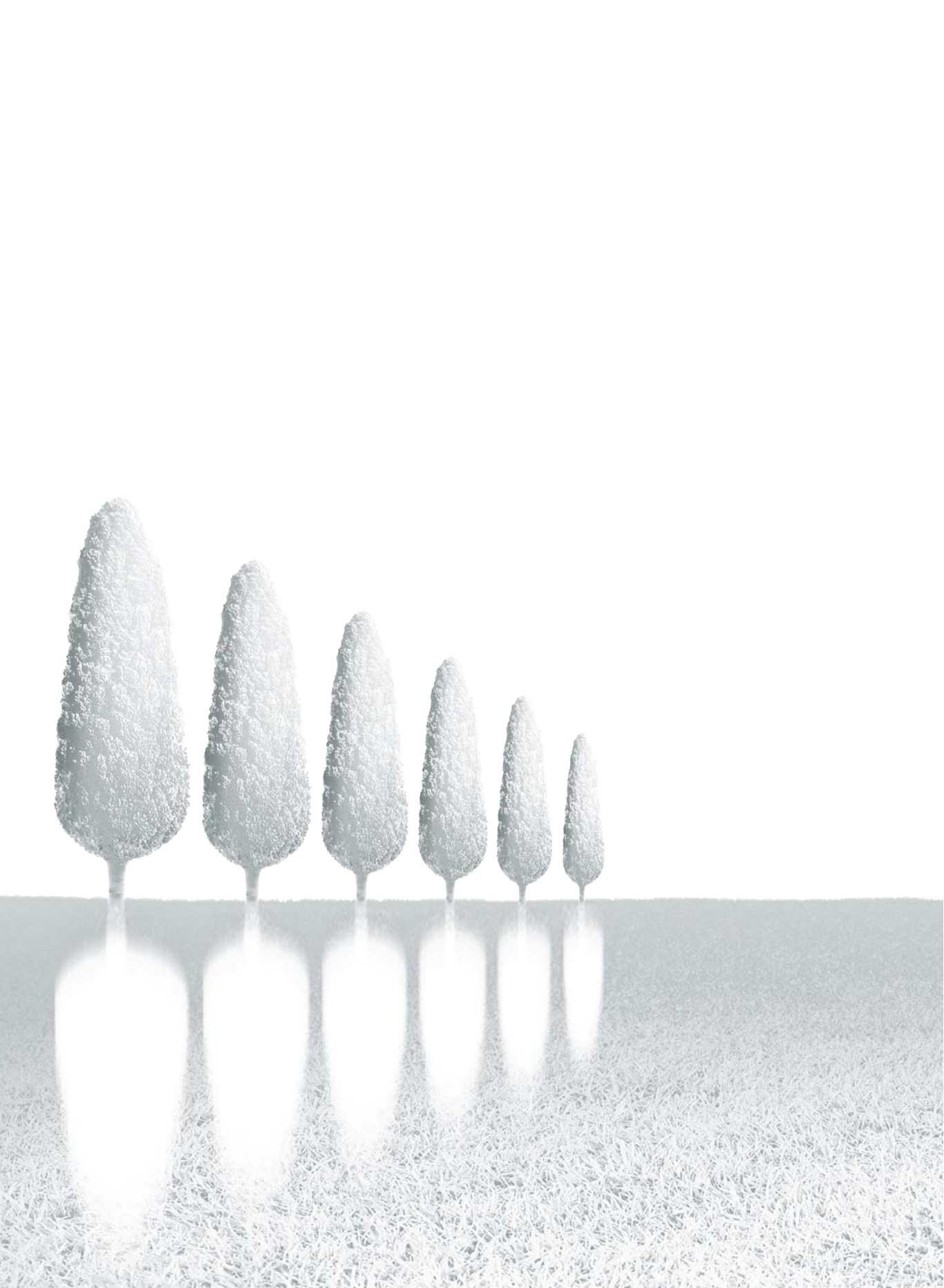


HANA BANK ANNUAL REPORT 2002





“  
Premier Financial  
&  
Information Services Network  
”

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하나  
금융  
은행

**Growing into a Financial &  
Information Services Network and Becoming  
a Distribution Channel for the Hana Finance Group**



## The Merger

The merger with Seoul Bank on December 1, 2002 became a significant milestone for Hana Bank, paving the way for a premier financial & information services network. Hana now has become the third largest banking institution of Korea. Moreover, it is poised to lead the market as a powerhouse in the domestic banking industry upon completing integration of its IT systems in May 2003. In addition, the new Hana Bank will become a distribution channel for Hana Finance Group and play a pivotal role within the entire Hana network to offer traditional banking services in a mix with other business such as wireless telecommunications, credit cards, investment banking, insurance and securities.

## The Emergence of New Leader

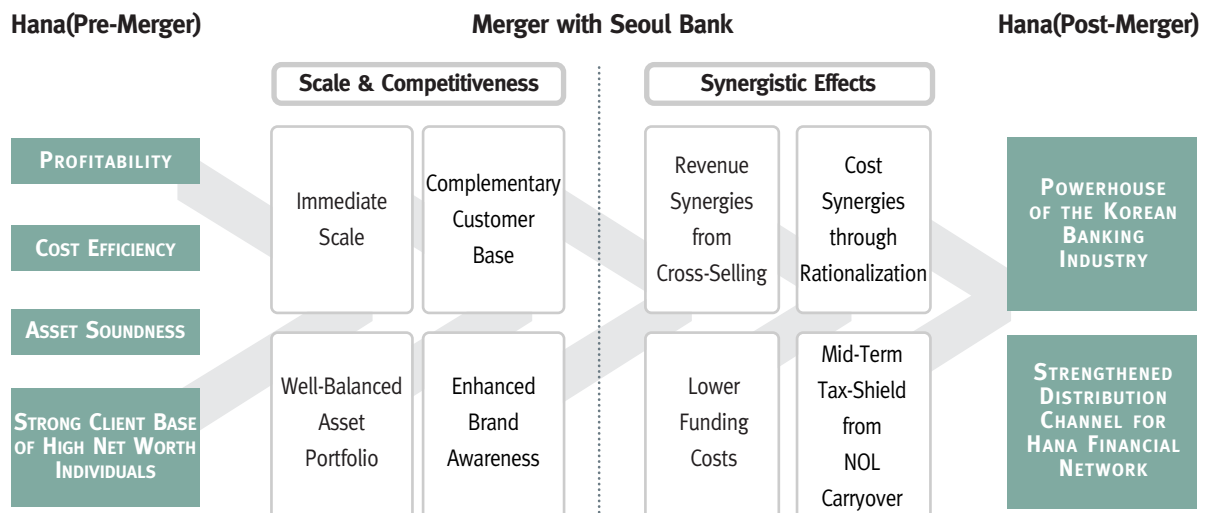
Prior to the merger, Hana Bank was well known for its highest per capita profitability, cost efficiency and asset quality, together with powerful dominance in the high-net-worth (HNW) clientele market in Korea. With the merger, the bank attained additional strengths, as follows:

First, the merger reinforced the bank's market competitiveness. Hana Bank has emerged as a robust competitor to industry leaders by achieving rapid growth of scale in absolutely short period of time. Its prime position will be further solidified as the middle - and mass-market customers of the former Seoul Bank are combined with Hana's

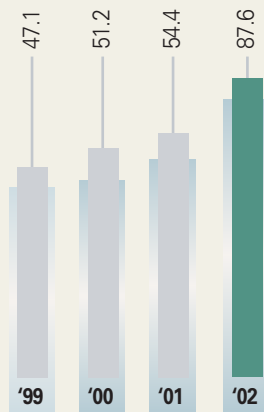
existing HNW clientele to form a mutually complementary retail client base. As for the balance of assets portfolio, pre-merger Hana's well balanced credit exposure between large corporations with high asset quality and rapidly growing small - and medium-sized enterprises (SMEs) including small office/home office (SOHO) firms flew through to the merged entity, resulting in about the same proportion between large corporate and SME clients as of year end 2002. Also, the diversified product mix in 2003 will hopefully allow Hana to control over asset portfolio. In addition, the enhanced brand awareness would contribute in extending the current business structure to explore new business opportunities.

Second, the merger will provide significant synergistic effects for the bank's operations. The bank will realize revenue synergies through cross-selling among private banking, bancassurance and asset management products; cost synergy through rationalization of branches and personnel; and decreased funding costs through increasing low-cost deposits and credit ratings improvement. Another major post-merger benefit is the maximization of net income in the near future, using the 100% mid-term tax shield resulting from the former Seoul Bank's net operating losses carried over.

Expectedly, Hana Bank will enjoy such synergistic business opportunities as a result of the merger, framing the foundation for the premier financial & information services network that constitutes the bank's long-term vision.

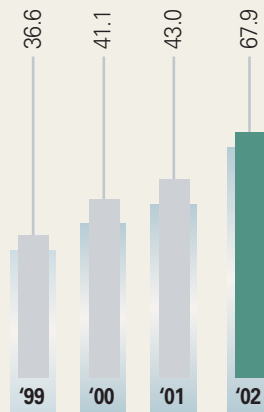


# Financial Highlights



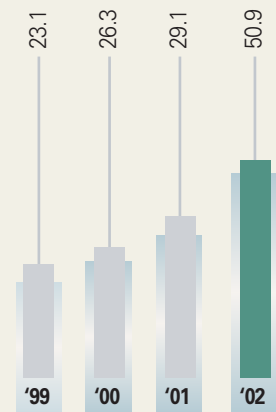
## Total Assets

(In Trillions of Korean Won)



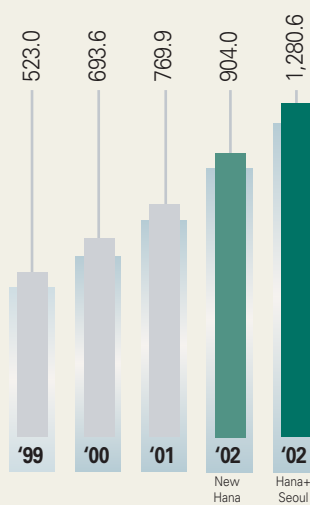
## Total Deposits

(In Trillions of Korean Won)



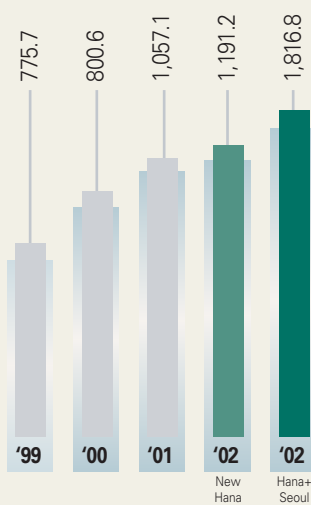
## Total Loans

(In Trillions of Korean Won)



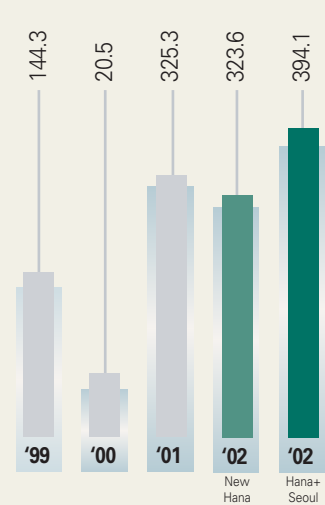
## Net Interest Income

(In Billions of Korean Won)



## General Operating Income

(In Billions of Korean Won)

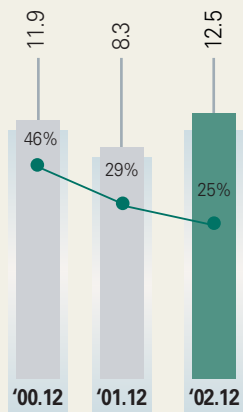


## Net Income

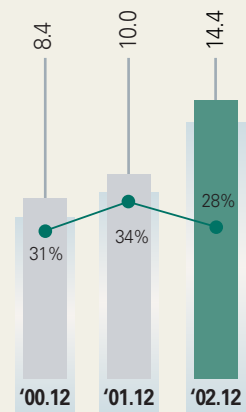
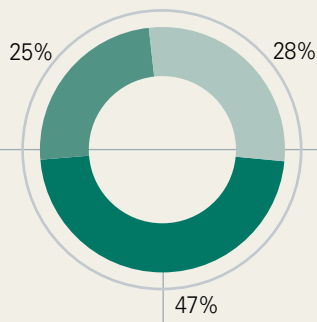
(In Billions of Korean Won)

## Re-balancing Portfolio Total Loans

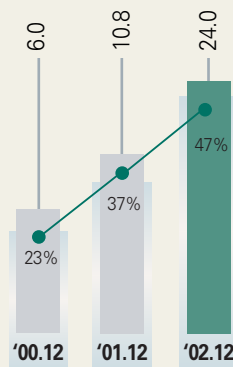
(In Trillions of Korean Won)



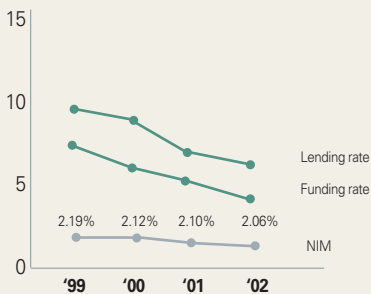
Large Corp.



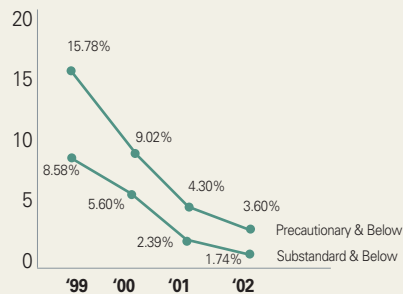
SME & Others



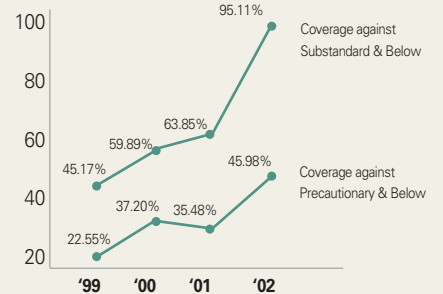
Retail



NIS and NIM (%)



Asset Soundness Ratios (%)



Coverage Ratios (%)

# Letter to Shareholders

## Dear Shareholders,

Korea attracted worldwide attention for its culture, politics and economy in 2002 with a number of newsworthy events including the World Cup games in the summer and the Presidential election in the year end. Among them, the most significant event for Hana Bank and our shareholders was the merger with Seoul Bank. With this merger, Hana has become Korea's third largest bank in terms of assets and deposits, totaling ₩87.6 trillion (US\$ 73.0 billion), ₩67.9 trillion (US\$ 56.6 billion), respectively, at the end of 2002. And our net income for the fiscal year reached to ₩323.6 billion (US\$ 296.6 million) from the nationwide network of 591 branches plus five overseas offices in New York, Tokyo and other global financial centers.

We are very grateful for your support and encouragement toward the merger and our post-merger integration program. Currently, the post merger process is showing a significant progress through concerted efforts by every member of our company.

In 2003, we aim to maximize leverage effects from this strength and earn inclusion in the world's 100 largest banking institutions, with our total assets growing to over ₩100 trillion (US\$ 83.3 billion).

Information systems integration will be completed on schedule in May 2003. Furthermore, the construction of an integrated data process system to provide tailored services for our customers is now underway. This includes appropriate backup systems that will ensure the stability of our network under any circumstance.

As for staff reorganization, our head office is actively pursuing streamlining activities together with a consolidated human resources of the two former banks, while all branches are being reshaped in line with the unification plans such as signboards changes and other steps to reinforce our new corporate identity.

Most importantly, the bank's entire staff is consciously working towards the same ultimate goal of transforming the bank into one of the most prestigious financial institutions worldwide. To realize this, we guarantee the complete integration of the two entities within the shortest time possible to optimize our business operations outcomes.

Regarding possibilities of future mergers, we will not seek further opportunities purely for expanding business volume as we have obtained a sufficient scale to compete with any other bank in Korea. However, we will remain open to possible strategic mergers or acquisitions, if prompted by sound business reasons for improving our customer service to deliver more values to our shareholders.

In 2002, we were able to achieve most of our goals despite of the





“ Indeed, we managed to accomplish most of the goals we set at the beginning of the year, and our asset soundness is now the best in the Korean commercial banking industry. ”

restructuring trend in the Korean banking industry and its impact on our business operation. In addition, the bank's asset soundness was further enhanced in spite of other uncertainties at both home and abroad.

As a result of our strong performance in fiscal year 2002, we are pleased to announce that Hana Bank will pay cash dividends of 10% to all our shareholders. Retained earnings will be reinvested into the most productive sectors of the bank to maximize future value for shareholders.

For 2003, we have raised the bar again in the aim to continuously improve our operating performance.

Our entire staff began the year with a rally named 'Chulbal 2003' (in Korean, it means 'Start 2003') where we confirmed our performance targets and pledged for a new start through qualitative changes to achieve our goals for the year. We also vowed that the key to building a world-class premier bank is to confidence in the way we do business, which stems from our expertise, professionalism and creative ideas. We firmly believe that these qualities will meet the high expectation of our customers as well as our shareholders.

As you are aware, we have been preparing a comprehensive financial services network under the name of 'My Money Network' linking our existing securities and investment trust management operations. We also established Hana Life Insurance in a form of 50:50 joint venture with Allianz AG as a step to broaden the services in bancassurance. Today, we are sufficiently geared to provide the expected level of services. The network will be in full operation within this year to meet our customers' financial needs.

Our endeavors to construct 'A Premier Financial & Information Services Network,' which is Hana Bank's vision, will continue with the configuration of a mobile settlement system through alliances with telecommunication and distribution businesses during 2003.

Turning to recently reported concerns over credit delinquent problems in Korea, Hana Bank's overdue ratio on individual loans edged up to 1.93% at the end of 2002. This was mainly attributed to the reinforced management of precautionary-rated credits and the enforcement of more rigid credit rating classifications. That ratio is currently increasing throughout the overall banking industry but Hana Bank will manage the ratio under such level that its impact on the asset quality could be minimized.

Another ongoing concern in the Korean banking industry to date is the accounting fraud incidence related to SK Global. Hana Bank's credit

exposure to SK Global amounts to ₩559.1 billion (US\$ 450.1 million). However, considering the volume of the bank's asset and the profitability at the end of the fiscal year 2002, the risk relevant to the company should be manageable.

Historically, Hana Bank has a proven track record regarding excellence in risk management. Even when confronted with the default of the Daewoo group right after the acquisition of Chungchong bank and the merger with Boram Bank, we were able to clean up ₩1.0 trillion (US\$ 833 million) in bad credit returning the bank's asset quality back to healthy levels within the shortest period. This clearly demonstrates our competency in coping with current challenges around SK Global.

Furthermore, the SK Group, the parent group of SK Global, is affiliated to companies of outstanding financial stability such as SK Telecom and SK Corp., which will facilitate corporate restructuring and recovery of current exposure. Based on these factors, I firmly believe that SK Global incident will become another precedent of the bank's successful risk management cases.

In 2003, Korea's financial institutions will face competitions to win new market segments among the so-called mega-banks. Specifically, we will witness even more intense competitions to attract more deposits for indirect investment products including mutual funds, and to develop segments in high-net-worth clientele and small office/home office (SOHO) markets.

We believe that our bank is positioned well to enjoy the economies of scale through the merger with Seoul Bank. It is time to concentrate on 'speed' and 'diversity', as the market will distinguish winners from losers in terms of how quickly a bank can satisfy various market demands.

We are equipped and ready to win.

All our goals and strategies will pursue maximization of both customer services and shareholder values. We look forward to your continuing support and encouragement as Hana Bank works toward our goal to become a major force in the Korean financial market.

Thank you.



Chairman & CEO Seung-Yu Kim

# Profile

Former Hana Bank

Hana Bank commenced operation as a short-term investment finance company in 1971. The bank received its full banking license in 1991 and reached ₩10.0 trillion (US\$ 8.3 billion) of total deposits in 1995, outperforming its market competitors. Through the mergers and acquisitions with Chungchong Bank and Boram Bank, the bank leveraged its asset up to ₩47.1 trillion at the end of 1999. After the merger with Seoul Bank in 2002, Hana Bank is positioned as one of the top three banks in Korea with assets totaling ₩87.6 trillion (US\$ 73.0 billion) and a worldwide network of 596 branches. Seeking asset quality and profitability as well as external growth, the bank has historically maintained one of the lowest NPL ratios in the industry. Hana has also maximized shareholder value, as evident from maintaining its high dividend policy for three profitable decades in a row.

As a result, Hana Bank's achievements have drawn the attention of notable financial institutions and journals at home and abroad. Such accolades include:

- The 'Best Bank in Korea' by Euromoney in 1993 and by Finance Asia in 1997 ;
- The 'Best Domestic M&A House in Korea' by Euromoney in 2000, based on the acquisitions of Boram Bank and Chungchong Bank;
- The 'Best Domestic M&A Case' for its merger with Seoul Bank by Finance Asia.

Building on such solid results, Hana Bank carries forward to setting its reputation as a premier financial & information services network. Currently reinforcing its securities, investment trust management and insurance businesses, Hana Bank aims to deliver 'Total Life Care Service' by integrating a full spectrum of financial and information services in the near future.

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# History of Hana Bank

**1971**

June.

Founded as Korea Investment Finance, the first non-banking financial institution in Korea

**1991**

July.

Converted into Hana Bank

**1993**

July.

Selected as 'Korea's Best Bank' for excellence by Euromoney

**1995**

February.

Obtained 'AA,' the highest rating for 1994 bank management evaluation by Banking Supervisory Authority (now the Financial Supervisory Service)

April.

Surpassed ₩10.0 trillion (US\$8.3 billion) of total deposits within a record-breaking 3 years and 9 months



**1996**

July.

Opened representative office in Shanghai, China

September.

Opened representative office in Singapore

November.

Issued Global Depository Receipts of US\$ 73.0 million, listed on the London Stock Exchange

**1997**

June.

Selected as 'Korea's Best Bank' by Finance Asia, a major regional business publication based in Hong Kong

**1998**

March.

Cited as 'Korea's Best Enterprise' by Asiamoney magazine

June.

Attracted US\$152.0 million stake from International Finance Corp. for the first time in Korea after Asian liquidity crisis

June.

Acquired Chungchong Bank through purchase & assumption

September.

Entered memorandum of understanding for merger with Boram Bank

December.

- Received 'Customer Satisfaction Award' from Korea Management Association
- Introduced business group operating system
- Posted net income of ₩110.8 billion (US\$92.3 million), the highest among domestic banks





**1999**

**January.**

Initiated post-merger Hana Bank operations

**April.**

- Completed integration of IT system of the merged bank
- Issued floating rate notes overseas with the lowest interest rates among domestic commercial banks since the Asian liquidity crisis

**May.**

Achieved the highest rating 'AAA' from Korea Information Service and Korea Management Consulting & Credit Rating Corporation (currently Korea Ratings)

**June.**

Obtained Y2K Error-Free Certification

**August.**

Introduced 'Mobile Hana Bank,' satellite-supported banking vehicle, first in Korea

**December.**

- Named Best Bank in Korea Customer Satisfaction Index (KCSI)
- Recorded total deposits of ₩36.5 trillion (US\$30.4 billion, fourth among domestic commercial banks), total assets of ₩47.3 trillion (US\$39.4 billion), net income of ₩144.0 billion (US\$120.0 million, second among domestic commercial banks)



**2000**

**April.**

Attracted investment for a 12.46% stake from Allianz AG

**July.**

Named 'Best Domestic M&A House in Korea' by Euromoney

**December.**

- Recorded 30 consecutive years of profit, a record among domestic banks
- Reached total deposits of ₩40 trillion (US\$33.3 billion), fourth among domestic commercial banks based on deposits

**2001**

**March.**

Became the only domestic bank to post profits and pay dividends for 30 years in a row.

**June.**

Declared new vision for 'a Premier Financial & Information Services Network'

**November.**

Expanded and reorganized investment banking group

**December.**

- Selected as Best Bank by KCSI survey
- Posted net income of ₩325.3 billion (US\$271.0 million)



**2002**

**January.**

Signed 50:50 joint venture agreement with Allianz AG to establish Allianz Hana Life Insurance Co. Ltd. (currently Hana Life Insurance)

**February.**

Introduced Hana Gold Club for high-net-worth individuals

**September.**

- Concluded the final contract for merger with Seoul Bank
- Reached total assets of ₩86.3 trillion (US\$61.6 billion), third among domestic commercial banks

**October.**

Named 'Best Bank' by KCSI survey

**December.**

Resumed post-merger Hana Bank operations



**May 31**

Received teaser memo for the sale of Seoul Bank

**June 27**

Submitted indicative proposal

**July 3**

Started due diligence on Seoul Bank's assets

**July 31**

Submitted final bid (exchange ratio: 2.1:1)

**August 19**

Selected as preferred negotiation party for merger

**September 5**

Held preliminary BOD meeting on merger plans (exchange ratio: 2:1, minimum value guarantee: ₩1.15 trillion or US\$958.0 million)

**September 12**

Submitted revised bid

**September 13**

Selected as winning bidder for merger

**September 27**

Held BOD meeting to approve merger, signed merger contract, and disclosed merger

# 2002

## Merger with Seoul Bank

### October 1

Established Merger Steering Committee to supervise the integration of bank operations

### October 21

Closing date for shareholder register

### October 25

BOD resolution to convene extraordinary shareholders' meeting on merger

### November 14

Extraordinary shareholders' meeting to approve merger

### November 22

Merger authorized by Financial Supervisory Commission

### December 1

Effective date of merger

### December 2

Merger registered

### December 6

Reception held in commemoration of merger

### December 13

Listed and commenced trading of newly issued shares of the combined bank

## 2001

### January.

Introduced new corporate identity (CI) standards

### February.

Introduced new branch operating system

### March.

- Selected Best Call Center in Asia and received Platinum Award
- Authorized capital expanded to ₩10.0 trillion (US\$8.3 billion)

### October.

Launched 6 Sigma Management Campaign

### November.

Received Customer Satisfaction Management Award from KMA

## 2002

### March.

Received ISO9002 Certification for Call Center, first in Korea

### June.

- Obtained ISO9001 Certification for custody business
- Recorded net profit of ₩108.3 billion (US\$90.2 million) for the first half of 2002

### December.

Merged with Hana Bank



## 2000

### April.

Signed agreement for financial and restructuring advisory services with Deutsche Bank

### June.

Appointed Chungwon Kang as 21st president and CEO

### September.

Introduced customer-oriented business division system

### December.

Conducted capital increase followed by equity decrease (paid-in capital : ₩ 610.8 billion or US\$508.9 million)



## 1995

### June.

Renamed to Seoul Bank

## 1998

### January.

Increased capital by ₩1.5 trillion (US\$1.2 billion) after the 8.2 to 1 capital reduction, with shareholders' equity totaling ₩1.6 trillion or US\$1.3 billion (government-held stake: 93.75%)

### February.

Authorized capital expanded to ₩8.0 trillion (US\$ 6.7 billion)

### April.

Designated as official sponsoring bank for Korea Football Association and the national soccer team

## 1999

### September.

Increased capital by ₩3.3 trillion (US\$2.7 billion), followed by 9.7 to 1 capital reduction (Total capital stock: ₩3.5 trillion or US\$2.9 billion)



# History of Seoul Bank

**1983**

December.

Introduced Online Teller's Machine, first in Korea

**1987**

February.

5 to 1 reverse stock split (par value ₩1,000 → ₩5,000)

September.

Surpassed total deposits of ₩5.0 trillion (US\$4.2 billion), first in Korean financial history

**1992**

June.

Topped ₩10.0 trillion (US\$8.3 billion) in total deposits

**1994**

June.

Paid-in capital amounted to ₩820.0 billion (US\$683.1 million)

August.

Designated as an official sponsor of the 2002 World Cup

**1975**

October.

Moved headquarters (10-1, Namdaemunno 2-ga, Jung-gu, Seoul)

**1976**

August.

- Merged with Korea Trust Bank (paid-in capital : ₩28.2 billion or US\$ 23.5 million)
- Renamed to Bank of Seoul and Trust Company
- Started securities transfer agent services

**1977**

May.

Opened representative offices in London and New York

October.

Established online operating system

**1978**

May.

Established representative office in Hong Kong

**1982**

September.

Completely privatized by the sale of government-held shares

**1959**

December.

Founded Seoul Bank, as a regional bank in the Seoul metropolitan area with the paid-in capital of ₩0.1 billion or US\$ 0.1 million. (first president: Hobyong Yoon)

**1962**

April.

Started services in foreign currencies

September.

Authorized to expand into nationwide operations

November.

Added trust business services

**1967**

May.

- Started operating automation process
- Introduced business division system, first in the Korean banking industry

**1974**

December.

Opened representative office in Tokyo



# Profile

## Former Seoul Bank

Seoul Bank was founded as a regional bank in the metropolitan area of Seoul in 1959, and was authorized to expand its operations nationwide in 1962. Seoul Bank began full-fledged commercial banking operations following the merger with Korea Trust Bank in 1976, changing its name to Bank of Seoul and Trust Company.

Since then, the bank pioneered the renovation of the Korean banking industry, introducing Online Teller's Machines (OTMs) for the first time in Korea in 1983. In 1987, the bank was the first to attract more than ₩5.0 trillion (US\$ 4.2 billion) in deposits among commercial banks in Korea. Following another name change in 1995, the bank was hit hard by Asian financial crisis in 1997 and 1998. Despite enormous difficulties, the bank successfully completed its restructuring endeavors and launched a new platform in response to the changing business environment. This effort was consequently recognized by Korea Management Association, who accorded the 'Customer Satisfaction Management Award' to the bank in 2001.

At the end of November 2002, the bank regained its previous soundness, recording total assets of ₩25.7 trillion (US\$ 21.4 billion) and equity capital of ₩832.3 billion (US\$ 693.4 million), with 3,384 employees and 287 domestic and three overseas branches.

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***Efficient and transparent corporate governance structure  
always open to its customers, investors, and employees.***





# Governance Structure



| In-Su Lee Deputy President | Kyo-Joong Yoon Senior Deputy President & COO | Seung-Yu Kim Chairman & CEO | Kwang-Yong Jang Standing Auditor | Jong-Yeol Kim Deputy President |

Hana Bank has been cited many times as a good industry case model for its highly efficient and transparent corporate governance structure, which is always open to customers, outside investors and its people. The transparent governance structure correlates to the bank's mission : 'Adhere to Market Principles, Protect Investors, and Maximize Shareholder Value.' Such governance structure emphasizing efficiency and transparency in decision making process reflects Hana Bank's core values.

Hana Bank's Board of Directors not only monitors the bank's ongoing operations, but also actively participates in managerial decisions by providing expertise and professional judgment at critical stages of operations. Outside directors of Hana Bank, comprising a majority of the Board, are carefully selected from various business or academic backgrounds to better reflect shareholder interests. Together, the Board provides assurance to Hana's shareholders that the bank, as a whole, is well balanced and managed to optimize business outcomes.

## Board of Directors Steering Committee

The Steering Committee consists of eight Board members and is responsible for validating the governance structure and organizing the Board of Directors and its committees. The Steering Committee also has responsibility for implementing the tasks that are prohibited to the BOD under the Commercial Code of Korea.

## Management Development and Compensation Committee

The Management Development and Compensation Committee focus on managerial performance. It determines the level of compensation for the CEO and standing directors after evaluating their job performance. Another duty of the committee is the development and improvement of standards for measuring managerial performance. The committee consists of four outside directors.

## Risk Committee

The Risk Committee is responsible for the bank's overall risk management strategy. It mainly involves the control of market risk, credit risk, operating risk and other hazards inherent in the banking industry. The committee implements and revises internal regulations on risk management and also reviews the bank's risk management activities. The committee is comprised of two standing directors and four outside directors.

## Audit Committee

The Audit Committee is mainly responsible for supervising management activities and evaluating Hana's internal control systems. The committee also maintains close communication with independent auditor and monitors their performances. The committee consists of four members of the Board of Directors, three of whom are outside directors.

## Candidate Recommendation Committees for CEO, Audit Committee and Outside Directors

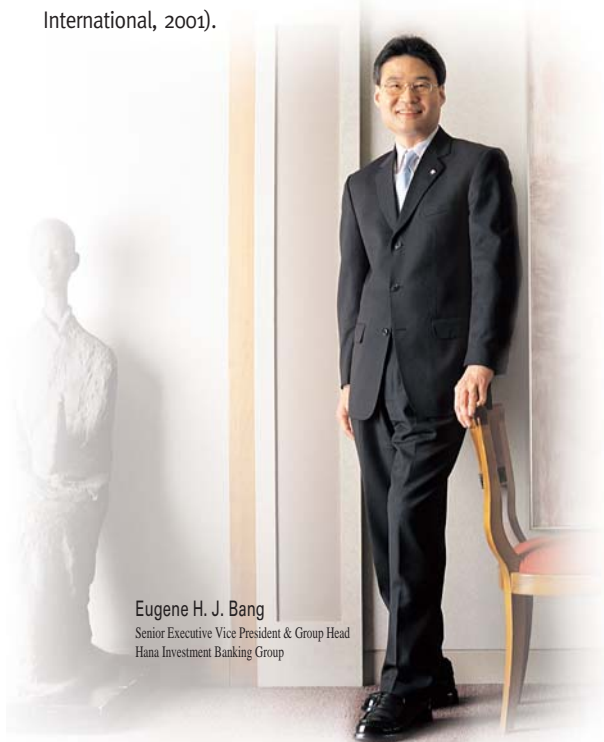
Candidate Recommendation Committees were separated from the Board to promote the independence of outside directors and audit committee while guaranteeing procedural transparency in the election of the bank's CEO. However, the regulations for these recommendation committees are proposed and effected by the Board of Directors to maintain checks and balances between them. All outside directors participate in the forming of Candidate Recommendation Committee for CEO and Audit Committee. Meanwhile, the committee for Outside Directors comprises of two standing directors and six outside directors.

increasingly important to any financial institution. Corporate customers require a much broader range of financial products and services, including direct access to the local and international debt and equity markets, corporate advisory services, and M&A supports. As the importance of institutional investors grows, a broader range of investment products and risk management services is being created. Hana's IBG strives to provide these products and services to its customers.

With increased business activities, particularly in infrastructure and real estate, the IBG's Bank Division, as of the end of 2002, successfully closed syndicated financing exceeding a total of US\$1 billion through non-resource or limited-resource project financing. In addition, the division continues M&A advisory services to both buy-side and sell-side clients, with total transactions exceeding US\$0.9 billion to be closed in 2003.

During 2002, the IBG's Securities Division issued US\$0.7 billion worth of corporate bonds in public offerings. Also, the group ranked 1st in the industry for fixed income brokerage and 2nd for asset-backed securities (ABS) underwriting with approximate total amounts of US\$120 billion and US\$1.7 billion, respectively. Following work that was commenced in 2002, the Securities Division continues its efforts to list seven companies to the KOSDAQ during 2003.

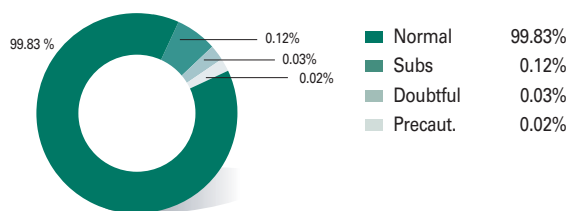
Among the many accolades received to date, the IBG was labeled '2002 South Korean Bond House' (International Finance Review, 2002) and included in the 'Asia Pacific Bank Top 5' (Project Finance International, 2001).



Eugene H. J. Bang  
Senior Executive Vice President & Group Head  
Hana Investment Banking Group

### Treasury Division

Since its reorganization in March 2002, the Treasury Division has been responsible for managing all financial assets both in Korean and foreign currencies, including investment and trading operations. The merger with Seoul Bank in December 2002 consequently put the division in charge of ₩13.4 trillion (US\$11.2 billion) in won-denominated fixed income securities, ₩549.2 billion (US\$457.5 million) in won-denominated stocks, and US\$494 million in foreign currency fixed income securities (amounts correspond to their respective book values). The division comprises two units: the Treasury and Management Department, in charge of treasury, financing, middle-office, back-office, and correspondent banking functions; and the Trading and Investment Department, responsible for maximizing return on investment activities including derivative products, and syndication.



Asset Quality of Won-denominated Fixed Income Securities  
(As of the end of 2002)

\* Excluded privately placed bonds

As of the end of 2002, won-denominated fixed income securities classified precautionary and below amounted to ₩23.9 billion (US\$19.9 million), or 0.17% of a total of ₩13,723.6 billion (US\$11.4 billion), showing commendable asset soundness. Foreign currency assets classified as precautionary and lower amounted to US\$4.02 million, or 0.81%. Rates of return showed resilience despite falling domestic and foreign interest rates.

Though economic growth in 2003 is expected to fall slightly short of last year's results, interest rates are expected to bottom out during the first half and to rise during the year's second half. The Treasury Division will manage its asset portfolio more closely to reflect interest rate movements more proactively.

Plans to reduce costs will be centered on increasing the proportion of low-cost funding by focusing on existing and repeating customers, issuing financial bonds, and other various foreign currency borrowings during the year. These operations also will incorporate efficient risk management activities to promote liquidity, asset quality and profitability, with efforts to minimize opportunity costs and to



maximize profits. Settlement procedures will be streamlined for increased efficiency by augmenting management systems for securities and strengthening back-office supports.

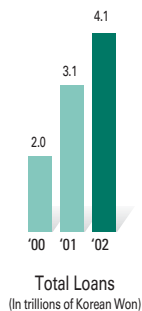
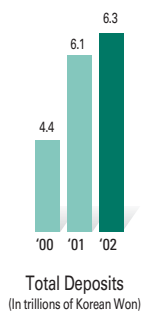
Various needs of corporate customers will be met with equally diverse derivative products and services. Derivative products will be continuously developed and marketed to increase both competitiveness and revenues in the Private Banking and Wealth Management markets. Also, increased participation in arranging syndications and project financing is being actively planned and pursued.



**Chong-Suk Choi**  
Senior Executive Vice President & Division Head  
Treasury Division (Domestic & Int'l)

### Chungchong Business Group

Greeting its sixth anniversary, Chungchong Business Group is poised to be a leading regional bank with the highest productivity and providing the best service to customer's satisfaction within Daejeon and Chungchong area. Aiming to become the finest regional bank in Korea, Chungchong Business Group continues to be a solid and reliable partner for the area's economic development, faithfully performing its functions and duties while contributing to the promotion of employment in the region.



Confirming its leading position in Chungchong area, the group's deposits and loans totaled ₩6.3 trillion (US\$5.2 billion) and ₩4.1 trillion (US\$3.4 billion), respectively, at the end of 2002.

Core projects for 2003 include issuance of the Hankkumi Card, an up-to-date city bus pass card, in March. Designed not just for transportation, but to be easily utilized anywhere in daily lives - such as hospitals, pharmacies, public events and supermarkets - the card is expected to greatly contribute in advancing the quality and convenience of lives and services for local citizens.

Chungchong Business Group will continue its support for the development of regional culture and sport events and to receive the confidence of the region in return. Efforts include the active support of 'Daejeon Citizen', a community soccer team, by developing relevant installment savings and affiliated cards, as well as handling advance ticket sales for the team's games. The group also hosts annual 'green concerts' in Daejeon and Cheonan.



**Sung-Ho Choi**  
Deputy President & Group Head  
Chungchong Business Group

### Yeongnam Business Group

With the merger, the bank launched Yeongnam Business Group to relieve geographical skewness of the entire network, which has been heavily weighted on the metropolitan area during the pre-merger period. Thus, the group prioritizes on coexistence and coprosperity with local economies to meet this demand. As of the end of 2002, the group can be bisected into two regional headquarters for Busan/Gyeongnam and Daegu/Gyeongbuk area, with 62 branches for each. And total deposits and loans of the group amounted to ₩4.5 trillion (US\$ 3.7 billion) and ₩4.7 trillion (US\$ 3.9 billion) at the end of 2002, respectively.



Jung Tae Kim  
Deputy President & Group Head  
Yeongnam Business Group

Beginning a new era for the merged bank, the group set up its mid-term objectives. First, the group projects its growth in terms of business volume to the level of local market leaders by 2005, which could be represented by ₩10.0 trillion (US\$ 8.3 billion) of total deposits and ₩ 12.0 trillion (US\$ 10.0 billion) of total loans. Secondly, the group aims to be the bank with the highest productivity per capita in Yeongnam area by the end of 2006, outperforming even Busan Bank and Daegu Bank, the current leaders in each region.

