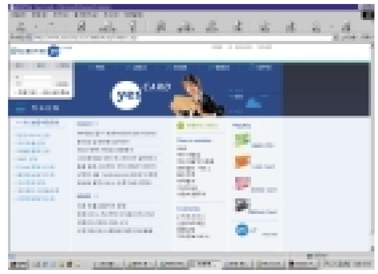
Annual Report 2001

We create value for shareholders,
by delivering excellence to customers

KOREA EXCHANGE BANK
CREDIT SERVICE CO., LTD.



The Best Card ≫

Korea Exchange Bank Credit Service Co. Ltd (KEBCS) was established as an independent business in 1988 following the spin-off of the credit card operations of the Korea Exchange Bank. Since then, the company has effectively harvested the growth in credit card usage in Korea to build a cardholder base that, as of December 2001, numbered over 6.2 million members and a merchant network with over 1.7 million members.

In FY 2001, the Company generated operating revenue of KRW1,120 billion and doubled its net income to KRW212 billion compared to the previous year.

The Company offers a diverse range of cards, including a number of affinity cards in strategic alliances with prestigious companies and holds a lead in the revolving card market segment.

From 1999, KEBCS took prudent steps to secure a stable funding base and became the first Korean credit card company to attract foreign investment, with a capital injection of US$120 million from Olympus Capital. This development was a testimony to the Company's sound growth and earnings potential and reaffirmed its credibility both domestically and overseas. In another industry first, at the end of 2000 KEBCS issued KRW300billion of asset-backed securities (ABS) and thereby secured a diversified basis of lower-cost financing. Currently, the total amount of ABS outstanding is KRW1.4 trillion.

On December 21, 2001, KEBCS became the first credit card company listed on the Korea Composite Stock Price Index (KOSPI), widening its investor base and enhancing its corporate image and public trust.

In 2002 KEBCS strives to achieve its vision of becoming a first class consumer finance company by providing highest customer, shareholder and employee satisfaction.

The Company pursues an ambitious management strategy that centers on creating competitive advantage by building world-class skills in the areas of operational infrastructure, credit cycle as well as marketing and sales. Key principles in the execution of its strategies are the Company's focus on employee development and its customer orientation through micro-segmentation and product customization. This results in a strong emphasis on profitability and asset quality as KEBCS strives to deliver consistent earnings growth.

Contents

To deliver value to Customers and Shareholders with its core competitiveness

Strong Infrastructure

Accumulated Financial Know-how

Superior Human Resources

While maintaining high asset quality

through advanced risk management

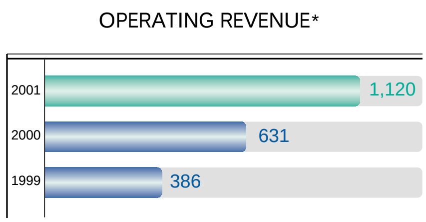
Financial highlights

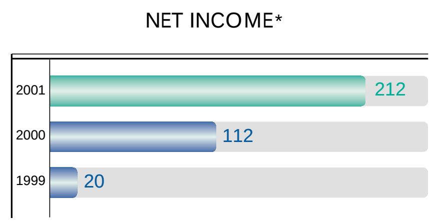
( ) = Managed	(In billion of Korea Won)				(In million of US$)*	
	2001		2000		2001	2000
Operating Results						
Operating Revenue	**1,069**	**(1,120)**	621	**(631)**	**806**	468
Operating Expense	**475**	**(550)**	326	**(327)**	**358**	270
Sales & Adm. Expense	**271**	**(278)**	133	**(138)**	**204**	154
Operating Income	**323**	**(292)**	162	**(166)**	**243**	122
Non-Operating Income	**3**	**(20)**	4	**(11)**	**3**	2
Non-Operating Expense	**17**	**(3)**	7	**(15)**	**13**	10
Income before Taxes	**309**	**(309)**	159	**(162)**	**233**	176
Net Income	**212**	**(212)**	110	**(112)**	**160**	121
Balance Sheet at Year-End						
Card Assets	**3,788**	**(3,875)**	3,020		**2,857**	2.155
(Allowance for losses)	**(87)**		34			
Total Assets	**4,410**		3,238		**3,326**	2,508
Debenture	**1,600**		909		**1,207**	910
Total Liabilities	**3,783**		2,869		**2,853**	2,121
Common Stock	**209**		184		**158**	119
Total Shareholders' Equity	**627**		369		**473**	387
ABS Assets	**1,726**		396			
Financial Ratio						
Operating Income Growth	**98.8%**	**(74.4%)**	362.2%	**(372.3%)**		
Net Income Growth	**92.7%**	**(88.7%)**	443.2%	**(454.6%)**		
Earnings Per Share	**W 5,725**		W 3,324		**US$ 4.3**	US$ 2.5
Book value Per Share	**W 15,017**		W 10,030		**US$ 11.3**	US$ 7.6
Return On Assets	**5.5%**	**(4.6%)**	4.8%	**(4.8%)**		
Return On Equity	**40.4%**		36.1%			
Non-Performing Loan Ratio	**1.5%**	**(1.1%)**	1.1%	**(1.0%)**		
Net Interest Spread		**(15.4%)**		**(16.1%)**		
Capital Adequacy Ratio	**14.6%**		12.4%			

* Conversion rate is W 1,326 to US$1 as of Dec. 31. 2001

Operating Results

1





*managed basis

Balance Sheet at Year-End

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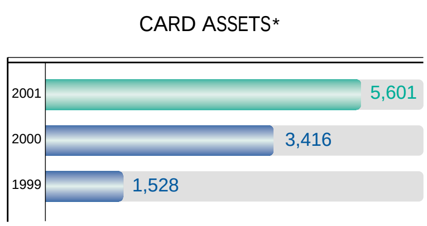

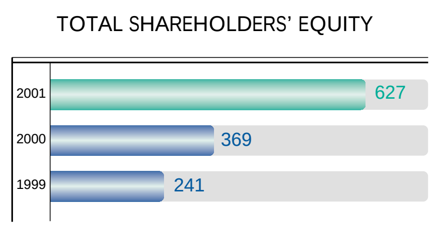

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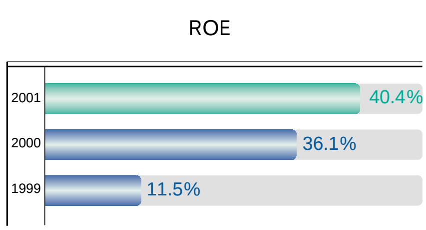
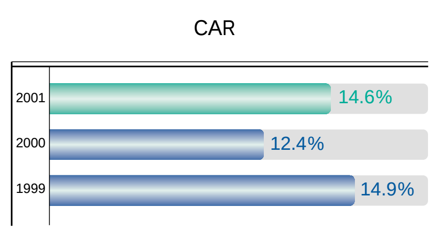
Financial Ratio

3





Message from the CEO

In 2001, we continued to create shareholder value recording the best operating results in our history.

Firstly, I would like to express my sincere gratitude to our shareholders, customers and employees and to thank the former president, Kim Sang Cheol, for his enormous contributions to the company during his time at the head of the Company.

Amidst the challenging financial market environment, I am continuously reminded of the responsibility and effort required to successfully lead Korea Exchange Bank Credit Service Co., Ltd. As I begin my duties as the new President, I look forward to continuing the record of growth and success at the Company.

The year 2001 was a special year for the Company, as we became the first credit card company in Korea to be listed on the KSE (Korea Stock Exchange) in December. Since our establishment in 1988, we have recorded sustainable growth, even amidst the harsh economic environment. This listing will provide a strong platform for leaping ahead into an even stronger and brighter future.

Despite the downturn in the economic environment in 2001, we achieved the best operating results in our history. In 2001, our sales reached W24.3 trillion and net income reached W211.9 billion. Furthermore, we secured a stable profit source through the acquisition of 1.9 million new accounts.

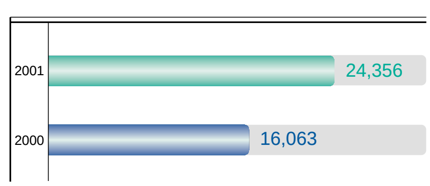
We attribute our success to our active efforts to increase customer card usage rates and, in a large part, to our strong leadership in the revolving card market, which provides a source of stable interest income during downturns in the domestic economy. Our focus on risk management and our integrated marketing and sales approach has also allowed us to identify, target and acquire more profitable customers and build our overall profitability.

The credit card market is expected to continue its record of growth as the number of individual and corporate credit card users continue to increase,

Growth in cards issued and transactions

A number of factors caused the robust growth in the number of credit card holders and transactions, mainly, supportive government policies, positive social trends, and the aggressive marketing activities of KEBCS.

TOTAL TRANSACTION VOLUME
(In billions of Korean Won)



supported by the government's promotion of credit card use as an alternative to cash transactions. Challenges are expected, however, and the competition in the market intensifies with the entry of new companies into the market and the spin-off of the card divisions of some domestic banks. Rising consumer debt poses a social problem, and has the potential to result in direct and indirect restrictions on sales promotions for credit cards.

In order to adapt to this challenging market environment and achieve growth and profitability, we are planning to pursue the following strategies.

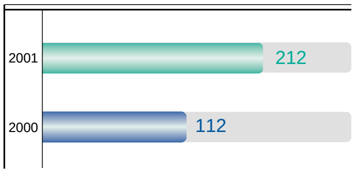
Firstly, we will fully establish a new corporate culture based on open and transparent management. We will promote a positive work environment allowing the free flow of employee suggestions and input into all aspects of the operation. In order to maximize the potential of each employee, we will develop diverse education and support programs. Employees will be encouraged to perform at their best through the fair application of our promotions, rewards and discipline policy.

Secondly, management priority will be firmly focused on enhancing shareholder value. Generating profit is the ultimate purpose of a company. And ultimately, it is our profit and competitiveness that directly reflects upon our shareholder value. Therefore, we will build our profitability and market share, and therefore build shareholder value, by strengthening our marketing strategies and sales network to focus on customer needs. This goal will be supported by enhancing our operational efficiency and corporate value through constant investment in electronic infrastructure and enhancements to our customer consulting system. Through aggressive PR and IR activities in the domestic and overseas market, we will do our best to increase corporate value and satisfy our shareholders, customers and employees. Thirdly, we will strengthen risk management to

Record net income

Net income increased by 89% to W211.9 billion, the result of the growth in our asset base, low financing costs and maintenance of a high quality portfolio.

NET INCOME (In billions of Korean Won)



Enhancing asset quality

Through our constant efforts to reduce overdue credit, we achieved a credit card overdue ratio of 3.77% (year low, including card loans) and recorded a 1.1% non-performing loans ratio, the lowest ratio in the industry at 2001 year end. These results demonstrate the success of our strategy to reduce NPLs.

enhance our asset quality. As the uncertainty in the financial market continues to change, we are strengthening our credit risk management to increase our ability to respond effectively and efficiently to the changing market. We are in the process of building a flexible total risk management system that will aid us in increasing the quality of accounts and further limit exposure to bad accounts by improving our application process.

Lastly, we will focus on maintaining a relationship of trust with our employees to build a productive relationship, because we know that a productive employee relationship is one of the keys to the success of any company.

Opportunities can always be found in the midst of change, if one is prepared and ready to observe and capture them. I, and every one of the employees of KEBCS, will grasp these opportunities and turn them into value for our shareholders and our customers. We have already successfully overcome numerous challenges that have appeared in the past. We will continue to fulfill your expectation and trust in us in the future.

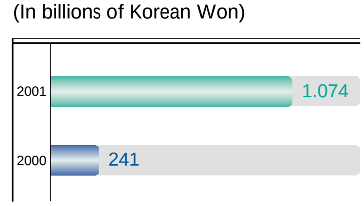
Thank you very much for your support and interest throughout the year, and we look forward to its continuation in the future.

Un-Chul, Bek
Chairman & President

Leadership in the revolving card market

2001 was the year when we achieved the leadership in the revolving card market.
Innovation based on market research and extensive testing are what made this product such a success and a basis for growing customer satisfaction and revenue streams. Our credit approval criteria for customers using this product are tighter and controlled through sophisticated credit scoring systems. That has ensured favorable risk characteristics and high portfolio profitability.

REVOLVING CARD ASSETS
(In billions of Korean Won)



Focus on building competence

In all areas there is a strong emphasis on building state-of-the-art systems and processes. We have a strong human resource base with excellent motivation and skills. Our employees are shareholders in the company and strive to be the best in the industry by implementing world-wide best practices in operations, credit, marketing and sales.

