Annual Report **2000**

KEB

KOREA EXCHANGE BANK

keb.co.kr

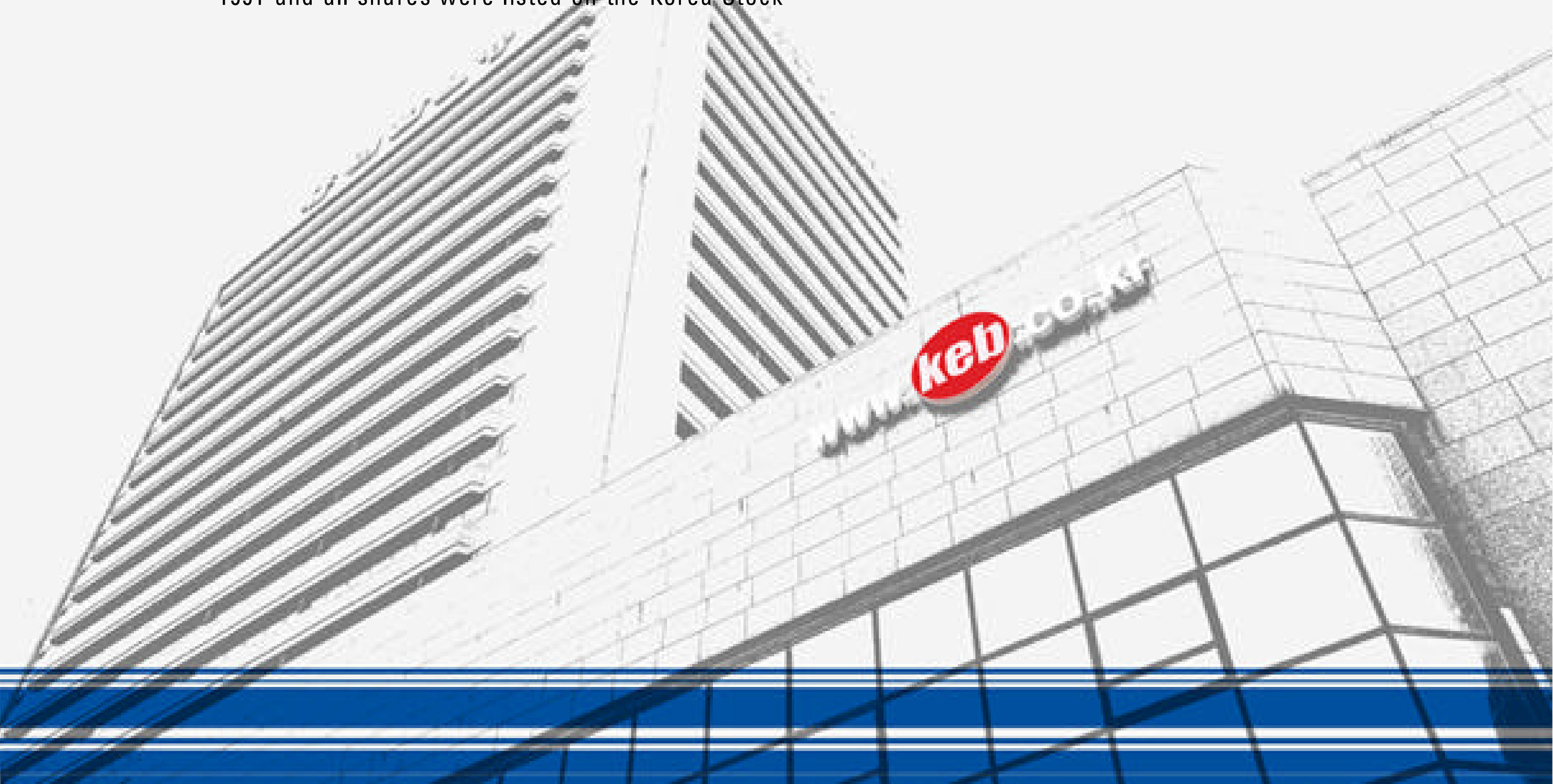
www.keb.co.kr

Profile

Korea Exchange Bank (KEB) was established as a government-owned bank in January 1967, when it was separated from the Bank of Korea to specialize in the foreign exchange and trade business. For the following decade, KEB was the only Korean bank to offer trade financing and foreign exchange services.

To keep pace with Korea's booming economic growth in the 1970s, the Bank expanded and diversified its activities to include a full range of commercial banking services with extensive financial networks at home and abroad. In 1977, when trade finance and foreign banking businesses were liberalized to spur the export-driven economy, the Bank ventured into commercial banking after losing its proprietary grip on these lucrative sectors. KEB, a latecomer to commercial banking steadfastly developed a wide range of innovative products and services, built up a strong customer base and established extensive branch networks while continuing to sharpen its traditional dominance in international banking. Following privatization in 1989, the Bank offered its shares for public ownership in 1991 and all shares were listed on the Korea Stock Exchange in 1994. The Bank has since enjoyed the distinction of being one of the leading commercial banks in Korea. In July 1998, the Bank increased its capital to W1,175 billion by successfully attracting W350 billion capital participation from Commerzbank. The Bank, during April 1999, further increased its capital to W2,481 billion through a successful rights offering of W1,022 billion, in which Commerzbank increased its stake in the Bank by additionally investing W260 billion. Most recently, major shareholders participated in a capital increase of W610 billion during December 2000, when Commerzbank invested an additional W210 billion and Export Import Bank of Korea invested W400 billion.

KEB is a banking pioneer on a number of fronts: it is the first Korean bank to establish overseas branches and subsidiaries, as well as the first to introduce cash dispensers, credit cards, and an on-line deposit/withdrawal system. As of December 31, 2000, KEB had 269 branches and 4 subsidiaries in the domestic market and 21 branches and 11 subsidiaries in overseas markets.



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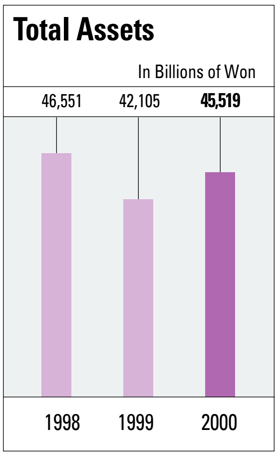
Financial Highlights

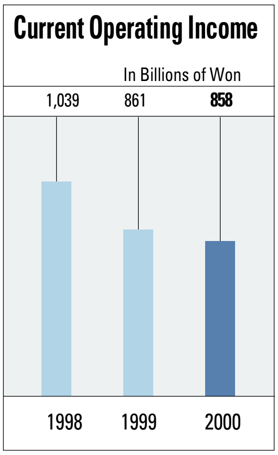
Selected Non-consolidated Financial Data for Korea Exchange Bank

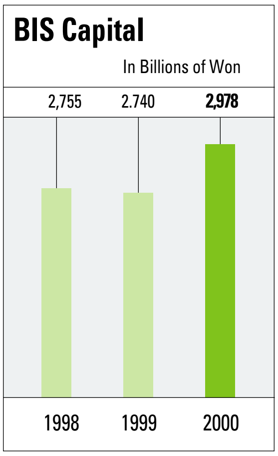
(in billions of KRW)

	2000	1999
At Year's End		
Total Assets[1]	45,519	42,105
Loans	20,970	18,558
Deposits	30,055	26,814
Shareholders' Equity	1,413	1,468
For the Year		
Total Income	4,168	4,188
Total Expenses	4,561	4,979
Current Operating Income[2]	858	861
Net Income before Income Taxes	(394)	(792)
Net Income (Loss)	(404)	(803)

1. Excluding Customers' Liabilities on guarantees and acceptances.
2. Current Operating Income = Operating Income (Net Income before Taxes + Provisions) - Gains/Losses on Stock Trading - Gains/Losses on Asset Sales







Message from the President

In 2000 Korea Exchange Bank continued to make further progress in restructuring its operations within a demanding domestic and international environment. The Korean economy slowed during the year from the very high growth rates of 1999, however exports still expanded 20% and consumer demand remained buoyant. During the year Korea attracted US$15.7bn of foreign direct investment and also saw over US$11bn of net portfolio investment, however the local equity market suffered a very sharp decline, largely on the back of the severe correction in the technology sector of the US stock market.

Corporate and financial reforms were again recurring themes in Korea throughout 2000. It is generally agreed that within Asia, Korea has made the most progress in corporate restructuring since the Asian financial crisis of 1997-1998.

However, it is equally important to recognize that reform is a constant process of change, the pace and timing of which will always be determined and influenced by a wide range of factors. Despite some setbacks in 2000, I believe Korea remains firmly committed to implementing reforms going forward, including improving transparency, achieving higher standards of corporate governance, and increasing the protection of minority shareholder rights.

As one of the most prominent financiers for Korean industry over the past three decades we have naturally played an active role in the corporate restructuring process. During the latter part of 2000 the extraordinary liquidity conditions existing within the corporate debt markets put very considerable strain upon many Korean companies, and we were particularly involved in negotiating refinancing packages for key members of the Hyundai Group, a long-standing customer of the bank.

In 2000 the bank continued to pursue prudent credit and risk management policies, however aggressive loan loss provisioning in order to clean and stabilize the loan portfolio severely impacted our overall results for the year.

After deducting exceptional items, our pre-provision income in 2000 compared favorably with 1999, but loan loss provisions totaling W1.2 trillion resulted in the bank recording a net loss of W404 billion. While this is a significant improvement from 1999, it is still well below expectations and I express my regret to all shareholders for this disappointing result. Korea Exchange Bank is in the process of undertaking a series of strategic measures designed to swiftly restore the profitability of the bank, and I am hopeful that 2001 will be a rewarding year for our shareholders.

During the year our deposits increased 12% to reach W30 trillion, with particularly healthy growth in Won deposits, as customers shifted funds away from the riskier trust sector toward the safer products offered by commercial banks. Our loan portfolio grew 16%, even as we continued to implement our strategy of reducing exposure to the largest industrial groups. Two-thirds of our domestic loan portfolio at the end of 2000 was to middle-market corporates, households and public institutions, with the 34% balance lent to large companies. This is further clear evidence of the re-balancing of our loan book which has taken place in recent years - at the end of 1998, 41% of the portfolio was outstanding to large companies. Fee income remained strong, and in the areas of our traditional strength, namely foreign exchange and trade finance, we had another excellent year, with our performance once again well ahead of competing banks.

While the core businesses of the bank performed strongly during the year, we continued to undertake strenuous restructuring efforts, focusing on improving asset quality, strengthening our capital base, and enhancing efficiency and profitability. During 2000 we tapped both the domestic and international capital markets, raising total capital of some W1.1trillion from investors, bolstering our

Kyung-Lim Kim
President and Chief Executive Officer



financial structure and capital ratios. The major international credit ratings agencies acknowledged the progress which the bank has made, with both Standard & Poor's and Moody's Investors Services announcing ratings upgrades for KEB in mid-2000.

Elsewhere, we significantly reduced the amount of non-performing loans held by the bank in 2000, through aggressive write-offs totaling W2.1tr and loan sales totaling approximately W800 bn. During 2000 our non-performing loan ratio fell from 17.9% to 10.3%.

Corporate restructuring within Korea Exchange Bank continued in 2000. On the international front, in August we completed a NASDAQ listing for Pacific Union Bank, a previously wholly-owned U.S. subsidiary of KEB headquartered in Los Angeles, while we also closed our branches in Bangkok and Frankfurt. Within Korea, in late 2000 the bank sold its 20% stake in Salomon Smith Barney KEB Securities to Salomon Smith Barney. In addition, we continued to review our domestic branch network, de-emphasizing branches with marginal growth potential while boosting our presence in more promising locations. We also further reduced our headcount in an effort to boost productivity and improve the personnel structure within the bank.

One of the turning points for Korea Exchange Bank in 2000 was the approval by the Financial Supervisory Commission in early November of the bank's management improvement plan, allowing the bank to continue to operate independently. The comprehensive plan contains three main elements; increasing the capital base, reducing non-performing loans, and raising profitability. At the end of 2000 the bank undertook a 1 for 2 share consolidation followed by a W610 billion Tier 1 capital increase from The Export-Import Bank of Korea and Commerzbank, and the bank will consider raising further funds in the first half of 2001 with the ultimate target of achieving a BIS Capital Ratio of 11.37% by the year-end 2001.

During 2001 we have an aggressive NPL(sub-standard & below) reduction programme, through sale, write-off and normalisation, targeting an NPL ratio of below 4% by end-2001. One of the most important restructuring features of our management improvement plan is the sale of our stake in our credit card affiliate, Korea Exchange Bank Credit Service Co. This is a significant transaction for the bank and I anticipate that the successful conclusion of the sale will have a material impact on the bank's overall financial position. On the revenue side we shall continue to focus and build on our key leadership positions in foreign exchange, international and corporate banking, while ensuring costs continue to be rigorously controlled in accordance with the plan.

I believe that the stage is now set for 2001 to be a turnaround year for Korea Exchange Bank, with a very sharp improvement in financial performance, based on achieving our targeted returns on equity and assets. Although there has been much discussion recently about future consolidation within the financial sector, our position is clear - our priority will be first to focus all our efforts on quickly emerging as a clean and sound bank, which is well positioned to capitalise on future business opportunities. This must be achieved before we can usefully consider exploring alliances or other opportunities within the financial services sector.

The year 2000 has not been an easy year by any measure, so I am once again thankful to staff, shareholders and customers for their understanding and continued support in this challenging period.

Kyung-Lim Kim
President and Chief Executive Officer

Key Developments in 2000

Smooth Implementation of Management Improvement Plan

KEB is committed to reducing outstanding non-performing loans as quickly as possible, selling, writing-off and normalizing loans worth some W2.7 trillion. In 2000, some W800 billion in non-performing loans were sold, and further loan sales are presently under negotiation. At the same time, a more rigorous risk management program has been adopted to minimize the recurrence of problem assets.

The bank's capital increase in December, expected proceeds from sales of subsidiaries (including KEB Credit Service), cost reductions, and strong pre-provision income in the second half of 2000 and 2001 will be more than sufficient for KEB to effect the NPL reductions. The bank anticipates that further credits classified as “Substandard and below” will be sold in 2001, while the bank also expects to write-off and recover a significant amount in 2001.

“Substandard and below” credit stood at W3.4 trillion, or 10.3% of total credit, at the end of 2000. This was down significantly from the W5.8 trillion (17.9%) recorded a year earlier. KEB expects to reduce this figure to below 4% by year's end.

Improved Financial Strength from Capital Consolidation and Increase

KEB strengthened its capital base by undertaking a 1 for 2 share consolidation, followed by a W610 billion capital injection from major shareholders via the issuance of 122 million preferred shares at W5,000 each. The shares carry a 5% dividend, are non-cumulative and non-voting, and automatically convert to common stock (one-for-one) in December 2003.

These two moves helped to substantially eliminate KEB's accumulated deficit, which will enable the bank to consider resumption of dividend payments to ordinary shareholders.

Restructuring for Improved Profitability

Quantitative growth without profitability is no longer an option in Korea's banking sector, and KEB is selectively concentrating resources on areas that will provide the greatest return. The workforce was reduced by 12.7% through an early retirement program in 2000, while domestic branches with limited growth potential have been closed and new branches have been established in locations with greater promise. Regional headquarters have also been integrated more effectively, and 290 new automated teller machines were installed nationwide during the year.

Overseas branches and subsidiaries continue to be restructured as well. In August 2000, KEB raised $9 million by selling 1.2 million shares in Pacific Union Bank, lowering its stake to 62.5% in this medium-sized commercial bank headquartered in Los Angeles. Late in the year, KEB sold its 20% stake in Salomon Smith Barney KEB Securities to Salomon Smith Barney. Domestic and overseas real estate holdings considered non-essential are also being sold off. The reductions in staff and branches completed in 2000 will save the bank some W36 billion a year.

Commerzbank's Support for and Participation in KEB

Commerzbank AG initially invested W350 billion in KEB in July 1998 and has since made a series of further capital injections in the bank, the most recent in December 2000. Commerzbank presently owns 32.54% of KEB and maintains senior representation on the Board and Executive Committee of the bank and one subsidiary.

Domestic

Banking

Retail Banking

Overview

In 2000 the bank continued to focus on the high net worth customer base, providing a range of innovative products to this important segment of the bank's business. Distribution channels continued to be expanded for enhanced customer service, with internet banking services growing steadily in popularity. During the year the bank entered into alliances with several organizations to boost consumer business, including securities and insurance companies, Korea Computer Co. and The Ministry of Fisheries and Maritime Affairs.

Total deposits at the year end exceeded W30tr, up 12% from 1999, boosted by a series of innovative and successful campaigns held throughout the year. Household subscription deposits increased sharply, while household loans increased by 18.8% year on year to over W3.8tr by year end. Other popular products during the year included the Yes Prime Deposit and Yes My Car Loan. Household loans and foreign exchange transactions continue to be the bank's core retail business lines, with retail customers representing some 40% of total operating revenue. KEB's online banking business has also been rising fast, with an average of 15,000 new customers signing up each month.

Service Delivery Channels

KEB continued to streamline the domestic branch network in 2000. The number of manned branches was reduced from 282 to 269 and unmanned branches (consisting of automated teller machines and electronic cash dispensers) were cut from 181 to 177 during the year. On the other hand, 290 more automated teller machines were installed to facilitate customer access to services. Most KEB branches are now located in Seoul and the surrounding provinces, where half the nation's economic activity takes place.

Fewer manned branches should have minimal impact on overall customer service. Instead, new business lines are being developed, and transactions with domestic clients are evolving. For example, KEB began receiving housing loan applications (a high-growth business in Korea) online and a mobile banking service was opened during 2000. The Call Center functions at manned branches have been expanded, with access now nationwide.

Customers now have a wider range of choices on how they do their banking. Cash deposits can be made at ATMs without using a passbook or card, and cash dispensers are available at non-bank business establishments that have tie-ups with KEB.

Retail Lending

KEB is diversifying its loan portfolio so that no single sector represents an excessive concentration of risk. Emphasis on large corporate loans is being reduced, while the number of loans granted to the middle (corporate) market and households is increasing. Loans to households now take up more than 21% of the bank's domestic loan book.

The delinquency ratio for the household loans, which showed significant improvement in 1999, continued its downward trend with the implementation of the Credit Scoring System in year 2000. The delinquency ratio fell to 2.2% from the 3.4% of 1999 and is expected to drop further in the year 2001.

KEB has developed new products (such as Yes Mortgage Loans) and opened new Yes Loan Centers to spur the growth in retail lending.

Trust Business

The Trust Division at the Head Office proactively supports the branches in developing trust activities with retail customers. During 2000, 205 people received special training in trust marketing, with 36 receiving qualification as "Trust Managers." Trust managers were also dispatched to "mother" branches to help them develop their skills and strengthen the Head Office-branch ties.

In 2000, KEB became Korea's first bank to sell customized trust products to the general public, starting with the Yes Tailor-made Trust. These so-called "special money trusts" attracted more than W1.5 trillion during the year.

Another domestic first was KEB's introduction of the Initial Public Offering Fund. This and subsequent new funds solicited more than W300 billion from the general public. Online banking continues to grow in popularity in Korea, prompting KEB to introduce the "Netizen Trust," which has been popular among younger investors. At the same time, KEB has adopted stronger risk management measures and a more efficient system for managing funds.

The importance of the trust business continues to grow, and KEB will introduce innovative new products such as the Real Estate Investment Trust in 2001 to stay in step with prevailing market trends.

Credit Card Business

During 2000, KEB strengthened the competitiveness of its credit card business, and bank employees have been offered cash incentives for signing up new credit card

Household loans and foreign exchange transactions are being cultivated as mainstay business lines, and retail customers represent at least 40% of total operating revenue.

memberships. The bank attracted 137,000 new cardholders, or 183% of the original target of 75,000 for the year.

Moreover, handling fees for other credit card companies were renegotiated, further enhancing revenue.

The Yes Money Card was introduced, allowing users to withdraw cash when overseas. Machines have also been installed at bank windows to issue the new credit card on the spot, instead of having to wait for it to be delivered.

Electronic Banking

Online banking has grown dramatically in Korea, which has the world's highest per capita Internet usage. Early in 2000, KEB began offering retail customers high-quality online services through its own Internet banking system.

Loan applications were accepted via the Internet for the first time, with customers receiving a reply within 24 hours. Later in the year, an Internet-based mobile banking service was introduced through a tie-up with SK Telecom, Korea's leading wireless service operator. This mobile banking service enables users to deposit money, check foreign exchange rates and utilize credit card loans.

Meanwhile, e-banking sales channels continue to be expanded, as growth in online banking is an important part of KEB's future growth strategy. Korea's financial services market is being deregulated, heightening competition among financial institutions, which are taking on multiple roles (banking, insurance, securities brokerage, etc.). To cope with the changing market, KEB has implemented IT 2000, a mid-term IT strategy that focuses on developing IT competencies to foster competitiveness.

During 2000, systems were installed for strategic business lines of the future such as e-banking and e-commerce. Integrated customer data management functions have been improved, and scientific marketing capabilities have been bolstered. Strategic data systems have been expanded and a bank-wide user environment has been realized. Work processing at branches continues to be streamlined and improved to enhance productivity and secure cost leadership.

Private Banking

Private banking is a line of special services for individuals who meet or exceed a predetermined transaction volume. These "Prime Customers" enjoy various privileges such as bank fee waivers, preferred loan eligibility, free safety deposit boxes, a special service desk, preferential foreign exchange and interest rates, and VIP Center access.

At the VIP Centers, Prime Customers can receive free consultations on taxes, laws, real estate and securities.

KEB is continuing to attract high net worth customers through the Private Banking program. New VIP Centers have been established at core domestic branches, while VIP Rooms are being installed in selected branches. A team of private banking specialists has been formed and a Customer Relationship Manager system for Prime Customers was launched at 64 branches in August 2000.

Corporate Banking

Overview

An advanced credit and risk management system has been put in place through close cooperation with our strategic partner Commerzbank of Germany. The asset portfolio has been improved through reduction of exposure to large groups and expansion of loans to small and medium enterprises (SMEs).

Foreign companies operating in Korea have become a growing and increasingly important customer segment for KEB, and the bank now has over 1,800 foreign companies on its books, up from less than 700 two years ago.

KEB continued to maximize its competitive edge in foreign exchange and import-export business to increase non-interest income. The bank was able to increase its market share in foreign currency money exchange by 5% to 33% during 2000, a notable achievement considering the intensive efforts by other Korean banks to penetrate the market.

SMEs

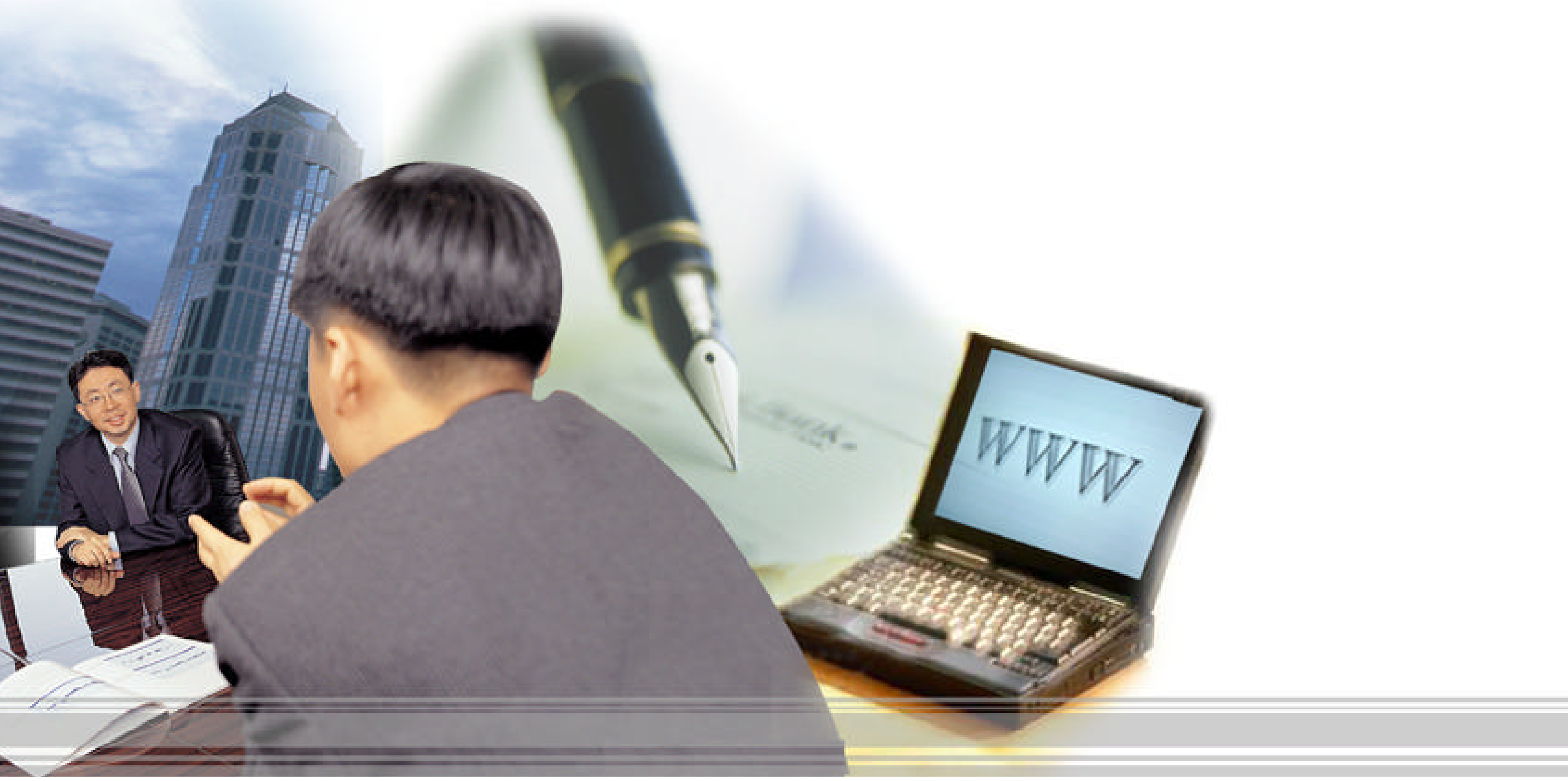
The loan portfolio has been re-balanced by increasing the ratio of loans to small and medium-sized enterprises. KEB launched the SME Promotion Support Subdivision in March and targeted 300 prospective small and medium-sized enterprises. Visits were made to 90 of the SMEs, while the remaining 210 were contacted by telephone. A seminar for SMEs was also held in May. As a result of such initiatives and other marketing efforts, SME borrowings increased 13% year on year, from W6.3tr in 1999 to W7.1tr in 2000.

Large Corporate Lending

The collapse of Daewoo in mid-1999 was undoubtedly a major setback for KEB, which was a significant (but not the largest) lender to the group. Daewoo's demise slowed KEB's recovery during 1998 and 1999, but the bank had reflected an overall loss of 86% of unsecured credits to the Daewoo group by the end of 2000.

KEB wrote off a total of W2.1 trillion in 2000 and adopted an aggressive provisioning policy, setting aside loan loss reserves of over W1.2 trillion. KEB management believes that the non-performing loans have now peaked and expects that provisioning levels will be well below the levels seen in recent years, leading to a much healthier outlook in 2001.

The concentration of loans to major conglomerates



has been eased further with the introduction of the Total Exposure Limit system, and the proportion of domestic lending to large corporates fell by 3.5% during the course of year 2000 to 34.3%.

Business with Foreign Companies in Korea

KEB is expanding its business with foreign companies operating in Korea, with more than 1,800 of these firms on its books. The International Corporate Division offers a "one-stop" service by coordinating activities among bank branches and subsidiaries. Foreign corporate customers can also receive consultation services on Korean regulations, including foreign capital inducement and local corporate laws.

Trade Financing and Foreign Exchange

KEB's dominance in foreign exchange and trade finance market became more evident in 2001 as the bank's market share of the foreign currency money exchange business surpassed 33%, a 5% increase from the previous year. Foreign exchange transactions in aggregate came to U$58 billion, representing an increase of 11% year on year.

The bank is also the market leader in trade finance business and the volume of export and import transactions increased by 31% from the previous year to U$71 billion during 2000.

Merchant Banking

Korea Exchange Bank merged with its merchant banking subsidiary in 1999. The Merchant Banking Team develops new products and assists other teams in short-term financing. The CP Brokerage Team was formed in September (the first of its kind in Korea), and the team brokered W13.5 trillion worth of commercial papers, ranking second among Korea's 36 CP brokerage institutions.

Merchant banking activities expanded dramatically in 2000. A total of W505 billion in CMA and bills were issued (on an average outstanding deposit basis), a 77% increase year on year. Discounted CPs, meanwhile, reached W863 billion (on an average outstanding loan basis) in 2000, up 59% from 1999.

International Banking

Investment Banking

Aggressive investment is being made to develop new revenue sources and expand opportunities for new business in the investment banking area of the bank.