For the first step to achieve these goals, the group is incubating its core values as followings :

- Secure a broad customer base and increase the proportion of low cost funding and fee-based income by reinforced CRM
- Expand financial support to SMEs and SOHO businesses, the key to thriving provincial economies
- Cultivate customized product mix for every branch based on SWOT analysis of each commercial area
- Focus on social responsibilities by extending diversified support and contribution to public service programs
- Promote a sound corporate culture and encourage employee volunteerism

The Yeongnam Business Group, as a reliable leader in the regional banking sector, will endeavor to be the bank's another streamline for value creation, adhering to customer satisfaction through its solid network, customized product mix and transparent management.



*Following its merger with Seoul Bank, Hana Bank has established a foundation to lead the Korean banking sector, focusing on e-businesses and maximizing the effectiveness and efficiency of its e-banking services.*

### Trust Business Division

Comprised of two departments and one team, Hana Bank's Trust Business Division is leading the domestic bank trust industry while coping with rapid changes within the financial environment in a swift and flexible manner. The three units are the Trust Department, the Trustee and Custodian Service Department, and the Real Estate Banking Team.

The Trust Department along with the Real Estate Banking Team handles assets such as stocks and bonds for customers. The Trustee and Custodian Service Department provides upgraded custody and management services of marketable securities for clients at home and overseas. The team has obtained ISO9001 accreditation for its overall securities custody and management operations from Societe Generale de Surveillance (SGS), the world's leading verification, testing and certification company.

The Trust Business Division, with a powerful sales network, takes pride in providing specialized services for private banking and corporate customers, and it leads among bank trust operations backed by the restructuring of custody businesses centering on such new products as mark-to-market funds, specified money trust, and cinema investment money trust.

For the year 2002, the division's sales totaled ₩13.4 trillion (US\$11.2 billion) including money trust of ₩8.6 trillion (US\$7.2 billion) and property in trust of ₩4.8 trillion (US\$4.0 billion), while its custody of marketable securities recorded ₩27.0 trillion (US\$22.5 billion). During 2002, it developed new products and businesses in preparation for the aging of the Korean society, introducing silver care trust, a new product investing in the senior-care business, a first in the domestic banking industry. In 2001, the division had developed the cinema investment trust, a new product for investment in the film industry,



Sang-Seong Oh  
Senior Executive Vice President & Division Head  
Trust Business Division

also a first among domestic banks. In addition, it completed computerized infrastructure to introduce the ISO15022 - based on Society for Worldwide Interbank Financial Telecommunications (SWIFT) system to activate overseas custody businesses.

For 2003, it will expand property trust operations with asset management services for real estate and marketable securities of corporate and individual customers by networking with related specialized business entities. It will also strengthen asset management and product development capabilities by developing exchange programs with world premier asset managers. Particularly, for specified money trust products that handle customer-directed assets, it plans to develop a 'wrap account' product that constitutes optimal portfolios in accordance with customer's characteristics to provide comprehensive investment services through networking. It also will continuously explore new business areas such as insurance-linked integrated services and the construction of retirement communities to serve our aged society.

As to asset custody businesses, it will seek customer diversification by soliciting government-related funds (such as pension funds) and funds from life and non-life insurance carriers, in addition to investment trust management and asset management companies. Above all, the Trust Business Division will strive to enhance its capabilities as a profit center by focusing on strategies and programs to obtain custody business from foreign investors.

### EC Business Team

In today's dynamic environment, financial institutions are required to promptly meet the increasingly diversifying needs of their customers by focusing on information technology and expanding their Internet infrastructure.

Accordingly, Hana Bank is strategically seeking to (1) strengthen its capacity as a comprehensive financial services channel, (2) reinforce its marketing capabilities, (3) develop new business lines, (4) provide up-to-date products and services, and (5) expand into the e-business sector and bolster its pertinent capabilities.

Following its merger with Seoul Bank in 2002, Hana Bank has established a foundation to lead the Korean banking sector by maximizing the effectiveness and efficiency of its e-Banking Services, and focusing on its e-Businesses by amalgamating the specialized services of the two former banks.



*The post-merger integration of EDPS will be completed in May 2003, heightening the bank's IT capabilities and maximizing customers' satisfaction.*

### e-Banking Services >>

Since the launch of Internet banking services (www.Hanabank.com) in July 2000, Hana Bank has maintained its reputation as an industry leader, backed by 24-hour service and continuous upgrades. In addition, by opening another internet banking site for corporate customers only (www.HanaCBS.com) in August 2001, Hana Bank has displayed its dedication to the e-transformation of offline services. Such efforts have enabled the bank to increase its number of Internet banking customers to approximately 1.2 million at the end of 2002.

In the Internet retail banking service sector, Hana Bank provides numerous financial transactions including account inquiries, fund transfers, account openings, loan applications, loan paybacks, interest payments, utility bill and tax payments, and foreign

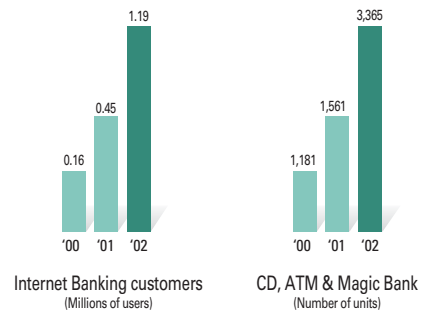
currency remittance. The bank also manages optimal asset portfolios through its Personal Finance Management (PFM) services, while delivering up-to-the-minute information on securities, real estate, insurance and travel through its e-CRM channels, which include e-mail and short messaging services (SMS).

Corporate Internet banking services include multi-stage approval, mobile approval, integrated accounts management, and management information via e-mail, as well as funds-related transactions. Hana Bank also supports enterprise resource planning (ERP) for smaller companies and endeavors to boost the business efficiency of its corporate customers in connection with the B2B e-Market place.

Meanwhile, Hana Bank continues to accumulate and analyze data on its customers for the bank's e-CRM channels in order to optimize its services and move towards creating a greater online presence, such as internet banking from offline channels including existing branches. Hana Bank is always looking to secure business synergies through its e-CRM services.

lottery sales agency business. In particular, Hana Bank is expanding its cooperation and partnerships with retail and telecommunications businesses, based on its infrastructure and settlement functions. In 2002, the bank focused on the introduction of new composite-linked products mainly through NEMO mobile payment services via its alliance with SK Telecom, the largest mobile telecommunications operator in Korea, and the reinforcement of other network functions.

Meanwhile, Hana Bank strives to develop relevant products and systems in line with heightening corporate productivity, improving business processes and expediting proliferation of e-commerce.



Particularly, the bank is capturing a solid position for B2B settlement vehicles through early positioning in the market. It is also concentrating its energies to craft optimal management methods through Hana Corporate Banking System (HANA CBS), strategic alliances with other organizations, and through the operation of teams dedicated to relevant businesses and the development of new business areas.



**e-Business >>**

The EC Business Team aims to prepare new earnings sources and expand networks, utilizing the bank's settlement and lending activities along with its external alliances. Hana Bank continues expanding into a wide spectrum of business fields such as Virtual Accounts, Escrow, e-Money, Payment Gateways (PGs) and the



## Information Technology Division

Se-Woong Kim  
Executive Vice President & Division Head  
IT Division



In 2002, Hana Bank expanded efforts to advance its information technology (IT) capabilities and to ensure the highest competitiveness in services. The goal was to maintain a leading position in the rapidly changing financial markets and to provide optimal services to meet the diverse needs of customers. In 2003, the bank will present a customer-oriented IT vision, strengthening its IT capabilities by streamlining organizational systems to support development of the businesses of today and tomorrow.

The highest priority at the moment is completing post-merger integration of electronic data processing systems (EDPS) in May 2003. The integration plan includes minimizing post-merger inconvenience that customers might encounter plus early operation of the unified business support system. To this end, the bank expanded infrastructure, including IT hardware and networks, while carrying out a series of related projects and continuing service to the customers.

These improvements will enable the bank to cope with changes in financial environments at home and overseas, support management strategies to provide premier financial information services for Hana Finance Group and develop next-generation systems that meet new business needs.

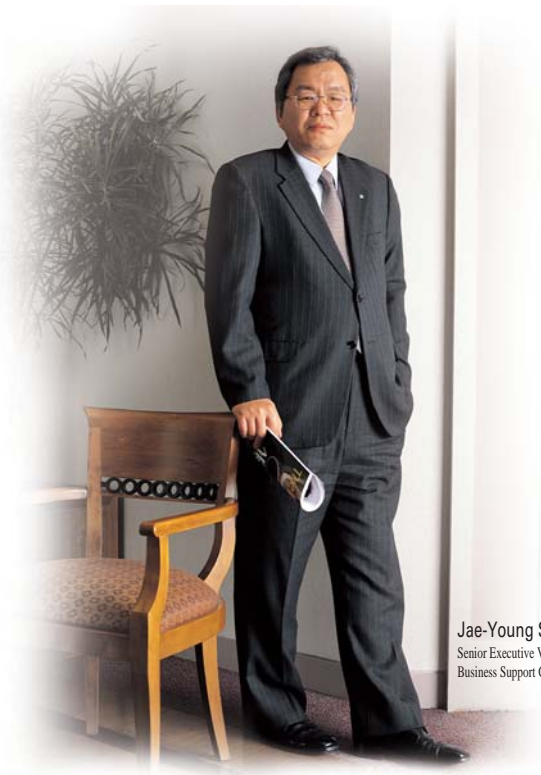
The bank's IT focus during 2003 will be to :

Expand the accessibility of customer data into an information infrastructure for Hana Finance Group to create an integrated customer relationship management (CRM) system, transforming data from individual systems to broader customer-oriented units that can provide customized services more swiftly, ensuring company-wide integration of CRM and aiding the development of bancassurance businesses ;

Provide stable IT services by establishing a nonstop computerization environment, solidifying networks for the expansion of customer bases, reinforcing infrastructure for computerization systems, and developing comprehensive financial information service networks ;

Consolidate internal control and information protection systems to prevent problems, strengthen management systems and establish all-inclusive security measures ; and

Promote new processes for advanced IT services, introducing cost efficient measures to manage the progress and the expense of computerization projects, and organize an 'IT Service Manager' group to take exclusive charge of integral businesses.



Jae-Young Song  
Senior Executive Vice President & Group Head  
Business Support Group

# Corporate Culture

## [ Club Activities ]

Hana Bank endeavors to become a place where employees can work with great satisfaction and sense of accomplishment while doing their best for themselves as well. As part of this goal, the bank has actively supported club and research activities where employees make use of their spare time to enlighten or improve themselves.

Research activities began voluntarily in 1991 with a study group to enhance the understanding of changes in the banking business and provide more specialized services to customers. Exploring new fields of interest since then, these activities have demonstrated noticeable outcomes, with 11 study groups (as of end-2002) that meet weekly or monthly and present their results annually.

The spectrum of such activities includes the cultivation of professional expertise and capabilities for finance and management that encompass customer relationship management (CRM), certified financial planner (CFP) preparation, or asset operation and management analysis, also ranging to the introduction of notable paintings, the Hana Chorus Festival and travel guides.

Other activities involve a variety of sports and culture-related clubs and programs. Hana will continue to support these efforts with a view toward improving the knowledge, welfare and life standards of its employees.



## [ Somanghoe ]



Somanghoe, meaning a 'society of hopes and wishes,' was established by Bank employees in the early 1980s to help neighbors in need. Today, some 430 Somanghoe members are regularly supporting and visiting a total of eight welfare facilities, including Aikwangwon on Geoje Island.

To finance their efforts, Somanghoe members have agreed to a certain voluntary deduction from their monthly pay as donations. The group undertakes a variety of activities throughout the year, including fund-raising campaigns for flood victims and colleagues in trouble, attracting diverse support and participation both inside and outside the bank, such as indirect and direct aid from subsidiaries, contributions of gifts of all kinds by employees, and donations of piggy banks and credit card mileage by customers, not to mention solid support from the bank.



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# MANAGEMENT DISCUSSION AND ANALYSIS

## I. Overview

The merger of Hana Bank with Seoul Bank became effective as of December 1, 2002. The merger was accounted for, using purchase method in accordance with Korean GAAP. And Seoul Bank's assets and earnings for December were taken into consideration in the year-end financial statements of Hana Bank. As a result, from its operation in 2002, the bank earned ₩323.6 billion, which is a ₩1.7 billion decrease from the previous year. And this accounting treatment for the merger impacted on EPS, which dropped by ₩59 to reach ₩2,304 (Diluted EPS: ₩2,300). BPS, however, posted an increase of ₩3,171 to reach ₩15,863, reflecting immediate growth of Hana Bank's net assets.

Hana sustained its top priorities on operation, which are enhancing profit-generating capability, reducing volatility of its income source and improving the overall quality of assets. In order to achieve these objectives, the bank undertook measures such as expanding loans to households and SMEs to obtain more balanced loan portfolio. It also sought to diversify the revenue sources and reduce NPLs by proactive write-offs. As a result of these efforts, the bank's total loan portfolio, including trust account, breaks down to 24.58% of loans to large corporate, 28.26% of loans to SMEs, and 47.16% of household loans. Meanwhile, the number of credit card accounts increased 92% year on year to reach 2.6 million after the merger, while net credit card sales totaled ₩10.5 trillion, a 300% higher than 2001.

Also, the bank actively pursued minimizing its non-performing assets. In 2002, the bank witnessed a number of negative impacts to its asset quality, which includes the credit deterioration in corporate sector such as Hyundai Merchant Marine, the sudden increase of credits classified as substandard and below in retail sector for the 2nd half of the year. In response, the bank wrote off ₩342.7 billion and recovered ₩198.7 billion from credits of substandard and below, which led the bank's credits classified as substandard and below to the level of ₩979.9 billion as of the end of 2002. This amount could be presented as 1.74% of substandard and below ratio, a 0.65%p decrease year on year, which is evaluated as the 3rd in domestic banking industry.

## II. Summary of Business result

Hana Bank's net income for 2002 came to ₩323.6 billion, which was ₩1.7 billion lower than the figure for 2001. With the 11 months' earnings of pre-merger Seoul Bank taken into consideration, the amount increases up to ₩394.1 billion. The following table presents a summary of income for the past five years.

**Table 1) Statement of Income**

	For the years ended December 31, each year					In billions of Korean won	
	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul	
General Operating Income	471.6	775.7	800.6	1,057.1	1,191.2	1,816.8	
Net Interest Income	412.2	523.0	693.6	769.9	904.0	1,283.7	
Fees and Commission Income	41.6	208.9	144.3	258.5	315.8	538.8	
Trading and Evaluation Income	34.0	73.8	6.5	83.8	41.4	71.6	
Others	-16.2	-30.0	-43.8	-55.1	-70.0	-77.3	
General and administrative expenses	-167.8	-299.0	-340.6	-396.5	-526.9	-864.1	
Pre-provisioning income	303.8	476.7	460.0	660.6	664.3	952.8	
Provisions for possible credit losses	-127.8	-395.7	-521.6	-270.2	-153.6	-326.1	
Operating Income	176.0	81.0	-61.6	390.4	510.6	626.7	
Net of non-operating Income	-46.2	131.2	78.9	86.3	-54.5	-100.0	
Ordinary Income	129.8	212.2	17.3	476.7	456.1	526.7	
Net of extraordinary Income	0.0	0.0	15.8	0.0	0.0	0.0	
Income tax expenses	-19.0	-67.9	-12.6	-151.4	-132.5	-132.5	
Net Income	110.8	144.3	20.5	325.3	323.6	394.1	
					CAGR of Net Income	30.73%	

## MANAGEMENT DISCUSSION AND ANALYSIS

The general operating income for 2002 amounted to ₩1.19 trillion, resulting in ₩134.0 billion annual increase from 2001. This increase attributed to several factors. Net interest income rose by ₩134.1 billion due to the increase in interest earning assets and the net interest spread similar to that of 2001. Net fees and commission income also increased by ₩57.3 billion owing to more fee revenues from credit card and purchase card operation in 2002.

On the other hand, the bank expensed ₩526.9 billion for its general and administrative activities in 2002, an increase of ₩130.4 from the previous year. And the cost-income ratio rose by 6.73%P from 37.51% in 2001 to reach 44.24% in 2002. The sharp increase in G&A expenses is attributed partly to the ₩26.7 billion of additional personnel and equipment expenses related to the merger. Table 2) below provides more detailed illustration of additional merger costs, which were reflected in the financial statement of 2002.

Loan loss provision in 2002 was lowered to ₩153.6 billion, a ₩116.6 billion drop from 2001. The amount decreased in the midst of upward adjustment of provisioning rate by FSS and credit deterioration factors such as Hanyang ImpEx, Hynix Semiconductor, Hyundai Merchant Marines, etc. The bank achieved the save by offsetting the provision increasing factors with the reversal of loan loss provision from debt-equity swap and the recovery of corporate loans. Accordingly, the bank's active write-off policy remained unaffected in spite of the downturn in the provisioning during 2002. After the write-offs in 2002, the bank's substandard and below ratio dropped from 2.39% to 1.74%, while coverage against substandard and below stepped up from 63.85% of 2001 to 95.11% at the end of 2002.

These operating performance in 2002 led the bank to ₩510.6 billion of operating income, which is a ₩120.2 increase from ₩390.4 billion. Aggregated to the 11 month's earnings of pre-merger Seoul Bank, the figure reaches up to ₩626.7 billion.

With the sudden increase in G&A expense, however, non-operating loss became the greatest drag on earnings, reflecting the loss from impairment and valuation of investment securities due to bearish equity market in 2002. The bank's non-operating loss for 2002 recorded ₩54.5 billion, which is a ₩140.8 billion decrease from the non-operating income of ₩86.3 billion in 2001. Due to the loss, income before tax for 2002 decreased by ₩20.6 billion from the previous year. The tax shield from the net operating loss of pre-merger Seoul Bank applied to the bank's 1 month earning in December in accordance with Korean Tax Law. This tax benefit reduced the effective corporate tax rate of 2002 to 29.1% from 31.8% of 2001. Expectedly, Hana Bank will take full advantage of the NOL carryover and boost its net income in 2003 without any corporate tax. For the operating results of 2002, the bank paid ₩132.5 billion of corporate tax and realized net income of ₩323.6 billion, a slight decrease from ₩325.3 billion in 2001.

**Table 2) Merger Costs**

In billions of Korean won

Classification	Hana	Seoul	New Hana
<b>Fees &amp; Commissions</b>	3.4	7.3	10.7
Merger Negotiation Advisory Fee	3.3	7.3	10.6
Commission for Registration of Nominal Transfer Agency	0.1	0.0	0.1
<b>Loss from Disposition of Finance Debentures</b>	10.5	0.0	10.5
<b>Personnel Expenses</b>	10.6	5.3	15.9
Merger Bonus	5.0	5.3	10.3
Prepaid Incentives	5.6	0.0	5.6
<b>Equipment Expenses</b>	10.8	0.0	10.8
M&A Advertising	5.9	0.0	5.9
Office Integration	1.4	0.0	1.4
Post-Merger Credit Card Promotion	0.5	0.0	0.5
Operating Expense of Merger Steering Committee	0.1	0.0	0.1
Amortization of Goodwill	2.9	0.0	2.9
<b>Non-Operating Expenses</b>	0.0	43.2	43.2
Severance Benefits	0.0	43.2	43.2
<b>Expenses on the Income Statement</b>	35.3	55.8	91.1
<b>Other Expenses</b>	4.1	0.0	4.1
Hybrid Tier 1 Issuance Fee	3.6	0.0	3.6
Accounting Advisory Fee	0.2	0.0	0.2
Merger Steering Committee Consulting Fee	0.3	0.0	0.3
<b>Total Merger Costs</b>	39.4	55.8	95.2

## MANAGEMENT DISCUSSION AND ANALYSIS

**Table 3) Balance Sheet**

As of December 31, each year	In billions of Korean won				
	1998	1999	2000	2001	2002
<b>Interest earning assets</b>	14,991.6	28,441.9	37,384.7	40,349.9	64,420.8
Due from banks(note 1)	2,108.3	2,220.6	1,565.5	1,234.1	830.8
Securities	5,594.2	9,185.8	11,557.6	11,188.5	14,623.5
Loans(Net of provision)(note 2)	7,289.0	17,035.5	24,261.6	27,898.1	48,966.5
Others	0.0	0.0	0.0	29.3	0.0
<b>Other revenue earning asset</b>	119.0	640.7	801.4	1,609.9	2,908.8
Credit card receivable	78.0	118.4	440.4	1,003.5	2,160.0
Stock	41.1	522.3	360.9	606.4	748.8
<b>Non-revenue earning asset</b>	1,600.8	3,295.9	3,588.1	3,342.0	7,090.4
<b>Total Assets</b>	16,711.4	32,378.5	41,774.1	45,301.8	74,420.0
<b>Interest bearing liabilities</b>	14,476.4	29,254.2	38,337.1	41,483.2	67,698.1
Deposits	10,838.3	23,019.7	28,753.3	33,450.1	54,676.7
Borrowings(note 3)	2,924.0	4,941.7	7,005.8	4,863.0	7,986.3
Debentures	504.9	920.4	1,771.1	1,942.5	4,119.0
Others	209.1	372.3	806.9	1,227.5	916.1
<b>Non-interest bearing liabilities</b>	1,371.7	1,358.8	1,678.7	1,890.0	3,991.4
<b>Shareholders' equity</b>	863.3	1,765.6	1,758.4	1,928.7	2,730.5
<b>Total liabilities &amp; shareholders' equity</b>	16,711.4	32,378.5	41,774.1	45,301.8	74,420.0
<b>Revenue earning asset expense liabilities gap</b>	634.2	-171.5	-151.0	476.7	-368.5
<b>Gap ratio(%)</b>	4.20%	-0.59%	-0.40%	1.14%	-0.12%
<b>Leverage ratio(times)</b>	19.4	18.3	23.8	23.5	27.7
	CAGR of Total Asset			45.27%	

Note 1) Excluded Reserve deposits with BOK which is non-interest earning asset.

Note 2) Interbank reconciliation funds are included in Non-revenue earning assets.

Note 3) Interbank reconciliation funds are included in Non-interest bearing liabilities.

As of the end of 2002, Hana Bank obtained asset growth of ₩29.1 trillion through the merger with Seoul Bank. Loans in bank account increased by ₩21.1 trillion and raised its proportion in interest earning assets up to 76.0% from 69.1% of 2001 year end. Household loans presented 48.2% of loan portfolio as of the end of 2002 and took the major role in the expansion of loans within interest earning assets. Meanwhile, deposits posted ₩54.7 trillion at year end, The amount presented 80.8% of interest bearing liabilities at the end of 2002, a slight increase from 80.6% of 2001 year end.

The net difference between revenue earning assets and interest bearing liabilities deteriorated from ₩476.7 billion to the negative ₩368.5 billion. And the gap between interest earning assets and interest bearing liabilities was also debased from -1,133.3 billion to -3,277.3 billion. This can be attributed to the fact that increase in borrowings and debentures by the merger surpassed that of securities and other revenue earning assets.

For the merger consideration, the bank provided KDIC with its newly issued common stock, which is equivalent to ₩1.1 trillion. The amount was consolidated into the shareholders' equity of the bank at the end of 2002. The detailed information on merger consideration and goodwill is provided in Table 4).

## MANAGEMENT DISCUSSION AND ANALYSIS

**Table 4) Merger Consideration & Goodwill**

Newly Issued Common Shares (a)	61,080,000	shares
Fair Value Per Share (b)	18,650	KRW
Merger Consideration (c = a x b)	1,139,142	Million KRW
Net Asset Value of Seoul Bank (d)	966,407	Million KRW
Valuation of Seoul Bank	832,323	Million KRW
Revaluation of Investment Securities	21,396	Million KRW
Revaluation of Fixed Assets	28,483	Million KRW
Deferred Tax Assets	84,205	Million KRW
Goodwill (c - d)	172,735	Million KRW

### III. General Operating Income

#### 1. Net Interest Income

##### Net Interest Income

The bank's net interest income totaled ₩904.0 billion in 2002, a 17.4% jump from the previous year. The following table shows net interest income divided into interest revenue and interest expenses.

**Table 5) Interest Revenue and Expenses**

For the years ended December 31, each year

In billions of Korean won

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>Interest revenue</b>	1,801.7	2,276.7	2,954.8	2,890.6	2,931.2	4,128.8
Interest revenue on due from banks	89.1	184.9	145.3	86.7	48.7	50.5
Interest revenue on securities	468.9	692.3	937.6	788.0	638.0	973.6
Interest revenue on loans	1,214.3	1,369.9	1,851.0	1,996.5	2,232.4	3,085.8
Others	29.4	29.6	20.9	19.4	12.1	18.9
<b>Interest expenses</b>	1,389.5	1,753.7	2,261.2	2,120.7	2,027.2	2,845.1
Interest expense on deposits	874.9	1,269.9	1,622.6	1,562.2	1,560.2	2,240.9
Interest expense on borrowings	398.7	351.8	467.0	377.2	201.1	282.3
Interest expense on debentures	57.7	87.3	142.2	159.9	234.9	270.9
Others	58.2	44.7	29.4	21.4	31.1	51.1
<b>Net Interest Income</b>	412.2	523.0	693.6	769.9	904.0	1,283.7
					CAGR of Net Interest Income	21.69%

Interest revenue of the bank for 2002 recorded ₩2.9 trillion, a ₩40.6 billion increase from 2001. Interest earning assets on average basis, the backbone of the bank's interest income and earning potential, increased 19.6% during 2002 to ₩43.9 trillion, including Seoul Bank's annualized average assets for December. The steady downward trend of market interest rates since 2001, however, cast negative impact on the bank's interest revenue by dropping the bank's lending rate from 7.87% in 2001 to 6.68%, a 1.19%P decrease from the previous year. Consequently, the bank's overall increase in interest revenue marked 1.4% from the revenue in 2001. With pre-merger Seoul Bank's 11 months earnings considered, interest revenue will boost up to ₩4.1 trillion, respectively.

The lower market interest rates also affected the bank's interest expenses, which dropped by 4.41%P year on year to total ₩2.0 trillion. Interest bearing liabilities increased by 20.8% to ₩44.9 trillion. But the funding rate decreased by 1.19%P from 5.71% in 2001 to 4.52%, which enabled the bank to save interest expense for 2002.

##### Funding and Usage

Table 6) table analyzes the efficiency of the asset and liability structure.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Table 6) Average Balance of Funding and Usage**

For the years ended December 31, each year

In billions of Korean won

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>Interest earning assets</b>	12,131.3	23,835.0	32,764.4	36,710.1	43,887.4	62,061.8
Due from banks <sup>1)</sup>	1,048.7	2,665.7	1,800.8	1,440.2	1,134.4	1,249.1
Securities	3,532.5	6,852.9	10,627.5	11,059.0	10,436.6	16,046.0
Loans(Net of provision) <sup>2)</sup>	7,550.1	14,316.4	20,336.1	24,172.4	32,306.2	44,724.9
Others	0.0	0.0	0.0	38.5	10.3	41.7
<b>Other revenue earning asset</b>	165.3	425.3	715.7	1,178.1	1,818.9	3,027.4
Credit card receivable	99.6	117.2	262.3	722.4	1,240.2	2,186.1
Stock	65.7	308.0	453.5	455.6	578.7	841.4
<b>Non-revenue earning asset</b>	1,162.7	1,860.5	2,205.1	2,692.5	3,800.4	5,969.6
<b>Total Assets</b>	13,459.3	26,120.8	35,685.2	40,580.7	49,506.7	71,058.8
<b>Interest bearing liabilities</b>	11,971.6	23,406.1	32,554.8	37,171.0	44,899.8	64,702.2
Deposits	7,802.8	17,145.6	24,166.5	28,319.1	36,177.1	52,838.2
Borrowings <sup>3)</sup>	3,303.5	5,077.4	6,736.0	6,763.9	5,449.6	7,770.3
Debentures	619.5	948.8	1,401.2	1,772.9	2,943.8	3,486.8
Others	245.8	234.3	251.1	315.0	329.4	606.9
<b>Non-interest bearing liabilities</b>	511.8	963.1	1,369.4	1,562.0	2,590.8	3,437.7
<b>Shareholders' equity</b>	975.9	1,751.6	1,761.0	1,847.8	2,016.0	2,919.0
<b>Total liabilities &amp; shareholders' equity</b>	13,459.3	26,120.8	35,685.2	40,580.7	49,506.7	71,058.8
<b>Revenue earning asset to interest bearing liabilities gap</b>	325.0	854.2	925.3	717.2	806.5	387.1
<b>Gap ratio(%)</b>	2.41%	3.27%	2.59%	1.77%	1.63%	0.54%
<b>Leverage ratio(Times)</b>	13.79	14.91	20.26	21.96	24.56	24.34
* Based on daily average balance			CAGR of Total Assets		38.49%	

Note 1) Exclude Reserve deposits with BOK which is non-interest earning asset.

Note 2) Interbank reconciliation funds are included in Non-revenue earning assets.

Note 3) Interbank reconciliation funds are included in Non-interest bearing liabilities.

A closer look at the usage structure reveals that the ratio of interest earning assets to total assets declined slightly by 1.81%P to stand at 88.65% in 2002. Growth in the credit card business drove other revenue earning assets up by 0.77%P, while non revenue earning assets increased by 1.05%P during 2002.

The composition of interest earning assets was reshuffled in favor of loans. This reallocation was carried out in accordance with the bank's strategy to build a portfolio more heavily weighted toward loan assets, which provide relatively higher rates of return. Of course, the proportional increase of loans within interest earning assets necessitates more emphasis on liquidity management. To fulfill this requirement, the bank has continued to install various systems and programs for more effective internal control over liquidity since the Asian liquidity crisis. For the fiscal year 2002, loans accounted for 73.61% of interest earning assets, an increase of 7.76%P year on year. Securities made up 23.78% of interest earning asset mix, down by 6.35%P from the previous year, and due from banks also dropped 1.34% to 2.58% of the mix.

As for the composition of overall funding, interest bearing liabilities represented 90.69% to total liabilities and shareholders' equity, a slight decrease from 91.60% recorded in 2001. Bank deposits made up 80.57% of the interest bearing liabilities, an increase of 4.38%P from the previous year. Borrowings, on the other hand, were down to 12.14% from 18.20% in 2001. And the proportion of non-interest bearing liabilities in total funding rose by 0.87%P to 4.72%.

The bank's fund raising and management strategy in 2002 resulted in a revenue earning asset to interest bearing liability gap of ₩806.5 billion, or increase of ₩89.2 billion from the previous year. The gap ratio, however, decreased by 0.14%P down to 1.63%, indicating that the level of the gap to total assets slightly declined.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Loan to Deposit Ratio and Loan to Deposit Spread

The following table shows the composition of loans and deposits on average basis.

**Table 7) Loans and Deposits Based on Average Balance**

For the years ended December 31, each year

(In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>General Loans</b>	7,084.1	14,286.8	20,134.1	23,918.5	31,960.9	44,260.4
Won currency	5,709.7	11,920.2	17,840.5	21,887.9	29,647.0	40,499.7
Loans	3,990.7	8,250.9	12,946.0	17,538.1	26,281.2	36,554.9
Loans to corporate	3,167.2	6,202.1	8,287.5	9,746.5	11,866.0	15,458.4
Loans to householder	656.6	1,854.5	4,067.3	7,320.4	14,083.1	20,739.6
Loans to public enterprise	132.3	194.4	591.1	471.2	332.1	356.9
Notes bought	781.2	1,755.7	2,549.8	2,209.5	1,526.1	1,881.3
Advances for customers	39.0	179.7	181.8	105.5	45.5	119.1
Privately placed bonds	933.3	1,733.9	2,162.9	2,034.8	1,794.1	1,944.4
Foreign currency	1,374.4	2,366.6	2,293.6	2,030.6	2,313.9	3,760.7
Loans	689.8	1,281.4	968.6	1,167.9	1,285.6	2,177.6
Bills bought	684.6	1,052.9	1,302.8	862.7	1,008.7	1,563.6
Privately placed bonds	0.0	32.3	22.2	0.0	19.5	19.5
<b>Loans for liquidity</b>	545.0	435.7	780.9	832.4	728.6	1,089.4
Won currency	458.5	302.8	637.6	744.2	649.3	911.7
Call loans	39.5	245.9	442.0	687.4	552.5	736.3
Bond purchased under Resale Agreements	419.0	56.9	195.6	56.8	96.8	175.4
Foreign currency	86.5	132.9	143.3	88.2	79.3	177.7
Call loans	86.5	132.9	143.3	88.2	79.3	177.7
<b>Allowance for possible loan losses</b>	-113.7	-406.1	-578.8	-578.4	-383.3	-624.9
<b>Total Loans</b>	7,515.4	14,316.5	20,336.1	24,172.6	32,306.2	44,724.9
<b>Deposits in won currency</b>	6,930.4	16,301.7	23,495.8	27,148.7	35,140.2	51,509.0
Demand deposits	347.4	679.5	803.2	924.2	1,208.3	2,284.0
Saving deposits	949.5	2,638.9	4,582.0	4,910.1	6,656.3	11,007.3
Time deposits	3,289.5	9,872.9	14,781.3	17,512.1	22,634.0	30,036.6
Installment deposits	275.4	776.5	1,129.9	1,238.6	1,311.8	2,470.3
Mutual installment deposits	641.2	672.2	576.1	855.9	1,276.0	1,530.6
Certificates of deposits	1,427.4	1,661.7	1,623.3	1,707.8	2,053.9	4,180.3
<b>Deposits in foreign currency</b>	872.4	843.9	670.8	1,170.5	1,036.9	1,329.2
<b>Total Deposits</b>	7,802.8	17,145.6	24,166.6	28,319.2	36,177.1	52,838.2
<b>Loan to Deposit Ratio</b>	96.3%	83.5%	84.1%	85.4%	89.3%	84.6%

\* Based on daily average balance

Loans were up 33.65% year on year to reach ₩32.3 trillion in 2002. General loans totaled ₩32.0 trillion, which is 33.62% increase from the previous year. Call loans, bonds purchased under resale agreements and other loans used for liquidity control came to ₩728.6 billion, a 12.47% decrease from 2001.

In 2002, general loans represented about the same portion of total loans as in the previous term, decreasing a mere 0.02%P. The ratio of loans used for liquidity control to total loans, changed from the liquidity crunch, was down to 3.4% in 2001 to 2.3% in 2002. The bank pursued the increase of won-denominated loans' proportion within its general loans during 2002. To achieve this objective, the bank focused on enhancing its business volume in household loan sector. Won-denominated loans comprised 82.2% of general loans during 2002, which reflected increase by 8.9%P from the previous year. Also, 53.6% of these won-denominated loans went to households, an

## MANAGEMENT DISCUSSION AND ANALYSIS

11.9%P increase from 41.7% of 2001. Meanwhile, the portion of corporate loans in the won-denominated loans dropped by 10.4%P year on year, showing 45.2% of the mix for 2002.

Deposits in bank account for 2002 came up to ₩36.2 trillion, a 27.8% increase from the previous year. The bank witnessed 29.4% of year on year increase of deposits in won currency with 11.4% of decrease of deposits in foreign currencies. This change in deposits proportion is attributed to the trend to self-finance the increased demands on foreign currencies in both corporate and retail sectors, reflecting the depreciation of US dollars against won.

More detailed breakdown of deposits in won currency shows that low cost deposits such as demand deposits and saving deposits incremented their portion by 0.9%P from 2001 to reach 22.4% of deposits in won currency. With the 11 months' average balance of pre-merger Seoul Bank reflected, the ratio rises up to 25.8%, which enables the bank to expect more expanded low cost funding base in 2003. Time deposits, a stable funding source of the bank, increased by ₩5.1 trillion in 2002, resulting in about the same proportion in deposits in won currency.

**Table 8) Loan to Deposit Spread**

For the years ended December 31, each year

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>General Loans</b>	15.54%	9.43%	8.95%	8.18%	6.89%	6.87%
Won currency	16.61%	9.68%	8.99%	8.34%	7.10%	7.14%
Loans	15.82%	10.19%	9.16%	8.24%	7.05%	7.10%
Loans to corporate	16.06%	9.94%	8.85%	8.07%	6.85%	6.99%
Loans to householder	15.75%	11.42%	9.97%	8.53%	7.24%	7.21%
Loans to public enterprise	10.40%	6.41%	8.07%	7.38%	5.68%	5.77%
Notes bought	18.10%	8.53%	7.69%	7.54%	6.21%	6.29%
Advances for customers	9.74%	5.68%	3.80%	3.89%	10.99%	9.12%
Privately placed bonds	18.99%	8.81%	9.94%	10.26%	8.62%	8.58%
Foreign currency	11.07%	8.19%	8.66%	6.43%	4.19%	3.95%
Loans	8.00%	6.86%	7.87%	5.73%	3.42%	3.17%
Bills bought	14.17%	9.82%	9.28%	7.38%	5.20%	5.03%
Privately placed bonds	n.a.	8.05%	7.21%	n.a.	3.18%	3.18%
<b>Loans for liquidity control</b>	19.85%	5.07%	6.16%	4.91%	4.00%	3.86%
Won currency	22.01%	4.95%	6.09%	4.96%	4.31%	4.27%
Call loans	13.67%	4.84%	5.77%	4.92%	4.33%	4.30%
Bond purchased under RP	22.79%	5.45%	6.80%	5.46%	4.19%	4.11%
Foreign currency	8.44%	5.34%	6.49%	4.54%	1.51%	1.78%
Call loans	8.44%	5.34%	6.49%	4.54%	1.51%	1.78%
<b>Total</b>	16.08%	9.57%	9.10%	8.26%	6.91%	6.89%
<b>Deposits in won currency</b>	11.74%	7.51%	6.74%	5.59%	4.40%	4.31%
Demand deposits	0.43%	0.46%	0.44%	0.43%	0.31%	0.27%
Saving deposits	7.18%	3.85%	3.76%	2.69%	2.01%	2.06%
Time deposits	13.47%	8.66%	7.63%	6.21%	4.94%	4.97%
Installment deposits	8.21%	9.58%	9.16%	8.95%	7.03%	7.02%
Mutual installment deposits	10.34%	10.22%	8.45%	7.27%	6.42%	6.51%
Certificates of deposits	14.85%	7.28%	7.89%	7.09%	5.62%	5.35%
<b>Deposits in foreign currency</b>	7.03%	5.47%	5.84%	3.84%	1.51%	1.53%
<b>Total Deposits</b>	11.21%	7.41%	6.71%	5.52%	4.31%	4.24%
<b>Loan to Deposit Spread</b>	4.87%	2.16%	2.39%	2.74%	2.60%	2.65%



## MANAGEMENT DISCUSSION AND ANALYSIS

Turning to the loan to deposit spread, interest rates for both loans and deposits dropped with the steady downward trend in market rates since 2001.

The bank's average interest rates on loans dropped by 1.35%P to 6.91%. General loans gained 6.89% of interest revenue from their average balance, a year on year decrease of 1.29%P. For the same period, the interest rate for loans to control liquidity came down to 4.00%, showing 0.91%P decrease in the loans' profitability.

The average interest rate on deposits dropped by 1.21%P to 4.31%, in the midst of falling market rates. The interest rate for time deposits, which represent the largest segment of the bank's total deposits, decreased by 1.27%P to 4.94%. These changes in average interest rates pegged the loan to deposit spread of the bank to 2.60%, a 0.14%P fall from the previous year.

### Net Interest Spread and Net Interest Margin

The following table details the bank's net interest spread and net interest margin in 2002.

**Table 9) Net Interest Spread and Net Interest Margin**

For the years ended December 31, each year

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>Interest earning assets</b>	14.85%	9.55%	9.02%	7.87%	6.68%	6.65%
Due from banks	8.50%	6.94%	8.07%	6.02%	4.29%	4.04%
Securities	13.27%	10.10%	8.82%	7.13%	6.11%	6.07%
Loans	16.08%	9.57%	9.10%	8.26%	6.91%	6.89%
<b>Interest bearing liabilities</b>	11.61%	7.49%	6.95%	5.71%	4.52%	4.40%
Deposits	11.21%	7.41%	6.71%	5.52%	4.31%	4.24%
Borrowings	12.07%	6.93%	6.93%	5.58%	3.69%	3.63%
Debentures	9.31%	9.20%	10.15%	9.02%	7.98%	7.77%
Others	23.68%	19.08%	11.71%	6.79%	9.44%	8.41%
<b>Net Interest Spread</b>	3.25%	2.06%	2.07%	2.17%	2.16%	2.25%
<b>Net Interest Margin</b>	3.40%	2.19%	2.12%	2.10%	2.06%	2.06%

The bank's NIS for 2002 slightly decreased to 2.16%, which could be restated as 2.25% when considering the operating results of pre-merger Seoul Bank. The bank could maintain its NIS regardless of some decline in loan to deposit spread owing to the following factors : First, the decrease in the loan to deposit spread was offset by securities to total funding spread, which increased by 0.17%P from the previous year. Secondly, the reduction of market funding costs in 2002 was another factor which positively impacted on the bank's operation with the huge drops in borrowings and debentures interest rates. The bank plans to reinforce its continuing policy to enlarge low cost funding bases, and seek to improve current loan to deposit spread and NIS in 2003.