Vision & Strategy

Our vision - become the superior profitability-focused consumer finance company of the 21st century and create the highest customer, shareholder and employee satisfaction.

Firmly based on a strong operational infrastructure and with superior human resources we are shaping the best credit cycle management system and the most innovative, integrated and customer focused marketing and sales method in the market. Our focus is on building sound assets and profits faster than our competitors.

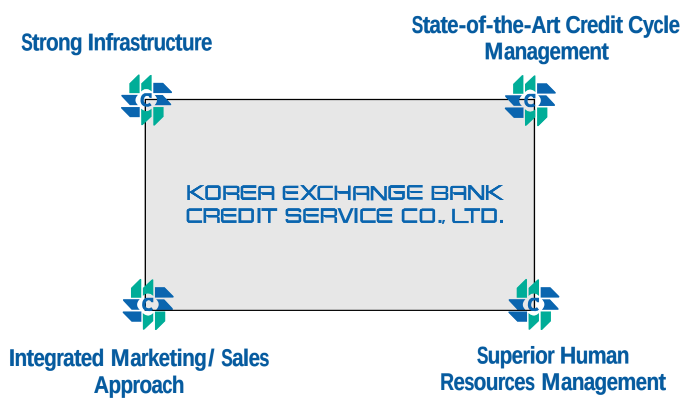
Our recent listing on the KOSPI is an opportunity to create value for our shareholders, improve our brand and leap forward toward our vision.

≫ Management Plan

In 2002, we will pursue an ambitious business strategy that is firmly focused on the goal of delivering value to shareholders and customers. Our strategy focuses on four key strategic areas and the improvements to existing systems.

Strategies

Strengthen our growth platform



Strong Infrastructure

Focus on efficiency and service quality improvements

≫ Develop an advanced next generation IT system

≫ Continuous operational re-engineering and centralization

≫ Implement a financial management system that further enhances profitability management at the micro-segment level

State-of-the-Art Credit Cycle Management

Focus on segmentation, automation and predictability of credit losses

≫ Up-grade to a completely computerized credit decision making system

≫ Implement more advanced micro-segmentation techniques

≫ Bring the best collection management technology to Korea

Integrated Marketing and Sales Approach

Focus on segmentation and product customization

≫ Up-grading to an integrated CRM system across all distribution and transaction channels

≫ Leadership in Revolving Cards, Cross-selling and E-commerce activities

≫ Expanding innovative affinity relationships

≫ Broadening multi-channel acquisition activities

Superior Human Resources Management

Focus on best practices and the enhancement of working conditions

≫ Continuous use of international expertise

≫ Maintain a productive labor-management relationship

≫ Invest in employee development

≫ Enhance performance-based compensation systems

≫ Core Competitiveness

Internationally experienced management

KEBCS has an internationally experienced management team with proven experience in the credit card industry. This contributed to the implementation of best practice in all business areas.

Comprehensive product range

KEBCS has a diverse range of appealing products. It is the market leader in a number of areas. Most importantly we have the largest revolving portfolio in Korea with well over 640,000 revolving customers and over KRW1 trillion in receivables as of December 31, 2001.

Change Management

KEBCS has successfully implemented a 3-year program to strengthen its competitive position. During Phase 1 in 2000, we established a strong organizational framework. In Phase 2, we have reinforced our operational infrastructure in the areas of Sales, Marketing, Credit, Operations and IT. And finally, in Phase 3, we are now focusing on aggressively building our brand, customer base and profitability.

Unique positioning in the market

KEBCS is one of only 2 credit card monolines in the industry that is affiliated with an extensive bank network that brings its products to customers around the nation.

Strong balance sheet fundamentals

Despite being the smallest of the top 4 credit card monolines, KEBCS has the best balance sheet fundamentals, with a capital adequacy ratio of 14.6% and ROA of 5.5%. Indeed, KEBCS out-performs the matured monolines in the U.S. in key financial indicators including net interest spread, ROA, ROE and pre-tax profit margin. The Company also boasts a higher operating margin than its competitors.

Well-managed credit quality

By utilizing an effective credit rating system KEB has effectively managed its delinquency levels, even through a global and domestic economic downturn.


KOREA EXCHANGE BANK
CREDIT SERVICE

REVIEW OF OPERATIONS

Enhancements and upgrades continued throughout all areas of the business during the year.

An overview of the industry and the economy

2001

The credit card industry in Korea recorded phenomenal growth in 2001. The growing popularity of credit cards as a financial transaction alternative was reflected in the growth in the share of credit card usage as a percentage of private consumption in 2001 to 49%, from 27% in 2000. This rise in consumer spending using credit cards led to an increase in credit card sales volume to KRW480tn, double the volume in 2000 (KRW225tn). Meanwhile, the low funding costs and rising asset yields from cash advances generated enviable yields and thus attracted a number of new players to the market, sending the competition up a notch higher.

A number of factors were responsible for the robust growth in the credit card market but the government policy changes in 2000 and 2001 have played the largest part. As part of a strategy to enhance the transparency of business activities, the government introduced a number of incentives such as tax benefits to businesses and individuals when they use credit cards for transactions.

2002

With early signs of an economic rebound already evident, in 2002 Korea is expected to deliver positive economic growth, outpacing that of neighboring economies. The associated increase in domestic consumption will have a carry-on effect in the credit card industry and, combined with the shift in preference towards credit cards, the market is expected to move to a more mature state in 2002. With the growth in the economy in 2002, the continuation of the government's supportive tax policy and stimuli such as the FIFA World Cup, the credit card market is expected to realize significant growth potential, with total industry sales in 2002 projected to grow by 27% to 540 trillion.

Challenges do remain, however. Downward pressure on fees is anticipated which will squeeze industry profit margins. KEBCS is actively minimizing this effect on margins by effectively managing the maturity gap and securing longer term and lower interest rate funding.

The monoline credit card issuers such as KEBCS are expected to continue to dominate the credit card market. While a number of new credit-card companies and spin-offs of smaller affiliates are set to enter the market in 2002, they are not expected to pose any great threat in the short term because the key factors for success in the credit card business - merchant network, operating platform and infrastructure - require a minimum of 1 to 2 years to build, while utilizing that infrastructure to make inroads into the existing market will require enormous investments in marketing in terms of time and money. Structural changes are expected to continue at a number of domestic banks, which are also expected to increase their focus on the lucrative retail market, thereby further igniting competition.

Whilst KEBCS is Korea's fifth largest credit card issuer in term of total transaction volume, we believe we are in an enviable position to capture growth amidst this changing market. The larger transaction volume share of our competitors may provide them with greater momentum, but once the high growth stabilizes a volume based strategy is unsustainable as 'wallet share', becomes critical. KEBCS's key growth drivers include our focus on growing 'wallet share' through cross-selling along with our leadership in the "Revolving Card" segment, our established affiliation with KEB, our sophisticated customer targeting strategy and our strong operating fundamentals.

"We will continue to improve our ability to identify profitable market segments and deliver differentiated products and services to each segment. As the market growth slows down this strategy will enable us to provide superior returns to our shareholders"

≫ Sales and Marketing

In 2001, we recorded sound growth and good returns from our operations. During the year, we exceeded our targets in all areas, including total sales revenue, total number of cardholders, active cardholders, receivables and card loan customers. We saw the number of cardholders grow by 14.9% year on year to 6.3 million and our merchant network grow by 41.5% year on year to number 1.7 million members. This resulted in a growth in credit card sales by 53.7% to KRW20,290 billion in 2001.

The company recorded rapid growth in the acquisition of revolving cardholders, in particular, which led to an increase in interest income from this source to KRW101 billion in 2001, a growth of 119% on the previous year.

Our positive results were driven by a number of steps we made during the year to increase new account acquisition, promote usage and increase our sales revenue.

To attract new customers and retain existing ones, we continued throughout the year to research and develop new products and services targeting different market segments. These new products include the EZ card, a new business card, the new Platinum Card aimed at professional employees, and professional member organizations such as Rotary. We made a concerted effort to attract more high quality customers by offering incentives and strengthening our quality customer management by expanding the number of customers eligible for VIP services from 50,000 in February to 150,000 in August.

KEBCS maintains a number of affinity relationships through which it offers customers a wide range of cards that offer membership benefits with the cooperating business, for example airlines. To increase the options for our customers we also launched IC chip-installed smart cards in cooperation with a number of prestigious companies, including the Moneta Card in cooperation with SK Telecom.

We maximized cross-sales opportunities through the utilization of our management information system (MIS) including our data warehouse and data management, which enabled us to target customers with the right products at the right time and enhance our sales opportunities. At the same time, we encouraged employee performance and boosted growth in new acquisitions through a performance oriented incentives and reward system.

To expand the service network available to our customers, we concentrated on expanding our cooperative relationships with other companies. A cooperative agreement with Nonghyup (National Agricultural Cooperative Federation), and contracts with a variety of banks and other organizations such as the Korea Postal Service, enabled us to expand the number of ATM/CD available to our customers.

During 2001, KEBCS also focused on building its corporate clientele, achieving its corporate membership growth through the launch of a special corporate card campaign. We developed and launched a number of incentives to promote retention to our corporate card program including a modification of the membership fee system, differentiated services based on the volume of card usage, and a card "mileage" accumulation system. These initiatives contributed to the rise in the number of high quality companies in our portfolio.

“Listening to the voice of the customers and striving to delight them through innovation and customization is most important.”

KEBCS is a leader in the revolving card market, and was the first to introduce this product to the Korean market.

2002 - Acquire, Activate, and Maximize

In 2002, our goal is to acquire customers, increase our wallet share, and maximize our existing customer base. We will acquire new customers by targeting them with competitive products and services, focusing on our revolving cards in particular. We will spur card usage and increase our wallet share by providing convenient services and usage benefits such as unique loyalty programs, and flexible limits. Finally, we will maximize the profitability of our existing customer base by effectively utilizing our M.I.S system to perform data mining to identify and capture opportunities to cross sell and up sell, and develop and deliver attractive products that provide an optimum balance of profit and risk.

New account acquisitions

In 2002, we intend to focus particularly on utilizing the Internet and telemarketing channels to acquire new customers. In 2001, the Internet sales platform gave promising results in terms of response, cost, quality and activation. In 2002, we plan to launch a number of on-line promotions in cooperation with "Best in class" partners, fully integrate and automate the system, and improve security. These initiatives are part of our goal to become the best cyber business in the credit card industry.

Our telemarketing system will also be improved in 2001 to lower acquisition costs, and simplify and complement customer contact when integrated with the Internet or personal visitation. In 2002, we will take a bilateral approach to building our outbound telesales platform that consists of pursuing organic growth and promoting strategic alliances. We will pursue organic growth through enhancements to our platform, efficient utilization of our database and development of an incentive system. To balance that we will identify partners with a loyal database and complimentary products and services, and reduce costs through shared marketing and a shared platform.

Revolving card program expansion

KEBCS holds a strong lead in the revolving card segment and we seek to leverage our lead and experience in this field to garner further growth in 2002. Under the revolving card system, the cardholder pays off a fixed percentage of the outstanding amount each month, as opposed to the entire outstanding amount at one time. The revolving card system is a new paradigm in card payment that offers recession-resilient revenues and has low dormancy rates. We intend to build on our lead in this product area by launching special cards programs aimed at specific segments. Meanwhile, we will maintain strict credit line management to ensure we create an optimal balance of risk and reward in this area.

Implementing CRM to maximize our services, retention, and profit

CRM, the collection of customer information and the scientific analysis of that information, is a key tool in effective marketing. In 2002, we will effectively utilize our data warehouse, a key component of any CRM system, to predict customer behavior and identify cross sell opportunities, as well as using it to analyze customer profitability, and the effectiveness of our loyalty programs and sales channels. This will allow us to introduce methods to lower attrition, raise activation and lift utilization while allowing us to capture opportunities for cross sales. We already have the necessary infrastructure including a robust data warehouse, SAS-based data mining applications, advanced telemarketing applications and a large telemarketing center, in addition to a real time campaign management and monitoring system, to successfully and effectively manage this system.

The CRM system will also assist us in strengthening cross sale of related products, another key method of deriving additional revenue from our cardholder base. In 2002, we plan to upgrade our cross sale system by integrating our insurance, travel and merchandising teams into the outbound call platform, in addition to launching new insurance products and selling mutual funds and other investment instruments.