Overview

Aggressive investment is being made to develop new revenue sources and expand opportunities for new business in the investment banking area of the bank. The asset-backed securities, project finance, mergers and acquisitions, and Won-denominated syndicated loan areas are being strengthened, while Won acquisition financing activities are being stepped up. During 2000, KEB once again confirmed its pioneer status in domestic investment banking services as it became the first Korean bank to complete a sale of assets through an outright auction. The sale, in the amount of W480 billion, was the first of its kind in the Korean banking sector, and is expected to have an impact in the future loan sell-off method for Korean banks.

Mergers and Acquisitions

Although mergers and acquisitions remain a relatively new and underdeveloped feature of the Korean corporate financing landscape, Korea Exchange Bank has already established a solid presence in this increasingly important sector. The Bank's M&A Team successfully concluded its initial transaction in 1999 in the telecommunications industry. This achievement, along with consolidation of theregulatory infrastructure to support both friendly and hostile bids, has prepared the groundwork for KEB's emergence as a leading facilitator of M&A transactions.

Recent M&A activities orchestrated by KEB include Oriental Chemical's acquisition of Korea Steel Chemical Co. Ltd., Korea Energy Management Corporation's sale of integrated energy supplying facility in Taejon, and Chase Asia Equity Partners' acquisition of Mando's automobile parts sector. During 2000, the total value of all M&A deals managed by KEB exceeded W800 billion.

Given the Korean government's commitment to carrying out further privatization, the M&A Team is expected to see continued steady growth of such projects. Likewise, private-sector M&As are also expected to increase in size and number as the current economic slowdown and ongoing government-led restructuring continue to fundamentally alter the face of corporate Korea. Consequently, KEB expects mergers and acquisitions to constitute a larger component of its investment banking portfolio in the years ahead.

Asset-backed Securities

Asset-backed securities (ABS) have become a familiar fixture in the Korean financial market in recent years. An important part of KEB's investment banking product lineup, ABS allows issuers to scale down debt and improve their balance sheet structure. For investors, ABS offer a liquid, marketable instrument with higher yields

Korea Exchange Bank has a strong position in the project financing market. The Bank's proud reputation rests on years of experience and vast accumulated expertise gained from both corporate and infrastructure projects

and extra protection from credit risk than alternatives with similar durations.

Building on the momentum generated from a series of ABS transactions completed in FY '99, the Bank's ABS Team successfully concluded a total of 4 deals with a total value of W830 billion. These included a collateralized bond obligation transaction with KEB Trust Fund, a lease receivable transaction with KEB Leasing Company, a sale of assets through outright auction, and a collateralized loan obligation transaction.

Project Finance/Financial Advisory

Korea Exchange Bank has a strong position in the project financing market. The Bank's proud reputation rests on years of experience and vast accumulated expertise gained from both corporate and infrastructure projects including power plants, roadways, oil and natural gas drilling, telecommunications and industrial manufacturing. The Asian financial crisis of the late 1990s led the Bank to diversify its exposure to major projects around the Asia-Pacific region. Specifically, this resulted in a curtailing of project financing in certain hard-hit economies, as well as a redirecting of the Bank's focus on domestic infrastructure opportunities. Regarding the latter, KEB has been particularly active in arranging or lead-arranging syndicated loans for SOC works including toll tunnels, expressways, gas pipelines, and power-generating facilities. Notable among the Bank's private-sector project finance achievements in FY '00 were PolyMirae Company Ltd., Mando Machinery Corp., and Haitai Beverage Ltd. Total project financing for the year under review was W612 billion in 10 separate projects.

The Bank's financial advisory services have also grown due to the expansion in SOC projects undertaken by central and local government entities, and the growing need for professional consultation spurred by increased acquisitions of domestic businesses and assets by foreign investors. KEB currently stands as financial advisor to 19 public institutions, 14 private entities, and 6 local or municipal government authorities.

Corporate Finance

Spearheading Korea Exchange Bank's corporate finance operations is the Corporate Finance Team of the Investment Banking Division, which in FY '00 arranged foreign currency-denominated syndicated loans worth US$296 million. These figures include a US$25 million syndicated loan for Poongsan Corp. and US$20 million for Hanwha Chemical Corp.

Won-denominated syndicated loans for the year under review reached KRW 1.1 trillion. Foremost among these were KRW310 billion for OB Brewery Co. and KRW800 billion for Hyundai Electronics Industries. KEB continues to augment its world-class capabilities and market-leading financial products in an effort to provide our corporate customers with broader and deeper access to both domestic and international funding sources.

Custody & Fund Administration Services

KEB's custody business continued to expand rapidly as its assets grew by 11.5% and surpassed W18tr at the year end 2000. The bank is the first among Korean banks to enter into a direct business relationship with the top three institutional investors, National Pension Fund, Postal Deposit & Insurance of the Ministry of Information and Technology, and Korea Teachers Fund, and currently KEB is the market leader in growth of asset size and expansion of customer base.

KEB will form a joint venture fund administration company with State Street Bank & Trust as its partner during 2001, which will allow the bank to expand even further its business base in the field of fund administration service.

Global Banking

Global Banking

Overview

KEB adopted a conservative approach to global operations after Korea's foreign currency crisis in 1997. However, in 2000, some aspects of the business environment improved and laid the groundwork for a new growth surge.

Total overseas assets, including branches and subsidiaries, were reduced 9.5%, from U$7.4 billion at the end of 1999 to U$6.7 billion at the end of 2000, but overseas operating income remarkably improved by U$43 million, from U$64 million in 1999 to U$107 million in 2000, largely due to the reduction of G&A expenses.

KEB continued to restructure overseas operations in 2000 including the closure of the Bangkok and Frankfurt branches. At year's end, KEB was operating a total of 46 offices in 21 countries. These include 20 branches (including the KEB Kumho Representative Office in North Korea), 1 sub-branch, 11 subsidiaries and 14 branches attached to the subsidiaries. The bank plans to close or sell further selected overseas operations in 2001.

Overseas Operational Strategy for 2001

First, KEB will enhance profitability through improving the asset portfolio. To this end, the bank plans to strengthen loan marketing capabilities to Korean yellow-chip companies and sound small and medium-sized enterprises.

Retail services are also being expanded to overseas Koreans through Pacific Union Bank and Korea Exchange Bank of Canada.

Second, the restructuring of overseas offices will boost network efficiency. The bank will make successful completion of its Management Improvement Plan in 2001 and implement the business specialization. To bolster retail banking in North America, the Broadway and Chicago branches will be converted into sub-branches of Pacific Union Bank, which specializes in retail banking. Meanwhile, for the branch specialization, pilot offices in Europe and Southeast Asia will be selected.

Third, a Global Service System will be put into place to link the bank's domestic and overseas networks. New products will also be developed in relation to the internationalization of the Won. The bank will intensify marketing efforts aimed at the Head Office of foreign investors coming into Korea. Also, overseas offices will bolster their on-line business such as the introduction of Cash Management Service through New Generation computer system, and internet banking for retail banking subsidiaries.

Finally, Financial Institutions(FI) business will be further strengthened. Based upon the groundwork laid during 1999 and 2000, KEB will foster the professionalism of its FI Team, a unique organization among Korean banks. For that purpose, FI business will be focused on efficient management by each Area Manager, the enhancement of reciprocity through centralized management by currency, and strategic business co-operation with major correspondent banks. The FI Team concluded ten strategic alliances with correspondent banks during 2000, including a strategic business alliance with Commerzbank, immigration banking business cooperation with Bank of Montreal, and trade finance business cooperation with Sumitomo Bank.

The Americas

KEB's American network consists of 23 offices, including five branches, one subsidiary and eleven subsidiary branches in the US; one subsidiary and three subsidiary branches in Canada; a branch in Panama and a subsidiary in Brazil. During 2000, the Regional Office for America was upgraded to Regional Headquarters as part of a plan to strengthen the control function.

Operations in the Americas are centered on wholesale and retail commercial banking for Korean-American or Korean companies doing business locally. The Broadway and Chicago branches, which mainly handle retail financing, will become subsidiaries of Pacific Union Bank, which itself was listed on NASDAQ through an initial public offering in August 2000.

Europe & the Middle East

KEB maintained operations at eight locations in Europe and the Middle East in 2000. These included branches in the UK, Netherlands, Bahrain and France, as well as subsidiaries in the UK, Germany, Ireland and Egypt. Wholesale commercial banking is the most important activity for KEB in this part of the world. In addition, KEB is involved in custody and investment banking for Korean companies, including raising funds in the Euro market.

In the future, operations in the region will be streamlined, and branch specialization will be adopted to restructure the network and reposition the business strategies. Efforts will focus on building a foundation for Euro currency transactions and promoting trading activities with the bank's customers.

Asia & Oceania

This network spans 15 locations, including two subsidiaries, a branch and a sub-branch in Hong Kong; two branches in Japan; three branches in China; one branch each in Singapore, the Philippines and Vietnam; subsidiaries in Indonesia, and Australia and a representative office in North Korea.

The main activity is wholesale commercial banking for Korean companies doing business in the region, although syndicated loans, project financing and other investment banking activities have remained subdued in China and Southeast Asia in recent years. Against this environment, the Bangkok branch was closed in 2000.

Credit risk management in Asia/Oceania continues to be tightened while asset quality is improving. The bank is making efforts to expand its volume of import/export transactions with Korean companies doing business in the region. The bank has a plan to transact business in Chinese Renminbi in the near future, starting with Tianjin branch, and this business is expected to grow steadily. The bank is also considering opening further branches in China in the near future.

Financial Report

Overview of Result

The bank achieved an operating income of W868 billion during 2000, however aggressive loan loss provisioning in order to clean and stabilize the loan portfolio severely impacted the bank's overall result for the year. As a consequence of setting aside W1.2 trillion for possible loan losses, The bank recorded a net loss of W404 billion.

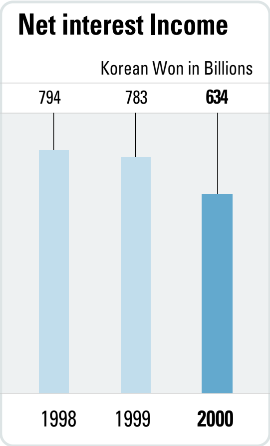
Despite the losses recorded by the bank during recent years, the bank has demonstrated a strong recurring earning power by generating current operating income(excluding gains/losses on loan sales & stock trading) of W861 billion and W858 billion in 1999 and 2000, respectively.

Net Interest Income

The bank's net interest income in 2000 amounted to W634 billion, down W149 billion from the previous year. While deposit rates were little changed, an increasingly competitive environment pushed loan yields lower during the year.

Interest Income

	2000			1999		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning Assets						
Loans	26,788	2,121	7.92	24,609	2,183	8.87
Deposits with other banks	2,471	188	7.61	3,450	186	5.39
Securities	8,304	745	8.97	9,494	653	6.88
Other	484	57	11.78	333	74	22.22
Total Interest-earning Assets	38,047	3,111	8.18	37,886	3,096	8.17
Interest-bearing Liabilities						
Deposits	28,775	1,632	5.81	23,933	1,404	5.87
Borrowed funds	9,872	759	7.69	10,221	849	8.31
Others	493	46	9.33	2,448	60	2.45
Total Interest-bearing Liabilities	39,140	2,477	6.33	36,602	2,313	6.32
Net Interest Income		634			783	

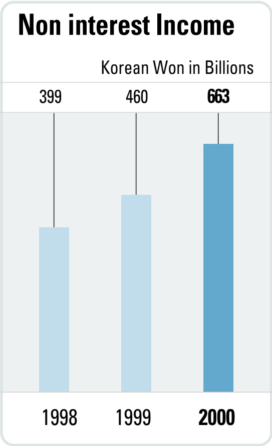


Non-Interest Income

Non-interest income in 2000 rose 44% to W663 billion. The increase was mainly due to an improvement in trust business, where our loss narrowed by W49 billion and increase in gains on valuation of securities of W104 billion. A modest increase in foreign exchange revenues, one of the bank's core business areas, also contributed to the rise in non-interest income.

Income generated from merchant banking operations totaling W70 billion, included in other non-interest income remained an important source of revenue for the bank.

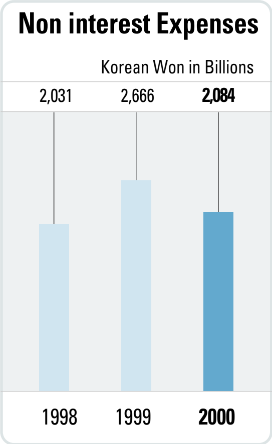
	2000	1999
	Won (billions)	Won (billions)
Fees and commissions	226	212
Gains on foreign exchange transactions	214	192
Trust fees (Net)	(74)	(123)
Other non-interest income	297	179
Total Non-Interest Income	663	460



Non-Interest Expenses

Total non-interest expenses were W2,084 billion in 2000, a 22% decrease over 1999. The decrease was due to the fall in provisioning for loan losses compared with the previous year..

	2000	1999
	Won (billions)	Won (billions)
General and administrative expenses	442	435
Personnel expenses	288	287
Other G&A expenses	154	148
Provision for loan losses	1,158	1,501
Provision for severance benefits	34	42
Depreciation & amortization	56	56
Other expenses	394	632
Total Non - Interest Expenses	2,084	2,666



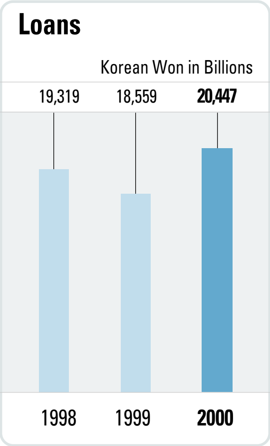
Balance Sheet Analysis

Assets

The bank's total assets outstanding as at 31st December 2000 amounted to W45.1 trillion (excluding customers' liabilities on guarantees and acceptances of W5.5 trillion), representing an increase of 6.7% from the previous year. Won assets accounted for 66% of total assets. (Note : including customers' liabilities on guarantees and acceptances, the bank's assets increased by W3.6 trillion or 7.1% from the comparable figure of 1999)

Loan Portfolio

Total loans outstanding as at 31st December 2000 totalled W20.5 trillion, up 10% or W1.9 trillion from the previous year. Outstanding domestic loans were W17.5 trillion, a 16% or W2.4 trillion increase from 1999. The increase was mainly due to a sharp increase in Won lending which rose by 28.8%, with household loans in particular growing strongly, up 37% from a year earlier.

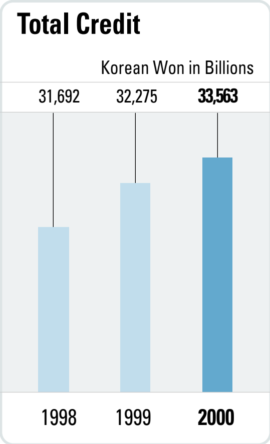


	2000 Won (billions)	1999 Won (billions)
Loans by Domestic Offices		
Manufacturing industry	6,710	6,355
Banking & Insurance	1,577	1,296
Transportation & Communication	1,661	1,277
Wholesale and Retail Trade	1,427	1,475
Construction	998	687
Household Loans	3,675	2,683
Others	1,432	1,294
Total Domestic Loans	17,480	15,067
Loans in Overseas Branches	2,967	3,492
Total Loans	20,447	18,559

Credit Classification

The non-performing loan(NPL) ratio(substandard and below) as at 31st December 2000 was 10.3%, representing a sharp decrease of 7.6% from the previous year. The NPL amount was W3.4 trillion, down W2.4 trillion from 1999, due to the aggressive NPL reduction plan implemented by the bank.

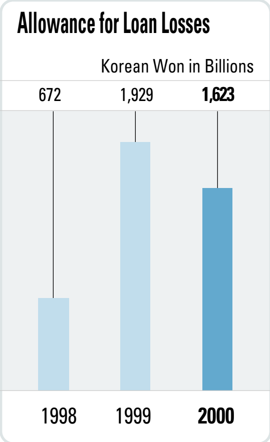
	2000	1999	1998
			Won in billions
Current	28,692	24,854	25,206
Precautionary	1,415	1,613	4,978
Substandard	1,714	3,768	872
Doubtful	1,524	1,596	567
Estimated loss	218	444	69
Total Credit	33,563	32,275	31,692



Allowance for Loan Losses

Due to large charge-offs in 2000, allowance for loan losses in the banking account decreased by a net W306 billion to W1.62 trillion.

	2000	1999	1998
			Won in billions
Provision for loan losses	1,158	1,501	248
Charge-offs	(1740)	(327)	(155)
Other	276	83	15
Allowance for loan losses	1,623	1,929	672



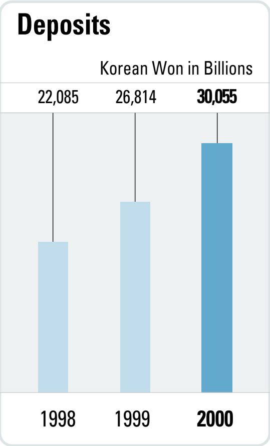
Securities

Total securities at the end of 2000 stood at W9.6 trillion, a decrease of 14.3% over the previous year. Over 70% of the securities portfolio was invested in Korean Government bonds

	Debt	Equity	Total
			Won in billions
Trading securities	1,542	-	1,542
Investment securities			
available for sale	5,981	306	6,287
held-to-maturity	934	-	934
investment in subsidiaries	-	788	788
Total Securities	8,457	1,094	9,551

Sources of Funds

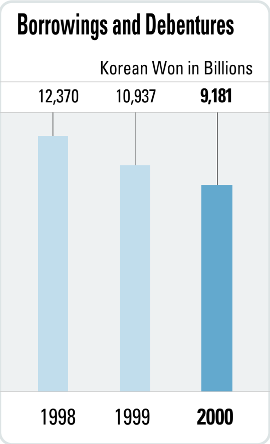
The bank's total funds outstanding at the end of 2000 amounted to W45.5 trillion which was mainly comprised of W30 trillion (66%) in deposits, W9.1 trillion (20.1%) in borrowings and debentures, and W1.41 trillion (3.1%) in shareholders' equity.



Deposits

Total deposits increased by 12% from 1999, totaling W30.05 trillion at the end of 2000. The main reason for the increase was a 14.8% rise in local currency deposits.

	2000	1999
	Won (billions)	Won (billions)
Demand Deposits	9,394	8,013
Savings Deposits	12,049	10,435
Certificates of Deposit	63	292
Deposits in foreign currencies and overseas branches	8,550	8,074
Total Deposits	30,055	26,814



Borrowings and Debentures

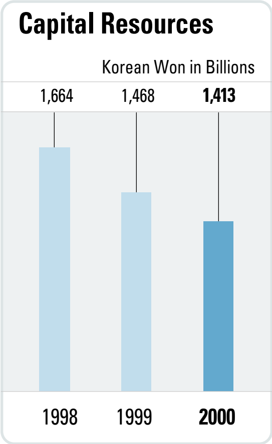
Outstanding borrowings and debentures at the end of 2000 totaled W9.18 trillion, down 16% from a year earlier. The decrease was primarily the result of a 38.7% drop in borrowings in foreign currencies.

	2000	1999
	Won (billions)	Won (billions)
Borrowings from Bank of Korea	580	691
Borrowings from other banks	826	835
Borrowings in foreign currencies	3,215	5,243
Call Money	452	781
Debentures	2,115	2144
Others	1,993	1,243
Total Borrowings and Debentures	9,181	10,937

Capital Resources

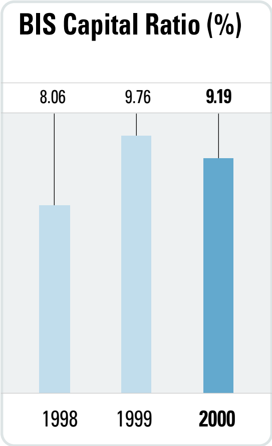
Although the bank concluded a capital increase of W610 billion during December 2000, total paid in capital decreased to W1.85 trillion from W2.48 trillion at the end of 1999 as the bank undertook a 1 for 2 share consolidation immediately prior to the capital increase.

	2000	1999
		Won in billions
Paid in Capital	1,851	2,481
Surplus & retained earnings	(438)	(1,013)
Total Shareholders' Equity	1,413	1,468



Risk-adjusted Capital Ratio

While the bank's total BIS capital rose by W238 billion from a year earlier to W2,978 billion at 31 December 2000, the BIS ratio fell to 9.19% owing to the increase in risk weighted assets.



BIS Capital Ratio(Consolidated).

	2000	1999
	Won (billions)	Won (billions)
Tier 1		
Paid-in capital	1,851	2,482
Capital surplus	173	129
Retained earnings	(398)	(1,144)
Minority interest in consolidated subsidiaries	252	150
Consolidated-related adjusted account	-	52
Capital adjustment	(389)	(176)
	1,489	1,441
Tier 2		
Reserve for loan losses	199	286
Asset revaluation surplus	94	94
Subordinated debt	744	721
Profit on valuation of securities	-	10
Upper Tier **2**	452	200
Total	1,489	1,311
Investment in Non-consolidated Subsidiary	-	10
Total Capital	2,978	2,742
Risk-adjusted Assets		
Balance sheet amount	27,047	23,633
Off-balance sheet amount	5,347	4,446
Total Risk-adjusted Assets	32,394	28,079
Risk-adjusted Capital Ratios		
Tier 3	4.60%	5.13%
Total	9.19%	9.76%

Five-year Summary of Selected Financial Data

	2000	1999	1998	1997	1996
For the year					
Interest income	3,111	3,096	3,988	3,143	2,218
Interest expenses	(2,477)	(2,313)	(3,194)	(2,419)	(1,653)
Net interest income	634	783	794	724	565
Provision for loan losses	(1,158)	(1,501)	(248)	(291)	(135)
Net interest income after provision for loan losses	(524)	(718)	546	433	430
Non-interest income	1,057	1,092	399	535	377
Non-interest expenses	(926)	(1,165)	(1,783)	(1,036)	(684)
Net income before income taxes	(393)	(792)	(838)	(68)	123
Income taxes	11	11	6	0	(19)
Net income(loss)	404	(803)	(844)	(68)	104
At Year-end					
Total assets	45,519*	42,105*	46,551	56,415	41,435
Loans	20,447	18,558	19,319	23,673	18,732
Securities	9,551	11,146	7,941	5,334	4,104
Deposits	30,055	26,814	22,085	26,473	18,732
Borrowings and debentures	9,181	10,937	12,370	15,518	12,189
Shareholders' equity	1,413	1,468	1,664	1,992	2,088

Note : *Excluding Customers' Liabilities on guarantees and acceptances.

NON-CONSOLIDATED BALANCE SHEET

December 31, 2000 and 1999

		In Millions of Korean Won				In Thousands of U.S.Dollars (Note 3)		
		2000		1999		**2000**		1999
ASSETS								
Cash and due from banks (Note 4)	₩	5,164,628	₩	5,195,155	US$	4,099,887	US$	4,124,121
Trading securities (Note 5)		1,542,907		2,030,843		1,224,821		1,612,164
Investment securities (Note 5)		8,008,045		9,115,081		6,357,105		7,235,914
Loans, net of allowance for loan losses (Note 6)		25,647,404		21,945,291		20,359,930		17,421,046
Premises and equipment, net (Note 7)		767,937		777,581		609,619		617,275
Accrued interest		383,999		362,040		304,834		287,402
Other assets (Note 8)		4,003,817		2,678,799		3,178,389		2,126,537
Total Assets	**₩**	**45,518,737**	**₩**	**42,104,790**	**US$**	**36,134,585**	**US$**	**33,424,459**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Liabilities :								
Deposits (Note 9)	₩	30,055,177	₩	26,813,818	US$	23,858,996	US$	21,285,876
Borrowings (Note 10)		7,065,950		8,793,042		5,609,232		6,980,267
Debentures (Note 11)		2,115,442		2,144,417		1,679,322		1,702,324
Accrued expenses		760,479		625,031		603,698		496,174
Other liabilities (Notes 12 and 13)		4,108,700		2,260,810		3,261,650		1,794,721
Total Liabilities	**₩**	**44,105,748**	**₩**	**40,637,118**	**US$**	**35,012,898**	**US$**	**32,259,362**
Commitments and Contingencies (Note 18)								
Shareholders' equity (Note 1) :								
Capital stock, 10,000 million shares authorized; Common stock, ₩ 5,000 par value; 222 million shares issued and outstanding in 2000 and 444 million shares issued and outstanding in 1999	₩	1,110,875	₩	2,221,749	US$	881,857	US$	1,763,713
Preferred stock, ₩ 5,000 par value; 148 million shares issued and outstanding in 2000 and 52 million shares issued and outstanding in 1999		740,000		260,000		587,441		206,398
Accumulated deficit (Note 16)		(269,852)		(1,042,668)		(214,219)		(827,711)
Capital adjustments, net (Note 17)		(168,034)		28,591		(133,392)		22,697
Total Shareholders' Equity	**₩**	**1,412,989**	**₩**	**1,467,672**	**US$**	**1,121,687**	**US$**	**1,165,097**
Total Liabilities and Shareholders' Equity	**₩**	**45,518,737**	**₩**	**42,104,790**	**US$**	**36,134,585**	**US$**	**33,424,459**

The accompanying notes are an integral part of these financial statements.

NON-CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended December 31, 2000 and 1999

	In Millions of Korean Won				In Thousands of U.S.Dollars (Note 3)			
		2000		1999		**2000**		1999
Revenue :								
Interest on due from banks	₩	188,125	₩	185,944	US$	149,341	US$	147,610
Interest on securities		745,094		652,629		591,485		518,083
Interest on loans		2,121,129		2,182,955		1,683,837		1,732,917
Other interest income		56,891		74,458		45,162		59,108
Total interest income		3,111,239		3,095,986		2,469,825		2,457,717
Fees and commissions income		254,388		245,932		201,943		195,231
Gains on foreign exchange transactions		969,376		638,538		769,529		506,897
Trust fee income		74,126		103,421		58,844		82,100
Other income (Note 19)		691,069		811,485		548,598		644,189
Total revenue		**5,100,198**		**4,895,362**		**4,048,739**		**3,886,134**
Expenses :								
Interest on deposits		1,671,772		1,404,361		1,327,119		1,114,838
Interest on borrowings and debentures		759,417		848,784		602,855		673,799
Other interest expense		45,851		59,674		36,398		47,372
Total interest expense		2,477,040		2,312,819		1,966,372		1,836,009
Fees and commissions expense		28,456		34,361		22,590		27,277
Losses on foreign exchange transactions		755,746		446,737		599,941		354,638
Provision for loan losses		1,157,536		1,500,896		918,898		1,191,471
General and administrative expenses		442,918		435,332		351,606		345,584
Provision for severance benefits		34,262		42,481		27,199		33,723
Depreciation and amortization		55,797		56,150		44,294		44,574
Compensation for trust accounts		147,693		225,865		117,245		179,301
Other expenses (Note 20)		393,761		632,452		312,583		502,066
Total expenses		5,493,209		5,687,093		4,360,728		4,514,643
Net loss before income taxes		(393,011)		(791,731)		(311,989)		(628,509)
Income tax expenses (Note 21)		(10,692)		(11,052)		(8,488)		(8,774)
Net loss	**₩**	**(403,703)**	**₩**	**(802,783)**	**US$**	**(320,477)**	**US$**	**(637,283)**
Ordinary loss per share (Note 22)								
(in Korean Won and U.S. Dollars)								
- Basic	**₩**	**(2,038)**	**₩**	**(3,858)**	**US$**	**(1.62)**	**US$**	**(3.06)**
- Diluted	**₩**	**(2,038)**	**₩**	**(3,858)**	**US$**	**(1.62)**	**US$**	**(3.06)**
Net loss per share (Note 22)								
(in Korean Won and U.S. Dollars)								
- Basic	**₩**	**(1,835)**	**₩**	**(3,834)**	**US$**	**(1.46)**	**US$**	**(3.04)**
- Diluted	**₩**	**(1,835)**	**₩**	**(3,834)**	**US$**	**(1.46)**	**US$**	**(3.04)**

The accompanying notes are an integral part of these financial statements.

NON-CONSOLIDATED STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT

for the years ended December 31, 2000 and 1999

Date of disposition for 2000 : March 13, 2001
Date of disposition for 1999 : March 25, 2000

	In Millions of Korean Won				In Thousands of U.S.Dollars (Note 3)			
		2000		1999		**2000**		1999
Accumulated deficit before disposition :								
Undisposed accumulated deficit carried over from the prior year	₩	(1,055,801)	₩	-	US$	(838,137)	US$	-
Cumulative effect of accounting change (Notes 2 and 16)		(64,118)		(562,907)		(50,899)		(446,858)
Prior year adjustments		-		(396)		-		(314)
Net loss for the year		(403,703)		(802,783)		(320,476)		(637,281)
		(1,523,622)		**(1,366,086)**		**(1,209,512)**		**(1,084,453)**
Disposition :								
Capital surplus		1,240,875		310,822		985,056		246,743
Others		(236)		(537)		(187)		(426)
Undisposed accumulated deficit to be carried forward to the subsequent year	**₩**	**(282,983)**	**₩**	**(1,055,801)**	**US$**	**(224,643)**	**US$**	**(838,136)**

The accompanying notes are an integral part of these financial statements.

