



Changing 
to serve you better

KFB Head Office Building, Seoul





Change

The Korean financial industry is undergoing enormous change. Some fear this change.

We embrace it.

We see it as an opportunity to prove we're the First and the Best.

Who we are

Korea First Bank (KFB), founded in 1929, is one of Korea's six major nation-wide banks. The Bank operates in traditional commercial and retail banking, and offers trust and security-related services. In 1997, KFB faced severe financial difficulties due to the failure of some large corporate customers. Following an injection of capital from the Korean Government in 1998, and then the sale of 51% of the Bank to the private equity firm Newbridge Capital effective December 31, 1999, the Bank's position strengthened. In 2000, KFB became a leader in banking reform, achieved higher credit ratings from international agencies, and recorded one of the highest BIS ratios among domestic banks. KFB occupies a unique position as the only majority foreign-owned Korean bank. It capitalizes on the international experience of its management, coupled with its long history and understanding of Korea. With a strong balance sheet and operations governed by international best practices, KFB is establishing the benchmark for sound Korean banking practices and reform in Korea.

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Financial Highlights

| December 31, 2000 and 1999 | (In billions of Korean Won) | | (In millions of U.S. Dollars*) | |
|---|-----------------------------|----------|--------------------------------|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| BANKING ACCOUNTS | | | | |
| At Year-End | | | | |
| Loans | W 14,261 | W 12,888 | \$ 11,321 | \$ 10,231 |
| Securities | 7,140 | 8,295 | 5,668 | 6,585 |
| Total assets | 25,453 | 26,135 | 20,205 | 20,747 |
| Deposits | 16,904 | 15,698 | 13,419 | 12,462 |
| Borrowings | 4,974 | 6,229 | 3,949 | 4,945 |
| Total liabilities | 24,150 | 25,154 | 19,171 | 19,968 |
| Common stock | 981 | 981 | 779 | 779 |
| Total stockholders' equity | 1,303 | 981 | 1,034 | 779 |
| For the Year | | | | |
| Interest income | 1,830 | 1,702 | 1,452 | 1,351 |
| Interest expenses | 1,294 | 1,477 | 1,027 | 1,172 |
| Net interest income | 536 | 225 | 425 | 179 |
| Provision for loan losses | 56 | (1,269) | 45 | (1,007) |
| Fee, commissions and other revenue, net | 232 | 1 | 184 | 1 |
| Income before income taxes | 248 | (1,004) | 197 | (797) |
| Income taxes | (58) | 1 | (46) | 1 |
| Net income | 306 | (1,005) | 243 | (798) |
| Credit Quality | | | | |
| Non-performing loans | 33 | 0 | 26 | 0 |
| Reserve for loan losses | 807 | 440 | 641 | 349 |
| TRUST ACCOUNTS | | | | |
| At year-end | | | | |
| Total assets | 2,151 | 5,970 | 1,708 | 4,739 |
| Money trust | 1,587 | 5,085 | 1,260 | 4,037 |
| CONSOLIDATED FINANCIAL DATA | | | | |
| BIS Capital Ratios | | | | |
| Tier 1 capital | 8.56% | 6.89% | | |
| Tier 2 capital | 4.93% | 4.71% | | |
| Total capital | 13.40% | 11.44% | | |

*Korean Won accounts are translated solely for the convenience of readers into U.S. dollars at W1,259.7:US\$1, the rate prevailing at December 31, 2000.



Letter to the Stakeholders



Robert T. Barnum
Chairman, Board of Directors



Wilfred Y. Horie
President & Chief Executive Officer

Greetings to our customers, business partners and employees. We would like to express our gratitude for your continuing support and interest in Korea First Bank.

In the past year at Korea First Bank, the new management initiated a rigorous program of managerial innovation to transform operations, following near-bankruptcy in the 1997-1998 period. At that time, the excessive number of non-performing loans in the Bank's portfolio coupled with a national financial crisis crippled operations. In 1998, the Korean government, the guarantor of bank deposits in Korea, took over in a bid to save the Bank. Prior to 2000, when Newbridge Capital acquired the majority ownership, the Bank posted a loss in excess of W1 trillion.

The vigorous program of reform, including Government assistance provided in connection with the acquisition, has transformed KFB. At the end of fiscal year 2000, the Bank recorded a net profit of W306 billion. The Bank's profitability improved substantially in 2000 as compared with pre-acquisition periods largely because of the significant reduction in problem credit exposures as of closing of the acquisition and the ongoing credit protection the Bank is receiving from the Korea Deposit Insurance Corporation. We now boast one of the highest BIS capital ratios in Korea, with Moody's and S&P also raising our credit ratings by two notches. These excellent results are thanks to the efforts of all employees, and the continuing support of our principal constituency, our customers.

The Bank, under its new management, has set the standard for other banks in the nation with its strong balance sheet, and financial management based on international standards. From January 2000, intense efforts were devoted to centralizing and standardizing screening of loan applications. This initiative was aimed at ensuring asset quality was high, while preventing the errors that resulted in the Bank's financial crisis and eventual takeover in the past. Our credit policy is based on the "wide and shallow" strategy. By offering loans to a diverse cross-section of consumers, small and medium-sized corporations, and large corporate customers, we have a better-balanced portfolio. Large corporate customers remain an important element of our business, however, we are shifting the type and nature of our business in that area.

In 2000, following extensive consultation, the Bank initiated the ambitious "Rainbow" Project. The project included a re-definition of business processes and a program of systematic improvements in the operations. It included a program to prepare employees for large-scale change and focused on

innovation that would fully capitalize on the Bank's capabilities. Product development was key to the project, and new products were the result. Rather than competing on interest rates, we are changing the paradigm, competing on the basis of service and convenience with our unique and convenient products and services.

Our employees are key to our transformation into a customer-focused bank. They are the face of the Bank, and investment in their development is an investment in future profitability. In 2000, we established a Sales and Service Mindset Team to embed a strong customer service culture at the Bank. Employees are encouraged to consider themselves as the "virtual corridor" between the Bank and the customer. They are more friendly, and they take a more active interest in our customers' needs. Through our system of Relationship Managers and Platinum Bankers, we are also committed to providing personalized service. All of our employees have already completed the first stage of a four step customer service training program, and we are well into stages two and three.

The process of transforming the Bank will continue in 2001. Branches will continue the process of specialization by business line and customer segment. Of our 339 branches, 10 are dedicated to large corporate business, and 66 provide services to small and medium enterprises. Our retail customers can access a broad range of services at 166 dedicated consumer branches. Our remaining branches conduct a mix of business. Of course, many of our customers are also taking advantage of our successful eBanking services to conveniently perform their banking transactions on-line.

Rather than focusing on increasing the sheer size of operations, we are focused on quality growth. Priority is placed on risk controls as well as high-end services to VIP customers. Profitable businesses such as consumer loans, credit cards and foreign currency exchange are also key parts of our ongoing strategy. All of our services, products, and employees are dedicated to providing each customer with convenience and choice.

Perhaps the most outstanding success at the Bank has been the warm relationship that has developed between the new management and the employees. Management has accepted the labor union as a valuable partner to consult on matters concerning employee compensation and welfare. "Town-hall"

meetings, where employees from all divisions of the Bank have the opportunity to directly discuss Bank operations with upper management were conducted in 2000, and will be a key part of our ongoing communications with our people. We realize that our employees are vital to the transformation of Korea First Bank and need to be well informed.

Korea First Bank's successful performance in the past year is a source of pride to all of its stakeholders. Like any business we seek profitability, and through determination and persistence we have achieved it. However, we are also serious about our role in further developing the financial industry. Our success will contribute to a more positive image for the Korean financial industry, which will ultimately benefit all Koreans in the future.

As the Bank's operations continue to transform and improve, the employees are of one voice. There has never been a time when they have felt brighter about the future of the Bank and their own futures. This year we are gathering fresh resolve to race ahead. We are eager and ready to face the challenges presented in 2001.

We look forward to your continuing support.



Robert T. Barnum
Chairman, Board of Directors



Wilfred Y. Horie
President & Chief Executive Officer

Transform

the industry
your world





Change

We've strengthened the foundations
Now we are racing ahead
To lead the industry and transform your world.

i Changing the competition ; –



In 2000, KFB adopted an aggressive strategy to transform itself into a more customer-focused bank, both from a corporate and retail perspective. We embarked on a series of initiatives to achieve this goal, many of which were new to Korea. Not only are we transforming our Bank through these initiatives, we are also changing the very nature of banking in Korea.

Key to our transformation was the rigorous reengineering of the branch system at KFB. We divided Branch Operations into three major divisions - Large Corporate Finance, Small and Medium Enterprise Finance and Consumer Finance. Branches are also in the process of specializing into these different divisions of business, bringing a number of benefits to operations. This specialization creates employees who are experts in a particular business area, and it allows us to provide and develop services and products tailored to the needs of different types of customers. Each division has been

made independent and responsible for results and profitability, and the introduction of a performance-based wage system is encouraging employee excellence all across the Bank.

Our employees are the face of the Bank. How they interact with customers can make or break our business. In the past in Korea, bank employees had minimal contact with customers. This distance represented lost opportunities for building a strong customer relationship, encouraging customer loyalty, and cross-selling other bank products. With this in mind, we initiated a series of programs aimed at embedding a strong consumer-focused culture. We established a Sales and Service Mindset Team to develop and introduce our four-level customer service training program. As of December 2000, all employees had finished level one of the program, which will continue throughout 2001.



Kwang Woo Chong
Deputy President &
Chief of Branch Operations

Jin Tae Kim EVP-Large Corporate Finance Division

Hak Yong Shim EVP-SME Finance Division

Won Kyu Choi EVP-Consumer Finance Division

CBO Chong oversees the Bank's entire domestic branch operations and the delivery of products to our consumer, SME and large corporate banking customers.

The new branch layout, introduced in 2000, has also transformed the way we interact with customers. Regular money transactions take place at the counter, while individual customer service and product areas have been arranged in an open plan layout that allows customers to approach employees directly. By removing physical barriers between the Bank's representatives and customers we can deepen the customer relationship and trust and increase our marketing opportunities. This convenient, customer-friendly layout makes us unique among Korean banks.

In 2000, we renewed our commitment to serving the large corporate and small and medium business sectors through the introduction of an advanced Relationship Manager (RM) system. We realize optimum service is only possible through a close relationship with and understanding of our clients and their needs. Personalized, tailored banking is a key to success in the increasingly competitive large corporate and small and medium enterprise banking market. The RM system introduced at KFB in 2000 was part of the program in which we dedicated 22 Relationship Managers to large corporate clients, and 69 to small and medium enterprises. These Relationship Managers are experienced corporate finance

professionals who manage a significant portion of our Bank's assets. They focus on generating more links to our customers to maximize returns, while actively expanding the Bank's corporate business base. We also introduced a Platinum Banking service to provide personalized service to meet the needs of our more affluent customers.

In 2001, Branch reengineering will focus on the continued transformation of inefficient branch business processes into high-value-added sales and service-centered operations. Further improvements in efficiency will be achieved through the continued centralization of back office functions and utilization of new technology to free employees for sales and service activities.