According to Korean GAAP, the bank recorded a marginal decrease in NIM from the previous year's level. With the bank's NIS stabilized, NIM dropped by 0.04%P from that of 2001 due to the net decrease in the interest earning assets to interest bearing liabilities gap during 2002. The figure for 2002 totaled negative ₩1,012.4 billion, recording the net decrease of ₩551.5 billion from the negative ₩460.9 billion in the previous year. Further, the gap to interest earning assets ratio aggravated to negative 2.31%, a 1.05%P decline from the previous year. The management sees to it that this gradual downturn in the gap to IEA ratio provides solid evidence to the fact that the bank's interest bearing liabilities outgrew interest earning assets during 2002.

Hana Bank will focus on maximizing its NIM for 2003 by accelerating the growth rate of interest earning assets over interest bearing liabilities during the fiscal year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Fees and Commission Income in Banking Account

### Trends of Fees and Commission income

Fees and commission income, which are a part of general operating income, totaled ₩315.8 billion in 2002, up 22.2% year on year. Table 10) below shows that this increase was due in large part to a ₩54.7 billion increment in credit card fees and ₩20.3 billions increase in other fee income in won currency.

The bank's endeavors to diversify its source of income resulted in the 2.0% increased portion of fees and commission income, totaling 26.5% of the bank's general operating income in 2002. The ratio will reach up to 29.8% with the 11 months' earnings of pre-merger Seoul Bank taken into consideration.

**Table 10) Net of Fees and Commission**

	For the years ended December 31, each year					In billions of Korean won	
	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul	
Fees from credit card operation	22.4	28.1	47.2	88.8	143.5	303.7	
Fees from guarantees & acceptance	14.2	14.3	9.0	8.6	7.3	12.3	
Other fee income in won currency	4.1	14.7	31.2	25.7	46.0	54.4	
Other fee income in foreign currency	10.3	13.2	24.0	23.3	29.2	44.3	
Fee income from Trust operation	-9.5	138.6	32.8	112.2	89.8	124.1	
Total fee income	41.6	208.9	144.3	258.5	315.8	538.8	
Fee income / General operating income	8.8%	26.9%	18.0%	24.5%	26.5%	29.7%	

### Credit Card business operation

Net credit card fees increased 60.5% year on year to total ₩114.6 billion. Table 11) provides breakdown of this net fee income.

**Table 11) Net of Fee Income from Credit Card Operation**

	For the years ended December 31, each year					(In billions of Korean won)	
	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul	
Daily average Credit Card Receivable	99.6	116.4	175.3	399.4	721.2	1,663.4	
Credit card receivable	38.1	52.1	101.0	244.5	434.9	852.0	
Cash advance	21.9	23.7	39.3	103.3	232.7	733.5	
Credit card loan	39.6	40.6	34.9	51.6	51.3	71.7	
Others	0.1	0.0	0.0	0.1	2.2	6.2	
Net fee income from credit card operation	22.4	28.1	38.5	71.4	114.6	274.6	
Fee revenue	25.7	36.7	55.6	112.0	137.8	317.5	
Revenue from credit card receivable	10.5	20.2	26.4	55.3	74.4	153.8	
Revenue from cash advance	6.2	6.9	12.0	25.9	50.0	146.6	
Revenue from credit card loans	7.2	6.6	4.5	5.9	5.1	5.1	
Other revenue	1.9	3.0	12.8	24.9	8.4	12.0	
Fee expenses	3.3	8.7	17.1	40.5	23.2	42.9	
Return on credit card receivable	22.5%	24.1%	22.0%	17.9%	15.9%	16.5%	

## MANAGEMENT DISCUSSION AND ANALYSIS

Fee revenue from credit card operations in 2002 came to ₩137.8 billion, 23.0% higher than in the previous term. The composition of fee revenues consists of ₩74.4 billion of revenue from credit card receivable and ₩50.0 billion of revenue from cash advance, which showed year on year growth of 34.5% and 93.1%, respectively. Meanwhile, Fee expenses for net credit card operation in 2002 decreased 42.7% from 2001, contributing to ₩43.2 billion increment of net credit card fee income in 2002. This is attributed to the enhanced bargaining power of credit card division, which was made possible by immediate growth in its business volume after the merger in 2002. Yields on credit card receivables have decreased slightly to 15.9%, reflecting the market saturation within credit card industry.

**Table 12) Credit card Operation Data**

As of December 31, each year

	1998	1999	2000	2001	2002
Number of credit card issued	144,045	304,873	689,722	1,355,946	2,609,264
Household	139,209	289,849	664,238	1,270,654	2,519,952
Corporate	4,836	15,024	25,484	85,292	89,312
Sales volume (In billions of Korean won)	277.5	620.5	1,259.5	2,628.2	10,534.0
Number of Merchant	17,252	44,086	54,428	71,694	196,681
Overdue ratio (% of Sales volume)	1.77%	1.11%	1.39%	2.10%	1.90%

The bank experienced a surge in its credit card business in 2002 through the merger with Seoul Bank. As of the end of 2002, the number of credit card issued recorded 2,609,264, a 92.4% jump from 1,355,946 in 2001. And the sales volume totaled ₩10.5 trillion, which is 300.8% leap from the sales in the previous year. Importantly, the delinquency ratio remained at the level of 1.90%. This was one of the lowest figures in credit card industry of Korea.

Recent rapid growth in the credit card business and household loan market has raised concerns over potential defaults in the retail sector. The bank is very cautious about its exposure to credit card and household loans and adopted proactive provisioning policy in accordance with FSS guideline.

To date, the bank's credit review on such exposures suggests that indications of potential default in the bank's credit card and retail sector remain remote. Even in the event of massive defaults, the bank's credit portfolio will still remain sound thanks to the bank's credit card receivables' composition. Credit card receivables at the end of 2002 breaks down into 60.3% of general purchases on credit, 32.3% of cash advances, and 7.1% of card loans. And the percentage-of-receivables approach to the industry reveals that credit risk of cash advances is materially higher than that of purchases on credit. Thus, applying this rule of thumb, the bank concluded its asset quality in the credit card business segment as manageable.

Following net credit card operation, Table 13) summarizes the bank's purchase card operation in 2002.

**Table 13) Net of Fee Income from Purchase Card Operation**

For the years ended December 31, each year

(In billions of Korean won)

	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Purchase card receivable	0.8	87.0	323.0	519.0	522.7
Net fee income from purchase card operation	0.0	8.7	17.3	28.9	29.2
Revenue from purchase card receivable	0.0	8.7	18.0	29.1	29.3
Fee expenses related to purchase card	0.0	0.0	0.7	0.2	0.2
Return on credit card receivable	1.53%	9.97%	5.36%	5.57%	5.58%
Number of customers - Main contractor	15	87	202	300	312
Number of customers - Main contractor+Sub contractor	882	15,297	45,645	64,552	66,064

The bank introduced purchase cards system in 1999, and now they are deemed to replace existing promissory notes as a measure of corporate settlement. The nominal rate of return on purchase card receivables does not exceed the profitability of other business sectors.

## MANAGEMENT DISCUSSION AND ANALYSIS

However, by encouraging customers to use the purchase card as their main settlement instrument, the bank has been able to increase its access to low cost deposits held by purchase card contractors and subcontractors. And such character of purchase card transaction became a solid foundation to produce higher yields from overall business transaction with purchase card customer base.

Launched with 15 main contractors and 882 subcontractors in 1999, purchase card business of the bank has grown into a major fee income source of the bank with 300 main contractors and 64,552 subcontractors. This growth of business volume was represented as total purchase card receivable of ₩519.0 billion during 2002, which is a 60.7% year on year increase. And the net fee income from purchase card operation reached to ₩28.9 billion, showing 67.1% leap from the previous year.

### Trust Business Operation

Net revenue from trust operations totaled ₩89.8 billion, a year on year decline of ₩22.4 billion.

**Table 14) Fee Income from Trust Operation**

For the years ended December 31, each year (In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Fees from trust operation	47.1	171.6	163.0	111.4	89.3	123.5
Losses from trust operation	-87.3	-42.9	-133.7	0.0	0.0	0.0
Fees on early termination of trust account	30.7	10.0	3.5	0.8	0.5	0.6
Fee income from trust business operation	-9.5	138.6	32.8	112.2	89.8	124.1
Average Trust balance	9,975.6	14,235.7	12,249.7	9,319.7	10,791.8	12,229.3
Trust management fee ratio	-0.09%	0.97%	0.27%	1.20%	0.83%	1.01%

Fees from trust operation were down ₩22.1 billion to ₩89.3 billion due to the decrease of money trust with higher return during the fiscal year. The sluggish Korean stock market and the bankruptcy of Daewoo Group forced investors to concentrate more on safety rather than profitability. Consequently, depositors moved their capital from trust accounts to bank accounts. In addition, FSS's prohibition of the sale of cost method accounting trusts, which had generated relatively high trust management fees, led to a drop in return on trust accounts. But the operating risk inherent in managing the trust reduced as well. Losses from trust operation, which amounted to ₩133.7 billion in 2000, was also reduced to zero in 2001. The liquidation of interest and principal guaranteed trust was another factor that eliminated the operating loss of trust account. As a result, trust business division closed the fiscal year 2002 with trust management fee ratio of 0.83%, which decreased by 0.37%P from the previous year. With 11 months' operating results of pre-merger Seoul Bank's trust account, net fee income and trust management fee ratio for 2002 will rise up to ₩124.1 billion and 1.01%, respectively.

**Table 15) Loan Receivables Classification and Allowance in Trust Account**

As of December 31, each year (In billions of Korean won)

	1998	1999	2000	2001	2002
Normal	5,106.5	6,024.1	3,402.4	2,361.9	3,066.0
Precautionary	1,119.6	804.3	185.5	62.9	34.7
Substandard	216.1	775.6	235.7	55.9	36.6
Doubtful	58.9	44.0	71.9	32.4	0.9
Estimated Loss	1.4	54.9	22.0	33.0	11.3
Total credits	6,502.5	7,702.9	3,917.5	2,546.1	3,149.4
Allowance for valuation of receivables	117.1	327.2	165.2	47.5	25.5
Provision for allowance	116.1	108.6	38.1	-9.9	-15.0
<b>Asset soundness ratio</b>					
Precautionary and below ratio	21.47%	21.79%	13.15%	7.23%	2.65%
Substandard and below ratio	4.25%	11.35%	8.41%	4.76%	1.55%
Coverage against substandard or below	42.36%	37.41%	50.12%	39.16%	52.25%
Provision/Total Credits	1.79%	1.41%	0.97%	-0.39%	-0.48%

## MANAGEMENT DISCUSSION AND ANALYSIS

The detailed information on the asset quality of trust account, which is included in total credit exposures under FSS guidelines, is provided on Table 15) Trust products can be classified as one of three general categories : interest & principal guaranteed trusts, principal guaranteed trusts, and non-guaranteed trusts. And the Financial Supervisory Service prohibited the formation of anew interest & principal guaranteed trusts or principal guaranteed trusts in 2000, which greatly affected the profitability and asset quality of trust account. Currently, non-guaranteed trusts are the only form of trust product allowed in the market and other types of trusts are fading out. As for the non-guaranteed trusts, which are operated based on the performance of the trust fund, the bank does not bear any liability even in the case of losses on principal. In other words, the risk shifts to the investor, leaving the bank risk free for the losses from the operation of trust assets. Accordingly, the trust account will be converted into the bank's completely sound asset mix with the fade-out of guaranteed trusts. However, liquidation process of interest & principal trusts might incur short term losses due to the decline in trust management fee. The asset soundness of trust account as of the end of 2002 can be represented as the 1.55% of substandard or below ratio and 2.65% of precautionary and below ratio, year on year diminutions of 3.21%P and 4.58%P, respectively. And the coverage against substandard and below recorded 52.25%, a 13.09%P increment from that of the fiscal year 2001.

### Other Fee Income

Table 16) provides the breakdown of other fee income in won currency, a part of general operating income.

Hana bank's continuing efforts to diversify its revenue sources in 2002 elevated fee income in won currency of 64.0% to reach ₩109.4 billion. On the other hand, fee expenses also rose ₩22.4 billion to ₩63.4 billion. The increase is mainly attributed to the fee expenses related to promoting household loans such as exemption of collateral perfection fees and raise in commissions to loan brokers. Expectedly, FSS policy to manage household loans will slow down the increment of the market in 2003, based on which the bank anticipates that those household loans promoting expenses will decline and, thereby, improve the bank's profitability on fee income in won currency.

**Table 16) Other Fee Income in Won Currency**

For the years ended December 31, each year		(In billions of Korean won)				
	1998	1999	2000	2001	2002 New Hana	
<b>Other fee revenue in won currency</b>	8.0	24.7	40.6	66.7	109.4	
Fees from M&A advisory service	0.0	5.2	4.1	6.1	0.7	
Fees from syndicate coordination service	0.0	5.4	10.5	10.3	9.7	
Fees from CLO operation	0.0	0.0	0.0	6.4	0.3	
Fees on allied service	0.0	0.0	0.8	4.0	7.0	
Fees received as Agency	0.0	1.4	3.2	3.3	9.4	
Fees from ABS operation	0.0	0.0	3.4	4.5	15.4	
Fees related to loan product	0.0	0.6	0.5	7.4	26.9	
Fees on remittance service	3.9	7.4	8.9	11.2	12.5	
Fees on CD and ATM	1.2	3.3	5.8	8.3	10.9	
Others	2.9	1.5	3.3	5.2	16.6	
<b>Fee expenses in won currency</b>	-3.8	-10.0	-9.3	-41.0	-63.4	
Fee expenses related to promoting household loan	0.0	0.0	-0.4	-29.1	-35.9	
Others	-3.8	-10.0	-8.9	-11.9	-27.5	
<b>Net of other fee income in won currency</b>	4.1	14.7	31.2	25.7	46.0	

The bank's greatest revenue sources during 2002 include fees related to loan product. Skyrocketing growth in household loan segment enabled the bank to earn ₩26.9 billion from this account. And fees from ABS operation posted ₩15.4 billion of fee income for 2002, reflecting the growth of domestic client base of ABS market. Also, the bank has strived for the excellence in syndicate loan coordination service for the past three years, and this effort paid off with ₩9.7 billion of fee income in 2002. Fee income from traditional banking services maintained its growth during the fiscal year, backed by the bank's fee income maximization strategy.

## MANAGEMENT DISCUSSION AND ANALYSIS

Reflecting this trend, fees on remittance service and fees on CD and ATM usage went up to ₩12.5 billion and ₩10.9 billion, an increase of 11.6% and 31.3%, respectively.

Details of other fee incomes in foreign currency can be found in Table 17).

With successful implementation of promoting activities for foreign currency transactions in 2002, the amount of foreign currency-denominated fees slightly increased to ₩29.2 billion. Fee income related to letters of credit was up ₩2.5 billion to ₩21.5 billion and other fee revenue in foreign currency posted ₩12.3 billion, which has increased for 5 years in a row.

**Table 17) Other Fee Income in Foreign Currency**

For the years ended December 31, each year (In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Other fee revenue in foreign currency	13.0	20.4	30.4	29.8	33.7	50.7
Fee income related to L/C	10.8	15.5	24.2	19.0	21.5	30.0
Others	2.2	4.8	6.2	10.8	12.3	20.8
Fee expenses in foreign currency	-2.7	-7.2	-6.4	-6.6	-4.6	-6.4
Net of other fee income in foreign currency	10.3	13.2	24.0	23.3	29.2	44.3

### 3. Income from Disposition and Valuation

The details of income figures from trading securities, derivatives and foreign exchange can be found in Table 18).

Korean stock market in slump during 2002 brought income from disposition and valuation of trading stocks down to ₩19.2 billion, a ₩20.3 billion decrease from the previous year. And the prolonged downturn of market interest rates in the fiscal year led to ₩1.3 billion of deficits from trading bonds, down ₩10.0 billion year on year. And the ₩2.5 billion loss from disposition and valuation of derivatives in 2002 incurred mostly due to the hedge of foreign exchange risks, which decreased ₩23.7 billion year on year.

The bank does not consider this trading income as a mainstream of the bank's business and maintains conservative approach to limit the volume of trading activities as minimum as required for the bank's operating activity. The trading of securities, foreign exchanges and derivatives will be managed tightly in the manner that minimizes the effect on the overall income of the bank.

**Table 18) Income from Disposition and Valuation**

For the years ended December 31, each year (In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Income from trading stocks	14.4	54.3	-39.2	39.5	19.2	19.2
Income from trading bonds	-15.5	-7.6	11.7	8.7	-1.3	3.4
Income from derivatives	0.2	0.5	19.1	21.2	-2.5	-1.2
Income from foreign exchange trading	34.9	26.5	14.9	14.5	25.9	50.2
Total	34.0	73.8	6.5	83.8	41.4	71.6

## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Other General Operating Income

**Table 19) Other General Operating Income**

For the years ended December 31, each year

(In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>Deposit insurance fee</b>	-4.1	-9.1	-18.6	-24.4	-31.3	-43.2
Average deposits	6,930.4	16,301.7	23,495.8	27,148.7	35,140.2	51,509.0
Effective insurance fee rate	0.06%	0.06%	0.08%	0.09%	0.09%	0.08%
<b>Contribution to Credit Guarantee Fund</b>	-12.2	-23.9	-33.1	-35.5	-40.1	-51.7
Average loan receivable to corporate	6,427.5	12,432.3	16,066.8	16,598.1	17,877.7	23,520.8
Effective contribution rate	0.19%	0.19%	0.21%	0.21%	0.22%	0.22%
<b>Other general operating income</b>	0.1	3.0	7.9	4.8	1.4	17.6
<b>Net of other general operating income</b>	-16.2	-30.0	-43.8	-55.1	-70.0	-77.0

Table 19) lists deposit insurance fees and contributions to the credit guarantee fund as parts of other general operating income. Current Depositor Protection Act provides that banks in Korea must pay designated portion of deposits as a premium of the insurance in case of insolvency. The bank expects that growing deposit portfolio in 2003 will increase this insurance expense proportionately. Currently, the average deposit insurance fee rate applied in Korea is 0.1%. The rate will double in 2003 with 0.1% of extra contribution.

Another decreasing factor in other general operating income is contribution to Credit Guarantee Fund, which is provided by Korea Credit Guarantee Fund Act. The Act requires that banks in Korea must contribute 0.3% of corporate loans. It is expected that the amount of contribution will rise in 2003 with the increase of the bank's exposure to SOHO business segment.

### IV. General and Administrative Expenses

**Table 20) General and Administrative Expenses**

For the years ended December 31, each year

(In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Salaries and wages	53.7	126.1	134.9	149.2	211.5	357.4
Retirement benefits	12.8	9.7	12.1	14.5	19.7	37.6
Fringe benefits	24.2	17.7	23.9	25.4	39.1	90.0
Depreciation	14.7	32.1	38.8	42.7	50.7	83.9
Taxes	12.7	20.5	22.7	37.9	43.1	55.2
Others	49.7	92.9	108.2	126.8	162.8	240.1
<b>Total general and administrative expenses</b>	<b>167.8</b>	<b>299</b>	<b>340.6</b>	<b>396.5</b>	<b>526.9</b>	<b>864.1</b>
<b>Cost - Income ratio</b>	<b>35.58%</b>	<b>38.55%</b>	<b>42.54%</b>	<b>37.51%</b>	<b>44.24%</b>	<b>47.56%</b>

Managing G&A expenses by controlling cost-income ratio, which targets on 35% for mid/long-term. G&A expenses during 2002 rose 32.9% year on year to reach ₩526.9 billion. This amount includes ₩26.7 billion of additional expenses which incurred from the merger with Seoul Bank in 2002. And the breakdown of G&A expenses during the fiscal year indicates that expense for salaries and wages was the major factor to increase overall G&A expenses, which has incremented by 41.8% from 2001. The fringe benefits followed to expense ₩39.1 billion, a 53.9% increase from the previous year. As a result, the cost-income ratio of the bank for 2002 rose to 44.24%.

## MANAGEMENT DISCUSSION AND ANALYSIS

The bank's estimates that G&A expenses in 2003 will increase with the additional expenses for post-merger integration process. Despite incremental factors of G&A expenses during pre/post-merger period, the bank will maintain its efforts to minimize the expense to obtain the managerial goal represented as 35.0% or less cost-income ratio in the long run.

### V. Asset Quality and Loan Loss Provision

**Table 21) Asset Soundness of Banking Account**

As of December 31, each year (In billions of Korean won)

	1998	1999	2000	2001	2002
Normal	7,673.4	16,414.7	24,437.5	28,926.0	51,200.8
Precautionary	1,390.7	1,115.0	860.0	562.3	1,012.7
Substandard	132.5	935.3	945.2	423.5	579.6
Doubtful	49.0	377.2	392.1	169.1	215.6
Estimated Loss	4.6	98.1	46.8	68.1	136.0
Total credits to be provisioned	9,250.2	18,940.3	26,681.6	30,149.0	53,144.6
Allowance for possible credit losses	239.4	705.0	861.2	451.8	906.5
Bad debt expenses for each period	127.8	395.8	521.6	270.2	326.1
<b>Asset soundness ratio</b>					
Precautionary or below ratio	17.05	13.33	8.41	4.06	3.66
Substandard or below credit ratio	2.01	7.45	5.19	2.19	1.75
Coverage against substandard or below	128.64	49.98	62.22	68.38	97.35
Bad debt expenses/Total credits(%)	1.38%	2.09%	1.95%	0.90%	0.61%

The bank's asset quality has steadily improved since 1999, when it began to classify its loan portfolio according to FLC standards. During 2002, the bank and pre-merger Seoul Bank reduced their loans classified as substandard and below by ₩686.3 billion. For this improvement, both banks wrote off ₩307.7 billion of bad debts, wrote down ₩115.3 billion with loan restructuring program, and recovered credits totaling ₩184.0 billion. As a result, the bank closed the fiscal year with ₩931.2 billion of substandard and below credits, which is only ₩270.5 billion increase from that of pre-merger Hana Bank in 2001. Merged Hana Bank's reinforced asset soundness can be outlined as 1.75% of substandard and below credit ratio at the end of 2002, a decrease by 0.44%P from the previous year.

Loans classified as precautionary or below, likewise, increased by ₩450.4 billion due to the merger with Seoul Bank but precautionary and below ratio dropped to 3.66%, showing overall improvement of post-merger asset quality. The bank aims to even stronger asset soundness for 2003 and expects 1.17% of substandard and below ratio and 3.31% of precautionary and below ratio, respectively.

Meanwhile, ₩326.1 billion of bad debt expense incurred during 2002 to cover the increasing household loans and the elimination of existing bad debts in the fiscal year. ₩326.1 billion of allowance is equivalent to 0.61% of the bank's total credits and this figure has gradually decreased since 1999. This implies that the bank's continuing asset quality control, with invigorated Korean economy since Asian liquidity crisis, enabled the bank's credit risk to approach to the level of 0.5%, which is risk premium applied to the credits classified as normal. At the end of 2002, merged Hana Bank balanced ₩906.5 billion of allowance for possible credit losses, which covers 97.35% of credits classified as substandard and below.



## MANAGEMENT DISCUSSION AND ANALYSIS

### VI. Non-Operating Income

**Table 22) Non-Operating Income**

For the years ended December 31, each year

(In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Net of income from disposition and valuation	-2.6	119.4	79.0	70.0	-63.2	-84.7
Income from Investment stocks	-4.5	88.5	-64.7	22.1	-78.0	-120.5
Income from Investment bonds	2.0	30.9	143.7	47.9	14.8	35.8
Income from sales of Loans	-25.4	9.3	-4.8	3.2	8.0	7.9
Restructuring expenses	0.0	0.0	0.0	-7.1	-4.1	-41.7
Others	-18.3	2.5	4.6	20.2	4.8	18.5
Net of non-operating income	-46.2	131.3	78.8	86.3	-54.5	-100.0

In accordance with Korean GAAP, investment securities have been classified as either available for sale (AFS) or held to maturity (HTM). Recognition methods for gains and losses from these securities differ from those used for trading securities. Income from the disposition of securities AFS is recorded as non-operating income within the income statement. Unrealized gains or losses of securities AFS are evaluated by using MTM and are recorded as capital adjustment items on the balance sheet. The only exception to this rule is the case when securities AFS suffer significant impairments in value which are not likely to recover in the future. In this instance, the decline in value will be recognized as non-operating loss. As for securities HTM, the bank applies the cost method for their valuation. However, the same exception in case of significant impairment loss is adopted. And the bank will write down the value of securities HTM with non-operating loss recognized on the income statement.

As a result of valuation methods above, the bank experienced ₩63.2 billion of loss from disposition and valuation of investment securities, which is a ₩133.2 billion of decrease from 2001. This huge decline is mainly attributed to the recognition of ₩130.2 billion of impairment loss from investment stocks, which was recorded as capital adjustment before the merger. The bank determined to recognize the loss from the bearish stock market during 2002 to prevent the further decrease in the bank's capital in the future. In case of investment bonds, the bank realized ₩14.8 billion of income from disposition, which also decreased by ₩33.1 billion from 2001.

Table 23) below provides the detailed list of investment stocks which incurred impairment losses on the bank's income statement for 2002.

**Table 23) Loss from Impairment of Investment Stocks**

(In billions of Korean won)

Classification	Amount
Marketable Loan-Equity Swaps	94.5
Hyundai Engineering & Construction Co., Ltd	60.7
Ssangyong Engineering & Construction Co.,Ltd	9.4
Saehan Inc.	8.0
Namkwang Engineering & Construction Co.,Ltd	6.8
Byucksan Engineering & Construction Co.,Ltd	2.3
KP Chemical	2.0
Keangnam Enterprise	1.9
Others	3.4
Non-Marketable Investment Stocks	6.1
Marketable Investment Stocks	29.6
Total Loss from Impairment	130.2

## VII. Du Pont Analysis

### 1. NIM Analysis

**Table 24) Net Interest Income after G&A Expenses and Provisioning**

For the years ended December 31, each year

(In billions of Korean won)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
<b>Net Interest Margin(%)</b>	3.40	2.19	2.12	2.10	2.06	2.06
Net interest income	412.2	523.0	693.6	769.9	904.0	1,280.6
Interest earning assets	12,131.3	23,835.0	32,764.4	36,710.1	43,887.4	62,061.8
<b>G&amp;A expenses to IEA ratio(%)</b>	1.38	1.25	1.04	1.08	1.20	1.39
G&A expenses	167.8	299	340.6	396.5	526.9	864.1
Interest earning assets	12,131.3	23,835.0	32,764.4	36,710.1	43,887.4	62,061.8
<b>Pre-provisioning NIM(%)</b>	2.01	0.94	1.08	1.02	0.86	0.67
<b>Bad debt expenses to IEA ratio(%)</b>	1.05	2.19	1.21	0.74	0.35	0.53
Bad debt expenses	127.8	521.6	395.8	270.2	153.6	326.0
Interest earning assets	12,131.3	23,835.0	32,764.4	36,710.1	43,887.4	62,061.8
<b>NIM after G&amp;A expenses and provision(%)</b>	0.96	-1.25	-0.13	0.28	0.51	0.15

Table 24) above illustrates the bank's NIM after full dilution by G&A expense and risk premium, which was represented by bad debt expenses. The bank believes that this adjusted figure provides a bank's genuine profitability from IEA and IBL after deduction of overall expenses. Since the establishment of credit review system based on FLC in 1999, loan pricing has been conducted to reflect proper levels of inherent risks. Also, our cost-income ratio has been stringently managed, expensing for general and administrative activities in the most efficient manner. Owing to these efforts, the bank's NIM after loan loss provision and G&A expenses increased by 0.23%P year on year, irrespective of the sudden increase in G&A expenses due to the merger.

This fully diluted NIM, which recorded 0.51% for 2002, has been steadily improved since the bank introduced FLC to classify its asset portfolio, which indicates that our NIM has surpassed the level that net interest income by itself is more than sufficient to cover G&A expenses and loan loss provisions.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 2. Du-Pont Analysis

**Table 25) Du-Pont Analysis**

For the years ended December 31, each year

(Unit : %)

	1998	1999	2000	2001	2002 New Hana	2002 Hana+Seoul
Interest income ratio	3.06	2.00	1.94	1.90	1.83	1.80
Fee income ratio	0.31	0.80	0.40	0.64	0.64	0.76
Trading Income ratio	0.25	0.28	0.02	0.21	0.08	0.10
Other income ratio	-0.12	-0.11	-0.12	-0.14	-0.14	-0.11
<b>Operating income ratio</b>	<b>3.50</b>	<b>2.97</b>	<b>2.24</b>	<b>2.60</b>	<b>2.41</b>	<b>2.56</b>
<b>Non operating income ratio</b>	<b>-0.34</b>	<b>0.50</b>	<b>0.27</b>	<b>0.21</b>	<b>-0.11</b>	<b>-0.14</b>
<b>Gross income ratio</b>	<b>3.16</b>	<b>3.47</b>	<b>2.51</b>	<b>2.82</b>	<b>2.30</b>	<b>2.42</b>
G&A/Asset	-1.25	-1.14	-0.95	-0.98	-1.06	-1.22
LLP ratio	-0.95	-1.51	-1.46	-0.67	-0.31	-0.46
Tax ratio	-0.14	-0.26	-0.04	-0.37	-0.27	-0.19
<b>Gross expense ratio</b>	<b>-2.34</b>	<b>-2.92</b>	<b>-2.45</b>	<b>-2.02</b>	<b>-1.64</b>	<b>-1.86</b>
<b>ROAA</b>	<b>0.82</b>	<b>0.55</b>	<b>0.06</b>	<b>0.80</b>	<b>0.65</b>	<b>0.55</b>
Equity/Assets	7.25	6.71	4.93	4.55	4.07	4.11
<b>ROAE</b>	<b>11.35</b>	<b>8.24</b>	<b>1.16</b>	<b>17.60</b>	<b>16.05</b>	<b>13.50</b>
Equity excluding preferred share/Assets	7.25	4.90	4.01	3.99	3.95	4.02
<b>ROAE excluding preferred share</b>	<b>11.35</b>	<b>11.28</b>	<b>1.43</b>	<b>20.09</b>	<b>16.56</b>	<b>13.80</b>

\* Based on daily average balance

Table 25) above examines the value drivers contributing to the bank's ROA and ROE performance.

The bank's operating income ratio in 2002 was 2.41%, a 0.19%P decrease year on year due to the decline in interest income and income from trading securities. Non-operating income ratio decreased by 0.32%P to reach -0.11%, reflecting the losses from disposition and valuation of securities. These results led to 2.30% of gross income ratio, a 0.52%P drop from 2.82% in the previous year. G&A expenses to total assets increased by 0.08% to reach negative 1.06%, due to the increase in G&A expense with the merger. And the decreased income before tax and 1 month's tax shield from NOL of pre-merger Seoul Bank, together, dropped the bank's tax ratio down to the negative 0.27%.

However, the LLP ratio recorded a sharp decrease to reach negative 0.31% owing to the improved asset quality of the bank. These overall operating performance in 2002 resulted in ROAA decreased by 0.15%P to 0.65% and ROAE excluding preferred shares also declined by 3.53%P to reach 16.56%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## VIII. Other Information

**Table 26) BIS Capital Adequacy Ratio**

As of December 31, each year	( In billions of Korean won)				
	1998	1999	2000	2001	2002
<b>Tier 1</b>	864.8	1,868.4	1,715.4	2,031.3	2,770.0
Tier 1 from common share	864.8	1,395.6	1,380.0	1,833.3	2,770.0
Tier 1 from preferred share issued to KDIC	0.0	472.8	335.4	198.0	0.0
<b>Tier 2</b>	569.2	735.5	1,041.2	1,021.2	2,247.6
Provision	136.8	99.9	172.1	161.9	433.3
Lower tier 2	432.4	635.6	857.7	859.4	1,385.0
Upper tier 2	0.0	0.0	0.0	0.0	400.0
Others	0.0	0.0	11.5	0.0	29.4
Subsidiary investment deduction	0.0	-41.3	0.0	-14.9	-16.9
<b>Total BIS capital</b>	1,434.1	2,562.6	2,756.6	3,037.7	5,000.7
<b>RWA</b>	10,944.6	20,778.8	26,382.3	29,525.9	48,529.7
<b>BIS CAR</b>	13.10%	12.33%	10.45%	10.29%	10.30%
Tier 1	7.90%	8.99%	6.50%	6.88%	5.71%
Tier 1 exclude preferred share issued to KDIC	7.90%	6.72%	5.23%	6.21%	5.71%
Tier 2	5.20%	3.54%	3.95%	3.46%	4.60%

**Table 27) Total Exposure to SK Global**

As of December 31, 2002	( In billions of Korean won)
<b>Exposure to SK Global</b>	445.2
Loans	359.7
Acceptances and Guarantees	45.8
Securities	9.7
Trust Account	29.9
<b>Exposure to Overseas Branches &amp; Offices of SK Global</b>	68.7
Loans	68.7
<b>Total Exposure to SK Global</b>	513.9
Bank Account	484.0
Trust Account	29.9

\* Excluded W 17.0 billion of unconfirmed acceptances and guarantees

## INDEPENDENT AUDITOR'S REPORT (Banking Account)

**SAMIL ACCOUNTING CORPORATION**

*SAMIL ACCOUNTING CORPORATION*

Samil Accounting corporation  
Kukje Center Building 21st Fl.  
191 Hangangro 2ga Yongsanku Seoul 140-702, KOREA  
(Yongsan P.O.Box 266, 140-600)

### To the Board of Directors and Shareholders of Hana Bank

We have audited the accompanying balance sheets of Hana Bank ("the bank") as of December 31, 2002 and 2001, and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hana Bank as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings, and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following matters.

As discussed in Note 29 to the financial statements, Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for such combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank ("The bank") upon completion of the transaction. The business combination was accounted for using the purchase method, and Hana Bank acquired Seoul Bank's total assets, of ₩24,393,257 million and total liabilities, amounting to ₩23,560,934 million

from the acquisition date. Also, in accordance with the Contract, the shareholders of Seoul Bank received one new common share of The bank for every two shares of Seoul Bank. The new common shares of The bank were listed on the Korea Stock Exchange on December 13, 2002.

As discussed in Note 31 to the financial statements, an investigation is in progress, about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the bank's actual loss from their loans to SK Global Ltd. may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the users of the financial statements and have been translated on the basis set forth in Note 3 to the financial statements.

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



Seoul, Korea  
January 24, 2003

## BALANCE SHEETS (Banking Account)

As of December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>ASSETS</b>				
Cash and due from banks (Note 4)	₩ 3,718,272	₩ 2,482,063	US\$ 3,097,528	US\$ 2,067,696
Trading securities (Note 5)	338,447	454,137	281,945	378,322
Investment securities (Note 6)	14,933,240	11,340,725	12,440,220	9,447,455
Loans (Note 7)	51,976,023	29,355,490	43,298,920	24,454,757
(Allowance for possible loan losses)	(839,289)	(428,052)	(699,175)	(356,591)
(Present value discounts)	(10,242)	(7,291)	(8,532)	(6,074)
Property, plant and equipment (Note 8)	1,338,100	605,643	1,114,712	504,534
(Accumulated depreciation)	(221,509)	(187,871)	(184,529)	(156,507)
Intangible assets (Note 8)	172,924	769	144,055	641
Guarantee deposits	590,479	306,377	491,902	255,229
Accounts receivable	484,954	208,687	403,994	173,848
Accrued income	530,729	343,664	442,127	286,291
Prepaid expenses	11,427	27,370	9,519	22,801
Deferred income tax assets (Note 23)	143,038	16,010	119,159	13,337
Others	1,253,423	784,083	1,044,170	653,184
<b>Total Assets</b>	<b>₩ 74,420,016</b>	<b>₩ 45,301,804</b>	<b>US\$ 61,996,015</b>	<b>US\$ 37,738,923</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposits (Note 9)	₩ 54,676,688	₩ 33,450,073	US\$ 45,548,724	US\$ 27,865,772
Call money	883,320	690,129	735,855	574,916
Borrowings (Note 10)	5,967,898	3,259,256	4,971,591	2,715,142
Bonds sold on repurchase agreements	441,876	190,804	368,107	158,950
Bills sold	653,115	696,239	544,081	580,006
Due to Bank of Korea in foreign currencies	40,057	26,600	33,370	22,159
Debentures (Note 11)	4,119,020	1,942,531	3,431,373	1,618,237
Reserve for possible losses on acceptances and guarantees (Note 12)	67,202	23,727	55,983	19,766
Due to trust accounts	916,098	1,227,522	763,161	1,022,594
Unearned income	94,350	80,939	78,599	67,427
Accrued expenses	1,312,841	769,822	1,093,670	641,305
Accounts payable	449,157	197,253	374,173	164,323
Others	2,067,891	818,251	1,722,668	681,647
<b>Total Liabilities</b>	<b>71,689,513</b>	<b>43,373,146</b>	<b>59,721,355</b>	<b>36,132,244</b>
Commitments and contingencies (Note 14)				
Common stock, par value per share: ₩5,000, Authorized: 2 billion shares in 2002 and 500 million shares in 2001; issued and outstanding: 197,432,203 shares in 2002 and 131,107,888 shares in 2001 (Notes 1 and 15)	987,161	655,539	822,360	546,101
Preferred stock, par value per share: ₩5,000, non-cumulative, non-participating preferred stock; authorized: 1 billion shares; issued and outstanding: 39,602,000 shares in 2001	-	198,010	-	164,953
Capital surplus (Note 16)	1,244,247	408,956	1,036,527	340,683
Retained earnings (Note 17)	865,709	628,121	721,182	523,260
Capital adjustments (Note 6)	(366,614)	38,032	(305,409)	31,682
<b>Total Shareholders' Equity</b>	<b>2,730,503</b>	<b>1,928,658</b>	<b>2,274,660</b>	<b>1,606,679</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>₩ 74,420,016</b>	<b>₩ 45,301,804</b>	<b>US\$ 61,996,015</b>	<b>US\$ 37,738,923</b>

## STATEMENTS OF INCOME (Banking Account)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>Operating Revenues</b>	<b>₩ 3,725,280</b>	<b>₩ 3,592,293</b>	<b>US\$ 3,103,365</b>	<b>US\$ 2,992,579</b>
Interest income:	2,931,204	2,890,587	2,441,856	2,408,019
Interest on due from banks	48,704	86,721	40,573	72,243
Interest on securities	637,957	787,963	531,454	656,417
Interest on loans	2,232,409	1,996,510	1,859,721	1,663,204
Others	12,134	19,393	10,108	16,155
Commission income	317,942	235,934	264,863	196,546
Other operating income:	476,134	465,772	396,646	388,014
Gain on disposition of trading securities	24,453	27,169	20,371	22,633
Gain on valuation of trading securities	3,097	35,007	2,580	29,162
Dividend on securities	7,139	6,668	5,947	5,555
Gain on foreign currency trading	114,886	88,468	95,706	73,699
Fees from trust accounts	89,310	111,358	74,400	92,768
Gain on derivatives	207,805	179,397	173,113	149,448
Others	29,444	17,705	24,529	14,749
<b>Operating Expenses</b>	<b>3,214,634</b>	<b>3,201,928</b>	<b>2,677,969</b>	<b>2,667,384</b>
Interest expenses:	2,027,233	2,120,687	1,688,798	1,766,650
Interest on deposits	1,560,185	1,562,176	1,299,721	1,301,379
Interest on borrowings	201,076	377,166	167,508	314,200
Interest on debentures	234,864	159,894	195,655	133,201
Others	31,108	21,451	25,914	17,870
Commission expenses	91,449	88,458	76,182	73,690
Other operating expenses:	569,064	596,296	474,062	496,748
Loss on disposition of trading securities	7,215	12,592	6,010	10,490
Loss on valuation of trading securities	2,414	1,450	2,011	1,208
Loss on foreign currency trading	88,964	73,973	74,112	61,624
Provision for possible loan losses	183,062	287,918	152,501	239,851
Loss on derivatives	210,294	158,216	175,187	131,803
Others	77,115	62,147	64,241	51,772
General and administrative expenses (Note 21)	526,888	396,487	438,927	330,296
<b>Operating Income</b>	<b>₩ 510,646</b>	<b>₩ 390,365</b>	<b>US\$ 425,396</b>	<b>US\$ 325,195</b>
Non-operating income (Note 22)	₩ 178,842	₩ 132,251	US\$ 148,985	US\$ 110,173
Non-operating expenses (Note 22)	233,352	45,936	194,395	38,267
<b>Ordinary Income</b>	<b>456,136</b>	<b>476,680</b>	<b>379,986</b>	<b>397,101</b>
Extraordinary gain	4	-	4	-
Extraordinary loss	-	-	-	-
<b>Income Before Income Taxes</b>	<b>456,140</b>	<b>476,680</b>	<b>379,990</b>	<b>397,101</b>
Income tax expense (Note 23)	132,530	151,411	110,405	126,134
<b>Net Income (Note 24)</b>	<b>₩ 323,610</b>	<b>₩ 325,269</b>	<b>US\$ 269,585</b>	<b>US\$ 270,967</b>