≫ Credit

The asset quality of the KEBCS portfolio is a function of approval criteria, the competitive situation and the collection management activities that we employ. The aging of the accounts is also an important factor as accounts exhibit a higher level of delinquency and credit losses during the first year on the books and lower delinquency levels and losses as they mature. As a result of the more aggressive acquisition activities started in the second half of 2000, we saw as increase in delinquency ratios during the first half of 2001. Towards the end of the second quarter and in the third quarter the ratios then flattened and reduced in the last quarter of 2001 as we saw the results of improved approval criteria and better collection techniques. Key initiatives during the year included significant segmentation work allowing for better targeting of customers at the front-end including the rejection of high risk segments as well as the centralization of collections for early bucket delinquency.

An overview of the Customer Credit Rating System

The company's objective is to optimize profitability of each customer segment within acceptable risk brackets. The approval of new customers therefore involves using a sophisticated matrix that evaluates customers based on occupation, income levels, demographic data and information provided by external credit information systems. The external information we use includes delinquency data, usage information, card holdings and loan information. In addition sophisticated application scores developed by an international vendor are used for certain segments.

For existing customers behavior scores and external credit information are constantly up-dated and monitored. Our management analyzes MIS that includes cross-dimensional vintage data for hundreds of customer segments and adjusts approval policies and line increase policies regularly.

Credit Scoring System

KEBCS's credit scoring system (CSS) consists of a behavior scoring system, an application scoring system, and the credit risk management system.

Behavior Scoring System

KEBCS introduced the first behavior scoring system (BSS) in the domestic credit card industry in 1994, in cooperation with the U.S company, FICO, a recognized world leader in the area of credit risk management systems development. The behavior score is based on trends in card usage such as usage records, accounts outstanding, and records of overdue loans. This information is statistically analyzed to estimate the member's credit worthness and is calculated for each customer on a monthly basis.

The behavior score is central to a number of credit management practices such as determining the increase or decrease in credit limit, the authorization for special transactions, the approval of card loans, and limits, risk-based pricing for most product lines, and the identification of quality customers such as VIP customers.

Application Scoring System

The application scoring system (ASS) was developed jointly with the U.K credit management system development company SD (Statistical Decisions) and went into operation from February 2001. The Application Score is calculated using both external credit information, records of overdue amounts at other credit card companies, and customer information acquired at the time of a new customer's application such as age, occupation and income. KEBCS uses the ASS when approving or denying customer applications, and deciding on cross-selling of credit products. The system is currently being applied to the Revolving Card and in future we plan to gradually expand the sphere of its application to encompass other products.

Credit Risk Management System (CRMS)

In June 2001, KEBCS commenced the development of a CRM system in cooperation with the CRM system development company LFKS. The system went into operation from the end of the year. The system is designed to effectively estimate credit risk by not only predicting changes in credit risk by customer, product and organization, and calculating estimated loss, but also by estimating unanticipated losses stemming from changes in the market environment. We are now able to estimate overall credit risk, and can also able to promptly respond to changes in the external environment by changing credit policies in a flexible and appropriate manner.

During 2001, we worked on building a state-of-the-art network infrastructure that will support upgrades to key services such as the call center.

≫ Operations and IT

Sound support infrastructure is essential to building strong operations and generating growth and profit. Consequently, we are in the process of building a state-of-the-art platform to support the operations and have launched upgrades to our system to achieve this goal, including an upgrade to the headquarters backbone, and the exchange and upgrade of equipment such as routers and HUBs at the branch offices.

Numerous improvements have been completed or are in planning to support the marketing and sales operations, including improvements to our call center infrastructure. Expansions to equipment at the call center are underway with our development of a transaction authorization call center expected to be completed in March 2002, and the planned construction of an Internet call center in 2002.

In 2002, we will continue to build a secure and strong operating platform. We will strengthen the systems operating environment by improving terminal operating systems, developing new programs and by unifying the Integrated maintenance system, thereby expanding our helpdesk functions. We will concentrate on building a secure Internet environment, strengthen our online monitoring, unify our storage disk and expand our computer center.

We have also expanded our financial information and credit risk management systems. In December 2000, we completed an overall upgrade to the financial accounting support system and the CRMS system. In April 2002, we expect to complete a number of additional projects including management accounting, ALM and profitability management systems.

"A core strategy of our business is to enhance customer loyalty through world-class customer service. Improving business processes and integrating all transaction channels into a seamless interface with our customers is, therefore, a top priority."

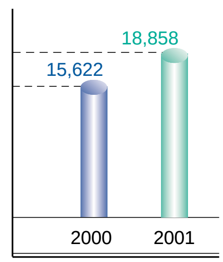
MAJOR PRODUCTS

KEBCS has a diverse range of products targeting different customer segments.

KEBCS cards offer diverse benefits through the affinity relationships the Company maintains with top brand companies.

≫ Platinum Card

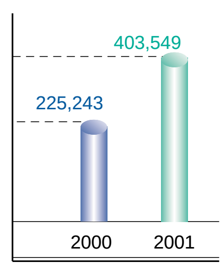
The platinum card is aimed at our VIP customers. The card provides a number of benefits and discounts on leisure activities such as discounts on airline tickets, savings on hotel rates, and a free access card to private waiting lounges at the chief airports around the world. The card also provides customers with comprehensive insurance cover, and a medical examination service.



Number of Card holders

≫ Magic.win Card

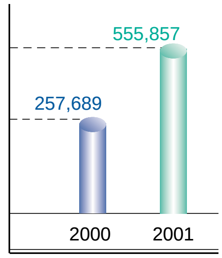
Aimed at salaried workers in their 20s and 30s, the Magic.win Card offers a diverse range of membership benefits to answer the needs of this target age group. Benefits include discounted or free entry into amusement parks around the nation, discounted tickets for sports events, and free coupons for popular restaurant chains. Cardholders also benefit from discounted petrol at LG Petrol station.



Number of Card holders

≫ I.Miz Card

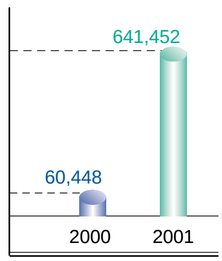
The I.miz card is aimed at women in their 20s and 30s. The card offers the same benefits as the Magic.win Card with the addition of benefits such as an interest-free installment purchase service for famous fashion brands, and free insurance.



Number of Card holders

≫ YES EZ

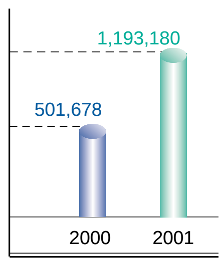
The Yes EZ card is our signature revolving card product that allows cardholders to freely adjust the repayment schedule on amounts due. Cardholders have the option of repaying anything between 5% to 100% of the due amount. As customers use the cards, they gather Yes Points that can be used towards purchases. The card comes with a free insurance service that includes unemployment insurance, and comprehensive accident insurance.



Number of Card holders

≫ YES OK

The Yes OK card combines the functions of a credit card, with membership in the OK Cashbag and SK Enclean membership services. Cardholders can take advantage of the benefits offered through both of these services, including accumulating points at a diverse range of participating stores and restaurants. It also offers free holiday traffic insurance, and through the OK Cashbag discount services, cardholders can receive discounts on medical examinations, car rentals, house removal services and so on.



Number of Card holders

FINANCIAL SECTION

Business performance was remarkably profitable

Management's Discussion & Analysis

All of the results set forth in the analysis below are based on managed data as well as reported data, which included audited financial statements. Data not presented as being managed are represented as "reported".

OVERVIEW

KEBCS's business performance in the fiscal year 2001 was significantly better than in the previous year and highly profitable:

¢″ Credit card sales volume increased by 54% YOY to W20 trillion. Operating Revenue at W1,120 billion, Operating Income at W 292 billion and Net Income at W212 billion improved 78%, 76% and 89% YOY respectively.

¢″ Interest income from revolving receivables increased by 119% YOY to W101 billion and the proportion of annuity income generating assets such as installment purchases, card loans and revolving loans increased from 48% to 61% of total assets.

¢″ Delinquency balances (excluding unbilled amounts) over 30 days past due stood at W211 billion resulting in a delinquency ratio of 3.8% compared to 2.7% in the previous year. The ratio was declining toward the year-end as a result of overall improved portfolio quality. Write-offs during the year amounted to W145 billion, increasing by W32 billion compared to the year 2000.

¢″ As of year-end the total allowance for loan losses was W107 billion, increasing by 115% compared to the previous year. Provisioning was done on a more conservative base than required by the FSS. The NPL coverage ratio stood at 170.2% and the ratio of substandard & below receivables as a percentage of total receivables stood at 1.1% increasing by 0.1 percentage points compared to the earlier year.

¢″ Funding cost rate was 7.7% decreasing by 1.1 percentage points YOY. KEBCS issued W1.1 trillion in asset backed securities (ABS) during 2001. The total amount of ABS reached W1.4 trillion at year end.

Selected financial Data

(In billions of Korean Won)

	1999	2000		2001	
	Reported=Managed	Reported	Managed	Reported	Managed
Operating Results					
Operating Revenue	386	621	631	1,069	1,120
Operating Expense	211	326	327	475	550
Sales & Adm. Expense	140	133	138	271	278
Operating Income	35	162	166	323	292
Non-Operating Income	5	4	11	3	20
Non-Operating Expense	8	7	15	17	3
Income before Taxes	32	159	162	309	309
Net Income	20	110	112	212	212
Balance Sheet at Year-End					
Card Assets	1,529	3,020		3,875	
(Allowance for card assets)	(65)	(34)		(87)	
Total Assets	1,673	3,238		4,410	
Debentures	378	909		1,600	
Total Liabilities	1,432	2,869		3,783	
Common Stocks	161	184		209	
Total Shareholder's Equity	241	369		627	
ABS Card Assets		396		1,726	

Financial Ratio	1999	2000		2001	
Operating Income Growth	16.5%	362.2%	372.3%	98.8%	74.4%
Net Income Growth	59.4%	443.2%	454.6%	92.7%	88.7%
Earning Per Share (W)	1,022	3,324		5,725	
Book value Per Share (W)	7,478	10,030		15,017	
Return On Assets (ROA)	1.4%	4.8%	4.8%	5.5%	4.6%
Return On Equity (ROE)	11.8%	36.1%		40.4%	
Non-Performing Loan	5.2%	1.1%	1.0%	1.5%	1.1%
Net Interest Spread	15.8%		16.1%		15.4%
Capital Adequacy Ratio	14.9%	12.4%		14.6%	

ANALYSIS OF OPERATIONS

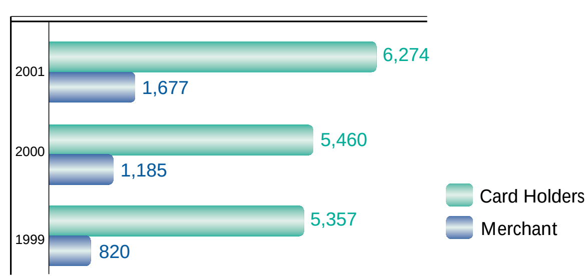
REVENUE & EXPENSE

- REVENUES

Total operating revenue for fiscal year 2001 was W1,120 billion, up 77.6% from W631 billion in the previous year. In 2001, the government continued a campaign to encourage credit card-based consumption among cardholders and merchants by offering tax benefits as part of a goal to enhance the transparency of business transactions.

Total fee income and interest income increased riding on growths in fee income from merchants and in interest income from cash advances and card loans. As a result of the newly introduced revolving-type settlement method, revolving income was generated to the amount of W101billion. The number of both cardholders and merchants showed 14.9 % and 41.5% YOY growth to reach 6.3 million and 1.7 million respectively.

Numbers of card holders and merchants



Numbers of card holders and merchants *(In thousands)*

	1999	2000	2001	YOY
Card Holders	5,357	5,460	6,274	14.9%
Merchant	820	1,185	1,677	41.5%

Meanwhile, the volume of card usage grew by W7 trillion to reach W20 trillion by the end of Dec. 31 2001, with a growth rate of 53.7% YOY.

Usages of credit card *(In billions of Korean Won)*

	1999	2000	2001	YOY
Lump-sun Purchase	2,693	4,134	5,368	29.8%
Installment Purchase	768	1,294	2,014	55.6%
Cash Advance	3,145	7,777	12,908	66.0%
Total	6,606	13,205	20,290	53.7%

In addition, the volume of cardholders applying for revolving settlement increased sharply to 0.64 million persons, a remarkable YOY growth of 961%. The revolving card assets as a share of total card assets increased to 19.2% from 7% a year ago.