In 2001, the on-going process of branch specialization will continue. In order to better serve the customer, specialists in each business area, such as Relationship Managers, District Sales Managers, Mortgage Finance Advisors, Platinum Bankers and the Sales and Service Mindset Team will support the strengthening of sales and service in each and every branch in our nation-wide network.

i Putting you first i –



2000 saw the transformation of the Bank into a more customer-focused and profit-oriented bank, from both a corporate as well as a retail perspective. A determined shift towards retail banking and SME banking has been underway over the past year, while at the same time maintaining a focus on our important large corporate customers.

Our customer service ethos is based on availability and convenience. If you think of the Bank as a supermarket, the products we offer need to be equally diverse. Customers must be able to shop for their needs in one location. This entails the development of new products and services supplied through convenient and diverse delivery channels, as well as the simplification of existing products to better serve the needs of our customers.

In 2000, we introduced a number of innovative products and services. A new mortgage product, tailored to meet the needs of different customer types with flexible terms and conditions, was launched nationwide in the second half of 2000. New

variations of this mortgage product are under development, with additional features to be offered in 2001. We also recognized the need for an emergency cash product in the market, and launched our Quick Cash Loan late last year. This flexible new product has proven attractive to all customer segments, and is recording solid sales growth.

Amidst government discussions regarding the reduction in deposit insurance, we introduced a new deposit product. This product is linked to government agency bonds and is specifically designed to offer customers added security through a repo arrangement. This product was immediately subscribed, and was named "Product of the Year" by a Korean major daily newspaper. The Bank also launched tax-efficient deposit products, and an initiative to simplify the type and overall number of deposit products.

To demonstrate our dedication to our customers, in September we announced a waiver on all ATM fees for customers using our network. This initiative allows our



Duncan W. Barker
Executive Vice President & Chief Operating Officer

Responsible for management of the various business lines, product management, marketing and strategy, and general administration of the Bank.

customers to access our services anywhere in Korea at no cost. In providing this service to our customers, we recognized the need to introduce a new concept into the market - an account maintenance fee. This initiative is designed to promote more customer account activity through a minimum balance requirement. While the fee was controversial at the outset, the market has quickly recognized its value, and other major banks are now implementing similar initiatives.

Investment product sales were successful during the year, with the launch of new products in strategic alliance with Templeton Investment Management Company. Quality service and a proven track record attracted a significant level of new money into these funds, with new products being launched each quarter to meet the ever-changing investment needs of our customers.

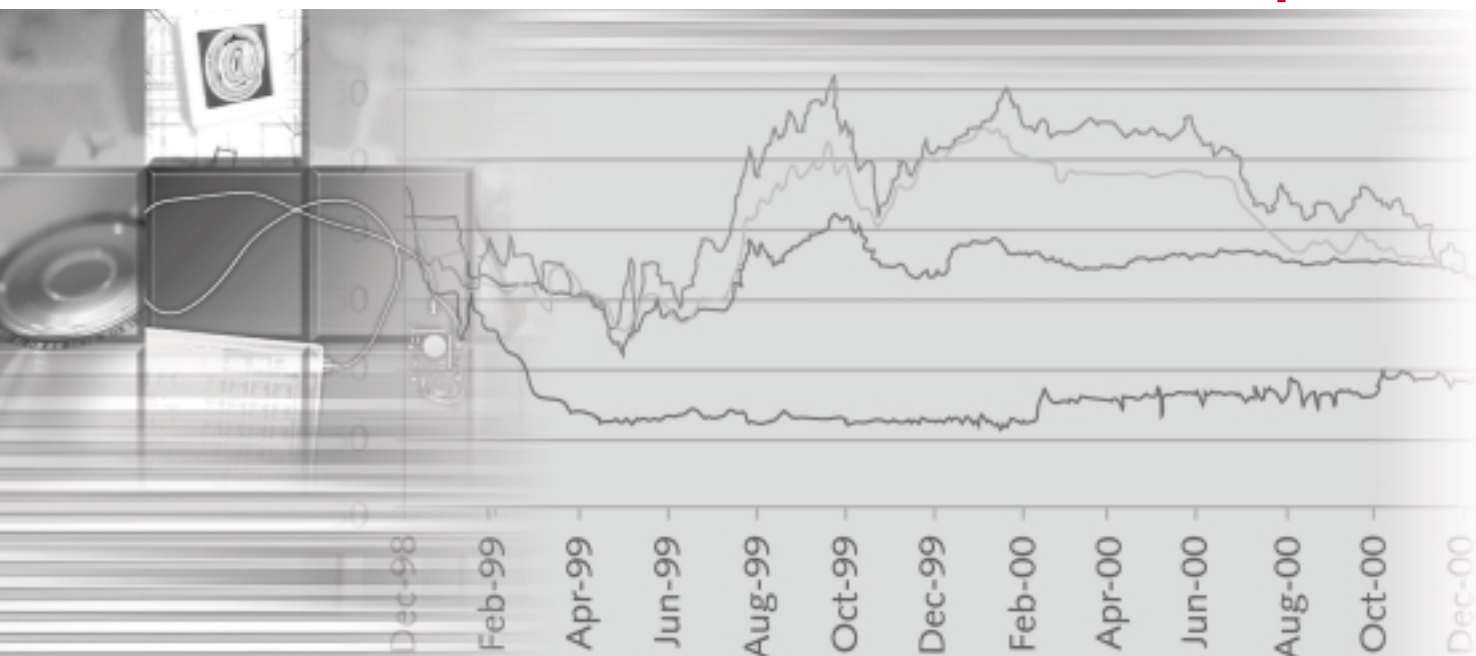
A revamp of the Bank's web site in 2000 led to an award from a major newspaper for superior design and functionality. Providing our customers with the option of transacting via the Internet lies at the heart of convenience banking. Our web site now offers a complete range of banking services, including loans, mortgages, credit cards, foreign exchange, billing and depository services, and more, including mobile banking. Since its launch in October, growth in customers and transactional volume has been tremendous. We expect this new channel to continue to be an excellent source of new business into the future.

We continue to build on our profitable credit card business by providing more features and better rewards to a broader customer base. New products are being developed for launch in early 2001. A new car finance program will also be launched to add to our diverse suite of consumer finance products.

To ensure a better understanding of our customers' needs, we began a CRM (Customer Relationship Management) initiative in 2000. This will allow us to better serve our customers with products designed to meet different segment needs. Improving our cross-selling ratio is high on our list of objectives, as is improvement in our customer service performance. Dedicated trained professionals are now aligned to bring the Bank to our customers, whether it be through a loan or investment product, a trade finance or foreign exchange requirement, or a deposit service.

While the media exposure surrounding the Korean banking industry has been mixed, we are using our fortress balance sheet and our strong capital base to transform our image. We launched a major media campaign in September focused on our customers, with the tag line "Where I am the First". This campaign will continue throughout 2001, raising public awareness of the Bank's transformation into a strong, customer-oriented organization and introducing the public to the diverse range of products on offer at the Bank.

i Improving accountability i -



In the past year we transformed the Bank, building a new bridge to profitability. Accountability and transparency are the key foundations of this bridge. The Financial Management Group underwent orchestrated change, at the heart of which was a clear vision: to build strong financial discipline in pricing and balance management, and to focus on building a sound and high-yielding asset base.

Timely and accurate information is vital to effective financial management, and the first-class Management Information System (MIS) introduced in 2000 ensures efficient circulation of information within the Bank. Through the system we can accurately evaluate product profitability, customer profitability and profitability by business area. An enhanced reporting and accounting system is a core element of the improved MIS. Some of the enhancements include regular monthly closing reports, quarterly reviews by the external auditors and maintenance of both Korean GAAP and US GAAP account

books.

The Bank's core directive in risk management is to maximize earnings and return on capital within acceptable levels of risk. Opportunities for added shareholder value are evaluated for their risk potential and the ability to hedge and control risk before the bank moves to capitalize on the opportunity. In managing risk, the Bank must operate not only within the parameters of its own internal policies but also in compliance with regulatory requirements in the markets in which the Bank operates.

The Bank's overall risk management policy is set by the Risk Management and Financial Control Committee which is composed of at least three directors. Detailed risk management procedures and guidelines are set and overseen by the Asset and Liability Management Committee (ALCO), which is composed of the top management of the Bank, and the general managers of the Treasury Department and the



Ranvir Dewan

Executive Vice President & Chief Financial Officer

Responsible for overall bank planning, accounting, investor relations and financial communications, the Bank's treasury function and asset and liability management. In addition, the Government Advisory Oversight Team, which administers matters related to the KDIC assistance pursuant to the Assistance Agreement, is included in this division.

Asset and Liability Management Department (the "ALM Department"). Bank policy requires the ALCO to meet monthly. The ALCO is responsible for establishing risk management measurement standards and methodologies; reviewing liquidity positions and monitoring alternative funding sources; reviewing interest rate risk management reports; comparing exposures to policy limits and assessing potential impact of anticipated major funding shifts or changes in overall growth, risks, asset mix and quality, regulatory requirements and dividend policy; reviewing the outlook for interest rates and the economy; developing alternative strategies as deemed appropriate taking into account interest rate levels and trends, deposit and loan products and markets, banking regulation and monetary and fiscal policy; developing parameters for pricing and maturity distributions of deposits, loans and investments and determining the framework for transfer pricing. The new management of the Bank developed revised policies related to risk management with the assistance of an outside consultant. These revisions were adopted by the Risk Management Committee in September 2000.

As a way of speeding up response to changes in the market, a new deposit rate system will be introduced in 2001. Under this system of tiered deposit accounts, the same interest rate is

applied to customers in the same tier. The rates for large deposits are determined by the Treasury Department. The objective of this new system is to efficiently manage the deposit balance of the Bank while reflecting the Bank's liquidity position, market rates and deposit price competitiveness.

Change has also taken place in general operations of the Financial Management Group. The centralization of different operations in the Financial Management Group resulted in cost savings and efficiency. Payments, once the responsibility of General Administration and the 5 independent departments are now the sole responsibility of the Accounting Department. The department is also now responsible for the review and control of overall expenses. The computerization of the filing system, tax processing and payments will bring considerable improvements in accuracy, speed and increased efficiency. The system will be fully operational in April 2001.

Unlike other Korean banks, we also have an independent accounting department. Headed by a CPA recruited from outside the bank, this department is responsible for accounting, tax and payment matters.

i Improving credit quality i –



The first division of the Bank to undergo reform under the new management was the Credit Division. The Bank moved away from outdated lending practices, based mostly on collateral, to include making credit decisions based on credit ratings and future cash flow analysis. In 2000, international rating agencies such as Moody's and S&P's upgraded our credit ratings, a testimony to the improvements in asset management made at KFB. The overall level of non-performing loans at the Bank decreased in 2000 and there was a clear increase in credit quality due to the strict credit standards installed by the new management.

In 2000, Credit Risk Management, Special Assets, and Credit Review and Compliance Departments, were established to ensure quality credit and minimize risk. The Credit Risk Management Department has 6 teams: Credit Planning, Corporate Finance I, II, and III, Individual Finance and Mortgage Loan teams. The Credit Planning team is responsible for credit planning, risk management, industry analysis and collateral management. The Corporate Finance teams and Individual

Finance team undertake credit analysis and review and manage credit ratings. The Corporate Teams approve loans within pre-authorized limits.