(Ordinary income per share for the current year: ₩2,304, for the prior year: ₩2,363  
Earning per share for the current year: ₩2,304, for the prior year: ₩2,363  
Diluted ordinary income per share for the current year: ₩2,300, for the prior year: ₩1,840  
Diluted earnings per share for the current year: ₩2,300, for the prior year: ₩1,840)

## STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS (Banking Account)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>Unappropriated Retained Earnings at the End of the Year</b>	<b>323,622</b>	<b>319,865</b>	<b>269,595</b>	<b>266,465</b>
Carried over from the prior year	₩ 121	₩ 138	US\$ 101	US\$ 115
Decrease from equity method Valuation	(110)	(5,542)	(91)	(4,617)
Net income	323,610	325,269	269,585	270,967
<b>Transfer from Voluntary Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Appropriations of Retained Earnings</b>	<b>323,466</b>	<b>319,744</b>	<b>269,466</b>	<b>266,364</b>
Legal reserve	32,400	32,600	26,991	27,158
General purpose contingency reserve	205,000	231,600	170,777	192,936
Cash dividends (10% for common stock in 2002; 4% for common stock and 1% or 2% for preferred stock in 2001)	86,066	29,322	71,698	24,427
Stock dividends (4% for common stock in 2001)	-	26,222	-	21,843
<b>Unappropriated Retained Earnings to Be Carried Over to the Subsequent Year</b>	<b>₩ 155</b>	<b>₩ 121</b>	<b>US\$ 129</b>	<b>US\$ 101</b>



# STATEMENTS OF CASH FLOWS (Banking Account)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>Cash Provided by (used in) Operating Activities:</b>	<b>₩ (2,812,915)</b>	<b>₩ 463,251</b>	<b>US\$ (2,343,313)</b>	<b>US\$ 385,914</b>
Net income	₩ 323,610	₩ 325,269	US\$ 269,585	US\$ 270,967
Items not affecting operating cash flows:				
Depreciation and amortization	53,822	42,828	44,837	35,678
Provision for possible loan losses	183,062	287,918	152,501	239,851
Provision for severance benefits	19,701	14,451	16,412	12,038
Unrealized loss (gain) on securities, net	110,127	(62,995)	91,742	(52,478)
Gain on securities transactions, net	(64,844)	(55,159)	(54,018)	(45,950)
Unrealized gain on derivatives	(5,720)	(6,500)	(4,765)	(5,415)
Reversal of reserve for possible losses on acceptances and guarantees	(29,443)	(17,705)	(24,528)	(14,749)
Decrease retirement benefits	(4,568)	(3,199)	(3,806)	(2,665)
Gain on sale of loans, net	(7,983)	(3,231)	(6,650)	(2,692)
Changes in accrual basis accounts, net	(3,400,277)	(55,956)	(2,832,620)	(46,614)
Others	9,598	(2,470)	7,997	(2,057)
<b>Cash Provided by Investing Activities:</b>	<b>₩ 1,502,810</b>	<b>₩ 296,464</b>	<b>US\$ 1,251,924</b>	<b>US\$ 246,971</b>
Decrease in trading securities	484,236	178,450	403,395	148,659
Decrease in investment securities	1,270,314	181,792	1,058,243	151,443
Increase in property, plant and equipment	(102,030)	(60,525)	(84,997)	(50,421)
Increase in intangible assets	-	(175)	-	(146)
Increase in guarantee deposits	(1,509)	(4,196)	(1,257)	(3,495)
Decrease (Increase) in accounts receivable	(148,201)	1,118	(123,460)	931
<b>Cash Provided by (used in) Financing Activities:</b>	<b>₩ 1,532,299</b>	<b>₩ (1,372,049)</b>	<b>US\$ 1,276,490</b>	<b>US\$ (1,142,994)</b>
Increase in borrowings	₩ 1,430,970	₩ 595,399	US\$ 1,192,078	US\$ 496,001
Decrease in bills sold	(159,627)	(1,713,272)	(132,978)	(1,427,251)
Increase in debentures	1,588,607	210,016	1,323,398	174,955
Increase in domestic exchanges payable	285,664	335,512	237,974	279,501
Decrease in foreign exchanges payable	(278,791)	(12,803)	(232,249)	(10,666)
Increase (Decrease) in bonds sold on repurchase agreements	77,472	(1,168,901)	64,539	(973,760)
Decrease in due to Bank of Korea in foreign currencies	(140,092)	(210,555)	(116,705)	(175,404)
Increase (Decrease) in call money	(426,889)	354,576	(355,623)	295,382
Increase (Decrease) in due to trust accounts	(354,745)	420,574	(295,522)	350,361
Increase (Decrease) in accounts payable	185,106	(14,589)	154,203	(12,153)
Extinguishment of preferred stock	(198,010)	(137,395)	(164,953)	(114,458)
Purchase of treasury stock	(447,893)	-	(373,120)	-
Cash dividends	(29,322)	(30,434)	(24,427)	(25,353)
Others	(151)	(177)	(125)	(149)
<b>Net Increase(decrease) in Cash Cash and Cash Equivalents at the Beginning of the Year</b>	<b>222,194</b>	<b>(612,334)</b>	<b>185,101</b>	<b>(510,109)</b>
<b>2,482,063</b>	<b>3,094,397</b>	<b>2,067,696</b>	<b>2,577,805</b>	
<b>Increase in Cash from Merger</b>	<b>1,014,015</b>	<b>-</b>	<b>844,731</b>	<b>-</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>₩ 3,718,272</b>	<b>₩ 2,482,063</b>	<b>US\$ 3,097,528</b>	<b>US\$ 2,067,696</b>
Cash on hand	₩ 1,644,843	₩ 989,415	US\$ 1,370,246	US\$ 824,237
Foreign currencies	78,478	31,746	65,377	26,447
Due from banks in won	1,908,578	1,127,061	1,589,952	938,904
Due from banks in foreign currencies	86,373	333,841	71,953	278,108

# NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

## 1. The bank:

Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for such combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank("The bank") upon completion of the transaction. As of December 31, 2002, The bank is engaged in the commercial banking, trust and foreign exchange business and other related operations as permitted under the bank Act and other relevant laws and regulations in the Republic of Korea.

The bank's shares are listed on the Korean Stock Exchange. As of December 31, 2002 the bank has 2,000 million shares of authorized common stock with a par value of ₩5,000 per share, of which 197,432,203 shares are issued with a par value of ₩5,000 per share. The bank's common stock outstanding as of December 31, 2002 amounted to ₩987,161 million.

In accordance with its Articles of Incorporation, the bank is authorized to issue convertible bonds and bonds with stock warrants to investors other than shareholders in amounts up to ₩200,000 million each. As of December 31, 2002 and 2001, the bank has issued convertible bonds in the amount of ₩49,998 million (see Note 11).

## 2. Summary of Significant Accounting Policies:

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

### Basis of Financial Statement Presentation

The official accounting records of the bank are maintained in Korean Won in accordance with the relevant laws and regulations of the Republic of Korea.

The bank operates both a commercial banking business and a trust business in which the bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust funds are accounted for and reported separately from the bank's own commercial banking business.

The bank maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with financial accounting standards generally accepted in the Republic of Korea. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain accounting principles applied by the bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not confirm with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

Certain information attached to the Korean language financial statements, but are not required for a fair presentation of the bank's financial position and results of operations, are not presented in the accompanying financial statements.

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported here in. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates.

### Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis. However, the interest income on loans overdue or dishonored is recognized on a cash basis, except for those secured and guaranteed by financial institutions, which is recognized on an accrual basis.

### Loans

In accordance with the amended Banking regulations of the Republic of Korea, effective from December 1, 2002, the bank recorded its acceptances and guarantees for the credit granted to importers as loans and borrowings in the balance sheet. As a result of this accounting change, both loans in foreign currency and borrowings in foreign currency increased by ₩1,255,451 million and allowances for possible loan losses increased by ₩15,216 million, as compared with the amounts that would have been recorded under the previous method.

### Allowance for Possible Loan Losses

From 1999, the bank adopted a method of corporate loan classification for calculating the allowance for possible loan losses by incorporating the borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"). This credit rating model considers the financial and non-financial factors of borrowers and classifies the borrowers' credit risk by seventeen ratings. Provisions are determined by applying the following minimum percentages to the various credit ratings:

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

Loan classifications	Provision percentages
Normal	0 ~ 1.6%
Precautionary	2%
Substandard	20%
Doubtful	60%
Estimated loss	100%

Household and credit card loans are classified based on the delinquent periods, value of collateral, and reasonably estimated collectibility.

### Securities

All securities are initially carried at cost, including incidental expenses, determined by the moving average method.

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

#### - Trading securities

Trading securities are marketable securities held for short-term trading and carried at their market values at the balance sheet date. Unrealized gains and losses on trading securities are included in current operations.

#### - Investment securities

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in current operations up to the original book value just before the decline.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the bank's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the bank exerts significant control or influence (controlled investees) are recorded using the equity method. Differences between the initial purchase price and the bank's initial proportionate ownership of the net book value of the investee are amortized over a period within 20 years using the straight-line method. Under the equity method, the bank records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee.

Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Investments in debt securities which the bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Other investments in debt securities are carried at fair value. Temporary differences between the fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Routine maintenance and repairs are charged to expense as incurred. Expenditures that enhance the value or extend the useful economic lives of the assets involved are treated as additions to property, plant and equipment.

Depreciation is computed using the declining-balance method (the straight-line method for buildings) over the estimated useful lives of the assets as described below.

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

	Estimated Useful Life-years
Buildings, structures and auxiliary facilities	50
Vehicles, furniture and Fixtures	5
Structures in leased offices used for business purposes	5

### Intangible Assets

Trademarks and goodwill are stated at cost, net of accumulated amortization. Goodwill and trademarks are amortized using the straight-line method over five years.

### Present Value Discounts

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

The difference between the book value and present value is recorded as 'present value discounts' in the balance sheet and amortized to current earnings over the related period using the effective interest rate method.

### New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from paid-in capital in excess of par value and the amounts of debenture issuance, respectively. Debenture issuance costs are amortized as interest expense over the redemption term using the effective interest rate method.

### Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean Won using the exchange rates of ₩1,200.40:US\$1 and ₩1,326.10:US\$1, the rates in effect as of December 31, 2002 and 2001, respectively. The resulting translation gains and losses are charged to current operations.

### Bonds Purchased on Resale Agreements and Bonds Sold on Repurchase Agreements

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

### Accrued Severance Benefits

Directors and employees with more than one year 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. Accrued severance benefits represent the amounts to be paid if all eligible employees and directors were to terminate their employment as of the balance sheet date. Actual payments of severance benefits for the years ended December 31, 2002 and 2001 amounted to ₩8,648 million (including ₩4,079 million for early retirement) and ₩10,305 million (including ₩7,106 million for early retirement), respectively.

### Reserve for Possible Losses on Acceptances and Guarantees

Acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements.

The bank provides a minimum provision of 20% of guaranteed amounts for companies classified as "substandard" 60% for "doubtful" and 100% for "estimated loss" The bank records the provision as a reserve for possible losses on acceptances and guarantees in the liabilities section of the balance sheet (see Note 12).

### Income Tax Expense

Deferred income taxes represent the temporary differences between the tax and financial reporting bases of assets and liabilities, and are recorded at enacted tax rates which are expected to be in effect when the temporary differences are expected to reverse. The provision for income taxes represents taxes currently payable for the year plus the change in the net deferred income tax balance from the previous balance sheet date. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

### Gain (Loss) on Prior Period Adjustments

Prior period adjustments are charged to retained earnings carried over from the prior year.

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### Derivative Financial Instruments

Derivative financial instruments include futures, forwards and swap contracts, and are principally linked to interest rates, foreign currency exchange rates or equity indices.

In accordance with the revised financial accounting standards related to derivatives accounting, effective January 1, 2000, the bank records the fair values of rights and obligations related to derivatives contracts on the balance sheet as assets and liabilities and recognized the related gains or losses in the income statement. However, the effective portions of the unrealized gains or losses arising from "cash flow" hedge derivative financial instruments are deferred and recorded in capital adjustments.

### Translation of Financial Statements of Overseas Branches

Accounts and records of the overseas branches are maintained in foreign currencies. In translating financial statements of overseas branches, the bank applies the appropriate rate of exchange at the balance sheet date.

### Stock Options

The bank applies the fair value method in the calculation of the fair value of stock options and allocates it over the period from the option grant date to the exercise date and charges it to current operations (see Note 19).

### Operations of the Trust Accounts

The bank recognizes, in accordance with the Trust Business Act, trust fees from the banking accounts as income from trust operations. If losses are incurred on trust accounts that have a guarantee of principal repayment trust terms, the losses are recognized as a loss from trust operations.

## 3. United States Dollar Amounts:

The bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All Won amounts are expressed in U.S. Dollars at the rate of ₩1,200.40:US\$1, the basic rate in effect on December 31, 2002. This presentation is not in accordance with generally accepted accounting principles, in either the Republic of Korea or the United States and should not be construed as a representation that the Won amounts shown could be really converted, realized or settled in U.S. Dollars at this or any other rate.

The 2001 U.S. Dollar amounts, which were previously expressed at the rate in effect on December 31, 2001, have been restated to reflect the exchange rate in effect on December 31, 2002.

## 4. Cash and Due from Banks:

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

	In Millions of Korean Won	
	2002	2001
Cash on hand	₩ 1,644,843	₩ 989,415
Foreign currencies	78,478	31,746
Due from banks in Won	1,908,578	1,127,061
Due from banks in foreign currencies	86,373	333,841
	₩ 3,718,272	₩ 2,482,063

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

Due from banks in Won and foreign currencies as of December 31, 2002 and 2001 comprise the following:

	Annual interest rate (%) of 2001	In Millions of Korean Won	
		2002	2001
Checking accounts	-	₩ 1,164,147	₩ 226,829
Certificates of deposits	4.80 ~ 5.32	619,859	681,516
Time deposits	5.50 ~ 5.35	118,316	55,316
Other deposits	0.00 ~ 4.25	6,256	163,400
		1,908,578	1,127,061
Due from banks in foreign currencies	0.00 ~ 1.69	86,373	333,841
		₩ 1,994,951	₩ 1,460,902

Checking accounts deposited in the bank of Korea represent reserves required and restricted for the payment of deposits under the bank of Korea Act. Furthermore, as of December 31, 2002 and 2001, other deposits amounting to ₩286 million and ₩453 million, respectively, are restricted as to withdrawal under the agreements with counterparties.

As of December 31, 2001 and 2000, due from banks in foreign currencies amounting to ₩47,678 million and ₩77,083 million, respectively, are reserved at the bank of Korea under the bank of Korea Act for the settlement with foreign banks. Furthermore, as of December 31, 2002, due from banks in foreign currencies amounting to ₩553 million are reserve deposits in the central banks of countries where overseas branches are located and are restricted as to withdrawal.

The term structures of due from banks as of December 31, 2002 are as follows (millions of Won):

Term Structures	Due from banks in Won currency		Due from banks in foreign currencies		Total
Within 1 month	₩	885,639	₩	69,502	₩ 955,141
More than 1 ~ 3 months		497,111		12,004	509,115
More than 3 ~ 6 months		12,877		4,502	17,379
More than 6 months ~ 1 years		-		-	-
More than 1 ~ 3 years		-		-	-
More than 3 ~ 5 years		-		365	365
More than 5 years		512,951		-	512,951
	₩	1,908,578	₩	86,373	₩ 1,994,951

### 5. Trading Securities:

Trading securities as of December 31, 2002 and 2001 comprise the following (millions of Won):

	Annual interest rate (%)	Carrying value	
		2002	2001
Equity securities	-	₩ 39,180	₩ 103,887
Government and public bonds	5.3 ~ 6.1	121,131	39,153
Debentures issued by financial institutions	4.9 ~ 15.0	79,212	310,023
Corporate bonds	5.4 ~ 5.5	70,784	-
Securities denominated in foreign currencies	2.7 ~ 7.2	28,140	1,074
		₩ 338,447	₩ 454,137

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The information about trading securities by industry as of December 31, 2002 and 2001 is summarized as follows:

Industry	2002		2001	
	Millions of Won	Ratio (%)	Millions of Won	Ratio (%)
Financial business	₩ 82,834	24.47	₩ 344,058	75.76
Public administration	204,387	60.39	39,153	8.62
Manufacturing	48,226	14.25	-	-
Wholesale and retail	3,000	0.89	-	-
Others	-	-	70,926	15.62
	₩ 338,447	100.00	₩ 454,137	100.00

### 6. Investment Securities:

Investment securities as of December 31, 2002 and 2001 comprise the following (millions of Won):

	Annual interest rate (%)	Carrying value	
		2002	2001
Stocks and equity investments	-	₩ 703,097	₩ 502,514
Government and public bonds	3.00 ~ 11.26	1,702,597	867,200
Debentures issued by financial institutions	4.37 ~ 10.05	4,060,693	3,548,694
Corporate bonds	0.00 ~ 24.50	7,051,596	4,458,129
Beneficiary certificates	-	603,879	994,159
Securities denominated in foreign currencies	0.00 ~ 0.75	708,105	914,465
Others	4.90 ~ 7.77	103,273	55,564
		₩ 14,933,240	₩ 11,340,725

As of December 31, 2002, investment securities amounting to ₩3,814,510 million are restricted as collateral for borrowings from the bank of Korea and other financial institutions.

Stocks and equity investments as of December 31, 2002 and 2001 are as follows (millions of Won):

Industry	2002		2001	
	Ownership (%)	Carrying value	Ownership (%)	Carrying value
Investments using the equity method				
Hana Securities	48.38	₩ 136,307	54.97	₩ 136,083
Hana Research	62.50	2,007	100.00	2,001
Hana Allianz	50.00	16,899	50.00	14,859
Hana Funding Ltd.	100.00	60		
BC Card	16.83	25,450		
Seoeun System	100.00	1,482		
		182,205		152,943
Marketable equity securities		354,848		181,546
Non-marketable equity securities		129,648		138,096
Other investments		37,829		30,303
		₩ 704,530		₩ 502,888

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

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

	Acquisition Cost	Current year adjustments			Carrying value
		Gain on equity method (*)	Capital adjustment	Retained earnings	
Hana Securities	₩ 143,247	₩ 2,257	₩ (9,197)	₩ -	₩ 136,307
Hana Research	2,001	9	(3)	-	2,007
Hana Allianz	14,859	2,086	63	(109)	16,899
Hana Funding Ltd.	60	-	-	-	60
BC Card	25,450	-	-	-	25,450
Seoeun System	1,482	-	-	-	1,482
	₩ 187,099	₩ 4,352	₩ (9,137)	₩ (109)	₩ 182,205

(\*) Net asset values of investees are calculated using the most recent financial information of the subsidiaries.

Details of marketable equity securities as of December 31, 2002 comprise the following (millions of Won):

Company	Number of shares	Ownership (%)	Carrying value
Korea Electronic Power Corporation	5,732,099	89	₩ 104,611
Hyundai Engineering & Construction Co., Ltd.	5,275,683	4.61	36,135
Ssangyong Motors Co.	1,168,995	3.73	22,552
Korea Tobacco & Ginseng Corp.	1,271,020	0.66	20,845
Sae Han Industries Inc.	4,501,456	18.51	16,185
Daewoo Heavy Industries & Machinery Ltd.	5,675,877	3.37	16,006
Kyobo Securities Co, Ltd.	4,980,108	13.83	14,940
Daewoo Securites Co., Ltd.	3,130,000	1.64	14,148
INI Steel Co., Ltd.	2,080,000	3.00	9,342
Mugunghwa Restructuing Fund	37,176	3.12	9,050
Others			91,034
			₩ 354,848

The securities of Hyundai Engineering & Construction Co., Ltd. (HEC) were acquired at a price of ₩5,000 per share, and the disposal of 20,273,400 shares is restricted until December 31, 2003.

The securities of Ssangyong Motors Co. are restricted as to disposal until December 31, 2003, and the disposal of 5,363,400 shares of the securities of Sae Han Industries Inc. is also restricted until December 31, 2004.

As of December 31, 2002, the marketable equity securities restricted as to disposal amounted to ₩82,876 million, including the above-mentioned securities.

Details of non-marketable equity securities as of December 31, 2002 comprise the following (millions of Won):

Company	Number of shares	Ownership (%)	Carrying value
Korea Housing Guarantee Co.	16,942,000	2.92	₩ 29,611
Dongboo Electronic Co.	4,000,000	3.98	20,006
Korea Securities Finance Corporation	2,505,243	3.68	16,248
Samsung Life Insurance Co.	47,700	0.24	15,836
Daewoo Electronics Corp.	1,800,780	1.68	6,406
Daewoo Capital Corporation	452,065	0.75	4,521
National Information & Credit Evaluation, Inc.	501,944	10.59	4,385
Korea Aerospace Industries	989,200	1.15	4,210
Others			28,425
			₩ 129,648



## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The securities of Daewoo Electronics Corp. is restricted as to disposal until December 31, 2006.

As of December 31, 2002, the non-marketable equity securities restricted as to disposal amounted to ₩6,471 million, including the above mentioned securities.

Debt securities as of December 31, 2002 and 2001 comprise the following (millions of Won):

### 1) As of December 31, 2002

	Acquisition cost (*)	Adjustment value (**)	Carrying value
<b>Available-for-sale securities</b>			
Government and public bonds	₩ 1,129,041	₩ 1,129,768	₩ 1,146,172
Debentures issued by financial institutions	3,291,235	3,272,615	3,281,560
Corporate bonds	5,829,423	5,807,273	5,786,908
Securities denominated in foreign currencies	696,835	695,124	704,271
Securities lent	85,411	85,561	85,561
	11,031,945	10,990,341	11,004,472
<b>Held-to-maturity securities</b>			
Government and public bonds	558,275	556,425	556,425
Debentures issued by financial institutions	781,006	779,133	779,133
Corporate bonds	1,295,716	1,264,688	1,264,688
Securities denominated in foreign currencies	2,401	2,401	2,401
Securities lent	16,760	16,493	16,493
	2,654,158	2,619,140	2,619,140
	₩ 13,686,103	₩ 13,609,481	₩ 13,623,612

### 2) As of December 31, 2001

	Acquisition cost (*)	Adjustment value (**)	Carrying value
<b>Available-for-sale securities</b>			
Government and public bonds	₩ 745,834	₩ 747,463	₩ 743,122
Debentures issued by financial institutions	2,996,967	2,985,727	2,990,512
Corporate bonds	3,943,473	3,921,044	3,936,605
Securities denominated in foreign currencies	809,628	816,512	834,023
	8,495,902	8,470,746	8,504,262
<b>Held-to-maturity securities</b>			
Government and public bonds	127,217	124,078	124,078
Debentures issued by financial institutions	558,876	558,182	558,182
Corporate bonds	523,912	521,524	521,524
Securities denominated in foreign currencies	81,242	80,069	80,069
	1,291,247	1,283,853	1,283,853
	₩ 9,787,149	₩ 9,754,599	₩ 9,788,115

(\*) Prior year's closing book balances of securities or acquisition costs for securities purchased during the current year.

(\*\*) Adjusted value after amortization of discounts or premiums (amortized cost).

Details of gains (losses) on valuation of investment securities included in capital adjustments as of December 31, 2002 and 2001 are as follows (millions of Won):

Account name	Amount	
	2002	2001
Stocks and equity investments	₩ (361)	₩ (70,047)
Government and public bonds	30,056	15,222
Debentures issued by financial institutions	18,017	16,186
Corporate bonds	21,408	53,744
Other securities	21	(8,295)
Securities denominated in foreign currencies	2,259	(1,571)
	₩ 71,400	₩ 5,239

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The information about investment securities by currency and country as of December 31, 2002 and 2001 is summarized as follows (millions of Won):

### 1) As of December 31, 2002

Originating country	Domestic currency	Ratio (%)	Foreign currency	Ratio (%)
Korea	₩ 14,225,135	100.00	₩ 662,982	93.63
Hong Kong	-	-	11,992	1.69
Singapore	-	-	4,750	0.67
Others	-	-	28,381	4.01
	₩ 14,225,135	100.00	₩ 708,105	100.00

### 2) As of December 31, 2001

Originating country	Domestic currency	Ratio (%)	Foreign currency	Ratio (%)
Korea	₩ 10,426,260	100.00	₩ 876,652	95.87
U.S.A.	-	-	6,896	0.75
Hong Kong	-	-	26,522	2.90
Singapore	-	-	4,287	0.47
Others	-	-	108	0.01
	₩ 10,426,260	100.00	₩ 914,465	100.00

The information about investment securities by industry as of December 31, 2002 and 2001 is summarized as follows (millions of Won):

Industry	2002		2001	
	Millions of Won	Ratio (%)	Millions of Won	Ratio (%)
Financial business	₩ 3,993,258	26.74	₩ 5,842,684	51.52
Public administration	9,466,890	63.40	4,607,556	40.63
Manufacturing	374,899	2.51	396,780	3.50
Construction	65,679	0.44	151,418	1.33
Wholesale and retail	30,104	0.20	92,059	0.81
Others	1,002,410	6.71	250,228	2.21
	₩ 14,933,240	100.00	₩ 11,340,725	100.00

The information about investment securities by classification as of December 31, 2002 is summarized as follows (millions of Won):

	2002	
	Millions of Won	Ratio (%)
Stocks	₩ 666,701	4.46
Fixed rate bonds	8,672,513	58.08
Floating rate bonds	4,777,112	31.99
Convertible bonds	88,426	0.59
Beneficiary certificates	603,879	4.04
Others	124,609	0.84
	₩ 14,933,240	100.00

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The term structures of held-to-maturity securities as of December 31, 2002 are as follows (millions of Won):

Term structures	Government and public bonds	Debentures issued by financial institutions	Corporate bonds	Securities denominated in foreign currencies	Securities lent	Total
Within 1 month	₩ -	₩ 86,459	₩ -	₩ -	₩ -	₩ 86,459
More than 1 ~ 3 months	20,103	122,069	20,186	-	-	162,358
More than 3 ~ 6 months	91,150	30,078	20,165	2,401	-	143,794
More than 6 months ~ 1 year	10,119	334,885	797,688	-	16,493	1,159,185
More than 1 ~ 3 years	78,201	205,642	299,844	-	-	583,687
More than 3 ~ 5 years	356,852	-	126,805	-	-	483,657
More than 5 years	-	-	-	-	-	-
	₩ 556,425	₩ 779,133	₩ 1,264,688	₩ 2,401	₩ 16,493	₩2,619,140

### 7. Loans:

Loans as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
Loans in Won currency		
Corporate loans	₩ 16,167,143	₩ 10,321,639
Household loans	23,598,751	10,514,488
Others	383,167	297,635
	40,149,061	21,133,762
Loans in foreign currencies	3,457,555	997,374
Bills purchased in Won currency	1,830,387	2,187,416
Bills purchased in foreign currencies	1,687,820	850,421
Advances to customers	103,228	41,131
Factoring receivables	177,647	76,255
Credit card loans	2,160,008	1,003,496
Bonds purchased on resale agreements	86,000	-
Call loans	315,649	1,028,515
Privately-placed debentures	1,997,845	1,935,807
Convertible loans	10,823	101,313
	₩ 51,976,023	₩ 29,355,490

The information about loans in Won currency (including bills purchased, factoring receivables and convertible bonds) and loans in foreign currencies (including factoring receivables in foreign currencies) by industry as of December 31, 2002 and 2001 is summarized as follows (millions of Won):

#### 1) As of December 31, 2002

Industry	Loans in Won currency	Loans in foreign currencies	Total	Ratio (%)
Manufacturing	₩ 7,959,732	₩ 1,955,209	₩ 9,914,941	21.7
Wholesale and retail	2,778,741	321,527	3,100,268	6.8
Financial business	1,555,593	246,426	1,802,019	3.9
Construction	1,564,063	10,061	1,574,124	3.5
Household	23,598,751	-	23,598,751	51.7
Real estate and renting	886,480	15,254	901,734	2.0
Public and others	3,822,947	910,689	4,733,636	10.4
	₩ 42,166,307	₩ 3,459,166	₩ 45,625,473	100.0

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 2) As of December 31, 2001

Industry	Loans in Won currency	Loans in foreign currencies	Total	Ratio (%)
Manufacturing	₩ 6,502,965	₩ 313,833	₩ 6,816,798	27.8
Wholesale and retail	1,440,511	103,988	1,544,499	6.3
Financial business	992,396	338,611	1,331,007	5.4
Construction	1,134,108	50,047	1,184,155	4.8
Household	10,514,501	-	10,514,501	42.9
Real estate and renting	361,191	14,587	375,778	1.6
Public and others	2,543,593	176,308	2,719,901	11.2
	₩ 23,489,265	₩ 997,374	₩ 24,486,639	100.0

The information about loans in foreign currencies (including factoring receivables in foreign currencies) by country as of December 31, 2002 and 2001 is summarized as follows:

Originating country	2002		2001	
	Millions of Won	Ratio (%)	Millions of Won	Ratio (%)
Korea	₩ 1,526,671	44.1	₩ 900,050	90.3
Russia	118,840	3.5	-	-
Singapore	23,521	0.7	-	-
U.S.A	21,816	0.6	72,929	7.3
Japan	21,560	0.6	-	-
Indonesia	17,300	0.5	-	-
Hong Kong	8,156	0.2	16,783	1.7
China	6,855	0.2	4,399	0.4
Turkey	-	-	3,213	0.3
Domestic import usance	1,713,172	49.6	-	-
Others	1,275	0.0	-	-
	₩ 3,459,166	100.0	₩ 997,374	100.0

Details of changes in the allowance for possible loan losses for the years ended December 31, 2002 and 2001 are as follows (millions of Won):

Details of changes	In Millions of Korean Won	
	2002	2001
Beginning balance	₩ 428,052	₩ 821,171
Carry-over from Merger and Acquisition	360,267	-
Amount offsetted with present value discounts	1,403	29,162
Transfer to allowances for acceptances and guarantees	(68)	(28,589)
Debt – equity swap	(34,738)	(57,114)
Repurchase loans from Korea Asset Management Corp.	495	1,607
Sale of non-performing loans	-	(108,711)
Write-offs	(183,091)	(545,131)
Remission of loans	-	(22,922)
Collection of previously written-off receivables	86,063	45,085
Changes in currency exchange rates	(1,130)	5,575
Provision for possible loan losses	183,062	287,918
Others	(1,026)	1
Closing balance	₩ 839,289	₩ 428,052

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The term structures of loans in Won currency (including bills purchased, factoring receivables and convertible loans), loans in foreign currencies (including factoring receivables in foreign currencies) and bills purchased in foreign currencies as of December 31, 2002 are summarized as follows (millions of Won):

Term structures	Loans in Won currency	Loans in foreign currencies	Total	Ratio (%)
Within 1 month	₩ 1,922,734	₩ 509,678	₩ 616,005	₩ 3,048,417
More than 1 ~ 3 months	4,520,847	784,840	702,073	6,007,760
More than 3 ~ 6 months	9,100,952	642,257	331,198	10,074,407
More than 6 months ~ 1 year	9,795,567	748,377	24,465	10,568,409
More than 1 ~ 3 years	13,287,006	362,249	1,167	13,650,422
More than 3 ~ 5 years	2,092,149	114,939	-	2,207,088
More than 5 years	1,447,052	296,826	12,912	1,756,790
	₩ 42,166,307	₩ 3,459,166	₩ 1,687,820	₩ 47,313,293

As of December 31, 2002, the details of the classification of loans and allowance for possible loan losses are as follows (millions of Won):

### 1) Classification of loans

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (**)
Loans in Won currency (*)	₩ 40,640,269	₩ 734,842	₩ 370,870	₩ 83,476	₩ 52,611	₩ 41,882,068
Loans in foreign currencies	3,243,874	142,447	54,937	7,752	202	3,449,212
Bills purchased in foreign currencies	1,673,465	1,802	12,116	25	394	1,687,802
Advances to customers	40,884	16,888	20,457	14,103	6,289	98,621
Credit card loans	1,928,388	97,530	33,036	82,754	18,300	2,160,008
Privately-placed debentures	1,912,938	13,389	56,855	13,210	1,142	1,997,534
Others	122,270	2,635	7,054	14,704	8,031	154,694
	₩ 49,562,088	₩ 1,009,533	₩ 555,325	₩ 216,024	₩ 86,969	₩ 51,429,939

(\*) Including bills purchased in Won currency, factoring receivables in Won currency and convertible loan.

(\*\*) Net of present value discounts and excluding bonds purchased on resale agreements, call loans and inter-bank loan.

### 2) Allowance for possible loan losses

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (**)
Loans in Won currency	₩ 269,902	₩ 53,600	₩ 96,897	₩ 64,745	₩ 52,611	₩ 537,755
Loans in foreign currencies	19,277	14,840	18,065	4,651	202	57,035
Bills purchased in foreign currencies	6,041	38	2,424	14	394	8,911
Advances to customers	205	1,666	4,091	9,625	6,289	21,876
Credit card loans	42,784	11,629	8,273	74,417	18,300	155,403
Privately-placed debentures	9,608	1,800	17,851	7,926	1,142	38,327
Others	10	205	1,382	10,354	8,031	19,982
	₩ 347,827	₩ 83,778	₩ 148,983	₩ 171,732	₩ 86,969	₩ 839,289

In accordance with Korean banking regulations, certain amount of account receivables and suspense receivables is included in the classification of the loans above.

Historical ratios of allowance for possible loan losses to total loans for the most recent three years are as follows (millions of Won):

	2002.12.31	2001.12.31	2000.12.31
Loans (*)	₩ 51,429,939	₩ 28,085,756	₩ 23,786,995
Allowance for possible loan losses	839,289	428,052	821,171
Ratios	1.63 %	1.52 %	3.45 %

(\*) Loans include certain amount of accounts receivable and suspense receivables, and do not include bonds purchased on resale agreements, call loans, and inter-bank loans.

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

Details of restructured loans, excluding the loans provided to the Daewoo Group of companies due to changes in contractual terms, as of December 31, 2002 are as follows (millions of Won):

	Outstanding loans	Extension of due date & reduction of interest rate	Convertible investment	Converted to equity securities	Convertible bonds	Present value discounts	Restructured value	Losses from restructuring
Workout	₩230,329	₩ 111,504	₩ -	₩ 116,994	₩ 532	₩ 1,299	₩111,504	₩ 1,299
Court receivership	136,395	71,699	-	61,734	-	2,962	71,699	2,962
Court mediation	28,819	28,744	-	-	-	75	28,744	75
Others	422,719	179,385	464	201,185	39,000	2,685	179,385	2,685
	₩818,262	₩ 391,332	₩ 464	₩379,913	₩ 39,532	₩ 7,021	₩391,332	₩ 7,021

During the years ended December 31, 2002 and 2001, the changes in present value discounts due to changes in the contractual terms related to troubled debt restructuring, are as follows (millions of Won):

Changes in details	Amount	
	2002	2001
Beginning balance	₩ 7,291	₩ 48,598
Transferred in from merger	8,454	
Amortized amount (interest income)	(4,100)	(12,145)
Amount offsetted with allowance for possible loan losses	(1,403)	(29,162)
Ending balance	₩ 10,242	₩ 7,291

### 8. Property, Plant and Equipment & Intangible Assets:

Property, plant and equipment and intangible assets as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

#### 1) As of December 31, 2002

	Acquisition cost	Accumulated depreciation	Net book value
<b>Property, plant and equipment</b>			
Land	₩ 650,884	₩ -	₩ 650,884
Buildings, structures and auxiliary facilities	409,153	67,277	341,876
Vehicles, furniture and fixtures	275,234	154,232	121,002
Construction in-progress	2,824	-	2,824
Others	5	-	5
	1,338,100	221,509	1,116,591
<b>Intangible assets</b>	172,924	-	172,924
	₩ 1,511,024	₩ 221,509	₩ 1,289,515

#### 2) As of December 31, 2001

	Acquisition cost	Accumulated depreciation	Net book value
<b>Property, plant and equipment</b>			
Land	₩ 180,588	₩ -	₩ 180,588
Buildings, structures and auxiliary facilities	231,783	58,634	173,149
Vehicles, furniture and fixtures	193,272	129,237	64,035
	605,643	187,871	417,772
<b>Intangible assets</b>	769	-	769
	₩ 606,412	₩ 187,871	₩ 418,541

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The banking Act does not permit the bank to own real estate in excess of the bank's shareholders' equity.

In accordance with bank supervisory regulations, the bank's property, plant and equipment, except for land, are covered by insurance policies against fire and other casualty losses up to ₩354,984 million as of December 31, 2002. The government-posted value of the bank's land as of December 31, 2002 and 2001 amounted to ₩536,555 million and ₩165,818 million, respectively.

### 9. Deposits:

Deposits as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
<b>Won currency deposits:</b>		
Demand deposits	₩ 3,064,524	₩ 1,746,663
Time and savings deposits	44,487,683	27,459,245
Mutual installment received	1,369,817	887,474
Housing installment deposit	385,301	154,272
	49,307,325	30,247,654
<b>Foreign currency deposits:</b>		
Demand deposits	483,971	369,253
Time and savings deposits	734,258	736,590
	1,218,229	1,105,843
<b>Certificates of deposits:</b>		
	4,151,134	2,096,576
	₩ 54,676,688	₩ 33,450,073

The term structures of deposits as of December 31, 2002 are summarized as follows (millions of Won):

Term structures	Won currency deposits	Foreign currency deposits	Certificates of deposits	Total
Within 1 month	₩ 8,966,767	₩ 646,602	₩ 1,054,484	₩ 10,667,853
More than 1 ~ 3 months	5,173,361	199,494	286,061	5,658,916
More than 3 ~ 6 months	6,833,155	110,573	2,025,597	8,969,325
More than 6 months ~ 1 year	16,981,011	138,742	572,576	17,692,329
More than 1 ~ 3 years	2,088,247	21,015	211,288	2,320,550
More than 3 ~ 5 years	540,462	1,785	1,128	543,375
More than 5 years	8,724,322	100,018	-	8,824,340
	₩ 49,307,325	₩ 1,218,229	₩ 4,151,134	₩ 54,676,688

### 10. Borrowings:

Borrowings as of December 31, 2002 and 2001 comprise the following:

	Annual interest rate (%)	In Millions of Korean Won	
		2002	2001
<b>Won currency borrowings:</b>			
Bank of Korea	2.50	₩ 755,898	₩ 1,202,991
Korean Government	3.89 ~ 6.00	281,635	92,929
Others	2.00 ~ 16.00	693,671	599,264
		1,731,204	1,895,184
<b>Foreign currency borrowings:</b>			
Bank overdraft	-	159,544	40,745
Foreign banks and others	6M Libor+1.13~1.20	3,574,439	1,323,327
Offshore	1.51~2.34	502,711	-
		4,236,694	1,364,072
		₩ 5,967,898	₩ 3,259,256

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The subordinated borrowings included in Won currency borrowings as of December 31, 2002 and 2001 comprise the following:

Lender	Annual interest rate (%)	In Millions of Korean Won		Condition of borrowings
		2002	2001	
Kyobo Life Insurance	10.65	₩ 50,000	₩ 100,000	Lump sum redemption
Samsung Life Insurance Co.	9.00~13.00	70,000	70,000	"
LG Fire & Marine Insurance	16.00	48,000	48,000	"
		₩ 168,000	₩ 218,000	

The maturities of borrowings as of December 31, 2002 are as follows (millions of Won):

Period	Won currency borrowings	Foreign currency Borrowings (*)	Total
Within 1 month	₩ 786,846	₩ 860,988	₩ 1,647,834
More than 1 ~ 3 months	64,042	1,400,267	1,464,309
More than 3 ~ 6 months	20,688	1,130,371	1,151,059
More than 6 months ~ 1 year	113,429	555,691	669,120
More than 1 ~ 3 years	247,510	324,737	572,247
More than 3 ~ 5 years	277,924	4,697	282,621
More than 5 years	220,765	-	220,765
	₩ 1,731,204	₩ 4,276,751	₩ 6,007,955

(\*) Including due to Bank of Korea in foreign currencies amounting to ₩40,057 million.