Percentage of revolving card assets *(In billions of Korean Won)*

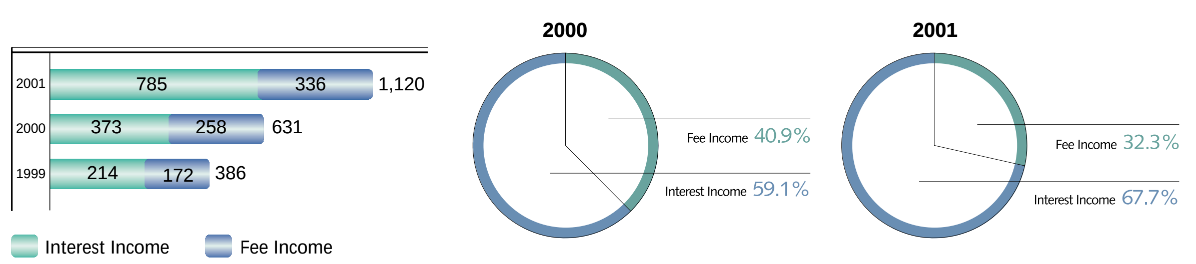
	1999	2000	2001	YOY
No. of users	1,316	60,448	641,452	961.2%
Assets from revolving (A)	2	241	1,074	346.3%
Card assets (B)	1,527	3,416	5,601	64.0%
(A/B)	1.3%	7.0%	19.2%	

Fee Income grew by 30.1% YOY from W258 billion to W336 billion, while interest income grew by 110.4% YOY from W373 billion to W785 billion. The portion of annuity income from revolving loans, card loans, and installment purchases, increased to 50.8% from 34.6% in the previous year.

Operating Revenue *(In billions of Korean Won)*

	1999	2000	YOY	2001	YOY
Reported Basis					
Total Income	**386**	**621**	**61.0%**	**1,069**	**72.1%**
Interest Income	**214**	**363**	**69.6%**	**706**	**94.5%**
Installments	38	50	29.9%	67	34.6%
Cash Advance	87	191	120.2%	215	12.6%
Revolving		5	2082.0%	70	1422.0%
Card loan	29	73	150.7%	206	182.1%
Late payment	46	33	-27.4%	42	28.1%
ABS interest income				81	
Others	14	11	-20.4%	24	111.4%
Fees	**172**	**258**	**50.4%**	**363**	**40.7%**
Merchant	122	194	58.3%	271	39.8%
Annual fees	11	13	21.6%	16	20.6%
Others	38	51	33.0%	76	49.0%
Managed Basis					
Total Income	**386**	**631**	**63.5%**	**1,120**	**77.6%**
Interest Income	**214**	**373**	**74.1%**	**785**	**110.4%**
Installments	38	51	32.1%	81	60.5%
Cash advance	87	200	130.9%	331	65.1%
Revolving		5	3121.0%	101	2086.6%

	1999	2000	YOY	2001	YOY
Card loan	29	73	150.7%	217	196.6%
Late payment	46	34	-26.5%	52	55.5%
Others	14	11	-25.9%	3	-74.0%
Fees	**172**	**258**	**50.4%**	**336**	**30.1%**
Merchant	122	194	58.3%	271	39.8%
Annual fees	11	13	21.6%	16	20.6%
Others	39	51	32.9%	49	-4.1%



- EXPENSES

The increase in total expenses in 2001 was W288 billion compared to 2000. The increase by 68.1% in operating expense (fee and interest expense) for 2001 to W550 billion reflected aggressive marketing and financing activities. The ratio of this expense to gross income decreased to 49.1% from 51.9% in 2000 mainly caused by the decline in the average funding cost from 8.8% in the previous year to 7.7% in 2001.
In contrast, the ratio of sales and administration expense to gross income increased to 24.8% from 21.8 % in 2000 due to an increase in bad debt expense to W166 billion. Cost-effective management policies and systems led to a decline in the ratio of sales and administration expenses (excluding write-off) to gross income to 10.0% in 2001 from 12.5% in 2000. The total ratio of expense to gross income increased to 73.9% in 2001 compared with 73.7% in the previous year.

Expenses *(In billions of Korean Won)*

	1999	2000		2001	
	Managed=Reported	Managed	Reported	Managed	Reported
Operating Expense	**211**	**327**	**326**	**550**	**475**
1. Fees Expense	91	152	155	216	227
2. Interest Expense	110	161	160	292	232
3. Other Expenses	10	14	11	42	16
SG & A Expense	**140**	**138**	**133**	**278**	**271**
1. Bad debt Expense	87	59	54	166	159
2. Other Expenses	53	79	59	112	112
Total Expense	**351**	**465**	**459**	**828**	**747**

Composition of assets *(In billions of Korean Won)*

	1999	2000	2001
	Reported	Reported	Reported
Quick assets	15	92	296
Card assets	1,529	3020	3,875
Provision for card assets	65	34	87
Financing assets	95	25	9
Other current assets	12	14	18
Non-current assets	86	121	298
Total Assets	**1,673**	**3,238**	**4,410**
ABS Assets		**396**	**1,726**
Managed total card assets		**3,416**	**5,601**

Total assets as of Dec. 31, 2001 were W5,934 billion, an increase of 63.6% on total assets as of Dec. 31, 2000. In the current assets, the increase in cash and equivalents by W8 billion to W28 billion in 2001 was primarily a result of the jump in cash inflows from operating activities. Meanwhile, the cash inflow from financing activities and cash outflow from investing activities reduced compared with 2000.

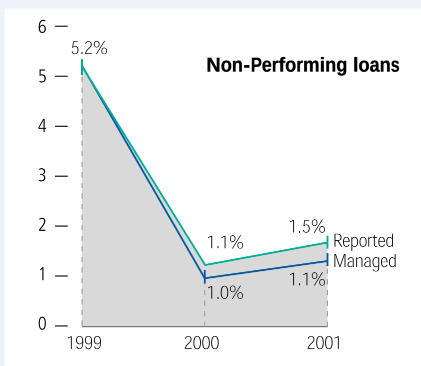
Card asset volume increased to W5,601 billion, or YOY growth of 64.0%, with 345.6% YOY growth in revolving card assets of particular note.

Composition of card assets *(In billions of Korean Won)*

	1999	2000		2001	
	Managed=Reported	Managed	Reported	Managed	Reported
Lump-sum	337 (22.0%)	484 (14.2%)	463 (15.3%)	542 (9.7%)	451 (11.6%)
Installment	338 (22.1%)	596 (17.5%)	543 (18.0%)	843(15.0%)	718 (18.5%)
Cash advance	597 (39.0%)	1,275(37.3%)	1,025(34.0%)	1,593(28.4%)	839 (21.7%)
Revolving	2(0.1%)	241(7.0%)	168 (5.6%)	1,074(19.2%)	768 (19.8%)
Card loan	243 (15.9%)	795(23.3%)	795 (26.3%)	1,523(27.2%)	1,073 (27.7%)
Others	13 (0.8%)	25(0.7%)	25 (0.8%)	26(0.5%)	26 (0.7%)
Total card assets	**1,529 (100.0%)**	**3,416 (100.0%)**	**3,020(100.0%)**	**5,601 (100.0%)**	**3,875 (100.0%)**

NPL (NON-PERFORMING LOAN) & ALLOWANCE FOR LOSSES

According to the requirements and standards of the FSC (Financial Supervisory Commission) concerning Non-Performing Loan (NPL), loans are classified into the above categories. The NPL ratio as of year-end 2001 was 1.1% with almost no change compared to the previous year. Non-performing loans in 2001 amounted to W63 billion, an improvement of W27 billion over the previous year. The ratio of NPL in 2001 slightly increased to 1.1% from 1.0% in 2000.



Non-Performing loans *(In billions of Korean Won)*

	1999	2000		2001	
	Managed=Reported	Managed	Reported	Managed	Reported
Normal	1,568	3,512	3,116	5,568	3,845
Precautionary	11	2	2	0	0
Substandard	5	2	2	1	1
Doubtful	13	11	11	11	11
Estimated loss	69	23	22	51	48
TOTAL Credit	**1,666**	**3,550**	**3,154**	**5,631**	**3,905**
Non performing loan	86	36	35	63	59
NPL Ratio	5.2%	1.0%	1.1%	1.1%	1.5%

The provision for loan losses stood at an appropriate level to cover possible losses during the year. The provision for loan losses at the end of 2001 significantly increased by 123.9% to W103 billion as a consequence of our policy to allocate sufficient allowances against losses. NPL coverage ratio - the ratio of the actual allowance to NPL loss - was maintained at 170.2%, an increase of 33.5 percentage points.

Allowance for the loan losses and NPL coverage ratio *(In billions of Korean Won)*

	1999	2000	2001
	Reported	Reported	Reported
Balance at the beginning of year	58	86	46
Write-offs	65	112	145
Provision for loan losses	93	76	202
Adjustment		-4	
Balance at the end of year	**86**	**46**	**103**
NPL coverage ratio	**99.7%**	**136.7%**	**170.2%**

FUNDING SOURCES AND NET INTEREST SPREAD

Funding volume in fiscal year 2001 was W3,746 billion or an increase of W1,926 billion compared to the previous year.
The average rates of debentures fell to 8.4% from 9.6% in 2001 due to the elevation in the Company's credit rating to AA as well as the decline in domestic interest rate in 2001. The average funding cost rate declined to 7.7% compared to 8.8% over the previous year.

Composition of funding sources *(In billions of Korean Won)*

	1999		2000		2001	
	Amount	Rate	Amount	Rate	Amount	Rate
Short term borrowings	343(29.9%)	6.2%	559 (30.4%)	6.9%	749 (19.9%)	5.8%
Debentures	803 (70.1%)	11.2%	1,261 (68.6%)	9.6%	2,248 (59.7%)	8.4%
ABS			17 (0.9%)	8.3%	768 (20.4%)	7.8%
Total	**1,145(100.0%)**	**9.6%**	**1,838(100.0%)**	**8.8%**	**3,764(100.0%)**	**7.7%**

Yield on earning assets as of Dec. 31. 2001 was 23.1%, down 1.8% compared to 2000 due to lower yield on credit card loan than in the previous year. Remaining ABS will continue to generate profit in the succeeding year.

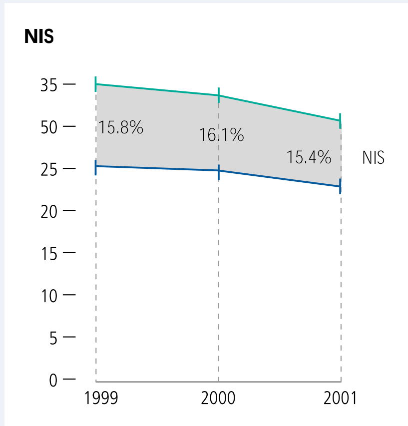
Net interest rate in 2001 slightly declined to 15.4% as of the year-end 2001, from 16.1% in the previous year.

NIS

	1999	2000	2001
Yield on earning asset	25.4%	24.9%	23.1%
Cost of fund	9.6%	8.8%	7.7%
NIS	15.8%	16.1%	15.4%

SHAREHOLDERS' EQUITY

The shareholders' equity as of the end of 2001 was W627 billion, up 70.1% from 2000. This significant increase was attributable to an increase in stock equity and capital surplus through the IPO as well as a significant increase in retained earnings.



CAPITAL ADEQUACY

On the reported basis, the Company's total qualified capital in 2001 rose to W638 billion, up W236 billion or 58.7%, from W402 billion at year-end 2000 due to increases in capital surplus, retained earnings and provisions. Through the IPO in 2001, the increases of capital stock and capital surplus were W25 billion and W72 billion respectively.

Total adjusted assets increased by 35.6% to W4,376 billion. The year-end capital adequacy ratio (CAR) stood at 14.6%, an increase of 2.2 percentage points.

This CAR sufficiently exceeds the 8% recommended in the Financial Supervisory Services (FSS) guidelines.

Capital Adequacy *(In billions of Korean Won)*

	1999	2000	2001
Capital stock	161	184	209
Capital Surplus	41	61	133
R/E	39	145	283
Capital Adjustment	4	1	2
Others	3	11	11
Adjusted Shareholder's Equity (A)	**248**	**402**	**638**
Total Asset	1,673	3,238	4,410
Cash			
Others	5	-11	-34
Adjusted Asset (B)	**1,668**	**3,227**	**4,376**
CAR (A/B)	**14.9%**	**12.4%**	**14.6%**

Report of Independent Accountants

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS

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To the Board of Directors and Shareholders of
Korea Exchange Bank Credit Service Co., Ltd.