The Bank will introduce a Credit Risk Management System (CRMS), a macro portfolio management tool. With the implementation of CRMS, the Bank will be able to systematically measure probability of default on each loan. The Bank can use these measurements to maintain adequate capital and establish loan loss reserves that accurately reflect current overall risks facing the Bank. The CRMS also allows the Bank to adjust the interest rates applied to each loan customer by comparing Risk Adjusted Return on Capital (RAROC), an index of Risk Adjusted Performance Measurement (RAPM), with the profitability of each customer.

The Special Assets Department is responsible for loan management and collection. The specialists in this department identify loans with potential credit weakness, work to prevent



SooHo Lee
Executive Vice President & Chief Credit Officer

Responsible for policies and procedures for credit control and credit risk management, which is carried out by the Credit Risk Management, Special Assets and Credit Review & Compliance Departments.

insolvent loans, and adopt measures to minimize loan losses. It also undertakes credit review and approval of loans to companies with weaker financial statements. The Workout Team is responsible for the financial affairs of companies undergoing corporate restructuring.

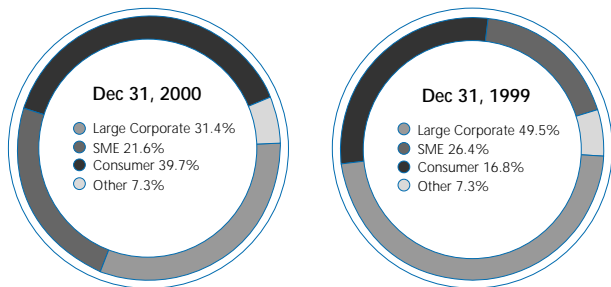
The Credit Review and Compliance Department manages credit review and monitors compliance at branches. In 2000, 150 Compliance Officers at branches and 30 Loan Review Officers at the Head Office reviewed all new and existing loans to clean up the loan operations. They also took part in the introduction of a new Credit Risk Rating system that assigns 8 levels of risk to customers. These ratings are defined according to future repayment capability, business area, and market risk and collateral, with interest rates adjusted accordingly.

KFB's credit policy has transformed from "narrow and deep" to "wide and shallow". In the past, credit was weighted towards large corporations. Now the Bank aims for a broader and more diversified portfolio mix. The transformation of our credit portfolio has already begun. The portion of consumer loans grew from 16.8% in December 1999, to 39.7% in December 2000. Large corporate lending accounted for 31.4% of Bank Total Loans as of December 2000, down from 49.5% in 1999. SME loans fell from 26.4% to 21.6% as a result of stricter underwriting procedures at the Bank and increased competition in the SME lending market.

| Loan Analysis | 2000 | 1999 | Increase(decrease) | |
|-----------------|--------------------------|---------------|--------------------|--------------|
| | In Billion of Korean Won | | Amount | % |
| Large Corporate | W 4,388 | W 6,296 | W (1,908) | (30.3%) |
| SME | 3,027 | 3,367 | (340) | (10.1%) |
| Consumer | 5,564 | 2,134 | 3,430 | 160.7% |
| Other | 1,021 | 925 | 96 | 10.4% |
| Total* | 14,000 | 12,722 | 1,278 | 10.1% |

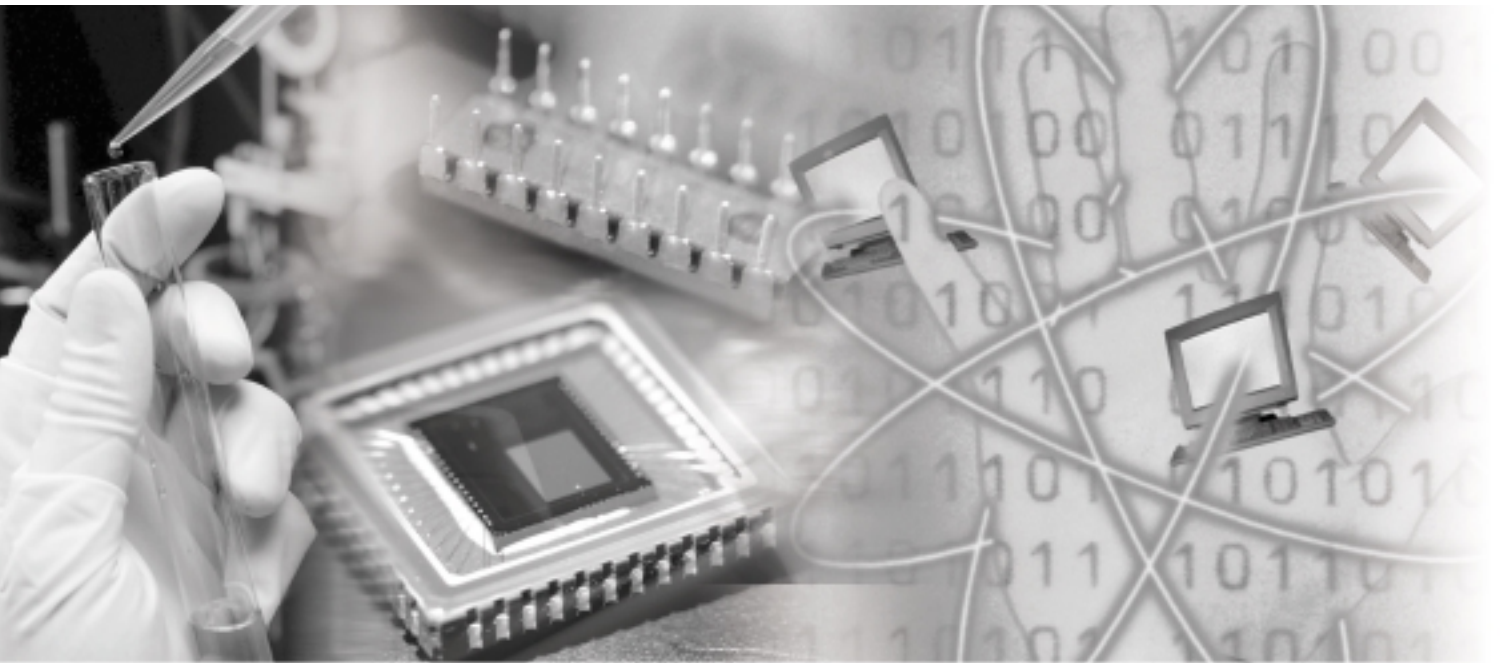
* Excludes W261 billion in interbank reconciliation call loans.

Composition Analysis



In September 2000, KFB introduced a Credit Evaluation System for consumer lending. The system is modeled on those used by major international banks. It streamlines, simplifies, and standardizes credit approval, bringing considerable improvements in efficiency and customer service. The continued computerization of customer credit information and automation of the loan process, including plans for a computerized loan grading system, will bring considerable gains in time, consistency and profit to loan operations. With these initiatives, KFB expects to record continued growth in consumer loans in 2001.

i We're transforming the way we communicate i -



The Internet and eCommerce present enormous opportunities to the banking industry. At KFB we are grasping the opportunities offered by this exciting new era in communications. We are introducing a number of world-class IT initiatives that will transform our operations and the way we serve our customers.

In 2000, we kicked off a 3-year journey towards a new way of communicating with our customers. The program began with the New System Project initiated in July 2000. The system will combine previously separate information systems into a single integrated system. Part of this project is the development and launch of a unified multipurpose delivery channel, "SellStation". SellStation combines diverse functions including platform, lending and teller functions. The platform function acts as a unified sales tool that aids in customer-related inquiries, cross-selling and results

management. The lending function, which includes an interface with external credit institutions, reduces the complexity of the lending process through a terminal exclusively devoted to loans. The automation of credit evaluation will considerably speed up and standardize the loan application and approval process. The teller function supports a wide range of teller functions and will considerably streamline day-to-day branch operations, with a focus on improving our sales penetration.

Another major IT project at the Bank is our Data Warehouse and Customer Relationship Management Project. This project will unify, centralize and standardize information management across the Bank.



Jay Hyun
Executive Vice President & Chief Information Officer

Responsible for providing information systems and technology support to the Bank's operations, and developing and maintaining service channels.

Customer Relationship Management (CRM) is a continuous process of examining customer needs and behavior, defining customer strategy and optimizing distribution of management resources to offer the best service in all areas. The Data Warehouse is central to an effective CRM process. Information gathered at various customer contact points across the Bank will be gathered in the central data warehouse. This information will then be repackaged to produce integrated reports, analysis and forecasts tailored to the Bank's needs. Everything from earnings per product, to branch productivity and customer profiling will be accessed from this central data warehouse.

Once complete, the project is expected to considerably strengthen marketing activities, and improve our business capability. With a thorough knowledge of our customers we can create realistic and effective business strategies, and offer high-quality customer service. It will also bring considerable cost-savings through the streamlining of report writing, information gathering, and concentration of technology.

In the area of eBanking services, KFB's Internet bank homepage was drastically remodeled last year to provide service tailored to different types of customers. Now, when customers log on to our site, our system automatically confirms whether they are individuals or corporate customers and then displays a customized screen. The Internet provides flexible and convenient customer access to our services, anytime and anywhere. Consequently, we will continue to devote considerable time, effort and resources to developing eBanking delivery channels at KFB.

i It's our community i —



Korea First Bank is not merely a financial institution. We are a family. And like any other Korean family, we take an active interest in our community. KFB supports a number of community organizations and events, and our members gladly volunteer their time to participate.

JoongAng Ilbo Seoul Half Marathon

KFB was one of the sponsors of the Seoul Half Marathon held on November 19, 2000 under the



auspices of the JoongAng Ilbo, a daily newspaper. 2,500 of our employees and their family members, including KFB president, Wilfred Y. Horie participated. The marathon took place in a festive atmosphere at Chamshil Sports Complex. Approximately 17,000 participants wore competitor numbers sporting the KFB logo. Employee volunteers and the wives of senior officers provided food and beverages to the participants. Following the event members of the KFB family held a clean-up campaign with great response from participants.

The First National Children's Drawing Exhibition

From December 20th to 27th, 2000, the first National Children's Drawing Exhibition was held in the lobby of the head office. This exhibition featured the artistic works awarded prizes in the Children's Drawing Contest for the Bank's 2001 calendar. It included the

12 works printed on the year 2001 calendar and another 200 selected works. Gifts were given to each child at the event by the president Wilfred Y. Horie and employees.



Orphanage and Nursing Home for the Aged

In December 2000, KFB president Wilfred Y. Horie visited Cheongam Home for the Aged, Macheon-dong and Zion Orphanage to present donations and gifts collected by employees. The home and orphanage are both sponsored by KFB.

Donation to Korea National Red Cross

In November 2000, KFB President Wilfred Y. Horie donated funds to the Korea National Red Cross (President: Chang Choong Shik) on behalf of the Bank. The funds will be allocated to disaster relief and social service programs.