### 11. Debentures:

Debentures as of December 31, 2002 and 2001 comprise the following:

	Annual interest rate (%)	In Millions of Korean Won	
		2002	2001
<b>Won currency debentures:</b>			
Subordinated bonds	6.27 ~ 16.00	₩ 2,418,403	₩ 1,349,923
Subordinated convertible bonds	8.00	49,998	49,998
Other bonds	5.44 ~ 10.10	1,180,842	235,000
		3,649,243	1,634,921
(Present value discounts)		(6,979)	-
(Adjustments for conversion rights)		(168)	(1,936)
		3,642,096	1,632,985
<b>Foreign currency debentures:</b>			
Foreign currency bonds	L+2.00 ~ 8.75	480,160	310,307
(Present value discounts)		(3,236)	(761)
		476,924	309,546
		₩ 4,119,020	₩ 1,942,531



## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

Among the foreign currency bonds, the bank issued subordinated bonds amounting to ₩240,080 million (US\$ 200,000 thousand) to Hana Funding Ltd., of which issued and outstanding shares of common stock are 100% owned by the bank. Hana Funding Ltd. acquired the bonds with the proceeds from the offering of non-cumulative preferred stock ("TOPS") and more detailed information related to the subordinated bonds are as follows:

	Summary terms
Call option	Redeemable in whole but not in part at the option of the issuer On 17 <sup>th</sup> December 2012 or any payment date thereafter
Interest rate	8.748% per annum to the Reset Date Floating rate after the Reset Date
Interest payment dates	Annually to the Reset Date Quarterly after the Reset Date
Maturity	Due 2101
Non-cumulative preferred stock (Tier One Preferred Securities)	Listed on the Singapore Exchange

Details of the terms of outstanding subordinated convertible bonds as of December 31, 2002 and 2001 are summarized as follows:

	Date of Issuance	Due date	Annual interest rate (%)	In Millions of Korean Won	
				2002	2001
<b>Won currency debentures</b>					
Boram 1 <sup>st</sup>	1997.11.25	2003. 1.31	8.00	₩ 30,000	₩ 30,000
Boram 2 <sup>nd</sup>	"	"	"	19,998	19,998
	(Adjustments for conversion rights)			(168)	(1,936)
				₩ 49,830	₩ 48,062

	Boram 1st & 2nd
Conversion price	₩ 18,861
Conversion period	1998.11.26~2002.12.31
Disbursement at due date	126.7125% of par value
Interest term	Annual

The maturities of debentures as of December 31, 2002 are as follows (millions of Won):

Period	Won currency debentures	Foreign currency debentures	Total
Within 1 month	₩ 415,000	₩ -	₩ 415,000
More than 1 ~ 3 months	168,033	-	168,033
More than 3 ~ 6 months	287,398	-	287,398
More than 6 months ~ 1 year	75,746	-	75,746
More than 1 ~ 3 years	897,400	-	897,400
More than 3 ~ 5 years	665,136	180,060	845,196
More than 5 years	1,140,530	300,100	1,440,630
	₩ 3,649,243	₩ 480,160	₩ 4,129,403

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 12. Confirmed Acceptances and Guarantees:

Confirmed acceptances and guarantees as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Acceptances and guarantees in Won currency	₩	678,627	₩	463,065
Acceptances and guarantees in foreign currencies:				
Acceptances for letters of credit		208,702		1,109,156
Letters of guarantee for importers		61,459		52,796
Guarantees on credit derivatives		59,139		-
Others (*)		819,815		438,236
		1,149,115		1,600,188
	₩	1,827,742	₩	2,063,253

(\*) Acceptances and guarantees for the return of advances related to export, overseas bidding, and contractual obligations.

Information about confirmed acceptances and guarantees by industry as of December 31, 2002 is summarized as follows:

Industry	2002	
	Millions of Won	Ratio (%)
Manufacturing	₩ 735,469	40.24
Construction	140,228	7.67
Wholesale and retail	218,689	11.97
Transport and storage	40,382	2.21
Real estate and renting	348,971	19.09
Financial business	3,986	0.22
Others	340,017	18.60
	₩ 1,827,742	100.00

Information about confirmed acceptances and guarantees in foreign currencies by country as of December 31, 2002 is summarized as follows:

Country	2002	
	Millions of Won	Ratio (%)
Korea	₩ 1,813,250	99.21
China	2,547	0.14
Hong Kong	6,775	0.37
Japan	5,170	0.28
	₩ 1,827,742	100.00

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The details of the classification of acceptances and guarantees and reserves for possible losses on acceptances and guarantees as of December 31, 2002 are summarized as follows (millions of Won):

Classifications	Acceptances and guarantees in Won currency		Acceptances and guarantees in foreign currencies		Total		Reserve ratio (%)
	Outstanding amount	Amount of reserves	Outstanding amount	Amount of reserves	Outstanding amount	Amount of reserves	
Normal	₩660,998	₩ 17	₩ 1,088,894	₩ 99	₩ 1,749,892	₩ 116	0.01
Precautionary	1,977	99	1,353	393	3,330	492	14.77
Substandard	13,498	5,323	11,100	4,841	24,598	10,164	41.32
Doubtful	401	340	430	344	831	684	82.31
Estimated loss	1,753	1,753	47,338	47,338	49,091	49,091	100.00
	₩678,627	₩ 7,532	₩ 1,149,115	₩ 53,015	₩ 1,827,742	₩ 60,547	

Pursuant to a Government program to support financial institutions in Korea, the bank has sold a substantial amount of non-performing loans and other assets at a discounted price to KAMCO (Korea Asset Management Corporation) on a recourse basis since 1997. As of December 31, 2002, the bank remained contingently liable to KAMCO for the sale price of ₩25,908,000 million of the NPLs that were sold on a recourse basis. Pursuant to the terms of the sale contracts, if such NPLs are restructured but there are certain defaults in payments, KAMCO may exercise its right to request the bank to repurchase certain of these assets at the original sale price paid to KAMCO plus accrued interest. The bank recorded ₩6,655 million as the reserve for possible losses on acceptance and guarantees.

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

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

	As of December 31, 2002		As of December 31, 2001	
	In Millions of Korean Won	In Thousands of U.S.Dollars	In Millions of Korean Won	In Thousands of U.S.Dollars
<b>Assets:</b>				
Cash and due from banks	₩ 164,851	\$ 137,333	₩ 365,587	\$ 275,691
Trading securities	28,140	23,442	1,074	810
Investment securities	708,105	589,891	914,465	689,593
Loans	3,459,166	2,881,677	997,374	752,121
Others	2,474,344	2,061,268	1,055,979	796,318
Allowance for possible loan losses	(65,946)	(54,937)	(39,165)	(29,534)
	₩ 6,768,660	\$ 5,638,674	₩ 3,295,314	\$ 2,484,999
<b>Liabilities:</b>				
Deposits	₩ 1,218,229	\$ 1,014,852	₩ 1,105,843	\$ 833,908
Borrowings	4,236,694	3,529,403	1,364,072	1,028,645
Due to Bank of Korea	40,057	33,370	26,600	20,059
Debentures	480,160	400,000	310,307	234,000
Others	700,655	583,686	235,857	177,856
	₩ 6,675,795	\$ 5,561,311	₩ 3,042,679	\$ 2,294,468

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 14. Commitments and Contingencies:

Information on the amount of position and unrealized gains and losses of derivatives as of December 31, 2002 and 2001 is as follows (millions of Won):

#### 1) As of December 31, 2002

	Amount of position			Unrealized gains and losses (Recognized)				(Capitalized)
	Total	Trading	Hedging	Total	Trading	Hedging	Hedging failure	
Currency								
Forward	₩ 3,477,228	₩3,477,228	₩ -	₩ 3,443	₩ 3,443	₩ -	₩ -	₩ 3,176
Swap	340,053	340,053	-	99	99	-	-	342
	3,817,281	3,817,281	-	3,542	3,542	-	-	3,518
Interest rate								
Futures	21,422	-	21,422	-	-	-	-	-
Swap	675,571	222,224	453,347	4,076	2,488	1,740	(152)	(19,973)
	696,993	222,224	474,769	4,076	2,488	1,740	(152)	(19,973)
Others	67,070	67,070	-	(26)	(26)	-	-	753
	₩ 4,581,344	₩4,106,575	₩ 474,769	₩ 7,592	₩ 6,004	₩ 1,740	₩ (152)	₩ (15,702)

#### 2) As of December 31, 2001

	Amount of position			Unrealized gains and losses (Recognized)				(Capitalized)
	Total	Trading	Hedging	Total	Trading	Hedging	Hedging failure	
Currency								
Forward	₩ 1,615,046	₩ 318,940	₩1,296,106	₩ (3,466)	₩ 3,055	₩ (2,867)	₩ (3,654)	₩ (3,466)
Swap	6,107	-	6,107	780	-	780	-	1,115
	1,621,153	318,940	1,302,213	(2,686)	3,055	(2,087)	(3,654)	(2,351)
Interest rate swap	339,631	40,000	299,631	(9,804)	1,195	(10,999)	-	(19,527)
Others	6,631	6,631	-	(314)	(314)	-	-	140
	₩ 1,967,415	₩ 365,571	₩ 1,601,844	₩(12,804)	₩ 3,936	₩(13,086)	₩ (3,654)	₩(21,738)

The bank has entered into OTC forward exchange contracts and currency futures and interest rate futures in Korea Futures Exchange (KOFEX). For the year ended December 31, 2002, in relation to these transactions, the bank recorded realized gains on derivatives amounting to ₩135,813 million and realized losses on derivatives amounting to ₩143,291 million, and unrealized gains on derivatives amounting to ₩38,966 million and unrealized losses on derivatives amounting to ₩35,550 million, as other operating income (loss). For the year ended December 31, 2001, the bank recorded realized gains on derivatives amounting to ₩97,492 million and realized losses on derivatives amounting to ₩85,994 million, and unrealized gains on derivatives amounting to ₩18,654 million and unrealized losses on derivatives amounting to ₩22,434 million.

The bank has entered into swap contracts to hedge against the risk of changes in the market interest rate and foreign exchange rate. For the year ended December 31, 2002, in relation to these transactions, the bank recorded realized gains on derivatives amounting to ₩10,316 million and realized losses on derivatives amounting to ₩11,046 million, and unrealized gains on derivatives amounting to ₩15,998 million and unrealized losses on derivatives amounting to ₩11,822 million, as other operating income(loss). For the year ended December 31, 2001, the bank recorded realized gains on derivatives amounting to ₩25,716 million and realized losses on derivatives amounting to ₩18,763 million, and unrealized gains on derivatives amounting to ₩13,984 million and unrealized losses on derivatives amounting to ₩23,007 million.

For the investment securities related to these hedging transactions, the bank also recorded unrealized gains and losses on fair value hedging activities amounting to ₩6,713 million and ₩8,585 million, respectively, as other operating income(loss), for the year ended

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

December 31, 2002. For the year ended December 31, 2001, unrealized gains and losses on fair value hedging activities amounting to ₩23,551 million and ₩8,018 million, respectively.

In the normal course of business, the bank enters into outstanding commitments, which under the banking accounting standards in the Republic of Korea, are not reflected in the accompanying financial statements. In the opinion of management, these do not represent unusual risks of losses for the bank. Certain commitments represent various degrees and types of risk to the bank, including credit, interest rate, foreign exchange rate, and liquidity risk. In many cases, the commitments involving interest and foreign exchange result from decisions to hedge overall interest rate and foreign exchange risk.

As of December 31, 2002 and 2001, the amounts of commitments in the ordinary course of business are as follows:

	In Millions of Korean Won			
	2002		2001	
Loan commitments	₩	19,822	₩	18,129
Security repurchase commitments		4,418		34,479
	₩	24,240	₩	52,608

As of December 31, 2002, 173 lawsuits related to the bank's operations, in which the bank is named as a plaintiff, are in progress, and the total filed amount is ₩117,264 million. Also 81 lawsuits, in which the bank is named as a defendant, are in progress, and the total filed amount is ₩116,899 million.

Material lawsuits in progress, filed with the bank as a defendant, are as follows (millions of Won):

Plaintiff	Amount	Situation of lawsuit		
		Trial on a court	Trial on a higher court	Trial on the Supreme Court
Insolvents of Shinhan Merchant Bank	4,447	In-progress	-	-
Taehung Construction	2,200	In-progress	-	-
Hwang Jonghak	1,392	Lost	In-progress	-
LG Insurance	2,922	Lost	In-progress	-
Hanwha Securities	14,653	Won	In-progress	-
Hanwha Merchant Bank	1,000	Partially won	In-progress	-
Samyang Merchant Bank	3,987	Won	In-progress	-
Seoul Olympic Sports Promotion Foundation	1,430	In-progress	-	-
Information & Communication Financial Cooperative	2,635	Partially won	In-progress	-

The bank's management believes that the outcome of these matters is uncertain but, in any event, they will not result in a material adverse impact on the bank's financial position or operations.

The bank has entered into credit line commitments (₩1,229,750 million limit) with several special purpose (asset-back securitization) companies to supply sufficient funds for the repayment of bonds issued by the companies. There is no utilization of credit line as of December 31, 2002. Rationally expected annual credit amounts to be utilized are ₩3,130 million and ₩2,188 million in 2003 and 2004, respectively.

Among the written-off claims of the bank, the amounts on which the legal rights of claims have not been expired are ₩2,063,947 million and ₩838,366 million as of December 31, 2002 and 2001, respectively.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The bank may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above.

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

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 15. Capital Stock:

On December 1, 2002, the bank issued 61,080,000 shares of common stock in relation to the merger between Hana Bank and Seoul Bank and the paid-in-capital in common stock increased by ₩305,400 million.

The bank also increased the paid-in-capital in common stock by the amount of ₩26,222 million from the stock dividends during the current year.

### 16. Capital Surplus:

Capital surplus as of December 31, 2002 and 2001 comprises the following:

	In Millions of Korean Won			
	2002		2001	
Paid-in capital in excess of par value	₩	1,136,893	₩	303,302
Negative goodwill from merger		105,407		105,407
Others		1,947		247
	₩	1,244,247	₩	408,956

### 17. Retained Earnings:

Retained earnings as of December 31, 2002 and 2001 comprise the following:

	Reference	In Millions of Korean Won			
		2002		2001	
Appropriated:					
Legal reserve	(A)	₩	134,300	₩	101,900
Reserve for business rationalization	(B)		10,600		10,600
Reserve for future dividends	(C)		50,800		50,800
Reserve for financial structure improvement	(D)		32,400		-
General purpose contingency reserve	(E)		637,454		464,700
			865,554		628,000
Unappropriated			155		121
		₩	865,709	₩	628,121

(A) The General Banking Act requires the bank to appropriate a minimum of 10% of annual net income before income taxes as a legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(B) The reserve for business rationalization is appropriated in accordance with Korean tax laws and provides the bank with a deduction from taxable income. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(C) The reserve for future dividends represents amounts appropriated by the bank for the purpose of equalizing dividend rates through the years of business and can be used for any other purpose through a subsequent shareholders' resolution.

(D) The bank appropriates a minimum of 10% of net income after deducting any accumulated deficit as a reserve for financial structure improvement until the simple equity ratio comes up to 5.5%. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(E) The general purpose contingency reserve does not have any specified purpose and may be restored to unappropriated retained earnings through a future shareholders' resolution.

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The details of cash dividends and stock dividends as of December 31, 2002 and 2001 comprise the following (Won):

### 1) As of December 31, 2002

	Number of shares of stock	Dividend ratio (%)	Dividend per share	Total dividend
<b>Cash dividend</b>				
Common stock	172,133,520	10.00	500	₩ 86,066,760,000

### 2) As of December 31, 2001

	Number of shares of stock	Dividend ratio (%)	Dividend per share	Total dividend
<b>Cash dividend</b>				
Common stock	131,107,888	4.00	200	₩ 26,221,577,600
Preferred stock	17,196,000	1.00	50	859,800,000
Preferred stock	22,406,000	2.00	100	2,240,600,000
				29,321,977,600
<b>Stock dividend</b>				
Common stock	131,107,888	4.00	200	26,221,577,600
				₩ 55,543,555,200

## 18. Treasury Stock:

The details of treasury stock as of December 31, 2002 are summarized as follows (millions of Won):

	Number of shares of stocks	Millions of Won
Stock options	923,460	₩ 17,501
Acquisition from Korea Deposit Insurance Corp. in relation to the merger	2,941,510	54,124
Exercise of stock purchase in relation to the merger	21,433,713	369,774
	25,298,683	₩ 441,399

## 19. Stock Option:

The details of stock options as of December 31, 2002 are summarized as follows:

	1st	2nd	3rd	4rd
Grant date	February 19, 1999	March, 20, 2000	March, 10, 2001	November, 14, 2002
Number of stocks granted	1,040,000	628,000	276,000	922,000
Number of non-exercisable stocks	273,780	146,250	16,000	-
Number of exercised stocks	599,490	-	-	-
Number of exercisable stocks	166,730	481,750	260,000	922,000
Grant method		Stock distribution type or incremental payment type		
Exercise price	₩ 10,020	₩ 8,500	₩ 7,300	₩ 19,750
Exercisable period	In three years after three years from grant date	In three years after three years from grant date	In three years after three years from grant date	In three years after three years from grant date

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The bank calculated the compensation costs of the first stock option using the intrinsic value approach and the second and third options using the fair value approach. The calculation variables of stock options valued using the fair value approach are summarized as follows:

	2nd	3rd	4rd
Market price on grant date	₩ 7,960	₩ 7,490	₩ 16,100
Risk-free interest rate (A)	9.75%	6.44%	5.26%
Expected exercise period (B)	4.5 years	4.5 years	3.8 years
Expected share price volatility (C)	76.72%	70.13%	62.11%
Expected dividend rate (D)	8.00%	6.67%	6.67%
Adjusted expected expiration rate	10.06%	3.90%	7.30%
Compensation cost per share	₩ 3,961	₩ 3,551	₩ 6,584
Total compensation cost	₩ 1,810 million	₩ 870 million	₩ 4,836million
Recognized compensation cost	₩ 1,659 million	₩ 508 million	₩ 173 million

- (A) Government bond yield rate at the grant dates.  
 (B) Average of the mandatory service period and option expiration period.  
 (C) Share price volatility based on share prices of the past year.  
 (D) Average dividend rate for the period equal to the expected exercise period.

The compensation costs to be recognized in the future are as follows (millions of Won):

	2nd	3rd	4th	Total
Within one year	₩ 151	₩ 290	₩ 2,073	₩ 2,514
Within two years	-	72	2,073	2,145
Within three years	-	-	517	517
	₩ 151	₩ 362	₩ 4,663	₩ 5,176

## 20. Term Structures of Assets and Liabilities:

The term structures of assets and liabilities of the bank as of December 31, 2002 are as follows (millions of Won):

	Within 3 months	More than 3 ~ 6 months	More than 6 months ~ 1 year	More than 1 ~ 3 years	More than 3 ~ 5 years	More than 5 years	Total
1. In Won currency							
(Assets)							
Due from banks	₩ 1,382,750	₩ 12,877	₩ -	₩ -	₩ -	₩ 512,951	₩ 908,578
Securities	4,749,170	335,794	2,756,552	3,889,315	1,598,951	1,205,660	14,535,442
Loans (*)	6,443,581	9,100,952	9,795,567	13,287,006	2,092,149	1,447,052	42,166,307
Allowance for possible loan losses	-	-	-	-	-	(773,343)	(773,343)
Others	2,730,504	285,082	345,865	1,016,366	32,278	5,404,277	9,814,372
	₩ 15,306,005	₩ 9,734,705	₩ 12,897,984	₩ 18,192,687	₩ 3,723,378	₩ 7,796,597	₩ 67,651,356
(Liabilities and Shareholders' equity)							
Deposits	₩ 14,140,128	₩ 6,833,155	₩ 16,981,011	₩ 2,088,247	₩ 540,462	₩ 8,724,322	₩ 49,307,325
Certificate of deposits	1,340,545	2,025,597	572,576	211,288	1,128	-	4,151,134
Borrowings	850,888	20,688	113,429	247,510	277,924	220,765	1,731,204
Shareholders' equity	-	-	-	-	-	2,730,503	2,730,503
Others	3,013,459	829,109	237,917	870,958	649,986	4,222,626	9,824,055
	₩ 19,345,020	₩ 9,708,549	₩ 17,904,933	₩ 3,418,003	₩ 1,469,500	₩ 15,898,216	₩ 67,744,221

(\*) Including bills purchased, factoring receivables and convertible loans in Won currency.



## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

	Within 3 months	More than 3 ~ 6 months	More than 6 months ~ 1 year	More than 1 ~ 3 years	More than 3 ~ 5 years	More than 5 years	Total
2. In foreign currencies							
(Assets)							
Due from banks	₩ 81,506	₩ 4,502	₩ -	₩ -	₩ 365	₩ -	₩ 86,373
Securities	48,768	56,547	57,335	283,779	178,631	111,185	736,245
Loans	1,294,518	642,257	748,377	362,249	114,939	296,826	3,459,166
Bills purchased	1,318,078	331,198	24,465	1,167	-	12,912	1,687,820
Allowance for possible loan losses	-	-	-	-	-	(65,946)	(65,946)
Others	826,480	5,065	-	18,725	-	14,732	865,002
	₩ 3,569,350	₩ 1,039,569	₩ 830,177	₩ 665,920	₩ 293,935	₩ 369,709	₩ 6,768,660
(Liabilities and Shareholders' equity)							
Deposits	₩ 846,096	₩ 110,573	₩ 138,742	₩ 21,015	₩ 1,785	₩ 100,018	₩ 1,218,229
Borrowings (*)	2,261,255	1,130,371	555,691	324,737	4,697	-	4,276,751
Others	585,174	78,026	-	-	-	517,615	1,180,815
	₩ 3,692,525	₩ 1,318,970	₩ 694,433	₩ 345,752	₩ 6,482	₩ 617,633	₩ 6,675,795

(\*) Including due to Bank of Korea in foreign currencies.

### 21. General and Administrative Expenses:

General and administrative expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
Salaries and wages	₩ 211,537	₩ 149,151
Severance benefits	19,701	14,451
Other employee benefits	39,055	25,421
Rent	25,629	20,736
Entertainment	11,458	9,801
Depreciation and amortization	53,822	42,828
Taxes and dues	43,118	37,940
Advertising	28,581	20,398
Consulting fees	38,117	32,749
Others	55,870	43,012
	₩ 526,888	₩ 396,487

### 22. Non-Operating Income and Non-Operating Expenses:

Non-operating income for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
Gain on disposition of investment securities	₩ 126,126	₩ 61,443
Reversal of impairment loss on investment securities	15,105	6,996
Rental revenues	3,886	3,141
Gain on equity method	4,352	22,407
Gain on sale of loans	7,983	8,360
Others	21,390	29,904
	₩ 178,842	₩ 132,251

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

Non-operating expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Loss on disposition of investment securities	₩	78,521	₩	20,861
Loss on impairment of investment securities		130,271		7,044
Loss on sale of loans		-		5,129
Early retirement benefits		4,079		7,106
Others		20,481		5,796
	₩	233,352	₩	45,936

### 23. Income Tax Expense:

Income tax expense for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won			
	2002		2001	
Current income taxes	₩	136,589	₩	42,734
Deferred income taxes		(4,059)		92,917
Realization of tax effect from tax loss carry-forward		-		15,760
	₩	132,530	₩	151,411

The statutory income tax rate applicable to the bank, including resident tax surcharges, is approximately 29.7%. However, the effective tax rate for the year ended december 31, 2002 is approximately 29.1, due to the above adjustments.

Changes in accumulated temporary differences for the year ended December 31, 2002 are as follows (millions of Won):

Accounts	Beginning balance	Transferred in from merger	Increase	Decrease	Ending balance
Fictitious dividend	₩ 7,907	₩ 2,932	₩ 47,485	₩ -	₩ 58,324
Gain(or loss) on valuation of securities	153,035	(11,769)	130,043	150,326	120,983
Gain on valuation of securities of affiliates	-	(91,104)	(91,121)	(91,104)	(91,121)
Loss on impairment of investment securities	-	75,736	101,281	12,662	164,355
Accrued income of securities	(65,336)	(130,253)	(174,126)	(195,589)	(174,126)
Reserve for possible losses on acceptances and guarantees	83,085	16,645	-	32,527	67,203
Write-off of convertible loans	-	76,983	28,373	-	105,356
Goodwill valuation	-	-	(66,215)	-	(66,215)
Allowance for possible loan losses	155,055	-	-	-	155,055
Others	87,356	106,889	19,663	81,759	132,149
	₩ 421,102	₩ 46,059	₩ (4,617)	₩ (9,419)	₩ 471,963

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

As of December 31, 2002, deferred income tax assets (liabilities) from temporary differences comprise the following (millions of Won):

	Total amounts	Deferred income tax assets (liabilities)
Accumulated temporary differences as of the beginning of the year	₩ 421,102	₩ 125,067
Transferred in from merger	46,059	13,680
Changes in temporary differences	4,802	1,426
<b>Sub total</b>	<b>471,963</b>	<b>140,173</b>
Adjusted amount of temporary differences due to Merger and Acquisition	9,646	2,865
<b>Total</b>	<b>₩ 481,609</b>	<b>₩ 143,038</b>

### 24. Earnings Per Share and Ordinary Income Per Share:

Earnings per share and ordinary income per share for the years ended December 31, 2002 and 2001 are calculated as follows:

	Korean Won	
	2002	2001
<b>Ordinary income per share</b>		
Ordinary income after income tax expense	₩ 323,606,715,245	₩ 325,268,980,655
Dividends on preferred stock	-	(3,100,400,000)
	323,606,715,245	322,168,580,655
Weighted average of common shares (*)	140,459,422	136,352,203
Ordinary income per share	₩ 2,304	₩ 2,363
<b>Earnings per share</b>		
Net income	₩ 323,609,745,749	₩ 325,268,980,655
Dividends on preferred stock	-	(3,100,400,000)
	323,609,745,749	322,168,580,655
Weighted average of common shares (*)	140,459,422	136,352,203
Earnings per share	₩ 2,304	₩ 2,363

(\*) Weighted average number of common shares.

Diluted earnings per share and diluted ordinary income per share for the years ended December 31, 2002 and 2001 are calculated as follows:

	Korean Won	
	2002	2001
<b>Diluted ordinary income per share</b>		
Ordinary income after income tax expense	₩ 323,606,715,245	₩ 325,268,980,655
Compensation cost for stock option after income tax expense	417,709,442	686,201,324
Interest expense on convertible bonds after income tax expense	-	3,867,613,866
	324,024,424,687	329,822,795,845
Weighted average number of common shares	140,858,926	179,236,995
	₩ 2,300	₩ 1,840
<b>Diluted earnings per share</b>		
Net income	₩ 323,609,745,749	₩ 325,268,980,655
Compensation cost for stock option after income tax expense	417,709,442	686,201,324
Interest expense on convertible bonds after income tax expense	-	3,867,613,866
	324,027,455,191	329,822,795,845
Weighted average number of common shares	140,858,926	179,236,995
	₩ 2,300	₩ 1,840

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 25. Related Party Transactions:

Significant operating transactions with related parties during the years ended December 31, 2002 and 2001 and related account balances as of December 31, 2002 and 2001 are as follows (millions of Won):

#### 1) As of December 31, 2002

	Transactions			Account balances	
	Interest income	Interest expenses	Service contract expenses	Loans	Deposits
Hana Securities	₩ 5,066	₩ 3,896	₩ -	₩ 13,532	₩ 3,464
Hana Research	-	11	1,036	-	596
Hana Allianz	13,436	2,089	-	200,727	12,672
Hana Funding Ltd.	-	871	-	-	237,889
Seoun System	-	-	1,772	-	1,799
BC Card	-	4,538	-	-	-
	₩ 18,502	₩ 11,405	₩ 2,808	₩ 214,259	₩ 256,420

#### 2) As of December 31, 2001

	Transactions			Account balances	
	Interest income	Interest expenses	Service contract expenses	Loans	Deposits
Hana Securities	₩ 680	₩ 1,161	₩ -	₩ 3,743	₩ 31,152
Hana Research	-	17	889	-	163
Hana Allianz	14,098	1,418	-	684,000	18,748
	₩ 14,778	₩ 2,596	₩ 889	₩ 687,743	₩ 50,063

### 26. Information on Operating Segments:

The bank's service line is composed of its Corporate Banking Group, Retail Banking Group, Choong-Chung Banking Group, Young-Nam Banking Group, Treasury Group, and other administrative and trust segments. Financial information for each operating segment is as follows (millions of Won):

#### 1) For the year ended December 31, 2002

	Corporate Banking Group	Retail Banking Group	Choong-Chung Banking Group	Young-Nam Banking Group	Treasury Group & others	Total
Operating revenue	₩ 1,013,709	₩ 1,050,885	₩ 331,923	₩ 18,535	₩ 1,310,229	₩ 3,725,281
Loans	10,720,282	12,430,885	4,006,265	3,036,950	20,932,110	51,126,492
Securities	-	-	185,503	-	15,086,184	15,271,687
Deposits/borrowings (*)	7,598,450	18,433,396	5,919,877	2,304,173	28,407,058	62,662,954

#### 2) For the year ended December 31, 2001

	Corporate Banking Group	Retail Banking Group	Choong-Chung Banking Group	Treasury Group & others	Total
Operating revenue	₩ 895,450	₩ 733,816	₩ 267,646	₩ 1,695,381	₩ 3,592,293
Loans	11,162,251	10,636,223	3,097,490	4,024,184	28,920,148
Securities	-	-	264,852	11,530,010	11,794,862
Deposits/borrowings (*)	8,736,176	20,128,455	4,790,565	4,657,904	38,313,100

(\*) Including call money, bonds sold on repurchase agreements, bills sold, and due to the bank of Korea in foreign currencies.

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 27. Results of the Trust business:

The major results of operations related to the trust business for the years ended December 31, 2002 and 2001 are as follows:

	In Millions of Korean Won			
	2002		2001	
Trust fees	₩	89,310	₩	111,358
Early termination fees		550		819
Interest on trust loans		515		2,214
Operating revenue of trust operations	₩	90,375	₩	114,391
Interest on borrowings from trust accounts		14,830		15,083
Operating loss of trust operations		-		-
	₩	14,830	₩	15,083

### 28. Cash Flows Information:

Significant non-cash flow transactions for the year ended December 31, 2002 are as follows;

	In Millions of Korean Won	
Increase in assets, liabilities and equities arising from the merger	₩	1,014,015
Gain on investment securities		69,470
Loans written-off		183,091
Increase in provision for possible loan losses		87,961
Increase in dividends payable		86,067
Stock dividends		26,222
Others		337,442
	₩	1,804,268

### 29. Merger and Acquisition between Hana Bank and Seoul Bank:

#### Details of M&A contracts

Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for such combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank ("The bank") upon completion of the transaction. Although the business combination took the legal form of a consolidation, Hana Bank acquired Seoul Bank's total assets amounting to ₩24,393,257 million and total liabilities amounting to ₩23,560,934 million by applying the purchase method of accounting. Also, in accordance with the Contract, the shareholders of Seoul Bank received one new common share of The Bank for every two shares of Seoul Bank. The new common shares of the bank was listed on the Korea Stock Exchange on December 13, 2002.

#### The former Hana Bank

The former Hana Bank was incorporated in 1971 as Korea Investment and Finance Corporation under the Commercial Code of the Republic of Korea to provide financing services as a financial intermediary. On September 20, 1972, the former Hana Bank was granted approval by the Ministry of Finance (presently the Ministry of Finance and Economy) to operate under the short-term Financing Business Law.

On June 29, 1991, the former Hana Bank was granted approval by the Ministry of Finance to engage in banking activities and the bank's name was changed to Hana Bank. It became a nationwide commercial bank in July 1991.

On June 29, 1998, the former Hana Bank purchased certain assets and assumed most of the liabilities of Choong-Chung Bank by the order of the Financial Supervisory Commission. As of January 1, 1999, the former Hana Bank completed a merger with Boram Bank.

#### The former Seoul Bank

The former Seoul Bank was incorporated in November 1959 under the General Banking Act, and merged with Korea Trust Bank in August 1976.

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

The condensed financial statements of the former Hana Bank and the former Seoul Bank as of December 31, 2001 and November 30, 2002 and for the year and eleven month period then ended are as follows (in millions of Won):

### 1) Balance Sheet as of December 31, 2001

Account	The former Hana Bank	The former Seoul Bank	Total
Cash and due from banks	₩ 2,482,063	₩ 1,976,602	₩ 4,458,665
Trading securities	454,137	70,233	524,370
Investment securities	11,340,725	6,105,590	17,446,315
Loans	28,920,148	12,171,297	41,091,445
Property, plant and equipment	418,541	651,016	1,069,557
Others	1,686,190	756,604	2,442,794
<b>Total assets</b>	<b>₩ 45,301,804</b>	<b>₩ 21,731,342</b>	<b>₩ 67,033,146</b>
Deposits	₩ 33,450,073	₩ 15,495,942	₩ 48,946,015
Borrowings	4,863,027	2,558,054	7,421,081
Debentures	1,942,531	588,915	2,531,446
Others	3,117,515	2,402,877	5,520,392
<b>Total liabilities</b>	<b>43,373,146</b>	<b>21,045,788</b>	<b>64,418,934</b>
Capital stock	853,549	610,800	1,464,349
Capital surplus	408,956	15,293	424,249
Retained earnings	628,121	104,430	732,551
Capital adjustments	38,032	(44,969)	(6,937)
<b>Total shareholders' equity</b>	<b>1,928,658</b>	<b>685,554</b>	<b>2,614,212</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 45,301,804</b>	<b>₩ 21,731,342</b>	<b>₩ 67,033,146</b>

### 2) Balance Sheet as of November 30, 2002

Account	The former Hana Bank	The former Seoul Bank	Total
Cash and due from banks	₩ 2,549,662	₩ 1,014,015	₩ 3,563,677
Trading securities	699,982	350,624	1,050,606
Investment securities	9,693,123	4,779,525	14,472,648
Loans	34,459,645	16,543,258	51,002,903
Property, plant and equipment	454,716	619,296	1,074,012
Others	2,209,115	1,086,539	3,295,654
<b>Total assets</b>	<b>₩ 50,066,243</b>	<b>₩ 24,393,257</b>	<b>₩ 74,459,500</b>
Deposits	₩ 36,173,360	₩ 19,263,119	₩ 55,436,479
Borrowings	5,620,902	2,341,924	7,962,826
Debentures	3,309,943	571,155	3,881,098
Others	2,945,943	1,384,736	4,330,679
<b>Total liabilities</b>	<b>48,050,148</b>	<b>23,560,934</b>	<b>71,611,082</b>
Capital stock	681,761	305,400	987,161
Capital surplus	409,040	320,694	729,734
Retained earnings	908,501	174,813	1,083,314
Capital adjustments	16,793	31,416	48,209
<b>Total shareholders' equity</b>	<b>2,016,095</b>	<b>832,323</b>	<b>2,848,418</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 50,066,243</b>	<b>₩ 24,393,257</b>	<b>₩ 74,459,500</b>

## NOTES TO FINANCIAL STATEMENTS (Banking Account)

December 31, 2002 and 2001

### 3) Income Statement for the year ended December 31, 2001

Account	The former Hana Bank	The former Seoul Bank	Total
Operating revenues	₩ 3,592,293	₩ 1,817,508	₩ 5,409,801
Operating expenses	3,201,928	1,811,380	5,013,308
Operating income	390,365	6,128	396,493
Non-operating income	132,251	147,944	280,195
Non-operating expenses	45,936	93,377	139,313
Ordinary income	476,680	60,695	537,375
Income tax (expense) benefit	(151,411)	40,718	(110,693)
Net income	₩ 325,269	₩ 101,413	₩ 426,682

### 4) Income Statement for the eleven month period ended November 30, 2002

Account	The former Hana Bank	The former Seoul Bank	Total
Operating revenues	₩ 3,254,568	₩ 1,628,744	₩ 4,883,312
Operating expenses	2,871,285	1,512,680	4,383,965
Operating income	383,283	116,064	499,347
Non-operating income	153,389	75,837	229,226
Non-operating expenses	120,372	121,374	241,746
Ordinary income	416,300	70,527	486,827
Income tax expense	(135,811)	(12)	(135,823)
Net income	₩ 280,489	₩ 70,515	₩ 351,004

### 30. Reclassification of Prior Year Amounts:

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

### 31. Loan Transaction with SK Global Ltd.:

The total amount of loans (including confirmed acceptances and guarantees and securities) provided to SK Global Ltd. and its foreign subsidiaries, totaled ₩483,985 million at December 31, 2002. An investigation is in progress about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the bank's actual loss from these loans may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

## REPORT OF INDEPENDENT ACCOUNTANTS (Trust Accounts)

*SAMIL ACCOUNTING CORPORATION*

*SAMIL ACCOUNTING CORPORATION*

Samil Accounting corporation

Kukje Center Building 21st Flr.

191 Hangangro 2ga Yongsanku Seoul 140-702, KOREA

(Yongsan P.O.Box 266, 140-600)

### To the Board of Directors of Hana Bank

We have audited the accompanying balance sheets of Hana Bank trust accounts (“the Trust Accounts”), which Hana Bank (“the bank”) operates, as of December 31, 2002 and 2001, and the related statements of operations of trust accounts for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Trust Accounts as of December 31, 2002 and 2001, and the results of their operations for the years then ended in conformity with trust accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 11 of the financial statements, the bank entered into a business combination contract (“the Contract”) with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for the business combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank upon completion of the transaction. The business combination was accounted for using the purchase method with the bank acquiring Seoul Bank’s total assets of ₩24,393,257 million and total

liabilities of ₩23,560,934 million as of the acquisition date. Also, in accordance with the Contract, the shareholders of Seoul Bank received one new common share of the bank for every two shares of Seoul Bank. The new common shares of the bank were listed on the Korea Stock Exchange on December 13, 2002.

As discussed in Note 14 of the financial statements, an investigation is in progress about allegations of window-dressing at SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the Trust Accounts’ actual loss from the loans to SK Global Ltd. may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the users of the financial statements and have been translated on the basis set forth in Note 3 to the financial statements.

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



Seoul, Korea

January 24, 2003



## BALANCE SHEETS (Trust Accounts)

As of December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>ASSETS</b>				
Cash and Due from Banks	₩ 1,214	₩ 256	\$ 1,011	\$ 214
Securities(Note 5):				
Stocks	1,533,343	1,160,400	1,277,360	966,678
Government and public bonds	890,758	1,136,600	742,051	946,851
Debentures issued by financial institutions	815,114	1,000,970	679,036	833,863
Corporate bonds	1,185,846	1,381,511	987,876	1,150,876
Bills purchased	1,965,069	1,245,725	1,637,011	1,037,758
Securities in foreign currency	381,643	-	317,930	-
Other securities	491,665	1,193,292	409,584	994,079
	7,263,438	7,118,498	6,050,848	5,930,105
Loans :				
Loans collateralized by real estate	171,444	143,033	142,823	119,154
Loans collateralized by other than real estate	88,641	79,763	73,842	66,447
Uncollateralized loans	714,857	606,765	595,516	505,469
	974,942	829,561	812,181	691,070
Trusted money receivables	4,157,285	900,548	3,463,250	750,207
Real & personal property	586,055	120,517	488,217	100,397
Accrued interest	110,101	104,476	91,720	87,035
Accrued income	121,094	120,213	100,878	100,144
Due from banking accounts(Note 10)	665,523	1,068,092	554,417	889,780
Others	8,321	12,968	6,933	10,802
(Allowance for possible loan losses)	(25,577)	(47,484)	(21,307)	(39,557)
<b>Total Assets</b>	<b>₩ 13,862,396</b>	<b>₩ 10,227,645</b>	<b>\$ 11,548,148</b>	<b>\$ 8,520,197</b>
<b>LIABILITIES</b>				
Money Trusts(Note 4) :				
Installment money trusts	₩ 294,890	₩ 290,810	\$ 245,660	\$ 242,261
Household money trusts	594,283	832,920	495,071	693,868
Development money trusts	721	1,882	601	1,568
Private Pension trusts	562,076	339,141	468,241	282,523
New installment money trusts	266,178	419,954	221,741	349,845
Retirement trusts	345,619	359,925	287,919	299,838
Specified money trusts	4,630,760	3,099,292	3,857,681	2,581,882
Unit money trusts	468,395	707,835	390,199	589,666
Additional money trusts	883,753	988,834	736,215	823,754
New old-age pension trusts	222,406	1,212,869	185,276	1,010,387
Others	370,346	319,437	308,520	266,110
	8,639,427	8,572,899	7,197,124	7,141,702
Property Trusts :				
Security trusts	71	200,069	59	166,669
Money receivable trusts	4,230,174	908,337	3,523,970	756,695
Real & personal property trusts	586,055	120,517	488,217	100,397
Public Trusts	150	-	125	-
	4,816,450	1,228,923	4,012,371	1,023,761
Borrowings from Banking Accounts(Note 10)	-	29,262	-	24,377
Unearned Income	13,775	13,862	11,475	11,548
Accrued Trust Fees Payable(Note 10)	131,269	32,649	109,354	27,198
Accrued Trust Dividends Payable	228,045	326,511	189,974	272,002
Present Value Discounts	504	2,343	420	1,952
Reserve for Future Trust Losses	20,327	11,769	16,933	9,805
Others	12,599	9,427	10,497	7,852
<b>Total Liabilities</b>	<b>₩ 13,862,396</b>	<b>₩ 10,227,645</b>	<b>\$ 11,548,148</b>	<b>\$ 8,520,197</b>

## STATEMENTS OF OPERATION (Trust Accounts)

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>Revenue</b>				
Interest income :				
Interest and dividends on securities	₩ 332,826	₩ 513,524	\$ 277,263	\$ 427,794
Interest on loans	79,470	95,721	66,203	79,741
Interest on call loans	10,854	13,633	9,042	11,357
Interest on trusted money receivables	-	129	-	108
Interest on bonds purchased under resale agreements	1,073	-	894	-
Interest on due from banking accounts(Note 6)	13,194	12,907	10,991	10,752
Others	512	4,521	426	3,766
	437,929	640,435	364,819	533,518
Gains on derivatives	11,682	28,944	9,732	24,112
Gains on securities	115,201	133,222	95,969	110,981
Others	31,915	21,032	26,587	17,521
	596,727	823,633	497,107	686,132
<b>Expense</b>				
Trust fees to the bank(Note 6)	87,668	110,514	73,032	92,064
Commissions paid	2,296	3,380	1,913	2,816
Losses on derivatives	8,967	29,838	7,470	24,856
Losses on securities	79,807	99,075	66,484	82,535
Provision for possible loan losses	153	1,862	128	1,551
Provision for future trust losses	3,626	5,650	3,020	4,706
Others	3,764	11,711	3,135	9,757
	186,281	262,030	155,182	218,285
<b>Dividends of trust profit to beneficiaries</b>	₩ 410,446	₩ 561,603	\$ 341,925	\$ 467,847

# NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

## 1. The trustee :

Hana Bank, the trustee, entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for the business combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank upon completion of the transaction. As of December 31, 2002, The bank is engaged in the commercial banking, trust and foreign exchange business and other related operations as permitted under the bank Act and other relevant laws and regulations in the Republic of Korea.

