks	1,420	122	8.59%	1,327	104	7.84%	796	62	7.79%
Call loans and securities purchased under resale agreements	981	160	16.31	416	25	6.01	674	36	5.34
Trading securities(6)	214	12	5.61	1,501	130	8.66	2,346	118	5.03
Investment securities(4)(6)	5,953	766	12.63	7,585	676	9.20	8,406	803	9.18
Loans									
Credit Cards	811	138	17.02	947	165	17.42	1,993	351	17.61
Construction loans	1,848	259	14.02	1,776	212	11.94	1,075	95	8.84
Households — residential mortgages	16,125	2,096	13.00	16,093	1,934	12.02	22,669	2,401	10.59
Households — other consumer loans	2,074	319	15.38	4,338	505	11.64	5,569	670	12.03
Corporate — other	5,742	651	11.34	5,421	460	8.49	8,530	712	8.35
Other interest-earning assets	379	48	12.66	374	31	8.29	378	7	1.85
Total average interest-earning assets	35,547	4,571	12.86	39,778	4,242	10.66	52,436	5,255	10.02
Cash and due from banks	1,025			1,169			1,542		
Foreign exchange contracts and derivatives	99			94			119		
Premises and equipment	676			731			779		
Due from customers on acceptance	403			265			314		
Loan loss allowance	(761)			(1,285)			(1,262)		
Other non-interest earning assets	623			1,219			1,536		
Total average non-interest earning Assets	2,065			2,193			3,028		
Total average assets	37,612	4,571	12.15	41,971	4,242	10.11	55,464	5,255	9.47

	Year Ended December 31,								
	1998			1999			2000		
	Average Balance(1)	Interest Expense(5)	Average Yield	Average Balance(1)	Interest Expense(5)	Average Yield	Average Balance(1)	Interest Expense(5)	Average Yield
	(in ₩ billion, except percentages)								
Liabilities									
Interest bearing Liabilities									
Deposits									
Demand deposits	4,571	155	3.39%	6,370	169	2.65%	8,212	184	2.24%
Certificate of deposits	704	108	15.34	63	4	6.35	54	3	5.56
Time deposits	13,580	1,474	10.85	18,159	1,599	8.81	27,875	2,229	8.00
Savings deposits	473	28	5.92	777	31	3.99	977	38	3.89
Mutual installment deposits	5,645	550	9.74	4,957	474	9.56	4,370	425	9.73
Call money	665	67	10.08	383	19	4.96	662	29	4.38
Borrowings from BOK	1,403	158	11.26	485	16	3.30	73	4	5.48
Other short-term borrowings	1,250	138	11.04	947	94	9.93	1,215	101	8.31
Secured borrowings	624	74	11.86	489	27	5.52	1,657	113	6.82
Long-term debt	4,417	448	10.14	4,646	384	8.27	3,723	326	8.76
Total average interest-bearing Liabilities	33,332	3,200	9.60	37,276	2,817	7.56	48,818	3,452	7.07
Non Interest bearing liabilities									
Demand deposits	92			124			135		
Foreign exchange contracts and derivatives	105			11			9		
Acceptances to customers	403			265			314		
Other non-interest bearing liabilities	2,826			2,733			4,233		
Total average non-interest bearing liabilities	3,426			3,133			4,691		
Total average liabilities	36,758	3,200	8.71	40,409	2,817	6.97	53,509	3,452	6.45
Stockholders' equity	854			1,562			1,955		
Total Liabilities and equity	37,612	3,200	8.51	41,971	2,817	6.71	55,464	3,452	6.22

(1) Average balances are based (a) for H&CB, on daily balances and (b) for subsidiaries and U.S. GAAP adjustments to all such balances, on quarterly balances.
(2) The amount of loan fees included in the interest income computation are ₩312 billion for the year ended December 31, 2000, ₩135 billion for the year ended December 31, 1999 and ₩98 billion for the year ended December 31, 1998.
(3) Interest income figures include interest income recognized on non-accruing loans.
(4) Average yield information about investments available for sale has been computed using amortized cost balances, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders' equity.
(5) Interest income and expense have been stated after allocation of interest on instruments entered into for hedging purposes.
(6) We do not invest in tax-exempt securities.

The following table presents the net interest spread, net interest margin, and asset liability ratio.

	Year Ended December 31,		
	1998	1999	2000
Net interest spread(1)	3.26%	3.10%	2.95%
Net interest margin(2)	3.85%	3.58%	3.44%
Asset liability ratio(3)	106.65%	106.71%	107.41%

(1) The difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.
(2) The ratio of net interest income to average interest-earning assets.
(3) The ratio of average interest-earning assets to interest-bearing liabilities.

Analysis of Changes in Net Interest Income — Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 1999 compared to 1998 and for 2000 compared to 1999. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change.

The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

	Fiscal 1999 vs. Fiscal 1998			Fiscal 2000 vs. Fiscal 1999		
	Increase/(Decrease) Due to Changes in			Increase/(Decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in ₩ billion)			(in ₩ billion)		
Interest-earning assets						
Cash and interest-earning deposits	(8)	(10)	(18)	(41)	(1)	(42)
Call loans and securities purchased under resale agreements	(64)	(71)	(135)	14	(3)	11
Trading securities	108	10	118	56	(68)	(12)
Investment securities	143	(233)	(90)	128	(1)	127
Loans						
Credit cards	24	3	27	184	2	186
Construction loans	(10)	(37)	(47)	(71)	(46)	(117)
Households — residential mortgages	(4)	(158)	(162)	717	(246)	471
Households — other consumer loans	279	(93)	186	148	13	161
Commercial and industrial	(35)	(156)	(191)	260	(8)	252
Other interest earning assets	(1)	(16)	(17)	—	(24)	(24)
Total interest income	432	(761)	(329)	1,395	(382)	1,013
Interest-bearing liabilities						
Deposits						
Demand deposits	52	(38)	14	44	(29)	15
Certificate of deposits	(63)	(41)	(104)	(1)	(0)	(1)
Other time deposits	437	(312)	125	788	(158)	630
Savings deposits	14	(11)	3	8	(1)	7
Mutual installment deposits	(66)	(10)	(76)	(57)	8	(49)
Call money and securities sold under repurchase agreements	(22)	(26)	(48)	12	(2)	10
Borrowings from BOK	(68)	(74)	(142)	(19)	7	(12)
Other short-term borrowings	(31)	(13)	(44)	24	(17)	7
Secured borrowings	(13)	(34)	(47)	78	8	86
Long-term debt	22	(86)	(64)	(80)	22	(58)
Total interest expense	262	(645)	(383)	797	(162)	635
Total net interest income	170	(116)	54	598	(220)	378

Exchange Rates

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for Won based on the noon buying rate in New York City for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Won per US dollars.

Year Ended December 31,	At End of Period	Average Rate(1)	High	Low
	(₩ per US$1.00)			
1996	848	808	849	776
1997	1,695	988	1,960	846
1998	1,206	1,367	1,812	1,196
1999	1,136	1,188	1,243	1,125
2000	1,267	1,140	1,267	1,106
December			1,267	1,184
2001 (through June 27)	1,300	1,291	1,369	1,234
January			1,286	1,253
February			1,270	1,234
March			1,332	1,253
April			1,369	1,299
May			1,319	1,282
June (through June 27)			1,305	1,285

(1) The average of the noon buying rates on the last business day of each month during the relevant period (or portion thereof). For the monthly average rates, the average of the noon buying rates for each day during the relevant period (or portion thereof).

We have translated certain Won amounts which appear in this document into dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into dollars at any particular rate, the rates stated above, or at all. Except in the section on "The Korean Banking Industry", which is based on publicly available data, all translations from Won to dollars are based on the noon buying rate in effect on December 31, 2000, which was ₩1,267 to US$1.00. The exchange rates used for convenience translations differ from the actual rates used in the preparation of our consolidated financial statements.

RISK FACTORS

You should carefully consider the following risk factors as well as the other information contained in this document in evaluating us and our business before purchasing American depositary shares.

Risks relating to our banking business

Risks relating to our proposed merger with Kookmin Bank

The merger ratio is fixed and will not reflect market fluctuations

Pursuant to a merger agreement dated as of April 23, 2001, we and Kookmin Bank have agreed to merge by combining both banks into a new corporation to be named Kookmin Bank. Upon completion of the merger, all shares of Kookmin Bank common stock and our common stock will be converted into shares of the combined bank's common stock, and all Kookmin Bank global depositary shares and our American depositary shares will be converted into American depositary shares of the combined bank. The ratios at which each bank's common stock and depositary shares will be converted are fixed, and there will be no adjustment for changes in the market prices of either bank's common stock or depositary shares. Any change in the prices of either bank's common stock or depositary shares occurring prior to the effective date of the merger will affect the value that holders of our common stock and American depositary shares will receive in the merger. Stock price changes may result from a variety of factors that are beyond our control, including changes in our businesses, operations and prospects, regulatory considerations and general market and economic conditions. We are not permitted to "walk away" from the merger or resolicit the vote of our shareholders solely because of changes in the market prices of either bank's common stock or depositary shares.

If you are a holder of our American depositary shares, you will not have any dissent and appraisal rights in respect of the merger

Under Korean law, holders of shares of H&CB common stock who oppose the merger with Kookmin Bank may exercise an appraisal right and require the combined bank to purchase their shares if the merger is completed. However, if you are a holder of H&CB American depositary shares, you will not have any appraisal rights in respect of the merger even if you oppose it. In order to exercise such rights, you will have to withdraw the shares underlying your American depositary shares.

We may fail to realize the anticipated benefits of the proposed merger

The success of the merger with Kookmin Bank will depend, in part, on the ability of the combined bank to realize the anticipated synergies, growth opportunities and cost savings from combining the businesses of H&CB and Kookmin Bank. The realization of these anticipated benefits of the merger may be blocked, delayed or reduced as a result of numerous factors, some of which will be outside our control. These factors include:

- difficulties in integrating the existing operations of H&CB and Kookmin Bank, including personnel, policies and procedures, branch networks, information systems and management and administrative functions;
- unforeseen contingent risks or latent liabilities relating to the combined bank that may only become apparent after the merger;
- difficulties in managing a much larger business;
- loss of key personnel; and
- labor unrest.

Accordingly, we cannot assure you that the combined bank will realize the anticipated benefits of the merger or that the merger will not harm the combined business, financial condition and results of operations of the two banks.

In particular, since we and Kookmin Bank have operated and will continue to operate independently until the completion of the merger, the integration of the operations of the two banks is likely to require significant amounts of time, financial resources and management attention. The integration process could result in the disruption of the combined bank's ongoing businesses and information systems, or inconsistencies in standards, controls, procedures and policies and a reduction in employee morale, each of which may adversely affect the combined bank's ability to maintain relationships with clients and to retain key personnel.

In addition, we and Kookmin Bank each experienced a period of labor unrest in connection with the announcement of our proposed merger. See "Directors, Senior Management and Employees — Employees." The Korea Financial Industry Union, which represents a majority of the two banks' combined workforce, has opposed the merger and any workforce reductions that may result from combining the two banks' businesses. As a result, the combined bank may face continued labor unrest after the merger is completed. The threat of labor unrest may hinder the combined bank's ability to realize cost savings in connection with the merger, and any significant labor action by the combined bank's workforce could seriously disrupt its operations.

The exercise of appraisal rights in respect of a significant number of shares of our common stock or Kookmin Bank common stock, or the exercise of creditor protection rights in respect of a significant amount of debt of either bank, could increase the costs of the merger, reduce the capital of the combined bank and hurt its financial condition

Under Korean law, our shareholders or shareholders of Kookmin Bank who oppose the merger may exercise an appraisal right and require us or Kookmin Bank, as the case may be, to purchase their shares if the merger is completed. We expect to pay ₩22,441 for each share of our common stock, and expect that Kookmin Bank will pay ₩13,698 for each share of Kookmin Bank common stock, properly submitted for appraisal. If shareholders exercise appraisal rights in respect of a significant number of shares of our common stock or Kookmin Bank common stock, the combined bank will be required to expend a significant amount of funds to purchase such shares, which will reduce its capital and hurt its financial condition.

Under Korean law, we and Kookmin Bank are required to implement creditor protection procedures in connection with the merger. Under these procedures, creditors of either bank that are opposed to the merger may require the relevant bank to perform its payment obligations to such creditors on an accelerated basis or provide collateral or property in trust to secure such payment obligations. If creditors exercise these rights in respect of a significant amount of our payment obligations or those of Kookmin Bank, the combined bank will be required to expend a significant amount of funds for payments or to encumber a significant amount of its assets, which will adversely affect the financial condition of the combined bank.

Our directors and officers may have potential conflicts of interest in supporting the merger

A number of our directors who support the merger with Kookmin Bank may have employment or severance agreements or benefit arrangements that provide them with interests in the merger that differ from those of our shareholders. In addition, some members of our management may also have interests that differ from those of our shareholders, including the opportunity to obtain employment positions in the management of the combined bank. The possibility of receiving compensation or other benefits in the merger may have influenced these directors and officers in their support of the merger.

The merger is subject to various conditions and may not be completed as scheduled or at all

Under the merger agreement with Kookmin Bank, our and Kookmin Bank's obligations to complete the merger are subject to a number of specified conditions, including approval by our shareholders and Kookmin Bank's shareholders and the obtaining or satisfaction of all regulatory approvals, permits, consents and requirements necessary for the consummation of the merger. Regulatory authorities in Korea or elsewhere may seek to block or delay the merger or may impose conditions that reduce the anticipated benefits of the merger or make it difficult to complete as planned. In addition, the two banks have the right to terminate the merger agreement at any time prior to the completion of the merger, upon mutual written consent. Either bank may also terminate the merger agreement upon a continuing breach of the agreement by the other bank that has a material adverse effect on either bank or the ability of either bank to perform its obligations under the agreement. Accordingly, even if the merger is approved by our shareholders and Kookmin Bank's shareholders, we cannot assure you that the merger will be completed as scheduled or at all.

If the merger is completed, our business will be combined with Kookmin Bank's business, which is subject to many risks

Kookmin Bank's business is subject to many risks, including many of the same risks that our business faces, as described below. If the merger is completed, we expect that the business of the combined bank will be subject to the risks faced by Kookmin Bank's business, as well as those faced by our business. In some areas, including exposure to particular borrowers or groups of borrowers or to economic and financial conditions in Korea, the magnitude of the risks faced by the combined bank may be greater than that of the risks faced by either bank individually.

We now face full competition in our core mortgage business, which may result in a further decrease of our market share and adversely affect our margins

Until 1997, by law, we were the only financial institution in Korea that could offer a full range of mortgage products. Among other things we had the exclusive ability to:

- offer mortgages with terms longer than ten years;
- provide housing related deposit accounts; and
- offer preferential rights to subscribe for newly-built apartments.

Beginning in 1997, the laws giving us the exclusive rights to offer these mortgage-related products began to be repealed. As a result, all banks in Korea can offer a full range of mortgage products.

The increase in competition has led to loan price competition among mortgage lenders in Korea which has adversely affected our margins. We cannot guarantee that we will be able to maintain our market share or our margins at their current levels in the face of increased competition. Any decrease in our market share or in our margins may adversely affect our financial condition and results of operations.

Unfavorable financial and economic conditions in Korea have had and may in the future have an adverse impact on the asset quality of our loan portfolio

Korea experienced unfavorable financial and economic conditions in 1997 and 1998. As a result, a large number of Korean companies and individuals experienced financial difficulties. This resulted in a general increase in the level of our non-performing loans. The ratio of our non-performing loans to our total loans was 7.5% as of December 31, 1997, 10.0% as of December 31, 1998, 7.6% as of December 31, 1999 and 4.6% as of December 31, 2000. The level of our non-performing loans would have been higher as of December 31, 1997, December 31, 1998 and December 31, 1999 except that we sold substandard or below loans to the Korea Asset Management Corporation (KAMCO) in connection with a government program to assist the Korean banking industry. In 1997, we sold an aggregate of ₩34 billion of substandard or below loans to KAMCO, in 1998, we sold an aggregate of ₩299 billion of substandard or below loans to KAMCO and in 1999, we sold an aggregate of ₩8 billion of substandard or below loans to KAMCO. We did not sell any substandard or below loans to KAMCO in 2000.

During 2000 and in particular, the fourth quarter of 2000, the economic recovery in Korea slowed. The economic indicators in the first quarter of 2001 have been mixed, and it is uncertain as to how the Korean economy will perform in the near term. Any worsening of the Korean economy could lead to an increase in our non-performing loans. A significant increase in our non-performing loans may have a material adverse effect on our financial condition, results of operations and capital adequacy and could have an adverse effect on the price of the American depositary shares.

Developments that could hurt Korea's economy include the following:

- social and labor unrest resulting from higher unemployment and lower levels of income;
- a decrease in tax revenues and a substantial increase in government expenditure for unemployment compensation and other social programs which together may result in an increased government budget deficit;
- volatility in foreign currency reserve levels, exchange rates, interest rates and the stock market;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- the current financial problems at companies in the Daewoo Group or Hyundai Group or similar difficulties at other chaebols or their suppliers, and their potential impact on Korea's financial sector;
- the failure of restructurings of large troubled companies; and
- adverse developments in the economies of countries to which Korea exports.

Our business is vulnerable to volatility in interest rates

Over the last few years, the financial sector in Korea has been deregulated, which has increased competition. Prior to that time, our operations and profitability substantially reflected our lending at interest rates set by the Korean government. Since 1997, we have had the flexibility to set interest rates on virtually all of the loans we extend. These developments have resulted in greater volatility in interest rates and margins for substantially all financial institutions in Korea including ourselves. Based on our lending book's asset-liability position as of December 31, 2000 and assuming that our interest rates respond sensitively to the fluctuation in general market rates, our net interest income would decrease with a decline in interest rates. The volatility in interest rates could adversely affect our business and future financial performance.

Our largest exposure is to the Korea Housing Guarantee Co., Ltd. (KHGC), and the KHGC has experienced substantial financial difficulties

The KHGC takes responsibility for completing construction projects if construction companies become insolvent while their projects are in progress. In addition, the KHGC has assumed the obligations of a predecessor entity to guarantee a number of loans to construction companies. As a result of the large number of insolvencies in the construction industry, the KHGC has recently experienced substantial liquidity problems. Representatives of the KHGC, the Ministry of Construction and Transportation and creditor financial institutions of the KHGC, including us, held a series of meetings in March and April 2000 and agreed on a basic framework for restructuring part of the KHGC's debts. On June 27, 2001, the government and creditor financial institutions agreed on a capital contribution and debt repayment program to normalize the operation of KHGC. Under the terms agreed, the Government will make a capital contribution of ₩947 billion and purchase convertible bonds of ₩332 billion issued by the KHGC. In addition, ₩504 billion of the creditor financial institutions' outstanding loans to KHGC will be converted to equity, including ₩171 billion of our outstanding loans, while the creditor financial institutions' outstanding loans of ₩1,015 billion, including our remaining outstanding loans of ₩309 billion, will be repaid in full.

After the implementation of the above restructuring program, 49.9% of the outstanding share capital of the KHGC will be owned by the government, 20.6% of the outstanding share capital of the KHGC will be owned by construction companies, and 20.9% of the outstanding share capital of the KHGC will be owned by financial institutions, including 9.7% by us. If the agreement on restructuring program for the KHGC fails to resolve the KHGC's financial problems, our financial condition and results of operations may be further adversely affected.

We have exposure to the largest Korean commercial conglomerates known as "chaebols," which have recently experienced significant financial difficulties

As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced financial difficulties. Of our ten largest corporate exposures as of December 31, 2000, seven are companies that are members of the 30 largest chaebols in Korea. As of that date, the total amount of our exposures to those chaebols was ₩1,356 billion or 2.2% of our total exposures of which ₩326 billion or 0.5% were classified as substandard or below and none were classified as special mention. If the quality of the exposures extended to these or other chaebols declines, substantial additional allowances would be required, which would adversely affect our results of operations.

Due to their size and penetration of the Korean economy, continued difficulties experienced by the chaebols may have adverse effects on the Korean economy as a whole. Many small and medium-sized enterprises in Korea, which are the focus of our corporate banking activities, have close business relationships with chaebols, primarily as suppliers. Any difficulties encountered by chaebols would be likely to adversely impact the financial conditions of small and medium-sized enterprises, including those with which we do business, which in turn could have an adverse effect on our business and the price of the American depositary shares.

We have significant exposure to the Daewoo Group whose principal creditors have commenced formal workout proceedings

As of December 31, 2000, our outstanding exposure to member companies of the Daewoo Group, one of the largest chaebols in Korea, totaled approximately ₩272 billion, which represented approximately 0.4% of our total exposure. Approximately 90.5% of our exposures to member companies of the Daewoo Group are currently classified as substandard or below. The financial condition of the Daewoo Group has deteriorated over the past several years. In August 1999, the principal creditor banks of the Daewoo Group commenced formal workout procedures with respect to 12 of the member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Currently, these member companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2000, we had made provisions for 80.8% of our loans and guarantees with the Daewoo Group. The allowance for loans and guarantees amounted to ₩173 billion. In addition, we hold securities issued by the Daewoo Group at their fair value. There is no guarantee that the procedures will result in the successful implementation of workout plans for the member companies of the Daewoo Group to which we have exposure or that we will be able to make any recoveries in respect of our total exposures to those companies.

We have significant exposure to the Hyundai Group which is experiencing financial difficulties.

As of December 31, 2000, our outstanding exposure to member companies of the Hyundai Group, the second largest chaebol in Korea, totaled approximately ₩342 billion, which represented approximately 0.6% of our total exposure. Approximately 13.8% of our exposures to member companies of the Hyundai Group are currently classified as substandard or below. As of December 31, 2000, we had made provisions for 16.9% of our loans and guarantees with the Hyundai Group. The Hyundai Group has been reported to be struggling with its indebtedness, reported to amount to approximately US$30 billion, and Hyundai Group's Hyundai Engineering & Construction and Hynix Semiconductor have been reported to be experiencing liquidity problems.

Since December 31, 2000, eight domestic commercial banks which have made loans to Hyundai Engineering & Construction have agreed to provide the following assistance:

- extend loans secured by real estate in the aggregate amount of ₩340 billion;
- extend working capital loans in the amount of ₩390 billion;

- convert loans into equity in an amount of ₩1,400 billion; and

- participate in a rights offering with the creditors' portion being ₩750 billion.

In May 2001, it was decided that the capital of Hyundai Engineering & Construction be reduced by a ratio of 5.99 to 1. Since December 31, 2000, we made additional loans in the amount of ₩150 billion to Hyundai Engineering & Construction, out of which ₩124 billion is currently outstanding. All of this amount is secured by the deposit account of Hyundai Engineering & Construction which collects installment payments of housing subscribers. Our outstanding exposure to Hyundai Engineering & Construction was ₩130 billion as of May 31, 2001.

In May 2001, domestic commercial banks, investment trust companies and certain other financial institution creditors of Hynix Semiconductor agreed to provide the following assistance under the condition that the company successfully raises an aggregate of ₩1.3 trillion through an offering of global depositary shares and/or high yield bonds:

- purchase convertible bonds and/or convert loans into equity in the amount of ₩1 trillion, out of which our portion was ₩396 billion;

- extend the maturity of certain loans in an aggregate amount of US$868 million, out of which our portion was US$98 million; and

- purchase by investment trust company creditors of corporate bonds in the amount of ₩680 billion, out of which ₩27 billion will be used to repay our loans.

In June 2001, Hynix Semiconductor successfully issued US$1.25 billion of global depositary shares representing common shares. Our outstanding exposure to Hynix Semiconductor was ₩141 billion as of May 31, 2001.

In addition to the above assistance, the Korea Development Bank has established a program to stimulate the corporate debenture market, the "Fast Track Debenture Program". Hyundai Engineering & Construction and Hynix Semiconductor were selected as companies to be included in this program, which commenced in January 2001. Under this bond purchase program, selected companies became eligible to re-finance through the Korea Development Bank up to 80% of the principal amount of their debentures maturing in 2001 through the issuance of new debentures to the Korea Development Bank at market interest rates. There is no guarantee that the procedures will result in resolving liquidity problems for the member companies of the Hyundai Group to which we have exposure or that we will be able to make any recoveries in respect of our total exposures to those companies.

Also, on April 19, 2001, two trusts that were formed after the dissolution of the Bond Market Stabilization Fund purchased securities that resulted in approximately 80% of the securities held by the two trusts being securities issued by member companies of the Hyundai Group. As we own 7.94% of the trusts in total, we are exposed to 7.94% of the potential loss on those securities.

If any of the loans to which we have the highest exposure were to become substandard or below, our results of operations could be adversely affected

As of December 31, 2000, our 20 largest loans, based on outstanding balances, totaled approximately ₩1,650 billion, which represented approximately 3.6% of total loans. As of that date, our largest single outstanding loan balance was to the Korea Deposit Insurance Corporation (KDIC) in the amount of ₩190 billion, representing 0.4% of our total loans. As of December 31, 2000, five of our 20 largest loans aggregating ₩363 billion (0.8% of our total loans), were classified as substandard. As of that date, none of our 20 largest loans was classified as doubtful. If any of our remaining such loans were to become substandard or below, additional loan loss provisions would be required, which could adversely affect our results of operations.

Our current allowances for losses relating to our loans to leasing companies and companies under restructuring programs may not be sufficient to cover all future losses relating to them

As of December 31, 2000, we had loans outstanding to leasing companies in the amount of ₩83 billion. Of this amount, ₩77 billion was classified as special mention or lower. Leasing companies in Korea are undergoing restructuring, thus the quality of these loans may deteriorate further in the future. As of December 31, 2000, our loan loss allowance for loans to leasing companies was ₩23 billion. However, we cannot assure you that this amount will be sufficient to cover all future losses arising from our exposure to leasing companies.

As of December 31, 2000, ₩1,316 billion, or 2.8%, of our total loans were in the process of being restructured. As of December 31, 2000, our loan loss allowance for our total loans to companies under restructuring programs amounted to ₩499 billion, or 37.9% of our total loans to these companies. We cannot assure you that they will be sufficient to cover all future losses relating to our exposure to companies under restructuring programs.

A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio

A substantial portion of our loans are secured by real estate. The values of real estate in Korea declined significantly in 1997 and 1998 due to adverse economic conditions. The loan to value ratio of our loans secured by real estate, which is a measure of the amount of a loan to the assessed value of the security collateralizing the loan, has been approximately 33.9% for housing loans, and 80.0% to 90.0% for general loans to corporations and individual entrepreneurs, over the last five years. As a result, the downturn in the real estate market since the end of 1997 did not result in the principal amount of our loans exceeding the value of the underlying collateral. Any downturn in the Korean economy, however, could result in shortfalls in collateral values. Any decline in the value of the collateral securing our loans may require us to increase our loan loss provisions and allowance.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may decrease the value of such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of collateral. A failure to recover the expected value of a collateral security could expose us to a potential loss. Any unexpected losses could reduce our stockholders' equity and adversely affect our business.

If we are required to repurchase the substandard or below loans that we sold to KAMCO, we may need to recognize losses

In December 1997, September 1998 and December 1999, we sold an aggregate of ₩341 billion of loans before allowances for loan losses (₩236 billion, net of loan loss allowances) classified as substandard or below, to KAMCO for proceeds of ₩138 billion pursuant to a government program to support financial institutions in Korea. Pursuant to the terms of the sales made in 1998, KAMCO has the right, in certain circumstances, to require us to repurchase the loans at their purchase price. See "Item 5. Operating and Financial Review and Prospects — Trend Information — The Acquisition of DongNam Bank — Sales of Substandard or Below Loans to KAMCO". As of December 31, 2000, KAMCO had required us to repurchase an aggregate of ₩43 billion of substandard loans (₩23 billion net of loan loss allowances).

As of December 31, 2000 we had guaranteed ₩59 billion of loans against which we had recorded a recourse liability of ₩3.7 billion. We are unable to predict when, if at all, we will be required to repurchase assets from KAMCO. If we are required to repurchase loans from KAMCO and we are unable to recover an amount sufficient to cover the repurchase price, we will incur a loss. Any such loss could have a material adverse effect on our results of operations and financial condition.

We are highly dependent on short-term funding deposits, which dependence may adversely affect our operations

A significant amount of our funding requirements are met through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2000, approximately 86.24% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. If a substantial number of depositors were to fail to roll over deposited funds upon maturity or withdraw their funds, our liquidity position may be adversely affected, and we may be required to seek more expensive sources of short-term and long-term funds to finance our operations.

The value of the securities we hold has experienced and may continue to experience volatility

As of December 31, 2000, we held corporate bonds issued by Korean companies with a total book value of ₩608 billion in our trading and investment portfolios. In addition, as of that date, we held bonds issued by Korean financial institutions (excluding "monetary stabilization bonds" issued by the Bank of Korea (BOK)) with a total book value of ₩535 billion in our trading and investment portfolios. We cannot assure you that issuers of these and other securities will not, as a result of adverse financial and economic conditions in Korea, default on payments of interest or principal. Such defaults would likely have a material adverse effect on our results of operations and financial condition.

Risks relating to our acquisition of DongNam Bank

We may not be able to repurchase our preferred stock from KDIC which could result in their conversion to common stock and significant dilution

In December 1998, the government, through KDIC, purchased (1) 59,300,000 shares of our convertible non-voting preferred stock for an aggregate purchase price of ₩297 billion and (2) ₩148 billion of our subordinated notes to make up for the decrease in our capital ratio resulting from our acquisition of DongNam Bank. Under the terms of the purchase agreement with KDIC, we have the right to repurchase the preferred stock at the original purchase price prior to January 31, 2004. We have repurchased 41,510,000 shares of preferred stock and currently the KDIC owns 17,790,000 shares of our preferred stock. We pay dividends on this preferred stock at a rate of 1.0% of the par value per year.

If we do not repurchase 8,895,000 of the outstanding 17,790,000 shares of preferred stock owned by KDIC by January 31, 2003, the dividend rate for those preferred shares will increase from 1.0% to a rate based on the average yield of bonds issued by KDIC. In addition, if we do not repurchase all the outstanding shares of preferred stock by January 31, 2004, they will convert into shares of common stock on a one-to-one basis on March 28, 2004. The common stock issued upon conversion of the preferred stock currently owned by the KDIC would represent 14.0% of our common stock on a fully diluted basis.

The aggregate amount of repurchases in any year may not exceed the total amount available for the distribution of dividends at the end of the preceding fiscal year.

We cannot guarantee that we will be able to repurchase our preferred stock from KDIC, and if we cannot repurchase the preferred stock currently owned by KDIC by January 31, 2004 for any reason, and the shares of preferred stock convert into common stock, holders of American depositary shares would suffer a significant dilution of their interests.

KDIC has agreed to waive its pre-emptive rights in respect of its preferred stock until after the applicable repurchase deadlines. KDIC has also agreed that if its stock is converted into common stock, it will refrain from exercising its voting rights. However, such waivers may not be legally enforceable under Korean law. In addition, there are no legal restrictions on the ability of KDIC to transfer the shares of preferred stock or the common stock into which they may convert. In the event that KDIC transfers any such shares to third parties, such transferees would not be bound by KDIC's waiver of pre-emptive rights or voting rights.

There have been, and may be in the future, legal challenges to our acquisition of DongNam Bank

Following our acquisition of DongNam Bank, 1,104 former employees of DongNam brought a lawsuit against us seeking to require us to employ them and seeking monetary damages. The claim is based on the argument that the acquisition of DongNam Bank was a business transfer in nature, triggering the requirement that all employees of DongNam be given the option to work with us after the acquisition. On May 25, 2000, the Seoul District Court Southern Branch decided the case in our favor. The former employees of DongNam Bank appealed to the Seoul High Court on June 12, 2000. On February 2, 2001, the Seoul High Court declined to hear the appeal. However, the former employees of DongNam Bank appealed the decision of the Seoul High Court to the Supreme Court on March 13, 2001. If the case is ultimately decided against us, we could be forced to employ these former employees of DongNam and pay monetary damages. The amount of monetary damages we could be required to pay is unclear at this point but it could be as much as ₩73 billion.

In September 1998, members of DongNam Bank's labor union brought an administrative action against the FSC demanding the unwinding of our acquisition of DongNam on the grounds that the law upon which the FSC based its order for the acquisition was unconstitutional. The case is still proceeding. We cannot assure you that these legal actions seeking to unwind our acquisition of DongNam Bank or other remedies based on this or any other grounds will not be commenced, or that, if commenced, would not be successful.

Under Korean law, a transfer of a business to a company requires the approval of the acquiring company's shareholders, as well as an opportunity for dissenting shareholders to exercise appraisal rights which means we are required to purchase shares from these shareholders at a predetermined price. It is unclear whether our acquisition of DongNam constituted a transfer of a business for purposes of Korean law. The Ministry of Justice of Korea has issued an interpretation to the effect that transactions such as our acquisition of DongNam do not constitute a business transfer requiring shareholder approval and appraisal rights. This interpretation, however, does not have any legally binding effect. We did not obtain shareholder approval for the acquisitions or provide appraisal rights to dissenting shareholders. We cannot assure you that our acquisition of DongNam will not be challenged in the future because we did not get shareholder approval or provide appraisal rights or that any challenge on these grounds will not be successful.

An unwinding of our acquisition of DongNam or other remedies resulting from successful legal challenges or otherwise may have an adverse effect on us.

Risks relating to government regulation and policy

We are subject to government review of any decision to change the minimum amount of our lending which is required to be devoted to mortgage lending

Currently our articles of incorporation require us to devote at least 50.0% of our Won currency lending, other than any lending done pursuant to government policies as described below, to mortgage lending. Any change in this minimum amount is subject to prior review by the FSC. Although the FSC does not have the explicit power to prevent us from changing the minimum percentage of our mortgage lending, the FSC is our principal government regulator and as a result, we may not wish to reduce our mandated minimum percentage of mortgage lending if the FSC is opposed to the change.

The government promotes lending to certain types of borrowers as a matter of policy, which we may feel compelled to follow

Under Korean law, we are currently required to ensure that 35.0% of the amount of any new lending we do each month consists of loans to small and medium-sized enterprises. See "Item 4. Information of the Company — Business Overview — Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Lending to Small and Medium-Sized Enterprises". In addition, the government has, and will continue to, as a matter of policy, attempt to promote lending to certain types of borrowers. It generally has done this by identifying qualifying borrowers and making low interest loans available to banks and financial institutions who lend to those qualifying borrowers. The government has in this manner promoted low income mortgage lending and lending to technology companies. As of December 31, 2000, ₩368 billion, or 0.8% of our outstanding loans had been made pursuant to government policies. All loans we make pursuant to government policies are reviewed in accordance with our credit review policies. However, we cannot assure you that government policy might not influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of the government policy.

The government may decide not to continue designating us as the sole manager of the National Housing Fund (NHF), in which case our fee income from managing the NHF may be eliminated or reduced

The NHF is a government fund that provides mortgage lending to low income households and construction loans to fund projects to build small-and medium-sized housing. Since 1981, we have been managing the operations of the NHF and receiving a monthly management fee. In 2000, we received total fees of ₩158 billion for managing the NHF.

In January 2000, the relevant law that had specified us as the institution that manages the NHF was amended to provide that the Minister of Construction and Transportation is to designate the institution that will perform this function. After the amendment of the law, the Minister of Construction and Transportation designated us to manage the NHF. If the Minister designates another institution instead of us or in addition to us to manage the NHF, our fee income from managing the NHF will be eliminated or reduced compared to current levels, which in turn would have an adverse effect on our results of operations.

We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on acceptable terms, if at all

Pursuant to Korean bank regulations, we are required to maintain a minimum Tier I and Tier II capital adequacy ratio of 8.0%. We are required to calculate our capital adequacy ratios in accordance with the requirements of the FSS using our Korean GAAP financial statements. As of December 31, 2000, our Tier I capital adequacy ratio was 5.48% and our combined Tier I and Tier II capital adequacy ratio was 9.92%. We plan to repurchase all of the remaining 17,790,000 shares of preferred stock for ₩89 billion issued to KDIC in connection with our acquisition of DongNam Bank, prior to the applicable deadlines for such repurchases. If we do so, it will reduce our capital base and our capital adequacy ratios. In addition, our capital base and our capital adequacy ratios may decrease in the event that we are not able to adequately deploy the funds that our customers deposit with us because our deposit base increases rapidly or our results of operations or financial condition deteriorate. Accordingly, we may be required to obtain additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. If we require additional capital in the future, we cannot guarantee that we will be able to obtain such capital on acceptable terms, or at all. Depending on the terms and amount of any additional capital obtained, holders of American depositary shares may experience a significant dilution of their interest. In addition, our ability to obtain additional capital may be restricted further to the extent Korean banks or banks from other Asian countries are seeking to raise capital at the same time.

Our business is very competitive and our growth strategy depends on our ability to compete effectively

We compete principally with other financial institutions in Korea, including:

- nationwide commercial banks;
- regional banks;
- development banks;
- specialized banks;
- branches of foreign banks operating in Korea; and
- with respect to the provision of mortgage loan products, installment finance corporations.

General regulatory reforms in the Korean banking industry have increased competition among banks for deposits, generally leading to lower margins from lending activities. We believe that Korea's recent economic difficulties and the Korean government's commitments to the International Monetary Fund have accelerated and will continue to bring about regulatory reforms in and liberalization of the Korean financial industry, leading to increased competition among financial institutions in Korea.

As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services. In addition, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last two years. We expect that this merger activity will continue. Even if we merge with Kookmin Bank, some of the banks resulting from these other mergers may be significantly larger and may have more financial resources than us. There can be no guarantee that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our income, financial condition or operating results.

Internet banking may not continue to grow or may grow slower than expected in Korea, which would inhibit the growth of our Internet banking business

One of our important strategies is to increase our Internet banking services. The demand and market acceptance for Internet banking services are subject to a high level of uncertainty and are substantially dependent upon the adoption of the Internet for general commerce and financial services transactions in Korea.

In order to realize significant revenue from our Internet services, we will have to persuade our customers to conduct banking and financial transactions through the Internet. Electronic Transaction Basic Law, Electronic Signature Law and certain other Internet-related laws are already in effect concerning the commercial use of the Internet, including legal recognition of electronic records, validity of online contracts and authentication of digital signatures. However, there remains uncertainty regarding certain legal issues in connection with the use of the Internet, including the effectiveness of electronic signature or the liabilities with respect to the operation of a web site. If Internet banking does not continue to grow or grows slower than expected, we will not be able to meet our projected earnings and growth strategy related to our Internet banking business.

Risks relating to the management of our trust accounts

We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have a material adverse effect on our income

We manage a number of trust accounts. The financial results of the trust accounts are not consolidated with our financial results. Under Korean law, trust account assets are segregated from the assets of our general banking operations and are not available to satisfy the claims of our depositors or other creditors of our general banking operations. For some of these trusts we guarantee the principal amount of the investor's investment and, in certain cases, we also guarantee a fixed rate of interest. Since January 1999, new legislation prevents us from offering new trust accounts for which we guarantee both the principal amount of the investment and a fixed rate of return. However, we plan to continue offering trust accounts which provide only a principal guarantee. If, at any time, the income from our guaranteed trust accounts is not sufficient to pay the guaranteed amount, we will have to satisfy the shortfall either from the reserves maintained in our trust accounts or from funds transferred from our general banking operations. Transfers from our general banking operations to cover deficiencies in our guaranteed trust accounts amounted to ₩206 billion in 1998 and ₩85 billion in 2000, and were reflected as payment for guaranteed return on our trust accounts. In addition, we paid ₩53 billion and ₩10 billion in 1999 and 2000 for reimbursement of trust losses incurred primarily as a result of holdings in member companies of the Daewoo Group. We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts in the future and the amounts of such transfers may be significant.

Risks relating to Korea

The expected structural reforms of the Korean economy and the financial sector may have a substantial impact on our business

We are incorporated in Korea and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. In 1997 and 1998, Korea experienced a significant financial and economic downturn, from which it has not yet fully recovered. Further deterioration of the Korean economy or economies of other countries could adversely affect our financial condition and results of operations. We expect that the comprehensive policy packages announced by the government of Korea since late 1997 to address structural weaknesses in the Korean economy and the financial sector, which included the mergers and restructurings of a number of banks, will continue to have a substantial impact on our business. The government has indicated that it may advocate further mergers or restructurings in the Korean financial sector. Such mergers or restructurings may occur and have an adverse impact on our financial condition or results of operations.

Financial instability in other countries, particularly emerging market countries in Asia, could disrupt our business and cause the price of our shares and American depositary shares to go down

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot be certain that financial events of the type described will not happen again or will not have an adverse effect on our business or the price of the American depositary shares.

Labor unrest may disrupt our operations

The economic downturn in Korea and the associated increase in the number of corporate restructurings and bankruptcies have caused and may cause further layoffs and increasing unemployment in Korea. These factors could lead to social unrest and increase substantially government expenditure for unemployment compensation and other costs for social programs. During 1998 there were large-scale protests and labor strikes in Korea. There is no guarantee that labor unrest will not continue or escalate further. Increasing unemployment and continuing labor unrest could disrupt our operations and the operations of many of our customers and their ability to repay their loans and could affect the financial conditions of Korean companies in general, depressing the prices of Korean securities on the Korea Stock Exchange (KSE) and the value of the Won relative to other currencies. Such results would likely have an adverse effect on our financial condition, results of operations and capital adequacy.

Our strategy of merging with Kookmin Bank to improve our efficiency and profitability have met with significant opposition from our labor union. Our labor union members have recently staged various protests in our headquarters and some of our employees have carried out work stoppages. There can be no assurance that we will not continue to experience labor disputes and unrests, including expanded protests and strikes, which could disrupt our business operations and have an adverse effect on our financial condition and results of operation.

Tension with North Korea may have an adverse effect on us or the price of the American depositary shares

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current events, including renewed contacts at the highest levels of the governments of Korea and North Korea, and future events that cannot be foreseen at this time. Any increase in the tensions, which may occur, for example, if these contacts break down or military hostilities occur, could reduce demand for our products and services in the Korean market and affect our business operations in Korea and the price of the American depositary shares.

Risks relating to the American depositary shares

The government may sell a portion of its shares which could adversely affect the price of the American depositary shares

As of December 31, 2000, the government owns 14.5% of our outstanding shares of common stock. In addition, KDIC owns 17,790,000 shares of our preferred stock which may, under certain circumstances, convert into an identical number of shares of common stock. Currently, we do not know when, how, and what percentage of, our shares owned by the government including KDIC would be disposed of or to whom such shares will be sold. As a result, it is currently difficult to predict the impact on us of such sale. Sales of substantial numbers of our shares in the public market or otherwise by the government, other shareholders or by us, or the perception that such sales may occur, could adversely affect the prevailing market price of the American depositary shares.

There are restrictions on withdrawal and deposit of common shares under the depositary facility

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank's custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender an even number of American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 46.8 million. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law

Under Korean law, a single shareholder, together with its affiliates, is generally prohibited from owning more than 4.0% of the outstanding shares of voting stock of a nationwide bank such as us. The government and the KDIC are exempt from this limit, and qualifying foreign investors that meet the requirements under the Presidential Decree of the Bank Act may also exceed the 4.0% limit upon approval of the FSC. See "Item 4. Information on the Company — Business Overview — Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Restrictions on Bank Ownership". To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds the 4.0% limit, you will not be entitled to exercise the voting rights for the excess shares, and the FSC may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to ₩20 million.

Holders of American depositary shares will not have preemptive rights in certain circumstances

The Commercial Code of Korea and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any right to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the US Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the US Securities Act.

We are under no obligation to file any registration statement with the US Securities and Exchange Commission. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

Your dividend payments and the amount you may realize upon a sale of your American depositary shares will be affected by fluctuations in the exchange rate between the Dollar and the Won

Investors who purchase the American depositary shares will be required to pay for them in US dollars. Our outstanding shares are listed on the KSE and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into Dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the Dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the Dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

If the government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars

If the government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior government approval for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the government for the payment of dividends to foreign investors when the government deems that there are emergency circumstances in the Korean financial markets.

You may not be able to enforce a judgment of a foreign court against us

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and certain other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and certain other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for investors in the American depositary shares to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Item 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Introduction

We are a commercial bank organized under the laws of the Republic of Korea and we are engaged principally in mortgage lending and retail banking. As of December 31, 2000, we were the third largest bank in Korea in terms of total assets calculated pursuant to Korean GAAP. We were the largest private sector mortgage lender in Korea for the year ended December 31, 2000, with our mortgage lending accounting for 76.4% of total private sector mortgages in Korea in that year. As of December 31, 2000, we had one of the largest deposit bases of any bank in Korea. For the year ended December 31, 2000, our net income was ₩506 billion. As of December 31, 2000 we had total assets of ₩60,956 billion.

We currently provide a broad range of financial services, including the following:

- retail banking services, including mortgage lending, deposit taking and credit card services;
- corporate and international banking services focused on services to small and medium-sized enterprises; and
- capital markets activities.

In addition, we provide trust management services and we manage the National Housing Fund (NHF), a government fund which provides mortgage lending to low income households and loans to construction companies to build small-sized housing for low-income households. For the year ended December 31, 2000, including mortgages provided by the NHF, our mortgage lending activities accounted for over 85% of the total outstanding mortgage market in Korea.

We offer our customers a broad choice of delivery channels, including physical branches, automated banking machines, telephone banking, PC-banking, the Internet and a customer call center. As of December 31, 2000, we had 552 branches throughout Korea.

Our legal and commercial name is H&CB. Our registered office and principal executive offices are located at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, Korea 150-758. Our telephone number is 822-769-7256. Our agent in the United States, H&CB, New York Branch, is located at Mutual of America Building, 9th Floor, 320 Park Avenue, New York, New York 10022.

History

We were established by the government in 1967 under the name Korea Housing Finance Corporation. In 1969, we became the Korea Housing Bank pursuant to the Korea Housing Bank Act. We were established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes and to promote the increase of the housing supply in Korea by providing low-interest housing loans to construction companies. Under the Housing Bank Act, up to 20.0% of our lending (excluding lending pursuant to government programs) could be non-mortgage lending. Pursuant to the Housing Bank Act we were the only entity in Korea allowed to provide mortgages with a term of longer than ten years. We also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In 1971, we began providing the services that are currently provided by the NHF. We provided these services until 1981 when the NHF was created. We continue to manage the NHF on behalf of the government and receive a management fee for this service. In 1988 we began managing the Housing Finance Credit Guarantee Fund (HFCGF), which provides guarantees on mortgage loans to households and construction companies with insufficient collateral. We continued to manage the HFCGF until the end of 1998.

In 1996, we completed our initial public offering in Korea and listed our shares on the Korea Stock Exchange. Since the initial public offering, the government's shareholding in us has decreased to its current level of 14.5% as a result of subsequent share offerings by us and the sale by the government of part of its shareholding in the form of global depositary shares in 1997. The global depositary shares were listed on the London Stock Exchange.

In 1997, the Housing Bank Act was repealed. This removed the limitation on the amount of non-mortgage lending activities we could engage in and allowed us to expand our commercial banking services beyond mortgage lending. The repeal also allowed other financial institutions to compete with our mortgage lending activities. Since 1997, we have expanded our activities to focus more on retail banking. However, under our articles of incorporation, at least 50.0% of our Won currency lending (excluding lending done pursuant to government programs) must be in the form of mortgages.

In June 1998, we acquired the majority of the then performing assets and most of the liabilities of DongNam Bank pursuant to a directive from the FSC in connection with a government program to support the deteriorating financial sector in Korea. We received compensation from the government to make up for the deficiency of the assets acquired from DongNam Bank and the government purchased preferred shares and subordinated debt from us to compensate for the decrease in our capital adequacy ratio resulting from the acquisition. See "Item 5. Operating and Financial Review and Prospects — Trend Information — Acquisition of DongNam Bank".

We acquired 49 of DongNam Bank's 116 branches and acquired their customer base, which had a greater focus on small and medium-sized enterprises than our then-existing customer base. The acquisition of DongNam Bank strengthened our business presence in the Southeastern region of Korea where DongNam Bank was based. In addition, DongNam Bank's electronic banking and credit card businesses were more advanced than our own and provided us with access to improved technology.

In 1998, our current management team joined us and in April 1999, we changed our English name from Housing & Commercial Bank of Korea, which we no longer use, to H&CB. In July 1999, we entered into a strategic alliance with the ING Groep N.V., a leading global financial services group. See "— Business Overview — Restructuring of our Operations Following our Privatization — Strategic Alliance with ING Groep N.V.". Through ING Insurance International B.V., ING acquired 9.99% of our outstanding shares of common stock and ING appointed both an executive director and a non-executive director on our board of directors. In connection with the alliance in January 2000, we acquired a 20% stake in ING Life Insurance Company, Korea, Ltd., an ING insurance affiliate in Korea, and have sold a 20% stake in Jooeun Investment Trust Management Co., Ltd., one of our subsidiaries, to ING. Under the joint venture agreement, each of these 20% shareholdings are to be increased by 5% a year in each of the three years beginning in 2000. Thereafter, further increases are possible up to 50%. However, in connection with the upcoming merger with Kookmin Bank, we plan to renegotiate the investment agreement and the joint venture agreement. As a result, our shareholding stake in ING Life Insurance Company, Korea remains at 20% and ING's stake in Jooeun Investment Trust Management remains at 20%.

In October 2000 we conducted an exchange offer of our global depositary shares for American depositary shares. Our American depositary shares were listed on the New York Stock Exchange under the symbol "HCB." The global depositary shares were de-listed from the London Stock Exchange.

In December 2000, we entered into a memorandum of understanding to merge with Kookmin Bank, Korea's largest commercial bank. In April 2001, we and Kookmin Bank entered into a merger agreement pursuant to which the two banks will be merged into a new entity which will retain the Kookmin Bank name. We believe that the merger will enable us to combine our strengths with those of Kookmin Bank and will enable the combined bank to grow and become a premier world-class bank that will represent Korea in the global banking market. As part of the merger, we expect that each issued and outstanding share of our common stock will be converted into one share of common stock of the combined bank. In addition, we expect that every two H&CB American depositary shares, which together represent one share of our common stock, will be converted into one American depositary share of the combined bank, which will represent one share of common stock of the combined bank. Each share of our preferred stock will be converted into a substantially identical share of preferred stock of the combined bank. As a result of the merger, our former shareholders will have an approximate 40.2% interest in the combined bank, and the former shareholders of Kookmin Bank will have an approximate 59.8% interest. If outstanding convertible bonds of Kookmin Bank are fully converted into shares of Kookmin Bank common stock before completion of the merger, former shareholders of Kookmin Bank will hold approximately 61.3%, and our former shareholders will hold approximately 38.7% interest in the combined bank after the merger. The merger is expected to be accounted for under U.S. GAAP as an acquisition by Kookmin Bank of H&CB under the purchase method of accounting for business combinations. The merger is expected to be completed in the fourth quarter of 2001 and is subject to customary closing conditions, including the approval of our shareholders and the shareholders of Kookmin Bank and all necessary regulatory approvals. Accordingly, we cannot assure you that the merger will be completed as scheduled or at all. See "Item 3. Key Information — Risk Factors — Risks relating to our proposed merger with Kookmin Bank."

BUSINESS OVERVIEW

Restructuring of our Operations Following our Privatization

Our current management team joined us in 1998 and set a new strategic direction with a focus on maximizing shareholder value and preparing us for the increasingly competitive environment in Korea. We have undertaken a number of initiatives to transform ourselves into one of Korea's leading providers of financial services. Despite the recent economic difficulties in Korea, we believe that we have taken a number of steps toward the goal of accomplishing this transformation. These steps have included:

- implementing new systems and procedures to improve management transparency;
- reengineering our operations to focus on performance; and
- increasing our focus on customer service.

In addition, we have entered into a strategic alliance with ING which will continue to provide us with additional access to advanced management and customer service techniques and new products and services.

Implementing new systems and procedures to improve management transparency

We have introduced a number of initiatives to increase the transparency of our internal decision-making processes and the credibility of our financial and accounting data. These initiatives included:

- *Improving our corporate governance.* We have altered the composition of our board of directors so that now outside directors make up a majority of our board. This change was made to reinforce our board's independent oversight of day-to-day management. In addition, we have added a number of management committees, including an Audit Committee and a Compensation Committee, which we believe will enhance further the independence of our management's decision making.
- *Introducing new Korean accounting standards.* We have introduced new Korean accounting standards in an effort to bring our financial reporting, and particularly our provisioning policies, in line with international standards. In addition, we have begun to report our financial results in accordance with U.S. GAAP as well as Korean GAAP.
- *Reforming our lending practices.* We have reformed our lending practices by removing loan approval authority from our executive directors and giving it to working-level managers to enhance the accountability and efficiency of our loan approval process. In addition, we have strengthened our credit approval process. With the assistance of an external consultant, we have established improved and expanded credit rating systems for both individuals and corporate borrowers and introduced a new system for assessing the value of collateral. We believe these new systems will make our lending process more efficient and help us to improve overall asset quality and reduce the rate of non-performing loans by weighing both quantitative and qualitative factors.

Reengineering our operations to focus on performance

We have also undertaken a number of initiatives to reengineer our operations to introduce a performance-based organizational culture focused on profitability and the maximization of shareholder value. The initiatives to reengineer our operations have included:

- *Restructuring our organization into business units.* We have restructured our operations so that our operations are now organized into eight business units focusing on our core business areas and five divisions responsible for managing operation-wide issues. This has increased the accountability of the management of each of our principal operations for its financial results. For control and accounting purposes we currently operate based on four business segments but have restructured our business units into eight units so that going forward we can better assess the performance of the various units. We are implementing control and accounting procedures for our restructured operations with a view toward making these procedures operational for fiscal year 2003.

Our eight business units are:

— the Marketing Business Unit, which is responsible for selling all of our products and services and managing our distribution channels;

— the Individual Consumer Banking Business Unit, which includes individual consumer product development (all types of deposit-taking and loan products) and overdue loan management;

— the Credit Card Business Unit, which includes marketing and operations of credit card services;

— the Corporate Banking Business Unit, which includes domestic and international corporate banking;

— the Banking Trust Business Unit;

— the Workout Business Unit, which includes workout-related operations;

— the NHF Management Business Unit; and

— the New Economy Business Unit, which includes Internet banking and related initiatives.

Our five divisions are:

— the Financial Planning Division, whose responsibilities include financial planning, accounting, treasury and investor relations;

— the Strategic Planning Division, whose responsibilities include strategic planning and research;

— the Risk Management Division, whose responsibilities include risk management (including market risk), credit risk management and loan management;

— the Information Technology Division; and

— the Shared Services Division, whose responsibilities include administration, human resources, legal, training and security control functions.

- *Introducing performance-based compensation.* We have replaced a system of compensation based primarily on length of tenure, which is the norm in Korea, with a compensation system which includes a broader assessment of merit. We have begun to introduce an organization-wide evaluation process and to link the compensation of our senior management and each business unit to its performance.

- *Improving our managerial accounting and costing systems.* We have adopted a Market Opportunity Rate system to set internal interest rates by reference to market rates for products with similar maturities and an Activity Based Cost system to allocate costs internally based on the activities of each cost center rather than its size. In the past, for example, some costs related to our headquarters were allocated to branches based on such criteria as the amount of deposits held at the branch, and the costs of the branches were calculated largely based on the number of employees working at the branch. Under the Activity Based Cost system, we allocate shared costs based on the number of transactions and other activity taking place in the branches or departments, including the number of deposit transactions, cash withdrawals, accounts opened and loans processed. By adopting the Market Opportunity Rate and the Activity Based Cost systems in our management accounting, we have created a more accurate basis for determining funding costs and operating costs, which in turn helps us to evaluate better the performance of each branch and department, set prices for our financial products based on their profitability, develop marketing strategies to target customers which we believe will provide greater profitability and make more informed decisions as to which branches to close or relocate.

Increasing our focus on customer service

We have introduced a number of initiatives to create an internal culture focusing on customer service. In particular we have:

- centralized our loan processing and back office functions into 41 processing centers and established a call center so that our branch staff can spend more time focusing on serving customers;
- introduced personal banking services for our most important individual customers and strengthened our corporate relationship banking efforts by increasing the number of relationship managers;
- begun to offer new products and services to meet diverse customer needs, including offering account opening services in our branches for customers seeking to set up investment accounts with brokerage companies and offering subscriptions for newly-built apartments over the telephone and via the Internet; and
- reconfigured and expanded our distribution channels, including expanding our automated channels to reflect our customers' changing needs and take advantage of new technology.

Strategic Alliance with ING Groep N.V.

In July 1999, we entered into a strategic alliance with ING Groep N.V., a leading global financial service provider incorporated in the Netherlands and engaged in the banking, insurance and asset management business in more than 60 countries throughout the world, when ING Insurance International B.V. acquired 9.99% of the outstanding shares of our common stock. The strategic alliance is important to our strategy of transforming ourselves into one of the leading financial service providers and one of the largest retail finance institutions in Korea.

The strategic alliance entails:

- ING's participation on our board through one executive director and one non-executive director;
- ING providing technical and managerial support to our risk management, information technology, sales and marketing and other key departments;
- ING providing assistance with various product groups, especially in the area of mortgage financing, and the performance management evaluation of personnel; and
- ongoing cooperation between us and ING in pursuing opportunities for developing and serving other products in the areas of banking, insurance, securities, investment banking and asset management.

We envision that there will be a number of joint ventures between ourselves and ING to provide an extended range of financial services and products for our customers. Through joint ventures, we intend to provide distribution channels and access to our customer base while ING will provide expertise in management, technology and product knowledge.

Strategy

Our objective is to consolidate our current position as one of Korea's leading providers of financial services and to continue to build ourselves into a world-class provider of financial services. The key elements of our business strategy are as follows:

- Increase our profitability by further developing our strengths in retail banking and expanding these core businesses. We intend to:
  - focus on our core strengths in mortgage financing and retail banking; and
  - introduce new tailored financial products and services to capitalize on our existing strengths.

- Pursue growth by increasing our personal banking business, strengthening our Internet banking capability and merging with Kookmin Bank. We intend to:
  - — expand the type of retail banking services we offer;
  - — establish ourselves as a major player in Internet banking in Korea; and
  - — secure our position by taking advantage of synergies created by merging with Kookmin Bank.
- Enhance the level of our customers' satisfaction by improving our service quality and using targeted marketing based on our customer database.
- Create a competitive internal system through continual management reforms and improve our operational efficiency. We intend to:
  - — improve and expand our information technology systems;
  - — continue to implement a system of performance-based compensation; and
  - — reconfigure and expand our distribution channels (including the Internet) to reflect our customers' changing needs and take advantage of new technology.

We may review our strategies following the consummation of our planned merger with Kookmin Bank.

Principal Banking Activities

Our principal banking activities include:

- retail banking, including mortgage financing;
- credit card services;
- corporate banking focusing on services to small and medium-sized enterprises; and
- capital markets activities.

Through our mortgage financing activities we provide financing for the purchase, construction, improvement and rental of homes. Through our other retail banking activities we take deposits from retail customers through multiple products and distribution channels and provide personal loans and other services. Through our corporate banking activities we take deposits and provide loans and other services to companies, with an emphasis on small and medium-sized enterprises. Through our capital markets activities we seek to optimize profits from our securities portfolio.

Retail Banking

Through our retail banking operations we provide financial products and services to retail customers. These products and services include mortgage financing, other consumer loans, deposit products. As of December 31, 2000, our retail lending amounted to ₩32,746 billion and accounted for 70.8% of our total loans and our retail deposits amounted to ₩35,646 billion and accounted for 75.4% of our total deposits. As of December 31, 1999, our retail lending amounted to ₩23,722 billion and accounted for 73.8% of our total loans and our retail deposits amounted to ₩26,652 billion and accounted for 79.8% of our total deposits. As of December 31, 1998, our retail lending amounted to ₩19,062 billion and accounted for 72.3% of our total loans and our retail deposits amounted to ₩22,669 billion and accounted for 82.3% of our total deposits. Retail banking activities generated net income of ₩169 billion in 1998, ₩175 billion in 1999 and ₩286 billion in 2000.

Mortgage Financing

Mortgage financing has historically been our core business. As of December 31, 2000, our market share of the outstanding Korean private mortgage market was 76.4%. As of December 31, 2000, our mortgage lending amounted to ₩20,987 billion and accounted for 45.4% of our total loans. As of

December 31, 2000, mortgage lending accounted for 47.4 % of our interest and fees on loans. As of December 31, 1999, our mortgage lending amounted to ₩17,246 billion and accounted for 53.7% of our total loans. In the year ended December 31, 1999, mortgage lending accounted for 58.9% of our interest and fees on loans. As of December 31, 1998, our mortgage lending amounted to ₩15,890 billion and accounted for 60.3% of our total loans. In the year ended December 31, 1998, mortgage lending accounted for 60.6% of our interest and fees on loans and leases. We do not receive any fee income related to the origination of loans, excluding out of pocket expenses such as commissions payable for the appraisal of collateral. Pursuant to our articles of incorporation, at least 50% of our Won currency lending, other than government policy lending, must be in the form of mortgage lending. In 2000 we financed 328,765 housing units, comprised of 61,705 ready-built housing units, 132,233 existing housing units and 134,827 rental housing units. The number of housing units that we financed was 240,825 in 1999 and 201,994 in 1998.

The Housing Finance Market in Korea. The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the NHF and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending. In the private sector a number of financial institutions and installment finance companies, including ourselves, provide mortgage lending. Prior to the late 1980s, Korea suffered a housing shortage. A series of government programs designed to stimulate construction have since increased the amount of available housing in Korea. According to Korea's Ministry of Construction and Transportation and the National Statistical Office of Korea, for the year ended December 31, 2000, the percentage of total dwellings in Korea to total households was 94.1%, an increase from 72.4% in 1990.

The housing finance market in Korea is relatively small compared with those of other countries. According to statistics obtained from the International Monetary Fund, The Government Housing Loan Corporation (Japan), the Ministry of Finance and Economy (Korea) and The Journal of Housing Finance, the ratio of outstanding mortgage loans to gross domestic product was 12.7% as of December 1999 (the last year for which figures are available for purposes of comparison), as compared to 32.4% in Japan, 56.6% in the United States and 55.4% in the United Kingdom. This is due in large part to the government's historical restrictions on mortgage lending that were designed to promote the funding of strategic industries and the existence of an informal home financing system known as the "chonsé" system.

Government restrictions on mortgage lending were largely lifted in 1997. All commercial banks in Korea can now offer long-term mortgages and restrictions on maximum amounts and on the maximum size of homes eligible for a mortgage have been eliminated. This has led to a more competitive mortgage lending market. In 1998, the Korean government promulgated new laws to facilitate mortgage backed securitization transactions by Korean banks. We believe that the demand for these transactions will increase, which should contribute to the growth of the mortgage lending market by increasing the amount of funding available to lenders and allowing lenders to manage their credit risk and increasing the potential buyer's purchasing power.

According to the most recently available public data published by the Bank of Korea and the Korean government, personal income in Korea rose 7.0% and the population increased 0.9% in 2000. Housing prices in Korea increased 0.4% in 2000 from 1999 levels according to our research, which has been certified by the Korean government, and the number of housing construction permits increased 5.4% in 2000, according to statistics released by Korea's Ministry of Construction and Transportation.

Mortgage Loan Products. Our retail mortgage loan products consist of:

- loans to individuals to finance the purchase of homes;
- loans to individuals to finance the construction of homes;
- home improvement loans;
- loans to individuals to finance the rental of homes; and
- loans to individuals to finance the purchase of housing sites.

Prior to 1997, government regulations limited the types of mortgage lending products we could offer. We could only provide individual housing loans in amounts not greater than ₩25 million and interest rates on our mortgage loans were restricted to between 9.5% to 11.5% per year which were generally lower than market rates. Repayment schedules ranged from three to 25 years on an installment basis. To be eligible for individual housing loans, the floor area of a house could not be greater than 100 square meters, and in the case of housing rental loans, the floor space could not be greater than 85 square meters. To be eligible for an individual housing loan, a borrower needed to have accumulated a specified number of monthly installments in one of our housing related saving programs, or have maintained a specified deposit balance in prescribed deposit accounts.