Updating technology at Kwangju University

In September 2000, KFB delivered over 200 personal computers to Kwangju University to aid in industrial-education. These computers were used by the Bank between 97 and 98 and were recently replaced by an updated model. The Kwangju University has a pivotal role in the development of industrial education in the South Cholla Province and these computers will prove a useful educational tool.

One Company Preserves One Mountain

In October, we joined the 'One company preserves one mountain' campaign in cooperation with the Mt. Bukhan Management Corporation. The campaign aims to preserve the natural environment and cultural assets around the mountain range with the assistance of Korean corporations. Through this campaign, we can publicize our dedication to preserving our nation's environment.

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Management's Discussion & Analysis

Selected Financial Data

Years Ended December 31

| | 2000 | 1999 | 2000 | 1999 |
|--|---------------------------|------------------------|--|---------|
| | In Billions of Korean Won | | In Millions of U.S. Dollars ⁽⁷⁾ | |
| BANKING ACCOUNTS | | | | |
| Operating Results | | | | |
| Interest income ⁽¹⁾ | 1,830 | 1,702 | 1,452 | 1,351 |
| Interest expense | 1,294 | 1,477 | 1,027 | 1,172 |
| Net interest income | 536 | 225 | 425 | 179 |
| Provision for loan losses | 56 | (1,269) ⁽²⁾ | 45 | (1,007) |
| Fees, commissions and other revenue, net | 232 | 1 ⁽³⁾ | 184 | 1 |
| Operating expenses | 482 | 444 | 382 | 352 |
| Operating income | 230 | 1,050 | 182 | 834 |
| Non-operating revenue | 57 | 1,384 ⁽⁴⁾ | 45 | 1,099 |
| Non-operating expense | 38 | 3,439 ⁽⁵⁾ | 30 | 2,730 |
| Income (loss) before tax | 248 | (1,004) | 197 | (797) |
| Income tax (including deferred tax) | (58) ⁽⁶⁾ | 1 | (46) | 1 |
| Net income | 306 | (1,005) | 243 | (798) |
| Balance Sheet | | | | |
| Loans net of allowance | 13,454 | 12,448 | 10,680 | 9,882 |
| Securities | 7,140 | 8,295 | 5,668 | 6,585 |
| Other interest earning assets | 1,125 | 1,480 | 893 | 1,175 |
| Non-interest earning assets | 3,734 | 3,912 | 2,964 | 3,105 |
| Total assets | 25,453 | 26,135 | 20,205 | 20,747 |
| Deposits | 16,904 | 15,698 | 13,419 | 12,462 |
| Borrowings | 4,974 | 6,230 | 3,949 | 4,945 |
| Other interest bearing liabilities | 689 | 1,346 | 547 | 1,069 |
| Non-interest bearing liabilities | 1,583 | 1,880 | 1,257 | 1,492 |
| Total liabilities | 24,150 | 25,154 | 19,171 | 19,968 |
| Shareholders' equity | 1,303 | 981 | 1,034 | 779 |
| Total funding | 25,453 | 26,135 | 20,205 | 20,747 |
| TRUST ACCOUNTS | | | | |
| Guaranteed trust | 964 | 3,283 | 766 | 2,606 |
| Performance trust | 1,187 | 2,687 | 943 | 2,133 |
| Total trust assets | 2,151 | 5,970 | 1,707 | 4,739 |
| Money trust | 1,587 | 5,085 | 1,260 | 4,037 |
| CREDIT QUALITY | | | | |
| Allowance for loan losses | 807 | 440 | 641 | 349 |
| Gross loans | 5.76% | 3.46% | | |
| KEY FINANCIAL RATIOS - CONSOLIDATED | | | | |
| Net interest margin | 2.47% | 0.98% | | |
| Efficiency ratio | 63.00% | 108.84% | | |
| Net income to average assets | 1.12% | (3.21%) | | |
| Return on average equity (before tax) | 21.81% | (52.81%) | | |
| Return on average equity (after tax) | 26.75% | (52.89%) | | |
| Tier 1 capital | 8.56% | 6.89% | | |
| Tier 2 capital | 4.93% | 4.71% | | |
| Total capital | 13.40% | 11.44% | | |
| Full-time employees | 4,574 | 4,801 | | |
| Total employees | 5,467 | 5,807 | | |
| Branches | 339 | 336 | | |

(1) Excludes interest on credit cards which is included in Fees and Commissions

(2) Includes reversal of allowance for loan losses of W1,523 billion, offset by new provisions of W254 billion

(3) Includes losses from payments on guaranteed trusts of W328 billion

(4) Includes gains from the contribution by the KDIC to recapitalize the Bank

(5) Includes losses on sale of NPLs to KAMCO of W3,342 billion

(6) Includes the recognition of a deferred tax asset to the value of W59 billion

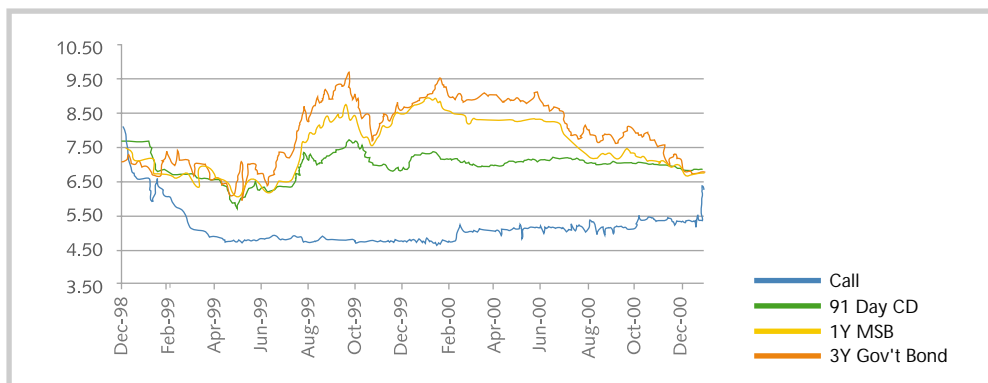
(7) Korean Won accounts are translated solely for the convenience of readers into U.S. Dollars at W1,259.7:US \$1, the rate prevailing at December 31, 2000

(8) All the figures are rounded up or down to the nearest billion.

The financial information and related discussion is presented on a non-consolidated basis, except where noted otherwise, and has been classified in accordance with accounting principles generally accepted in Korea. Information for 1999 is presented for the purposes of comparison and has been restated to comply with the line classifications of 2000.

The following graph is presented for the purposes of understanding interest rate trends in Korea over the past two years

2 Years Interest Trends



Overview

In 2000 KFB achieved the first profitable year for the bank since 1996, after 51% of the bank was acquired by Newbridge Capital effective December 31, 1999. Newbridge put into place a new executive management team to execute the turnaround of the operations of the bank and considerable effort has gone into improving the processes of the bank, its asset and funding structure, and rebuilding the reputation of the bank. The strategic focus has broadened, from the bank being focussed on corporate business to a wide and shallow strategy by offering loans to a diverse cross-section of private customers, small and medium-sized corporations and large corporate customers.

During the year under review, the new management introduced a streamlined organization with focus on strategic objectives to succeed in its mission of achieving superior profitability by becoming a market leader in serving consumers and SME business in Korea. The strategic objectives set to achieve the mission are:

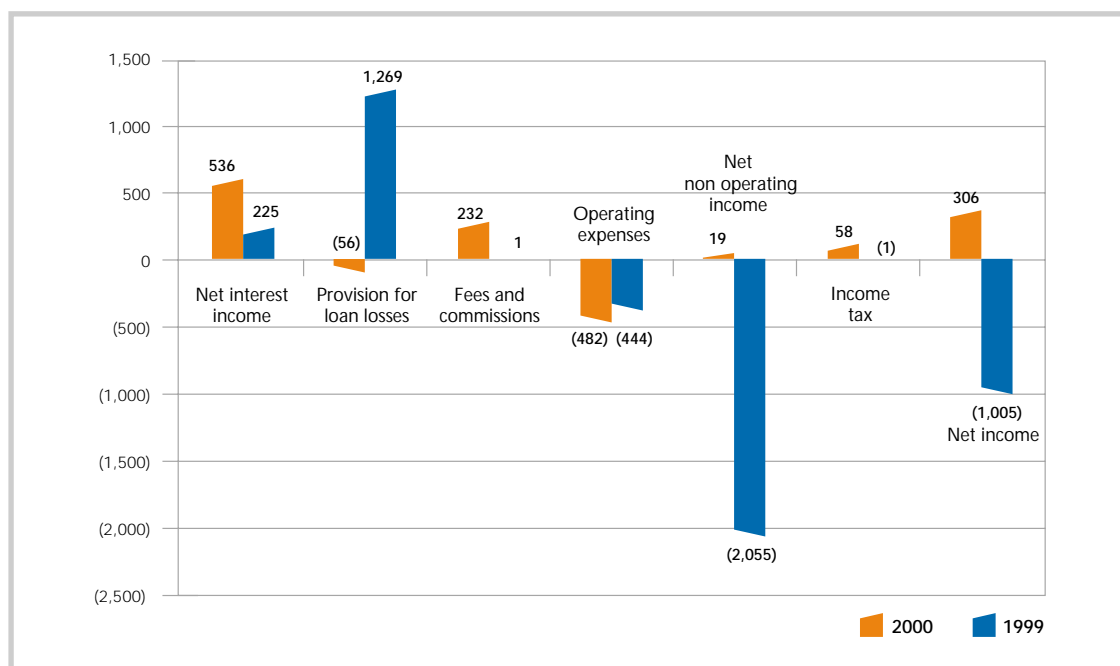
- ; /to adopt a sales and customer service orientation;
- ; /to instill strong financial disciplines focussing on profitability;
- ; / to employ rigorous risk management practices;
- ; /to provide "best-in-class" consumer finance products;
- ; /to cross-sell customers into a broader array of products and services; and
- ; /to develop alternative delivery channels and new sources of fee income.

The bank's profitability improved substantially in 2000 as compared with pre-acquisition periods largely because of the significant reduction in problem credit exposures as of closing of the acquisition and the ongoing credit protection the bank is receiving from the Korea Deposit Insurance Corporation(KDIC). In 2000, this effectively led to the transfer of W2.3 trillion in non-performing bank assets back to KDIC.

Net Income Analysis

| | 2000 | | 1999 | | Change | |
|---------------------------|---------------------------|-------|---------------------------|---------|---------|---------|
| | In Billions of Korean Won | | In Billions of Korean Won | | Amount | % |
| Interest income | W | 1,830 | W | 1,702 | W 128 | 7.5% |
| Interest expense | | 1,294 | | 1,477 | (183) | (12.4%) |
| Net interest income | | 536 | | 225 | 311 | 137.9% |
| Provision for loan losses | | 56 | | (1,269) | 1,325 | N/M |
| Fees and commissions | | 232 | | 1 | 231 | N/M |
| Operating expenses | | 482 | | 444 | 38 | 8% |
| Operating income | | 230 | | 1,050 | (820) | (78%) |
| Non-operating income | | 57 | | 1,384 | (1,327) | (96%) |
| Non-operating expenses | | 38 | | 3,439 | (3,401) | (99%) |
| Income (loss) before tax | | 248 | | (1,004) | 1,252 | N/M |
| Income tax | | (58) | | 1 | (59) | N/M |
| Net income | | 306 | | (1,005) | 1,311 | N/M |

Net Income Analysis



The Bank's net interest income of W536 billion in 2000 increased 138% from W225 billion in 1999. The net interest margin increased from 0.98% in 1999 to 2.47% in 2000 with the improvement coming mostly from the improved balance sheet structure of the bank and the focus on higher yielding consumer lending.

