


Annual Report 2002

First Choice Bank

for customers, shareholders and employees



First Choice B

Profile

A leader in commercial banking, Korea Exchange Bank (KEB) has been satisfying customers and helping them succeed for the past 35 years with a diverse and growing range of financial products and services. Today, KEB positions itself as the “First Choice Bank” for customers, shareholders and employees alike, offering premium services, innovative products, and professional expertise that set it from the competition.

Established as a government-owned bank in 1967 to specialize in the foreign exchange and trade finance business, KEB steadily expanded and diversified its activities in the 1970s and ‘80s to keep pace with the country’s booming economy. Following privatization in 1989, the Bank was listed on the Korea Stock Exchange in 1994.

The Asian financial crisis of the late 1990s posed the greatest challenge to KEB since its foundation. With capital participation by Commerzbank and other measures to increase its capital base, KEB instituted a profit-centered management system and carried out full-scale internal restructuring. Thanks to these and other self-help efforts, the Bank emerged from the crisis and quickly set to work disposing of NPLs on its books. By 2001, KEB had fully returned to profitable operation, and has now reached the final step in resolving its “legacy issue,” with a stronger basis than ever for a new takeoff.

Enjoying a reputation as one of Korea’s most respected and forward-looking commercial banks, KEB is also recognized as a banking pioneer with a number of industry “firsts” to its credit: overseas branches and subsidiaries, credit cards, ATMs, online banking & F/X services, and many more innovations to come. As of December 31, 2002, KEB had 302 branches and four subsidiaries in throughout Korea and 21 branches and eight subsidiaries across the globe.

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Financial Highlights

(In Billions of Korean Won)

Selected Non-consolidated Financial Data for KEB	2002	2001
At Year's End		
Total Assets	61,453	54,149
Total Credits	39,183	33,296
Total Deposits	44,622	39,795
Shareholders' Equity	1,846	1,675
For the Year		
Total Income	1,645	1,832
Total Expenses	643	496
(G&A Expenses)	(484)	(394)
Operating Income*	1,002	1,336
Net Income	113	222

*Pre-Provision

Message from the CEO

Dear Shareholders,

For Korea Exchange Bank, 2002 was a year of striking contrasts, rapid change and new challenges. It was also a period of encouraging business results and major progress toward our vision of creating a “Strong & Sound Bank.”

Global economic sluggishness continued in 2002, with fleeting signs of recovery in the U.S. and Europe and continued stagnation in Japan. Defying this general malaise, Korea turned in a robust 6.3% GDP growth, underpinned by domestic demand in the first half and exports from the third quarter.

The biggest story in the domestic financial sector last year was mounting concern over soaring consumer loans extended by credit card firms and banks, and the countermeasures by financial authorities and the institutions themselves to bring rising debt loads under control. Among the more salient trends in the banking industry were the ongoing moves toward mergers, as well as quickening preparations for the launch of bancassurance services.

KEB responded proactively to these changes in our business environment, and the entire management and employees worked tirelessly to realign strategies and reorganize operations with the aim of earning the market’s trust.

Operating income and net income in 2002 recorded 1,002 billion won and 113 billion won, respectively, or 334 billion won and 110 billion won less than the previous year. It is important to note that



these results reflected, among other things, aggressive loan loss provisioning, as well as impairment loss on investment securities as we work to eliminate uncertainties over the credit exposure to some troubled corporate borrowers, including the Hyundai Group.

By contrast, key indicators on the business side showed impressive advances over 2001 levels. Won-currency deposits and loans increased 27% and 38%, respectively, year-on-year. We also maintained our unrivaled lead among Korean commercial banks in FX and trade finance, and even further strengthened our competitive edge in these areas. On the basis of our industry-leading position in F/X transactions, fee & commission income accounted for 26.9% of the Bank's total income, the highest level of any commercial bank in Korea.

Equally important were steps we took to ensure that growth is firmly based on profitability. These included reducing loans to large corporations by 3.9 percentage points as a portion of our total loan portfolio, while raising the portion of household loans by 5.7 percentage points, thus substantially improving the Bank's asset quality. At the same time, we upgraded our Credit Scoring System (CSS) and implemented Potential Problem Loan (PPL) management, enabling us prevent the occurrence of new problem loans. Thanks to such moves, our NPL ("substandard and below") ratio declined from 3.57% at the end of 2001 to 2.85% a year later, while the ratio of loans rated "Precautionary & below" fell sharply from 11.55% to 5.78%.

As we move forward amid a challenging business environment, we are implementing the tenets of a new corporate vision. This vision is to position KEB as the "First Choice Bank" for customers, shareholders and employees, and it involves customer-oriented reorganization and a "business-centered" strategy focusing on our core strengths in retail, corporate and F/X business areas.

First, we have devised an ambitious program of "business strategy reorganization." KEB will increase focus on its core strength in the F/X and Trade Finance, playing the role of "Product Innovator". In the retail banking sector, we will position the Bank as a "Wealth Manager," providing a broadened suite of innovative fee-based services. In corporate banking, we will selectively pursue profitable business areas as a "Solution Provider," offering enterprises a diverse array of F/X, export-import, loan, derivative, risk management and customized products and services.

Second, we are strengthening the Bank's internal capabilities in ways that facilitate our becoming Korea's "First Choice" premium

bank. Honing marketing abilities is crucial to the success of such efforts, for which we have developed and implemented a Customer Relationship Management system and are improving the pricing of our products and services. We are also strengthening risk management capabilities, reinforcing management of potential bad loans, and applying stricter rules in evaluating household and corporate loan applications. Finally, we have put in place employee evaluation and incentive programs that will spur process innovation and create a more performance-focused corporate culture.

We expect these new strategies and programs to create a basis for future growth. Our 2003 forecasts envision operating income rising to 1,180 billion won, with net income reaching 300.0 billion won. The Bank's asset soundness is also expected to benefit considerably, with our NPL credit ratio predicted to fall to 2.0%, while ROE is pegged at 12.9%. Likewise, KEB will concentrate the utmost effort on expanding our relatively weak capital base through a variety of approaches, with the aim of raising the Bank's BIS ratio to 10.3% by year's end.

Looking ahead, one sees little cause for unbridled optimism over the present business environment. Competition in the banking industry is certain to intensify amid the trend toward M&As in the Korean banking industry, while the macroeconomic outlook remains cloudy at best.

But KEB is no stranger to adversity, and if the past has taught us anything, it is to trust implicitly in our management and employees. They have overcome greater odds before with the same confidence and collective vision that will allow us to endure and prosper in the coming year.

I wish to thank you – our shareholders, customers and employees – for your unstinting support and encouragement in the past, and ask you to join us in 2003 as we set out to make KEB Korea's "First Choice Bank."

Sincerely yours,



Kang-Won Lee
President and Chief Executive Officer

CEO Interview

Q : The Asian financial crisis of the late 1990s hit KEB particularly hard. How have you managed to overcome those difficulties?

A : KEB was unique among banks that faced the same situation, relying mainly on our own efforts and sense of corporate responsibility to pull us through. The impact was serious, though, and the losses recorded in 1997 were the first in our 30-year history. In 1998, we induced 350 billion won in strategic investment from Commerzbank, followed by an additional capital injection from the Bank of Korea and KEXIM Bank, which was the Bank's largest shareholder. That support and the dedicated efforts of the entire company, helped raise our capital base by 2.3 trillion

management capabilities. This involved investing heavily to reinforce our capacity to measure and managing risk in general, and to improve our organizational and technical approach to credit risk management in particular.

Q : What major challenges does KEB face in 2003, and how will you deal with them?

A : Given the many uncertainties in the political and economic climate, both internally and externally, business prospects are not especially bright in 2003. This unfavorable environment presents two significant challenges for KEB in the year ahead. The first challenge is to expand the Bank's relatively weak capital base. Although our BIS ratio of 9.31% last year easily exceeded the

Management Strategies & Vision

Phase1 **Clean & Sound Bank**

"Overcoming the Crisis"

- ▶ Sell-off & Disposal Non-performing Assets
- ▶ Expand capital adequacy
- ▶ Profit-driven Management



Phase2 **Sound & Strong Bank**

"Normalizing Operations"

- ▶ Reinforce Core Competencies
- ▶ Upgrade Risk Management System
- ▶ Maximize Productivity & Efficiency



won by 2000. At the same time, profit maximization and cost reduction generated cumulative operating income of 5.5 trillion won from 1997 to 2002. We've utilized those funds to aggressively dispose of NPLs during that six-year period, provisioning a total of 8 trillion won in loan loss reserves. As a result, we've managed to bring down our NPL ratio from a peak of 17.99% to just 2.85% at the end of last year, which means we're just one step away from eradicating the Bank's legacy burden.

We've also undertaken extensive organizational restructuring. For example, we cut staff totals from 8,439 in 1997 to 4,989 last year, and reduced the branch network from 425 to 324 units during the same period. This has also brought about significant productivity increases. Another valuable outcome of the process of overcoming the crisis was that we have greatly strengthened our risk

international standard of 8%, it is crucial that we continue to improve capital adequacy to guard against unexpected shocks and to achieve genuine growth following the clean-up of NPLs. Our plan in this regard is to increase Tier I capital by 500 billion won through a multifaceted approach in order to boost our BIS ratio to 10.3% by the end of 2003.

Our second challenge is to invigorate earnings growth amid a potential worsening of credit card and household debt problems and stiffer competition in our industry. While all banks face this same difficulty, KEB is less vulnerable than others since household loans comprise a relatively small portion of our total credit portfolio.

To strengthen profitability amid the deteriorating business environment, we're reshaping our asset structure and will continue

to improve our Net Interest Margin. Also, our strong Fee & Commission income structure will definitely enable us to meet our income target for the year.

Q : What are the details of KEB's new vision to become a "First Choice Bank"?

A : Basically, our aim is to be the bank that customers, shareholders and employees choose first, and a growing enterprise recognized for its valued position in society. Our vision of "First Choice Bank" means becoming the bank where customers choose to do their transactions, shareholders choose for investment, and employees choose to work. We have two major tasks in achieving our "First Choice Bank" vision.

Phase3 First Choice Bank

"Forging Ahead"

- ▶Realign Business Strategies
- ▶Strengthen Internal Capabilities

The first involves a revised strategy of identifying niche customers, strengthening consulting services, and promoting fee-based business. We will also strive to distinguish the Bank from its competitors by creating a segmented, core-business marketing approach, whereby KEB is positioned as a "Wealth Manager" for retail banking, "Solution Provider" for corporate banking, and "Product Innovator" for F/X-related business.

The second task is to become the most competitive bank in terms of internal operations. To do this, we are reinforcing our marketing capabilities and credit risk management functions, enhancing process innovation in business operations, and introducing advanced performance-based staff evaluation and incentive systems.

Q : How does KEB intend to position itself amid the current trend toward bank mergers?

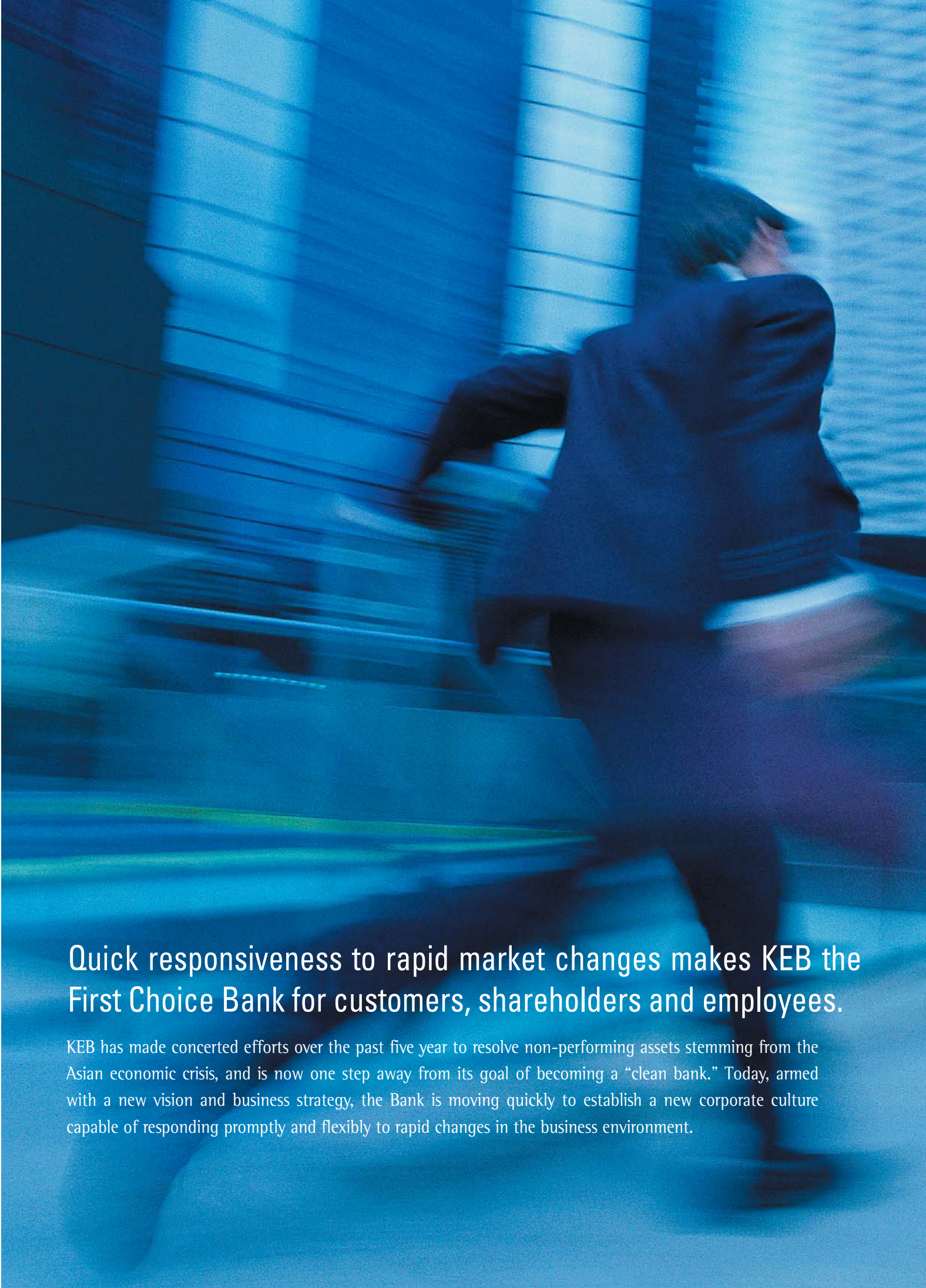
A : Several banks were merged in the aftermath of the Asian economic crisis, and it's true that M&As aimed at achieving economies of scale have become a hot topic in the industry. However, there are persistent doubts as to whether sufficient synergies are being created in many of these cases. Moreover, I believe that there are other strategies besides mergers that can enable enterprises to survive and prosper in the marketplace.

KEB, given its traditional strength in the F/X business based on cutting-edge competitiveness and superior human resources,



possesses unparalleled "knowledge management" in this area. I am confident that this will enable KEB to position itself as a high-quality service provider capable of competing successfully with, and differentiating itself from, other banks.

Nevertheless, we are open to the idea of a merger over the mid- to long-term future. But adequate preparations would be necessary, and we would only consider pursuing a merger that produces clear synergies in terms of the respective strengths of both parties involved.



Quick responsiveness to rapid market changes makes KEB the First Choice Bank for customers, shareholders and employees.

KEB has made concerted efforts over the past five year to resolve non-performing assets stemming from the Asian economic crisis, and is now one step away from its goal of becoming a “clean bank.” Today, armed with a new vision and business strategy, the Bank is moving quickly to establish a new corporate culture capable of responding promptly and flexibly to rapid changes in the business environment.

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"First Choice Bank" for Private Banking Customers



The days of the "one-size-fits-all" approach to retail banking are over. KEB has repositioned itself as "Wealth Manager" with its Private Banking (PB) marketing strategy, taking customer relationship management to a whole new level. PB Centers, "Global Wealth Management Centers" and "Total Life Care" packages bring together a competitive range of financial and non-financial products and services under one roof for the Bank's most valued customers.



Retail Banking

By any measurement, 2002 was an outstanding year for KEB's retail banking operations. With deposits and loans both posting record-level increases, the Bank achieved major improvements in the three key of business scale, earnings and asset soundness.

Overview

Korea Exchange Bank achieved robust, across-the-board volume increase in its retail banking business operations in 2002. Retail deposits expanded 2.6 trillion won to 21.1 trillion won, up 14 % year-on-year, and retail lending rose 3.8 trillion won to 10.2 trillion won for a 59.3% increase. As a result of these gains, the Bank earned total income of 519.2 billion won from its retail banking business in 2002, up from 481.1 billion won in 2001.

Higher earnings were attributed to the Bank's emphasis on ensuring strong profitability in all retail banking areas, from maintaining the highest loan portfolio quality to maximizing fee and commission income. Notably, the proportion of low-cost core deposits among total deposits rose from 26.7% to 27.6%, recording 5.7 trillion won. The Bank made aggressive efforts to expand low-cost deposits and its retail customer base through cooperative alliances with several securities companies and Korea Post. Special activities carried out under the Bank's "Sigma 7000" campaign likewise helped bolster overall core deposits.

The Bank is laying the groundwork for bancassurance services scheduled to launch in August 2003, and is currently forming strategic tie-ups with several non-banking institutions. Systems development and staff training to support this new business are underway, with certified personnel already numbering over 1,000.

Private Banking

Reinforcing capabilities, increasing professional staff, and expanding the network of Private Banking (PB) operations are all central to KEB's strategy of becoming "Wealth Manager" for individual customers who expect a higher, more personalized level of tailored and diversified financial services. By so doing, the Bank expects to steadily grow its PB client base and deposit size from 28,000 customers and 10.6 trillion won in 2002 to 32,000 customers and 12 trillion won, respectively, in 2003.

The already-extensive range of products, services and privileges the Bank extends to "VIP Customers" is being augmented with total asset management offerings, such as investment trusts, insurance and customized products developed to meet their needs. Through relationship marketing, Private Bankers also provide their clients with non-financial "Total Life Care" counseling and information on real estate, legal affairs, taxes, inheritance, donation, health and even personal hobbies.

Success in the PB business ultimately depends on the quality of manpower. KEB is recruiting outside PB specialists, conducting intensive training of its PB staff, ensuring PB customers to receive the highest degree of personalized and professional service.



More convenient access to PB services is the goal behind KEB's expansion of branches that feature PB Centers from 12 in 2001 to 45 by the end of 2002. Network reinforcement also extends to the Bank's recently established Global Wealth Management Center at KEB's head office, with three additional WM Centers planned for this year.

Household Lending

The Bank's total loans to households in 2002 rose 3.76 trillion won to 10.23 trillion won, a tremendous increase of 58.2% year-on-year. The delinquency ratio, though rising slightly from 0.81% to 1.01%, was still low by industry standards thanks to prudent application of the Bank's CSS (Credit Scoring System). To maintain a well-balanced and sound loan portfolio, KEB substantially lowered its loan-to-value limit on mortgages. It also upgraded its CSS and a monitoring system for full-time risk surveillance is under development.

As household loans represent a comparatively small portion of the Bank's overall loan portfolio, KEB plans to increase such loans from 2002's 36.6% to 37.9% by the end of 2003. This move is part of the Bank's broader plan to restructure its product mix to emphasize new niche-market products along with existing loans, while reinforcing its loan management system and streamlining operations to shore up profits.

Electronic Banking

Though relatively new, electronic banking (e-banking) represents KEB's fastest-growing service delivery channel. To actively cope with Korea's extensively wired and rapidly changing business environment, the Bank continued to enhance the functions, convenience and utilization of its online services throughout 2002.

Through its dedicated website (www.keb.co.kr), the Bank's customers are able to carry out a wide range of cyber-banking transactions, including balance inquiries, transfers, online foreign exchange for cash and traveler's checks, F/X remittance, F/X dealing, F/X risk management, and F/X rate reservation. The utilization of these services continues to grow, with the daily average transaction amount rising to 60.83%, versus 39.16% for ATMs and teller windows. As of the end of 2002, KEB had 1.17 million Internet-banking users and 1.69 telebanking users, generating 6.7% more in online fee revenue than in the previous year.

In the year ahead, the Bank's IT Business Unit will invest 150 billion won 'up 37% over 2001' to expand e-banking and other IT capabilities, strengthen management information systems, and facilitate KEB's broad range of competitive and highly profitable "next-generation" financial products and services.

"First Choice Bank" for SMEs



Small & medium-sized enterprises (SMEs) are turning to KEB in growing numbers, and for good reason. Organizational restructuring and a realignment of business objectives have raised the profile of SMEs as customers and expanded their position in the Bank's loan portfolio. Once drawn primarily by the Bank's traditional strength in F/X business, SMEs now turn KEB as a "Solution Provider" for all of their corporate banking needs.



Corporate Banking

Offering SMEs a lineup of new services and products, plus various special incentives tailored to these customers' needs, KEB continues to extend SME lending while maintaining its lead in SME export-import transactions.



Overview

In terms of their dynamism, creativity and employment effect, small and medium-sized enterprises (SMEs) are the very lifeblood of the Korean economy. As a key customer group with specific and unique needs, SMEs also represent the focus of organizational restructuring and business realignment of KEB in 2002.

The Bank provided a host of new banking products, services and incentives tailored to SMEs, while also enlarging their share of total corporate lending. In fact, SMEs comprise KEB's single largest loan customer category. By continuously developing new F/X, export-import, business startup and specialized funding support features, the Bank is strengthening its role as all-around "Solution Provider" for corporate clients previously drawn to KEB solely or primarily for basic F/X transactions.

SMEs Lending

In a strategy designed to minimize risk and improve its profit base, KEB has continued to earmark a large portion of its won-currency loan portfolio for small and medium-sized corporate borrowers. Total won-currency loans rose 31.1% in 2002 over the previous year from 8.2 trillion won to 10.9 trillion won, of which SME lending accounted for 44.8%. Foreign-currency loans to SMEs expanded by a staggering 358.9% year-on-year to 1.84 trillion won. Owing to its steadfast support of SMEs, KEB receives more specially earmarked government SME funds than any other bank, which it extends to clients through a variety of financing solutions.

Export-Import Support

SMEs engaging in foreign trade have requirements and risks all their own. Thanks to its advanced and systematic export-import support services, KEB was the first choice of SMEs for foreign trade-related settlements in 2002, handling an industry-high US\$9.07 billion worth of such transactions.

KEB's specialized support for SMEs goes far beyond lending and routine transactions. Indeed, this support commences from an SME's "moment of conception" with the "Trade Business Startup Support Desk. This facility assists firms through the establishment process including liaison with relevant agencies and institutions, and offers practical advice and support related to export-import business. The Bank also publishes a guidebook on setting up a trading company, performs overseas buyer searches for exporters,

and provides a wealth of useful online services on its homepage (www.keb.co.kr) and its dedicated F/X portal (www.fxkeb.com). In cooperation with the Small Business Corporation and the Korea Export Insurance Corp., KEB hosts the "Combined Export-Import Support Seminar" to provide information and consultation on export support, export insurance and financing.

Other Support Activities

Foreign exchange and interest rate fluctuations represent constant risks and opportunities for companies involved in international trade, yet many Korean SMEs lack the resources or capabilities to monitor, analyze, forecast and respond effectively to them. Here KEB excels, enabling SMEs exposed to F/X risk to gauge, evaluate and respond effectively to such fluctuations on their asset & liability positions in a real-time and timely fashion.

SME customers are invited to make full use of the Bank's many programs, events and facilities designed with their specific interests and needs in mind. To forge closer ties with superior SMEs, the Bank inaugurated its "KEB Prime Business Club" in October 2001. Among the benefits club members receive are preferential interest rates and reduced transaction fees, as well as trade and tax consulting services.

Foreign Companies in Korea

The Bank ended 2002 with 3,335 foreign companies operating in Korea on its client roster, an increase of 483 firms year-on-year, contributing 112.9 billion won in revenue. KEB seeks to diversify its credit portfolio by increasing the amount of lending to major foreign corporations' Korea-based operations, which will also help to improve overall credit risk management. Spearheading this strategy is the Bank's International Corporate Division, which carries out direct marketing programs aimed at the Korean subsidiaries of Fortune 500 and BusinessWeek 1000 companies, as well as joint marketing with the local branches of these firms. Fostering closer relationships with multinational companies and local chapters of foreign chambers of commerce has also been instrumental in advancing KEB's PR and advertising objectives. Among KEB's foreign customers are such well-known names as Coca-Cola Bottling Korea, Rodamco Tower Korea, SAP, Fujitsu Korea, BMW Korea, IBM Korea, and GM-Daewoo.



"First Choice Bank" for **Global Clients**

A pioneer in global banking among domestic banks, KEB enjoys a long-established edge in the fields of investment banking, lending and overseas operations. Going forward, the Bank will continue to utilize experience gained in overcoming its NPL problems to carry out prudent credit risk management, while strengthening "relationship banking" to expand its fee business base.



Global Banking

Investment Banking

Pioneering the project finance field since the early 1990s, KEB remains the first choice among Korean banks in this area, whether as arranger, lead or advisor of projects both at home and abroad. Related loans in 2002 rose by a steep 128% year on year.



Project Finance

As the first Korean bank to enter the project finance field back in 1994, KEB continues to enjoy the leading position in this market, bringing its vast experience and expertise to corporate and public infrastructure projects at home and abroad. The year 2002 was an especially active period for the Bank's project financing activities, with related loans soaring 128% from 155 billion won in 2001 to 355 billion won.

Notably, the Bank was arranger and co-leader of a syndicated loan to Eukor Car Carrier, Inc., a joint European-Korean shipping line specializing in ocean-going car transportation. The billion-dollar deal involved the purchase of the car transport business from Hyundai Merchant Marine, the establishment and financing of the new company, and a six-year amortizing term loan of US\$650 million. KEB was also actively engaged in other major projects during the year, including those involving Samick Musical Instrument and Kangnam Beltway.

Large Corporate Banking

Having resolved most of its legacy burden from large corporate NPLs resulting from the financial crisis, KEB is now pursuing a new "Relationship Banker" approach toward large corporate customers.

Large Corporate Lending

KEB's Total Exposure Limit system has effectively reduced the concentration of loans to major conglomerates, while aggressive and ongoing provisioning has further solidified asset soundness. Having resolved most of its legacy burden from NPLs resulting from the financial crisis, KEB is now pursuing a new "Relationship Banker" approach toward large corporate customers. These efforts will focus on expanding fee income by marketing existing loan services, as well as investment banking and derivative products.

M&A

Merger and acquisition deals the Bank arranged included those involving Korea Life Insurance, Dong-a Finance and Kumho Meter Tech. The Bank generated 1.5 billion won in fee income from these and other M&A businesses in 2002.

Custody & Fund Administration

KEB's ranking in domestic and cross-border custody & fund administration rose from 4th to 2nd in the industry from 2001 to 2002, aided by a 58% increase in assets under trust to 27.4 trillion won. The nation's largest pension funds and 30 investment trust management companies number among the Bank's major clients. By expanding cross-boarder custody business and reinforcing competitiveness, KEB anticipates an increase in custody & fund administration assets of over 30% in 2003, bringing the total to approximately 36 trillion won.

Merchant Banking

The Bank registered a year-on-year increase of 109% in CMA and bills issuance to post a total of 1,649 billion won from merchant banking activities in 2002. This dramatic improvement over 2001 was due mainly to more aggressive marketing initiatives. Discounted CPs stood at 1,760 billion won on an average outstanding deposit basis, up 61% from the previous year.

Overseas Operations

Having the widest global network among Korean banks, KEB covers 21 countries and includes 20 branch offices, 1 sub-branch, 1 representative office, and 8 subsidiaries with 17 local branches, bringing the total to 47 units worldwide.

Overseas Operations in 2002

Increased low-margin EUBB and a decrease in high-interest lending combined to lower Net Interest Margin in 2002, thus reducing interest income from the Bank's overseas operations for the year. However, owing to higher overall non-interest (fee) income, KEB generated pre-provision operating income of US\$119 million, remaining flat or little changed from US\$121 million in 2001, while net income more than doubled from US\$44 million to US\$93 million. Total assets of overseas operations were US\$5.7 billion, down US\$300 million from average asset holdings in 2001. Offsetting the increase in EUBB for the year, total assets were reduced owing to a decrease in loans through offsetting collateralized deposits against loans extended to financially troubled companies, amortization and ABS issuance.

The Bank opened a liaison office in Ho Chi Minh City, Vietnam to strengthen its presence in that emerging market, while expanding its KEBOC (Korea Exchange Bank of Canada) operations with two new subsidiaries in Thornhill, Ont. and Coquitlam, BC. As a result of these additions, the global network at the end of 2002 covered 21 countries and included 20 branch offices, one sub-branch, one representative office, and eight subsidiaries with 17 branches attached to subsidiaries, bringing the total to 47 units worldwide.