NON-CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended December 31, 2000 and 1999

	In Millions of Korean Won				In Thousands of U.S.Dollars (Note 3)			
	2000		1999		**2000**		1999	
Cash flows from operating activities:								
Net loss	₩	(403,703)	₩	(802,783)	US$	(320,476)	US$	(637,281)
Adjustments to reconcile net loss to								
net cash provided by operating activities:								
Gain on disposal of securities, net		(48,655)		(99,023)		(38,624)		(78,608)
Valuation loss(gain) on securities, net		(80,650)		24,260		(64,023)		19,259
Gain on sales of loans, net		(19,989)		(27,578)		(15,868)		(21,893)
Allowance for loan losses		1,179,777		1,528,147		936,554		1,213,104
Provision for guarantees and acceptances		12,104		41,380		9,609		32,849
Depreciation and amortization		55,797		56,150		44,294		44,574
Provision for severance benefits		34,262		42,481		27,199		33,723
Amortization of present value discounts		(39,632)		(59,797)		(31,461)		(47,469)
Decrease in accrued income		21,959		163,720		17,432		129,967
Increase(Decrease) in accrued expenses		135,448		(13,300)		107,524		(10,558)
Others, net		(18,676)		(10,246)		(14,826)		(8,134)
Net cash provided by operating activities		**828,042**		**843,411**		**657,334**		**669,533**
Cash flows from investing activities:								
Decrease (Increase) in trading securities		497,311		(733,062)		394,785		(581,934)
Decrease (Increase) in investment securities		377,351		(2,444,135)		299,556		(1,940,252)
Net increase in loans		(4,740,759)		(878,805)		(3,763,403)		(697,630)
Acquisitions of premises and equipment		(32,037)		(45,559)		(25,432)		(36,167)
Increase in cash from merger with KIMB		-		112,944		-		89,659
Increase in merchant banking assets		(77,303)		3,142,558		(61,366)		2,494,688
Others, net		(195,228)		(28,310)		(154,980)		(22,474)
Net cash used in investing activities		**(4,170,665)**		**(874,369)**		**(3,310,840)**		**(694,110)**
Cash flows from financing activities:								
Net increase(Decrease) in deposits		3,250,159		4,736,954		2,580,106		3,760,383
Net decrease in borrowings and debentures		(1,756,067)		(1,445,870)		(1,394,036)		(1,147,789)
Issuance of new shares for cash		610,000		1,022,012		484,242		811,314
Proceeds from disposal of treasury shares		-		170,183		-		135,098
Increase in merchant banking liabilities		498,488		(3,965,259)		395,720		(3,147,780)
Others, net		80,172		(262,887)		63,644		(208,690)
Net cash provided by financing activities		**2,682,752**		**255,133**		**2,129,676**		**202,536**
Net increase in cash and cash equivalents		(659,871)		224,175		(523,832)		177,959
Cash and cash equivalents								
at beginning of year		5,848,625		5,624,450		4,642,871		4,464,912
Cash and cash equivalents								
at end of year (Note 24)	**₩**	**5,188,754**	**₩**	**5,848,625**	**US$**	**4,119,039**	**US$**	**4,642,871**

The accompanying notes are an integral part of these financial statements.

1. The Bank:

Korea Exchange Bank (the “Bank”) was established in 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank provides primarily commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank (“KIMB”), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The Bank implemented a two to one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. The resulting gain on capital reduction of ₩1,241 billion was used for the disposition of accumulated deficit. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 80 million shares and 42 million shares were issued to The Export-Import Bank of Korea and Commerzbank A.G, respectively, in accordance with a resolution of board of directors on November 10, 2000.

The preferred shareholders are entitled to non-cumulative and non-participating preferred dividends ranging from 5% to 9% of par value per annum. Preferred shareholders have no voting rights except for periods subsequent to shareholders’ meetings in which no dividends are declared for the preferred stocks. For 26,000 thousand shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 thousand shares of newly issued convertible preferred stock will be converted at conversion date after three years from the issue date.

The Bank’s shareholders as of December 31, 2000 and 1999 are as follows:

	Number of shares owned (shares)				%	
	Common stock	Preferred stock	**Total (2000)**	Total (1999)	**2000**	1999
Commerzbank A.G.	52,483,437	68,000,000	120,483,437	156,966,625	32.55	31.60
Bank of Korea	39,500,000	-	39,500,000	79,000,000	10.67	15.90
Export-Import Bank of Korea	40,314,387	80,000,000	120,314,387	80,628,774	32.50	16.30
Others	89,877,107	-	89,877,107	179,754,464	24.28	36.20
	222,174,931	**148,000,000**	**370,174,931**	**496,349,863**	**100.00**	**100.00**

As of December 31, 2000, the Bank has 301 branches, agencies and offices in domestic and overseas markets. The Bank has closed 13 domestic branches and one overseas branch in 2000. The Bank is in the process of closing or selling seven domestic and overseas subsidiaries and plans to close seven more domestic branches and six more overseas branches in 2001.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank in the preparation of the accompanying non-consolidated financial statements are summarized as follows:

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 accompanying financial statements have been extracted from the Company’s Korean language financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Certain supplementary information included in the Korean language statutory financial statements, but not required for a fair presentation of the Company’s financial position or results of operations, is not presented in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

The preparation of non-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 reported in future periods may differ from those estimates.

Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral is recognized on a cash basis in accordance with the generally accepted financial accounting standards of the Republic of Korea. At December 31, 2000 and 1999, the amount of interest not recognized due to such policy approximates ₩68,840 million and ₩159,199 million, respectively.

Allowances for Loan Losses

Commencing in 1999, The Bank applied Forward Looking Criteria (“FLC”) in its loan classification to determine allowances for possible loan losses. Under this method, the borrowers’ future debt service capacity as well as overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses were determined by applying the following minimum percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

The Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above.

Investments in Debt and Equity Securities

Investments in debt and equity securities are accounted as follows:

- All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.
- Investments in equity and debt securities that are bought and held principally for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.
- 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 stockholders' 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 are also recorded in current operations up to the original cost of the investment.
- Investments in non-marketable equity securities of non-controlled investees are carried at cost, expect for declines in the Bank's proportionate ownership of the underlying book value of the investees 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 are recorded using the equity method of accounting. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investees are amortized over five years using the straight-line method. Under the equity method, the Bank records changes in its proportionate ownership of the book value of the investees as current operations, capital adjustments or adjustments to retained earrings, depending on the nature of the underlying change in book of the investees.
- Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investment 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. 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 original cost of the investment.
- Other investments in debt securities are carried at fair value. Temporary differences between 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 are also recorded in current operations up to the original cost of the investment.
- The beneficiary certificates arranged to invest in the Bank's stock are stated at net asset value of the fund calculated based on the prices of the invested stocks excluding the Bank's own stocks. The portion of the Bank's own stocks in the fund as of the balance sheet date is eliminated from the investments and is presented as capital adjustment.

Premises and Equipment

Premises and equipment are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see Note 15). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Intangible Assets

Intangible assets are recorded at cost and amortized over five years using the straight-line method.

Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

Gains or losses on disposal of foreclosed assets on an installment payment basis are recognized as other income or expenses as incurred.

Accrued Severance Benefits

Employees and executives with one year or more of service with the Bank 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 of ₩190,883 million and ₩208,516 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2000 and 1999, respectively.

The Bank paid additional severance benefits to early-retired employees in addition to normal severance benefits as required by the relevant laws and the Bank's retirement policy. No accrual is provided for future early retirements. The Bank's actual payment of severance benefits in 2000 and 1999, including ₩19,892, ₩3,484 of additional early retirement benefits, approximated ₩71,741 million and ₩124,617 respectively.

In accordance with the National Pension Act, the Bank deposits a portion of accrued severance benefits with the National Pension Fund presented as deduction from accrued severance benefits. The contributed deposit amount shall be refunded to employees and executives from the National Pension Fund on their retirement. In addition, the Bank has partially funded accrued severance benefits through group severance insurance plans. As of December 31, 2000 and 1999, the amounts funded under these insurance plans amount to ₩151,956 million and ₩182,734 million, respectively and are included in cash and due from banks in the accompanying non-consolidated balance sheets.

Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expenses. Debenture issuance costs carried over from previous years continue to be amortized using the straight-line method consistent with the prior years' method in accordance with the financial accounting standards.

Present Value Discounts

The difference between the nominal value and the present value of accounts receivable arising from installment sales of foreclosed assets is amortized using the effective interest rate method. Amortization of these discounts is included in other interest income.

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

Discounts on Capital Stock

Discounts on capital stock arising from payment of stock issuance costs are reported as capital adjustments in shareholders' equity and amortized over three years by appropriations of retained earnings. However, due to accumulated deficits as of December 31, 2000 and 1999 there has been no amortization in 2000 and 1999.

Income Taxes

Current income taxes payable comprise corporate income tax and tax surcharges payable for the year. In addition, deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purpose are recognized for interperiod tax allocation purposes. The total income tax provision includes current tax expense under applicable tax regulations and the changes in the balance of deferred tax assets and liabilities. However, due to accumulated deficits and the uncertainty of realizing deferred income tax assets, the Bank has not recognized deferred income tax assets exceeding deferred income tax liabilities, except as incurred by certain overseas branches. Deferred tax assets and liabilities recorded by these branches are included in other assets and liabilities and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying non-consolidated financial statements.

Tax credits are recognized as a reduction of income tax expense in the year they are incurred for tax purposes.

Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively. Related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions.

The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the financial accounting standards.

The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 2000 and 1999 are ₩1,259.70:US$1 and ₩1,145.40:US$1, respectively.

Stock Option

In accordance with financial accounting standards, compensation costs for stock options granted to employees and executives are recognized on the basis of fair value.

Under the fair value basis method, compensation costs for stock option plans are determined using an option-pricing model in which the Bank assumes no volatility of the underlying stock prices at grant dates and recognized as compensation expense equally over the vesting period.

Derivative Financial Instruments

In accordance with the revised financial accounting standards in Korea effective January 1, 2000, derivative financial instruments ("derivatives") are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operations. Unrealized gains or losses on derivatives for cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in the capital adjustment account and recorded in operations in the period when underlying transactions have effect on operations. The adoption of this revised accounting standard for derivative financial instruments, including cumulative effects of retroactive application, were to increase net income for the year ended December 31, 2000 and decrease accumulated deficits as of January 1, 2000 by ₩6,433 million and ₩2,816 million, respectively.

Trust Fees and Compensation to the Trust Accounts

The Bank receives trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The Bank is also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations.

The Bank compensates for losses incurred in certain trust accounts with minimum return guarantees. Such compensation amounting to ₩147,693 million and ₩225,865 million in 2000 and 1999, respectively, is accounted for as compensation for trust accounts.

The cumulative effect of retroactive application of revised financial accounting standards for troubled loans restructured under work-out plan or other similar restructuring agreements of the trust accounts of the Bank amounting to ₩15,152 million were charged to accumulated deficits of the banking accounts of the Bank as of January 1, 2000.

Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on an increased number of shares that would be outstanding assuming conversion of potentially dilative securities as shown in Note 22.

Merchant Banking Operations

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from KIMB upon merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

- Revenue Recognition on Discounted Notes

  Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

- Cash Management Accounts ("CMA")

  The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

- Lease Transactions

  The Bank accounts for lease transactions as operating or financing leases, depending upon the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

  Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

  Operating lease equipment are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

  The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets. In 2000, there has been no interest cost capitalized and interest costs capitalized in 1999 amount to ₩94 million.

  The Bank accrues estimated losses from future sales of operating lease properties. Provision for such unrealized losses recognized in 2000 and 1999 amounts to ₩2,351 million and ₩1,963 million, respectively.

  Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that related lease rental revenues are recognized. Foreign currency translation losses incurred and deferred in 2000 approximate ₩10,190 million and foreign currency translation gains incurred and deferred in 1999 approximate ₩6,847 million.

- Reclassification of 1999 Amount

  Certain amounts in 1999 financial statements have been reclassified to conform to the 2000 presentation. These reclassification have had no effect on previously reported net income or shareholders' equity.

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 are provided herein as supplementary information solely for the convenience of the reader. The 2000 Korean Won amounts are expressed in U.S. Dollars at the rate ₩1,259.70: US$ 1, the rate in effect on December 31, 2000. This presentation is not in accordance with accounting principles generally accepted in either Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 1999 U.S. Dollar amounts, which were previously expressed at ₩1,145.40:US$1, the rate prevailing on December 31,1999, have been restated to reflect the exchange rate in effect on December 31, 2000.

4. Cash and Due from Banks:

Cash and due from banks in Won at December 31, 2000 and 1999 are as follows:

	Annual interest rate (%)	In Millions			
	2000.12. 31		**2000**		1999
Cash on hand	-	₩	1,282,903	₩	1,321,763
Deposits with the Bank of Korea (reserve deposit)	-		679,412		614,230
Deposits with other banks	0%~8.1%		29,908		868,432
Deposits with other financial institutions	0%~10.04% (*)		1,672,055		182,734
		₩	**3,664,278**	**₩**	**2,987,159**

(*) ₩1,085,604 million of deposits with other banks are due from trust accounts. The interest rate is determined by prior month's call rate +1% for the deposits of ₩500,000million and under, and 90 day maturity CD rate for the deposits over ₩500,000million

Cash and due from banks in foreign currencies at December 31, 2000 and 1999 are as follows:

	Annual interest rate (%)	In Millions			
	2000.12. 31		2000		1999
Cash on hand	-	₩	139,481	₩	153,370
Deposits with the Bank of Korea					
Reserve deposit	-		282,046		276,649
Other			-		475,833
Deposits with other Banks	1.25%~7.8%		52,286		1,261,249
Deposits with overseas financial institutions	(*)		1,026,537		40,895
		₩	**1,500,350**	**₩**	**2,207,996**

(*) Time deposits: 1.25%~7.8%
Other deposits: Under 5%
Deposits with other bank in foreign currency:
(USD: Federal Fund rate - 0.5%, Other currencies: 0.05%~7%)

Deposits with the Bank of Korea (reserve deposits) represent reserves the Bank is required to maintain for the payment of deposits in accordance with the Banking Act and the Bank of Korea Act. As of December 31, 2000 and 1999, foreign currency deposits with the Bank of Korea and other banks deposited in the course of transactions of derivative financial instruments amount to ₩152 million and ₩91,789 million, respectively, and won currency deposits with KorAm bank and other banks deposited related to asset-backed securitization and derivative financial instruments amount to ₩15,181 million and ₩16,950 million, respectively. Accordingly, the withdrawal of these deposits is restricted. As of December 31, 2000 and 1999, time deposits with other financial institutions of ₩151,956 million and ₩182,734 million, respectively, represent group severance deposits deposited under the group severance insurance plan, whose withdrawal is restricted to the actual payment purpose of severance benefits (see Note 2).

The scheduled maturities of due from banks as of December 31, 2000 are as follows:

	In Millions							
	Due in one year or less		Due from one to three years		Due after three years		Total	
Due from banks in Won	₩	1,478,600	₩	-	₩	902,775	₩	2,381,375
Due from Banks in foreign currencies		956,300		66,700		337,869		1,360,869
	₩	**2,434,900**	**₩**	**66,700**	**₩**	**1,240,644**	**₩**	**3,742,244**

5. Securities:

Securities at December 31, 2000 and 1999 are as follows:

	In Millions							
	Debt securities				Equity securities			
	2000		1999		2000		1999	
Trading securities	₩	1,542,907	₩	2,030,843	₩	-	₩	-
Investment securities:								
Available for sale		5,980,589		6,234,575		305,861		1,035,201
Held-to-maturity		933,518		1,144,243		-		-
Investment in subsidiaries		-		-		788,077		701,062
		6,914,107		7,378,818		1,093,938		1,736,263
	₩	**8,457,014**	**₩**	**9,409,661**	**₩**	**1,093,938**	**₩**	**1,736,263**

Investments in Debt Securities

Investments in debt securities at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions							
		2000				1999			
	2000.12.31	Nominal amount	Acquisition cost	Adjusted acquisition cost	Fair Value (*)	Nominal amount	Acquisition cost	Adjusted acquisition cost	Fair value (*)
Trading securities:									
Monetary stabilization bonds	5.0~11.0	₩ 79,469	₩ 79,745	₩ 79,758	₩ 79,890	₩ 1,210,000	₩ 1,169,505	₩ 1,170,848	₩ 1,163,202
Bonds issued by the government	3.0~21.0	164,418	160,422	160,527	161,164	470,517	478,609	478,044	467,127
Bonds issued by corporations	3.0~21.0	734,065	762,189	762,514	755,984	122,500	123,572	123,222	127,364
Beneficiary certificates	-	518,887	518,887	518,887	540,635	248,053	248,053	248,053	248,053
Bonds denominated in foreign currencies	8.75	5,038	5,151	5,244	5,234	25,199	25,338	22,207	25,097
		1,501,877	**1,526,394**	**1,526,930**	**1,542,907**	**2,076,269**	**2,045,077**	**2,042,374**	**2,030,843**
Investment securities:									
Monetary stabilization bonds	5.0~11.0	1,353,400	1,275,827	1,276,476	1,280,494	3,230,400	3,164,883	3,163,352	3,147,176
Bonds issued by the government	3.0~21.0	962,594	921,224	928,062	929,554	856,936	805,620	809,264	781,317
Bonds guaranteed by the government	5.0~21.0	1,876,518	1,914,383	1,912,350	1,914,603	701,088	700,129	700,668	702,730
Bonds issued by corporations	3.0~21.0	2,255,879	2,254,508	2,254,336	2,251,871	1,127,949	1,113,739	1,114,025	1,110,697
Beneficiary certificates	-	5,346	5,346	5,346	9,163	167,773	168,680	168,680	171,555
Other securities	-	56,615	56,615	56,615	56,615	84,291	83,974	83,974	72,141
Bonds denominated in foreign currencies	0.0~12.75	561,865	511,015	512,635	433,254	1,428,524	1,395,603	1,367,016	1,306,574
Off-shore debt securities	6.58~10.78	52,929	49,423	49,737	38,553	275,847	219,973	217,273	86,628
		7,125,146	6,988,341	6,995,557	6,914,107	7,872,808	7,652,601	7,624,252	7,378,818
		₩ 8,627,023	**₩ 8,514,735**	**₩ 8,522,487**	**₩ 8,457,014**	**₩ 9,949,077**	**₩ 9,697,678**	**₩ 9,666,626**	**₩ 9,409,661**

(*) Investment debt securities held to maturity amounting to ₩933,518 million and ₩1,144,243 million at December 31, 2000 and 1999 are carried at adjusted acquisition costs .

The scheduled maturities of debt securities at December 31, 2000 are as follows:

	In Millions			
	Due in one year or less	Due from one to three years	Due after three years	Total
Monetary stabilization bonds	₩ 1,044,753	₩ 315,631	₩ -	₩ 1,360,384
Bonds issued by the government	135,874	549,646	405,198	1,090,718
Bonds guaranteed by the government	2,265,595	26,536	220,418	2,512,549
Bonds issued by corporations	989,537	1,324,912	95,461	2,409,910
Beneficiary certificates	4,041	545,757	-	549,798
Other securities	-	56,615	-	56,615
Bonds denominated in foreign currencies	82,757	48,717	307,013	438,487
Off-shore debt securities	30,413	-	8,140	38,553
	₩ 4,552,970	**₩ 2,867,814**	**₩ 1,036,230**	**₩ 8,457,014**

Debt securities in foreign currencies, classified by country, as of December 31, 2000 are as follows:

Countries	In Thousands (*)	In Millions	Ratio (%)
U.S.A.	US$ 51,328	₩ 64,658	13.5%
Korea	270,626	340,908	71.5%
Philippines	24,179	30,458	6.4%
Other	32,561	41,017	8.6%
	US$ 378,694	**₩ 477,041**	**100.0%**

(*) Foreign currencies, except for U.S. dollars, are converted into equivalent U.S. dollar amounts using the exchange rate prevailing on December 31, 2000.

Guarantee Deposits for Trust Operations

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits at December 31, 2000 and 1999 are ₩7,999 million (₩10,642 million) and ₩1,613 million (₩4,300 million), respectively.

Investments in Equity Securities

Investments in equity securities at December 31, 2000 and 1999 are as follows:

	Shares owned by the Bank(1,000 shares)		Ownership Ratio(%)		Acquisition Cost		Market or Net Asset Value		Carrying Book Value	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
Investment securities:										
Equity securities in Won	-	-	-	-	₩ 689,413	₩ 261,756	₩ 285,043	₩ 205,491	₩ 285,043	₩ 205,491
Equity securities denominated in foreign currencies	-	-	-	-	9,894	9,057	9,894	9,057	9,894	9,057
Beneficiary certificates	-	-	-	-	-	30,450	-	33,261	-	33,261
Other investments	-	-	-	-	17,350	773,202	10,923	787,392	10,923	787,392
Investment in domestic subsidiaries										
KEB Leasing Co., Ltd. ("KEBLS")	2,400	2,400	30.0	30.0	12,000	12,000	12,804	7,611	63,681	8,450
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")	18,795	18,795	51.1	58.2	87,975	87,975	199,777	142,815	200,348	143,250
KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")	2,760	2,760	46.0	46.0	13,800	13,800	17,160	20,094	17,160	20,097
KEB Future Co., Ltd. ("KEBFC")	3,000	2,000	100	100.0	15,000	10,000	13,766	9,280	13,766	9,280
Salomon Smith Barney KEB ("KSB")	-	2,000	-	20.0	-	10,000	-	19,294	-	19,294
Korea Heavy Industry	16,400	8,200	15.7	15.7	82,000	82,000	270,578	271,683	270,578	271,683
					210,775	215,775	514,085	470,777	565,533	472,054
Investment in foreign subsidiaries										
Pacific Union Bank ("PUB")	5,377	8.000	62.5	100.0	38,493	57,270	60,129	64,648	60,129	64,648
Korea Exchange Bank of Canada ("KEBOC")	334	334	100	100.0	26,322	26,322	29,598	24,356	29,649	24,356
KEB (Asia) Finance Ltd. ("KAF")	4,680	4,680	80	80.0	54,775	54,775	-	-	-	-
KEB Australia Co., Ltd. ("KEBA")	40,000	40,000	100	100.0	28,346	28,436	13,757	12,011	14,192	12,689
KEB International Ltd. ("KEBI")	27,000	27,000	100	100.0	50,001	50,001	33,921	32,505	34,047	33,070
P.T. Korea Exchange Bank Danamon ("KEBD")	1	1	85	85.0	16,453	16,453	26,858	33,093	27,438	33,651
Korea Exchange Bank (Deutschland) A.G. ("KEBD A.G.")	20	20	100	100.0	20,589	20,589	28,293	26,129	28,652	26,173
KEB Ireland Ltd. ("KEB Ire")	3,000	3,000	100	100.0	3,436	3,436	6,319	4,830	6,552	5,399
KEB Brazil ("KEBB")	17,890	17,890	100	100.0	11,290	11,290	12,913	12,449	12,913	12,449
Cairo Far East Bank S.A.E.("CFEB")	8	-	31.5	-	8,281		7,842		7,842	
					257,986	268,482	219,630	210,021	221,414	212,435
Investments in foreign subsidiaries at cost(*)										
Cairo Far East Bank S.A.E.("CFEB")	-	8		31.5	-	8,281	-	8,891	-	8.891
KIMB Finance, Ltd..("KIMBF")	20,000	20,000	100	100.0	16,766	16,766	1,131	7,682	1,131	7,682
					16,766	25,047	1,131	16,573	1,131	16,573
					₩ 1,202,184	**₩ 1,583,769**	**₩ 1,040,706**	**₩ 1,732,572**	**₩ 1,093,938**	**₩ 1,736,263**

(*) The cost method was applied since the subsidiaries are in the process of sales or liquidation and accordingly, the Bank's control is temporary.

As of December 31, 2000 details of investments in subsidiaries accounted for using the equity method are as follows:

	Acquisition Cost	Beginning balance under equity method	Increase (decrease) in equity of equity method investees: Acquisition (Disposition)	Translation adjustment	Equity in earnings	Accumulated deficit	Capital adjustment	Book value
PUB	₩ 57,270	₩ 64,648	₩ (21,886)	₩ 6,453	₩ 9,569	₩ (16,359)	₩ 17,704	₩ 60,129
KAF	54,775	-	-	-	-	-	-	-
KEBOC	26,322	24,356	-	1,613	3,680	-	-	29,649
KEBA	28,346	12,689	-	(721)	2,224	1,407	(1,407)	14,192
KEBI	50,001	33,070	-	518	459	-	-	34,047
KEBD A.G.	20,589	26,173	(13)	834	1,672	(14)	-	28,652
KEBD	16,453	33,651	(10,014)	(6,342)	10,143	(3,338)	3,338	27,438
KEB Ire	3,436	5,399	-	539	614	-	-	6,552
KEBB	11,290	12,449	-	301	163	-	-	12,913
KEBCS	87,975	143,250	(2,349)	-	56,368	(18,015)	21,094	200,348
KEBLS	12,000	8,450	-	-	56,610	451	(1,830)	63,681
KEBIT	13,800	20,097	-	-	(382)	(2,555)	-	17,160
KEBFC	10,000	9,280	5,000	-	(521)	207	(200)	13,766
Korea Heavy Industry Co., Ltd.	82,000	271,683	(1,640)	-	4,758	(3,213)	(1,010)	270,578
CFEB	8,281	8,891	-	887	63	(1,999)	-	7,842
	₩ 482,538	**₩ 674,086**	**₩ (30,901)**	**₩ 4,081**	**₩ 145,420**	**₩ (43,428)**	**₩ 37,689**	**₩ 786,947**

Other Information

Securities denominated in foreign currencies at December 31, 2000 and 1999 are as follows:

	Currency	2000 In Thousands	2000 In Millions	1999 In Thousands	1999 In Millions
Government Bond	USD	84,517	₩ 106,466	771,845	₩ 884,072
	HKD	46,624	7,530	49,768	7,335
	SGD	5,477	3,973	5,493	3,785
	(*)	2,201	2,773	803	920
			120,742		896,112
Debentures issued by financial institutions	USD	181,319	228,408	177,663	203,529
Bonds issued by corporations	USD	98,944	124,640	264,384	302,893
	CHF	4,097	3,196	16,120	11,569
	(*)	43	55	3,663	4,196
			127,891		318,658
Equity securities	USD	7,417	9,343	7,417	8,495
	JPY	50,000	551	50,000	562
			9,894		9,057
Investments in subsidiaries	(*)	176,665	222,545	199,937	229,008
			₩ 709,480		**₩ 1,656,364**

(*) Securities denominated in other foreign currencies are presented at equivalent U.S. dollar amounts.

At December 31, 2000, the Bank provided debt securities amounting to ₩2,566,615 million as collateral for borrowings from the Bank of Korea (see Note 10) and has total debt securities amounting to ₩2,766,300 million available for re-discount in connection with the Bank's borrowings from the Bank of Korea. Securities denominated in foreign currencies amounting to ₩5,039 million were deposited in connection with agreements of derivative financial instruments and accordingly, the withdrawals of such securities are restricted.

6. Loans:

Loans at December 31, 2000 and 1999 are as follows:

In Millions

	2000	1999
Loans in Won	₩ 12,420,229	₩ 9,643,132
Loans in foreign currencies	6,060,299	7,009,462
Bills bought in Won	2,043,386	1,905,931
Foreign exchange bills purchased	3,924,174	3,639,710
Call loans	1,887,343	376,705
Other	1,155,202	1,726,850
	27,490,633	24,301,790
Less: Allowance for loan losses	(1,623,100)	(1,929,200)
Present value discount	(220,129)	(427,299)
	₩ 25,647,404	**₩ 21,945,291**

Interest rates on the above loans are normally prime rates or effective market rates plus spreads of up to 5.0%, as determined based on the types and terms of loans. Most loans bear either floating interest rates or fixed rates which are subject to subsequent change as prime rates fluctuate.