The average yield on interest earning assets increased 99 basis points to 8.44% in 2000 from 7.45% in 1999, while the rate paid on interest bearing liabilities decreased 74 basis points, to 5.83% in 2000 from 6.57% in 1999.

The bank set aside loan loss provisions of W56 billion for new and unprotected loans during 2000, which brought the level of loan loss reserves to 5.76% of the total loan portfolio. In 1999, the bank's net reversal of loan loss provisions was W1,269 billion due to the fact that a large amount of non-performing loans were sold to Korea Asset Management Corporation (KAMCO).

In order to comply with accounting principles generally accepted in Korea, the bank has recorded a deferred tax benefit of W59 billion, which is based on the utilization of net operating losses to set off against future income for the purposes of the tax calculation. The bank's return on average equity, excluding the benefit of deferred tax, was 21.81% (on a consolidated basis). ROAE increased to 26.75% after inclusion of deferred tax.

Fee and commission income grew substantially to W232 billion from W1 billion in 1999. 1999 included substantial losses in the Trust account as a result of guaranteed returns paid on guaranteed trusts. Generally all other fee and commission income grew in line with the bank's return to more normal operations and customer base. KFB no longer operates in the securities business, thus it no longer earns profit from this line of business.

Operating expenses increased to W482 billion in 2000, up by 8.5% from W444 billion in 1999, reflecting a return to more normal operating levels as well as an increase in expenses related to restructuring initiatives.

During 2000, total assets of the bank decreased slightly to W25,453 billion from W26,135 billion at the end of 1999. This was partly due to the transfer of assets to KDIC although the overall loan portfolio grew in 2000, and also due to the fact that the bank no longer trades in securities and thus does not hold securities for this purpose. The areas of growth in the balance sheet reflect the strategy to achieve a more diversified loan portfolio and to reorient its customer approach.

Total loans grew W1,373 billion, or 10.7%, to W14,261 billion at December 31, 2000, from W12,888 billion at December 31, 1999. Non-performing loans ("NPLs") not subject to protection from loss by the KDIC grew to 0.23% of the loan portfolio (based on banking accounts only) while all NPLs were subject to protection at December 31, 1999. Deposits also grew during 2000 to W16,904 billion at December 31, 2000, an increase of W1,206 billion or 7.7% over the balance of W15,698 billion at December 31, 1999.

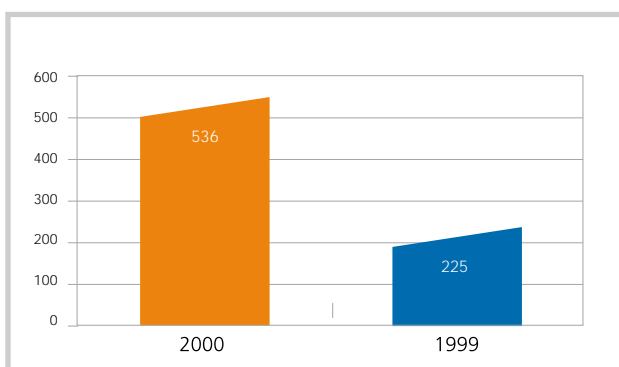
Operating Results

Net Interest Income

| | (In Billions of Korean Won) | | | |
|---------------------|-----------------------------|---------|---------------------|---------|
| | 2000 | 1999 | Increase (decrease) | |
| Interest revenue | W 1,830 | W 1,702 | W 128 | 7.5% |
| Interest expense | 1,294 | 1,477 | (183) | (12.4%) |
| Net interest income | 536 | 225 | 311 | 137.9% |
| Net interest margin | 2.47% | 0.98% | | 1.49%p |
| Net interest spread | 2.61% | 0.88% | | 1.73%p |

Net Income Analysis

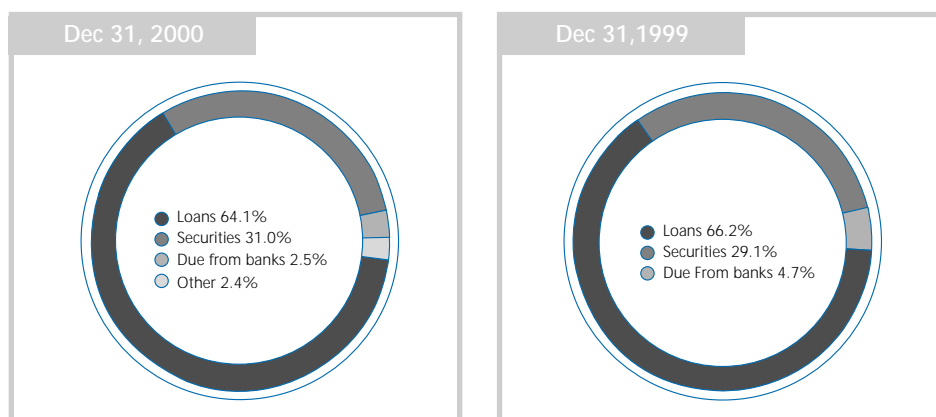
For the year ended December 31, 2000, KFB reported interest income of W1,830 billion, a W128 billion or 7.5% increase over 1999 of W1,702 billion. While interest income increased, interest expense decreased. Interest expense in 2000 of W1,294 billion was W183 billion or 12.4% down from W1,477 billion in 1999. Net interest income increased to W536 billion by W311 billion, or 138%, from W225 billion in 1999. This resulted in an increase in the net interest margin from 0.98% in 1999 to 2.47% in 2000.



Interest Income Analysis

| | 2000 | | | | 1999 | | | |
|--------------------------------|----------|-------|----------|--------|----------|-------|----------|--------|
| | Average: | | | | Average: | | | |
| | Balance | Rate | Interest | % | Balance | Rate | Interest | % |
| Interest-Earning Assets | | | | | | | | |
| Loans | W12,555 | 9.34% | W1,173 | 64.1% | W13,866 | 8.13% | W1,127 | 66.2% |
| Securities | 7,516 | 7.55% | 568 | 31.0% | 7,251 | 6.82% | 495 | 29.1% |
| Due from banks | 1,098 | 4.09% | 45 | 2.5% | 1,736 | 4.62% | 80 | 4.7% |
| Other | 530 | 8.28% | 44 | 2.4% | | | | |
| Total | 21,699 | 8.43% | 1,830 | 100.0% | 22,853 | 7.45% | 1,702 | 100.0% |

Interest Income Composition Analysis



The increase in interest income was chiefly the result of increased average rates on interest earning assets from 7.45% in 1999 to 8.43% in 2000. Most of this increase results from the increased average interest rates on loans from 8.13% to 9.34%. This is chiefly as a result of changing the focus of the bank away from lower yielding corporate lending to higher yielding consumer lending. Interest income on consumer lending of W312 billion in 2000 grew W138 billion, or 79.7%, from W174 billion in 1999. This included increased income from the acquisition of consumer loan portfolios and income from other consumer lending.

Interest on corporate and SME lending decreased W92 billion, or 9.6% in 2000, to W861 billion from W953 billion in 1999. The decrease primarily resulted from a decrease in average loan volumes of W2,871 billion to W9,598 billion in 2000 from W12,469 billion in 1999. It was part of the strategy of the bank to decrease the lending to corporate borrowers as a percentage of the portfolio, and while it is part of the strategy to increase lending to SMEs, this type of lending has been more competitive and risky than it was originally thought to be. Overall yields on corporate and SME lending have improved as a result of efforts to more effectively price the risk posed by this lending.

Overall, the effect of the increased interest rates was somewhat offset by a reduction in the total average loan balance which dropped to W12,555 billion in 2000 from W13,866 billion in 1999. This is chiefly from the transfer of non-performing loans to the KDIC. Although by year-end 2000, KFB had managed to fill the gap left by the transfer of assets to KDIC by the acquisition of bulk portfolios and aggressive loan origination, especially of mortgages and other retail products. At year end total loans (excluding interbank call balances) amounted to W14,000 billion, substantially up from the average for the year.

The average interest rate earned on securities increased somewhat from an average of 6.82% in 1999 to an average of 7.55% in 2000. During 2000, a large proportion of the securities carried guaranteed yield rates of 125 basis points above the weighted average cost of funds of the bank and trust business. With this KDIC guarantee in place the yields on these securities is determined by the cost of funding. KFB has revised its policy towards securities and no longer conducts security trading as a business. Thus only investment securities are held in the portfolio. The average balance of securities increased slightly by W265 billion to W7,516 billion during 2000 from W7,251 billion in 1999. The year end balance amounted to W7,140 billion of which W5,947 billion were KDIC bonds.

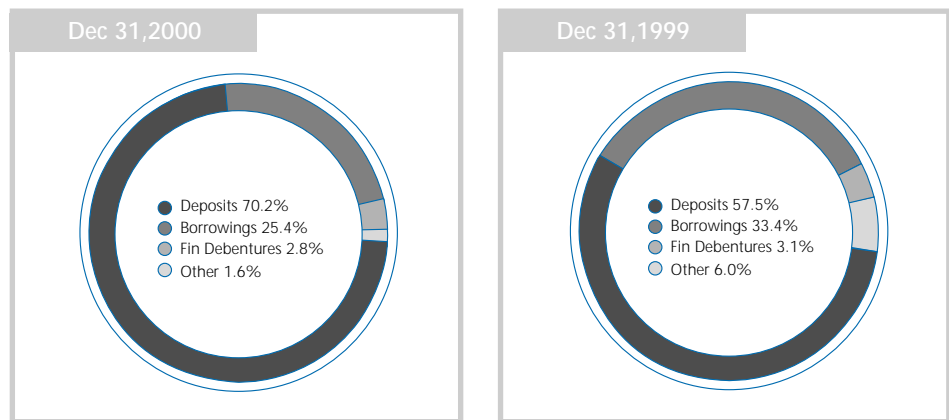
Interest on balances due from other banks decreased to W45 billion in 2000 from W80 billion in 1999 with average balances dropping to W1,098 billion in 2000 from W1,736 billion in 1999 as a result of better asset allocation. Yield on these balances was only 4.09% in 2000 down from 4.62% in 1999, indicative of an overall decrease in interest rates and the low yield on such balances. Other interest earned comprised primarily interest earned on a KDIC receivable between June 30, 2000 and receipt of the KDIC payment on September 14, 2000.