Operational Directives for 2003

Together with maximizing business growth in China, boosting operational efficiency is the Bank's top priority for overseas operations. The launch of the Bank's Global Internet Banking System (GIBS) will be accelerated in tandem with overall branch network computerization. Certain units will be physically streamlined and strategically repositioned to better suit local needs. Fee business, such as L/C handling and remittance, will be strengthened, profitable assets will be augmented, and information sharing between the head office and overseas branches will be intensified to improve loan criteria flexibility with respect to Korean conglomerates abroad.

America

KEB's network in the Americas comprises a total of 26 offices throughout the United States, Canada, Panama and Brazil. For greater efficiency and economy of scale, the Broadway and Chicago branches are being integrated into subsidiaries of Pacific Union Bank, KEB's retail banking subsidiary in the US.

Pacific Union (NASDAQ: PUBB), California's first Korean-American community bank founded in 1974, was included in the Russell 3000 and Russell 2000 indexes as of July 2002.

Europe & Middle East

The Bank's overseas network in Europe and the Middle East currently includes seven branch offices and subsidiaries, with one branch each in UK, France, the Netherlands and Bahrain, in addition to subsidiaries in Germany, Ireland and Egypt. The broad focus in these two regions is commercial banking with an emphasis on wholesale banking, as well as investment banking offerings like Euro-fund raising for Korean firms doing business in the region and custody services.

Key future objectives for KEB's Europe and Middle East operations include streamlining through business specialization, and strategic reorganization of branches and branch networks into a single holding company.

Asia & Oceania

The Asia & Oceania network encompasses one branch and one sub-branch in Hong Kong; one branch each in Singapore, the Philippines, and Vietnam, plus a newly opened liaison office in Ho Chi Minh City; local subsidiaries in Indonesia and Australia; and a liaison office in North Korea. These operations are primarily focused on wholesale commercial banking for Korean companies, as well as remittance and other F/X business, though investment banking services are gradually being expanded. Other goals include strengthening credit risk management, improving asset quality, and expanding lending and export/import activities for Korean firms operating in the region.



Japan

The Bank's Tokyo and Osaka branches concentrate on extending loans and export/import services to Korean residents and companies in Japan. KEB's Tokyo branch was first among Korean banks in Japan to handle Won-currency F/X transactions, anticipating increased tourist from the 2002 Japan-Korea World Cup and the Busan Asian Games. In view of the continuing economic recession in Japan, efforts are focused on post-management recovery of existing non-performing loans, as well as controls to prevent the occurrence of new NPLs.

China

With offices in Beijing, Tianjin, Dalian and a full-service branch to open soon in Shanghai, KEB enjoys the most comprehensive branch network in China of any Korean bank. Through its operational alliance with the Bank of China and recent permission to extend Yuan-currency retail banking services to South Korean nationals and companies operating in China, KEB is accelerating the rollout of convenient new products and services in this burgeoning market.



"First Choice Bank" for FX & Trade Finance



It's not just our customers who say KEB is tops in trade finance leader, but the international media as well. The influential U.S. banking journal "Global Finance" named us Korea's "Best Trade Finance Bank" in 2002 for the second consecutive year. Ongoing efforts to automate, digitalize and diversify export-import and other trade-related transactions will ensure KEB retains its lead as trade finance "Product Innovator" for many years to come.

FX & Trade Finance

With the most advanced e-trade system and F/X reserve service in operation, KEB has reinforced its commanding lead in the handling of foreign exchange and export-import transactions. The Bank also carries out specialized F/X promotional activities, like those for the World Cup finals and the Busan Asian Games in 2002.



Overview

With market shares of over 50% and 23%, respectively, foreign exchange and trade finance are two areas in which KEB has traditionally enjoyed undisputed market leadership and a clear competitive advantage. Redefining itself as a "Product Innovator" in these key sectors and in the fast-growing e-trade niche of automated trade solutions, KEB is strengthening its position as Korea's foremost international bank.

A host of innovative new products, services and promotional efforts helped to cement KEB's lead in total F/X, import and export transactions recorded in 2002, while burnishing our image as the nation's premier foreign exchange solution provider.

Foreign Exchange

The Bank once again demonstrated its edge in foreign exchange capabilities, handling 51.3% of the total US\$57.3 billion in all F/X transactions conducted by Korea's eight major commercial banks last year. Spurring this achievement were a variety of events and strategies to cultivate closer relationships with potential F/X customers and gather detailed information on their needs. The Bank's growing volume of F/X transactions and profits generated therefrom were largely the result of a campaign to induce inward and outward remittances, and promotional activities coinciding with the World Cup Finals and Busan Asian Games.

Special F/X centers catering to foreign workers in Korea were established at branches in 20 strategic locations, while significant investments were also made to upgrade 11 "Emigration" and eight "Overseas Study Centers" throughout the country.

KEB operates the industry's first online foreign exchange portal, www.fxkeb.com, offering customers a web-based suite of F/X-related services including F/X dealing, cyber money orders, exchange risk management and other content-rich features.

Trade Finance

KEB solidified its role as trusted intermediary in the processing of international trade transactions, handling US\$38.4 billion in exports and US\$34.6 billion in imports in 2002, which accounted

for 23.6% and 22.8%, respectively, of the entire trade finance market.

The Bank manages to stay one step ahead of the competition in trade finance by rolling out a steady stream of financial products and services tailored to local businesses. A case in point is CMS-Plus, a one-stop, web-based cash management service that processes general banking transactions like deposit/withdrawal and F/X, as well as complex analysis and future cash-flow forecasting. Over 7,000 of KEB's corporate customers have already discovered how fast, efficient and cost-effective CMS-Plus is for managing their cash.

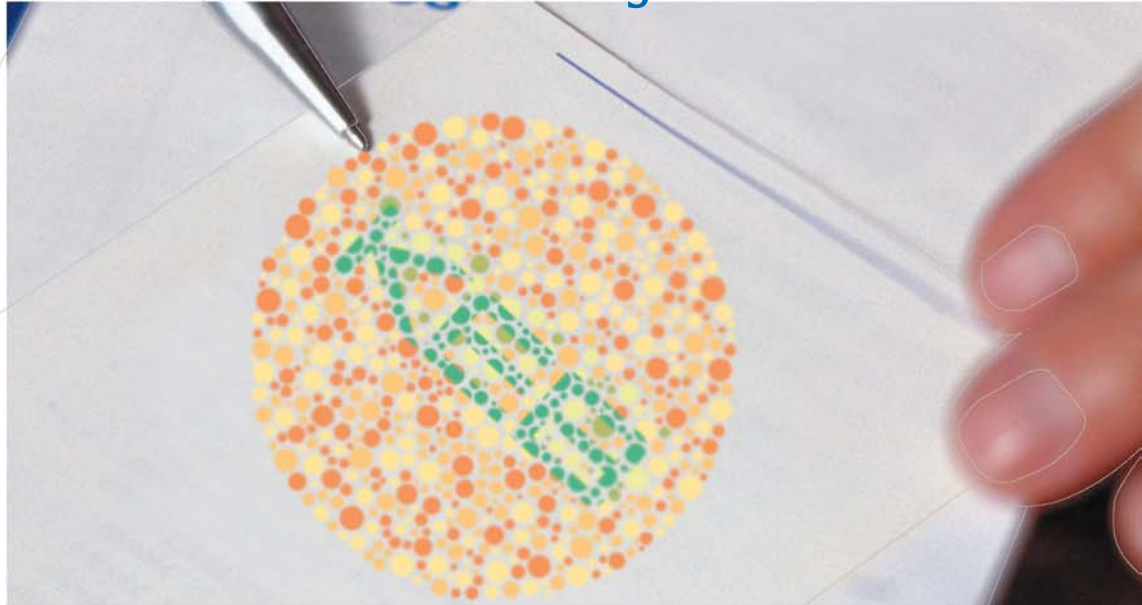
The influential U.S. monthly Global Finance selected KEB as the "Best Trade Finance Bank" in Korea for 2002, the Bank's second such distinction in two years. Based on number of transactions, market share, convenience, price competitiveness, and capacity for technological innovation, this award confirms KEB's unrivaled status as "Product Innovator" and "First Choice Bank" for trade finance.

e-Trade

A "seamless, paperless e-marketplace" is the objective of KEB's "Meta Payment and Trust" (MP&T), a global e-trade settlement company launched jointly with Chohung Bank Korea in October 2002. MP&T simplifies global B2B settlements with standardized e-payment, e-financing & e-risk management solutions, real-time invoicing, won- & dollar-clearing solutions, an online inter-bank clearing system and, in sum, a more user-friendly e-commerce environment for companies doing cross-border business.

KEB has been a Certificate Authority of the Identrus Trust Network since 2001, enabling customers with Identrus "Global-IDs" to conduct secure B2B transactions with overseas partners more efficiently, securely, and with a higher level of trust. Customers with EDI (Electronic Data Interchange) accounts at KTNET or Dacom can also exchange trade-related documents with the Bank, obviating the need for multiple visits to their bank branch.

"First Choice Bank" for Risk Management



Risk means different things to different people, from a family considering a long-term mortgage, to an exporter forecasting F/X rates, and a broker analyzing the effect of market competition on a stock. Yet risk is constant and constantly changing. KEB applies the most advanced and proven methods for quantifying, analyzing, forecasting and managing all these types of risk and more, both for customers and to ensure its own financial and operational soundness.



Risk Management

KEB continues to anticipate and respond to the changing nature of risk by upgrading and standardizing its organization, systems, processes and infrastructure, enabling it to effectively identify, analyze and manage all forms of risk.

Overview

Years of deregulation, globalization and advances in financial technology have expanded business opportunities, while increasing the diversity and complexity of risks associated with banking. Ongoing financial market integration between countries, intensifying competition among financial institutions, product diversification and global market volatility all spell a greater level and variety of risk to which banks are exposed.

KEB continues to anticipate and respond to this changing nature of risk by upgrading and standardizing its organization, systems, processes and infrastructure to effectively identify, analyze and manage all forms of risk – credit, market, liquidity, operational and system – separately and in an integrated approach.

Risk Management Organization

In the Bank's risk management organization, the Risk Management Committee is subordinate to the Board of Directors and determines risk management policies and directions. The independence of risk management activities is ensured through a framework whereby risk management units operate separately from the individual business divisions. As the chairman and members of the Risk Management are external directors of the Bank, their opinions and decisions are objective and independent.

The Bank carefully selects risk management personnel from among its workforce based on knowledge and experience required for the task, and encourages long-term duty in order to cultivate specialized expertise in the risk management field.

New Basel Capital Accord

In line with the New Basel Capital Accord (Basel II) set forth by the BIS, KEB places great emphasis on developing advanced approaches and methodologies for measuring and managing credit risk and operational risk in determining capital levels. In mid-2002, the Bank, together with supervisory authorities and several



financial institutions, created the Basel II Task Force Team. The team carries out joint projects and research to prepare for the introduction of sophisticated risk management systems that meet the new BIS standards.

Credit Risk Management

To effectively manage credit risk, each borrower's default and recovery rates are computed, and then Credit VaR calculations using the Credit Risk+ model are used to keep potential losses down to an appropriate probability level. Calculated on the basis of expected loss using the Bank's own historical data, credit VaR is an effective credit risk management tool developed independently by KEB. Furthermore, as the same data is also utilized to differentiate borrowers according to risk level when credit decisions are made, it serves as the structural framework for the Bank's overall credit risk management system. In addition to credit VaR calculations, the Bank also develops diversified credit analysis tools to anticipate and manage risk factors in advance.

In 2002, KEB instituted a Potentially Problematic Loan (PPL) management system to boost loan review standards, selection criteria and procedures, and upgraded its Credit Scoring System (CSS) and expanded its application to reinforce credit risk management controls and activate loan marketing.

Market Risk

To manage market risk, KEB uses the internationally acclaimed risk control tool Risk Watch, which calculates variance-covariance market VaR on a daily basis. This enables the Bank to make mark-to-market valuations for all financial products affected by market factors, carry out market VaR calculations of various interrelationships, sensitivity and scenario analysis, backtesting, etc., and ultimately create the optimally structured portfolio. Conforming to the capital requirements stipulated by the BIS in 2002, KEB's market risk measurement and management systems are of the highest international standard.

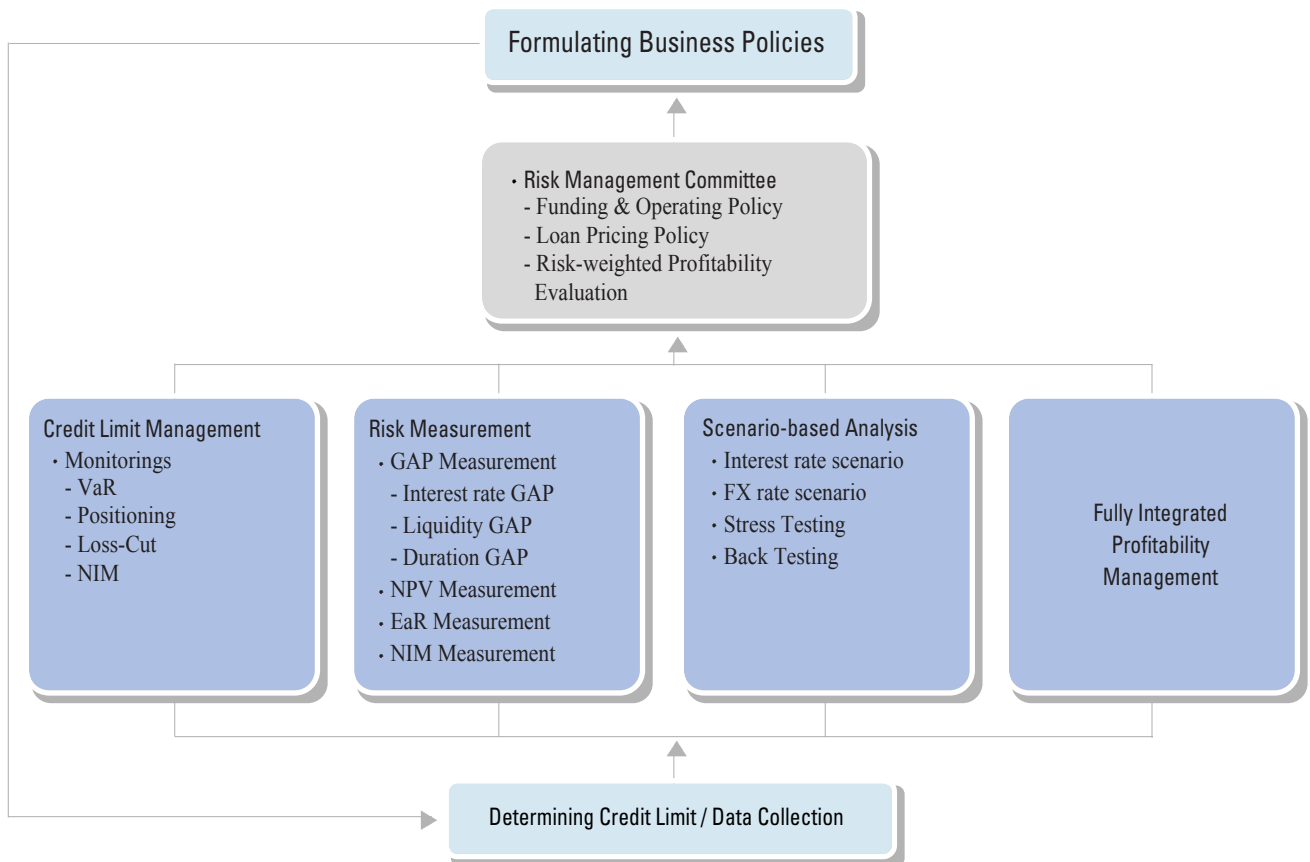
Liquidity Risk

KEB maintains liquidity risk at an appropriately low level through Asset-Liability Management (ALM), regularly calculating net present value calculations of all the Bank's assets and liabilities on a monthly basis in order to gauge and manage dynamic gap, liquidity gap, etc. The Bank conducts ongoing liquidity "check-ups," and graduated contingency plans have been drawn up to respond effectively to changes in financial markets according to the specific level of liquidity risk.

Operational Risk

Operational risk is the risk of potential losses stemming from a wide variety of factors, including management strategies, business processes, IT systems, "reputation management," and regulatory issues. The Bank relies on monthly and quarterly checklists that cover all of these areas to ensure comprehensive and effective operational risk management. Computer networks represent their own unique kind of operational risk, which KEB's IT Unit seeks to minimize through total system security and integrity, failsafe backup procedures, and regular testing of the Bank's Business Recovery System.

Risk Management



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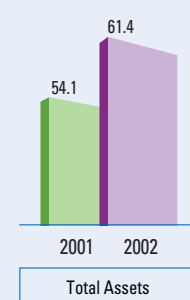
1. Key Financial Highlights

Key Financial Data (Non-Consolidated)

(in Billions of Korean Won, %, %p)

	2001	2002	Change
Operating Results			
Interest Income	1,040.2	997.1	△43.1
Fees & Commissions	454.2	464.7	10.5
Operating Income	1,336.4	1,002.3	△334.1
Net Income	222.5	113.0	△109.5
Balance Sheet Data at Year End			
Total Assets	54,149.4	61,452.6	7,303.2
Total Credits	33,295.7	39,182.8	5,887.1
Total Deposits	39,795.4	44,622.2	4,826.8
Asset Quality Ratios			
NPL Ratio*	3.57	2.85	△0.72
Precautionary & Below Ratio	11.55	5.78	△5.77
Capital Ratios at Year End**			
Total Capital Ratio	10.96	9.31	△1.65
Tier 1 Capital	5.48	4.66	△0.82

(In trillions of Korean Won)



* NPL : Substandard & below

**Capital Ratios : Consolidated

2. Overview

The Korean economy exhibited overall stability in 2002, posting GDP growth of over 6% with annual inflation held to 2.7%. However, interest rates remained low, while domestic demand and a real estate boom provided the impetus for growth. Real estate prices experienced a sudden rise led by apartments, and household loans including home and consumer loans witnessed a steep increase during the year. Consequently, concern over delinquencies in household loans emerged as a major social issue. Interest rates fell after the middle of 2001 before rising slightly at the start of 2002, and then hovered at late 2001 levels for the rest of 2002.

The Bank continued to focus on small & medium-sized enterprises and households in 2002, expanding year-end total assets up 7,303.2 billion won to 61,452.6 billion won. However, lackluster results by KEB Credit Service, the Bank's credit card subsidiary, served to weigh down operating income in 2002, which fell 334.1 billion won from 2001 to 1,002.3 billion won. Net income declined 109.5 billion won year on year to 113.0 billion won amid continuing efforts to clean up the Bank's Balance Sheet through aggressive loan-loss provisioning and impairment loss on invested securities earned through debt to equity swap. The Bank's BIS capital ratio fell 1.65 percentage points from the previous year to 9.31% as of the end of 2002 due to the risk asset increase.

3. Results of operations

1) Profitability Analysis

Operating income as of the end of 2002 stood at 1,002.3 billion won, down 25.0% compared with a year earlier. Of this amount, totals for interest income and fees & commissions income were relatively unchanged from the year earlier, with interest income down 4.1% and fees & commissions income up 2.3%. However, non-interest income fell 62.5% to 113.2 billion won owing to a significantly reduced gain on valuation using equity method from the Bank's subsidiary, KEB Credit Service. Meanwhile, sales & administrative expenses rose 20.3% compared to 2001, recording 572.6 billion won, which also contains some extraordinary factors.

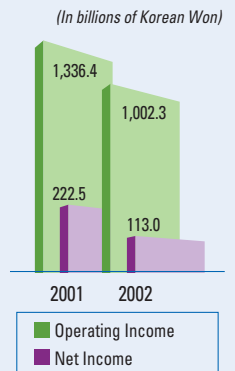
The Bank's pre-provisioning income, mainly due to the heavy impairment loss on investment securities, at the end of 2002 revealed a 52.5% year-on-year contraction to 522.2 billion won. A major contributor to the Bank's 466 billion won of impairment loss on investment securities was the lowering of Hyundai Construction & Engineering's share book value from 5,000 won to 1,650 won. However, due to several years of ongoing distress loan management efforts, credit cost corresponding to loan loss provisions and impairment losses on investment securities fell moderately from 1,167 billion won to 943 billion won. As a result, net income of 113.0 billion won was recorded.

Summarized Income Statements

(in Billions of Korean Won)

	2001	2002				2002	Change YoY
		1Q	2Q	3Q	4Q		
Interest Income	1,040.2	250.8	249.0	248.7	248.5	997.1	△4.1%
Fee & Commission Income	454.2	100.3	117.5	103.9	143.1	464.7	2.3%
Non-Interest Income	302.1	71.5	1.3	11.3	29.2	113.2	△62.5%
Sales & Adm. Expenses	475.8	127.1	137.6	141.5	166.5	572.6	20.3%
Operating Income	1,336.4	295.5	230.2	222.4	254.3	1,002.3	△25.0%
Impairment Losses on							
Investment Securities	177.3	△8.7	105.0	31.4	338.2	465.9	162.8%
Loan Loss Provision	989.9	232.4	94.9	177.3	△27.3	477.3	△51.8%
Provision for Severance	26.4	14.4	4.7	6.0	5.8	30.9	16.9%
Compensation for Trust Accounts	1.8	1.1	0.6	0.6	0.4	2.7	50.0%
Provision & others	1,195.4	239.2	205.2	215.3	317.1	976.8	△18.3%
Income before Tax	141.1	56.3	25.0	7.1	△62.8	25.5	△81.9%
Income Tax	△81.5	2.2	3.8	1.3	△94.8	△87.5	7.4%
Net Income	222.5	54.1	21.2	5.8	32.0	113.0	△49.2%
Pre-Provisioning Income*	1,099.1	303.1	124.6	190.4	△95.8	522.2	△52.5%

* Pre-provisioning Income = Income before Provision - Loan Loss Allowance on Trust - Impairment Losses on Invested Securities - Compensation for Trust Account



2) Interest Income

Interest income declined 43.1 billion won in 2002 from a year earlier to 997.1 billion won, reflecting a sharp 51.0-billion-won curtailment in foreign-currency interest income to 193.1 billion won versus a smaller 7.9-billion-won increase in Won-currency interest income. Despite large-scale debt to equity swaps involving Hynix Semiconductor Inc. and an overall decline in market interest rates, interest income on Won-currency funds recorded a small increase. This was due to a rise in earning assets, as well as an expansion in the portion of higher-profit SME and consumer loans compared to less profitable large-corporate loans.

Interest Income

(in Billions of Korean Won)

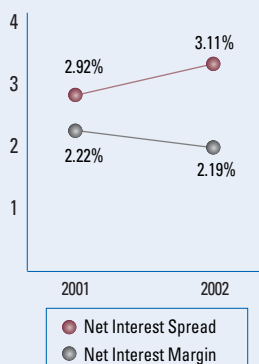
	2001	2002				2002	Change YoY
		1Q	2Q	3Q	4Q		
Won-currency Interest Income	796.1	203.6	193.3	199.3	207.8	804.0	7.9
Foreign-Currency Interest Income	244.1	47.2	55.7	49.5	40.7	193.1	△51.0
Total Interest Income	1,040.2	250.8	249.0	248.7	248.5	997.1	△43.1

Management Discussion & Analysis

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3) Net Interest Spread and Margin

Despite low market interest rates, the Bank posted a 0.19% point rise in Won-currency Net Interest Spread over 2001 to 3.11% in 2002. Average interest earned on Won-currency loans fell 0.36 % point to 7.23%, though this decline was limited due largely to the increased weight of high-interest earning household loans within the Bank's overall loan portfolio. Meanwhile, the average Won-currency deposit interest rate paid by the Bank was 4.12%, down 0.55 % point from a year earlier. Overall NIM for 2002 was 2.19%, off a mere 0.03% point, while foreign-currency NIM weakened 0.15 % point and Won-currency NIM saw a 0.29 % point deterioration year on year. The deterioration of NIM was affected by the loan to equity swap of Hynix exposure.



NIM

	2001	2002				2002	Change YoY
		1Q	2Q	3Q	4Q		
Won-currency Net Interest Spread (a-b)	2.92	3.04	3.09	3.14	3.00	3.11	0.19
Won-currency Loan Interest Rate (a)	7.59	7.46	7.3	7.16	7.06	7.23	△0.36
Won-currency Deposit Interest Rate (b)	4.67	4.42	4.21	4.02	4.06	4.12	△0.55
NIM	2.22	2.33	2.11	2.30	2.03	2.19	△0.03
Won-currency NIM	2.62	2.49	2.30	2.41	2.29	2.33	△0.29
Foreign-currency NIM	1.88	1.82	1.53	1.92	1.68	1.73	△0.15
Earning Assets (in Trillions of Korean won)	41.5	42.5	43.7	43.6	46.9	44.2	2.7

4) Fees & Commissions Income

Income from fees & commissions in 2002 reached 464.7 billion won on a slight 2.3% increase year on year of 10.5 billion won. Of this amount, income from foreign exchange transactions was 208.5 billion won down 2.9% from 2001, while other fee & commission rose 7.1% year on year to record 256.4 billion won. Fee & commission income accounted for 26.9% of total income of the Bank, well over twice the average of 11.1% for peer bank group.

Fee & Commission Income

(in Billions of Korean Won)

	2001	2002				2002	Change YoY
		1Q	2Q	3Q	4Q		
Gains on FX Transaction	214.7	42.7	53.5	45.9	66.3	208.5	△6.2
Other Commissions	239.5	57.6	64.1	58.0	76.7	256.4	16.9
Commissions	216.0	51.9	58.4	52.2	70.9	233.4	17.4
Guarantee Fee	23.5	5.7	5.7	5.8	5.8	23.0	△0.5
Fees & Commissions Income	454.2	100.3	117.6	103.9	143.0	464.7	10.5

5) Non-Interest Income

Non-interest income posted a large year-on-year decline, marking a 62.5% decrease of 188.9 billion won to 113.2 billion won. Income from subsidiaries constituted the single sharpest contraction in non-interest income, and reduced gain on valuation using equity method with regard to KEB Credit Service was the biggest contributing factor to the plunge in total income generated by subsidiaries, which went from earnings of 103 billion won in 2001 to losses of 88.1 billion won in 2002. Declining trust assets led to a decrease of 31.8 billion won in trust income to 66.0 billion won.

Non-interest Income

(in Billions of Korean Won)

	2001	2002				2002	Change YoY
		1Q	2Q	3Q	4Q		
Earnings from Trust Assets	97.8	20.6	16.2	20.0	9.2	66.0	△31.8
Earnings from Merchant Account Assets	52.0	11.8	7.9	12.0	10.0	41.7	△10.3
Trading Profit	66.1	28.0	△6.2	4.5	22.9	49.2	△16.9
Incomes Generated by Subsidiaries	102.8	37.7	△15.9	△7.1	0.0	14.7	△88.1
Other Non-interest Income	△16.6	△26.6	△0.8	△18.1	△12.9	△58.4	△41.8
Total Non-Interest Income	302.1	71.5	1.3	11.3	29.2	113.2	△188.9

6) SG&A Expenses

The Bank's selling, general and administrative expenses rose by 97 billion won over 2001 to 572.6 billion won, representing a 20% increase. Personnel expenditure grew the fastest of all SG&A expenses, expanding 75.2 billion won or 27.9% over the previous year to 345.2 billion won. This resulted mainly from, provisions of special benefits during the year and other one-time factors. Depreciation, taxes and rents showed little change from the previous year, while structural costs including advertising & promotional expenses and entertainment rose 14.7 billion won, up 15%.

SG&A Expenses

(in Billions of Korean Won)

	2001	2002				2002	Change YoY
		1Q	2Q	3Q	4Q		
Salaries	269.9	63.1	60.6	59.3	62.6	345.2	75.2
Depreciation	56.3	11.3	15.5	14.0	22.6	63.5	7.2
Taxes	25.4	5.5	5.5	5.6	8.2	24.8	△0.7
Other Expenses	124.2	25.2	56.0	62.6	73.0	139.2	15.0
Total SG & A Expenses	475.8	127.1	137.6	141.5	166.5	572.6	96.8

7) Income Breakdown by Business Units

In terms of Operating Income the Retail BU was the biggest income contributor in 2002 with 519.2 billion won, up 38.1 billion won from the previous year, surpassing Corporate BU which had generated the largest income the year before. Meanwhile, owing to the effect of red-ink figures posted by the Bank's credit card subsidiary, total losses recorded by "Others" came to 78.5 billion won.