We have audited the accompanying balance sheet of Korea Exchange Bank Credit Service Co., Ltd. (the "Company") as of December 31, 2001 and 2000 and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations, the changes in its retained earnings, and its cash flows for the years then ended in accordance with accounting standards generally accepted in the Republic of Korea.

As discussed in Note 1 of the accompanying financial statements, the Company offered its shares for public ownership and all of the Company's shares were registered with the Korea Stock Exchange as of December 21, 2001.

Without qualifying our opinion, we draw attention to Note 17 of the accompanying financial statements. The operations of the Company have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

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

Samil Accounting Corporation

Seoul, Korea, January 19, 2002

Balance Sheets

(Korean Won)

December 31, 2001 and 2000	2001		2000	
ASSETS:				
Current assets:				
Cash and cash equivalents (Note 3)	W	27,991,085,441	W	8,337,458,890
Short-term loans (Note 5)		195,474,320,220		61,539,296,066
Other accounts receivable		9,952,061,371		1,001,584,983
Accrued income		62,677,028,301		20,789,907,018
Due from cardholders, net (Note 6)		2,732,389,104,010		2,202,178,864,118
Loans to cardholders, net (Note 7)		1,055,750,186,667		784,010,992,033
Installment purchase loans, net (Note 8)		7,710,185,067		22,729,647,180
Other loans, net (Note 9)		1,408,555,080		2,518,711,153
Others		18,353,782,849		13,726,043,569
Total current assets		4,111,706,309,006		3,116,832,505,010
Premises and equipment, net (Note 10)		57,874,143,804		42,936,821,232
Long-term financial instruments (Note 3)		8,000,000		2,500,000
Investment securities (Note 4)		162,601,154,806		39,461,770,208
Lease deposits		42,190,837,416		20,409,681,048
Deferred tax assets (Note 23)		3,919,649,889		6,012,673,725
Intangible assets		1,827,480,631		2,741,220,946
Other assets		29,628,316,526		9,440,914,006
TOTAL ASSETS	**W**	**4,409,755,892,078**	**W**	**3,237,838,086,175**

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

(Continued)

Balance Sheets (Continued)

(Korean Won)

December 31, 2001 and 2000	2001		2000	
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Current liabilities:				
Short-term borrowings (Note 11)	W	585,000,000,000	W	604,600,000,000
Credit card business borrowings (Note 12)		1,457,564,276		14,396,542,986
Call money (Note 13)		55,000,000,000		283,000,000,000
Current maturities of debentures, net (Notes 11 and 14)		1,073,848,903,191		807,907,192,472
Other accounts payable		124,736,258,841		69,173,858,683
Accrued expenses		178,213,225,206		97,498,044,868
Income taxes payable		69,442,539,181		48,429,693,284
Dividends payable (Note 25)		52,217,552,500		22,000,000,000
Others		36,311,575,193		8,445,046,103
Total current liabilities		2,176,227,618,388		1,955,450,378,396
Debentures, less current maturities (Note 14)		1,599,467,883,039		908,770,261,851
Accrued severance benefits, net (Note 15)		6,726,581,719		4,778,891,541
Total liabilities		**3,782,422,083,146**		**2,868,999,531,788**
Commitments and contingencies (Note 17)				
Shareholders' equity :(Notes 1 and 18)				
Common stock of W 5,000 par value;				
Authorized :100,000,000 shares,				
Issued and outstanding :41,774,042 shares		208,870,210,000		183,870,210,000
Capital surplus		133,192,721,760		60,994,383,060
Retained earnings (Note 19)		282,975,279,676		123,243,884,969
Capital adjustment (Notes 20 and 21)		2,295,597,496		730,076,358
Total shareholders equity		**627,333,808,932**		**368,838,554,387**
TOTAL LIABILITIES SHAREHOLDERS' EQUITY	**W**	**4,409,755,892,078**	**W**	**3,237,838,086,175**

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

Income Statements

(Korean Won)

for the years ended December 31, 2001 and 2000	2001	2000
Operating revenues		
Fees from cardholders (Note 22)	W 804,819,526,165	W 552,504,920,122
Interest and fees on loans	263,182,712,171	67,334,902,967
Other revenues	1,126,329,679	1,273,540,600
	1,069,128,568,015	**621,113,363,689**
Operating expenses		
Commissions (Note 22)	227,269,702,061	155,231,688,627
Interest expenses	231,611,192,823	159,954,825,985
Selling and administrative expenses	271,347,580,995	132,968,456,097
Other expenses	16,361,386,586	10,685,270,549
	746,589,862,465	**458,840,241,258**
Operating income	**322,538,705,550**	**162,273,122,431**
Non-operating income (expenses)		
Interest income	1,603,948,533	1,774,409,079
Loss on valuation of marketable securities	–	(69,206,548)
Loss on disposition of premises and equipment, net	10,819,841	(190,425,535)
Other, net	(15,030,782,404)	(4,736,420,094)
	(13,416,014,030)	**(3,221,643,098)**
Ordinary income	**309,122,691,520**	**159,051,479,333**
Extraordinary gains	**–**	**–**
Extraordinary losses	**–**	**–**
Income before income taxes	**309,122,691,520**	**159,051,479,333**
Income tax expenses (Note 23)	**97,173,744,313**	**49,045,787,208**
Net income	**W 211,948,947,207**	**W 110,005,692,125**
Ordinary income and earnings per share (Note 24)	**W 5,725**	**W 3,324**
Diluted earnings per share (Note 24)	**W 5,704**	**W 3,324**

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

Statements of Appropriations of Retained Earnings

Dates of appropriations : March 30, 2002 and March 28, 2001 the years ended December 31, 2001 and 2000, respectively

(Korean Won)

for the years ended December 31, 2001 and 2000	2001	2000
Retained earnings before appropriations		
Unappropriated retained earnings		
carried over from prior years	W –	W –
Net income	211,948,947,207	110,005,692,125
	211,948,947,207	**110,005,692,125**
Appropriations of retained earnings		
Legal reserve (Note 19)	12,500,000,000	56,763,920,318
Reserve for business development (Note 19)	–	31,216,620,215
Reserve for business rationalization (Note 19)	139,035,823	25,151,592
Voluntary reserve (Note 19)	147,092,358,884	–
Cash dividends (Note 25)	52,217,552,500	22,000,000,000
	211,948,947,207	**110,005,692,125**
Unappropriated retained earnings to be		
carried forward to subsequent year	**W –**	**W –**

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

Statements of Cash Flows

(Korean Won)

for the years ended December 31, 2001 and 2000	2001	2000
Cash flows from operating activities:		
Net income	W 211,948,947,207	W 110,005,692,125
Adjustments to reconcile net income net cash provided by operating activities:		
Loss on disposal of marketable securities, net	-	120,372,795
Valuation loss on marketable securities	-	69,206,548
Gain on disposition of premises and equipment, net	(10,819,841)	190,425,535
Allowance for doubtful accounts	159,396,384,505	54,313,596,643
Depreciation	20,124,658,630	10,586,209,852
Amortization of goodwill	913,740,315	913,740,315
Amortization of present value discounts	456,031,907	336,729,069
Provision for severance benefits	5,335,403,736	4,691,062,990
Stock option costs	254,521,138	184,076,358
Changes in operating assets and liabilities:		
Increase in deferred tax assets	2,093,023,836	(4,662,420,396)
Increase in other accounts payable	55,562,400,158	21,892,001,674
Increase (decrease) in accrued expenses	80,715,180,338	62,351,028,766
Increase in income taxes payable	21,012,845,897	40,565,573,063
Payment of severance benefits	(538,436,911)	(1,188,521,253)
Others, net	(28,397,201,641)	(14,688,462,037)
Net cash provided by operating activities	528,866,679,274	285,680,312,047

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

(Continued)

Statements of Cash Flows (Continued)

(Korean Won)

for the years ended December 31, 2001 and 2000	2001	2000
Cash flows from investing activities:		
Decrease in installment purchase loans	W 15,562,375,269	W 37,309,335,163
Proceeds from disposition of marketable securities	–	3,746,422,198
Disposition of investment securities	6,396,000	1,097,044,792
Disposition of premises and equipment	206,468,960	1,393,378,903
Increase in due from cardholders	(649,856,072,000)	(1,001,123,147,345)
Increase in loans to cardholders	(309,387,777,597)	(592,865,230,818)
Acquisition of investment securities	(121,834,780,598)	(37,900,250,000)
Increase in lease deposits	(21,781,156,368)	(2,966,859,000)
Acquisition of premises and equipment	(35,257,630,321)	(14,871,281,217)
Increase in short-term loans	(133,625,781,461)	(61,539,296,066)
Others, net	(23,005,411,736)	51,593,695,851
Net cash used in investing activities	(1,278,973,369,852)	(1,616,126,187,539)
Cash flows from financing activities:		
Net increase in short-term borrowings	(19,600,000,000)	503,600,000,000
Issuance of common stock	97,198,338,700	42,633,998,000
Issuance of debentures	1,764,183,300,000	1,378,556,200,000
Increase (decrease) in credit card business borrowings	(12,938,978,710)	(43,594,426,558)
Increase (decrease) in call money	(228,000,000,000)	–
Payment of dividends	(22,000,000,000)	(4,034,255,250)
Redemption of debentures	(808,000,000,000)	(540,000,000,000)
Others, net	(1,082,342,861)	265,775,703
Net cash provided by financing activities	769,760,317,129	1,337,427,291,895
Increase (decrease) in cash and cash equivalents	**19,653,626,551**	**6,981,416,403**
Cash and cash equivalents at beginning of year	**8,337,458,890**	**1,356,042,487**
Cash and cash equivalents at end of year	**W 27,991,085,441**	**W 8,337,458,890**

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

Notes of Financial Statements

December 31, 2001 and 2000

1. THE COMPANY:

Korea Exchange Bank Credit Service Co., Ltd. (the “Company”) was established in 1988 under the Commercial Code of Korea as a subsidiary of Korea Exchange Bank. The Company was approved by the Ministry of Finance and Economy to conduct credit card service business, including providing consumer installment financing, factoring and payment guarantees, under the Act for Financial Companies Specializing in Loan Business. On January 1, 1999, the Company merged with KEB Finance Co., Ltd., one of its affiliated companies. As of December 21, 2001, the Company offered its shares for public ownership and all of the Company's shares were registered with the Korea Stock Exchange.

As of December 31, 2001, the Company's authorized number of shares (par value : W5,000) is 100,000,000 shares of which 41,774,042 shares of common stock were issued and outstanding at December 31, 2001.

The Company's shareholders as of December 31, 2001 and 2000 are as follows:

	2001		2000	
	Number of shares owned	Ownership Ratio (%)	Number of shares owned	Ownership Ratio (%)
Korea Exchange Bank	18,795,000	45.0	18,795,000	51.1
Olympus Capital KEB Cards Ltd.	8,165,072	19.5	8,165,072	22.2
Olympus Capital (CRT) KEB Cards Ltd.	4,459,606	10.7	4,459,606	12.1
ADP Investment Subsidiary ¥†L.L.C	3,140,028	7.5	3,140,028	8.6
Employees Stock Ownership Association	1,591,493	3.8	1,500,000	4.1
Others	5,622,843	13.5	714,336	1.9
	41,774,042	100.0	36,774,042	100.0

The Company has approximately 628 million members, 167 million merchants, and 25 domestic branches(including 1 agency) as of December 31, 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed by the Company in the preparation of its annual financial statements are summarized below:

Basis of Financial Statement Presentation -

The official accounting records of the Company are maintained in Korean Won in accordance with the laws and regulations of the Republic of Korea. The financial statements are prepared in accordance with generally accepted financial accounting standards of the Republic of Korea.

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

The preparation of 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.

Revenue Recognition -

The Company recognizes fees and interest incomes from cardholders on an accrual basis. However, the Company recognizes fees and interest incomes from cardholders delinquent of principal or interest on a cash basis.

Allowance for Doubtful Accounts -

The Company provides an allowance for doubtful accounts based on historical collection experience and the aggregate estimated collectibility of the receivable.

Marketable Securities, Investment Securities and Other Investments -

Marketable securities and investments in equity and debt securities are initially carried at cost, using the moving average method. The following paragraphs describe the subsequent accounting for securities by the type of security.

- Marketable securities are stated at fair market value, and valuation gains or losses are reported in current operations.

- Investments in marketable equity securities held for investment purpose are reported at fair market value with unrealized gains or losses reported as a capital adjustment in shareholder's equity until realized.

- Investments in non-marketable equity securities of non-controlled investees are reported at cost, except for declines in the Company's proportionate equity of the underlying book value of the investees which are anticipated to be permanent, which are recorded as valuation losses in current operations.