Following the repeal of the Housing Bank Act in 1997, we were able to expand our product offerings. We have introduced a number of products with more flexible features, including terms, repayment schedules, amounts and eligibility for loans and are now able to offer interest rates on a commercial basis. The maximum term of our mortgage loans is now 33 years and there are no restrictions on maximum floor area. In addition, any customer is eligible for an individual housing loan regardless of whether it participates in one of our housing related savings programs and as long as it is not barred by regulation from obtaining a housing loan because of a bad credit history. However, customers who hold deposit accounts with us receive preferential interest rates on loans. In 2000, we introduced the "Seron Housing Loan", a new housing loan product for individuals which can be issued in amounts up to the appraised value of the collateral and which has flexible repayment schedules ranging from one to 33 years. These loans currently carry adjustable variable interest rates of 7.50% to 10.95% per year.

As of December 31, 2000, approximately 71% of our mortgage loans were secured by a first mortgage on the property which is the subject of the loan and the remaining 29% of our mortgage loans were guaranteed by the HFCGF, a government housing-related entity. Our policy is to lend an amount up to 100.0% of the assessed value of a property after deducting prior mortgage lien value from the appraisal value. The average initial loan to value ratio of our housing loans, which is a measure of the amount of our loan exposure to the appraised value of the security collateralizing the loan, has been approximately 33.9% over the past five years. One reason that our loan to value ratio is so low is that housing prices are high in Korea relative to average income so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. Nevertheless, if the real estate prices in Korea drop significantly, we could suffer losses.

A borrower's eligibility for our mortgage loans depends on the borrower's creditworthiness, the appropriateness of the use of proceeds and our ability to take a good first mortgage.

Pricing of Mortgage Loans. The interest rates on our retail mortgage loans are either linked to our long-term prime rate or are based on a rate established by our Market Opportunity Rate system, which reflects our internal cost of funding. Interest rates based on our long-term prime rate are adjustable rates and are adjusted by a margin. This margin is lower for customers who have deposits with us and increases as the length of the mortgage increases. Our current long-term prime rate is 9.50%. Interest rates based on the Market Opportunity Rate system which reflects our internal cost of funding may be adjusted periodically at our option together with a margin. Customers who choose our Market Opportunity Rate-based mortgages may decide whether the rate can be adjusted every year, every six months or every three months. Since June 1999, when we began offering our Market Opportunity Rate-based mortgages, our Market Opportunity Rate-based mortgages had lower interest rates than our mortgages based on our prime rate. As a result, most of our customers who have taken out a mortgage loan in 2000 have chosen Market Opportunity Rate-based mortgage loans. Our current Market Opportunity Rate is 9.05% for rates that are adjusted every year, 8.75% for rates that are adjusted every six months and 7.60% for rates that are adjusted every three months.

As of December 31, 2000, approximately ₩12,352 billion, or 58.9%, of our outstanding mortgage loans were priced based on our long-term prime rate. The average interest rate on such loans was 11.1% per year. As of that date, approximately ₩8,428 billion, or 40.2%, of our outstanding mortgage loans were

Market Opportunity Rate-based. Under this method, the average interest rate for individual housing loans is 9.6% per year.

As of December 31, 1999, approximately ₩14,518 billion, or 84.2%, of our outstanding mortgage loans were priced based on our long-term prime rate. As of December 31, 1998, approximately ₩15,571 billion, or 98.0%, of our outstanding mortgage loans were priced based on our long-term prime rate.

Other Retail Banking

Other Retail Loans. Our other retail loans consist of general loans and overdrafts to households, loans on mutual installment savings, loans on other savings deposits, automobile loans and other consumer loans collateralized by real estate. Our other retail loans amounted to ₩2,400 billion, ₩6,476 billion and ₩11,759 billion and accounted for 9.1%, 20.2% and 25.4% of our total loans as of December 31, 1998, 1999 and 2000, respectively. These loans may be secured by real estate, securities or deposits or may be unsecured. As of the end of 2000, secured loans accounted for approximately 47.0% in aggregate principal amount of our retail loans. Among the secured loans, approximately 99.4% were secured by real estate or deposits.

We classify our other retail loans into short-term loans with a maturity of three years or less and medium- to long-term loans with a maturity of more than three years. A majority of our medium- to long-term retail loans are secured, and unsecured medium- to long-term loans consist only of loans to individuals working in the government or the military up to the amount of their pension.

Interest rates are determined using our prime rate plus a margin based on the type of security, for secured loans, and the borrower's credit score under our credit scoring system for unsecured loans. The loans can generally be renewed annually as long as the borrower maintains the same credit score.

A borrower's eligibility for our other retail loans is primarily determined by the borrower's credit, and if the borrower's credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower's creditworthiness, collateral value and credit scoring when evaluating a borrower. In addition, to reduce our default risk, we take collateral and personal guarantees and we use the deposits that the borrower has with us as collateral.

Retail Deposit Products. We offer a wide range of deposit products, some of which are closely related to our mortgage lending activities. The total level of our deposits was ₩27,543 billion, ₩33,379 billion and ₩47,279 billion as of December 31, 1998, 1999 and 2000, respectively. We believe that the increase in deposits over this period was due in part to the recent difficulties in the Korean banking sector. We have found that many people have withdrawn their deposits from banks they perceive to be weaker, and opened accounts with banks they perceive as stronger, such as ourselves. This has led to increased competition among banks, even some of the stronger banks in Korea, for these customers, causing increased marketing activities and price competition.

Our principal deposit products include the following:

- *Demand deposits,* which either do not accrue interest or accrue interest at a lower rate than time or savings deposits.
- *Time deposits,* which generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The terms for time deposits typically range from three months to three years.
- *Savings deposits,* which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently 2.0%, or to deposit specified amounts on an installment basis. Most installment savings deposits offer fixed interest rates.
- *Certificates of deposit.* The maturities of our certificates of deposit range from 30 days to 365 days with a required minimum deposit of ₩5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of

deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.

- *Foreign currency deposits.* We offer foreign currency demand and time deposits and checking and passbook accounts in 29 currencies. These deposits and accounts accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants.

We also offer deposits which provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

- *Housing subscription time deposits,* which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Construction Promotion Law which is the basic law setting forth various measures supporting the purchase of houses by low income residents and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from ₩2 million to ₩15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

- *Housing installments savings deposits,* which are monthly installment savings programs providing the holder with a preferential subscription right under the Housing Construction Promotion Law to acquire newly-built apartment units with a size of up to 85 square meters. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of ₩50,000 to ₩500,000 with maturities of between one and five years and accrue interest at an adjustable fixed rate depending on the term. These deposit products target low and middle-income households.

We have also developed various financial products tailored to specific market segments. Our goal is to attract new customers from specific target market segments with these products. These products include:

- *Next generation housing deposits,* which are housing installment savings deposits that target customers under the age of 25. These deposits have a three year maturity which may be renewed every three years for up to 30 years. We offer loans against these deposits to finance education, marriage and housing to next generation housing deposit customers. We also offer fringe benefits to holders of these deposits periodically such as free life insurance coverage. Since the launch of these products in June 1992, approximately four million people have opened one of these accounts with us, representing approximately one-fifth of the total eligible population of Korea. Interest rates are adjustable.

- *World Cup deposits,* which are savings deposits and installment deposits that target customers who are interested in attending the FIFA World Cup scheduled to be held in Korea and Japan between May 31 and June 30, 2002. We periodically hold lotteries to elect customers who may receive certificates that are exchangeable into tickets for World Cup matches. Since the launch of these products in January 2001, approximately 108 thousand accounts have been opened with us as of the end of May 2001.

We also have a "Power Loyal Customer Program" which categorizes customers according to their average deposit balance over the most recent three month period and their contribution to our revenue. Customers in each of the categories receive different treatment in various areas, including interest rates and fee rates on our other products and are eligible for different types of credit cards.

The following table sets forth the number of our depositors by customer type and the number of our domestic branches as of the dates indicated.

	As of December 31,		
	1998	1999	2000
	(thousands, except branches)		
Retail deposit customers(1)	13,380	13,570	13,854
Active retail deposit customers(2)	8,503	8,707	8,974
Domestic branches	546	518(3)	533(3)

(1) Includes individuals, households, sole-proprietors and non-profit organizations.

(2) Includes customers whose account balances as of December 31, 2000 were ₩100,000 or more.

(3) Excluding 19 corporate relationship management branches in 1999 and 2000.

The following table sets forth information on our deposits based on the principal types of deposits we offer:

	Year Ended December 31,		
	1998	1999	2000
	(in ₩ billion)		
Demand deposits	5,446	7,504	9,038
Time deposits(1)	16,619	20,075	32,647
Savings deposits	525	920	1,003
Certificates of deposit	177	41	150
Mutual installment deposits(2)	4,776	4,839	4,442
Total deposits	27,543	33,379	47,279

(1) Balance includes housing subscription time deposits of ₩2,156 billion, ₩3,035 billion and ₩3,518 billion for 1998, 1999 and 2000, respectively.

(2) Balance includes housing installment savings deposits of ₩3,948 billion, ₩3,585 billion and ₩3,658 billion for 1998, 1999 and 2000, respectively.

Distribution Channels

We distribute our retail products and services through a variety of distribution channels, including traditional branches, ATMs, telephone banking and Internet banking.

Branches. In Korea, retail transactions are generally concluded in cash, and conventional checking accounts are not offered or used as widely as in other countries. As a result, an extensive branch network is important as customers generally handle their transactions at bank branches.

We have an extensive branch network which covers the main regions of Korea. As of December 31, 2000, we had 533 retail branches throughout the country. In connection with our customer service strategy, we have implemented a program to improve the operational efficiency of our branch network and to focus on customer service. We have centralized loan processing, loan management and other back office functions in 41 processing centers. In addition, we have set up a call center which is open 24 hours a day to serve customer needs over the phone. The call center is staffed by over 500 people. These measures have allowed us to reduce the number of staff at each branch and have freed our branch staff to focus on customer service.

We are also introducing mini-branches which are staffed by a maximum of five people who will focus solely on marketing and customer relationships. We have assigned over 900 personal bankers to provide personal banking services to our high net worth individual customers. These bankers have been staffed at most of our branches. We believe that focus on the customer will be a key factor in our efforts to strengthen our image and retain profitable customers.

Automated Banking Machines. As of December 31, 2000, we had a total of 4,190 automated banking machines. These consist of ATMs, including ATMs that only dispense cash, and passbook printers located inside branches and automated banking booths. We have actively promoted the use of these distribution outlets in order to maximize the marketing and sales functions at the branch level and to minimize the cost of our distribution channels. We now estimate that automated banking machines account for as much as 72.3% of our total deposit and withdrawal transactions in amounts less than ₩700,000, other than transactions through PC banking and telephone banking. We plan to install 516 additional automated banking machines in 2001 at a cost of ₩16 billion.

Internet Banking. We launched PC banking services in March 1994. Through our PC banking service we offer a variety of services, including inter-account fund transfers, balance inquiries and product inquiries. In addition, we began to offer a number of services over the Internet in July 1999. These services included all the banking services offered through our telephone banking services, including funds transfers, applications for non-guaranteed loans, responses to inquiries about household credit lines and taking of lottery ticket orders and deduction of their price from customers' deposit accounts. We have been improving our Internet banking system to strengthen our competitiveness, and we relaunched our Internet banking services in June 2000. As of December 31, 2000, we had approximately 500,000 registered Internet service customers (including PC banking users). Our site now offers all the services that are currently available at our branches, to the extent permitted by relevant laws, including loan applications for mortgage loans and other secured and unsecured loans for individuals and opening of new deposit accounts. We have developed our site into a financial portal where users can gain one-stop access to banking, insurance, investment securities and real estate information.

Telephone Banking. We launched our telephone banking services in June 1996, allowing customers to conduct a number of types of transactions by telephone. Through telephone banking we offer a variety of services, including inter-account fund transfers, preset automatic transfers, balance inquiries and customer service inquiries. In 2000, we had approximately 1.5 million telephone banking customers.

Other Channels. We are actively pursuing additional distribution channels which have become increasingly important. In November 1998, we entered into a strategic alliance with the Federation of Community Credit Cooperatives which enables customers to make deposits, withdraw cash or pay loan interest at any one of the 1,635 Community Cooperatives in Korea. We have similar strategic alliances with securities companies, investment trust companies, credit card companies and credit unions. In addition, we have entered into strategic alliances with approximately 810 merchants as of February 2001 that enable our customers to withdraw and transfer cash at automated credit card machines.

The following table sets forth information, for the periods indicated, on the number of users, the number of transactions and the fee revenue of each of our principal distribution channels.

	For the Year Ended December 31,		
	1998	1999	2000
	(in ₩ billion, except number of users and number of transactions)		
ATMs[1]			
Number of transactions (000)	102,191	155,060	215,132
Fee revenue	6	14	21
Telephone Banking:			
Number of users	800,462	1,240,662	1,574,198
Number of transactions (000)	6,815	33,126	39,007
Fee revenue	1	2	3
Internet Banking[2]:			
Number of users	309,441	327,854	494,262
Number of transactions (000)	5,750	7,876	12,677
Fee revenue[3]	1	1	0

(1) Includes ATMs which only dispense cash.
(2) Includes PC banking. Figures for 1998 and 1999 do not include banking services over the Internet. We began offering our services over the Internet in July 1999.
(3) Included in PC banking fee revenue.

Credit Card Services

We commenced our credit card operations in 1984, two years after five nationwide banks established the Korean Bank Card Association, which was subsequently renamed the BC Card Co., Ltd. BC Card is currently owned by 12 member banks, including ourselves. BC Card issues credit cards under the names of the member banks, substantially all of which are licensed to use MasterCard, Visa or the Japanese Credit Bureau (JCB). BC Card provides a number of services for our card operations including issuing cards, providing billing services and managing arrears and delinquencies. We own 4.95% of BC Card.

As of December 31, 2000, we had 5.5% of total credit cards issued in Korea which represented 18.1% of the total number of BC Cards issued. As of December 31, 2000, we had more than 3.0 million cardholders, compared to approximately 1.6 million cardholders and 1.9 million cardholders as of December 31, 1998 and 1999, respectively. Our aggregate amount of credit card loans was ₩2,881 billion, which accounted for 6.2% of our total loans in 2000 and ₩1,216 billion, which accounted for 3.7% of our total loans in 1999. The credit card business generated net income of ₩141 billion in 2000 and ₩38 billion in 1999.

We receive fees and commissions from our credit card operations. Our fees and commissions consist principally of cardholders' purchase fees including interest on late and deferred payments, cash advance fees, annual fees paid by cardholders and merchant fees payable by service establishments. Cardholders are required to pay the entire amount of their purchases within approximately 23 to 53 days after purchase. Accounts which remain unpaid after such period, except in the case of installment purchases, are deemed to be delinquent. We charge penalty interest on delinquent accounts and closely monitor such accounts. For installment purchases, we charge interest on unpaid installments at rates which vary according to the terms of repayment. In the year ended December 31, 2000, we received ₩441 billion in fees and commissions from our credit card operations, including interest revenue. In the year ended December 31, 1999, we received ₩228 billion in fees and commissions from our credit card operations, including interest revenue. In the year ended December 31, 1998, we received ₩189 billion in fees and commissions from our credit card operations, including interest revenue.

We believe that credit cards are one of our core retail products and are a key element to diversify our income sources. We expect that the use of credit cards in Korea will increase as the Korean economy and consumer spending recover from the recent financial and economic difficulties. The ratio of consumer borrowing to gross domestic product in Korea is low compared to that in other developed countries so we believe credit card use can be expected to increase. In addition, the government has been promoting the use of credit cards in Korea. The government has required commercial establishments to accept credit cards as a means of preventing tax evasion by these establishments and provided tax benefits to businesses that accept credit cards. In addition, the government has recently introduced a credit card receipt lottery where winners receive cash prizes that they can choose to have deposited to their accounts and there is a tax deduction for amounts spent using credit cards.

To promote our credit card business we introduced a number of initiatives, including:

- offering cards which provide additional benefits such as frequent flyer miles and cards which provide cash back depending on the amount and frequency of usage;
- introducing a platinum card for our most important customers which has a higher credit limit and provides additional services in return for a higher fee;
- introducing peripheral services including payment for telephone bills with credit cards and early repayment of cash advances without penalty;
- offering alternative cards to our most important customers which provide additional benefits such as waiver of annual fees for five years and discount on select services; and
- introducing promotional events designed to solicit new customers by waiving their annual fees for the first year and encourage increased usage of cards.

In order to develop further our credit card business, we are concentrating on the following:

- acquiring new customers through alliances and cross-marketing with other companies and special offers such as waiving membership fees;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features, such as revolving credit cards, in addition to installment payment cards;
- creating a credit scoring system for credit card customers;
- creating a fraud detection system to prevent the misuse of credit cards and strengthening the encryption and security systems for the use of credit cards over the Internet; and
- issuing smart cards and preparing for a cardless business environment in which customers can use credit cards to make purchases by phone or over the Internet.

We plan to remain in the BC Card consortium in order to take advantage of its brand name and infrastructure, continue to receive information about our customers, capitalize on cross-selling opportunities and reduce our risks in the credit card business. However, in order to provide better services, we are developing our own internal system to support our credit card operations, which is expected to be in operation starting in the second half of 2001. The new system would enable us to market our own cards and product services and develop an efficient customer relations capability independently from BC Card.

The following table sets forth our credit card operations as of and for the years ended December 31, 1998, 1999 and 2000.

	As of and for the Year Ended December 31,		
	1998	1999	2000
	(in ₩ billion, except where indicated and percentages)		
Number of card-holders (thousands)	1,611	1,942	3,071
Billings	2,771	4,842	12,538
Fees and commissions (including interest revenue)	189	228	441
Year end credit card account balance	772	1,216	2,888
Delinquency rate[1] (%)	1.6	0.6	0.5

(1) Total delinquent balance at year-end divided by payments billed to customers by us during that year. Delinquent balances are balances that are overdue for more than three months.

The relatively high delinquency rate in 1998 was mainly due to the economic difficulties experienced by households during the recent financial and economic downturn in Korea. The decrease in the delinquency rate in 1999 and 2000 (despite the increase in billings) reflects the improvements in the Korean economy and our efforts to minimize delinquencies.

Corporate Banking

Through our corporate banking activities, we provide financial products and services to corporate customers. These products and services include deposit products, loans and guarantees, including syndicated loans, foreign exchange and trade finance and project finance. The focus of our corporate banking activities is on expanding our presence in the small and medium-sized enterprise market in Korea.

Historically, we had a limited number of corporate banking customers. Our corporate customers were predominantly large construction companies and companies belonging to chaebols, the large Korean conglomerates. Consistent with our retail oriented-strategy, since early 1999, we have increased the range of our corporate banking activities and diversified our corporate customer base to include small and medium-sized enterprises in industries such as manufacturing, services and telecommunications.

As of December 31, 2000, our corporate lending amounted to ₩10,581 billion and accounted for 22.9% of our total loans and our corporate deposits amounted to ₩7,369 billion and accounted for 15.6 % of our total deposits. In the year ended December 31, 2000, corporate banking activities generated annual net income of ₩4 billion. As of December 31, 1999, our corporate lending amounted to ₩7,196 billion and accounted for 22.4% of our total loans and our corporate deposits amounted to ₩5,538 billion and accounted for 16.6% of our total deposits. In the year ended December 31, 1999, corporate banking activities generated net income of ₩83 billion. As of December 31, 1998, our corporate lending amounted to ₩7,292 billion and accounted for 27.7% of our total loans and our corporate deposits amounted to ₩4,084 billion, and accounted for 14.8% of our total deposits. In the year ended December 31, 1998, corporate banking activities generated net income of ₩353 billion.

Historically, our lending to the corporate sector in Korea was principally to housing-related companies, particularly the construction industry. Since November 1999, we have significantly increased our non-housing related lending to the corporate sector. In addition, our acquisition of DongNam Bank increased our overall corporate customer base, including small and medium-sized enterprises. As of December 31, 2000, our corporate loans denominated in Won amounted to ₩8,569 billion, which represented 18.5% of our total loans, of which loans to small and medium-sized enterprises amounted to ₩4,733 billion. As of December 31, 1999, our corporate loans denominated in Won amounted to ₩5,722 billion, which represented 17.8% of our total loans. As of December 31, 1998, our corporate loans denominated in Won amounted to ₩5,408 billion, which represented 20.5% of our total loans.

The principal focus of our corporate banking activities is on the small and medium-sized enterprise market in Korea because lending to small and medium-sized enterprises has been growing quickly in Korea and we believe that we possess the necessary elements to succeed in the small and medium-sized enterprise market, including our extensive branch network, our credit rating system for credit approval and our marketing capabilities. The government has also encouraged capital flows to small and medium-sized enterprises. To increase our lending to the small and medium-sized enterprise market we:

- have analyzed approximately 60,000 small and medium-sized enterprises in Korea on the basis of their financial condition and other circumstances using our credit rating system and identified approximately 11,000 small and medium-sized enterprises as priority target customers. Our marketing efforts are directed toward establishing a relationship with these small and medium-sized enterprises;

- have begun operating a relationship management system in November 1999 to provide targeted customer service to small and medium-sized enterprises. We have a staff of almost 400 people involved in corporate banking. We have 19 corporate banking branches and 53 relationship management teams located at various other retail branches. The corporate banking branches and teams perform marketing as well as loan review and approval for smaller loans that pose less credit risks; and

- have begun to focus on cross-selling our loan products with other products. For example, when we lend to construction companies building apartment houses, we also market our subscription account products to the future owners of the apartments. Similarly, when we provide loans to companies, we also explore opportunities to cross-sell retail loans or deposit products to the employees of those companies.

Through our international corporate banking operations we provide foreign exchange services, such as money exchange services and overseas fund remittances to and from Korea, and trade finance services, such as letters of credit and bills purchased, and participate in syndicated loans and project finance. We also invest in securities issued by foreign companies, mainly in Southeast Asia. Currently, we provide these services from our head office as well as from our branches in Tokyo, London and New York, and one subsidiary in Hong Kong. Trade finance services and other services related to exports and imports are also provided by 193 domestic branches. Our international banking activities currently employ 63 people. As a result of the adverse financial and economic situation in Korea and Asia in 1997 and 1998, we have reduced the volume of our international operations. The current focus of our international banking operations is to strengthen our trade finance activities and develop products catering to the needs of small and medium-sized enterprises. We have dispatched international finance specialists to relationship management teams to support small and medium-sized enterprises whose international trading activities are expected to increase.

Deposit Products

We currently offer our corporate customers several types of corporate deposits. The deposit products can be divided into two general categories: deposits such as the Corporate Freedom Deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate and deposits where withdrawals are restricted for a period of time, but offer relatively high interest rates. In addition, our other deposit products such as installment savings deposits are also available to corporate customers. The total amount of deposits from corporate customers amounted to ₩4,084 billion at the end of 1998, or 14.8% of our total deposits, ₩5,538 billion at the end of 1999, or 16.6% of our total deposits, and ₩7,369 billion at the end of 2000, or 15.6% of our total deposits. As we are focusing on increasing our transactions with small and medium-sized enterprises, we expect that the amount of corporate deposits will increase.

Loan Products

Our principal loan products are collective housing loans and working capital loans to corporations. Our collective housing loans are mortgage loans to home builders or developers who build or sell houses. We offer a variety of collective housing loans, including:

- loans to contractors to finance the construction of housing units having two or more apartments. These loans are generally assumed by the buyers of the apartments instead of being paid off by the contractor;
- loans to provide working capital to contractors constructing housing units with 20 or more apartments;
- loans to finance the purchase of property on which to build a housing unit of two or more apartments;
- loans to contractors to finance the construction of rental housing units containing two or more apartments;
- loans to companies to finance the construction of housing units to be sold or rented to employees;
- loans to housing-site developers to finance the development of housing sites of 12,000 square meters or more for housing construction; and
- loans to educational establishments, small and medium-sized enterprises and non-profit entities to finance the construction of dormitories.

Our collective housing loans are currently subject to a limit based on the total collateral value of the housing units. Collective housing loans currently bear interest rates of 9.5% to 10.8% per year, as determined by our Risk Management Committee. Repayment schedules range from one to 20 years.

Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower's creditworthiness and the adequacy of the use of proceeds. Furthermore, we take the land on which the housing unit is to be constructed as collateral, and, in case the collateral is not sufficient to cover the loan, we take a guarantee from the HFCGF as security.

Our corporate loans other than collective housing loans typically have a one year maturity and their terms may be adjusted at the time they are rolled over. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with an extension of a loan.

When evaluating the extension of working capital loans, we review the corporate customer's creditworthiness and capability to generate cash. Furthermore, we take personal guarantees and credit guaranty letters from other financial institutions and use time and savings deposits that the borrower has with us as collateral.

Pricing

The interest rates on our collective housing loans are fixed rates based on our Market Opportunity Rate system. The rates we actually offer for collective loans vary based on the borrowers' credit rating determined by our credit rating system.

We establish the price for our other corporate loan products based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower and the value and type of collateral. We determine our cost of funding based on our Market Opportunity Rate system, which measures the current market interest rate and our Activity-Based Cost, and a spread calculated to achieve a target "return on asset" ratio set for the year. In addition, depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks.

Distribution Channels

Our domestic corporate banking products are distributed through our corporate banking branches and through the relationship management teams at our retail branches. Members of our relationship management teams regularly visit the corporate customers in their region. We intend to introduce a system to allow our relationship management teams to use portable computers and mobile phones to access our centralized credit rating system while they are visiting a corporate client in order to provide prompt feedback to companies regarding loan eligibility.

Capital Markets Activities

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, are involved in derivatives and brokerage activities. For the year ended December 31, 2000, capital markets activities generated net income of ₩46 billion.

Securities investment and trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and generate interest and dividend income and capital gains. As of December 31, 1998, 1999 and 2000, our investment portfolio, which consists of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of ₩9,062 billion, ₩9,285 billion and ₩10,403 billion and represented 22.5%, 20.5% and 17.0% of our total assets, respectively.

Our trading and investment portfolios consist primarily of debt securities either issued or guaranteed by the Korean government. As of December 31, 1998, 1999 and 2000, we held debt securities with a total book value of ₩8,966 billion, ₩9,048 billion and ₩10,319 billion, respectively. As of December 31, 1998, 1999 and 2000 debt securities accounted for ₩225 billion, ₩2,660 billion and ₩2,182 billion, or 100.0%, 100.0% and 100.0%, respectively, of our held-to-maturity portfolio, ₩7,755 billion, ₩4,245 billion and ₩5,729 billion or 99.8%, 97.4% and 99.1%, respectively, of our available-for-sale portfolio, and ₩986 billion, ₩2,144 billion and ₩2,407 billion, or 92.2%, 94.6% and 98.7%, respectively, of our trading portfolio.

Of these amounts, debt securities issued or guaranteed by the Korean government as of December 31, 1998, 1999 and 2000, amounted to ₩151 billion, ₩1,235 billion and ₩1,503 billion, or 67.4%, 46.4% and 68.9%, respectively, of our held-to-maturity portfolio, ₩6,173 billion, ₩2,526 billion and ₩2,656 billion, or 79.5%, 57.9% and 45.9%, respectively, of our available-for-sale portfolio, and ₩878 billion, ₩2,025 billion and ₩10 billion, or 82.1%, 89.4% and 0.41%, respectively, of our trading portfolio.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the Korea Stock Exchange and KOSDAQ, although we also hold unlisted equity securities. As of December 31, 1998, 1999 and 2000, equity securities in our available-for-sale portfolio had a book value of ₩12 billion, ₩115 billion and ₩53 billion or 0.2%, 2.5% and 0.9% of our available-for-sale portfolio and a book value of ₩83 million, ₩122 billion and ₩32 billion or 7.8%, 5.4% and 1.3% of our trading portfolio, respectively.

The book value of our total trading and investment portfolio has increased from ₩9,062 billion as of December 31, 1998 to ₩9,285 billion as of December 31, 1999 and ₩10,403 billion as of December 31, 2000.

The increase has been driven by our increased level of funding as a result of the increase in our deposit taking. Funds which were not used for lending activities have been used to purchase securities.

The following table shows, for the periods indicated, the gross unrealized gains and losses within our investment securities portfolio and the amortized cost and fair value of the portfolio by type of investment security.

	As of December 31, 1998			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in ₩ billion)			
Available for sale:				
Korean treasury securities and government agencies	5,903	295	(24)	6,173
Debt securities issued by financial institutions	717	50	(2)	765
Corporate debt securities	446	35	(4)	477
Other debt securities	325	15	—	340
Equity securities	29	—	(17)	12
Total available for sale	7,420	395	(47)	7,768
Held to maturity:				
Korean treasury securities and government agencies	151	10	—	161
Debt securities issued by foreign government	1	—	—	1
Debt securities issued by financial institutions	17	3	(3)	17
Corporate debt securities	55	3	(6)	52
Total held to maturity	224	16	(9)	231
Total securities	7,644	411	(56)	7,999

	As of December 31, 1999			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in ₩ billion)			
Available for sale:				
Korean treasury securities and government agencies	2,542	11	(27)	2,526
Debt securities issued by financial institutions	486	15	(9)	492
Corporate debt securities	303	5	(2)	306
Mortgage-backed securities	129	1	—	130
Other debt securities	751	40	—	791
Equity securities	114	9	(8)	115
Total available for sale	4,325	81	(46)	4,360
Held to maturity:				
Korean treasury securities and government agencies	1,235	4	(13)	1,226
Debt securities issued by foreign government	2	—	—	2
Debt securities issued by financial institutions	152	—	(2)	150
Corporate debt securities	400	3	(8)	395
Other debt securities	870	16	—	886
Total held to maturity	2,659	23	(23)	2,659
Total securities	6,984	104	(69)	7,019

	As of December 31, 2000			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(in ₩ billion)		
Available for sale:				
Korean treasury securities and government agencies	2,558	98	—	2,656
Debt securities issued by financial institutions	364	15	(1)	378
Corporate debt securities	326	11	(5)	332
Mortgage-backed securities	803	21	(1)	823
Other debt securities	1,458	82	—	1,540
Equity securities	86	—	(33)	53
Total available for sale	5,595	227	(40)	5,782
Held to maturity:				
Korean treasury securities and government agencies	1,503	42	(1)	1,544
Debt securities issued by foreign government	2	—	—	2
Debt securities issued by financial institutions	175	4	—	179
Mortgage-backed securities	180	7	—	187
Corporate debt securities	322	7	(1)	328
Total held to maturity	2,182	60	(2)	2,240
Total securities	7,777	287	(42)	8,022

Derivatives

Our derivatives activities are fairly limited and consist primarily of interest rate swaps, currency swaps and foreign exchange contracts. In the years ended December 31, 1998, 1999 and 2000, we had net trading gains of ₩126 billion, ₩34 billion and ₩71 billion, respectively, from our derivatives activities.

The major reason for the limited use of derivatives is that there have historically been no liquid domestic interest rate derivatives that could be used effectively to hedge our interest rate risk. Only over the last few years has there been sufficient deregulation of the financial markets in Korea to encourage the development of these products. In addition, the volatility of interest rates has increased due to the more competitive financial environment in which we operate, and therefore, the need for derivative instruments has increased. We may use Korean Treasury Bond Futures to manage the interest rate risk arising from domestic bond trading activities and to hedge interest rate risks of non-trading activities.

We use cross currency swaps to convert our fixed rate borrowings denominated in foreign currency to US dollar floating rate borrowings and forward foreign exchange contracts to fund foreign currency lending. These swaps do not qualify for hedge accounting under U.S. GAAP and consequently are treated as trading derivatives. We also perform proprietary currency trades within our open position limits.

The following table shows the underlying principal amount and net replacement cost of derivatives held or issued for trading purposes as of December 31, 1999 and 2000.

	As of December 31, 1999		As of December 31, 2000	
	Underlying Notional Amount	Net Replacement Cost	Underlying Notional Amount	Net Replacement Cost
	(in ₩ billion)		(in ₩ billion)	
Interest rate swaps(1)	3	—	25	1
Cross currency swaps(1)	326	101	327	106
Foreign exchange contracts:				
Spot, forwards and futures purchased	344	1	190	2
Spot, forwards and futures sold	261	2	706	—
Total	934	104	1,248	109

The following table shows the underlying principal amount and net replacement cost of derivatives held or issued for purposes other than trading as of December 31, 1999 and 2000.

	As of December 31, 1999		As of December 31, 2000	
	Underlying Notional Amount	Net Replacement Cost	Underlying Notional Amount	Net Replacement Cost
	(in ₩ billion)		(in ₩ billion)	
Interest rate swaps	33	1	20	—

Asset backed securities activities

We have been participating in the asset-backed securities market in Korea since the introduction of asset-backed securities in Korea in 1999. We act as the trustee for issuances of asset-backed securities, and we have a significant share of this trustee market. We have also issued securities backed by non-performing loans and collateralized bond obligations.

The market for mortgage-backed securities is not yet active in Korea, and we are not considering issuing mortgage-backed securities. However, we have been preparing for the issuance of mortgage-backed securities for several years so that we can issue them quickly should funding needs arise and market conditions allow.

Other Businesses

Trust Account Management Services

We provide trust account management services for money trusts, which are trusts for which we have broad discretion in investing the assets of the trust. We receive fees for our trust account management services that are based upon a percentage of the total assets under management and upon the performance of the trust. For the year ended December 31, 2000, our fees ranged from 1.0% to 2.0% of total assets under management depending on the trust. We also receive penalty payments when customers terminate their trust accounts prior to the original contract maturity. For the years ended December 31, 1998, 1999 and 2000 our total fee income from trust account management was ₩85 billion, ₩75 billion and ₩72 billion, respectively.

Under Korean law, the assets of our trust accounts are segregated from our other assets and are not available to any of our potential creditors. We are, however, permitted to lend surplus funds generated by trust assets to our banking accounts to earn interest.

As of December 31, 2000, the total balance of our money trusts was ₩6,151 billion on a Korean GAAP basis. As of December 31, 2000, the trust assets we managed consisted principally of securities investments. Securities investments consist of corporate debt securities, government-related debt securities and other securities, primarily commercial paper. Trust accounts may make loans in a manner similar to loans made by our bank accounts. As of December 31, 2000, our trust accounts had made loans in the principal amount of ₩1,980 billion on a Korean GAAP basis, which accounted for approximately 32.2% of our money trust assets. Because we act as trustee, loans by money trusts are made at our discretion and are subject to the same credit approval process as our loans from our banking account. As of December 31, 2000, 74.3% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. As of December 31, 2000, equity securities in our trust accounts amounted to ₩262 billion on a Korean GAAP basis, which accounted for approximately 6.0% of our total security investment.

We provide money trust account management services for eight money trusts. The money trusts we manage are generally trusts with a fixed life which allow investors to share in the performance of the investments of the trust in proportion to the amount of their investment in the trust. Certain of our money trusts also make periodic distributions of interest. In addition, we offer several trusts which offer features targeted to a specific customer base, including:

- retirement plan trusts in which investments accumulate gains tax free;
- a trust available to qualifying low-income households in which investments accumulate gains tax free; and
- a trust for high net worth individuals which offers the investor the ability to direct where trust assets are invested.

For some of the money trusts we manage we have guaranteed the principal amount of an investor's investment as well as a fixed rate of interest. In addition, we guarantee the principal amount of an investor's investment in the pension-related money trusts we manage. On January 1, 1999, as a result of a change in FSC regulations, we can no longer offer new money trusts where we guarantee the principal amount and a fixed rate of interest. However, we can continue to offer trust products where we guarantee the principal amount of an investor's investment in pension-related money trusts.

As of December 31, 2000, most of the money trusts for which we guaranteed both the principal and interest had a maturity of two years or less. The rate of interest which is guaranteed for these trusts ranges from 7.0% to 19.1% per year.

We continue to offer interests in pension-related money trusts which provide a guarantee of the principal amount of an investor's investment. Starting January 1, 2001, however, the KDIC insures losses on the principal amount and interest of a pension-related trust account only up to a total of ₩50 million. See "— Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Deposit Insurance System".

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from the reserves maintained in our trust accounts or funds from our general banking operations. In 1998, we expensed ₩206 billion related to money trusts due to more stringent loan loss reserve requirements that came into effect. In 2000, we expensed ₩85 billion for such trusts due to the general underperformance of securities markets in Korea. In addition, we expensed ₩53 billion and ₩10 billion during 1999 and 2000, respectively, for reimbursement of trust losses incurred primarily as a result of holdings in the member companies of the Daewoo Group.

The following table shows the balances of our money trusts by type for the periods indicated as determined in accordance with Korean GAAP.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Principal and interest guaranteed trusts	1,085	540	17
Principal guaranteed trusts	1,009	829	913
Performance trusts	9,733	6,910	5,221
Total	11,827	8,279	6,151

The balance of our money trusts decreased 30.0% between December 31, 1998, and December 31, 1999 and 25.7% between December 31, 1999 and December 31, 2000. The decreases were the result of a number of factors which made investing in trust accounts less attractive, including:

- regulatory changes which prohibited the sale of interest guaranteed money trusts;
- the exclusion of performance money trusts from KDIC's insurance coverage; and
- a drop in yields as the result of a decrease in interest rates as the Korean economy recovered from its recent economic and financial difficulties.

The money trusts are not consolidated within our U.S. GAAP financial statements.

We also act as a trustee for eleven investment trusts, which are entities established by securities investment trust management companies to invest in securities using funds raised by the sale of beneficial certificates in such trusts to investors. We receive a fee for acting as a trustee and generally perform the following functions:

- holding securities for the benefit of the investment trust;
- receiving payments made in respect of such securities;
- executing trades in respect of such securities on behalf of the investment trust, based on instructions from the relevant securities investment trust management company; and
- in certain cases, authenticating beneficial certificates issued by the investment trust and handling settlement in respect of such beneficial certificates.

For the year ended December 31, 2000, our fee income from our trustee services was ₩8 billion. More than half of the securities investment trusts for which we provide trustee services are managed by Jooeun Investment Trust Management which is a subsidiary owned 80% by us and 20% by ING.

Management of the National Housing Fund

Since 1981, we have managed the operations of the NHF. The NHF provides financial support to low income households in Korea by providing mortgage financing and construction loans for projects to build small and medium-sized housing. As of December 31, 2000, the NHF accounted for over 55.2% of the total amount of housing loans outstanding in Korea. The activities of the NHF are funded by loans from the government, the issuance of national housing bonds, which must be purchased by persons wishing to make real estate-related registrations and filings, subscription savings deposits held at the NHF and the sale of lottery tickets.

In return for managing the operations of the NHF we receive a monthly fee. The fee we receive for managing the NHF consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of NHF subscription savings deposit accounts opened, the number of NHF bonds issued or redeemed and the number of NHF lottery tickets we sell to raise funds for the NHF during the month. The loan origination fee is based on the number of new NHF loans and the number of NHF mortgage loans to contractors constructing housing units which are assumed by the individual buyers of housing units during the month. The management fee is based on the number of outstanding accounts at the end of the month and the number of overdue loans owed to the NHF at the end of the month. In 2000, we received total fees of ₩158 billion for our management of the NHF, which accounted for 41.8% of our total fee and commission income.

In connection with our management of the NHF we also manage the NHF's lottery. The lottery is used to raise funds for the NHF. We manage three lotteries for the NHF. There is a weekly drawing lottery, an instant lottery which uses scratch cards and a multiple drawing lottery in which the prize money is rolled into the next drawing twice if there is no winner. The lotteries have cash prizes and are self-funded. In 2000, an average of ₩14 billion worth of lottery tickets were sold each month.

The financial accounting for the NHF is entirely separate from our financial accounting, and the non-performing loans and loan losses of the NHF do not impact our financial condition. Regulations and guidelines for managing the NHF are issued by the Minister of Construction and Transportation pursuant to the Housing Construction Promotion Law.

The Housing Construction Promotion Law was recently amended so that other financial institutions could also be designated by the Minister of Construction and Transportation to manage the NHF.

Other

The remaining portion of our other businesses consists of miscellaneous activities, the most significant of which are interest expenses from the BOK, government borrowings and various other operating expenses. Interest expenses from the BOK and government borrowings declined by ₩7 billion in 2000 compared to 1999. However, various other operating expenses including professional fees and expenses on collection of charged-off loans increased by ₩54 billion in 2000 compared to 1999.

Competition

We compete principally with other nationwide commercial banks in Korea, but we also face competition from a number of additional sources including regional banks, development banks, specialized banks, branches of foreign banks operating in Korea and, with respect to the provision of mortgage loan products, with installment finance corporations. We also compete for customer funds with other types of financial institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations) and life insurance companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

General regulatory reforms in the Korean banking industry have resulted in increased competition among banks for deposits, generally leading to lower margins from lending activities. Among these reforms was the lifting of the regulatory restrictions on mortgage lending and housing deposit taking activities that had prevented the other commercial banks in Korea from competing directly with us in the provision of mortgage finance products. This means that we now face broad competition in our core mortgage lending activities. The increased competition in the mortgage sector has also contributed to lower margins from our lending activities.

We believe that Korea's recent economic difficulties and the Korean government's commitments to the International Monetary Fund have accelerated and will continue to bring about regulatory reforms in and liberalization of the Korean financial industry, leading to increased competition among financial institutions in Korea.

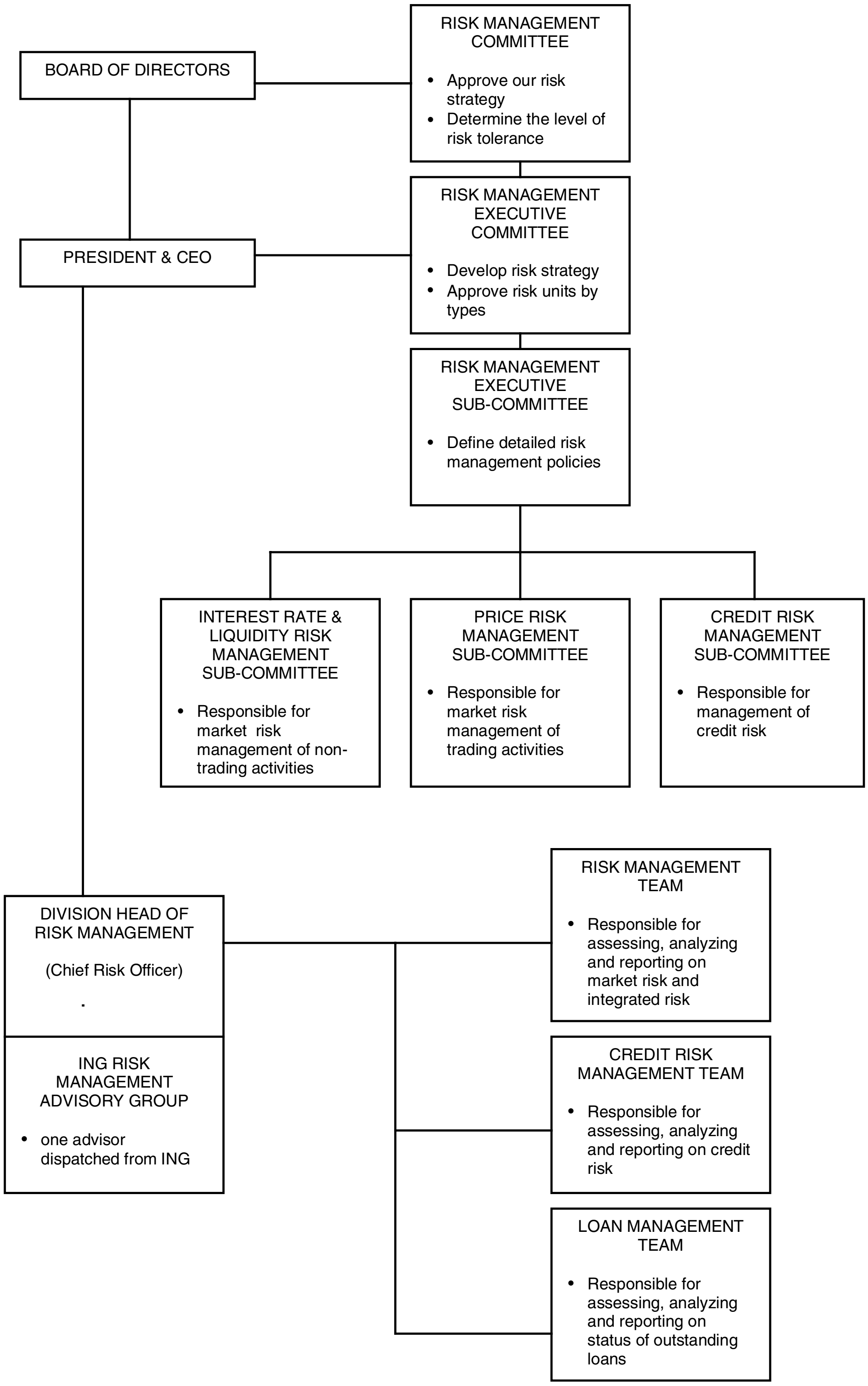
As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services. In addition, the Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last two years which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to 11 as of December 31, 2000. We have entered into a merger agreement with Kookmin Bank, Korea's largest commercial bank. We expect that the merger will be completed in the fourth quarter of 2001, subject to the approval of our and Kookmin Bank's shareholders and all necessary regulatory approvals. We expect that the merger and acquisition activity in the Korean commercial banking sector will continue and we intend to review potential acquisition opportunities as they arise. In addition, the government has indicated that it may advocate further mergers in the commercial banking sector. We cannot guarantee that we will not be involved in such a merger. In addition, some of the banks resulting from these mergers are or may be significantly larger and may have more financial resources than us.

Risk Management

As a financial services provider, we are exposed to various risks that are particular to our lending and trading businesses, deposit taking activities and our operating environment. Our goal in risk management is to ensure that we understand, measure and monitor the various risks that arise and that our organization adheres strictly to the policies and procedures which are established to address these risks. The principal risks to which we are exposed are credit risk, market risk, liquidity risk, operational risk and legal risk.

The Risk Management Division ("RMD") is responsible for identifying, assessing, monitoring and managing all our principal risks in accordance with well defined policies and procedures. The RMD works in close association with our business units to implement our risk management strategies. The RMD is completely independent of all business operations and consists of 76 experienced bankers and analysts. The head of the division is the Chief Risk Officer who reports directly to our Chairman, President and Chief Executive Officer.

The following diagram sets out our Risk Management Division and the function of each element in the organization.



Credit Risk

In our lending operations, we are principally exposed to credit risk. Credit risk is the risk of loss that may occur from the failure of a borrower to abide by the terms and conditions of any financial contract with us, principally the failure to make required payments on loans due to us. We currently measure, monitor and manage credit risk for each borrower. We have a structured and standardized credit approval process which includes a well-established procedure of comprehensive credit appraisal.

Our credit risk management strategy is to reduce credit risk through a diversified and balanced loan portfolio. Our credit risk management guidelines set out our basic principles for managing credit risk. Credit limits are established by the Credit Risk Management Subcommittee based on the policies established by the Risk Management Committee and the Risk Management Executive Committee. We separately monitor and control exposure to companies that are members of chaebols.

Credit Approval

All loan applicants and guarantors are subject to credit review before any loans can be approved, except for loans guaranteed by letters of guarantee issued by the HFCGF or by highly rated banks and applicants whose loans will be fully secured by their deposits with us. The loan approval process differs depending on whether the loan is a mortgage loan, a retail consumer loan or a corporate loan.

Mortgage Loan and Secured Retail Loan Approval Process

Mortgage loans and retail loans secured by real estate, securities or deposits are approved by the staff at our processing centers following a review of the value of the collateral for the loan. Loan applications are forwarded by our branch staff to our processing centers. Our lending decision is made on the basis of our assessment of the value of the collateral.

For mortgage loans, we evaluate the value of the real estate that is the collateral for a loan using a data base we have developed which contains information about real estate values throughout Korea. In addition, we use information from a third party provider of information about the real estate market in Korea which provides up to date market value information about real estate values in Korea. In addition, staff from our processing centers appraise the real estate.

For loans secured by securities, we evaluate the value of the securities based upon the average market value of the securities. If the value of the securities decreases over the life of the loan the borrower will be required to post additional securities as collateral. For loans secured by deposits we will grant loans in an amount up to 100.0% of the deposit amount if the deposit is held with us, or, if the deposits are held with another financial institution, a lesser amount determined on the basis of the credit rating of the relevant financial institution. We also require borrowers in respect of secured obligations to observe specified collateral ratios. Corporate borrowers must also provide financial statements to us every year for credit supervision purposes.

A loan approval decision is generally made within five to seven days.

Unsecured Retail Loan Approval Process

Loan applications for unsecured retail loans are reviewed in accordance with our credit scoring system. The credit scoring system is an automated credit approval system used to evaluate loan applications and determine the appropriate pricing for the loan. Loans are approved by the staff of our processing centers based on the results of the credit scoring system.

The system ranks the borrower in one of seven classes, taking into account such factors as the borrower's income, assets, profession, age and credit history with us and other financial institutions. The major benefits of the credit scoring system are that it yields a uniform result regardless of the user, it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation and it can be updated easily to reflect changing market conditions by changing the weighting assigned to each of the factors. We have developed two models for the credit scoring system, one to evaluate new loans and the other to evaluate the roll-over of existing loans.

Depending on the particular borrower, we may or may not apply the credit scoring system for loans to:

- borrowers with a significant transaction history with us and for whom we have accumulated substantial data or our "power loyal" customers;
- borrowers who have already provided us with real estate collateral in connection with a previous loan;
- borrowers who are school teachers or who are government or military employees who agree to repay the loan directly out of their retirement allowance; and
- students who will be paying tuition with the loans.

Corporate Loan Approval Process

Loan applications from corporate borrowers are reviewed in accordance with a credit rating system which measures different aspects of the applicant's financial condition, business performance and prospects, payment history, quality of management and the applicant's relationship with its employees. Loans are approved at different levels of our organization depending upon the size and type of the loan, whether the loan is secured by collateral and the level of credit risk established by the credit rating system and, if the loan is secured, an assessment of the collateral. The lowest level of authority is the corporate branch manager who can approve small loans and loans which have the lowest range of credit risk. Larger loans and loans which are determined to have greater credit risk are approved by higher levels of authority depending on where they fall in a rubric of size and credit risk. The levels of authority increase from a single corporate branch manager to two credit officers, to a committee of credit officers and ultimately, for the largest loans or loans which present a large credit risk, to our Loan Committee which is made up of seven members: the Executive Vice President of the Corporate Banking Business Unit, the Executive Vice President of the Risk Management Division, the General Manager of the Credit Analysis Team, the General Manager of the Knowledge Management Team, the General Manager of the Banking Trust Team, the General Manager of the Loan Management Team and the General Manager of the NHF Team.

The nature of the scoring system depends on whether the borrower is a large company or a small or medium-sized enterprise. For large companies, we use an internally developed credit evaluation model. The model ranks the borrower in one of 12 classes. In carrying out our credit review, we also consult reports prepared by external credit rating services such as the Korea Information Service, the National Information and Credit Evaluation Inc. and the Korea Management Consulting and Credit Rating. We use these services to provide us with support for the accuracy of the credit review we conduct during the credit evaluation of large corporate customers. The results of the credit assessment are reviewed by a credit officers' committee that assigns the borrower a credit rating.

For small and medium-sized enterprises that have assets of at least ₩500 million and that have at least two years of financial statements we use a credit rating system that ranks the borrower in one of 11 classes. For small and medium-sized enterprises that do not meet these criteria, we assign a credit rating based on a credit evaluation table that takes into account such factors as transaction history with us, the management's ability, the stability of the business and the outlook for the industry in which the borrower operates. The credit rating system was devised with the assistance of external consultants, and has standardized our credit decisions and focused our attention on the quality of the borrowers rather than the volume of our loans. The credit rating system includes both quantitative factors based on the borrower's financial data and qualitative factors based on the judgment of credit analysts. The quantitative factors we consider include approximately 21 financial variables such as return on assets and cashflow to total debt ratios. The qualitative factors we consider include the borrower's competitive position in its industry, the nature of the borrower's industry, the quality of its management and controlling shareholders, technological capabilities, labor relations and whether its financial statements are audited by independent auditors.

We establish and manage credit limits for corporate counterparties in order to optimize the use of credit availability and avoid excessive risk concentration. We establish credit limits for individual corporations and chaebols taking into account their ability to repay, their industry, size, financial ratios and credit rating. For small and medium-sized enterprises, their credit limits are set using the credit rating system. Our basic credit limit is 20.0% of our Tier I and Tier II capital for a single chaebol, 10.0% of our Tier I and Tier II capital for individual corporations with a credit rating of BBB or higher using our internal credit rating system and 5.0% of our Tier I and Tier II capital for companies with a credit rating of BB or lower. These credit limits are lower than the regulatory limits that Korean banks must follow. In determining the actual credit limit for each individual corporation and chaebol we consider mainly their credit rating and their size. The credit limit is set by our Credit Risk Management Executive Subcommittee. Loans to corporations that are secured by sufficient collateral or that pose a low credit risk may be extended even if the applicable credit limit is exceeded.

Credit limits are managed and controlled on a daily basis. The principal system that we use for managing and controlling credit limits is the Total Exposure Management System. This system allows us to monitor and control our total exposure to corporations and chaebols. We monitor our exposure to individual corporations to which we have an exposure exceeding ₩5 billion and our exposure to the 100 largest chaebols in Korea based on total assets. Our Total Exposure Management System integrates all of our credit related risk including credit extended by our foreign branches. The assets subject to the system include all Won currency and foreign currency loans and loan-like products from the banking and trust accounts, including guarantees and acceptances, trade-related credits, commercial paper and corporate bonds.

We use the Integrated Collateral System for managing the liquidation value of collateral. The Integrated Collateral System is a computerized collateral management system that can be accessed from our headquarters and our branches. Through the Integrated Collateral System, we can more accurately assess the actual liquidation value of collateral, determine the recovery rate on our loans and use this information for our credit risk management and loan policies. We are able to monitor the value of all the collateral provided by a borrower and the value of the collateral based on its liquidation value. When appraising the value of real estate collateral, which make up the largest part of our collateral, we consult a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of the country are sold. We appraise the value of collateral at the time a loan is originated, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Approval Procedures for Credit Cards

We believe that the improper verification of identity and applicant information and payment delinquencies are the main source of credit risk in the credit card business.

Approval of credit card applications is based largely on the credit history, occupation, job title and income of the applicant. For credit card applicants with whom we have existing relationships, approval is also based on factors such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to our profitability.

Credit checks are undertaken before credit card applicants are approved. We gather information about applicants from a number of external agencies including BC Card, other credit card companies in Korea, the Korean Federation of Banks and credit rating agencies. These credit checks contain a list of the delinquent customers of all the credit card issuers in Korea.

In 2000, we developed a credit scoring system that can be used to evaluate credit card applications. The system will be actively implemented in the second half of 2001 together with a new credit card management system which is currently being developed. The new management system will allow us to carry out our credit card business more efficiently by focusing on profit contribution analysis, credit limit management, management of bonus points, and other management tools.

At the time we approve an application for a credit card, we set a credit limit primarily based on such factors as the applicant's credit history, occupation, job title, income, assets, employment history and contribution to our profitability.

Credit Monitoring of Corporate Customers

Following credit analysis and issuance of credit to corporate customers, we monitor the performance of the credit both at the headquarters and relationship management team levels. The loan maintenance section of the branches monitor the financial and non-financial environment with an early warning checklist.

We have developed our own early warning system, which monitors selected information including the financial status, financial transaction status, industry rating and management status of borrowers. The system also keeps track of information on the credit status of borrowers. Some updating information is fed automatically from internal and external sources while other data is gathered and updated manually by our relationship management teams which may elect to visit and review corporate customers. The system automatically inputs:

- the total amount of loans that were extended by other financial institutions to the same borrower, as reported monthly by the Korean Federation of Banks;
- financial data relating to the borrower supplied by Korea Information Service and our internal credit rating system;
- our internal credit rating;
- the estimated recovery rate for collateral provided by the borrower;
- whether a borrower is included in the list of problem creditors in the register maintained by the Korean Federation of Banks;
- whether the borrower has defaulted on any payments owed to us; and
- the status of the borrower's financial transactions with us.

Information is also input by the relationship management team for borrowers with whom we have more than ₩1 billion of exposure. The information is derived from the early warning checklist that the relationship management personnel must fill out periodically and as the need arises. Information in the checklist include:

- whether the borrower has ceased operating for more than three months;
- for construction companies, whether construction has stopped for more than three months and prospects for sales of sites under construction or those which are already constructed;
- whether contests for management control are taking place;
- whether there is tension in labor relations;
- whether the borrower uses an excessive amount of negotiable paper or financing from the financial markets; and
- whether any of the borrower's affiliates have defaulted on their obligations.

Depending on the nature of the problem detected by the early warning system, a borrower may be classified as a "deteriorating credit" and undergoes evaluation for a possible downgrade in its customer rating, or is initially classified as a "borrower showing early warning signs". For borrowers in the latter classification, the relevant relationship management team is ordered to gather information and conduct a review of the borrower to determine whether it should be classified as a deteriorating credit. The adjustment in the credit rating of a borrower classified as a deteriorating credit is made by the relationship management team for exposures of ₩1 billion or less and by the credit analysis team at our headquarters for exposures greater than ₩1 billion. The loan review team conducts reviews of companies which have been classified as problematic by our early warning system.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk that changes in the level of interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an adverse impact on our results of operations or financial condition. The principal market risk to which we are exposed is interest rate risk and to lesser extent, equity risk and foreign exchange risk. The financial instruments that expose us to such risks are loans, deposits, securities and derivatives, which are used primarily for non-trading purposes. We are not exposed to commodity risk, the other recognized form of market risk, as we do not hold any commodity positions.

In order to manage our exposure to market risk, we use a combination of risk management techniques including position limits, stop loss limits, sensitivity analyses and Value at Risk for trading activities, and gap and sensitivity analyses for non-trading activities.

We currently do not engage in transactions involving products with significant leverage features

Market Risk Management Procedures

Our overall market risk policy is established by our Risk Management Committee. The Risk Management Committee has delegated the responsibility for market risk management of trading activities to the Price Risk Management Sub-Committee and of non-trading activities to the Interest Rate and Liquidity Risk Management Sub-Committee.

The Price Risk Management Sub-Committee and Interest Rate and Liquidity Risk Management Sub-Committee are chaired by our Chief Risk Officer. They meet on a regular basis to respond to developments in the market and the economy. Based on policies approved by the Risk Management Committee, members of the Interest Rate and Liquidity Risk Management Sub-Committee and Risk Management Committee review our interest rate and liquidity gap positions monthly, formulate a view on interest rates, set deposit and prime lending rates and review the business profile and its impact on asset liability management. Members of the Price Risk Management Sub-Committee and Risk Management Committee review and approve monthly reports which include trading profits and losses, position reports, sensitivity analyses and Value at Risk results.

We recently implemented two new enhanced market risk management systems which cover both trading and non-trading activities. These extended responsibilities and the new systems have been fully implemented and are operational.

The new system for our trading activities covers all of our trading instruments. It extends our market risk management and reporting capabilities by enabling additional scenario analyses and stress testing to be performed. It also enhances our existing monitoring of open positions, sensitivity analyses and Value at Risk.

The new system for our non-trading activities provides market value and Earnings at Risk analyses of our non-trading activities and also enhances our simulation analyses by allowing more realistic market conditions to be reflected.

The decision to implement these new systems is in line with the more stringent market risk supervision regulations of the FSC which will require Korean banks to maintain capital for market risk starting from December 31, 2001, in addition to the existing capital requirements based on credit risk.

Non-Trading Market Risk

Interest rate risk

We are a financial intermediary and provider of financial services offering a range of banking, mortgage and savings products with varying interest rate features and maturities. Our balance sheet consists predominantly of Won denominated interest rate sensitive assets and liabilities. Interest rate risk from these non-trading activities therefore constitutes our main source of market risk and arises due to mismatches in the maturities or re-pricing periods of these rate sensitive assets and liabilities.

In order to measure and manage interest rate risk from non-trading activities, we use a combination of gap and sensitivity analyses. Gap analysis measures the differences (or gaps) between the amount of our interest-earning assets and interest-bearing liabilities that mature or re-price within certain periods of time. Sensitivity analysis forecasts the impact on our net interest income over a given time period consequent to specific changes in interest rates.

Gap analysis provides us with a static view of the maturity and re-pricing characteristics of our balance sheet positions. We prepare gap reports by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates. The difference in the amount of assets and liabilities being re-priced or maturing within each time period category provides us with an indication of the extent to which we are exposed to the risk of potential changes in the margins on new or repriced assets and liabilities. We manage our assets and liabilities by controlling the interest rate gap for future periods within approved limits so as to reduce any potential adverse impact that future changes in interest rates may have.

In preparing our interest rate gap position analysis, we make several assumptions that reflect certain behavioral characteristics of our customers and products. The main assumptions we make are the following:

- In accordance with guidelines issued by the FSS, demand deposits are classified into two types, core and non-core demand deposits;

- The interest rate maturity (or re-pricing period) of core demand deposits is assumed to be over 3 years as the rates paid are rarely changed to reflect changes in market rates. These have historically paid an average of approximately 1.0%;

- Non-core demand deposits are assumed to mature or re-price evenly over 3 months; and

- Loans linked to our prime rate are re-priced within 1 month as we have discretion as to when the interest rate on these loans is adjusted.

The following table shows our interest rate gap as of December 31, 2000.

	As of December 31, 2000					
	0-3months	3-6months	6-12 months	1-3 years	Over 3 years	Total
	(in ₩ billion, except percentages)					
Interest Earning Assets						
Due from Banks	481	33	—	—	—	514
Loans	26,796	7,144	6,810	544	4,914	46,208
Securities	4,086	407	762	4,085	1,173	10,513
Others	880	111	281	6	402	1,680
Total	32,243	7,695	7,853	4,635	6,489	58,915
Interest Bearing Liabilities						
Deposits	24,781	5,337	9,340	4,522	3,205	47,185
Borrowings	2,436	972	916	945	1,898	7,167
Others	233	123	89	—	1	446
Total	27,450	6,432	10,345	5,467	5,104	54,798
Sensitivity Gap	4,793	1,263	(2,492)	(832)	1,385	4,117
Cumulative Gap	4,793	6,056	3,564	2,732	4,117	
% of Total Assets	7.9%	9.9%	5.8%	4.5%	6.8%	

Our Risk Management Committee monitors interest rate risk exposure using gap reports. We use these reports to calculate a ratio representing the adjusted cumulative gap for assets and liabilities being re-priced within 1 year to total assets. This ratio is compared against an approved maximum amount which as of December 31, 2000 was 9.57%. Our actual ratio as of December 31, 2000 was 7.65%. Historically we have revised the limit of acceptable interest rate risk exposure on an annual basis but we have the ability to also do so whenever market conditions change dramatically.

Based on the above gap reports, we develop sensitivity analyses to measure the sensitivity of our net interest income to changes in interest rates. An immediate downward parallel shift in interest rates of 100 basis points for non-trading instruments would lead to a decrease in our net interest income for the next 12 months of ₩24 billion as of December 31, 1999 and ₩36 billion as of December 31, 2000 on a non-consolidated basis and ₩25 billion as of December 31, 1999 and ₩34 billion as of December 31, 2000 on a consolidated basis, respectively.