Income Breakdown by Business Units

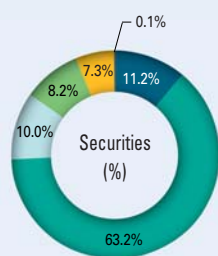
(in Billions of Korean Won)

	2001	2002	Change
Retail BU	481.1	519.2	38.1
Corporate BU	545.6	488.1	△57.5
International BU	116.6	134.1	17.5
Trust BU	41.6	31.6	△10.0
Treasury Unit	△35.4	△54.3	△18.9
Strategic BU	27.3	18.3	△9.0
Special Asset Management Unit	△77.5	△56.2	21.3
Others	237.1	△78.5	△315.6
Operating Income	1,336.4	1,002.3	△334.1

4. Financials

1) Total Assets

Total assets (Banking Account) as of the end of 2002 came to 57,521 billion won, up 8,284.7 billion won for an 16.8% increase over a year earlier. In terms of asset structure, loans and securities at the end of last year were 33.4 trillion won and 11.9 trillion won, respectively, accounting for 58.1% and 20.7% of the total. Reflecting an increase in loans of 1.3 percentage points and a decrease in securities of 4.4 percentage points from 2001, this was a result of the Bank's strategy to reduce trading securities and enhance the profitability and soundness of its loan assets. The massive debt to equity swap involving loans to Hynix Semiconductor led to a sharp increase in investment securities among the Bank's overall trading securities.



Summarized Balance Sheet

(in Billions of Korean Won)

	2001	2002				Change YoY
		May	June	Sep.	Dec.	
Cash and due from banks	3,412.4	3,253.8	3,330.8	3,586.0	3,973.8	561.4
Securities	12,358.0	11,686.9	12,828.3	11,578.4	11,913.6	△444.4
Loans	27,978.3	31,071.1	28,501.9	32,249.4	33,391.8	5,413.5
Others	5,488.2	5,616.6	6,005.1	6,205.9	8,242.4	2,754.2
Total Assets	49,236.9	51,628.3	50,666.1	53,619.6	57,521.6	8,284.7

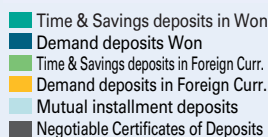
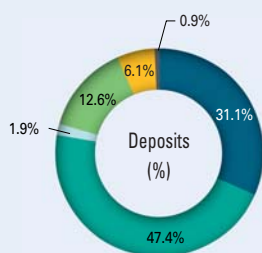
2) Liabilities & Shareholders' Equity

As the primary source of the Bank's funding sources, deposits came to 39.2 trillion won, or 70.4% of total liabilities of 55.7 trillion won at the end of 2002. Borrowings of 6.2 trillion won and debentures of 3.3 trillion won represented 11.1% and 6.0% of the total, respectively. Compared to a year earlier, the balance of deposits rose by 5.6 trillion won, or 16.7% year on year. Banking account deposits in won, which already accounted for the bulk of total deposits, grew by a sharp 27.2%, while deposits in foreign currency and negotiable certificates of deposit both declined. Because of retained earnings on net income, shareholder's equity rose 170.9 billion, or 10.2% year on year, to 1,845.8 billion won.

Summarized Balance Sheet

(in Billions of Korean Won)

	2001	2002				Change YoY
		May	June	Sep.	Dec.	
Deposits	33,585.1	33,431.8	34,238.6	35,818.6	39,210.4	5,626
Borrowings	5,357.3	7,681.6	6,223.6	6,528.8	6,199.5	842.2
Debentures	3,000.4	2,813.0	3,132.7	3,104.5	3,334.8	334.4
Others	5,619.1	5,989.6	5,516.3	6,393.1	6,931.0	1,311.9
Shareholders' Equity	1,674.9	1,712.2	1,554.7	1,774.5	1,845.8	170.9
Total Liabilities & Shareholders' Equity	49,236.8	51,628.4	50,666.0	53,619.6	57,521.6	8,284.7



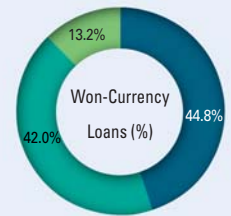
3) Won-currency Loans

Won-denominated loans as of 2002 year-end came to 24.2 trillion won, up 6.6 trillion won for a significant 37.8% increase over 2001. Household loans grew by an exceptionally high 59.3% over the previous year, increasing 3.8 trillion won to 10.2 trillion won. Of total household loans, relatively secure home equity loans constituted 67.5%. Active marketing efforts helped boost loans to SMEs by 2.7 trillion won to 11.0 trillion won, registering a 32.2% increase over the year before. Owing to tight controls on total exposure and rigorous risk management activities, large corporate loans rose by a relatively small 4.0% year on year. A breakdown of the Bank's Won-currency loan portfolio by recipient at the end of 2002 reveals 42% for households, 44.8% for SMEs, and 13.2% for large corporates & others, reflecting a 5.6 percentage-point increase in the household loan segment and a 3.5 percentage-point decrease in the large corporate loan segment.

Won-currency Loans

(in Billions of Korean Won)

	2001	2002				Change YoY
		May	June	Sep.	Dec.	
Household loans	6,405.3	6,910.2	7,836.4	9,519.1	10,206.2	59.3%
Mortgage loans	872.0	1,067.9	1,300.1	1,450.4	1,588.4	82.2%
Other loans	5,533.3	5,842.3	6,536.3	8,068.8	8,617.8	55.7%
Corporate loans	11,027.7	12,242.7	12,707.6	13,457.5	13,878.7	25.9%
SMEs	8,224.4	8,844.0	9,607.6	10,193.2	10,872.4	32.2%
Large corporates	2,803.3	3,398.7	3,100.1	3,264.3	3,006.3	4.0%
Public sector	194.7	197.0	210.6	209.5	202.8	4.2%
Total Won-currency Loans*	17,627.7	19,349.9	20,754.6	23,186.2	24,287.7	37.8%



■ Households
■ SMEs
■ Large Corporate & Others

* Including Won-currency Loans on Balance Sheet, Corporate Bills Discounted and Trade Bills Discounted

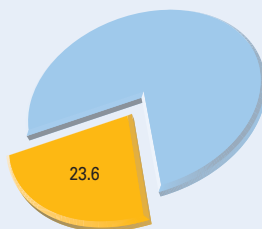
4) Foreign Exchange & Trade Finance

Foreign exchange transactions in 2002 rose US\$5.7 billion, or 4.6% over the year before, to record US\$130.4 billion. By business segment, export transactions grew US\$2.7 billion to US\$38.4 billion, a 7.6% year-on-year gain, while import transactions increased by US\$1.5 billion to US\$34.6 billion, up 4.5%. Foreign exchange dealings amounted to US\$57.3 billion posting a US\$1.5 billion improvement over 2001. In terms of market share, the Bank handled 23.6% and 22.8%, respectively, of the nation's total export and import transactions in 2002, while taking in a commanding 51.3% of all foreign exchange transactions conducted by Korea's eight leading commercial banks. This demonstrates that even amid stiffening competition, the Bank's brand power and high service quality ensure it maintains its solid lead in the F/X market.

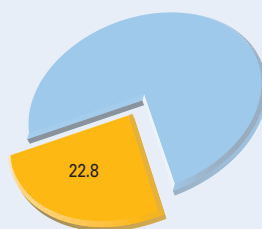
Foreign exchange

(in billion of US Dollar)

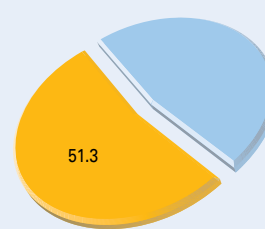
	2002	2001	Change	
			Amount	%
Export	38.4	35.7	2.7	7.6
(Market Share, %)	(23.6)	(23.8)	(△0.2)	(△0.8%p)
Import	34.6	33.1	1.5	4.5
(Market Share, %)	(22.8)	(23.5)	(△0.7)	(△3.0%p)
Foreign exchange	57.3	55.8	1.5	2.7
(Market Share, %)	(51.3)	(52.9)	(△1.6)	(△3.0%p)



Export Market share (%)
■ KEB ■ Others



Import Market share (%)
■ KEB ■ Others

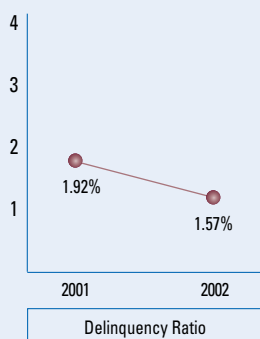
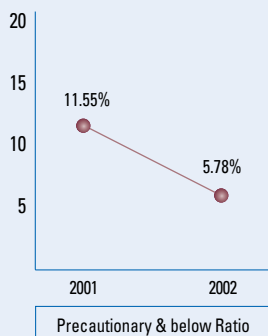
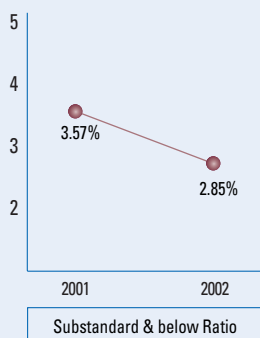


FX Market share (%)
■ KEB ■ Others

5. Asset Quality

1) Loan Classification & Delinquency Ratio

The Bank accelerated efforts to improve its asset quality, disposing of a total of 1.6 trillion won in non-performing assets in 2002. This included 868 billion won of write-off, 313 billion won of recovery through disposal of collateral, and 206 billion won of debt to equity swap. Efforts to prevent the occurrence of new problem loans also helped keep new NPLs to within a minimal level. As a result, substandard & below credit was reduced by 71.1 billion from the previous year to 1,117.4 billion won, while the ratio of substandard & below credit contracted 0.72 % point to 2.85% of total outstanding credit. Precautionary & below credit also fell 1,582.7 billion won year on year to 2,263.6 billion won, sharply dropping the corresponding ratio from 11.55% to 5.78%. Aggressive write-offs of NPLs resulted in total loan-loss allowance of 801.5 billion won as of 2002 year-end, down 352.5 billion won from a year earlier. Owing to the large scaled write-off and the conservative reclassification of some precautionary loans at the year end, the Bank's provisioning ratio against substandard & below credit, or coverage ratio, fell 25.37 percentage-points to 71.73% year on year, while the provisioning ratio against precautionary & below credit stood at 35.41%, reflecting a 5.41 % point increase.



Asset Classification

(in Billions of Korean Won)

	2001	2002				Change YoY
		May	June	Sep.	Dec.	
Normal	29,449.4	31,773.0	33,411.9	35,884.0	36,919.2	7,469.8
Precautionary	2,657.8	2,491.0	1,690.4	1,811.2	1,146.2	△1,511.6
Substandard	649.9	603.7	517.5	489.8	653.4	3.5
Doubtful	489.7	440.8	416.9	405.4	413.0	△76.7
Estimated Loss	48.9	63.0	36.0	88.7	51.0	2.1
Total Exposures	33,295.7	35,371.5	36,072.7	38,679.1	39,182.8	5,887.1
Substandard & Below	1,188.5	1,107.5	970.4	983.9	1,117.4	△71.1
Substandard & Below Ratio	3.57%	3.13%	2.69%	2.54%	2.85%	△0.72%p
Precautionary & Below	3,846.3	3,598.5	2,660.8	2,795.1	2,263.6	△1,582.7
Precautionary & Below Ratio	11.55%	10.17%	7.38%	7.23%	5.78%	△5.77%p
Loan Loss Reserve (LLR)	1,153.6	1,331.5	1,040.0	1,188.7	801.5	△352.5
LLR/Substandard & Below	97.06%	120.22%	107.17%	120.82%	71.73%	△25.33%p
LLR/Precautionary & Below	29.99%	37.00%	39.09%	42.53%	35.41%	5.42%p

Looking at asset quality in terms of borrower's type, household loans – the fastest-growing segment in the Bank's lending portfolio – had substandard & below and precautionary & below credit totals of 85.3 billion won and 161.6 billion won, respectively, representing relevant ratios of no more than 0.83% and 1.58%. As for loans to SMEs, substandard & below and precautionary & below ratio also recorded 1.37% and 3.46%, respectively. However, for large corporate loans, the ratio were still high 6.15% and 11.74%. Delinquency rates in 2002 followed much the same pattern, with household and SMEs showing rates of 1.01% and 1.49%, respectively. Though slightly higher than in the previous year, these figures are still much lower than the industry average.

Delinquency Ratio by borrower segment

(in Billions of Korean won, %)

	2001				2002			
	Large Corp	SMEs	Households	Total	Large Corp	SMEs	Households	Total
Domestic Loans*	3,993.7	8,653.3	6,464.6	19,111.6	4,778.8	12,759.2	10,226.6	22,764.6
Delinquency Amount	188.0	127.1	52.6	367.7	141.6	190.3	103.2	435.1
Delinquency Ratio	4.71%	1.47%	0.81%	1.92%	2.96%	1.49%	1.01%	1.57%

* Totaling Won-currency and Foreign-currency Loans

2) Reserves for Loan Loss

The Bank classifies corporate loans by asset quality using forward-looking criteria that takes into account the borrower's financial status, future debt-servicing ability as determined by cash flow, and such loan details as period of delinquency, loan amount, and reason for delinquency. Household loans are classified not by forward-looking criteria, but rather by the record of delinquency and personal credit. Divided according to asset quality, corporate loans are classified as "normal," "precautionary," "substandard," "doubtful" or "estimated loss," for which the Bank maintains minimum provisioning rates of 0.5%, 2%, 20%, 50% and 100%, respectively. The provisioning rates in 2002 for household loans as divided into the above classifications were reinforced, marking 0.75%, 8%, 20%, 55% and 100%, respectively. As a result, the additional reserve amount for household loan came to 310 billion won.

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loan Loss Reserves (LLR)	286,449	63,237	132,424	246,946	72,514	801,570
Bank Account LLR	274,904	60,721	129,094	211,684	68,371	744,774
Trust Accounts, Bond Valuation Reserves	7,545	1,816	3,200	360	375	13,296
Reserves on Payment Guarantees	4,000	700	130	34,902	3,768	43,500

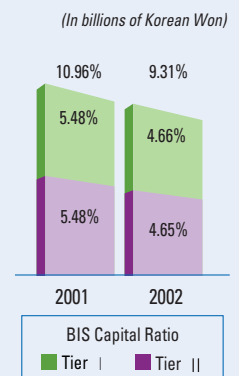
6. Capital Adequacy

The Bank's BIS capital ratio at the end of 2002 fell 1.65 percentage-points year on year to 9.31%, due primarily to a sharp increase in risk-weighted assets on overall expansion of lending operations.

In order to expand the Bank's capital base and build a cushion against the potential risk of an unexpected increase of NPLs, the Bank will pursue various avenues to increase Tier 1 capital.

	2001	2002
Tier I (Risk-weighted Capital Ratio)	1,925(5.48%)	1,922(4.66%)
Paid-in Capital	1,851	1,851
Capital Reserve	145	121
Retained Earning	△139	△94
Others	69	44
Tier II (Risk-weighted Capital Ratio)	1,925(5.48%)	1,922(4.65%)
Reserves for Loan Losses	398	427
Subordinated Debts	962	961
Asset Evaluation Surplus	99	94
Upper Tier II	465	440
Total Qualifying Capital	3,850	3,844
Risk-weighted Assets	35,118	41,287
BIS Ratio	10.96%	9.31%*

*Market-risk included



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To the Board of Directors and Shareholders of
Korea Exchange Bank

We have audited the accompanying non-consolidated balance sheets of Korea Exchange Bank ("the Bank") as of December 31, 2002 and 2001, and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain foreign branches of the Bank, of which statements reflect 3.4% and 3.0% of the Company's consolidated total assets as of December 31, 2002 and 2001, respectively, and 1.6% and 2.8% of total revenues for the years then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these foreign 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Korea Exchange Bank as of December 31, 2002 and 2001, and the results of its operations, the changes in its accumulated deficit and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 2 to the accompanying non-consolidated financial statements, effective December 31, 2002, the Bank provides allowance for loan losses from retail loans based on new provision ratios, which are as follows:

Credit rating	Retail loans	
	Before (%)	After (%)
Normal	0.5 above	0.75 above
Precautionary	2 above	8 above
Substandard	20 above	20 above
Doubtful	50 above	55 above
Estimated loss	100	100

As a result of the change mentioned above, the Bank's allowance for loan losses increased by ₩30,955 million as of December 31, 2002.

As discussed in Note 2 to the accompanying non-consolidated financial statements, during 2002, the Bank has changed its accounting treatment for Domestic Import Usance Bills from an off-balance-sheet item (banker's) to an on-balance-sheet item due to the amendment of related laws. The amount accounted for as Domestic Import Usance Bill for the current year is ₩1,367,788 million, and the Bank has provided ₩12,148 million of allowance for loan losses for such account as of December 31, 2002.

As discussed in Note 17 to the accompanying non-consolidated financial statements, under the debt restructuring agreement between creditors and Hyundai Constructions Co., Ltd. (Hyundai), the Bank acquired the shares of common stock of Hyundai, at a par value of ₩5,000, in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bonds newly issued by Hyundai for the purpose of financial support. Furthermore, in accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. (Hynix) in 2001, the Bank acquired the newly issued convertible bonds of Hynix, in exchange for ₩726,600 million of loans and convertible bonds; and provided ₩79,000 million of additional loans to Hynix. During the year ended December 31, 2002, the Bank acquired the shares of common stock of Hynix at ₩708 per share in exchange for the above-mentioned newly issued convertible bonds of Hynix.

The Financial Institution Creditors' Council of Hynix Conductor's made resolutions to write-down Hynix's equity in the ratio of 21:1 and to issue convertible bonds for the outstanding loans and corporate bonds of ₩1,861,698 million, after the shareholders' meeting, on December 30, 2002. The Bank has also arranged to convert the loans and corporate bonds amounting to ₩115,806 million at the public subscription price (minimum price ₩453) times the ratio of equity write-down per share.

As discussed in Note 17 to the accompanying non-consolidated financial statements, certain debtors, including the Daewoo Group of companies are in the process of restructuring their debts under workout and other similar programs. As of December 31, 2002, the Bank's outstanding loans and guarantees to the Daewoo Group of companies and other companies under workout programs amount to ₩360,256 million. In addition, as of December 31, 2002, the Bank's outstanding loans and guarantees to Hyundai Group of companies including Hyundai Construction Co., Ltd. and Hynix Semiconductor Inc. amount to ₩1,357,300 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank.

As discussed in Note 17 to the accompanying non-consolidated financial statements, an investigation is in progress regarding allegations of window-dressing at SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the actual loss from the Bank's loans to SK Global Ltd. may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

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



Seoul, Korea
January 30, 2003

This report is effective as of January 30, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KOREA EXCHANGE BANK (BANKING ACCOUNTS)
NON-CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

In Millions

	2002		2001	
ASSETS				
Cash and due from banks (Note 3)	₩	3,973,793	₩	3,412,376
Trading securities (Note 4)		1,154,221		2,053,953
Investment securities (Note 4)		10,759,397		10,304,090
Loans, net of allowance for loan losses (Note 5)		33,391,818		27,978,294
Premises and equipment, net (Note 6)		788,277		738,549
Accrued interest		296,052		258,295
Other assets (Note 7)		7,158,050		4,491,311
Total Assets	₩	57,521,608	₩	49,236,868
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities :				
Deposits (Note 8)	₩	39,210,485	₩	33,585,099
Borrowings (Note 9)		6,199,576		5,357,300
Debentures (Note 10)		3,334,808		3,000,468
Accrued expenses		645,947		528,346
Other liabilities (Notes 11 and 12)		6,285,011		5,090,767
Total Liabilities	₩	55,675,827	₩	47,561,980
Commitments and Contingencies (Note 17)				
Shareholders' equity (Note 1) :				
Capital stock,				
1,000 million shares authorized;				
Common stock, ₩5,000 par value;				
222 million shares issued and outstanding in 2002 and 2001	₩	1,110,875	₩	1,110,875
Preferred stock, ₩5,000 par value;				
148 million shares issued and outstanding in 2002 and 2001		740,000		740,000
Accumulated deficit (Note 15)		(97,731)		(148,028)
Capital adjustments, net (Note 16)		92,637		(27,959)
Total Shareholders' Equity	₩	1,845,781	₩	1,674,888
Total Liabilities and Shareholders' Equity	₩	57,521,608	₩	49,236,868

KOREA EXCHANGE BANK (BANKING ACCOUNTS)
NON-CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2002 and 2001

In Millions of Korean Won

	2002	2001
Revenue :		
Interest on due from banks	₩ 33,306	₩ 64,130
Interest on securities	563,173	610,262
Interest on loans	1,942,099	2,050,186
Other interest income	60,576	235,201
Total interest income	2,599,154	2,959,779
Fees and commissions income	313,405	276,353
Gains on foreign exchange transactions	1,300,583	1,544,004
Trust fee income	51,677	48,064
Other income (Note 18)	458,662	645,013
Total revenue	4,723,481	5,473,213
Expenses :		
Interest on deposits	1,176,846	1,393,820
Interest on borrowings and debentures	462,192	574,241
Other interest expense	23,287	24,248
Total interest expense	1,662,325	1,992,309
Fees and commissions expense	57,008	36,147
Losses on foreign exchange transactions	1,093,312	1,316,408
Provision for loan losses	518,701	975,421
General and administrative expenses	509,203	419,542
Provision for severance benefits	30,852	26,428
Depreciation and amortization	63,466	56,298
Compensation for trust accounts	0	0
Other expenses (Note 19)	763,069	509,577
Total expenses	4,697,936	5,332,130
INCOME BEFORE INCOME TAXES	25,545	141,083
INCOME TAX EXPENSES (Note 20)	(87,458)	(81,464)
NET INCOME	₩ 113,003	₩ 222,547
Ordinary income(loss) per share (Note 21) (in Korean Won)		
- Basic	₩ 445	₩ 953
- Dilute	₩ 267	₩ 572
Net income(loss) per share (Note 21) (in Korean Won)		
- Basic	₩ 509	₩ 1,004
- Diluted	₩ 305	₩ 602

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

NON-CONSOLIDATED STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT

for the years ended December 31, 2002 and 2001

Date of disposition for 2002 : March 28, 2003

Date of disposition for 2001 : March 29, 2002

In Millions

	2002		2001	
Accumulated deficit before disposition :				
Undisposed accumulated deficit carried over from the prior year	₩	(173,476)	₩	(282,983)
Cumulative effect of accounting change (Notes 2 and 15)		(60,752)		(104,595)
Net income(loss) for the year		113,003		222,547
		(121,225)		(165,031)
Disposition :				
Capital surplus		0		0
Others		(8,371)		(8,445)
Undisposed accumulated deficit to be carried forward to the subsequent year	₩	(129,596)	₩	(173,476)

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

KOREA EXCHANGE BANK (BANKING ACCOUNTS)
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2002 and 2001

In Millions

	2002	2001
Cash flows from operating activities:		
Net income	₩ 113,003	₩ 222,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of securities, net	(42,848)	(20,027)
Valuation loss(gain) on securities, net	447,449	(4,456)
Gain on sales of loans, net	(14,129)	(9,172)
Allowance for loan losses	521,669	975,421
Depreciation and amortization	63,466	56,298
Provision for severance benefits	30,852	26,428
Amortization of present value discounts	(23,920)	(21,015)
Decrease in accrued income	(37,757)	125,704
Decrease(Increase) in accrued expenses	117,601	(232,133)
Others, net	(103,666)	(332,249)
Net cash provided by operating activities	1,071,720	787,346
Cash flows from investing activities:		
Increase (Decrease) in trading securities	963,043	(465,593)
Increase (Decrease) in investment securities	(924,630)	(2,277,700)
Net increase in loans	(5,880,613)	(3,276,648)
Acquisitions of premises and equipment	(116,686)	(28,921)
Decrease(Increase) in merchant banking assets	(485,875)	150,200
Others, net	712,534	554,351
Net cash used in investing activities	(5,732,227)	(5,344,311)
Cash flows from financing activities:		
Net increase in deposits	5,639,433	3,540,908
Net decrease in borrowings and debentures	1,176,616	(823,624)
Issuance of new shares for cash	-	0
Proceeds from disposal of treasury shares	-	2,930
Increase(Decrease) in merchant banking liabilities	870,220	(158,606)
Others, net	(2,463,907)	246,515
Net cash provided by financing activities	5,222,362	2,808,123
Net increase(Decrease) in cash and cash equivalents	561,855	(1,748,842)
Cash and cash equivalents at beginning of year	3,439,912	5,188,754
Cash and cash equivalents at end of year (Note 23)	₩ 4,001,767	₩ 3,439,912

The accompanying notes are an integral part of these non-consolidated 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. 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 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, 2002 and 2001 are as follows:

	Number of shares owned (shares)				Ownership(%)	
	Common stock	Preferred stock	Total(2002)	Total(2001)	2002	2001
Commerzbank A.G.	52,483,312	68,000,000	120,483,312	120,483,437	32.55	32.55
Bank of Korea	39,500,000	-	39,500,000	39,500,000	10.67	10.67
Export-Import Bank of Korea	40,134,387	80,000,000	120,314,387	120,314,387	32.50	32.50
Others	89,877,232	-	89,877,232	89,877,107	24.28	24.28
	222,174,931	148,000,000	370,174,931	370,174,931	100.00	100.00

As of December 31, 2002, the Bank has 323 branches, agencies and offices in domestic and overseas markets. The Bank has closed 2 domestic branches in 2002.

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 Bank maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with

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

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, 2002 and 2001, the amount of interest not recognized due to such policy approximates ₩44,679 million and ₩85,448 million, respectively.

Allowances for Loan Losses

The Bank applied Forward Looking Criteria ("FLC") for 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 the smaller corporate and retail loan customers are still classified based on the delinquency period, value of collateral and bankruptcy status only.

Estimated corporate loan losses as of December 31, 2002, were determined by applying the following minimum percentages to each credit risk classification:

Normal	0.5%
Special mention	2.0%
Substandard	20.0%
Doubtful	50.0%
Loss	100.0%

The Bank provided allowance for loan losses from retail loans based on new provision ratios.

The new provision ratios are as follows:

Credit rating	Retail loan	
	Before (%)	After (%)
Normal	0.5 above	0.75 above
Special mention	2 above	8 above
Substandard	20 above	20 above
Doubtful	50 above	55 above
Loss	100	100

As a result of the change mentioned above, the Bank's allowance for loan losses increased by ₩30,955 million as of December 31, 2002.

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.

During 2002, the NACF has changed its accounting treatment for Domestic Import Usance Bill from off-balance-sheet item (banker's) to on-balance-sheet item due to the amendment of related laws. The amount accounted for as Domestic Import Usance Bill for the current year is ₩1,367,788 million, and the change resulted in the increase of allowance for loan losses by ₩12,148 million.

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 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 securities.
- 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, or other future changes in fair value, are recorded in the capital adjustment account.
- Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Bank's proportionate ownership of the underlying book value of the investees, 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.
- Investments in equity securities of companies, over which the Bank exercises 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 changes to current operations, capital adjustments or adjustments to retained earnings, 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 amortized 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.

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 14). 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.

There is a change in accounting method used in depreciating fixed asset. The bank has use half-year convention to depreciate its fixed asset for prior years, but has used nearest full month for newly acquired assets in 2002. Therefore, the current depreciation expense decreased for the amount of ₩9,169 million in comparison to prior year.

Intangible Assets

Intangible assets, comprising development costs, 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.

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.

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 ₩53,447 million and ₩26,314 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2002 and 2001, 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 2002 and 2001 approximated ₩3,248 million (including ₩4,592 of additional early retirement benefits) and ₩190,758 million (including ₩187,924 of interim settlement of severance benefits), 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.

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, 2002 and 2001 there has been no amortization in 2002 and 2001.

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. Deferred tax assets and liabilities are included in other assets and liabilities.

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, 2002 and 2001 are ₩1,200.40:US\$1 and ₩1,326.10: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 at grant dates.

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

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.

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's trust fees received from trust account at December 31, 2002 and 2001 are 51,677 million and 48,064 million, respectively.

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 dilutive securities as shown in Note 21.

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.

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

- 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.

The Bank accrues estimated losses from future sales of operating lease properties. The provision for such unrealized losses recognized in 2002 and 2001 amounts to £310 million and £1,649 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 gains incurred and deferred in 2002 approximate £5,078 million, and foreign currency translation losses incurred and deferred in 2001 approximate £3,967 million.