Loans to Other Financial Institutions

Loans to other financial institutions at December 31, 2000 are as follows:

In Millions

	Banks	Other Financial Institutions	Foreign Financial Institutions	Total
Loans in Won	₩ 143,668	₩ 9,308	₩ -	₩ 152,976
Loans in foreign currencies	-	-	138,602	138,602
Call loans	208,817	251,940	1,426,586	1,887,343
2000	**₩ 352,485**	**₩ 261,248**	**₩ 1,565,188**	**₩ 2,178,921**
1999	**₩ 213,668**	**₩ 2,434,731**	**₩ 217,196**	**₩ 2,865,595**

Foreign Currency Loans By Nationality

At December 31, 2000 and 1999, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

	2000			**1999**		
	Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US$ 4,012,588	₩ 5,054,657	83.4	US$ 5,354,782	₩ 6,133,367	87.5
Japan	485,681	611,812	10.1	306,101	350,608	5.0
Russia	110,000	138,567	2.3	125,390	143,622	2.1
Indonesia	16,060	20,231	0.3	123,342	141,276	2.0
Other	186,578	235,032	3.9	210,048	240,589	3.4
	US$ 4,810,907	**₩ 6,060,299**	**100.0**	**US$ 6,119,663**	**₩ 7,009,462**	**100.0**

Loans By Industry

At December 31, 2000 and 1999, the Bank's loans denominated in Korean Won, including trade bills discounted and corporate bills discounted(a portion of bills discounted), loans denominated in foreign currencies of domestic branches, classified by industry, are as follows:

	2000		**1999**	
	In Millions	Ratio (%)	In Millions	Ratio (%)
Manufacturing	₩ 6,709,534	38.4	₩ 6,355,304	42.2
Financial and insurance	1,576,726	9.0	1,296,299	8.6
Telecommunication	93,677	0.5	1,276,684	8.5
Wholesale and retails/service	2,131,811	12.2	1,474,686	9.8
Construction	997,739	5.7	687,085	4.5
Individuals and households	3,675,167	21.0	2,682,531	17.8
Other	2,295,283	13.2	1,294,069	8.6
	17,479,937	100.0	15,066,658	100.0
Loans of overseas branches	2,966,874		3,491,867	
	₩ 20,446,811		**₩ 18,558,525**	

Loan Classification

The credit risk classification for loans and allowance for losses at December 31, 2000 are as follows:

In Million(*)

	Current	Special mention	Substandard	Doubtful	Loss	Total	Allowance for loan losses
Loans :							
Loan in Won (**)	₩ 13,346,400	₩ 261,100	₩ 330,200	₩ 250,200	₩ 77,000	₩ 14,264,900	₩ 716,200
Loans in foreign Currencies	4,181,100	651,200	731,900	420,600	31,000	6,015,800	502,500
Local L/C bills bought (***)	73,800	-	-	-	-	73,800	369
Foreign exchange bills bought	3,706,100	21,000	84,600	84,200	45,300	3,941,200	123,231
Advance for customers	3,400	84,900	67,200	83,600	11,500	250,600	68,400
Factoring receivable	9,000	-	-	-	-	9,000	-
Call loans	1,886,043	-	1,300	-	-	1,887,343	300
Credit card account	14,397	-		-	-	14,397	100
Loans planed to be converted into equity security	-	-	-	108,861	-	108,861	54,500
Privately placed bonds	359,200	64,900	164,900	126,300	2,400	717,700	101,700
	₩ 23,579,440	**1,083,100**	**₩ 1,380,100**	**₩ 1,073,761**	**₩ 167,200**	27,283,601	1,567,300
Others : (****)						1,119,200	55,800
2000						**₩ 28,402,801**	**₩ 1,623,100**
Loans :	**₩ 18,518,136**	**₩ 1,175,400**	**₩ 2,508,700**	**₩ 1,329,807**	**₩ 343,800**	23,875,843	1,874,600
Others :						1,583,500	54,600
1999						**₩ 25,459,343**	**₩ 1,929,200**

(*) These balances represent loan amount after deduction of present value discounts.
(**) Including trade bills discounted and corporate bills discounted
(***) Including local L/C bills bought and exporting bills bought
(****) Comprising Due from Banks, suspense receivables, non-performing asset management fund

Maturity Information

The scheduled repayments of loans at December 31, 2000 are as follows:

	In Millions					
	Won currency loans (*)		Foreign currency loans		Total	
Due in one year or less	₩	10,469,300	₩	2,183,800	₩	12,653,100
Due from one to three years		1,366,300		797,500		2,163,800
Due after three years		2,550,912		3,078,999		5,692,911
	₩	**14,386,512**	**₩**	**6,060,299**	**₩**	**20,446,811**

(*) Including trade bills discounted and corporate bills discounted

Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the year ended December 31, 2000 and 1999 are as follows:

	In Millions			
	2000		1999	
Balance at January 1	₩	1,929,200	₩	671,878
Provision for loan losses		1,157,536		1,625,215
Reversal of allowance		(57,891)		(29,998)
Loans charged off		(1,739,794)		(327,087)
Transfer from repurchase of loan from KAMCO and others		247,166		(8,611)
Translation adjustments		86,883		(2,197)
		(306,100)		1,257,322
Balance at December 31	**₩**	**1,623,100**	**₩**	**1,929,200**

Ratios of allowance for loan losses to total loans for the years ended December 31, 2000, 1999 and 1998 are 6.0%, 8.1% and 3.3%, respectively.

At December 31, 2000 and 1999, the Bank's loans of which the balance had been already charged off but the Bank's legal claim rights against borrowers or guarantors have not expired amount to ₩2,160,626 million and ₩1,016,792 million, respectively.

Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipt specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 2000, ₩108,861 million of loans subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2000, discounted using interest rates of 8.5% to 9.75%, are ₩220,129 million less than their nominal value of ₩1,183,949 million. Amortization of these discounts of ₩39,632 million in 2000 are included in other interest income.

The changes in present value discount of the Bank's restructured loans in 2000 are as follows:

	In Millions							
	Beginning balance		Addition		Deduction(*)		December 31, 2000	
Loans restructured under work-out plan	₩	117,349	₩	41,615	₩	49,967	₩	108,997
Loans restructured under other similar rescheduling agreements		5,625		29,250		11,747		23,128
Loans in industry rationalization policy		304,325		-		216,321		88,004
	₩	**427,299**	**₩**	**70,865**	**₩**	**278,035**	**₩**	**220,129**

(*) The deduction is comprised of amortization in 2000 amounting to ₩39,632 million and reversal amounting to ₩238,403 million resulted from charge off and sales of loans.

Other Information

The Bank recognized gains and losses on loan sales amounting to ₩19,989 million and ₩34million, respectively, for the year ended December 31, 2000, and ₩151,897 million of gains for the year ended December 31, 1999 in connection with prior years' non-performing loan sales to Korea Asset Management Corporation ("KAMCO"), The sales prices of which are adjusted according to the results of actual subsequent collection of those loans (see Notes 18 and 19).

The Bank provides housing loans bearing interest at a rate of 1.0% per annum below ₩20 million and 9.75% per annum over 20 million to directors and employees, up to maximum of ₩50 million per person. The outstanding balance of housing loans receivable as of December 31, 2000 and 1999 amounts to ₩101,390 million and ₩113,262 million respectively.

7. Premises and Equipment

Premises and equipment at December 31, 2000 and 1999 are as follows:

In Millions

		2000		1999
Buildings	₩	414,039	₩	374,849
Office facilities held on lease		32,238		29,350
Equipment		294,026		282,644
Foreclosed assets		9,117		10,267
		749,420		697,110
Less: Accumulated depreciation or allowance		(374,068)		(353,392)
		375,352		343,718
Construction in progress		2,842		43,110
Land		375,092		381,403
Intangible assets		14,651		9,350
	₩	**767,937**	**₩**	**777,581**

At December 31, 2000 and 1999, the value of the Bank's domestic lands as determined by the tax authorities for property tax assessment purpose amounts to ₩390,869 million and ₩390,017 million, respectively.

At December 31, 2000, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

8. Other Assets:

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

In Millions

		2000		1999
Merchant banking assets	₩	1,446,176	₩	1,422,892
Guarantee deposits		385,769		380,473
Accounts receivable		1,234,749		137,564
Prepaid expenses		204,788		176,979
Adjustments related to derivatives		-		20,815
Suspense receivable		34,654		26,214
Domestic exchange settlement		330,397		292,155
Loans to trust accounts		163,100		163,100
Deferred tax assets		3,329		13,745
Other		200,855		44,862
	₩	**4,003,817**	**₩**	**2,678,799**

Merchant banking assets at December 31, 2000 and 1999 comprise the following:

In Millions

		2000		1999
Notes discounted	₩	576,560	₩	385,978
CMA assets		171,520		154,998
Beneficiary certificates		9,599		47,380
Operating lease equipment, net		69,020		95,167
Financing leases receivable		582,963		728,294
Others		73,314		79,175
Less: Allowance for loan losses		(36,800)		(68,100)
	₩	**1,446,176**	**₩**	**1,422,892**

Notes Discounted

The merchant banking division of the Bank provides discounting of short-term notes and trade bills receivable maturing in 1 year or less.

Notes and trade bills discounted and held at December 31, 2000 and 1999 comprise the following:

In Millions

		2000		1999
Notes discounted				
Issued by eligible customers	₩	574,866	₩	361,808
Guaranteed by financial institutions		150		17,590
		575,016		379,398
Payment in subrogation for note guarantees		1,544		6,580
	₩	**576,560**	**₩**	**385,978**

The outstanding balance of notes discounted and sold without recourse is ₩3,284,189 million and ₩ 35,000 million at December 31, 2000 and 1999, respectively.

Cash Management Accounts

Cash management accounts (“CMA”) comprise customers’ deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily. CMA assets at December 31, 2000 and 1999 comprise the following:

In Millions

		2000		1999
Notes discounted	₩	108,505	₩	115,684
Securities eligible for open market operation		49,723		13,509
Other securities		13,292		25,805
	₩	**171,520**	**₩**	**154,998**

Beneficiary Certificates

Under authorization by the Ministry of Finance and Economy, the merchant banking division of the Bank establishes and manages debt security investment trusts. The assets of these trusts, comprising primarily guaranteed corporate, government and public bonds, are deposited under trust deeds with Seoul Bank who is acting as trustee. As of December 31, 2000, the merchant banking division of the Bank operates various kinds of funds such as money market fund, short-term and long-term debt security trusts, installment type trusts, low tax trusts, long-term benefit trusts, separate tax trusts, tax exempt trusts and other types of trusts.

The merchant banking division of the Bank issues beneficiary certificates (“BCs”) representing shares in the trusts. The BCs are sold at daily trade prices, determined based on the value of the net assets held by the trusts every day. The merchant banking division of the Bank has undertaken to repurchase, at the daily trade price, all BCs sold, when requested by the beneficiaries. The BCs recorded on the balance sheet represent the shares unsold or repurchased by the Bank. Total BCs issued and outstanding at December 31, 2000 and 1999 are 10,504 million shares and 47,604 million shares, respectively.

Operating Lease Equipment

The merchant banking division of the Bank purchases equipment to be leased for periods ranging from three to fifteen years. Lease contracts include the following general provisions:

- Leases are non-cancelable.
- In the event of early termination by the lessee, predetermined liquidation losses are assessed to the lessee.
- The lessee has the option to return the equipment to the merchant banking division of the Bank at the end of the lease term or to renew the lease contract on the basis of a predetermined price at a stated percentage of the original cost.
- The merchant banking division of the Bank is beneficiary of insurance policies.
- Interest rates applied in the computation of quarterly or monthly minimum lease payments is based on actual financing costs plus fixed margins as stated in the lease contract.
- In certain lease agreements, payment of the rentals and potential liquidation losses are partly covered by collateral, amounting up to 5% of acquisition costs of lease assets, in the form of lease contract guarantee deposits from the lessees or guarantees from other Korean financial institutions or the Korean Fidelity and Surety Insurance Company.

Equipment held for lease at December 31, 2000 and 1999 is as follows:

In Millions

		2000		1999
General industrial equipment	₩	109,105	₩	139,821
Construction equipment		-		26,120
Shipping		50,780		30,526
Office equipment		6,219		13,193
Other		8,157		24,684
		174,261		234,344
Less: Accumulated depreciation		(102,701)		(135,722)
Allowance for estimated loss on future sales of operating lease assets (see Note 2)		(2,540)		(3,455)
	₩	**69,020**	**₩**	**95,167**

The estimated future rentals to be received on the operating leases as of December 31, 2000 are as follows:

In Millions

For the year ending December 31		Won Currency Rentals (*)		Foreign Currency Rentals		Total
2001	₩	33,576	₩	7,335	₩	40,911
2002		23,606		7,038		30,644
2003		21,928		6,862		28,790
2004		18,731		6,304		25,035
2005		11,347		2,258		13,605
2006 and thereafter		23,456		543		23,999
	₩	**132,644**	**₩**	**30,340**	**₩**	**162,984**

(*) Future rentals of ₩132,644 million denominated in foreign currencies are equivalent to US$ 105,299 thousand.

Financing Leases Receivable

The estimated future minimum lease payments in aggregate to be received on financing leases as of December 31, 2000 are as follows:

For the year ending December 31		In Millions
2001	₩	185,916
2002		177,106
2003		157,806
2004		128,779
2005		35,237
2006 and thereafter		23,877
Total minimum lease payments to be received		708,721
Less: Unearned interest income		(125,758)
Net financing leases receivable	**₩**	**582,963**

As of December 31, 2000, US$ 459,015 thousand (equivalent to ₩578,221 million) of net financing leases receivable are denominated in foreign currencies.

Credit Risk Classification and Related Allowance for Loan Losses

The credit risk classification and allowance for loan losses of the accounts in the merchant banking division of the Bank as of December 31, 2000 and 1999 are as follows:

In Million(*)

		Current		Special mention		Substandard		Doubtful		Loss		Total		Allowance for estimated potential losses
Notes discounted	₩	630,021	₩	31,700	₩	7,600	₩	12,400	₩	1,800	₩	683,521	₩	15,100
Payment in subrogation for note guarantees		-		-		-		1,544		-		1,544		800
Financing lease receivables		500,800		-		72,500		5,900		700		579,900		20,700
Others		-		-		1,100		-		-		1,100		200
2000(*)	**₩**	**1,130,821**	**₩**	**31,700**	**₩**	**81,200**	**₩**	**19,844**	**₩**	**2,500**	**₩**	**1,266,065**	**₩**	**36,800**
1999(*)	**₩**	**967,145**	**₩**	**122,200**	**₩**	**93,953**	**₩**	**20,106**	**₩**	**28,300**	**₩**	**1,231,704**	**₩**	**68,100**

(*) These balances represent loan amounts after deduction of present value discounts.

9. Deposits:

Deposits at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Deposits in Won:					
Demand deposits	0.0~5.0	₩	9,393,605	₩	8,012,675
Saving deposits	4.0~11.5		12,048,684		10,435,140
			21,442,289		18,447,815
Deposits in foreign currencies:					
Demand deposits	0.09~2.15		1,730,618		1,207,224
Saving deposits	0.07~7.93		6,819,478		6,866,571
			8,550,096		8,073,795
Certificates of deposit	5.1~6.3		62,792		292,208
		₩	**30,055,177**	**₩**	**26,813,818**

Deposits from Other Financial Institutions

Deposits from other financial institutions at December 31, 2000 and 1999 are as follows:

In Millions

	2000				1999			
	Banks (*)	Institutions other than banks	Foreign financial institutions	Total	Banks (*)	Institutions other than banks	Foreign financial institutions	Total
Deposits in Won :								
Demand deposits	₩ 3,422	₩ 949,627	₩ 6,933	₩ 959,982	₩ 208,813	₩ 608,440	₩ -	₩ 817,253
Saving deposits	35,958	369,067	64,474	469,499	473,014	959,777	-	1,432,791
Deposits in foreign Currencies :								
Demand deposits	206	45,213	20	45,439	304,440	12,458	4,157	321,055
Saving deposits	2,556,823	630,830	12,927	3,200,580	2,904,746	-	1,597	2,906,343
Certificates of deposit	-	-	-	-	-	-	98	98
	₩ 2,596,409	**₩ 1,994,737**	**₩ 84,354**	**₩ 4,675,500**	**₩3,891,013**	**₩ 1,580,675**	**₩ 5,852**	**₩ 5,477,540**

(*) Deposits in foreign currencies from banks represent deposits by the Bank of Korea.

Maturity Information

The scheduled maturities of deposits at December 31, 2000 are as follows:

In Millions

	Due in one year or less	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 15,302,900	₩ 626,200	₩ 5,513,189	₩ 21,442,289
Deposits in foreign currencies	7,278,690	183,670	1,087,736	8,550,096
Certificates of deposit	62,792	-	-	62,792
	₩ 22,644,382	**₩ 809,870**	**₩ 6,600,925**	**₩ 30,055,177**

10. Borrowings:

Borrowings at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Borrowings in Won					
Borrowings from the Bank of Korea	3.0 ~ 5.0	₩	580,344	₩	691,249
Borrowings from the Governmental and Public fund	4.0 ~ 6.8		258,276		223,138
Borrowings from other banks	2.0 ~ 10.15		298,056		272,292
Borrowings from other financial institutions	8.0 ~ 10.625		270,000		340,000
Borrowings from others	3.0 ~ 7.0		255,156		245,676
			1,661,832		1,772,355
Borrowings in foreign currencies					
Medium and long-term borrowings	LIBOR+0.3~3.5		561,339		3,151,854
Short-term borrowings	7.15 ~ 7.89		2,056,120		1,016,245
Refinance	7.23 ~ 8.35		352,115		649,315
Borrowings from banks for subordinated loans	LIBOR+0.15~0.75		33,629		28,437
Others	6.0 ~ 9.8		211,633		398,061
			3,214,836		5,243,912
Securities sold under repurchase					
Agreements	5.1 ~ 6.9		974,003		621,226
Covering notes sold	5.2 ~ 6.9		763,309		373,845
Call money	4.0 ~ 6.6				
	LIBOR+0.95~1.2		451,970		781,704
		₩	**7,065,950**	**₩**	**8,793,042**

Subordinated borrowings

Subordinated borrowings at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Subordinated borrowings in Won:					
Samsung Life Insurance, Co. and other, maturing through 2007	8.0 ~ 10.625	₩	270,000	₩	340,000
Subordinated borrowings in foreign currencies:					
Commerzbank, maturing through 2005	LIBOR+3.5		44,090		40,089
			(US$35)		(US$ 35)
		₩	**314,090**	**₩**	**380,089**

Subordinated borrowings have redemption periods of three to eight years and are due in lump sum at maturity.

Maturity Information

The scheduled maturities of borrowings at December 31, 2000 are as follows:

	In Millions							
	Due in one year or less		Due from one to three years		Due after three years		Total	
Borrowings in Won	₩	719,500	₩	308,100	₩	634,232	₩	1,661,832
Borrowings in foreign currencies		2,822,230		326,600		66,006		3,214,836
	₩	**3,541,730**	**₩**	**634,700**	**₩**	**700,238**	**₩**	**4,876,668**

Other Information

At December 31, 2000, in the normal course of funding activities the Bank provided ₩2,566,615 million of securities as collateral for borrowings from the Bank of Korea and other financial institutions (see Note 5).

11. Debentures:

Debentures at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Debentures in Won					
Debentures	7.8 — 10.5	₩	214,308	₩	402,208
Subordinated debentures	14.8(*)		585,300		435,300
Subordinated convertible debentures	4.0		200,000		200,000
Others	-		-		5
			999,608		1,037,513
Discounts on debentures			(1,596)		(5,123)
			998,012		1,032,390
Debentures in foreign currencies					
Debentures	LIBOR+0.72~6.805		1,125,370		1,110,275
Off-shore debentures			-		5,154
			1,125,370		1,115,429
Discounts on debentures			(7,940)		(3,402)
			1,117,430		1,112,027
		₩	**2,115,442**	**₩**	**2,144,417**

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Debentures

Subordinated debentures at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Fund invested by the Korean government, maturing through 2004	(*)	₩	422,300	₩	422,300
Samsung Life Insurance Co., maturing in 2007	14.8		13,000		13,000
Public	10.5		150,000		-
			585,300		435,300
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	LIBOR+0.72		251,940		229,080
			(US$200)		(US$200)
Credit Suisse First Boston(CSFB)	LIBOR+6.805		257,623		-
			(US$205)		(US$ -)
			509,563		229,080
		₩	**1,094,863**	**₩**	**664,380**

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 2000 and 1999 are as follows:

	Periods of debentures	Annual Interest Rate(%)	In Millions			
			2000		1999	
Subordinated convertible debentures (No. 4)	1999. 12. 6 ~ 2009. 12. 6	4.0	₩	100,000	₩	100,000
Subordinated convertible debentures (No. 5)	1999. 12. 27 ~ 2009. 12. 27	4.0		100,000		100,000
			₩	**200,000**	**₩**	**200,000**

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through October 31, 2004 and November 20, 2004, respectively, into common shares at a conversion price of ₩10,000 per share of common stock, as adjusted for the 2:1 capital reduction in 2000. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service ("FSS") on December 6, 2004 (fourth series) and December 27, 2004 (fifth series) at 150.82% of their principal amounts. If such options were not exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the remaining principal will be paid ten years from the issue date.

Repayment Schedules

The scheduled maturities of debentures at December 31, 2000 are as follows:

In Millions

	Due in one year or less	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 44,053	₩ 506,255	₩ 449,300	₩ 999,608
Debentures in foreign currencies	337,000	278,800	509,570	1,125,370
	₩ 381,053	**₩ 785,055**	**₩ 958,870**	**₩ 2,124,978**

12. Other Liabilities:

Other liabilities at December 31, 2000 and 1999 consist of the following:

In Millions

	2000	1999
Merchant banking liabilities	₩ 973,530	₩ 480,160
Unearned income	82,852	83,844
Accrued severance benefits	179,913	195,388
Allowance for estimated losses on outstanding guarantees and acceptance contract	125,200	112,000
Due to trust accounts	668,491	530,429
Due to treasury agency	81,618	62,452
GIRO accounts	35,149	27,632
Deferred tax liabilities	-	5,601
Account payable	1,062,119	5,966
Other	899,828	757,338
	₩ 4,108,700	**₩ 2,260,810**

Merchant banking liabilities at December 31, 2000 and 1999 comprise the following:

	Annual Interest Rate (%)	In Millions	
	2000.12.31	2000	1999
Notes payable	5.0~7.5	₩ 767,462	₩ 286,726
CMA deposits	5.0~7.6	174,853	160,288
Others		31,215	33,146
		₩ 973,530	**₩ 480,160**

Notes payable mature a maximum of one year from issue date and bear interest at varying rates according to market conditions and note terms.

13. Accrued Severance Benefit:

Accrued severance benefits at December 31, 2000 and 1999 are as following:

In Millions

	2000	1999
Balance at beginning of year	₩ 208,516	₩ 269,105
Adjustment of beginning accumulated deficit	-	17,900
Provisions	34,262	42,481
Severance payments	(51,849)	(121,133)
Adjustments of foreign exchange transactions	(46)	163
	190,883	208,516
Cumulative Deposits to National Pension Fund	(10,970)	(13,128)
Balance at end of year	**₩ 179,913**	**₩ 195,388**

14. Monetary Assets and Liabilities Denominated in Foreign Currencies:

Monetary assets and liabilities denominated in foreign currencies at December 31, 2000 and 1999 are as follows:

	In Thousands of U.S. Dollars Equivalents				In Millions of Korean Won			
	2000		1999		2000		1999	
ASSETS								
Cash and due from banks	US$	1,191,038	US$	1,920,772	₩	1,500,350	₩	2,207,996
Trading securities		4,155		21,911		5,234		25,097
Investment securities		559,059		1,424,446		704,246		1,631,266
Loans		9,468,466		9,483,067		11,927,425		10,861,971
	US$	**11,222,718**	**US$**	**12,850,196**	**₩**	**14,137,255**	**₩**	**14,726,330**
LIABILITIES								
Deposits	US$	6,787,407	US$	7,048,842		8,550,096		8,073,795
Borrowings		2,813,488		4,859,517		3,544,150		5,566,115
Debentures		893,363		973,834		1,125,370		1,115,429
Others		170,970		208,013		215,371		238,258
	US$	**10,665,228**	**US$**	**13,090,206**	**₩**	**13,434,987**	**₩**	**14,993,597**

Monetary assets and liabilities of the Bank denominated in other than U.S. Dollars were converted into equivalent U.S. Dollar amounts using the exchange rate prevailing on December 31, 2000 and 1999.

15. Capital Surplus:

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which ₩359,608 million, net of 3% revaluation taxes, was used for disposition of accumulated deficit.

16. Accumulated Deficit:

Accumulated deficit as of December 31, 2000 and 1999 is as follows:

	In Millions			
	2000		1999	
Other statutory reserves	₩	13,131	₩	13,133
Accumulated deficit before disposition		(282,983)		(1,055,801)
	₩	**(269,852)**	**₩**	**(1,042,668)**

Other Statutory Reserves

Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of annual income after income taxes as a Japanese legal reserve, until such reserve equals ￥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches.

Disposition of Accumulated Deficits

Details of the recent three years' disposition of accumulated deficits approved by shareholders on March 25, 2000, February 26, 1999 and February 27, 1998 are as follows:

	In Millions					
	1999		1998		1997	
Accumulated deficit before disposition	₩	1,366,086	₩	843,544	₩	68,255
Disposition						
Transfer from capital surplus		154,800				-
Transfer from asset revaluation surplus		156,022		203,591		-
Transfer from statutory reserve		-		195,634		-
Transfer from reserve for overseas investment losses		-		154,000		23,500
Transfer from business rationalization		-		31,800		-
Appropriation for other statutory reserves		(537)		(211)		(234)
Transfer from voluntary reserves		-		258,730		44,989
		310,285		843,544		68,255
Undisposed Accumulated deficit to be carried forward to subsequent year	**₩**	**1,055,801**	**₩**	**-**	**₩**	**-**

Details of adjustments to the beginning accumulated deficits reflecting the effect of retroactive application of new method accounting to conform with new requirements of the revised financial accounting standards are as follows:

In Millions

	2000		1999	
Accumulated deficits before adjustments	₩	(1,055,801)	₩	-
Adjustments:		-		-
Rescheduled loans		(15,152)		(380,591)
Loss on valuation of securities		-		(127,467)
Loan loss reserves for outstanding guarantees and acceptance contracts		-		(69,908)
Equity method accounting for investment securities in subsidiaries		(46,150)		31,317
Others, net		(2,816)		(16,258)
Accumulated deficits, as adjusted	**₩**	**(1,119,919)**	**₩**	**(562,907)**

17. Capital Adjustment:

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

In Millions

	2000		1999	
Valuation losses on investment in debt securities	₩	(22,336)	₩	(72,292)
Valuation gain on investment in equity securities		(133,340)		124,291
Treasury stocks		(2,930)		(16,983)
Discounts on capital stocks		(9,428)		(6,425)
	₩	**(168,034)**	**₩**	**28,591**

Treasury stocks held by the Bank at December 31, 2000 and 1999 comprised 2,363 thousand shares of common stock and 3,904 thousand shares of common stock, respectively, included in the beneficiary certificate arranged to invest in the Bank's stock. These shares were acquired in the course of merger with KIMB (See Note 25). The Bank intends to sell these treasury shares in the near future.

Stock Options

As of December 31, 2000, the Company has implemented stock option plans for employees and executives, under which they are entitled to receive options to purchase 924 thousand common shares of the Bank at ₩5,000 per share. The stock options may be exercised during the period from three to six years from the grant date

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

- The risk-free interest rate: The interest rate for governmental bonds at the grant date
- The expected exercise period : In six years from the grant date
- The volatility of the underlying stock price: 0 %
- The expected dividend rate: 0 %

Under the above assumptions, compensation costs under fair value basis method is in agreement with those under minimum value method. However, due to the exercise price of the stock option exceeding market value of the Bank's stock at December 31, 2000, no compensation cost were accrued in 2000.

18. Commitments and Contingencies:

Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the banking regulatory authorities. Under capital adequacy guidelines, the Bank shall report to the regulatory banking authorities its capital adequacy information as measured based on its consolidated financial statements. The capital guidelines involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to quantitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain a minimum 8% of total adjusted capital to risk weighted assets (the BIS capital ratio).

Guarantees and Acceptances

The Bank makes various commitments whereby it accepts customer contingencies or guarantees customer's liabilities in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding at December 31, 2000 and 1999 are summarized as follows:

	In Millions			
	2000		1999	
Guarantees:				
Won currency	₩	542,300	₩	794,122
Foreign currencies		2,556,321		2,745,343
		3,098,621		3,539,465
Acceptances in foreign currencies		2,466,529		1,777,282
	₩	**5,565,150**	**₩**	**5,316,747**

Credit risk classification of the guarantees and acceptances and allowances for estimated potential losses at December 31, 2000 and 1999 are as follows respectively:

	In Millions			
	Guarantees and Acceptances			
	2000		1999	
Current	₩	5,088,850	₩	4,645,230
Special mention		202,600		180,300
Substandard		102,900		442,000
Doubtful		160,900		41,417
Loss		9,900		7,800
Total		5,565,150		5,316,747
Allowance for estimated potential losses	**₩**	**125,200**	**₩**	**112,000**

The guarantees and acceptances, excluding acceptance in offshore branches and guarantees arising from merchant banking operations, classified by industry as of December 31, 2000 and 1999 are as follows:

	2000			1999		
	In Millions		Ratio (%)	In Millions		Ratio (%)
Manufacturing	₩	3,422,102	65.5	₩	2,692,629	56.1
Wholesale and retails/service		827,531	15.8		731,771	15.2
Construction		796,770	15.3		521,536	10.9
Financial insurance		82,239	1.6		352,230	7.2
Telecommunication		24,890	0.5		210,773	4.4
Other		67,596	1.3		289,513	6.2
		5,221,128	100.0		4,798,452	100.0
Acceptance in overseas branches		330,369			487,278	
Guarantees provided by merchant banking operations		13,653			31,017	
	₩	**5,565,150**		**₩**	**5,316,747**	

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2000 and 1999 are as follows:

	2000					1999				
	In Thousands		In Millions		Ratio (%)	In Thousands		In Millions		Ratio (%)
Korea	US$	3,606,211	₩	4,542,744	90.4	US$	3,769,888		4,318,030	95.5
France		222,661		280,486	5.6		119,864		137,292	3.0
Germany		23,288		29,336	0.6		17,612		20,173	0.4
United Kingdom		6,849		8,628	0.2		12,845		14,713	0.3
U.S.A		66,559		83,844	1.7		10,515		12,044	0.3
Japan		28,076		35,290	0.7		5,913		6,773	0.2
Other		33,756		42,522	0.8		11,874		13,600	0.3
	US$	**3,987,400**	**₩**	**5,022,850**	**100.0**	**US$**	**3,948,511**	**₩**	**4,522,625**	**100.0**

In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of the Bank's guarantees and acceptances without underlying liabilities of customers, provided in the normal course of business, at December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Letters of credit issued but not yet being drawn	₩	4,573,992	₩	4,550,117
Other guarantees and acceptance		3,848		31,836
	₩	**4,577,840**	**₩**	**4,581,953**

The Bank has entered into various loan commitments to provide a certain amount of loans, including overdraft financing, for its customers in the normal course of business. As of December 31, 2000, the amount committed but not yet drawn approximates ₩8,024,652 million.

Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought against the Bank are approximately ₩54,069 million as of December 31, 2000. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material ultimate losses on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying non-consolidated financial statements. The Bank has purchased US$ 7 million (Book value: US$ 1.5 million) of floating rate notes and paid US$ 12 million in subrogation for offshore funds in Malaysia established by Anam Semiconductor ("The Company"), which is now undergoing a workout program. The Company has provided a letter of commitment ("LOC") which confirms the compensation of the loss arising from the funds, but is not performing. Accordingly, the Bank is undergoing a process to bring the case to the court, but the ultimate effect as of balance sheet date cannot presently be determined.

Asset Backed Securitization

At December 6, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company ("SPC") and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

Loans Sold under Repurchase Agreements

The Korea Asset Management Corporation ("KAMCO") can resell some of the loans under certain conditions including the following;

- When it is considered impossible to collect the loans and interest because borrowers delay their repayment of loans and interests over 6 months
- When it is considered impossible to collect the loans and interests due to the abrogation of court-receivership process and the cancellation of mediation

As of December 31, 2000, KAMCO may exercise the resale option for the loan amounting to ₩591,316 million.

As of December 31, 2000, the Bank estimated loss on repurchase of the loans amounting to ₩203,700 and accrued this amount as allowance for loan losses in 2000.

Stock of Samsung Life Insurance

On September 26, 2000, the Bank received 117,638 shares of stock of Samsung Life Insurance in accordance with contribution contract with Gun-Hee Lee, the chairman of Samsung Group, subsequent to the agreement to be compensated against estimated loan losses arising from Samsung Motors.

Evaluation of the plan for the Bank management improvement

On November 8, 2000, the Financial Supervisory Commission approved the Bank's management improvement plan submitted on September 30, 2000 by the Bank, based on the following abstract of evaluation for the Bank's plan by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently without additional capital injection from the Korean Government, since the Bank's capital adequacy ratio as of December 31, 2001 is expected to meet the target ratio, subject to the certain conditions described below:

- To provide against the situation that the Bank would not be able to increase its capital through public offerings in early 2001, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds
- The ratio of non-performing loans(NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.
- The target ratio of financial profitability will be reached through increase of operating revenue and reduction of expenses.

Economic uncertainties

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices

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

Significant uncertainties still exist related to the economy in Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. The Bank's outstanding loans and guarantees to the affiliated companies of Daewoo Group and other companies, including Korea Real Estate Trust, under workout programs amount to ₩1,330,600 million and ₩1,361,900 million before present value discounts of ₩66,700 million and ₩55,800 million, respectively. The Bank has accrued ₩475,700 million and ₩544,200 million, respectively, of allowance for such loan losses (including allowance for losses for guarantees and acceptances) as of December 31, 2000. In addition, as of December 31,2000, The Bank's outstanding loans and guarantees to Hyundai Group companies amount to ₩2,823,739 million. Actual loan losses to the above companies can differ from allowances for such loan losses accrued by the Bank. The accompanying non-consolidated financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price.

A summary of derivative financial instrument information at December 31, 2000 is as follows (unit : In Millions of Korean Won):

				Valuation gains or losses (I/S)						Valuation gains or losses (B/S)	
	Outstanding			Trading		Hedging		Total			
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses	Assets	Liabilities
Foreign Currency Related Contracts											
Forward contracts	₩ 1,563,403	₩ 815,632	₩ 2,379,035	₩ 58,690	₩ 100,152	₩ 24,965	₩ 8,576	₩ 83,655	₩ 108,728	₩ 83,626	₩ 101,790
Futures contracts											
Futures contracts purchased	22,688	-	22,688	-	-	-	-	-	-	-	-
Swap contracts	3,294	88,122	91,416	181	168	-	12,840	181	13,008	181	12,077
Option contracts											
Option contracts purchased	34,019	-	34,019	19,517	-	-	-	19,517	-	19,517	-
Option contracts sold	340,251	-	340,251	-	19,518	-	-	-	19,518	-	19,518
	1,963,655	903,754	2,867,409	78,388	119,838	24,965	21,416	103,353	141,254	103,324	133,385
Interest Rate Related Contracts											
Futures contracts											
Futures contracts purchased	100,570	-	100,570	-	-	-	-	-	-	-	-
Futures contracts sold	165,525	-	165,525	-	-	-	-	-	-	-	-
CD contracts	-	-	-	-	-	-	-	-	-	-	-
Swap contracts	1,689,907	125,970	1,815,877	41,339	36,851	9,975	2,851	51,314	39,702	49,250	39,703
Option contracts											
Option contracts purchased	234,140	-	234,140	240	-	-	-	240	-	240	-
Option contracts sold	188,955	-	188,955	-	240	-	-	-	240	-	240
	2,379,097	125,970	2,505,067	41,579	37,091	9,975	2,851	51,554	39,942	49,490	39,943
	₩ 4,342,752	₩ 1,029,724	₩ 5,372,476	₩ 119,967	₩ 156,929	₩ 34,940	₩ 24,267	₩ 154,907	₩ 181,196	₩ 152,814	₩ 173,328

(*) The currency related derivative financial instruments or interest rate swap contracts that accompany both purchased and sold position are recorded at foreign currency contract amount for the contracts between Korean Won and foreign currency, and purchased foreign currency contracts amount for the contract between foreign currencies, translated into the exchange rate as of the balance sheet date.

(**) The valuation gains or losses are not recorded since the settlement gain or losses are transferred to transaction gains or losses the as of balance sheet date.

(***) The above gains or losses are included in gains or losses on foreign exchange transaction.

19. Other Income:

Details of other income for the year ended December 31, 2000 and 1999 are as follows:

In Millions

		2000		1999
Operating income from merchant banking operations	₩	188,122	₩	233,306
Gain on disposal of trading securities		39,134		156,411
Gain on disposal of investment securities		81,448		97,356
Gain on valuation of securities		182,145		78,857
Gain on sales of loans		19,989		151,897
Gain on disposal of premises and equipment		19,614		12,260
Recovery of loans charged off		-		4,805
Lease rental earned		3,118		2,652
Deferred tax revenue		7		12,773
Other		157,492		61,168
	₩	**691,069**	**₩**	**811,485**

Details of operating income from merchant banking operations for the years ended December 31, 2000 and 1999 are as follows:

In Millions

		2000		1999
Interest income, including interest on financing lease receivable	₩	128,950	₩	132,688
Fees and commissions income		961		3,303
Lease rentals earned		43,385		58,725
Gain on disposal of operating lease assets		4,911		13,152
Gain on disposal of beneficiary certificates		1,359		14,186
Gain on foreign currency translations		262		797
Other		8,294		10,455
	₩	**188,122**	**₩**	**233,306**

20. Other Expenses:

Details of other expenses for the year ended December 31, 2000 and1999 are as follows:

In Millions

		2000		1999
Operating expenses from merchant banking operations	₩	118,338	₩	121,519
Loss on disposal of trading securities		49,330		50,401
Loss on disposal of investment securities		22,597		104,343
Loss on disposal of premises and equipment		3,188		6,163
Loss on valuation of securities		101,495		103,117
Loss on sales of loans		34		124,319
Deferred tax expenses		5,634		4,066
Other		93,145		118,524
	₩	**393,761**	**₩**	**632,452**

Details of operating expenses from merchant banking operations for the year ended December 31, 2000 and 1999 are as follows:

In Millions

		2000		1999
Interest expense, including interest on CMA deposits	₩	58,044	₩	35,599
Depreciation on operating lease assets		22,345		29,097
Provision for loan losses		22,241		27,251
Loss on disposal of operating lease assets		3		658
Provision for losses on disposal of operating lease assets		2,351		28,914
Other		13,354		-
	₩	**118,338**	**₩**	**121,519**

21. Income Taxes:

The statutory income tax rates applicable to the Bank, including resident tax surcharges, approximate 30.8%. No current or deferred income tax expenses were recorded in 2000 due to the full valuation allowances on deferred tax assets including operating loss carryforwards. The current income tax expenses represent income taxes paid by overseas branches.

The components of differences between taxable income and accounting income for the years ended December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Net loss	₩	(403,703)	₩	(802,783)
Temporary differences:				
Restructuring of loans		220,129		427,299
Allowance for loan losses		303,600		257,100
Accrued interests, net		6,168		81,352
Gain on valuation at securities, net		14,733		243,030
Allowance for estimated losses on outstanding guarantees and acceptances contract		125,200		112,000
Others		(744,558)		220,252
		(74,728)		1,341,033
Permanent differences:				
Adjustments to accumulated deficits		(64,976)		(563,303)
Others		(11,809)		(5,231)
		(76,785)		(568,534)
Net taxable loss / operating loss carry-forward		(555,216)		(30,284)
Operating loss carryforward		(1,685,457)		(1,000,888)
Taxable income		-		-

The details of temporary differences and deferred tax assets as of December 31, 2000 are as follows:

In Millions

	Balance at January 1, 2000		Adjustments for foreign currency translation		Increase (Decrease)		Balance at December 31, 2000		Deferred tax assets (liabilities)	
Loss on valuation of securities	₩	177,960	₩	-	₩	4,020	₩	181,980	₩	56,050
Gain on valuation of long-term debt securities		(16,272)		(969)		10,715		(6,526)		(2,010)
Accrued interest		(127,893)		-		6,167		(121,726)		(37,492)
Allowance for loan losses		257,100		-		46,500		303,600		93,509
Loans charged off		66,213		-		-		66,213		20,394
Allowance for losses from Guarantees and acceptances		112,000		-		13,200		125,200		38,562
Restructuring of loans		427,299		-		(207,170)		220,129		67,800
Others, net		88,984		-		51,840		140,824		43,374
Sub-total	**₩**	**985,391**	**₩**	**(969)**	**₩**	**(74,728)**	**₩**	**909,694**		280,187
Operating loss carry-forward	**₩**	**1,130,241**	**₩**	**-**	**₩**	**555,216**	**₩**	**1,685,457**		519,121
Deferred tax assets										799,308
Allowance for deferred tax assets										799,308
Deferred tax assets, net									₩	-

22. Net loss Per Share and Ordinary Loss Per Share:

Basic earnings per shares and ordinary loss per share for the years ended December 31, 2000 and 1999 are calculated as follows:

In Millions

		2000		1999
Net loss	₩	(403,703)	₩	(802,783)
Preferred stock dividends		-		-
Net loss allocated to common stock		(403,703)		(802,783)
Weighted average number of common shares outstanding (in shares)		220,017,489		418,858,752
Basic net loss per share (in Won)	**₩**	**(1,835)**	**₩**	**(1,917)**
			₩	**(3,834) (*)**

(*) Reflects the effect of the 2:1 capital reduction for current year

In Millions

		2000		1999
Net loss	₩	(403,703)	₩	(802,783)
Extraordinary gain(loss)		44,675		5,101
Income tax related to ordinary loss		-		-
Ordinary loss allocated to common stock		(448,378)		(807,884)
Weighted average number of common shares outstanding (in shares)		220,017,489		418,858,752
Basic ordinary loss per share (in Won)	**₩**	**(2,038)**	**₩**	**(1,929)**
			₩	**(3,858) (*)**

(*) Reflects the effect of the 2:1 capital reduction for current year

The weighted average number of common shares outstanding for the year ended December 31, 2000 are calculated as follows:

	2000		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	2,157,442	365	(787,466,330)

Weighted average number of shares outstanding:

80,306,383,485 shares / 365 days = 220,017,489 shares

The weighted average number of common shares outstanding for the year ended December 31, 1999 are calculated as follows:

In Millions

	Number of Shares	Adjustment (*)	Number of days As adjusted	of shares outstanding	Weighted number outstanding
Beginning	235,000,000	1.1488	269,973,354	365	98,540,274,210
Increase due to merger	56,947,525	1.1488	65,422,614	360	23,552,141,040
Treasury stock	(13,428,774)	1.0000	(13,428,774)	227	(3,048,331,698)
Treasury stock	(13,428,774)	1.0000	(13,428,774)	239	(3,209,476,986)
Treasury stock	(4,969,201)	1.0000	(4,969,201)	365	(1,813,758,365)
Stocks newly issued	152,402,338	1.0000	152,402,338	255	38,862,596,190
	412,523,114		**455,971,557**		**152,883,444,391**

Weighted average number of shares outstanding:

152,888,444,391 shares / 365 days = 418,858,752 shares

(*) In accordance with the interpretation of the financial accounting standards weighted average of new common stock outstanding were adjusted to reflect market value of new common stock in excess of proceeds from issuance of them.

For the years ended December 31, 2000 and 1999, diluted net loss per share and diluted ordinary loss per share are equal to basic net loss per share and basic ordinary loss per share due to the anti-dilative effect of all potentially dilative securities.

Potential common share information as of December 31, 2000 is as follows;

		Face value (In millions)	Exercise period	Number of common shares to be issued upon conversion
Convertible preferred shares	₩	740,000	(*)	148,000,000
Subordinated convertible debentures (No. 4)		100,000	From Mar. 7, 2000 to Oct. 31, 2004	10,000,000
Subordinated convertible debentures (No. 5)		100,000	From Mar. 28, 2000 to Nov. 27, 2009	10,000,000

(*) For 26,000 shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 shares of newly issued convertible preferred stock will be converted at conversion date after three years from the issue date.

23. Business Division and Regional Information:

The financial information by business divisions comprising retail financing, corporate financing, international financing and others are as follows:

In Millions

		Retail financing		Corporate financing		International financing		Others		2000 Total		1999 Total
Divisional income	₩	449,983	₩	426,748	₩	77,628	₩	(180,609)	₩	773,750	₩	1,103,994
Loans		4,606,607		13,697,184		6,562,724		2,624,118		27,490,633		24,301,790
Securities		-		-		390,030		9,160,922		9,550,925		11,145,924

Reconciliation between the bank-wide earnings and divisional earnings for the period ended December 31, 2000 and 1999 are as follows:

In Millions

		2000		1999
Total divisional income	₩	773,750	₩	1,103,994
Provision for allowances for loan losses		(1,132,499)		(1,853,244)
Provision for severance benefits		(34,262)		(42,481)
Income taxes		(10,692)		(11,052)
Net loss	**₩**	**403,703**	**₩**	**802,783**

The financial information divided by geographical regions, comprising domestic and overseas markets, is as follows:

In Millions

	2000						1999					
		Domestic		Overseas		Total		Domestic		Overseas		Total
Operating revenue	₩	4,088,869	₩	663,884	₩	4,752,753	₩	3,952,334	₩	565,818	₩	4,518,152
Operating income		(572,098)		(9,389)		(581,487)		(641,065)		(169,892)		(810,957)
Loans		22,115,921		5,374,712		27,490,633		19,945,158		4,356,632		24,301,790
Securities		9,427,657		123,295		9,550,952		10,239,840		906,084		11,145,924

24. Supplemental Cash Flows Information:

The Bank considers cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent at December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Cash on hand	₩	1,422,384	₩	1,475,133
Deposits in Won		2,381,375		1,665,396
Deposits in foreign currencies		1,360,869		2,054,626
Marketable securities		24,126		653,470
	₩	**5,188,754**	**₩**	**5,848,625**

Significant non-cash flow transactions for the financial years ended December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Increase in net assets by merger	₩	-	₩	90,769
Increase in goodwill by merger		-		81,024
Increase in beginning accumulated deficits by reflecting present value discounts		-		380,591
Decrease in loans by charge-off		1,739,795		327,086
Decrease in allowance for loan losses by offsetting present value discounts		70,865		103,073
Acquisition of treasury stocks by merger		-		96,087
Decreasing of goodwill by gain on disposal of treasury stocks		-		77,532
Increase in beginning accumulated deficits by reflecting allowance for estimated potential losses on outstanding guarantees and acceptances		-		69,908
Gain/Loss on investment securities(capital adjustment)		207,675		-
Domestic exchange settlement		1,015,076		-

25. Merger:

On January 1, 1999, the Bank merged with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank. The transaction occurred in accordance with a resolution of board of directors on October 16, 1998 and subsequent approval by shareholders on November 26, 1998 in order to comply with the Bank°Øs Rehabilitation Plan filed with the banking regulatory authorities.

KIMB had been established on May 28, 1979 under the Merchant Banking Act and engaged in leasing, CMA, foreign exchange, and other merchant banking operations.

In connection with the merger, the Bank issued 56,947,525 new shares of its common stock in exchange for all of the outstanding common stock of KIMB at a conversion ratio of 2.78571 shares (the merger exchange ratio) of the Bank's common stock for each outstanding share of KIMB. The Bank also acquired 26,857,548 treasury shares by conversion of the KIMB's 9,639,981 shares (47.16%) previously held by the Bank before the merger and recorded them as capital adjustments. During 2000, bank sold all treasury shares and deducted the gains on disposal of treasury shares from goodwill .

The details of goodwill arising from the merger are as follows:

In Millions

Merchant banking assets acquired	₩	4,656,369
Merchant banking liabilities assumed		4,452,655
Net asset value at January 1, 2000		203,714
Stocks delivered (*)		284,738
		81,024
Gain on disposition of treasury stock		(72,487)
Accumulated amortization		(2,404)
Goodwill incurred by the merger	**₩**	**6,133**

(*) 56,947,525 shares x ₩5,000 = ₩284,738 million

The KIMB's condensed balance sheet as of December 31, 1998 and income statement information for the nine-month period then ended are as follows:

- Condensed balance sheet information as of December 31, 1998

		In Millions
Loans	₩	2,571,598
Cash and due from banks		112,944
Securities		787,651
Premises and equipment		45,999
Other assets		1,138,177
	₩	**4,656,369**
Deposits	₩	450,545
Borrowings		2,811,825
Allowance		143,526
Other liabilities		1,046,759
		4,452,655
Capital stock		102,214
Capital surplus		61,840
Retained earnings		39,660
		203,714
	₩	**4,656,369**

- Condensed income statement information for the nine-month period ended December 31, 1998.

		In Millions
		1999
Operating revenues	₩	593,096
Operating expenses		708,355
Operating losses		(115,259)
Non-operating revenues		5,519
Non-operating expenses		(6,659)
Net loss before income taxes		(116,399)
Income taxes		12,435
Net loss	**₩**	**(103,964)**

The assets and liabilities of KIMB were recorded at its book value as of January 1, 1999 in accordance with the financial accounting standards for business combination. Details of inter-company account balances eliminated in the merger are as follows:

Company	Assets	Company	Liabilities		In Millions
KEB	Cash and due from Banks	KIMB	Borrowings	₩	713,930
KEB	Other assets	KIMB	Borrowings		414,696
KIMB	Cash and due from Banks	KEB	Deposits		944
KIMB	Cash and due from Banks	KEB	Borrowings		89,497
KIMB	Loans	KEB	Borrowings		6,700
KIMB	Cash and due from Banks	KEB	Other liabilities		2
KEB	Guarantees provided	KIMB	Guarantees received		464,555

To the Shareholders and Board of Directors of
KOREA EXCHANGE BANK

We have audited the accompanying non-consolidated balance sheets of Korea Exchange Bank ("the Bank") as of December 31, 2000 and 1999, and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We did not audit the financial statements of certain foreign branches of the Bank, which statements reflect total assets of 6.0% and 10.3% as of December 31, 2000 and 1999, respectively, and total revenues of 6.4% and 7.7%, for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these branches, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and 1999, and the results of its operations, the changes in its accumulated deficit and its cash flows for the years then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea. As discussed in Note 1 to the accompanying non-consolidated financial statements, the Bank implemented a two to one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. The resulting gain on capital reduction of ₩1,241 billion was used for the disposition of accumulated deficit. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 80 million shares and 42 million shares were issued to The Export-Import Bank of Korea and Commerzbank A.G, respectively, in accordance with a resolution of board of directors on November 10, 2000. Through the issuance of new preferred stock subsequent to the capital reduction, the Bank's paid-in capital amounts to ₩1,850,875 million as of December 31, 2000 and the ownership of Commerzbank A.G. and The Export-Import Bank of Korea changed from 31.6% and 16.3% to 32.55% and 32.50%, respectively.

As discussed in Note 18 to the accompanying non-consolidated financial statements, the Bank's self-rescue plans received "conditional approval" while allowing their independent management, based on the following abstract of evaluation for the Bank's plan submitted on September 30,2000 by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently, since the Bank's capital adequacy ratio as of December 31, 2001 is expected to meet the target ratio, subject to the certain conditions described below:

- **To provide against the situation that the Bank would not be able to increase its capital through public offerings in early 2001, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds**
- **The ratio of non-performing loans(NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.**
- **The target ratio of financial profitability will be reached through the increase of operating revenue and reduction of expenses.**

Without qualifying our opinion, we draw attention to Note 18 of the non-consolidated financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring their debt under workout and other similar programs. As of December 31, 2000, the Bank's outstanding loans and guarantees to Daewoo Group companies and other companies, including Korea Real Estate Trust, under workout programs amount to ₩1,330,600 million and ₩1,361,900 million before present value discounts of ₩66,700 million and ₩55,800 million, respectively. The Bank has accrued ₩475,700 million and ₩544,200 million, respectively, of allowance for such loan losses (including allowances for losses for guarantees and acceptances) as of December 31, 2000. In addition, as of December 31, 2000, the Bank's outstanding loans and guarantees to Hyundai Group companies amounts to ₩2,823,739 million. Actual losses on the above loans and guarantees may differ from allowances for such losses accrued by the Bank. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties

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

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

Samil Accounting Corporation

Seoul, Korea

February 3, 2000

December 31, 2000 and 1999

	In Millions of Korean Won				In Thousands of U.S.Dollars (Note 3)			
		2000		1999		**2000**		1999
ASSETS								
Cash and due from banks (Note 4)	₩	3,966,470	₩	4,934,700	US$	3,148,742	US$	3,917,361
Trading securities (Note 5)		2,266,451		3,234,489		1,799,199		2,567,666
Investment securities (Note 5)		8,016,562		9,240,758		6,363,866		7,335,682
Loans, net of allowance for loan losses (Notes 6 and 9)		32,113,771		27,192,532		25,493,190		21,586,514
Premises and equipment, net (Note 8)		979,596		1,116,438		777,642		886,273
Accrued interest		483,839		483,419		384,091		383,757
Consolidation differentials, debit (Note 23)		-		2		-		2
Other assets (Notes 10)		2,583,747		1,266,919		2,051,081		1,005,730
Total Assets	**₩**	**50,410,436**	**₩**	**47,469,257**	**US$**	**40,017,811**	**US$**	**37,682,985**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Liabilities :								
Deposits (Note 11)	₩	32,760,639	₩	30,187,468	US$	26,006,699	US$	23,964,014
Borrowings (Note 12)		8,156,765		9,733,417		6,475,165		7,726,774
Debentures (Note 13)		3,827,682		3,204,622		3,038,566		2,543,956
Accrued expenses		905,582		1,110,679		718,887		881,701
Other liabilities (Notes 14 and 15)		3,170,694		1,668,596		2,517,023		1,324,598
Total Liabilities	**₩**	**48,821,362**	**₩**	**45,904,782**	**US$**	**38,756,340**	**US$**	**36,441,043**
Minority Interests in consolidated subsidiaries		252,053		149,714		200,090		118,849
Commitments and Contingencies (Note 19)								
Shareholders' equity (Note 1) :								
Capital stock,								
1,000 million shares authorized;								
Common stock, ₩ 5,000 par value;								
444 million shares issued and outstanding	₩	1,110,875	₩	2,221,749	US$	881,857	US$	1,763,713
Preferred stock, ₩ 5,000 par value;								
52 million shares issued and outstanding		740,000		260,000		587,441		206,398
Capital surplus (Note 16)		267,191		222,727		212,107		176,810
Accumulated deficit (Note 17)		(398,513)		(1,140,057)		(316,355)		(905,023)
Capital adjustments, net (Note 18)		(382,532)		(149,658)		(303,669)		(118,804)
Total Shareholders' Equity		**1,337,021**		**1,414,761**		**1,061,381**		**1,123,094**
Total Liabilities, Minority Interests and Shareholders' Equity	**₩**	**50,410,436**	**₩**	**47,469,257**	**US$**	**40,017,811**	**US$**	**37,682,986**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

December 31, 2000 and 1999

	In Millions of Korean Won (Except for EPS data)				In Thousands of U.S.Dollars (Note 3) (Except for EPS data)			
	2000		1999		**2000**		1999	
Revenue :								
Interest on due from banks	₩	147,240	₩	203,525	US$	116,885	US$	161,566
Interest on securities		852,541		834,614		676,781		662,550
Interest on loans		2,578,888		2,633,596		2,047,224		2,090,653
Other interest income		114,663		245,743		91,024		195,081
Total interest income		3,693,332		3,917,478		2,931,914		3,109,850
Fees and commissions income		768,720		588,103		610,241		466,860
Gains on foreign exchange transactions		991,181		663,189		786,839		526,466
Trust fee income		68,240		92,216		54,172		73,205
Other income (Note 20)		446,215		906,815		354,223		719,866
Total revenue		**5,967,688**		**6,167,801**		**4,737,389**		**4,896,247**
Expenses :								
Interest on deposits		1,919,910		1,866,871		1,524,101		1,481,997
Interest on borrowings		627,392		736,675		498,049		584,802
Interest on debentures		328,714		306,672		260,946		243,448
Other interest expense		56,191		78,090		44,607		61,991
Total interest expenses		2,932,207		2,988,308		2,327,703		2,372,238
Fees and commissions expense		169,207		115,946		134,323		92,043
Losses on foreign exchange transactions		785,077		493,420		623,225		391,696
Provision for possible loan losses		1,316,438		2,076,206		1,045,041		1,648,175
General and administrative expenses		558,944		530,283		443,712		420,960
Provision for severance benefits		40,906		46,161		32,473		36,644
Depreciation and amortization		106,591		164,422		84,616		130,525
Other expenses (Note 21)		454,313		557,402		360,652		442,488
Total expenses		6,363,683		6,972,148		5,051,745		5,534,769
Net loss before income tax expenses		(395,995)		(804,347)		(314,356)		(638,522)
Income tax expenses (Note 22)		81,002		44,690		64,303		35,477
Net loss before minority interests,		(476,997)		(849,037)		(378,659)		(673,999)
Minority interests in losses of consolidated subsidiaries, net		(9,842)		25,626		(7,813)		20,343
Net loss	**₩**	**(486,839)**	**₩**	**(823,411)**	**US$**	**(386,472)**	**US$**	**(653,656)**
Basic and diluted ordinary loss per share (Note 24) (in Korean Won and U.S. Dollars)	**₩**	**(2,037)**	**₩**	**(4,076)**	**US$**	**(1,617)**	**US$**	**(3,236)**
Basic and diluted net loss per share (Note 24) (in Korean Won and U.S. Dollars)	**₩**	**(2,213)**	**₩**	**(3,932)**	**US$**	**(1,757)**	**US$**	**(3,121)**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