The bank has its shares listed on the Korean Stock Exchange. As of December 31, 2002, the bank's common stock outstanding amount to ₩987,161 million(197,432,203 shares) and there are no preferred stocks outstanding.

In accordance with its Articles of Incorporation, the bank is authorized to issue convertible bonds and bonds with stock warrants to investors other than shareholders in amounts up to ₩200 billion respectively. As of December 31, 2002 and 2001, the bank has issued convertible bonds in the amount of ₩49,998 million outstanding.

Due to the amendment of the Trust Supervision Act as of June 16, 2000, the revised bond valuation system has suspended any new issuance of book value funds.

As of December 31, 2002 and 2001, the bank's financial position is summarized as follows (millions of won):

	Banking Accounts	
	2002	2001
Cash and due from banks	₩ 3,718,272	₩ 2,482,063
Securities	15,271,687	11,794,862
Loans	51,126,492	28,920,148
Other	4,303,565	2,104,731
<b>Total assets</b>	<b>₩ 74,420,016</b>	<b>₩ 45,301,804</b>
Deposits	₩ 54,676,688	₩ 33,450,073
Borrowings	7,986,266	4,863,027
Other	9,069,593	5,060,046
Total liabilities	71,732,547	43,373,146
Total shareholders' equity	2,687,469	1,928,658
<b>Total liabilities and shareholders' equity</b>	<b>₩ 74,420,016</b>	<b>₩ 45,301,804</b>

## 2. Summary of Significant Accounting Policies :

The financial statements of the Trust Accounts are prepared in accordance with the Trust Business Act, except for certain items not specified in the Act, which were prepared in accordance with the trust accounting standards generally accepted in the Republic of Korea. The significant accounting policies applied in the preparation of the accompanying financial statements of the Trust Accounts are summarized as follows.

### Revenue and Expense of Trust Accounts

The Trust Accounts recognize interest income and other revenues as trust revenue, and also trust operating expenses, trust fees to the bank, and other expenses as trust expense.

### Interest Income Recognition

Interest income on loans and investment securities is recognized on an accrual basis, while interest income on overdue and dishonored loans and securities, except for those guaranteed by financial institutions or collateralized by deposits, is recognized on a cash basis.

### Securities

The valuation methods used for the securities are summarized as follows.

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

	Valuation method
Marketable stocks and Beneficial certificates	Market value
Non-marketable stocks	Cost
Debt securities	Market value
Other securities	Market value

Under the transition clause prescribed in, the Trust Supervision Act, debt securities and other securities managed in the unspecified money trusts, established before November 15, 1998, are not marked-to-market. Instead, the loan valuation method is applied to these securities and the related unrealized losses are charged to the allowance for possible loan losses.

In cases where appropriate market values of securities that are to be marked-to-market are not available, the estimated price by the Market Value Appraisal Committee is used the fair value of the securities.

The securities included in specified money trusts, the testament trusts and the property trusts are stated at cost.

### Allowance for Possible Loan Losses

For assets in unspecified money trusts that are not marked-to-market, the bank provides for the allowance for possible loan losses based on credit ratings determined by the borrowers' future debt service capacity (Forward Looking Criteria ("FLC")). This credit rating model considers the financial and non-financial factors of borrowers and classifies borrowers' credit risk into seventeen ratings. Allowance for possible loan losses in the Trust Accounts are determined by applying the following minimum percentages to loan classification based on the credit ratings:

Loan classifications	Provision percentages
Normal	0~1.6%
Precautionary	2%
Substandard	20%
Doubtful	60%
Estimated loss	100%

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

### Present Value Discounts

If the present value of a loan is significantly below the book value due to the rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the present value discounts on the loan are offset against the allowance for possible loan losses, if available, or charged to current expenses.

The difference between book value and present value is recorded as 'present value discounts' in the balance sheet and amortized to current earnings over the related period using the effective interest rate method.

### Due from Banking Accounts

The Trust Accounts deposit certain amounts with the banking accounts for short-term cash management purposes, and account for them as due from banking accounts.

### Reserve for Future Trust Losses and Subsidies from Banking Accounts

The Trust Accounts have provided more than 25% of the trust fees as special reserve up to 5% of invested capital for each type of money trusts with guarantees of principal or a minimum rate of return. As of December 31, 2002 and 2001, the reserve for future trust losses was ₩20,327 million and ₩11,769 million, respectively.

In cases where unspecified money trusts experience losses in excess of the guaranteed principal or a minimum rate of return, the Trust Accounts are provided the deficient amounts from banking accounts, which is recorded as subsidies from banking accounts.

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

### Dividends of Trust Profit to Beneficiaries

The dividends calculated by the trust revenue deducted by the trust fees to the bank and other administrative expenses are disbursed to the beneficiaries and charged to the expenses in trust operation.

### Trust Fees

The Trust Accounts provide trust fees to the bank for its management of trust assets and operations, and account for the fees as operating expenses.

### 3. United States Dollar Amounts :

The bank operates its Trust Accounts primarily in Korean won and its official accounting records are maintained in Korean won. The U.S. dollar amounts are provided herein as supplementary information solely for the convenience of the reader. All Won amounts are expressed in U.S. dollars at the rate of ₩1,200.4:US\$1, the base exchange rate on December 31, 2002. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be constructed as a representation that the Won amounts shown could be converted in or settled in U.S. dollars at this or any other rate.

The 2001 U.S Dollar amounts, which had been previously expressed at the rate published on December 31, 2001, were restated to reflect the exchange rate in effect on December 31, 2002.

### 4. Details of Trust Funds :

The details of the money trusts as of December 31, 2002 are as follows :

Trusts	Period (Years)	Trust Terms	
		Dividend Rate	Guarantee of principal repayment or minimum rate of return
General unspecified money trusts(**)	Over 1.5	Fixed	Yes
Installment money trusts(*)(**)	Over 1.5	Floating	No
Household money trusts(*)(**)	1.5-3	"	No
Development trusts(**)	2-5	Fixed	Yes
Old-age living pension trusts(**)	Over 10	Floating	Yes
National stock trusts(**)	Over 3	"	No
Corporation money trusts(*)(**)	Over 1.5	"	No
Private pension trusts(**)	Over 15	"	Yes
Household long-term money trusts(**)	3-5	"	No
Labor preferential trusts(**)	3-5	"	No
New installment trusts(**)	Over 1.5	"	No
Retirement trusts	-	"	Yes
Specified money trusts	-	"	No
Unit money trusts	Over 0.5	"	No
Additional money trusts	Over 0.25	"	No
Real estate investment trusts	-	"	No
New private pension trusts	Over 15	"	Yes
New old-age pension trusts	Over 5	"	Yes
New labor preferential trusts	3-5	"	No
Pension money trusts	Over 15	"	Yes
Testament trusts	-	"	No

(\*) The principal is guaranteed for customer accounts opened before April 30, 1996.

(\*\*) As of December 31, 2002, new deposits in the trusts have been suspended.

Besides the money trusts mentioned above, the Trust Accounts also manage performance based property trusts and public trusts.

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

### 5. Securities ;

The details of the securities as of December 31, 2002 and 2001 are as follows (millions of Won):

			Carrying value	
			2002	2001
		Annual interest rate(%)		
Stocks	Samsung Electronics & others	-	₩ 1,533,343	₩ 1,160,400
Government and municipal bonds	Treasury bonds	4.89~7.17	95,969	431,879
	National housing bonds	4.70~15.95	752,991	579,095
	Foreign exchange equalization fund bonds	-	-	10,103
	Local development bonds	5.69~15.90	38,420	107,891
	Railroad construction bonds	7.83~10.65	3,378	7,632
				890,758
Debentures issued by financial institutions	Monetary stabilization bonds	4.29~6.47	314,203	698,559
	Industrial finance debentures	4.74~9.00	55,796	150,383
	Small and medium industry finance debentures	5.00~5.24	65,939	57,396
	Others	4.84~5.64	379,176	94,632
			815,114	1,000,970
Corporate bonds	Government owned corporate bonds	5.24~13.76	179,798	605,070
	General debentures	4.93~12.24	793,704	303,065
	Privately-placed debentures	5.46~13.76	209,939	473,183
	Convertible debentures	9.00	2,405	193
			₩ 1,185,846	₩ 1,381,511
Bills purchased	Guaranteed commercial papers	12.60	₩ 42,416	₩ 35,245
	Commercial Papers	2.00~12.50	1,922,653	1,210,480
			1,965,069	1,245,725
Other securities	Securities denominated in foreign currencies	1.67~4.10	381,643	-
	Negotiable certificates of deposit	4.67~5.32	435,590	1,098,477
	Beneficial Certificates	-	56,075	94,815
			873,308	1,193,292
			₩ 7,263,438	₩ 7,118,498

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

### 6. Allowance for possible loan losses :

As of December 31, 2002, the allowance for possible loan losses and details of classification of related loans and securities(excluding specified money trusts) are as follows (millions of Won):

#### 1) Classification of related loans and securities

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (**)
Loans collateralized by real estate	₩ 152,531	₩ 949	₩ 2,783	₩ 70	₩ 111	₩ 156,444
Loans collateralized by other than real estate	88,505	74	48	10	4	88,641
Uncollateralized loans	537,056	5,646	30,314	787	197	574,000
Corporate bonds	664,821	8	11,650	-	3,761	680,240
Privately-placed debentures	50,437	329	80	-	2,338	53,184
Bills purchased	1,118,007	4,479	1,556	-	-	1,124,042
Other securities	289,543	1,260	-	-	-	290,803
	₩2,900,900	₩ 12,745	₩ 46,431	₩ 867	₩ 6,411	₩2,967,354

#### 2) Allowance for possible loan losses

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (**)
Loans collateralized by real estate	₩ 14	₩ 113	₩ 644	₩ 53	₩ 111	₩ 935
Loans collateralized by other than real estate	-	5	12	8	4	29
Uncollateralized loans	10	575	9,872	708	197	11,362
Corporate bonds	69	1	3,433	-	3,761	7,264
Privately-placed debentures	-	63	32	-	2,338	2,433
Bills purchased	17	247	784	-	-	1,048
Other securities	-	2,506	-	-	-	2,506
	₩ 110	₩ 3,510	₩ 14,777	₩ 769	₩ 6,411	₩ 25,577

In accordance with the Trust Business Act, the allowance for possible loan losses was not provided for the assets of performance trusts classified as normal.

### 7. Classified Financial Statements of Trust Accounts :

The balance sheets and statements of operation of the Trust Accounts for the years ended December 31, 2002 and 2001 are classified into principal or dividend guarantee trusts and performance trusts as follows (millions of Won):

#### 1) Classification of related loans and securities

##### Classified Balance Sheets

	In Millions of Korean Won		
	Principal or Dividend Guaranteed Trusts	Performance Trusts	Total
<b>(Assets)</b>			
Cash and due from banks	₩ -	₩ 1,214	₩ 1,214
Securities	894,420	6,369,018	7,263,438
Loans	365,254	609,688	974,942
Trusted money receivables	-	4,157,285	4,157,285
Real & personal property	-	586,055	586,055
Due from banking accounts	184,001	481,522	665,523
Other assets	24,212	215,304	239,516
(Allowance for possible loan losses)	(21,879)	(3,698)	(25,577)
<b>Total</b>	<b>₩ 1,446,008</b>	<b>₩ 12,416,388</b>	<b>₩ 13,862,396</b>

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

In Millions of Korean Won

	Principal or Dividend Guaranteed Trusts	Performance Trusts	Total
<b>(Liabilities)</b>			
Money trusts	₩ 1,284,981	₩ 7,354,446	₩ 8,639,427
Property trusts	-	4,816,300	4,816,300
Public trusts	-	150	150
Reserve for future trust losses	20,327	-	20,327
Other liabilities	140,700	245,492	386,192
<b>Total</b>	<b>₩ 1,446,008</b>	<b>₩ 12,416,388</b>	<b>₩ 13,862,396</b>

### Classified Statements of Operation

In Millions of Korean Won

	Principal or Dividend Guaranteed Trusts	Performance Trusts	Total
<b>(Revenue)</b>			
Interest income	₩ 78,442	₩ 359,487	₩ 437,929
Gains on derivatives	3,528	8,154	11,682
Gains on securities	4,177	111,024	115,201
Others	10,255	21,660	31,915
	96,402	500,325	596,727
<b>(Expense)</b>			
Trust fees to the bank	28,017	59,651	87,668
Commissions paid	432	1,864	2,296
Losses on derivatives	4,039	4,928	8,967
Losses on securities	5,808	73,999	79,807
Provision for possible loan losses	-	153	153
Others	6,033	1,357	7,390
	44,329	141,952	186,281
<b>Dividends of trust profit to beneficiaries</b>	<b>₩ 52,073</b>	<b>₩ 358,373</b>	<b>₩ 410,446</b>

### 2) For the year ended December 31, 2001

#### Classified Balance Sheets

In Millions of Korean Won

	Principal or Dividend Guaranteed Trusts	Performance Trusts	Total
<b>(Assets)</b>			
Cash and due from banks	₩ -	₩ 256	₩ 256
Securities	1,606,495	5,512,003	7,118,498
Loans	266,523	563,038	829,561
Trusted money receivables	-	900,548	900,548
Real & personal property	-	120,517	120,517
Due from banking accounts	288,056	780,036	1,068,092
Other assets	28,384	209,273	237,657
(Allowance for possible loan losses)	(28,032)	(19,452)	(47,484)
<b>Total</b>	<b>₩ 2,161,426</b>	<b>₩ 8,066,219</b>	<b>₩ 10,227,645</b>



## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

	In Millions of Korean Won		
	Principal or Dividend Guaranteed Trusts	Performance Trusts	Total
<b>(Liabilities)</b>			
Money trusts	₩ 2,018,517	₩ 6,554,382	₩ 8,572,899
Property trusts	-	1,228,923	1,228,923
Borrowings from banking accounts	29,262	-	29,262
Reserve for future trust losses	11,769	-	11,769
Other liabilities	101,878	282,914	384,792
<b>Total</b>	<b>₩ 2,161,426</b>	<b>₩ 8,066,219</b>	<b>₩ 10,227,645</b>

### Classified Statements of Operation

	In Millions of Korean Won		
	Principal or Dividend Guaranteed Trusts	Performance Trusts	Total
<b>(Revenue)</b>			
Interest income	₩ 157,827	₩ 482,608	₩ 640,435
Gains on derivatives	24,098	4,846	28,944
Gains on securities	39,571	93,651	133,222
Other	11,955	9,077	21,032
	233,451	590,182	823,633
<b>(Expense)</b>			
Trust fees to the bank	41,809	68,705	110,514
Commissions paid	1,834	1,546	3,380
Losses on derivatives	25,881	3,957	29,838
Losses on securities	25,489	73,586	99,075
Provision for possible loan losses	9	1,853	1,862
Other	14,660	2,701	17,361
	109,682	152,348	262,030
<b>Dividends of trust profit to beneficiaries</b>	<b>₩ 123,769</b>	<b>₩ 437,834</b>	<b>₩ 561,603</b>

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

### 8. Revenue and Expense :

The details of revenue and expense by trust type for the year ended December 31, 2002 and 2001 are as follows (millions of Won):

#### 1) For the year ended December 31, 2002

	Revenue	Trust fees	Other expense	Trust dividends	Dividend rate(%)
<b>Money trusts</b>					
Installment money trusts	₩ 16,915	₩ 2,552	₩ 182	₩ 14,181	5.86
Household money trusts	39,534	7,159	555	31,820	5.16
Development money trusts	18,406	16,340	1,973	93	12.71
Private pension trusts	25,485	3,825	1,921	19,739	5.42
New installment money trusts	32,608	15,472	262	16,874	5.34
Retirement trusts	21,424	3,269	3,474	14,681	4.46
Specified money trusts	259,519	15,323	61,232	182,964	5.18
Unit money trusts	42,663	6,756	5,068	30,839	4.89
Additional money trusts	64,813	6,785	13,502	44,526	4.92
New old-age pension trusts	23,773	3,416	8,548	11,809	3.49
Others	27,856	4,633	798	22,425	
	572,996	85,530	97,515	389,951	
<b>Property trusts</b>					
Security trusts	9,446	7	-	9,439	14.96
Money receivable trusts	1,779	1,856	1,098	(1,175)	(0.04)
Real & personal property trusts	12,501	275	-	12,226	6.27
	23,726	2,138	1,098	20,490	
<b>Public trusts</b>					
	5	-	-	5	
	₩ 596,727	₩ 87,668	₩ 98,613	₩ 410,446	

#### 2) For the year ended December 31, 2001

	Revenue	Trust fees	Other expense	Trust dividends	Dividend rate(%)
<b>Money trusts</b>					
Installment money trusts	₩ 37,360	₩ 4,617	₩ 4,911	₩ 27,832	7.15
Household money trusts	87,795	12,153	5,623	70,019	7.03
Development money trusts	38,223	19,863	8,002	10,358	16.02
Private pension trusts	29,385	4,856	1,819	22,710	7.19
New installment money trusts	53,555	16,697	3,505	33,353	6.48
Retirement trusts	30,285	2,791	12,720	14,774	6.42
Specified money trusts	225,142	15,215	49,453	160,474	5.07
Unit money trusts	54,909	6,145	8,914	39,850	8.07
Additional money trusts	99,806	11,277	10,456	78,073	6.46
New old-age pension trusts	126,028	12,900	44,549	68,579	5.20
Others	26,472	3,383	1,481	21,608	
	808,960	109,897	151,433	547,630	
<b>Property trusts</b>					
Security trusts	12,132	53	64	12,015	6.00
Money receivable trusts	464	521	19	(76)	(0.08)
Real & personal property trusts	2,077	43	-	2,034	6.42
	14,673	617	83	13,973	
	₩ 823,633	₩ 110,514	₩ 151,516	₩ 561,603	

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

### 9. Derivatives :

The Trust Accounts entered into derivative transactions for hedging the exposure to the changes in the fair value of trust assets. As of December 31, 2002, the details of KOSPI 200 futures contracts are as follows(millions of Won):

Related Fund	Futures	Trading position	Trading volume	Price	Volume
Hana 1st long-term securities trust	KOSPI 200 Futures 0303	Short	60	79.50	₩ 2,385
Hana 2nd long-term securities trust	KOSPI 200 Futures 0303	Short	400	79.50	15,900
					₩ 18,285

### 10. Related Party Transactions :

The details of transactions for the year ended December 31, 2002 and 2001 and related account receivables and payables as of December 31, 2002 and 2001 with the banking accounts, the largest shareholder(Korea Deposit Insurance corporation, "KDIC") and the consolidated subsidiaries of the bank(Hana Securities), are summarized as follows (millions of Won):

Account	In Millions of Korean Won	
	2002	2001
<b>Transaction with banking accounts</b>		
Due from banking accounts	₩ 665,523	₩ 1,068,092
Borrowings from banking accounts	-	29,262
Accrued trust fees payable	131,269	32,649
Interest on due from banking accounts	13,194	12,907
Interest on borrowings from banking accounts	515	2,214
Trust fees to the bank	87,668	110,514
<b>Transaction with the largest shareholder</b>		
Securities	127,023	-
Accrued interest	19	-
Interest income	13,900	-
Securities purchased	272,106	-
Securities sold	520,254	-
<b>Transaction with consolidated subsidiaries</b>		
Bonds purchased under resale agreements	50,000	-
Interest income	1,072	-

As of December 1, 2002, the bank's largest shareholder changed from Allianz AG to Korea Deposit Insurance Corporation.

### 11. Merger and Acquisition between Hana Bank and Seoul Bank :

#### Details of M&A contracts

Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for the business combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank upon completion of the transaction. Although the business combination took the legal form of Seoul Bank purchasing Hana Bank, the transaction was accounted for under the purchase method with Hana Bank acquiring Seoul Bank's total assets of ₩24,393,257 million and total liabilities of ₩23,560,934 million. Also, in accordance with the Contract, the shareholders of Seoul Bank received one new common share of the bank for every two shares of Seoul Bank. The new common shares of the bank were listed on the Korea Stock Exchange on December 13, 2002.

## NOTES TO FINANCIAL STATEMENTS (Trust Accounts)

December 31, 2002 and 2001

### Former Hana Bank

The former Hana Bank was incorporated in 1971 as Korea Investment and Finance Corporation under the Commercial Code of the Republic of Korea to provide financing services as a financial intermediary. On September 20, 1972, the former Hana Bank was granted approval by the Ministry of Finance (presently the Ministry of Finance and Economy) to operate under the short-term Financing Business Law.

On June 29, 1991, the former Hana Bank was granted approval by the Ministry of Finance to engage in banking activities and the bank's name was changed to Hana Bank. It became a nationwide commercial bank in July 1991.

On June 29, 1998, the former Hana Bank purchased certain assets and assumed most of the liabilities of Choong-Chung Bank by the order of the Financial Supervisory Commission. As of January 1, 1999, the former Hana Bank completed a merger with Boram Bank.

### Former Seoul Bank

Seoul Bank was incorporated in November 1959 under the General Banking Act, and merged with Korea Trust Bank in August 1976.

## 12. Commitments and Contingencies :

In response to the general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the area of restructuring private enterprise and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. Trust Accounts of the bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above.

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

## 13. Reclassification of Financial Statement as of December 31, 2001 :

Certain accounts in the financial statements as of December 31, 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported dividends of trust profit to beneficiaries or liabilities of the Trust Accounts.

## 14. Loan Transaction with SK Global Ltd.:

The total amount of loans and outstanding from, and securities provided to, SK Global Ltd. at December 31, 2002, was ₩29,908 million. In addition, the bank's loans provided to SK Global Ltd., And its foreign subsidiaries, totaled ₩483,985 million at December 31, 2002. An investigation is in progress about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the Trust Accounts actual loss from these loans may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

## INDEPENDENT AUDITOR'S REPORT (Consolidated)

*SAMIL ACCOUNTING CORPORATION*

*SAMIL ACCOUNTING CORPORATION*

Samil Accounting corporation

Kukje Center Building 21st Flr.

191 Hangangro 2ga Yongsanku Seoul 140-702, KOREA

(Yongsan P.O.Box 266, 140-600)

### To the Board of Directors and Shareholders of Hana Bank and Subsidiaries

We have audited the accompanying consolidated balance sheets of Hana Bank and its subsidiaries ("the bank") as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Hana Securities, a subsidiary which statements reflect 0.67% of the bank's consolidated total assets as of December 31, 2002 and 4.40% of the bank's consolidated total operating revenue for the year then ended, and which statements reflect 0.91% of the bank's consolidated total assets as of December 31, 2001 and 4.87% of the bank's consolidated total operating revenue for the year then ended. Those statements were audited or reviewed by other auditor whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Hana Securities, is based solely on the reports of the other auditor.

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

In our opinion, based on our audits and the reports of other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hana Bank and its subsidiaries as of December 31, 2002 and 2001, and the results of their operations, the changes in their shareholders' equity, and their cash flows for the years then ended in conformity with financial accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following matters.

As discussed in Note 1 to the consolidated financial statements, Hana Funding Limited was included in reporting entities for consolidation from 2001. Accordingly, total assets of the bank increased by ₩237,829 million and Shareholders' equity of the bank decreased by ₩237,829 million, respectively, as of December 31, 2002.

As discussed in Note 19 to the consolidated financial statements, Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for such combination on November 14, 2002. In accordance with the Contract, Hana Bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank upon completion of the transaction. The business combination was accounted for using the purchasing method of accounting and Hana Bank acquired Seoul Bank's total assets, of ₩24,393,257 million and total liabilities of ₩23,560,934 million from the acquisition date. Also, in accordance with the Contract, the shareholder of Seoul Bank received one new common share of the Hana Bank for every two shares of Seoul Bank. The new common shares of the bank were listed on the Korea Stock Exchange on December 13, 2002.

As discussed in Note 21 to the consolidated financial statements, an investigation is in progress about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the bank's actual loss from the loans to SK Global Ltd. may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

The amounts expressed in U.S. Dollars are provided solely for the convenience of the users of the consolidated financial statements and have been translated on the basis set forth in note 3 to the consolidated financial statements.

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



Seoul, Korea  
January 24, 2003

# CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>ASSETS</b>				
Cash and due from banks (Note 4)	₩ 3,921,363	₩ 2,873,185	\$ 3,266,713	\$ 2,393,523
Trading securities (Note 5)	1,024,890	1,618,405	853,790	1,348,221
Investment securities (Note 6)	14,817,161	11,233,128	12,343,520	9,357,821
Loans (Note 7)	52,682,035	29,973,099	43,887,067	24,969,259
(Allowance for possible loan losses)	(868,107)	(465,822)	(723,182)	(388,056)
(Present value discounts)	(10,838)	(12,449)	(9,029)	(10,371)
Property, plant and equipment (Note 8)	1,429,062	697,059	1,190,488	580,689
(Accumulated depreciation)	(248,427)	(213,145)	(206,953)	(177,562)
Intangible assets (Note 8)	173,898	2,069	144,867	1,724
Guarantee deposits	605,464	315,748	504,385	263,036
Accounts receivable	502,788	213,627	418,851	177,963
Accrued income	441,748	372,271	368,001	310,122
Prepaid expenses	11,703	27,499	9,749	22,909
Deferred income tax assets	143,548	17,581	119,584	14,646
Prepaid income taxes	64,155	154,877	53,444	129,021
Negative goodwill (Note 8)	(199)	(808)	(165)	(673)
Others	1,201,538	609,259	1,000,948	507,547
<b>Total Assets</b>	<b>₩ 75,891,782</b>	<b>₩ 47,415,583</b>	<b>\$ 63,222,078</b>	<b>\$ 39,499,819</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposits (Note 9)	₩ 56,077,408	₩ 35,553,006	\$ 46,715,602	\$ 29,617,632
Call money	883,320	730,129	735,855	608,238
Borrowings (Note 10)	5,976,798	3,263,256	4,979,006	2,718,474
Bonds sold on repurchase agreements	441,876	190,809	368,107	158,955
Bills sold	653,115	696,239	544,081	580,006
Due to Bank of Korea in foreign currencies	40,057	26,600	33,370	22,159
Debentures (Note 11)	3,882,054	1,942,531	3,233,967	1,618,236
Reserve for possible losses on acceptances and guarantees (Note 12)	67,202	23,727	55,983	19,766
Due to trust accounts	734,900	940,797	612,213	783,736
Unearned income	97,130	83,770	80,915	69,785
Accrued expenses	1,337,502	868,940	1,114,214	723,875
Accounts payable	463,139	204,655	385,821	170,489
Others	2,082,410	834,013	1,734,761	694,780
<b>Total Liabilities</b>	<b>72,736,911</b>	<b>45,358,472</b>	<b>60,593,895</b>	<b>37,786,131</b>
Commitments and contingencies (Note 14)				
Common stock, par value per share: ₩5,000, authorized: 2 billion shares in 2002, and 500 million shares in 2001; issued and outstanding: 197,432,203 shares in 2002 and 131,107,888 shares in 2001 (Note 15)	987,161	655,539	822,360	546,100
Preferred stock, par value per share: ₩5,000, non-cumulative, non-participating preferred stock; authorized : 1 billion shares issued and outstanding : 39,602,000 shares in 2001	-	198,010	-	164,953
Capital surplus	1,267,797	446,329	1,056,145	371,817
Retained earnings	870,993	620,787	725,586	517,151
Capital adjustments	(372,754)	22,273	(310,525)	18,555
Minority interest	401,674	114,173	334,617	95,112
<b>Total Shareholders' Equity</b>	<b>3,154,871</b>	<b>2,057,111</b>	<b>2,628,183</b>	<b>1,713,688</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>₩ 75,891,782</b>	<b>₩ 47,415,583</b>	<b>\$ 63,222,078</b>	<b>\$ 39,499,819</b>

# CONSOLIDATED STATEMENTS OF INCOME

December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>Operating Revenues</b>	<b>3,941,760</b>	<b>3,957,340</b>	<b>3,283,707</b>	<b>3,296,685</b>
Interest income:	3,031,838	3,059,118	2,525,691	2,548,415
Interest on due from banks	₩ 60,229	₩ 115,767	\$ 50,174	\$ 96,440
Interest on securities	664,021	860,586	553,167	716,916
Interest on loans	2,294,933	2,057,543	1,911,807	1,714,048
Others	12,655	25,222	10,543	21,011
Commission income	390,370	323,972	325,200	269,887
Other operating income:	519,552	574,250	432,816	478,383
Gain on disposition of trading securities	47,401	132,717	39,488	110,561
Gain on valuation of trading securities	13,892	35,874	11,573	29,885
Dividend on securities	7,959	8,491	6,631	7,073
Gain on foreign currency trading	110,607	89,428	92,141	74,499
Fees from trust accounts	61,644	70,015	51,353	58,326
Gain on derivatives	247,780	219,624	206,415	182,959
Others	30,269	18,101	25,215	15,080
<b>Operating Expenses</b>	<b>3,411,913</b>	<b>3,536,001</b>	<b>2,842,314</b>	<b>2,945,685</b>
Interest expenses:	2,088,766	2,244,378	1,740,058	1,869,692
Interest on deposits	1,613,654	1,687,172	1,344,263	1,405,508
Interest on borrowings	212,830	379,599	177,299	316,227
Interest on debentures	233,994	159,894	194,930	133,201
Others	28,288	17,713	23,566	14,756
Commission expenses	105,777	107,103	88,118	89,223
Other operating expenses:	628,926	718,714	523,931	598,728
Loss on disposition of trading securities	44,508	83,949	37,077	69,934
Loss on valuation of trading securities	3,664	5,361	3,053	4,466
Loss on foreign currency trading	89,394	74,030	74,470	61,671
Provision for possible loan losses	175,988	284,202	146,608	236,756
Loss on derivatives	233,833	198,532	194,796	165,388
Others	81,539	72,640	67,927	60,513
General and administrative expenses	588,444	465,806	490,207	388,042
<b>Operating Income</b>	<b>₩ 529,847</b>	<b>₩ 421,339</b>	<b>\$ 441,393</b>	<b>\$ 351,000</b>
Non-operating income	₩ 185,520	₩ 134,576	\$ 154,548	\$ 112,109
Non-operating expenses	237,477	51,457	197,832	42,868
<b>Ordinary Income</b>	<b>477,890</b>	<b>504,458</b>	<b>398,109</b>	<b>420,241</b>
Extraordinary gain	4	2	4	2
Extraordinary losses	-	-	-	-
<b>Income Before Income Taxes and Consolidation Adjustments</b>	<b>477,894</b>	<b>504,460</b>	<b>398,113</b>	<b>420,243</b>
Income tax expense (Note 16)	142,912	165,031	119,054	137,480
<b>Total Net Income Before Consolidation Adjustments</b>	<b>334,982</b>	<b>339,429</b>	<b>279,059</b>	<b>282,763</b>
<b>Minority Interest Income</b>	<b>(14,029)</b>	<b>(17,650)</b>	<b>(11,687)</b>	<b>(14,703)</b>
<b>Consolidated Net Income (Note 17)</b>	<b>₩ 320,953</b>	<b>₩ 321,779</b>	<b>\$ 267,372</b>	<b>\$ 268,060</b>

(Ordinary income per share for the current year: ₩2,285, for the prior year: ₩2,337

Earnings per share : for the current year: ₩2,285, for the prior year: ₩2,337

Diluted ordinary income per share : for the current year: ₩2,281, for the prior year: ₩1,821

Diluted earnings per share : for the current year: ₩2,282, for the prior year: ₩1,821)

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2002 and 2001

	Capital stock		Capital surplus	
	Millions of Korean Won	Thousands of U.S Dollars (Note 3)	Millions of Korean Won	Thousands of U.S Dollars (Note 3)
Balance at January 1, 2001	₩ 957,221	\$ 797,418	₩ 424,463	\$ 353,601
Issue of paid-in capital	33,723	28,093	8,159	6,797
Extinguishment of preferred stock	(137,395)	(114,458)	-	-
Reversal of negative goodwill	-	-	13,707	11,419
Net income for 2001	-	-	-	-
Cash dividends	-	-	-	-
Stock dividends	-	-	-	-
Changes in subsidiary retained earnings	-	-	-	-
Changes in special reserves	-	-	-	-
Changes in capital adjustments	-	-	-	-
Changes in minority interest	-	-	-	-
Balance at December 31, 2001	₩ 853,549	\$ 711,053	₩ 446,329	\$ 371,817
Balance at January 1, 2002	₩ 853,549	\$ 711,053	₩ 446,329	\$ 371,817
Changes from M&A	305,400	254,416	833,742	694,553
Extinguishment of preferred stock	(198,010)	(164,953)	-	-
Stock dividends	26,222	21,844	-	-
Gain on sale of treasury stock	-	-	1,549	1,290
Changes in goodwill	-	-	(13,823)	(11,515)
Net income for 2002	-	-	-	-
Legal reserve	-	-	-	-
Cash dividends	-	-	-	-
Changes in subsidiary retained earnings	-	-	-	-
Changes in special reserves	-	-	-	-
Changes in capital adjustment	-	-	-	-
Change in reporting entity	-	-	-	-
Changes in minority interest	-	-	-	-
Balance at December 31, 2002	₩ 987,161	\$ 822,360	₩ 1,267,797	\$ 1,056,145



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Retained earning		Capital adjustments		Minority interest		Total shareholder's equity	
Millions of Korean Won	Thousands of U.S Dollars (Note 3)	Millions of Korean Won	Thousands of U.S Dollars (Note 3)	Millions of Korean Won	Thousands of U.S Dollars (Note 3)	Millions of Korean Won	Thousands of U.S Dollars (Note 3)
₩ 362,245	\$ 301,770	₩ 26,038	\$ 21,692	₩ 107,902	\$ 89,888	₩ 1,877,869	\$ 1,564,369
-	-	-	-	-	-	41,882	34,890
-	-	-	-	-	-	(137,395)	(114,458)
-	-	-	-	-	-	13,707	11,419
321,779	268,060	-	-	-	-	321,779	268,060
(29,322)	(24,427)	-	-	-	-	(29,322)	(24,427)
(26,222)	(21,844)	26,222	21,844	-	-	-	-
(5,542)	(4,617)	-	-	-	-	(5,542)	(4,617)
(2,151)	(1,791)	-	-	-	-	(2,151)	(1,791)
-	-	(29,987)	(24,981)	-	-	(29,987)	(24,981)
-	-	-	-	6,271	5,224	6,271	5,224
₩ 620,787	\$ 517,151	₩ 22,273	\$ 18,555	₩ 114,173	\$ 95,112	₩ 2,057,111	\$ 1,713,688
₩ 620,787	\$ 517,151	₩ 22,273	\$ 18,555	₩ 114,173	\$ 95,112	₩ 2,057,111	\$ 1,713,688
-	-	(423,898)	(353,131)	-	-	715,244	595,838
-	-	-	-	-	-	(198,010)	(164,953)
-	-	(26,222)	(21,844)	-	-	-	-
-	-	-	-	-	-	1,549	1,290
-	-	-	-	-	-	(13,823)	(11,515)
320,953	267,371	-	-	-	-	320,953	267,371
154	128	-	-	-	-	154	128
(86,067)	(71,698)	-	-	-	-	(86,067)	(71,698)
(109)	(91)	-	-	-	-	(109)	(91)
18,396	15,325	-	-	-	-	18,396	15,325
-	-	55,093	45,895	-	-	55,093	45,895
(3,121)	(2,600)	-	-	240,943	200,720	237,822	198,120
-	-	-	-	46,558	38,785	46,558	38,785
₩ 870,993	\$ 725,586	₩ (372,754)	\$ (310,525)	₩ 401,674	\$ 334,617	₩ 3,154,871	\$ 2,628,183

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2002	2001	2002	2001
<b>Cash Provided by (used in) Operating Activities:</b>	<b>(3,584,429)</b>	<b>608,629</b>	<b>(2,986,029)</b>	<b>507,023</b>
Net income	₩ 320,953	₩ 321,779	\$ 267,371	\$ 268,060
Items not affecting operating cash flows:				
Depreciation and amortization	57,243	47,239	47,686	39,353
Provision for possible loan losses	175,988	284,202	146,608	236,756
Provision for severance benefits	22,019	17,527	18,343	14,601
Unrealized loss (gain) on securities, net	101,732	(47,074)	84,749	(39,216)
Gain on securities transactions, net	(48,671)	(87,506)	(40,546)	(72,898)
Reversal of reserve for possible losses of acceptances and guarantees	(29,443)	(17,742)	(24,528)	(14,780)
Payment of retirement benefits	(6,595)	(6,179)	(5,494)	(5,147)
Gain on sale of loans, net	(8,852)	(7,276)	(7,374)	(6,061)
Unrealized gain on derivatives, net	(6,303)	(6,500)	(5,251)	(5,415)
Changes in accrual basis account, net	(4,181,321)	95,195	(3,483,272)	79,304
Reversal of negative goodwill	(608)	(404)	(507)	(336)
Minority interest income	14,029	17,650	11,687	14,703
Others	5,400	(2,282)	4,499	(1,901)
<b>Cash Provided by Investing Activities:</b>	<b>1,971,333</b>	<b>96,390</b>	<b>1,642,230</b>	<b>80,298</b>
Decrease (increase) in marketable securities	957,260	(2,015)	797,451	(1,679)
Decrease in investment securities	1,285,437	164,905	1,070,841	137,375
Increase in property, plant and equipment	(103,765)	(61,193)	(86,442)	(50,977)
Decrease (increase) in intangible assets	619	(2,025)	515	(1,686)
Increase in guarantee deposits	(7,123)	(3,133)	(5,933)	(2,611)
Increase in accounts receivable	(161,095)	(149)	(134,202)	(124)
<b>Cash Provided by (used in) Financing Activities:</b>	<b>1,407,179</b>	<b>(1,184,638)</b>	<b>1,172,258</b>	<b>(986,869)</b>
Increase in borrowings	1,435,870	562,399	1,196,160	468,510
Decrease in bills sold	(159,627)	(1,713,272)	(132,978)	(1,427,251)
Increase in debentures	1,351,640	210,016	1,125,992	174,955
Increase in domestic exchanges payable	285,664	335,512	237,974	279,501
Decrease in foreign exchanges payable	(278,791)	(12,803)	(232,249)	(10,666)
Increase (decrease) in securities sold on repurchase agreement	77,467	(1,169,115)	64,534	(973,938)
Decrease in due to Bank of Korea in foreign currencies	(140,092)	(210,555)	(116,705)	(175,404)
Increase (decrease) in call money	(466,889)	354,576	(388,945)	295,382
Increase (decrease) in due to trust accounts	(249,218)	634,294	(207,613)	528,402
Increase (decrease) in accounts payable	191,686	(7,683)	159,685	(6,401)
Cash dividends	(31,485)	(30,434)	(26,229)	(25,353)
Extinguishment of preferred stock	(198,010)	(137,395)	(164,953)	(114,458)
Cost of stock issuance	(151)	(178)	(125)	(148)
Cash flow from consolidated capital transaction	37,008	-	30,830	-
Increase in treasury stock	(447,893)	-	(373,120)	-
<b>Cash Flow from Change in Reporting Entity</b>	<b>240,080</b>	<b>-</b>	<b>200,000</b>	<b>-</b>
<b>Net Increase(Decrease) in Cash</b>	<b>34,163</b>	<b>(479,619)</b>	<b>28,459</b>	<b>(399,548)</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<b>2,873,185</b>	<b>3,352,804</b>	<b>2,393,523</b>	<b>2,793,071</b>
<b>Cash Flow from Merger</b>	<b>1,014,015</b>	<b>-</b>	<b>844,731</b>	<b>-</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>₩ 3,921,363</b>	<b>₩ 2,873,185</b>	<b>\$ 3,266,713</b>	<b>\$ 2,393,523</b>
Cash on hand	1,644,847	989,417	1,370,249	824,239
Foreign currencies	78,478	31,747	65,377	26,447
Due from banks in Won	2,111,665	1,518,180	1,759,134	1,264,729
Due from banks in foreign currencies	86,373	333,841	71,953	278,108

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

## 1. The Consolidated Companies :

The accompanying consolidated financial statements include the banking accounts and trust accounts of Hana Bank and its controlled subsidiaries ("the bank"). General information describing the bank's trust accounts and its controlled subsidiaries, and equity-method investee is provided below.