Reclassification of 2002 Amount

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

3. Cash and Due from Banks:

Cash and due from banks in Korean Won at December 31, 2002 and 2001 are as follows:

	Annual Interest rate (%)	In Millions	
	2002.12.31	2002	2001
Cash on hand	-	₩ 937,321	₩ 1,209,902
Deposits with the Bank of Korea (reserve deposit)	-	1,057,500	614,011
Deposits with other banks	4.50%~6.19%	119,852	129,280
Deposits with other financial institutions	3.00%~6.00%	69,313	401,039
		₩ 2,183,986	₩ 2,354,232

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Cash and due from banks in foreign currencies at December 31, 2002 and 2001 are as follows:

	Annual Interest rate (%)		In Millions	
	2002.12.31		2002	2001
Cash on hand	-		₩ 191,211	₩ 137,174
Deposits with the Bank of Korea Reserve deposit	-		413,750	331,902
Deposits with other Banks	0.60%		709	-
Deposits with overseas financial institutions	(*)		1,184,137	589,068
			₩ 1,789,807	₩ 1,058,144

(*) Time deposits: 1.58~7.40%

Other deposits: 0~2.50%

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, 2002 and 2001, foreign currency deposits with the Bank of Korea and other banks deposited in the course of transactions of derivative financial instruments amount to ₩2,567 million and ₩1,677 million, respectively, and won currency deposits with Kookmin bank and other banks deposited related to asset-backed securitization and derivative financial instruments amount to ₩49,010 million and ₩75,000 million, respectively. Accordingly, the withdrawal of these deposits is restricted.

The scheduled maturities of due from banks as of December 31, 2002 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	₩ 58,881	₩ -	₩ 1,187,784	₩ 1,246,665
Due from Banks in foreign currencies	1,147,410	34,871	416,315	1,598,596
	₩ 1,206,291	₩ 34,871	₩ 1,604,099	₩ 2,845,261

4. Securities:

Securities at December 31, 2002 and 2001 are as follows:

	In Millions			
	Debt securities		Equity securities	
	2002	2001	2002	2001
Trading securities	₩ 1,147,978	₩ 2,053,953	₩ 6,243	₩ -
Investment securities:				
Available for sale	8,713,629	7,968,800	737,799	521,530
Held-to-maturity	483,197	869,611	-	-
Investment in subsidiaries	-	-	824,772	944,149
	9,196,826	8,838,411	1,562,571	1,465,679
	₩ 10,344,804	₩ 10,892,364	₩ 1,568,814	₩ 1,465,679

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Investments in Debt Securities

Investments in debt securities at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions								
		2002				2001				
		Nominal amount	Acquisition cost	Adjusted acquisition cost(*)	Fair Value(**)	Nominal amount	Acquisition cost	Adjusted acquisition cost(*)	Fair Value(**)	
	2002.12.31									
Trading securities:										
Monetary stabilization bonds	-	₩ -	₩ -	₩ -	₩ -	₩ 220,449	₩ 215,111	₩ 214,719	₩ 214,473	
Bonds issued by the government	3.00~10.7	610,808	616,455	616,137	621,229	5,731	5,793	5,697	5,756	
Finance Debentures	5.27~10.0	400,000	402,463	401,970	405,056	-	-	-	-	
Bonds issued by corporations	3.00	15,369	15,756	15,833	15,953	-	-	-	-	
Beneficiary certificates	-	-	-	-	-	305,288	305,288	305,302	316,884	
Bonds denominated in foreign currencies	4.25~8.875	97,533	104,746	104,094	105,740	1,517,058	1,516,123	1,518,084	1,516,840	
		1,123,710	1,139,420	1,138,034	1,147,978	2,048,526	2,042,315	2,043,802	2,053,953	
Investment securities:										
Monetary stabilization bonds	-	-	-	-	-	1,335,221	1,312,011	1,308,458	1,302,769	
Bonds issued by the government	3.00~15.00	4,353,707	4,435,795	4,397,172	4,440,890	616,800	619,324	622,147	621,226	
Finance Debentures	4.376~16.00	2,381,000	2,346,213	2,335,214	2,344,605	-	-	-	-	
Bonds guaranteed by the government	-	-	-	-	-	2,886,387	2,942,457	2,931,047	2,930,897	
Bonds issued by corporations	3.00~12.00	1,046,773	1,012,045	951,015	894,142	3,199,019	3,185,092	3,191,774	3,127,241	
Beneficiary certificates	-	912,412	912,412	981,330	981,119	320,300	320,300	320,300	358,374	
Other securities	5	2,865	2,865	2,865	2,865	2,374	2,374	2,374	2,374	
Bonds denominated in foreign currencies	0.00~12.75	581,466	547,417	531,088	533,170	562,006	511,434	444,968	494,803	
Off-shore debt securities	-	9,603	4,892	3,601	35	15,715	10,495	2,218	727	
		9,287,826	9,261,639	9,202,285	9,196,826	8,937,822	8,903,487	8,823,286	8,838,411	
		₩10,411,536	₩10,401,059	₩ 10,340,319	₩ 10,344,804	₩10,986,348	₩ 10,945,802	₩10,867,088	₩ 10,892,364	

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

The scheduled maturities of debt securities at December 31, 2002 are as follows:

	In Millions			
	Due in less than one year	Due from one to	Due after	Total
1,714,512	₩	2,307,450	₩	5,062,119
Finance Debentures	1,133,177	1,616,484	-	2,749,661
Bonds issued by corporations	171,485	523,412	215,198	910,095
Beneficiary certificates	943,262	-	37,857	981,119
Other securities	2,077	-	788	2,865
Bonds denominated in foreign currencies	255,082	108,587	275,242	638,910
Off-shore debt securities	-	-	35	35
	₩ 3,545,239	₩ 3,962,995	₩ 2,836,570	₩ 10,344,804

Debt securities in foreign currencies, classified by country, as of December 31, 2002 are as follows:

Countries	In Thousands (*)		In Millions		Ratio (%)
	US\$	₩	US\$	₩	
USA	62,723	₩ 75,293			11.8
Korea	419,697		503,804		78.9
Philippines	12,199		14,643		2.3
Brasil	3,834		4,602		0.7
Hong Kong	16,306		19,573		3.1
Other	17,520		21,030		3.2
	US\$ 532,279	₩ 638,945			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, 2002.

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, 2002 and 2001 are ₩5,952 million (₩7,394 million) and ₩4,266 million (₩6,468 million), respectively.

Investments in Equity Securities

Investments in equity securities at December 31, 2002 and 2001 are as follows:

	Shares owned by the Bank (1,000 shares)		Ownership Ratio (%)		Acquisition Cost		Market or Net Asset Value		Book value	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Trading securities:										
Equity securities in Won					₩ 7,001	₩ -	₩ 6,054	₩ -	₩ 6,054	₩ -
Equity securities denominated in foreign currencies					189		189		189	
					7,190		6,243		6,243	
Investment securities:										
Equity securities in Won (*)	-	-	-	-	1,426,869	891,406	723,347	497,054	723,347	497,054
Equity securities denominated in foreign currencies	-	-	-	-	7,403	9,836	7,403	9,836	7,403	9,836

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

	Shares owned by the Bank (1,000 shares)		Ownership Ratio (%)		Acquisition Cost		Market or Net Asset Value		Book value	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Other investments	-	-	-	-	5,543	14,013	7,049	14,640	7,049	14,640
Investment in domestic subsidiaries										
Service Co., Ltd. ("KEBCS")	18,795	18,795	45.0	45.0	87,975	87,975	259,034	305,759	259,034	305,759
KEB Leasing Co., Ltd. ("KEBLS")	14,976	14,976	99.3	99.3	74,881	74,881	52,720	124,405	52,720	124,405
KEB Commerz Investment Trust Management Co., Ltd. ("KEBIT")	2,760	2,760	46.0	46.0	13,800	13,800	15,654	15,328	15,654	15,328
KEB Future Co., Ltd. ("KEBFC")	3,000	3,000	100	100	15,000	15,000	16,131	15,263	16,131	15,263
Doosan Heavy Industries & Construction Co., Ltd.	16,400	16,400	15.7	15.7	82,000	82,000	262,015	276,061	262,015	276,061
					273,656	273,656	605,554	736,816	605,554	736,816
Investment in foreign subsidiaries										
Pacific Union Bank ("PUB")	6,624	5,914	62.5	62.5	38,493	38,493	75,691	74,569	75,691	74,569
KEB Ireland Ltd. ("KEB Ire")	3,000	3,000	100	100	3,436	3,436	6,827	7,549	6,827	7,549
Korea Exchange Bank of Canada ("KEBOC")	334	334	100	100	26,322	26,322	34,074	33,324	34,074	33,324
KEB Australia Co., Ltd. ("KEBA")	55,000	55,000	100	100	38,527	38,527	14,246	11,628	14,246	11,628
P.T. Korea Exchange Bank	24,726	1	85.0	85.0	16,453	16,453	39,978	28,796	39,978	28,796
KEB Brazil ("KEBB") (Deutschland) A.G. ("KEBD A.G.")	24,000	24,000	100	100	13,632	13,632	8,424	14,103	8,424	14,103
Cairo Far East Bank S.A.E. ("CFEB")	20	20	100	100	20,589	20,589	33,526	29,620	33,526	29,620
	8	8	31.5	31.5	8,281	8,281	6,452	7,744	6,452	7,744
					165,733	165,733	219,218	207,333	219,218	207,333
Investments in foreign subsidiaries at cost (**)										
KEB International Ltd. ("KEBI")	-	18,200	-	100	-	33,078	-	-	-	-
					-	33,078	-	-	-	-
					₩ 1,879,204	₩ 1,387,722	₩ 1,562,571	₩ 1,465,679	₩ 1,562,571	₩ 1,465,679

(*) ₩516,531 million of equity securities represent stock converted from debt securities or loan under debt restructuring agreements at December 31, 2002, disposition is restricted.

(**) 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, 2002 details of investments in subsidiaries accounted for using the equity method are as follows:

	Acquisition Cost	Beginning balance under equity method	Acquisition (Disposition)	Translation adjustment	Increase (decrease) in equity of equity method investees			Book value
					Equity in earnings	Accumulated deficit	Capital adjustment	
KEBCS	₩ 87,975	₩ 305,759	₩ (23,494)	₩ -	₩ (22,856)	₩ (707)	₩ 332	₩ 259,034
KEBLS	74,881	124,405	-	-	(7,878)	(65,618)	1,811	52,720
KEBIT	13,800	15,328	(1,035)	-	1,361	-	-	15,654
KEBFC	15,000	15,263	-	-	893	(99)	74	16,131
Doosan Heavy Industries & Construction Co., Ltd.	82,000	276,061	(2,460)	-	12,702	1,469	(25,757)	262,015
PUB	38,493	74,569	-	(7,068)	8,742	7,164	(7,716)	75,691
KEB Ire	3,436	7,549	-	(716)	250	(256)	-	6,827
KEBOC	26,322	33,324	-	(2,886)	3,684	(48)	-	34,074
KEBA	38,527	11,628	-	17	2,875	(274)	-	14,246
KEBD	16,453	28,796	-	1,679	10,302	(799)	-	39,978
KEBB	13,632	14,103	-	(5,704)	32	(7)	-	8,424
KEBD A.G.	20,589	29,620	(468)	2,142	2,897	(665)	-	33,526
CFEB	8,281	7,744	(329)	(712)	1,616	(1,867)	-	6,452
KEBI	33,078	-	-	-	-	-	-	-
	₩ 472,467	₩ 944,149	₩ (27,786)	₩ (13,248)	₩ 14,620	₩ (61,707)	₩ (31,256)	₩ 824,772

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

As of December 31, 2001 details of investments in subsidiaries accounted for using the equity method are as follows:

	Acquisition Cost	Beginning balance under equity method	Acquisition (Disposition)	Translation adjustment	Increase (decrease) in equity of equity method investees			Book value
					Equity in earnings	Accumulated deficit	Capital adjustment	
KEBCS	₩ 87,975	₩ 200,348	₩ (11,244)	₩ -	₩ 94,778	₩ -	₩ 21,877	₩ 305,759
KEBLS	74,881	63,681	74,023	-	(2,930)	(11,143)	774	124,405
KEBIT	13,800	17,160	-	-	(1,832)	-	-	15,328
KEBFC	15,000	13,766	-	-	1,497	-	-	15,263
Doosan Heavy Industries & Construction Co., Ltd.	82,000	270,578	-	-	(5,663)	-	11,146	276,061
PUB	38,493	60,129	-	3,169	9,591	(7,914)	9,594	74,569
KEB Ire	3,436	6,552	-	345	1,554	(902)	-	7,549
KEBOC	26,322	29,649	-	(245)	3,920	-	-	33,324
KEBA	38,527	14,192	10,181	(499)	(12,246)	-	-	11,628
KEBD	16,453	27,438	(9,708)	(838)	11,904	-	-	28,796
KEBB	13,632	12,913	2,342	(1,527)	375	(1,140)	1,140	14,103
KEBD A.G.	20,589	28,652	(262)	(709)	1,939	-	-	29,620
CFEB	8,281	7,842	(442)	413	(69)	-	-	7,744
KEBI	33,078	34,047	(16,923)	765	(17,889)	20,193	(20,193)	-
	₩ 472,467	₩ 786,947	₩ 47,967	₩ 874	₩ 84,929	₩ (906)	₩ 24,338	₩ 944,149

Other Information

Securities denominated in foreign currencies at December 31, 2002 and 2001 are as follows:

	Currency	2002		2001	
		In Foreign Currency	Korean Won	In Foreign Currency	Korean Won
		(In Thousands)	Equivalent (In Millions)	(In Thousands)	Equivalent (In Millions)
Government Bond	USD	237,462	285,050	1,279,686	1,696,992
	HKD	85,055	13,091	60,790	10,240
	SGD	5,498	3,803	5,532	3,932
	(*)	2,184	2,622	2,272	3,013
			304,566		1,714,177
Debentures issued by financial institutions	USD	216,181	259,606	170,117	225,592
Bonds issued by corporations	USD	57,982	69,601	53,068	70,373
	CHF	125	108	2,841	2,228
	JPY	500,000	5,064	-	-
			74,773		72,601
Trading securities	USD	16	189	-	-
Equity securities	USD	6,346	7,403	7,417	9,836
Investments in subsidiaries	(*)	161,047	219,218	156,348	207,333
			₩ 865,755		₩ 2,229,539

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

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Securities as collateral for borrowings from the Bank of Korea and other financial institutions are as follows:

Guarantees	Descriptions	Pledge Value(In Millions)
Other financial institutions	Bonds sold under repurchase agreements	₩ 788,886
Bank of Korea	Borrowings from Bank of Korea	598,617
Bank of Korea	Overdrafts from BOK	170,562
Bank of Korea	Bonds sold under repurchase agreements(BOK)	650,682
Bank of Korea	Settlements of inter Banks	329,501
Korea Asset Management Corporation	Refund of loan sales	119,003
Korea Development Bank	ABS	34,124
Futures Corporations, Bank	Futures transaction	
	Borrowings denominated in foreign currencies	227,199
MERRILL LYNCH	CREDIT DEFAULT SWAP	4,802
Total		₩ 2,923,376

5. Loans:

Loans at December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Loans in Won	₩ 22,945,606	₩ 16,094,618
Loans in foreign currencies	5,715,989	3,965,107
Bills bought in Won	1,420,575	1,608,057
Foreign exchange bills purchased	2,791,257	3,354,507
Call loans	408,840	197,363
Other	944,592	3,863,829
	34,226,859	29,083,481
Less: Allowance for loan losses	(735,874)	(987,759)
Present value discount	(99,167)	(117,428)
	₩ 33,391,818	₩ 27,978,294

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, 2002 and 2001 are as follows:

	In Millions			
	Banks	Other Financial Institutions	Foreign Financial Institutions	Total
Loans in Won	₩ -	₩ 232,366	₩ -	₩ 232,366
Loans in foreign currencies	-	120,333	-	120,333
Call loans	-	-	261,687	261,687
2002	₩ -	₩ 352,699	₩ 261,687	₩ 614,386
2001	₩ 87,559	₩ 295,263	₩ 66,372	₩ 449,194

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Foreign Currency Loans By Nationality

At December 31, 2002 and 2001, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2002			2001		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 4,200,885	₩ 5,042,742	88.22	US\$ 2,312,144	₩ 3,066,134	77.33
Japan	239,232	287,174	5.02	403,767	535,435	13.50
Russia	99,000	118,840	2.08	110,000	145,871	3.68
Indonesia	31,869	38,256	0.67	38,425	50,955	1.29
China	33,363	40,049	0.70	17,173	22,773	0.57
Thailand	14,239	17,092	0.30	11,208	14,863	0.37
Other	143,149	171,836	3.01	97,334	129,076	3.26
	US\$ 4,761,737	₩ 5,715,989	100.0	US\$ 2,990,051	₩ 3,965,107	100.0

Loans By Industry

At December 31, 2002 and 2001, the Bank's loans denominated in Korean Won, including trade bills discounted and corporate bills discounted (a portion of bills discounted), classified by industry, are as follows:

	2002		2001	
	In Millions	Ratio (%)	In Millions	Ratio (%)
Manufacturing	₩ 9,038,236	32.40	₩ 6,424,774	33.50
Financial and insurance	463,611	1.66	496,944	2.59
Telecommunication	105,522	0.38	132,184	0.69
Wholesale and retails/service	3,170,128	11.36	2,142,911	11.17
Construction	1,580,742	5.67	1,067,025	5.56
Individuals and households	10,206,189	36.58	6,405,286	33.39
Other	3,334,579	11.95	2,511,919	13.10
	27,899,007	100.0	19,181,043	100.0
Loans of overseas branches	2,104,635		2,411,740	
	₩ 30,003,642		₩ 21,592,783	

Loan Classification

The credit risk classification for loans and allowance for losses at December 31, 2002 and 2001 are as follows:

	In Million (*)						Allowance for loan losses
	Current	Special mention	Substandard	Doubtful	Loss	Total	
Loans :							
Loans in Won (**)	₩ 23,212,432	₩ 405,160	₩ 391,687	₩ 167,150	₩ 35,727	₩ 24,212,156	₩ 452,037
Loans in foreign							
Currencies	5,216,953	344,497	106,045	45,434	2,650	5,715,579	130,750
Foreign exchange bills							
Bought (***)	2,700,535	22,989	65,365	69,801	-	2,858,690	61,937
Advance for customers	6,746	7,406	18,406	12,640	3,917	49,115	14,100
Factoring receivable	4,306	-	-	-	-	4,306	22
Call loans	408,840	-	-	-	-	408,840	-
Credit card account	2,248	-	-	-	-	2,248	11
Loans planed to be							

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

	In Million (*)						Allowance for loan losses
	Current	Special mention	Substandard	Doubtful	Loss	Total	
converted into equity securities	-	8,722	-	3,084	-	11,806	1,716
Privately placed bonds	364,931	162,113	51,697	40,923	309	619,973	36,177
Interbank loans in foreign Currencies	185,867	-	-	-	-	185,867	-
Unsettled Exchange	70,641	-	-	-	-	70,641	-
	<u>₩ 32,173,499</u>	<u>950,887</u>	<u>₩ 633,200</u>	<u>₩ 339,032</u>	<u>₩ 42,603</u>	<u>34,139,221</u>	<u>696,750</u>
Others : (****)						618,627	39,124
2002						<u>₩ 34,757,848</u>	<u>₩ 735,874</u>
Loans :	<u>₩ 25,798,580</u>	<u>₩ 2,249,200</u>	<u>₩ 558,800</u>	<u>₩ 324,582</u>	<u>₩ 42,600</u>	28,973,762	936,600
Others :						987,900	51,159
2001						<u>₩ 29,961,662</u>	<u>₩ 987,759</u>

(*) 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, etc.

Maturity Information

The scheduled repayments of loans at December 31, 2002 are as follows:

	In Millions		
	Won currency loans (*)	Foreign currency loans	Total
Due in one year or less	₩ 18,205,571	₩ 3,465,097	₩ 21,670,668
Due from one to three years	4,222,824	781,267	5,004,091
Due after three years	1,859,258	1,469,625	3,328,883
	<u>₩ 24,287,653</u>	<u>₩ 5,715,989</u>	<u>₩ 30,003,642</u>

(*) 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, 2002 and 2001 is as follows:

	In Millions	
	2002	2001
Balance at January 1	₩ 987,759	₩ 1,623,100
Provision for loan losses	518,701	975,421
Reversal of allowance	(881)	-
Loans charged off	(1,261,076)	(1,762,608)
Transfer from repurchase of loan from KAMCO and others	503,986	120,941
Translation adjustments	(12,615)	30,905
	<u>(251,885)</u>	<u>(635,341)</u>
Balance at December 31	<u>₩ 735,874</u>	<u>₩ 987,759</u>

Ratios of allowance for loan losses to total loans (Net of present value discount) for the years ended December 31, 2002, 2001 and 1999 are 2.2%, 3.4% and 6.0%, respectively.

At December 31, 2002 and 2001, 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 ₩2,871,430 million and ₩2,773,242 million, respectively.

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

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, 2002, £11,806 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, 2002, discounted using interest rates of 5.25% to 14.29%, are £99,167 million less than their nominal value of £504,425 million.

The changes in present value discount of the Bank's restructured loans in 2002 are as follows:

	In Millions			
	Balance at January 1	Addition	Deduction(*)	Balance at December 31
Loans restructured under work-out plan	₩ 24,798	₩ 402	₩ 13,645	₩ 11,555
Loans restructured under other similar rescheduling agreements	11,074	5,119	2,966	13,227
Loans in industry rationalization policy	81,556	-	7,171	74,385
	₩ 117,428	₩ 5,521	₩ 23,782	₩ 99,167

Other Information

The Bank provides housing loans bearing interest at a rate of 6.00% per annum to directors and employees. The outstanding balance of these housing loans receivable as of December 31, 2002 and 2001 amounts to ₩20,455 million and ₩26,132 million, respectively.

6. Premises and Equipment:

Premises and equipment at December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Buildings	₩ 416,494	₩ 410,751
Office facilities held on lease	42,715	36,873
Equipment	340,551	303,494
Foreclosed assets	2,109	1,881
	801,869	752,999
Less: Accumulated depreciation or allowance	(399,166)	(393,520)
	402,703	359,479
Construction in progress	111	288
Land	365,333	365,555
Intangible assets	20,130	13,227
	₩ 788,277	₩ 738,549

At December 31, 2002 and 2001, the value of the Bank's domestic lands as determined by the tax authorities for property tax assessment purpose amounts to ₩380,942 million and ₩379,621 million, respectively.

At December 31, 2002, 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.

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

7. Other Assets:

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

	In Millions	
	2002	2001
Merchant banking assets	₩ 1,771,273	₩ 1,296,162
Guarantee deposits	428,662	400,323
Accounts receivable	2,923,427	1,146,687
Prepaid expenses	106,192	143,693
Suspense receivable	36,253	55,956
Domestic exchange settlement	1,359,031	645,683
Loans to trust accounts	78,094	433,352
Deferred tax assets	200,073	103,182
Other	255,045	266,273
	₩ 7,158,050	₩ 4,491,311

Merchant banking assets at December 31, 2002 and 2001 comprise the following:

	In Millions	
	2002	2001
Notes discounted	₩ 1,211,606	₩ 671,826
CMA assets	314,491	162,281
Beneficiary certificates	-	9,076
Operating lease equipment, net	29,582	46,202
Financing leases receivable	187,690	360,989
Others	36,804	53,376
Less: Allowance for loan losses	(8,900)	(7,588)
	₩ 1,771,273	₩ 1,296,162

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, 2002 and 2001 comprise the following:

	In Millions	
	2002	2001
Notes discounted		
Issued by eligible customers	₩ 1,211,606	₩ 671,676
Guaranteed by financial institutions	-	150
Payment in subrogation for note guarantees	-	-
	₩ 1,211,606	₩ 671,826

The outstanding balance of notes discounted and sold without recourse is ₩8,312,525 million and ₩9,514,689 million at December 31, 2002 and 2001, respectively.

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

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, 2002 and 2001 comprise the following:

	In Millions			
	2002		2001	
Notes discounted	₩	285,432	₩	101,540
Other securities		29,059		60,741
	₩	314,491	₩	162,281

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 classified by industry at December 31, 2002 and 2001 is as follows:

	In Millions			
	2002		2001	
General industrial equipment	₩	26,211	₩	59,267
Shipping		50,780		50,780
Office equipment		500		500
Other		58		58
		77,549		110,605
Less: Accumulated depreciation		(47,657)		(62,754)
Allowance for estimated loss on future sales of operating lease assets (see Note 2)		(310)		(1,649)
	₩	29,582	₩	46,202

The estimated future rentals to be received on the operating leases as of December 31, 2002 are as follows:

For the year ending December 31,	In Millions			
	Foreign Currency Rentals (*)	Won Currency Rentals	Total	
2003	₩ 10,492	₩ 5,999	₩	16,491
2004	10,291	5,843		16,134
2005	10,607	4,028		14,635
2006	6,419	970		7,389
2007	2,027	-		2,027
2008 and thereafter	13,486	-		13,486
	₩ 53,322	₩ 16,840	₩	70,162

(*)Future rentals of ₩53,322 million denominated in foreign currencies are equivalent to US\$ 44,420 thousand.

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Financing Leases Receivable

The estimated future lease payments in aggregate to be received on financing leases as of December 31, 2002 are as follows:

For the year ending December 31	In Millions	
2003	₩	70,481
2004		88,547
2005		22,396
2006		14,844
2007		4,315
2008 and thereafter		-
Total lease payments to be received		200,583
Less: Unearned interest income		(12,893)
Net financing leases receivable	₩	187,690

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, 2002 and 2001 are as follows:

	In Millions(*)						Total	Allowance for estimated potential losses
	Current	Special mention	Substandard	Doubtful	Loss	Total		
Notes discounted	₩ 1,497,038	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,497,038	₩ 7,485
Financing lease receivables	168,968	17,608	1,114	-	-	-	187,690	1,415
2002	₩ 1,666,006	₩ 17,608	₩ 1,114	₩ -	₩ -	₩ -	₩ 1,684,728	₩ 8,900
2001	₩ 1,096,683	₩ 32,292	₩ 4,226	₩ 1,158	₩ -	₩ -	₩ 1,134,359	₩ 7,588

8. Deposits:

Deposits at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions	
	2002.12.31	2002	2001
Deposits in Won:			
Demand deposits	0.0~2.0	₩ 12,185,297	₩ 11,209,039
Saving deposits	3.8~5.8	19,331,589	13,563,661
		31,516,886	24,772,700
Deposits in foreign currencies:			
Demand deposits	0.0~3.30	2,375,565	1,966,509
Saving deposits	0.0~6.81	4,950,510	6,279,065
		7,326,075	8,245,574
Certificates of deposit	4.0~4.6	367,524	566,825
		₩ 39,210,485	₩ 33,585,099

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Deposits from Other Financial Institutions

Deposits from other financial institutions at December 31, 2002 and 2001 are as follows:

	In Millions							
	2002				2001			
	Banks (*)	Institutions other than banks	Foreign financial institutions	Total	Banks (*)	Institutions other than banks	Foreign financial Institutions	Total
Deposits in Won :								
Demand deposits	₩ 6,426	₩ 940,973	₩ 6,432	₩ 953,831	₩ 5,327	₩ 792,441	₩ 11,794	₩ 809,562
Saving deposits	1,775,096	541,515	41,959	2,358,570	118,080	305,254	40,166	463,500
Deposits in foreign Currencies :								
Demand deposits	176	37,113	879	38,168	3,903	17,834	339	22,076
Saving deposits	214,305	709,849	36	924,190	549,688	1,065,949	-	1,615,637
	₩1,996,003	₩2,229,450	₩ 49,306	₩4,274,759	₩ 676,998	₩2,181,478	₩ 52,299	₩2,910,775

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

Maturity Information

The scheduled maturities of deposits at December 31, 2002 are as follows:

	In Millions			
	Due in one than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 29,196,176	₩ 1,570,956	₩ 749,754	₩ 31,516,886
Deposits in foreign currencies	5,993,368	1,321,790	10,917	7,326,075
Certificates of deposit	367,513	-	11	367,524
	₩ 35,557,057	₩ 2,892,746	₩ 760,682	₩ 39,210,485

9. Borrowings:

Borrowings at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions	
	2002.12.31	2002	2001
Borrowings in Won			
Borrowings from the Bank of Korea	2.5	₩ 1,052,650	₩ 1,213,360
Borrowings from the Governmental and Public fund	2.00 ~ 5.07	324,879	286,373
Borrowings from other banks	2.2~5.45	142,889	246,455
Borrowings from other financial institutions	6.70	70,000	120,000
Borrowings from others	2.00 ~ 4.92	418,899	324,960
		2,009,317	2,191,148
Borrowings in foreign currencies			
Medium and long-term borrowings	3ML+0.18 ~ 6ML+3.5	606,111	571,657
Short-term borrowings	0.36 ~ 2.09	1,212,389	1,222,737
Refinance	1.72 ~ 2.19	151,065	39,385

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

	Annual	In Millions	
	Interest Rate (%)	2002	2001
	2002.12.31		
Borrowings from banks for subordinated loans	1.78~4.25	21,176	30,520
Other	3ML+0.20~ 13	616,113	208,895
		2,606,854	2,073,194
Securities sold under repurchase			
Agreements	4.0 ~ 5.5	542,549	623,753
Covering notes sold	4.0 ~ 5.2	653,355	239,492
Call money	1.65 ~ 4.15	387,501	229,713
		1,583,405	1,092,958
		₩ 6,199,576	₩ 5,357,300

Subordinated borrowings

Subordinated borrowings at December 31, 2002 and 2001 are as follows:

	Annual	In Millions	
	Interest Rate (%)	2002	2001
	2002.12.31		
Subordinated borrowings in Won:			
Samsung Life Insurance, Co. and other, maturing through 2007	6.7	₩ 70,000	₩ 120,000
Subordinated borrowings in foreign currencies:			
Commerzbank, maturing through 2005	6ML+3.5	42,014 (US\$35)	46,414 (US\$35)
		₩ 112,014	₩ 166,414

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, 2002 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	₩ 1,156,381	₩ 293,530	₩ 559,406	₩ 2,009,317
Borrowings in foreign currencies	2,217,444	289,068	100,342	2,606,854
	₩ 3,373,825	₩ 582,598	₩ 659,748	₩ 4,616,171

Other Information

At December 31, 2002, in the normal course of funding activities the Bank provided securities as collateral for borrowings from the Bank of Korea and other financial institutions (see Note 4).