Interest Expense Analysis

(In Billions of Korean Won)

| | 2000 | | | | 1999 | | | |
|-------------------------------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|
| | Average: | | | | Average: | | | |
| | Balance | Rate | Interest | % | Balance | Rate | Interest | % |
| Interest-Bearing Liabilities | | | | | | | | |
| Deposits | W16,372 | 5.55% | W 909 | 70.2% | W14,096 | 6.03% | W 849 | 57.5% |
| Borrowings | 4,944 | 6.65% | 329 | 25.4% | 7,538 | 6.55% | 493 | 33.4% |
| Financial debentures | 493 | 7.24% | 36 | 2.8% | 672 | 6.85% | 46 | 3.1% |
| Other | 373 | 5.55% | 21 | 1.6% | 186 | n/m | 89 | 6.0% |
| Total | 22,182 | 5.83% | 1,294 | 100.0% | 22,492 | 6.57% | 1,477 | 100.0% |

Interest Expense Composition



Interest expenses decreased by W183 billion, or 12.4%, from W1,477 billion in 1999 to W1,294 billion in 2000. This reduction was partly due to lower average interest bearing liabilities which decreased from W22,492 billion in 1999 to W22,182 billion in 2000, but was also partly a result of the bank's increased use of less expensive deposits for its funding needs as compared to other borrowings as well as a decrease in market rates. In 1999, the interest expense related to deposits comprised 57.5% of the total interest expense, at an average rate of 6.03%, while in 2000 deposit interest expense comprised 70.2% of the interest expense at an average rate of 5.55%. There was a decrease in average borrowings of W2,594 billion to W4,944 billion in 2000 evidencing an improvement in the funding structure for the year with a move to relatively less expensive deposits. The average rates paid on borrowings increased slightly to 6.65% from 6.55% owing to the fact that in 1999 the bank enjoyed the advantage of some less expensive borrowings from the Bank of Korea, which were repaid during 2000.

Fees and Commissions

| | 2000 | | 1999 | | Change | |
|----------------------------|---------------------------|-----|---------------------------|-------|---------------------|---------|
| | In Billions of Korean Won | | In Billions of Korean Won | | Increase (decrease) | % |
| Credit card fees | W | 116 | W | 101 | W 15 | 15.0% |
| Banking fees & comm. | | 64 | | 60 | 4 | 6.6% |
| Trust account revenue | | 7 | | (328) | 335 | N/M |
| Securities | | 3 | | 120 | (117) | N/M |
| Foreign exchange | | 42 | | 48 | (6) | (12.5%) |
| Total fees and commissions | | 232 | | 1 | 231 | N/M |

Fees and commissions increased to W232 billion from W1 billion in 1999(after restating to presentation adopted in 2000). The chief reason for the increase is the fact that the trust business recorded substantial losses in 1999 of W328 billion compared with modest profits of W7 billion in 2000. These losses were mostly as a result of guaranteed returns paid on Guaranteed trusts. Another significant change from 1999 is the fact that KFB no longer deals in securities. Income from this activity in 1999 was W120 billion compared with W3 billion in 2000. Credit card fees increased 15.0% or W15 billion to W116 billion from W101 billion. Most of this increase came as a result of increased credit card borrowings(reflected as fees rather than interest income). The number of credit cards in circulation in fact decreased from 964,000 at December 31, 1999, to 879,000 at the end of 2000 as the bank withdrew cards in issue which were no longer being used by customers. Banking fees and commissions increased 6.6% or W4 billion to W64 billion in 2000 from W60 billion in 1999. The majority of the increase was in Won denominated business with foreign currency business increasing slightly and the most notable increase coming from agency operation fees.

Operating Expenses

| | 2000 | 1999 | Change | |
|--------------------------|---------------------------|------|---------------------|---------|
| | In Billions of Korean Won | | Increase (decrease) | % |
| | | | Amount | |
| Staff cost | 277 | 258 | 19 | 7.4% |
| Administration expenses | 121 | 90 | 31 | 34.4% |
| Depreciation and other | 84 | 96 | (12) | (12.5%) |
| Total operating expenses | 482 | 444 | 38 | 8.5% |

Operating expenses increased by 8.5%, or W38 billion, to W482 billion in 2000 from W444 billion in 1999. Prior year figures have been restated to reflect the accounting classifications adopted for 2000. Overall staff costs, which include salaries, labor related general and administration expenses and retirement allowances, increased to W277 billion in 2000 from W258 billion in 1999, an increase of 7.4%. The reason for the increase in overall salaries was that a number of salary increases were given to bring salaries in line with industry rates. A portion of the salary increases were retroactive to 1999 and related to a voluntary pay decrease agreed by employees in 1997 during the bank's financial crisis. This added to the effect of the increases in the accrual for retirement benefits making the charge in 2000 disproportionately high.

Administration expenses increased to W121 billion in 2000 from W90 billion, a W31 billion, or 34.4% increase over the prior year. The primary reason for the increase was the increased consulting fees in connection with restructuring the Bank's operations of W18 billion in 2000 compared with none in the prior year. Advertising expenditures also increased in 2000 to W8 billion from W3 billion in 1999. The expenditure has primarily been for advertising product and service campaigns developed in line with the bank's strategy as well as to improve public perceptions of the bank.

Depreciation and other expenses decreased from W96 billion in 1999 to W84 billion in 2000, primarily as a result of decreased taxes and dues which decreased by W14 billion from W33 billion in 1999 to W19 billion in 2000. Fewer securities sales and reduction of trading activities in 2000 reduced securities related taxes. Such taxes amounted to about W9 billion. Educational taxes(which are based on operating income) decreased with the decrease in operating income(1999 operating income was boosted by the write back of loan loss reserves on loans sold to KAMCO). Property taxes decreased by W1 billion as a result of the number of properties sold to KDIC in 1999 before the sale of the Bank to Newbridge.

Non-Operating Income

Net non-operating income of W19 billion in 2000 has improved significantly from losses of W2,055 billion in 1999. 2000's non-operating income includes W38 billion received from the KDIC for the purposes of restructuring the Bank. This was used for a number of restructuring initiatives to improve the cost structure of the bank. The focus here has been to improve the overall efficiency of operations. Non-operating income also includes income from affiliates accounted for on the equity basis of W8 billion, the profit on sale of First Citicorp Leasing Inc. of W2 billion, profit on sale of securities of W6 billion as well as rental income on premises of W4 billion.

1999 figures included gains on the sale of securities of W735 billion with the balance comprising a number of other items no longer included in ordinary operations. Non operating expenses included losses on the sale of the loans to KAMCO of W3,342 billion.

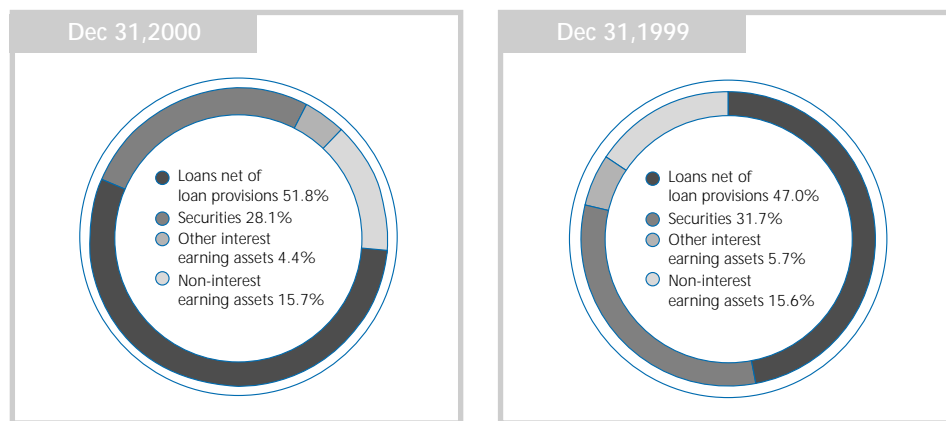
Balance Sheet in Brief

Asset Analysis

| | 2000 | 1999 | Increase (decrease) | |
|-------------------------------|---------------------------|----------|---------------------|---------|
| | In Billions of Korean Won | | Amount | % |
| Loans net of allowance* | W 13,193 | W 12,282 | W 911 | 7.4% |
| Securities | 7,140 | 8,295 | (1,155) | (13.9%) |
| Other interest earning assets | 1,125 | 1,480 | (355) | (24.0%) |
| Non-interest earning assets | 3,995 | 4,078 | (83) | (2.0%) |
| Total assets | 25,453 | 26,135 | (682) | (2.6%) |

*excludes W261 billion and W166 billion in interbank reconciliation call loans in 2000 and 1999, respectively.

Asset Composition



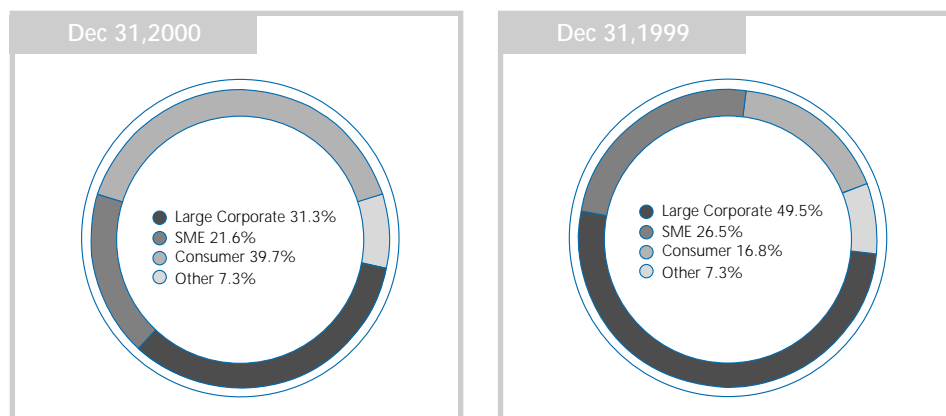
During 2000 the overall balance sheet decreased to W25,453 billion, by W682 billion or 2.6%, from W26,135 billion in 1999. This reduction was mostly the result of the decrease in the balance of trading securities, because the bank no longer trades in securities and because some securities held at the end of 1999 matured in 2000. Other interest earning assets decreased as well, although these are characteristically not as high yielding assets as loans or fixed income securities. In line with the bank's strategy, the asset composition changed with an increase in loans as a percentage of assets, to 51.8% in 2000 from 47.0% in 1999 and a decrease in securities to 28.1% in 2000 from 31.7% in 1999.

Loan Analysis

| | 2000 | 1999 | Increase (decrease) | |
|-----------------|---------------------------|---------|---------------------|---------|
| | In Billions of Korean Won | | Amount | % |
| Large Corporate | W 4,388 | W 6,296 | W (1,908) | (30.3%) |
| SME | 3,027 | 3,367 | (340) | (10.1%) |
| Consumer | 5,564 | 2,134 | 3,430 | 160.7% |
| Other | 1,021 | 925 | 96 | 10.4% |
| Total* | 14,000 | 12,722 | 1,278 | 10.0% |

*excludes W261 billion and W166 billion in interbank reconciliation call loans in 2000 and 1999, respectively.