In preparing this sensitivity analysis, we make the following key assumptions:

- We have discretion to change the rates on certain domestic loans linked to our prime rate and therefore this results in a non-linear sensitivity to changes in market rates;
- For our non-trading financial instruments denominated in foreign currencies, there is a linear sensitivity to changes in market interest rates since the instruments are priced using market rate indices such as LIBOR;
- There are no changes in the balance sheet as a result of new account openings, withdrawals, and prepayments triggered by the simulated change in market interest rates;
- The impact of hedging instruments is included in the analysis; and
- We assume a parallel shift in the yield curve.

Historically we have not used a significant number of hedging instruments to mitigate our non-trading interest rate risk since the liquidity of these derivatives in Korea has been poor. Instead, we have attempted to minimize our interest rate gap by limiting the amount of our fixed rate lending. We occasionally use interest rate swaps to convert the coupon of certain foreign currency investment securities from fixed to floating to match our funding. We may also use Korean Treasury Bond Futures to hedge our non-trading interest rate risk as the liquidity of these instruments improves and we increase the volume of our fixed rate products.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets, liabilities and off-balance sheet items such as foreign exchange forwards and currency swaps that are denominated in currencies other than the Won.

Assets and liabilities denominated in US dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese Yen, the Euro and Hong Kong Dollars account for the remainder. We use cross currency swaps to convert our foreign currency denominated fixed rate borrowings to US dollar floating rate borrowings and forward foreign exchange contracts to fund foreign currency lending.

The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain our net foreign currency open position. This is our foreign exchange risk. The Risk Management Committee manages our foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits for our forward foreign exchange contracts. We also perform proprietary trades within these limits.

The following table shows our non-consolidated net open positions at the end of 1998, 1999 and 2000.

	As of December 31[1],		
Currency	**1998**	**1999**	**2000**
	(in US$ million)		
USD	(13.2)	8.3	1.6
JPY	0.3	(1.1)	(0.9)
Others	0.2	0.3	1.1
Total	(12.7)	7.5	3.6

(1) Positive amounts represent long exposures and negative amounts represent short exposures. The net open positions held by subsidiaries are not significant.

Trading Activities

The level of market risk assumed by us from our trading activities can be broken down into interest rate risk, equity price risk and foreign exchange rate risk. Our trading activities consist of traditional instruments such as equities, bonds, equity index futures, interest rate futures, bond futures, foreign exchange spot and forwards. As of December 31, 2000, our bond portfolio had a market value of ₩2,326 billion while the market values of trading equities and foreign currency positions were ₩32 billion and ₩53 billion, respectively. As of that date, our trading assets and liabilities arising out of foreign exchange and derivative contracts were ₩109 billion and ₩32 billion, respectively.

We use Value at Risk (VaR) as the main market risk management tool together with stress testing and several traditional tools like Present Value of a Basis Point (PVBP), duration and cash flow analyses of debt securities and equity Beta. We generate Value at Risk reports as well as mark-to-fair value reports for all trading portfolios on a daily basis for the chief risk officer. We are able to use parametric (also known as variance-covariance model), historical and Monte Carlo simulation methods; however, we are currently using parametric (Delta-Gamma) method assuming a 99% confidence level and a one day holding period because we do not hold significant positions in non-linear derivative instruments.

VaR is a commonly used market risk management technique. However, this approach does have some shortcomings. By its nature as a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement is not necessarily a good indicator of future events. Another shortcoming is that one or ten days are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If this is not the case, the VaR results may understate or overstate the potential loss.

Prior to August 2000, we used an internally developed VaR module with limited instrument and currency coverage. Since then we have used a new risk management system, Panorama, a risk and trading system which enables us to generate elaborate and consistent VaR numbers for all trading activities. The new risk management system has expanded our span of control to various analyses and cover financial instruments that were not possible in the past. For the moment, we do not have a consolidated group-wide market risk structure which covers subsidiaries such as Jooeun Leasing Co., Ltd., Jooeun Investment Trust Management Co., Ltd. and Hong Kong Finance Ltd.

Interest rate risk

Interest rate risk from trading activities arises mainly from our trading of domestic debt securities. Our strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. Since August 2000 we have entrusted our trading bond portfolio amounting to ₩2.3 trillion to Jooeun Investment Trust Management Co. on condition that Jooeun Investment Trust Management will comply with the guidelines set out by us. Jooeun Investment Trust Management, a specialized asset management company which receives consulting advice from the ING Group, invests in a variety of Korean Treasury Bonds, government bonds and other financial institution issued bonds rated higher than A (as rated by Korean debt rating agencies) and reports its trading records to us on a daily basis.

The volume of our trading activities and the size of our trading portfolio are determined by the Price Risk Management Sub-Committee, taking into account the liquidity of the domestic debt security market, economic capital, capital constraints, current funding position and other related issues.

Our exposure to interest rate risk arising from our trading activities is controlled primarily with position limits, stop loss limits and VaR limits approved by the Risk Management Committee and the Price Risk Management Sub-Committee.

The following table shows year-end, average, minimum and maximum VaR for 1999 and 2000 assuming a 99% confidence level for a one day holding period. We use historical data for the past one year (260 business days) with equal weight over the whole horizon and consider the correlation between sub-risk factors (such as those which solely affect interest rate risk) as well as correlation between different risk factors (such as those between interest rate risk and equity price risk).

Daily Value at Risk of Trading Positions

	As of December 31, 1999				As of December 31, 2000			
Risk class	**Average**	**Minimum**	**Maximum**	**Year End**	**Average**	**Minimum**	**Maximum**	**Year End**
		(in ₩ billion)				(in ₩ billion)		
Interest rate risk	2.5	0.2	8.5	2.9	4.2	2.6	6.2	3.4
Equity risk	2.5	0.1	4.8	3.1	2.9	0.9	6.1	2.5
Foreign exchange risk	N/A	N/A	N/A	N/A	3.1	1.7	4.9	4.9
Diversified Total	5	(1)	(1)	6	5.2	2.3	10.1	4.6

(1) Figures calculated above cover H&CB only and do not include subsidiaries.

We have not presented VaR for foreign exchange risk for the year 1999 since we were not calculating VaR for foreign exchange risk prior to August 2000, which was not significant in 1999.

Equity Risk

Equity price risk results from our equity portfolio in Korean Won since we do not hold any foreign currency shares except for convertible bonds in foreign currency. The conversion rights for foreign currency denominated convertible bonds have been sold and therefore our equity risk exposure in this regard is limited.

The trading equity portfolio in Korean Won consists of exchange listed stocks and nearest month or second nearest month futures contracts under strict limits on diversification as well as position limits. This has been an area of particular focus due to the level of volatility in the stock market. In addition, we pay close attention to the loss limits. When the trading equity portfolio breached the loss limit in March 2000, the Price Risk Management Sub-Committee decided to immediately cease equity trading activities until the end of 2000 and liquidated relevant positions according to the guidelines set out in the Price Risk Management Manuals.

To obtain the VaR measure for equities, we also use the parametric method, assuming a 99% confidence level and one day holding period. We use parametric VaR, since we do not hold significant non-linear instruments such as options. Unlike common methods which use only one representative index for each stock exchange to calculate the equity VaR, we use 32 specified indices by industry and exchange, which enables us to produce more precise VaR numbers.

Foreign Exchange Rate Risk

We trade foreign exchange spot, foreign exchange forwards, currency swaps and foreign exchange futures of 28 currencies to benefit from short-term movements in the prices of each instrument arising from changes in the foreign exchange rates or interest rates under the limits approved by the Price Risk Management Sub-Committee. The Price Risk Management Sub-Committee sets position limits, stop loss limits and VaR limits on trading foreign exchange positions taking into account economic capital, volatility of market prices and other related issues such as market perspectives. Most of our foreign currency position holdings are denominated in US Dollars and are subject to limits mentioned above; however, overseas branches are subject to position limits by currency since overseas branches are not allowed to hold active trading positions. We use the parametric method to measure foreign currency risk.

For transactions involving a notional amount greater than US$50 million, trading of new instruments or where a limit has not been determined, the trading division is required to obtain preliminary approval from the Price Risk Management Sub-Committee through the Risk Management Team.

Foreign exchange trading profiles are reported to the chief risk officer on a daily basis as well as VaR reports, mark-to-fair value reports and limit reports. In situations where the daily, monthly or annual limits are breached, following the decision of the Price Risk Management Sub-Committee, all relevant positions are liquidated immediately and trading is stopped for the outstanding period. Where immediate liquidation is not feasible due to a liquidity shortage or the head of trading division judges the liquidation of all of relevant positions to be inappropriate, part of the positions could be liquidated in accordance with the decision of the Price Risk Management Sub-Committee.

Stress test

Stress testing is an important way of supporting VaR since VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner which is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

There are two ways of simulating scenarios. One uses statistics based on historical data to obtain an average or maximum movement of market price over a certain horizon and the other replicates a specified historical event. Currently, we have three scenarios following the former method. Scenario 1 uses average volatility over the last year, Scenario 2 looks at the average volatility over the last month and Scenario 3 uses maximum volatility over the last one year. A weak point of a statistical approach is the difficulty of taking into account correlation between market variables. Our scenario assumes that interest rates, equity prices and exchange rates move very significantly at the same time to obtain the worst case. However, actual movements may not be that extreme, nor the actual impact on the portfolio value that large since market prices historically have some correlation.

The result of the stress test using the third scenario at the end of 2000 is ₩16.2 billion for a ₩2,411 billion consolidated portfolio. The trading bond portfolio contributed 97% of the total value change.

Along with current scenarios, we are preparing for other scenarios that replicate historical events that happened in the past such as market situations under the foreign exchange crisis in the 1990s and other critical events.

Although we have not set any limits on stress testing, we monitor the impact of market turmoil or any abnormality. If the impact is large, the chief risk officer may request a portfolio restructuring or other proper action.

Liquidity Risk

Liquidity risk arises in the funding of lending, trading and investment activities and in the management of trading positions. Liquidity risk includes both the risk of unexpected increases in the cost of funding our asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner at a reasonable price in order to meet a maturing liability. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all our liability repayments on time and fund all investment opportunities.

Liquidity is maintained by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we can raise by issuing housing bonds when required. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest earning deposits or money market instruments.

We maintain diverse sources of liquidity to facilitate flexibility in meeting funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), payments of loans and sales of short-term securities. We use the majority of funds raised by us to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

We have a liquidity contingency program in place, which specifies actions to be taken in the event of a liquidity problem. The Interest Rate and Liquidity Risk Management Subcommittee is responsible for setting liquidity limits within the limits set by the Risk Management Committee and reviewing our liquidity status on a monthly basis. The Interest Rate and Liquidity Risk Management Subcommittee also establishes liquidity management strategies based on reports on our liquidity status that the Risk Management Team provides to the Risk Management Committee. We have not experienced any serious foreign currency liquidity problem to date, even during Korea's foreign currency liquidity crisis in 1997 and 1998, as we always complied with the foreign currency liquidity ratios set by the FSC. In 2000, we maintained a relatively stable liquidity status both in domestic and foreign currency.

As of January 1, 1999, Korean banks were required to maintain a Won liquidity ratio (defined as Won liquid assets, including marketable securities, due within three months divided by Won liabilities due within three months) in excess of 100.0% and to report their respective ratios to the FSS on a quarterly basis. For us, however, the FSS only required that we maintain a Won liquidity ratio in excess of 70.0% because the FSS recognized that our liquidity ratios may be lower than other banks since we are the main provider of long-term housing loans in Korea.

The FSC defines liquid assets as any assets which mature within three months. The following table sets forth amounts of our Won and foreign currency liquid assets and liabilities and liquidity ratios, in accordance with the new FSC criteria, as of December 31, 1999 and 2000.

	As of December 31, 1999			As of December 31, 2000		
	Liquid Assets	Liquid Liabilities	Liquidity Ratio	Liquid Assets	Liquid Liabilities	Liquidity Ratio
	(in ₩ billion and US$ million, except percentages)					
Won currency	₩12,469	₩14,605	85.4%	₩13,532	₩18,232	74.2%
Foreign currency	US$763	US$498	153.2%	US$1,243	US$684	181.7%

For a description of Korean laws and regulations relating to liquidity, see "Item 4. Information on the Company — Business Overview — Supervision and Regulation".

The liquidity ratio in Korean Won was 74.2% as at the end of 2000 compared to 85.4% in 1999. Our treasury team is responsible for the maintenance of the liquidity ratio, and has set the optimum band for the liquidity ratio of 73% to 77%, which we believe provides the most efficient trade off between liquidity and profitability.

Operational and Legal Risk

Operational risks are risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial or reputational loss.

The audit department operates the internal audit system, the internal checking system and the computerized ordinary audit system called Total Audit Intelligence System (TAIS) to test and monitor the internal controls. The internal audit team carries out general, special and routine audits. The internal checking system seeks to prevent the occurrence of fraud or error by instituting a systematic program of preventative and detective procedures, especially in areas which are deemed to be of a higher risk.

TAIS, the system which has recently been developed by the audit department, operates a real-time warning system and the daily audit system for branches. TAIS, which is Internet-based, allows convenient access to historical and current transaction information to assist the audit department in carrying out monitoring procedures. To establish a diversified audit plan using TAIS, the audit department uses a risk based approach when setting the scope and level of focus in each business line.

The Audit Committee, which consists of four non-executive directors and one executive director, supervises our internal controls and our observance of ethical and legal principles in addition to reviewing our financial statements.

Pursuant to the Banking Act revisions relating to compliance, we established in August 2000 the Compliance Team, which operates a compliance inspection system. This system is designed to ensure that all of our employees comply with the law. The compliance inspection system's main function is to monitor the degree of improvement in compliance with the law, accomplish internal controls and educate our employees about observance of the law.

The FSS conducts a general audit of our operations once a year and also performs special audits as the need arises on particular aspects of our operations such as risk management, credit monitoring and liquidity.

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including the foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested.

We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. Our internal auditors review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court.

We have created a System Management Unit that continually monitors all of our electronic and computerized network processes to minimize operational risk due to system failure. We believe this is important since the integrity of electronic systems is crucial in the banking industry. The unit reports any unusual delays encountered by our branches in processing transactions. We have implemented the Business Recovery System for use in the event of any problems with our systems. The Business Recovery System allows us to carry out our daily business even in the event of internal system failure by accessing a duplicate system located off-site. We also created an independent IT Security Unit in 1999, responsible for the daily monitoring of the entire information security system.

Assets and Liabilities

Loan Portfolio

Our total loan portfolio, as of December 31, 2000, was ₩46,208 billion, an increase of 43.8% from ₩32,134 billion at December 31, 1999. Approximately 95.6% of our total loans were Won denominated loans at December 31, 2000. Growth in the portfolio primarily reflects an increase in non-mortgage consumer loans and in corporate loans to borrowers which are not in the construction industry.

Loan Types

The following table presents the types of loan by category of borrower for the last five years ended December 31, 1996, 1997, 1998, 1999 and 2000.

	As of December 31,				
	1996(1)	1997	1998	1999	2000
	(in ₩ billion)				
Commercial and industrial	2,116	4,554	5,251	5,595	9,546
Construction loans	684	1,519	2,041	1,601	771
Lease financing	—	—	—	—	264
Households					
Residential Mortgages	14,764	15,928	15,890	17,246	20,987
Other consumer loans	1,897	2,224	2,400	6,476	11,759
Credit cards	662	698	772	1,216	2,881
Total loans	20,123	24,923	26,354	32,134	46,208

(1) Adjustments were necessary to reconcile the aggregate loan balance from Korean GAAP to a basis comparable to 1997, 1998, 1999 and 2000. See the table below.

The following table sets forth the adjustments necessary to reconcile the aggregate loan balance for 1996 from Korean GAAP to a basis comparable to the later years disclosed above.

	As of December 31, 1996
	(in ₩ billion)
Total loan balance under Korean GAAP	19,674
Add/(less) adjustments to U.S. GAAP:	
De-consolidation of trust accounts	(171)
De-consolidation of Jooeun Lease Co., Ltd.	(271)
Reclassification of items not classified as loans under Korean GAAP	889
Other	2
Total	20,123

Concentration of Total Exposure

As discussed in more detail in "Item 4. Information on the Company — Business Overview — Risk Management — Credit Risk", we limit our exposure to any single borrower to 10.0% of our total Tier I and Tier II capital. We also limit our exposure to any single group of companies belonging to the same conglomerate to 20.0% of our total Tier 1 and Tier II capital. Although we do not currently limit our exposure to any particular industry, we diversified our corporate exposure away from the construction industry.

Our ten largest exposures as of December 31, 2000, excluding those to the Korean government and its agencies, totaled ₩2,202 billion and accounted for 3.6% of our total exposures. The following table sets forth as of December 31, 2000, our total exposures to the ten borrowers to whom we have the largest exposures, excluding those exposures to the Korean government and its agencies.

Company	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Others	Total Exposures	Amounts Classified as Substandard or Below(1)
	(in ₩ billion)							
Korea Housing Guarantee Co., Ltd.	480	—	—	18	—	—	498	498
Daewoo Corporation	21	171	—	51	26	—	269	243
SK Corporation	50	—	—	29	173	—	252	—
SK Global Corporation	50	85	—	1	76	—	212	—
Chase Manhattan Bank	—	—	—	—	—	200	200	—
LG Capital Services Co.	174	—	—	—	—	—	174	—
Woo Bang Co., Ltd	160	—	—	—	—	—	160	83
Hynix Semiconductor	3	138	—	14	—	—	155	—
Korea Life Insurance Co., Ltd.	—	—	—	—	—	149	149	—
LG International Co.	—	128	—	5	—	—	133	—
Total	938	522	—	118	275	349	2,202	824

(1) Based on FSC asset classifications.

Our largest exposure to a borrower is our exposure to the KHGC, which has experienced substantial financial difficulties. The KHGC was formed in June 1999 to replace the Korean Housing Financial Cooperative (KHFC) that had been formed in April 1993 by construction companies in Korea to provide loans and loan guarantees to Korean construction companies. The KHGC takes responsibility for completing construction projects if construction companies become insolvent while their projects are in progress. In addition, the KHGC has assumed the obligations of KHFC to guarantee a number of loans to construction companies. As a result of the financial crisis in Korea in 1997 and 1998 and the resulting deterioration of the real estate market, many construction companies became insolvent, and the KHFC faced a major liquidity problem as a result of payments it had to make under loan guarantees that it had provided to these companies. To solve the KHFC's liquidity problem, the government and the KHFC's creditors, including us, reorganized the KHFC into the KHGC and provided financial assistance to the KHGC. The capital contributed by construction companies to the KHFC was reduced from ₩3,250 billion to ₩848 billion, the government injected ₩500 billion in capital and creditors converted ₩101 billion in debt into equity and purchased ₩99 billion in convertible bonds issued by the KHGC.

The KHGC receives fees for taking responsibility for the completion of construction projects if construction companies become insolvent while their projects are in progress and the other construction companies that issued guarantees undertaking to take over and complete the projects fail to perform under the guarantees. The KHGC hires other companies to finish the projects, and if it is unable to find a suitable replacement to complete the project, it refunds the subscription and installment payment that had been paid by those who would have owned the housing that did not get completed. As of December 31, 2000, the KHGC had outstanding guarantees of ₩57 trillion, of which ₩51 trillion was for the sale of newly-built houses. As of that date, the KHGC was responsible for the completion of 24 housing projects in which the original construction companies became insolvent.

Our total direct exposure to the KHGC as of December 31, 2000, was ₩498 billion, which consisted of:

- ₩480 billion of loans; and
- ₩18 billion of convertible bonds.

As of that date, we had a loan loss allowance relating to the KHGC of ₩153 billion.

In addition, as of December 31, 2000, we had loans to construction companies guaranteed by the KHGC of ₩49 billion. Of these amounts, ₩28 billion were to companies that were insolvent or in corporate reorganization proceedings. The KHGC is experiencing substantial liquidity problems due to high interest payment obligations and increasing payments under loan guarantees it provided to construction companies that have become insolvent.

Representatives of the KHGC, the Ministry of Construction and Transportation and creditor financial institutions of the KHGC, including us, held a series of meetings in March and April 2000 and agreed on a basic framework for restructuring part of the KHGC's debts. On June 27, 2001, the government and creditor financial institutions agreed on a capital contribution and debt repayment program to normalize the operation of KHGC. Under the terms agreed, the Government will make a capital contribution of ₩947 billion and purchase convertible bonds of ₩332 billion issued by the KHGC. In addition, ₩504 billion of the creditor financial institutions' outstanding loans to KHGC will be converted to equity, including ₩171 billion of our outstanding loans, while the creditor financial institutions' outstanding loans of ₩1,015 billion, including our remaining outstanding loans of ₩309 billion, will be repaid in full. After the implementation of the restructuring program, 49.9% of the outstanding share capital of the KHGC will be owned by the government, 20.6% of the outstanding share capital of the KHGC will be owned by construction companies, and 20.9% of the outstanding share capital of the KHGC will be owned by financial institutions, including 9.7% by us.

One of our top ten borrowers as of December 31, 1999 was Jooeun Leasing Co., Ltd. ("Jooeun Leasing"), a leasing company in which we currently own an 85% interest. Jooeun Leasing faces significant financial difficulties, and on January 13, 2000, we and Jooeun Leasing entered into a memorandum of understanding with other creditors of Jooeun Leasing, whereby we and the other creditors agreed on detailed terms of a debt restructuring plan for Jooeun Leasing. In accordance with the restructuring plan, the maturities of ₩244 billion of Jooeun Leasing's debt were extended until the end of 2005. We converted our loans to Jooeun Leasing to an equity investment in the amount of ₩82 billion on January 20, 2000 and, correspondingly, Jooeun Leasing issued 16.46 million shares of its common stock to us. The memorandum of understanding requires us to provide additional loans in the total amount of ₩100 billion to Jooeun Lease upon Jooeun Lease's request. Loans of ₩47 billion have been extended as of March 31, 2001.

As of December 31, 2000, 5.44% of our total exposure was to the thirty largest chaebols. The following table shows as of December 31, 2000, our total exposures and the asset quality assigned with respect to the ten chaebol groups to which we have the largest exposure.

Chaebol	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees & Acceptances	Others	Total exposures	Amounts Classified as Substandard or Below(1)
	(in ₩ billion)							
LG	276	174	—	114	19	—	583	—
SK	155	106	25	36	249	—	571	—
Samsung	86	35	5	79	72	100	377	—
Hyundai	54	218	—	57	13	—	342	47
Daewoo	21	174	—	51	26	—	272	246
Hyundai Motors	120	48	7	37	3	—	215	—
WooBang	160	—	—	—	—	—	160	83
Hanwha	72	—	3	7	56	—	138	—
Lotte	115	—	—	15	1	—	131	—
Hyundai Oilbank	29	6	—	—	62	—	97	—
Total	1,088	761	40	396	501	100	2,886	376

(1) Based on FSC asset classifications.

In August 1999, the principal creditor banks of the Daewoo Group commenced formal workout procedures with respect to 12 of the member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and

Ssangyong Motors. Currently, these member companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2000, our total exposure to the Daewoo Group was approximately ₩272 billion. Our exposure consists of ₩195 billion in loans outstanding, ₩51 billion in corporate bonds and ₩26 billion in guarantees and acceptances.

The following table shows information relating to our Daewoo Group total exposure as of December 31, 2000.

Company	Loans: Won Currency	Loans: Foreign Currency	Debt Securities	Guarantees and Acceptance	Others	Total Exposures	Amounts Classified as Substandard or Below(1)
	(in ₩ billion)						
Daewoo Corporation	21	171	51	26	—	269	243
Daewoo Ind. Co., Japan Corp	—	2	—	—	—	2	2
Daewoo Hongkong	—	1	—	—	—	1	1
Total	21	174	51	26	—	272	246

(1) Based on FSC asset classifications.

The following table shows information relating to our Hyundai Group total exposure as of December 31, 2000.

Company	Loans: Won Currency	Loans: Foreign Currency	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Substandard or Below(1)
	(in ₩ billion)					
Hynix Semiconductor	3	138	14	—	155	—
Hyundai Merchant Marine Co., Ltd	15	62	7	—	84	18
Hyundai Engineering and Construction Co., Ltd	18	—	29	—	47	15
Hyundai Corporation	—	18	—	13	31	—
Koryeo Industrial Development Co., Ltd	14	—	—	—	14	14
Hyundai Heavy Industries Co., Ltd	—	—	7	—	7	—
Hyundai Elevator Co., Ltd	4	—	—	—	4	—
Total	54	218	57	13	342	47

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans by outstanding loan amount as of December 31, 2000.

	As of December 31, 2000: Aggregate Loan Balance	As of December 31, 2000: Percentage of Total Loan Balance
	(₩ billion)	(percentages)
Commercial and industrial		
Up to ₩10 million	16	0.03
Over ₩10 million to ₩50 million	259	0.56
Over ₩50 million to ₩100 million	307	0.67
Over ₩100 million to ₩500 million	1,336	2.89
Over ₩500 million to ₩1 billion	751	1.63
Over ₩1 billion to ₩5 billion	1,947	4.21
Over ₩5 billion to ₩10 billion	998	2.16
Over ₩10 billion to ₩50 billion	3,505	7.58
Over ₩50 billion to ₩100 billion	124	0.27
Over ₩100 billion	303	0.66
Sub total	9,546	20.66

	As of December 31, 2000	
	Aggregate Loan Balance	Percentage of Total Loan Balance
	(₩ billion)	(percentages)
Construction loans		
Up to ₩10 million	2	0.00
Over ₩10 million to ₩50 million	5	0.01
Over ₩50 million to ₩100 million	2	0.01
Over ₩100 million to ₩500 million	30	0.07
Over ₩500 million to ₩1 billion	47	0.10
Over ₩1 billion to ₩5 billion	332	0.72
Over ₩5 billion to ₩10 billion	197	0.43
Over ₩10 billion to ₩50 billion	156	0.34
Sub total	771	1.68
Lease financing		
Up to ₩10 million	0	0.00
Over ₩10 million to ₩50 million	2	0.00
Over ₩50 million to ₩100 million	5	0.01
Over ₩100 million to ₩500 million	30	0.07
Over ₩500 million to ₩1 billion	18	0.04
Over ₩1 billion to ₩5 billion	92	0.20
Over ₩5 billion to ₩10 billion	65	0.14
Over ₩10 billion	52	0.11
Sub total	264	0.57
Household — mortgage		
Up to ₩10 million	4,478	9.69
Over ₩10 million to ₩50 million	12,496	27.04
Over ₩50 million to ₩100 million	3,037	6.57
Over ₩100 million to ₩500 million	935	2.02
Over ₩500 million to ₩1 billion	34	0.07
Over ₩1 billion to ₩5 billion	7	0.02
Sub-total	20,987	45.41
Credit Cards		
Up to ₩10 million	2,746	5.94
Over ₩10 million to ₩50 million	109	0.24
Over ₩50 million to ₩100 million	2	0.00
Over ₩100 million to ₩500 million	24	0.05
Sub-total	2,881	6.23
Household — other		
Up to ₩10 million	5,196	11.24
Over ₩10 million to ₩50 million	4,291	9.29
Over ₩50 million to ₩100 million	781	1.69
Over ₩100 million to ₩500 million	1,223	2.65
Over ₩500 million to ₩1 billion	241	0.52
Over ₩1 billion to ₩5 billion	27	0.06
Sub-total	11,759	25.45
Total	46,208	100.00

Maturity Analysis

The following table shows the scheduled maturities of our total loans as of December 31, 2000.

	1 Year or Less	1 Year to 5 Years	After 5 Years	Total
	(in ₩ billion)			
Commercial and industrial	7,490	1,655	401	9,546
Construction loans	659	73	39	771
Lease financing	214	15	35	264
Households				
Residential mortgages	1,026	11,910	8,051	20,987
Other consumer loans	7,332	3,757	670	11,759
Credit cards	2,881	—	—	2,881
Total	19,602	17,410	9,196	46,208

Interest Rate Sensitivity

The following table shows, as of December 2000, the total amount of loans which have fixed interest rates or variable or adjustable interest rates.

	As of December 31, 2000
	(in ₩ billion)
Fixed rates(1)	11,922
Variable or adjustable rates(2)	34,286
Total	46,208

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.
(2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

Non Performing Loans

Non-performing loans are defined as loans greater than 90 days past due. For classification of non-performing loans under Korean regulatory requirements, see "— Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Asset Classification".

The following table shows, for the periods indicated, certain details of our total non-performing loan portfolio.

	As of December 31,			
	1997	1998	1999	2000
	(in ₩ billion, except percentages)			
Total non-performing loans	1,857	2,628	2,440	2,104
As a percentage of total loans	7.5	10.0	7.6	4.6

The above table does not reflect the amount of loans classified as substandard or below that we sold to KAMCO in connection with a government program to assist the Korean banking industry. See "Item 5. Operating and Financial Review and Prospects — Trend Information — The Acquisition of DongNam Bank — Sales of Substandard or Below Loans to KAMCO". In 2000, we did not sell any substandard or below loans to KAMCO. We currently have guaranteed ₩59 billion of loans sold to KAMCO. As of December 31, 2000, we have repurchased ₩43 billion of these loans from KAMCO and these are reflected in the table above.

Non-accrual loans. The following table presents a four-year analysis of loans that were placed on a non-accrual status. Loans are placed on a non-accrual status when they are past due by one day or more.

	As of December 31,			
	1997	1998	1999	2000
	(in ₩ billion)			
Loans accounted for on a non-accrual basis	4,594	5,431	5,460	5,883

We are not able to provide information for non-accrual and non-performing loans for the year ended December 31, 1996 due to changes made in our information systems. We believe that the amounts of non-accrual and non-performing loans for the year ended December 31, 1996 were lower than for the subsequent years due to the impact of the Asian financial crisis in 1997. Prior to 1997, due to our limited range of lending activities, our non-performing and non-accrual loans arose mainly from our mortgage and other consumer loan portfolios.

Accruing loans past due 90 days. As of December 31, for each of the four years to 2000, we did not have any loans that were over 90 days past due and remained on an accrual status.

Troubled debt restructurings. The following table presents a four year analysis of loans not included above which are "troubled debt restructurings" as defined under U.S. GAAP.

	As of December 31,			
	1997	1998	1999	2000
	(in ₩ billion)			
Loans not included above which are classified as "troubled debt restructurings"	—	195	208	569

Comparable information for 1996 is not available. However, the level of loans classified as troubled debt restructurings were not significant in 1996.

Potential Problem Loans. As of December 31, 2000, ₩980 billion of loans classified as substandard or below were not included as non-performing because they were less than 90 days past due. These amounts are classified as impaired and therefore included in our calculation of loan loss allowance under U.S. GAAP.

We have certain other interest-earning assets that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring disclosures provided above. As of December 31, 2000, we had debt securities with an amortized cost of ₩35 billion and a market value of ₩29 billion on which interest was past due.

Exposures to Companies in Workout, Corporate Reorganization and Composition. Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower's credit terms. In 1998, we joined the other financial institutions in Korea in entering into an accord which sets forth certain guidelines and procedures with respect to voluntary workout programs. Under the accord, the lead creditor bank or financial institution creditors holding not less than 25.0% of the total credit amount of a borrower held by the participants of the accord may convene a meeting of creditors for workout and commence preparation of a workout plan with respect to such borrower. The workout plan will be binding on all the financial institution creditors that entered into the accord upon approval by the accord participants representing at least 75.0% of the total accord debt. The accord also imposes penalties on financial institution creditors that fail to abide by the guidelines and procedures set forth in the accord.

Corporate reorganization procedure and composition are court supervised procedures to rehabilitate an insolvent company. The restructuring plan is adopted at a meeting of interested parties and is subject to approval of a court. In a corporate reorganization, the management power of the company is taken over by a court appointed receiver. Creditors must report their claims to the court and if they fail to do so, their claims are discharged at the end of the reorganization. Creditors may enforce their claims only in compliance with the reorganization plan. In composition proceedings the management of the company retains its management power. Unreported claims are not discharged at the end of a composition plan although the creditors are required to report their claims to the court if they want to exercise their votes at the meeting of interested parties. In addition, secured creditors may enforce their security interest outside the composition proceeding unless they waive their security interest and consent to the composition plan.

Our non-performing assets in restructuring are managed and collected by the Loan Management Team. As of December 31, 2000, ₩658 billion or 1.4% of our total loans were under restructuring. Upon approval of the workout plan a non-performing asset is initially classified as special mentioned or lower and thereafter cannot be classified higher than special mention with limited exceptions.

The following table shows, as of December 31, 2000, our ten largest exposures that were in the process of being negotiated or had been negotiated in workouts, were in composition or were under court receivership.

Company	Loans		Debt Securities	Guarantees and Acceptances	Others	Total Exposures
	Won Currency	Foreign Currency				
			(in ₩ billion)			
Korea Housing Guarantee Co., Ltd.	480	—	18	—	—	498
Daewoo Corporation	21	171	51	26	—	269
Woo Bang Housing Co., Ltd.	160	—	—	—	—	160
Dongsung Construction Co., Ltd.	33	—	—	1	—	34
Kabool Textiles	2	32	—	—	—	34
Daewoo Electronics Co., Ltd.	22	7	2	—	—	31
Daedong Housing Co., Ltd.	25	—	—	2	—	27
Kabool, Ltd	8	14	—	—	—	22
Kyong Nam Leasing Co., Ltd.	—	19	—	—	—	19
Shinbo Leasing Co., Ltd.	—	19	—	—	—	19
Total	751	262	71	29	—	1,113

Recognition of Allowance for Losses on Loans

Our method for loan loss provisioning depends on whether a loan is a corporate loan or a consumer loan.

Specific loan loss allowances for corporate loans are established based on whether the loan is impaired or not. Loan loss allowances for impaired loans are established by discounting the cash flow we expect to receive on the loan evaluated on an individual borrower basis. Where the impaired loan, or a portion of the impaired loan, is collateralized or if the loan is subject to a guarantee, the fair value of the collateral and/or the estimated guarantee payment is considered in establishing the level of the allowance. The determination as to whether a loan is impaired is based upon loan grades and past due status. Loans rated substandard and below or that are at least 30 days past due are considered impaired. Loan loss reserves on impaired loans are determined on an individual borrower basis. Loan loss reserves allocable to impaired borrowers based on their classification are as follows:

	As of December 31,			
	1997	1998	1999	2000
	(percentages)			
Normal(1)	1.2	60.0	0.5	3.9
Special Mention	15.5	20.9	25.7	23.9
Substandard	24.5	14.9	39.8	30.8
Doubtful	42.4	44.9	73.9	72.6
Loss	75.4	92.0	82.7	79.6

(1) The 60.0% reserve rate for normal loans in 1998 was substantially caused by loans to the Daewoo Group which were classified as normal. If these loans are excluded the reserve percentage for this classification would be 5.02%.

Loan loss reserves on the remainder of the commercial portfolio are established on a pool basis, which considers such factors as historical charge-offs and migration analyses. We also establish allowances for loan losses on consumer loans on a pool basis, which considers such factors as historical performance, charge-off information, and migration analyses.

Under Korean GAAP, the allowance for loan losses is generally established based on FSS guidelines, which require that the minimum allowance be established, based on the classification of the loan. We have used these guidelines in establishing our minimum reserve levels. Starting in 1998, we also established voluntary additional reserves on individual credits, in addition to the FSS percentage guidelines below, to be more in line with international banking practices. The FSS reserve percentage guidelines are set forth for the periods indicated:

	1997	1998	1999	2000
	(Korean GAAP percentages)			
Normal	0.5	0.5	0.5	0.5
Special Mention	1	2	2 to 19	2 to 19
Substandard	20	20	20 to 49	20 to 49
Doubtful	75	75	50 to 99	50 to 99
Loss	100	100	100	100

Applying the FSS reserve percentage guidelines, as well as establishing voluntary reserves, would generally not produce a loan loss reserve in accordance with U.S. GAAP, which requires loan reserves to be established at a level that is deemed adequate to provide for known and inherent losses that existed as of the balance sheet date.

Non-Accrual Loans

We do not recognize interest on non-accrual loans or credit interest to our income account unless it is collected. Any interest accrued and not received on past due loans is reversed and charged against our current earnings. We return non-accrual loans to accrual status when all past due contractual principal and interest amounts are collected.

We recognize interest on troubled restructured loans on a cash basis until such time as the restructured loan has sufficiently performed under the terms of the restructuring.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of accounts. Interest foregone for loans that were on non-accrual status at December 31, 2000 was ₩313 billion, for loans that were on non-accrual status at December 31, 1999 was ₩172 billion and for loans that were on non-accrual status at December 31, 1998 was ₩194 billion. The amount of interest income on those loans that was included in net income for the period was ₩598 billion, ₩417 billion and ₩393 billion, respectively.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated.

	Normal		Past Due 1-3 Months		Past Due 3-6 Months		Past Due More Than 6 Months		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	(in ₩ billion, except percentages)								
As of December 31,									
1998	20,923	79.4	2,802	10.6	1,451	5.5	1,178	4.5	26,354
1999	26,674	83.0	3,020	9.4	1,092	3.4	1,348	4.2	32,134
2000	40,325	87.3	3,779	8.2	648	1.4	1,456	3.2	46,208

Sectoral Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, our total non-performing loans by borrower type.

	As of December 31,			
	1997	1998	1999	2000
	(in ₩ billion)			
Commercial and industrial	328	514	644	808
Construction loans	28	283	140	308
Lease financing	—	—	—	16
Households				
Residential mortgages	1,380	1,638	1,396	850
Other consumer loans	109	179	246	85
Credit cards	12	14	14	37
Total non-performing loans	1,857	2,628	2,440	2,104

Top Ten Non-Performing Loans

At December 31, 2000, our ten largest non-performing loans accounted for 7.51% of our total non-performing loan portfolio. The following table shows, for the periods indicated, certain information regarding our ten largest non-performing loans.

	As of December 31, 2000		
	Industry	Gross Principal Outstanding	Allowance for Loan Losses
		(in ₩ billion)	
Borrower A	Construction	68	21
Borrower B	Manufacturing	24	20
Borrower C	Construction	10	—
Borrower D	Construction	9	5
Borrower E	Construction	8	—
Borrower F	Construction	8	—
Borrower G	Trading	8	7
Borrower H	Trading	8	7
Borrower I	Manufacturing	8	4
Borrower J	Construction	7	—
Total		158	64

Non-Performing Loans Strategy

Our Credit Risk Team is responsible for finding early solutions and pursuing the recovery of non-performing loans. In addition, we have a loan collection agency called Jooeun Credit Information Co., Ltd. of which we own 50.0% of the outstanding share capital and its workers own the remaining share capital. Jooeun Credit Information Co., Ltd. is a loan recovery company, which receives payments on charged off loans and loans that are overdue for over six months (three months in the case of credit card loans). We started using Jooeun Credit Information Co., Ltd. for loan recovery services beginning October 1999. Jooeun Credit Information Co., Ltd, has over 300 employees, including loan recovery experts, legal experts and management employees. The fees that Jooeun Credit Information Co., Ltd receives are based on the amounts of non-performing and charged off loans that are recovered. Jooeun Credit Information Co., Ltd. recovered ₩142 billion in 2000 compared to ₩17 billion in 1999.

Methods for resolving non-performing loans include the following:

- For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:
  - — Non-performing loans are transferred from the operating branch or call center to the non-performing loan management team in the processing centers;

• a demand note is dispatched by mail if payment is five months past due;

— calls and visits are made by our processing center staff to customers encouraging them to make payments;

— borrowers with loans over ₩15 million and payments three months past dues are registered as "yellow warning" borrowers in the Federation of Banks' Credit Implementation data base;

— prepare for judicial means, including foreclosure and auction of the collateral; and

— credit card loans are transferred to Jooeun Credit Information Co., Ltd. for collection.

• For loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:

— for mortgage loans other than individual housing loans, foreclosure and an auction are commenced;

— for unsecured loans other than credit card loans, transfer the loan to Jooeun Credit Information Co., Ltd. for collection; and

— borrowers with loans over ₩15 million and payments six months past due are registered as "red warning" borrowers and borrowers with loans less than ₩15 million and payments six months past due are registered as cautionary borrowers in the Korean Federation of Banks' Credit Information data base.

• For loans in arrears for over one year:

— for individual housing loans, foreclosure and commencement of an auction proceeding;

— in the case of unsecured loans, they will be treated as loan losses; and

— charged off loans will be given to Jooeun Credit Information Co., Ltd. for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

Analysis of Loan Loss Allowance

The following table presents the allocation of the loan loss allowance by loan type. The ratio represents the percentage of loans in each category to total loans.

	As of December 31,							
	1997		1998		1999		2000	
	(in ₩ billion, except percentages)							
Commercial and industrial								
Impaired loans	257	2.4%	723	7.6%	828	5.5%	949	4.6%
Unimpaired loans	313	45.9	121	12.3	43	11.9	115	16.6
Construction								
Impaired loans	96	2.6	298	5.6	233	3.2	39	0.8
Unimpaired loans	19	3.5	3	2.2	4	1.8	4	0.9
Household								
Residential mortgages	16	63.9	17	60.3	19	53.7	21	45.4
Other consumer loans	41	8.9	45	9.1	92	20.2	117	25.5
Credit cards	41	2.8	52	2.9	68	3.8	72	6.2
Total	789	100.0	1,259	100.0	1,287	100.0	1,317	100.0

Analysis of Loan Loss Experience

The following table presents an analysis of our loan loss experience for the years ended December 31, 1998, 1999 and 2000.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Balance at the beginning of the period	789	1,259	1,287
Amounts charged to operations	434	306	378
Allowance relating to loans acquired, transferred or sold	112	(50)	30
Charge-offs	(71)	(244)	(423)
Recoveries	5	16	30
Foreign currency translation and other	(10)	—	15
Balance at the end of the period	1,259	1,287	1,317
Ratio of net charge-offs to average loans outstanding during the period	0.2%	0.8%	1.0%

The following table presents a five-year summary of charge-offs by type of loan.

	Year Ended December 31,				
	1996	1997	1998	1999	2000
	(in ₩ billion)				
Commercial and industrial	3	4	3	151	318
Construction	2	2	—	24	3
Households					
Residential mortgages	1	1	2	7	6
Other consumer loans	2	5	20	40	60
Credit cards	21	29	46	22	36
Total charge-offs	29	41	71	244	423

We have not calculated our charge to operations for provision for loan losses under U.S. GAAP for the years ended December 31, 1996 and 1997. However, based on our Korean GAAP loan loss reserve data and other credit quality information we believe that the provision charged to operations for loan losses under U.S. GAAP for the periods prior to 1997 would have been substantially lower than for the periods 1997 and after. During 1996 the predominance of the relatively lower risk mortgage lending would have led to a relatively low level of credit losses under U.S. GAAP. During 1997 the increase in commercial and industrial and construction lending and the initial impact of the Asian financial crisis would have led to a significant increase in loan loss provisions under U.S. GAAP as compared to the year ended December 31, 1996. See "— Assets and Liabilities — Loan Portfolio — Recognition of Allowance for Losses on Loans" for a discussion of loan loss reserving methodologies under U.S. GAAP and Korean GAAP.

The following table presents a four year summary of recoveries by type of loan for the years ended December 31, 1997, 1998, 1999 and 2000.

	Year ended December 31,			
	1997	1998	1999	2000
	(in ₩ billion)			
Other consumer loans	—	—	3	14
Credit Cards	4	5	13	16
Total	4	5	16	30

We do not have information on recoveries by type of loan for earlier years. For the years ended December 31, 1996 the level of recovery was not significant.

Loan Charge-offs

Basic Principles. We attempt to minimize loans to be charged off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

If charge-offs are necessary, we charge off the loans at an early stage in order to:

- improve the transparency in accounting; and
- minimize any waste of resources in managing loans which have a low probability of being collected.

Loans To Be Charged Off. Loans are charged off if they fall under the following categories:

- loans for which collection is not foreseeable due to bankruptcy, compulsory execution, disorganization or abrogation of incorporation of debtors, their successors or other obligators;
- loans for which collection is not foreseeable due to the death, or disappearance of debtors;
- loans for which expenses of collection exceed the collectable amount;
- loans for which collection is not foreseeable either because of legal actions, such as auctions or by any other possible procedures;
- uncollectable arrears of credit cards which have been overdue for more than six months; and
- the portion of loans categorized as "estimated loss", for which collection is deemed to be impossible.

All loans to be charged off are required to be investigated and approved by our Loan Readjustment Committee. However, for purposes of presenting our results under U.S. GAAP, we charge off consumer and credit card loans past due over twelve months and six months, respectively.

Application for Charge-off Approval. An application for loans to be charged-off must be submitted to the relevant Teams such as the Loan Management Team and the Credit Card Team. An application may only be submitted after the completion of any legal proceedings and the settlement of principal and relevant legal expenses. The application must be made within one month of the date the loan is classified as estimated loss.

Applications for charge-offs are evaluated and approved by the team concerned, the Loan Management Team or the Credit Card Team on a case by case basis.

Treatment of Loans Charged-Off. Loans charged off are classified as charged-off-loans and managed based on a different set of procedures.

Repossessed Assets. If a collateralized loan is overdue for over a year, we will petition a court for an auction to sell the collateral for the loan. Based on our experience, during the time the petition is being reviewed by the court, about 50.0% of the overdue loans will be repaid, as the sales price of collateral at auctions is generally about 20.0% less than the market value. If a loan is not repaid during the petition review, once the court approves the auction, the collateral will be sold and we will recover the full principal amount and accrued interest up to the sales price. The mortgage loan default rate was 0.0265% for 2000.

The following table sets forth information on our residential mortgage arrears as of December 31, 1998, 1999 and 2000. In the table, all percentages shown are percentages of total residential mortgage loans by number.

	Year ended December 31,		
	1998	1999	2000
	(percentage)		
6 months to 12 months in arrears	2.9	2.5	2.5
12 months or more in arrears	1.5	1.8	1.1

Investment Portfolio

To maintain adequate sources of back up liquidity and generate additional interest income and dividend income, as well as capital gains, to supplement income from our core lending activities, we invest in and trade Won and, to a much lesser extent, foreign currency, securities for our own account.

Held to Maturity Securities

The following table presents the carrying values of securities held to maturity on the dates indicated. Securities for which we have the positive ability and intent to hold to maturity are recorded at cost, adjusted for accretion or amortization of discounts and premiums. Declines in the fair value of individual held-to-maturity securities below their cost that are other than temporary result in write-downs of the individual securities to their fair values.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Debt securities			
Korean treasury securities and government agencies	151	1,235	1,503
Debt securities issued by financial institutions	17	152	175
Corporate debt securities	55	400	322
Debt securities issued by foreign government	1	2	2
Mortgage-backed securities	—	—	180
Other debt securities[1]	—	870	—
Total	224	2,659	2,182

(1) Other debt securities represent our holding in the Bond Market Stabilization Fund which was dissolved as at the end of March, 2001.

Securities Available for Sale

The following table presents the carrying values of securities available for sale on the dates indicated. Securities are classified as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities available for sale are reported at fair value with unrealized gains and losses being recorded in other comprehensive income within stockholders' equity.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Equity securities	12	115	53
Debt securities			
Korean treasury securities and government agencies	6,174	2,526	2,656
Debt securities issued by financial institutions	765	492	378
Corporate debt securities	477	306	332
Mortgage-backed securities	—	130	823
Other[1]	340	791	1,540
Total	7,768	4,360	5,782

(1) Other represents beneficiary certificates issued by other financial institutions.

Trading Securities

The following table presents the carrying values of trading securities on the dates indicated. Trading assets include securities held in anticipation of short-term market movements. Trading securities are reported at fair value, with unrealized gains and losses being recorded in income.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Equity securities	83	122	32
Debt securities			
Korean treasury securities and government agencies	878	2,025	10
Debt securities issued by financial institutions	32	48	—
Corporate debt securities	—	60	—
Other trading securities, primarily beneficial certificates	75	11	2,397
Total	1,068	2,266	2,439

We take into account a number of factors, including macroeconomic trends, industrial analysis and credit evaluation in determining whether to make particular investments in securities. Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Bank Act. Under these regulations, banks must limit their investments in equity securities and in bonds with a maturity in excess of three years (other than monetary stabilization bonds and national bonds) to 60.0% of their respective total Tier I and Tier II capital amount. Banks are also prohibited from purchasing or retaining ownership permanently in equity securities of other banking institutions or acquiring more than 15.0% of the shares with voting rights issued by any other corporation. See "— Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Restrictions on Investments in Property" and "— Restrictions on Shareholdings in Other Companies".

Our investment and trading activities in securities are supervised by the Risk Management Division.

Maturity Analysis of Held-to-Maturity Securities

The following table presents the carrying value of our investment securities by maturity and gives the weighted average yield for each maturity range and each category of held to maturity investments within each maturity range as of December 31, 2000. The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (amortized cost).

	Within One Year	Weighted Average Yield	Over One but Within Five Years	Weighted Average Yield	Over Five but Within Ten Years	Weighted Average Yield	Total	Weighted Average Yield
Held to maturity								
Korean treasury securities and government agencies	113	8.59%	1,360	8.26%	30	7.51	1,503	8.27%
Debt securities issued by Financial institutions	127	6.06	46	7.29	2	8.23	175	6.41
Corporate debt securities	184	7.63	138	9.09	—	—	322	8.25
Debt securities issued by Foreign government	—	—	2	4.22	—	—	2	4.22
Mortgage-backed securities	—	—	180	9.67	—	—	180	9.67
Total	424	7.42	1,726	8.45	32	7.55	2,182	8.23

Maturity Analysis of Securities Available for Sale

The following table presents the carrying value of our investment securities by maturity and gives the weighted average yield for each maturity range and each category of available for sale investments within each maturity range as of December 31, 2000. The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (fair value).

	Within One Year	Weighted Average Yield	Over One but Within Five Years	Weighted Average Yield	Over Five but Within Ten Years	Weighted Average Yield	Total	Weighted Average Yield
Available for Sale:								
Korean treasury securities and government agencies	1,087	8.88%	1,567	9.64%	2	12.18	2,656	9.33%
Debt securities issued by financial institutions	43	9.89	324	8.53	11	15.59	378	8.90
Corporate debt securities	193	15.77	129	12.28	10	3.62	332	14.05
Mortgage-backed securities	110	8.69	713	10.14	—	—	823	9.95
Other[(1)]	426	—	1,114	—	—	—	1,540	—
Total	1,859	9.82	3,847	9.76	23	10.09	5,729	9.79

(1) Other debt securities represent our holding of beneficiary certificates issued by other financial institutions and were not utilized in calculating the weighted average yield.

Concentrations of Risk

The following table presents the book and market value of those securities of individual issuers where the aggregate amount of those securities exceeded 10.0% of stockholders' equity as of December 31, 2000.

	As of December 31, 2000	
	Book Value	Market Value
	(in ₩ billion)	
Name of issuer		
Korean Government	2,050	2,068
Korea Deposit Insurance Company	1,500	1,520
Industrial Bank of Korea	288	288
KAMCO	619	623
Total	4,457	4,499

Credit-related Commitments

We have other credit-related commitments that are not reflected on the balance sheet, which primarily consist of unused lines of credit, and to a lesser extent, guarantees and commercial letters of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings.

As of December 31, 2000, we had issued a total of ₩406 billion in guarantees and commercial letters of credit. For guarantees, ₩5 billion was rated as special mention and ₩22 billion as doubtful. None of our guarantees was rated as substandard.

The following table sets forth our credit-related commitments as of the dates indicated.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Guarantees			
Loan guarantees	95	52	80
Debt securities	228	43	14
Trade finance	60	50	62
Performance	136	89	89
Others	83	45	11
	602	279	256
Commercial letters of credit	125	194	150
	727	473	406
Unused lines of credit			
Commercial	957	1,556	3,933
Consumer	3,921	6,996	9,043
Other credit-related commitments			
Commitments to extend credit	54	22	—
	5,659	9,047	13,382

Funding

Our sources of funding include deposits, call money, borrowings from the Bank of Korea, other short term borrowings and other long term debt.

Our principal source of funding is customer deposits, which accounted for 86.8% of total funding as of December 31, 2000. Deposits accounted for 83.6 % of our total funding as of December 31, 1999, and 77.9% of our total funding as of December 31, 1998.

In addition, we acquire funding through the issuance of bonds. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and the NHF, to provide policy loans to low-income households or small and medium-sized enterprise and foreign currency loans. Such borrowings are generally longer-term borrowings, with maturities ranging from one year to 28 years. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month.

Our funding strategy has been to increase the average balances of retail deposits, to increase the percentage of deposits constituted by demand deposits, savings deposits and other lower cost deposits and to diversify funding sources.

Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	1998		1999		2000	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(in ₩ billion, except percentages)					
Demand deposits:						
Non-interest bearing	92	—	124	—	135	—
Interest bearing	4,571	3.39%	6,370	2.65%	8,212	2.24%
Time deposits:						
Certificates	704	15.34	63	6.35	54	5.56
Other time deposits	13,580	10.85	18,159	8.81	27,875	8.00
Savings deposits	473	5.92	777	3.99	977	3.89
Mutual installment deposits(2)	5,645	9.74	4,957	9.56	4,370	9.73
Average total deposits	25,065	9.27	30,450	7.51	41,623	6.94

(1) Based on a combination of average daily and quarterly balances.

(2) Mutual installment deposits are interest bearing deposits offered by us which enable customers to become eligible for mortgage and other consumer loans while they maintain an account with us. The customer's account does not have to secure loan amounts once made but are a requirement for loan eligibility. Prior to qualifying for a loan a customer must make required monthly deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from us, but loan amounts and terms are not as favorable in the event of a loan request prior to completing the deposit contract term.

For a breakdown of our retail deposit products, see "— Principal Banking Activities — Retail Banking — Other Retail Banking — Retail Deposit Product".

The following table presents the balance and remaining maturities of time deposits, certificates of deposit and mutual installment deposits which have a fixed maturity in excess of ₩100 million or more as of December 31, 2000.

	Certificate of Deposits	Other Time Deposits	Mutual Installment Deposits	Total
		(in ₩ billion)		
Maturing within three months	21	6,395	277	6,693
After three but within six months	10	1,454	85	1,549
After six but within 12 months	92	2,194	124	2,410
After 12 months	—	848	92	940
Total	123	10,891	578	11,592

Short Term Borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Call Money			
Year end balance	179	758	51
Average balance(3)	665	383	662
Maximum balance	1,220	825	1,856
Average interest rate(4)	10.08%	4.96%	4.38%
Year end interest rate	6.74%	4.54%	5.08%
Borrowings From the Bank of Korea(1)			
Year end balance	1,146	71	152
Average balance(3)	1,403	485	73
Maximum balance	1,926	1,068	192

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Average interest rate(4)	11.26%	3.30%	5.48%
Year end interest rate	4.97%	6.11%	3.71%
Other short term borrowings(2)			
Year end balance	1,733	1,608	2,064
Average balance(3)	1,874	1,436	1,215
Maximum balance	2,614	1,824	2,581
Average interest rate(4)	11.69%	8.46%	8.31%
Year end interest rate	9.53%	7.55%	6.91%

(1) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

(2) Other short term borrowings include bills sold, borrowings in domestic and foreign currency and debentures in domestic and foreign currency. Other short term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea, borrowings obtained from the KHGC and borrowings from the Construction and Housing benevolent societies. These short term borrowings are secured by government securities and investments totaling ₩1,339 billion and ₩322 billion as of December 31, 2000, respectively.

(3) Average outstanding balances have been calculated using a combination of daily and quarterly averages.

(4) Average interest rates during the year are calculated by dividing the total interest expense by the average amount borrowed.

Information Technology

We believe that having an information technology platform capable of effectively serving our operations both as they exist now and as they develop in the future is a key component of achieving our goal of being a world class financial institution. We believe that advanced information technology systems are required in order to provide high quality service. We also believe that information technology will play a critical role in helping us reduce operating costs by allowing us to more accurately assess for the profitability of our operations. For the year 2001, we have budgeted an amount of ₩30 billion to enhance our information technology system. With the assistance from a third party consultant, we have developed an information technology system designed to:

- provide support for our existing management information and control systems;
- be flexible enough to allow us to take advantage of changing technology;
- include consumer protection capabilities such as privacy protection, pay system capabilities, electronic bill presentation and payment system capabilities;
- be capable of supporting an integrated customer relationship management capability; and
- support Internet banking.

Supervision and Regulation

Legal and Regulatory Framework in Korea

The banking system in Korea is governed by the Bank Act and the Bank of Korea Act. In addition, Korean banks come under the regulations and supervision of the Bank of Korea (BOK), the BOK's Monetary Board, the FSC and the Financial Supervisory Service (FSS).

The BOK, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The BOK acts under instructions of the Monetary Board which is the supreme policy-making body of the BOK.

The Monetary Board has as its primary responsibilities under the Bank of Korea Act the formulation of monetary and credit policies and determines the operations, management and administration of the BOK.

The FSC, established on April 1, 1998, exerts direct control over commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks and prepares regulations relating to supervision of banks. Furthermore, due to the Amendment to the Government Organization Act and the Bank Act on May 24, 1999, instead of the Ministry of Finance and Economy, the FSC now regulates market entry into the banking business.

The FSS was established on January 4, 1999, as a unified body of the former Banking Supervisory Authority (the successor to the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund). The FSS is subject to the instructions and directives of the FSC and carries out supervision and examination of commercial banks. In particular, the FSS sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, permission to commence a commercial banking business or a long-term financing business must be obtained from the FSC. Commercial banking business is defined as the lending of funds, acquired predominantly from the acceptance of demand deposits, for a period not exceeding one year or subject to the limitation established by the FSC, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issue of bonds or other securities. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain permission from the FSC. Permission to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the FSC.

Principal Regulations Applicable to Banks in Korea

Capital Adequacy

The Bank Act provides for a minimum paid-in capital of ₩100 billion in the case of nationwide banks, such as us, and ₩25 billion in the case of regional banks.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. Until March 31, 1999, a bank's outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the Bank Act) were not permitted to exceed 20 times its equity capital amount. However, beginning on April 1, 1999, such limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and will be regulated accordingly. See "— Financial Exposure to Any Individual Customer" below. Also, in its allocation of the net profit earned in a fiscal term, a bank is required to credit at least 10.0% of such profit to a legal reserve until such time when the reserve equals the amount of its total paid-in capital.

All banks must meet the risk-weighted capital standards, determined in accordance with FSC requirements which have been formulated based on BIS Standards. These standards were adopted by the Monetary Board and the Office of Bank Supervision (the predecessor of the FSS) and became effective from the beginning of 1996. All domestic banks and foreign bank branches have to meet the requirement of at least 8.0% in accordance with the risk-weighted capital standards.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Bank Act in order to ensure liquidity.

Each Korean bank is required to maintain a Won liquidity ratio (defined as Won assets due within three months (including marketable securities) divided by Won liabilities due within three months) not less than 100.0% and to make quarterly reports to the FSS. However, we are required to maintain such ratio not less than 70.0% as long as we are obliged to maintain a certain minimum ratio of mortgage lending under our articles of incorporation. Each Korean bank is required to (1) maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign-currency liabilities due within three months) not less than 80.0%, (2) maintain foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign-currency assets not less than 0.0% and (3) maintain foreign currency liquid assets due within a month less foreign-currency liabilities due within a month divided by total foreign-currency assets not less than negative 10.0%.

The Monetary Board is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 5.0% for average balances of Won currency demand deposits outstanding, 1.0% for Won currency employee asset establishment savings deposits and employee long term savings deposits outstanding and 2.0% for average balances of Won currency time and savings deposits, mutual installments and certificates of deposit outstanding. For foreign currency deposit liabilities, the current minimum reserve ratio is 2.0% for savings deposits outstanding, 5.0% for demand deposits and 1.0% for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Banks may not invest in excess of an amount exceeding 60.0% of their Tier I and Tier II capital in stocks and other securities with the remaining period up to the maturities of over three years. However, this stipulation does not apply to government bonds or to Monetary Stabilization Bonds issued by the BOK.

Financial Exposure to Any Individual Customer

Under the "Ceiling System on the Sum of Large Exposures" introduced in December 1994, the sum of large exposures by a bank, that is, the total sum of its credits to single individuals or business groups that exceed 10.0% the sum of Tier I and Tier II capital, must be less than five times the sum of Tier I and Tier II capital. Beginning on April 1, 1999, the limit on a bank's ratio of large exposures has been reduced from 15.0% to 10.0% of the sum of Tier I and Tier II capital. Beginning on January 1, 2000, subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20.0% of the sum of Tier I and Tier II capital to a single individual or juridical person, and no bank may grant credit in excess of 25.0% of the sum of Tier I and Tier II capital to a single group of companies which belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act. In addition, banks are limited in their ability to grant credits to shareholders holding voting shares in excess of 10.0% (or in the case of regional banks, 15.0%) of total shares issued and outstanding.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Board of the BOK. Under the government's Financial Reform Plan issued in May 1993, controls on deposit interest rates in Korea have been gradually reduced. Restrictions were removed in stages with respect to interest rates on most time deposits and savings deposits in 1994 and 1995. In July 1997, restrictions on all interest rates, except certain demand deposits, were removed. As a result of the government's deregulation program, the interest income generated by the our loan portfolio and the interest expense resulting from deposits are determined to a greater extent than in the past by market interest rates and BOK monetary policy, including deposit reserve requirements. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase our interest expense.

Lending to Small and Medium-sized Enterprises

Banks are obligated to extend to small and medium-sized enterprises a certain, minimum percentage of any monthly increase in their Won currency lending. Currently, the minimum percentage applicable to us is 35.0%. For other nationwide banks the minimum percentage is 45.0% and for regional banks, 60.0%. If a bank does not comply with the foregoing, all or a portion of the government funds provided to such bank may be reclaimed by the BOK.

Disclosure of Management Performance

For the purpose of reinforcing mandatory disclosure of management performance so that the general public, especially depositors and shareholders, will be in a better position to monitor banks, the FSC requires commercial banks to disclose certain matters as follows: (1) loans bearing no profit made to a single business group in an amount exceeding 10.0% of the sum of Tier I and Tier II capital as of the end of the previous month (where the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than ₩4 billion, (2) any financial incident involving embezzlement, malfeasance or misappropriation of funds as soon as it occurs, unless the FSS made a public announcement regarding such incident and provided that the amount involved exceeds 1.0% of the bank's sum of Tier I and Tier II capital and the bank has lost or expects to lose more than ₩1 billion as a result thereof and (3) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1.0% of the bank's sum of Tier I and Tier II capital as of the end of the previous month except where the loss is not more than ₩1 billion.

Restrictions on Lending

Commercial banks are prohibited from making any of the following categories of loans:

- loans made for the purpose of speculation in commodities or securities;
- loans made directly or indirectly on the pledge of a bank's own shares, or on the pledge of shares in excess of 20.0% of the issued and outstanding shares of any other corporation, subject to certain exceptions;
- loans made directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans made directly or indirectly to finance political campaigns and other activities;
- loans made to any of the bank's officers or employees other than petty loans of up to ₩20 million (₩50 million in the case of any housing loan);
- credit (including loans) made on the pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; and
- loans made to any officers or employees of a subsidiary corporation of the bank other than petty loans of up to ₩20 million (₩50 million in the case of a housing loan).

Asset Classification. The FSS requires banks in Korea to analyze and classify their credit exposures into one of five categories by taking into account a number of factors. The FSS revised its regulations concerning the method of classifying credit exposures and providing reserves for credit losses in July 1998, and again in September 1999. The FSS guidelines announced in September 1999, were devised to fully reflect each borrower's capacity to repay and not solely its past performance. For U.S. GAAP purposes, we consider these classifications for determining loan loss allowances.

The new FSS guidelines require, among other things, that:

- the credit exposures classification criteria reflect customers' ability to repay their credits as well as their credit histories, including whether customers are in arrears or default in any payments;

- that financial institutions, including us, devise and operate credit evaluation and classification models to analyze customers' capability to repay the credits extended by them; and
- that financial institutions operate independent credit review units.