December 31, 2002 and 2001

10. Debentures:

Debentures at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions	
		2002	2001
Debentures in Won			
Debentures	5.13_10.5	₩ 1,570,960	₩ 800,314
Subordinated debentures	6.75_14.8(*)	950,000	1,185,300
Subordinated convertible debentures	4.0	200,000	200,000
Other		16	47
		2,720,976	2,185,661
Discounts on debentures		(9,864)	(12,220)
		2,711,112	2,173,441
Debentures in foreign currencies			
Debentures	13.75 ~ 6ML+1.5	627,555	831,890
Discounts on debentures		(3,859)	(4,863)
		623,696	827,027
		₩ 3,334,808	₩ 3,000,468

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

Subordinated Debentures

Subordinated debentures at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions	
		2002	2001
Fund invested by the Korean government	-	₩ -	₩ 422,300
Samsung Life Insurance Co., maturing in 2007		-	13,000
Public	6.75_10.5	950,000	750,000
		950,000	1,185,300
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	3ML+2.0	240,080 (US\$200)	265,220 (US\$200)
Credit Suisse First Boston (CSFB)	13.75	240,080 (US\$200)	265,220 (US\$200)
		480,160	530,440
		₩ 1,430,160	₩ 1,715,740

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 2002 and 2001 are as follows:

	Periods of debentures	Annual Interest Rate (%)	In Millions	
			2002	2001
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

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

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, 2002 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	₩	450,016	₩	1,270,960	₩	1,000,000	
Debentures in foreign currencies		134,445		-		493,110	627,555
	₩	584,461	₩	1,270,960	₩	1,493,110	₩ 3,348,531

11. Other Liabilities:

Other liabilities at December 31, 2002 and 2001 consist of the following:

	In Millions			
	2002		2001	
Merchant banking liabilities	₩	1,673,982	₩	807,939
Unearned income		81,002		74,582
Net accrued severance benefits		2,949		4,778
Allowance for estimated losses on outstanding guarantees and acceptance contract		43,500		98,654
Due to trust accounts		265,004		1,476,162
Due to treasury agency		420,477		359,333
GIRO accounts		96,090		81,752
Account payable		2,858,873		1,101,908
Other		843,134		1,085,659
	₩	6,285,011	₩	5,090,767

Merchant banking liabilities at December 31, 2002 and 2001 comprise the following:

	Annual Interest Rate (%)	In Millions	
		2002	2001
Notes payable	3.85~7.5	₩ 1,295,963	₩ 623,169
CMA deposits	4.17~5.12	352,709	164,532
Other		25,310	20,238
		₩ 1,673,982	₩ 807,939

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

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

12. Accrued Severance Benefit:

Accrued severance benefits at December 31, 2002 and 2001 are as following:

	In Millions			
	2002		2001	
Balance at beginning of year	₩	26,314	₩	190,883
Provisions		30,852		26,428
Severance payments		(3,248)		(190,758)
Adjustments of foreign exchange transactions		(471)		(239)
		53,447		26,314
Cumulative deposits to national pension fund		(49,662)		(870)
Deposits for severance payment		(836)		(20,666)
Balance at end of year	₩	2,949	₩	4,778

13. Monetary Assets and Liabilities Denominated in Foreign Currencies:

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

	In Thousands of U.S. Dollars Equivalents		In Millions of Korean Won	
	2002	2001	2002	2001
ASSETS:				
Cash and due from banks	US\$ 1,491,008	US\$ 797,937	₩ 1,789,807	₩ 1,058,144
Trading securities	88,245	1,143,835	105,929	1,516,840
Investment securities	632,978	537,440	759,826	712,699
Loans	7,699,021	6,130,231	9,241,905	8,129,300
	US\$ 9,911,252	US\$ 8,609,443	₩ 11,897,467	₩ 11,416,983
LIABILITIES:				
Deposits	US\$ 6,103,028	US\$ 6,217,913	₩ 7,326,075	₩ 8,245,574
Borrowings	2,379,221	1,728,759	2,856,018	2,292,507
Debentures	522,788	627,321	627,555	831,890
Others	181,616	152,668	218,012	202,453
	US\$ 9,186,653	US\$ 8,726,661	₩ 11,027,660	₩ 11,572,424

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, 2002 and 2001.

14. 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.

15. Accumulated Deficit:

Accumulated deficit as of December 31, 2002 and 2001 is as follows:

	In Millions			
	2002		2001	
Other statutory reserves	₩	31,865	₩	25,448
Accumulated deficit before disposition		(129,596)		(173,476)
	₩	(97,731)	₩	(148,028)

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

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. In addition, Singapore branch's statutory reserves are included.

Disposition of Accumulated Deficits

Details of the recent three years' disposition of accumulated deficits approved by shareholders on March 13, 2001, March 25, 2000 are as follows:

	In Millions	
	2002	2001
Accumulated deficit before disposition	₩ 1,523,622	₩ 1,366,086
Disposition		
Transfer from gain on retirement of capital stock	1,240,875	-
Transfer from capital surplus	-	154,805
Transfer from asset revaluation surplus	-	156,017
Transfer from statutory reserve	-	-
Transfer from reserve for overseas investment losses	-	-
Transfer from business rationalization	-	-
Appropriation for other statutory reserves	(236)	(537)
	1,240,639	310,285
Undisposed Accumulated deficit to be carried forward to subsequent year	₩ 282,983	₩ 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	
	2002	2001
Accumulated deficits before adjustments	₩ (173,476)	₩ (282,983)
Adjustments:		
Rescheduled loans	-	-
Equity method accounting for investment securities in subsidiaries	(61,707)	(906)
Reapplication of equity method accounting	-	(98,922)
Other, net	955	(4,767)
Accumulated deficits, after adjustments	₩ (234,228)	₩ (387,578)

16. Capital Adjustment:

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

	In Millions	
	2002	2001
Valuation gains on investment in debt securities	₩ 87,354	₩ 43,001
Valuation losses on investment in debt securities	(41,347)	(92,892)
Valuation gains on investment in equity securities	224,576	175,613
Valuation losses on investment in equity securities	(168,374)	(144,109)
Discounts on capital stocks	(9,572)	(9,572)
	₩ 92,637	₩ (27,959)

Stock Options

As of December 31, 2002, the Company has implemented stock option plans for employees and executives, under which they are entitled to receive options to purchase 1,024 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 grant dates, no compensation cost was accrued.

17. Commitments and Contingencies:**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 as of December 31, 2002 and 2001 are summarized as follows:

	In Millions	
	2002	2001
Guarantees:		
Won currency	₩ 878,331	₩ 616,352
Foreign currencies	1,569,448	1,986,182
	2,447,779	2,602,534
Acceptances in foreign currencies	507,272	2,159,940
	₩ 2,955,051	₩ 4,762,474

Credit risk classification of the guarantees and acceptances and allowances for estimated potential losses as of December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Current	₩ 2,813,911	₩ 4,324,594
Special mention	85,812	272,130
Substandard	749	16,950
Doubtful	50,811	146,200
Loss	3,768	2,600
Total	2,955,051	4,762,474
Allowance for estimated potential losses	₩ 43,500	₩ 98,654

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

The guarantees and acceptances, excluding acceptance in offshore branches and guarantees arising from merchant banking operations, classified by industry as of December 31, 2002 and 2001 are as follows:

	2002		2001	
	In Millions	Ratio (%)	In Millions	Ratio (%)
Manufacturing	₩ 1,288,325	46.27	₩ 2,565,429	57.41
Wholesale and retails/service	593,770	21.32	676,128	15.13
Construction	415,214	14.91	528,903	11.84
Financial insurance	264,986	9.52	159,220	3.56
Telecommunication	7,971	0.29	163,145	3.65
Other	214,368	7.70	375,597	8.41
	2,784,634	100.0	4,468,422	100.0
Acceptance in overseas branches	168,872		287,244	
Guarantees provided by merchant banking operations	1,545		6,808	
	₩ 2,955,051		₩ 4,762,474	

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2002 and 2001 are as follows:

	2002			2001		
	In Thousands	In Millions	Ratio (%)	In Thousands	In Millions	Ratio (%)
Korea	US\$ 1,563,792	₩ 1,877,176	90.39	US\$ 2,891,485	₩ 3,834,399	92.49
France	76,307	91,599	4.41	131,454	174,321	4.20
Germany	25,940	31,138	1.50	19,975	26,489	0.64
United Kingdom	10,558	12,674	0.61	6,683	8,862	0.21
U.S.A	22,144	26,582	1.28	42,159	55,907	1.35
Japan	24,196	29,045	1.40	9,831	13,037	0.31
Others	7,086	8,506	0.41	24,966	33,107	0.80
	US\$ 1,730,023	₩ 2,076,720	100.00	US\$ 3,126,553	₩ 4,146,122	100.00

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

	In Millions	
	2002	2001
Letters of credit issued but not yet being drawn	₩ 4,291,012	₩ 4,751,539
Other guarantees and acceptance	7,869	8,932
	₩ 4,298,881	₩ 4,760,471

The Bank's loan commitments as of December 31, 2002 and 2001 are as follows :

	In Millions	
	2002	2001
Commitments for loans in Won	₩ 115,403	₩ 30,000
Commitments for foreign loans	96,496	109,426
Other commitments in foreign currency	5,011	24,894
Total	₩ 216,910	₩ 164,320

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 by the Bank are approximately ₩183,893 million as of December 31, 2002. The aggregate amounts of claims brought against the Bank are approximately ₩41,891 million as of December 31, 2002. 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\$ 4.7 million (Book value: US\$ 5.4 million) of floating rate notes and paid US\$ 20 million in subrogation for offshore funds in Malaysia established by Anam Semiconductor ("The Company") while the bank has recovered US\$9,642,851 from the guarantors. 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 (1st 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.

At February 1, 2001, the Bank sold certain non-performing loans to leasing companies amounting to ₩589,175 million to a Special Purpose Company (5th SPC) and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), the Bank entered into a credit line commitment in the amount of ₩110 billion with Korea Development Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩34 billion as collateral to Korea Development Bank.

And at May 25, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company (6th SPC) and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), the Bank entered into a credit line commitment in the amount of ₩30 billion with Kookmin Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩34 billion as collateral to Kookmin Bank.

And at October 30, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company(7th SPC) and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization("ABS"), Korea Development Bank offered ₩7 billion of Credit Line.

In relation to the business transaction agreement (the "Agreement") which governs the sale of non-performing loans to the 1st, 5th, 6th and 7th SPC, the transferee and the trustee could claim damage for the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset become unqualified to the condition of the contract or when the asset value is reduced with the significant misstatement of the due diligence report for the assets or when the obligor delayed his payment of the principal more than 6 months. Also, when the duty occurred, the bank should pay the damage amount to the transferee with cash within 7 business days from document notification.

The limit of the damage to indemnity relating to fifth, sixth, seventh asset securitization amounts to US \$84 million (equivalent to ₩110,040 million), ₩130,000 million, ₩26,000 million respectively (27%, 34%, 36% of the total proceeds, respectively).

Loans Sold under Repurchase Agreements

The Korea Asset Management Corporation ("KAMCO") can resell some of the loans previously purchased from the Bank 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, 2002, KAMCO, SPC and others may exercise the resale option for loans amounting to ₩604,689 million. Additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and others exercise their repurchase agreement,

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.

Debt to Equity Swap

Under the debt restructuring agreement between creditors and Hyundai Constructions Co. Ltd, the Bank acquired common stock of that company at par value of ₩5,000 in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bond newly issued by Hyundai Construction Co. Ltd. for the purpose of financial support. Furthermore, in accordance with a resolution of the Financial Creditors Committee of Hynix Semiconductor Inc. in 2001, the Bank acquired newly issued convertible bonds of that company in exchange for ₩726,000 million of existing loans and convertible bonds and provided ₩79,000 million of new additional loans to Hynix Semiconductor Inc. for the purpose of financial support. During the year ended December 31 2002, the bank exercised the conversion right to exchange the newly issued convertible bonds with common stocks of Hynix at ₩708 per share.

The Creditors Financial Institutions' Councils of Hynix Semiconductor's made resolutions to write down equity in the ration of 21:1 and to subscribe convertible bond for the existing loan and corporate bond of ₩1,861,698 million, after the shareholders meeting, as of Dec 30, 2002. Related to the issue, the bank has arranged to convert the loan and corporate bond of ₩115,806 million at the amount of the public subscription price (minimum price ₩453) times the ratio of equity write down per share.

December 31, 2002 and 2001

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 as of December 31, 2002 and 2001 are as follows (In Millions of Korean Won):

	Outstanding		Valuation gains or losses (US) (***)				Valuation gains or losses (BS)				
	Trading	Hedging	Trading		Hedging		Total	Assets	Liabilities		
			Gains	Losses	Gains	Losses					
Foreign Currency Related Contracts											
Forward contracts(*)	₩8,161,748	₩949,320	₩9,111,068	₩10,285	₩62,198	₩994	₩16,451	₩9,291	₩78,649	₩103,159	₩158,010
Futures contracts(*)	-	-	-	-	-	-	-	-	-	-	-
Futures contracts purchased	585,278	-	585,278	28,808	4,447	-	-10,979	28,808	-15,426	29,023	6,087
Swap contracts(*)	-	-	-	-	-	-	-	-	-	-	-
Option contracts	270,090	-	270,090	-15,401	-	-	-	-15,401	-	7,937	-
Option contracts purchased	270,090	-	270,090	-	-15,019	-	-	-	-15,019	-	7,937
Option contracts sold	-	-	-	-	-	-	-	-	-	-	-
	9,287,206	949,320	10,236,526	3,122	42,732	994	5,472	4,116	48,204	140,119	172,034
Interest Rate Related Contracts											
Futures contracts(**)	-	-	-	-	-	-	-	-	-	-	-
Futures contracts purchased	2,909,965	-	2,909,965	-	-	-	-	-	-	-	-
Futures contracts sold	3,236,849	120,040	3,356,889	-	372	3,247	-	3,247	372	65,395	63,947
Option contracts	360,120	-	360,120	-	-	-	-	-	-	663	-
Option contracts purchased	375,531	-	375,531	-	563	-	460	-	1,023	-	1,159
Option contracts sold	6,882,465	120,040	7,002,505	-	935	3,247	460	3,247	1,395	66,058	65,106
Index Options Related Contracts											
Long Position	463	-	463	14	-	-	-	14	-	-	-
on Stock Index Options	-	-	-	-	-	-	-	-	-	-	-
Short Position	-	-	-	-	19	-	-	-	19	-	-
on Stock Index Options	-	-	-	-	-	-	-	-	-	-	-
	463	-	463	14	19	-	-	14	19	-	-
	₩16,170,134	₩1,069,360	₩17,239,494	₩3,136	₩43,686	₩4,241	₩5,932	₩7,377	₩49,618	₩206,177	₩237,140

Continued ;

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

	Outstanding			Valuation gains or losses (US) (***)						Valuation gains or losses (BS)		
	Trading	Hedging	Total	Trading		Hedging		Total	Assets	Liabilities		
				Gains	Losses	Gains	Losses					Gains
Foreign Currency Related Contracts												
Futures contracts(*)												
Futures contracts purchased	181,222	-	181,222	-	-	-	-	-	-	-	-	-
Swap contracts(*)	360,268	96,388	456,656	34	10,366	930	-	964	10,366	215	21,513	
Option contracts												
Option contracts purchased	354,068	-	354,068	3,607	-	-	-	3,607	-	23,125		
Option contracts sold	372,634	-	372,634	-	3,612	-	-	-	3,612	-	23,130	
Other												
	6,152,268	494,559	6,646,827	56,768	3,741	6,835	17,129	63,603	20,870	140,419	130,730	
Interest Rate Related Contracts												
Futures contracts(**)												
Futures contracts purchased	1,400	-	1,400	-	-	-	-	-	-	-	-	-
Futures contracts sold	2,288,848	-	2,288,848	-	-	-	-	-	-	-	-	-
CD contracts(**)												
Swap contracts	1,622,128	263,520	1,885,648	18,398	31,936	4,573	1,239	22,971	33,175	70,704	73,017	
Option contracts												
Option contracts purchased	198,915	-	198,915	-240	-	-	-	-240	-	-	-	-
Option contracts sold	198,915	-	198,915	-	-240	-	-	-	-240	-	-	-
	4,310,206	263,520	4,573,726	18,158	31,696	4,573	1,239	22,731	32,935	70,704	73,017	
Preemptive Right	4,949	-	4,949	4,949	-	-	-	4,949	-	8,307	-	
	₩10,467,423	₩758,079	₩11,225,502	₩79,875	₩35,437	₩1,408	₩18,368	₩91,283	₩53,805	₩219,430	₩203,747	

Continued ;

Economic Uncertainties

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms.

The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Certain debtors, such as the Daewoo Group of companies and others are in the process of restructuring their debts under workout and other similar programs. As of December 31, 2002, the Bank's outstanding loans and guarantees to the Daewoo Group of companies and other companies under workout programs amount to ₩360,256 million. In addition, as of December 31, 2002, the Bank's outstanding loans and guarantees to Hyundai Group of companies including Hyundai Construction Co., Ltd. and Hynix Semiconductor Inc. amount to ₩1,357,300 million. Actual losses on the above loans and guarantees may differ from allowances for such losses provided by the Bank.

In addition, the Bank's loans(except for guarantees and acceptances and etc.) provided to SK Global Ltd., and its foreign subsidiaries, totaled ₩226,800 million at December 31, 2002. An investigation is in progress about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the Trust Accounts actual loss from these loans may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

18. Other Income:

Details of other income for the years ended December 31, 2002 and 2001 are as follows:

	In Millions			
	2002		2001	
Operating income from merchant banking operations	₩	148,659	₩	187,479
Gain on disposal of trading securities		39,271		56,407
Gain on disposal of investment securities		49,585		163,490
Gain on valuation of securities		70,648		150,554
Gain on sales of loans		14,145		10,835
Gain on disposal of premises and equipment		460		4,209
Lease rental earned		3,002		3,002
Deferred tax revenue		-		1,940
Other		132,892		67,097
	₩	458,662	₩	645,013

Details of operating income from merchant banking operations for the years ended December 31, 2002 and 2001 are as follows:

	In Millions			
	2002		2001	
Interest income, including interest on financing lease receivable	₩	109,974	₩	112,002
Fees and commissions income		1,022		773
Lease rentals earned		16,294		31,507
Gain on disposal of operating lease assets		10,340		14,412
Gain on disposal of beneficiary certificates		1,051		47
Gain on foreign currency translations		-		-
Other		9,978		11,837
	₩	148,659	₩	187,479

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

19. Other Expenses:

Details of other expenses for the years ended December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Operating expenses from merchant banking operations	₩ 96,805	₩ 95,459
Loss on disposal of trading securities	26,336	55,140
Loss on disposal of investment securities	19,672	144,730
Loss on disposal of premises and equipment	1,810	7,243
Loss on valuation of securities	518,097	146,098
Loss on sales of loans	16	1,663
Deferred tax expenses	2,807	2,262
Other	97,526	56,982
	₩ 763,069	₩ 509,577

Details of operating expenses from merchant banking operations for the years ended December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Interest expense, including interest on CMA deposits	₩ 74,633	₩ 63,560
Depreciation on operating lease assets	11,539	14,829
Provision for loan losses	-	-
Loss on disposal of operating lease assets	-	587
Provision for losses on disposal of operating lease assets	310	690
Other	10,323	15,793
	₩ 96,805	₩ 95,459

20. Income Taxes:

The statutory income tax rates applicable to the Bank, including resident tax surcharges, approximate 29.7%. 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, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Net income (loss)	₩ 113,003	₩ 222,547
Temporary differences:		
Allowance for loan losses	128,057	352,077
Accrued interests, net	(9,549)	37,090
Gain on valuation at securities, net	471,744	(74,642)
Allowance for estimated losses on outstanding guarantees and acceptances contract	43,500	98,654
Other	(192,890)	(559,598)
	440,862	(146,419)
Permanent differences:		
Adjustments to accumulated deficits	(61,707)	(99,828)
Other	(2,317)	(11,737)
	(64,024)	(111,565)
Net taxable loss / operating loss carry-forward	₩ 489,841	₩ (35,437)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

The details of temporary differences and deferred tax assets as of December 31, 2002 are as follows:

	In Millions				
	Balance at January 1, 2002 (*)	Adjustments for foreign currency translation	Increase (Decrease)	Balance at December 31, 2002	Deferred tax assets (liabilities)
Loss on valuation of securities	₩ (117,861)	₩ 638	₩ 384,191	₩ 266,968	₩ 79,289
Gain on valuation of long-term debt securities	8,828	260	40,704	49,792	14,788
Accrued interest	(84,637)	-	(9,549)	(94,186)	(27,973)
Allowance for loan losses	352,077	-	(224,020)	128,057	38,033
Loans charged off	66,213	-	-	66,213	19,665
Allowance for losses from Guarantees and acceptances	98,654	-	(55,154)	43,500	12,920
Restructuring of loans	98,082	-	(16,359)	81,723	24,272
Other, net	18,656	-	321,049	339,705	100,892
	₩ 440,012	₩ 898	₩ 440,862	₩ 881,772	261,886
Operating loss carry-forward	₩ 1,994,560	₩ -	₩ (514,875)	₩ 1,479,685	439,466
Deferred tax assets					701,352
Allowance for deferred tax assets					(501,352)
Deferred tax assets (Domestic)					200,000
Deferred tax assets (Foreign)					73
Deferred tax assets, net					₩ 200,073

(*) Reflect the adjustment of prior year's tax return

The details of income tax expenses for the years ended December 31, 2002 and 2001 are as follow:

	In Millions	
	2002	2001
Income tax expense paid by overseas branches	₩ 12,542	₩ 18,536
Deferred income tax expense (benefit)	(100,000)	(100,000)
	₩ (87,458)	₩ 81,464

21. Earnings Per Share and Ordinary Income Per Share:

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

The weighted average numbers of common shares outstanding for the year ended December 31, 2002 are calculated as follows:

	2002		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815

Weighted average number of shares outstanding:

81,093,849,815 shares / 365 days = 222,174,931 shares

KOREA EXCHANGE BANK (BANKING ACCOUNTS)

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

The weighted average number of common shares outstanding for the year ended December 31, 2001 are calculated as follows:

	2002		Weighted number of shares outstanding
	Number of Shares	Number of days outstanding	
Beginning	222,174,931	365	81,093,849,815
Treasury stock	590,672	365	(215,595,554)
			80,878,254,261

Weighted average number of shares outstanding:
80,878,254,261 shares / 365 days = 221,584,258 shares

Earnings per share

	In Won	
	2002	2001
Net income (losses)	₩ 113,003,462,879	₩ 222,547,276,430
Preferred stock dividends	-	-
Net income (losses) allocated to common stock	113,003,462,879	222,547,276,430
Weighted average number of common shares outstanding (in shares)	222,174,931	221,584,258
Basic net income (losses) per share (in Won)	₩ 509	₩ 1,004

Basic ordinary income per share

	2002		2001	
	2002	2001	2002	2001
Net income	₩ 113,003,462,879	₩ 222,547,276,430	₩ 113,003,462,879	₩ 222,547,276,430
Extraordinary gain(losses)	14,192,811,396	11,288,963,012	-	-
Income tax related to extraordinary income	-	-	-	-
Ordinary income (losses) allocated to common stock	98,810,651,483	211,258,313,418	98,810,651,483	211,258,313,418
Weighted average number of common shares outstanding (in shares)	222,174,931	221,584,258	222,174,931	221,584,258
Basic ordinary income (losses) per share (in Won)	₩ 445	₩ 953	₩ 445	₩ 953

The number of diluting shares for the year ended December 31, 2002 are calculated as follows:

	2002		Weighted number of shares outstanding
	Number of Shares	Number of days outstanding	
Convertible Preferred shares	148,000,000	365	54,020,000,000

Number of diluting shares:
54,020,000,000 shares / 365 days = 148,000,000 shares

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

Diluted earnings per share

	Amount	
	2002	2001
Net income allocated to common stock	₩ 113,003,462,879	₩ 222,547,276,430
Preferred stock dividends	-	-
Diluted net income	113,003,462,879	222,547,276,430
Weighted average number of common shares before dilution (in shares)	222,174,931	221,584,258
Diluting shares	148,000,000	148,000,000
Diluted weighted average number of Common shares outstanding (in shares)	370,174,931	369,584,258
Diluted earnings per share (in Won)	₩ 305	₩ 602

Diluted ordinary income per share

	Amount	
	2002	2001
Ordinary income allocated to common stock	₩ 98,810,651,483	₩ 211,258,313,418
Preferred stock dividends	-	-
Diluted ordinary income	98,810,651,483	211,258,313,418
Weighted average number of common shares before dilution (in shares)	222,174,931	221,584,258
Diluting shares	148,000,000	148,000,000
Diluted weighted average number of Common shares outstanding (in shares)	370,174,931	369,584,258
Diluted ordinary income per share (in Won)	₩ 267	₩ 572

Potential common share information as of December 31, 2002 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, 2001 to Nov.6, 2009	10,000,000
Subordinated convertible debentures (No. 5)	100,000	From Mar. 28, 2001 to Nov.27, 2009	10,000,000

(*)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 five years from the issue date.