- Premiums or discounts on debt securities are amortized over the life of the debt securities using the effective interest rate method. Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at acquisition 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 as valuation losses in current operations.

Premises and Equipment -

Premises and equipment are stated at cost. Depreciation is computed using the declining-balance method (straight-line method for buildings) over the estimated useful lives of the related assets as described below:

	Estimated Useful Lives
Buildings	40 years
Office equipment	4 years
Vehicles	4 years
Tools and furnitures	4 years

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

Intangible Assets -

Intangible assets, comprising of goodwill acquired in the Company's merger with KEBF, are recorded at cost and amortized over five years using the straight-line method.

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.

Accrued Severance Benefits -

Employees and directors with one year or more of service with the Company are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

In accordance with the National Pension Act, a certain portion of accrued severance benefits is transferred to the National Pension Fund and deducted from the accrued severance benefit liability (see Note 15).

In addition, accrued severance benefits are funded approximately 60.0% as of December 31, 2001 and 2000, through a group severance insurance plan and are presented as deduction from accrued severance benefits (see Note 15).

Foreign Currency Translation -

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date. Resulting exchange losses and gains are recognized currently.

Income Taxes -

The Company accounts for income taxes under the Financial Accounting Standards which requires the recognition of deferred tax assets and liabilities arising from temporary differences between the financial and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be reversed or settled. Tax credits are recognized as a reduction of income tax expenses in the year they are incurred for tax return purposes.

Restructuring of Receivables -

The Company recognized losses on troubled receivables restructured under work-out programs or other similar restructuring arrangements if the total discounted future cash flows specified by the modified terms of rescheduled receivables are less than the nominal amount of the troubled receivables.

The discount rate applied to calculate present value of the restructured receivables is the appropriate discount rate prevailing at the original transaction date.

Transfers of Financial Assets -

Transfers of financial assets are accounted for as a sales of assets, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company and the transferee obtains the right to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The gains or losses from the sales of the receivables are charged to operations as incurred. Accordingly, the securitization of the Company's receivables, comprising of due from cardholders and loans to cardholders, are accounted for as a sale of the assets.

Compensation Costs for Stock Options -

Compensation costs for stock options granted to employees and executives are recognized on the basis of fair value. Under the fair value method, compensation costs for stock option plans are determined using an option-pricing model in which the Company assumes no volatility of the underlying stock prices at grant dates and recognizes compensation expense equally over the vesting period.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents and long-term financial instruments at December 31, 2001 and 2000 are as follows:

	Annual Interest Rate (%)	In Millions	
	2001.12.30	2001	2000
Cash and cash equivalents			
Cash on hands	–	W 93	W 124
Checking accounts	–	1,058	37
Passbook accounts	1.0	6,838	8,175
Others	2.0 ~ 3.0	20,002	1
		W 27,991	W 8,337
Long-term financial instruments			
Key money deposit for checking accounts	–	W 8	W 3

As of December 31, 2001, long-term financial instruments represent key money deposits required to maintain checking accounts and, accordingly, withdrawal is restricted.

4. INVESTMENT SECURITIES :

Investment securities at December 31, 2001 and 2000 comprise the following:

In Millions

	Number of shares		Ownership Ratio (%)		Acquisition Cost		Net Book Value		Market or Net Asset Value	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Investment Securities										
Government bonds	–	–	–	–	W 326	W 95	W 326	W 95	W 326	W 95
Subordinated debenture										
SPC 1(*1)	–	–	–	–	36,600	36,600	36,600	36,600	36,600	36,600
SPC 2(*2)	–	–	–	–	46,429	–	46,429	–	46,429	–
SPC 4(*3)	–	–	–	–	75,161	–	75,161	–	75,161	–
Convertible bonds	–	–	–	–	59	51	59	51	59	51
Stock										
CJ 39 shopping	60,000	60,000	0.73	0.95	300	300	2,157	846	2,157	846
Other investments										
Korea Cyber Payment	92,000	110,400	6.48	7.67	552	552	552	552	527	594
KCESS (*4)	179,438	179,438	12.46	12.46	897	897	897	897	519	790
VISA cash	83,930	83,930	2.8	2.8	420	420	420	420	368	439
SPC 1(*1)	20	20	2.0	2.0	–	–	–	–	–	–
SPC 2(*2)	20	–	2.0	–	–	–	–	–	–	–
SPC 3(*5)	20	–	2.0	–	–	–	–	–	–	–
SPC 4(*3)	20	–	2.0	–	–	–	–	–	–	–
					W160,744	W38,915	W162,601	W39,461	W162,146	W39,415

(*1) SPC 1: KEBCS Securitization 2000-1 L.L.C.
(*2) SPC 2: KEBCS Securitization 2001-2 L.L.C.
(*3) SPC 4: KEBCS Securitization 2001-4 L.L.C.
(*4) KCESS : Korea Creditcard Electronic Settlement Service
(*5) SPC 3: KEBCS Securitization 2001-3 L.L.C.

5. SHORT-TERM LOANS:

Short-term loans at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate(%)	In Millions	
	2001.12.31	2001	2000
Short-term loans	20.0	W 195,474	W 61,848
Less: Allowance for doubtful accounts		–	(309)
		W 195,474	W 61,539

The Company provides short-term loans to KEBCS Securitization 2000-1 L.L.C. and KEBCS Securitization 2001-2 L.L.C. with regard to the Asset Backed Securitization (see Note 17).

6. DUE FROM CARDHOLDERS:

Due from cardholders at December 31, 2001 and 2000 comprise the following:

	In Millions	
	2001	2000
Cardholder charges		
Lump-sum purchases	W 452,566	W 463,159
Installment purchases	717,510	543,477
Revolving purchases	768,056	168,220
Cash advances	839,422	1,025,383
	2,777,554	2,200,239
Card charges from affinity bank	**24,211**	**24,778**
	2,801,765	2,225,017
Less: allowance for doubtful accounts	(69,376)	(22,838)
	W 2,732,389	W 2,202,179

The Company provides merchants with financing by purchasing their accounts receivable for lump-sum and installment purchases at fees of 5% of the related receivable amounts. The Company provides cardholders with cash advances, up to certain maximum amounts determined for each cardholder, bearing fees of 0.7%~3.8% depending on the cash advance amount. The Company provides cardholders with finance for installment purchases bearing fees at 9.9%~16.7% per annum. The Company provides cardholders with finance for revolving purchases bearing fees at 19%~21% per annum. Revolving purchases are collected monthly at the ratio from 5% to 100% determined by revolving agreement.

7. LOANS TO CARDHOLDERS:

Loans to cardholders at December 31, 2001 and 2000 comprise the following:

In Millions

	2001		2000	
Loans to cardholders	W	1,072,955	W	794,922
Less : allowance for doubtful accounts		(17,205)		(10,911)
	W	1,055,750	W	784,011

The Company provides cardholders with loans with maturities of three years or less bearing commissions of 0.5 ~4.0% and interest at 11.5~17.0% per annum.

The annual maturities in aggregate of the loans to cardholders outstanding at December 31, 2001 are as follows:

For the year ended December 31,	In Millions	
2002	W	411,613
2003		323,677
2004		337,665
	W	1,072,955

8. INSTALLMENT PURCHASE LOANS:

Installment purchase loans at December 31, 2001 and 2000 comprise the following:

In Millions

	2001						2000					
	Loans		Allowance for Doubtful Accounts		Net Book Value		Loans		Allowance for Doubtful Accounts		Net Book Value	
Loans for housing	W	6,331	W	1,035	W	5,296	W	16,399	W	2,120	W	14,279
Loans for general goods		1,547		75		1,472		5,738		547		5,191
Loans for consumer goods		947		5		942		3,276		16		3,260
	W	8,825	W	1,115	W	7,710	W	25,413	W	2,683	W	22,730

The Company provides consumers with loans for the purchase of general goods, housing and consumer goods with maximum maturities of three years, twenty years, and five years, respectively.

The annual maturities in aggregate of installment purchase loans outstanding at December 31, 2001 are as follows:

For the year ended December 31,	In Millions	
2002	W	1,546
2003		949
2004		112
2005		47
2006 and thereafter		6,171
	W	8,825

9. OTHER LOANS:

Other loans at December 31, 2001 and 2000 comprise the following:

In Millions

	2001				2000			
	Loans	Present Value Discounts	Allowance for Doubtful Accounts	Net Book Value	Loans	Present Value Discounts	Allowance for Doubtful Accounts	Net Book Value
Factoring (notes)	W 8,468	W 3,720	W 3,561	W 1,187	W 8,744	W 3,842	W 3,746	W 1,156
Factoring (installment)	–	–	–	–	61	–	61	–
General loans	886	–	665	221	1,376	–	14	1,362
Notes	-	–	–	–	83	–	83	–
	W 9,354	W 3,720	W 4,226	W 1,408	W 10,264	W 3,842	W 3,904	W 2,518

The Company provides loans to manufacturing, wholesale and retail enterprises, based on the amount of factored receivables.

As of December 31, 2001, the Company has the restructured factoring loans amounting to W 8,468 million of face value, of which present value discounts is W 3,720 million.

The annual maturities in aggregate of other loans outstanding at December 31, 2001 are as follows:

For the year ended December 31,	In Millions
2002	W –
2003	730
2004	730
2005	730
2006 and thereafter	7,164
	W 9,354

10. PREMISES AND EQUIPMENT:

Premises and equipment at December 31, 2001 and 2000 comprise the following:

In Millions

	2001			2000		
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land	W 20,525	W –	W 20,525	W 20,525	W –	W 20,525
Buildings	11,779	2,291	9,488	11,767	2,023	9,744
Office equipment	1,875	1,075	800	983	725	258
Vehicles	723	431	292	516	369	147
Tools and furniture	72,501	45,732	26,769	40,644	28,382	12,262
	W 107,403	W 49,529	W 57,874	W 74,435	W 31,499	W 42,936

Buildings, office equipment and tools and furniture are insured for fire and other casualty losses up to approximately W 20,916 million at December 31, 2001. Also, the Company carries automobile insurance on vehicles and transportation equipment.

Details of the appraised tax basis of lands, as determined by the local government of Korea for property tax assessment purposes, at December 31, 2001 and 2000 are as follows:

In Millions

	2001		2000	
	Book Value	Appraised Tax Basis	Book Value	Appraised Tax Basis
Head Office	W 18,534	W 16,096	W 18,534	W 15,858
Others	1,991	1,261	1,991	1,261
	W 20,525	W 17,357	W 20,525	W 17,119

As of December 31, 2001, a portion of the Company's land and buildings are pledged to Korea Exchange Bank as collateral for leasehold deposits received up to approximately W 2,392 million.

11. SHORT-TERM BORROWINGS:

Short-term borrowings at December 31, 2001 and 2000 comprise the following:

	Name of Creditor	Annual Interest Rate(%) 2001.12.31	In Millions 2001	2000
Commercial paper	CHB securities and other	4.33 ~ 7.33	W 555,000	W 574,600
General term borrowing	Koram Bank	5.72 ~ 6.93	30,000	–
	Shinhan bank	–	–	30,000
			W 585,000	W 604,600

Current maturities of debentures at December 31, 2001 and 2000 comprise the following:

In Millions

	2001	2000
Current maturities of debentures	W 1,074,000	W 808,000
Less: Discounts on debentures	(151)	(93)
	W 1,073,849	W 807,907

12. CREDIT CARD BUSINESS BORROWINGS:

Credit card business borrowings at December 31, 2001 and 2000 comprise the following (see Note 17):

	Name of Creditor	Annual Interest Rate(%) 2001.12.31	In Millions 2001	2000
Credit card business borrowings in Won	Korea Exchange Bank	–	W –	W 13,668
Credit card business borrowings in foreign currency	Korea Exchange Bank	4.29 ~ 7.92	1,458	729
			W 1,458	W 14,397

13. CALL MONEY:

Call money at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate (%)	In Millions	
	2001.12.31	2001	2000
Hyundai Investment Trust Management	6.5	W 55,000	W –
Kyobo Investment Trust Management	–	–	13,000
Daehan Investment Trust Management	–	–	90,000
Korea Investment Trust Management	–	–	55,000
Daehan Investment Trust Securities	–	–	25,000
Korea Investment Trust Management & Securities	–	–	100,000
		W 55,000	W 283,000

14. DEBENTURES:

Debentures at December 31, 2001 and 2000 comprise the following:

	Annual Interest Rate (%)	In Millions	
Year of Issuance	2001.12.31	2001	2000
1998	10.16 ~ 19.30	W –	W 10,000
1999	8.15 ~ 10.95	110,000	368,000
2000	7.77 ~ 10.60	799,000	1,339,000
2001	4.67 ~ 8.15	1,765,000	–
		2,674,000	1,717,000
Less: Current maturities		(1,074,000)	(808,000)
Discounts on debentures		(532)	(230)
		W 1,559,468	W 908,770

The annual maturities in aggregate of debentures outstanding at December 31, 2001 are as follows:

For the year ended December 31,	In Millions
2002	W 1,074,000
2003	1,065,000
2004	535,000
	W 2,674,000

15. ACCRUED SEVERANCE BENEFIT:

Accrued severance benefits at December 31, 2001 and 2000 are as follows:

	In Millions			
	2001		2000	
Balance at beginning of year	W	14,921	W	11,419
Provisions for severance benefits		5,335		4,691
Actual payments		(538)		(1,189)
		19,718		14,921
Deposits to National Pension Fund		(1,143)		(1,180)
Severance insurance deposits		(11,848)		(8,963)
Balance at end of year	W	6,727	W	4,778

16. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

As of December 31, 2001 and 2000, monetary assets and liabilities denominated in foreign currencies are as follows:

	In Thousands of US$		In Millions of Korean Won	
	2001	2000	2001	2000
Due from cardholders	US$ 1,502	US$ 1,326	W 2,099	W 1,670
Credit card business borrowings	1,099	578	1,458	729
Other accounts payable	403	748	641	941

17. COMMITMENTS AND CONTINGENCIES:

The Company has entered into an agreement with Korea Exchange Bank for credit card operating assistance in connection with managing cardholders by the nationwide network of Korea Exchange Bank. Under the agreement, the Company pays an annual operating assistance fee to Korea Exchange Bank.