Within such guidelines, the new guidelines allow, to some degree, discretion of banks in their detailed specific applications. The new guidelines became effective on December 31, 1999. The asset classification categories and criteria established under the new FSC guidelines are as follows:

- *Normal.* Credits which do not raise concerns regarding their capability to repay the credits.
- *Special Mention.* Credits (1) which are judged to have potential risks with respect to their capability to repay the credits in the future, although there have not occurred any immediate risks for default in repayment; or (2) which are in arrears for one month or more but less than three months.
- *Substandard.* (1) Credits which are judged to have incurred considerable risks for default in repayment as the customers' capability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) which are judged to have incurred serious risks due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of "Doubtful Customers" or "Estimated-loss Customers" (each as defined below).
- *Doubtful.* That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Doubtful Customers") which are judged to have incurred serious risks for default in repayment due to noticeable deterioration in their capability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months.
- *Estimated Loss.* That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Estimated-loss Customers"), which are judged to have to be accounted as loss as the inability to repay became certain due to serious deterioration in their capability to repay; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks for default in repayment due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses.

Provisioning Requirements. The FSS has also implemented guidelines for establishing provisioning levels for different characteristics of assets. However, for U.S. GAAP purposes we use a different methodology for determining loan loss allowances. See "— Assets and Liabilities — Loan Portfolio — Recognition of Allowance for Losses on Loans".

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business; provided that the aggregate value of such real estate property must not exceed 60% of its Tier I and Tier II capital amount. Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Bank Act must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Generally, banks may not own shares of another banking institution. In principle, a bank may not own more than 15% of outstanding shares with voting rights of another corporation, except, among other reasons, (1) where the corporation issuing such shares is engaged in a category of business provided by the FSC or where the acquisition of shares by such bank is necessary for corporate restructuring and is approved by the FSC and (2) where the total investment in the corporation by the bank does not exceed 15% of such bank's sum of Tier I and Tier II capital or where the acquisition satisfies the requirements as determined by the FSC.

Restrictions on Bank Ownership

Under the Bank Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to such Act) may acquire beneficial ownership of up to 4% of a nationwide bank's total issued and outstanding shares with voting rights and up to 15% of a regional bank's total issued and outstanding shares with voting rights. The government of the Republic and KDIC are not subject to such ceiling. The ceilings do not apply to the following: (1) the acquisition of bank's shares by a foreign party, as defined in the Foreign Investment Promotion Act, that satisfy certain requirements provided in the Presidential Decree of the Bank Act, in which case such foreigner must report to the FSC when such foreigner acquires more than 4% and up to 10% of a nationwide bank's total issued and outstanding shares with voting rights and must obtain an approval from the FSC in each instance where the total holdings of the bank's shares by such foreigner exceeds 10% (in the case of a regional bank, 15%), 25% or 33% of a bank's total issued and outstanding shares with voting rights and (2) the acquisition of the shares of a bank, at the time of establishment, established by a foreigner, pursuant to the Presidential Decree, in which case such foreigner must obtain the approval from the FSC.

Deposit Insurance System

The Depositor Protection Act (Law No. 5042, December 29, 1995, as amended) provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the current rules, the KDIC insures only up to a total of ₩50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. Under the Depositor Protection Act, all banks governed by the Bank Act, including us, are required to pay to the KDIC an insurance premium at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits. The current insurance premium is 0.1% of insurable deposits. If the KDIC pays the insured amount, it will acquire the claims of the depositors within the payment amount.

Trust Business in Korea

A bank wishing to enter into the trust business must obtain the approval of the FSC. Trust activities of banks are governed by the Trust Act (Law No. 900, December 30, 1961, as amended) and the Trust Business Act (Law No. 945, December 31, 1961, as amended). Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

- Under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank. Accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the "Banking Accounts" and the "Trust Accounts" and two separate sets of records which provide details of their banking and trust businesses, respectively, and
- Assets comprising the Trust Accounts are not available to depositors or other general creditors of such bank in a winding up.

With respect to each trust account of the Unspecified Money Trust for which a bank guarantees the principal amount or minimum yield thereon, the bank must make a special reserve of 25.0% or more of fees and commissions from each type of trust account until the total provision for each trust account equals 5.0% of the trust amount in such trust accounts.

In addition, a trustee bank must deposit with the court an amount equal to 0.05% of its capital until the aggregate amount of court deposits reaches 10.0% or more of its capital.

Laws and Regulations Governing Other Business Activities in Korea

To enter the foreign exchange business, a bank must register with the Ministry of Finance and Economy and foreign exchange business is governed by the Foreign Exchange Transaction Law (Law No. 5550, September 16, 1998, as amended). To enter the securities business, a bank must obtain the permission of the FSC and securities business is governed by regulations under the Securities and Exchange Act (Law No. 2920, December 22, 1976, as amended). Pursuant to the above mentioned laws, we are permitted to carry out foreign exchange business, securities repurchase business, governmental/public bonds underwriting business and governmental bonds dealing business.

ORGANIZATIONAL STRUCTURE

Subsidiaries

Jooeun Investment Trust Management Co., Ltd.

In addition to providing trust account management services for money trusts, we provide trust account investment services through Jooeun Investment Trust Management, our consolidated subsidiary incorporated in Korea and in which we have an 80% stake. Jooeun Investment Trust Management receives a fee for performing the following functions:

- raising funds from the sale of beneficial certificates to investors and investing such funds in equity and debt securities;
- providing investment advisory services; and
- publishing and selling materials related to securities investing.

Jooeun Investment Trust Management was established in April 1988 as a subsidiary of Kookmin Investment Trust Company and became our wholly-owned subsidiary in December 1992. In January 2000, ING invested ₩27.8 billion for a 20% stake in the company. For the year ended December 31, 2000, we derived revenues of ₩22 billion and incurred net gain of ₩13 billion from income earned by Jooeun Investment Trust Management for performing trust account investment services.

Jooeun Real Estate Trust Co., Ltd.

Jooeun Real Estate Trust was established in December 1996 as our wholly-owned subsidiary under the laws of Korea. The company provides real estate brokerage service and assists small and medium-sized construction companies by managing trusts related to the real estate industry including housing redevelopment trusts, rental housing management trusts and unsold apartment management trusts. For the year ended December 31, 2000, we derived revenues of ₩45 billion and net loss of ₩21 billion from income earned by Jooeun Real Estate Trust for providing these services. In March 2001, Jooeun Real Estate Trust Co., Ltd. increased its capital to ₩80 billion following our additional investment of ₩70 billion.

Jooeun Industrial Co., Ltd.

Jooeun Industrial Co. was established under the laws of Korea in March 1993 as our wholly-owned subsidiary engaged in housing construction and providing protection for potential occupants by taking over housing projects of construction companies which are insolvent. For the year ended December 31, 2000, we derived revenues of ₩49 billion and net loss of ₩21 billion from Jooeun Industrial Co.'s activities. Jooeun Industrial Co. carries out the following activities:

- acquiring projects of insolvent construction companies and completing the construction;
- acquiring projects of insolvent construction companies and completing the construction;
- acquiring unsold housing units for sale or lease;
- constructing housing units for sale or lease;
- providing real property brokerage services; and
- providing real property management services.

H&CB Finance Ltd. (H.K.)

H&CB Finance, a wholly owned subsidiary, is a restricted license bank established under the laws of Hong Kong providing a broad range of corporate banking services. As a restricted license bank, H&CB Finance is not permitted to accept deposits other than time deposits with minimum of $500,000. The bank was initially established in July 1995 as a wholly-owned subsidiary of DongNam Bank and reorganized as H&CB Finance in December 1998 in connection with our acquisition of DongNam Bank. For the year ended December 31, 2000, we derived revenues of ₩27 billion and net income of ₩22 billion from H&CB Finance's activities.

Jooeun Leasing Co., Ltd.

Jooeun Leasing Co., Ltd. was established in June 1991 under the laws of Korea and began operation starting August 1991. On January 2000, we acquired an additional 35% of Jooeun Leasing Co., Ltd. through a debt to equity swap. The swap was the result of a memorandum of understanding between Jooeun Leasing Co., Ltd. and its creditors and increased our ownership to 85%. For the year ended December 31, 2000, we derived revenues of ₩56 billion and net income of ₩25 billion from Jooeun Leasing Co., Ltd.

Other Subsidiaries

For the year ended December 31, 2000, we derived revenues of ₩78 billion and a net loss of ₩186 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

PROPERTY, PLANTS AND EQUIPMENT

Our registered office and corporate headquarters are located at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, 150-758 Korea. The office building has an area of approximately 39,650 square meters.

In addition, we own our training institute building which has an area of approximately 39,649 square meters and is located in Cheonan, Korea on a 196,649 square meter site. We also own our IT center in Seoul, Korea which has an area of approximately 14,231 square meters.

As of December 31, 2000, we had a country-wide network of 552 branches. 178 of these facilities are housed in buildings owned by us, while the 374 remaining branches are on leased properties. We also have a subsidiary in Hong Kong and branches in Tokyo, New York and London. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2000 was ₩827 billion.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements included in this document. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

Trend Information

The Korean Economy

Our financial position and recent results of operations have been and continue to be significantly impacted by financial and economic conditions in Korea. In 1997 and 1998, Korea experienced a severe financial and economic downturn. The downturn was characterized by, among other things, significant corporate failures, instability in the financial sector, credit and liquidity concerns and volatility in the domestic financial and currency markets. In response, the International Monetary Fund provided a financial aid package to Korea and in late 1997, the government initiated a comprehensive program to address some of the structural weaknesses in the Korean economy. As part of that program, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity requirements.

As a result of the downturn, in 1998 there was a general increase in interest rates in Korea and we experienced a decrease in the demand for loans and other products. In addition, our general level of non-performing loans increased. During 1999, financial and economic conditions began to improve in Korea. The general level of interest rates decreased, demand for financial products increased, and our overall level of non-performing loans decreased. During 2000 and in particular, the fourth quarter of 2000, the economic recovery in Korea slowed. The economic indicators in the first quarter 2001 have been mixed, and it is uncertain as to how the Korean economy will perform in the near term.

The Acquisition of DongNam Bank

In 1998, in response to the deteriorating condition of the Korean financial services industry as a result of the severe economic downturn in Korea, the government ordered 12 commercial banks that did not meet the minimum capital adequacy ratio requirements as of December 31, 1997, to submit to the FSC a detailed plan for improving their capital adequacy ratio to 8% within two years. After reviewing these plans, the FSC determined that five of the 12 banks were no longer commercially viable. The FSC issued a directive requiring that these banks be liquidated and ordered that some of the assets and liabilities of these banks be acquired by five stronger Korean banks, which included us. The directive was subject to the consent of the five banks selected by the FSC to acquire the assets and liabilities of the failed banks.

We consented to the directive and on June 29, 1998, we acquired the majority of the then performing assets and substantially all of the liabilities of DongNam Bank, one of the five commercial banks that the FSC had ordered to be liquidated. The assessed value of the assets we acquired amounted to ₩5,346 billion, while the assessed value of the liabilities we acquired amounted to ₩5,854 billion.

As compensation for the acquisition, we received:

- payment of ₩10 billion in cash from KAMCO and bonds issued by KAMCO in an aggregate principal amount of ₩117 billion which mature in 2003 and bear interest at a floating rate of between 10% and 15% per year based on the market yield rate for housing bonds issued by the government to promote low-income housing; and
- payment of ₩681 billion in cash from KDIC which we used to purchase bonds issued by KDIC in an aggregate principal amount of ₩681 billion due September 2003. These bonds bear interest at a rate based on the market yield rate for housing bonds.

In addition, to make up for the decrease in our capital ratio resulting from the acquisition of DongNam, in December 1998, the government, through KDIC, purchased (1) 59,300,000 shares of our convertible non-voting preferred stock for an aggregate purchase price of ₩297 billion and (2) ₩148 billion of our subordinated notes due March 2004, which bear interest at a floating rate. KDIC paid us cash for the shares of preferred stock which we used to purchase KDIC bonds in an aggregate principal amount of ₩297 billion, which mature in March 2004 and bear interest at 1.0% per year. As consideration for our subordinated debt we received government bonds in an aggregate principal amount of ₩148 billion, which mature between May 2003 and December 2006 and bear interest at 7.5% per year.

Right to repurchase preferred stock

Under the terms of the purchase agreement with KDIC, we have the right to repurchase the shares of preferred stock purchased by KDIC at the original purchase price. This right must be exercised prior to January 31, 2004. In January 2000, we repurchased 41,510,000 shares of preferred stock for ₩208 billion. Currently the KDIC owns 17,790,000 shares of our preferred stock. We pay dividends on this preferred stock at a rate of 1% per year.

Under the terms of the purchase agreement with KDIC, if we do not repurchase 8,895,000 shares of the outstanding 17,790,000 shares of preferred stock currently owned by KDIC by January 31, 2003, the dividend rate for those preferred shares will increase from 1% to a rate based on the average yield of bonds issued by KDIC. In addition, if we do not repurchase all the outstanding shares of preferred stock by January 31, 2004, they will convert into shares of common stock on a one-to-one basis on March 28, 2004. The common stock issued upon conversion of the preferred stock currently owned by the KDIC would represent 14.0% of our common stock on a fully diluted basis.

The aggregate amount of repurchases in any fiscal year may not exceed the total amount available for the distribution of dividends at the end of the preceding fiscal year.

Sale of certain loans and other assets to KAMCO

In connection with the acquisition of DongNam, we were granted the right to sell to KAMCO certain of the loans and other assets we purchased from DongNam on March 31, 1999 and September 30, 1999. Pursuant to this right we could sell to KAMCO loans and other assets purchased from DongNam which were classified as substandard or below as of March 31, 1999 and September 30, 1999 at the then current price and be compensated by KDIC the difference between that price and the value of the assets when we acquired them. Alternatively, we could request compensation from KAMCO for losses we realized on certain loans and assets since we acquired them. We exercised this right on both March 31, 1999 and September 30, 1999. On March 31, 1999 we sold ₩322 billion worth of loans and other assets to KAMCO and we also received ₩34 billion to compensate us for additional loss allowances on certain loans acquired from DongNam over and above those recognized on June 29, 1998. We no longer have any right to sell to KAMCO any loans or assets purchased from DongNam.

Sales of Substandard or Below Loans to KAMCO

In December 1997, in response to the financial difficulties faced by Korean financial institutions as a result of the severe economic downturn in Korea, the government required KAMCO to purchase certain assets which were classified as substandard or below from Korean financial institutions at discounted prices. We have sold an aggregate of ₩341 billion substandard or below loans to KAMCO in the following transactions, for a loss of ₩71 billion. The purchase price was paid in government bonds and cash.

- in December 1997, we sold an aggregate of ₩34 billion substandard or below loans to KAMCO, recording a loss of ₩8 billion;
- in September 1998, we sold an aggregate of ₩299 billion substandard or below loans to KAMCO, recording a loss of ₩61 billion;

- in December 1999, we sold an aggregate of ₩8 billion substandard or below loans to KAMCO, recording a loss of ₩2 billion; and
- in 2000, we did not sell any substandard or below loans to KAMCO.

Pursuant to the purchase agreement with KAMCO, the purchase price of the substandard or below loans can be adjusted by KAMCO following the sale based on a valuation of any underlying collateral or, for substandard or below loans relating to borrowers in reorganization proceedings, based on the value of their payments on the loans under the final reorganization plan. Following our sale in September 1998, the purchase price for the substandard or below loans we sold was adjusted from ₩121 billion to ₩144 billion.

Pursuant to the terms of the sales, KAMCO can require us to repurchase any substandard or below loan we have sold to them in the event that:

- the underlying documentation of the loan is incomplete;
- there is a flaw in the perfection of any security interest underlying the loan; and
- certain litigation regarding the loan is pending.

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time of our sale to KAMCO if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if it is determined by a court that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of KAMCO to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2000, we had been required to repurchase loans in an aggregate amount of ₩75 billion from KAMCO (₩47 billion net of loan loss allowances). As of December 31, 2000 we had guaranteed ₩59 billion of loans against which we had recorded a recourse liability of ₩2 billion.

Restructuring and Competition in the Korean Financial Sector

The financial sector in Korea has undergone significant restructuring and rationalization, including a number of mergers and acquisitions in the industry over the last two years. We expect that this merger activity will continue. Even if we merge with Kookmin Bank, some of the banks resulting from these other mergers may be larger and have more resources than us, and we can give no assurance that we will be able to compete successfully with these and other financial institutions that may emerge as the restructuring in the financial sector continues. See "Item 3. Key Information — Risk Factors — Risks relating to our banking business — Our business is very competitive and our growth strategy depends on our ability to compete effectively", "Item 3. Key Information — Risk Factors — Risks relating to Korea — The expected structural reforms of the Korean economy and the financial sector may have a substantial impact on our business" and "Item 4. Information on the Company — Competition".

In addition, beginning in 1997, we face full competition in our core mortgage business. The increase in competition has led to loan price competition among mortgage lenders in Korea which has adversely affected our margins. We cannot guarantee that we will be able to maintain our market share or our margins at their current levels in the face of increased competition. Any decrease in our market share or in our margins may adversely affect our financial condition and results of operations. See "Item 3. Key Information — Risk Factors — Risks relating to our banking business — We now face full competition in our core mortgage business, which may result in a further decrease of our market share and adversely affect our margins".

Exposure to Chaebols and KHGC

We have significant exposure to chaebols and to the KHGC. As a result of the unfavorable financial and economic conditions in Korea, a number of chaebols have experienced financial difficulties. In addition, due to the deterioration of the construction market in Korea, the KHGC has experienced substantial liquidity problems. If the quality of the credits extended to chaebols declines or if the KHGC fails to resolve its financial problems, substantial additional allowances may be required, which would adversely affect our results of operations. See "Item 4. Information of the Company — Business Overview — Assets and Liabilities — Loan Portfolio — Concentration of Total Exposure", "Item 3. Key Information — Risk Factors — Risks relating to our banking business — We have exposure to the largest Korean commercial conglomerates known as "chaebols," which have recently experienced significant financial difficulties" and "— Our largest exposure is to the Korea Housing Guarantee Co., Ltd. (KHGC), and the KHGC is currently experiencing substantial financial difficulties".

Housing Finance Credit Guarantee Fund (HFCGF)

Prior to January 1, 1999, we managed the HFCGF which provides guarantees to mortgage lenders for defaults by borrowers if the borrower is unable to provide collateral required by a bank. As part of the government's restructuring plan to merge and dissolve various government funds, the management of the HFCGF was transferred to the Korea Credit Guarantee Fund. We received a management fee for managing the HFCGF until the end of 1998. The fee we received was equal to 1% per year of the average guarantee balance guaranteed by the HFCGF. The HFCGF received an annual guarantee fee equal to between 0.3% and 0.5% of the guaranteed amount depending on the size of the housing unit concerned. In the year ended December 31, 1998, the last year in which we managed the HFCGF, we earned fees of ₩9 billion. We continue to receive a fee from the HFCGF for underwriting mortgage loans which they guarantee. This fee is equal to 20% of the annual guarantee fees (net of fines and penalties) HFCGF receives on these loans. In the years ended December 31, 1999 and 2000, these fees amounted to ₩4 billion and ₩4.5 billion, respectively.

Changes in Exchange Rates, Interest Rates and Securities Valuations

Exchange rates, interest rates and stock prices fluctuated significantly in Korea during 1998, 1999 and 2000. The following table shows for the dates indicated, the stock price index of all equities listed on the Korea Stock Exchange as published in the Korea Composite Stock Price Index (KOSPI), the Won to US dollar exchange rates and benchmark Won borrowing interest rates for the periods indicated.

	Mar. 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000
KOSPI	481.04	297.88	310.32	562.46	618.98	883.00	836.18	1,028.07	860.94	821.22	613.22	504.62
Won/US$ exchange rates(1)	1,386	1,376	1,393	1,206	1,228	1,157	1,217	1,136	1,106	1,115	1,115	1,267
Benchmark interest rates(2)	20.28%	18.00%	11.90%	8.00%	8.10%	7.96%	9.95%	9.95%	10.19%	9.59%	9.23%	8.45%

(1) Noon-buying rate.
(2) Measured by the yield on three-year A rated corporate bonds, as rated by the Korean credit rating agencies.

Bond Market Stabilization Fund

On September 21, 1999, at the request of the government, forty Korean financial institutions established the Bond Market Stabilization Fund (the "Fund") to stabilize the market prices of debt securities and interest rates in Korea through, among other means, open market purchases and sales of debt securities. We contributed ₩872 billion in cash to the Fund. In exchange for our contribution, we received an 8.1% interest in the Fund.

On March 27, 2000, the government elected to dissolve the Fund in advance of the scheduled maturity and sell most of the securities held within the Fund to the participating financial institutions. We received cash of ₩872.2 billion and purchased certain securities totaling ₩846.7 billion previously held by the Fund. The total fair value of all investments sold to participating financial institutions was approximately ₩26.6 trillion. These securities consisted of national and local government bonds, financial debentures issued by government-invested corporations and corporate bonds with credit ratings of mostly A or higher as rated by Korean credit rating agencies.

On dissolution of the Fund, a portion of the securities previously held by the Fund were transferred to two trusts (the "Trusts") and we received a 100% of the interest in one of the trusts ("Trust I"). Trust I is separately identifiable from the other trust ("Trust II"), is managed by a third party and received ₩23.6 billion of assets from the Fund. We consolidate Trust I. We manage Trust II which is beneficially owned by the other participating financial institutions. Trust II received ₩273.4 billion of assets from the Fund.

As part of the dissolution agreement, the participating financial institutions agreed that any losses experienced by the participants on their share of investments purchased from the Fund would be shared with other participating financial institutions according to their share of the Trusts until August 31, 2002, the scheduled maturity of the Trusts. The mechanism by which this operates is that in the event that any of the purchased investments go through court receivership, workout or mediation, the participating financial institutions holding those securities are able to sell these securities to the Trusts at the fair value calculated by using the yield on the dissolution date. The Money Trust Committee, consisting of six participating financial institutions including H&CB, has the authority to approve the repurchase of securities by the Trusts. As we own approximately 7.94% of the Trusts in total, we are exposed to 7.94% of the potential loss on securities which are sold back to the Trusts. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts.

In April 2001, the Money Trust Committee approved a repurchase by the Trusts of securities issued by Hyundai Engineering & Construction Co., Ltd. with a total face amount of ₩234.0 billion for ₩238.0 billion.

Government Regulation and Policy

Our operations are subject to various government regulations and policies, including those that relate to our core mortgage business, capital adequacy ratios and extensions of credit to particular borrowers such as small and medium-sized enterprises. See "Item 4. Information on the Company — Business Overview — Supervision and Regulation". The government regulations and policies applicable to us and other Korean financial institutions may differ in significant respects from those applicable to financial institutions in other countries. See "Item 3. Key Information — Risk Factors — Risks relating to government regulation and policy".

Operating Results

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest income and dividends					
Interest and fees on loans	3,463	3,276	4,229	(5.4)	29.1
Interest and dividends on investment securities	766	676	803	(11.7)	18.8
Interest and dividends on trading securities	12	130	118	983.3	(9.2)
Call loans and securities purchased under resale agreements	160	25	36	(84.4)	44.0
Interest from deposits in other banks	122	104	62	(14.8)	(40.4)
Other interest income	48	31	7	(35.4)	(77.4)
Total interest and dividend income	4,571	4,242	5,255	(7.2)	23.9

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest expense					
Deposits	2,315	2,277	2,879	(1.6)	26.4
Call money	67	19	29	(71.6)	52.6
Other borrowed funds	296	110	105	(62.8)	(4.5)
Secured borrowings	74	27	113	(63.5)	318.5
Long-term debt	448	384	326	(14.3)	(15.1)
Total interest expense	3,200	2,817	3,452	(12.0)	22.5
Net interest income	1,371	1,425	1,803	3.9	26.5
Net interest margin(1)	3.85%	3.58%	3.44%	(7.0)	(3.9)

(1) The ratio of net interest income to average interest earning assets. See "Item 3. Key Information — Selected Statistical Information — Average Balance Sheet and Related Interest".

Comparison of 2000 to 1999

Net interest income increased 26.5% from ₩1,425 billion in 1999 to ₩1,803 billion in 2000 as a result of a 23.9% increase in interest income, which more than offset a 22.5% increase in interest expense.

Interest income. Interest income increased 23.9% from ₩4,242 billion in 1999 to ₩5,255 billion in 2000 principally due to a ₩12,658 billion increase in the average volume of interest earning assets from ₩39,778 billion in 1999 to ₩52,436 billion in 2000, which more than offset a decline of 64 basis points in the gross yield on interest earning assets from 10.66% in 1999 to 10.02% in 2000.

Interest and fees on loans increased 29.1% from ₩3,276 billion in 1999 to ₩4,229 billion in 2000 primarily due to a 39.4% increase in the average loan volume from ₩28,575 billion in 1999 to ₩39,836 billion in 2000. Our loan growth was due to an increase in the average volume of all of our loan categories except construction loans. The loan growth was due to increased loan demand, as we were able to offer lower interest rates compared to most banks and other financial institutions in Korea because funding from deposits, which is a relatively inexpensive form of funding, increased significantly in 2000 as described below. The increase in deposits also provided us with the opportunity to increase our lending volume. The loan growth more than offset the result of a decline in the gross yield from 11.46% in 1999 to 10.62% in 2000. The gross yield decreased as a result of the decrease in the general levels of interest rates due to the general slowdown in the growth of the Korean economy in 2000.

Interest income on investment securities increased 18.8% from ₩676 billion in 1999 to ₩803 billion in 2000. Our investment securities portfolio consists primarily of debt securities issued or guaranteed by the Korean government and the increase in interest income in 2000 was primarily due to an increase in the average volume of these securities which more than offset a slight decrease in gross yield. The average volume of investment securities increased 10.8% from ₩7,585 billion in 1999 to ₩8,406 billion in 2000 as a result of the fact that our funding increased in 2000 due to an increase in deposits and we used a portion of the increase to invest in investment securities. The gross yield on our investment securities decreased from 9.20% in 1999 to 9.18% in 2000.

Interest income on call loans and securities purchased under resale agreements increased 44.0% from ₩25 billion in 1999 to ₩36 billion in 2000. The increase was due to an increase in average volumes which more than offset a decrease in gross yields. The average volume increased 62.0% from ₩416 billion in 1999 to ₩674 billion in 2000 as a result of increased demand, as many people transferred their deposits from banks they perceived as weaker to banks they perceived as stronger, which in turn led to increased demand by such banks for call loans from us to meet their liquidity requirements.

The increase in interest income from loans, investment securities and call loans and securities purchased under resale agreements was partially offset by decreases in interest income on cash and interest-bearing deposits in other banks and interest and dividend income on trading securities. Interest income on cash and interest bearing deposits in other banks decreased from ₩104 billion in 1999 to

₩62 billion in 2000 primarily as a result of a decrease in average volume. The average volume of our cash and interest bearing deposits in other banks decreased from ₩1,327 billion in 1999 to ₩796 billion in 2000. Interest and dividend income on trading securities decreased from ₩130 billion in 1999 to ₩118 billion in 2000, as lower average yields more than offset higher average balances. The decline in interest rates together with the general slowdown in the growth of the Korean economy resulted in lower yielding assets in 2000.

Interest Expense. Interest expense increased 22.5% from ₩2,817 billion in 1999 to ₩3,452 billion in 2000, as a result of a ₩11,542 billion increase in the average volume of interest bearing liabilities from ₩37,276 billion in 1999 to ₩48,818 billion in 2000, which more than offset a decline of 49 basis points in the cost of interest bearing liabilities from 7.56% in 1999 to 7.07% in 2000.

Interest expense on deposits increased 26.4% from ₩2,277 billion in 1999 to ₩2,879 billion in 2000. The increase was primarily the result of an increase in the average volume of interest bearing deposits, which more than offset a decrease in the average interest rates paid on our interest bearing deposits. The average volume of interest-bearing deposits increased 36.8% from ₩30,326 billion in 1999 to ₩41,488 billion in 2000. The increase was primarily due to a 53.5% increase in the average volume of time deposits other than certificates from ₩18,159 billion in 1999 to ₩27,875 billion in 2000 and a 28.9% increase in the average volume of interest bearing demand deposits from ₩6,370 billion in 1999 to ₩8,212 billion in 2000. The increase in average deposits was primarily attributable to the recent difficulties in the Korean banking sector which has led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves. The average interest rate paid on our time deposits other than certificates, which accounted for 67.2% of our average interest-bearing liabilities in 2000, decreased from 8.81% in 1999 to 8.00% in 2000. The average interest rate paid on our interest-bearing demand deposits, which accounted for 19.8% of our average interest-bearing liabilities in 2000, decreased from 2.65% in 1999 to 2.24% in 2000.

The average balance of other borrowed funds decreased 10% to ₩1,288 billion in 2000 from ₩1,432 billion in 1999. As a result, interest expense on other borrowed funds decreased 4.5% to ₩105 billion in 2000 from ₩110 billion in 1999. The average balance of secured borrowings increased 238.9% to ₩1,657 billion in 2000 from ₩489 billion in 1999, which resulted in an increase in interest expense of 318.5% to ₩113 billion in 2000 from ₩27 billion in 1999. Secured borrowings consist primarily of bonds collateralized by certain of our loans and securities, and secured deposits. In 2000, we entered into three collateralized borrowing facilities totalling ₩519 billion, where we issued bonds collateralized by certain of our loans and securities.

Interest expense on long-term debt decreased 15.1% from ₩384 billion in 1999 to ₩326 billion in 2000 as a result of decreases in volume, which more than offset an increase in interest rate by 49 basis points. Our average borrowing rate increased because of our issuance of approximately ₩666 billion of finance debentures at rates between 8.65 and 9.65%. Interest expense from call money increased 52.6% from ₩19 billion in 1999 to ₩29 billion in 2000, primarily as a result of increases in volume.

Net interest margin. Primarily as a result of falling interest rates in Korea, our net interest margin decreased 3.9% from 3.58% in 1999 to 3.44% in 2000. The decrease was partially offset by an increase in our volumes of credit card and other non-mortgage consumer lending which earn relatively higher rates of interest.

Comparison of 1999 to 1998

Net interest income increased 3.9% from ₩1,371 billion in 1998 to ₩1,425 billion in 1999 as a result of a 12.0% decrease in interest expense which more than offset a 7.2% decrease in interest income.

Interest income. Interest income decreased 7.2% from ₩4,571 billion in 1998 to ₩4,242 billion in 1999 as a result of the following factors:

- a decline of 220 basis points in the gross yield on interest earning assets from 12.86% in 1998 to 10.66% in 1999, partially offset by

• a ₩4,231 billion increase in the average volume of interest earning assets from ₩35,547 billion in 1998 to ₩39,778 billion in 1999.

Interest and fees on loans decreased 5.4% from ₩3,462 billion in 1998 to ₩3,276 billion in 1999 as a result of a decline in the gross yield from 13.02% in 1998 to 11.46% in 1999. The gross yield decreased as a result of the decrease in the general levels of interest rates in Korea between 1999 and 1998 as economic conditions in Korea improved. The decrease in gross yield was offset by a 7.4% increase in average loan volume from ₩26,600 billion in 1998 to ₩28,575 billion in 1999. Our loan growth was principally due to an increase in the average volume of our credit card loans and other non-mortgage consumer loans. These loans increased from ₩2,885 billion in 1998 to ₩5,285 billion in 1999 due to increased loan demand as economic conditions, and therefore consumer demand, in Korea improved and our increased efforts to market our consumer loans.

Interest income on call loans and securities purchased under resale agreements decreased 84.4% from ₩160 billion in 1998 to ₩25 billion in 1999. The decrease was due to a decrease in both gross yields and average volumes. The gross yield decreased 63.2% from 16.31% in 1998 to 6.01% in 1999. The average volume decreased 57.6% from ₩981 billion in 1998 to ₩416 billion in 1999 as a result of falling yields on call loans and securities purchased under resale agreements, which made them relatively less attractive than our other available uses of funds.

Interest income on investment securities decreased 11.7% from ₩766 billion in 1998 to ₩676 billion in 1999. Our investment securities portfolio consists primarily of debt securities issued or guaranteed by the Korean government and the decrease in interest income in 1999 was primarily due to a decrease in gross yields on these securities. The gross yield on our investment securities decreased from 12.63% in 1998 to 9.20% in 1999. Gross yields decreased as a result of the general decline in interest rates in Korea. In addition, we received a substantial amount of securities as a result of our contribution to the Bond Market Stabilization Fund, which bear no interest. The impact of the decrease in gross yield was partially offset by an increase in average volume. The average volume of investment securities increased 27.4% from ₩5,953 billion in 1998 to ₩7,585 billion in 1999 as a result of the fact that our funding increased in 1999 due to an increase in deposits and we used a portion of the increase to invest in investment securities.

The decrease in interest income from loans, call loans and securities purchased under resale agreements and investment securities was partially offset by an increase in interest and dividend income on trading securities. Interest and dividend income on trading securities increased from ₩12 billion in 1998 to ₩130 billion in 1999 primarily as a result of an increase in average volume. The average volume of our trading securities increased from ₩214 billion in 1998 to ₩1,501 billion in 1999. This was due to the fact that we began to expand our trading securities operations in October 1998 and therefore 1999 was the first full year of expanded operations.

Interest Expense. Interest expense decreased 12.0% from ₩3,200 billion in 1998 to ₩2,817 billion in 1999, principally as a result of the following factors:

• a decline of 204 basis points in the cost of interest bearing liabilities from 9.60% in 1998 to 7.56% in 1999, offset by

• a ₩3,944 billion increase in the average volume of interest bearing liabilities from ₩33,332 billion in 1998 to ₩37,276 billion in 1999.

Interest expense on deposits decreased 1.6% from ₩2,315 billion in 1998 to ₩2,277 billion in 1999. The decrease was primarily the result of the impact of a decrease in interest payable on interest bearing deposits due to the improvement of economic conditions in Korea in 1999. The average interest rate paid on our time deposits other than certificates, which accounted for 48.7% of our average interest-bearing liabilities in 1999, decreased from 10.85% in 1998 to 8.81% in 1999. The average interest rate paid on our interest bearing demand deposits, which accounted for 17.1% of our average interest-bearing liabilities in 1999, decreased from 3.39% in 1998 to 2.65% in 1999.

The decrease in interest rates payable on deposits more than offset a 21.4% increase in the average volume of interest-bearing deposits from ₩24,973 billion in 1998 to ₩30,326 billion in 1999. The increase was primarily due to a 33.7% increase in the average volume of time deposits other than certificates from ₩13,580 billion in 1998 to ₩18,159 billion in 1999 and a 39.4% increase in the average volume of interest bearing demand deposits from ₩4,571 billion in 1998 to ₩6,370 billion in 1999. The increase in average deposits was primarily attributable to the recent difficulties in the Korean banking sector which has led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves.

Interest expense on other borrowed funds, which consists primarily of borrowings from the BOK, foreign currency borrowings, and borrowing from our trust accounts, decreased 63.0% from ₩370 billion in 1998 to ₩137 billion in 1999. The decrease in interest expense on other borrowings was due to a decrease in both the volume of borrowing and the level of interest rates. Our average borrowings from the BOK decreased from ₩1,403 billion in 1998 to ₩485 billion in 1999. The level of borrowings from the BOK was higher in 1998 as a result of the fact that the BOK made low cost funding available on lending to the Korean merchant banking sector in an effort to prevent a liquidity crisis. As a result, we increased the level of our borrowing from the BOK in 1998. We repaid most of these loans in 1999. In addition, as a result of the falling interest rate environment in Korea, the interest rate we paid on our borrowings from the BOK decreased from 11.3% in 1998 to 3.3% in 1999.

Interest expense on long-term debt decreased 14.3% from ₩448 billion in 1998 to ₩384 billion in 1999 as a result of decreases in volume and rate. As interest rates decreased, we replaced maturing long term debt with lower cost long term debt. Interest expense from call money decreased 71.6% from ₩67 billion in 1998 to ₩19 billion in 1999, in each case, as a result of decreases in volume and rate.

Net interest margin. Primarily as a result of falling interest rates in Korea, our net interest margin decreased 7.0% from 3.85% in 1998 to 3.58% in 1999. The decrease was partially offset by an increase in our volumes of credit card and other non-mortgage consumer lending which earn relatively higher rates of interest.

Allowance for Loan Losses

Our provision for loan losses (excluding provisions for guarantees and acceptances) decreased from ₩433 billion in 1998 to ₩306 billion in 1999 as a result of the improvement in economic conditions in Korea. However, provision increased to ₩378 billion in 2000 primarily due to the increase in loan volume. The following table shows, for the periods indicated, certain information regarding our non-performing loans.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion, except percentages)		
Total non-performing loans[(1)]	2,628	2,440	2,104
Non-performing loans as a percentage of total loans[(1)]	10.0	7.6	4.6
Non-performing loans as a percentage of total assets[(1)]	6.5	5.4	3.5
Allowance for loan losses as a percentage of non-performing loans[(1)]	47.9	52.7	62.6
Allowance for loan losses as a percentage of total loans	4.8	4.0	2.9

(1) Non-performing loans are defined as those loans which are past due more than 90 days.

As of December 31, 2000, the balance of allowances for loan losses increased 2.3% from ₩1,287 billion in 1999 to ₩1,327 billion in 2000 while loan volume increased 43.8%. The contributing factors for these changes were an increase in loan charge-offs in 2000 and an increase in consumer loan volume, which are reserved at lower ratios than commercial loans.

The following table shows, for the periods indicated, our total loan loss allowance by category of borrower.

	As of December 31,		
	1998	1999	2000
	(in ₩ billion)		
Commercial and industrial	844	871	1,063
Construction	301	237	43
Household			
Residential mortgages	17	19	21
Other consumer loans	45	92	117
Credit cards	52	68	72
Total	1,259	1,287	1,317

The following table shows, for the periods indicated, certain information regarding our impaired loans in the commercial and industrial sector, including the construction sector. Impaired loans are defined as loans with respect to which we believe that it is probable that we will not collect all amounts due according to the contractual terms of the loan. We use impaired loans to calculate our allowance for loan losses on the commercial and industrial sector.

	As of December 31,		
	1998	1999	2000
Impaired loans to total commercial loans	47.6%	38.9%	25.5%
Allowance for commercial loan losses to commercial loans	15.7%	15.4%	10.8%
Allowance for commercial loan losses to impaired loans	33.0%	39.6%	39.5%

For further information on the volume of lending to these individualized loan categories see, "Item 4. Information on the Company — Business Overview — Assets and Liabilities — Loan Portfolio".

During 1998 there was a significant increase in the level of our impaired loans as a result of the economic downturn in Korea. As a result of the unfavorable economic conditions in Korea, a number of chaebols experienced financial difficulties the most significant of which was the Daewoo Corporation. During 1998 we made additional provisions of ₩115 billion against our loans to Daewoo Corporation. See "Item 4. Information on the Company — Business Overview — Assets and Liabilities". The economic downturn also affected the construction sector in Korea. The construction sector experienced very high levels of loan impairment in 1998. During 1998 we recorded loan loss allowances of approximately ₩86 billion against our largest loans to the construction sector. In addition, we made a provision of ₩35 billion against our exposure to the KHGC. See "Item 4. Information on the Company — Business Overview — Assets and Liabilities". Our level of general loan loss reserves fell as a proportion of impaired loans in 1998 due to the fact that an increased number of loans became specifically identified as impaired.

During 1999, the ratio of impaired loans to total loans fell as the Korean economy stabilized. However, the credit quality of the construction sector remained poor and certain of the loans which had become delinquent in 1998 deteriorated in 1999 thereby necessitating further provisions. We made additional loan loss allowances against our exposure to the KHGC of ₩91 billion as well as additional reserves of ₩33 billion against our largest construction exposures.

In May 1999, in response to the increased level of impaired loans, we adopted new loan underwriting policies in order to move away from a "collateral" based lending practice and to implement a "credit" based lending practice. Thus, we implemented a corporate evaluation model into our corporate loan approval procedures. Previously, loan approvals depended on the adequacy of the collateral provided, except with respect to our best corporate borrowers. After the adoption of the corporate evaluation model, the extension of credit depended on the corporate applicant's credit rating, which represents the repayment capability of the corporate borrower.

In 1999, we further adjusted our loan underwriting practice. With the assistance of external consultants we developed a new credit processing system that includes a credit rating system for small and medium-sized enterprises. In addition, we enhanced our credit approval practice by segregating commercial loans into three groups, namely, large corporations loans, small and medium-sized enterprises loans and loans to other small companies, and by applying different credit evaluation methodologies for different groups of loans. Credit analysts perform individual credit analyses for large corporations using credit evaluation models. The new practice mandates the use of the new credit rating system for small and medium-sized enterprises. Other small companies without financial statements, to which the credit rating system cannot give credit ratings, are manually evaluated based on simplified credit rating tables.

Additionally, the new underwriting practice establishes an environment which makes the person who approves a loan responsible for the decision. This is possible because we have implemented a system-based credit approval procedure in which transparency in loan approval procedures is increased and employees specialize in the credit approval procedures. In addition, we have started to assess interest rates commensurate with the risks associated with the credit applicants. We believe that these changes in the underwriting process resulted in tightened credit approval standards for marginal borrowers and will reduce the level of impaired loans in our corporate loan portfolio.

During 2000, we experienced a significant decline in the level of our impaired loans. Factors contributing to such decline include lower incidence of defaults, the results of our improved credit evaluation model and new underwriting policies implemented in 1999, completion of an asset securitization transaction, and implementation of government regulations which identified impaired borrowers and required charge-off of these loans. Results of the underwriting policies implemented in 1999 have allowed us to identify impaired loans more quickly and limit further credit extension to these borrowers as we apply a more stringent credit analysis and have become more responsive to changes in the condition of the borrower or its industry. We were also successful in completion of an asset securitization transaction in December 2000. We sold ₩162 billion of non-performing loans to a special purpose vehicle in exchange for cash proceeds of ₩76 billion, thereby decreasing the amount of impaired loans held at year end. Furthermore, in accordance with a FSS mandate, all Korean banking institutions were required to charge-off loans to certain borrowers. Although we classified these loans as impaired and had reserves against the balances, this government-sponsored mandate decreased our impaired loans and related allowances and contributed to our increase of loans charged offs. As a result, we experienced a significant increase in the amount of commercial loans charged off compared to 1999. In addition, the general slowdown in the growth of the Korean economy in 2000 has allowed us to identify and focus on individual impaired borrowers. We have assessed each borrower's ability to repay its outstanding loans and in some situations have determined collection to be remote.

The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector including loans to individuals, credit card loans and residential mortgage loans.

	As of December 31,		
	1998	**1999**	**2000**
Non-performing consumer loans to total consumer loans	9.8%	6.6%	2.7%
Allowance for consumer loan losses to total consumer loans	0.6%	0.7%	0.6%
Allowance for consumer loan losses to non-performing consumer loans	6.1%	10.8%	21.6%

During 1998 the loan loss allowance on consumer loans increased due to the increase in non-performing loans resulting from the economic downturn in Korea. During 1999, the proportion of non-performing loans as a percentage of the portfolio decreased as a result of improving economic conditions. However, the proportion of the loan loss allowance to total non-performing loans increased from 6.1% in 1998 to 10.8% in 1999 due to the change in our lending mix towards credit cards and other non-mortgage consumer loans which have a higher loss rate than mortgage loans and the further deterioration of delinquent loans carried forward from 1998. In 2000, we charged off ₩92 billion in non-performing consumer loans. Due to these additional charge-offs, the proportion of non-performing consumer loans to total consumer loans decreased from 6.6% in 1999 to 2.7% in 2000. The proportion of allowances for consumer loan losses to total consumer loans decreased slightly but the proportion of allowances for consumer loan losses to non-performing consumer loans increased to 21.6% due to the reduced non-performing loan balance following the a significant charge-offs.

During 2000, the ratio of allowance for loan loss to total loans for credit card and other retail loans fell as a result of a significant increase in new loans, most of which were current as of December 31, 2000 and the improvement in the quality of our consumer loans due to improved economic conditions.

Non-Interest Income

The following table sets forth for the periods indicated the components of our non-interest income.

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Trust fees	156	162	106	3.8	(34.6)
Commission received on management of the NHF and other funds	146	156	163	6.8	(4.5)
Other fees and commission income	103	142	217	37.9	52.8
Net trading revenue	81	157	154	93.8	(1.9)
Net gain (loss) on securities	16	53	(131)	231.3	(347.2)
Other non-interest income	29	121	127	317.2	5.0
Total non-interest income	531	791	636	49.0	(19.6)

Comparison of 2000 to 1999

Our non-interest income decreased 19.6% from ₩791 billion in 1999 to ₩636 billion in 2000. We had net losses on securities of ₩131 billion in 2000 compared to a net gain of ₩53 billion in 1999. In 2000, our capital market activities incurred net losses due to the negative performance of the stock market in Korea. In addition, losses on impairment of debt securities increased 358% in 2000 primarily due to debt securities holdings in Daewoo and Samsung Motors.

Trust fees, which consist of fees we receive for managing trust account assets and penalty payments we receive when customers terminate their trust accounts prior to the end of the fixed term, decreased 34.6% from ₩162 billion in 1999 to ₩106 billion in 2000 due primarily to a 25.7% decrease in the balance of our trust account assets from ₩8,279 billion in 1999 to ₩6,151 billion in 2000. The decrease was the result of a number of factors which made investing in trust accounts less attractive, including:

- regulatory changes which prohibited the sale of interest guaranteed money trusts;
- exclusion of performance money trusts from KDIC's insurance coverage; and
- a drop in yields as a result of a decrease in interest rates.

Other fees and commission income increased 52.8% from ₩142 billion in 1999 to ₩217 billion in 2000. The main contributing factor for this increase resulted from fees and commissions income related to our credit card operations. The credit card average balance increased 110.5% to Won 1,993 billion in 2000 from Won 947 billion in 1999.

Net trading revenue decreased 1.9% from ₩157 billion in 1999 to ₩154 billion in 2000. Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio.

Commissions received on management of the NHF and other funds increased 4.5% from ₩156 billion in 1999 to ₩163 billion in 2000. These commissions consist primarily of the commissions we receive for managing the NHF. These commissions increased from ₩152 billion in 1999 to ₩159 billion in 2000 as a result of an increase in the assets of the NHF.

Other non-interest income increased from ₩121 billion in 1999 to ₩127 billion in 2000.

Comparison of 1999 to 1998

Our non-interest income increased 49.0% from ₩531 billion in 1998 to ₩728 billion in 1999.

Net trading revenue increased 93.8% from ₩81 billion in 1998 to ₩157 billion in 1999. The increase in revenue in 1999 was the result of a general increase in prices of securities in Korea in 1999 as economic conditions improved. The increase in the prices of securities also led to an increase in a net gain on sales of securities available for sale from ₩16 billion in 1998 to ₩53 billion in 1999. In 1999 we sold government securities to realize gains resulting from the increase in the prices of these securities.

Trust fees increased 3.8% from ₩156 billion in 1998 to ₩162 billion in 1999. Trust account management fees, which are based on assets under management and the performance of the trusts, increased 62.7% from ₩83 billion in 1998 to ₩135 billion in 1999 as a result of the better performance of our trust accounts in 1999. This increase was partially offset by a significant decrease in termination payments from ₩73 billion in 1998 to ₩27 billion in 1999. In 1998, we introduced higher yielding trust products which led to a large number of customers terminating their existing accounts early and investing in the higher yielding accounts. See "Item 4. Information on the Company — Business Overview — Other Businesses — Trust Account Management Services".

Other fees and commission income increased 37.9% from ₩103 billion in 1998 to ₩142 billion in 1999. The increase was primarily due to an increase in the merchant fees receivable through our credit card operations.

Commissions received on management of the NHF and other funds increased 6.8% from ₩146 billion in 1998 to ₩156 billion in 1999. These commissions consist primarily of the commissions we receive for managing the NHF. These commissions increased from ₩137 billion in 1998 to ₩152 billion in 1999 as a result of an increase in the assets of the NHF.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense.

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Salaries and employee benefits	610	518	509	(15.1)	(1.7)
Trust performance payments	206	53	95	(74.3)	79.2
Equity net loss of affiliates	6	20	3	233.3	(84.8)
Depreciation and amortization	62	76	107	22.6	40.8
Administrative expenses	126	159	238	26.2	49.7
Loss on sale of loans	61	1	20	(98.4)	1,900.0
Credit card fees	14	20	37	42.9	85.0
Other fees and commission expenses	87	109	162	25.3	48.6
Taxes and dues	31	33	37	6.5	12.1
Other non-interest expenses	71	120	101	69.0	(15.8)
Total non-interest expense	1,274	1,109	1,309	(13.0)	18.0

Comparison of 2000 to 1999

Non-interest expense increased 18.0% from ₩1,109 billion in 1999 to ₩1,309 billion in 2000. The increase was primarily due to substantial increases in administration expenses, loss on sale of loans, trust performance guarantees and depreciation and amortization.

Administrative expenses, which include professional fees, consulting fees, marketing expenses and data processing costs, increased 49.7% from ₩159 billion in 1999 to ₩238 billion in 2000 due to our utilization of additional consulting services, our increased marketing activities and the upgrade of our information technology.

Our loss on sale of loans of ₩20 billion in 2000 primarily relate to losses recognized on the sale of non-performing loans through an asset-backed facility.

Trust performance payments expense increased from ₩53 billion in 1999 to ₩95 billion in 2000. These expenses relate to our guarantee of the principal amount and, in some cases, a fixed rate of interest on an investment in certain of the trust accounts we manage. The expense in 2000 related to amounts we paid under these guarantees to reimburse investors for losses they experienced as a result of a weaker stock market in Korea. Depreciation and amortization increased 40.8% from ₩76 billion in 1999 to ₩107 billion in 2000. In 2000, we purchased approximately ₩104 billion of equipment including our computer systems, which led to increased depreciation. In addition, amortization expense for the goodwill of Jooeun Leasing Co. was ₩10.9 billion in 2000.

Salaries and employee benefits decreased 1.7% from ₩518 billion in 1999 to ₩509 billion in 2000. The number of our regular employees decreased from 8,286 employees as of December 31, 1999 to 8,145 employees as of December 31, 2000, and the number of our contractual employees decreased from 4,165 contractual employees as of December 31, 1999 to 3,711 contractual employees as of December 31, 2000.

Other non-interest expense decreased 15.8% from ₩120 billion in 1999 to ₩101 billion in 2000, primarily due to reduced expenses related to costs of homes sold by Jooeun Industrial from ₩62 billion in 1999 to ₩50 billion in 2000.

Comparison of 1999 to 1998

Non-interest expense decreased 13.0% from ₩1,274 billion in 1998 to ₩1,109 billion in 1999. The decrease was primarily due to a decrease in trust performance guarantees and loss on sale of loans. The decrease in these items was partially offset by an increase in expenses relating to other fees and commission expenses, depreciation and amortization and administrative expenses.

Non-interest expense from trust performance guarantees decreased from ₩206 billion in 1998 to ₩53 billion in 1999. See "Item 4. Information on the Company — Business Overview — Other Businesses — Trust Account Management Services". The expense in 1998 related to amounts we paid under these guarantees to reimburse investors for losses they experienced as a result of the impact of the general economic condition in Korea. In 1999, we made no guarantee payments as a result of the improved performance in our trust accounts as the Korean economy improved.

Salaries and employee benefits decreased 15.1% from ₩610 billion in 1998 to ₩518 billion in 1999. The rationalization program in 1998, which resulted in 3,500 of our employees accepting offers of early retirement, incurred special severance benefits for early retirement in the amount of ₩125 billion. The program helped us to control salary costs in 1999 and lead to the recognition of an additional pension cost in 1999 compared to 1998. The absence of special severance benefits in 1999 was offset in part, however, by pay increases and bonuses for our permanent employees and the recruitment of temporary contract staff. Expenses related to losses on sale of loans decreased 98.4% from ₩61 billion in 1998 to ₩1 billion in 1999. These expenses primarily relate to losses recognized on the sale of non-performing loans to KAMCO in accordance with the government's program to assist financial institutions in Korea. See "Overview Sales of Substandard or Below Loans to KAMCO". The decrease in 1999 results from the fact that we sold significantly fewer loans to KAMCO in 1999 as compared to 1998.

Administrative expenses, depreciation and amortization and other fees and commission expenses increased during 1999. Administrative expenses increased 26.2% from ₩126 billion in 1998 to ₩159 billion in 1999 due to our acquisition of additional consulting services, our increased marketing activities and the upgrade of our information technology. Other fees and commission expenses, which consist primarily of fees paid to KDIC for deposit insurance and related fees, increased 25.3% from ₩87 billion in 1998 to ₩109 billion in 1999 due to the higher volume of customer deposits taken by us in 1999. Depreciation and amortization increased 22.6% from ₩62 billion in 1998 to ₩76 billion in 1999 as a result of acquisitions of furniture, equipment and leasehold improvements.

Other non-interest expenses increased 69.0% from ₩71 billion in 1998 to ₩120 billion in 1999. Expenses of our investment trust management subsidiary increased because it compensated its customers for losses incurred as a result of trust investments in debt securities issued by the Daewoo Group.

Income Tax Expense

Comparison of 2000 to 1999

Income tax expense decreased from ₩268 billion in 1999 to ₩244 billion in 2000 as a result of our decreased income. The statutory tax rate was 30.8% in each of 1999 and 2000. Our effective rate of income tax decreased slightly from 33.1% in 1999 to 32.4% in 2000.

As a result of the above, our net income was ₩506 billion in 2000 as compared to ₩541 billion in 1999.

Comparison of 1999 to 1998

Income tax expense increased from ₩102 billion in 1998 to ₩268 billion in 1999 as a result of our increased income. The statutory tax rate was 30.8% in each of 1998 and 1999.

Our effective rate of income tax decreased from 44.1% in 1998 to 33.1% in 1999. The principal reason for this decrease was the fact that the amounts of tax losses carried forward for which a valuation allowance was provided was higher as a proportion of the total tax charge for the year in 1998 as compared to 1999. Such valuation allowance was required because we are unable to offset the losses of our loss making subsidiaries against our profitable entities for tax purposes. In addition, the level of tax deductible items was higher in 1999 than in 1998.

As a result of the above, our net income was ₩541 billion in 1999 as compared to ₩128 billion in 1998.

Results by Principal Business Segment

We are organized into four major business segments: Retail Banking, Credit Card, Corporate Banking and Treasury and Investment Management. We did not classify Credit Card as a separate segment until 2000. Financial information for 1999 has been restated for comparison purposes. Separate segment financial information for credit cards in 1998 is not available. The following discussion is based upon our non-consolidated Korean GAAP financial information, which we use to manage our business. For a summary of our results by segment see our U.S. GAAP financial statements.

Retail Banking

	Year Ended December 31,			Year Ended December 31,	
	1998(1)	1999	2000	1998(1)/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest income	2,450	2,298	3,061	(6.2)	33.2
Interest expense	(1,317)	(1,309)	(1,841)	(0.6)	40.6
Provision for loan losses	(74)	(18)	(69)	(75.7)	283.3
Non-interest income	46	—	2		
Non-interest expense including depreciation	(797)	(616)	(659)	(22.7)	7.0
Segment result	308	355	494	15.3	39.2

(1) The result of the Credit Card operations is included in retail banking in 1998.

Comparison of 2000 to 1999

Our Retail Banking segment products include consumer loans and mortgages, deposits and other savings and investment products. Our overall segment result increased 39.2% from ₩355 billion in 1999 to ₩494 billion in 2000.

Interest income from retail banking activities increased 33.2% from ₩2,298 billion in 1999 to ₩3,061 billion in 2000. We have continued to carry out aggressive consumer loan sales activities that were facilitated by improvements in our credit-rating systems for loans and automatic appraisal of collateral. These marketing efforts led to a significant increase in consumer loans during the year.

Interest expense increased 40.6% from ₩1,309 billion in 1999 to ₩1,841 billion in 2000. The volume of deposit and savings products has increased significantly as customers continue to withdraw their deposits from banks they perceive to be weaker, and open accounts with banks they perceive to be stronger, such as us. However, this was partially offset by the lower interest rates paid on these products as the general level of interest rates fell.

Non-interest income increased from ₩0 billion in 1999 to ₩2 billion in 2000.

Non-interest expense, which includes depreciation, increased by 7.0% from ₩616 billion in 1999 to ₩659 billion in 2000.

Comparison of 1999 to 1998

Our overall Retail Banking segment result increased 15.3% from ₩308 billion in 1998 to ₩355 billion in 1999. Had we included the result of our Credit Card segment in 1999, our overall Retail Banking segment result would have been ₩429 billion.

Interest income from retail banking activities decreased 6.2% from ₩2,450 billion in 1998 to ₩2,298 billion in 1999. Had we included the result of Credit Card segment in 1999, our interest income would have been ₩2,461 billion. Lower lending rates in the domestic market resulting from stabilized market conditions after the economic crisis of 1997 and 1998 offset a significant increase in consumer loans during the year. We have carried out aggressive consumer loan sales activities, that were facilitated by improvements in our credit-rating systems for loans and automatic appraisal of collateral.

Interest expense decreased 0.6% from ₩1,317 billion in 1998 to ₩1,309 billion in 1999. Had we included the result of our Credit Card segment in 1999, our interest expense would have been ₩1,377 billion. The volume of deposit and savings products has increased significantly as customers have withdrawn their deposits from banks they perceive to be weaker, and opened accounts with banks they perceive to be stronger, such as us. However, this was offset by the lower interest rates paid on these products as the economy improved and the general level of interest rates fell.

Non-interest income decreased from ₩46 billion in 1998 to none in 1999. Had we included the result of our Credit Card segment in 1999, our non-interest income would have been ₩63 billion. This was primarily due to increased commissions from increased ATM and fund transfer services we provide to customers.

Non-interest expense, which includes depreciation, decreased 22.7% from ₩797 billion in 1998 to ₩616 billion in 1999. Had we included the result of Credit Card segment in 1999, our non-interest expense would have been ₩687 billion. We had lower severance benefit liabilities in 1999 following the fall in headcount at the end of 1998.

Credit Cards

	Year Ended December 31,		Year Ended December 31,
	1999	2000	1999/2000
	(in ₩ billion)		(% change)
Interest income	162	333	105.6
Interest expense	(68)	(135)	98.5
Provision for loan losses	(13)	(45)	246.2
Non-interest income	66	108	63.6
Non-interest expense including depreciation	(73)	(98)	34.2
Segment result	74	163	120.3

Comparison of 2000 to 1999

Our Credit Card segment handles domestic as well as overseas credit and debit card operations. Our overall segment result increased by 120.3% from ₩74 billion in 1999 to ₩163 billion in 2000 due to the 110.5% increase in average credit card balance discussed below.

Interest income increased 105.6% from ₩162 billion in 1999 to ₩333 billion in 2000 due to a 110.5% increase in average credit card balance from ₩947 billion in 1999 to ₩1,993 billion in 2000, together with higher average yield.

Interest expense increased 98.5% from ₩68 billion in 1999 to ₩135 billion in 2000 due to an increased average credit card balance described above. Interest expense is calculated based on internal transfer cost for the use of funds.

Non-interest income increased 63.6% from ₩66 billion in 1999 to ₩108 billion in 2000. Non-interest income is derived from commissions and fees which are charged based on the balance of credit and the frequency of usage, both of which increased. Non-interest expense, which includes depreciation, increased 34.2% from ₩73 billion in 1999 to ₩98 billion in 2000 due to the increased fees and commissions paid to other banks and credit card companies for our credit card transactions.

Corporate Banking

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest income	968	655	825	(32.3)	26.0
Interest expense	(663)	(410)	(563)	(38.2)	37.3
Provision for loan losses	(749)	(302)	(287)	(59.7)	(5.0)
Non-interest income	664	359	364	(46.0)	1.4
Non-interest expense including depreciation	(429)	(236)	(356)	(45.0)	50.8
Segment result	(209)	66	(17)	131.6	(125.8)

Comparison of 2000 to 1999

Our Corporate Banking segment handles our transactions with private and public enterprises. Activities within the segment include direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, and foreign currency activities. Our overall segment result went from a profit of ₩66 billion in 1999 to a loss of ₩17 billion in 2000.

The segmental loss in 2000 was due to the provision for losses against our commercial loans, guarantees and acceptances.

Interest income increased 26.0% from ₩655 billion in 1999 to ₩825 billion in 2000 due to higher volumes of corporate lending, which was partially offset by lower interest rates. Interest expense represents the internal transfer cost for the use of funds. As a result, increased volume caused interest expense to increase by 37.3% from ₩410 billion in 1999 to ₩563 billion in 2000.

Non-interest income increased 1.4% from ₩359 billion in 1999 to ₩364 billion in 2000.

Non-interest expense, which includes depreciation, increased 50.8% from ₩236 billion in 1999 to ₩356 billion in 2000, primarily due to increases in expenses related to 43.8% increase in corporate loan volume. In addition, contributions to Credit Guarantee Fund increased 77.8% in 2000.

Comparison of 1999 to 1998

Our overall Corporate Banking segment result improved from a loss of ₩209 billion in 1998 to a profit of ₩66 billion in 1999.

The segmental loss in 1998 was due to the provision for losses against our commercial loans, guarantees and acceptances. This was not repeated in 1999 as the credit quality of our portfolios improved.

Interest income decreased 32.3% from ₩968 billion in 1998 to ₩655 billion in 1999 due to lower interest rates and lower volumes on our corporate lending. Interest expense decreased 38.2% from ₩663 billion in 1998 to ₩410 billion in 1999 due to lower borrowings and lower funding costs due to the reduction in the overall level of interest rates.

Non-interest income decreased 46.0% from ₩664 billion in 1998 to ₩359 billion in 1999 due primarily to lower exchange gains on our foreign currency liabilities as the appreciation of the Won against the US dollar was less significant in 1999 compared to 1998.

Non-interest expense, which includes depreciation, decreased 45.0% from ₩429 billion in 1998 to ₩236 billion in 1999 due to lower exchange losses on our foreign currency assets as the appreciation of the Won against the US dollar was less significant in 1999 compared to 1998.

Treasury and Investment Management

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Interest income	904	872	910	(3.5)	4.4
Interest expense	(823)	(897)	(905)	9.0	0.9
Provision for loan losses	—	—	25	—	100.0
Non-interest income	160	217	274	35.6	26.3
Non-interest expense including depreciation	(388)	(268)	(227)	(30.9)	(15.3)
Segment result	(147)	(76)	77	48.3	201.3

Comparison of 2000 to 1999

Our Treasury and Investment Management segment handles our treasury activities and dealing of trading and investment securities. Our overall segment result improved from a loss of ₩76 billion in 1999 to a profit of ₩77 billion in 2000.

Interest income increased 4.4% from ₩872 billion in 1999 to ₩910 billion in 2000. Our investments in interest-bearing securities increased as a result of increased funding available from our deposit base, which more than offset lower yields as a result of declining interest rates in Korea.

Interest expense increased by 0.9% from ₩897 billion to ₩905 billion, as higher funding levels were partially offset by reduction in interest rates.

Non-interest income increased 26.3% from ₩217 billion in 1999 to ₩274 billion in 2000 due to increased gains on our securities portfolios. Non-interest expense, which includes depreciation, decreased 15.3% from ₩268 billion in 1999 to ₩227 billion in 2000 due to lower administrative expenses in 2000 which resulted from the transfer of our trading activity to Jooeun Investment Management Trust Co., Ltd.. Administration expenses incurred by Jooeun Investment Management Trust Co., Ltd. are included in our "Other" segment.

Comparison of 1999 to 1998

Our Treasury and Investment Management segment result improved from a loss of ₩147 billion in 1998 to a loss of ₩76 billion in 1999.

Interest income decreased 3.5% from ₩904 billion in 1998 to ₩872 billion in 1999. Our investments in interest-bearing securities increased as a result of increased funding available from our deposit base. However, this was more than offset by lower yields as a result of declining interest rates in Korea. Interest income on call loans and other short-term money market investments also fell due to lower volumes and lower yields.