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

22. 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, 2002 and 2001 are as follows:

	In Millions			
		2002		2001
Cash on hand	₩	1,128,532	₩	1,347,076
Deposits in Won		1,246,665		1,144,330
Deposits in foreign currencies		1,598,596		920,970
Marketable securities		27,974		27,536
	₩	4,001,767	₩	3,439,912

Significant non-cash flow transactions for the years ended December 31, 2002 and 2001 are as follows:

	In Millions			
		2002		2001
Decrease in loans by charge-off	₩	1,261,076	₩	1,777,168
Decrease in allowance for loan losses by offsetting present value discounts		5,659		29,810
Gain/Loss on investment securities (capital adjustment)		120,596		137,289
Domestic exchange settlement		2,791,543		1,053,233

December 31, 2002 and 2001

23. Related Party Transaction :

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2001 and related account balances as of December 31, 2002 are summarized as follows (In Millions of Korean Won):

2002	KEBA	KEBOC	KEBIT	KEBLS	KEBCS	KEBD A.G.	KEBD	KEB Ire	KEBFC	Trust	Others	Total
ASSETS:												
A summary of derivative financial ir												
Due from banks in foreign currency	₩-	₩682	₩-	₩-	₩-	₩16	₩-	₩-	₩-	₩	₩4,220	₩4,918
Loans in Foreign currency	43,977	2,161	-	116,944	2,248	84,345	99,633	43,676	5,000	-	-	12,900
Other	52	1	-	292	1,836	136	497	1,374	-	97,362	-	393,104
												101,550
LIABILITIES:												
Deposits in Won												
Deposits in Foreign currency	-	-	24,571	-	280,871	-	-	-	2,539	-	-	307,981
Borrowings	17,903	221	-	1,378	-	61,419	33	6,873	-	-	306	70,230
Other	15	-	349	2,342	4,444	624	22,782	9,585	88	35,456	-	50,270
												44,667
REVENUES:												
Interest income in Won												
Interest income in Foreign currency	72	207	-	3,178	33	2,220	1,907	749	266	11,720	-	14,588
Fees and commissions	-	-	-	-	41,791	2,463	303	-	-	-	-	44,557
Other	-	-	-	154	78	-	-	-	-	24,559	-	24,791
												8,006
EXPENSES:												
Interest in Won currency												
Interest in foreign currency	-	5	-	10	-	253	386	31	47	3,624	-	685
Fees and commissions	-	-	-	-	20	466	-	-	-	-	-	486
Other	-	-	-	13,168	67	-	-	-	-	-	-	13,235

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

Significant transactions made in the normal course of business with subsidiaries during the year ended December 31, 2001 and related account balances as of December 31, 2001 are summarized as follows (In Millions of Korean Won):

2001	KEBA	KEBOC	KEBIT	KEBI	KEBLS	KEBCS	KEBD A.G.	KEBD	KEB Ire	Trust	Others	Total
ASSETS:												
Due from banks in Won	₩	₩	₩	₩	₩	₩	₩	₩	₩	₩	₩5,000	₩5,000
Due from banks in foreign currency	-	37	-	8,743	-	-	3,777	51,157	-	-	149	63,863
Loans in Won	-	-	-	-	43,000	140,000	-	-	-	-	-	183,000
Loans in Foreign currency	54,740	10,690	-	-	164,082	1,458	107,972	69,266	30,951	-	1,463	440,622
Other	83	27	-	-	4,494	2,167	331	191	1,540	435,685	9	444,527
LIABILITIES:												
Deposits in Won	-	-	24,359	-	10,498	23,633	-	-	-	-	1,396	59,886
Deposits in Foreign currency	-	79	-	-	-	-	545	-	218	-	636	1,478
Borrowings	-	-	-	-	-	-	-	35,808	8,938	326,080	-	370,826
Other	-	-	402	-	2,246	4,691	774	-	967	-	85	9,165
REVENUES:												
Interest income in Won	-	-	-	-	4,785	6,751	-	-	-	54,969	176	66,681
Interest income in Foreign currency	198	1,077	-	-	11,421	52	-	-	1,407	-	-	14,155
Fees and commissions	-	-	-	-	-	36,080	-	-	-	-	-	36,080
Other	-	-	-	-	157	235	-	-	-	12,560	-	12,952
EXPENSES:												
Interest in Won currency	-	-	1,867	-	-	510	-	-	-	5,703	33	8,113
Interest in foreign currency	-	70	-	-	243	-	-	-	493	-	-	806
Fees and commissions	-	-	-	-	-	17	-	-	-	-	-	17
Other	-	-	-	-	-	67	-	-	-	-	-	67

NOTE TO NON-CONSOLIDATED STATEMENTS OF FINANCIAL STATEMENTS

December 31, 2002 and 2001

24. Assets and Liabilities Bearing Interest:

Assets and liabilities bearing interest income and interest expenses for the six-month periods ended December 31, 2002 are as follows (in millions of Won):

Assets bearing interest income

Account	Average Balance	Interest Income	Interest Rate
Cash and due from banks	₩ 2,323,858	₩ 33,306	1.43%
Trading securities	709,660	38,127	5.37%
Investment securities	8,555,848	525,046	6.14%
Loans	30,743,392	1,942,099	6.32%
	₩ 42,332,758	₩ 2,538,578	6.00%

Liabilities bearing interest expenses

Account	Average Balance	Interest Expenses	Interest Rate
Deposits	₩ 34,701,665	₩ 1,176,846	3.39%
Borrowings	6,476,302	222,891	3.44%
Debentures	3,089,427	239,301	7.75%
	₩ 44,267,394	₩ 1,639,038	3.70%

25. Operation Performance of Trust Accounts:

The significant financial information relating to trust accounts for the six-month periods ended December 31, 2002 and 2001 are as follows.

	Millions of Won	
	2002	2001
Trust commissions		
Trust fees for Money Trust	₩ 42,965	₩ 42,849
Trust fees for Securities Investment Trusts	8,712	5,215
	51,677	48,064
Commissions received from termination of commodities in trust account	111	692
Supplementary payments to trust accounts	₩ -	₩ 14,358

26. Information for Value Added:

The details of costs constituting value added expenses for the six-month period ended December 31, 2002 and 2001 are as follows:

Account	Millions of Won	
	2002	2001
Salaries and wages	₩ 276,680	₩ 232,697
Welfare expenses	68,482	37,221
Provision for severance benefits	30,852	26,428
Depreciation	56,624	50,953
Amortization	6,842	5,345
Taxes and dues	24,782	25,448
Rent	26,241	25,865
	₩ 490,503	₩ 403,957

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To the Board of Directors and Shareholders of
Korea Exchange Bank and its subsidiaries

We have audited the accompanying consolidated balance sheets of Korea Exchange Bank ("the Bank") and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries and foreign branches of the Bank, which statements reflect 4.0% and 4.3% of total assets as of December 31, 2002 and 2001, respectively, and 2.1% and 3.4% of total revenues for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these branches and subsidiaries, 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 consolidated 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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Korea Exchange Bank and its subsidiaries as of December 31, 2002 and 2001, and the results of their operations, the changes in their shareholders' equity and their cash flows for the years then ended in conformity with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 1 to the accompanying consolidated financial statements, KEB Capital Co., Ltd., (formerly, KEB Leasing Co., Ltd.) a consolidated subsidiary, implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction, or execution of stock selling options with ₩800 per share on the shares owned by other individual shareholders and the employee stock ownership association as of November 9, 2001, for the purpose of debt restructuring due to the work-out process, based on the resolution of shareholders on October 13, 2001. This capital reduction resulted in gain on capital reduction of ₩34,725 million.

In addition, on November 9, 2001, KEB Capital Co., Ltd. issued 14,805 thousand shares of common stock for cash at par value to the Bank, based on the resolution of the board of directors on October 26, 2001. The proceeds of the new stock issuance were used for the repayment of borrowings amounting ₩74,024 million from the Bank. Through the issuance of new common stock subsequent to the capital reduction, the Bank's ownership of KEB Capital Co., Ltd. has increased to 99.3% from 30.0%.

As described in Note 1 to the accompanying consolidated financial statements, Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS"), a consolidated subsidiary, offered its shares for public ownership and all shares were listed on the Korean Stock Exchange on December 21, 2001. On December 14, 2001, Korea Exchange Bank Credit Service Co., Ltd. increased its capital by issuing 5 million new shares without the Bank's participation, which resulted in the decrease of the Bank's ownership to 45.0% from 51.1%.

As discussed in Note 2 to the accompanying consolidated financial statements, effective December 31, 2002, the Bank provides allowance for loan losses from retail loans based on new provision ratios, which are as follows:

Credit rating	Retail loans	
	Before (%)	After (%)
Normal	0.5 above	0.75 above
Precautionary	2 above	8 above
Substandard	20 above	20 above
Doubtful	50 above	55 above
Estimated loss	100	100

As a result of the change mentioned above, the Bank's allowance for loan losses increased by ₩30,955 million as of December 31, 2002.

As discussed in Note 2 to the accompanying consolidated financial statements, for the year ended December 31, 2002, KEBCS, a consolidated subsidiary, adopted the revised guidelines to calculate its allowance for doubtful accounts, as prescribed by the regulatory authorities for the financial institutions in the Republic of Korea. The effect of the change increased the allowance for loan loss as of December 31, 2002, by ₩190,754 million.

As discussed in Note 2 to the accompanying consolidated financial statements, during 2002, the Bank has changed its accounting treatment for Domestic Import Usance Bills from an off-balance-sheet item (banker's) to an on-balance-sheet item due to the amendment of related laws. The amount accounted for as Domestic Import Usance Bill for the current year is ₩1,367,788 million, and the change resulted in the increase of allowance for loan losses by ₩12,148 million as of December 31, 2002.

As discussed in Note 19 to the accompanying consolidated financial statements, under the debt restructuring agreement between creditors and Hyundai Constructions Co., Ltd. (Hyundai), the Bank acquired the shares of common stock of Hyundai, at a par value of ₩5,000, in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bond newly issued by Hyundai, for the purpose of financial support. Furthermore, in accordance with a resolution of The Financial Creditors Committee of Hynix Semiconductor Inc. (Hynix) in 2001, the Bank acquired the newly issued convertible bonds of Hynix, in exchange for ₩726,600 million of loans and convertible bonds; and provided ₩79,000 million of additional loans to Hynix. During the year ended December 31, 2002, the Bank acquired the shares of common stock of Hynix at ₩708 per share in exchange for the above-mentioned newly issued convertible bonds of Hynix.

The Financial Institution Creditors' Council of Hynix Conductor's made resolutions to write-down Hynix's equity in the ratio of 21:1 and to issue convertible bonds for the outstanding loans and corporate bonds of ₩1,861,698 million, after the shareholders' meeting, on December 30, 2002. The Bank has also arranged to convert the loans and corporate bonds amounting to ₩115,806 million at the public subscription price (minimum price ₩453) times the ratio of equity write-down per share.

As discussed in Note 19 to the accompanying consolidated financial statements, certain debtors, including the Daewoo Group of companies are in the process of restructuring their debts under workout and other similar programs. As of December 31, 2002, the Bank's outstanding loans and guarantees to the Daewoo Group of companies and other companies under workout programs amount to ₩452,332 million. In addition, as of December 31, 2002, the Bank's outstanding loans and guarantees to Hyundai Group of companies including Hyundai Construction Co., Ltd. and Hynix Semiconductor Inc. amount to ₩1,357,300 million. Actual losses on the above loans and guarantees may differ from the allowances for such losses provided by the Bank.

As discussed in Note 19 to the accompanying consolidated financial statements, an investigation is in progress, regarding allegations of window-dressing at SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the Bank's actual loss from their loans to SK Global Ltd. may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

As discussed in Note 19 to the accompanying consolidated financial statements, on December 5, 2002, KEBCS, a consolidated subsidiary, entered into an agreement to sell its amounts due from cardholders and loans to cardholders amounting to ₩530,244 million, which was previously written off, and the resulting gains of ₩140,199 million were recognized as subsequent recoveries and added to allowance for doubtful accounts.

As discussed in Note 19 to the accompanying consolidated financial statements, effective January 13, 2003, KEBCS, a consolidated subsidiary has entered into a trust agreement with Kookmin Bank's trust account (the "Trust") to transfer cash advances and amounts due from cardholders arising from revolving purchases amounting to ₩403,804 million and future cash advances and revolving purchases accounts from 180,763 cardholders up to April 21, 2006. According to the agreement, cash advances and revolving purchase accounts were transferred to the Trust as of January 13, 2003.

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.

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



Seoul, Korea
February 9, 2003

This report is effective as of February 9, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KOREA EXCHANGE BANK
CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2002	2001	2002	2001
ASSETS :				
Cash and due from banks (Note 4)	₩ 4,101,781	₩ 3,480,531	US\$ 3,417,012	US\$ 2,899,476
Trading securities (Note 5)	1,904,203	3,370,872	1,586,307	2,808,124
Investment securities (Note 5)	10,738,496	10,203,216	8,945,765	8,499,847
Loans, net of allowance for loan losses (Notes 6 and 9)	40,918,969	34,711,837	34,087,778	28,916,892
Premises and equipment, net (Note 8)	953,189	908,687	794,060	756,987
Accrued interest	441,968	402,814	368,184	335,566
Goodwill (Note 23)	-	-	-	-
Other assets (Notes 10)	5,671,362	2,974,649	4,724,560	2,478,048
Total Assets	₩ 64,729,968	₩ 56,052,606	US\$ 53,923,666	US\$ 46,694,940
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY :				
Liabilities :				
Deposits (Note 11)	₩ 42,642,982	₩ 37,204,284	US\$ 35,523,977	US\$ 30,993,239
Borrowings (Note 12)	6,987,479	6,006,048	5,820,959	5,003,372
Debentures (Note 13)	7,032,631	5,680,825	5,858,573	4,732,443
Accrued expenses	905,773	768,092	754,559	639,863
Other liabilities (Notes 14 and 15)	4,923,544	4,265,194	4,101,586	3,553,144
Total Liabilities	62,492,409	53,924,443	52,059,654	44,922,061
Commitments and Contingencies (Note 19)				
Shareholders' equity (Note 1) :				
Capital stock,				
1,000 million shares authorized;				
Common stock, ₩5,000 par value;				
222 million shares issued and outstanding	1,110,875	1,110,875	925,421	925,421
Preferred stock, ₩5,000 par value;				
148 million shares issued and outstanding	740,000	740,000	616,461	616,461
Capital surplus (Note 16)	214,306	244,002	178,529	203,267
Accumulated deficit (Note 17)	(93,754)	(139,489)	(78,102)	(116,202)
Capital adjustments, net (Note 18)	(121,670)	(268,153)	(101,358)	(223,386)
Minority interests in consolidated subsidiaries	387,802	440,928	323,061	367,318
Total Shareholders' Equity	2,237,559	2,128,163	1,864,012	1,772,879
Total Liabilities, Minority Interests Total Liabilities and Shareholders' Equity	₩ 64,729,968	₩ 56,052,606	US\$ 53,923,666	US\$ 46,694,940

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

KOREA EXCHANGE BANK

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2002	2001	2002	2001
Revenue :				
Interest on due from banks	₩ 26,557	₩ 67,247	US\$ 22,123	US\$ 56,020
Interest on securities	668,278	762,737	556,713	635,402
Interest on loans	2,445,379	2,609,989	2,037,137	2,174,266
Other interest income	71,488	234,197	59,553	195,099
Total interest income	3,211,702	3,674,170	2,675,526	3,060,787
Fees and commissions income	1,418,202	992,244	1,181,441	826,594
Gains on foreign exchange transactions	1,339,419	1,637,036	1,115,811	1,363,742
Trust fee income	33,696	51,343	28,071	42,772
Other income (Note 20)	645,752	531,084	537,947	442,423
Total revenue	6,648,771	6,885,877	5,538,796	5,736,318
Expenses :				
Interest on deposits	1,305,551	1,552,546	1,087,597	1,293,357
Interest on borrowings	279,757	408,516	233,053	340,317
Interest on debentures	491,683	413,499	409,599	344,468
Other interest expense	20,487	34,515	17,067	28,753
Total interest expenses	2,097,478	2,409,076	1,747,316	2,006,895
Fees and commissions expense	348,485	249,536	290,307	207,877
Losses on foreign exchange transactions	1,132,905	1,428,888	943,773	1,190,343
Provision for possible loan losses (Note 6)	1,414,877	1,155,192	1,178,671	962,339
General and administrative expenses	689,801	561,550	574,643	467,802
Provision for severance benefit	39,595	32,888	32,985	27,398
Depreciation and amortization	114,943	109,889	95,754	91,544
Other expenses (Note 21)	846,099	555,333	704,848	462,623
Total expenses	6,684,183	6,502,352	5,568,297	5,416,821
Net income (loss) before income tax expenses	(35,412)	383,525	(29,501)	319,497
Income tax expenses (Note 22)	(68,307)	34,887	(56,904)	29,063
Net income (loss) before minority interests	32,895	348,638	27,403	290,434
Minority interests in earnings (losses) of consolidated subsidiaries, net	(20,150)	121,507	(16,786)	101,222
Net income (loss)	₩ 53,045	₩ 227,131	US\$ 44,189	US\$ 189,212
Basic and diluted ordinary income (loss) per share (Note 24) (in Korean Won)				
- Basic	₩ 198	₩ 878	US\$ 0.165	US\$ 0.731
- Diluted	₩ 119	₩ 526	US\$ 0.099	US\$ 0.438
Basic and diluted earnings (net loss) per share (Note 24) (in Korean Won)				
- Basic	₩ 239	₩ 1,025	US\$ 0.199	US\$ 0.854
- Diluted	₩ 143	₩ 615	US\$ 0.119	US\$ 0.512

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

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2002	2001	2002	2001
Capital stock				
Capital stock at the beginning of year	₩ 1,850,875	₩ 1,850,875	US\$ 1,541,882	US\$ 1,541,882
Capital stock at the end of year	1,850,875	1,850,875	1,541,882	1,541,882
Consolidated capital surplus				
Consolidated capital surplus at the beginning of year	244,002	267,191	203,267	222,585
The effect on subsidiary's capital increase	-	22,649	-	18,868
The effect on equity method applied company's capital increase	(14,095)	14,095	(11,742)	11,742
Transfer of subsidiary's retained earnings to capital	-	9,054	-	7,542
Gain(loss) on foreign exchange translations	(3,990)	1,902	(3,324)	1,584
The effect on change of consolidation company	-	(64,556)	-	(53,779)
Others	(11,611)	(6,333)	(9,673)	(5,276)
Consolidated capital surplus at the end of year	214,306	244,002	178,528	203,266
Consolidated deficit				
Consolidated deficit at the beginning of year	(139,489)	(398,513)	(116,202)	(331,984)
The effect on subsidiary's capital increase	-	(4,566)	-	(3,804)
Cumulative effect of accounting change	(2,349)	-	(1,957)	-
The effect on change of consolidation company	-	128,361	-	106,932
Consolidated net income (loss) for the year	53,045	227,131	44,189	189,213
Adjustment accumulated deficit for restarting equity method	-	(98,922)	-	(82,408)
The effect of accounting period change	1,469	-	1,224	-
Reversal of excess of minority interest	-	41,451	-	34,531
Transfer of subsidiary's retained earnings to capital	-	(9,054)	-	(7,542)
Amortization of Discount on Stock Issuance	(74)	-	(62)	-
Gain(loss) on foreign exchange translations	(3,754)	(582)	(3,127)	(485)
Cash dividends	(27,786)	(22,011)	(23,147)	(18,336)
Others	25,184	(2,784)	20,980	(2,319)
Consolidated deficit at the end of year	(93,754)	(139,489)	(78,102)	(116,202)
Consolidated capital adjustment				
Consolidated capital adjustment at the beginning of year	(268,153)	(382,532)	(223,386)	(318,670)
The effect on equity method applied company's capital increase	-	(2,948)	-	(2,456)
The increase (decrease) in consolidated capital adjustment	144,193	117,327	120,121	97,740
Cumulative effect of accounting change	2,349	-	1,957	-
Gain(loss) on foreign exchange translations	(124)	-	(103)	-
Amortization of Discount on Stock Issuance	74	-	62	-
Others	(9)	-	(7)	-
Consolidated capital adjustment at the end of year	(121,670)	(268,153)	(101,356)	(223,386)
Minority interest equity				
Minority interest equity at the beginning of year	440,928	252,053	367,318	209,974
Increase in minority interest equity	(53,126)	188,875	(44,257)	157,343
Minority interest equity at the end of year	387,802	440,928	323,061	367,317
Total shareholders' equity	₩ 2,237,559	₩ 2,128,163	US\$ 1,864,013	US\$ 1,772,877

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

KOREA EXCHANGE BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2002 and 2001

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
	2002	2001	2002	2001
Cash flows from operating activities:				
Net income	₩ 53,045	₩ 227,131	US\$ 44,189	US\$ 189,213
Adjustment to reconcile net income to net cash provided by operating activities:				
Gain on disposal of securities, net	(39,957)	(30,950)	(33,286)	(25,783)
Valuation gain on securities, net	477,180	83,449	397,517	69,518
Gain on sales of loans, net	(14,129)	(9,172)	(11,770)	(7,641)
Provision for loan losses, net	1,414,877	1,155,192	1,178,671	962,339
Provision for guarantees and acceptances	-	14	-	12
Amortization of present value discounts	(23,920)	(21,015)	(19,927)	(17,507)
Depreciation and amortization	114,943	109,889	95,754	91,544
Provision for severance benefits	39,595	32,888	32,985	27,398
Minority interests in earnings (losses) of consolidated subsidiaries	-	121,507	-	101,222
Equity in loss (earnings) of equity method investees	-	23,621	-	19,678
Severance benefit payments	(6,549)	(192,238)	(5,456)	(160,145)
Decrease (Increase) in accrued income	(39,154)	77,017	(32,617)	64,159
Decrease in accrued expenses	52,351	(133,642)	43,611	(111,331)
Others, net	(46,309)	(643,512)	(38,578)	(536,081)
Net cash provided by operating activities	1,981,973	800,179	1,651,093	666,595
Cash flows from investing activities:				
Proceeds from acquisitions (disposal) of trading securities	-	(1,055,058)	-	(878,922)
Purchases of investment securities	958,035	(2,429,253)	798,096	(2,023,703)
Net increase in loans	(7,577,853)	(3,785,756)	(6,312,773)	(3,153,745)
Disposals and acquisitions of premises and equipment	(148,313)	(41,272)	(123,553)	(34,382)
Net increase of cash due to changes in consolidated subsidiaries	-	(3,932)	-	(3,276)
Others, net	(174,622)	(858,766)	(145,470)	(715,400)
Net cash used in investing activities	(6,942,753)	(8,174,037)	(5,783,700)	(6,809,428)
Cash flows from financing activities:				
Net increase in deposits	5,438,698	4,443,645	4,530,738	3,701,804
Net decrease in borrowings	-	(1,808,698)	-	(1,506,746)
Net increase (decrease) in debentures	1,351,806	1,853,142	1,126,130	1,543,770
Issuance of new shares for cash, net	-	(144)	-	(120)
Proceeds from disposal of treasury shares	-	2,930	-	2,441
Net increase of minority interests in consolidated subsidiaries	-	100,000	-	83,306
Dividends paid	(28,757)	(12,469)	(23,956)	(10,387)
Others, net	(1,179,278)	2,312,923	(982,404)	1,926,794
Net cash provided by financing activities	5,582,469	6,891,329	4,650,508	5,740,862
Net increase(decrease) in cash and cash equivalents	621,689	(482,529)	517,901	(401,971)
Cash and cash equivalents at beginning of the year (Note 25)	3,508,066	3,990,595	2,922,417	3,324,388
Cash and cash equivalents at end of the year (Note 25)	₩ 4,129,755	₩ 3,508,066	US\$ 3,440,318	US\$ 2,922,417

The accompanying notes are an integral part of these consolidated 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 ₩124,100 million 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. Nothing is converted as of the effective 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, 2002 and 2001 are as follows:

	Number of shares owned (shares)				Ownership (%)	
	Common stock	Preferred stock	Total (2002)	Total (2001)	2002	2001
Commerzbank A.G.	52,483,312	68,000,000	120,483,312	120,483,437	32.55	32.55
Bank of Korea	39,500,000	-	39,500,000	39,500,000	10.67	10.67
Export-Import Bank of Korea	40,314,387	80,000,000	120,314,387	120,314,387	32.50	32.50
Others	89,877,232	-	89,877,232	89,877,107	24.28	24.28
	222,174,931	148,000,000	370,174,931	370,174,931	100.00	100.00

As of December 31, 2002, the Bank has 323 branches, agencies and offices in domestic and overseas markets. The Bank has closed 2 domestic branches in 2002.

Consolidated Subsidiaries

Summarized information regarding the consolidated subsidiaries as of December 31, 2002 and 2001 are as follows:

Subsidiaries	Number of Invested Shares (In Thousands)		Ownership (Ratio)	
	2002	2001	2002	2001
Domestic				
Korea Exchange Bank Credit Service Co., Ltd. ("KEBCS")	18,795	18,795	45.0%	45.0%
KEB Leasing Co., Ltd ("KEBLS")	14,976	2,400	99.3%	99.3%
KEB Commerz Investment Trust Management Co., Ltd ("KEBIT")	2,760	2,760	46.0%	46.0%
KEB Futures Co., Ltd. ("KEBFC")	3,000	3,000	100.0%	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Subsidiaries	Number of Invested Shares (In Thousands)		Ownership (Ratio)	
	2002	2001	2002	2001
Foreign				
Pacific Union Bank ("PUB")	6,624	5,914	62.5%	62.5%
Korea Exchange Bank of Canada ("KEBOC")	334	334	100.0%	100.0%
KEB Australia Ltd. ("KEBA")	55,000	55,000	100.0%	100.0%
KEB Deutschland A.G. ("KEBD A.G.")	20	20	100.0%	100.0%
P.T.KEB Danamon ("KEBD")	24,726	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")	24,000	24,000	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, 2002 and for the year then ended are as follows:

	Millions of Korean Won				
	KEBC	PUB	KEBLS	Others (**)	Total
Cash and due from banks	₩ 317,115	₩ 29,128	₩ 1,378	₩ 243,300	₩ 590,921
Securities	231,313	189,127	36,515	817,276	1,274,231
Loans	4,353,676	886,005	67,508	1,039,413	6,346,602
Fixed assets	82,108	7,935	40,973	5,918	136,934
Other assets	384,587	13,028	54,891	44,093	496,599
Total assets	₩ 5,368,799	₩ 1,125,223	₩ 201,265	₩ 2,150,000	₩ 8,845,287
Deposits	₩ -	₩ 912,299	₩ -	₩ 1,279,923	₩ 2,192,222
Borrowings and debentures	4,252,235	84,028	138,138	608,500	5,082,901
Other liabilities	540,831	7,805	23,829	52,206	624,671
Total liabilities	4,793,066	1,004,132	161,967	1,940,629	7,899,794
Capital stock	208,870	76,495	75,400	159,233	519,998
Capital surplus	133,193	26,619	-	3,214	163,026
Accumulated earnings (deficit)	230,617	17,146	(30,127)	46,924	264,560
Capital adjustments	3,053	831	(5,975)	-	(2,090)
Total shareholders' equity	575,733	121,091	39,298	209,371	945,493
Total liabilities and Shareholders' equity	₩ 5,368,799	₩ 1,125,223	₩ 201,265	₩ 2,150,000	₩ 8,845,287

	Millions of Korean Won				
	KEBC	PUB	KEBLS	Others (**)	Total
Operating revenue	₩ 1,405,783	₩ 69,601	₩ 61,982	₩ 330,182	₩ 1,867,548
Operating expenses	1,589,152	48,168	65,291	267,017	1,969,628
Operating income (loss)	(183,369)	21,433	(3,309)	63,165	(102,080)
Non-operating income	172,023	1,452	1,596	189	175,260
Non-operating expenses	41,012	12	262	27,353	68,639
Ordinary income (loss)	(52,358)	22,873	(1,975)	36,001	4,541
Extraordinary gain	-	-	1,264	-	1,264
Extraordinary loss	-	-	2,627	-	2,627
Income tax expenses	-	8,888	-	10,263	19,151
Net income (loss)	₩ (52,358)	₩ 13,985	₩ (3,338)	₩ 25,738	₩ (15,973)

(*) 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:

(1) 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. The company offered its shares for public ownership and all shares were listed on the Korean Stock Exchange on December 21, 2001. The Bank retains 45.0% equity ownership as of December 31, 2002. The capital stock of the company amounts to ₩208,870 million through several stock issuances as of December 31, 2002.

(2) KEB Capital Co., Ltd. ("KEBC")

KEBC was incorporated on September 11, 1989 to engage in leasing industrial equipment. KEBC implemented a 14-to-1 capital reduction on the shares owned by the Bank and reduced its capital by means of a 7-to-1 capital reduction or execution of stock selling option with ₩800 per share on the shares owned by other individuals shareholders and employee stock ownership association as of November 9, 2001 for the purpose of debt restructuring due to work-out process, based on the resolution of shareholders' meeting on October 13, 2001. This capital reduction resulted in gain on capital reduction of ₩34,725 million.

In addition, on November 9, 2001, KEB 14,805 thousand shares of common stock for cash at par value to the Bank, based on the resolution of board of directors on October 26, 2001. The proceeds of new stock issuance were used for repayment of borrowings amounting ₩74,024 million from the Bank.

As of December 31, 2002, the Bank retains 99.3% equity ownership as of December 31, 2002. The capital stock of the KEBC amounts to ₩75,400 million through several stock issuances.

(3) 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, 2002, its capital stock is ₩30,000 million.

(4) 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, 2002, KEBFC's capital stock is ₩15,000 million.

(5) 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. PUB made a public offer on August 1, 2000 and filed with NASDAQ (stock exchange in U.S.), for the first for the Korea financial institutions. The Bank retains 62.5% equity ownership as of December 31, 2002. As of December 31, 2002, the capital stock of PUB amounts to US\$ 63,724 thousand through several stock issuances and 12 branches in U.S. have been affiliated with PUB.

(6) KEB Australia Ltd. ("KEBA")

KEBA was established in Sydney in Australia on July 6, 1986 to provide financial services to Korean companies. The Bank retains 100% equity ownership as of December 31, 2002. The capital stock of the company amounts to AUD 55,000 thousand through several stock issuances as of December 31, 2002.

(7) Korea Exchange Bank of Canada ("KEBOC")

KEBOC was established in Toronto in Canada on October 6, 1981 to provide financial services to Korean companies or Korean residents in Toronto. The Bank retains 100% equity ownership as of December 31, 2002. The capital stock of the company amounts to CAD 33,400 thousand through several stock issuances as of December 31, 2002.

All consolidated subsidiaries including certain trust accounts are consolidated in the accompanying 2002 consolidated financial statements.