The Company has entered into trademark license (membership) agreements with Master Card International Incorporated dated November 20, 1987 and VISA International Service Association dated July 3, 1989. Under the agreements, the Company is granted a non-exclusive, non-transferable, royalty-free license to use the trademarks in connection with the specific program identified in the agreements.

The Company has entered into credit card affinity agreements with Cheju Bank, Kwangju Bank, Jeonbuk Bank, Kookmin Bank, Chohung Bank, Hana Bank and Shinhan Bank. Under the agreement, the Company allocates fee income related to the credit card affinity.

The Company, through an agreement with Korea Computer Incorporated, is operating 24-hour cash service machine and providing 24-hour cash service to the cardholders. The Company pays operating assistance fees upon this agreement.

The Company has entered into note discounting agreements for borrowings up to W 50 billion per each agreement with Kyobo Securities Co. and other seven financial institutions.

The Company has provided one blank check as a pledge for borrowing agreements with Koram Bank as of December 31 , 2001.

The Company has entered into insurance agreements to compensate for air and travel accidents with Hyundai Marine and Fire Insurance and other insurance companies. As of December 31, 2001, the Company's insurance amounts for international cardholders are up to a maximum amount of from W 50 million to W 250 million per person.

The Company has provided guarantees together with eight credit card companies who are operating prepaid cards business for equipment costs amounting to W 2,600 million to Ace Telecom Inc.

Effective November 25, 2000, the Company has entered into a card receivables sales agreement with KEBCS Securitization 2000-1 L.L.C. (the "SPC 1") to sale due from cardholders amounting to W 373,724 million and future receivables from certain 142,916 cardholders up to December 17, 2003. Upon the agreement, due from cardholders amounting to W 420,297 million are transferred to SPC 1 as of December 31, 2001. The sales agreement includes early amortization clauses which force sales of future receivables and require early redemptions of principal and interests of debentures issued by the SPC 1. The Company underwrote the subordinated debenture of the SPC 1 amounting to W 36,600 million, and owned the shares of the SPC 1 amounting to W 200,000. Additionally, the Company has provided the SPC 1 with short-term loan and has received interest income from the SPC 1 (see Notes 4 and 5). Servicing of the receivables sold are retained by the Company, and the Company is entitled to receive the related servicing fees from the SPC 1. As of June 1, 2001, the Company repurchased 7,161 cardholders and the related card receivables amounting to W 43,616 million from the SPC 1 in accordance with the sales agreement.

Effective February 22, 2001, the Company has entered into a card receivables sales agreement with KEBCS Securitization 2001-1 L.L.C. (the "SPC 2") to sale due from cardholders amounting to W 496,399 million and future receivables from certain 226,124 cardholders up to May 31, 2004. Upon the agreement, due from cardholders amounting to W 556,328 million are transferred to the SPC 2 as of December 31, 2001. The sales agreement includes early amortization clauses which force sales of future receivables and require early redemptions of principal and interests of debentures issued by the SPC 2. The Company underwrote the subordinated debenture of the SPC 2 amounting to W 46,429 million, and owned the shares of the SPC 2 amounting to W 200,000. Additionally, the Company has provided the SPC 2 with short-term loan and has received interest income from the SPC 2 (see Notes 4 and 5). Servicing of the receivables sold are retained by the Company, and the Company is entitled to receive the related servicing fees from the SPC 2.

As of July 2, 2001, the Company additionally sold 8,126 cardholders and the related card receivables amounting to W 13,714 million to SPC 2 to supplement outstanding card receivables balance required for securitizaiton. As of November 1, 2001, the Company repurchased 4,537 cardholders who had canceled their credit card contracts or delayed their payments for more than two months, and the related card receivables amounting to W 9,047 million. In order to supplement outstanding card receivables balance required for securitization, the Company additionally transferred due from 28,938 cardholders amounting to W 38,692 million to SPC 2.

Effective June 11, 2001, the Company has entered into a cash advances trust agreement with Kookmin Bank's trust account (the "Trust") to transfer cash advances amounting to W 408,678 million and future cash advances from certain 328,120 cardholders up to June 30, 2004. Upon this agreement, cash advances amounting to W 469,061 million were transferred to the Trust as of December 31, 2001. Based on the cash advances transferred to the Trust, the Trust issued three types of beneficiary certificates (type1-1, type1-2 and type 2) and KEBCS Securitization 2001-3, L.L.C. (the "SPC 3") underwrote the type1-1 beneficiary certificate and issued securitized debentures. The Company underwrote the type 1-2 beneficiary certificate of the Trust amounting to W 34,000 million and the type 2 beneficiary certificate of the Trust, and owns the shares of the SPC 3 amounting to W 200,000(see Note 4). Proceeds from the cash advances transferred to the Trust is first used to fund interest expenses of securitized debentures and expenses of the SPC 3, and the remaining amounts are disbursed to the Company. Servicing of the cash advances sold are retained by the Company, and the Company is entitled to receive the related servicing fees from the Trust. The sales agreement includes clause which forces additional transfer of cash advances by the Company to supplement outstanding cash advances balance required for securitization when cash advances outstanding are lower than W 347,360 million.

As of August 1, 2001, the Company canceled the trust agreement of the 24,937 cardholders and the related receivables of W 15 million whose cash advances had been converted to revolving purchases. As of August 1, 2001 the Company additionally transferred to the Trust the card advances amounting to W 93,849 million and future cash advances up to June 30, 2004 from certain 63,310 cardholders to supplement outstanding cash advances balance required for securitization.

Effective November 16, 2001, the Company has entered into a loans to cardholders sales agreement with KEBCS Securitization 2001-4, L.L.C (the "SPC 4") to sale loans to cardholders amounting to W 475,161 million from certain 153,022 cardholders. Upon entering into the agreement, loans to cardholders amounting to W 450,040 million was transferred to SPC 4 as of December 31, 2001. The sales agreement includes early amortization clauses which force sales of loans to cardholders and require early redemptions of principal and interests of debentures issued by the SPC 4. The Company underwrote the subordinated debenture of the SPC 4 amounting to W 75,161 million, and owns the shares of the SPC 4 amounting to W 200,000 (see Note 4). Servicing of the loans to cardholders sold are retained by the Company, and the Company is entitled to receive the related servicing fees from the SPC 4. Under the agreement, the Company is entitled to transfer additional loans to cardholders to SPC 4. Since the first transfer of assets under securitization, the Company additionally transferred loans to cardholders amounting to W 13,460 million from certain 4,487 cardholders as of December 5, 2001 and loans to cardholders amounting to W 25,203 million from certain 9,256 cardholders as of January 7, 2002.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices. The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. The Company may be either directly or indirectly affected by the situation described above. The accompanying financial statements reflect management's current 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.

18. COMMON STOCK:

Changes in common stock for the years ended December 31, 2001 and 2000, are summarized as follows:

Date	Issuance of new shares	Number of New Shares	Par value of Common Stock (In Millions)	
Oct. 26, 2000	Common stocks at W9,500 per share for cash	4,500,000	W	22,500
		4,500,000	W	22,500
Dec. 14, 2001	Common stocks at W20,000 per share for cash	5,000,000	W	25,500
		5,000,000	W	25,000

19. RETAINED EARNINGS:

Retained earnings as of December 31, 2001 and 2000 comprise the following:

In Millions

	2001		2000	
Legal reserve	W	104,435	W	91,935
Reserve for business development		31,217		31,217
Reserve for business rationalization		164		25
Voluntary reserve		147,159		67
Unappropriated retained earnings		–		–
	W	282,975	W	123,244

Legal Reserve -

The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of retained earnings as a legal reserve in an amount equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Reserve for Business Development -

Pursuant to the Corporate Income Tax Law of Korea, the Company is allowed to appropriate retained earnings as a reserve for business development. This reserve is not available for dividends but may be transferred to capital stock through an appropriate resolution by the Company's board of directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Reserve for Business Rationalization -

Pursuant to the Regulation of Tax Reduction and Exemption Act ("RTREA"), the Company is required to appropriate, as a reserve for business rationalization, amounts equal to the tax reduction arising under the RTREA. This reserve is not available for dividends, but may be transferred to common stock through an appropriate resolution by the Company's board of directors or may be used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Voluntary Reserve -

The Company appropriates 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.

20. CAPITAL ADJUSTMENTS:

Capital adjustments at December 31, 2001 and 2000 comprise the following:

In Millions

	2001		2000	
Gains on valuation of investment securities	W	1,857	W	546
Stock options		438		184
	W	2,295	W	730

21. STOCK OPTIONS:

As of December 31, 2001, the Company has implemented stock option plans for employees and executives, details of which are as follows:

Grant Date	Numbers of Common Shares to be Issued by Exercise	Exercise Period	Exercise Price	
2000.3.28	100,000 shares	From June 21, 2003(**) to March 28, 2006	W	8,500
2000.9.14	140,000(*)	From September 14, 2003 to September 14, 2006		8,500
	240,000 shares			

(*) 120,000 shares were reduced from the last year's granted number of shares(260,000) due to the retirment of employee.
(**) The stock option may be exercised after 18 months since the intitial public offering of the Company.

The amounts recognized as compensation cost for the year ended December 31, 2001 and to be recognized hereafter are W 255 million and W 490 million, respectively.

Primary assumptions utilized to determine compensation costs under the fair value method, as allowed under generally accepted accounting principles, are as follows :

Grant Date

	2000.3.28	2000.9.14
The risk-free interest rate	6.7%	6.7%
The expected exercise period	3.25year	3year
The volatility of the underlying stock price (*)	0.613	0.460
The expected dividend rate (**)	0	0

(*) The volatility of similar industy stock price index during expected excerised period.
(**) The expected dividend rate was supposed to be 0% since the Company went public as of December 21, 2001.

The difference between measurements under the simplified discounted cash flow method and fair value method would be as follows:

In Millions

	2001		2000	
	Simplified Discounted Cash Flow Method	Fair Value Method	Simplified Discounted Cash Flow Method	Fair Value Method
Stock options	W 929	W 5,952	W 1,362	W 8,901
Compensation cost	255	1,626	184	1,160
Ordinary Income before income taxes	309,123	307,752	159,051	158,075
Net income	211,949	210,578	110,006	109,029
Ordinary income per share (In Won)	5,725	5,688	3,324	3,294
Earnings per share (In Won)	5,725	5,688	3,324	3,294

22. FEES FROM CARDHOLDERS AND COMMISSIONS :

Fees from cardholders and commissions for the years ended December 31, 2001 and 2000 comprise the following:

In Millions

	2001	2000
Fees from cardholders		
Interest from cash advances	W 215,340	W 191,160
Fee from installments	66,926	54,328
Interest from delinquent receivables	42,433	33,120
Merchant discount fees	271,121	193,916
Fee from affinity banks	24,199	24,166
Fee from settlement of international sales charges	7,858	7,789
Fee from affinity card company	6,817	5,469
Annual fees	15,580	12,922
Fee from card loans	39,801	16,927
Fee from SPC	8,546	–
Interest from revolving receivables	70,043	–
Other	36,156	12,708
	W 804,820	W 552,505

In Millions

	2001	2000
Commissions		
Card holder solicitation commission	W 29,981	W 10,938
Merchant solicitation commission	2,631	2,306
Commission of delegated business	35,777	32,000
Business processing commission	9,853	4,553
Authorization commission	7,565	5,382
Commission to affinity banks	76,784	55,005
Commission to affinity card companies	12,221	9,262
Mileage service fees	17,654	10,484
Commission to cardholder management	3,050	10,878
Other	31,754	14,424
	W 227,270	W 155,232

23. INCOME TAXES:

The statutory income tax rate ordinarily applicable to the Company is approximately 30.8%, including resident tax surcharge.