Interest expense increased 9.0% from ₩823 billion to ₩897 billion. The increase due to higher funding levels was partially offset by the reduction in funding costs due to the reduction in the overall level of interest rates.

Non-interest income increased 35.6% from ₩160 billion in 1998 to ₩217 billion in 1999 due to increased gains on our securities portfolios. Non-interest expense, which includes depreciation, decreased 30.9% from ₩388 billion in 1998 to ₩268 billion in 1999 due to lower losses on our trading activities in 1999 as a result of improving market conditions in 1999.

Financial Condition

Assets

The following table sets forth, for the periods indicated, the principal components of our assets.

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Cash and due from banks and other financial institutions	1,665	1,281	1,154	(23.1)	(9.9)
Restricted deposits	663	931	426	40.4	(54.2)
Interest-bearing deposits in other banks	206	318	330	54.4	3.8
Call loans and securities purchased under resale agreements	467	76	720	(83.7)	847.4
Trading assets	1,184	2,371	2,549	100.3	7.5
Securities available for sale	7,768	4,360	5,782	(43.9)	32.6
Held-to-maturity securities	225	2,660	2,182	1,082.2	(18.0)
Loans[(1)]	26,354	32,134	46,208	21.9	43.8
Premises and equipment, net	677	744	827	9.9	11.2
Due from customers on acceptances	382	265	363	(30.6)	37.0
Accrued interest and dividend receivable	485	378	381	(22.1)	0.8
Security deposits	566	511	517	(9.7)	1.2
Other assets	939	512	798	(45.5)	55.9
Total assets	41,581	46,541	62,237	11.9	33.7

(1) Before adjustment for deferred origination costs and allowance for loan losses.

Our assets increased from ₩41,581 billion in 1998 to ₩46,541 billion in 1999 and ₩62,237 billion in 2000 principally due to increased lending. Our loans increased from ₩26,354 billion in 1998 to 32,134 billion in 1999 and ₩46,208 billion in 2000. This increase was due largely to an increase in consumer lending. Consumer lending increased from ₩19,061 billion in 1998 to ₩24,938 billion in 1999 and ₩35,627 billion in 2000. Residential mortgage lending increased from ₩15,890 billion in 1998 to ₩17,246 billion in 1999 and ₩20,987 billion in 2000. Installment loans to individuals increased from ₩302 billion in 1998 to ₩2,266 billion in 1999 and ₩4,675 billion in 2000. Commercial lending decreased from ₩7,292 billion in 1998 to ₩7,196 billion in 1999 but increased to ₩10,581 billion in 2000. The increase in overall lending was due mainly to the increase in consumer spending as a result of the recovering domestic economy, growing demands for consumer loans and new business development.

Our held-to-maturity securities increased from ₩225 billion in 1998 to ₩2,660 billion in 1999 as a result of our use of the funds available due to the increase in our deposit base but decreased to ₩2,182 billion in 2000 generally resulting from maturities and redemptions of such securities. Our trading assets increased from ₩1,184 billion in 1998 to ₩2,371 billion in 1999 and ₩2,548 billion in 2000. The first full year of our expanded securities trading activities was 1999.

The growth in these assets was offset, in part, by a decrease in securities available for sale from ₩7,768 billion in 1998 to ₩4,360 billion in 1999. The decrease was due to sales of government securities in 1999 to realize gains resulting from the increase in prices of securities in 1999. In 2000, our securities available for sale increased to ₩5,782 billion primarily due to the reinvestment of proceeds from held-to-maturity securities and purchases of securities from increased funding sources. Cash and due from banks and other financial institutions decreased from ₩1,665 billion in 1998 to ₩1,281 billion in 1999 and ₩1,154 billion in 2000.

For further information on our assets, see "Item 4. Information on the Company — Business Overview — Assets and Liabilities — Loan Portfolio" and "Investment — Portfolio".

Liabilities

The following table sets forth, for the periods indicated, the principal components of our liabilities.

	Year Ended December 31,			Year Ended December 31,	
	1998	**1999**	**2000**	**1998/1999**	**1999/2000**
	(in ₩ billion)			(% change)	
Due to depositors					
Non-interest bearing	177	109	94	(38.4)	(13.8)
Interest bearing	27,367	33,270	47,185	21.6	41.8
Call money	179	758	51	323.5	(93.3)
Trading liabilities	19	4	31	(78.9)	675.0
Other borrowed funds	2,879	1,466	2,216	(49.1)	51.2
Acceptances outstanding	382	265	364	(30.6)	37.4
Accrued interest and dividends payable	2,333	2,523	2,678	8.1	6.1
Other liabilities	1,133	816	1,024	(28.0)	25.5
Secured borrowings	437	534	1,247	22.2	133.5
Long-term debt	4,759	3,775	3,703	(14.5)	(1.9)
Total liabilities	39,228	43,521	58,593	10.9	34.6
Minority interest	6	—	7	(100.0)	100.0
Total stockholders' equity	1,103	1,756	2,356	43.6	34.2
Total liabilities, minority interest, and stockholders' equity	40,337	45,277	60,956	12.2	34.6

Our total liabilities increased from ₩39,228 billion in 1998 to ₩43,521 billion in 1999 and ₩58,593 billion in 2000. The increase was primarily due to an increase in interest bearing deposits and, to a lesser extent, secured borrowings which was partially offset by a decrease in long term debt.

Our interest bearing deposits increased from ₩27,367 billion in 1998 to ₩33,270 billion in 1999 and ₩47,185 billion in 2000 primarily due to the recent difficulties in the Korean banking sector which led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves. Our secured borrowings increased more than 134% from ₩534 billion in 1999 to ₩1,247 billion in 2000, as we entered into three collateralized borrowing facilities totalling ₩519 billion where we issued bonds collateralized by certain of our loans and securities.

Our long term debt decreased from ₩4,759 billion in 1998 to ₩3,775 billion in 1999 and ₩3,703 billion in 2000. This was due primarily to the maturing of domestic and foreign currency debt and the weakening of the Won against the remainder of our foreign currency portfolio.

Our total stockholders' equity as of December 31, 1998 and 1999 included 59,300,000 shares of preferred stock issued to the KDIC in connection with the acquisition of DongNam Bank. As of December 31, 2000, the number of shares of such preferred stock decreased to 17,790,000. However, our investment in KDIC bonds offsets the preferred stock since both instruments are related to the same transaction. In January and February 2000, we purchased 41,510,000 shares of preferred stock from KDIC and we have the right to repurchase the remainder prior to January 31, 2004.

For further information on our sources of funding, see "Item 4. Information on the Company — Business Overview — Funding".

Capital

The following discussion and the figures included therein are based upon the Korean GAAP statistics prepared by us for the purposes of local regulatory reporting. We are subject to the capital adequacy requirements of the FSS, which have been formulated based on the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk weighted assets, as determined by a specified formula, of 8.0%.

Capital adequacy is measured by calculating our Tier I and Tier II capital as a percentage of our risk-weighted assets. Tier I capital is our core capital and consists of paid-in capital, capital surplus, retained earnings, minority interest in consolidated subsidiaries and unpaid dividends minus deductions. Tier II capital is our supplementary capital and includes allowances for loan losses for credits classified as normal or special mention up to 1.25% of risk-weighted assets, subordinated debt with a maturity of at least five years and revaluation surplus. The amount of our risk weighted assets is determined by adding (1) the risk weighted assets on our balance sheet and (2) our off balance sheet risk weighted assets multiplied by a rate determined by the FSS.

The following table sets forth for the periods indicated, our risk-based capital, risk weighted assets and risk-based capital adequacy ratios computed in accordance with the applicable FSS and BIS guidelines.

	Year Ended December 31,			Year Ended December 31,	
	1998	1999	2000	1998/1999	1999/2000
	(in ₩ billion)			(% change)	
Tier 1 capital	1,113	1,794	2,088	61.2	16.4
Tier 2 capital	1,014	1,244	1,739	22.7	39.8
Less: Investment in non-consolidated subsidiary		—	(47)		100.0
Total capital	2,127	3,037	3,780	42.8	24.5
On-balance sheet risk weighted assets	18,563	24,927	35,596	34.3	42.8
Off-balance sheet risk weighted assets	1,141	944	2,507	(17.3)	165.6
Total risk weighted assets	19,704	25,871	38,103	31.3	47.3
Tier I capital adequacy ratio	5.64	6.93	5.48		
Tier II capital adequacy ratio	5.15	4.81	4.57		
Total capital adequacy ratio	10.79	11.74	9.92[1]		

(1) We have a minority equity investment in 2000 in ING Life Insurance Korea Co., which is deducted from total capital pursuant to the guidelines of the FSS instead of being deducted directly from Tier 1 or Tier 2.

We plan to repurchase all of the remaining 17,790,000 shares of preferred stock for ₩89 billion issued to KDIC in connection with our acquisition of DongNam Bank, prior to the applicable deadlines for such repurchases. If we do so, it will reduce our capital base and our capital adequacy ratios. In addition, our capital base and our capital adequacy ratios have decreased since the year end due to the continued increase in our deposit base.

Liquidity

Starting from January 1, 1999, the FSS requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels.

For a description of these requirements, see "Item 4. Information on the Company — Business Overview — Supervision and Regulation — Principal Regulations Applicable to Banks in Korea".

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see "Item 4. Information on the Company — Business Overview — Risk Management — Liquidity Risk".

Our primary source of funding as a retail bank has historically been and continues to be customer deposits. Deposits amounted to ₩27,543 billion, ₩33,379 billion and ₩47,279 billion in 1998, 1999 and 2000, which represented approximately 78%, 84% and 87% of our total funding, respectively. Deposits represent a high percentage of our total funding because many people have withdrawn their deposits from banks they perceive to be weaker, and opened accounts with banks they perceive as stronger, such as ourselves. We have been able to use these changes in the Korean banking sector to finance our operations through a reduction in other funding sources, which we have traditionally used for our daily operations. Secondary funding sources include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to ₩3,059 billion, ₩2,379 billion and ₩2,266 billion for 1998, 1999 and 2000 and represented 9%, 6% and 4% of our total funding, respectively. These types of borrowings have maturities of less than one year. Other sources of funding daily operations have been through Housing Debentures, which were issued under special government regulations to provide loans to low income households. These borrowings amounted to ₩2,228 billion, ₩1,998 billion and ₩2,030 billion for 1998, 1999 and 2000 and represented 47%, 49% and 55% of our total long term debt or 6%, 5% and 4 % of our total funding, respectively.

Selected Financial Information Under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully or majority owned subsidiaries and substantially controlled affiliates that have assets in excess of ₩7 billion. Substantial control is deemed to exist when the investor is the largest shareholder and owns more than 30% of the investee's voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Until December 31, 1998, our financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea issued by the Financial Supervisory Commission, as modified by the accounting and reporting guidelines prescribed by the Office of Banking Supervision. Beginning January 1, 1999, the financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the FSC.

Because of significant changes in Korean GAAP which were applied by us in 1998 and 1999, the financial information included herein for those years is not directly comparable with previous periods. We have included narrative disclosure in the footnotes to more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

- Trading and investment securities;
- Deferred taxation;
- Guarantees and acceptances (including allowances for losses); and
- Provision for loan loss allowances.

Consolidated income statement data:

	Year Ended December 31,					
	1996	1997	1998	1999	2000	2000[1]
	(in ₩ billion, except per common share data)					(in US$ million, except per common share data)
Interest income	2,600	3,204	4,664	4,265	4,873	3,846
Interest expense	(2,061)	(2,412)	(3,481)	(3,030)	(3,537)	(2,792)
Net interest income	539	792	1,183	1,235	1,336	1,054
Provision for possible loan losses[2]	(79)	(229)	(1,115)	(393)	(469)	(370)
Net interest income after provision for possible loan losses	460	563	68	842	867	684
Non-interest revenue[3]	490	1,552	1,560	1,274	1,389	1,096
Non-interest expense[4]	(837)	(1,978)	(1,870)	(1,396)	(1,553)	(1,226)
Operating income	113	137	(242)	720	703	554
Non-operating loss, net	4	22	(178)	(79)	17	13
Income before income tax expense	117	159	(420)	641	720	567
Income tax expense[5]	(26)	(57)	(9)	(219)	(210)	(165)
Minority interest in earnings of consolidated subsidiaries, net	—	4	12	30	(2)	(1)
Other[6]	2	2	3	3	6	5
Net income	93	108	(414)	455	514	406
Per common share data:						
Earnings per share-basic (₩/US$)	2,095	2,141	5,073	4,862	4,701	3.71
Earnings per share-diluted[7] (₩/US$)	—	—	—	4,862	3,937	3.11
Cash dividends per common share[8]						
To the public (₩/US$)	600	500	—	150	150	0.118
To the government (₩/US$)	500	500	—	150	150	0.118

(1) Won amounts are expressed in US dollars at the rate of ₩1,267/US$, the noon buying rate in effect on December 31, 2000.

(2) The methodology we use to calculate the provision for loan losses was revised in 1998, which resulted in the recognition of a significantly higher provision. The revised guidelines require the application of a higher provision against loans classified as special attention loans. The effect of adopting the change was to increase the net loss in 1998 by ₩381 billion.

(3) Non-interest revenue includes fees & commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transaction and gains from derivative transactions.

(4) Non-interest expense is composed of fees & commissions paid or payable, general & administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.

(5) Prior to 1999, there was no requirement to use a deferred method of accounting for income taxes. The cumulative effect of adopting the revised standards as of January 1, 1999 was to credit opening retained earnings by ₩16 billion, which reflected the deferred tax asset that would have been recognized as of December 31, 1998. We did not restate prior periods. The effect of adopting the revised standards for the year ended December 31, 1999 was to increase net income by ₩104 billion and to recognize a deferred tax asset of ₩120 billion as of December 31, 1999.

(6) Other includes equity in unconsolidated subsidiaries and related goodwill amortization.

(7) A diluted earnings per share measure was only required to be disclosed from 1999. Prior to this, only a basic earnings per share amount was required to be disclosed.

(8) Under Korean GAAP beginning in 1997, dividends declared after the year end are recorded in the period to which they relate. Prior to 1997, dividends were recorded in the period in which they were declared. The above ratios represent the periods to which the dividends relate.

Consolidated balance sheet data:

	As of December 31,					
	1996	1997	1998	1999	2000	2000[(1)]
	(in ₩ billion)					(in US$ million)
Cash and due from banks	2,277	3,339	2,601	2,840	2,050	1,618
Foreign exchange[(2)]	231	911	565	—	—	—
Loans[(3)]	19,674	23,299	25,309	32,964	46,656	36,824
Less: allowance for doubtful accounts[(4)]	—	—	—	(1,634)	(1,270)	(1,002)
Call Loans[(5)]	560	673	841	—	—	—
Trading securities[(6)]	—	—	9,980	3,284	3,236	2,554
Investment securities[(6)]	4,086	5,486	884	7,404	8,069	6,369
Customers' liabilities on guarantees[(7)]	229	1,251	936	—	—	—
Credit card accounts[(8)]	662	725	812	—	—	—
Premises and equipment[(9)]	1,574	1,696	1,680	944	1,014	800
Other assets[(10)]	1,281	2,029	3,703	2,870	2,131	1,682
Total assets	30,574	39,409	47,311	48,672	61,886	48,845
Deposits	21,289	23,830	29,822	34,358	47,821	37,743
Borrowings[(11)]	1,101	2,514	4,269	4,142	3,569	2,817
Call money[(12)]	310	1,571	179	—	—	—
Guarantees outstanding[(7)]	229	1,251	936	—	—	—
Provisions[(13)]	899	1,442	2,468	—	—	—
Bonds payable	2,732	3,528	2,978	2,434	3,248	2,564
Other liabilities[(14)]	2,955	3,972	5,327	5,586	4,700	3,710
Total liabilities	29,515	38,108	45,979	46,520	59,338	46,834
Minority interests in consolidated subsidiaries[(15)]	23	26	8	—	7	6
Shareholders' equity	1,036	1,275	1,324	2,152	2,541	2,005
Total liabilities, minority interest and shareholders' equity	30,574	39,409	47,311	48,672	61,886	48,845

(1) Won amounts are expressed in US dollars at the rate of ₩1,267/US$, the noon buying rate in effect on December 31, 2000.

(2) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies. From 1999, holdings of foreign currency and bills bought in foreign currencies are included in cash and due from banks and loans, respectively. The amount of foreign currency and bills bought in foreign currencies as at December 31, 1999 was ₩34 billion and ₩380 billion, respectively. For December 31, 2000 it was ₩44 billion and ₩470 billion, respectively.

(3) Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets.

(4) The amount of allowance for doubtful accounts as at December 31, 1996, 1997 and 1998 was ₩182 billion, ₩371 billion and ₩1,652 billion, respectively. The allowance was disclosed within provisions until 1999. The allowance for loan losses prior to December 31, 1998 was provided based on credit risk classifications of the loan portfolio in accordance with guidelines issued by the FSS. Estimated loan losses were determined by applying certain percentages to each credit risk classification. Under revised Korean GAAP, effective as at December 31, 1999, (although it was also applied by us in 1998), the FSS requires allowances to fully reflect a borrower's future capacity to repay using forward looking criteria, rather than solely past performance, by applying the internal credit grading system developed by the reporting bank. The forward looking criteria are applied only to our corporate loans. Other loans with homogeneous characteristics, such as household loans, are classified and provided for based on past payment history and delinquency status. Pursuant to the FSS regulations, loans are classified as normal, special attention, substandard, doubtful or loss, and the allowance for loan losses is determined by applying a percentage within a certain range to those classifications. The revised guidelines require a higher provision rate to be applied against loans classified as special attention loans. The effect of adopting the change was to increase net loss by ₩381 billion in 1998.

(5) Call loans are included in loans as of December 31, 1999,and 2000. The amount of call loans at that date was ₩97 billion, and ₩428 billion respectively.

(6) Prior to 1998, there was no requirement to separately account for trading and investment securities. Securities are all included in investment securities in the above table for those years. Under Korean GAAP effective until the end of 1997, equity securities denominated in Won were stated at the lower of costs or market value (or the investor's share of the investee's net book value for non-listed companies). The resulting allowance was included in provisions within liabilities. The amounts of provisions for 1996 and 1997 were ₩121 billion and ₩239 billion, respectively. Debt securities denominated in Won were stated at acquisition cost. Under Korean GAAP effective in 1998 and until the following revision, debt securities denominated in Won were stated at acquisition cost. We accounted for all other debt and marketable equity securities on a basis similar to U.S. GAAP. The effect of changing the valuation method for equity securities from the lower of cost or market value to market value was to decrease the net loss in 1998 by ₩28 billion and to increase shareholders' equity by ₩11 billion. Under Korean GAAP effective for periods beginning after December 12, 1998, all debt securities and marketable debt securities are

accounted for on a similar basis to U.S. GAAP. However, adjustments for impairment can be reversed up to the original cost of the investment.

(7) Guarantees and acceptances, for which the amounts were determined had been recorded as customers' liabilities on guarantees and guarantees outstanding on the balance sheets until 1998. From 1999, such amounts do not appear on the balance sheet but are recorded as an off-balance item in the notes to our financial statements. The amount of guarantees and acceptances at December 31, 1999, was ₩531 billion.

(8) Credit card accounts were included in loans as of December 31, 1999 and 2000. The amount of credit card loans at that date was ₩1,237 billion, and ₩2,911 billion, respectively.

(9) Leasehold deposits were recorded as other assets on the balance sheets until 1995. From 1996 to 1998 such amounts were recorded as premises and equipment. From 1999, such amounts are recorded as other assets on the balance sheet. Accumulated depreciation was recorded within provisions until 1998; but from 1999 such amounts are recorded as a deduction from premises and equipment. The amounts of accumulated depreciation for 1996, 1997 and 1998 were ₩222 billion, ₩270 billion and ₩312 billion, respectively.

(10) Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network).

(11) Borrowings consist mainly of borrowings from Bank of Korea, the Korean government and the National Housing Fund.

(12) Call money is included in borrowings at December 31, 1999 and 2000. The balance of call money at that date was ₩758 billion, and ₩135 billion, respectively.

(13) Allowance for possible loan losses and accumulated depreciation were recorded as provisions until 1998 but from 1999, such amounts are recorded as deductions from the loans and premises and equipment balances, respectively. Unrealized losses on securities were also included as provisions until 1997. From 1998, such amounts are recorded as deductions from the carrying amounts of securities.

(14) Under Korean GAAP, effective as of December 31, 1999, (although we adopted the method in 1998) contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Provisions are only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. The amounts of provisions as of December 31, 1998 and 1999 were ₩104 billion and ₩30 billion, respectively. These amounts are included in the provisions in 1998 and other liabilities in 1999.

(15) The minority interests in consolidated subsidiaries were nil in 1999 as operations of subsidiaries were not profitable in that year.

Profitability ratios

	As of December 31,				
	1996	**1997**	**1998**	**1999**	**2000**
	(percentages)				
Net income as a percentage of:					
Average total assets	0.33	0.34	(0.95)	0.91	0.92
Average stockholders' equity	10.87	9.38	(31.86)	26.15	21.84
Dividend payout ratio(1)	26.28	29.62	—	14.26	13.83
Net interest spread(2)	2.33	2.73	3.33	2.97	2.55
Net interest margin(3)	2.20	2.86	3.35	3.12	2.67
Cost-to-income ratio(4)	81.34	84.37	68.17	55.62	56.98
Cost-to average assets ratio(5)	2.95	6.27	4.29	2.81	2.80

(1) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock. There was no dividend paid in 1998.

(2) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

(3) Net interest margin represents the ratio of net interest income to average interest earning assets.

(4) Cost-to-income ratio represents the ratio of non-interest expense to the sum of net interest income, dividends and non-interest income.

(5) Cost-to-average-assets ratio represents the ratio of non-interest expense to average total assets.

Capital ratios

	As of December 31,				
	1996	1997	1998	1999	2000
	(in percentages)				
Total capital adequacy (BIS) ratio(1)	8.27	10.29	10.79	11.74	9.92(2)
Tier I	5.59	5.45	5.64	6.93	5.48
Tier II	2.68	4.84	5.15	4.81	4.57
Average stockholders' equity as a percentage of average total assets	3.03	3.66	2.98	3.50	4.23

(1) The capital adequacy ratios are computed in accordance with the guidelines issued by the FSS. The computation is prepared on a consolidated Korean GAAP basis.

(2) We have a minority equity investment in 2000 in ING Life Insurance Korea Co., which is deducted from total capital pursuant to the guidelines of the FSS instead of being deducted directly from Tier 1 or Tier 2.

Asset quality ratios

	As of December 31,				
	1996	1997	1998	1999	2000
	(in ₩ billion, except percentages)				
Non-performing loans(1)	326	497	2,973	2,512	2,284
Non-performing loans as a percentage of total loans	1.64	2.05	10.42	7.62	4.90
Non-performing loans as a percentage of total assets	1.09	1.34	6.70	5.16	3.69
Allowance for loan losses as a percentage of non-performing loans	55.73	74.65	52.06	63.46	52.40
Allowance for loan losses as a percentage of total loans	0.92	1.53	5.42	4.84	2.57

(1) Non-performing loans are defined in accordance with regulatory guidance in Korea. Until 1997 we classified credit quality into the following five categories according to standards defined by the Office of Bank Supervision — normal, special mention, substandard, doubtful and loss. Non-performing loans were defined as loans classified as substandard, doubtful and loss. In 1998 as well as classifying credit quality into the five categories in accordance with standards defined by the FSS, we also took into account the repayment capability of borrowers. Since 1999, the FSS has changed the definition of non-performing loans based on new classification criteria for the soundness of a bank's assets. Non-performing loans are still defined as substandard, doubtful and loss but certain adjustments are now made to substandard credits. The portion of special mention loans of work-out companies, which are in default on interest payments are included but the portion of losses and doubtful credits that are paying interest are excluded. See "Item 4. Information on the Company — Business Overview — Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Asset Classification".

Reconciliation with Korean Generally Accepted Accounting Principles

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in note 1 to the consolidated financial statements. These principles and policies differ in some respect from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and shareholders' equity of the consolidated financial statements with Korean GAAP.

	2000
	(in ₩ million)
Income statement	
Net income as reported	506,061
Adjustments:	
Item No.	
1. Provision for loan losses	(47,888)
2. Loan sale accounting	49,214
3. Deferred loan costs	(13,765)
4. Valuation of investment securities and derivatives	10,500
5. Depreciation of fixed assets	(3,410)
6. Capitalization of software costs	(5,820)
7. Sale of subsidiary	(23,709)
8. Jooeun Leasing Goodwill	10,920
11. Other	(1,919)
	(25,877)
Tax effect of adjustments	33,383
Adjusted net income according to Korean GAAP	513,567
Adjusted net income per share (in ₩)	
Basic	4,700.77
Fully diluted	3,937,40
Weighted average number of shares (in millions)	109,063
Shareholders' equity as reported	2,355,971
Adjustments:	
Item No.	
1. Allowance for loan losses	(119,139)
2. Loan sale accounting	(9,969)
3. Deferred loan costs	(35,809)
4. Valuation of investment securities and hedging derivatives accounting	(70,596)
5. Revaluation of fixed assets	207,249
6. Capitalization of software costs	(5,820)
9. Reversal of dividend	(17,249)
10. KDIC bonds purchased in connection with preferred shares	88,950
11. Other	32,357
	69,974
Tax effect of adjustments	115,974
Adjusted shareholders' equity according to Korean GAAP	2,541,919

The following is a summary of the significant adjustments made to consolidated net income and shareholders' equity to reconcile the U.S. GAAP results with Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

(1) We have established the U.S. GAAP loan loss allowance for impaired nonhomogeneous loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or based on the fair value of the collateral if the loan is collateral dependent. For small homogeneous loan portfolios, we have established the allowance for loan losses based on evaluation of the historical performance of the loan portfolios.

Under Korean GAAP, the allowance for loan losses is generally established based on FSS guidelines, which require that the minimum allowance be established based on the classification of the loan. We used these guidelines in establishing the minimum reserves. Starting in 1998, we also established voluntary additional reserves on individual credits to be more in line with international banking practice. Our reserve is established based on the following percentages as of December 31, 2000:

	2000 (percentages)
Normal	0.5
Special Mention	2 to 19
Substandard	20 to 49
Doubtful	50 to 99
Loss	100

(2) Under U.S. GAAP, the transfer of loans is recorded as a sale if specific criteria are met relating to the relinquishment of control. If these criteria are not met, the transfer is treated as a secured borrowing. Under Korean GAAP, the transfer of loans is not subject to as severe of criteria and, therefore, certain loan transactions resulted in a sale and accordingly, in the recognition of a gain or loss.

For transfers that do qualify as a loan for U.S. GAAP, we would recognize any beneficial interest in the securitization trust and derecognize the loans where we have surrendered control. The basis of our retained beneficial interest and the sold loan interests are based upon a relative fair value allocation of the basis of the loans transferred.

(3) Under U.S. GAAP loan origination fees and the related costs are deferred and amortized over the life of the loan as an adjustment to the yield of the loan. Korean GAAP requires origination fees to be recognized in income when received or paid and does not provide for the deferral of related costs.

(4) In order for a derivative to be considered a hedge under U.S. GAAP, it must be effective in reducing the risk associated with the exposure being hedged, be designated as a hedge at the beginning of the contract and be highly correlated with the underlying hedged item for the life of the contract. Certain of our hedging contracts do not meet these criteria. Under Korean GAAP such direct linkage is not required and as a result, certain derivatives utilized by us as hedging instruments are accounted for as hedges and afforded accrual accounting.

Under U.S. GAAP, investment securities which experience an "other than temporary impairment" are required to be written down to their impaired amount. Korean GAAP does not have a specific requirement; however, management does periodically adjust the carrying value of its investment securities when it deems them permanently impaired.

Also, under U.S. GAAP, investments are accounted for under the provisions of SFAS No. 115, which requires investments to be categorized as "trading", "available for sale" or "held to maturity". Under Korean GAAP, the accounting and categorization of investments were different until 1999, when similar provisions were adopted as for U.S. GAAP. The cumulative effect of the change in accounting for Korean GAAP purposes was recognized as an adjustment to equity.

(5) In 1995, we revalued certain of our fixed assets in accordance with Korean GAAP with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted. Under U.S. GAAP such a revaluation is not permitted and depreciation expense is based on historical cost.

(6) Under U.S. GAAP, all computer software costs from technological feasibility established to be marketable are capitalized and amortized over greater of either current revenue divided by total estimated revenue or straight line method. Korean GAAP requires software costs to be expensed when paid and no capitalization is required for the related costs.

(7) Under U.S. GAAP, sales of investee shares by the investor are accounted for as gain or losses equal to the difference between the selling price and carrying amount (under the equity method) of the stock sold. Korean GAAP accounts for the difference through additional-paid-in capital.

(8) Under U.S. GAAP, the acquisition of Jooeun Leasing is treated as a purchase whereupon goodwill is recorded equal to the difference between the fair value of the shares at the date of acquisition and the consideration given over the net assets acquired. Korean GAAP accounted for this difference as additional-paid-in capital.

(9) Dividend payable are recognized in the period in which they are declared and approved for U.S. GAAP. Under Korean GAAP, they are recognized in the period in which they are announced.

(10) Under U.S. GAAP, we disclose that the KDIC bonds purchased in connection with preferred shares issued net against the corresponding preferred shares balance in stockholders' equity. We must net the investment against the preferred shares because certain criteria that would allow us to show the KDIC bonds gross were not met. Under Korean GAAP, the respective KDIC bonds are included within securities available for sale.

(11) Other represents various items, including such items as stock options, amortization of intangibles, lease accounting, interest recognition on restructured loans, foreign currency transactions, stock issue costs and consolidation, where Korean GAAP differs from U.S. GAAP. These items have been aggregated as they are individually insignificant in both their nature and amount.

Recent Accounting Pronouncements

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities"

In June 1998, the Federal Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities — Deferral of Effective Date of Financial Accounting Standards Board Statement No. 133", and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of SFAS No. 133." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivatives used for hedging activities and derivatives embedded in other contracts. SFAS No. 133 is effective for us beginning January 1, 2001. Adjustments resulting from initial adoption of the new standards will be reported in a manner similar to the cumulative effect of a change in accounting principle and will be reflected in net income or accumulated other comprehensive income based upon existing hedging relationships, if any.

SFAS No. 133 requires all derivatives to be recognized on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Derivatives which are not designated as hedging instruments are adjusted to fair value through current-period earnings.

For fair-value hedge transactions in which H&CB is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument should generally be offset in the income statement by changes in the hedged item's fair value for the risk being hedged.

For cash-flow hedge transactions in which H&CB is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

We may make changes to risk management strategies outside of our trading activities, and it also anticipates a significant increase in the complexity of the accounting and record keeping requirements for these hedging activities.

The FASB and the Derivative Implementation Group continue to deliberate additions to SFAS No. 133. Their conclusions and the effects may require changes in H&CB's interpretation of the standard and affect our accounting in this area. Adoption of this standard may cause volatility in quarterly earnings and equity, prospectively, due to the methods used to measure hedges and our decision to no longer apply hedge accounting to certain business strategies.

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities — a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitisations, other transfers of financial assets, collateral and restricts the use of special purpose vehicles in transfers. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and became effective March 31, 2001. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitisation transactions are required as of December 31, 2000 and have been adopted by H&CB. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on H&CB.

Jooeun Leasing

On January 20, 2000, H&CB acquired an additional 35% of Jooeun Leasing Co., Ltd. ("Jooeun Leasing") through a debt to equity swap bringing H&CB's total ownership to 85%. The swap was the result of a memorandum of understanding between Jooeun Leasing and its creditors. H&CB converted its loans to Jooeun Leasing to an equity investment in the amount of ₩82.3 billion on January 20, 2000 and, correspondingly, Jooeun Leasing issued 16.4 million shares of its common stock to H&CB.

As of December 31, 2000 H&CB holds 85% and included the net assets of the Jooeun Leasing and related minority interest in its consolidated balance sheet as of the acquisition date. The purchase of the additional 35% has been accounted for under the purchase method and accordingly, the results of operations for Jooeun Leasing have been incorporated in H&CB's consolidated statement of income from the date of acquisition.

Net liabilities of Jooeun Leasing at the date of acquisition was ₩37.0 billion. The excess of consideration given over the net assets acquired has been recorded as goodwill of ₩54.6 billion. The goodwill will be amortised using the straight-line method over a period of 5 years. In accordance with the memorandum of understanding related to the transaction, Jooeun Leasing's maturities on debt of ₩244.2 billion were extended until the end of 2005.

The memorandum of understanding requires H&CB to provide additional loans in the amount of ₩100 billion upon request by Jooeun Leasing. Loans totalling ₩47 billion have been extended as of March 31, 2001. The remaining ₩53 billion will be granted during the year following March 31, 2002.

The following unaudited pro forma consolidated statements of income are presented as if the acquisition of the majority interest in Jooeun Leasing had occurred at the beginning of the period presented.

(all amounts expressed in millions of Won, except per share data)	**1999** (unaudited)
Revenue	4,267,189
Net income	485,068
Earnings per share: (₩)	
Basic	4,264.41
Diluted	2,795.83

The unaudited pro forma consolidated results of operation include adjustments to give effect to amortisation of goodwill and related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase occurred at the beginning of the years presented or of future consolidated results.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Our board of directors, which consists of three executive directors and 12 non-executive directors, has the ultimate responsibility for the management of our affairs. Our three executive directors consist of the chairman, president and CEO, one director and executive vice president and one auditor and executive director.

Our articles of incorporation provide for no more than 20 directors and the number of executive directors must be less than 40% of the total number of directors.

Each executive director is elected for a three year term of office and each non-executive director is elected to a one year term. Terms are renewable and are subject to the Commercial Code of Korea, the Bank Act and related regulations. Our board of directors meets on a regular basis, on average once every three months, to discuss and resolve material corporate matters. Additional extraordinary meetings can also be convened at the request of the chairman or one-third or more of the directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 36-3, Yoido-dong, Youngdeungpo-gu, Seoul, 150-758 Korea.

Executive Directors

Our current executive directors are as follows:

Name	Age	Position
Jung-Tae Kim(1)(4)	53	Chairman, President & CEO
Choul-Ju Lee(2)(4)	61	Auditor and Executive Director
Jan Op de Beeck(3)(4)	48	Director & Executive Vice President

(1) Member of Steering Committee of the Board of Directors.
(2) Member of Audit Committee.
(3) Appointed by ING. As long as ING owns 9.99% of our shares of common stock, it will be entitled to nominate one executive director for appointment to our board of directors, subject to shareholder approval.
(4) The person beneficially owns less than one percent of the outstanding common shares of H&CB.

None of the executive directors have any significant activities outside H&CB.

Jung-Tae Kim, Chairman, President and CEO, joined H&CB in 1998. He was elected as a Director in 1998 and became Chairman, President and CEO in 1998. Mr. Kim received a BA in Business Administration as well as an MBA from Seoul National University. Prior to joining H&CB, he was an executive director for Daeshin Securities Co., Ltd. and the CEO for Dongwon Securities Co., Ltd.

Choul-Ju Lee, Auditor and Executive Director, joined H&CB in 1999 and became Statutory Auditor in 1999 and automatically became a Director and executive Audit Committee member in 2000 without an election process when we amended our articles of incorporation to replace the office of the statutory auditor with the audit committee. Mr. Lee received a BA in Business Administration from Seoul National University. Prior to joining H&CB, he was a director and executive vice president for Hanil Bank.

Jan Op de Beeck, Director and Executive Vice President, joined H&CB in 1999 and was elected as a Director in 1999. He received an MA in Economics from Ghent University. Prior to becoming a director, he was the head of the domestic banking department of Bank Brussels Lambert in Belgium.

Non-Executive Directors

Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economy, management and accounting. Currently, 12 non-executive directors are in office. Of our 12 non-executive directors, eight directors were nominated by shareholder representatives and the remaining four directors were nominated by our board of directors.

Our current non-executive directors are as follows:

Name	Age	Position
Sun-Jin Kim(1)(2)(5)(7)	58	Non-Executive Director
Kuk-Ju Kwon(1)(2)(4)(7)	56	Non-Executive Director
Kyung-Hee Yoon(3)(5)(7)	54	Non-Executive Director
Woon-Youl Choi(2)(7)	51	Non-Executive Director
Ju-Hyun Yoon(3)(5)(7)	47	Non-Executive Director
Won-Bae Yoon(2)(4)(7)	54	Non-Executive Director
Jae-Kyu Lee(3)(5)(7)	49	Non-Executive Director
Chul-Soo Ahn(2)(4)(7)	39	Non-Executive Director
Moon-Soul Chung(1)(2)(4)(7)	63	Non-Executive Director
Sung-Hee Jwa(3)(4)(7)	55	Non-Executive Director
Joon Park(4)(5)(7)	46	Non-Executive Director
Bruce G. Willison(1)(2)(7)	52	Non-Executive Director

(1) Member of Steering Committee of the Board of Directors.
(2) Member of Managerial Strategy Committee.
(3) Member of Risk-Management Committee.
(4) Member of Compensation Committee.
(5) Member of Audit Committee.
(6) Appointed by ING. As long as ING owns 9.99% of our shares of common stock, it will be entitled to nominate one non-executive director for appointment to our board of directors, subject to shareholder approval.
(7) The person beneficially owns less than one percent of the outstanding common shares of H&CB.

Substantially all of the non-executive directors hold positions with companies or organizations other than ours.

Sun-Jin Kim has been a Non-Executive Director since 1999. Mr. Kim currently serves as the CEO of Yuhan Co. He received an MBA from Korea University, and prior to becoming CEO of Yuhan Co., Mr. Kim served as vice president of that company.

Kuk-Ju Kwon has been a Non-Executive Director since 1999. Mr. Kwon is currently the president and CEO of Nong Sim Ga Co., Ltd. He received a BA in Business Administration from Yonsei University, and in the past has served as CEO of Shinsegae Department Store Co.

Kyung-Hee Yoon has been a Non-Executive Director since 1999. He is currently working as Country Manager and Managing Director of ING Barings, Limited, Korea. He received a BA in Law from Seoul National University. Mr. Yoon has worked in the past as a director and branch manager of ING Barings Limited.

Woon-Youl Choi has been a Non-Executive Director since 1999. Mr. Choi is currently a professor at Sogang University. He received a BA in Business Administration from Seoul National University and an MA and Ph.D. in Business Administration from the University of Georgia. Mr. Choi has also served as chairman for the KOSDAQ Committee as well as president of the Korea Securities Research Institute.

Ju-Hyun Yoon has been a Non-Executive Director since 1999. Ms. Yoon is currently a research fellow at the Korea Research Institute for Human Settlements. Her educational background consists of a BA in Applied Statistics, received from Yonsei University, an MS received from KAIST, Korea Advanced Institute of Science and Technology and a PhD in Economics, received from University of Southern California. Ms. Yoon has also served as a senior researcher for the Korea Development Institute and a non-executive director of Korea Electric Power Corporation.

Won-Bae Yoon has been a Non-Executive Director since 2001. Mr. Yoon is currently the Dean of College of Economics and Commerce at Sookmyung Women's University. He received a BA in economics from Seoul National University and awPhD in economics from Northwestern University. Mr. Yoon has also served as the Vice Chairman of the Financial Supervisory Commission and the Chairman of the Stock and Futures Transaction Commission.

Jae-Kyu Lee has been a Non-Executive Director since 2001. Mr. Lee is currently a professor at the Korea Advanced Institute of Science and Technology and the director of the International Center for Electronic Commerce. He received a BA from Seoul National University, an MS from Korea Advanced Institute of Science and Technology and a PhD from Wharton School, University of Pennsylvania.

Chul-Soo Ahn has been a Non-Executive Director since 2001. Mr. Ahn is currently the president and CEO of Ahnlab, Inc. He received a BS, an M.S. and a PhD from the College of Medicine of Seoul National University and an EMTM in Management of Technology from the University of Pennsylvania. Mr. Ahn is currently serving as the chairman of the Software Venture Association.

Moon-Soul Chung has been a Non-Executive Director since 2000. He is currently counsel of Mirae Corporation. He received a BA in Religion and Philosophy from Won Kwang University.

Sung-Hee Jwa has been a Non-Executive Director since 1998. Mr. Jwa is currently the president of the Korea Economic Research Institute. He received both a BA and an MA in Economics from Seoul National University as well as a PhD in Economics from UCLA. Mr. Jwa has also been a team leader for the KDI Globalization Team and a member of the Presidential Advisory Committee.

Joon Park has been a Non-Executive Director since 1999. He is currently working as an attorney at the firm of Kim & Chang, and he received a BA in Law from Seoul National University and an LLM from Harvard Law School. Mr. Park has worked in the past as an attorney at the New York law firm of Sullivan & Cromwell.

Bruce G. Willison has been a Non-Executive Director since 1999. Mr. Willison currently serves as the Dean of Anderson Business School. His educational background consists of a BA in Economics, which he received from UCLA, and an MA in Economics, which he received from USC. Mr. Willison has served as chairman and CEO of First Interstate Bank of California, and he was also the president and CEO of Home Savings of America.

In addition to the executive directors who are also our executive officers, we currently have the following executive officers:

Name	Age	Position
Young-Jo Joo(1)	54	Executive Vice President
Je-Hyung Jo(1)	53	Executive Vice President
Bong-Hwan Cho(1)	50	Executive Vice President
Woo-Jung Lee(1)	51	Executive Vice President
Sung-Chul Kim(1)	47	Executive Vice President
Young-Il Kim(1)	47	Executive Vice President
Jong-In Park(1)	47	Executive Vice President

(1) The person beneficially owns less than one percent of the outstanding common shares of H&CB.

None of the executive officers have any significant activities outside H&CB.

Young-Jo Joo, Executive Vice President, joined H&CB in 1975 and was appointed as an Executive Director in 1998 and Executive Vice President in 2000. He received a BA in German Literature from Korea University. Prior to becoming an executive officer, Mr. Joo was the general manager of the trust banking department of H&CB.

Je-Hyung Jo, Executive Vice President, joined H&CB in 1973 and was appointed as an Executive Vice President in 1999. He received a BA in Economics from Kon Kuk University. Prior to becoming an executive officer, Mr. Jo was the general manager of the personnel department of H&CB.

Bong-Hwan Cho, Executive Vice President, joined H&CB in 1975 and was appointed as an Executive Vice President in 1999. Mr. Cho received a BA in Science of Agriculture from Seoul National University and an MA in Literature at Seoul National University. He also received an MS in Business Administration from Sogang University. Prior to becoming an executive officer, Mr. Cho served as a general manager in the planning department of H&CB.

Woo-Jung Lee, Executive Vice President, joined H&CB in 2000 and was appointed as an Executive Vice President in 2000. Mr. Lee received a BA in Social Science from Seoul National University as well as an MS in Economics from Vanderbilt University. Prior to becoming an executive officer, he served as a director general in the Government Properties Division in the Ministry of Finance and Economy.

Sung-Chul Kim, Executive Vice President, joined H&CB in 1972 and was appointed as an Executive Vice President in 2000. He graduated from Mockpo commercial high school. Prior to becoming an executive officer, Mr. Kim was the general manager of the corporate banking department of H&CB.

Young-Il Kim, Executive Vice President, joined H&CB in 1981 and was appointed as an Executive Vice President in 2000. Mr. Kim received a BA in Science Education from Seoul National University. Prior to becoming an executive office, Mr. Kim served as a general manager of both the Strategic Planning Team and the Risk Management Team of H&CB.

Jong-In Park, Executive Vice President, joined H&CB in 2000 and was appointed as an Executive Vice President in 2000. Mr. Park received a BA and an MA in Business Administration from Yonsei University. Prior to becoming an executive officer, he served as a general manager in the credit risk management department of Hyundai Capital.

COMPENSATION

The aggregate of the remuneration paid and benefits-in-kind paid by us and our subsidiaries to the President and CEO, our other executive directors, our non-executive directors and our executive officers for the year ended December 31, 2000, was ₩3,434 million. This amount is stated on an accrual basis and includes bonus payments and retirement benefits. The aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was ₩204 million in 2000.

Our directors and executive officers and their related interests were indebted to us in the aggregate amount of ₩37,239 million and ₩47,380 million as of December 31, 2000 and 1999, respectively. In 2000, our directors and executive officers and their related interests borrowed ₩34,860 million and repaid ₩30,943 million.

In addition, we have granted stock options to our Chairman, President and CEO and other directors and officers as described in "— Share Ownership".

BOARD PRACTICES

Currently, we have five management committees serving under the board: the Steering Committee of the Board of Directors, the Managerial Strategy Committee, the Risk-Management Committee, the Audit Committee and the Compensation Committee. Each committee member is appointed and organized by the board of directors.

Steering Committee of the Board of Directors

Consisting of four non-executive directors and our President, the Steering Committee of the Board of Directors is responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee is responsible for both recommending and reviewing candidates for directors and recommending candidates for the committee. The committee also reviews and assesses the director compensation programs and retainer arrangements to attract qualified directors. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities. The committee's regular meeting is held every quarter.

Managerial Strategy Committee

Consisting of seven non-executive directors, the Managerial Strategy Committee oversees our long term strategy formulation and it reviews the management's proposals of new strategic businesses. The committee also reviews any other strategy and performance related matters which the committee deems necessary. The committee's regular meeting is held every quarter.

Risk Management Committee

Consisting of four non-executive directors, the Risk Management Committee's function is to discuss, decide and supervise all issues necessary for comprehensive risk management. In order to ensure our stable financial condition and to maximize our profits, this committee monitors our overall risk exposure and review or compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The Committee's regular meeting is held every quarter.

Audit Committee

The Bank Act as amended in January 2000 requires banks to replace their statutory auditors with an audit committee on or prior to the annual shareholders' meeting to be held in 2000. Under the amended Bank Act, at least ⅔ of the members of an audit committee must be non-executive directors. Consisting of five non-executive directors and one executive director, our Audit Committee oversees our financial reporting and interacts with statutory auditors, compliance officers, management personnel and other committee advisors. The committee also reviews our financial information, auditor's examinations, key financial statement issues and the administration of our affairs by the board of directors and examines the agenda for, and financial statements and other reports to be submitted by the board of directors to the general meeting of shareholders. The committee's regular meeting is held every quarter.

Compensation Committee

Consisting of six non-executive directors, the Compensation Committee's function is to oversee our overall compensation strategy and ensure that our executives are compensated in a manner consistent with the strategy and requirements of the appropriate regulatory bodies. The committee is also responsible for reviewing and approving the executives' compensation criteria and levels as well as the fringe benefit plans and overseeing the overall succession planning for executives. The committee's regular meeting is held every six months.

EMPLOYEES

As of December 31, 2000, H&CB had 8,145 regular employees compared to 8,286 employees as of December 31, 1999 and 8,591 employees as of December 31, 1998. In addition, we had 3,711 contractual employees with terms ranging from one to five years as of December 31, 2000 compared to 4,165 contractual employees as of December 31, 1999 and 2,208 contractual employees as of December 31, 1998. In addition, we had 3,462 employees in managerial or executive positions as of December 31, 2000 compared to 3,801 employees in managerial or executive positions as of December 31, 1999 and 3,349 employees in managerial or executive positions as of December 31, 1998.

We consider our relations with our employees to be satisfactory. At December 31, 1998, 1999 and 2000, 7,209, 7,421 and 7,196 of H&CB's employees belonged to a union. Our strategy of merging with Kookmin Bank has met with significant opposition from our labor union. Our labor union members have recently staged various protests in our headquarters and some of our employees have carried out work stoppages.

Our subsidiaries had 201 employees as of December 31, 2000, 165 employees as of December 31, 1999, and 190 employees as of December 31, 1998.

We structure compensation packages and provide incentives to enhance performance. Effective January 1, 1999, we introduced a performance-based group reward system. Under this system, we pay our employees an annual base salary together with a periodic bonus which is dependent on the performance of each Division or Business Unit. In the future, we plan to introduce an individual performance-based reward system.

In addition to basic compensation, we provide a wide range of benefits to our employees including our executive directors, which cover housing subsidies, medical care assistance and educational and training opportunities. We have established an employee welfare fund to provide our employees with subsidies to finance certain educational expenditures.

Pursuant to the Korean National Pension Law, we prepay a portion of our accrued severance liabilities to the Korean National Pension Corporation at the rate of 4.5% of our employee's wages. Upon termination, our employees are entitled to receive an annuity and lump sum severance payment. The amount of the annuity and severance payment is based on the average wage of all subscribers to the pension, the average wage of the employee and the length of the employee's payment to the fund.

We have training programs designed to meet the changing skill requirements of our employees. We provide internal training, external training, overseas training and correspondence training. These training programs include orientation sessions for new employees and management development programs for mid-level and senior executives. We also offer training programs at the Korea Banking Institute. Our training programs are conducted for developing functional as well as managerial skills. In addition, through our strategic alliance with ING, our employees will be able to participate in certain of ING's training programs.

SHARE OWNERSHIP

Our Chairman, President and CEO has an option to purchase a total of 300,000 shares at an exercise price of ₩5,000 per share. He will also have the option to purchase an additional 100,000 shares at an exercise price of ₩5,000 per share if the average closing price of our stock between August 1, 2001 and October 31, 2001 (or during the three months prior to his resignation if he resigns before August 2001) is higher than the stock prices of any other bank listed on the Korea Stock Exchange.

Each of our two other executive directors has an option to purchase 30,000 shares, one at an exercise price of ₩13,900 per share and the other at an exercise price of ₩27,600 per share. Each of our executive officers has the option to purchase 30,000 shares, and the exercise price is ₩13,900 per share for seven of them and ₩27,600 per share for two of them, and one former executive officer has the option to purchase 10,000 shares at the exercise price of ₩13,900 per share.

Each of the non-executive directors has an option to purchase 7,000 shares at an exercise price of ₩27,600 per share, except for Mr. Bruce G. Willison, who has an option to purchase 10,000 shares at an exercise price of ₩13,900 per share.

Each of our ten general managers for regional headquarters has an option to purchase 10,000 shares at an exercise price of ₩27,600 per share.

All the stock options are exercisable at any time during a three-year period starting from the third anniversary of the option grant date. The options to purchase shares at an exercise price of ₩13,900 per share were granted on February 27, 1999 and the options to purchase shares at an exercise price of ₩27,600 were granted on February 28, 2000. However, under the merger agreement between Kookmin Bank and us, the exercise price, exercise period and other terms relating to stock options granted to the officers and employees of us or Kookmin Bank before the merger agreement may be adjusted by mutual agreement between the two banks.

In addition, all of our employees are eligible to participate in our employee stock ownership association. We are not required to, and do not, make contributions to this plan. Members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are public offered under the Korean Securities and Exchange Act, as described in "Item 10. Additional Information — Articles of Incorporation — Preemptive Rights and Issuance of Additional Shares".

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR SHAREHOLDERS

The following table presents information regarding the beneficial ownership of our shares at December 31, 2000 (the latest practicable date before the date of this document), by each person known by us to own beneficially more than 5% of our outstanding shares.

Except as otherwise indicated, each shareholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

	Number of Shares of Common Stock	Percent of Total Outstanding Shares of Common Stock
The Government of Korea[(1)]	15,814,107	14.50%
The Bank of New York[(2)]	16,752,251	15.36%
ING Insurance International B.V.	10,906,254	9.99%

(1) KDIC currently owns 17,790,000 shares of our preferred stock, which, unless repurchased by us, can be converted into common stock. See "Item 5. Operating and Financial Review and Prospects — Trend Information — The Acquisition of DongNam Bank".

(2) As depositary bank.

As of December 31, 2000, directors, including the Chairman, President and CEO, collectively owned 25,579 shares of our common stock and our officers, other than our Chairman, President and CEO, collectively own 23,292 shares of our common stock.

Other than as set forth above, no other person known by us to be acting in concert, directly or indirectly, jointly or separately, owned more than 5.0% of the outstanding common shares or exercised control or could exercise control over us as of December 31, 2000.

RELATED PARTY TRANSACTIONS

We have entered into a number of transactions with entities affiliated with the government, which owns 14.50% of our common shares. For a description of such transactions, see "Item 4. Information on the Company — Business Overview — Other Business — Management of the National Housing Fund", and "— Assets and Liabilities — Loan Portfolio", and "Item 5. Operating and Financial Review and Prospects — Trend Information — The Acquisition of DongNam Bank", "— Sales of Substandard Loans to KAMCO" and "— Housing Finance Credit Guarantee Fund (HFCGF)".

As of December 31, 1998, 1999 and 2000, respectively, we had an aggregate of ₩10,017 million, ₩118.4 million and ₩14,019 million in loans outstanding to our officers and directors. In 1998, 1999 and 2000 there were no other loans outstanding from us or our subsidiaries or to the directors. Neither we nor our subsidiaries provide guarantees for the benefit of any of our directors or senior management. None of our directors or officers have or had any interest in any transaction effected by us which are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

Item 8. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See "Item 18 — Financial Statements" and pages F-1 through F-52.

Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business. Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

Following our acquisition of DongNam Bank, 1,104 former employees of DongNam brought a suit against us seeking to require us to employ them and to receive money damages. The claim is based on the argument that the acquisition of DongNam Bank was a business transfer in nature, triggering the requirement that all employees of DongNam be given the option to work with us after the acquisition. On May 25, 2000, Seoul District Court Southern Branch decided the case in our favor. The former employees of DongNam Bank appealed to the Seoul High Court on June 12, 2000. On February 2, 2001, the Seoul High Court declined to hear the appeal. However, the former employees of DongNam Bank appealed the decision of the Seoul High Court to the Supreme Court on March 13, 2001. If the case is ultimately decided against us, we could be forced to employ these former employees of DongNam and pay monetary damages. The amount of monetary damages we could be required to pay could be as much as ₩73 billion.

Dividend Policy

Dividends must be approved by the shareholders at the annual general meeting of shareholders which is held within three months of the end of the fiscal year. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See "Item 10. Additional Information — Articles of Incorporation — Dividends".

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends payable determined on a Korean GAAP basis in Won and US dollars, using the noon buying rate in effect on the date the dividends were approved. The dividends set out for each of the years below were paid in the immediately following year.

Fiscal Year	Dividends Per Share to Government	Dividends Per Share to Public	Average Dividend Per Share	Total Amount of Cash Dividends Declared	
				(in ₩ billion)	(in US$ million)
1996	₩500(US$0.57)	₩600(US$0.68)	₩550(US$0.63)	17	19
1997	₩500(US$0.30)	₩500(US$0.30)	₩500(US$0.30)	32	19
1998	₩0(US$0)	₩0(US$0)	₩0(US$0)	0	0
1999	₩150(US$0.13), plus 10% in share dividends	₩150(US$0.13), plus 10% in share dividends	₩150(US$0.13), plus 10% in share dividends	15	13
2000	₩150(US$0.11), plus 10% in share dividends	₩150(US$0.11), plus 10% in share dividends	₩150(US$0.11), plus 10% in share dividends	16	12

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of American depositary shares, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such American depositary shares. See "Item 10. Additional Information — Articles of Incorporation — Description of Capital Stock — Dividends" for a description of the payment and distribution of dividends.

For a description of the tax consequences of dividends paid to our shareholders, see "Item 10. Additional Information — Taxation — United States — Taxation of Dividends" and "Item 10. Additional Information — Taxation — Korea — Dividends on Shares of Common Stock or American Depositary Shares".

Item 9. THE OFFER AND LISTING

MARKET PRICE INFORMATION AND TRADING MARKET

Our shares of common stock were listed on the Korea Stock Exchange, Korea on March 7, 1996. The Korea Stock Exchange is the principal trading market for our shares of common stock. The table below shows the high and low closing prices and the average daily volume of trading activity on the Korea Stock Exchange for our shares of common stock since January 1, 1998.

Period	High	Low	Average Daily Trading Volume
	(₩)		(shares)
1996 (from March 7)			
Pre-existing shares	23,000	11,500	4,139
Newly issued	23,000	11,100	149,561
1997	17,800	6,920	145,747
1998	14,900	2,960	1,035,161
First Quarter	14,500	8,570	575,038
Second Quarter	9,850	4,570	629,010
Third Quarter	5,510	2,960	665,997
Fourth Quarter	14,900	3,540	2,362,837
1999	41,000	14,000	876,547
First Quarter	27,000	14,000	1,261,610
Second Quarter	41,000	24,600	875,338
Third Quarter	36,900	23,500	777,400
Fourth Quarter	36,000	22,500	617,863
2000	36,000	14,100	996,567
First Quarter(1)	36,000	19,750	779,581
Second Quarter	26,700	14,100	1,437,121
Third Quarter	27,800	20,950	718,755
Fourth Quarter	30,500	24,200	1,087,414
December	28,900	24,200	1,162,674
2001 (through June 26)	33,200	19,000	817,122
First Quarter	33,200	21,100	860,877
January	33,200	27,900	1,094,996
February	29,700	26,700	745,499
March	27,200	21,100	758,939
Second Quarter (through June 26)	29,000	19,000	772,626
April	25,050	19,000	1,218,397
May	28,700	24,900	617,304
June (through June 26)	29,000	26,400	449,195

(1) We issued 10,906,255 shares on March 24, 2001, as stock dividends to shareholders as of December 31, 2000. January 2, 2000, was the ex-rights date to adjust the market price for the stock dividends.

As of December 31, 2000, the sole trading market for our American depositary shares, each representing one-half of one share of our common stock, is the New York Stock Exchange, Inc. The table below shows the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for the American depositary shares since November 1, 2000.

Period	High	Low	Average Daily Trading Volume
	(US$)		(ADRs)
2000			
Fourth Quarter	12.44	8.81	121,621
November	12.44	9.26	69,504
December	11.25	8.81	278,711
2001			
First Quarter	12.94	7.75	115,470
January	12.94	11.00	141,352
February	11.80	10.57	106,421
March	10.85	7.75	98,636
Second Quarter (through June 26)	11.18	7.35	139,645
April	9.60	7.35	282,465
May	11.18	9.60	60,209
June (through June 26)	11.17	10.40	76,261

MARKETS

The Korean Securities Market

The Korea Stock Exchange

The Korea Stock Exchange began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The Korea Stock Exchange is a non-profit making organization privately managed by its members, consisting of all Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2000, the aggregate market value of equity securities listed on the Korea Stock Exchange was approximately ₩186 trillion. The average daily trading volume of equity securities for 2000 was approximately 306 million shares with an average transaction value of ₩2,602 billion.

The Korea Stock Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Stock Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Stock Exchange publishes the Korea Composite Stock Price Index (KOSPI) every minute, which is an index of all equity securities listed on the Korea Stock Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

	Opening	High	Low	Closing	Period Average: Dividend Yield[1] (percent)	Period Average: Price Earnings Ratio[2]
1979	131.28	131.28	104.38	118.97	17.8	3.8
1980	100.00	119.36	100.00	106.87	20.9	2.6
1981	97.95	165.95	93.14	131.37	13.2	3.1
1982	123.60	134.49	106.00	127.31	10.5	3.4
1983	122.52	134.46	115.59	121.21	6.9	3.8
1984	116.73	142.46	114.37	142.46	5.1	4.5
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,013.57	1,016.77	847.09	882.94	1.2	16.4
1996	888.85	986.84	651.22	651.22	1.3	17.8
1997	653.79	792.29	350.68	376.31	1.5	17.0
1998	385.49	579.86	280.00	562.46	1.9	10.8
1999	587.57	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,059.04	1,059.04	500.60	504.62	1.6[3]	18.6[3]
2001 (through June 26)	520.95	632.05	491.21	588.71	1.9[3]	14.7[3]

Source: The Korea Stock Exchange

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

(3) Starting in April 2000, dividend yield and price earnings ratio of KOSPI 200, an index of 200 equity securities listed on the Korea Stock Exchange. Starting in April 2000, excludes classified companies, companies which did not submit annual reports to the Korea Stock Exchange, and companies which received disqualified opinion from external auditors.

Shares are quoted "ex-dividend" on the first trading day of the relevant company's accounting period; since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted "ex-dividend" and "ex-rights", permitted upward and downward movements in share prices on any day are limited under the rules of the Korea Stock Exchange to 15.0% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price	Rounded Down to Won
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to a recent deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Stock Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Stock Exchange. See "Item 10. Additional Information — Taxation — Korea".

The number of companies listed on the Korea Stock Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
Year	**Number of Listed Companies**	**(Millions of Won)**	**(Thousands of Dollars)(1)**	**Thousands of Shares**	**(Millions of Won)**	**(Thousands of Dollars)(1)**
1979	355	2,609,414	5,391,351	5,382	4,579	4,641
1980	352	2,526,553	3,828,691	5,654	3,897	5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,7171,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000	704	188,041,490	150,162,898	306,163	2,602,211	2,078,028
2001 (through June 26)	693	233,886,868	180,065,338	421,918	2,021,331	1,556,187

Source: The Korea Stock Exchange

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the FSC and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996, and a stock index option market was opened on July 7, 1997, in each case at the Korea Stock Exchange. Foreigners are permitted to invest in stock index futures and options without any investment ceiling. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Stock Exchange or registered on the KOSDAQ, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998, its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998, with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies which are not listed on the Korea Stock Exchange nor registered on the KOSDAQ and in bonds which are not listed.

Protection of Customer's Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Korea Stock Exchange and this securities company places a sell order with another securities company which is a member of the Korea Stock Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Securities and Exchange Act, the Korea Stock Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Stock Exchange breaches its obligation in connection with a buy order, the Korea Stock Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the KDIC will, upon the request of the investors, pay investors up to ₩50 million in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers with the Korea Securities Finance

Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

Item 10. ADDITIONAL INFORMATION

ARTICLES OF INCORPORATION

Description of Capital Stock

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the Korean Commercial Code of 1962, as amended (the "Commercial Code"), the Securities and Exchange Act of 1976, as amended (the "Securities and Exchange Act") and certain related laws of Korea, all as currently in effect. The following summaries are subject to the articles of incorporation and the applicable provisions of the Securities and Exchange Act, the Commercial Code, and certain other related laws of Korea.

General

As of December 31, 2000, our authorized share capital is 1,000,000,000 shares. Our articles of incorporation provide that we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares of common stock. Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, in addition to the common shares and the preferred shares. See "— Voting Rights".

As of December 31, 2000, 109,062,554 shares of common stock and 17,790,000 shares of preferred stock (excluding 41,510,000 shares of preferred stock which we hold as treasury stock) were issued and outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. In March 2001, we distributed 10,906,255 shares of common stock to our shareholders as dividends. As a result, the number of our outstanding shares of common stock increased to 119,968,809 and our authorized but unissued share capital consists of 820,731,191 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the articles of incorporation. See "— Preemptive Rights and Issuance of Additional Shares" and "— Distribution of Free Shares".

On December 29, 1998, we issued 59,300,000 convertible preferred shares to KDIC. The preferred shares are non-voting, have a non-cumulative and non-participating dividend and are comprised of five series which have different conversion dates. In January, 2000, we repurchased 41,510,000 preferred shares from KDIC and we currently hold such shares as treasury stock. For a description of the terms of the preferred shares, the circumstances of their issuance and the circumstances under which they can be converted into common shares, see "Item 5. Operating and Financial Review and Prospects — Acquisition of DongNam Bank".

Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the shares representing the American depositary shares) for the year in which the new shares are issued.

We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend must be paid to the shareholders of record as of the end of the preceding fiscal year within one month after the annual general meeting. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend.

Under the Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The Bank Act and the regulations thereunder provide that a bank shall not pay an annual dividend unless it has set aside in its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount in its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital. Under the Bank Act and the regulations thereunder, we shall set aside allowances for loan losses and reserves for retirement allowances in addition to the above legal reserve.

For information regarding Korean taxes on dividends, see "Item 10. Other Information — Taxation — Korea".