Loan Composition



Total loans (before deducting loan loss allowance) increased to W14,000 billion, by W1,278 billion or 10%, from W12,722 billion at the end of 1999. This increase is notwithstanding the effect of the transfer of non-performing loans to the KDIC, which took place in June pursuant to the Assistance Agreement. The majority of the loans transferred to the KDIC were Corporate and SME loans, resulting in decreases in this type of loan, but the W3,430 billion increase in consumer loans has more than made up for the transfer on the overall size of the portfolio. There has also been some growth since the transfer event in June 2000 in Corporate and SME lending.

Non-Performing Loans

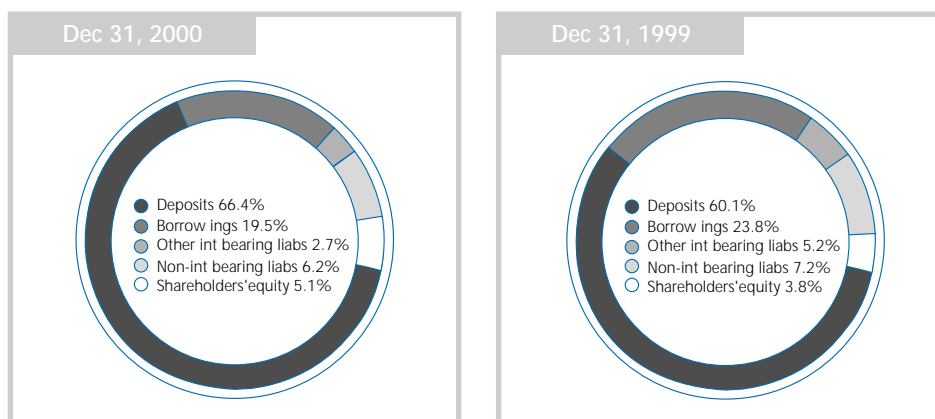
Non-performing loans comprise the loans classified as substandard, doubtful and estimated loss by Asset Soundness Classification Criteria and are shown in the following table.

| | December 31, 2000 | | | December 31, 1999 | | |
|-----------------------------|-------------------|---------|----------|-------------------|---------|----------|
| | Banking | Trust | Total | Banking | Trust | Total |
| Total Credits | W 16,059 | W 1,355 | W 17,414 | W 14,532 | W 3,739 | W 18,271 |
| Non-performing Loans (NPLs) | 47 | 71 | 118 | 0 | 26 | 26 |
| % of NPLs to total credits | | | 0.68% | | | 0.14% |

Funding Analysis

| | 2000 | 1999 | Increase (decrease) | |
|------------------------------------|---------------------------|----------|---------------------|---------|
| | In Billions of Korean Won | | Amount | % |
| Deposits | W 16,904 | W 15,698 | W 1,206 | 7.7% |
| Borrowings | 4,974 | 6,230 | (1,256) | (20.2%) |
| Other interest bearing liabilities | 689 | 1,346 | (657) | (48.8%) |
| Non-interest bearing liabilities | 1,583 | 1,880 | (297) | (15.8%) |
| Total liabilities | 24,150 | 25,154 | (1,004) | (4.0%) |
| Shareholders' equity | 1,303 | 981 | 322 | 32.8% |
| Total funding | 25,453 | 26,135 | (682) | (2.6%) |

Funding Composition



The funding structure of the bank has decreased with the overall decrease in balance sheet size. Equity funding has increased from W981 billion, 3.8% of the funding structure in 1999, to W1,303 billion or 5.1% of the funding structure in 2000 (including capital adjustments). Overall, liabilities have decreased to W24,150 billion, by W1,004 billion, from W25,154 billion at the end of 1999. Most of the decrease in liabilities comes from a reduction in borrowings, which decreased to W4,974 billion in 2000, by W1,256 billion or 20.2% from W6,230 billion in 1999. The effective cost of borrowings for KFB in 2000 were relatively higher, while deposits were relatively lower. Deposits increased to W16,904 billion, 66.4% of the bank's funding in 2000, from W15,698 billion or 60.1% of the bank's funding at the end of 1999. This increase in deposits both as an absolute measure, and as a percentage of the funding composition, is consistent with the strategy of the bank and has contributed towards a more profitable balance sheet structure achieved in 2000.

Capital Adequacy

Under the Financial Supervisory Commission Guidelines, banks classified as first grade in Korea are required to maintain a capital adequacy ratio (Tier 1 plus Tier 2 capital as a percentage of risk adjusted assets) of 10% or more based on consolidated financial statements. At December 31, 2000, Korea First Bank emerged as one of the best banks in capital adequacy among Korean domestic banks with Tier 1 and total risk-based capital ratios of 8.56% and 13.40% respectively. At the end of 2000, the bank's total risk-adjusted capital was W1,929.3 billion, compared with W1,622.1 billion a year earlier. Tier 1 capital was W1,232.8 billion, compared with W977.6 billion in 1999. The more than 26% increase in Tier 1 capital was largely driven by retained earnings which increased W307 billion compared with 1999.

Total risk-weighted assets amounted to W14,394.0 billion at the end of 2000, increased slightly from the W14,179.4 billion reported at the previous year-end. Of the total, 93.3% was on-balance sheet assets and 6.7% was off-balance-sheet assets.

| Bis Capital adequacy ratio | (In billions of Korean Won) | |
|----------------------------|-----------------------------|----------|
| | 2000 | 1999 |
| BIS Ratios | 13.40% | 11.44% |
| Tier 1 | 8.56% | 6.89% |
| Tier 2 | 4.93% | 4.71% |
| Risk-Adjusted Capital | 1,929.3 | 1,622.1 |
| Risk-Weighted Assets | 14,394.0 | 14,179.4 |

Trust Business

In compliance with the Trust Business Act in Korea, the Bank has operated its trust business and maintained the books of its trust accounts and financial statements separately from those of its banking accounts.

Trust accounts can be divided into three categories; principal and fixed-dividend guaranteed trusts, principal-only guaranteed trusts and performance-based dividend trusts. With principal and fixed-dividend guaranteed trusts, the bank guarantees the repayment of the principal amount with pre-determined dividend to account holders on maturity. With principal-only guaranteed trusts, customers must be repaid at least the principal amount they deposited with the bank even if the Bank suffered a loss from its investment. The performance-based dividend trusts guarantee nothing with repayment being increased or decreased from the original amount of the customers deposited, according to the result of the bank's performance in investment. General unspecified money trust, and development trust, the principal and fixed-dividend guaranteed trusts, were closed to new depositors by the government's instruction effective January 1, 1999.

If income from a guaranteed trust account is insufficient to pay the guaranteed amount, such deficiency may be satisfied from either the special reserves maintained in the trust accounts or by funds transferred from the bank accounts of the bank. This deficiency amount was W34 billion for the year ended December 31, 2000. During 2000, the majority of Korea's commercial banks suffered from a decrease in trust accounts as customers shifted to safer savings products. Not immune to the trend, KFB's total money trusts outstanding fell from W5,085 billion at year-end 1999 to W1,587 billion at year-end 2000.

Total trust assets managed under the bank's discretion amounted to W2,151 billion at the end of 2000, a decline from W5,970

billion in 1999. Due to lower market interest rates, matured trust funds were not redeposited, specifically in development trust which were closed to new depositors and thus total trust assets were drastically reduced.

Risk Management

The bank's core directive in risk management is to maximize earnings and return on capital within acceptable levels of risk. In managing risk, the bank must operate not only within the parameters of its own internal policies but also in compliance with regulatory requirements imposed on the Bank by applicable regulatory authorities in the market in which the bank operates.

The bank's overall risk management policy is set by the Risk Management & Financial Control Committee, which is composed of at least three directors. Detailed risk management procedures and guidelines are set and overseen by the Asset and Liability Management Committee (ALCO), which is composed of the top management of the Bank, including the CEO, COO, CFO, CCO, CBO and the general managers of the Asset and Liability Management Department (the ALM Department) and the Treasury Department.

ALCO

The ALCO is responsible for establishing risk management measurement standards and methodologies; reviewing liquidity positions and monitoring alternative funding sources; reviewing interest rate risk management reports; comparing exposures to policy limits and assessing potential impact of anticipated major funding shifts or changes in overall growth, risks, asset mix and quality, regulatory requirements and dividend policy; reviewing the outlook for interest rates and the economy; developing alternative strategies as deemed appropriate taking into account interest rate levels and trends, deposit and loan products and markets, banking regulation and monetary and fiscal policy; developing parameters for pricing and maturity distributions of deposits, loans and investments and determining the framework for transfer pricing. The new management of the bank developed revised policies related to risk management with the assistance of an outside consultant. These revisions were adopted by the Risk Management Committee in September 2000.

Credit Risk Management

Credit risk means the possible loan loss that can be incurred by the default of debtors (borrower of loan or issuer of bonds). For loans or other transactions related to a foreign country, country risk, and risk resulting from the specific economic condition of the country, should be considered in assessing credit risk.

The loan policy is designed to strengthen credit approval procedures. The loan approval process has changed in that a majority of loan applications are decided at the Head Office, where 130 experienced loan officers handle credit applications using lending criteria and KFB Credit Risk Rating System, which KFB developed to rate each customer's credit worthiness.

The bank is monitoring all loan accounts to prevent extensive exposure to a specific customer or industry as well as to prevent extending credits in excess of the bank's ability to recover. Considering customer's future available cash flow, the Bank implemented a system through which its loan officers can impose a credit limit on each customer under the concept of Total Exposure, subject to workout and special treatment.

The last, but not the least part of enhancing the bank's credit risk management is the Loan Review Department which was newly established to observe loan review principles and promulgate loan policies on credit ratings such as CRR. Credit review and compliance aims at maintaining soundness of outstanding loans by keeping close watch on the changes in the credit rating of borrowers. Also, KFB embarked upon the establishment of another system, Credit Risk Management System (CRMS) which will allow the Bank to better predict credit risk according to scientific and quantitative methods.

CRMS is a macro portfolio management tool. With the implementation of CRMS, the bank is expected to be able to better measure each loan customer's default probability. Based on this measurement, the bank can maintain adequate capital establishing loan loss reserves proportionately to the current overall risks facing the bank. One more advantage of CRMS will be that the bank can reasonably adjust the repricing of interest rates applied to each loan customer.

Market Risk Management

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Change in interest rates can affect a bank's earnings by affecting net interest income and the level of other interest sensitive income and operating expenses. Changes in interest rates also affect the underlying value of a bank's assets, liabilities and off-balance sheet positions, because the present value of future cash flow is impacted by changes in interest rates.

Interest rate risk principally results from timing differences in the maturity or repricing of an institution's assets, liabilities and off-balance sheet contracts. If more liabilities than assets reprice in a given period and market interest rates are declining, then the cost of the repriced liabilities will fall. This increases the interest rate spread and net interest income. Conversely, if more assets than liabilities reprice in a given period, a decline in market interest rates will reduce the interest rate spread and also reduce net interest income. Rising market interest rates will have the opposite effect in the foregoing situations. This risk is measured by the gap or difference between interest rate-sensitive assets and interest rate-sensitive liabilities over specified future periods. Other causes of interest rate risk are the effect of embedded options, such as call or convertible options, loan prepayments, interest rate caps and deposit withdrawals; unexpected shifts in the yield curve; and differences in the behavior of lending and funding rates, for example when floating rate assets and liabilities with identical repricing characteristics are based on imperfectly correlated market indices.