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 Doosan Heavy Industries & Construction Co., Ltd. (before, Korea Heavy Industries Co., Ltd.), a 15.7% owned subsidiary, and Cairo Far East Bank S.A.E. ("CFEB"), a 31.5% owned subsidiary, are accounted for on an equity basis.

(1) 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 31.5% equity ownership as of December 31, 2002. The capital stock of the company amounts to US\$26,378 thousand as of December 31, 2002

(2) Doosan Heavy Industries & Construction Co., Ltd. (before, Korea Heavy Industries Co., Ltd.)

Doosan Heavy Industries & Construction Co., Ltd. (before, 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, 2002, its capital stock amounts to ₩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 Bank maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Some information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

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, 2002 were used for consolidation of KEBL, KEBIT and KEBFC having a fiscal year ending March 31. The financial statements of KEBOC for the twelve-month period ended October 31, 2002 were used for consolidation since difference between the fiscal year of the Bank and KEBOC is less than three months.

The accounts of consolidated subsidiaries are regrouped in accordance with the Bank's accounts when the difference are occurred.

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 26).

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, 2001 and 2000, the amount of interest not recognized due to such policy approximates ₩44,679 and ₩85,488 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 risk classification:

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

In addition, the Bank provided allowance for loan losses from retail loans by based on new provision ratios. The new provision ratios are as follows:

Credit rating	Retail Loan	
	Before (%)	After (%)
Normal	0.5 above	0.75 above
Special mention	2 above	8 above
Substandard	20 above	20 above
Doubtful	50 above	55 above
Estimated loss	100	100

As a result of the change mentioned above, the Bank's allowance for loan losses increased by ₩30,955 million as of December 31, 2002.

For the year ended December 31, 2002, KEBCS, a consolidated subsidiary, adopted the revised guidelines to calculate its allowance for doubtful accounts, prescribed by the regulatory authorities for financial institutions in the Republic of Korea. According to the revised guidelines, the collectibility of receivables are estimated by applying certain percentages to the various credit risk classifications, as follows:

Classifications	Percentages
Normal	1%
Special mention	12%
Substandard	20%
Doubtful	60%
Loss	100%

In addition, according to the revised guidelines, the Company down-graded the credit risk classification of its rewritten loans to "lower-than-normal" and provided additional allowances for doubtful accounts for the unused cash advance credit limits of certain cardholders with poor credit ratings.

Implementation of the revised guidelines increased KEBCS's allowance for doubtful accounts as of December 31, 2002 and decreased income before income taxes for the year ended December 31, 2002 by ₩190,754 million.

During 2002, the Bank has changed its accounting treatment for Domestic Import Usance Bill from off-balance-sheet item (banker's) to on-balance-sheet item due to the amendment of related laws. The amount accounted for as Domestic Import Usance Bill for the current year is ₩1,367,788 million, and the change resulted in the increase of allowance for loan losses by ₩12,148 million.

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 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, except 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 earnings, 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.

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 16). 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.

There is a change in accounting method used in depreciating fixed asset. The bank has use half-year convention to depreciate its fixed asset for prior years, but has used nearest full month for newly acquired assets in 2002. Therefore, the current depreciation expense decreased for the amount of ₩9,169 million in comparison to prior year's method.

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 ₩78,972 million and ₩47,386 million represent the amount which would be payable assuming all eligible employees and executives were to terminate their employment on December 31, 2002 and 2001, 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 2002 and 2001 approximated ₩6,549 million (excluding ₩4,592 million of additional early retirement benefits) and ₩192,238 million (including ₩187,924 of interim settlement of severance benefits), 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.

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, 2002 and 2001, there has been no amortization in 2002 and 2001.

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. In addition, deferred tax assets and liabilities recorded by overseas 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. 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, 2002 and 2001 are ₩1,200.40 : US\$ 1 and ₩1,326.10 : 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

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.

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 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 merchant banking accounts of the Bank and KEBSL, 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.
- 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 ₩15,079 million and ₩12,346 million, respectively at December 31, 2002 and 2001 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. Estimated loan losses are determined using the same estimated loss percentage for each credit risk classification as the banking accounts of the Bank.

The Bank provided allowance for loan losses from retail loans by based on new provision ratios.

The new provision ratios are as follows:

Credit rating	Retail Loan	
	Before (%)	After (%)
Normal	0.5 above	0.75 above
Special mention	2 above	8 above
Substandard	20 above	20 above
Doubtful	50 above	55 above
Estimated loss	100	100

As a result of the change mentioned above, the Bank's allowance for loan losses increased by ₩55 million as of December 31, 2002.

The allowance for loan losses of consolidated trust accounts with a guaranteed minimum rate of return at December 31, 2002 and 2001 amounts to ₩11,584 million and ₩46,904 million, respectively, and the charge-offs recorded by the trust accounts of the Bank in 2002 and 2001 amount to ₩285,670 million and ₩164,376 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.

The securities in the trust accounts, which are consolidated, is valued by the closing stock price as of the balance sheet date, if no closing price exists as of that date the nearest closing price to the date is used, retroactively.

Under Korean Stock Exchange Act 2, article 14, unlisted stock with market price formed under KOSDAQ, is valued by method used for listed stock, where else unlisted stock without market price will be valued under cost method.

In addition, if the stock do not yet have market price due to ex-rights, ex-dividend, decrease in capital or M&A it will be valued according to Financial Supervisory Service at its book value until the market price are formed.

Securities in trust accounts, which are consolidated, except for the performance yield trust, are valued by market price or net asset and are charged off directly from acquisition cost. However, under the transition clause in the accounting and reporting guidelines prescribed by the trust regulatory authorities, the debt securities, which are managed and included under the unspecified money trusts that were established before November 15, 1998 and suspension of addition of new trust after July 1, 2000, are not recorded at market value but are valued by the interest expense measured at issue rate charged off to acquisition cost.

However for the current year, other than debt securities in performance yield trust or unspecified money trusts which guarantee principal an a minimum rate of return, all the debt securities in the trust which have at least formed market price in the exchange market for at least 10days for each preceding 3 month from the valuation date, are valued by the closing market price on the valuation date. But for listed and unlisted debt securities which has no market price as of the valuation date takes into consideration the following for the adjusted rate of return, which will be converted to price in order to value the debt securities; the rate of return for valuation of debt securities announced daily by Korean Securities Dealer Association, residual period and additional interest for risk on sales-realization. Furthermore, under transition clause in the accounting and reporting guidelines prescribed by the trust regulatory authorities, when market value does not exist or does not reflect fair value, securities are valued by computation of fair value provided by Market Value Appraisal Committee, which is managed by the trust company established by KEB.

As a result of the change in the current year, in valuating method for debt securities as referred above, the bank has additional loss on valuation of securities and additional profit on valuation of securities, for the amount of ₩136 million and ₩981 million respectively.

- 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.

There is no compensations accounted for other income of the consolidated trust accounts in year 2002 and 2001.

Reclassification of 2001 Accounts

Certain accounts in 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation. These reclassifications have 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 2001 Korean Won amounts are expressed in U.S. Dollars at the rate ₩1,200.40: US\$ 1, the rate in effect on December 31, 2002. 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 2001 U.S. Dollar amounts, which were previously expressed at ₩1,326.10:US\$1, the rate prevailing on December 31, 2001, have been restated to reflect the exchange rate in effect on December 31, 2002.

4. Cash and Due from Banks:

Cash and due from banks which are restricted as to withdrawal at December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Reserve Deposits with the Bank of Korea		
- In Won	₩ 1,057,500	₩ 614,011
- In Foreign Currency	413,750	331,902
Deposits for severance payments	-	-
Foreign currency deposits	2,775	1,677
Won currency deposits	130,871	203,391
	₩ 1,604,896	₩ 1,150,981

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. Foreign currency deposits deposited in the course of transactions of derivative financial instruments. Won currency deposits are composed of deposits in Kookmin bank related to asset-backed securitization(see Note 19) and Kyobo Life deposited related to subordinated of bank. Accordingly, the withdrawal of these deposits is restricted.

The scheduled maturities of due from banks as of December 31, 2002 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Due from banks in Won	₩ 109,223	₩ -	₩ 1,199,202	₩ 1,308,425
Due from Banks in foreign currencies	1,186,739	34,871	416,308	1,637,918
	₩ 1,295,962	₩ 34,871	₩ 1,615,510	₩ 2,946,343

5. Securities:

Securities at December 31, 2002 and 2001 are as follows:

	In Millions			
	Debt securities		Equity securities	
	2002	2001	2002	2001
Trading securities	₩ 1,897,960	₩ 3,370,471	₩ 6,243	₩ 401
Investment securities:				
Available for sale	8,900,140	8,196,440	744,584	618,801
Held-to-maturity	820,436	1,102,300	4,870	1,870
Investment in subsidiaries	-	-	268,466	283,805
	9,720,576	9,298,740	1,017,920	904,476
	₩ 11,618,536	₩ 12,669,211	₩ 1,024,163	₩ 904,877

At December 31, 2002 and 2001 trading securities included in Cash Management Accounts ("CMA") managed by the merchant banking division of the Bank amount to ₩29,059 million and ₩60,741 million, respectively.

Investments in Debt Securities

As of December 31, 2002, the Bank provided debt securities amounting to ₩1,749,362 million as collateral for borrowings from the Bank of Korea and has total debt securities amounting to ₩8,705,922 million available for rediscountable to the Bank of Korea. Securities denominated in foreign currencies amounting to ₩4,802 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, 2002 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Bonds issued by the government	₩ 1,858,636	₩ 1,714,512	₩ 2,307,450	₩ 5,881,027
Finance Debentures	1,133,177	1,616,484	-	2,749,661
Bonds issued by corporations	171,485	749,888	215,198	1,136,571
Beneficiary certificates	943,262	-	37,857	981,119
Other securities	2,077	-	788	2,865
Bonds denominated in foreign currencies	313,096	118,022	436,140	867,258
Off-shore debt securities	-	-	35	35
	₩ 4,421,733	₩ 4,199,335	₩ 2,997,468	₩ 11,618,536

Debt securities in foreign currencies, classified by nationality of issuer, as of December 31, 2002 are as follows:

Countries	In Thousands (*)	In Millions	Ratio (%)
Korea	US\$ 419,697	₩ 503,804	58.09
U.S.A	216,739	260,173	30.00
Philippines	12,199	14,643	1.69
Brazil	3,834	4,602	0.53
Others	70,037	84,071	9.69
	US\$ 722,506	₩ 867,293	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, 2002.

Investments in Equity Securities

As of December 31, 2002, details of investments in subsidiaries accounted for using equity method are as follows:

December 31, 2002 and 2001

	Acquisition Cost	Beginning balance under equity method	Acquisition (Disposition)	Translation adjustment	Increase (decrease) in equity of equity method investees			Book value
					Equity in earnings	Accumulated deficit	Capital adjustment	
Doosan Heavy Industries & Construction Co.,Ltd.	82,000	276,061	(2,460)	-	12,702	1,469	(25,757)	262,015
CFEB	8,281	7,744	(329)	(712)	1,616	(1,867)	-	6,452
	₩ 90,281	₩ 283,805	₩ (2,789)	₩ (712)	₩ 14,318	₩ (398)	₩ (25,757)	₩ 268,467

6. Loans

Foreign Currency Loans By Nationality

At December 31, 2002 and 2001, the Bank's loans denominated in foreign currencies classified by nationality of borrowers are as follows:

Countries	2002			2001		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 5,180,470	₩ 6,218,636	86.6	US\$ 3,336,880	₩ 4,425,037	78.9
Japan	239,232	287,174	4.0	403,767	535,435	9.6
Russia	99,000	118,840	1.7	110,000	145,871	2.6
Indonesia	32,730	39,289	0.5	38,425	50,955	0.9
Other	432,079	518,668	7.2	337,877	448,059	8.0
	US\$ 5,983,511	₩ 7,182,607	100.0	US\$ 4,226,949	₩ 5,605,357	100.0

Allowances for Loan Losses

An analysis of the change in allowances for loan losses for the year ended December 31, 2002 and 2001 is as follows:

	In Millions	
	2002	2001
Balance at January 1	₩ 1,126,090	₩ 1,989,792
Provision for loan losses	1,416,851	1,155,192
Reversal of allowance	(1,974)	-
Loans charged off	(1,944,551)	(2,009,609)
Transfer from repurchase of loan from KAMCO and others	503,986	120,941
Translation adjustments	(24,512)	(130,226)
	(50,200)	(863,702)
Balance at December 31	₩ 1,075,890	₩ 1,126,090

Ratios of allowance for loan losses to total loans for the years ended December 31, 2002, 2001 and 2000 are 2.6%, 3.1% and 5.8%, respectively.

At December 31, 2002 and 2001, 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 ₩3,157,100 million and ₩2,937,618 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, 2002, ₩11,806 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, 2002, discounted using interest rates of 5.25% to 14.29%, are ₩99,167 million less than their nominal value of ₩492,619 million. Amortization of these discounts of ₩18,261 million in 2002 are included in other interest income.

The changes in present value discount of the Bank's restructured loans in 2002 are as follows:

	In Millions			
	Balance at January 1	Addition	Deduction (*)	Balance at December 31
Loans restructured under work-out plan	₩ 24,798	₩ 402	₩ 13,645	₩ 11,555
Loans restructured under other similar Rescheduling agreements	11,074	5,119	2,966	13,227
Loans in industry rationalization policy	81,556	-	7,171	74,385
	₩ 117,428	₩ 5,521	₩ 23,782	₩ 99,167

Other Information

The Bank provides housing loans bearing interest at a rate of 6.00% per annum to directors and employees. The outstanding balance of these housing loans receivable as of December 31, 2002 and 2001 amounts to ₩20,455 million and ₩26,132 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, 2002 and 2001 are ₩5,952 million (₩7,394 million) and ₩4,266 million (₩6,468 million), respectively.

8. Premises and Equipment:

Premises and equipment at December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Buildings	₩ 436,353	₩ 432,923
Office facilities held on lease	54,583	49,078
Equipment	654,760	641,056
Foreclosed assets	2,109	1,881
	1,147,805	1,124,938
Less: Accumulated depreciation or allowance	(604,441)	(622,585)
	543,364	502,353
Construction in progress	111	288
Land	387,888	390,254
Intangible assets	21,826	15,792
	₩ 953,189	₩ 908,687

At December 31, 2002 and 2001, the value of the domestic lands of the Bank and subsidiaries as determined by the tax authorities for property tax assessment purpose amounts to ₩404,829 million (₩387,888 million of book value) and ₩396,398 million (₩390,254 million of book value), respectively.

At December 31, 2002, 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, 2002 and 2001 comprise the following:

	In Millions	
	2002	2001
CMA assets		
Notes discounted	₩ 285,432	₩ 101,540
Securities	29,059	60,741
	₩ 314,491	₩ 162,281

10. Other Assets:

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

	In Millions	
	2002	2001
Guarantee deposits	₩ 497,182	₩ 442,154
Accounts receivable	3,077,931	1,186,480
Prepaid expenses	126,714	149,923
Non-Performing Loan Management Fund	36,680	36,680
Adjustments related to derivatives	-	2,069
Suspense receivable	49,279	60,395
Domestic exchange settlement	1,359,031	645,683
Deferred foreign currency translation losses for operating lease transactions	-	31,143
Deferred tax assets	211,121	114,634
Others	313,424	305,488
	₩ 5,671,362	₩ 2,974,649

11. Deposits:

The scheduled maturities of deposits at December 31, 2002 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Deposits in Won	₩ 31,378,364	₩ 1,570,956	₩ 749,754	₩ 33,699,074
Deposits in foreign currencies	6,661,045	1,421,081	494,258	8,576,384
Certificates of deposit	367,513	-	11	367,524
	₩ 38,406,922	₩ 2,992,037	₩ 1,244,023	₩ 42,642,982

12. Borrowings:

Borrowings at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions	
		2002	2001
Borrowings in Won			
Borrowings from the Bank of Korea	2.5	₩ 1,052,650	₩ 1,213,360
Borrowings from the governmental and public fund	2.0 ~ 5.07	324,879	286,373
Borrowings from other banks	2.2 ~ 6.93	192,889	276,455
Borrowings from other financial institutions	6.7 ~ 6.96	556,521	535,000
Borrowings from others	2.0 ~ 4.92	418,899	326,960
		2,545,838	2,638,148
Borrowings in foreign currencies			
Long-term borrowings	3ML+0.18		
~ 6ML+3.5	606,296	576,432	
Short-term borrowings	2.1 ~ 4.1	1,385,675	,433,960
Refinance	1.99 ~ 2.19	104,453	39,385
Borrowings from banks for subordinated loans	1.78 ~ 4.25	21,465	30,859
Others	3ML+0.2 ~ 13.0	713,250	226,060
		2,831,139	2,306,696
Securities sold under repurchase agreements	4.0 ~ 5.5	542,549	623,753
Covering notes sold	4.0 ~ 5.2	653,356	239,492
Call money	1.65 ~ 3.5	7,100	65,400
	4.15 ~ 3ML + 0.43	407,497	132,559
		₩ 6,987,479	₩ 6,006,048

Subordinated borrowings

Subordinated borrowings at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions	
		2002	2001
Subordinated borrowings in Won:			
Samsung Life Insurance, Co. and other, maturing through 2007	6.70	₩ 70,000	₩ 120,000
Subordinated borrowings in foreign currencies			
Commerzbank, maturing through 2005	6ML+3.5	126,042 (US\$ 105,000)	46,414 (US\$ 35,000)
		₩ 196,042	₩ 166,414

Subordinated borrowings have redemption periods of 4 to 6 years and are due in lump sum at maturities.

Maturity Information

The scheduled maturities of borrowings at December 31, 2002 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Borrowings in Won	₩ 1,692,902	₩ 293,530	₩ 559,406	₩ 2,545,838
Borrowings in foreign currencies	2,430,706	291,303	109,130	2,831,139
	₩ 4,123,608	₩ 584,833	₩ 668,536	₩ 5,376,977

Other Information

At December 31, 2002, in the normal course of funding activities the Bank provided ₩1,749,362 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, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions		
		2002. 12. 31	2002	2001
Debentures in Won				
Debentures	5.13 ~ 10.50	₩	5,285,960	₩ 3,479,314
Subordinated debentures	6.75 ~ 10.50		950,000	1,185,300
Subordinated convertible debentures	4.00		200,000	200,000
Others	-		16	47
			6,435,976	4,864,661
Discounts on debentures			(11,398)	(12,903)
			6,424,578	4,851,758
Debentures in foreign currencies				
Debentures	1.00 ~ 4.80		611,912	833,930
Discounts on debentures			(3,859)	(4,863)
			608,053	829,067
		₩	7,032,631	₩ 5,680,825

Subordinated Debentures

Subordinated debentures at December 31, 2002 and 2001 are as follows:

	Annual Interest Rate (%)	In Millions		
		2002. 12. 31	2002	2001
Fund invested by the Korean Government, maturing through 2004	-	₩	-	₩ 422,300
Samsung Life Insurance Co., maturing in 2007	-		-	13,000
Public	6.75 ~ 10.50		950,000	750,000
			950,000	1,185,300
Chase Manhattan Bank & Merrill Lynch, maturing in 2006	3ML+2.0		240,080	265,220
			(US\$200)	(US\$200)
Credit Suisse First Boston (CSFB)	13.75		240,080	265,220
			(US\$200)	(US\$200)
			480,160	530,440
		₩	1,430,160	₩ 1,715,740

Subordinated Convertible Debentures

Subordinated convertible debentures at December 31, 2002 and 2001 are as follows:

	Terms of debentures	Annual Interest Rate (%)	In Millions		
			2002. 12. 31	2002	2001
Subordinated convertible debentures (No. 4)	1999. 12. 6 ~ 2009. 12. 6	4.00	₩	100,000	₩ 100,000
Subordinated convertible debentures (No. 5)	1999. 12. 27 ~ 2009. 12. 27	4.00		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, 2002 are as follows:

	In Millions			
	Due in less than one year	Due from one to three years	Due after three years	Total
Debentures in Won	₩ 4,165,016	₩ 1,270,960	₩ 1,000,000	₩ 6,435,976
Debentures in foreign Currencies	118,802	-	493,110	611,912
	₩ 4,283,818	₩ 1,270,960	₩ 1,493,110	₩ 7,047,888

14. Other Liabilities:

Other liabilities at December 31, 2002 and 2001 consist of the following:

	In Millions	
	2002	2001
Unearned income	₩ 92,195	₩ 81,746
Accrued severance benefits	32,914	12,725
Allowance for estimated losses on outstanding guarantees and acceptances contract	43,542	98,690
Due to trust accounts	205,506	1,150,083
Due to treasury agency	420,477	359,333
GIRO accounts	96,090	81,752
Deferred tax liabilities	36	-
Accounts payable	3,090,767	1,245,499
Suspense payable	91,876	421,132
Withholding taxes	25,219	27,332
Guarantee money received	151,635	113,830
Factoring payable	4,306	12,161
Deterred foreign currency translation gains for operating lease transactions	95,169	75,023
Other	573,812	585,888
	₩ 4,923,544	₩ 4,265,194

15. Accrued Severance Benefits:

Accrued severance benefits at December 31, 2002 and 2001 are as following:

	In Millions	
	2002	2001
Balance at beginning of the year	₩ 47,386	₩ 206,736
Provisions	39,595	32,888
Severance payments	(6,549)	(192,238)
Adjustments of foreign exchange transactions	(1,460)	-
	78,972	47,386
Cumulative deposits to national pension fund	(1,914)	(2,068)
Deposits for severance payment	(44,144)	(32,593)
Balance at end of the year	₩ 32,914	₩ 12,725

16. Capital Surplus:

Consolidated capital surplus as of December 31, 2002 and 2001 are as follows:

	In Millions			
	2002		2001	
Capital stock of consolidated subsidiaries transferred from accumulated earnings	₩	62,887	₩	65,712
The Bank's ownership in capital surplus of consolidated subsidiaries		57,476		70,252
The Bank's ownership in capital surplus of equity method investees		93,943		108,038
	₩	214,306	₩	244,002

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 for disposition of accumulated deficit.

17. Accumulated Deficit:

Consolidated accumulated deficit as of December 31, 2002 and 2001 are as follows:

	In Millions			
	2002		2001	
Regal reserve	₩	61,402	₩	41,501
Other statutory reserves		98,075		25,448
Voluntary reserves		-		14,556
Accumulated deficit before disposition		(253,231)		(220,994)
Deficit in excess of minority interests		-		-
	₩	(93,754)	₩	(139,489)

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.

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. In addition, Singapore branches' statutory reserves are included. In addition, Singapore branches' statutory reserves are included in other statutory reserves.

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.

Disposition of Accumulated Deficits

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

Date of disposition	In Millions	
	2001. 3. 13	2000. 3. 25
Accumulated deficit before disposition	₩ 1,523,622	₩ 1,366,086
Disposition		
Transfer from capital surplus	-	154,805
Transfer from gain on capital reduction	1,240,875	-
Transfer from asset revaluation surplus	-	156,017
Transfer from statutory reserve	-	-
Transfer from reserve for overseas Investment losses	-	-
Transfer from business rationalization	-	-
(1) Appropriation for other statutory reserves	(236)	(537)
Transfer from voluntary reserves	-	-
	1,240,639	310,285
Undisposed accumulated deficit to be carried forward to subsequent year	₩ 282,983	₩ 1,055,801

18. Capital Adjustments:

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

	In Millions	
	2002	2001
Valuation losses on investment in debt securities	₩ (46,419)	₩ (45,486)
Valuation gains on investment in debt securities	91,238	
Valuation losses on investment in equity securities	(183,782)	(212,659)
Valuation gains on investment in equity securities	27,227	
Discounts on capital stocks	(9,934)	(10,008)
	₩ (121,670)	₩ (268,153)

Stock Options

As of December 31, 2002, the Company has implemented stock option plans for employees and executives, under which they are entitled to receive options to purchase 1,024 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, 2002, no compensation cost was accrued in 2002.

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, 2002 and 2001 are summarized as follows:

	In Millions			
	2002		2001	
Guarantees:				
Won currency	₩	876,786	₩	616,352
Foreign currencies		1,582,901		1,995,468
		2,459,687		2,611,820
Acceptances in foreign currencies:		509,943		2,188,093
	₩	2,969,630	₩	4,799,913

The guarantees and acceptances denominated in foreign currency classified by country as of December 31, 2002 and 2001 are as follows:

Countries	2002			2001		
	In Thousands	In Millions	Ratio(%)	In Thousands	In Millions	Ratio(%)
Korea	US\$ 1,563,792	₩ 1,877,176	90.39	US\$ 2,891,485	₩ 3,834,399	92.49
France	76,307	91,599	4.41	131,454	174,321	4.20
Germany	25,940	31,138	1.50	19,975	26,489	0.64
United Kingdom	10,558	12,674	0.61	6,683	8,862	0.21
U.S.A	22,144	26,582	1.28	42,159	55,907	1.35
Japan	24,196	29,045	1.40	9,831	13,037	0.31
Others	7,086	8,506	0.41	24,966	33,107	0.80
	US\$ 1,730,023	₩ 2,076,720	100.00	US\$ 3,126,553	₩ 4,146,122	100.00

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, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Letters of credit issued but not yet being drawn	₩ 4,302,470	₩ 4,766,665
Other guarantees and acceptance	41,641	27,974
	₩ 4,344,111	₩ 4,794,639

Litigation

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate counts of claims brought by the Bank are 594 (approximately ₩183,893 million) as of December 31, 2002. The aggregate counts of claims brought against the Bank are 49 (approximately ₩41,891 million) as of December 31, 2002. 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\$ 5.6 million) of floating rate notes and paid US\$ 20.3 million in subrogation for offshore funds in Malaysia established by Anam Semiconductor ("The Company"), which is now undergoing a workout program. While the bank has recovered US\$9,642,851 from the guarantors. 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.

As of the year-end, probable outcome of the lawsuit filed for the amount of US\$2,600,000 by the KEBOC, a consolidated subsidiary, on the matter of withholding of tax for the interest income from the bank, cannot be given.

Asset Backed Securitization

At December 6, 1999, the Bank sold certain non-performing loans amounting to ₩106,772 million to a Special Purpose Company (1st 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.

At February 1, 2001, the Bank sold certain non-performing loans to leasing companies amounting to ₩589,175 million to a Special Purpose Company (5th SPC) and received ₩300,000 million and ₩123,175 million in cash and subordinated bonds, respectively. In relation to this asset backed securitization ("ABS"), the Bank entered into a credit line commitment in the amount of ₩110 billion with Korea Development Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩34.1 billion as collateral to Korea Development Bank.

And at May 25, 2001, the Bank sold certain non-performing loans amounting to ₩998,923 million to a Special Purpose Company (6th SPC) and received ₩200,000 million and ₩182,301 million in cash and subordinated bonds, respectively. In relation to this ABS, the Bank entered into a credit line commitment in the amount of ₩30 billion with Kookmin Bank. For this commitment, the Bank provided government and public bonds equivalent to ₩34 billion as collateral to Kookmin Bank.

And at October 30, 2001, the Bank sold certain non-performing loans amounting to ₩163,750 million to a Special Purpose Company (7th SPC) and received ₩37,022 million and ₩36,100 million in cash and subordinated bonds, respectively. In relation to this ABS, Korea Development Bank offered ₩7 billion of Credit Line.

In relation to the business transaction agreement (the "Agreement") which governs the sale of non-performing loans 1st, 5th, 6th and 7th SPC, the transferee and the trustee could claim damage for the transferor's performance of a duty to the default collateral within the limit of the contract amount when the securitized asset become unqualified to the condition of the contract or when the asset value is reduced with the significant misstatement of the due diligence report for the assets or when the obligor delayed his payment of the principal more than 6 months. Also, when the duty occurred, the Bank must pay the damage amount to the transferee with cash within 7 business days from document notification.

The limit of the indemnity damage relating to the fifth, sixth and seventh asset securitization amounts to US \$84 million (equivalent to ₩110,040 million), ₩130,000 million, ₩26,000 million, respectively (27%, 34%, 36% of the total proceeds, respectively).

Loans Sold under Repurchase Agreements

The Korea Asset Management Corporation ("KAMCO") can resell some of the loans previously purchased from the Bank 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, 2002, KAMCO may exercise the resale option for the loan amounting to ₩604,689 million. Additional loss or profit may occur, depending on the loan classification on valuation of loans or final arrangement on loans when KAMCO and others exercise their repurchase agreement.