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our articles of incorporation provide that the types of shares to be distributed to the holders of preferred shares will be determined by the board of directors. For information regarding the treatment under Korean tax laws of free share distributions, see "Item 10. Other Information — Taxation — Korea". Holders of American depositary receipts will be able to participate in distributions of free shares to the extent described in "Item 10. Other Information — Description of the American Depositary Receipts — Share Dividends and Other Distributions".

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders' register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the articles of incorporation, new shares that are (1) publicly offered pursuant to the Securities and Exchange Act, (2) issued to our employee stock ownership association as described in the following paragraph, (3) represented by depositary receipts, (4) issued to certain foreign or domestic investors satisfying the requirement under the Bank Act and other relevant laws and regulations, (5) issued upon exercise of stock options pursuant to the Securities and Exchange Act or (6) issued to the Government or KDIC may be issued to persons other than existing shareholders pursuant to a resolution of the board of directors.

Under the Commercial Code, a company may vary, without shareholders' approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders' register is closed) prior to the record date. We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Securities and Exchange Act, members of our employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Securities and Exchange Act. Furthermore, this right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then outstanding. As of December 31, 2000, none of the outstanding common shares were held by such members.

General Meeting of Shareholders

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of shareholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our outstanding common shares or the holders of an aggregate of 0.75% or more of our outstanding shares with voting rights, who have held those shares at least for six months. Under the Commercial Code, an extraordinary general meeting of shareholders may also be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of shareholders only to the extent the non-voting shares have become enfranchised as described under "— Voting Rights" below (hereinafter referred to as "enfranchised non-voting shares"). Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights or by holders of an aggregate of 0.25% or more of such shares for at least six months by way of a written proposal to the board of directors at least six weeks prior to the meeting. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of one per cent or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Currently, we use The Korea Daily News and The Naeway Economic Daily for the publication of such notices. Shareholders who are not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the shareholders' register as of the record date are entitled to receive notice of the general meeting of shareholders and they are entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of shareholders.

The general meeting of shareholders is held at our head office (which is our registered head office) or, if necessary, may be held anywhere in the vicinity of our head office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, where more than one-tenth of the outstanding capital stock is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Commercial Code and Securities and Exchange Act permits holders of an aggregate of 1% or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our articles of incorporation currently prohibit cumulative voting. The Commercial Code and the articles of incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our general shareholders' meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders' meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the preferred shares. Holders of enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Commercial Code provides that to amend the articles of incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Securities and Exchange Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting holders of shares have the right to require us to purchase their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily share prices on the Korea Stock Exchange for two months prior to the date of the adoption of the relevant board of directors' resolution, (2) the weighted average of the daily share prices on the Korea Stock Exchange for one month prior to the date of the adoption of the relevant board of directors' resolution and (3) the weighted average of the daily share prices on the Korea Stock Exchange for one week prior to the date of the adoption of the relevant board of directors' resolution. However, the FSC may adjust such price if we or at least 30% of the dissenting shareholders do not accept such purchase price.

Register of Shareholders and Record Dates

We maintain the register of our shareholders at our office in Seoul, Korea. We register transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period following December 31 and ending on January 31. Further, the Commercial Code and the articles of incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. Copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Securities and Exchange Act, we must file with the FSC and the Korea Stock Exchange an annual report within 90 days after the end of our fiscal year, a half-year report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year, respectively. Copies of such reports are available for public inspection at the FSC and the Korea Stock Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to assert shareholders' rights against us, the transferee must have his name and address registered on the register of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Non-resident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under the FSC regulations, non-resident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, certain qualified securities companies and banks in Korea (including licensed branches of non-Korean securities companies and banks) and the Korea Securities Depository are authorized to act as agents and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See "Item 10. Additional Information — Exchange Controls". Except as provided in the Bank Act, the ceiling on the aggregate shareholdings of a single shareholder and persons who stand in a special relationship with such shareholder is four per cent of each class of our issued and outstanding shares.

Acquisition of our Shares

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Securities and Exchange Act and regulations under the Bank Act, we may purchase our own shares on the Korea Stock Exchange or through a tender offer, subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year and (2) the purchase of such shares shall meet the risk-adjusted capital ratio under BIS standards, and subject to the FSC's approval.

In general, subsidiaries of which we own 40% or more are not permitted to acquire our shares.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held. Holders of preferred shares have no preferences in liquidation.

MATERIAL CONTRACTS

The Strategic Alliance Agreement with ING Groep N.V.

On July 15, 1999, we entered into a strategic alliance agreement with ING Insurance International B.V., ING International Financial Holdings B.V., and ING Verzekeringen N.V. ING Insurance International B.V. and ING International Financial Holdings B.V. acquired an aggregate of 9.99% of our outstanding shares of common stock. In addition, the agreement entails:

- ING's participation on our board of directors through the right to elect one executive director and one non-executive director;
- ING providing technical and managerial support to our risk management, information technology, sales & marketing and other key departments;
- ING providing assistance with various product groups, especially in the area of mortgage financing, and the performance management evaluation of personnel; and
- ongoing cooperation between us and ING in pursuing opportunities for developing and serving other products in the areas of insurance, securities, investment banking and asset management, including setting up a number of joint ventures between us and ING.

In connection with the upcoming merger with Kookmin Bank, we plan to renegotiate the investment agreement and the joint venture agreements.

The Merger Agreement with Kookmin Bank

On April 23, 2001, we and Kookmin Bank entered into a merger agreement pursuant to which the two banks will be merged into a new entity which will retain the Kookmin Bank name. Under the agreement, every two H&CB American depositary shares, which together represent one share of our common stock, will be converted into one American depositary share of the combined bank, which will represent one share of common stock of the combined bank. Each share of our preferred stock will be converted into a substantially identical share of preferred stock of the combined bank. Merger ratios, subject to adjustments, are as follows:

The combined bank will issue and deliver the following shares to the stockholders listed on the stockholder registry of Kookmin Bank as of the date of the merger:

- one share of its common stock (par value ₩5,000) per 1.688346 shares of common stock (par value ₩5,000) of Kookmin Bank.
- one share of its preferred stock (par value ₩5,000), with substantially identical terms and conditions as those of Kookmin Bank's preferred stock, per one share of preferred stock (par value ₩5,000) of Kookmin Bank.

The combined bank will issue and deliver the following shares to the stockholders listed on our stockholder registry as of the date of the merger:

- one share of its common stock (par value ₩5,000) per one share of our common stock (par value ₩5,000).
- one share of its preferred stock (par value ₩5,000), with substantially identical terms and conditions as those of our preferred stock, per one share of our preferred stock (par value ₩5,000).

Under the merger agreement, we and Kookmin Bank have agreed that, during the period before completion of the merger, we and Kookmin Bank will carry on our respective businesses in the ordinary course of business consistent with past practice, and we and Kookmin Bank will use and preserve the assets held by each party on the date of the merger agreement in good condition. We and Kookmin Bank have also agreed that each party will not, without the written consent of the other party, engage in any sale or purchase of any assets, or any incurrence of debt, that may have a material adverse effect on its financial condition, results of operations or business or on its ability to perform its obligations under the merger agreement.

We have also agreed to use our best efforts to consult with ING Insurance International B.V., or ING, in connection with amending the investment agreement entered into between ING and H&CB in connection with ING's investment in H&CB to the extent necessary to ensure that such agreement does not have a material adverse effect on the merger.

The date of the merger will be October 31, 2001, unless the conditions precedent to the merger have not been satisfied, in which case the date of the merger may be changed as agreed by us and Kookmin Bank.

EXCHANGE CONTROLS

General

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the "Foreign Exchange Transaction Laws") regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws non-residents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Finance and Economy. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Under the Foreign Exchange Transaction Laws, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates or exchanges rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as requiring foreign investors to obtain prior approval from the relevant Korean authority or obligate a certain portion of the foreign investor's holding to be deposited in Korea.

Government Review of Issuance of American Depositary Shares

In order for us to issue shares represented by American depositary shares in an amount exceeding US$50 million, we are required to file a prior report of the issuance with the Ministry of Finance and Economy. No further Korean governmental approval is necessary for the initial offering and issuance of the American depositary shares.

In order for a depositary to acquire any existing shares from holders of the shares other than from us, for the purpose of issuing depositary receipts representing the shares, the depositary would be required to obtain our consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary receipts (including deposits in connection with the initial and all subsequent offerings of American depositary receipts and stock dividends or other distributions related to these American depositary receipts) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We can give no assurance that we would grant our consent if our consent is required. Therefore, a holder of American depositary receipts who surrenders American depositary receipts and withdraws shares may not be permitted subsequently to deposit those shares and obtain American depositary receipts.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of shares having voting rights whether in the form of shares or American depositary shares, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, the "Equity Securities") together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status of the holdings to the FSC and the Korea Stock Exchange within five business days after the reaching the 5% ownership interest. In addition, any change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Stock Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Further, the FSC may issue an order to dispose of non-reported Equity Securities.

Restrictions Applicable to American Depositary Shares

No Korean governmental approval is necessary for the sale and purchase of American depositary shares in the secondary market outside Korea or for the withdrawal of shares underlying American depositary shares and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the FSS as described below. The acquisition of the shares by a foreigner must be reported by the foreigner or his standing proxy in Korea immediately to the Governor of the FSS.

Persons who have acquired shares as a result of the withdrawal of shares underlying the American depositary shares may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and FSC regulations (together, the "Investment Rules") adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Korea Stock Exchange or registered on the KOSDAQ, unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Stock Exchange or registered on the KOSDAQ only through the Korea Stock Exchange or the KOSDAQ, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares ("Converted Shares") by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends; and
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded.

For over-the-counter transactions of shares between foreigners outside the Korea Stock Exchange or the KOSDAQ for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Korea Stock Exchange or the KOSDAQ must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Stock Exchange or the KOSDAQ (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Finance and Economy under the Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign branch of a Korean securities company, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Stock Exchange or the KOSDAQ, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale for shares outside the Korea Stock Exchange or the KOSDAQ (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor of the FSS at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Stock Exchange or the KOSDAQ in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor of the FSS by the securities company engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks, including domestic branches of foreign banks, and securities companies, including domestic branches of foreign securities companies, which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor of the FSS in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies and the Korea Securities Depository are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor of the FSS in circumstances where compliance with that requirement is made impracticable; including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares having voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance, by the Ministry of Commerce, Industry and Energy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account maybe remitted abroad without any governmental approval.

Dividends on shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained throughout the exercise of preemptive rights.

The securities companies and investment trust companies were allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investor's stock investments in Korea. Through these accounts, these securities companies and investment trust companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

TAXATION

The following summary is based upon tax laws of the United States and the Republic of Korea as in effect on the date of this Annual Report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in shares of common stock or American depositary shares are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a citizen of Korea;
- a resident of Korea;
- a corporation organized under Korean law; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base.

Dividends on Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a resident of a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the income tax treaty currently in effect between Korea and the United States and you are the "beneficial owner" of a dividend, a reduced withholding tax rate of 16.5% will generally apply. You will not be entitled to claim treaty benefits if you are not the beneficial owner of a dividend.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the depositary bank. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in-capital, that distribution may be deemed a dividend which is subject to Korean tax.

Taxation of Capital Gains

You may be exempt from Korean taxation on capital gains recognized from the sale of our shares effected through the Korea Stock Exchange, if you have owned, together with certain related parties, less than 25% of our total issued and outstanding shares during the year of sale and the five calendar years before the year of sale. The Korean taxation authorities have also issued a tax ruling confirming that capital gains earned by a non-Korean holder from the transfer of American depositary shares outside of Korea are exempt from Korean taxation.

If you are subject to tax on capital gains with respect to a sale of American depositary shares, or of shares of common stock which you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the American depositary shares although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty which exempts or reduces the rate of tax on capital gains, the amount of Korean tax imposed on your capital gains will be the lesser of 11.0% of the gross realization proceeds or, subject to the production of satisfactory evidence of the acquisition cost of the American depositary shares, 27.5% of the net capital gain.

If you sell your shares of common stock or American depositary shares, the purchaser or, in the case of the sale of shares of common stock on the Korea Stock Exchange or through a licensed securities company in Korea, the licensed securities company is required to withhold Korean tax from the sales price in an amount equal to 11.0% of the gross realization proceeds and to make payment of this amount to the Korean tax authorities, unless you establish your entitlement to an exemption or lower rate of taxation under an applicable tax treaty or produce satisfactory evidence of your acquisition cost for the shares of common stock or the American depositary shares. To obtain the benefit of an exemption or reduced rate of tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the depositary bank, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty protection. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have taxes withheld at a lower rate.

Inheritance Tax and Gift Tax

If you die while holding an American depositary share or donate an American depositary share, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the American depositary shares. If you are treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10.0% to 50.0%.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

Securities Transaction Tax

You will not pay a securities transaction tax on your transfer of American depositary shares. If you transfer shares of common stock, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special tax at the rate of 0.15% of the sale price of the shares of common stock when traded on the Korea Stock Exchange. If your transfer is not made on the Korea Stock Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special tax.

United States Taxation

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning and disposing of our shares of common stock or American depositary shares. This summary applies to you only if you hold shares of common stock or American depositary shares as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds shares of common stock or American depositary shares that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds shares of common stock or American depositary shares as part of a straddle or conversion transaction for tax purposes;

- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of shares of common stock or American depositary shares in your particular circumstances.

For purposes of this summary, you are a "U.S. holder" if you are a beneficial owner of a share of common stock or an American depositary share that is:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the share of common stock or American depositary share.

In general, if you hold American depositary shares, you will be treated as the holder of the shares of common stock represented by those American depositary shares for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an American depositary share for the shares of common stock represented by that American depositary share.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of American depositary shares, the depositary's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Distributions of additional shares in respect of shares of common stock or American depositary shares that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Sales and Other Dispositions

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of shares of common stock or American depositary shares will be capital gain or loss, and will be long-term capital gain or loss if the shares of common stock or American depositary shares were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a maximum rate of 20%.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or American depositary shares, so long as you have owned the shares of common stock or American depositary shares (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax will be treated for U.S. federal income tax purposes as imposed on "general limitation" income. Such treatment may affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special tax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments in respect of the shares of common stock or American depositary shares that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

DOCUMENTS ON DISPLAY

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are not required to make filings with the Commission by electronic means, although we may do so. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at http://www.sec.gov.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is contained in "Item 4. Information on the Company — Business Overview — Risk Management — Market Risk".

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Description of American Depositary Receipts

American Depositary Receipts

The Bank of New York, as depositary for the American depositary receipt program, will execute and deliver the American depositary receipts. Each American depositary receipt is a certificate evidencing a specific number of American depositary shares. Each American depositary share will represent ownership interests in one-half of one share (or the right to receive one-half of one share) deposited with Korea Securities Depository, as agent of the depositary, also referred to as the custodian. Each American depositary share will also represent any other securities, cash or other property which may be held by the depositary under the deposit agreement. The deposited shares, together with any other securities, other property or cash held by the depositary under the deposit agreement, are referred to as deposited securities. Our application to have the American Depositary Shares approved for listing on the New York Stock Exchange, Inc. under the symbol "HCB" has been approved. The depositary's office is located at 101 Barclay Street, New York, New York 10286. The custodian's office is located in Seoul, Korea.

You may hold American depositary shares either directly (by having an American depositary receipt registered in your name) or indirectly through your broker or other financial institution. If you hold American depositary shares directly, you are an American depositary receipt holder. This description assumes you hold your American depositary shares directly. If you hold the American depositary shares indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of American depositary receipt holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an American depositary receipt holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Korean law governs shareholder rights. The depositary will be the holder of the shares underlying your American depositary shares. As a holder of American depositary receipts, you will have American depositary receipt holder rights. A deposit agreement among us, the depositary, you, as an American depositary receipt holder and the beneficial owners of American depositary receipts sets out American depositary receipt holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the American depositary receipts.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American depositary receipt.

Share Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your American depositary shares represent.

- *Cash.* The depositary will convert, as promptly as practicable, any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Korean government is needed and cannot be obtained, the agreement allows the depositary to distribute the Won only to those American depositary receipt holders who have requested the distribution in writing. It will hold the Won it cannot convert for the account of the American depositary receipt holders who have not been paid. It will not invest the Won and it will not be liable for any interest.

Before making a distribution, the depositary will deduct any withholding taxes that must be paid under Korean law. See "Item 7. Taxation — Korea — Dividend on Shares of Common Stock or American Depositary Shares". It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the Korean currency, you may lose some or all of the value of the distribution.*

- *Shares.* The depositary may distribute, as promptly as practicable, additional American depositary shares representing any shares we distribute as a dividend or free distribution. The depositary may require that we furnish it promptly with satisfactory evidence that it is legal to do so. The depositary will only distribute whole American depositary shares. It will sell shares which would require it to distribute a fractional American depositary share and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional American depositary shares, the outstanding American depositary shares will also represent the new shares.

- *Rights to purchase additional shares.* If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. The depositary must first determine whether it is lawful and feasible to do so. If the depositary determines that it is not lawful or feasible to make these rights available to you, the depositary will use its best efforts that are reasonable to sell the rights and distribute the proceeds in the same way as it would do with cash. The depositary may allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver American depositary shares to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by the rights, the depositary will not offer such rights to you unless and until such a registration statement is in effect, or unless the offering and sale of such securities and such rights to you are exempt from or not subject to the registration requirements of the Securities Act. If you request a distribution, notwithstanding that there has been no such registration under the Securities Act, the depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for us that such distribution to you is exempt from such registration. The depositary will not be responsible for any failure to determine that it may be lawful or feasible to make the rights available to you.

U.S. securities laws may restrict transfers and cancellation of the American depositary shares represented by shares purchased upon exercise of rights. For example, you may not be able to trade these American depositary shares freely in the United States. In this case, the depositary may deliver the American depositary shares under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the necessary restrictions in place.

- *Other Distributions.* The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case the American depositary shares will also represent the newly distributed property.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any American depositary receipt holders. We have no obligation to register American depositary shares, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of American depositary receipts, shares, rights or anything else to American depositary receipt holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are American depositary shares issued?

The depositary will deliver American depositary shares if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, subject to applicable laws and regulations of Korea and our articles of incorporation, the depositary will register the appropriate number of American depositary shares in the names you request and will deliver the American depositary receipts at its office to the persons you request.

Under the deposit agreement, the depositary is not allowed to accept shares for deposit unless:

- we give our consent or
- we notify the depositary that Korean law no longer requires our consent.

We have consented to the deposit of up to 23,400,000 shares. Therefore, you may deposit shares only to the extent that the number of shares held under the deposit agreement is less than 23,400,000.

How do American depositary share holders cancel an American depositary receipt and obtain shares?

You may turn in your American depositary receipts at the depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the deposited securities represented by your American depositary shares (1) to an account designated by you at Korea Securities Depository or (2) to your order at the custodian's office in Korea. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if it is permitted to do so by applicable law.

Voting Rights

How do you vote?

You may instruct the depositary to vote the shares underlying your American depositary shares. As soon as practicable, after it receives notice of a meeting from us, and upon our written request, the depositary will send a notice to you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on, (2) contain a statement that the holders as of the close of business on a specified record date will be entitled to instruct the depositary as to how to exercise their voting rights for the number of shares of common stock or other deposited securities represented by their American depositary shares, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material and (3) explain how you may instruct the depositary to vote the shares or other deposited securities underlying your American depositary shares as you direct. For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to Korean law and the provisions of our articles of incorporation, to vote or to have its agents vote the shares or other deposited securities as you instruct in writing. If you do not provide the depositary with your voting instructions, the depositary will vote your shares in the same manner and in the same proportion as all other shares, which are voted on the matter in question, are voted.

We can not assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.*

You will not be entitled to instruct the depositary as to the exercise of voting rights with respect to any shares of common stock or other deposited securities represented by your American depositary shares which, when taken together with all other shares of common stock beneficially owned by you and certain of your affiliates, exceed 4% of the total number of shares of common stock at the time issued and outstanding, or any other limit under the articles of incorporation or applicable law of which we may from time to time notify the depositary.

Fees and Expenses

American depositary receipt holders must pay:	For:
$5.00 (or less) per 100 American depositary shares	• Each issuance of American depositary shares, including as a result of a distribution of shares or rights or other property • Each cancellation of American depositary shares for the purpose of withdrawal, including if the deposit agreement terminates
$.02 (or less) per American depositary share (to the extent permitted by the rules of any stock exchange on which American depositary shares are listed for trading)	• Any distribution of cash to you
A fee equivalent to the fee that would be payable upon deposit of shares for issuance of American depositary shares	• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to American depositary receipt holders
Registration or transfer fees	Transfer and registration of shares from your name to the name of the depositary or its agent when you deposit or from the depositary's name to your name when you withdraw
Expenses of the depositary	Conversion of Won to U.S. dollars
Expenses of the depositary	Cable, telex and facsimile transmission expenses (if expressly provided in the deposit agreement)
Taxes and other governmental charges the depositary or the custodian have to pay on any American depositary receipt or share underlying an American depositary receipt, for example, stock transfer taxes, stamp duty or withholding taxes	• As necessary
Any charges payable by the depositary or its agents in connection with servicing the deposited securities	• As incurred

Payment of Taxes, Governmental Charges or Expenses

The depositary may deduct the amount of any taxes, governmental charges or expenses owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes, governmental charges or expenses owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes, governmental charges or expenses. If the depositary sells deposited securities, it will, if appropriate, reduce the number of American depositary shares to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes, governmental charges or expenses.

Reclassifications, Recapitalizations and Mergers

If we:

- Change the nominal or par value of our shares
- Reclassify, split up or consolidate any of the deposited securities

- Distribute securities on the shares that are not distributed to you
- Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

Then:

The cash, shares or other securities received by the depositary will become deposited securities. Each American depositary share will automatically represent its equal share of the new deposited securities.

The depositary may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also deliver new American depositary receipts or ask you to surrender your outstanding American depositary receipts in exchange for new American depositary receipts identifying the new deposited securities.

Disclosure of Beneficial Ownership of American Depositary Shares

We have a right to request you tell us who beneficially owns your American depositary shares and the capacity in which those American depositary shares are owned. The depositary has agreed to help us get this information.

Limitations on Ownership of Shares and American Depositary Shares

We have the right to block transfers of our shares to prevent violation of limitations on ownership that are set forth in our articles of incorporation and applicable law. We describe these limitations under "Item 1. Description of Business — Supervision and Regulation — Principal Regulations Applicable to Banks in Korea — Restrictions on Bank Ownership".

For purposes of the ownership limitations referred to above, we consider ownership of American depositary shares to be the same as ownership of the underlying shares. Under the deposit agreement, we have a right to block transfers of American depositary shares to prevent violation of the ownership limitations. We may direct the depositary to take actions to eliminate ownership in violation of applicable limitations, including canceling American depositary shares and selling the underlying shares. However, the depositary will only take these actions if they are permitted by applicable law.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the American depositary receipts without your consent for any reason. If the deposit amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the depositary, or prejudices a an important right of American depositary receipt holders, it will only become effective 30 days after the depositary notifies you of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your American depositary receipt, to agree to the amendment and to be bound by the American depositary receipts and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so. The depositary may also terminate the deposit agreement if it has told us that it would like to resign and we have not appointed a new depositary bank within 90 days. In either case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else:

- advise you that the deposit agreement is terminated,
- to sell rights as provided in the deposit agreement,

- collect distributions on the deposited securities and any other property represented by the outstanding American depositary receipts, and
- deliver shares and other deposited securities upon cancellation of American depositary receipts.

On and after the date of termination, you will be entitled to receive the amount of deposited securities underlying an American depositary receipt upon (1) surrender of the American depositary receipt at the corporate trust office of the depositary, (2) payment of the fees of the depositary for the surrender of the American depositary receipt and (3) payment of any applicable taxes or governmental charges.

One year after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the agreement for the *pro rata* benefit of the American depositary receipt holders that have not surrendered their American depositary receipts. It will not invest the money and has no liability for interest. The depositary's only obligations will be some indemnification obligations and to account for the money and other cash or property. After termination our only obligations will be to indemnify the depositary for losses and to pay the depositary's expenses.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of American depositary receipts

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either of us exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the American depositary receipts or the deposit agreement on your behalf or on behalf of any other party; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we agree to indemnify the depositary for acting as depositary, except for losses caused by the depositary's own negligence or bad faith, and the depositary agrees to indemnify us for losses resulting from its negligence or bad faith.

Requirements for Depositary Actions

Before the depositary will deliver American depositary shares or register a transfer of an American depositary receipt, make a distribution on an American depositary receipt, or permit withdrawal of shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary or proper or as we may require; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver American depositary shares or register transfers of American depositary receipts generally when the transfer books of the depositary, our transfer books or the Korea

Securities Depository are closed or at any time if the depositary or we think it necessary or advisable to do so.

Your Right to Receive the Shares Underlying your American Depositary Receipts

You have the right to cancel your American depositary receipts and withdraw the underlying shares at any time except:

- When temporary delays arise because:
  - — the depositary has closed its transfer books or we have closed our transfer books;
  - — the transfer of shares is blocked to permit voting at a shareholders' meeting; or
  - — we are paying a dividend on the shares.
- When you or other American depositary receipt holders seeking to withdraw shares owe money to pay fees, taxes and similar charges.
- When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to American depositary receipts or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of American Depositary Receipts

The depositary may deliver American depositary receipts before deposit of the underlying shares. This is called a pre-release of the American depositary receipt. The depositary may also deliver shares upon cancellation of pre-released American depositary receipts (even if the American depositary receipts are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive American depositary receipts instead of shares to close out a pre-release. The deposit agreement permits pre-release of American depositary receipts only under the following conditions:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the depositary in writing that it or its customer owns the shares or American depositary receipts to be deposited;
- the pre-release must be fully collateralized with cash, U.S. government securities or such other collateral as the depositary determines, in good faith, will provide similar liquidity and security;
- the depositary must be able to close out the pre-release on not more than five (5) business days' notice; and
- the pre-release is subject to further indemnities and credit regulations as the depositary deems appropriate.

In addition, the depositary will limit the number of American depositary shares that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is reasonably appropriate to do so.

Items 13 to 17. Not applicable.

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this registration statement.

Item 19. EXHIBITS

(a) List of Financial Statements:

(b) Exhibits

1.1 Articles of Incorporation (in English and Korean)*
2.1 Form of Common Stock Certificate (in English and Korean)*
2.2 Form of Deposit Agreement*
4.1 Investment Agreement among H&CB, ING Insurance International B.V., ING International Financial Holdings B.V. and ING Verzekeringen N.V. dated July 15, 1999, as amended August 16, 1999*
4.2 Merger Agreement between H&CB and Kookmin Bank dated April 23, 2001 (in English and Korean)
8.1 List of Subsidiaries of H&CB
10.1 Korean Banking Act (in English and Korean)
10.2 Korean Commercial Act (in English and Korean)*
10.3 Korean Securities and Exchange Act (in English and Korean)
10.4 Korean Trust Business Act (in English and Korean)*

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* Incorporated by reference to the H&CB Registration Statement on Form 20-F (File No. 001-15140) filed on September 29, 2000.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of H&CB:

We have audited the accompanying consolidated balance sheets of H&CB and its subsidiaries (the "Bank") as of December 31, 2000 and 1999, and the related consolidated statements of income, of changes in stockholders' equity, and of cash flows for each of the years in the three year period ended December 31, 2000. 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 United States of America. 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.

As more fully discussed in Note 1 to the financial statements, the Bank has been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Seoul, Korea
June 12, 2001

H&CB

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2000	December 31, 1999
		(All amounts expressed in millions of Korean Won ("Won"), except share data)	
ASSETS			
Cash and due from banks and other financial institutions		1,154,195	1,280,960
Restricted deposits	8	425,937	930,967
Interest-bearing deposits in other banks		329,696	318,110
Call loans and securities purchased under resale agreements		719,679	75,621
Trading assets	9	2,548,546	2,371,009
Securities available for sale	10	5,782,117	4,359,742
Held-to-maturity securities (fair value of 2,240,415 in 2000 and 2,659,216 in 1999)	10	2,182,085	2,659,657
Loans (net of allowance for loan losses of 1,317,026 in 2000 and 1,286,552 in 1999)	12	44,926,644	30,869,296
Premises and equipment, net	13	827,378	744,636
Due from customers on acceptances		363,455	264,966
Accrued interest and dividends receivable		381,062	378,076
Security deposits		516,891	511,076
Other assets		798,235	512,508
Total assets		60,955,920	45,276,624
LIABILITIES			
Due to depositors:			
Noninterest bearing	15	93,926	109,385
Interest bearing	15	47,185,091	33,269,948
Call money		51,323	758,000
Trading liabilities	9	31,197	3,950
Other borrowed funds	16	2,215,503	1,466,361
Acceptances outstanding		363,455	264,966
Accrued interest payable		2,678,396	2,523,475
Other liabilities		1,023,604	815,711
Secured borrowings	17	1,247,319	533,684
Long-term debt	18	3,703,420	3,775,520
Total liabilities		58,593,234	43,521,000
Commitments and contingencies (Notes 6, 11, 28, 29, 30 and 36)			
Minority interest		6,715	—
STOCKHOLDERS' EQUITY			
Preferred stock, (5,000 Won par value, authorized 1,000,000,000 shares; Issued and outstanding 17,790,000 shares in 2000 and 59,300,000 shares in 1999)	19	88,950	296,500
Less: KDIC bonds (at par value) purchased in connection with preferred shares issued		(88,950)	(296,500)
Common stock, (5,000 Won par value, authorized 1,000,000,000 shares; Issued and outstanding 119,968,809 shares in 2000 and 109,062,555 shares in 1999 (adjusted for each 10% stock dividend approved March 24, 2001 and February 28, 2000))	20	599,844	545,313
Additional paid-in capital		1,060,241	838,878
Deferred stock compensation		(205)	(725)
Retained earnings	21	563,620	349,450
Accumulated other comprehensive income, net of taxes		132,471	22,708
Total stockholders' equity		2,355,971	1,755,624
Total liabilities, minority interest, and stockholders' equity		60,955,920	45,276,624

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

H&CB

CONSOLIDATED STATEMENTS OF INCOME

	Note	For the year ended December 31, 2000	1999	1998
		(All amounts expressed in millions of Korean Won ("Won"), except per share data)		
Interest and dividend income				
Interest and fees on loans		4,228,630	3,276,334	3,462,238
Interest and dividends on investment securities:				
Interest		794,163	674,442	765,677
Dividends		9,126	1,543	368
Interest and dividends on trading securities:				
Interest		116,547	128,989	11,347
Dividends		1,422	1,042	911
Call loans and securities purchased under resale agreements		36,114	25,228	159,564
Interest from deposits in other banks		61,947	104,279	122,425
Other interest income		6,808	30,611	48,149
Total interest and dividend income		5,254,757	4,242,468	4,570,679
Interest expense				
Deposits		2,879,536	2,277,467	2,315,087
Call money		28,936	18,502	67,322
Other borrowed funds		104,616	109,896	296,051
Long-term debt		326,062	383,816	447,783
Secured borrowings		112,604	27,639	74,155
Total interest expense		3,451,754	2,817,320	3,200,398
Net interest income		1,803,003	1,425,148	1,370,281
Provision for loan losses	12	378,000	306,151	433,228
Provision for guarantees and acceptances	12	(788)	(7,966)	(37,398)
Net interest income after provision for loan losses, guarantees and acceptances		1,425,791	1,126,963	974,451
Noninterest income				
Trust fees		106,275	161,507	155,699
Commission received on funds management		162,720	156,304	145,737
Other fees and commission income		217,255	141,586	102,858
Net trading revenue		153,429	156,961	80,501
Net (loss) gain on securities		(131,245)	53,333	16,688
Other noninterest income		127,693	120,702	29,451
Total noninterest income		636,127	790,393	530,934
Noninterest expense				
Salaries and employee benefits		509,178	517,746	609,331
Trust performance payments	35	95,001	53,006	206,427
Equity in net loss of affiliates		2,991	19,714	6,311
Depreciation and amortization		107,560	76,795	61,097
Administrative expenses		237,366	158,869	126,303
Loss on sale of loans		19,633	1,046	61,155
Credit card fees		37,349	19,850	13,693
Other fees and commissions		162,286	108,729	87,290
Taxes and dues		37,308	33,091	31,211
Other noninterest expense		100,969	120,349	70,901
Total noninterest expense		1,309,641	1,109,195	1,273,719

CONSOLIDATED STATEMENTS OF INCOME — (Continued)

	Note	2000	1999	1998
		For the year ended December 31, (All amounts expressed in millions of Korean Won ("Won"), except per share data)		
Income before income taxes and minority interest		752,277	808,161	231,666
Income tax expense	24	243,657	267,504	102,058
Income before minority interest		508,620	540,657	129,608
Less: Minority interest income (loss)		2,559	(8)	1,698
Net income		506,061	540,665	127,910
Net income applicable to common stockholders		506,061	540,665	127,910
Net income per common share:	25			
Basic:		4,218.26	4,753.18	1,248.50
Diluted:		3,569.39	3,116.28	1,242.32

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Note	December 31, 2000	1999	1998
		(All amounts expressed in millions of Korean Won ("Won"))		
Preferred Stock				
Balance, beginning of year		296,500	296,500	—
Issuance of stock		—	—	296,500
Redemption of stock		(207,550)	—	—
Balance, end of year		88,950	296,500	296,500
KDIC Bonds, at par value				
Balance, beginning of year		(296,500)	(296,500)	—
KDIC bonds purchased		—	—	(296,500)
Redemption of bonds		207,550	—	—
Balance, end of year		(88,950)	(296,500)	(296,500)
Common Stock				
Balance, beginning of year		545,313	446,165	321,165
Issuance of stock		—	49,574	125,000
Stock dividend		54,531	49,574	—
Balance, end of year		599,844	545,313	446,165
Additional Paid-in Capital				
Balance, beginning of year		838,878	284,263	242,371
Issuance of stock		—	275,462	41,763
Stock dividend		222,194	274,639	—
Stock options granted, net of change in variable plan compensation		(730)	4,514	129
Stock options forfeited		(101)	—	—
Balance, end of year		1,060,241	838,878	284,263
Deferred Stock Compensation				
Balance, beginning of year		(725)	(116)	—
Stock options granted		—	(1,414)	(129)
Amortization of deferred stock compensation expense		470	805	13
Stock options forfeited		50	—	—
Balance, end of year		(205)	(725)	(116)
Retained Earnings				
Balance, beginning of year		349,450	132,998	37,205
Net income		506,061	540,665	127,910
Cash dividends declared:				
Common stock		(14,871)	—	(32,117)
Stock dividend		(277,020)	(324,213)	—
Balance, end of year		563,620	349,450	132,998
Accumulated Other Comprehensive Income, net of taxes				
Balance, beginning of year		22,708	239,282	(327,070)
Other comprehensive income (loss)	22	109,763	(216,574)	566,352
Balance, end of year		132,471	22,708	239,282
Total stockholders' equity		2,355,971	1,755,624	1,102,592
Comprehensive Income				
Net income		506,061	540,665	127,910
Other comprehensive income (loss), net of taxes		109,763	(216,574)	566,352
Comprehensive income		615,824	324,091	694,262

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2000	1999	1998
	(All amounts expressed in millions of Korean Won ("Won"))		
Cash flows from operating activities:			
Net income	506,061	540,665	127,910
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses, guarantees and acceptances	377,212	298,185	395,830
Depreciation and amortization	107,560	76,795	61,097
Amortization of loan origination costs	20,718	15,021	9,517
Amortization of discounts on borrowings	109,318	102,873	68,425
Net loss (gain) on securities	131,245	(53,333)	(16,688)
Equity in net loss of affiliates	2,991	19,714	6,311
Net loss on sales of loans	19,633	1,046	61,155
Net (gain) loss on disposal of property and equipment	(1,122)	2,023	76
Deferred income taxes	(10,273)	(45,426)	148,180
Unrealized foreign exchange gain	(44,578)	(88,592)	(311,749)
Stock compensation expense	(311)	3,905	13
Minority interest in net income of consolidated subsidiaries	2,559	(8)	1,698
Net change in			
Trading assets	(173,782)	(1,186,660)	(15,674)
Accrued interest and dividend receivable	(2,986)	107,085	(159,828)
Other assets	(65,770)	405,655	(146,588)
Trading liabilities	27,247	(15,176)	(255,148)
Accrued interest payable	150,952	189,961	(158,288)
Other liabilities	(133,198)	(175,757)	(822,153)
Net cash provided by (used in) operating activities	1,023,476	197,976	(1,005,904)
Cash flows from investing activities:			
Net change in interest-bearing deposits in other banks and financial institutions	34,457	(111,755)	1,144,907
Net change in restricted deposits	505,093	(267,904)	(60,075)
Net change in call loans and securities purchased under resale agreements	(637,864)	390,928	205,667
Net change in security deposits	(3,681)	55,143	2,060
Proceeds from sales of securities available for sale	2,176,639	2,707,230	761,920
Redemption and maturities of securities available for sale	7,259,148	9,271,636	17,395,253
Purchases of securities available for sale	(10,790,045)	(8,642,402)	(20,651,059)
Proceeds from maturities, prepayments, and calls of held-to-maturity securities	2,156,690	39,305	15,139
Purchases of held-to-maturity securities	(1,690,397)	(2,474,236)	(194,008)
Cash acquired as part of acquisition	17	—	484,120
Net proceeds on sales of loans	162,272	220,453	2,160
Net originations and repayments of loans	(14,244,416)	(6,480,190)	1,665,799
Additions to premises and equipment	(298,159)	(256,055)	(117,793)
Disposals of premises and equipment	120,263	110,717	11,949
Net cash (used in) provided by investing activities	(15,249,983)	(5,437,130)	666,039
Cash flows from financing activities:			
Net increase in deposits	13,877,519	5,835,867	1,968,900
Net increase in secured borrowings	713,635	533,684	—
Net (decrease) increase in call money	(706,677)	578,863	(1,622,786)
Net (decrease) increase in short-term borrowings	(113,136)	(1,413,085)	279,729
Proceeds from issuance of long-term debt	2,628,814	849,487	927,985
Repayment of long-term debt	(2,288,713)	(1,846,813)	(1,516,701)
Proceeds from preferred stock issuance	—	—	296,500
Proceeds from common stock issuance	—	325,036	166,763
Cash dividends paid on common stocks	(14,871)	—	(32,117)
Other	(296)	(6,429)	(5,373)
Net cash provided by financing activities	14,096,275	4,856,610	462,900

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CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	For the year ended December 31,		
	2000	1999	1998
	(All amounts expressed in millions of Korean Won ("Won"))		
Effect of exchange rate changes on cash	3,467	(1,159)	(123)
Net (decrease) increase in cash and cash equivalents	(126,765)	(383,703)	122,912
Cash and cash equivalents, beginning of year	1,280,960	1,664,663	1,541,751
Cash and cash equivalents, end of year	1,154,195	1,280,960	1,664,663
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	3,307,847	2,627,394	3,357,005
Cash paid during the year for income taxes	322,950	47,350	106,295
Supplemental schedule of noncash investing and financing activities:			
Acquisitions			
Fair value of assets acquired	287,648	—	4,861,524
Less: liabilities assumed	324,623	—	5,854,236
Cash acquired	17	—	484,120
Acquisitions, net of cash acquired	(36,992)	—	(1,476,832)
KAMCO and KDIC Bonds received in connection with acquisition	—	—	540,100
Stock dividend	277,020	324,213	—
Subordinated bonds issued in exchange for KDIC bonds	—	—	148,000
Loans (repurchased from) sold to KAMCO in exchange for bonds (Note 6)	(21,814)	(17,784)	128,473
Repurchase of preferred stock held against KDIC bonds (Note 19)	207,550	—	—
Transfer of securities available for sale to the trading portfolio	—	—	979,746
Increase (decrease) in unrealized gains (losses) on securities available for sale, net of tax	105,458	(215,213)	566,177
Increase (decrease) in foreign currency translation adjustments, net of tax	4,260	(1,159)	(123)
Transfer of held-to-maturity securities to securities available for sale due to other than temporary impairment (Note 10)	6,134	—	—
Bonds and securities received in connection with loan restructuring (Note 12)	21,300	99,119	—

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts are expressed in millions of Korean Won ("Won") unless otherwise noted.

1. General information and summary of significant accounting policies

H&CB, formerly the Housing and Commercial Bank of Korea, was established in 1967 under the Korea Housing Bank Act to support the formation of funds for housing projects for low and moderate income households and to promote an efficient supply and management of housing funds. In 1997, the Commercial Code of the Republic of Korea was passed repealing the Korea Housing Bank Act and in August 1997, H&CB became a commercial bank governed by the Banking Act.

H&CB and its subsidiaries (the "Bank") operate through 552 local branches and three overseas branches as of December 31, 2000. The Bank is engaged in the commercial banking business under the Banking Act and in the trust business according to the Trust Business Act and other related laws.

At December 31, 2000, the Korean government and foreign investors owned 14.5% and 66.4%, respectively, of the outstanding common shares of the Bank.

On December, 22, 2000, the Bank entered into a memorandum of understanding for a merger with Kookmin Bank and signed a merger agreement with Kookmin Bank on April 23, 2001. The merger is scheduled to be completed in the fourth quarter of 2001 (See Note 36).

Risk and uncertainties

In connection with the Asian financial crisis which began in 1997, the Korean economy as well as other economies in the Asia Pacific region experienced economic contractions, a reduction in the availability of credit, increased interest rates, increased inflation, negative fluctuations in currency exchange rates, increased numbers of bankruptcies, increased unemployment and labor unrest. Such conditions have had a significant adverse effect on the operations of the Bank.

While economic conditions in the Republic of Korea may have improved since the financial crisis, and some of the trends and conditions noted above may have reversed, the Bank and its customers may continue to be affected for the foreseeable future by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region.

During 2000, the economic recovery in the Republic of Korea slowed compared to 1999 and in particular, the economic indicators for the fourth quarter of 2000 dropped unfavorably. The economic indicators in the first quarter of 2001 have been mixed, and it is uncertain as to how the Korean economy will perform in the near term. Should economic indicators in Korea perform unfavorably in the short term and other external factors become negative, such as the degree of success of government-sponsored or brokered restructurings of large troubled companies, or the success of the restructuring of the Korean financial sector, then the Bank could be required to make adjustments to the carrying amount of its loans and investments in the near term in amounts that could be material to the financial statements.

Basis of presentation

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The policies, which are followed by the Bank to determine its financial position, results of operations and cash flows, are summarized below.

Principles of consolidation

The consolidated financial statements of the Bank include the accounts of H&CB and its wholly-owned and majority-owned subsidiaries (Note 33). Equity investments of 20 to 50 percent ownership interests are accounted for using the equity method of accounting and are reported in 'Other assets'. The Bank's proportional share of earnings and losses of these companies is included in 'Equity in net loss of affiliates'. All significant inter-company transactions and balances have been eliminated on consolidation.

Foreign currency translation

Foreign currency translation, which represents the effects of translating into Korean Won, at exchange rates at the end of the fiscal year, financial results from entities outside Korea who have a functional currency other than Korean Won, is recorded as a component of cumulative other comprehensive income within stockholders' equity, net of income tax effects. The effects of translating financial results of transactions denominated in foreign currencies by entities with Korean Won as a functional currency are included in other income, except for gains and losses arising from translation of securities available for sale which are included as a component of other comprehensive income.

Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are comprised of cash and amounts due from banks and other financial institutions with an original maturity of 90 days or less.

Resale and repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell ("resale agreements") and sales of securities under agreements to repurchase ("repurchase agreements") of substantially identical securities. Resale agreements and repurchase agreements are accounted for as secured lending and secured borrowing transactions, respectively, when certain criteria are met. If the criteria are not met, then the Bank accounts for its resale agreements as purchases of securities with related forward commitments to resell and accounts for its repurchase agreements as sales of securities with related forward commitments to repurchase. It is the Bank's policy to take possession of securities under agreements to resell. The Bank minimizes the credit risk associated with these transactions by monitoring its aggregate credit exposure to each counterparty and by monitoring collateral value and requiring the counterparty to deposit additional collateral with the Bank when deemed necessary.

The amount advanced under resale agreements accounted for as secured lending transactions and the amounts borrowed under repurchase agreements accounted for as secured borrowings transactions are carried on the balance sheet at the amount advanced or borrowed plus accrued interest. Interest earned on resale agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

Trading assets and liabilities

Trading assets include securities held in anticipation of short-term market movements. Trading liabilities include obligations to deliver securities not yet purchased. Trading positions are carried at fair value and recorded on a trade date basis. The Bank recognizes changes in the fair value of trading positions as they occur in net trading revenue. Trading assets and liabilities also include derivatives used for trading purposes, which the Bank carries at fair value. The Bank recognizes changes in the fair value of trading derivatives as they occur in net trading revenue. Trading securities and derivative financial instruments are valued using quoted market prices, including quotes from dealers in those securities or instruments, when available. If quoted market prices are not available, the fair value is estimated by using pricing models, quoted prices of instruments with similar characteristics or discounted cash flows.

Derivatives used for nontrading purposes

The Bank uses various derivatives, primarily interest rate and currency swaps, as an end-user to hedge interest rate and foreign currency exposures and to modify the interest rate characteristics of related balance sheet instruments. These derivatives are accounted for on an accrual basis and unrealized gains and losses are not recognized in income. Swaps used to manage the interest rate and foreign exchange risk of securities available for sale are carried at fair value with unrealized gains and losses, net of income taxes, recorded in accumulated other comprehensive income, a separate component of stockholders' equity. The realized gains or losses on these swaps are recognized together with the realized gains or losses on the underlying instruments in the income statement.

Derivatives used as hedges must be effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge at the beginning of the contract and must be highly correlated with the underlying hedged item for the life of the contract. Derivative contracts that subsequently fail to meet the above criteria are redesignated as trading derivatives. Any gain or loss realized on the early termination of a hedging derivative is deferred and recognized over the life of the underlying item.

Securities available for sale

Securities are classified as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Premiums and discounts for foreign denominated securities are amortized or accreted, respectively, using the straight-line method. The amount of interest recognized using this method is not materially different than the interest that would have been recognized if the effective interest rate method were used. Premiums and discounts for domestic securities are amortized or accreted, respectively, using the effective interest rate method. Realized gains and losses on the sales of securities are determined using the specific identification method. Securities available for sale are reported at fair market value. Unrealized gains and losses on securities available for sale are excluded from earnings and reported as accumulated other comprehensive income, net of taxes. Declines in fair value of individual securities available for sale below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

Held-to-maturity securities

Securities, which the Bank has the positive ability and intent to hold to maturity, are recorded at cost, adjusted for accretion/amortization of discounts and premiums. Premiums and discounts for foreign denominated securities are amortized or accreted, respectively, using the straight-line method. The amount of interest recognized using this method is not materially different than the interest that would have been recognized if the effective interest rate method were used. Premiums and discounts for domestic securities are amortized or accreted, respectively, using the effective interest rate method. Declines in fair value of individual held-to-maturity securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

Venture capital activities

Certain of the Bank's subsidiaries engage exclusively in venture capital activities. Venture capital investments are carried in the balance sheet at fair value in 'Other assets,' with net changes in fair value recognized in 'Net gain (loss) on securities'. The fair values of publicly-traded securities held by these subsidiaries are generally based on quoted market prices. Securities that are held by these subsidiaries that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date, management estimates fair value based on investee transactions with unaffiliated parties, or evidence of an other-than-temporary decline in value from management's review of the investee's financial results and condition. Any other-than-temporary impairment is recognized in 'Net gain (loss) on securities'.

Equity securities without readily determinable fair values

The Bank holds certain equity securities that do not have readily determinable fair values. Those equity securities are recorded as 'Other assets' in the balance sheet and are accounted for at cost, with any other-than-temporary impairment recorded as 'Net gain (loss) on securities'.

Loans

Loans are reported at the principal amount outstanding adjusted for charge-offs, the allowance for loan losses and any net loan origination costs. Interest on loans is accrued at the effective rate and credited to income based on the principal amount outstanding.

It is the policy of the Bank to cease the accrual of interest when principal or interest payments become one day past due. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current. In applying payments on delinquent loans, payments are applied first to the delinquent interest, normal interest, and then to the loan balance until it is paid in full.

Securities received by the Bank involving loans that are restructured or settled are recorded at a cost basis equal to the fair market value of the security at the date of restructuring or settlement. Any difference between the security's fair value and the net carrying amount of the loan is recorded as a charge-off or recovery on the loan through the allowance for loan losses.

The Bank provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments/receivables plus estimated residual value of the leased property, less unearned income. Unearned income is recognized using the effective interest method.

Allowance for loan losses

The allowance for loan losses is available to absorb management's estimate of incurred loan losses in the loan portfolio. Additions to the allowance for loan losses are made by changes to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

The level of the allowance is based on an evaluation of the risk characteristics of the loan portfolio and considers factors such as past loss experience and migration of loans, the financial condition of the borrower and current economic conditions.

Commercial loans are generally evaluated individually due to a general lack of uniformity among individual loans within each loan type. If necessary, an allowance for loan losses is established for individual impaired loans. A loan is considered impaired when, after consideration of current information and events, it is probable that the Bank will be unable to collect all amounts, including principal and interest, according to the contractual terms of the agreement. Once a loan is identified as impaired, management measures the loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the resulting value is less than the carrying value of the loan, an allowance is established for the amount deemed uncollectible.

The allowance for loan losses on commercial loans which are not deemed to be impaired is established for such loans as an aggregate pool based upon historical loss trends.

Due to their homogeneous nature, consumer loans and certain smaller loans, which includes household mortgages, credit cards and other household loans, are generally evaluated for loan loss reserve purposes as a group, based on individual loan type. This evaluation is based primarily on historical loss trends.

Allowance for guarantees and acceptances

The Bank analyzes its off-balance sheet legally binding commitments for possible losses associated with such commitments. The Bank reviews the ability of the counterparty of the underlying credit commitment to perform under the proposed commitment. If it is determined that a loss is probable and estimable, the Bank will record a liability for other credit exposures in a similar manner as if a loan was granted under the terms of the commitment. The allowance for guarantees and acceptances is reflected in other liabilities.

Deferred loan origination costs

The Bank recognizes certain employee compensation and payroll-related benefit costs associated with originating loans as a yield adjustment over the life of the loan net of any related fees received. These expenses include direct loan origination costs and other costs directly related to specified activities performed by the Bank which includes evaluating the prospective borrower's financial condition, recording guarantees, collateral, and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. The Bank does not have any significant related fee income. All other lending-related costs, including costs related to activities performed by the Bank for advertising, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration, are expensed as incurred.

Foreclosed land and buildings

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

Secured borrowings

Loans or securities that are transferred where the Bank retains the control of assets transferred are retained on the balance sheet and treated as collateralized borrowings. The liability for funds received under the loan sale agreement is included within secured borrowings.

Collateral

The Bank pledges loans as collateral for certain borrowings. These borrowings are structured as transfers of loans through asset securitization although they are retained on the balance sheet, as the Bank retains control of the assets transferred. The Bank also pledges securities as collateral, primarily for certain deposit transactions and borrowings structured as a transfer of securities through asset securitization. The Bank retains control of the securities and retains them on the balance sheet. Securities pledged against deposits cannot be sold or re-pledged by the Bank. However, the Bank has the right to substitute the collateral provided that this is not to the detriment of the depositor.

Accounting for securitizations

The Bank periodically transfers loans and other assets through an asset securitization structure where such transfer qualifies as a sale transaction. The Bank maintains a residual interest in these loans and services these loans. In addition, the Bank may extend certain limited recourse over the assets sold. In calculating the gain or loss on the sale, the Bank allocates the cost basis of the loans sold between the assets sold, the retained interest and servicing rights based on their relative fair values at the date of the sale. A gain or loss is recognized as the difference between the cash proceeds from the sale and the allocated cost basis of the assets sold, less the estimated fair value of any recourse.

The retained interest represents subordinated bonds, classified as available for sale and is subsequently valued at estimated market value using the present value of future cash flows considering fees paid to the senior bond holders and certain administrative fees and expenses. The Bank recognizes interest income on retained interests using the effective yield method.

Property and equipment

Premises, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of buildings is computed on a straight-line basis over the estimated useful lives of the assets. Depreciation of equipment and vehicles is computed on a declining balance basis over the useful lives of the assets. Amortization of leasehold improvements is computed on a straight-line basis over the lives of the related leases, if shorter. Gains or losses on disposal of property and equipment are determined by reference to their carrying amount. Maintenance and repairs are charged to expense as incurred.

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

Buildings	5-40 years
Equipment and vehicles	5 years
Leasehold improvements	5 years

All leases entered into by the Bank as lessee qualify as operating leases. Payments made under operating leases are charged to income on a straight-line basis over the periods of the leases. Any payment made to the lessor by way of penalty for early termination of operating leases is recognized as an expense in the period in which termination takes place.

Stock based compensation

The Bank accounts for its employee stock-based compensation plans using the intrinsic-value based method in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Compensation expense is the number of shares under option times the difference between the quoted market price of the stock at the measurement date, the date on which the number of shares and the exercise price are fixed, less the exercise price that the employee is required to pay. Compensation expense is recognized over the vesting period in which an employee performs the services related to the option awards.

Interest expense

Interest expense is recognized on an accrual basis. For deposits where a portion of the interest payments are linked to the Bank's stock price, interest is recognized based on the price of the Bank's stock at the end of the period.

Advertizing costs

Advertizing costs are expensed as incurred and are included in the Statement of Income in 'Administrative expenses'.

Trust fees and compensation to the trust accounts

The Bank receives fees for its management of trust assets and operations, and is entitled to receive performance-based fees for certain trust accounts, in accordance with the relevant laws and regulations applicable to trust operations. These fees, if earned, are recognized at the end of the performance period.

The Bank is liable to compensate trust account holders for losses incurred in certain trust accounts subject to minimum return and principal guarantees. Such losses are settled as of the end of each applicable year.

Other fees and commissions income

Fees and commissions primarily consist of fees from trust investment management, deposit accounts, mortgage servicing, loan commitments, credit card interchange income and cash advance fees. Such fees are recognized when earned.

Income taxes

Deferred income tax is provided, by using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Temporary differences arise from differences in the recognition of certain revenues and expenses between financial and tax reporting. Such differences include the recognition of losses and impairments on loans and investments, recognition of interest income, and valuation differences recognized for trading securities. Deferred tax assets, including the carry-forward of unused tax losses, are recognized to the extent that it is more likely than not that the deferred tax assets will be realized. To the extent that deferred tax assets are not realizable, a valuation allowance is recognized.

Goodwill and impairment of goodwill

Goodwill, which is recognized as the excess of cash paid or liabilities assumed over net assets acquired, is being amortized on a straight-line basis over its estimated useful life.

The carrying amount of goodwill is reviewed annually for impairment. If this review indicates that the carrying amount of goodwill may not be recoverable, as determined based on the estimated undiscounted cash flows of the entity acquired over the remaining economic period, then the carrying amount will be adjusted.

Earnings per common share

Earnings per common share for all periods presented is computed by dividing net income, reduced by dividends on preferred stock by the weighted average number of common shares issued and outstanding.

Diluted earnings per common share is computed by dividing net income available to common stockholders, adjusted for the effect of assumed conversions, by the weighted average number of common shares issued and outstanding and dilutive potential common shares, which include convertible preferred stock and stock options. Dilutive potential common shares are calculated using the treasury method.

Reclassification

Certain reclassifications have been made in the 1999 and 1998 financial statements to conform to the 2000 presentation for comparability purposes.

2. Recent accounting pronouncements

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities"

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of SFAS No. 133" (collectively, "SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivatives used for hedging activities and derivatives embedded in other contracts. SFAS No. 133 is effective for the Bank from January 1, 2001. Adjustments resulting from initial adoption of the new standards will be reported in a manner similar to the cumulative effect of a change in accounting principle and will be reflected in net income or accumulated other comprehensive income based upon existing hedging relationships, if any.

SFAS No. 133 requires all derivatives to be recognized on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Derivatives which are not designated as hedging instruments are adjusted to fair value through current-period earnings.

For fair-value hedge transactions in which the Bank is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument should generally be offset in the income statement by changes in the hedged item's fair value for the risk being hedged.

For cash-flow hedge transactions in which the Bank is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings.

The Bank estimates that the impact at the date of initial application will result in a net-of-tax reduction to income of 312 million Won and a reduction to shareholders' equity of 194 million Won. The reduction in income is primarily attributable to derivative contracts which are currently designated as hedging (and accounted for on an accrual basis) which would be accounted for as trading under SFAS No. 133.

As a result of this standard, management may make changes to risk management strategies outside of its trading activities, and it also anticipates a significant increase in the complexity of the accounting and record keeping requirements for these hedging activities.

Adoption of this standard may cause volatility in quarterly earnings and equity, prospectively, due to the methods used to measure hedges and management's decision to no longer apply hedge accounting to certain business strategies.

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities — a replacement of SFAS No. 125". SFAS No. 140 revises the standards for accounting for securitizations, other transfers of financial assets and collateral, and restricts the use of special purpose vehicles in transfers. SFAS No. 140 requires certain new disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Generally, the new provisions of this standard are to be applied prospectively and become effective March 31, 2001. However, certain recognition and classification requirements for collateral and disclosures for collateral and securitization transactions are required as of December 31, 2000. These have been adopted by the Bank. Adoption of the remaining provisions of this revised accounting standard is not expected to have a material impact on the Bank.

3. Acquisition of Jooeun Leasing

On January 20, 2000, the Bank acquired an additional 35% of Jooeun Leasing Co., Ltd. ("Jooeun Leasing") through a debt to equity swap bringing the Bank's total ownership to 85%. The swap was the result of a memorandum of understanding between Jooeun Leasing and its creditors. The Bank converted its loans to Jooeun Leasing to an equity investment in the amount of 82,300 million Won on January 20, 2000 and, correspondingly, Jooeun Leasing issued 16.4 million shares of its common stock to the Bank.

As of December 31, 2000, the Bank holds 85% of the outstanding shares of Jooeun Leasing. The Bank included the net assets of Jooeun Leasing and the related minority interest in its consolidated balance sheet as of the acquisition date. The purchase of the additional 35% has been accounted for under the purchase method and accordingly, the results of operations for Jooeun Leasing have been incorporated in the Bank's consolidated statement of income from the date of acquisition.

The net liabilities of Jooeun Leasing at the date of acquisition were 36,975 million Won. The excess of consideration given over the net liabilities assumed has been recorded as goodwill of 54,602 million Won. The goodwill is being amortized using the straight-line method over a period of 5 years. The amortization period is consistent with the Bank's current strategy to run off the current portfolio of leases and customers. In accordance with the memorandum of understanding related to the transaction, Jooeun Leasing's maturities on debt of 244,234 million Won were extended until the end of 2005.

The memorandum of understanding requires the Bank to provide two additional loans in the amount of 100 billion Won upon request by Jooeun Leasing. A loan totaling 47 billion Won has been extended as of March 2001. The remaining 53 billion Won will be granted during the twelve-month period ending March 31, 2002.

The following unaudited pro forma consolidated statement of income of the Bank is presented as if the acquisition of the majority interest in Jooeun Leasing had occurred at the beginning of the period presented.

	1999 (all amounts expressed in millions of Won except per share data) (unaudited)
Revenue	4,267,189
Net income	485,068
Earnings per share: (in Won)	
Basic	4,264.41
Diluted	2,795.83

The unaudited pro forma consolidated statement of income includes adjustments to give effect to amortization of goodwill and related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase occurred at the beginning of the year presented or of future consolidated results.

4. Acquisition of DongNam Bank

In accordance with the purchase and assumption arrangement effective June 29, 1998, the Bank purchased certain assets and assumed substantially all of the liabilities of DongNam Bank and its subsidiary, DongNam Finance Limited (collectively, "DNB"). In addition, the Bank retained the right to transfer any purchased assets which became non-performing within a year after the purchase date to the Korea Asset Management Corporation ("KAMCO") on condition that the Bank was not found to be negligent in the management of those assets.

On the date of acquisition, the Bank acquired from DNB assets of 5,345,644 million Won and liabilities of 5,854,236 million Won including deposits of 3,111,878 million Won. This acquisition was accounted for under the purchase method and the results of operations have been included in the Bank's results of operations since June 29, 1998.

Additionally, at March 31, 1999, the Bank transferred to KAMCO 321,841 million Won of loans related to the DNB acquisition in accordance with the purchase and assumption agreement. At March 30, 1999, June 30, 1999 and September 30, 1999, the Bank received compensation of 7,764 million Won, 2,136 million Won, and 24,368 million Won, respectively, in accordance with the purchase and assumption agreement reflecting the identification of requirements for additional loss allowances on certain loans acquired from DNB over and above those recognized on June 29, 1998. This amount was recorded as an increase in the allowance for loan losses and restored the Bank to an overall neutral position on the transaction. No additional compensation was received during 2000.

5. Securitization of non-performing loans

During 2000, the Bank established H&CB 0004 ABS Specialty Co., Ltd. ("HAS-4"), a special purpose vehicle, together with one investor in order to securitize certain assets of the Bank.

On December 6, 2000, the Bank sold non-performing and other loans to HAS-4, which in turn issued bonds in the amount of 97,000 million Won collaterized by such loans. In accordance with SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," this transaction was accounted for as a sale.

In conjunction with the sale, the Bank recognized cash proceeds of 75,752 million Won and de-recognized 162,272 million Won of loans (net of allowance of 48,529 million Won). The Bank also recognized a liability in the amount of 1,148 million Won related to certain recourse provisions associated with the transfer and retained a junior bond interest in the special purpose vehicle of 71,112 million Won determined on a relative fair market value basis. The Bank recognized a loss on the sale of loans totaling 16,557 million Won.

As a result of the sale, the Bank retained interest in the loans through its investment in junior bonds. The cash flows from the junior bonds represent residual interest remaining in the special purpose vehicle after payment of senior bond interest and principal and payment of certain fees and expenses. The Bank determined the fair value of the junior bonds using present value of future cash flows taking into consideration the priority of payments. The key economic assumptions used in estimating the fair value of retained interests capitalized during the year ended December 31, 2000 are as follows:

	2000
Weighted average life (in years)	1.42
Weighted average collection ratio	65.81%
Reinvestment ratio	5.00%
Weighted average asset cash flows discounted at	12.63%

The Bank recognized an impairment charge of 12,020 million Won at December 31, 2000 to reflect the then market value, which was less than the relative fair market value calculated at the transfer date.

The Bank entered into a servicing arrangement contract whereby the Bank will service and maintain the records for these loans. In exchange, the Bank receives 0.5% of the outstanding securitized bond balance of the beginning of every quarter as quarterly servicing fees.

The Bank received cash flows from the special purpose vehicle for the period from transfer to the end of the year as follows:

	2000 (all amounts expressed in millions of Won)
Proceeds from new securitization	75,752
Servicing fees received	101

At December 31, 2000, the key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows:

	10% Impact	20% Impact
	(all amounts expressed in millions of Won)	
Estimated fair value of junior bond	47,000	32,979
Weighted average collection ratio	59.23%	52.65%
Reinvestment ratio	5.00%	5.00%
Weighted average asset cash flows discounted at	12.10%	12.00%

These sensitivities are hypothetical and should be used with caution. The changes in fair value based on a variation in assumptions may not be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Given the nature of these assumptions, it is at least reasonably possible that changes in actual results or future changes in assumptions could materially affect the short-term carrying value of the junior bonds and the related results of the Bank's operations.

6. Other KAMCO loan sales

The Bank sold to KAMCO certain non-performing loans to increase the liquidity of the Bank in the net aggregate principal amount (net of related allowances for loan losses) of 2 billion Won and 208 billion Won for a sales price of 142 million Won and 144 billion Won in 1999 and 1998, respectively. The sales price takes into account adjustments made to the purchase price of the Bank's loans after the initial payment by KAMCO, as governed by each sales contract. After considering the effect of loans repurchased by the Bank and recourse liabilities for certain loan guarantees, such sales resulted in losses of 1.6 billion Won and 61.2 billion Won for 1999 and 1998, respectively.