### Hana Bank

Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for such combination on November 14, 2002. In accordance with the Contract, the bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank upon completion of the transaction. As of December 31, 2002, Hana Bank is engaged in the commercial banking, trust and foreign exchange business and other related operations as permitted under the bank Act and other relevant laws and regulations in the Republic of Korea.

Hana Bank's shares are listed on the Korean Stock Exchange. As of December 31, 2002 Hana Bank has 2,000 million shares of authorized common stock with a par value of ₩5,000 per share, of which 197,432,203 shares are issued with a par value of ₩5,000 per share. Hana Bank's common stock outstanding as of December 31, 2002 amounted to ₩987,161 million.

In accordance with its Articles of Incorporation, Hana Bank is authorized to issue convertible bonds and bonds with stock warrants to investors other than shareholders in amounts up to ₩200,000 million each. As of December 31, 2002 and 2001, Hana Bank has issued convertible bonds in the amount of ₩49,998 million (see Note 11).

### Trust Accounts and Controlled Subsidiaries

A summary of investment and financial information of the bank's trust accounts and its controlled subsidiaries ("Subsidiaries") as of December 31, 2002 and 2001 is as follows (millions of Won) :

#### 1) As of December 31, 2002

Subsidiaries	Number of Invested Shares(thousand)	Percentage of Ownership	Total Assets	Operating Revenues	Shareholder's equity
Trust Accounts	-	-	₩ 1,397,063	₩ 85,601	₩ 18,068
Hana Securities	10,113	48.38%	513,278	131,653	305,033
Hana Funding Limited	-	100.00%	241,003	863	240,140

Consolidation of trust accounts include only certain money trusts which are subject to a guaranteed principal repayment or a fixed rate of return in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

The details of those trusts, which are consolidated, are as follows :

Trusts	Period (Years)	Trust Terms	
		Dividend rate	Guarantee of principal repayment
General unspecified money trusts	over 1.5	Fixed	Yes
Development trusts	2 ~ 5	"	"
Pension trusts	over 15	Floating	"
Individual pension trusts	over 15	"	"
New individual pension trusts	over 15	"	"
Old-age living pension trusts	over 10	"	"
New Old-age living pension trusts	over 5	"	"
Retirement trusts	retirement	"	"
Employee retirement trusts	retirement	"	"

Hana Securities is included in reporting entities for consolidation as a result of a merger with Boram Bank on January 1, 1999. Hana Securities was listed in the Korea Stock Exchange as of November 25, 1986 and its capital stock issued and outstanding, as of December 31, 2002 and 2001, is ₩129,263 million and 104,829 million respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

On December 2002, Hana Funding Limited("HFL") was established in Cayman Island for the purpose of funding through the offering of non-cumulative preferred stock("TOPS"). The bank issued subordinated bonds amounting to ₩240,080 million(US \$ 200,000 thousand) to HFL. HFL acquired the bonds with the proceeds from the offering of TOPS and more detailed information related to the subordinated bonds are as follows :

	Summary terms
Call option	Redeemable in whole but not in part at the option of the issuer on 17 <sup>th</sup> December 2012 or any payment date thereafter
Interest rate	8.748% per annum to the Reset Date Floating rate after the Reset Date
Interest payment dates	Annually to the Reset Date Quarterly after the Reset Date
Maturity	Due 2101
Non-cumulative preferred stock (Tier One Preferred Securities)	Listed on the Singapore Exchange

### 2) As of December 31, 2001

Subsidiaries	Number of Invested Shares(thousand)	Percentage of Ownership	Total Assets	Operating Revenues	Shareholder's equity
Trust Accounts	-	-	₩2,140,786	₩ 220,726	₩ 10,835
Hana Securities	7,979	54.97%	462,952	193,170	254,509

### Investments Recorded under the Equity Method

A summary of investment and financial information of subsidiaries to which the equity method of accounting is applied in consolidation as of December 31, 2002 and 2001 is as follows (millions of Won) :

#### 1) As of December 31, 2002

	Number of Invested Shares(thousand)	Percentage of Ownership	Total Assets	Operating Revenues	Shareholder's equity
Hana Research & Consulting Inc.	400	62.5 %	₩ 3,420	₩ 2,505	₩ 3,211
Hana Allianz Investment Trust Management Co.	3,000	50.0 %	37,055	10,363	33,796
BC Card Co., Ltd.	741	16.8%	685,214	520,397	150,933
Seoeun System Ltd.	400	100.0%	3,445	4,853	2,186

In accordance with the financial accounting standards for consolidated financial statements, Hana Research & Consulting Inc. and Seoeun System Ltd., a small-sized company, was excluded from consolidation.

#### 2) As of December 31, 2001

	Number of Invested Shares(thousand)	Percentage of Ownership	Total Assets	Operating Revenues	Shareholder's equity
Hana Research & Consulting Inc.	400	100.0 %	₩ 2,077	₩ 1,979	₩ 2,001
Hana Allianz Investment Trust Management Co.	3,000	50.0 %	32,485	6,096	29,718

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

## 2. Summary of Significant Accounting Policies :

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

### Basis of Consolidated Financial Statement Presentation

The bank maintains its official accounting records in Korean Won and prepares statutory consolidated financial statements in the Korean language in conformity with financial accounting standards generally accepted in the Republic of Korea. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain accounting principles applied by the bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain information attached to the Korean language consolidated financial statements, but not required for a fair presentation of the bank's financial position and results of operations, is not presented in the accompanying consolidated financial statements.

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

### Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis. However, interest income on overdue or dishonored loans is recognized on a cash basis, except for those secured and guaranteed by financial institutions, which is recognized on an accrual basis.

### Loans

In accordance with the amended Banking regulations of the Republic of Korea, effective from December 1, 2002, the bank recorded its acceptances and guarantees for the credit granted to importers as loans and borrowings in the balance sheet. As a result of this accounting change, both loans in foreign currency and borrowings in foreign currency increased by ₩1,255,451 million and allowances for possible loan losses increased by ₩15,216 million, as compared with the amounts that would have been recorded under the previous method.

### Allowance for Possible Loan Losses

From 1999, the bank adopted a method of corporate loan classification for calculating the allowance for possible loan losses by incorporating the borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"). This credit rating model considers the financial and non-financial factors of borrowers and classifies the borrowers' credit risk by seventeen ratings. Provisions are determined by applying the following minimum percentages to the various credit ratings:

Loan classifications	Provision percentages
Normal	0 ~ 1.6%
Precautionary	2%
Substandard	20%
Doubtful	60%
Estimated loss	100%

Household and credit card loans are classified based on the delinquent periods, value of collateral, and reasonably estimated collectibility.

### Securities

All securities are initially carried at cost, including incidental expenses, determined by the moving average method. Securities are subsequently valued as described below.

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

#### - Trading securities

Trading securities are marketable securities held for short-term trading and carried at their market values at the balance sheet date. Unrealized gains and losses on trading securities are included in current operations.

#### - Investment securities

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of shareholders' equity. Declines in fair value which are anticipated to be

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in current operations up to the original book value before the decline.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the bank's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the bank exerts significant control or influence (controlled investees) are recorded using the equity method. Differences between the initial purchase price and the bank's initial proportionate ownership of the net book value of the investee are amortized over a period within 20 years using the straight-line method. Under the equity method, the bank records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee.

Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Investments in debt securities which the bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Other investments in debt securities are carried at fair value. Temporary differences between the fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

## Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Routine maintenance and repairs are charged to expense as incurred. Expenditures which enhance the value or extend the useful lives of the assets involved are treated as additions to premises and equipment.

Depreciation is computed using the declining-balance method (the straight-line method for buildings) over the estimated useful lives of the assets as described below.

	Estimated Useful Life-years
Buildings, structures and auxiliary facilities	50 ~ 60
Vehicles, furniture and fixtures	5
Structures in leased offices used for business purposes	5

## Intangible Assets

Trademarks and goodwill are stated at cost, net of accumulated amortization. Goodwill and trademarks are amortized using the straight-line method over 5 years.

## Present Value Discounts

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

The difference between the book value and present value is recorded as 'present value discounts' in the consolidated balance sheet and amortized to current earnings over the related period using the effective interest rate method.

## New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from paid-in capital in excess of par value and the amounts of debenture issuance, respectively. Debenture issuance costs are amortized as interest expense over the redemption term using the effective interest rate method.

## Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean Won using the exchange rate of ₩1,200.40:US\$1 and ₩1,326.10:US\$1, the rates in effect as of December 31, 2002 and 2001, respectively. The resulting translation gain and loss are charged to current operations.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

## Bonds Purchased on Resale Agreements and Bonds Sold on Repurchase Agreements

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

## Accrued Severance Benefits

Directors and employees with more than one year 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. Accrued severance benefits represent the amounts to be paid if all eligible employees and directors were to terminate their employment as of the balance sheet date.

## Reserve for Possible Losses on Acceptances and Guarantees

Acceptances and guarantees outstanding do not appear on the consolidated balance sheet, but are presented as off-balance sheet items in the notes to the consolidated financial statements.

The bank provides a minimum provision of 20% of guaranteed amounts for companies classified as "substandard", 60% for "doubtful" and 100% for "estimated loss". The bank records the provision as a reserve for possible losses on acceptances and guarantees in the liability section of the balance sheet.

## Income Tax Expense

Deferred income taxes represent the temporary differences between the tax and financial reporting bases of assets and liabilities, and are recorded at enacted tax rates which are expected to be in effect when the temporary differences are expected to reverse. The provision for income taxes represents taxes currently payable for the year plus the change in the net deferred income tax balance from the previous balance sheet date. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

## Gain (Loss) on Prior Period Adjustments

Prior period adjustments are charged to retained earnings carried over from the prior year.

## Derivative Financial Instruments

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

In accordance with the revised financial accounting standards related to derivatives accounting, effective January 1, 2001, the bank record the fair values of rights and obligations related to derivatives contracts on the balance sheet as assets and liabilities and recognized the related gains or losses in the income statement. However, the effective portions of the unrealized gains or losses arising from "cash flow" hedge derivative financial instruments are deferred and recorded in capital adjustments

## Translation of Financial Statements of Overseas Branches

Accounts and records of the overseas branches are maintained in foreign currencies. In translating consolidated financial statements of overseas branches, the bank applies the appropriate rate of exchange at the balance sheet date.

## Stock Options

The bank applies the fair value method in the calculation of the fair value of stock options and allocates it over the period from the option grant date to the exercise date and charges it to current operations.

## Operations for Trust Accounts

The bank recognizes, in accordance with the Trust Business Act, trust fees from the banking accounts as income from trust operations. If losses are incurred on trust accounts that have a guarantee of principal repayment trust terms, the losses are recognized as a loss from trust operations.

## Principles of Consolidation

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

All significant inter-company transactions and account balances among the consolidated companies have been eliminated in consolidation.

Investment in 20% to 50% owned company and small-sized company stipulated in financial accounting standards(except for consolidated companies) is accounted using equity method and all the inter-company transactions have been eliminated.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Certain money trust agreements provide that the bank guarantees a principal amount of trusts or a minimum rate of return. In relation to such guarantees, the bank's trust accounts are required to set up a special reserve. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special reserve or compensated by the bank's banking accounts. Such compensation is accounted for as other operating expenses of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to the trust business.

### 3. United States Dollar Amounts :

The bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All Won amounts are expressed in U.S. Dollars at the rate of ₩1,200.40:US\$1, the basic rate in effect on December 31, 2002. This presentation is not in accordance with generally accepted accounting principles, in either the Republic of Korea or the United States and should not be construed as a representation that the Won amounts shown could be really converted, realized or settled in U.S. Dollars at this or any other rate.

The 2001 U.S. Dollar amounts, which were previously expressed at the rate in effect on December 31, 2001, have been restated to reflect the exchange rate in effect on December 31, 2002.

### 4. Due from Banks :

Due from banks as of December 31, 2002 and 2001 comprise the following:

	Annual interest rate (%)	In Millions of Korean Won	
		2002	2001
Checking accounts	-	₩ 1,164,147	₩ 226,829
Certificates of deposits	4.80 ~ 5.32	667,724	959,268
Time deposits	5.00 ~ 5.35	118,316	55,316
Due from financial institution for customer's accounts	-	147,724	111,807
Other deposits	-	13,754	164,960
Due from banks in foreign currencies	0.00 ~ 1.69	86,373	333,841
		₩ 2,198,038	₩ 1,852,021

Checking accounts deposited in the bank of Korea represent reserves required and restricted for the payment of deposits under the bank of Korea Act. Furthermore, as of December 31, 2002 and 2001, other deposits amounting to ₩148,011 million and ₩112,273 million, respectively, are restricted as to withdrawal under the agreements with counterparties.

As of December 31, 2002 and 2001, due from banks in foreign currencies amounting to ₩47,678 million and ₩77,083 million, respectively, are reserved at the bank of Korea under the bank of Korea Act for the settlement with foreign banks. Furthermore, as of December 31, 2002, due from banks in foreign currencies amounting to ₩553 million are reserve deposits in the central banks of countries where overseas branches are located and are restricted as to withdrawal.

The term structures of due from banks as of December 31, 2002 are as follows (millions of Won):

Term Structures	Due from banks in Won currency	Due from banks in foreign currencies	Total
Within 1 month	₩ 1,057,774	₩ 69,502	₩ 1,127,276
More than 1 ~ 3 months	519,675	12,004	531,679
More than 3 ~ 6 months	21,265	4,502	25,767
More than 6 months ~ 1 year	-	-	-
More than 1 ~ 3 years	-	-	-
More than 3 ~ 5 years	-	365	365
More than 5 years	512,951	-	512,951
	₩ 2,111,665	₩ 86,373	₩ 2,198,038



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

### 5. Trading securities :

Trading securities as of December 31, 2002 and 2001 comprise the following (millions of Won):

	Annual interest rate (%)	Carrying value	
		2002	2001
Equity securities	-	₩ 45,344	₩ 108,377
Government and public bonds	5.3~7.2	196,615	337,899
Debentures issued by financial institutions	4.9~15.0	368,891	808,846
Corporate bonds	5.4~7.9	313,273	262,946
Beneficiary certificates	-	57,734	64,503
Securities denominated in foreign currencies	2.7~7.2	33,033	15,778
Others	-	10,000	20,056
		₩ 1,024,890	₩ 1,618,405

The information about trading securities by industry as of December 31, 2002 is summarized as follows:

Industry	2002	
	Millions of Won	Ratio (%)
Financial business	₩ 431,805	42.13
Public administration	351,862	34.33
Manufacturing	88,472	8.63
Wholesale and retail	6,265	0.61
Others	146,486	14.30
	₩ 1,024,890	100.00

### 6. Investment Securities :

Investment securities as of December 31, 2002 and 2001 comprise the following (millions of Won):

	Annual interest rate (%)	Carrying value	
		2002	2001
Stocks and equity investments	-	₩ 587,078	₩ 394,917
Government and public bonds	3.00 ~ 11.26	1,702,597	867,200
Debentures issued by financial institutions	4.37 ~ 10.05	4,060,693	3,548,694
Corporate bonds	1.00 ~ 24.50	7,051,596	4,458,129
Beneficiary certificates	-	603,879	994,159
Securities denominated in foreign currencies	0.00 ~ 9.75	708,045	914,465
Securities lent	4.90 ~ 7.77	102,054	55,564
Other	-	1,219	-
		₩ 14,817,161	₩ 11,233,128

As of December 31, 2002, investment securities amounting to ₩3,814,510 million are restricted as collateral for borrowings from the bank of Korea and other financial institutions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Stocks and equity investments as of December 31, 2002 and 2001 are as follows (millions of Won):

	2002		2001	
	Ownership (%)	Carrying value	Ownership (%)	Carrying value
Investments using the equity method				
Hana Research	62.50	₩ 2,007	100.00	₩ 2,001
Hana Allianz	50.00	16,899	50.00	14,859
BC Card	16.83	25,450	-	-
Seoeun System	100.00	1,482	-	-
		45,838		16,860
Marketable equity securities		354,848		181,832
Non-marketable equity securities		138,012		147,173
Other investments		49,753		49,425
		₩ 588,451		₩ 395,290

Investment securities valued by the equity method as of December 31, 2002 are summarized as follows (millions of Won):

	Acquisition Cost	Current year adjustments			Carrying value
		Gain on equity method (*)	Capital adjustment	Retained earnings	
Hana Research	₩ 2,001	₩ 9	₩ (3)	₩ -	₩ 2,007
Hana Allianz	14,859	2,086	63	(109)	16,899
BC Card	25,450	-	-	-	25,450
Seoeun System	1,482	-	-	-	1,482
	₩ 43,792	₩ 2,095	₩ (60)	₩ (109)	₩ 45,838

(\*) Net asset values of investees are calculated using the most recent financial information of the subsidiaries.

Details of marketable equity securities as of December 31, 2002 comprise the following (millions of Won):

Company	Number of shares	Ownership (%)	Carrying value
Korea Electronic Power Corporation	5,732,099	0.89	₩ 104,611
Hyundai Engineering & Construction Co., Ltd.	5,275,683	4.61	36,135
Ssangyong Motors Co.	1,168,995	3.73	22,552
Korea Tobacco & Ginseng Corp.	1,271,020	0.66	20,845
Sae Han Industries Inc.	4,501,456	18.51	16,185
Daewoo Heavy Industries & Machinery Ltd.	5,675,877	3.37	16,006
Kyobo Securities Co., Ltd.	4,980,108	13.83	14,940
Daewoo Securities Co., Ltd.	3,130,000	1.64	14,148
INI Steel Co., Ltd.	2,080,000	3.00	9,342
Mugunghwa Restructuring Fund	37,176	3.12	9,050
Others			91,034
			₩ 354,848

The securities of Hyundai Engineering & Construction Co., Ltd. (HEC) were acquired at a price of ₩5,000 per share, and the disposal of 20,273,400 shares is restricted until December 31, 2003.

The securities of Ssangyong Motors Co. are restricted as to disposal until December 31, 2003, and the disposal of 5,363,400 shares of the securities of Sae Han Industries Inc. is also restricted until December 31, 2004.

As of December 31, 2002, the marketable equity securities restricted as to disposal amounted to ₩82,876 million, including the above-mentioned securities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Details of non-marketable equity securities as of December 31, 2002 comprise the following (millions of Won):

Company	Number of shares	Ownership (%)	Carrying value
Korea Housing Guarantee Co.	16,942,000	2.92	₩ 29,611
Dongboo Electronic Co.	4,000,000	3.98	20,006
Korea Securities Finance Corporation	2,505,243	3.68	16,248
Samsung Life Insurance Co.	47,700	0.24	15,836
Daewoo Electronics Corp.	1,800,780	1.68	6,406
Daewoo Capital Corporation	452,065	0.75	4,521
National Information & Credit Evaluation, Inc.	501,944	10.59	4,385
Korea Aerospace Industries	989,200	1.15	4,210
Other			36,789
			₩ 138,012

The securities of Daewoo Electronics Corp. is restricted as to disposal until December 31, 2006.

As of December 31, 2002, the non-marketable equity securities restricted as to disposal amounted to ₩6,471 million, including the above-mentioned securities.

Debt securities as of December 31, 2002 comprise the following (millions of Won):

	Acquisition cost (*)	Adjustment value (**)	Carrying value
<b>Available-for-sale</b>			
Government and public bonds	₩ 1,129,041	₩ 1,129,768	₩ 1,146,172
Debentures issued by financial institutions	3,291,235	3,272,615	3,281,560
Corporate bonds	5,829,423	5,807,273	5,786,908
Securities denominated in foreign currencies	696,835	695,124	704,271
Securities Lent	85,411	85,561	85,561
	11,031,945	10,990,341	11,004,472
<b>Held-to-maturity</b>			
Government and public bonds	558,275	556,425	556,425
Debentures issued by financial institutions	781,006	779,133	779,133
Corporate bonds	1,295,716	1,264,688	1,264,688
Securities denominated in foreign currencies	2,401	2,401	2,401
Securities Lent	16,760	16,493	16,493
	2,654,158	2,619,140	2,619,140
	₩ 13,686,103	₩ 13,609,481	₩ 13,623,612

Debt securities as of December 31, 2002 comprise the following (millions of Won):

	Acquisition cost (*)	Adjustment value (**)	Carrying value
<b>Available-for-sale</b>			
Government and public bonds	₩ 745,834	₩ 747,463	₩ 743,122
Debentures issued by financial institutions	2,996,967	2,985,727	2,990,512
Corporate bonds	3,943,473	3,921,044	3,936,605
Securities denominated in foreign currencies	809,628	816,512	834,023
	8,495,902	8,470,746	8,504,262
<b>Held-to-maturity</b>			
Government and public bonds	127,217	124,078	124,078
Debentures issued by financial institutions	558,876	558,182	558,182
Corporate bonds	523,912	521,524	521,524
Securities denominated in foreign currencies	81,242	80,069	80,069
	1,291,247	1,283,853	1,283,853
	₩ 9,787,149	₩ 9,754,599	₩ 9,788,115

(\*) Prior year's closing book balances of securities or acquisition costs for securities purchased during the current year.

(\*\*) Adjusted value after amortization of discounts or premiums (amortized cost).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Details of gains (losses) on valuation of investment securities included in capital adjustments as of December 31, 2002 are as follows (millions of Won):

Account name	Amount
Stocks and equity investments	₩ (6,502)
Government and public bonds	30,056
Debentures issued by financial institutions	18,017
Corporate bonds	21,408
Securities denominated in foreign currencies	21
Other securities	2,259
	₩ 65,259

The information about investment securities by currency and country as of December 31, 2002 is summarized as follows (millions of Won):

Originating country	Domestic currency	Ratio (%)	Foreign currency	Ratio (%)
Korea	₩ 14,109,116	100.00	₩ 662,982	93.64
Hong Kong	-	-	11,992	1.69
Singapore	-	-	4,750	0.67
Others	-	-	28,321	4.00
	₩ 14,109,116	100.00	₩ 708,045	100.00

The information about investment securities by industry as of December 31, 2002 is summarized as follows (millions of Won) :

Industry	Millions of Won	Ratio (%)
Financial business	₩ 3,874,723	26.15
Public administration	9,466,890	63.89
Manufacturing	376,146	2.54
Construction	65,679	0.44
Wholesale and retail	30,104	0.20
Others	1,003,619	6.78
	₩ 14,817,161	100.00

The information about investment securities by classification as of December 31, 2002 is summarized as follows (millions of Won):

	2002	
	Millions of Won	Ratio (%)
Stocks	₩ 538,698	3.64
Fixed rate bonds	8,672,513	58.53
Floating rate bonds	4,777,113	32.24
Convertible bonds	88,426	0.60
Beneficiary certificates	603,879	4.07
Others	136,532	0.92
	₩14,817,161	100.00

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The term structures of held-to-maturity securities as of December 31, 2002 are as follows (millions of Won):

Term structures	Government and public bonds	Debentures issued by financial institutions	Corporate bonds	Securities denominated in foreign currencies	Securities lent	Total
Within 1 month	₩ -	₩ 86,459	₩ -	₩ -	₩ -	₩ 86,459
More than 1 ~ 3 months	20,103	122,069	20,186	-	-	162,358
More than 3 ~ 6 months	91,150	30,078	20,165	2,401	-	143,794
More than 6 months ~ 1 year	10,119	334,885	797,688	-	16,493	1,159,185
More than 1 ~ 3 years	78,201	205,642	299,844	-	-	583,687
More than 3 ~ 5 years	356,852	-	126,805	-	-	483,657
More than 5 years	-	-	-	-	-	-
	₩ 556,425	₩ 779,133	₩ 1,264,688	₩ 2,401	₩ 16,493	₩ 2,619,140

## 7. Loans:

Loans as of December 31, 2002 and 2001 comprise the following:

	In Millions of Korean Won	
	2002	2001
<b>Loans in Won currency</b>		
<b>Bank</b>		
Corporate loans	₩ 16,167,143	₩ 10,321,639
Household loans	23,598,751	10,514,488
Bills purchased	1,830,387	2,187,416
Others	570,026	465,722
	42,166,307	23,489,265
<b>Trusts</b>		
Loans on Securities Collateral	770	25,260
Loans on Real Estate Collateral	60,564	40,200
Bills purchased	317,131	242,972
Others	300,931	197,739
	679,396	506,171
<b>Hana securities</b>		
Loans	7,203	3,680
Broker's loans	6,061	6,311
	13,264	9,991
	42,858,967	24,005,427
Loans in foreign currencies	3,457,555	997,374
Bills purchased in foreign currencies	1,687,820	850,421
Credit card accounts	2,160,008	1,003,496
Call loans	315,649	1,033,515
Private placement corporate bonds	2,006,591	2,020,217
Other loans	195,445	62,649
	₩ 52,682,035	₩ 29,973,099

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The information about loans in Won currency (including bills purchased, factoring receivables and convertible loans) and loans in foreign currencies (including factoring receivables in foreign currencies) by industry as of December 31, 2002 is summarized as follows (millions of Won):

Industry	Loans in Won currency	Loans in foreign currencies	Total	Ratio (%)
Manufacturing	₩ 8,246,393	₩ 1,955,209	₩ 10,201,602	22.0
Wholesale and retail	2,858,673	321,527	3,180,200	6.9
Financial business	1,593,086	246,426	1,839,512	4.0
Construction	1,573,057	10,061	1,583,118	3.4
Household	23,800,219	-	23,800,219	51.4
Real estate and renting	886,790	15,254	902,044	2.0
Public and Others	3,900,749	910,689	4,811,438	10.3
	₩ 42,858,967	₩ 3,459,166	₩ 46,318,133	100.0

The information about loans in foreign currencies (including factoring receivables in foreign currencies) by country as of December 31, 2002 and 2001 is summarized as follows:

Originating country	2002		2001	
	Millions of Won	Ratio (%)	Millions of Won	Ratio (%)
Korea	₩ 1,526,671	44.1	₩ 900,050	90.3
Russia	118,840	3.5	-	-
Singapore	23,521	0.7	-	-
U.S.A.	21,816	0.6	72,929	7.3
Japan	21,560	0.6	-	-
Indonesia	17,300	0.5	-	-
Hong Kong	8,156	0.2	16,783	1.7
China	6,855	0.2	4,399	0.4
Turkey	-	-	3,213	0.3
Domestic import usance	1,713,172	49.5	-	-
Others	1,275	0.1	-	-
	₩ 3,459,166	100.0	₩ 997,374	100.0

Details of changes in the allowance for possible loan losses for the years ended December 31, 2002 and 2001 are as follows

(millions of won) :

Details of changes	In Millions of Korean Won	
	2002	2001
Beginning balance	₩ 465,822	₩ 953,975
Carry-over from merger	371,495	-
Amount offsetted with present value discounts	3,328	29,084
Transfer to allowances for acceptances and guarantees	(68)	(28,589)
Debt – equity swap	(36,048)	(57,114)
Repurchase loans from Korea Asset Management Corp.	1,774	1,607
Sale of non-performing loans	-	(108,711)
Write-offs	(205,936)	(646,655)
Remission of loans	-	(22,922)
Collection of previously written-off receivables	95,882	45,085
Changes in currency exchange rates	(1,130)	15,860
Provision for possible loan losses	175,988	284,202
Others	(3,000)	-
Closing balance	₩ 868,107	₩ 465,822

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The term structures of loans in Won currency, loans in foreign currencies and bills purchased in foreign currencies as of December 31, 2002 are summarized as follows (millions of Won):

Term structures	Loans in Won currency	Loans in foreign currencies	Bills purchased in foreign currencies	Total
Within 1 month	₩ 2,141,257	₩ 509,678	₩ 616,005	₩ 3,266,940
More than 1 ~ 3 months	4,770,197	784,840	702,073	6,257,110
More than 3 ~ 6 months	9,225,245	642,257	331,198	10,198,700
More than 6 months ~ 1 year	9,823,759	748,377	24,465	10,596,601
More than 1 ~ 3 years	13,322,145	362,249	1,167	13,685,561
More than 3 ~ 5 years	2,093,934	114,939	-	2,208,873
More than 5 years	1,482,430	296,826	12,912	1,792,168
	₩ 42,858,967	₩ 3,459,166	₩ 1,687,820	₩48,005,953

As of December 31, 2002, the details of classification of loans and allowance for possible loan losses are as follows (millions of Won):

### 1) Classification of loans

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (**)
Loans in Won currency (*)	₩40,688,754	₩ 742,239	₩ 404,318	₩ 83,724	₩ 53,588	₩41,972,623
Loans in foreign currencies	3,243,874	142,447	54,937	7,752	202	3,449,212
Bills purchased in foreign currencies	1,673,465	1,802	12,116	25	394	1,687,802
Advances to customers	40,884	17,511	20,459	17,616	9,038	105,508
Credit card loans	1,928,388	97,530	33,035	82,754	18,300	2,160,007
Privately-placed debentures	1,912,938	13,718	56,935	13,210	3,480	2,000,281
Others	122,270	2,635	7,055	14,704	11,792	158,456
	₩49,610,573	₩ 1,017,882	₩ 588,855	₩ 219,785	₩ 96,794	₩51,533,889

(\*) Including bills purchased in Won currency, factoring receivables in Won currency and convertible loans.

(\*\*) Net of present value discounts and excluding bonds purchased on resale agreements, call loans and inter-bank loans.

### 2) Allowance for possible loan losses

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Won currency	₩ 270,332	₩ 54,302	₩ 107,517	₩ 64,958	₩ 53,588	₩ 550,697
Loans in foreign currencies	19,277	14,840	18,065	4,651	202	57,035
Bills purchased in foreign currencies	6,041	38	2,424	14	394	8,911
Advances to customers	205	1,678	4,091	12,922	9,038	27,934
Credit card loans	42,784	11,629	8,273	74,417	18,300	155,403
Privately-placed debentures	9,608	1,863	17,883	7,926	3,480	40,760
Others	79	1,341	3,801	10,354	11,792	27,367
	₩ 348,326	₩ 85,691	₩ 162,054	₩ 175,242	₩ 96,794	₩ 868,107

In accordance with Korean banking regulations, a certain amount of account receivable and suspense receivables is included in the classification of the loans above.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Details of restructured loans, excluding the loans provided to the Daewoo Group of companies due to changes in contractual terms, as of December 31, 2002 are as follows (millions of Won):

	Outstanding loans	Extension of due date & reduction of interest rate	Convertible investment	Converted to equity securities	Convertible bonds	Present value discounts	Restructured value	Losses from restructuring
Workout	₩ 231,982	₩ 113,129	₩ -	₩116,994	₩ 532	₩ 1,327	₩113,129	₩ 1,327
Court receivership	138,097	73,228	-	61,734	-	3,135	73,228	3,135
Court mediation	28,819	28,744	-	-	-	75	28,744	75
Others	422,719	179,385	464	201,185	39,000	2,685	179,385	2,685
	₩821,617	₩ 394,486	₩ 464	₩379,913	₩ 39,532	₩ 7,222	₩394,486	₩ 7,222

During the years ended December 31, 2002, the changes in present value discounts, due to changes in the contractual terms related to troubled debt restructuring, are as follows (millions of Won):

Changes in details	Amount
Beginning balance	₩ 12,449
Transferred in from merger	8,948
Amortized amount (interest income)	(7,231)
Amounted offsetted with allowance for possible loan losses	(3,328)
Ending balance	₩ 10,838

### 8. Property, Plant and Equipment and Intangible Assets:

Property, plant and equipment, and intangible assets as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

#### 1) As of December 31, 2002

	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 656,500	₩ -	₩ 656,500
Buildings, structures and auxiliary facilities	479,889	84,543	395,346
Vehicles, furniture and fixtures	289,844	163,884	125,960
Intangible assets	173,898	-	173,898
Negative goodwill	(199)	-	(199)
Construction in-progress	2,824	-	2,824
Others	5	-	5
	₩ 1,602,761	₩ 248,427	₩ 1,354,334

#### 2) As of December 31, 2001

	Acquisition cost	Accumulated depreciation	Net book value
Land	₩ 186,203	₩ -	₩ 186,203
Buildings, structures and auxiliary facilities	302,518	74,193	228,325
Vehicles, furniture and fixtures	208,338	138,952	69,386
Intangible assets	2,069	-	2,069
Negative goodwill	(808)	-	(808)
	₩ 698,320	₩ 213,145	₩ 485,175

Negative goodwill is being recognized as the bank acquire additional equity of Hana Securities, it's controlled subsidiary. The negative goodwill is amortized over 5 years.

The Banking Act does not permit the bank to own real estate in excess of the bank's shareholders' equity.

In accordance with bank supervisory regulations, the bank's property, plant and equipment, except for land, are covered by insurance policies against fire and other casualty losses up to ₩419,103 million as of December 31, 2002. The government-posted value of the bank's land as of December 31, 2002 and 2001 amounted to ₩552,204 million and ₩180,757 million, respectively.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

## 9. Deposits:

Deposits as of December 31, 2002 and 2001 comprise the following:

Accounts	In Millions of Korean Won	
	2002	2001
<b>Bank account deposits</b>		
Won currency deposits:		
Demand deposits	₩ 3,063,439	₩ 1,746,663
Time and savings deposits	44,487,683	27,429,868
Mutual installment received	1,369,817	887,474
Housing installment deposits	385,301	154,272
	49,306,240	30,218,277
Foreign currency deposits:		
Demand deposits	483,911	369,253
Time and savings deposits	734,258	736,590
	1,218,169	1,105,843
Certificates of deposits:	4,151,134	2,096,576
	54,675,543	33,420,696
<b>Trust account deposits</b>		
Won currency deposits	1,237,995	1,997,650
<b>Hana securities deposits</b>		
Won currency deposits	163,870	134,660
	₩ 56,077,408	₩ 35,553,006

The term structures of deposits as of December 31, 2002 are summarized as follows (millions of won):

Term structures	Won-deposits	Foreign currency deposits	Certificates of deposits	Total
Within 1 month	₩ 9,320,918	₩ 646,542	₩ 1,054,484	₩ 11,021,944
More than 1 ~ 3 months	5,441,429	199,494	286,061	5,926,984
More than 3 ~ 6 months	6,844,605	110,573	2,025,597	8,980,775
More than 6 months ~ 1 year	17,006,508	138,742	572,576	17,717,826
More than 1 ~ 3 years	2,208,270	21,015	211,288	2,440,573
More than 3 ~ 5 years	632,495	1,785	1,128	635,408
More than 5 years	9,253,880	100,018	-	9,353,898
	₩ 50,708,105	₩ 1,218,169	₩ 4,151,134	₩ 56,077,408

## 10. Borrowings:

Borrowings as of December 31, 2002 and 2001 comprise the following:

	Annual interest rate (%)	In Millions of Korean Won	
		2002	2001
<b>Won currency borrowings</b>			
Bank of Korea	2.50	₩ 755,898	₩ 1,202,991
Korean Government	3.89 ~ 6.00	281,635	92,929
Others	2.00 ~ 16.00	702,571	603,264
		1,740,104	1,899,184
<b>Foreign currency borrowings</b>			
Bank overdraft	-	159,544	40,745
Foreign banks and other	6M Libor + 1.13 ~ 1.20	3,574,439	1,323,327
Offshore	1.51 ~ 2.34	502,711	-
		4,236,694	1,364,072
		₩ 5,976,798	₩ 3,263,256

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The subordinated borrowings included in Won currency borrowings as of December 31, 2002 and 2001 comprise the following:

Lender	Annual interest rate (%)	In Millions of Korean Won		Condition of borrowings
		2002	2001	
Kyobo Life Insurance	10.65	₩ 50,000	₩ 100,000	Lump sum redemption
Samsung Life Insurance co.	9.00~13.00	70,000	70,000	"
LG Fire & Marine Insurance	16.00	48,000	48,000	"
		₩ 168,000	₩ 218,000	

The maturities of borrowings as of December 31, 2002 are as follows (millions of Won):

Period	Won-borrowings	Foreign currencies Borrowings (*)	Total
Within 1 month	₩ 795,746	₩ 860,988	₩ 1,656,734
More than 1 ~ 3 months	64,042	1,400,267	1,464,309
More than 3 ~ 6 months	20,688	1,130,371	1,151,059
More than 6 months ~ 1 year	113,429	555,691	669,120
More than 1 ~ 3 years	247,510	324,737	572,247
More than 3 ~ 5 years	277,924	4,697	282,621
More than 5 years	220,765	-	220,765
	₩ 1,740,104	₩ 4,276,751	₩ 6,016,855

(\*) Including due to Bank of Korea in foreign currencies.

## 11. Debentures:

Debentures as of December 31, 2002 and 2001 comprise the following:

Annual interest rate (%)	In Millions of Korean Won		
	2002	2001	
<b>Won currency debentures:</b>			
Subordinated bonds	6.27 ~ 16.00	₩ 2,418,403	₩ 1,349,923
Subordinated convertible bonds	8.00	49,998	49,998
Other bonds	5.44 ~ 10.10	1,180,842	235,000
		3,649,243	1,634,921
(Present value discounts)		(6,979)	-
(Adjustments for conversion rights)		(168)	(1,936)
		3,642,096	1,632,985
<b>Foreign currency debentures:</b>			
Subordinated bonds	L+2.00 ~ 6.80	240,080	310,307
(Present value discounts)		(122)	(761)
		239,958	309,546
		₩ 3,882,054	₩ 1,942,531

Details of the terms of outstanding subordinated convertible bonds as of December 31, 2002 and 2001 are summarized as follows:

Date of issuance	Due date	Annual interest rate (%)	In Millions of Korean Won		
			2002	2001	
<b>Won currency debentures</b>					
Boram 1st	1997.11.25	2003. 1.31	8.00	₩ 30,000	₩ 30,000
Boram 2nd	"	"	"	19,998	19,998
		(Adjustments for conversion rights)		(168)	(1,936)
				₩ 49,830	₩ 48,062

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

	Boram 1st & 2nd
Conversion price	₩ 18,861
Conversion period	1998.11.26~2002.12.31
Disbursement at due date	126.7125% of par value
Interest term	Annual

The maturities of debentures as of December 31, 2002 are as follows (millions of won):

Periods	Won currency debentures	Foreign currency debentures	Total
Within 1 month	₩ 415,000	₩ -	₩ 415,000
More than 1 ~ 3 months	168,033	-	168,033
More than 3 ~ 6 months	287,398	-	287,398
More than 6 months ~ 1 year	75,746	-	75,746
More than 1 ~ 3 years	897,400	-	897,400
More than 3 ~ 5 years	665,136	180,060	845,196
More than 5 years	1,140,530	60,020	1,200,550
	₩ 3,649,243	₩ 240,080	₩ 3,889,323

## 12. Confirmed Acceptances and Guarantees:

Confirmed acceptances and guarantees as of December 31, 2002 comprise the following:

	In Millions of Korean Won
Acceptances and guarantees in Won currency:	₩ 678,627
Acceptances and guarantees in foreign currencies:	
Acceptances for letters of credit	208,702
Letters of guarantee for importers	61,459
Guarantees on credit derivatives	59,139
Others (*)	819,815
	1,149,115
	₩ 1,827,742

(\*) Acceptances and guarantees for the return of advances related to export, overseas bidding, and contractual obligations.