December 31, 2000 and 1999

	In Millions of Korean Won		In Thousands of U.S.Dollars (Note 3)	
	2000	1999	**2000**	1999
Capital stock				
Capital stock at the beginning of year	₩ 2,481,749	₩ 1,175,000	US$ 1,970,111	US$ 932,762
Capital reduction	(1,240,874)	-	(985,055)	-
Paid in capital increase	610,000	1,306,749	484,242	1,037,349
Capital stock at the end of year	1,850,875	2,481,749	1,469,298	1,970,111
Consolidated capital surplus				
Consolidated capital surplus at the beginning of year	222,727	386,243	176,810	306,615
Capital reduction	1,240,874	-	985,055	-
Transfer of gain on capital reduction to deficit	(1,240,874)	(310,822)	(985,055)	(246,743)
Transfer of subsidiary's retained earnings to capital	3,338	54,249	2,650	43,065
The effect on change of shareholders' equity ratio	35,472	9,418	28,159	7,476
Gain(loss) on foreign exchange translations	6,134	(4,733)	4,869	(3,757)
The effect on change of consolidation company	-	(5,571)	-	(4,422)
The effect on change of equity method applied company	-	93,943	-	74,576
Others	(480)		(381)	-
Consolidated capital surplus at the end of year	267,191	222,727	212,107	176,810
Consolidated deficit				
Consolidated deficit at the beginning of year	(1,140,057)	(99,502)	(905,023)	(78,989)
Transfer of gain on capital reduction to deficit	1,240,874	310,822	985,055	246,743
Cumulative effect of accounting changes	-	(590,500)	-	(468,762)
The effect on change of consolidation company	54,894	14,101	43,577	11,194
The effect on change of equity method applied company	(7,328)	86,884	(5,817)	68,972
Consolidated net loss for the year	(486,839)	(823,411)	(386,472)	(653,656)
Excess loss of minority interest	(36,776)	(29,715)	(29,194)	(23,589)
Transfer of subsidiary's retained earnings to capital	(3,338)	(54,249)	(2,650)	(43,065)
The effect on change of shareholders' equity ratio	(17,834)	73,739	(14,157)	58,537
Gain(loss) on foreign exchange translations	(9,656)	8,581	(7,665)	6,812
Cash dividend	(21,760)	(29,414)	(17,274)	(23,350)
Others	29,307	(7,393)	23,265	(5,869)
Consolidated deficit at the end of year	(398,513)	(1,140,057)	(316,355)	(905,022)
Consolidated capital adjustment				
Consolidated capital adjustment at the beginning of year	(149,658)	185,668	(118,804)	147,391
Decrease in consolidated capital adjustment	(232,874)	(335,326)	(184,865)	(266,195)
Consolidated capital adjustment at the end of year	(382,532)	(149,658)	(303,669)	(118,804)
Minority interest equity				
Minority interest equity at the beginning of year	149,714	159,606	118,849	126,702
Increase(Decrease) in minority interest equity	102,339	(9,892)	81,241	(7,853)
Minority interest equity at the end of year	252,053	149,714	200,090	118,849
Total Liabilities and Shareholders' Equity	**₩ 1,589,074**	**₩ 1,564,475**	**US$1,261,471**	**US$ 1,241,944**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2000 and 1999

	In Millions of Korean Won				In Thousands of U.S.Dollars (Note 3)			
	2000		1999		**2000**		1999	
Cash flows from operating activities:								
Net loss	₩	(486,839)	₩	(823,411)	US$	(386,472)	US$	(653,656)
Adjustments to reconcile net loss to net cash provided by operating activities:								
Gain on disposal of securities, net		(23,586)		(199,132)		(18,724)		(158,079)
Valuation gain on securities, net		66,348		(285)		52,670		(226)
Gain on sales of loans, net		(26,801)		(165,629)		(21,276)		(131,483)
Provision for loan losses, net		1,255,542		2,046,169		996,699		1,624,330
Provision for guarantees and acceptances		64,301		44,387		51,045		35,236
Amortization of present value discounts		(39,362)		(59,797)		(31,247)		(47,469)
Depreciation and amortization		106,591		164,422		84,616		130,525
Provision for severance benefits		40,906		46,161		32,473		36,644
Minority interests in losses of consolidated subsidiaries		9,842		(25,626)		7,813		(20,343)
Equity in earnings of equity method investees		(4,821)		(13,130)		(3,827)		(10,423)
Severance benefit payments		(52,496)		(125,185)		(41,673)		(99,377)
Decrease(Increase) in accrued income		(1,114)		247,925		(884)		196,813
Decrease in accrued expenses		(203,794)		(105,725)		(161,780)		(83,929)
Others, net		52,796		(15,865)		41,912		(12,594)
Net cash provided by operating activities		**757,513**		**1,015,279**		**601,345**		**805,969**
Cash flows from investing activities:								
Proceeds from disposal of trading securities		323,355		912,001		256,692		723,983
Purchases of investment securities		-		(1,465,808)		-		(1,163,617)
Net increase in loans		(6,200,591)		(337,806)		(4,922,276)		(268,164)
Disposals of premises and equipment		46,850		481,262		37,191		382,045
Net increase of cash due to changes in consolidated subsidiaries		(47)		757,517		(37)		601,347
Others, net		843,450		335,657		669,564		266,457
Net cash provided by investing activities		**(4,986,983)**		**682,823**		**(3,958,866)**		**542,051**
Cash flows from financing activities:								
Net increase in deposits		2,573,171		2,817,009		2,042,686		2,236,254
Net decrease in borrowings		(1,429,259)		(4,053,957)		(1,134,603)		(3,218,192)
Net Increase(decrease) in debentures		623,060		(277,398)		494,610		(220,210)
Issuance of new shares for cash, net		606,997		1,015,587		481,858		806,213
Proceeds from disposal of treasury shares		452		170,183		359		135,098
Net increase of minority interests in consolidated subsidiaries		59,844		93,360		47,507		74,113
Dividends paid		(3,452)		(29,414)		(2,740)		(23,350)
Others, net		202,045		(844,361)		160,391		(670,287)
Net cash used in financing activities		**2,632,858**		**(1,108,991)**		**2,090,068**		**(880,361)**
Net increase(decrease) in cash and cash equivalents		(1,596,612)		589,111		(1,267,453)		467,659
Cash and cash equivalents at beginning of the year (Note 25)		5,587,207		4,998,096		4,435,347		3,967,688
Cash and cash equivalents at end of year (Note 24)	**₩**	**3,990,595**	**₩**	**5,587,207**	**US$**	**3,167,894**	**US$**	**4,435,347**

The accompanying notes are an integral part of these financial statements.

1. The Consolidated Companies:

The accompanying consolidated financial statements include the banking and certain trust accounts of Korea Exchange Bank (the "Bank") and its consolidated subsidiaries. General information of the Bank, its consolidated subsidiaries, its non-consolidated subsidiaries and equity method investees are described below.

The Bank

Korea Exchange Bank (the "Bank") was established in 1967 as a government-invested bank to engage in foreign exchange and the trade finance business under the Korea Exchange Bank Act. In December 1989, the Korea Exchange Bank Act was repealed and the Bank was converted into a corporation under the Commercial Code of the Republic of Korea. In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange.

The Bank provides primarily commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

The Bank implemented a two to one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. The resulting gain on capital reduction of ₩1,241 billion was used for the disposition of accumulated deficit. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 42 million shares and 80 million shares were issued to Commerzbank A.G and The Export-Import Bank of Korea, in accordance with a resolution of board of directors on November 10, 2000.

The preferred shareholders are entitled to non-cumulative and non-participating preferred dividends ranging from 5% to 9% of par value per annum. Preferred shareholders have no voting rights except for periods subsequent to shareholders' meetings in which no dividends are declared for the preferred stocks. For 26,000 thousand shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000 thousand shares of newly issued convertible preferred stock will be converted at conversion date after three years from the issuedate.

The Bank's shareholders as of December 31, 2000 and 1999 are as follows:

	Number of shares owned (shares)				%	
	Common stock	Preferred stock	**Total (2000)**	Total (1999)	**2000**	1999
Commerzbank A.G.	52,483,437	68,000,000	120,483,437	156,966,625	32.55	31.60
Bank of Korea	39,500,000	-	39,500,000	79,000,000	10.67	15.90
Export-Import Bank of Korea	40,314,387	80,000,000	120,314,387	80,628,774	32.50	16.30
Others	89,877,107	-	89,877,107	179,754,464	24.28	36.20
	222,174,931	**148,000,000**	**370,174,931**	**496,349,863**	**100.00**	**100.00**

As of December 31, 2000, the Bank has 301 branches, agencies and offices in domestic and overseas markets. The Bank has closed 13 domestic branches and one overseas branch in 2000. The Bank is in the process of closing or selling seven domestic and overseas subsidiaries and plans to close seven more domestic branches and six more overseas branches in 2001.

Consolidated Subsidiaries

Summarized information regarding the consolidated subsidiaries as of December 31, 2000 and 1999 are as follows:

	Number of Invested Shares (In Thousands)		Ownership (Ratio)	
Subsidiaries	2000	1999	2000	1999
Domestic				
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")	18,795	18,795	51.1%	58.2%
KEB Leasing Co., Ltd("KEBLS")	2,400	2,400	30.0%	30.0%
KEB Commerz Investment Trust Management Co., Ltd ("KEBIT")	2,760	2,760	46.0%	46.0%
KEB Futures Co., Ltd. ("KEBFC")	3,000	2,000	100.0%	100.0%
Foreign				
Pacific Union Bank ("PUB")	5,377	8,000	62.5%	100.0%
Korea Exchange Bank of Canada ("KEBOC")	334	334	100.0%	100.0%
KEB (Asia) Finance Ltd. ("KAF")	4,680	4,680	80.0%	80.0%
KEB Australia Ltd. ("KEBA")	40,000	40,000	100.0%	100.0%
KEB International Ltd. ("KEBI")	27,000	27,000	100.0%	100.0%
KEB Deutschland A.G. ("KEBD A.G.")	20	20	100.0%	100.0%
P.T.KEB Danamon ("KEBD")	1	1	85.0%	85.0%
KEB Ireland Ltd. ("KEB Ire")	3,000	3,000	100.0%	100.0%
Banco KEB do Brazil S.A. ("KEBB")	17,890	17,890	100.0%	100.0%

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 accounts are accounted for and reported separately from the Bank's own commercial banking business. Certain trust accounts are consolidated in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities.

Condensed balance sheet and income statement information of consolidated subsidiaries as of December 31, 2000 and for the year then ended are as follows:

- Condensed Balance Sheet Information (*)

In Millions of Korean Won

		KEBC		PUB		KEBLS		Others(**)		Total
Cash and due from banks	₩	17,299	₩	40,720	₩	14,178	₩	217,456	₩	289,653
Securities		39,501		198,426		46,509		962,408		1,246,844
Loans		3,072,929		656,950		193,561		3,316,921		7,240,361
Fixed assets		45,678		13,026		69,096		84,824		212,624
Other assets		71,538		13,183		92,211		134,423		311,355
Total assets	**₩**	**3,246,945**	**₩**	**922,305**	**₩**	**415,555**	**₩**	**4,716,032**	**₩**	**9,300,837**
Deposits	₩	—	₩	814,275	₩	—	₩	2,061,087	₩	2,875,362
Borrowings and debentures		2,618,674		—		420,791		1,908,146		4,947,611
Other liabilities		237,391		11,835		37,444		586,552		873,222
Total liabilities		**2,856,065**		**826,110**		**458,235**		**4,555,785**		**8,696,195**
Capital stock		183,870		65,013		40,000		278,872		567,755
Capital surplus		61,734		14,442		—		8,086		84,262
Accumulated earnings (deficit)		145,276		17,234		(74,102)		(126,637)		(38,229)
Capital adjustments		—		(494)		(8,578)		(74)		(9,146)
Total shareholders' equity		**390,880**		**96,195**		**(42,680)**		**160,247**		**604,642**
Total liabilities and Shareholders' equity	**₩**	**3,246,945**	**₩**	**922,305**	**₩**	**415,555**	**₩**	**4,716,032**	**₩**	**9,300,837**

In Millions of Korean Won

		KEBC		PUB		KEBLS		Others(**)		Total
Operating revenue	₩	617,949	₩	78,534	₩	132,168	₩	523,142	₩	1,351,793
Operating expenses		461,370		55,087		184,264		660,918		1,361,639
Operating income (loss)		156,579		23,447		(52,096)		(137,776)		(9,846)
Non-operating income		10,600		515		2,840		16,801		30,756
Non-operating expenses		7,075		35		6,569		29,173		42,852
Ordinary income (loss)		160,104		23,927		(55,825)		(150,148)		(21,942)
Extraordinary loss		—		—		10,899		147,648		158,547
Income tax expenses		50,082		8,618		18,529		9,857		87,086
Net income (loss)	**₩**	**110,022**	**₩**	**15,309**	**₩**	**(63,455)**	**₩**	**(12,357)**	**₩**	**49,519**

(*) Condensed balance sheet and income statement information is based on the consolidated subsidiaries' financial statements before consolidation adjustments.

(**) Others include financial statement data of "KEBIT", "KEBFC", consolidated trust accounts and other foreign consolidated subsidiaries.

The brief explanation of the primary business activities of the consolidated subsidiaries is as follows:

— Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")

KEBC was established on May 19, 1988 under the Financial Law Specialized in Credit Business. KEBC's credit card operations include consumer installment financing, factoring and providing payment guarantees.

On January 1, 1999, KEBC merged with KEB Finance Co., Ltd. in accordance with the resolution of board of directors on October 20, 1998 and, as of December 31, 2000, its capital stock is ₩183,870 million.

— KEB Leasing Co., Ltd. ("KEBLS")

KEBLS was incorporated on September 11, 1989 to engage in leasing industrial equipment. As of December 31, 2000, its capital stock is ₩40,000 million, of which Korea Exchange Bank and other shareholders own 30% and 70%, respectively.

— KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")

KEBIT was established on April 6, 1988 to provide investment consulting and information services under the name of Korea Securities Investment Management Co., Ltd. which was changed to KEB Investment Management Co., Ltd. on September 16, 1992 and KEB Investment Trust Management Co., Ltd. on July 8, 1997 and KEB Commerz Investment Trust Management Co., Ltd. on May 28, 1999. As of December 31, 2000, its capital stock is ₩30,000 million.

— KEB Futures Co., Ltd. ("KEBFC")

KEBFC was incorporated on September 24, 1997 to engage in brokerage or agency of financial futures. As of December 31, 2000, its capital stock is ₩15,000 million.

— Pacific Union Bank ("PUB")

PUB was established in L.A. on September 24, 1974 to provide financial services to Korean companies or Korean residents in L.A. with 100% investment of the Bank. The company made a public offer on August 1, 2000 and filed with NASDAQ(stock exchange in U.S.), which is the first for the Korea financial institutions. The Bank retains 62.5% equity ownership as of December 31, 2000. The capital stock of the company amounts to US$ 51,610 thousand through several stock issuances as of December 31, 2000, and 11 branches in U.S. have been affiliated with the company.

— KEB (Asia) Finance Ltd. ("KAF")

KAF was established in Hong Kong on August 10, 1976 to provide financial services to Korean companies and to engage in securities investment. As of December 31, 2000, its capital stock is US$58,500 thousand, of which Korea Exchange Bank and Korea Investment Trust own 80% and 20%, respectively.

— KEB International Ltd. ("KEBI")

KEBI was established in London in the United Kingdom on November 1, 1988 to engage in investing and financing activities in the international financial markets. As of December 31, 2000, its capital stock is GBP27,000 thousand.

All consolidated subsidiaries including certain trust accounts are consolidated in the accompanying 2000 consolidated financial statements.

In 2000, KIMB Finance Ltd.("KIMBF") and KEB Leasing & Finance Ltd. ("KEBL&F") are in the process of liquidation. Accordingly, these subsidiaries over which the Bank has temporary control are not included in the consolidated financial statements.

Condensed balance sheet of KIMBF and CFEB as of December 31, 2000 and their income statements for the year then ended are as follows:

— Condensed Balance Sheet Information

In Millions of Korean Won

		KEBL&F		KIMBF
Cash and due from banks	₩	516	₩	13
Securities		1,669		—
Loans		252		9,495
Fixed assets		10		—
Total assets	**₩**	**2,447**	**₩**	**9,508**
Borrowings	₩	61,725	₩	—
Other liabilities		773		8,377
Total liabilities		62,498		8,377
Capital stock		3,779		25,194
Accumulated deficit		(63,830)		(24,063)
Total shareholders' equity		(60,051)		1,131
Total liabilities and Shareholders' equity	**₩**	**2,447**	**₩**	**9,508**

— Condensed Income Statement Information

In Millions of Korean Won

		KEBL&F		KIMBF
Operating revenue	₩	1,738	₩	—
Operating expenses		15,279		—
Operating loss		(13,541)		—
Non-operating income (loss)		49,908		(7,318)
Net income (loss)	**₩**	**36,367**	**₩**	**(7,318)**

Equity Method Investees

In accordance with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea and relevant laws, the Bank's investment in Korea Heavy Industries Co., Ltd., a 15.7% owned subsidiary, and Cairo Far East Bank S.A.E.("CFEB"), a 31.6% owned subsidiary, are accounted for on an equity basis.

— Cairo Far East Bank S.A.E.("CFEB")

CFEB was established on October 1, 1978 to engage in doing a general financial business. The Bank has 31.6% equity ownership as of December 31, 2000.

— Korea Heavy Industries Co., Ltd.

Korea Heavy Industries Co., Ltd. was incorporated on September 20, 1962 to supply power plants, industrial plants, iron & steel facilities and construction service. As of December 31, 2000, its capital stock is ₩521,000 million.

Trust Accounts

Trust accounts, for which no guarantees of minimum return or repayment of principals are provided, are excluded from the Bank's consolidated financial statements in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank and consolidated subsidiaries in the preparation of the accompanying consolidated financial statements are summarized below:

Basis of Consolidated Financial Statement Presentation

The official accounting records of the domestic and overseas consolidated branches and subsidiaries, on which the Korean language financial statements are based, are maintained in accordance with the relevant laws and regulations of the Republic of Korea and local countries, respectively.

The accompanying consolidated financial statements have been extracted from the Bank's Korean language consolidated financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The consolidated financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Bank in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

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

Financial statements for the twelve-month period ended December 31, 2000 were used for consolidation of KEBLS, KEBIT and KEBFC having a fiscal year ending March 31. The financial statements of KEBOC for the twelve-month period ended October 31, 2000 were used for consolidation since difference between the fiscal year of the Bank and KEBOC is less than three months.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its consolidated subsidiaries (together, the "consolidated companies").

The Bank records differences between the investment account and corresponding capital account of subsidiaries as a goodwill(negative goodwill), which is amortized over five years using the straight-line method. The differences between the investment account and corresponding capital account for equity-method investee companies at the date of acquisition of the investment are amortized over five years using the straight-line method. Such amortization is included in determination of equity in earnings (losses) of equity-method investees.

All significant intercompany transactions and balances among the consolidated companies have been eliminated in consolidation (see Note 27).

Recognition of Interest Income

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral is recognized on a cash basis in accordance with the generally accepted financial accounting standards of the Republic of Korea. At December 31, 2000 and 1999, the amount of interest not recognized due to such policy approximates ₩68,840 and ₩159,199 million, respectively.

Allowance for Loan Losses

Commencing in 1999, The Bank applied Forward Looking Criteria ("FLC") in its loan classification to determine allowances for possible loan losses. Under this method, the borrowers' future debt service capacity as well as overall financial health and management soundness is considered in developing the reserve for possible loan losses related to large corporate customers. However, loan classification for smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated loan losses were determined by applying the following minimum percentages to each credit srisk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	50%
Loss	100%

Consolidated subsidiaries provide allowances for loan losses according to the relevant laws and regulations, or based on the aggregate estimated collectability of the loans and receivables.

The Bank accrued allowances for estimated potential losses on outstanding guarantees and acceptances contracts for customers with credit classifications of substandard, doubtful and loss. The estimated losses are determined by applying the same percentage used in estimating allowance for loan losses explained above.

Investments in Debt and Equity Securities

Investments in debt and equity securities are accounted for as follows:

— All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.

— Investments in equity and debt securities that are bought and held principally for trading purposes are recorded as trading securities and are carried at fair value, with unrealized gains and losses recorded in current operations.

— 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 stockholders' 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 are also recorded in current operations up to the original cost of the investment.

— Investments in non-marketable equity securities of non-controlled investees are carried at cost, expect for declines in the Bank's proportionate ownership of the underlying book value of the investees 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 are recorded using the equity method of accounting. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investees are amortized over five years using the straight-line method. Under the equity method, the Bank records changes in its proportionate ownership of the book value of the investees as current operations, capital adjustments or adjustments to retained earrings, depending on the nature of the underlying change in book of the investees.

— Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investment 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. 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 original cost of the investment.

— Other investments in debt securities are carried at fair value. Temporary differences between 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 are also recorded in current operations up to the original cost of the investment.

— The beneficiary certificates arranged to invest in the Bank's stock are stated at net asset value of the fund calculated based on the prices of the invested stocks excluding the Bank's own stocks. The portion of the Bank's own stocks in the fund as of the balance sheet date is eliminated from the investments and is presented as capital adjustment.

Premises and Equipment

Premises and equipment are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts (see Note 15). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except for buildings and leasehold improvements for which depreciation is computed using the straight-line method.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40 years
Equipment	4 years
Leasehold improvements	5 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals enhancing the value or extending the useful lives of the facilities are capitalized.

Intangible Assets

Intangible assets are recorded at cost and amortized over the estimated useful lives using the straight-line method.

Foreclosed Assets

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at their fair value at the date of foreclosure. After foreclosure, the asset is carried at the lower of its carrying amount or fair value determined by its estimated public auction price.

Gains or losses on disposal of foreclosed assets on an installment payment basis are recognized as other income or expenses as incurred.

Accrued Severance Benefits

Employees and executives with one year or more of service with the Bank and domestic subsidiaries are entitled to receive a lump-sum payment upon termination of their employment with the Bank and subsidiaries, based on their length of service and rate of pay at the time of termination. Accrued severance benefits of ₩206,736 million and ₩221,599 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2000 and 1999, respectively.

The Bank and domestic subsidiaries paid additional severance benefits to early-retired employees in addition to normal severance benefits as required by the relevant laws and retirement policy of the Bank and domestic subsidiaries. No accrual is provided for future early retirements. Actual payment of severance benefits of the Bank and domestic subsidiaries in 2000 and 1999, including ₩19,892, ₩3,484 of additional early retirement benefits, approximated ₩72,388 million and ₩128,669 million, respectively.

In accordance with the National Pension Act, the Bank and subsidiaries deposit a portion of accrued severance benefits with the National Pension Fund and those deposits are presented as deduction from accrued severance benefits. The contributed deposit amount shall be refunded to employees and executives from the National Pension Fund on their retirement. In addition, the Bank and domestic subsidiaries have partially funded accrued severance benefits through group severance insurance plans and the amounts funded under these insurance plans are included in cash and due from banks in the accompanying consolidated balance sheet or deducted from accrued severance benefits.

Discounts on Debentures

Discounts on debentures, including debenture issuance costs, are amortized over the term of the debenture using the effective interest rate method. Such amortization is included in interest expenses. Debenture issuance costs carried over from previous years continue to be amortized using the straight-line method consistent with the prior years' method in accordance with the revised financial accounting standards.

Present Value Discounts

The difference between the nominal value and the present value of accounts receivable arising from installment sales of foreclosed assets is amortized using the effective interest rate method. Amortization of these discounts is included in other interest income.

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

Discounts on Capital Stock

Discounts on capital stock arising from payment of stock issuance costs are reported as a capital adjustments in shareholders' equity and amortized over three years by appropriations of retained earnings. However, due to accumulated deficits as of December 31, 2000 and 1999, there has been no amortization in 2000 and 1999.

Income Taxes

Current income taxes payable comprise corporate income tax and tax surcharges payable for the year. In addition, deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purpose are recognized for interperiod tax allocation purposes. The total income tax provision includes current tax expense under applicable tax regulations and the changes in the balance of deferred tax assets and liabilities. However, due to accumulated deficits and the uncertainty of realizing deferred income tax assets, the Bank has not recognized deferred income tax assets exceeding deferred income tax liabilities, except as incurred by certain overseas branches. Deferred tax assets and liabilities recorded by these branches are included in other assets and liabilities and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying consolidated financial statements.

Tax credits are recognized as a reduction of income tax expense in the year they are incurred for tax purposes.

Securities Bought or Sold under Agreements to Resell or Repurchase

Securities bought or sold under resale or repurchase agreements are accounted for as loans or borrowings, respectively, and related income and expenses are recorded as interest on loans and interest on borrowings, respectively.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date, except for spot and forward exchange contracts which are valued at the rates specified in the contracts. Resulting exchange gains and losses are recognized currently and included in gains or losses on foreign exchange transactions.

The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the financial accounting standards.

The exchange rates used to translate U.S. Dollar into Korean Won at December 31, 2000 and 1999 are ₩1,259.70 : US$ 1 and ₩1,145.40 : US$ 1, respectively.

Stock Options

In accordance with financial accounting standards, compensation costs for stock options granted to employees and executives are recognized on the basis of fair value.

Under the fair value basis method, compensation costs for stock option plans are determined using an option-pricing model in which the Bank assumes no volatility of the underlying stock prices at grant dates and recognized as compensation expense equally over the vesting period.

Guarantees and Acceptances

The Bank provides allowances for losses on determinable outstanding guarantees and acceptances contracts applying the same method used in estimating allowances for losses on the loan portfolio.

Derivative Financial Instruments

In accordance with the revised financial accounting standards in Korea effective January 1, 2000, derivative financial instruments ("derivatives") are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are recorded in current operations. Unrealized gains or losses on derivatives for cash flow hedging purposes are recorded in current operations for the portion of the hedge that is not effective. For the portions of cash flow hedges which are effective, unrealized gains or losses are accounted for in the capital adjustment account and recorded in operations in the period when underlying transactions have effect on operations. The adoption of this revised accounting standard for derivative financial instruments, including cumulative effects of retroactive application, were to increase net income for the year ended December 31, 2000 and decrease accumulated deficits as of January 1, 2000 by ₩6,433 million and ₩2,816 million, respectively.

Trust Fees

The Bank's banking accounts receive trust fees, ranging from 0.2% to 2.0% of the trust's principal, from the trust accounts as compensation for its management of trust assets and operations. The banking accounts are also entitled to receive special trust fees from certain trust accounts with a guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations. These trust fees arising from consolidated trust accounts are eliminated in consolidation.

Merchant Banking Operations

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from KIMB at the merger are terminated. Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

— Revenue Recognition on Discounted Notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

— Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

Lease Transactions

The merchant banking accounts of the Bank and KEBLS, a consolidated subsidiary, account for lease transactions as operating or financing leases, depending upon the terms of the lease contracts. In general, non-cancelable leases are recognized as financing leases when ownership transfers at expiration of the lease term, when a bargain purchase option exists, or when the lease term exceeds the estimated economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing leases receivable, net of unearned interest, based on the excess of rental revenue over the cost of the related assets. Unearned interest is recognized as interest income on financing leases using the effective interest method over the lease term.

Operating lease equipment are stated at cost and depreciated over the lease term. Operating lease income is recognized as operating income on an accrual basis over the lease term.

The Bank capitalized interest costs on debt borrowed to finance the purchase of lease assets as part of the cost of such assets. The Bank accrues estimated losses from future sales of operating lease properties.

Foreign currency translation gains or losses incurred from foreign currency borrowings used to finance purchases of operating lease equipment have been deferred and amortized over the period that related lease rental revenues are recognized.

Accounting for Trust Accounts

As explained in Note 1, guaranteed trust accounts operated and managed by the Bank as a fiduciary are consolidated in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities. The significant accounting policies in the preparation of the accompanying financial statements of the consolidated trust accounts are summarized as follows:

— Revenues and Expenses of Trust Accounts

Consolidated trust accounts comprise trust operating revenues and expenses, trust fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The non-consolidated trust accounts' trust fees to the Bank are recognized as income of the banking accounts of the Bank.

— Interest Income Recognition

Interest income on loans and investment securities held by the consolidated trust accounts are recognized using the same method as the banking accounts of the Bank, while interest income on overdue and dishonored loans not secured by guarantees from financial institutions or deposit collateral is recognized on a cash basis. At December 31, 2000 and 1999, the amount of interest not recognized due to such policy approximates ₩87,921 million and ₩65,032 million, respectively.

— Deposits at the Bank's Banking Accounts

The Bank's consolidated trust accounts deposit certain amounts for drawing of unspecified money trust, and account for them as deposits at the Bank's banking accounts. Interest on these deposits is computed and recorded daily. These deposits at the Bank and their interests are eliminated in consolidation.

— Special Allowance

Certain consolidated money trust agreements provide that the Bank guarantees a minimum rate of return. In relation to such guarantees, the Bank is required to set up a minimum 25% of trust fees as a special allowance, until the total allowance equals 5% of the related money trust balance. If the current income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowances or from the Bank's banking business operations. These special allowances amounting ₩10,657 million and ₩7,508 million, respectively at December 31, 2000 and 1999 are reclassified into consolidated retained earnings.

— Allowance for Loan Losses

Allowance for loan losses of consolidated trust account assets which are not carried at market value (including loans, commercial paper and certain corporate debentures) are provided based on a credit risk classification of the loan portfolio as of December 31, 2000. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank.

The allowance for loan losses of consolidated trust accounts with a guaranteed minimum rate of return at December 31, 2000 and 1999 amounts to ₩226,986 million and ₩385,242, respectively, and the charge-offs recorded by the trust accounts of the Bank in 2000 and 1999 amounts to ₩175,792 million and ₩64,126 million, respectively.