Income tax expenses for the years ended December 31, 2001 and 2000 comprise the following:

In Millions

	2001	2000
Current	W 95,080	W 53,708
Deferred	2,093	(4,662)
Income tax expense	W 97,173	W 49,046

The components of differences between taxable income and accounting income for the years ended December 31, 2001 and 2000 are as follows:

In Millions

	2001		2000	
	Temporary Differences	Permanent Differences	Temporary Differences	Permanent Differences
Income tax expenses	W –	W 98,374	W –	W 49,046
Loss on valuation of marketable securities	–	–	(3,843)	–
Accrued interest	63	–	(214)	–
Accrued expenses	(6,533)	–	14,168	–
Tax and dues	–	–	–	60
Stock options	–	2,436	–	184
Entertainment expenses	–	1,215	–	682
Bad debt expenses	–	–	203	–
Allowance for doubtful accounts	(203)	–	107	–
Accrued severance benefits	–	–	390	–
Interest expenses	–	2,170	–	2,098
Depreciation	–	–	555	–
Present value discounts	(122)	–	3,842	–
Discount on debentures	–	–	(67)	–
Others	–	–	–	(60)
	W (6,795)	W 104,195	W 15,141	W 52,010

The Company's details of credit, reduction and exemption of taxes for the years ended December 31, 2001 and 2000 are as follows:

In Millions

	2001	2000
Reduction for enhancing payment system	W 191	W 31

The details of temporary differences and deferred tax assets for the years ended December 31, 2001 and 2000 are as follows:

In Millions

	2001			2000		
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
Work-in process	W 31	W –	W 31	W 31	W –	W 31
Depreciation (Buildings)	20	–	20	8	12	20
Depreciation (Equipment)	908	–	908	365	543	908
Bond issuance costs	–	–	–	67	(67)	–
Marketable securities	(214)	64	(150)	3,912	(4,126)	(214)
Accrued severance benefit	390	–	390	–	390	390
Loss on valuation of marketable securities	69	–	69	–	69	69
Accrued expense	14,168	(6,534)	7,634	–	14,168	14,168
Bad debt expense	203	(203)	–	–	203	203
Allowance for doubtful accounts	107	–	107	–	107	107
Present value discounts	3,842	(122)	3,720	-	3,842	3,842
	W 19,524	W (6,795)	W 12,729	W 4,383	W 15,141	W 19,524
Deferred tax assets	W 6,013	W (2,093)	W 3,920	W 1,351	W 4,662	W 6,013

The Company periodically assesses its ability to recover deferred tax assets. In the event of significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the asset to its estimated net realizable value.

As a result of the above tax reduction and deferred tax, the effective tax rate of the Company for the years ended December 31, 2001 and 2000 are approximately 31.4% and 30.8%, respectively.

24. EARNINGS PER SHARE:

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

	Number of Shares Issued	Number of Days Outstanding	Weighted Number of Shares
January 1, 2001	36,774,042	365	13,422,525,330
Issuance of new stock	5,000,000	18	90,000,000
	41,774,042		13,512,525,330

Weighted average number of common shares outstanding:

13,512,525,330 shares / 365 = 37,020,617 shares

Basic earnings per share and basic ordinary income per share for the years ended December 31, 2001 and 2000 are calculated as follows :

In Won

	2001	2000
Net income allocated to common stock (a)	W 211,948,947,207	W 110,005,692,125
Weighted average number of common shares outstanding (b)	37,020,617	33,097,812
Basic earnings per share and ordinary income per share (*)	W 5,725	W 3,324

(*) Since there is no extraordinary gains/losses, basic ordinary earnings per share equals to basic earnings per share.

Diluted earnings per share and diluted ordinary income per share are similarly computed by using the weighted average number of common shares outstanding, reflected for effects of dilutive securities such as stock option. Also, ordinary income was adjusted for compensation costs, net of taxes, on dilutive securities in calculating diluted ordinary income per share. For the calculation of the weighted average number of dilutive potential shares outstanding, dilutive potential shares, such as stock options granted during 2000, were deemed to be converted at date of issuance.

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

In Millions

Net income allocated to common stock	W 211,949
Add: Compensation costs (net of 30.8% tax)	176
	212,125
Weighted average number of common shares and dilutive potential shares outstanding (in shares)	37,188,786
Diluted earnings per share and ordinary income per share (in Won) (*)	W 5,704

(*) Since there is no extraordinary gains losses, diluted ordinary earnings per share equals to diluted earnings per share.

Diluted ordinary earnings per share and diluted earnings per share were same as basic ordinary earnings per share and basic earnings per share for 2000 since there was no diluted effect.

Details of dilutive potential shares as of December 31, 2001 are as follows :

	Exercise period	No. of common shares to be issued by or exercise
Stock option	from June 21, 2003 to March 28, 2006	100,000
Stock option	from September 14, 2003 to September 14, 2006	140,000

25. DIVIDEND INFORMATION:

Dividends for 2001 and 2000 are calculated as follows:

In Millions

	2001	2000
Number of common shares	41,774,042	36,774,042
Par value (in Won)	W 5,000	W 5,000
Dividend ratio	25.00%	11.96%
Cash dividends	W 52,218	W 22,000

Dividend Payout Ratio -

In Millions

	2001		2000	
Dividend	W	52,218	W	22,000
Net Income		211,949		110,006
Dividend Payout Ratio		24.6%		20.0%

Dividend Yield Ratio -

In Won

	2001		2000	
Dividend per share	W	1,250	W	598
Market price as of December 31, 2001 and 2000		28,400		N/A
Dividend Yield Ratio		4.4%		N/A

26. TRANSACTIONS WITH RELATED PARTIES:

Significant transactions occurred in the normal course of business with related companies for the years ended December 31, 2001 and 2000, and the related assets and liabilities at December 31, 2001 and 2000 are summarized as follows:

In Millions

	Assets	Liabilities	Revenues	Expenses
Korea Exchange Bank	W 28,323	W 143,624	W 594	W 43,117
KEB Leasing Co., Ltd.	–	–	–	15
2001 Total	W 28,323	W 143,624	W 594	W 43,132
2000 Total	W 4,373	W 27,642	W 5,318	W 33,571

As of December 31, 2001, a portion of the Company's lands, buildings are pledged to Korea Exchange Bank as collateral of leasehold deposits received up to approximately W 2,392 million (see Note 10).

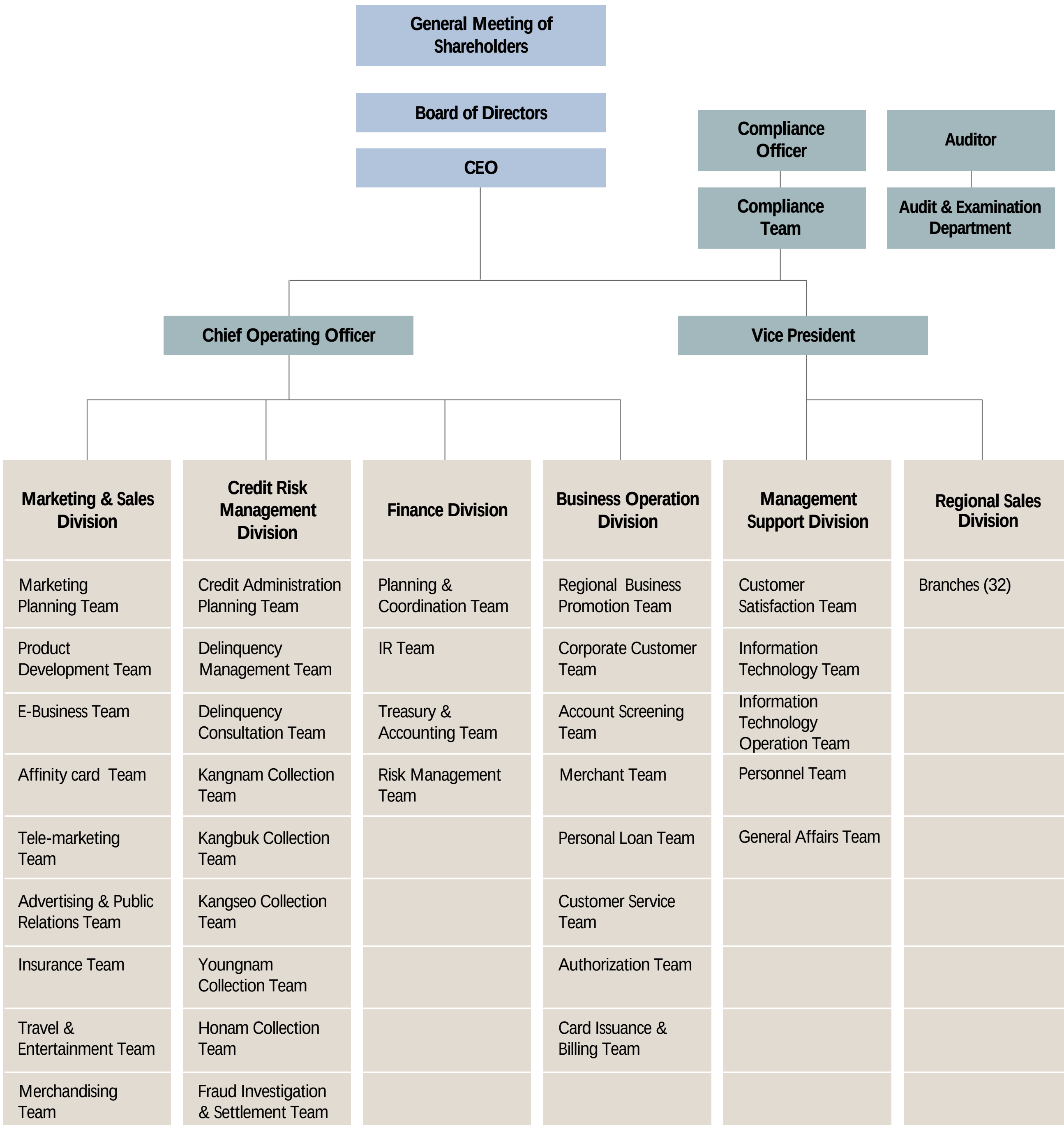
27. SUPPLEMENTAL CASH FLOW INFORMATION:

Significant transactions not affecting cash flows for the years ended December 31, 2001 and 2000 are as follows:

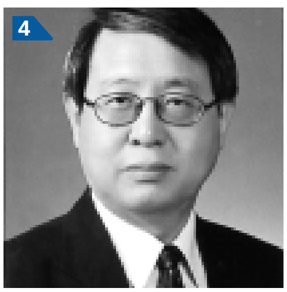
In Millions

	2001		2000	
Current maturities of debentures	W	1,074,000	W	808,000
Current maturities of present value discounts		151		93
Gains on valuation of investment securities		1,311		–
Others		–		20
	W	1,075,462	W	808,113

Organization chart



Board of Directors



Corporate officers

1. BEK, UN-CHUL
Chairman & President

2. KIM, YOUNG-RAE
Director & Executive Vice President

3. LEE, SANG-DUCK
Auditor

4. PARK, JIN-KON
Director

5. DILIP KOTHARI
Outside Director, Audit Committee

6. HWANG, IN-KWANG
Outside Director, Audit Committee

7. DANIEL MINTZ
Outside Director

8. KWON,OH-KYUNG
Outside Director

Corporate Data

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Established

May 19, 1988

Number of Employees

1,013

Network

32 Branches

Stock Listing

December 21, 2001
KEBCS Shares are listed on the Korea Stock Exchange

Number of Shares

41,774,042 Shares

General Meeting of Shareholders

March 30, 2002

KOREA EXCHANGE BANK
CREDIT SERVICE CO., LTD.

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