Information about confirmed acceptances and guarantees by industry as of December 31, 2002 is summarized as follows:

Industry	2002	
	Millions of Won	Ratio (%)
Manufacturing	₩ 735,469	40.24
Construction	140,228	7.67
Wholesale and retail	218,689	11.97
Transport and storage	40,382	2.21
Real estate and renting	348,971	19.09
Financial business	3,986	0.22
Others	340,017	18.60
	₩ 1,827,742	100.00

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Information about confirmed acceptances and guarantees in foreign currencies by country as of December 31, 2002 is summarized as follows:

Country	2002	
	Millions of Won	Ratio (%)
Korea	₩ 1,813,250	99.21
China	2,547	0.14
Hong Kong	6,775	0.37
Japan	5,170	0.28
	₩ 1,827,742	100.00

The details of the classification of acceptances and guarantees and reserves for possible losses on acceptances and guarantees as of December 31, 2002 are summarized as follows (millions of Won):

Classifications	Acceptances and guarantees in Won currency		Acceptances and guarantees in foreign currencies		Total		
	Outstanding amount	Amount of reserves	Outstanding amount	Amount of reserves	Outstanding amount	Amount of reserves	Reserve ratio(%)
Normal	₩ 660,998	₩ 17	₩1,088,894	₩ 99	₩1,749,892	₩ 116	0.01
Precautionary	1,977	99	1,353	393	3,330	492	14.77
Substandard	13,498	5,323	11,100	4,841	24,598	10,164	41.32
Doubtful	401	340	430	344	831	684	82.31
Estimated loss	1,753	1,753	47,338	47,338	49,091	49,091	100.00
	₩ 678,627	₩ 7,532	₩1,149,115	₩ 53,015	₩1,827,742	₩ 60,547	

Pursuant to a Government program to support financial institutions in Korea, the bank has sold a substantial amount of non-performing loans and other assets at a discounted price to KAMCO (Korea Asset Management Corporation) on a recourse basis since 1997. As of December 31, 2002, the bank remained contingently liable to KAMCO for the sale price of ₩25,908,000 million of the NPLs that were sold on a recourse basis. Pursuant to the terms of the sale contracts, if such NPLs are restructured but there are certain defaults in payments, KAMCO may exercise its right to request the bank to repurchase certain of these assets at the original sale price paid to KAMCO plus accrued interest. The bank recorded a related reserve for possible losses on acceptance and guarantees amounting to ₩6,655 million as of December 31, 2002.

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

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

#### 1) As of December 31, 2002

	In Millions of Korean Won	In Thousands of U.S.Dollars
<b>Assets :</b>		
Cash and due from banks	₩ 164,851	\$ 137,333
Trading securities	33,033	27,517
Investment securities	708,045	589,841
Loans	3,459,166	2,881,677
Bills purchased in foreign currencies	1,687,820	1,406,050
Others	786,524	655,218
Allowance for possible loan losses	(65,946)	(54,937)
	₩ 6,773,493	\$ 5,642,699
<b>Liabilities :</b>		
Deposits	₩ 1,218,169	\$ 1,014,802
Borrowings	4,236,694	3,529,403
Due to Bank of Korea	40,057	33,370
Debentures	240,080	200,000
Others	700,655	583,686
	₩ 6,435,655	\$ 5,361,261
Confirmed acceptances and guarantees in foreign currency	₩ 1,149,115	\$ 957,277

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

## 2) As of December 31, 2001

	In Millions of Korean Won	In Thousands of U.S.Dollars
<b>Assets :</b>		
Cash and due from banks	₩ 365,587	\$ 275,691
Trading securities	15,778	11,898
Investment securities	914,465	689,593
Loans	997,374	752,121
Bills purchased in foreign currencies	850,421	641,309
Others	836,602	630,873
Allowance for possible loan losses	(39,165)	(29,534)
	₩ 3,941,062	\$ 2,971,951
<b>Liabilities :</b>		
Deposits	₩ 1,105,843	\$ 833,908
Borrowings	1,364,072	1,028,645
Due to Bank of Korea	26,600	20,059
Debentures	310,307	234,000
Others	848,087	639,533
	₩ 3,654,909	\$ 2,756,145
Confirmed acceptances and guarantees in foreign currency	₩ 1,600,188	\$ 1,206,754

## 14. Commitments and Contingencies:

Information on the amount of position and unrealized gains and losses of derivatives as of December 31, 2002 and 2001 is as follows (millions of Won):

### 1) As of December 31, 2002

Derivatives	Amount of Position			Unrealized gains and losses (Recognized)				Capitalized
	Total	Trading	Hedging	Total	Trading	Hedging	Hedging Failure	
Currency								
Forward	₩ 3,481,734	₩3,477,228	₩ 4,506	₩ 3,432	₩3,432	₩ -	₩ -	₩ 3,165
Swap	340,053	340,053	-	492	99	393	-	342
Subtotal	3,821,787	3,817,281	4,506	3,924	3,531	393	-	3,507
Interest rate Swap	675,571	222,224	453,347	4,076	2,488	1,740	(152)	(19,973)
Government bond futures	21,422	-	21,422	-	-	-	-	-
Others	553,725	553,725	-	175	175	-	-	1,013
<b>Total</b>	<b>₩ 5,072,505</b>	<b>₩4,593,230</b>	<b>₩ 479,275</b>	<b>₩ 8,175</b>	<b>₩6,194</b>	<b>₩ 2,133</b>	<b>₩ (152)</b>	<b>₩(15,453)</b>

### 2) As of December 31, 2002

Derivatives	Amount of Position			Unrealized gains and losses (Recognized)				Capitalized
	Total	Trading	Hedging	Total	Trading	Hedging	Hedging Failure	
Currency								
Forward	₩1,601,785	₩ 305,679	₩1,296,106	₩ (3,845)	₩2,676	₩(2,867)	₩(3,654)	₩ (3,845)
Swap	6,107	-	6,107	780	-	780	-	1,115
Subtotal	1,607,892	305,679	1,302,213	(3,065)	2,676	(2,087)	(3,654)	(2,730)
Interest rate Swap	339,631	40,000	299,631	(9,804)	1,195	(10,999)	-	(19,527)
Government bond futures	279,162	-	279,162	-	-	-	-	-
Others	6,631	6,631	-	(314)	(314)	-	-	140
<b>Total</b>	<b>₩2,233,316</b>	<b>₩ 352,310</b>	<b>₩1,881,006</b>	<b>₩(13,183)</b>	<b>₩3,557</b>	<b>₩(13,086)</b>	<b>₩ (3,654)</b>	<b>₩(22,117)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The bank has entered into over-the-counter forward exchange contracts and currency futures and interest rate futures in Korea Futures Exchange (KOFEX). For the year ended December 31, 2002, in relation to these transactions, the bank recorded realized gains on derivatives amounting to ₩170,718 million and realized losses on derivatives amounting to ₩167,312 million, and unrealized gains on derivatives amounting to ₩39,408 million and unrealized losses on derivatives amounting to ₩35,803 million, as other operating income (loss). For the year ended December 31, 2001, the bank recorded realized gains on derivatives amounting to ₩113,999 million and realized losses on derivatives amounting to ₩100,429 million, and unrealized gains on derivatives amounting to ₩18,275 million and unrealized losses on derivatives amounting to ₩22,434 million.

The bank has entered into swap contracts to hedge against the risk of changes in the market interest rate and foreign exchange rate. For the year ended December 31, 2002, in relation to these transactions, the bank recorded realized gains on derivatives amounting to ₩14,942 million and realized losses on derivatives amounting to ₩10,702 million, and unrealized gains on derivatives amounting to ₩15,998 million and unrealized losses on derivatives amounting to ₩11,428 million, as other operating income(loss). For the year ended December 31, 2001, the bank recorded realized gains on derivatives amounting to ₩49,814 million and realized losses on derivatives amounting to ₩44,644 million, and unrealized gains on derivatives amounting to ₩13,984 million and unrealized losses on derivatives amounting to ₩23,007 million.

For the investment securities related to these hedging transactions, the bank also recorded unrealized gains and losses on fair value hedging activities amounting to ₩6,713 million and ₩8,585 million, respectively, as other operating income(loss), for the year ended December 31, 2002. For the year ended December 31, 2001, unrealized gains and losses on fair value hedging activities amounting to ₩23,551 million and ₩8,018 million, respectively.

In the normal course of business, the bank enters into outstanding commitments, which under the banking accounting standards in the Republic of Korea, are not reflected in the accompanying financial statements. In the opinion of management, these do not represent unusual risks of losses for the bank. Certain commitments represent various degrees and types of risk to the bank, including credit, interest rate, foreign exchange rate, and liquidity risk. In many cases, the commitments involving interest and foreign exchange result from decisions to hedge overall interest rate and foreign exchange risk.

As of December 31, 2002 and 2001, the amounts of commitments in the ordinary course of business are as follows:

	In Millions of Korean Won			
	2002		2001	
Loan commitments	₩	19,822	₩	18,129
Security repurchase commitments		4,418		34,479
	₩	24,240	₩	52,608

As of December 31, 2002, 174 lawsuits related to the bank's operations, in which the bank is named as a plaintiff, are in progress, and the total filed amount is ₩117,284 million. Also 85 lawsuits, in which the bank is named as a defendant, are in progress, and the total filed amount is ₩117,162 million.

Material lawsuits in progress, filed with the bank as a defendant, are as follows (millions of Won):

Plaintiff	Amount	Situation of lawsuit		
		Trial on a court	Trial on a higher court	Trial on the Supreme Court
Insolvents of Shinhan Merchant Bank	₩ 4,447	In-progress	-	-
Taehung Construction	2,200	In-progress	-	-
Hwang Jonghak	1,392	Lost	In-progress	-
LG Insurance	2,922	Lost	In-progress	-
Hanwha Securities	14,653	Won	In-progress	-
Hanwha Merchant Bank	1,000	Partially won	In-progress	-
Samyang Merchant Bank	3,987	Won	In-progress	-
Seoul Olympic Sports Promotion Foundation	1,430	In-progress	-	-
Information & Communication Financial Cooperative	2,635	Partially won	In-progress	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The bank's management believes that the outcome of these matters is uncertain but, in any event, they will not result in a material adverse impact on the bank's financial position or operations.

The bank has entered into credit line commitments (₩1,229,750 million limit) with several special purpose (asset-back securitization) companies to supply sufficient funds for the repayment of bonds issued by the companies. There is no utilization of credit line as of December 31, 2002. Rationally expected annual credit amounts to be utilized are ₩3,130 million and ₩2,188 million in 2003 and 2004, respectively.

Among the written-off claims of the bank, the amounts on which the legal rights of claims have not been expired are ₩2,063,947 million and ₩838,366 million as of December 31, 2002 and 2001, respectively.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The bank may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above.

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

### 15. Capital Stock :

On December 1, 2002, the bank issued 61,080,000 shares of common stock in relation to the merger between Hana Bank and Seoul Bank and the paid-in-capital in common stock increased by ₩305,400 million.

The bank also increased the paid-in-capital in common stock by the amount of ₩26,222 million from the stock dividends during the current year.

### 16. Income Tax Expense :

Income tax expense for the years ended December 31, 2002 comprise the following:

	In Millions of Korean Won	
Current income taxes	₩	143,621
Deferred income taxes		(709)
	₩	142,912

The statutory income tax rate applicable to the bank, including resident tax surcharges, is approximately 29.7%. However, the effective tax rate for the year ended December 31, 2002 is approximately 29.9, due to the above adjustments.

As of December 31, 2002, deferred income tax assets (liabilities) from temporary differences comprise the following (millions of Won):

	Total amounts		Deferred income tax assets (liabilities)	
Accumulated temporary differences as of the beginning of the year	₩	434,549	₩	129,061
Transferred in from merger		46,059		13,680
Changes in temporary differences		(6,928)		(2,058)
<b>Sub total</b>		<b>473,680</b>		<b>140,683</b>
Adjusted amount of temporary differences due to Merger and Acquisition		9,646		2,865
<b>Total</b>	₩	<b>483,326</b>	₩	<b>143,548</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

### 17. Consolidated Earnings Per Share and Ordinary Income Per Share:

Consolidated earnings per share and ordinary income per share for the years ended December 31, 2002 and 2001 are calculated as follows:

	In Millions of Korean Won	
	2002	2001
<b>Consolidated ordinary income per share</b>		
Consolidated ordinary income after income tax expense	₩320,949,611,504	₩321,777,596,346
Dividends on preferred stock	-	(3,100,400,000)
	320,949,611,504	318,677,196,346
Weighted average of common shares (*)	140,459,422	136,352,203
Consolidated ordinary income per share	₩ 2,285	₩ 2,337
<b>Consolidated earnings per share</b>		
Consolidated net income	₩320,952,642,008	₩321,778,606,838
Dividends on preferred stock	-	(3,100,400,000)
	320,952,642,008	318,678,206,838
Weighted average of common shares (*)	140,459,422	136,352,203
Consolidated earnings per share	₩ 2,285	₩ 2,337

(\*) Weighted average number of common shares.

Diluted consolidated earnings per share and diluted ordinary income per share for the years ended December 31, 2002 and 2001 are calculated as follows:

	In Millions of Korean Won	
	2002	2001
<b>Diluted consolidated ordinary income per share</b>		
Consolidated ordinary income after income tax expense	₩320,949,611,504	₩ 321,777,596,346
Compensation cost for stock option after income tax expense	417,709,442	686,201,324
Interest expense on convertible bonds after income tax expense	-	3,867,613,866
	321,367,320,946	326,331,411,536
Weighted average number of common shares (*)	140,858,926	179,236,995
	₩ 2,281	₩ 1,821
<b>Diluted consolidated earnings per share</b>		
Consolidated net Income	₩320,952,642,008	₩ 321,778,606,838
Compensation cost for stock option after income tax expense	417,709,442	686,201,324
Interest expense on convertible bonds after income tax expense	-	3,867,613,866
	321,370,351,450	326,332,422,028
Weighted average number of common shares (*)	140,858,926	179,236,995
	₩ 2,282	₩ 1,821

(\*) Weighted average number of common shares



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

## 18. Inter-Company Transaction:

Significant transactions between the bank and its subsidiaries during the years ended December 31, 2002 and 2001, and related account balances as of December 31, 2002 and 2001 are as follows (millions of Won):

### 1) As of December 31, 2002

Related parties	Transactions			Account balances	
	Interest income	Interest expenses	Consulting fees	Loans	Deposits
Hana Securities	₩ 5,066	₩ 3,896	₩ -	₩ 13,532	₩ 3,464
Hana Research	-	11	1,036	-	596
Hana Allianz	13,436	2,089	-	200,727	12,672
Hana Funding Ltd.	-	871	-	-	237,889
Seoeun System Ltd.	-	-	1,772	-	1,799
BC Card Co., Ltd.	-	4,538	-	-	-
	₩ 18,502	₩ 11,405	₩ 2,808	₩ 214,259	₩ 256,420

### 2) As of December 31, 2001

Related parties	Transactions			Account balances	
	Interest income	Interest expenses	Consulting fees	Loans	Deposits
Hana Securities	₩ 680	₩ 1,161	₩ -	₩ 3,743	₩ 31,152
Hana Research	-	17	889	-	163
Hana Allianz	14,098	1,418	-	684,000	18,748
	₩ 14,778	₩ 2,596	₩ 889	₩ 687,743	₩ 50,063

## 19. Merger between Hana Bank and Seoul Bank:

### Details of M&A contracts

Hana Bank entered into a business combination contract ("the Contract") with Seoul Bank on September 27, 2002 and obtained approval from its shareholders for such combination on November 14, 2002. In accordance with the Contract, Hana Bank completed the legal consolidation with Seoul Bank as of December 1, 2002. The surviving entity, Seoul Bank was renamed Hana Bank ("the bank") upon completion of the transaction. Although the business combination took the legal form of a consolidation, Hana Bank acquired Seoul Bank's total assets amounting to ₩24,393,257 million and total liabilities amounting to ₩23,560,934 million by applying the purchase method of accounting. Also, in accordance with the Contract, the shareholders of Seoul Bank received one new common share of the Bank for every two shares of Seoul Bank. The new common shares of the bank was listed on the Korea Stock Exchange on December 13, 2002.

### The former Hana Bank

The former Hana Bank was incorporated in 1971 as Korea Investment and Finance Corporation under the Commercial Code of the Republic of Korea to provide financing services as a financial intermediary. On September 20, 1972, the former Hana Bank was granted approval by the Ministry of Finance (presently the Ministry of Finance and Economy) to operate under the short-term Financing Business Law.

On June 29, 1991, the former Hana Bank was granted approval by the Ministry of Finance to engage in banking activities and the bank's name was changed to Hana Bank. It became a nationwide commercial bank in July 1991.

On June 29, 1998, the former Hana Bank purchased certain assets and assumed most of the liabilities of Choong-Chung Bank by the order of the Financial Supervisory Commission. As of January 1, 1999, the former Hana Bank completed a merger with Boram Bank.

### The former Seoul Bank

The former Seoul Bank was incorporated in November 1959 under the General Banking Act, and merged with Korea Trust Bank in August 1976.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The condensed financial statements of the former Hana Bank and the former Seoul Bank as of December 31, 2001 and November 30, 2002 and for the year and eleven month period then ended are as follows (in millions of Won):

### 1) Balance Sheets as of December 31, 2001

Account	The former Hana Bank	The former Seoul Bank	Total
Cash and due from banks	₩ 2,482,063	₩ 1,976,602	₩ 4,458,665
Trading securities	454,137	70,233	524,370
Investment securities	11,340,725	6,105,590	17,446,315
Loans	28,920,148	12,171,297	41,091,445
Property, plant and equipment	418,541	651,016	1,069,557
Other	1,686,190	756,604	2,442,794
<b>Total assets</b>	<b>₩ 45,301,804</b>	<b>₩ 21,731,342</b>	<b>₩ 67,033,146</b>
Deposits	₩ 33,450,073	₩ 15,495,942	₩ 48,946,015
Borrowings	4,863,027	2,558,054	7,421,081
Debentures	1,942,531	588,915	2,531,446
Other	3,117,515	2,402,877	5,520,392
<b>Total liabilities</b>	<b>43,373,146</b>	<b>21,045,788</b>	<b>64,418,934</b>
Capital stock	853,549	610,800	1,464,349
Capital surplus	408,956	15,293	424,249
Retained earnings	628,121	104,430	732,551
Capital adjustments	38,032	(44,969)	(6,937)
<b>Total shareholders' equity</b>	<b>1,928,658</b>	<b>685,554</b>	<b>2,614,212</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 45,301,804</b>	<b>₩ 21,731,342</b>	<b>₩ 67,033,146</b>

### 2) Balance Sheets as of November 30, 2002

Account	The former Hana Bank	The former Seoul Bank	Total
Cash and due from banks	₩ 2,549,662	₩ 1,014,015	₩ 3,563,677
Trading securities	699,982	350,624	1,050,606
Investment securities	9,693,123	4,779,525	14,472,648
Loans	34,459,645	16,543,258	51,002,903
Property, plant and equipment	454,716	619,296	1,074,012
Other	2,209,115	1,086,539	3,295,654
<b>Total assets</b>	<b>₩ 50,066,243</b>	<b>₩ 24,393,257</b>	<b>₩ 74,459,500</b>
Deposits	₩ 36,173,360	₩ 19,263,119	₩ 55,436,479
Borrowings	5,620,902	2,341,924	7,962,826
Debentures	3,309,943	571,155	3,881,098
Other	2,945,943	1,384,736	4,330,679
<b>Total liabilities</b>	<b>48,050,148</b>	<b>23,560,934</b>	<b>71,611,082</b>
Capital stock	681,761	305,400	987,161
Capital surplus	409,040	320,694	729,734
Retained earnings	908,501	174,813	1,083,314
Capital adjustments	16,793	31,416	48,209
<b>Total shareholders' equity</b>	<b>2,016,095</b>	<b>832,323</b>	<b>2,848,418</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 50,066,243</b>	<b>₩ 24,393,257</b>	<b>₩ 74,459,500</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

### 3) Income Statements for the year ended December 31, 2001

Account	The former Hana Bank	The former Seoul Bank	Total
Operating revenue	₩ 3,592,293	₩ 1,817,508	₩ 5,409,801
Operating expense	3,201,928	1,811,380	5,013,308
<b>Operating income</b>	<b>390,365</b>	<b>6,128</b>	<b>396,493</b>
Non-operating income	132,251	147,944	280,195
Non-operating expenses	45,936	93,377	139,313
<b>Ordinary income</b>	<b>476,680</b>	<b>60,695</b>	<b>537,375</b>
Income tax (expense) benefit	(151,411)	40,718	(110,693)
<b>Net income</b>	<b>₩ 325,269</b>	<b>₩ 101,413</b>	<b>₩ 426,682</b>

### 4) Income Statements for the year ended November 30, 2002

Account	The former Hana Bank	The former Seoul Bank	Total
Operating revenue	₩ 3,254,568	₩ 1,628,744	₩ 4,883,312
Operating expense	2,871,285	1,512,680	4,383,965
<b>Operating income</b>	<b>383,283</b>	<b>116,064</b>	<b>499,347</b>
Non-operating income	153,389	75,837	229,226
Non-operating expenses	120,372	121,374	241,746
<b>Ordinary income</b>	<b>416,300</b>	<b>70,527</b>	<b>486,827</b>
Income tax expense	(135,811)	(12)	(135,823)
<b>Net income</b>	<b>₩ 280,489</b>	<b>₩ 70,515</b>	<b>₩ 351,004</b>

## 20. Reclassification of Consolidated Financial Statement as of December 31, 2001:

Certain accounts in the consolidated financial statements as of December 31, 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported consolidated net income or stockholders' equity.

## 21. Loan Transaction with SK Global Ltd.:

The total amount of loans (including confirmed acceptances and guarantees and securities) provided to SK Global Ltd. and its foreign subsidiaries totaled ₩483,985 million at December 31, 2002. An investigation is in progress about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the bank's actual loss from these loans may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

# Subsidiaries

## Hana Research Institute

- Collects and analyzes economic/financial information.
- Publishes periodic reports on the latest economic trends and issues.
- Address: 101-1, Euljiro 1-ga, Jung-gu, Seoul 100-191, Korea

## Hana Securities Co., Ltd.

- Engaged in the underwriting and brokerage of both debt and equity securities.
- Provides investment advisory services on demand.
- Address: Hana Securities Bldg., 9th Fl., 23-3 Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea

## Hana Allianz Investment Trust Management Company

- 50:50 joint venture with Allianz AG
- Cover both retail and institutional clients, pursuing sound fundamentals and risk controlled investment
- Address: Hana Securities Bldg., 9th Fl. 23-3, Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea

## Hana Life Insurance Co., Ltd

- Strategic alliance with Allianz AG(50:50 jointventure)
- Serves as Hana Bank's distribution channel to insurance market through bancassurance.
- Address: 17th Floor, 101-1, Euljiro 1-ga, Jung-gu, Seoul 100-191, Korea

## BC Card Company

- Supports operating processes of credit card business owned by commercial banks in Korea.
- Specialized in installment financing and new technology financing business under the Credit Specialty Finance Business Act.
- Address: 1587, Seocho-dong, Seocho-gu, Seoul, Korea

## Korea Non-Bank Lease Financing Co., Ltd.

- A financial consortium to serve for efficient liquidation of failed lease contracts.
- Address: 88, Seorin-dong, Jongno-gu, Seoul, Korea

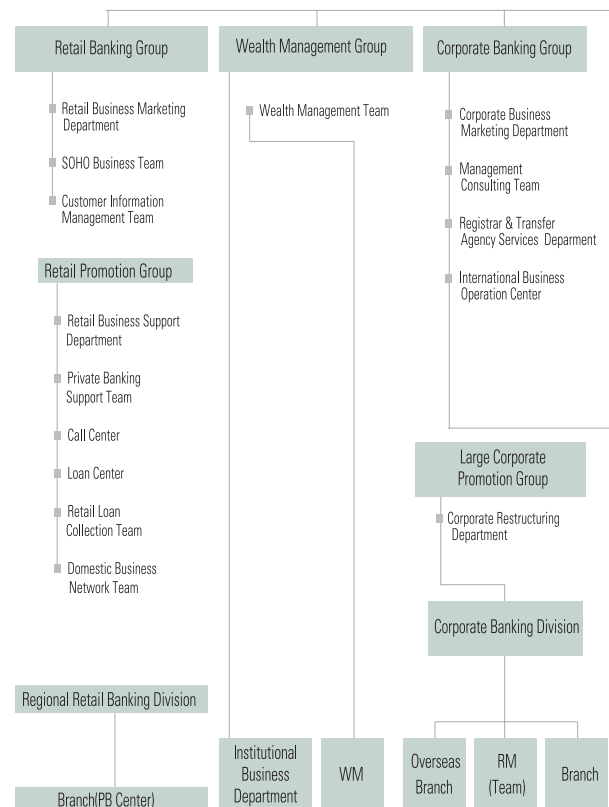
## Hana INS

- Provides accounting and financial for several public firms.
- Serves as IT hub of Hana Finance Group.
- Address: 7-14, Sincheon-dong, Songpa-gu, Seoul, Korea

## Hana Funding Ltd.

- A special purpose vehicle to issue Hybrid Tier1 Securities worth of US\$ 200 million.
- Address: PO Box 309GT, Uglad House, South Church Street, George Town, Grand Cayman, Cayman Islands

Steering Committee of BOD



# Organization Chart

# Board of Directors

**Seung-Yu Kim** (c)(d)(f)  
*Chairman & CEO*  
Hana Bank

**Kyo-Joong Yoon** (c)(d)(f)  
*Senior Deputy President*  
Hana Bank

**Jong-Yeol Kim** (d)  
*Deputy President*  
Hana Bank

**In-Su Lee** (d)  
*Deputy President*  
Hana Bank

**Kwang-Yong Jang** (a)  
*Standing Audit Committee Member*  
Hana Bank

**Jae-Chul Kim** (b)(e)(f)(g)  
*Chairman, Dongwon Group*  
*Chairman, Korea International Trade Association*

**Joo-Song Kim** (a)(b)(d)(e)(f)(g)  
*President*  
Kolon Corporate Restructuring Committee

**Yong-Maan Park** (b)(e)(f)(g)  
*President*  
Doosan Corporation

**Sang-Hyun Song, J.D.** (a)(d)(e)(g)  
*Professor of Law, Seoul National University*  
*Judge, International Criminal Tribunal*

**Sang-Boo Yoo** (b)(e)(f)(g)  
*Standing Counselor, POSCO*  
*Vice Chairman, Federation of Korean Industries*  
*Vice Chairman, Korea-Japan Economic Association*

**Jang-Yung Lee** (c)(e)(g)  
*Senior Research Fellow*  
Korea Institute of Finance

**K.J. Chang** (d)(e)(f)(g)  
*Vice Chairman*  
Dongbu Financial Group

**Hyo-Soon Choi** (a)(c)(e)(g)  
*General Manager*  
Korea Deposit Insurance Corp.

**Alfred Baldes, Ph.D.** (c)(d)(e)(f)(g)  
*COO & Deputy CEO*  
Allianz Dresdner Asset Management Asia Pacific

**Roy A. Karaoglan, Ph.D.** (c)(e)(g)  
*Consultant*  
Internatinal Finance Corporation

- (a) Member of Audit Committee
- (b) Member of Management Development & Compensation Committee
- (c) Member of Risk Committee
- (d) Member of Board of Directors Steering Committee
- (e) Member of Candidate Recommendation Committee for Audit Committee
- (f) Member of Candidate Recommendation Committee for Outside Directors
- (g) Member of Candidate Recommendation Committee for CEO

# Shareholders Information

Share Data (As of 31 December 2002)			
Type	Number of Authorized Shares	Number of Issued Shares	Par value
Registered Common Share	2,000,000,000	197,432,203	₩5,000

\* 5,244,315 new common shares were issued as stock dividends on 26 March 2002.

\* 39,602,000 shares of existing preferred shares were fully retired as of 26 April, 2002.

\* Due to the merger with Seoul Bank effective as of 1 December 2002, the number of shares authorized and shares issued increased by 1.5 billion shares and 61,080,000 shares, respectively

\* The Bank's stock options outstanding at 31 December 2002 are 2,415,620 shares.

\* As of 31 December 2002, which was the last day of conversion period, outstanding convertible bonds amounted to ₩49,998 million Korean Won. None of them, however, was converted at the end of conversion period. The bonds were redeemed as scheduled. The maturity date was 31 January 2003.

Share Data Trend					
	1998	1999	2000	2001	2002
Dividends Declared Per Share					
(Cash - Korean Won)	400	400	200	200	500
(Stock - Shares)	-	-	-	0.04	-
EPS (Korean Won)	1,790	1,353	124	2,457	2,304
BPS (Korean Won)	12,346	11,735	11,442	12,692	15,863
Share Price (High)	14,500	19,500	11,800	17,050	21,700
Share Price (Low)	3,450	8,000	4,320	5,550	15,200
P/E (Times)	1.9 ~ 8.1	5.9 ~ 14.4	34.8 ~ 95.2	2.26 ~ 6.94	6.60 ~ 9.41

Major Shareholders (As of 31 December 2002)					
Name	Number of Owned Shares	(%)	Name	Number of Owned Shares	(%)
Korea Deposit Insurance Corporation	54,972,000	27.84	POSCO	6,491,665	3.29
Allianz AG	16,113,528	8.16	Doosan Group	6,226,477	3.15
Dongwon Group	9,300,866	4.71	DongBu Group	5,454,010	2.76
International Finance Corporation	8,620,570	4.37	MSCO-Stand Pac Cap	4,217,444	2.14
Kolon Group	7,944,854	4.02	MSIL-SR Inv (L) Ltd	2,159,005	1.09

## Stock Listing

Korea Stock Exchange : Common Stock

London Stock Exchange : Global Depository Receipts

## Transfer Agent and Registrar

Registrar & Transfer Agency Services Dept., Hana Bank 43-2 Yoido-dong, Youngdungpo-gu, Seoul, Korea

## GDR Depository

Citibank, N.A. 111 Wall Street 20th Floor/Zone 7, New York, NY 10005, U.S.A.

# Executive Officers

## STRATEGIC PLANNING DIVISION

**Kang M. Lee**

*Senior Executive Vice President & Division Head*

Strategic Planning Division

**Woo-Kong Lee**

*General Manager*

Planning & Management Department

**Joon-Sang Shin**

*General Manager*

Strategy Development Department

**Hong-Kyu Lee**

*General Manager*

EC Business Team

**Gyeong-Hoi Koo**

*General Manager*

Accounting Team

**Yong-Gwan Kang**

*General Manager*

Communications Team

**Je-Bong Yoo**

*General Manager*

Investor Relations Team

## RISK MANAGEMENT DIVISION

**Jeong-Ho Suh, Ph.D.**

*Senior Executive Vice President & Chief Risk Officer*

Risk Management Division

**Byung-Seok Min**

*General Manager*

Risk Management Group

**Seong-Hwan Koo**

*General Manager*

Credit Control Team

## RETAIL BANKING GROUP

**Hee-Won Shim**

*Senior Executive Vice President & Group Head*

Retail Banking Group

**Sam-Deuk Kim**

*Regional Head*

Kang-Dong Regional Retail Banking Division

**Bong-Yong Kim**

*Regional Head*

Northern Regional Retail Banking Division

**Sang-Bum Kim**

*Regional Head*

Northwestern Regional Retail Banking Division

**Seung-Won Suh**

*Regional Head*

Western Regional Retail Banking Division

**Byong-Kap Yoon**

*Regional Head*

Central Regional Retail Banking Division

**Sung-Soo Lee**

*Regional Head*

Seo-Cho Regional Retail Banking Division

**Gyung-Ho Jo**

*Regional Head*

Ho-Nam Regional Retail Banking Division

**Doug-Joong Jo**

*Regional Head*

Kang-Seo Regional Retail Banking Division

**Im-Gul Choi**

*Regional Head*

Southern Regional Retail Banking Division

**Won-Pyo Hong**

*Regional Head*

Kang-Nam Regional Retail Banking Division

**Kang-Bok Lee**

*General Manager*

Retail Business Marketing Department

**Tae-Gil Kwon**

*General Manager*

SOHO Business Team

**Phil-Hee Hong**

*General Manager*

Customer Information Management Team

**Yong-Sik Roh**

*General Manager*

Retail Business Support Department

**Hyung-Il Lee**

*General Manager*

PB Support Team

**Hak-Jin Kim**

*General Manager*

Seoul Call Cent

**Soon-Tae Yoon**

*General Manager*

Daejeon Call Center

**Jong-Oh Lim**

*General Manager*

Loan Center

**Chun-Sik Hong**

*General Manager*

Collection Team

**Myung-Bo Kim**

*General Manager*

Domestic Business Network Team

## WEALTH MANAGEMENT GROUP

**Jong-Jun Kim**

*Executive Vice President & Group Head*

Wealth Management Group

**Ji-Sup Lee**

*General Manager*

Wealth Management Team

## CORPORATE BANKING GROUP

**Hoon-Kyu Kim**

*Senior Executive Vice President & Group Head*

Corporate Banking Group

**Hee-Dae Kim**

*Senior Executive Vice President & Group Head*

Large Corporate Promotion Group

**Jin-Sung Kim**

*Division Head*

Corporate Banking Division I

**Ho-Dal Kwon**

*Division Head*

Central Corporate Banking Division

**Sang-Yeol Nam**

*Division Head*

Corporate Banking Division II

**Yong-Seung Yang**

*Division Head*

Large Corporate Banking Division I

**Chang-Sup Lim**

*Division Head*

Kyung-In Corporate Banking Division

**Bo-Sik Jeon**

*Division Head*

Large Corporate Banking Division II

**Nam-Sun Gee**

*Division Head*

Corporate Banking Division III

**Hwan-Gap Kim**

*General Manager*

Corporate Business Marketing Department

**Nam-Yong Lee**

*General Manager*

Corporate Restructuring Department

**Yeon-Seok Roh**

*General Manager*

Registrar & Transfer Agency Services

**Chan-Jong Lee**

*General Manager*

International Business Operation Center

**Jong-Yo Kim**

*General Manager*

Small & Medium Corporate Support Team

## CREDIT CONTROL DIVISION

**Chang-Sup Rhim**

*Senior Executive Vice President & Division Head*

Credit Control Division

**Ik-Pyo Chae**

*General Manager*

Credit Analysis Department

**Won-Jae Jeon**

*General Manager*

Credit Review Team

## INVESTMENT BANKING GROUP

**Eugene H.J. Bang**

*Senior Executive Vice President & Group Head*

Investment Banking Group

**Seung-Bae Park**

*General Manager*

Investment Banking Team



## CHUNGCHONG BUSINESS GROUP

### Sung-Ho Choi

Senior Executive Vice President & Group Head

Chungchong Business Group

### Youn-Kyu Shim

Regional Head

Chungchong Business Group

### Choon Jung

Regional Head

Chungchong Business Group

### Byeong-Hwan Lee

General Manager

Chungchong Loan Center

### Kyung-Sam Kim

General Manager

Chungchong Planning & Management Team

### Seung-Cheol Nam

General Manager

Chungchong Corporate Banking Team

### Dong-Jin Yang

General Manager

Chungchong Business Support Team

### Ji-Ho Yoon

General Manager

Chungchong Business Promotion Team

### Sang-Jong Yoo

General Manager

Chungchong Credit Management Team

## YEONGNAM BUSINESS GROUP

### Jung-Tae Kim

Senior Executive Vice President & Group Head

Yeongnam Business Group

### Tae-Oh Kim

Regional Head

Daegu/Gyeongbuk Regional Banking Division

### Tae-Seop Lee

Regional Head

Busan/Gyeongnam Regional Banking Division

### Jong-Jin Park

General Manager

Yeongnam Management Support Team

### Hyung-Soo Lee

General Manager

Yeongnam Business Promotion Team

## TREASURY DIVISION

### Chong-Suk Choi

Senior Executive Vice President & Division Head

Head

Treasury Division

### Kwang-Joong Ko

General Manager

Treasury & Management Department

### Won-Kyu Lee

General Manager

Trading & Investment Department

## TRUST BUSINESS DIVISION

### Sang-Seong Oh

Senior Executive Vice President & Division Head

Head

Trust Business Division

### Moon-Hwan Bae

General Manager

Trust Department

### Young-Jin Yang

General Manager

Trustee & Custodian Services

### Nam-Kyu Park

General Manager

Real Estate Banking Team

## BUSINESS SUPPORT GROUP

### Jeong-Gyeong Lee

General Manager

Operation Support Department

### Hye-Ran, Shin

General Manager

Branch Operation Support Team

### Yong-Jae Kim

General Manager

Customer Service Center

### Dong-Hee, Kim

General Manager

Security Control Department

### Jae-Young Song

Senior Executive Vice President & Group Head

Head

Business Support Group

## INFORMATION TECHNOLOGY DIVISION

### Se-Woong Kim

Executive Vice President & Division Head

Information Technology Division

### Seung-Sik Kim

Manager

IT Planning Team

### Young-In Oh

Manager

Banking System Development Team

### Kyung-Uh Yoon

Manager

IT Management Team

### Dong-Jun Lee

Manager

Information System Development Team

## CREDIT CARD DIVISION

### Won-Sop Shin

General Manager

Credit Card Business Planning & Administration Team

### Jae-Hwan Son

General Manager

Credit Card Business Promotion Team

## HUMAN RESOURCES

### Ken J Kim

Senior Executive Vice President

Human Resources Department

### Tae-Young Choi

General Manager

Human Resources Department

### Young-Ho Lim

General Manager

Human Resources Development Team

## COMPLIANCE MANAGEMENT TEAM

### Hwan-Sang Koh

Compliance Officer

## SPECIAL INSPECTION TEAM

### Seong-Ho Park

General Manager

## SECRETARIAT

### Chang-Sik Choi

General Manager

## AUDIT & EXAMINATION DEPARTMENT

### Jin-Ho Chu

General Manager

## MEDIA RELATIONS TEAM

### Young-Jin Kang

General Manager

# Corporate Information

## ■ HEAD OFFICE

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Hana Bank Building: 101-1 Euljiro 1-ga, Jung-gu, Seoul 100-191, Korea  
Seoul Bank Building: 10-1, Namdaemunno 2-ga, Jung-gu, Seoul 100-746, Korea  
Tel: (82-2) 2002-1111  
Hana Telex: K25914 SWIFT: HNBKRSE Hana Reuter Code: HNBH  
Seoul Telex: K23311~23314 Seoul SWIFT: BSEOKRSE Seoul Reuter Code: SELH  
Home Page: <http://www.hanabank.com>

## ■ NETWORK

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591 domestic branches and 5 overseas branches as of December 31, 2002

## ■ NUMBER OF EMPLOYEES

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7,054 as of December 31, 2002

## ■ OVERSEAS BRANCHES

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Hana Bank Hong Kong Branch  
64A Bank of China Tower, 1 Garden Road, Central, Hong Kong  
Tel: (852) 2522-3646

Hana Bank Singapore Branch  
PWC Building #23-6, 8 Cross Street, Singapore 048424  
Tel: (65) 6438-4100

Hana Bank Shanghai Branch  
Room 3302-3303, Bank of China Tower, 200 Yin cheng Road Central,  
Pudong New Area, Shanghai 200120 P.R.C  
Tel: (86-21) 5037-2121

Hana Bank New York Branch  
West Building 24th Fl., 280 Park Avenue New York, NY 10017 U.S.A.  
Tel: (1-212) 687-6160

Hana Bank Tokyo Branch  
New Nisseki Bldg. 1st Fl., 4-2 Marunouchi 3 Chome, Chiyoda-Ku, Tokyo, Japan  
Tel: (81-3) 3213-0901

## ■ INVESTMENT BANKING

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Investment Banking Group  
Hana Securities Bldg. 14th Fl., 23-3 Yeouido-dong, Yeongdeungpo-gu, Seoul 150-010, Korea  
Tel: (82-2) 3771-2380  
FAX: (82-2) 3771-2388~9  
Email: [ebang@hanabank.com](mailto:ebang@hanabank.com)

## ■ CORRESPONDENT BANKING

---

Treasury & Management Department, Treasury Division  
Tel: (82-2) 2002-2577  
FAX: (82-2) 775-7472  
Email: [correspondent@hanabank.com](mailto:correspondent@hanabank.com)

## ■ INVESTOR RELATIONS

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Investor Relations Team, Strategic Planning Division  
Tel: (82-2) 2002-1661  
FAX: (82-2) 774-4543  
Email: [hanair@hanabank.com](mailto:hanair@hanabank.com)



101-1 Euljiro 1-ga, Jung-gu, Seoul 100-191, Korea

Tel : (82-2)2002-1111

Telex : K25914 SWIFT : HNBKRSE Reuter Code : HNBH

<http://www.hanabank.com>