— Investment Securities

Pursuant to the laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, equity securities and beneficiary certificates held by the Bank's consolidated trust accounts are stated at market or net asset value. Certain debt securities including corporate debentures, except for debt securities included in the consolidated trust accounts established subsequent to November 15, 1998, which are stated at market or net asset value, are stated at cost as permitted by the Trust Business Act and relevant related regulations.

— Compensation to the Trust Accounts

The Bank compensates for losses incurred in certain consolidated trust accounts subject to minimum return guarantees. Such compensations are accounted for as compensation for trust accounts of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

The amount of compensations accounted for other income of the consolidated trust accounts in 2000 and 1999 is ₩147,693 million and ₩225,865 million, respectively, and eliminated in consolidation.

— Present Value Discounts

Troubled loans restructured under work-out plans or other similar restructuring agreements are stated at present value, with the difference between the nominal amount and present value offset against the allowance for loan losses to the extent available. The remaining difference is recorded as current operating expense. Amortization of these discounts is included in other interest income.

The cumulative effect of retroactive application of revised financial accounting standards for troubled loans restructured under work-out plan or other similar restructuring agreements of the trust accounts of the Bank amounting to ₩15,152 million were charged to accumulated deficits of the banking accounts of the Bank as of January 1, 2000.

Reclassification of 1999 Amounts

Certain amounts in 1999 consolidated financial statements have been reclassified to conform to the 2000 presentation. These reclassification have had no effect on previously reported net income or shareholders ’equity.

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 are provided herein as supplementary information solely for the convenience of the reader. The 2000 Korean Won amounts are expressed in U.S. Dollars at the rate ₩1,259.70: US$ 1, the rate in effect on December 31, 2000. This presentation is not in accordance with accounting principles generally accepted in either Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 1999 U.S. Dollar amounts, which were previously expressed at ₩1,145.40:US$1, the rate prevailing on December 31,1999, have been restated to reflect the exchange rate in effect on December 31, 2000.

4. Cash and Due from Banks:

Cash and due from banks which are restricted as to withdrawal at December 31,2000 and 1999 are as follows:

In Millions

	2000		1999	
Reserve Deposits with the Bank of Korea				
- In Won	₩	679,412	₩	614,230
- In Foreign Currency		282,046		276,649
Deposits for severance payments		161,351		184,258
Foreign currency deposits		580		98,094
Won currency deposits		153,942		16,962
	₩	**1,277,331**	**₩**	**1,190,193**

Deposits with the Bank of Korea (reserve deposits) represent reserves the Bank is required to maintain for the payment of deposits in accordance with the Banking Act and the Bank of Korea Act. As of December 31, 2000 and 1999, foreign currency deposits with the Bank of Korea and other banks deposited in the course of transactions of derivative financial instruments amount to ₩152 million and ₩91,789 million, respectively, and won currency deposits with KorAm bank and other banks deposited related to asset-backed securitization and derivative financial instruments amount to ₩15,181 million and ₩16,950 million, respectively. Accordingly, the withdrawal of these deposits is restricted. As of December 31, 2000 and 1999, time deposits with other financial institutions of ₩151,955 million and ₩182,734 million, respectively, represent group severance deposits deposited under the group severance insurance plan, whose withdrawal is restricted to the actual payment purpose of severance benefits (see Note 2 and 15).

The scheduled maturities of due from banks as of December 31, 2000 are as follows:

In Millions

	Due in one year or less		Due from one to three years		Due after three years		Total	
Due from banks in Won	₩	392,996	₩	13,358	₩	911,738	₩	1,318,092
Due from Banks in foreign currencies		631,560		217,636		337,869		1,187,065
	₩	**1,024,556**	**₩**	**230,994**	**₩**	**1,249,607**	**₩**	**2,505,157**

5. Securities:

Securities at December 31, 2000 and 1999 are as follows:

	In Millions							
	Debt securities				Equity securities			
	2000		1999		**2000**		1999	
Trading securities	₩	2,266,451	₩	3,005,259	₩	-	₩	229,230
Investment securities:								
Available for sale		6,211,703		6,575,541		310,570		1,014,055
Held-to-maturity		1,215,869		1,343,612		-		-
Investment in subsidiaries		-		-		278,420		307,550
		7,427,572		7,919,153		588,990		1,321,605
	₩	**9,694,023**	**₩**	**10,924,412**	**₩**	**588,990**	**₩**	**1,550,835**

At December 31, 2000 and 1999 trading securities included in Cash Management Accounts (" CMA ") managed by the merchant banking division of the Bank amount to ₩63,015 million and ₩39,314 million, respectively.

Beneficiary Certificates

Under authorization by the Ministry of Finance and Economy, the merchant banking division of the Bank establishes and manages debt security investment trusts. The assets of these trusts, comprising primarily guaranteed corporate, government and public bonds, are deposited under trust deeds with the Seoul Bank who is acting as trustee. As of December 31, 2000, the merchant banking division of the Bank operates various kinds of funds such as money market fund, short-term and long-term debt security trusts, installment type trusts, low tax trusts, long-term benefit trusts, separate tax trusts, tax exempt trusts and other types of trusts.

The merchant banking division of the Bank issues beneficiary certificates (" BCs ") representing shares in the trusts. The BCs are sold at daily trade prices, determined based on the value of the net assets held by the trusts every day. The merchant banking division of the Bank has undertaken to repurchase, at the daily trade price, all BCs sold, when requested by the beneficiaries. The BCs recorded on the balance sheet represent the shares unsold or repurchased by the Bank. Total BCs issued and outstanding at December 31, 2000 and 1999 are 10,504 million 47,604 million shares.

Investments in Debt Securities

At December 31, 2000, the Bank provided debt securities amounting to ₩2,566,615 million as collateral for borrowings from the Bank of Korea and has total debt securities amounting to ₩2,766,300 million available for rediscountable to the Bank of Korea. Securities denominated in foreign currencies amounting to ₩5,632 million were deposited in the course of selling securities under repurchase agreements and accordingly, the withdrawals are restricted (see Note 12).

The scheduled maturities of debt securities at December 31, 2000 are as follows:

	In Millions							
	Due in one year or less		Due from one to three years		Due after three years		Total	
Public and national bonds	₩	3,702,878	₩	896,799	₩	636,516	₩	5,236,193
Bonds issued by corporations		995,461		1,384,072		739,663		3,119,196
Beneficiary certificates		6,824		545,757		-		552,581
Other securities in Won		-		56,613		46,675		103,288
Foreign currencies and off-shore debt Securities		119,721		91,226		471,818		682,765
	₩	**4,824,884**	**₩**	**2,974,467**	**₩**	**1,894,672**	**₩**	**9,694,023**

Debt securities in foreign currencies, classified by nationality of issuer, as of December 31, 2000 are as follows:

Countries	In Thousands (*)		In Millions		Ratio (%)
Korea	US$	311,655	₩	392,592	57.50
U.S.A.		130,198		164,011	24.02
Thailand		1,745		2,198	0.32
Philippines		24,179		30,458	4.46
Others		74,229		93,506	13.70
	US$	**542,006**	**₩**	**682,765**	**100.0**

(*) Foreign currencies, except for U.S. dollars, are converted into equivalent U.S. dollar amounts using the exchange rate prevailing on December 31, 2000.

Investments in Equity Securities

As of December 31, 2000, details of investments in subsidiaries accounted for using equity method are as follows:

In Millions

		Acquisition Cost		Equity in earnings of equity method investees		Adjustments to beginning accumulated surplus		Capital surplus		Capital adjustment		Book value
CFEB	₩	6,394	₩	63	₩	1,385	₩	-	₩	-	₩	7,842
Korea Heavy Industries Co.,Ltd.		82,000		4,758		90,135		93,943		(258)		270,578
	₩	**88,394**	**₩**	**4,821**	**₩**	**91,520**	**₩**	**93,943**	**₩**	**(258)**	**₩**	**278,420**

6. Loans:

Foreign Currency Loans By Nationality

At December 31, 2000 and 1999, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

	2000					1999				
	Thousands		In Millions		Ratio(%)	In Thousands		In Millions		Ratio(%)
Korea	US$	5,013,831	₩	6,315,923	81.2	US$	5,520,469	₩	6,323,145	72.6
Japan		485,681		611,812	7.9		461,156		528,208	6.1
Russia		110,000		138,567	1.8		125,380		143,610	1.6
Indonesia		95,619		120,452	1.5		125,600		143,862	1.7
Other		469,087		590,909	7.6		1,371,905		1,571,381	18.0
	US$	6,174,218	**₩**	7,777,663	**100.0**	**US$**	7,604,510	**₩**	8,710,206	**100.0**

Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the year ended December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Balance at January 1	₩	2,569,319	₩	991,773
Provision for loan losses		1,316,438		2,076,206
Reversal of allowance		(60,896)		(30,037)
Loans charged off		(1,893,855)		(521,731)
Transfer from repurchase of loan from KAMCO and others		(28,097)		55,305
Translation adjustments		86,883		(2,197)
		(579,527)		1,577,546
Balance at December 31	**₩**	1,989,792	**₩**	2,569,319

Ratios of allowance for loan losses to total loans for the years ended December 31, 2000, 1999 and 1998 are 6.2%, 9.3% and 3.9%, respectively.

At December 31, 2000 and 1999, the Bank's loans of which the balance had been already charged off but the Bank's legal claim rights against borrowers or guarantors have not expired amount to ₩2,159,887 million and ₩776,257 million, respectively.

Restructured Loans

The Bank recognized losses on troubled loans restructured under workout plans or other similar rescheduling agreements if the total discounted future cash receipt specified by the modified terms of rescheduled loans are less than the nominal amount of those loans. For purposes of this calculation for the year ended December 31, 2000, ₩108,861 million of loans subject to be converted into equity security are recorded at fair value at the determination date of rescheduling plans. The present value of total future cash receipts under the restructuring plans which have been decided by December 31, 2000, discounted using interest rates of 8.5% to 9.75%, are ₩220,129 million less than their nominal value of ₩1,183,949 million. Amortization of these discounts of ₩39,632 million in 2000 are included in other interest income.

The changes in present value discount of the Bank's restructured loans in 2000 are as follows:

In Millions

	Beginning balance	Addition	Deduction(*)	December 31, 2000
Loans restructured under work-out plan	₩ 117,349	₩ 41,615	₩ 49,967	₩ 108,997
Loans restructured under other similar rescheduling agreements	5,625	29,250	11,747	23,128
Loans in industry rationalization policy	304,325	-	216,321	88,004
	₩ 427,299	**₩ 70,865**	**₩ 278,035**	**₩ 220,129**

(*)The deduction is comprised of amortization in 2000 amounting to ₩39,632 million and reversal amounting to ₩238,403 million resulted from charge off and sales of loans.

Other Information

The Bank recognized gains and losses on loan sales amounting to ₩26,835 million and ₩34 million, respectively, for the year ended December 31, 2000, and ₩165,629 million of gains for the year ended December 31, 1999 in connection with prior years' non-performing loan sales to Korea Asset Management Corporation ("KAMCO"), The sales prices of which are adjusted according to the results of actual subsequent collection of those loans (see Notes 20 and 21).

The Bank provides housing loans bearing interest at a rate of 1.0% per annum below ₩20 million and 9.75% per annum over 20 million to directors and employees, up to maximum of ₩50 million per person. The outstanding balance of housing loans receivable as of December 31, 2000 and 1999 amounts to ₩101,390 million and ₩113,262 million respectively.

7. Guarantee Deposits for Trust Operations:

The Bank is required to annually deposit an amount with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value (face value) of debt securities provided as security deposits at December 31, 2000 and 1999 are ₩7,999 million (₩10,642 million) and ₩1,613 million (₩4,300 million), respectively.

8. Premises and Equipment:

Premises and equipment at December 31, 2000 and 1999 are as follows:

In Millions

	2000	1999
Buildings	₩ 446,118	₩ 405,113
Office facilities held on lease	105,950	38,216
Equipment	673,428	991,828
Foreclosed assets	10,397	11,383
	1,235,893	1,446,540
Less: Accumulated depreciation or allowance	(676,439)	(793,558)
	559,454	652,982
Construction in progress	2,842	43,110
Land	399,595	405,710
Intangible assets	17,705	14,636
	₩ 979,596	**₩ 1,116,438**

At December 31, 2000 and 1999, the value of the domestic lands of the Bank and subsidiaries as determined by the tax authorities for property tax assessment purpose amounts to ₩407,646 million and ₩409,870 million, respectively.

At December 31, 2000, a substantial portion of buildings, equipment and foreclosed assets of the Bank and subsidiaries are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

9. Cash Management Accounts:

Cash Management Accounts ("CMA") comprise customers' deposits maturing in 180 days or less which are invested in securities approximating the value of such deposits. The income from the investments, less management fees, is distributed to the accounts on the contract maturity date. If the deposit is withdrawn before maturity, distribution is based on a rate computed daily.

CMA assets and CMA deposits at December 31, 2000 and 1999 comprise the following:

In Millions

		2000		1999
CMA assets				
Notes discounted	₩	108,505	₩	115,684
Securities eligible for open market operation		49,723		13,509
Other securities		13,292		25,805
	₩	171,520	₩	154,998
CMA deposits	**₩**	**119,264**	**₩**	**160,288**

10. Other Assets:

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

In Millions

		2000		1999
Guarantee deposits	₩	407,260	₩	400,279
Accounts receivable		1,276,477		160,547
Prepaid expenses		213,538		181,806
Non-Performing Loan Management Fund		36,680		36,680
Adjustments related to derivatives		-		20,815
Suspense receivable		35,477		28,198
Domestic exchange settlement		330,397		293,415
Deferred foreign currency translation losses for operating lease transactions		-		91,769
Deferred tax assets		3,329		24,666
Others		280,589		28,744
	₩	**2,583,747**	**₩**	**1,266,919**

11. Deposits:

The scheduled maturities of deposits at December 31, 2000 and 1999 are as follows:

In Millions

		Due in one year or less		Due from one to three years		Due after three years		Total
Deposits in Won	₩	16,812,463	₩	626,200	₩	5,513,189	₩	22,951,852
Deposits in foreign currencies		8,005,638		188,338		1,132,867		9,326,843
Certificates of deposit		467,241		14,037		666		481,944
	₩	**25,285,342**	**₩**	**828,575**	**₩**	**6,646,722**	**₩**	**32,760,639**

12. Borrowings:

Borrowings at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Borrowings in Won					
Borrowings from the Bank of Korea	3.0 ~ 5.0	₩	580,344	₩	691,249
Borrowings from the Governmental and Public fund	4.0 ~ 6.8		258,276		223,138
Borrowings from other banks	2.0 ~ 10.15		298,056		312,292
Borrowings from other financial institutions	5.5 ~ 10.625		272,000		566,000
Borrowings from others	3.0 ~ 7.2		759,756		245,676
			2,168,432		2,038,355
Borrowings in foreign currencies					
Long-term borrowings	LIBOR+0.3~3.5		707,671		3,306,498
Short-term borrowings	7.15 ~ 7.89		2,171,552		1,403,422
Refinance	7.23 ~ 8.35		371,305		649,315
Borrowings from banks for subordinated loans	LIBOR+0.15~0.75		53,859		28,437
Others	6.0 ~ 9.8		211,633		649,999
			3,516,020		6,037,671
Securities sold under repurchase Agreements	5.1 ~ 6.9		974,003		618,725
Covering notes sold	5.2 ~ 6.9		763,340		373,845
Call money	4.0 ~ 6.6 LIBOR+0.95~1.2		734,970		664,821
		₩	**8,156,765**	**₩**	**9,733,417**

Subordinated borrowings

Subordinated borrowings at December 31, 2000 and 1999 are as follows:

		In Millions		(In thousands)	
	Annual Interest Rate (%)	2000		1999	
Subordinated borrowings in Won:					
Samsung Life Insurance, Co. and other, maturing through 2007	8.0 ~ 10.625	₩	270,000	₩	340,000
Subordinated borrowings in foreign currencies:					
Commerzbank, maturing through 2005	LIBOR+3.5		44,090 (US$ 35,000)		40,089 (US$ 35,000)
		₩	**314,090**	**₩**	**380,089**

Subordinated borrowings have redemption periods of 3 to 8 years and are due in lump sum at maturities.

Maturity Information

The scheduled maturities of borrowings at December 31, 2000 are as follows:

In Millions

	Due in one year or less	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,226,100	₩ 308,100	₩ 634,232	₩ 2,168,432
Borrowings in foreign currencies	2,989,380	422,578	104,062	3,516,020
Securities sold under Repurchase agreements	974,003	-	-	974,003
Covering notes sold	763,340	-	-	763,340
Call Money	734,970	-	-	734,970
	₩ 6,687,793	**₩ 730,678**	**₩ 738,294**	**₩ 8,156,765**

Other Information

At December 31, 2000, in the normal course of funding activities the Bank provided ₩2,566,615 million of securities as collateral for borrowings from the Bank of Korea and other financial institutions (see Note 5).

13. Debentures:

Debentures at December 31, 2000 and 1999 are as follows:

In Millions

	Annual Interest Rate (%)	2000	1999
Debentures in Won			
Debentures	7.8 — 10.5	₩ 1,931,308	₩ 1,474,064
Subordinated debentures	14.8(*)	585,300	435,300
Subordinated convertible debentures	4.0	200,000	200,000
Others	-	-	5
		2,716,608	2,109,369
Discounts on debentures		(1,919)	(5,636)
		2,714,689	2,103,733
Debentures in foreign currencies			
Debentures	LIBOR+0.72~6.805	1,120,933	1,099,137
Off-shore debentures	-	-	5,154
		1,120,933	1,104,291
Discounts on debentures		(7,940)	(3,402)
		1,112,993	1,100,889
		₩ 3,827,682	**₩ 3,204,622**

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Debentures

Subordinated debentures at December 31, 2000 and 1999 are as follows:

	Annual Interest Rate (%)	In Millions			
	2000.12.31	2000		1999	
Fund invested by the Korean Government, maturing through 2004	(*)	₩	422,300	₩	422,300
Samsung Life Insurance Co., maturing in 2007	14.8		13,000		13,000
Public	10.5		150,000		-
			585,300		435,300
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	LIBOR+0.72		251,940		229,080
			(US$200)		(US$200)
Credit Suisse First Boston(CSFB)	LIBOR+6.805		257,623		-
			(US$205)		(US$ -)
			509,563		229,080
		₩	**1,094,863**	**₩**	**664,380**

(*) Interest rates on these debentures are floating based on the market rates at the time of payment.

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 2000 and 1999 are as follows:

	Periods of debentures	Annual Interest Rate(%)	In Millions			
			2000		1999	
Subordinated convertible debentures (No. 4)	1999. 12. 6 ~ 2009. 12. 6	4.0	₩	100,000	₩	100,000
Subordinated convertible debentures (No. 5)	1999. 12. 27 ~ 2009. 12. 27	4.0		100,000		100,000
			₩	**200,000**	**₩**	**200,000**

The above fourth and fifth subordinated convertible debentures are convertible from 3 months after the date of issuance through October 31, 2004 and November 20, 2004, respectively, into common shares at a conversion price of ₩10,000 per share of common stock, as adjusted for the 2:1 capital reduction in 2000. The debentures are redeemable at the option of the Bank with the approval of the chairman of Financial Supervisory Service ("FSS") on December 6, 2004 (fourth series) and December 27, 2004 (fifth series) at 150.82% of their principal amounts. If such options were not exercised by the Bank, 50.82% of the principal will be paid on December 6, 2004 and December 27, 2004, respectively and the remaining principal will be paid ten years from the issue date.

Repayment Schedules

The scheduled maturities of debentures at December 31, 2000 are as follows:

	In Millions							
	Due in one year or less		Due from one to three years		Due after three years		Total	
Debentures in Won	₩	852,053	₩	1,415,255	₩	449,300	₩	2,716,608
Debentures in foreign currencies		332,563		278,800		509,570		1,120,933
	₩	**1,184,616**	**₩**	**1,694,055**	**₩**	**958,870**	**₩**	**3,837,541**

14. Other Liabilities:

Other liabilities at December 31, 2000 and 1999 consist of the following:

In Millions

		2000		1999
Unearned income	₩	95,009	₩	96,235
Accrued severance benefits		194,530		207,083
Allowance for estimated losses on outstanding guarantees and acceptance contract		125,200		115,007
Due to trust accounts		471,819		248,042
Due to treasury agency		81,618		62,452
GIRO accounts		35,149		27,632
Deferred tax liabilities		83		5,737
Account payable		1,148,706		61,611
Suspense payable		435,522		556,301
Withholding taxes		43,679		52,097
Guarantee money received		150,437		88,852
Factoring payable		9,000		7,061
Deterred foreign currency translation gains for operating lease transactions		-		45,291
Other		379,942		95,195
	₩	**3,170,694**	**₩**	**1,668,596**

15. Accrued Severance Benefits:

Accrued severance benefits at December 31, 2000 and 1999 are as following:

In Millions

		2000		1999
Balance at beginning of year	₩	221,599	₩	282,560
Adjustment of beginning accumulated deficit		-		17,900
Provisions		40,906		46,161
Severance payments		(52,496)		(125,185)
Adjustments of foreign exchange transactions		(3,273)		163
		206,736		221,599
Cumulative Deposits to National Pension Fund		(12,206)		(14,516)
Balance at end of the year	**₩**	**194,530**	**₩**	**207,083**

16. Capital Surplus:

Consolidated capital surplus as of December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Capital stock of consolidated subsidiaries transferred from accumulated earnings	₩	121,252	₩	117,914
The Bank's ownership in capital surplus of consolidated subsidiaries		51,996		10,870
The Bank's ownership in capital surplus of equity method investees		93,943		93,943
	₩	**267,191**	**₩**	**222,727**

In accordance with the Asset Revaluation Law, the Bank elected to revalue lands, buildings and investment securities on January 1, 1993. The revaluation gain of ₩370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, out of which ₩359,608 million, net of 3% revaluation taxes, was used to disposition of accumulated deficit.

17. Accumulated Deficit:

Consolidated accumulated deficit as of December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Regal reserve	₩	18,114	₩	11,023
Reserve for business rationalization		-		139
Other statutory reserves		13,131		13,133
Voluntary reserves		399		6,356
Accumulated deficit before disposition		(388,706)		(1,138,259)
Deficit in excess of minority interests		(41,451)		(32,449)
	₩	**(398,513)**	**₩**	**(1,140,057)**

Legal Reserve

The Banking Act requires the Bank to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income, until such reserve equals 100% of its capital stock. This reserve is not available for payment of cash dividends but may be transferred to capital stock by an appropriate resolution by the Bank's board of directors or used to reduce accumulated deficit, if any, by appropriate resolution of the Bank's shareholders.

The Korean Commercial Code requires the domestic subsidiaries to appropriate an amount equal to a minimum of 10% of cash dividends as a legal reserve, until such reserve equals 50% of its paid-in capital. The reserve is not available for the payment of dividends. However, it may be transferred to common stock or used to reduce accumulated deficit, if any.

Reserve for Business Rationalization

Pursuant to the Tax Exemption and Reduction Control Law, the Bank and its domestic subsidiaries are required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

Other Statutory Reserves

Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of the Japanese branches' annual income after income taxes as a Japanese legal reserve, until such reserve equals ￥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches.

Voluntary Reserve

The Bank and its subsidiaries appropriate a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

Deficit in excess of minority interests

Deficit in excess of minority interests as of December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
KEB (Asia) Finance Ltd.	₩	11,575	₩	4,676
KEB Leasing Co. Ltd.		29,876		-
KEB Leasing & Finance Ltd.		-		27,773
	₩	41,451	₩	32,449

Disposition of Accumulated Deficits

Details of the recent three years 'disposition of accumulated deficits approved by shareholders of the Bank are as follows:

In Millions

Date of disposition	2000. 3. 25		1999. 2. 27		1998. 2. 27	
Accumulated deficit before disposition	₩	1,366,086	₩	843,544	₩	68,255
Disposition						
Transfer from capital surplus		154,805				-
Transfer from asset revaluation surplus		156,017		203,591		-
Transfer from statutory reserve		-		195,634		-
Transfer from reserve for overseas investment losses		-		154,000		23,500
Transfer from business rationalization		-		31,800		-
Appropriation for other statutory reserves		(537)		(211)		(234)
Transfer from voluntary reserves		-		258,730		44,989
		310,285		843,544		68,255
Undisposed Accumulated deficit to be carried forward to subsequent year	**₩**	**1,055,801**	**₩**	**-**	**₩**	**-**

Adjustments to the Beginning Balance of Accumulated Deficit

The Bank's details of adjustments to the beginning accumulated deficit reflecting the effect of retroactive application of new accounting methods to conform to the revised financial accounting standards are as follows:

In Millions

	2000		1999	
Accumulated deficits before adjustments	₩	(1,138,259)	₩	-
Adjustments:				
Rescheduled loans		(15,152)		(380,591)
Loss on valuation of securities		-		(127,467)
Loan loss reserves for outstanding guarantees and acceptance contracts		-		(69,908)
Others, net		(2,816)		(12,534)
Accumulated deficits, as adjusted	**₩**	**(1,156,227)**	**₩**	**(590,500)**

18. Capital Adjustments:

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

In Millions

	2000		1999	
Valuation losses on investment in debt securities	₩	(22,645)	₩	(75,700)
Valuation gain on investment in equity securities		(347,455)		(50,872)
Treasury stocks		(2,930)		(16,983)
Discounts on capital stocks		(9,502)		(6,425)
Overseas business translation credit		-		322
	₩	**(382,532)**	**₩**	**(149,658)**

Treasury stocks held by the Bank at December 31, 2000 and 1999 comprised 2,363 thousand shares of common stock and 3,904 thousand shares of common stock, respectively, included in the beneficiary certificate arranged to invest in the Bank's stock. These shares were acquired in the course of merger with KIMB (See Note 25). The Bank intends to sell these treasury shares in the near future.

Stock Options

As of December 31, 2000, the Company has implemented stock option plans for employees and executives, under which they are entitled to receive options to purchase 924 thousand common shares of the Bank at ₩5,000 per share. The stock options may be exercised during the period from three to six years from the grant date

Primary assumptions utilized to determine compensation costs under fair value basis method are as follows:

- The risk-free interest rate: The interest rate for governmental bonds at the grant date
- The expected exercise period : In six years from the grant date
- The volatility of the underlying stock price: 0 %
- The expected dividend rate: 0 %

Under the above assumptions, compensation costs under fair value basis method is in agreement with those under minimum value method. However, due to the exercise price of the stock option exceeding market value of the Bank's stock at December 31, 2000, no compensation cost were accrued in 2000.

19. Commitments and Contingencies:

Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the banking regulatory authorities. Under capital adequacy guidelines, the Bank shall report to the regulatory banking authorities its capital adequacy information as measured based on the accompanying consolidated financial statements. The capital guidelines involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to quantitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain a minimum 8% of total adjusted capital to risk weighted assets based on the accompanying consolidated financial statements (the BIS capital ratio).

Guarantees and Acceptances

The Bank and subsidiaries makes various commitments whereby they accept contingencies or guarantees for customers as liabilities of customers in the course of normal business to extend credit to customers. Guarantees and acceptances outstanding at December 31, 2000 and 1999 are summarized as follows:

In Millions

	2000		1999	
Guarantees:				
Won currency	₩	542,099	₩	793,399
Foreign currencies		2,604,628		2,635,589
		3,146,727		3,428,988
Acceptances in foreign currencies		2,473,329		1,788,608
	₩	**5,620,056**	**₩**	**5,217,596**

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2000 and 1999 are as follows:

	2000					1999				
	In Thousands		In Millions		Ratio (%)	In Thousands		In Millions		Ratio (%)
Korea	US$	3,646,418	₩	4,593,393	90.4	US$	3,584,359		4,105,525	92.8
U.S.A		66,559		83,844	1.7		9,449		10,823	0.2
Untied Kingdom		6,849		8,628	0.2		7,696		8,815	0.2
Japan		28,118		35,420	0.7		5,784		6,625	0.1
Others		283,141		356,672	7.0		255,290		292,409	6.7
	US$	4,031,085	**₩**	5,077,957	**100.0**	**US$**	3,862,578	**₩**	4,424,197	**100.0**

Guarantees and Acceptances, Continued

In addition to guarantees and acceptances with underlying liabilities of customers, the notional amounts of guarantees and acceptances of the Bank and subsidiaries without underlying liabilities of customers, provided in the normal course of business, at December 31, 2000 and 1999 are as follows:

	In Millions			
	2000		1999	
Letters of credit issued but not yet being drawn	₩	4,590,835	₩	4,566,298
Other guarantees and acceptance		35,150		36,651
	₩	4,625,985	**₩**	4,602,949

The Bank has entered into various loan commitments to provide a certain amount of loans, including overdraft financing, for its customers in the normal course of business. As of December 31, 1999, the amount committed but not yet drawn approximates ₩8,024,652 million.

Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought against the Bank are approximately ₩54,069 million as of December 31, 2000. The Bank believes that the outcome of these matters is uncertain but, in any event, they would not result in material ultimate losses on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying non-consolidated financial statements. The Bank has purchased US$ 7 million (Book value: US$ 1,491,000) of floating rate notes and paid US$ 12 million in subrogation for offshore funds in Malaysia established by Anam Semiconductor ("The Company"), which is now undergoing a workout program. The Company has provided a letter of commitment ("LOC") which confirms the compensation of the loss arising from the funds, but is not performing. Accordingly, the Bank is undergoing a process to bring the case to the court, but the ultimate effect as of balance sheet date cannot presently be determined.

Asset Backed Securitization

At December 6, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company ("SPC") and received ₩40,000 million and ₩20,000 million in cash and subordinated bonds, respectively. The Bank is subject to compensation for damages up to the amount of ₩26,800 million, 25 percent of the total principal amounts of the loans sold under certain adverse conditions.

Loans Sold under Repurchase Agreements

The Korea Asset Management Corporation ("KAMCO") can resell some of the loans under certain conditions including the following;

— When is it considered impossible to collect the loans and interest because borrowers delay their repayment of loans and interests over 6 months

— When it is considered impossible to collect the loans and interests due to the abrogation of court-receivership process and the cancellation of mediation

As of December 31, 2000, KAMCO may exercise the resale option for the loan amounting to ₩658,475 million.

As of December 31, 2000, the Bank estimated loss on repurchase of the loans amounting to ₩203,700 and accrued this amount as allowance for loan losses in 2000.

Stock of Samsung Life Insurance

On September 26, 2000, the Bank received 117,638 shares of stock of Samsung Life Insurance in accordance with contribution contract with Gun-Hee Lee, the chairman of Samsung Group, subsequent to the agreement to be compensated against estimated loan losses arising from Samsung Motors.

Evaluation of the plan for the Bank management improvement

On November 8, 2000, the Financial Supervisory Commission approved the Bank's management improvement plan submitted on September 30, 2000 by the Bank, based on the following abstract of evaluation for the Bank's plan by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently without additional capital injection from the Korean Government, since the Bank's capital adequacy ratio as of December 31, 2001 is expected to meet the target ratio, subject to the certain conditions described below:

— To provide against the situation that the Bank would not be able to increase its capital through public offerings in early 2001, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds

— The ratio of non-performing loans(NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.

— The target ratio of financial profitability will be reached through increase of operating revenue and reduction of expenses.

Intercompany Guarantees Provided by the Bank

Intercompany guarantees provided by the Bank for consolidated subsidiaries' indebtedness as of December 31, 1999 are approximately ₩342,307 million and are eliminated in the consolidation.

Economic uncertainties

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices

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

Significant uncertainties still exist related to the economy in Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring of their debt structure under workout and other similar programs. The Bank's outstanding loans and guarantees to the affiliated companies of Daewoo Group and other companies, including Korea Real Estate Trust, under workout programs amount to ₩1,330,600 million and ₩1,361,900 million before present value discounts of ₩66,700 million and ₩55,800 million, respectively. The Bank has accrued ₩475,700 million and ₩544,200 million, respectively, of allowance for such loan losses (including allowance for losses for guarantees and acceptances) as of December 31, 2000. In addition, as of December 31,2000, The Bank's outstanding loans and guarantees to Hyundai Group companies amount to ₩2,823,739 million. Actual loan losses to the above companies can differ from allowances for such loan losses accrued by the Bank. The accompanying non-consolidated financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Derivative financial instruments

The Bank has entered into various derivative financial instrument contracts for trading, arbitrage or hedging purposes, including futures contracts that are subject to exchange different currencies on specified dates at specified price, swap contracts that accompany the exchange of different currencies and interest rates and currency option and interest rate option contracts that accompany specific obligations and rights based on specified exercise price.

A summary of derivative financial instrument information at December 31, 2000 is as follows (unit : In Millions of Korean Won):

				Valuation gains or losses (I/S)						Valuation gains or losses (B/S)	
	Outstanding			Trading		Hedging		Total			
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses	Assets	Liabilities
Foreign Currency Related Contracts											
Forward contracts	₩ 1,477,583	₩ 815,632	₩ 2,293,215	₩ 58,690	₩ 100,152	₩ 24,965	₩ 8,576	₩ 83,655	₩ 108,728	₩ 83,626	₩ 101,790
Futures contracts											
Futures contracts purchased	32,244	62,481	94,725	-	-	-	-	-	-	-	-
Swap contracts	3,294	91,165	94,459	181	168	-	12,840	181	13,008	181	12,077
Option contracts											
Option contracts purchased	34,019	-	34,019	19,517	-	-	-	19,517	-	19,517	-
Option contracts sold	340,251	-	340,251	-	19,518	-	-	-	19,518	-	19,518
	1,887,391	969,278	2,856,669	78,388	119,838	24,965	21,416	103,353	141,254	103,324	133,385
Interest Rate Related Contracts											
Futures contracts											
Futures contracts purchased	100,570	-	100,570	-	-	-	-	-	-	-	-
Futures contracts sold	165,525	176,178	341,703	-	-	-	-	-	-	-	-
CD contracts	-	-	-	-	-	-	-	-	-	-	-
Swap contracts	1,642,166	129,749	1,771,915	41,339	36,851	9,975	2,851	51,314	39,702	49,250	39,703
Option contracts											
Option contracts purchased	234,140	-	234,140	240	-	-	-	240	-	240	-
Option contracts sold	188,955	-	188,955	-	240	-	-	-	240	-	240
	2,331,356	305,927	2,637,283	41,579	37,091	9,975	2,851	51,554	39,942	49,490	39,943
	₩ 4,218,747	₩ 1,275,205	₩ 5,493,952	₩ 119,967	₩ 156,929	₩ 34,940	₩ 24,267	₩ 154,907	₩ 181,196	₩ 152,814	₩ 173,328

(*) The currency related derivative financial instruments or interest rate swap contracts that accompany both purchased and sold position are recorded at foreign currency contract amount for the contracts between Korean Won and foreign currency, and purchased foreign currency contracts amount for the contract between foreign currencies, translated into the exchange rate as of the balance sheet date.

(**) The valuation gains or losses are not recorded since the settlement gain or losses are transferred to transaction gains or losses the as of balance sheet date.

(***) The above gains or losses are included in gains or losses on foreign exchange transaction.

20. Other Incomes:

Details of other income for the years ended December 31, 2000 and 1999 are as follows:

In Millions

	2000	1999
Gain on disposal of trading securities	₩ 60,821	₩ 309,982
Gain on disposal of investment securities	77,653	108,077
Gain on valuation of securities	37,646	146,146
Gain on sales of loans	26,835	165,629
Gain on disposal of premises and equipment	26,625	38,467
Gain from liabilities forgiven	8,800	7,927
Recovery of loans charged off	2,764	5,396
Lease rental earned	2,824	2,338
Deferred tax revenue	7	15,441
Gain on valuation of equity-method investments	4,821	13,130
Other	197,419	94,282
	₩ 446,215	**₩ 906,815**

21. Other Expenses:

Details of other expenses for the years ended December 31, 2000 and 1999 are as follows:

In Millions

	2000	1999
Loss on disposal of trading securities	₩ 91,005	₩ 100,568
Loss on disposal of investment securities	23,883	118,359
Loss on valuation of securities	103,994	145,861
Loss on sales of loans	34	-
Loss on disposal of premises and equipment	10,233	16,956
Deferred tax expenses	8,354	4,857
Provision for guarantee and acceptance	64,301	44,387
Contribution to non-refundable mandatory funds	46,064	34,660
Other	106,545	91,754
	₩ 454,413	**₩ 557,402**

22. Income Taxes:

The statutory income tax rates applicable to the Bank and subsidiaries, including resident tax surcharges, approximate 30.8%. No current or deferred income tax expenses were recorded in 2000 due to the full valuation allowances on deferred tax assets including operating loss carry forwards. The current income tax expenses represent income taxes paid or accrued by oversees branches and subsidiaries.

The components of differences between the Bank's taxable income and accounting income for the years ended December 31, 2000 and 1999 are as follows:

In Millions

	2000	1999
Net loss	₩ (403,703)	₩ (802,783)
Temporary differences:		
Restructuring of loans	220,129	427,299
Allowance for loan losses	303,600	257,100
Accrued interests, net	6,168	81,352
Gain on valuation at securities, net	14,733	243,030
Allowance for estimated losses on outstanding guarantees and acceptances contract	125,200	112,000
Others	(744,558)	220,252
	(74,728)	1,341,033
Permanent differences:		
Adjustments to accumulated deficits	(64,976)	(563,303)
Others	(11,809)	(5,231)
	(76,785)	(568,534)
Net taxable loss / operating loss carry-forward	(555,216)	(30,284)
Operating loss carryforward	(1,685,457)	(1,000,888)
Taxable income	-	-

Details of the Bank's temporary differences and deferred tax assets as of December 31, 2000 are as follows:

In Millions

	Balance at January 1, 2000	Adjustments for foreign currency translation	Increase (Decrease)	Balance at December 31, 2000	Deferred tax assets (liabilities)
Loss on valuation of securities	₩ 177,960	₩ -	₩ 4,020	₩ 181,980	₩ 56,050
Gain on valuation of long-term debt securities	(16,272)	(969)	10,715	(6,526)	(2,010)
Accrued interest	(127,893)	-	6,167	(121,726)	(37,492)
Allowance for loan losses	257,100	-	46,500	303,600	93,509
Loans charged off	66,213	-	-	66,213	20,394
Allowance for losses from Guarantees and acceptances	112,000	-	13,200	125,200	38,562
Restructuring of loans	427,299	-	(207,170)	220,129	67,800
Others, net	88,984	-	51,840	140,824	43,374
Sub-total	**₩ 985,391**	**₩ (969)**	**₩ (74,728)**	**₩ 909,694**	280,187
Operating loss carry-forward	**₩ 1,130,241**	**₩ -**	**₩ 555,216**	**₩ 1,685,457**	519,121
Deferred tax assets					799,308
Allowance for deferred tax assets					799,308
Deferred tax assets, net					₩ -

23. Goodwill:

Details of the goodwill as of December 31, 2000 are as follows:

In Millions

Subsidiaries		Beginning balance		Disposal		Amortization		Ending Balance
Debit								
KEBIT	₩	2	₩	-	₩	2	₩	-

24. Net loss Per Share and Ordinary Loss Per Share:

Basic earnings per shares and ordinary loss per share for the years ended December 31, 2000 and 1999 are calculated as follows:

In Millions

		2000		1999
Net loss	₩	(486,839)	₩	(823,411)
Preferred stock dividends		-		-
Net loss allocated to common stock		(486,839)		(823,411)
Weighted average number of common shares outstanding (in shares)		220,017,489		418,858,752
Basic net loss per share (in Won)	**₩**	**(2,213)**	**₩**	**(1,966)**
			₩	**(3,932)**(*)

(*) Reflects the effect of the 2:1 capital reduction for current year

In Millions

		2000		1999
Net loss	₩	(451,525)	₩	(808,897)
Preferred stock dividends		-		-
Income tax related to ordinary loss		3,357		(44,690)
Ordinary loss allocated to common stock		(448,168)		(853,587)
Weighted average number of common shares outstanding (in shares)		220,017,489		418,858,752
Basic ordinary loss per share (in Won)	**₩**	**(2,037)**	**₩**	**(2,038)**
			₩	**(4,076)** (*)

(*) Reflects the effect of the 2:1 capital reduction for current year

The weighted average number of common shares outstanding for the year ended December 31, 2000 are calculated as follows:

	2000		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	2,157,442	365	(787,466,330)
			80,306,383,485

Weighted average number of shares outstanding:

80,306,383,485 shares / 365 days = 220,017,489 shares

The weighted average number of common shares outstanding for the year ended December 31, 2000 and 1999 are calculated as follows:

	In Millions				
	Number of Shares	Adjustment (*)	As adjusted	Number of days outstanding	Weighted number of shares outstanding
Beginning	235,000,000	1.1488	269,973,354	365	98,540,274,210
Increase due to merger	56,947,525	1.1488	65,422,614	360	23,552,141,040
Treasury stock	(13,428,774)	1.0000	(13,428,774)	227	(3,048,331,698)
Treasury stock	(13,428,774)	1.0000	(13,428,774)	239	(3,209,476,986)
Treasury stock	(4,969,201)	1.0000	(4,969,201)	365	(1,813,758,365)
Stocks newly issued	152,402,338	1.0000	152,402,338	255	38,862,596,190
	412,523,114		**455,971,557**		**152,883,444,391**

Weighted average number of shares outstanding:

152,888,444,391 shares / 365 days = 418,858,752 shares

(*) In accordance with the interpretation of the financial accounting standards weighted average of new common stock outstanding were adjusted to reflect market value of new common stock in excess of proceeds from issuance of them.

For the years ended December 31, 2000 and 1999, diluted net loss per share and diluted ordinary loss per share are equal to basic net loss per share and basic ordinary loss per share due to the anti-dilative effect of all potentially dilative securities.

Potential common share information as of December 31, 2000 is as follows;

	Face value (In millions)	Exercise period	Number of common shares to be issued upon conversion
Convertible preferred shares	₩ 740,000	(*)	148,000,000
Subordinated convertible debentures (No. 4)	100,000	From Mar. 7, 2000 to Nov. 6, 2009	10,000,000
Subordinated convertible debentures (No. 5)	100,000	From Mar. 28, 2000 to Nov. 27, 2009	10,000,000

(*)For 26,000,000 shares, each share of convertible preferred stock may be converted into one share of common stock at the option of the preferred shareholder on the date after three years from the issue date. Each share of unconverted preferred stock outstanding on the date after five years from the issue date will be converted into one share of common stock. For 122,000,000 shares of newly issued convertible preferred stock will be converted at conversion date after three years from the issue date.

25. Supplemental Cash Flows Information:

The Bank and subsidiaries consider cash on hand, deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalent at December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Cash on hand	₩	1,461,313	₩	1,498,828
Deposits in Won		1,318,092		1,701,086
Deposits in foreign currencies		1,187,065		1,733,823
Marketable securities		24,125		653,470
	₩	**3,990,595**	**₩**	**5,587,207**

Significant non-cash flow transactions for the year ended December 31, 2000 and 1999 are as follows:

In Millions

	2000		1999	
Increase in net assets by merger	₩	-	₩	90,769
Increase in goodwill by merger		-		81,024
Increase in beginning accumulated deficits by reflecting present value discounts		-		380,591
Decrease in loans by charge-off		1,739,795		521,731
Decrease in allowance for loan losses by offsetting present value discounts		70,865		103,073
Acquisition of treasury stocks by merger		-		96,087
Decreasing of goodwill by gain on disposal of treasury stocks		-		77,532
Decrease in beginning accumulated deficits by reflecting allowance for estimated potential losses on outstanding guarantees and acceptances		-		69,908
Domestic exchange settlement		1,015,076		-

26. Merger:

On January 1, 1999, the Bank merged with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank. The transaction occurred in accordance with a resolution of board of directors on October 16, 1998 and subsequent approval by shareholders on November 26, 1998 in order to comply with the Bank's Rehabilitation Plan filed with the banking regulatory authorities.

KIMB had been established on May 28, 1979 under the Merchant Banking Act and engaged in leasing, CMA, foreign exchange, and other merchant banking operations.

In connection with the merger, the Bank issued 56,947,525 new shares of its common stock in exchange for all of the outstanding common stock of KIMB at a conversion ratio of 2.78571 shares (the merger exchange ratio) of the Bank's common stock for each outstanding share of KIMB. The Bank also acquired 26,857,548 treasury shares by conversion of the KIMB's 9,639,981 shares (47.16%) previously held by the Bank before the merger and recorded them as capital adjustments. During 2000, bank sold all treasury shares and deducted the gains on disposal of treasury shares from goodwill .

The details of goodwill arising from the merger are as follows:

		In Millions
Merchant banking assets acquired	₩	4,656,369
Merchant banking liabilities assumed		4,452,655
Net asset value at January 1, 2000		203,714
Stocks delivered (*)		284,738
		81,024
Gain on disposition of treasury stock		(72,487)
Accumulated amortization		(2,404)
Goodwill incurred by the merger	**₩**	**6,133**

(*) 56,947,525 shares x ₩5,000 = ₩284,738 million

The KIMB's condensed balance sheet as of December 31, 1998 and income statement information for the nine-month period then ended are as follows:

- Condensed balance sheet information as of December 31, 1998

		In Millions
Loans	₩	2,571,598
Cash and due from banks		112,944
Securities		787,651
Premises and equipment		45,999
Other assets		1,138,177
	₩	**4,656,369**
Deposits	₩	450,545
Borrowings		2,811,825
Allowance		143,526
Other liabilities		1,046,759
		4,452,655
Capital stock		102,214
Capital surplus		61,840
Retained earnings		39,660
		203,714
	₩	**4,656,369**

- Condensed income statement information for the nine-month period ended December 31, 1998.

		In Millions
		1999
Operating revenues	₩	593,096
Operating expenses		708,355
Operating losses		(115,259)
Non-operating revenues		5,519
Non-operating expenses		(6,659)
Net loss before income taxes		(116,399)
Income taxes		12,435
Net loss	**₩**	**(103,964)**

The assets and liabilities of KIMB were recorded at its book value as of January 1, 1999 in accordance with the financial accounting standards for business combination. Details of inter-company account balances eliminated in the merger are as follows:

Company	Assets	Company	Liabilities		In Millions
KEB	Cash and due from Banks	KIMB	Borrowings	₩	713,930
KEB	Other assets	KIMB	Borrowings		414,696
KIMB	Cash and due from Banks	KEB	Deposits		944
KIMB	Cash and due from Banks	KEB	Borrowings		89,497
KIMB	Loans	KEB	Borrowings		6,700
KIMB	Cash and due from Banks	KEB	Other liabilities		2
KEB	Guarantees provided	KIMB	Guarantees received		464,555

27. Related Party Transaction:

Significant transactions made in the normal course of business with subsidiaries during the years ended 2000 and 1999, and related account balances as of December 31, 2000 and 1999 are summarized as follows (Unit:In Millions of Korean Won):

	KAF	KEBI	KEBOC	KEBA	KEB Ire	KEBLS	KEBD	KEBD A.G.	Trust	Others	Total 2000	Total 1999
ASSETS												
Due from banks in Won	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,085,604	₩ -	₩ 1,085,604	₩ -
Due from banks in foreign currency	107,934	-	30,100	32,752	25,807	-	46,471	75,704		5,969	324,737	503,482
Loans in Won	-	-	-		-	59,000	-	-	196,672	113,668	369,340	6,201
Loans in Foreign currency	118,034	25,194	-	54,415	11,967	195,949	69,409	-	-	728	475,696	742,906
Others	3,073		164	169	257	1,978	309	473	169,823	2,001	178,247	175,718
LIABILITIES												
Deposits in Won	-	-	-	-	-	937	-	-	-	34,497	35,434	18,530
Deposits in Foreign currency	2,404		871	-	2,573	13,239	19,806	1,177	-	1,653	41,723	4,853
Borrowings		-	-	-	8,927	-	-	-	1,248,704	-	1,257,631	91,321
Others	6,606	-	-	-	595	1,972	-	1,256	203,395	3,840	217,664	103,073
REVENUES												
Interest income in Won	-	-	-	-	-	1,037	-	-	50,601	2,585	54,223	13,353
Interest income in Foreign currency	19,476	-	2,914	6,772	3,571	11,937	7,754	-	-	78	52,502	33,761
Fees and commissions	238	-	-	-	-	-	-	-	1,397	32,205	33,840	14,445
Others	2,621	-	-	-	-	23,371	-	-	10,257	138	36,387	38,794
EXPENSES												
Interest in Won currency	-	-	-	-	-	476	-	-	51,999	2,672	55,147	3,264
Interest in foreign currency	498	-	993	-	183	-	1,903	-	-	-	3,577	4,818
Fees and commissions	-	-	-	-	-	-	-	-	-	174	174	82
Others	2,244	-	-	-	-	7,947	-	-	147,693	67	157,951	11,771

To the Shareholders and Board of Directors of
KOREA EXCHANGE BANK

We have audited the accompanying consolidated balance sheets of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholder's equity, and cash flows for the years then ended. 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 audit. We did not audit the financial statements of certain subsidiaries and foreign branches of the Bank, which statements reflect total assets of 17.3% and 13.2% as of December 31, 2000 and 1999, respectively, and total revenues of 22.6% and 13.2% for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these branches, is based solely on the reports of the other auditors.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2000 and 1999, and the results of their operations, the changes in capital and their cash flows for the years then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 1 to the accompanying consolidated financial statements, the Bank implemented a two to one capital reduction on all shares of outstanding common and preferred stock for the purpose of disposition of accumulated deficit in accordance with a resolution of board of directors on November 10, 2000. The resulting gain on capital reduction of ₩1,241 billion was used for the disposition of accumulated deficit. In addition, on December 22, 2000, the Bank increased its capital by issuing ₩610,000 million new shares of preferred stock at par value of ₩5,000, of which 42 million shares and 80 million shares were issued to Commerzbank A.G and The Export-Import Bank of Korea, respectively, in accordance with a resolution of board of directors on November 10, 2000. Through the issuance of new preferred stock subsequent to the capital reduction, the Bank's paid-in capital amounts to ₩1,850,875 million as of December 31, 2000 and the ownership of Commerzbank A.G. and The Export-Import Bank of Korea changed from 31.6% and 16.3% to 32.55% and 32.50%, respectively.

As discussed in Note 19 to the accompanying consolidated financial statements, the Bank's self-rescue plans received "conditional approval" while allowing their independent management, based on the following abstract of evaluation for the Bank's plan submitted on September 30, 2000 by the Bank Management Evaluation Committee.

The Bank is classified as a bank which may operate independently, since the Bank's capital adequacy ratio as of December 31, 2001 is expected to meet the target ratio, subject to the certain conditions described below:

* To provide against the situation that the Bank would not be able to increase its capital through public offerings in early 2001, the Bank is required to prepare a supplementary plan including additional disposition of investments in KEB Credit Card Services Co., Ltd., one of the Bank's subsidiaries, or additional issuance of subordinate bonds

* The ratio of non-performing loans(NPLs) to the total loans will reach the target ratio through the additional sale of NPLs.

* The target ratio of financial profitability will be reached through the increase of operating revenue and reduction of expenses.

Without qualifying our opinion, we draw attention to Note 19 of the consolidated financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region, including certain financially troubled borrowers such as Daewoo Group companies and others which are in process of restructuring their debt under workout and other similar programs. As of December 31, 2000, the Bank's outstanding loans and guarantees to Daewoo Group companies and other companies, including Korea Real Estate Trust, under workout programs amount to ₩1,330,600 million and ₩1,361,900 million before present value discounts of ₩66,700 million and ₩55,800 million, respectively. The Bank has accrued ₩475,700 million and ₩544,200 million, respectively, of allowance for such loan losses (including allowances for losses for guarantees and acceptances) as of December 31, 2000. In addition, as of December 31, 2000, the Bank's outstanding loans and guarantees to Hyundai Group companies amounts to ₩2,823,739 million. Actual losses on the above loans and guarantees may differ from allowances for such losses accrued by the Bank. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties

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

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Samil Accounting Corporation

Seoul, Korea

February 9, 2001

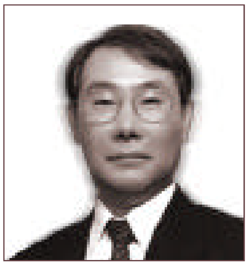
Standing Directors

Kyung-Lim Kim
President and
Chief Executive Officer

Manfred Drost
Senior Managing Director
and Deputy President

Hans-Bernhard Merforth
Senior Managing
Director

Youn-Soo Lee
Senior Managing
Director



Soo-Shin Lee
Senior Managing
Director

Pyoung-Wan Har
Standing Auditor

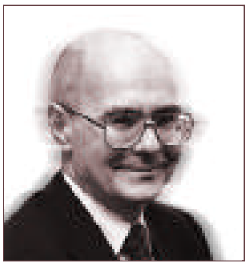
Managing Directors

Won-Tae Joo	Managing Director
Un-Chul Bek	Managing Director
Yoon-Soo Kim	Managing Director
Hak-Joong Hwang	Managing Director
Sam-Lyung Park	Managing Director
Jin-Kon Park	Managing Director
Dae-Hyun Kook	Managing Director

Non-Standing Directors

Yung-Chul Park
Chairman of the Board of Directors

Jürgen Lemmer
Non-standing Director



Wolfgang Hönig
Non-standing Director

Hwi-Soo Lee
Non-standing Director

Doo-Hwan Song
Non-standing Director

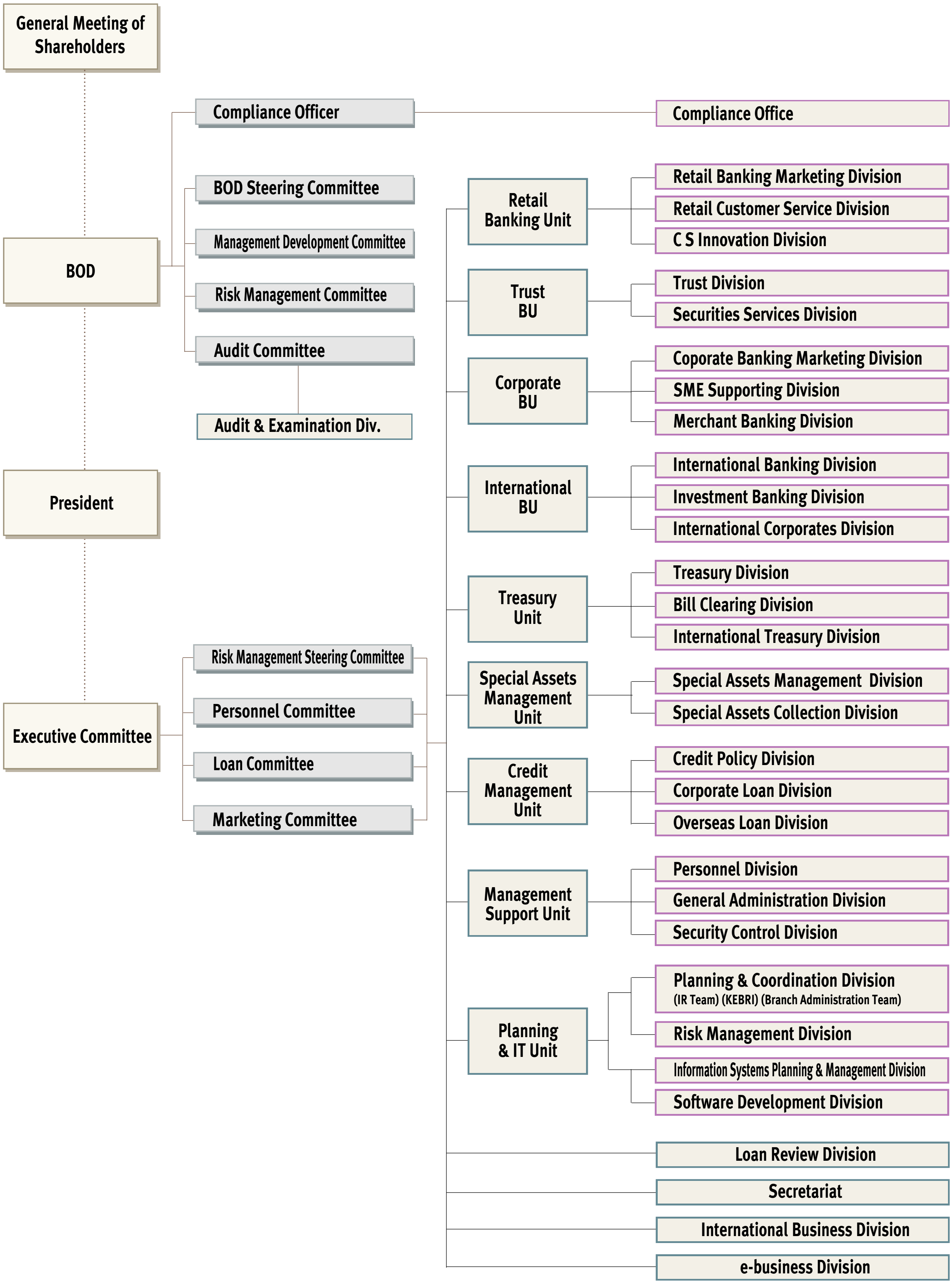
Sang-Kyung Kim
Non-standing Director

Moon-Soo Chung
Non-standing Director

Keum-Ryong Lee
Non-standing Director

Baek-In Cha
Non-standing Director

Organization Chart



Global Directory

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Manager: Min-Seop Song
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Manager: Kee-Seock Bang
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ALM
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Manager: Jae-Ho Lee
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Bank Notes/Travellers Cheques
Chang-Sub Hong, Deputy General Manager
Tel: (82-2) 729-8581

Global Directory

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Branches & Representative Offices

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Regional Headquarters for Americas
EVP & Managing Director of RHAM:
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Fax: 1-212-752-3964

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Seactle, WA 98164 U.S.A.
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