Notwithstanding the sale and elimination of these assets from the Bank's balance sheet, the Bank was obligated under the provisions of the sales agreement, to repurchase certain loans at the option of KAMCO. The Bank repurchased loans of 23,967 million Won pursuant to these provisions during 2000. The Bank also received certain settlement payments related to prior period sales or recourse obligations of 8,637 million Won. In addition, the Bank has guaranteed the realization of the transfer price in the individual adjustment contract of certain loans identified under the terms of the agreement. As of December 31, 2000, 59,396 million Won is guaranteed against which the Bank has 3,683 million Won as a recourse liability.

7. Other investing activities

On January 11, 2000, in accordance with the share transfer and joint venture agreements, the Bank purchased one million shares of common stock of ING Life Insurance Company, Korea, Ltd. ("ING Life") for 41,384 million Won. This represents 20% of the total outstanding common shares of ING Life Insurance Company, Korea, Ltd. As part of this purchase, the Bank recognized goodwill totaling 37,173 million Won as its cost exceeded its share of the carrying value of ING Life's equity. This goodwill is being amortized over 5 years and relates primarily to the future cash flows from insurance premiums.

As part of the same agreement, ING Insurance International B.V. acquired 1.2 million common shares of Jooeun Investment Trust Management Co., Ltd., a consolidated subsidiary of the Bank, for 27,840 million Won, which represents 20% of the total outstanding common shares. The Bank recognized a gain of 23,709 million Won on the sale which is reported as 'Other noninterest income' on the income statement.

8. Restricted deposits

The following table presents restricted deposits as of December 31, 2000 and 1999.

	2000	1999
	(all amounts expressed in millions of Won)	
Reserve deposits with the Bank of Korea	169,665	652,216
Sinking Funds deposited with the Bank of Korea	—	14,293
Deposits for severance payments	255,289	263,500
Other deposits	983	958
Total restricted deposits	425,937	930,967

Reserve deposits with the Bank of Korea represent amounts required to be kept on deposit under the Banking Act for payment of deposits. Deposits for severance payments are made under a group severance benefit plan, and any withdrawal other than for the actual payment of severance benefits is subject to tax under Korean Tax Law.

9. Trading assets and liabilities

The following table presents trading assets and trading liabilities for December 31, 2000 and 1999.

	2000	1999
	(all amounts expressed in millions of Won)	
Trading assets:		
Debt securities		
Korean Treasury and government agency securities	10,048	2,025,304
Corporate debt securities	—	60,080
Debt securities issued by financial institutions	—	47,510
Other debt securities	2,397,336	10,807
Equity securities	31,949	122,335
Total debt and equity instruments	2,439,333	2,266,036
Derivative financial instruments:		
Cross currency contracts	106,294	101,134
Interest rate contracts	789	—
Foreign exchange contracts	2,130	3,839
Total derivative financial instruments	109,213	104,973
Total trading assets	2,548,546	2,371,009
Trading liabilities:		
Derivative financial instruments:		
Interest rate contracts	22	972
Foreign exchange contracts	31,175	2,978
Total trading liabilities	31,197	3,950

Average trading assets and liabilities were as follows for December 31, 2000 and 1999:

	2000	1999
	(all amounts expressed in millions of Won)	
Total trading assets — debt and equity instruments	2,346,352	1,504,044
Total trading assets — derivative financial instruments	104,157	120,906
Total trading liabilities — derivative financial instruments	5,864	5,642

10. Securities

At December 31, 2000, the amortized cost and estimated fair value of the Bank's securities available for sale and held-to-maturity securities and the related unrealized gains and losses were as follows:

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(all amounts expressed in millions of Won)			
Securities available for sale:				
Debt securities				
Korean Treasury and government agency securities	2,558,383	98,709	658	2,656,434
Corporate debt securities	326,118	11,037	4,974	332,181
Mortgage-backed securities	802,895	21,420	1,637	822,678
Debt securities issued by financial institutions	363,897	14,576	371	378,102
Other debt securities	1,458,162	81,674	—	1,539,836
Equity securities	85,438	—	32,552	52,886
Total securities available for sale	5,594,893	227,416	40,192	5,782,117
Held-to-maturity securities:				
Korean Treasury and government agency securities	1,502,572	42,589	1,069	1,544,092
Corporate debt securities	322,164	7,317	1,122	328,359
Mortgage-backed securities	180,000	6,566	—	186,566
Debt securities issued by financial institutions	174,864	4,077	—	178,941
Debt securities issued by foreign governments	2,485	—	28	2,457
Total held-to-maturity securities	2,182,085	60,549	2,219	2,240,415

During the year ended December 31, 2000, the Bank recognized other-than-temporary impairment losses on securities available for sale and held-to-maturity securities of 120,810 million Won and 5,144 million Won, respectively. As discussed in Note 1 and Note 12, Korean companies may continue to be adversely affected by adverse trends in the Korean economy which may result in additional decreases in the carrying amounts of securities other than those issued by governmental entities. During 2000, the Bank transferred held-to-maturity securities with an amortized cost of 12,856 million Won and an other-than-temporary impairment loss of 6,722 million Won to securities available for sale. The transfer of these securities was due to significant deterioration in the issuers' credit worthiness.

At December 31, 1999, the amortized cost and estimated fair value of the Bank's securities available for sale and held-to-maturity securities and the related unrealized gains and losses were as follows:

	December 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(all amounts expressed in millions of Won)			
Securities available for sale:				
Debt securities				
Korean Treasury and government agency securities	2,541,897	10,865	26,868	2,525,894
Corporate debt securities	302,924	5,460	2,422	305,962
Mortgage-backed securities	128,845	1,111	—	129,956
Debt securities issued by financial institutions	485,951	15,507	9,477	491,981
Other debt securities	750,699	40,242	77	790,864
Equity securities	114,378	8,527	7,820	115,085
Total securities available for sale	4,324,694	81,712	46,664	4,359,742
Held-to-maturity securities:				
Korean Treasury and government agency securities	1,235,159	3,353	12,940	1,225,572
Corporate debt securities	399,834	2,822	7,523	395,133
Debt securities issued by financial institutions	152,143	51	2,479	149,715
Debt securities issued by foreign governments	2,384	—	27	2,357
Bond Market Stabilization Fund (Note 11)	870,137	16,302	—	886,439
Total held-to-maturity securities	2,659,657	22,528	22,969	2,659,216

During the year ended December 31, 1999, the Bank recognized impairment losses on securities available for sale and held-to-maturity securities of 22,580 million Won and 1,899 million Won, respectively, where decreases in values were deemed to be other-than-temporary.

Gross unrealized losses on interest rate swaps related to securities available for sale at December 31, 2000 and 1999 were 168 million Won and 391 million Won, respectively.

For the years ended December 31, 2000 and 1999, proceeds from sales of securities available for sale amounted to 2,176,639 million Won and 2,707,230 million Won, respectively. For the years ended December 31, 2000 and 1999, gross realized gains amounted to 54,176 million Won and 126,396 million Won, and gross realized losses amounted to 31,266 million Won and 73,063 million Won, respectively for such securities.

The amortized cost and estimated fair value of the Bank's debt securities available for sale and held-to-maturity securities at December 31, 2000 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	At December 31, 2000			
	Securities available for sale		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(all amounts expressed in millions of Won)			
Due in one year or less	1,818,256	1,859,230	424,118	428,878
Due after one year through five years	3,671,989	3,846,864	1,725,822	1,778,815
Due after five years through ten years	19,210	23,137	32,145	32,722
Total	5,509,455	5,729,231	2,182,085	2,240,415

11. Bond market stabilization fund

On September 21, 1999, at the request of the government, forty Korean financial institutions established the Bond Market Stabilization Fund ("the Fund") to stabilize the market prices of debt securities and interest rates in Korea through, among other means, open market purchases and sales of debt securities. The Bank contributed 872,200 million Won in cash to the Fund. In exchange for the contribution, the Bank received an 8.1% interest in the Fund.

On March 27, 2000 (the "dissolution date"), the government elected to dissolve the Fund in advance of the scheduled maturity and sell most of the securities held within the Fund to the participating financial institutions. The Bank received cash of 872,200 million Won and purchased certain securities totaling 846,700 million Won previously held by the Fund. The total fair value of all investments sold to participating financial institutions was approximately 26.6 trillion Won. These securities consisted of national and local government bonds, financial debentures issued by government-invested corporations and corporate bonds with credit ratings of mostly A or higher as rated by the Korean credit rating agencies.

On dissolution of the Fund, a portion of the securities previously held by the Fund were transferred to two trusts ("the Trusts") and the Bank received a 100% of the interest in one of the trusts ("Trust I"). Trust I is separately identifiable from the other trust ("Trust II"), is managed by a third party and received 23.6 billion Won of assets from the Fund. The Bank manages Trust II which is beneficially owned by the other participating financial institutions. Trust II received 273.4 billion Won of assets from the Fund. The Bank consolidates Trust I.

As part of the dissolution agreement, the participating financial institutions agreed that any losses experienced by the participants on their share of investments purchased from the Fund would be shared with the other participating financial institutions according to their share of the Trusts until August 31, 2002, the scheduled maturity of the Trusts. The mechanism by which this operates is that in the event that any of the purchased investments go through court receivership, workout or mediation, the participating financial institutions holding those securities are able to sell these securities to the Trusts at the fair value calculated using the yield on the dissolution date. The Money Trust Committee, consisting of six participating financial institutions including the Bank, has the authority to approve the repurchase of securities by the Trusts. As the Bank owns approximately 7.94% of the Trusts in total, the Bank is exposed to 7.94% of the potential loss on securities which are sold back to the Trusts. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts.

In April 2001, the Money Trust Committee approved a repurchase by the Trusts of securities issued by Hyundai Engineering & Construction Co., Ltd. with a total face amount of 234.0 billion Won for 238.0 billion Won.

12. Loans

The composition of the loan portfolio as of December 31, 2000 and 1999 was as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Consumer:		
Residential mortgages	20,987,156	17,246,119
Installment loans to individuals	4,675,442	2,265,976
Credit cards	2,881,259	1,216,213
Other consumer[1]	7,082,964	4,209,623
Commercial:		
Commercial and industrial	6,357,724	3,944,406
Construction loans	771,173	1,601,338
Lease financing	263,724	—
Other commercial[2]	3,188,419	1,650,129
Gross loans	46,207,861	32,133,804
Deferred origination costs	35,809	22,044
Less: Allowance for loan losses	(1,317,026)	(1,286,552)
Total loans, net	44,926,644	30,869,296

(1) Other consumer loans include personal overdrafts, consumer loans collaterized by real estate, loans with principal due at maturity, auto installment loans and loans for low-income housing leases.

(2) Other commercial loans include commercial bills discounted, overdrafts, and loans to public agencies.

During 2000, the Bank received convertible debt securities, marketable equity securities and non-marketable equity securities having a fair market value of 3,405 million Won, 14,226 million Won, and 1,490 million Won, respectively, through restructuring of eleven loans having an aggregate net book value of 34,627 million Won. The Bank recognized aggregate charge-offs of 19,807 million Won and recoveries of 4,300 million Won associated with these transactions.

Directors and executive officers of the Bank and their related interests were indebted to the Bank in the aggregate amounts of 37,239 million Won and 47,380 million Won at December 31, 2000 and 1999, respectively. From January 1, 2000, through December 31, 2000, directors and executive officers of the Bank and their related interests borrowed 34,860 million Won and repaid 30,943 million Won. In the opinion of management, these loans do not involve more than a normal risk of uncollectibility.

The following table sets forth information about the Bank's impaired loans as of December 31, 2000 and 1999. Impaired loans are those on which the Bank believes it is not probable that it will be able to collect all amounts due according to the contractual terms of the loan.

	2000	1999
	(all amounts expressed in millions of Won)	
Impaired loans with an allowance	2,097,618	2,063,915
Impaired loans without an allowance	398,517	736,505
Total impaired loans	2,496,135	2,800,420
Allowance for impaired loans under SFAS 114	987,102	1,061,085
Average balance of impaired loans during the year	2,922,831	3,521,344
Interest income recognized on impaired loans during the year[1]	26,913	65,371

(1) Had the impaired loans performed in accordance with their original terms, additional interest income of 117,728 million Won, 22,588 million Won and 33,028 million Won would have been recorded in 2000, 1999 and 1998, respectively.

As discussed in Note 1, adverse economic conditions in the Korean economy may continue to have an adverse effect on debtors of the Bank. The Bank owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectibility of these amounts is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Korean economy and the potential continuation of the adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Bank's financial statements.

The table below summarizes the changes in the allowance for loans, guarantees and acceptances:

	2000			1999		
	Loans	Guarantees & acceptances	Total	Loans	Guarantees & acceptances	Total
	(all amounts expressed in millions of Won)					
Allowance at January 1,	1,286,552	31,938	1,318,490	1,258,592	39,904	1,298,496
Allowance from acquisition of Jooeun Leasing	49,668	—	49,668	—	—	—
Provision for loan losses, guarantees and acceptances	378,000	(788)	377,212	306,151	(7,966)	298,185
Allowance relating to loans repurchased from (sold to) KAMCO	29,178	—	29,178	(5,744)	—	(5,744)
Allowance relating to loans sold to other companies	(48,529)	—	(48,529)	(17,071)	—	(17,071)
Allowance relating to loans transferred to KAMCO in relation to DongNam	—	—	—	(61,466)	—	(61,466)
Other compensation received on DongNam loans	—	—	—	34,269	—	34,269
Charge-offs	(423,190)	—	(423,190)	(244,186)	—	(244,186)
Recoveries	29,647	—	29,647	16,420	—	16,420
Foreign currency translation	15,480	2,286	17,766	7,000	—	7,000
Other	220	(189)	31	(7,413)	—	(7,413)
Allowance at December 31,	1,317,026	33,247	1,350,273	1,286,552	31,938	1,318,490

The allowance for guarantees and acceptances in the above table is included in 'Other liabilities' in the consolidated balance sheet.

Investment in capital leases

The Bank originates direct financing leases on certain machinery, computers, and various other equipment for customers in variety of industries throughout Korea. Income attributable to the leases is initially recorded as unearned income and subsequently recognized as interest income using the straight-line method, which approximates the effective interest method, over the term of leases. The terms of leases are generally from 3 to 12 years. The components of the net investment in direct financing leases at December 31, 2000, which are included in 'Loans,' are as follows:

	2000
	(all amounts expressed in millions of Won)
Gross lease payment receivable	324,465
Estimated unguaranteed residual values	8,811
Unearned income	(69,552)
Total	263,724

The scheduled maturities of minimum lease payments outstanding at December 31, 2000, expressed as a percentage of total, are due approximately as follows:

	2000
Within 12 months	27.1%
13 to 24 months	20.3%
25 to 36 months	14.0%
37 to 48 months	12.6%
After 48 months	26.0%
Total	100.0%

13. Premises and equipment

Premises and equipment at December 31, 2000 and 1999 were as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Land	187,193	187,453
Building and leasehold improvements	645,689	558,139
Equipment and furniture	397,306	338,722
Total	1,230,188	1,084,314
Less: Accumulated depreciation and amortization	(402,810)	(339,678)
Premises and equipment, net	827,378	744,636

The Bank incurred depreciation expense of 96,559 million Won, 75,957 million Won and 60,599 million Won for the years ended December 31, 2000, 1999 and 1998, respectively.

14. Investments in affiliates

The equity method of accounting is used for the Bank's investment in companies in which the Bank's ownership interest is greater than twenty but less than or equal to fifty percent ("Affiliates"). Equity in net income or loss of the Affiliates is presented separately in the consolidated statements of income.

On January 20, 2000, the Bank acquired an additional 35% ownership in Jooeun Leasing Co., Ltd., bringing its total ownership to 85%. As a result, Jooeun Leasing Co., Ltd. was consolidated during 2000, while it was accounted for under the equity method in 1999. The table below presents summarized financial information for the Bank's investments accounted for under the equity method during 2000 and 1999.

The Bank's investments in Affiliates, accounted for under the equity method were as follows:

	Country of incorporation	Percentage of ownership
As of December 31, 2000:		
Jooeun Credit Information Co., Ltd.	Korea	50%
ING Life Insurance Korea Co., Ltd.	Korea	20%
Korea Asset Investment Co., Ltd.	Korea	25%
As of December 31, 1999:		
Jooeun Credit Information Co., Ltd.	Korea	50%
Jooeun Leasing Co., Ltd.	Korea	50%

The net undistributed losses of these Affiliates were 16.0 billion Won and 164.3 billion Won as of December 31, 2000 and 1999, respectively. The Bank recognizes its share of cumulative net income subsequent to the acquisition date. A gain of 3.4 billion Won and a loss of 82.0 billion Won were recorded as of December 31, 2000 and 1999, respectively. Investments in and loans to these Affiliates, included in 'Other assets,' as of December 31, 2000 and 1999 were 45.0 billion Won and 109.9 billion Won, respectively, after recognition of the Bank's share of Affiliates' gains (losses).

Summary financial information of Affiliates at December 31, 2000 and 1999 is presented below:

	2000	1999
	(all amounts expressed in millions of Won)	
Balance sheet		
Assets	623,642	292,842
Liabilities	561,586	418,918
Stockholders' equity (deficit)	62,056	(126,076)
Statement of Income		
Net interest income (loss) after provision for credit losses	17,647	(45,055)
Noninterest income	415,392	24,336
Noninterest expense	415,769	18,594
Income (loss) before income tax	17,270	(39,313)
Income tax expense	2,300	115
Net income (loss)	14,970	(39,428)

15. Deposits

Due to depositors as of December 31, 2000 and 1999, and the weighted average interest rates on deposits at December 31, 2000, were as follows:

	2000	1999	Weighted Average Rate Paid for 2000
	(all amounts expressed in millions of Won)		
Interest-bearing deposits:			
Interest-bearing demand deposits	8,943,541	7,394,239	2.44%
Savings deposits	1,002,483	920,111	3.28%
Certificate of deposit accounts	149,643	41,225	6.11%
Other time deposits	32,647,156	20,075,244	7.84%
Mutual installment deposits	4,442,268	4,839,129	8.98%
Total interest-bearing deposits	47,185,091	33,269,948	6.87%
Noninterest bearing deposits:			
Demand accounts	93,926	109,385	
Total due to depositors	47,279,017	33,379,333	

Mutual installment deposits are interest-bearing accounts offered by the Bank which enable customers to become eligible for mortgage and other consumer loans while maintaining an account with the Bank. The customer's account does not secure loan amounts once made. Prior to qualifying for a loan, a customer must make required monthly deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from the Bank, but loan amounts and terms may not be as favorable as those associated with a loan requested after the completion of the deposit contract term.

The contractual schedule of maturities of certificate of deposits, other time deposits, and mutual installment deposits at December 31, 2000 was as follows:

	2000 (all amounts expressed in millions of Won)
2001	30,733,318
2002	3,028,645
2003	2,637,378
2004	326,936
2005	265,609
Thereafter	247,181
Total deposits	37,239,067

Deposit insurance is provided by the KDIC under the Depositor Protection Act. Currently, deposits made on or before July 31, 1998 are insured for the entire principal amount plus an agreed interest rate. Deposits made after July 31, 1998 greater than 20 million Won are insured for their full principal amount. Starting January 1, 2001, the KDIC insures up to a total of 50 million Won per depositor in each bank, regardless of the timing or size of the deposits.

16. Other borrowed funds

A summary of other borrowed funds at December 31, 2000 and 1999 is presented below:

	2000		1999	
	Outstanding[(1)] Balance	Weighted Average Interest Rate	Outstanding[(1)] Balance	Weighted Average Interest Rate
	(all amounts expressed in millions of Won, except interest rate data)			
H&CB				
Borrowings from the Bank of Korea	151,564	3.71%	71,431	6.11%
Borrowings in foreign currency	823,705	6.62%	686,706	7.73%
Short-term finance debentures in foreign currency	81,788	7.51%	106,522	6.82%
Other borrowings	953,265	6.21%	300,407	8.08%
Total H&CB other borrowed funds	2,010,322	6.24%	1,165,066	7.64%
Subsidiaries				
Borrowings from H&CB Trust Accounts	39,700	12.70%	87,250	11.46%
Borrowings from other financial institutions	165,481	10.75%	214,045	9.22%
Total subsidiaries' other borrowed funds	205,181	11.36%	301,295	9.87%
Total other borrowed funds	2,215,503	6.69%	1,466,361	8.10%

(1) Original maturities of less than one year.

17. Secured borrowings

During 2000 and 1999, the Bank transferred certain non-performing loans and impaired bonds to four special purpose entities. In accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," these transactions have been accounted for as secured borrowings.

The following table is a summary of secured borrowings (net of unamortized original issue discount) at December 31, 2000 and 1999.

	2000			1999
	Collateral	Maturity	Borrowing	Borrowing
	(all amounts expressed in millions of Won)			
9.74%-10.54% Senior Mortgage-backed securities	121,802	2001	40,000	85,000
9.98% Senior Collateralized bond obligation		2001	177,000	—
13.00%-13.50% Subordinated Collateralized bond obligation	273,506	2003-2004	64,400	—
1.00% Subordinated Collateralized bond obligation		2005	20,300	—
9.62%-10.12% Senior Mortgage-backed securities	232,164	2001-2002	72,000	—
9.24%-9.54% Senior Mortgage-backed securities	152,944	2001	85,000	—
4.9%-6.2% Secured Deposits	1,259,170	2001	788,915	449,420
Gross secured borrowings			1,247,615	534,420
Less: Unamortized discount			(296)	(736)
Total secured borrowings	2,039,586[1]		1,247,319	533,684

(1) Collateral consists of non-performing loans and impaired bonds. Amounts are disclosed at par value.

18. Long-term debt

The following table is a summary of long-term debt (net of unamortized original issue discount) at December 31, 2000 and 1999.

	Maturity Date	2000 Total	1999 Total
	(all amounts expressed in millions of Won)		
Senior			
H&CB:			
Won currency:			
5.0%-6.5% Ministry of Finance and Economy notes	2001-2019	288,798	302,312
3.0% National Housing Fund notes	2001	—	397,267
8.0% National Housing Fund notes	2001-2009	9,901	10,000
4.0%-9.5% Industrial Bank of Korea notes	2001-2008	156,798	192,725
6.1%-11.99% H&CB Finance Debentures	2001-2003	515,000	329,000
5.5%-16.46% Housing Debentures	2001-2005	207,931	718,341
7.51%-9.3% Floating rate Housing Debentures[2]	2001	50,000	90,900
3.5%-9.76% Notes	2001-2010	127,532	154,984
Subtotal		1,355,960	2,195,529
Foreign currency:			
5.0% -7.91% Floating rate Finance Debentures[2]	2003	326,497	114,540
0.53%-8.8% Other floating rate notes[1][2]	2001-2006	200,396	515,418
Subtotal		526,893	629,958
Subsidiaries:			
3.0%-9.0% National Housing Fund notes	2001-2027	126,596	111,689
9.38% National Housing Fund notes	2001-2006	106,277	6,558
3.0%-8.5% Notes	2002-2014	82,185	1,164
Subtotal		315,058	119,411

	Maturity Date	2000 Total	1999 Total
	(all amounts expressed in millions of Won)		
Subordinated			
H&CB:			
Won currency:			
9.0% Handuk Life Insurance notes	2004	—	10,000
8.69% Daehan Life Insurance notes	2007	150,000	150,000
8.5% Kyobo Life Insurance notes	2007	100,000	100,000
8.65%-15.02% H&CB Finance Debentures	2003-2009	174,900	174,900
15.30% H&CB Finance Debentures	2002	40,000	40,000
7.51%-8.51% Floating rate H&CB Finance Debentures(2)	2003-2004	348,200	348,200
7.51%-8.51% Floating rate Housing Debentures(2)	2003-2004	79,000	79,000
8.65%-9.65% H&CB Finance Debentures	2006-2010	666,026	—
Subtotal		1,558,126	902,100
Gross long-term debt		3,756,037	3,846,998
Less: Unamortized discount		(52,617)	(71,478)
Total long-term debt, net		3,703,420	3,775,520

(1) During 2000, the Bank redeemed all of its remaining redeemable long-term debt of 492,984 million Won.
(2) Interest rates on floating rate debt are those rates in effect at December 31, 2000.

Long-term debt is predominately denominated in Won, U.S. dollars, or Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formula based on certain money market rates tied to the six-month London Inter-bank Offered Rate ("LIBOR") and the monthly Public Fund Prime Rate published by the Korean Government and are reset on a semi-annual and monthly basis, respectively.

Housing Debentures were issued under special government regulations to obtain funding to provide loans to low-income households. The availability of this funding was discontinued in 1998. Prior to its discontinuance, this was a primary source of funding for the Bank.

Ministry of Finance and Economy Notes are borrowings from the Korean Government for the purpose of lending to small and medium size businesses or loans for the improvement of low-income housing.

National Housing Fund Notes are discounted borrowings from the National Housing Fund, a Korean Government Agency, for the purpose of making small-scale housing loans to low income households and to contractors for the construction of low-income housing projects.

H&CB Finance Debentures represent discounted borrowings issued under the Banking Act for the purpose of general funding. It is intended to be a primary source of funding for the Bank in the future.

During 2000, the Bank retired early 3% National Housing notes and 9.0% Handuk Life Insurance notes at par. As the retirements were at par, no gain or loss was recognized.

The combined aggregate amount of contractual maturities of all long-term debt at December 31, 2000 was as follows:

	2000 (all amounts expressed in millions of Won)
Due in 2001	485,786
Due in 2002	365,392
Due in 2003	1,175,973
Due in 2004	264,220
Due in 2005	87,682
Thereafter	1,376,984
Total long-term debt	3,756,037

19. Preferred stock

The number of preferred shares outstanding at December 31, 2000 and 1999 was as follows:

	2000	1999
	(all amounts expressed in thousands)	
Beginning balance	59,300	59,300
Redemption of shares	(41,510)	—
Ending balance	17,790	59,300

On December 28, 1998, in connection with the purchase and assumption arrangement related to DNB, the Bank issued 59.3 million non-cumulative and non-participating redeemable preferred shares with a par value of 5,000 Won per share to Korea Deposit Insurance Corporation ("KDIC"). KDIC purchased the shares for 296.5 billion Won and in turn, the Bank purchased marketable, non-callable bonds having a face amount of 296.5 billion Won issued by KDIC.

The preferred shares were issued at par value and have scheduled redemption dates through 2004. Any shares that are not redeemed at the scheduled redemption dates will be converted into the Bank's common shares. The preferred shares have priority over the Bank's common shares in the event of liquidation.

The KDIC bonds are guaranteed by the Republic of Korea and have a maturity of January 31, 2004. Interest on the bonds is paid quarterly and principal is payable in full at maturity. The bonds are redeemable at the option of the Bank halfway through the scheduled maturity.

Both instruments bear interest of 1% per annum. Preferred shares that are not redeemed at the scheduled redemption date are subject to an increased interest rate equal to the current market rate of the KDIC bonds at such date.

At December 31, 2000 and 1999, the KDIC bonds were netted against the preferred shares in stockholders' equity since both instruments related to the same transaction.

At the Annual Shareholders Meeting in February 1999, it was determined that the holders of preferred shares would not be paid a cash dividend. As a result, the preferred shares became entitled to voting rights equivalent to those of holders of the same number of common shares, and had retained such rights until it was determined that the preferred shareholders would receive dividends. At the Annual Shareholders Meeting in February 2000, cash dividends were declared and paid to the holders of preferred share. Therefore, preferred shares no longer retain such voting rights.

The Bank repurchased 41.5 million preferred shares at par value from KDIC on January 31, 2000 and February 1, 2000, for 207.6 billion Won. Subsequent to the redemption of the preferred shares, KDIC redeemed 207.6 billion Won of its corporate bonds.

20. Common stock

The number of common stock outstanding at December 31, 2000 and 1999 was as follows:

	2000	1999
	(all amounts expressed in thousands)	
Beginning balance	109,063	89,233
Issuance of shares	—	9,915
Stock dividend	10,906	9,915
Ending balance	119,969	109,063

On July 15, 1999, ING Insurance International B.V. ("III"), ING International Financial Holdings B.V., and ING Verzekeringen N.V. (collectively "ING") and the Bank entered into an investment agreement whereby ING purchased 9,914,777 newly issued common shares of the Bank, representing approximately 10% of the total outstanding shares, at a price of 33,500 Won per share. Pursuant to the related investment agreement, III acquired the common shares on August 17, 1999 and the Bank recorded 49,574 million Won and 275,713 million Won as share capital and additional paid-in capital, respectively. Under the agreement, ING is not permitted to dispose of its investment in the Bank during the five years following the acquisition of the shares.

Further, ING holds certain rights under the investment agreement which provide ING with the ability to prevent dilution to its percentage ownership.

Provisions of certain agreements related to this transaction permit ING to appoint one standing executive director and one non-standing executive director to the board of directors of the Bank. In conjunction with the share transfer and joint venture agreements entered into by III and the Bank on November 24, 1999, the Bank on January 11, 2000 purchased one million common shares of ING Life Insurance Company, Korea, Ltd. ("ILI") while III purchased 1.2 million common shares of Jooeun Investment Trust Management Co., Ltd. ("JIT"). In connection with the pending merger with Kookmin Bank, the Bank and III have agreed to renegotiate the terms of the agreements.

21. Retained earnings

Retained earnings consist of the following as of December 31, 2000 and 1999:

	2000	1999
	(all amounts expressed in millions of Won)	
Appropriated retained earnings:		
Legal reserve	221,165	169,000
Reserve for business rationalization	101	62
Reserve for overseas investment losses	4,664	5,555
Other statutory reserves	25	23
Voluntary reserve	314,134	—
Unappropriated retained earnings	23,531	174,810
Total	563,620	349,450

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

Pursuant to the Special Tax Treatment Control Law, the Bank is required to appropriate, as a reserve for business rationalization, amounts equal to the tax reductions arising from tax exemptions and tax credits. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce an accumulated deficit, if any.

Pursuant to the Korean tax laws, the Bank was allowed to claim the amount of retained earnings appropriated to reserves for overseas investment losses as a deduction from taxable income for tax reporting purposes. These reserves are not available for payment of dividends until used for the specified purpose or reversed.

The Bank's branch in Japan is required to appropriate, as a legal reserve, an amount equal to or less than 10% of annual income, until such reserve equals two billion Japanese Yen. This reserve is used only to reduce any accumulated deficit incurred by the Japanese branch.

The voluntary reserve does not have any specified purpose and may be restored to unappropriated retained earnings through shareholders' resolution.

22. Components of other comprehensive income (loss)

Comprehensive income includes net income plus transactions and other occurrences, which are the result of non-owner changes in equity. For the years ended December 31, 2000 and 1999, the non-owner equity changes are composed of foreign currency translation adjustments, minimum pension liability and unrealized gains and losses on securities available for sale and related swaps. Below are the components of other comprehensive income and the related tax effects allocated to each component:

	2000	1999
	(all amounts expressed in millions of Won)	
Foreign currency translation adjustments	6,156	(1,675)
Tax (expense) benefit attributable to foreign currency translation adjustments	(1,896)	516
Net foreign currency translation adjustments	4,260	(1,159)
Unrealized holding gains (losses) arising on Equity investee securities available for sale during the year	65	(418)
Tax (expense) benefit attributable to unrealized holding gains (losses) arisen during the year	(20)	126
Net unrealized holding gains (losses)	45	(292)
Unrealized holding gains (losses) arising on Securities available for sale and related swaps during the year	152,396	(310,872)
Tax (expense) benefit attributable to unrealized holding gains (losses) arisen during the year	(46,938)	95,749
Net unrealized holding gains (losses)	105,458	(215,123)
Total components of other comprehensive income (loss)	109,763	(216,574)

23. Regulatory requirements

In conformity with the Financial Supervisory Services ("FSS") and the Basle Committee on Banking Regulations and Supervisory Practices/Bank for International Settlements ("BIS") guidelines, the Bank applied BIS risk-adjusted capital ratios to evaluate its capital adequacy. Banking organizations engaged in international banking are required to maintain a minimum 8 percent total risk-based capital ratio, the ratio of total risk-adjusted capital divided by total risk-weighted assets, including a Tier 1 capital ratio of at least 4 percent. The capital ratios are calculated based on banks' consolidated balance sheets. In the event the Bank does not maintain a consolidated BIS ratio of 8%, it is subject to corrective actions recommended by the FSS based on the actual financial position and capital ratio of the Bank. Continued non-compliance with these standards could potentially result in closure of the Bank.

The following capital ratios are calculated in accordance with the FSS guidelines, that are materially consistent with BIS guidelines, utilizing the Bank's consolidated financial statements prepared in accordance with accounting principles generally accepted in the Republic of Korea.

	2000	1999
	(all amounts expressed in billions of Won, except capital ratio)	
Tier 1 Capital		
Total Tier 1 Capital	2,087.7	1,793.7
Tier 2 Capital		
Total Tier 2 Capital	1,739.8	1,243.5
Less: Investment in a non-consolidated affiliate[1]	47.2	—
Total risk-adjusted Capital	3,780.3	3,037.2
Total Risk-Weighted Assets		
On-balance sheet assets	35,596.1	24,927.3
Off-balance sheet assets	2,507.0	943.9
Total risk-weighted assets	38,103.1	25,871.2
Total Assets	61,886.5	46,651.3
Capital Adequacy Ratio(%)		
Tier 1 capital ratio(%)	5.48	6.93
Tier 2 capital ratio(%)	4.57	4.81
Capital adequacy ratio(%)	9.92	11.74

(1) The Bank has a minority equity investment in 2000 in an insurance company, ING Life Insurance Korea Co., which is deducted from total capital, not deducted directly from Tier 1 or Tier 2 pursuant to the guidelines of the FSS.

The Banking Act provides for a minimum paid-in capital of 100 billion Won for nationwide banks, such as H&CB, and 25 billion Won for regional banks.

All banks, including foreign bank branches in Korea, are required to maintain a prescribed solvency position in addition to the minimum capital requirements discussed above. Until March 31, 1999, a bank's outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the Banking Act) were not permitted to exceed 20 times its equity capital amounts. However, beginning on April 1, 1999, the limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and are regulated accordingly.

24. Income taxes

The components of income tax expense for the years ended December 31, 2000 and 1999 were as follows:

	For the year ended December 31, 2000	For the year ended December 31, 1999
	(all amounts expressed in millions of Won)	
Federal:		
Current	230,845	287,860
Deferred	(9,339)	(45,012)
Total federal income tax expense	221,506	242,848
Local:		
Current	23,085	28,786
Deferred	(934)	(4,130)
Total local income tax expense	22,151	24,656
Total income tax expense	243,657	267,504

The preceding table does not reflect the tax effects of unrealized gains and losses on securities available-for-sale. The tax effects of these items are recorded directly in stockholders' equity.

Taxes are calculated for each individual entity in the group. As a result, losses incurred by subsidiaries cannot be offset against profits earned by the parent company. The tax on the operating profit differs from the theoretical amount that would arise at the basic tax rate of the home country of the parent as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Profit before tax for the year ended December 31,	752,277	808,161
Prima facie tax calculated at a statutory tax rate	231,701	248,914
Income not assessable for tax	(7,257)	(5,293)
Expenses not deductible for tax purposes	2,373	6,954
Losses carried forward, not recognized	58,838	24,739
Adjustment for overseas tax rates	(5,176)	(12,049)
Equity in net income (loss) of Affiliates	(40,415)	6,072
Other	3,593	(1,833)
Income tax expense	243,657	267,504

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are as follows. Certain items, including valuation of securities available for sale are excluded from the calculation of deferred tax benefit (expense).

	2000	1999
	(all amounts expressed in millions of Won)	
Deferred tax assets:		
Allowance for loan losses	72,279	99,613
Allowance for guarantees and acceptances	10,240	9,837
Impairment of securities	64,126	20,168
Amortization of securities	24,402	—
Foreign exchange adjustments	—	16,585
Retirement benefits	309	—
Other temporary differences	19,600	24,912
Net operating loss	40,097	7,427
Total gross deferred tax assets	231,053	178,542
Less: valuation allowance	(44,408)	(8,219)
	186,645	170,323
Deferred tax liabilities:		
Interest income accrual	37,532	46,533
Derivatives valuation	4,679	19,275
Valuation of trading securities	23,195	6,367
Foreign exchange adjustments	149	—
Other temporary differences	20,163	7,494
Total gross deferred tax liabilities	85,718	79,669
Net deferred tax assets	100,927	90,654

Deferred tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Nine subsidiaries have tax losses to carry forward against future taxable income that will expire in various amounts over the next five years. The full benefit of these losses has not been recognized in the financial statements due to the uncertainty of their recovery. Under Korean Tax, the deductibility of net operation losses expires 5 years subsequent to their origination.

25. Earnings per share

Basic earnings per share is calculated by dividing the net income applicable to common shares outstanding by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed using the same method as basic earnings per share, but reflects the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stocks. Also, for purposes of diluted earnings per share, net income available for common stock is adjusted, if applicable, for any convertible preferred stock dividends, convertible debt interest or any other changes in income that could result from the assumed conversion of securities and other contracts. The Bank has two categories of dilutive potential common shares: shares issuable on exercise of share options granted to employees and shares issuable on conversion of convertible preferred shares.

In the diluted earnings per share calculation, the convertible preferred shares are assumed to have been converted into common shares and the net profit is adjusted to eliminate the applicable dividend. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Bank's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the common shares outstanding for the purpose of computing the dilution; for the share options calculation, no adjustment is made to net profit.

On March 24, 2001, the shareholders approved a 10% stock dividend to be distributed in April 2001. The stock dividend was recorded at fair value. All references to per common share amounts have been restated to reflect the effects of the stock dividend.

	For the year ended December 31, 2000	1999
	(all amounts expressed in millions of Won, except per share data)	
Basic Earnings Per Share:		
Net income applicable to common stockholders	506,061	540,665
Weighted average number of common shares outstanding (in thousands)	119,969	113,748
Net Income Per Share	4,218.26	4,753.18
Diluted Earnings Per Share:		
Net income applicable to common stockholders	506,061	540,665
Weighted average number of common shares outstanding (in thousands)	119,969	113,748
Dilutive effect of convertible preferred shares (in thousands)	21,371	59,300
Dilutive effect of share options (in thousands)	438	449
Dilutive weighted average common shares outstanding (in thousands)	141,778	173,497
Net Income Per Share	3,569.39	3,116.28

The diluted share base for the year ended December 31, 2000 excludes incremental shares of 267,000 related to the stock option plans. These shares are excluded due to their antidilutive effect.

26. Employee benefit plan

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. The employee benefit plan is funded in accordance with the National Pension Act with a certain portion of the benefits, which was contributed to the National Pension Fund.

Accrued employee benefit plan obligations as of December 31, 2000 and 1999 are as follows:

	2000	1999
	(all amounts expressed in millions of Won)	
Balance at January 1,	339,791	348,795
Benefit plan expense	61,992	62,136
Plan payments	(84,423)	(71,140)
Balance at December 31,	317,360	339,791

27. Stock-based compensation

Incentive Stock Option Plan

The Incentive Stock Option Plan (“Incentive Plan”) was established on October 31, 1998 after adoption by the Board of Directors and approval by shareholders. The Incentive Plan provides for the grant of stock options to certain directors and employees. In accordance with the Incentive Plan, options are granted at a stated exercise price and vest over 3 years. Upon vesting, options may be exercised up to six years from the grant date. If a director or an employee resigns or ceases to be employed by the Bank during the vesting period, that director or employee retains the right to exercise options earned on a pro-rata basis over the vesting period. Exercised options can be settled through the payment of cash or the issuance of shares at the Bank's discretion.

On October 31, 1998, the Bank granted 300,000 share options at a price of 5,000 Won per share, which expire on October 31, 2004. An additional 280,000 share options were granted on February 27, 1999 at a price of 13,900 Won per share and expire on February 27, 2005. On February 28, 2000, the Bank granted an additional 267,000 share options at a price of 27,600 Won per share, which expire on February 27, 2006. Also on February 28, 2000, a director who was granted 30,000 shares option resigned and thereby, forfeited 20,000 of the total 30,000 options granted. The Bank has reduced compensation expense by 51 million Won for this forfeiture.

President Stock Option Plan

The President Stock Option Plan (the "President's Plan") was established on October 31, 1998 after adoption by the Board of Directors and approval by shareholders. The President's Plan provides for the grant of stock options to the President if certain measurement criteria have been met. In accordance with the President's Plan, 100,000 options will be granted if the stock price of the Bank is the highest among the stocks of banks listed on the Korea Stock Exchange on the basis of average price of daily closing price announced for three months (August 31, 2001 — October 31, 2001) prior to the launch of exercise period (or in the case of premature retirement, prior to the date of retirement). These options vest over a three-year period beginning on October 31, 1998 and may be exercised up to six years from the grant date. Exercised options can be settled through the payment of cash or the issuance of shares at the Bank's discretion.

For the year ended December 31, 2000, the Bank reduced compensation expense by 311 million Won due to the decrease in stock price from 31,000 Won in December 31, 1999 to 23,700 Won in 2000.

The following table summarizes information about stock options outstanding and market value at award date.

	2000	1999	1998
	Number of Stock Options	Number of Stock Options	Number of Stock Options
Stock options outstanding,			
Beginning of year	580,000	300,000	—
Shares granted	267,000	280,000	300,000
Exercised	—	—	—
Forfeited	(20,000)	—	—
Stock options outstanding, end of year	827,000	580,000	300,000
Market value at award date (Won)	19,750	18,950	5,430

For the year ended December 31,1999, the Bank recognized 3,892 million Won in compensation expense for the shares granted.

The following table summarizes information about stock options outstanding at December 31, 2000. At December 31, 2000, 1999, and 1998, there were no exercisable options.

	Options Outstanding			
Exercise Prices (Won)	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Weighted Average Fair Value at Grant Date
5,000	300,000	2.8 Years	5,000	12,530
13,900	260,000	3.2 Years	13,900	27,195
27,600	267,000	4.2 Years	27,600	9,989
5,000-27,600	827,000	3.4 Years	15,095	

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Bank has chosen to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for the Incentive Plan and the President's Plan. Had these plans been determined in a manner prescribed by SFAS No. 123, using an option pricing model, intended to estimate the fair value of the awards at the grant date, compensation expense recorded for stock options, net income, and earnings per share data would have been as follows:

	2000		1999		1998	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
	(all amounts expressed in millions of Won, except per share data)					
Compensation expense related to stock options	(311)	4,629	3,892	6,523	13	485
Net income	506,061	502,643	540,665	538,844	127,910	127,583
Earnings per share:						
Basic	4,218.26	4,189.77	4,753.18	4,737.17	1,248.50	1,245.30
Diluted	3,569.39	3,545.27	3,116.28	3,105.79	1,242.32	1,239.14

Solely for purposes of providing the disclosures required by SFAS No. 123, the fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions used for grants made in 2000, 1999, and 1998 are as follows:

	Year Ended December 31		
	2000 Grants	1999 Grants	1998 Grants
Dividend yield	3.90%	1.80%	0.00%
Expected volatility	79.79%	75.38%	77.13%
Risk-free interest rate	8.99%	10.05%	7.25%
Expected option life	5.0 years	5.0 years	5.0 years

28. Fair value of financial instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced sale or liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realizable value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS No. 107 "Disclosure about Fair Value of Financial Instruments". Accordingly, the fair value disclosures required by SFAS No. 107 provide only a partial estimate of the fair value of the Bank.

Fair values among financial institutions are not comparable due to the wide range of permitted valuation techniques and numerous estimates that must be made. This lack of objective valuation standard introduces a great degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned in using this information for purposes of evaluating the financial condition of the Bank in comparison with other financial institutions.

The following section summarizes and describes the methods and assumptions used by the Bank, by financial instrument, in estimating fair value:

Assets and Liabilities for which fair value approximates carrying value. The carrying values of certain financial assets and liabilities, including cash and due from banks and other financial institutions, restricted deposits, accrued interest receivable and payable, dividends receivable and payable, call loans, call money, and other borrowed funds, approximate their fair values due to their short-term nature and negligible credit losses.

Interest-bearing deposits in other banks. The fair value of fixed interest-bearing deposits are estimated by discounting cash flows based on current rates for similar types of deposits. The fair values of variable rate interest-bearing deposits are considered to approximate to their carrying values.

Securities and trading liabilities. Fair values for trading assets, securities available for sale, held to maturity securities and trading liabilities (including trading derivative financial instruments), are the amounts recognized in the consolidated balance sheets, which are based on market prices, where available. Fair values of held-to-maturity securities are also based on market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of certain swaps where pricing models are used.

Nonmarketable equity investments. Non-marketable investments, which are recorded in 'Other Assets', consist primarily of private equity investments. The fair values of these investments are based on factors such as the latest obtainable net asset value of the investee.

Loans receivable. Loans and advances are net of specific and general provisions for impairment. The fair value of fixed rate loans is estimated by discounting cash flows based on current rates at which similar loans would be made to borrowers for the same maturities. The fair value of variable rate loans that reprice frequently with no significant changes in credit risk are considered to approximate their carrying values in the consolidated balance sheet.

Deposit liabilities. The fair values of noninterest and variable rate interest bearing deposits approximate their carrying values in the consolidated balance sheets. Fair values for fixed rate interest bearing deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits with similar maturities.

Long-term debt. The aggregate fair values are based on quoted market prices where available. For those notes and borrowings where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

Off-balance sheet instruments. Fair values for off-balance sheet derivative financial instruments held for other than trading purposes are based on quoted market prices or dealer quotes where available, otherwise pricing or valuation models are applied to current market information to estimate fair value.

Commitments to extend credit, letters of credit, and written financial guarantees. It was not practicable to estimate the fair values of commitments to extend credit, letters of credit and financial guarantees as estimated fair values are not readily ascertainable. The contract amount of commitments to extend credit was 22,405 million Won for 1999. This amount was reduced to zero in 2000. The amounts of unused line of credit were 12,976,751 million Won and 9,112,065 million Won for 2000 and 1999, respectively. Letters of credit and financial guarantees had a combined contract value of 405,493 million Won and 472,399 million Won for 2000 and 1999, respectively. These financial instruments are transacted at the Bank's current pricing levels. The fair values of guarantees, commercial letters of credit, standby letters of credit, and other lending commitments are immaterial to the financial statements.

The estimated fair values of the Bank's financial instruments at December 31, 2000 and 1999 were as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(all amounts expressed in millions of Won)			
Financial assets:				
Cash and due from banks	1,154,195	1,154,195	1,280,960	1,280,960
Restricted deposits	425,937	425,937	930,967	930,967
Interest-bearing deposits in other banks	329,696	330,093	318,110	312,702
Call loans and securities purchased under resale agreements	719,679	719,679	75,621	75,621
Trading account assets	2,548,546	2,548,546	2,371,009	2,371,009
Securities available for sale	5,782,117	5,782,117	4,359,742	4,359,742
Held-to-maturity securities	2,182,085	2,240,415	2,659,657	2,659,216
Loans and leases, net	44,926,644	45,341,587	30,869,296	30,867,235
Accrued interest receivable	381,062	381,062	378,076	378,076
Other assets	798,235	815,240	512,508	515,660
Financial liabilities:				
Noninterest-bearing deposits	93,926	93,926	109,385	109,385
Interest-bearing deposits	47,185,091	47,434,226	33,269,948	33,564,485
Call money	51,323	51,323	758,000	758,000
Trading account liabilities	31,197	31,197	3,950	3,950
Other borrowed funds	2,215,503	2,215,503	1,466,361	1,466,361
Accrued interest and dividends payable	2,678,396	2,678,396	2,523,475	2,523,475
Secured borrowings	1,247,319	1,257,925	533,684	533,684
Long-term debt	3,703,420	3,820,193	3,775,520	3,724,124

Fair values for derivative financial instruments are disclosed in Note 29.

29. Derivative and foreign exchange contracts

In the normal course of meeting the financing needs of its customers and managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange rates, the Bank is a party to various financial instruments with off-balance sheet risk. These instruments involve, to varying degrees, elements of credit and market risk in excess of the amounts recognized in the financial statements. The contract or notional amounts of these instruments, which are not included in the financial statements, are indicators of the Bank's activities in particular classes of financial instruments, but are not indicative of the associated risk which is generally a smaller percentage of the notional amount. In addition, the measurement of market risk is meaningful only when all related and offsetting transactions are taken into consideration. The notional principal amounts of the Bank's derivative and foreign exchange products greatly exceed the possible credit and market loss that could arise from such transactions.

Market risk arises due to market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial instrument and/or an increase in its funding cost. Exposure to market risk is managed through position limits and other controls and by entering into hedging transactions.

Credit risk is the possibility that loss may occur from counterparty failure to perform according to the terms of an agreed contract. Credit risk is controlled through credit approvals, limits and monitoring procedures based on the same credit policies used for on-balance sheet instruments. Unless otherwise noted below, collateral or other security is not required. The amount of collateral obtained, if any, is based on the nature of the financial instrument and management's credit evaluation of each counterparty.

Interest rate swaps are contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. Most interest rate swaps involve the exchange of fixed and floating interest payments based on a notional principal amount and agreed-upon fixed and floating rates. The Bank uses interest rate derivatives principally to manage exposure to interest rate risk. Receive fixed interest rate swaps are used to convert variable rate assets, principally loans and securities, into synthetic fixed rate instruments and to convert fixed rate funding sources into synthetic variable rate funding instruments. Pay fixed interest rate swaps are used to convert fixed rate loans and securities into synthetic variable rate instruments and to convert variable rate funding sources into synthetic fixed rate funding instruments.

Cross-currency interest rate swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. Cross-currency swaps are used by the Bank to convert foreign currency denominated funding into floating rate US dollars. Certain of these hedging arrangements do not meet the criteria for hedge accounting under US GAAP and are therefore shown within "(a) Derivative financial instruments and foreign exchange contracts — trading activities" below.

Foreign exchange contracts include spot, forward and option contracts and involve the exchange of two currencies at a rate agreeable to the contracting parties. Spot contracts require the exchange of currencies to occur within two business days of the contract date, while forward contracts settle three or more business days from the contract date.

(a) Derivative financial instruments and foreign exchange contracts — trading activities

Gross notional (or contractual) amounts of derivative financial instruments held, issued or classified under US GAAP as being held for trading purposes as of December 31, 2000 are noted below:

	2000				
	Notional Amount	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
	(all amounts expressed in millions of Won)				
Interest rate swaps[(1)]	25,300	789	(22)	107	(232)
Cross-currency swaps[(1)]	327,003	106,294	—	101,325	—
Foreign-exchange contracts:					
Spot, forwards, and futures purchased	190,403	2,242	(210)	651	(969)
Spot, forwards, and futures sold	705,706	243	(31,435)	2,453	(5,040)

(1) Notional amounts in U.S. Dollar were converted into Won at December 31, 2000 at exchange rate of 1,265 Won.

Gross notional (or contractual) amounts of derivative financial instruments held, issued or classified under US GAAP as being held for trading purposes as of December 31, 1999 are noted below:

	1999				
	Notional Amount	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Average Fair Value Assets	Average Fair Value Liabilities
	(all amounts expressed in millions of Won)				
Interest rate swaps[(1)]	3,420	—	(972)	—	(972)
Cross-currency swaps[(1)]	325,600	101,134	—	117,046	—
Foreign-exchange contracts:					
Spot, forwards, and futures purchased	343,685	1,488	(1,865)	1,144	(3,067)
Spot, forwards, and futures sold	260,716	2,351	(1,113)	2,716	(1,603)

(1) Notional amounts in U.S. Dollar were converted into Won at December 31, 1999 at exchange rate of 1,140 Won.

The results of the Bank's trading activities are summarized by category in the following table. Net trading gain (loss) on foreign exchange contracts and derivative financial instruments is included in 'Net trading revenue' in the Consolidated Statements of Income as part of noninterest income.

	2000	1999
	(all amounts expressed in millions of Won)	
Interest rate and cross-currency swaps	3,383	7,087
Foreign-exchange contracts	67,559	25,219
Net trading gain on foreign exchange contracts and derivative financial instruments	70,942	32,306

(b) Derivative financial instruments held for purposes other than trading

Gross notional (or contractual) amounts and fair values of derivative financial instruments held for purposes other than trading are noted below:

	2000			1999		
	Notional Amount(1)	Unrealized Gains	Unrealized Losses	Notional Amount(1)	Unrealized Gains	Unrealized Losses
	(all amounts expressed in millions of Won)					
Interest rate swaps	19,861	—	(445)	32,519	883	(913)

(1) Notional amounts in U.S. Dollar were converted into Won at December 31, 2000 and 1999 exchange rate of 1,265 and 1,140 Won, respectively.

30. Contingent liabilities and commitments

In the normal course of business, there are various outstanding commitments and contingent liabilities that have not been reflected in the consolidated financial statements. In addition, in the normal course of business, there are various other outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the financial position and results of operations of the Bank will not be affected materially as a result of such commitments and contingent liabilities or by the outcome of such legal proceedings.

The principal commitments and contingent liabilities of the Bank are discussed in the following paragraphs.

Legal proceedings

The Bank settled with Morgan Guaranty Trust Company of New York ("MGT") the legal claim brought against the Bank in relation to guarantees provided to SK Securities Co., Ltd. ("SKS") and to other investment funds. In accordance with the Settlement and Release Agreement (the "Settlement Agreement") between the Bank, MGT, SKS, and the other parties involved in the legal claim, the Bank purchased 14.7 million common shares of SKS in the amount of 72,349 million Won (US$60 million) on October 13, 1999. The Settlement Agreement generally prohibits the Bank from selling the investment for two years from the date of the purchase. However, the Bank is allowed to sell up to 30% of the investment after one year, or to sell 30% of the investment over the counter within a year from the purchase date. The investment in SKS was included in securities available for sale as of December 31, 2000 and 1999. Pursuant to the Settlement Agreement, the Bank purchased additional 490,170 shares of common stock of SKS for US$2,130,759 which equals 2,405 million Won at the October 16, 2000 exchange rate. On acquisition of the additional shares on October 16, 2000, the Bank recognized a loss of 1,341 million Won due to the difference between the acquisition price and the quoted market price on the date of acquisition.

The Bank has also been named in a lawsuit by the former employees of DNB, seeking continued employment and monetary damages. The case has been decided in favor of the Bank by the Seoul District Court Southern Branch and the Seoul High Court. That decision is, however, being appealed to the Supreme Court. Based on advice from the Bank's legal counsel, management does not believe that liabilities arising from this matter, if any, will have a material adverse effect on the consolidated financial position, liquidity or results of operations of the Bank.

Capital commitments

Capital expenditures contracted for at December 31, 2000 and 1999, but not recognized in the financial statements, related to the purchase of property and equipment totaled 16,020 million Won and 4,908 million Won, respectively.

Purchase commitments

In connection with share transfer and joint venture agreements between the Bank and ING as of November 24, 1999, subject to certain conditions including regulatory approval, the Bank purchased a 20% interest in ING Life Insurance Company, Korea, Ltd. ("ILI")and sold a 20% interest in Jooeun Investment Trust Management Co., Ltd. ("JIT") to ING Insurance International B.V. The Bank is further obligated to purchase additional percentages of ILI and concurrently, sell equal percentages of JIT to ING Insurance International B.V. at fair value. Under the terms of the agreements, each of the 20% shareholdings will be increased by 15% after March 31, 2000 over the next 3 years, bringing total ownership to 35%.

In addition, if the insurance business of ILI reaches certain levels, then the Bank will be obligated to purchase up to 50% of ILI and ING Insurance International B.V. will be obligated to purchase up to 50% of JIT. In connection with the pending merger with Kookmin Bank, additional purchases and the terms of the share transfer and joint venture agreements will be renegotiated.

Credit-related commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees are considerably less than those under commitments because the Bank does not generally expect the third party to draw funds under the agreement.

Commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

For credit-related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contracts. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Bank's actual future credit exposure or liquidity requirements for these commitments.

Additionally, management computes specific and expected loss components for credit-related commitments. At December 31, 2000 and 1999, the allowance for credit losses on credit-related commitments was 29,564 million Won and 31,938 million Won, respectively, which is reported in 'Other liabilities'.

At December 31, 2000 and 1999, the following financial instruments were outstanding whose contract amounts represent credit risk to the Bank:

	Contract Amount	
	2000	1999
	(all amounts expressed in millions of Won)	
Guarantees	255,563	278,512
Commercial letters of credit	149,930	193,887
Unused lines of credit:		
Commercial	3,933,463	2,116,496
Consumer	9,043,288	6,995,569
Commitments to extend credit:		
Original term to maturity of more than one year	—	22,405
Interest rate swaps (unrealized gain)	—	883

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2000 pertaining to office space, premises and equipment, future minimum rent commitments under various operating leases were as follows:

	Year ended December 31, 2000
	(all amounts expressed in millions of Won)
2001	3,145
2002	2,361
2003	1,855
2004	1,202
2005	1,180
Thereafter	1,762
Total	11,505

Total rental expense for the years ended December 31, 2000 and 1999 was 523 million Won and 4,424 million Won, respectively. In lieu of rent, certain lease agreements require the Bank to advance a noninterest bearing refundable deposit to the landlord for the landlord's use during the lease term. The amount of the advance is determined by the prevailing market rate. The additional rent expense under such agreements is immaterial to the financial statements.

31. Credit risk concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic conditions.

The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary.

The table below indicates major products including both on-balance sheet (principally loans) and off-balance sheet (principally unused credit lines) exposures:

	2000			1999		
	Credit Exposure	On-Balance Sheet	Off-balance Sheet	Credit Exposure	On-Balance Sheet	Off-balance Sheet
	(all amounts expressed in millions of Won)					
Credit cards	11,248,013	2,881,259	8,366,754	7,232,431	1,216,213	6,016,218
Residential mortgages	20,987,156	20,987,156	—	17,246,119	17,246,119	—
Installment and other consumer loans	12,606,096	11,758,406	847,690	7,454,950	6,475,599	979,351
Corporate loans	13,572,174	9,809,867	3,762,307	7,733,436	5,594,535	2,138,901
Commercial real estate loans	771,173	771,173	—	1,601,338	1,601,338	—
Total	59,184,612	46,207,861	12,976,751	41,268,274	32,133,804	9,134,470

The Bank is exposed to a credit concentration with the Korea Housing Guarantee Co., Ltd. ("KHGC"). The KHGC guarantees certain loans to the Bank's construction company customers and has a liability to the Bank as a result of defaulted construction loans, which it guaranteed. This amount is included as a loan to KHGC of 480 billion and 333 billion Won as of December 31, 2000 and 1999, respectively. In addition, KHGC has guarantees outstanding on 44 billion and 147 billion Won of the Bank's loans to construction companies, of which 25 billion and 97 billion Won are classified as impaired for December 2000 and December 1999, respectively. The Bank has provided for loan losses directly associated with the KHGC of 153 billion and 126 billion Won at December 31, 2000 and 1999, respectively. This calculation considers estimated future cash flows from KHGC under the loan workout plan and the estimated value of the Bank's equity investment as determined by the management of the Bank. The Bank anticipates that the government of the Republic of Korea will inject cash of 1,279 billion Won into KHGC which in turn will be used to pay off debt to creditors of KHGC. In addition, the Bank will convert its remaining debt to equity in KHGC. Should KHGC not perform under the loan workout plan, additional provisions may be necessary in the short-term that are material to the financial statements of the Bank. The Bank also holds 8.2 million shares of KHGC with no carrying value and a convertible bond carried at 17.8 billion and 15.9 billion Won as of December 31, 2000 and 1999, respectively. These securities were received on conversion of 82.2 billion Won of KHGC's loans as part of a previous loan workout plan.

32. Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, and foreign currency transactions. These transactions are carried out on commercial terms and conditions and at market rates.

National Housing Fund

The National Housing Fund (the "NHF") was established by the Korean Government to provide financial aid in the form of small-scale housing loans to low-income households and to construction companies that specialized in low-income housing projects. To manage the sources and uses of funds of the NHF, the Korean Government designated the Bank as sole agent (consignee). The primary role of the Bank is to manage the NHF fund in accordance with the mandate issued by the Korean Government. The Bank is mandated by the Korean Government to borrow money from the NHF. The Bank's borrowing rate from the NHF is 6.5% for the Low-Income Household loans and the Worker's Housing Loan. The Bank is compensated through management fees on a quarterly basis.

KDIC

On December 28, 1998, in connection with the purchase and assumption arrangement related to DNB, the Bank issued 59.3 million noncumulative and nonparticipating redeemable preferred shares to KDIC. In exchange, KDIC issued marketable, non-callable bonds (Note 19). The Bank repurchased 41.5 million preferred shares in total at par from KDIC on January 31 and February 1, 2000, respectively. Corresponding amounts of the bonds were redeemed by KDIC on the same dates.

Housing Finance Credit Guarantee Fund

Prior to January 1, 1999, the Bank managed the Housing Finance Credit Guarantee Fund (the "HFCGF"), which provides guarantees to mortgage lenders for defaults by borrowers if the borrower is unable to provide collateral required by a bank. As part of the government's restructuring plan to merge and dissolve various government funds, the management of the HFCGF was transferred to the Korea Credit Guarantee Fund. The Bank received a management fee for managing the HFCGF until the end of 1998 equal to 1% per year of the average guarantee balance guaranteed by the HFCGF. The HFCGF received an annual guarantee fee equal to between 0.3% and 0.5% of the guaranteed amount depending on the size of the housing unit concerned. In the year ended December 31, 1998, the last year in which the Bank managed the HFCGF, the Bank earned fees of 9 billion Won. The Bank continues to receive a fee from the HFCGF for underwriting mortgage loans, which they guarantee. This fee is equal to 20% of the annual guarantee fees (net of fines and penalties) HFCGF receives on these loans. In the year ended December 31, 2000 and 1999, these fees amounted to 4.5 billion Won and 4 billion Won, respectively.

The outstanding balances at December 31, 2000 and 1999 and the related expense and income for the years then ended for related party transactions were as follows:

	2000				1999			
	KDIC	Trust Accounts[(1)]	NHF	HFCGF	KDIC	Trust Accounts[(1)]	NHF	HFCGF
	(all amounts expressed in millions of Won)							
Investment securities	1,588,642	—	—	—	2,129,518	—	—	—
Loans	190,000	—	—	—	190,000	—	—	—
Receivable	10,703	—	—	—	15,191	—	—	—
Interest bearing demand deposits	—	565,233	—	—	—	333,171	—	—
Borrowings	—	—	9,901	—	—	—	407,266	—
Preferred stocks	88,950	—	—	—	296,500	—	—	—
Interest income on securities	147,988	—	—	—	118,474	—	—	—
Interest income on loans	12,058	—	—	—	30,622	—	—	—
Fees and commission income	—	63,939	158,546	4,495	—	74,788	152,141	4,163
Interest expense	—	18,552	5,360	—	—	25,989	7,623	—
Trust performance payments	—	95,001	—	—	—	53,000	—	—
Fees and commission expense	—	—	—	20,249	—	—	—	17,421

(1) See Note 35

33. Principal subsidiary undertakings and minority interest

	Country of incorporation	Percentage Ownership
Jooeun Investment Trust Management Co., Ltd.	Korea	80%
Jooeun Real Estate Trust Co., Ltd.	Korea	100%
Jooeun Industrial Co., Ltd.	Korea	100%
H&CB Finance Ltd. (H.K.)	Hong Kong	100%
Jooeun Leasing Co., Ltd.	Korea	85.4%
Frontier Investment Co., Ltd.	Korea	100%
H&CB9901 ABS Specialty Co., Ltd.	Korea	15%[1]
H&CB0002 ABS Specialty Co., Ltd.	Korea	15%[1]
H&CB0003 ABS Specialty Co., Ltd.	Korea	15%[1]
Jooeun Real Estate Co. (JERECO) Asset Securitization Specialty Co., Ltd.[2]	Korea	15%[1]

(1) H&CB ABS Specialty Co., Ltd. 1, 2, 3, and JERECO securitization vehicles, have been included in the consolidated financial statements of the Bank at December 31, 2000 as the majority owner has only a nominal capital investment.