Effective January 13, 2003, KEBCS, a consolidated subsidiary, has entered into a trust agreement with Kookmin Bank's trust account (the "Trust") to transfer cash advances and amounts due from cardholders arising from revolving purchases amounting to ₩403,804 million and future cash advances and revolving purchase accounts from 180,763 cardholders up to April 21, 2006. According to the agreement, cash advances and revolving purchase accounts were transferred to the Trust as of January 13, 2003. Based on the cash advances and revolving purchase accounts transferred to the Trust, the Trust issued two types of beneficiary certificates (Type 1 and Type 2) and KEBCS Securitization 2002-7, L.L.C. (the "SPC 7") underwrote the Type 1 beneficiary certificate (Par value : ₩350,500 million) as of January 13, 2003 and issued a securitized bond based on the certificate, as of January 21, 2003. The Company underwrote the Type 2 beneficiary certificate (no par) as of January 13, 2003 and owns the shares of the SPC 7 amounting to ₩200,000. Proceeds from the cash advances and revolving purchase accounts transferred to the Trust, are primarily used to fund interest expenses of the securitized bond and operating. Expenses of the SPC 7, and the remaining amounts are transferred to the Company. Servicing of the cash advances and revolving purchase accounts sold is retained by the Company, and the Company is entitled to receive the related servicing fees from the Trust. The servicing agreement includes a clause which requires additional transfers of cash advances and revolving purchase accounts from the Company, to supplement outstanding cash advances and revolving purchase accounts balance, required for securitization, when cash advances and revolving purchase accounts are equal to or lower than 104% of the aggregate amounts of Type 1 beneficiary certificate and 4% of cash advances and revolving purchase accounts.

On December 5, 2002, KEBCS, a consolidated subsidiary, has entered into an agreement with Shinhan M&A Co., Ltd. to sell its amounts due from cardholders and loans to cardholders amounting to ₩530,244 million as of November 8, 2002, which were previously written off, and the resulting gains of ₩140,199 million, were recognized as subsequent recoveries and added to the allowance for doubtful accounts.

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.

Debt to Equity Swap

Under the debt restructuring agreement between creditors and Hyundai Construction Co., Ltd, the Bank acquired common stock of that company at par value of ₩5,000 in exchange for ₩297,079 million of loans and convertible bonds during 2001. In addition, the Bank purchased ₩170,000 million of mandatory convertible bonds newly issued by Hyundai Construction Co., Ltd. for the purpose of financial support.

The Creditors Financial Institutions' Councils of Hynix Semiconductor's made resolutions to write down equity in the ration of 21:1 and to subscribe convertible bond for the existing loan and corporate bond of ₩1,861,698 million, after the shareholders meeting, as of Dec 30, 2002. Related to the issue, the bank has arranged to convert the loan and corporate bond of ₩115,806 million at the amount of the public subscription price (minimum price ₩453) times the ratio of equity write down per share.

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, 2002 is as follows (In Millions of Korean Won):

	Outstanding		Trading				Hedging				Total				Valuation gains or losses (BS)		
	Hedging		Gains		Losses		Gains		Losses		Gains		Losses		Assets	Liabilities	
	Trading																
Foreign Currency Related Contracts																	
Forward contracts (*)	₩8,161,522	₩962,019	₩9,123,541	₩-10,285	₩62,198	₩1,115	₩16,582	₩-9,170	₩78,780	₩103,159	₩158,148						
Futures contracts (*)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swap contracts (*)	585,278	-	585,278	28,808	-4,447	-	-10,979	28,808	-15,426	29,023	6,087						
Option contracts																	
Option contracts purchased	270,090	-	270,090	-15,401	-	-	-	-15,401	-	7,937	-						
Option contracts sold	270,090	-	270,090	-	-15,019	-	-	-	-15,019	-	7,937						
	9,286,980	962,019	10,248,999	3,122	42,732	1,115	5,603	4,237	48,335	140,119	172,172						
Interest Rate Related Contracts																	
Futures contracts																	
Futures contracts purchased (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Futures contracts sold (**)	2,911,042	-	2,911,042	-	5	-	-	-	5	-	-						
Swap contracts	3,223,645	120,040	3,343,685	-	372	3,247	-	3,247	372	65,395	63,947						
Option contracts																	
Option contracts purchased	346,832	-	346,832	-	-	-	-	-	-	663	-						
Option contracts sold	375,531	-	375,531	-	563	-	460	-	1,023	-	1,159						
	6,857,050	120,040	6,977,090	-	940	3,247	460	3,247	1,400	66,058	65,106						
Index Options Related Contracts																	
Futures contracts																	
Futures contracts purchased (**)	3,498	-	3,498	-	126	-	-	-	126	-	-						
Futures contracts sold (**)	3,180	-	3,180	20	9	-	-	20	9	-	-						
Option contracts																	
Option contracts purchased	855,648	-	855,648	1,265	1,731	-	-	1,265	1,731	4,327	-						
Option contracts sold	1,537,453	-	1,537,453	1,524	1,313	-	-	1,524	1,313	-	4,297						
	2,399,779	-	2,399,779	2,809	3,179	-	-	2,809	3,179	4,327	4,297						
	₩18,543,809	₩1,082,059	₩19,625,868	₩5,931	₩46,851	₩4,362	₩6,063	₩10,293	₩52,914	₩210,504	₩241,575						

(*) 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.

Continued ;

A summary of derivative financial instrument information at December 31, 2001 is as follows (In Millions of Korean Won):

	Outstanding				Valuation gains or losses (US) (***)				Valuation gains or losses (B/S)							
	Trading		Hedging		Total		Trading		Hedging		Total		Assets		Liabilities	
	Trading	Hedging	Total	Gains	Losses	Gains	Losses	Gains	Losses	Gains	Losses	Total	Gains	Losses	Assets	Liabilities
Foreign Currency Related Contracts																
Forward contracts (*)	₩ 4,884,076	₩ 396,252	₩ 5,280,328	₩ 53,127	₩ -10,237	₩ 6,036	₩ 17,068	₩ 59,163	₩ 6,831	₩ 117,216	₩ 87,354					
Futures contracts (*)	181,222	-	181,222	-	-	-	-	-	-	-	-					
Swap contracts (*)	360,268	96,388	456,656	34	10,366	930	-	964	10,366	215	21,513					
Option contracts	354,068	-	354,068	3,607	-	-	-	3,607	-	23,125	-					
Option contracts purchased	372,634	-	372,634	-	3,612	-	-	-	3,612	-	23,130					
Option contracts sold	6,152,268	492,640	6,644,908	56,768	3,741	6,966	17,068	63,734	20,809	140,556	131,997					
Interest Rate Related Contracts																
Futures contracts	1,400	-	1,400	-	-	-	-	-	-	-	-					
Futures contracts purchased (**)	2,288,848	-	2,288,848	-	-	-	-	-	-	-	-					
Futures contracts sold (**)	1,622,128	263,520	1,885,648	18,398	31,936	4,573	1,239	22,971	33,175	70,704	73,017					
Swap contracts	200,376	-	200,376	396	467	-	-	396	467	1,461	-					
Option contracts purchased	202,779	-	202,779	1,865	288	-	-	1,865	288	-	5,330					
Option contracts sold	4,315,531	263,520	4,579,051	20,659	32,691	4,573	1,239	25,232	33,930	72,165	78,347					
Preemptive Right	4,949	-	4,949	4,949	-	-	-	4,949	-	8,307	-					
	₩10,472,748	₩ 756,160	₩11,228,908	₩82,376	₩36,432	₩11,539	₩18,307	₩93,915	₩54,739	₩221,028	₩210,344					

(*) 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.

Continued ;

Economic uncertainties

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

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 under workout programs amount to ₩452,332 million. In addition, as of December 31, 2002, Bank's outstanding loans and guarantees to Hyundai Group companies, including Hyundai Construction Co. Ltd and Hynix Semiconductor Inc. amount to ₩1,357,300 million. Actual loan losses related to the above companies may differ from allowances for such loan losses accrued by the Bank.

In addition, the Bank's loans(except for guarantees and acceptances and etc.) provided to SK Global Ltd., and its foreign subsidiaries, totaled ₩226,800 million at December 31, 2002. An investigation is in progress about allegations of window-dressing in SK Global Ltd. If these allegations are proved to be valid, this may have a significant impact on the financial position of SK Global Ltd., and the Trust Accounts actual loss from these loans may be materially different from the allowance currently provided in these financial statements. No adjustments related to these uncertainties have been recorded in the accompanying financial statements.

20. Other Incomes:

Details of other income for the years ended December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Gain on disposal of trading securities	₩ 46,988	₩ 89,928
Gain on disposal of investment securities	50,117	163,492
Gain on valuation of securities	41,977	60,037
Gain on sales of loans	14,145	21,648
Gain on disposal of premises and equipment	13,337	19,288
Gain from liabilities forgiven	14,047	49,683
Recovery of loans charged off	141,663	4,287
Lease rental earned	2,770	2,543
Deferred tax revenue	-	1,940
Gain on valuation of equity-method investments	14,317	-
Other	306,391	118,238
	₩ 645,752	₩ 531,084

21. Other Expenses:

Details of other expenses for the years ended December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Loss on disposal of trading securities	₩ 37,476	₩ 77,740
Loss on disposal of investment securities	19,672	144,730
Loss on valuation of securities	519,157	149,692
Loss on sales of loans	16	1,711
Loss on disposal of premises and equipment	2,138	9,930
Deferred tax expenses	2,807	2,262
Provision for guarantee and acceptance	-	14
Contribution to non-refundable mandatory funds	64,167	55,765
Other	200,666	113,489
	₩ 846,099	₩ 555,333

22. Income Taxes:

The statutory income tax rates applicable to the Bank and subsidiaries, including resident tax surcharges, approximate 29.7%. No current income tax expenses represent income taxes paid by overseas branches.

The components of differences between the Bank's taxable income and accounting income for the years ended December 31, 2002 and 2001 are as follows:

	In Millions			
	2002		2001	
Net income	₩	113,003	₩	222,547
Temporary differences:				
Allowance for loan losses		128,057		352,077
Accrued interests, net		(9,549)		37,090
Gain on valuation at securities, net		471,744		(74,642)
Allowance for estimated losses on outstanding guarantees and acceptances contract		43,500		98,654
Other		(192,890)		(559,598)
		440,862		(146,419)
Permanent differences:				
Adjustments to accumulated deficits		(61,707)		(99,828)
Other		(2,317)		(11,737)
		(64,024)		(111,565)
Net taxable income(loss)	₩	489,841	₩	(35,437)

Details of the Bank's temporary differences and deferred tax assets as of December 31, 2002 are as follows:

	In Millions					
	Balance at January 1, 2002 (*)	Adjustments for foreign currency translation	Increase (Decrease)	Balance at December 31, 2002	Deferred tax assets (liabilities)	
Loss on valuation of securities	₩ (117,861)	₩ 638	₩ 384,191	₩ 266,968	₩ 79,289	
Gain on valuation of long-term debt securities	8,828	260	40,704	49,792	14,788	
Accrued interest	(84,637)	-	(9,549)	(94,186)	(27,973)	
Allowance for loan losses	352,077	-	(224,020)	128,057	38,033	
Loans charged off	66,213	-	-	66,213	19,665	
Allowance for losses from						
Guarantee and acceptances	98,654	-	(55,154)	43,500	12,920	
Restructuring of loans	98,082	-	(16,359)	81,723	24,272	
Other, net	18,656	-	321,049	339,705	100,892	
	₩ 440,012	₩ 898	₩ 440,862	₩ 881,772	261,886	
Operating loss carry-forward	₩ 1,994,560	₩ -	₩ (514,875)	₩ 1,479,685	439,466	
Deferred tax assets					701,352	
Allowance for deferred tax assets					501,352	
Deferred tax assets (Domestic)					200,000	
Deferred tax assets (Foreign)					73	
Deferred tax assets (Subsidiaries)					11,012	
Deferred tax assets, net					₩ 211,085	

(*) Includes the adjustment of prior year's tax return

23. Goodwill:

Since the goodwill arising from investments into subsidiaries before prior years was fully amortized, there is no amortization expenses on goodwill in 2002.

24. Earnings Per Share and Ordinary Income Per Share:

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

The weighted average number of common shares outstanding for the year ended December 31, 2002 are calculated as follows:

	2002		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815

Weighted average number of shares outstanding:

81,093,849,815 shares / 365 days = 221,174,931 shares

The weighted average number of common shares outstanding for the year ended December 31, 2001 are calculated as follows:

	2001		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Beginning	222,174,931	365	81,093,849,815
Treasury stock	590,672	365	(215,595,554)
			80,878,254,261

Weighted average number of shares outstanding:

80,878,254,261 shares / 365 days = 221,584,258 shares

Basic Earnings per share:

	2002	2001
Net income (losses)	₩ 53,044,738,207	₩ 227,130,686,373
Preferred stock dividends	-	-
Net income (losses) allocated to common stock	53,044,738,207	227,130,686,373
Weighted average number of common shares outstanding (in shares)	222,174,931	221,584,258
Basic net income (losses) per share	₩ 239	₩ 1,025

Basic ordinary income per share:

	2002	2001
Net income	₩ 53,044,738,207	₩ 227,130,686,373
Extraordinary gain (losses)	15,457,210,126	49,986,369,894
Extraordinary losses	2,627,159,248	2,786,586,527
Income tax related to extraordinary income	3,810,525,111	14,537,533,277
Ordinary income (losses) allocated to common stock	44,025,212,440	194,468,436,283
Weighted average number of common shares outstanding (in shares)	222,174,931	221,584,258
Basic ordinary income (losses) per share	₩ 198	₩ 878

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

The number of diluting shares for the year ended December 31, 2002 are calculated as follows:

	2002		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Convertible preferred shares	148,000,000	365	54,020,000,000

Number of diluting shares:

54,020,000,000 shares / 365 days = 148,000,000 shares

The number of diluting shares for the year ended December 31, 2001 are calculated as follows:

	2001		
	Number of Shares	Number of days outstanding	Weighted number of shares outstanding
Convertible preferred shares	148,000,000	365	54,020,000,000

Number of diluting shares:

54,020,000,000 shares / 365 days = 148,000,000 shares

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

Diluted earnings per share:

	2002	2001
Net income allocated to common stock	₩ 53,044,738,207	₩ 227,130,686,373
Preferred stock dividends	-	-
Diluted net income	53,044,738,207	227,130,686,373
Weighted average number of common shares before dilution (in shares)	221,174,931	221,584,258
Diluting shares	148,000,000	148,000,000
Diluted weighted average number of common shares outstanding (in shares)	370,174,931	369,584,258
Diluted earnings per share	₩ 143	₩ 615

Diluted ordinary income per share:

	2002	2001
Ordinary income allocated to common stock	₩ 44,025,212,440	₩ 194,468,436,283
Preferred stock dividends	-	-
Diluted ordinary income	44,025,212,440	194,468,436,283
Weighted average number of common shares before dilution (in shares)	222,174,931	221,584,258
Diluting shares	148,000,000	148,000,000
Diluted weighted average number of common shares outstanding (in shares)	370,174,931	369,584,258
Diluted ordinary income per share	₩ 119	₩ 526

24. Earnings Per Share and Ordinary Income Per Share, Continued:

Potential common share information as of December 31, 2001 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 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 five 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 equivalents at December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Cash on hand	₩ 1,155,438	₩ 1,380,618
Deposits in Won	1,308,425	1,163,055
Deposits in foreign currencies	1,637,918	936,858
Marketable securities	27,974	27,535
	₩ 4,129,755	₩ 3,508,066

Significant non-cash flow transactions for the years ended December 31, 2002 and 2001 are as follows:

	In Millions	
	2002	2001
Decrease in loans by charge-off	₩ 1,944,551	₩ 1,777,168
Increase in net asset by excluding consolidation company	-	23,957
Decrease in allowance for loan losses by offsetting present value discounts	5,521	29,810
Domestic exchange settlement	2,791,543	1,053,233

26. Information for Value Added:

The details of costs constituting value added expenses for the six-month period ended December 31, 2002 and 2001 are as follows:

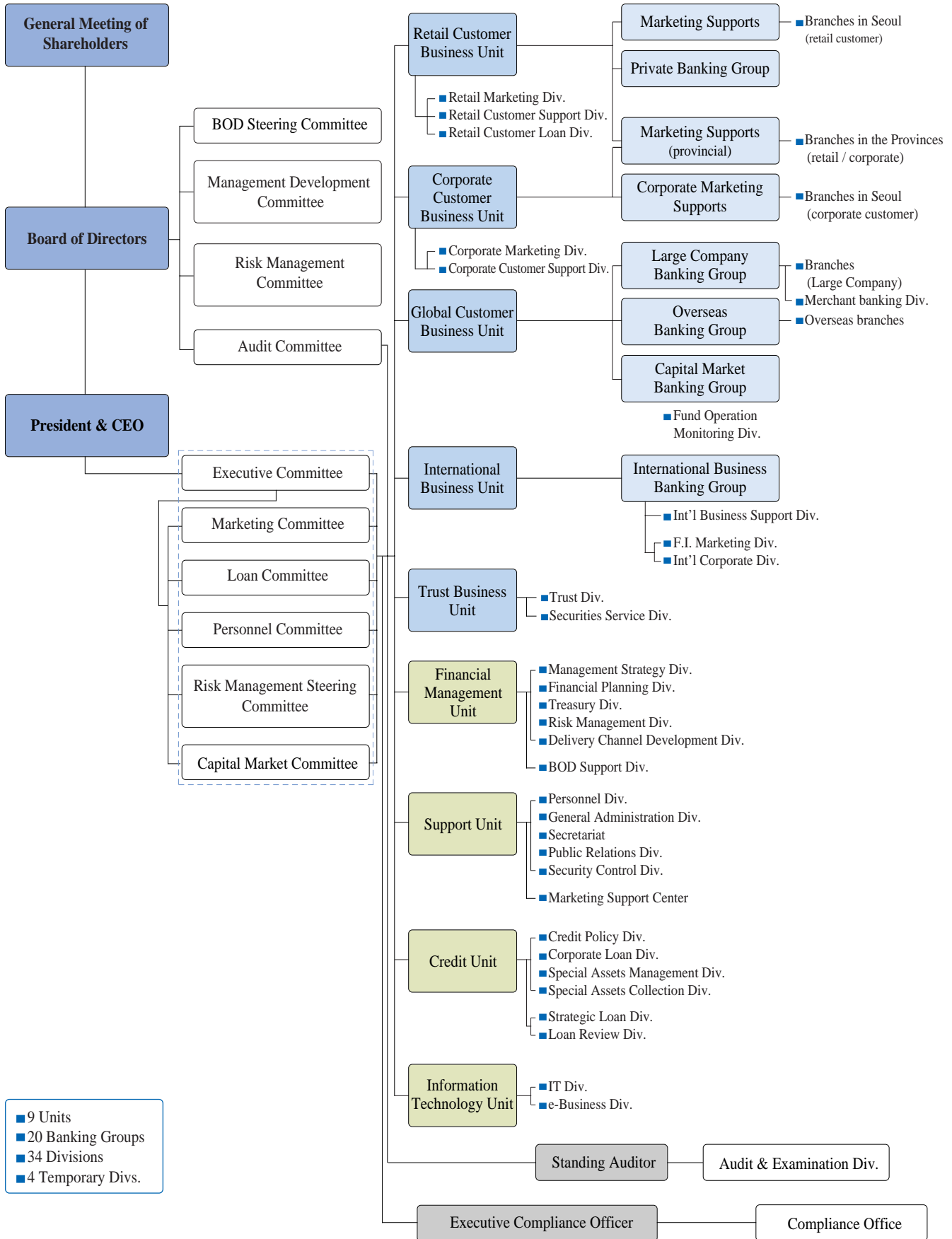
Account	In Millions	
	2002	2001
Salaries and wages	₩ 337,014	₩ 232,848
Welfare expenses	92,593	23,447
Provision for severance benefits	39,595	32,888
Depreciation	106,729	103,611
Amortization	8,214	6,278
Taxes and dues	31,482	27,821
Rent	33,470	7,437
	₩ 649,097	₩ 434,330

27. Related Party Transaction:

Significant transactions made in the normal course of business with subsidiaries during the years ended 2002 and 2001, and related account balances as of December 31, 2001 and 2000 are summarized as follows (In Millions of Korean Won):

	KEBA	KEBOC	KEBIT	KEBLS	KEBCS	KEBD A.G.	KEBD	KEB Ire	KEBFC	Trust	Others	Total	
												2002	2000
ASSETS:													
Due from banks in Won	₩ -	₩ 682	₩ -	₩ -	₩ -	₩ 16	₩ -	₩ -	₩ -	₩ -	₩ 4,220	₩ 4,918	₩ 438,352
Due from banks in foreign currency	-	-	-	7,900	-	-	-	-	5,000	-	-	12,900	63,863
Loans in Won	-	-	-	-	-	-	-	-	-	-	-	-	183,000
Loans in Foreign currency	43,977	2,161	-	116,944	2,248	84,345	99,633	43,676	-	-	120	393,104	440,622
Other	52	1	-	292	1,836	136	497	1,374	-	97,362	-	101,550	11,175
LIABILITIES:													
Deposits in Won	-	-	24,571	-	280,871	-	-	-	2,539	-	-	307,981	59,886
Deposits in Foreign currency	-	221	-	1,378	-	61,419	33	6,873	-	-	306	70,230	1,478
Borrowings in Won	-	-	-	-	-	-	-	-	-	-	-	-	326,080
Borrowings in Foreign currency	17,903	-	-	-	-	-	22,782	9,585	-	-	-	50,270	44,746
Other	15	-	349	2,342	4,444	624	-	1,349	88	35,456	-	44,667	9,165
REVENUES:													
Interest income in Won	-	-	-	2,106	496	-	-	-	266	11,720	-	14,588	66,681
Interest income in Foreign currency	72	207	-	3,178	33	2,220	1,907	749	-	-	-	8,366	14,155
Fees and commissions	-	-	-	-	41,791	2,463	303	-	-	-	-	44,557	36,080
Other	-	-	-	154	78	-	-	-	-	24,559	-	24,791	12,952
EXPENSES:													
Interest in Won currency	-	-	1,185	-	3,150	-	-	-	47	3,624	-	8,006	8,113
Interest in foreign currency	-	5	-	10	-	253	386	31	-	-	-	685	806
Fees and commissions	-	-	-	-	20	466	-	-	-	-	-	486	17
Other	-	-	-	13,168	67	-	-	-	-	-	-	13,235	67

Organization Chart



Board of Directors



Moon-Soo Chung
Chairman of the Board of Directors
Professor, Inha Univ.



Kang-Won Lee
President and
Chief Executive Officer

Standing Directors



Manfred Drost
Senior Managing Director and
Deputy President



Hans-Bernhard Merforth
Senior Managing Director



Pyoung-Wan Har
Standing Auditor



Dal-Yong Lee
Senior Managing Director

Outside Directors



Keum-Ryong Lee
CEO, Inicis Corporation



Baek-In Cha
Director of Research
Korea Institute of Finance



Yung-Dae Kim
Former President, KFTC



Eung-Seon Kang
Professor, Sejong Univ.



Gap-Yong Kim
Certified Tax Accountant
IMF Advisor



Suk-Ho Sonu
Professor, Hongik Univ.



Klaus M. Patig
Member of Board of Managing
Directors, Commerzbank



Thomas Naumann
Head of Acct. & Tax Div.,
Commerzbank

Managing Directors

Hak-Joong Hwang
Executive Managing Director

Sung -Kyu Choi
Executive Managing Director

Yoon-Sup Kwack
Executive Managing Director

Young-Woo Kim
Managing Director

Kyung-Je Park
Managing Director

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Head of International Banking Group
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Asia, Oceania
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Europe
Senior Manager : Sung-Mun Lee
Tel : 729-0448

Middle East & Africa
Manager : Chang-Goo Jung
Tel : 729-8916

Korea, North · East Asia
Senior Manager : Ji-Heun Kim
Tel : 729-8470

Credit Risk Management

Europe
Senior Manager : Sang-Sup Kim
Tel : 729-8538

Asia, Middle East, Oceania, Korea
Senior Manager : Jin-Young Park
Tel : 729-0457

Africa, North & South America
Manager : Sang-Chol Kim
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Deputy General Manager : Dae-Hwan Kim
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Marketing Manager : Jin-Je Cho
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Manager : Kyoung-Ah Byun
Tel : 729-8482

Advice of Letter of Credit

Manager : Seong-Hi Shin
Tel : 729-8476

Reconciliation

Manager : Sun-il Baek
Tel : 729-8484

Remittance After Service System

Manager : Yun-Ju Baik
Tel : 729-8474

Inward Remittance

Manager : Young-og Noh
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SWIFT Administration

Deputy General Manager : Beom-sang Kim
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Asset Management

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Manager : Chul-Soo Kang
Tel : 729-0557

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Manager : Young-Soo Kim
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Deputy General Manager : In-Gyun Cho

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Manager : Hyung-Kook Park
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Project Finance

Manager : Han-Sang Han
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Manager : Jong-Soo Ha
Tel : 729-8770
Manager : Sang-Bae Lee
Tel : 729-0476

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Deputy General Manager : Hee-Dong Kim
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Manager : Dong-Choon Chung
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850-0549-20408 (Overseas)
Fax: 850-4649 (Domestic)

Subsidiaries

Pacific Union Bank (Head Office)

President : Woon-Seok Hyun
3530 Wilshire Blvd. # 1800 Los Angeles,
CA.90010 U.S.A
Tel : 1-213-385-0909
Fax: 1-213-386-6869
pub@pubbank.com

Korea Exchange Bank of Canada (H.O)

President : Sung-Woo Kim
Madison Centre Suite 1101, 4950 Yonge St.
Toronto Ontario M2N 6K1, Canada
Tel : 1-416-222-5200
Fax: 1-416-222-5822
keboc@interlog.com

KEB Australia Ltd.

Managing Director : Sam-Lyung Park
Suite 602, Level 6, AIG Building 220 George St.,
Sydney N.S.W.2000, Australia
Tel : 61-2-9251-3355
Fax: 61-2-9251-3853
admin@keba.com.au

Korea Exchange Bank (Deutschland) A.G.

Managing Director : Jae-Yong Song
Bockenheimer Landstrasse 51-53, 60325
Frankfurt/M Germany
Tel : 49-69-7129-0
Fax: 49-69-7129-122
kebdeag@t-online.de

P.T. Korea Exchange Bank Danamon

President: In-Koo Kang
Wisma GKBI 12th Fl., Suite 1201 Jalan Jenderal
Sudirman No.28 P.O. Box 2317 Jakarta 10210
Indonesia
Tel : 6221-574-1030
Fax: 6221-574-1031
kebd@cbn.net.id

KEB Ireland Ltd.

Managing Director : Han-Young Kim
1st Floor, Russell House, Stokes Place,
St.Stephen's Green, Dublin 2, Ireland
Tel : 353-1-475-2000
Fax: 353-1-478-5612
keb@eircom.net

Banco KEB do Brasil S.A

President : Sun-Gap Hwang
Av. Paulista 1842,13 Andar, Conj.136/137-
Cetenco Plaza, Torre Norte, CEP01310-200
Sao Paulo, SP, Brasil
Tel : 55-11-3171-1122
Fax: 55-11-3171-1100
kebsp@sagesse.com.br

Affiliate

Cairo Far East Bank S.A.E.

104 El Nil ST., Dokki, Cairo, Egypt
Tel : 202-336-2516
Fax: 202-748-3818
msbank@lycos.co.kr

Domestic Network

Head Office

181, 2-Ga, Ulchiro, Chun-gu
C.P.O Box 2924, Seoul 100-793, Korea
Tel : (82-2)729-8000
Tlx : 23141

Subsidiaries

Korea Exchange Bank Credit Service Co.,Ltd.

President : Un-Chul Pek
935-34, Pangbae-dong, Socho-gu
Seoul 137-060, Korea
Tel : (82-2)524-8000
Fax: (82-2)524-8052

KEB Capital Inc.

President : Suh-Bong Kim
528-13, Anyang 6 dong ManAn-gu
Anyang, Kyunggi-do 430-016
Tel : (82-031)468-7105
Fax: (82-031)468-7106

KEB Commerz Investment Trust Management Co.,Ltd.

President : Jae-Kyu Ahn
23-5, Youido-dong, Youngdungpo-gu
Seoul 150-010, Korea
Tel : (82-2) 3772-6700
Fax: (82-2)3772-6747/9

KEB Futures Co.,Ltd.

President:Yo-Sun Song
23-7 Youido-dong, Youngdungpo-gu
Seoul 150-738, Korea
Tel : (82-2)3770-4100
Fax: (82-2)3770-4147

Corporate Data (as of December 31,2002)

Established	January 30.1967
Paid-In Capital	1,850,875 Millions
Common Stock Issued and Outstanding	222,174,931
Stock Exchange Listing	Korea Stock Exchange
Number of Stockholders	97,254
Number of Employees	5,374



KOREA  EXCHANGE BANK

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