(2) JERECO Asset Securitization Specialty Co., Ltd., a subsidiary of Jooeun Real Estate Trust Co., Ltd., was established during 2000.

All holdings are in the common shares of the undertaking concerned.

34. Segment reporting

For management reporting purposes, only the Bank's business segment results under Korean Generally Accepted Accounting Principles ("KGAAP") are reported to management. The Bank is organized into four major business segments: Retail Banking, Credit Card, Corporate Banking, and Treasury and Investment Management. During 2000, management began to separately measure the performance of the credit card business formerly included as part of the retail banking segment. As a result of this change in internal organization, segment information has been adjusted to separately disclose the credit card business for years ended December 31, 2000 and 1999. It is impracticable to present similar disclosures for the year ended December 31, 1998.

The business divisions are based on the nature of the products and services provided, the type or class of customer, and the Bank's management organization, and provide the basis on which the Bank reports its primary segment information:

- Retail banking — The retail banking segment's assets and liabilities are mainly with individuals and general households. The segment handles private customer current accounts, savings, deposits, investment products, consumer loans and mortgages.

- Credit card — The credit card segment's asset and liabilities are mainly with individuals or corporate cardholders and card merchants. The segment handles domestic as well as overseas credit and debit card operations.

- Corporate banking — The business banking segment's assets and liabilities are mainly with private and public enterprises. The activities within the segment include direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, and foreign currency and derivative products.

- Treasury and investment management — Activities within this segment include the Bank's own asset-liability management, trading activities in securities and derivatives and activities involving investment security portfolios.

Other operations of the Bank comprise subsidiary activities, management services for the National Housing Fund, lottery activities, trust account activities, and providing computer services, none of which constitutes a separately reportable segment.

The accounting policies of the segments are principally the same as those of the Bank, as disclosed in Note 1. Operating revenues and expenses directly associated with each respective segment are included in determining their operating earnings. The provision for income taxes comprises of corporate income tax and resident tax surcharges. The income tax expenses are allocated to the respective segment based upon performance. The Bank does not allocate income tax expense to unprofitable segments.

Transactions between the business segments are reflected on normal commercial terms and conditions. There are no material items of income or expense between the business segments. The carrying amount of certain assets used jointly by two or more segments cannot be allocated to the segments and are included in 'Other'.

A summary of the business segment results is shown in the following table:

	Retail Banking	Credit Card	Corporate Banking	Treasury & Investment Management	Other	Total
			(in millions of Won)			
Year ended December 31, 2000						
Operating income	3,062,798	440,756	1,189,645	1,183,665	659,580	6,536,444
Operating expense	2,569,206	278,133	1,206,789	1,106,723	663,506	5,824,357
Segment operating result	493,592	162,623	(17,144)	76,942	(3,926)	712,087
Interest income	3,060,507	333,233	825,275	909,644	138,380	5,267,039
Interest expense	1,841,232	135,051	563,387	904,908	74,718	3,519,296
Net interest income	1,219,275	198,182	261,888	4,736	63,662	1,747,743
Provision for loan losses	69,416	44,924	287,156	(24,813)	66,301	442,984
Noninterest income	2,291	107,523	364,370	274,021	521,200	1,269,405
Noninterest expense	594,136	91,204	348,451	225,548	477,413	1,736,752
Net noninterest income (expense)	(591,845)	16,319	15,919	48,473	43,787	(467,347)
Depreciation	64,422	6,954	7,795	1,080	45,074	125,325
Profit (loss) before tax	493,592	162,623	(17,144)	76,942	(3,926)	712,087
Income tax expense (benefit)	150,200	49,486	(5,217)	23,413	(1,934)	215,948
Net profit (loss) for the period	343,392	113,137	(11,927)	53,529	(1,992)	496,139
US GAAP adjustments	(26,903)	27,558	59,146	(51,675)	24,070	32,196
Intercompany transactions	(30,168)	—	(43,403)	44,220	7,077	(22,274)
Consolidated net profit	286,321	140,695	3,816	46,074	29,155	506,061
Assets	34,059,640	2,916,732	10,638,336	11,849,966	2,540,987	62,005,661
US GAAP adjustments	(438,660)	(66,529)	28,114	(45,775)	(19,067)	(541,917)
Intercompany transactions	(81,583)	—	(88,148)	(414,828)	76,735	(507,824)
Consolidated assets	33,539,397	2,850,203	10,578,302	11,389,363	2,598,655	60,955,920

	Retail Banking	Credit Card	Corporate Banking	Treasury & Investment Management	Other	Total
			(in millions of Won)			
Year ended December 31, 1999						
Operating income	2,298,495	228,015	1,014,468	1,089,089	1,074,215	5,704,282
Operating expense	1,943,360	153,807	948,508	1,165,323	905,809	5,116,807
Segment operating result	355,135	74,208	65,960	(76,234)	168,406	587,475
Interest income	2,298,495	162,497	655,316	872,507	304,274	4,293,089
Interest expense	1,309,146	67,890	410,447	896,735	376,745	3,060,963
Net interest income (expense)	989,349	94,607	244,869	(24,228)	(72,471)	1,232,126
Provision for loan losses	17,936	12,600	301,872	—	37,968	370,376
Noninterest income	—	65,518	359,152	216,582	769,941	1,411,193
Noninterest expense	563,730	68,097	234,111	268,217	436,660	1,570,815
Net noninterest income (expense)	(563,730)	(2,579)	125,041	(51,635)	333,281	(159,622)
Depreciation	52,548	5,220	2,078	371	54,436	114,653
Profit (loss) before tax	355,135	74,208	65,960	(76,234)	168,406	587,475
Income tax expense (benefit)	114,000	24,847	21,331	(24,654)	83,590	219,114
Net profit (loss) for the period	241,135	49,361	44,629	(51,580)	84,816	368,361
US GAAP adjustments	(65,274)	(11,383)	(6,197)	96,221	131,752	145,119
Intercompany transactions	—	—	44,323	(12,735)	(4,403)	27,185
Consolidated net profit	175,861	37,978	82,755	31,906	212,165	540,665
Assets	24,814,561	1,007,539	7,512,626	10,392,070	3,992,267	47,719,063
US GAAP adjustments	7,915	(58,715)	276,121	(267,761)	(1,906,549)	(1,948,989)
Intercompany transactions	—	—	(504,589)	(28,823)	39,962	(493,450)
Consolidated assets	24,822,476	948,824	7,284,158	10,095,486	2,125,680	45,276,624

	Retail Banking	Corporate Banking	Treasury & Investment Management	Other	Total
		(in millions of Won)			
Year ended December 31, 1998					
Operating income	2,495,633	1,632,064	1,064,132	1,388,561	6,580,390
Operating expense	2,187,720	1,841,315	1,211,388	1,729,559	6,969,982
Segment operating result	307,913	(209,251)	(147,256)	(340,998)	(389,592)
Interest income	2,449,865	967,627	904,458	379,233	4,701,183
Interest expense	1,316,990	663,664	822,905	708,069	3,511,628
Net interest income (expense)	1,132,875	303,963	81,553	(328,836)	1,189,555
Provision for loan losses	73,816	749,001	—	43,835	866,652
Noninterest income	45,768	664,437	159,674	1,009,328	1,879,207
Noninterest expense	750,452	426,979	388,185	892,656	2,458,272
Net noninterest income (expense)	(704,684)	237,458	(228,511)	116,672	(579,065)
Depreciation	46,462	1,671	298	84,999	133,430
Profit (loss) before tax	307,913	(209,251)	(147,256)	(340,998)	(389,592)
Income tax expense (benefit)	(9,736)	6,617	4,656	7,676	9,213
Net profit (loss) for the period	317,649	(215,868)	(151,912)	(348,674)	(398,805)
US GAAP adjustments	(148,701)	550,759	63,504	57,207	522,769
Intercompany transactions	—	17,681	—	(13,735)	3,946
Consolidated net profit	168,948	352,572	(88,408)	(305,202)	127,910
Assets	19,638,891	7,550,683	10,572,994	4,158,400	41,920,968
US GAAP adjustments	(72,338)	(781,170)	158,992	(388,066)	(1,082,582)
Intercompany transactions	—	(282,834)	(143,160)	(75,368)	(501,362)
Consolidated assets	19,566,553	6,486,679	10,588,826	3,694,966	40,337,024

The allowances for loan losses based on US GAAP allocated to each of the segments are as follows:

	Retail Banking	Credit Card	Corporate Banking	Treasury & Investment Management	Other	Total
			(in millions of Won)			
Allowances for loan losses						
As of December 31, 2000	138,443	71,895	1,016,848	—	89,840	1,317,026
As of December 31, 1999	108,745	68,000	1,065,327	—	44,480	1,286,552

Geographic segment disclosures have been excluded as revenues and assets attributable to external customers in foreign countries are not significant.

35. Trust accounts

The Bank manages funds on behalf of its customers through the operation of various trust accounts in accordance with the Korean Trust Law and the Korean Trust Business Act. Trust assets and liabilities are excluded from the consolidated financial statements of the Bank, and thus are recorded in separate accounts from those of the banking business.

Some trusts require that the Bank guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Bank guarantees a specified rate of return on the Fixed Rate Money Trusts. The Bank guarantees neither the principal amount nor rate of return on the Securities Investment Trusts or the No Guarantee Money Trusts. The Bank charges investment management fees to guaranteed principal trusts and other trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits.

The Bank recognized an expense related to the trust performance payments of 95,001 million Won and 53,006 million Won for the years ended December 31, 2000 and 1999, respectively. Of these amounts, trust performance guarantees comprised 85,001 million Won for the year ended December 31, 2000 while no payment related to the trust guarantees for the year ended December 31, 1999. The remaining payments represent the Bank's voluntary reimbursement of trust losses incurred primarily as a result of holdings in the member companies of the Daewoo Group.

Details of the trust funds managed by the Bank at December 31, 2000 and 1999 based on accounting principles generally accepted in the Republic of Korea are set out below:

	Guaranteed Principal Money Trusts	Fixed Rate Money Trusts	Securities Investments Trusts	No Guarantee Money Trusts	Total
		(all amounts expressed in millions of Won)			
Trust net assets:					
Assets:					
Loans	197,624	172,349	—	1,610,210	1,980,183
Securities	679,106	252,569	15,499,589	3,437,095	19,868,359
Call loans	—	—	1,107,400	—	1,107,400
Other assets	70,490	7,600	1,657,507	399,805	2,135,402
Liabilities:					
Accrued allocations payable	14,409	6,741	1,592	97,192	119,934
Reserve for future trust losses	3,821	—	—	4,203	8,024
Other liabilities	15,698	409,040	157,233	124,669	706,640
Net assets at December 31, 2000	913,292	16,737	18,105,671	5,221,046	24,256,746

	Guaranteed Principal Money Trusts	Fixed Rate Money Trusts	Securities Investments Trusts	No Guarantee Money Trusts	Total
	(all amounts expressed in millions of Won)				
Trust net assets:					
Assets:					
Loans	246,366	157,126	—	2,736,499	3,139,991
Securities	552,055	570,025	13,718,070	4,186,567	19,026,717
Call loans	—	—	513,482	—	513,482
Other assets	75,846	99,794	530,984	478,076	1,184,700
Liabilities:					
Accrued allocations payable	15,784	132,404	803,181	181,162	1,132,531
Reserve for future trust losses	1,886	100	—	3,842	5,828
Other liabilities	27,423	154,312	124,636	306,309	612,680
Net assets at December 31, 1999	829,174	540,129	13,834,719	6,909,829	22,113,851

36. Merger with Kookmin Bank

On December 22, 2000 the Bank entered into a Memorandum of Understanding related to a contemplated merger with Kookmin Bank (“Kookmin”), which is engaged in the banking business in accordance with the provisions of the *General Banking Act* of Korea.

On April 23, 2001 the Bank and Kookmin signed a merger agreement (the “Merger Agreement”) stipulating the terms of the merger. Currently, the effective date for consummation of the merger is scheduled to be October 31, 2001. The Merger Agreement may be cancelled at any time prior to the effective date of the merger if certain events occur. Such events include mutual agreement between the Bank and Kookmin, a material breach of a representation or warranty by either party, or the failure of the related registration statement to be filed with the Securities and Exchange Commission in the United States of America to be declared effective by a certain date. The merger will be effected through the creation of a new bank that acquires each bank through an exchange of shares. Shareholders of the Bank and Kookmin will receive shares in the new bank in exchange for their shares in the Bank and Kookmin, based on a pre-determined ratio. All of the Bank’s and Kookmin’s outstanding redeemable preferred stock will be exchanged on a one-for-one basis for preferred shares in the new bank that have essentially the same terms. After the merger the former shareholders of the Bank will own approximately 40.2% of the merged bank, and the former shareholders of Kookmin will own approximately 59.8% of the merged bank.

It is currently contemplated that the merger will be accounted for as a purchase, with the Kookmin being the acquirer for accounting purposes. The assets and liabilities of the Bank will be recorded at fair value, with any excess of the purchase price over the fair value of the tangible and identifiable intangible assets and liabilities of the Bank being assigned to goodwill.

37. Other subsequent events

On May 28, 2001, the Bank issued subordinated bonds of 200 billion Won for the purpose of enhancing the Bank’s current BIS risk-adjusted capital ratio. The subordinated bonds consist of three tranches: (1) paying interest on a monthly basis, (2) paying interest on a quarterly basis and (3) zero coupon bonds. The effective yield on all the subordinated bonds is 7.87%. The term to maturity for all tranches is 5 years and 9 months maturing on February 28, 2007.

THE REPUBLIC OF KOREA

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the underwriters or any of our or their affiliates or advisers.

Recent Economic Difficulties

In 1997 and 1998, a number of developments described below adversely affected the Korean economy. Korean companies, including the conglomerates known as "chaebols" that dominate the Korean economy, banks and other financial institutions struggled financially, and a number of them have failed. Factors that contributed to the financial difficulties include excessive investment by Korean companies and high levels of debt, including debt denominated in foreign currencies, incurred by Korean companies.

Aspects of the Republic's financial and economic difficulties included:

- exchange rate fluctuations;
- interest rate fluctuations;
- reduced credit from foreign banks;
- reduced liquidity in the economy;
- volatile stock prices;
- reductions in the Republic's foreign currency reserves (which have largely been replenished);
- credit rating changes for the Republic, Korean financial institutions and companies; and
- higher unemployment.

The economic difficulties of certain Southeast Asian countries beginning in 1997 also contributed to Korea's problems. In 1999, the Korean economy rebounded from a recession in 1997 and 1998, achieving an increase in GDP of 10.7% in 1999 at constant market prices, compared to a 6.3% contraction in GDP in 1998 at constant market prices. In addition, the Republic recorded a trade surplus of US$28.4 billion in 1999 as the Republic's economic recovery led to a 29.0% increase in imports and an 8.6% increase in exports. Based on preliminary data, the Republic recorded GDP growth of 8.8% in 2000 and 3.7% in the first quarter of 2001, year-on-year.

The continuing weakness of the Japanese economy and the volatility of the Japanese Yen against the U.S. dollar increase the uncertainty of economic stability in Asia in general and may hinder the Republic's ability to recover more quickly from its own economic difficulties. Future adverse developments in Southeast Asia, Japan and elsewhere in the world could worsen Korea's economic difficulties by, among other things, affecting Korean financial institutions that have lent to borrowers in such countries, Korean exporters that export to such countries and Korean companies and financial institutions that rely on credit from Japanese lenders. Further, the wider opening of the domestic market and the on-going evolution of information technology have led to increased synchronization between the Korean economy and foreign economies, particularly that of the United States. Accordingly, the Republic has become more vulnerable to external economic situations.

Financial Difficulties of Korean Companies

Beginning in early 1997, a significant number of Korean companies, including member companies of chaebol groups, have experienced financial difficulties due to excessive investment in some industries, weak export prices and high levels of debt and foreign currency exposure. The Financial Supervisory Service of the Financial Supervisory Commission announced on March 29, 1998 that, as of December 31, 1997, the

30 largest conglomerates in the Republic owed approximately ₩111.3 trillion in loans and payment guarantees to Korean banks. In addition, the widespread practice of cross guarantees within chaebols meant that the difficulties of financially weaker companies threatened stronger ones as well. The reluctance and reduced ability of banks to renew or extend additional credit made these problems worse.

Beginning in early 1997, a number of significant Korean companies failed. In January 1997, four companies in the Hanbo Group applied to the courts for corporate reorganization, and in March 1997, five companies in the Sammi Group also filed for corporate reorganization. The creditors and the courts approved reorganization plans for some of the companies in the Hanbo Group and Sammi Group in 1998.

Other corporate failures followed the Hanbo Group and Sammi Group bankruptcies. On April 15, 1998, Kia Motors and an affiliate, Asia Motors Co., Ltd., came under court receivership. In July 1998, a committee of creditors of Kia Motors and Asia Motors arranged for the sale of the two companies by auction. In December 1998 Hyundai Motors signed an agreement to purchase new shares to be issued by the two companies. The creditors and the court approved the reorganization plan for Kia Motors and Asia Motors in December 1998.

Numerous other Korean companies have failed, including companies in the Jinro Group, the Dainong Group, the Ssang Bang Wool Group, the New Core Group, the Tae-il Precision Group and the Halla Group. The series of major corporate failures in 1997 and 1998 contributed to increases in the Republic's unemployment rate, which rose to 8.5% as of January 31, 1999, but decreased to 5.3% as of January 31, 2000, and labor unrest.

In August 1999, Korean financial institutional creditors of Daewoo Group agreed to enter into voluntary workout programs for twelve companies of Daewoo Group. By the end of February 2000, these creditors approved the workout programs, which include spin-offs of certain Daewoo Group companies, debt-to-equity swaps, deferment of principal and interest payments, reduction of interest rates and provision by existing creditors of new credits. In addition, by March 2000, foreign financial institutional creditors of certain Daewoo Group companies reached an agreement in principle to buy out their claims. However, individual and non-financial institutional creditors, minority shareholders and labor unions of Daewoo Group companies have not agreed on the terms of the restructuring programs. In April 2000, the court suspended the implementation of the restructuring plans for Daewoo Heavy Industries and Daewoo Electronics at the petition of minority shareholders. Further, Daewoo Motor, Korea's second-largest automobile manufacturer, went under court receivership on November 8, 2000 after it had failed to obtain additional loans from its main creditor, Korea Development Bank, and defaulted on its short-term payment of obligations. It has been reported that Daewoo and its creditors are continuing their talks with General Motors, a potential buyer of Daewoo Motor.

In addition to the significant uncertainties concerning the prospects of the restructuring of the Daewoo Group companies discussed above, the possibility of financial difficulties of other conglomerates as well as Korean financial institutions may negatively affect the Korean economy. For instance, the Hyundai Group has been reported to be struggling with its indebtedness, reported to amount to approximately US$30 billion, and Hyundai Group's Hyundai Engineering & Construction and Hynix Semiconductor have been reported to be experiencing liquidity problems. In March and May 2001, creditor financial institutions of the Hyundai Group agreed to provide financial assistance by way of additional loans, extensions on maturities of various outstanding payment obligations, debt-equity swap transactions, guarantees of repayment obligations of overseas borrowings and injections of additional capital into the Hyundai companies. In addition, the Korea Development Bank has established a program to stimulate the corporate debenture market, the "Fast Track Debenture Program". Hynix Semiconductor and Hyundai Engineering & Construction were selected as companies to be included in this program, which commenced in January 2001. Under this bond purchase program, selected companies became eligible to re-finance through the Korea Development Bank up to 80% of the principal amount of their debentures maturing in 2001 through the issuance of new debentures to the Korea Development Bank at market interest rates.

Worsened Financial Condition of Korean Banks and Other Financial Institutions

The capital adequacy and liquidity of most Korean banks and other financial institutions were hurt by:

- the financial difficulties of corporate borrowers;
- high levels of short-term foreign currency borrowings from foreign financial institutions; and
- the consideration of non-market oriented factors in making lending decisions.

The Government in late 1997 and 1998 ordered many of the worst-affected financial institutions to close. In addition, the Government took control of two large commercial banks, Seoul Bank and Korea First Bank, by recapitalizing them; in December 1999, the Government sold a controlling interest in Korea First Bank to Newbridge Capital and in April 2000, the Government entered into a management agreement with Deutsche Bank in an effort to rehabilitate Seoul Bank.

Further, to enhance the competitiveness of the Republic's financial institutions, the Government passed a law in October 2000, allowing financial holding companies. Based on this legal framework, a financial holding company led by the Government was established, and such holding company currently holds Hanvit Bank and several other Korean commercial banks. The Government has also encouraged Korean banks to pursue mergers and acquisitions, and H&CB and Kookmin Bank signed a merger agreement on April 23, 2001. Under the agreement, the merger is expected to be completed by October 31, 2001. If completed, the merged entity will become the largest bank in the Republic.

The Government estimates that, as of December 31, 2000, banks and non-bank financial institutions held non-performing assets defined to include loans and other credits on which interest had not been paid for at least three months totaling approximately ₩50.2 trillion, compared to ₩51.3 trillion as of December 31, 1999. By December 31, 2000, the Non-Performing Asset Management Fund managed by the Korea Asset Management Corporation ("KAMCO") had purchased ₩86.9 trillion of non-performing assets of banks and non-bank financial institutions for ₩34.8 trillion. KAMCO began purchasing non-performing assets on November 26, 1997.

Further Government financial support of Korean financial institutions may be necessary to enable them to meet capital adequacy requirements. However, the Government may be unwilling to provide all of the needed support. Continued poor financial condition of Korean financial institutions would likely reduce the amount of credit otherwise available to Korean companies, impairing the prospects for economic growth.

Concerns Regarding Liquidity and Foreign Currency Reserves

The Republic's foreign currency reserves fell 32.8%, to US$20.4 billion as of December 31, 1997 from US$33.2 billion as of December 31, 1996, mostly due to:

- the repatriation by foreign investors of their investments in Korea;
- the repayment of a portion of the Republic's private and governmental external debt;
- the unavailability of credit from foreign sources; and
- the intervention in the foreign currency market to stabilize the Won.

The usable portion of the reserves, defined as the total foreign currency reserves less amounts on deposit with overseas branches of Korean financial institutions and swap positions between The Bank of Korea and other central banks, totaled only US$8.9 billion as of December 31, 1997. The Government's usable foreign currency reserves increased to US$58.7 billion as of May 31, 1999 primarily due to balance of trade surpluses and loans received from the International Monetary Fund (the "IMF"), the World Bank and the Asian Development Bank. As of January 31, 2001, the Government's foreign currency reserves were US$95.4 billion.

The Republic's total external liabilities, using standards set by the IMF, totaled US$159.2 billion as of December 31, 1997, US$148.7 billion as of December 31, 1998, US$137.1 billion as of December 31, 1999 and US$136.3 billion as of December 31, 2000.

Credit Rating Changes

In October 1997, the Republic's long-term foreign currency rating ceiling on bond obligations, as announced by Moody's, was A1 and its long-term foreign currency rating as announced by each of Standard & Poor's and Fitch IBCA was AA-. Since that time, the rating agencies have changed the country's ratings significantly. The table below charts the credit ratings downgrades for the Republic from December 1997 to January 1998.

			Rating	
Date	**Rating Agency**	**Instrument**	**From**	**To**
December 1997	Moody's[1]	Foreign currency rating on bond obligations	Baa2	Ba1
		Foreign currency rating for long-term bank deposits	Ba2	B1
	Standard & Poor's[2]	Long-term foreign currency rating	BBB-	B+
		Long-term local currency rating	A-	BBB-
		Short-term foreign currency rating	A-3	C
		Short-term local currency rating	A-2	A-3
	Fitch IBCA[3]	Long-term foreign currency rating	BBB-	B-
January 1998	Moody's[4]	Foreign currency rating for bank deposits	B1	Caa1

(1) Moody's noted Korea's short-term foreign currency needs and the diminished level of its foreign exchange reserves. It also noted the generally deteriorating economic conditions in Asia.
(2) Standard & Poor's stated that the country's efforts to aid the banking sector threatened its own external position and conflicted with the spirit of the country's agreements with the IMF.
(3) Fitch IBCA noted the further fall in the country's foreign exchange reserve.
(4) Moody's viewed the forced rollover of interbank credits in late December 1997 as a default and noted that Korea's external payments position, combined with regional factors, could prolong the rollover period.

The table below charts the credit rating upgrades for the Republic from February 1998 to March 2000.

			Rating	
Date	**Rating Agency**	**Instrument**	**From**	**To**
February 1998	Standard & Poor's[1]	Long-term foreign currency rating	B+	BB+
		Long-term local currency rating	BBB-	BBB+
		Short-term foreign currency rating	C	B
		Short-term local currency rating	A-3	A-2
	Fitch IBCA[2]	Long-term foreign currency rating	B-	BB+
January 1999	Standard & Poor's[3]	Long-term foreign currency rating	BB+	BBB-
		Long-term local currency rating	BBB+	A-
		Short-term foreign currency rating	B	A-3
	Fitch IBCA[4]	Long-term foreign currency rating	BB+	BBB-
February 1999	Moody's[5]	Foreign currency rating on bond obligations	Ba1	Baa3
		Foreign currency rating for long-term bank deposits	Caa1	Ba2
June 1999	Fitch IBCA	Long-term foreign currency rating	BBB-	BBB
November 1999	Standard & Poor's	Long-term foreign currency rating	BBB-	BBB
December 1999	Moody's	Foreign currency rating on bond obligations	Baa3	Baa2
March 2000	Fitch IBCA	Long-term foreign currency rating	BBB	BBB+

(1) Standard & Poor's also removed the ratings from CreditWatch. The upgrade reflected the progress of the Government's reform program and the expectation of an agreement extending the short-term external debt of Korean financial institutions.
(2) Fitch IBCA viewed the agreement on January 28, 1998 extending the short-term external debt of Korean financial institutions as improving the country's external financing position.
(3) Standard's & Poor's cited the Government's progress in corporate and financial sector restructuring, as well as its improved external debt position.

(4) Fitch IBCA noted that the prospect of a repetition of Korea's liquidity crisis in 1997 was remote due to the country's improved foreign currency reserves.
(5) Moody's noted the country's improved external liquidity position and a government policy stance that should foster continued improvement in 1999. Moody's also changed the Republic's outlook to positive.

Credit downgrades hinder the ability of the Republic and Korean financial institutions and companies to raise funds at favorable interest rates in the capital markets.

Interest Rate Fluctuations

Due to prevailing adverse economic conditions, the depreciation of the Won and the Government's reform policy, interest rates payable by Korean borrowers fluctuated substantially, both domestically and externally, in late 1997 and 1998. The average annual interest rate on three-year Won-denominated, non-guaranteed corporate bonds, rose from 12.6% as of September 30, 1997 to 29.0% as of December 31, 1997 but fell significantly during the fourth quarter of 1998 and was 8.12% as of December 31, 2000. Internationally, the spreads over United States treasury bonds on benchmark dollar-denominated bonds issued by the Republic and Korean financial institutions and companies have also fluctuated considerably since the second quarter of 1998, but have improved since the second half of 1998. If interest rates rise in the future, the debt service costs of Korean borrowers and the possibility of defaults on debt repayments would increase.

Exchange Rate Fluctuations

Due to adverse economic conditions and reduced liquidity, the value of the Won in relation to the U.S. dollar and other major foreign currencies declined substantially in 1997 but generally rose in 1998. Because of market pressure, on December 16, 1997 the Government allowed the Won to float freely. The Noon Buying Rate was ₩1,695 to US$1.00 on December 31, 1997, compared to ₩917 to US$1.00 on September 30, 1997. As of June 27, 2001, the Noon Buying Rate was ₩1,300 to US$1.00.

Won depreciation increases substantially the amount of Won revenue needed by Korean companies to repay foreign currency-denominated debt, increases the possibility of defaults, and results in higher prices for imports, including key raw materials such as oil, sugar and flour. On the other hand, Won appreciation will have an adverse effect on the export by Korean companies.

Stock Market Volatility

The Korea Composite Stock Price Index declined by over 56% from 647.1 on September 30, 1997 to 280.0 on June 16, 1998. The index was 584.8 on June 27, 2001, representing an increase of 108.9% since June 16, 1998.

Significant sales of Korean securities by foreign investors and the repatriation of the sales proceeds could drive down the value of the Won, reduce the foreign currency reserves held by financial institutions in the Republic and hinder the ability of Korean companies to raise capital.

Government Measures

The Government took a number of steps in response to its recent economic difficulties, including the following:

- negotiation with the IMF of the IMF financial aid package involving loans in an aggregate amount of approximately US$58 billion;
- negotiation of an agreement with a substantial number of international creditors of Korean financial institutions to extend the maturities of an aggregate of approximately US$21.8 billion of Korean financial institutions' short-term foreign currency obligations owed to those international creditors by exchanging the obligations for longer-term floating rate loans guaranteed by the Government;

- the Government's issuance of Dollar-denominated bonds in the aggregate principal amount of US$4 billion in April 1998; and
- the announcement and implementation of a number of important economic, financial sector, labor and other reforms.

The Government may need to take further measures to adequately address the country's economic difficulties.

While the Government anticipates that its reforms of the Korean economy will alleviate its current economic difficulties and improve the economy over time, in the short term implementation of the reform measures may:

- slow economic growth;
- cause a budget deficit because of a decrease in tax revenues and an increase in Government expenditures;
- increase the rate of inflation;
- increase the number of bankruptcies of Korean companies; and
- increase unemployment.

Continued implementation of certain elements of the Government reform plan may require further action by the National Assembly, and political processes not directly within the control of the President or the Government will likely affect at least some elements of the reform plan. Accordingly, the reforms may not be fully implemented as currently contemplated. If the country fails to continue to implement reforms, the IMF and other international lenders may determine to reduce or withdraw their financial support. Declines in liquidity and availability of credit, further deterioration in the Republic's economy and increased downward pressure on the value of the Won could result.

Land and History

Territory and Population

Located south of the 38th parallel, the Republic of Korea covers about 38,000 square miles, approximately one-fourth of which is arable. The Republic's population of approximately 45 million has a literacy rate of over 90%. The country's largest city, Seoul, has a population of about 11 million people.

Political History

Dr. Rhee Syngman, Korea's elected president in 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

In late 1980, the country approved, by national referendum, a new Constitution, providing for indirect election of the President by an electoral college and for certain democratic reforms, and shortly thereafter, in early 1981, re-elected President Chun. Responding to public demonstrations in 1987, the legislature revised the Constitution to permit direct election of the President. In December 1987, Roh Tae Woo won the Presidency by a narrow plurality, after opposition parties led by Kim Young Sam and Kim Dae Jung failed to unite behind a single candidate. In February 1990, two opposition political parties, including the one led by Kim Young Sam, merged into President Roh's ruling Democratic Liberal Party.

In December 1992, the country elected Kim Young Sam as President. The election of a civilian and former opposition party leader considerably lessened the controversy concerning the legitimacy of the political regime. President Kim's administration reformed the political sector and deregulated and internationalized the Korean economy.

In late 1995 and early 1996, the Government charged former Presidents Roh and Chun with accepting bribes from certain Korean companies and with sedition relating to a number of clashes between the Government and its critics, including a 1980 confrontation between the Korean army and civilian protesters in Kwangju, Korea. In April 1997, the Korean Supreme Court sentenced former President Roh to 17 years in prison and former President Chun to life imprisonment and imposed severe fines on each defendant. No significant political or social unrest resulted from the trial, conviction or sentencing. The Government pledged to uncover any other similar unlawful practices and to continue its anti-corruption reforms generally. On December 22, 1997, former President Kim pardoned former Presidents Roh and Chun following consultation with then President-elect Kim Dae Jung.

On December 18, 1997, the country elected Kim Dae Jung as President, and he started his term on February 25, 1998. President Kim's party, the National Congress for New Politics, formed a coalition with the United Liberal Democrats led by Kim Jong Phil. The coalition, which temporarily ended before the election held on April 13, 2000, continued with the appointment of Lee Han Dong of the United Liberal Democrats as the current prime minister in June 2000.

Government and Politics

Government and Administrative Structure

Governmental authority in the Republic is centralized and concentrated in a strong presidency. The President is elected by popular vote, serves for a term of five years and may not be re-elected. The President chairs the State Council, which consists of the prime minister, the deputy prime ministers, the heads of the Government ministries and ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for local officials elected in local elections.

The National Assembly exercises the country's legislative power. The Constitution provides for the direct election of about 85% of the members of the National Assembly and the distribution of the remaining seats proportionately among parties winning over 3% of the popular vote. National Assembly members serve four year terms. The National Assembly enacts laws, ratifies treaties and approves the national budget. The executive branch drafts most legislation and submits it to the National Assembly for approval.

The country's judicial branch comprises the Supreme Court, the Constitutional Court and lower courts of various levels. The President appoints the Chief Justice of the Supreme Court and appoints the other Justices of the Supreme Court upon the recommendation of the Chief Justice. All appointments to the Supreme Court require the consent of the National Assembly. The Chief Justice, with the consent of the other Supreme Court Justices, appoints all the other judges in Korea. Supreme Court Justices serve for six years; all other judges serve for ten years. Other than the Chief Justice, justices and judges may be reappointed to successive terms.

The President formally appoints all nine judges of the Constitutional Court, but three judges must be designated by the National Assembly and three by the Chief Justice of the Supreme Court. Constitutional Court judges serve for six years and may be reappointed to successive terms.

Political Organizations

Currently, there are three main political parties:

- the Grand National Party ("GNP"), the former ruling party prior to the election of current President Kim Dae Jung;

- the Millenium Democratic Party ("MDP"), the current ruling party led by President Kim Dae Jung; and
- the United Liberal Democrats ("ULD"), led by Kim Jong Phil.

The parties currently control the following number of seats in the National Assembly:

	GNP	MDP	ULD	Other	Total
Number of Seats	133	115	20	5	273

Relations with North Korea

Relations between the Republic and North Korea have been tense over most of the Republic's history. The Korean War of 1950-1953 began with the invasion of the Republic by communist forces from North Korea and, following a military stalemate, resulted in an armistice establishing a demilitarized zone monitored by the United Nations in the vicinity of the 38th parallel.

North Korea maintains a regular military force estimated at more than 1,000,000 troops, mostly concentrated near the northern border of the demilitarized zone. The Republic's military forces, composed of approximately 690,000 regular troops and almost 3.1 million reserves, maintain a state of military preparedness along the southern border of the demilitarized zone. The United States currently maintains approximately 37,000 troops in the Republic.

Since September 1990, representatives of the Republic and North Korea have from time to time met in Seoul and Pyongyang. For example, on December 13, 1991, the two countries signed an "Agreement on Reconciliation, Nonaggression and Exchange and Cooperation" which went into effect on February 19, 1992, agreeing, among other things, to move towards reconciliation and economic cooperation. Tension between the two Koreas rose in March 1993 following North Korea's declaration of its intent to withdraw from the Nuclear Non-Proliferation Treaty. Subsequent events, including North Korea's refusal to comply with the Nuclear Non-Proliferation Treaty, and the death of North Korea's President Kim Il-Sung on July 8, 1994 caused the level of tension to fluctuate. An accord between the United States and North Korea, reached on October 21, 1994, eased tensions. North Korea agreed to dismantle its plutonium processing program in return for diplomatic recognition by the United States and economic undertakings from the United States, the Republic and Japan, including commitments by the Republic and Japan to assist North Korea's construction of two modern light-water nuclear reactors costing up to US$5 billion. However, disagreements have arisen in implementing this accord.

Over the last few years, relations between the Republic and North Korea have generally improved, despite occasional difficult periods. In 1995, the Republic agreed to donate 150,000 tons of rice to North Korea without preconditions. Demonstrating the improved situation, in April 1996 the United States and the Republic proposed talks with North Korea and China to secure peace on the Korean peninsula. In a troubling incident in September 1996, a small group of North Korean armed troops infiltrated the Republic by submarine; North Korea later apologized for the incident, defusing tensions. On December 9, 1997, the Republic, the United States, China and North Korea began formal talks on a permanent peace treaty.

Trade between the two Koreas, which totaled US$287 million in 1995, has increased to US$425 million in 1999. On November 18, 1998, the Hyundai Group began operating tours for South Koreans to visit the Mount Kumgang region of North Korea after reaching an agreement for such tours with the North Korean government. On June 13, 2000, President Kim Dae Jung met with North Korea's leader Kim Jong-Il in Pyongyang, North Korea. The summit meeting between the leaders of the Republic and North Korea was the first since the nation was divided in 1945. The two leaders announced an accord calling for the following points: (1) the autonomous pursuit of unification; (2) the reunion of separated families; (3) the promotion of economic cooperation and exchange in various fields; and (4) the continuation of dialogue to implement the accord. Over the longer term, reunification of the two Koreas could occur. Reunification would entail a significant economic commitment by the Republic.

Foreign Relations and International Organizations

The Republic maintains diplomatic relations with most nations of the world, most importantly with the United States with which it entered into a mutual defense treaty and several economic agreements. The Republic also has an important relationship with Japan, its largest trading partner after the United States.

The Republic belongs to a number of supranational organizations, including the IMF, the World Bank, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Development Association, the Asian Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements and the World Trade Organization.

In September 1991, the Republic and North Korea became members of the United Nations. During the 1996 and 1997 terms, the Republic served as a non-permanent member of the United Nations Security Council.

In March 1995, the Republic applied for admission to the Organization for Economic Cooperation and Development (the "OECD"), which it officially joined as the twenty-ninth regular member on December 12, 1996.

The Economy

Economic Policy

Since 1962, the Republic has shifted the focus of its economy from agricultural production and the export of raw materials, textiles and clothing to the production and export of manufactured goods, particularly electronic products, ships, machinery, automobiles and steel. During the two decades prior to 1998, the Republic's GDP increased at an average annual rate of approximately 9%, largely due to an industrious and well-trained labor force and Government policies favoring export-led growth.

The Government, without owning the means of industry and commerce, has actively established and implemented economic policy objectives to maintain national security, encourage industrial development and improve living standards. The Government has influenced the economy by controlling approvals and licenses and allocating credit, although the Government expects its influence to diminish because of its recent reform policies.

Current Economic Difficulties and Initial Reform Efforts

As discussed in "Recent Economic Difficulties", Korea experienced significant economic difficulties in 1997 and 1998. In response, the Government has implemented a range of measures to restore the confidence of financial market participants in Korea by strengthening the country's economic fundamentals.

The Government has focused its reform measures on restructuring the country's financial sector. In April 1997, a presidential committee introduced short-term reform measures, including:

- allowing commercial banks, securities firms and insurance companies to compete;
- permitting the issuance of financial debentures by commercial banks and securities firms;
- increasing the size of deposit insurance funds;
- improving public disclosure systems and accounting standards; and
- eliminating interest rate controls.

In June 1997, the Government announced medium- and long-term measures relating to the restructuring of The Bank of Korea and financial institution supervisory systems. The Government accelerated implementation of these measures in connection with the IMF financial aid package and related reforms.

To support troubled financial institutions and to stabilize the Republic's financial markets, on August 25, 1997 the Government announced a financial aid package, including special loans and other measures, for certain commercial and merchant banks with large amounts of bad loans. The Government also announced measures to increase the Republic's foreign currency reserves, including guaranteeing the overseas foreign currency borrowings of Korean commercial banks.

On October 19, 1997, the Ministry of Finance and Economy established the Non-Performing Asset Management Fund to assist certain commercial banks and other financial institutions. The ministry restructured and expanded KAMCO in November 1997 and mandated it to manage the Non-Performing Asset Management Fund and purchase and dispose of non-performing assets of financial institutions. In December 1998, the Government increased the size of the Non-Performing Asset Management Fund to approximately ₩33.6 trillion, to be funded by ₩32.5 trillion in proceeds from the issuance of Government guaranteed bonds, a ₩0.5 trillion loan from The Korea Development Bank and a ₩0.6 trillion contribution from the Republic's financial institutions. The size of the Non-Performing Asset Management Fund was approximately ₩21.6 trillion in February 2001. In 1997, the Non-Performing Asset Management Fund purchased approximately ₩11 trillion worth of non-performing assets from commercial and merchant banks for about ₩7 trillion. In 1998, the Non-Performing Asset Management Fund purchased approximately ₩33 trillion worth of non-performing assets from commercial banks, specialized banks and other forms of financial institutions for approximately ₩13.0 trillion. In 2000, the Non-Performing Asset Management Fund purchased approximately ₩31 trillion worth of non-performing assets from commercial banks and other forms of financial institutions for approximately ₩12 trillion. The fund uses cash and three- to five-year Government guaranteed notes to pay for its acquisitions.

As uncertainty about the stability of the Republic's financial markets persisted, in November 1997 the Government announced additional comprehensive measures to aid the financial sector, including:

- providing faster settlement of bad loans purchased by KAMCO from financial institutions;
- offering incentives for financial institutions to merge;
- requiring the merger of certain troubled financial institutions with other financial institutions;
- monitoring the condition of individual financial institutions;
- insuring all amounts deposited with banks, non-bank financial institutions, and securities investment companies, and all amounts due from life insurance companies, until the end of 2000;
- increasing the daily exchange rate band within which the Won may float from 2.25% to 10% (the band was subsequently removed); and
- exploring the expansion of the Republic's foreign currency borrowings from international capital markets.

On December 12, 1997, The Bank of Korea approved approximately ₩11.3 trillion in aid to stabilize the financial markets. Commercial banks, merchant banks and securities companies facing difficulties because of, among other things, the paralysis of the call loan market, received approximately ₩7.3 trillion and troubled securities companies, merchant banks and investment trust companies facing liquidity problems received about ₩4.0 trillion.

IMF Financial Aid Package

To help address the country's liquidity crisis and its generally difficult economic situation, the Government sought assistance from the IMF on November 21, 1997 and reached agreement with the IMF on an aid package on December 3, 1997. The aid package called for the Republic to receive loans totaling US$58 billion from the IMF, the World Bank, the ADB and the governments of certain countries, subject to compliance with several conditions. The loans have helped to replenish the Republic's foreign currency reserves and support the Republic's banking sector.

The aid package consists of US$21 billion over three years from the IMF in standby credits (approximately US$18.8 billion of which had been disbursed as of December 31, 1998), US$7 billion from the World Bank to support specific structural reform programs (US$6 billion of which had been disbursed as of December 31, 1998) and US$3.7 billion from the ADB to support policy and institutional reforms. In addition, Japan, the United States, France, Germany, the United Kingdom, Italy, Australia, Canada, Belgium, The Netherlands, Sweden, Switzerland and New Zealand pledged supplemental financing totaling approximately US$23 billion; to date, Korea has not utilized any of the supplemental financing.

Korea has subsequently repaid much of the amounts borrowed from the IMF and the remaining balance was US$1.74 billion as of May 23, 2001. As to the amounts borrowed from the World Bank and the ADB, US$7 billion and US$3.7 billion were still outstanding as of May 29, 2001, respectively.

Post-IMF Reforms

Financial Sector Restructuring

Since December 1997, the Government has started restructuring and recapitalizing troubled financial institutions, including closing insolvent financial institutions and those failing to carry out rehabilitation plans within specified periods. In particular:

- The Government took control of Korea First Bank and Seoul Bank by recapitalizing them. In December 1999, the Government sold a controlling interest in Korea First Bank to Newbridge Capital and in April 2000, the Government entered into a management agreement with Deutsche Bank in an effort to rehabilitate Seoul Bank.
- The Government closed 16 of the country's 30 merchant banks and required the other 14 to achieve a capital adequacy ratio of 8% by June 30, 1999 or be penalized. The Government monitors progress of the remaining 14 in implementing their rehabilitation plans. The Government established a bridge merchant banking corporation to acquire, manage and sell certain assets and liabilities of the closed merchant banks. As of April 2001, five merchant banks remain in operation.
- In June 1998, the Government closed two securities companies, one securities investment trust company, 31 mutual savings and finance companies and 50 credit unions and suspended operations of two securities companies and a securities investment trust company. One securities company decided to liquidate;
- In June 1998, the Financial Supervisory Commission, after reviewing the restructuring plans submitted by 12 commercial banks (not including Seoul Bank and Korea First Bank) that failed to meet Bank of International Settlement capital adequacy standards as of December 31, 1997, ordered the suspension of operations of five commercial banks and the assignment of their assets and liabilities to five other commercial banks and KAMCO. The Government provided certain tax benefits to the five banks that purchased and assumed the assets and liabilities of the banks being closed. KAMCO granted the five purchasing banks "putback" options if the assets deteriorated within six months from the purchase. The five banks could also request compensation from the Korea Deposit Insurance Corporation for certain losses arising from the purchase and assumption of the assets and liabilities. In addition, the Korea Deposit Insurance Corporation injected capital into the purchasing banks by buying subordinated bonds or stocks. The Government allowed the seven other commercial banks to continue operations after they submitted revised restructuring or rehabilitation plans. The Government will monitor the implementation of the restructuring plans and rehabilitation measures;
- In August 1998, the Financial Supervisory Commission, after reviewing the management improvement plans submitted by 22 insurance companies (consisting of 18 life insurance companies and four indemnity insurance companies), ordered the suspension of operations of four insurance

companies for three months and the assignment of their assets and liabilities to four other insurance companies; and

- In October 1998, after reviewing the rehabilitation plans submitted by four securities companies that had failed to meet the Government's minimum capital adequacy ratios, the Government suspended the operation of two and approved the rehabilitation of the other two under the condition that they supplemented their rehabilitation plans and provided detailed implementation plans. The two securities companies satisfied the conditions imposed by the Financial Supervisory Commission.

In 1999, (1) Boram Bank merged into Hana Bank, (2) Kangwon Bank, Hyundai International Merchant Bank and Chungbuk Bank merged into Cho Hung Bank, (3) Hanil Bank and the Commercial Bank of Korea merged to form Hanvit Bank and (4) Korea Long Term Credit Bank merged into Kookmin Bank. In 2000, in an effort to enhance international competitiveness, the Government announced a plan to implement the second-phase restructuring of the country's banks and required six commercial banks, into which the Government had injected public funds or which did not satisfy the minimum 8% BIS capital adequacy ratio as of June 30, 2000, to submit their respective management improvement plans. The Government thereafter approved the management improvement plans submitted by Cho Hung Bank and Korea Exchange Bank. With respect to the management improvement plans submitted by the remaining four commercial banks, the Government approved them on the condition that they become a subsidiary of a financial holding company. Three of these four commercial banks became subsidiaries of a financial holding company which was established in March 2001. The remaining commercial bank is expected to become a subsidiary of a financial holding company that is scheduled to be established in January 2002. The Government has also encouraged Korean banks to pursue mergers and acquisitions, and H&CB and Kookmin Bank signed a merger agreement on April 23, 2001. The merger is expected to be completed in the fourth quarter of 2001. If completed, the merged entity will become the largest bank in the Republic.

In 2000, the Government announced its intention to restructure securities investment trust companies, including the recapitalization of Korea Investment Trust Co., Ltd. and Daehan Investment Trust Co., Ltd. The restructuring of securities investment trust companies may have a serious impact on the Korean financial market.

Corporate Governance and Corporate Structure

In late 1997 and 1998, the National Assembly passed a broad range of measures restructuring the corporate and financial sectors, including:

- providing tax benefits, such as tax deferrals or exemptions, for mergers and acquisitions occurring as part of a corporate restructuring;
- rendering interest expenses on excessive corporate borrowing not deductible for tax purposes beginning in the year 2000 to discourage excessive borrowing;
- raising the foreign investor shareholding threshold which triggers the requirement of board approval from the target company from 10% to one-third of the company's outstanding shares, to facilitate the acquisition of Korean companies by foreign investors (the board approval requirement was subsequently abolished);
- repealing the mandatory tender offer rule, which previously had required any acquirer of 25% or more of shares of a corporation listed on the Korea Stock Exchange or registered in KOSDAQ to make a tender offer bid for more than 50% of the target company's shares;
- repealing the ceiling on the amount of its own shares that a listed company may hold;
- strengthening the legal protection for minority shareholder interests;
- requiring the preparation of combined financial statements for chaebols, commencing from fiscal year 1999;

- amending the Republic's insolvency laws, including creating a "management committee" composed of qualified professionals to assist the district courts' handling of the management of insolvent companies, limiting the availability of composition proceedings to large-sized companies by reinforcing eligibility requirements and expediting the time frames applicable to corporate reorganization and composition proceedings;
- eliminating the ceiling on equity investment by chaebols (which has been reinstated effective from April 1, 2001);
- phasing out by March 2000 outstanding cross-guarantees by one chaebol member of its affiliates' indebtedness, and prohibiting the issuance of new cross-guarantees;
- adopting a new foreign investment law to facilitate foreign investment by streamlining the investment procedure;
- adopting a law to facilitate the securitization of assets held by the Republic's corporations and financial institutions; and
- providing the Financial Supervisory Commission with greater authority to require the restructuring of the Republic's financial institutions.

Labor Market Reform

On February 6, 1998, a committee of representatives of labor unions, corporations and the Government agreed to implement labor reform measures, including:

- amending the labor laws to enable corporations to lay off workers for business reasons;
- permitting, starting July 1999, the formation of teachers' unions; and
- allocating up to ₩5 trillion to stabilize the labor market.

The agreement calls for companies to make all reasonable efforts to avoid layoffs, consult with a representative of the employees 60 days before the planned layoffs, notify the Ministry of Labor about the planned layoffs, select workers to be laid off based on a fair and rational standard and make an effort to rehire the laid-off workers when business conditions improve. The Government endorsed the agreement, and the National Assembly passed legislation regarding the labor reform measures on February 14, 1998.

Gross Domestic Product and Major Financial Indicators

Gross Domestic Product

Gross domestic product, or GDP, measures the market value of all final goods and services produced within a country for a given period and reveals whether a country's productive output rises or falls over time. Economists present GDP in both current and constant market prices. GDP at current market prices values a country's output using the actual prices of each year; GDP at constant market prices values output using the prices from a base year, thereby eliminating the distorting effects of inflation.

The following table sets out the composition of the Republic's GDP at current and constant 1995 market prices and the annual average increase in the Republic's GDP.

	Gross Domestic Product(1)					As % of GDP
	1996	1997	1998	1999	2000(2)	2000(2)
	(billions of won)					
Gross Domestic Product at Current Market Prices						
Private Consumption	233,644.1	254,986.5	242,834.1	272,136.5	296,212.7	57.3
General Government Consumption	42,477.4	45,659.7	48,782.1	50,089.4	52,816.2	10.2
Gross Domestic Fixed Capital Formation	153,975.6	159,110.4	132,307.5	134,151.8	148,448.8	28.7
Change in Inventories	4,792.9	(3,933.1)	(38,252.7)	(5,380.6)	(246.3)	(0.0)
Exports of Goods and Services	123,468.3	157,413.3	220,960.8	204,377.6	232,591.1	45.0

	Gross Domestic Product(1) 1996	1997	1998	1999	2000(2)	As % of GDP 2000(2)
	(billions of won)					
Less Imports of Goods and Services	(140,658.5)	(162,031.0)	(161,143.5)	(171,277.7)	(218,195.3)	(42.2)
Statistical Discrepancy	779.2	2,070.7	(1,121.7)	(352.8)	5,469.4	1.1
Expenditures on Gross Domestic Product	418,479.0	453,276.4	444,366.5	482,744.2	517,096.6	100.0
Net Factor Income from the Rest of the World	(1,370.6)	(2,423.1)	(7,724.7)	(6,146.6)	(2,461.2)	(0.5)
Gross National Product(1)	417,108.4	450,853.3	436,641.8	476,597.6	514,635.4	99.5
Gross Domestic Product at Constant 1995 Market Prices						
Private Consumption	221,005.7	228,738.3	201,869.3	224,151.8	240,016.9	50.4
General Government Consumption	39,411.9	39,984.2	39,818.7	40,328.5	40,840.3	8.6
Gross Domestic Fixed Capital Formation	148,579.8	145,294.6	114,563.5	118,772.9	131,883.2	27.7
Change in Inventories	3,914.4	(4,218.3)	(27,626.2)	(6,167.7)	(10,316.2)	(2.2)
Exports of Goods and Services	126,750.4	153,930.9	175,640.5	203,443.5	247,303.2	51.9
Less Imports of Goods and Services	(136,561.7)	(140,905.2)	(108,798.1)	(141,443.0)	(169,800.7)	(35.7)
Statistical Discrepancy	(279.2)	182.2	242.7	(1,376.7)	(3,657.4)	(0.8)
Expenditures on Gross Domestic Product	402,821.2	423,006.7	394,710.4	437,709.4	476,269.3	100.0
Net Factor Income from the Rest of the World	(1,302.6)	(2,174.9)	(6,589.7)	(5,161.9)	(2,019.5)	(0.4)
Trading Gains and Losses from Changes in the Terms of Trade	(7,320.0)	(18,176.4)	(22,094.7)	(32,026.3)	(64,580.8)	(13.6)
Gross National Income(3)	394,198.6	402,655.4	366,026.0	400,521.2	409,669.0	86.0
Percentage Increase of GDP over Previous Year						
At Current Prices	10.8	8.1	(2.0)	8.6	7.1	
At Constant 1995 Market Prices	6.8	5.0	(6.3)	10.9	8.8	

Source: National Accounts 2000 (Preliminary), April 2001; The Bank of Korea.

(1) GDP plus net factor income from the rest of the world is equal to the Republic's gross national product.

(2) Preliminary.

(3) GDP plus net factor income from the rest of the world and trading gains and losses from changes in the terms of trade is equal to the Republic's gross national income.

In 1997, GDP growth declined to 5.0% from 6.8% in 1996, at constant market prices. The aggregate of private and general government consumption expenditures grew only 3.2% in 1997. Gross domestic fixed capital formation decreased by 2.2% in 1997, due to the continued sharp decline in facility investments, which decreased by 8.7% in 1997.

GDP contracted 6.3% in 1998, at constant market prices. The aggregate of private and general government consumption expenditures declined by 2.8% and gross domestic fixed capital formation declined by 16.8%, as facility investments declined sharply by 21.1% compared with 1997, leading to the 6.3% contraction in GDP during 1998.

In 1999, GDP growth increased to 10.9% at constant market prices. The aggregate of private and general government consumption expenditures increased by 9.9% and gross domestic fixed capital formation increased 3.7%.

Based on preliminary data, GDP is estimated to have grown in 2000 by 8.8%, at constant market prices. The aggregate of private and general government consumption expenditures increased by 8.3% and gross domestic fixed capital formation increased 11.0%.

Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index(1)	Increase Over Previous Year	Consumer Price Index(1)	Increase Over Previous Year	Wage Index(1)(2)	Increase Over Previous year	Unemployment Rate(1)(3)
	(1995=100)	(%)	(1995=100)	(%)	(1990=100)	(%)	(%)
1996	103.2	2.7	104.9	4.9	212.9	11.9	2.0
1997	107.2	3.9	109.6	4.5	227.8	7.0	2.6
1998	120.3	12.2	117.8	7.5	222.3	(2.5)	6.8
1999	117.8	(2.1)	118.8	0.8	249.1	12.1	6.3
2000	120.2	2.0	121.5	2.3	269.0	8.0	4.1

Source: The Bank of Korea; The National Statistical Office.

(1) Average for year.

(2) Nominal wage index of earnings in all industries.

(3) Expressed as a percentage of the economically active population.

Slower economic growth and the Government's economic policy has helped keep inflation low. The inflation rate was 4.9% in 1996, 4.5% in 1997, 7.5% in 1998, 0.8% in 1999 and 2.3% in 2000.

Slower economic growth resulted in an increase in unemployment from 3.1% as of December 31, 1997 to 7.2% as of April 30, 1999. The level of unemployment remained high in 1999 and 2000.

Korea regards its well-educated labor force as one of its principal assets. From 1992 to 2000, the economically active population of the Republic increased by 11.3% to 22.0 million, while the number of employees increased 10.7% to 21.1 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 58% and 63% over the past decade. Literacy among workers under 50 is almost universal.

Balance of Payments and Foreign Trade

Balance of Payments

The following table sets out certain information with respect to the Republic's balance of payments.

Balance of Payments

Classification	December 31, 1996	1997	1998	1999	2000(3)
	(millions of dollars)				
Current Account	(23,004.7)	(8,166.7)	40,364.9	24,476.7	11,043.9
Goods	(14,964.7)	(3,179.1)	41,626.8	28,370.9	16,601.0
Exports(1)	129,968.0	138,619.1	132,121.6	145,163.6	175,781.6
Imports(1)	144,932.7	141,798.2	90,494.8	116,792.7	159,180.6
Services	(6,179.4)	(3,200.3)	1,024.1	(651.0)	(3,974.4)
Income	(1,814.5)	(2,454.3)	(5,638.3)	(5,159.0)	(2,199.6)
Current Transfers	(46.1)	667.0	3,352.3	1,915.8	616.9
Capital and Financial Account	23,326.8	1,314.4	(3,196.7)	2,040.3	11,726.8
Financial Account(2)	23,924.4	1,922.0	(3,367.8)	2,429.6	12,266.5
Capital Account	(597.6)	(607.6)	171.1	(389.3)	(539.7)
Changes in Reserve Assets	(1,388.6)	11,921.7	(30,975.0)	(22,982.9)	(24,190.0)
Net Errors and Omissions	1,066.5	(5,069.4)	(6,193.2)	(3,534.1)	1,419.3

Source: The Bank of Korea.

(1) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.

(2) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.

(3) The figures for 2000 is preliminary.

The figures for 2000 indicate a current account surplus of US$11.0 billion. The amount of the current account surplus in 2000 decreased in comparison with the amount of the current account surplus in 1999, primarily resulting from increased imports.

Trade Balance

The following table summarizes the Republic's trade balance for the periods indicated:

	Trade Balance		Balance of Trade	Exports as % of Imports
	Exports[1]	Imports[1]		
	(millions of dollars, except percentages)			
1996	129,968.0	144,932.7	(14,964.7)	89.7
1997	138,619.1	141,798.2	(3,179.1)	97.8
1998	132,121.6	90,494.8	41,626.8	146.0
1999	145,163.6	116,792.7	28,370.9	124.3
2000	175,781.6	159,180.6	16,601.0	110.4

Source: The Bank of Korea.

(1) These entries are derived from trade statistics and are valued on a free on board basis.

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP; accordingly, the international economic environment is crucially importance to the Republic's economy.

From 1994 to 1997, export growth averaged 13.0% per annum. In 1998, however, exports decreased by 4.9% due to difficult economic conditions in Asia, which is one of Korea's major export markets. In 1998, manufactured goods, machinery and transportation equipment constituted over 90% of Korea's exports, whereas commodities such as oil and iron ore, represented the bulk of imports. Prior to 1998, imports of consumer durables grew with the import liberalization policy imposed under the WTO regime.

In 1997, primarily because of a decline in imports, the Republic's trade deficit narrowed to US$3.2 billion. The Republic's economic difficulties reduced imports of capital goods and food and consumer goods. Exports grew by 5.0% due principally to increases in exports of electronics, chemical manufacturing products and metal products resulting from the depreciation of the Won.

In 1998, the Republic recorded a trade surplus of US$41.6 billion due to a 35.5% decrease in imports. The Republic's economic difficulties drove down imports of all categories of goods. Exports decreased by 2.8% due to decreases in the country's major export categories.

In 1999, the Republic recorded a trade surplus of US$28.4 billion. Exports grew by 9.9% and imports grew by 29.1%.

Based on preliminary data, the Republic recorded a trade surplus of US$16.6 billion in 2000. The Republic's economic recovery led to a 36.3% increase in imports and a 21.1% increase in exports.

The Republic's largest trading partners, the United States and Japan accounted for the following percentages of the country's imports and exports:

	1997		1998		1999		2000	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
United States	15.9	20.8	17.3	21.9	20.5	20.8	21.8	18.2
Japan	10.8	19.3	9.2	18.1	11.0	20.2	11.9	19.8

Non-Commodities Trade Balance

Korea's non-commodities trade deficit in its current account was US$8.0 billion in 1996, compared with deficits of US$4.1 billion in 1995. In 1997, however, the non-commodities trade deficit narrowed to US$5.0 billion, mainly due to a decline in overseas travel payments. In 1998, the Republic recorded a non-commodities trade deficit in its current account of approximately US$1.3 billion. In 1999, the non-commodities trade deficit increased to US$3.9 billion. In 2000, the non-commodities trade deficit increased to US$5.6 billion.

Monetary Policy

The Bank of Korea

Established in 1950, The Bank of Korea functions as the Korean central bank and the country's sole currency issuing bank. A seven-member Monetary Board, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies. The President may override any Monetary Board decisions that conflicts with the Government's economic policy.

The Bank of Korea implements monetary policy by influencing the reserve positions of banks, principally through the terms and conditions of discounts, open market operations and changes in reserve requirements. The Bank of Korea may also set or alter maximum interest rates on certain deposits and loans and, in periods of extreme monetary expansion, directly control the volume and nature of bank credit. In practice, The Bank of Korea's power to impose direct credit controls has been the most effective means of implementing monetary policy.

Interest Rates

In November 1991, the Government adopted a four-stage plan to deregulate interest rates gradually. On July 7, 1997, the Government implemented the fourth phase of its program which liberalized interest rates, with the exception of interest rates on demand deposits which has not yet been liberalized.

Money Supply

The following table shows the volume of the country's money supply:

Money Supply

	December 31,				
	1996	1997	1998	1999	2000
	(billions of won)				
Money Supply (M1)[1]	39,542.1	35,036.1	35,582.5	44,374.5	46,997.0
Quasi-money[2]	138,769.5	168,495.4	222,955.9	284,942.9	366,051.8
Money Supply (M2)	178,311.6	203,531.5	258,538.4	329,317.4	413,048.8
Percentage Increase Over Previous ear	15.8%	14.1%	27.0%	27.4%	25.4%

Source: Principal Economic Indicators, February 2001, The Bank of Korea.

(1) Consists of cash and demand deposits.

(2) Includes time and savings deposits and residents' foreign currency deposits at financial institutions.

Exchange Controls

Authorized foreign exchange banks, as approved by the Ministry of Finance and Economy, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require the approval of, or a report to, either the Ministry of Finance and Economy, The Bank of Korea or authorized foreign exchange banks, as applicable, for overseas payments, issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

The Government may impose foreign exchange restrictions, such as requiring approval to allow foreign investors to acquire, or repatriate proceeds from, Korean securities, in emergency situations, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbances in the Korean financial and capital markets.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free won accounts. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

On September 2, 1998 the National Assembly passed the Foreign Exchange Transaction Laws, which became effective from April 1, 1999. In principle, all currency and capital transactions, including, among others, the following transactions have been liberalized:

- the borrowing or issuance of debentures by Korean companies from overseas having less than one-year maturities;
- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimize the adverse effects from further opening of Korean capital markets, the Ministry of Finance and Economy is authorized to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

In addition to the above liberalization, the Government has embarked on a second set of liberalization starting on January 1, 2001, under which ceilings on international payments for Korean residents have been eliminated, including overseas travel expenses, overseas inheritance remittances and emigration expenses. Overseas deposits, trusts, acquisitions of foreign securities and other foreign capital transactions made by residents and the making of deposits in Korean currency made by non-residents have also been liberalized. In line with the foregoing liberalization, measures will also be adopted to curb illegal foreign exchange transactions and to stabilize the foreign exchange market.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

H&CB

By: /s/ Jung-Tae Kim

Name: Jung-Tae Kim

Title: Chairman, President and Chief Executive Officer

Date: June 28, 2001

EXHIBIT INDEX

* Incorporated by reference to the H&CB Registration Statement on Form 20-F (File No. 001-15140) filed on September 29, 2000.