Given the potential types of interest rate risk, in its policy on interest rate risk management, the bank recognizes the importance of maintaining an appropriate process and set of measurement tools that enable it to identify and quantify its primary sources of interest rate risk. The Bank also recognizes that effective management of interest rate risk requires an understanding of the way in which potential adverse changes in interest rates will affect its profit and loss statement. Accordingly, the bank's interest rate risk management policy calls for the Bank to manage its position by monitoring its exposure to interest rate risk over both a one-year planning horizon and a longer term strategic horizon.

The bank's primary tools in managing interest rate risk in this manner are net interest income simulation models and the asset/liability funding matrix. Net interest income simulation involves applying gradual interest rate change assumptions to the asset and funding structure and measuring the effect of these on net interest income. The funding matrix is similar to gap analysis but presents the maturity data graphically. These tools will be used to quantify the potential impact of changing interest rates on earnings over a two-year simulation horizon and to identify expected earnings trends given longer term rate cycles. Standard gap reports are also used to provide supporting detailed information, and another tool the Bank will use in monitoring interest rate risk is to measure net portfolio value or economic value of equity(EVE). EVE is the present value of the Bank's assets, less the present value of its liabilities plus or minus the net present value of any off-balance sheet items.

Price risk means the variations in the value of assets such as securities that can be caused by price fluctuations in the market. Subject items include trading securities and financial derivatives. The bank does not hold trading securities which aims at short-term capital gains at the end of 2000. With investment securities, the bank evaluates them with their market prices on the daily basis, analyzes profit and loss and monitors the observance of Loss-cut guideline using Securities Integrated Management System(SIMS).

Concerning the derivative products, the policy basically limits their transactions only to requesting customers, and to hedge economic risk arising from the assets. Daily analysis and evaluation of derivatives transactions using the Catalyst System have been conducted.

Foreign exchange management

Foreign exchange position risk means the possible loss resulting from the foreign exchange position as the foreign exchange rate varies. Management strategies include maintaining the assessed risk level within a set limit and minimizing foreign exchange risk by setting investment ceilings per instrument and per dealer and stop-loss limits, watching positions of each foreign currency, maintaining a square position, and conducting market-to-market evaluation.

Liquidity Risk Management

Liquidity risk means a possible loss that can be caused by a sudden, large withdrawal of money or by the maturity gap between assets and liabilities. Managing risks using the liquidity GAP analysis technique and adjusting liquidity GAP structure through the

ALCO are management strategies.

The bank strives to maintain liquidity at 5% applying Basic Surplus to measure the bank's ability to provide cash.

The Basic Surplus/Deficit is a measure of the cash a financial institution can raise within a thirty day time frame without principal loss adjusted for liabilities that might leave in the event of loss of confidence in the institution. As the fund for loan growth was provided by borrowings and non-core deposits, the Bank's Basic Surplus was estimated at W1,758.8 billion or 6.9% of total assets at the end of 2000. The Bank believes that this provides sufficient liquidity to satisfy depositors' normal and expected withdrawal claims.

INTEREST RATE SENSITIVITY AS OF DECEMBER 31, 2000

(Unit: In Billions of Korean Won)

| | Within 3 months | 4 months ~ 1 year | Over 1 year | Total |
|--------------------------------|-----------------|-------------------|-------------|--------|
| Banking Accounts | | | | |
| Rate Sensitive Assets | W 10,387 | W 5,181 | W 9,615 | 25,183 |
| Rate Sensitive Liabilities | 9,099 | 7,051 | 9,032 | 25,182 |
| Accumulated Gap | 1,288 | -583 | 0 | |
| Accumulated Assets/Liabilities | 114.2% | 96.4% | 100% | |
| Trust Accounts | | | | |
| Rate Sensitive Assets | 420 | 60 | 1 | 481 |
| Rate Sensitive Liabilities | 520 | 1 | 21 | 542 |
| Accumulated Gap | -100 | -41 | -61 | |
| Accumulated Assets/Liabilities | 80.7% | 92.1% | 88.7% | |

LIQUIDITY BASIC SURPLUS/DEFICIT AS OF DECEMBER 31, 2000

(Unit: In Billions of Korean Won)

| | Won | Foreign Currency | Total |
|----------------------------------|-----------|------------------|-----------|
| Liquidity Assets(A) | W 4,235.8 | W 638.6 | W 4,874.4 |
| Short Term Liabilities(B) | 2,154.3 | 961.3 | 3,115.6 |
| Basic Surplus/Deficit(C)=(A)-(B) | 2,081.5 | (322.7) | 1,758.8 |
| % of Total Assets(B/S 24,452.6) | 9.2% | -11.5% | 6.9% |
| Policy Minimum | 5.0% | 5.0% | 5.0% |

Independent Auditors' Report



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THE BOARD OF DIRECTORS AND SHAREHOLDERS OF KOREA FIRST BANK

We have audited the accompanying balance sheet of Korea First Bank (the "Bank") as of December 31, 2000, and the related statements of operations, appropriations of unappropriated retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 1999 were audited by Samil Accounting Corporation, who expressed their unqualified opinion thereon in their audit report dated March 24, 2000. The 1999 financial statements are presented for comparison purposes.

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.

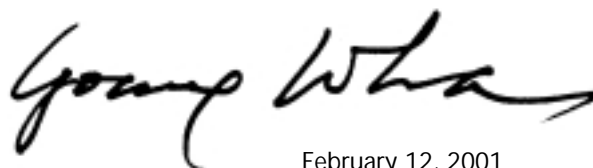
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea First Bank at December 31, 2000 and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The preparation of financial statements for the Bank in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Without qualifying our opinion, we draw attention to Note 17 of the financial statements. As discussed in Note 17, certain assumptions were made regarding the resolution of disagreements that have arisen as to the interpretation of agreements negotiated between the Bank and the Korea Deposit Insurance Corporation. These differences will be resolved through negotiations or legal proceedings and the outcome of those agreements may be different from assumptions used by management, which could materially impact the Bank's future financial results.

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

Without qualifying our opinion, we draw attention to Note 24 of the financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

The accompanying financial statements are not intended to present the financial position and 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 in the Republic of Korea 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.



February 12, 2001

Non-Consolidated Balance Sheets (Banking Accounts)

December 31, 2000 and 1999

| | 2000 | 1999 | 2000 | 1999 |
|---|---------------------------|--------------------|---------------------------------------|----------------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| ASSETS | | | | |
| Cash & due from banks (Note 5) | W 2,364,687 | W 2,767,732 | \$ 1,877,183 | \$ 2,197,136 |
| Trading securities (Note 6) | - | 771,671 | - | 612,583 |
| Investment securities (Note 7) | 1,193,269 | 1,667,394 | 947,264 | 1,323,644 |
| KDIC bonds (Notes 4 and 7) | 5,947,076 | 5,856,000 | 4,721,026 | 4,648,726 |
| Loans (Note 8) | 14,260,954 | 12,888,035 | 11,320,913 | 10,231,035 |
| Present value discounts for loans | (18,269) | - | (14,503) | - |
| Allowance for possible loan losses (Note 8) | (788,869) | (439,673) | (626,236) | (349,030) |
| Receivable from KDIC (Note 4) | 416,521 | 709,799 | 330,651 | 563,467 |
| Fixed assets (Note 9) | 1,103,751 | 1,108,168 | 876,202 | 879,708 |
| Other assets (Note 10) | 973,452 | 805,421 | 772,765 | 639,375 |
| Total assets | W25,452,572 | W26,134,547 | \$ 20,205,265 | \$ 20,746,644 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Deposits (Note 11) | W16,903,780 | W15,698,014 | \$ 13,418,894 | \$ 12,461,708 |
| Borrowings (Note 12) | 4,974,072 | 6,229,419 | 3,948,616 | 4,945,161 |
| Financial debentures (Note 13) | 485,010 | 459,941 | 385,020 | 365,119 |
| Accrued severance and retirement benefits (Note 15) | 176,490 | 244,549 | 140,105 | 194,133 |
| Other liabilities (Note 16) | 1,610,011 | 2,522,040 | 1,278,091 | 2,002,096 |
| Total liabilities | 24,149,363 | 25,153,963 | 19,170,726 | 19,968,217 |
| Commitments and contingencies (Note 17) | | | | |
| Shareholders' equity | | | | |
| Common stock (Note 18) | 980,584 | 980,584 | 778,427 | 778,427 |
| Capital surplus | - | - | - | - |
| Retained earnings (Note 19) | | | | |
| Legal reserves | 30,641 | - | 24,324 | - |
| Other reserves | 14,860 | 14,125 | 11,797 | 11,213 |
| Unappropriated retained earnings | 258,098 | (14,125) | 204,888 | (11,213) |
| Total retained earnings | 303,599 | - | 241,009 | - |
| Capital adjustments | 19,026 | - | 15,103 | - |
| Total shareholders' equity | 1,303,209 | 980,584 | 1,034,539 | 778,427 |
| Total liabilities and shareholders' equity | W25,452,572 | W26,134,547 | \$ 20,205,265 | \$ 20,746,644 |

See accompanying notes

Non-Consolidated Statements of Operations (Banking Accounts)

Years ended December 31, 2000 and 1999

| | 2000 | 1999 | 2000 | 1999 |
|---|---------------------------|---------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Interest income | | | | |
| Loans | W 1,173,189 | W 1,126,360 | \$ 931,324 | \$ 894,150 |
| Trading securities | 18,038 | 58,987 | 14,319 | 46,826 |
| Investment securities | 110,606 | 435,637 | 87,803 | 345,826 |
| KDIC bonds | 438,956 | - | 348,461 | - |
| Trust securities | - | - | - | - |
| Due from banks | 44,951 | 80,203 | 35,684 | 63,668 |
| Other | 43,918 | 829 | 34,864 | 658 |
| | 1,829,658 | 1,702,016 | 1,452,455 | 1,351,128 |
| Interest expense | | | | |
| Deposits | 908,599 | 849,216 | 721,282 | 674,141 |
| Borrowings | 328,857 | 493,392 | 261,060 | 391,674 |
| Financial debentures | 35,733 | 45,564 | 28,366 | 36,171 |
| Other | 20,818 | 88,732 | 16,526 | 70,439 |
| | 1,294,007 | 1,476,904 | 1,027,234 | 1,172,425 |
| Net interest income before provision | 535,651 | 225,112 | 425,221 | 178,703 |
| Provision for loan and other losses | 56,269 | (1,268,716) | 44,669 | (1,007,157) |
| Net interest income after provision | 479,382 | 1,493,828 | 380,552 | 1,185,860 |
| Fees, commissions, other revenue (expense), net | | | | |
| Banking fees | 63,892 | 60,061 | 50,720 | 47,679 |
| Card fees | 116,255 | 101,160 | 92,288 | 80,305 |
| Trust account | 7,047 | (328,287) | 5,594 | (260,607) |
| Securities | 2,961 | 119,683 | 2,351 | 95,009 |
| Foreign exchange | 42,354 | 47,913 | 33,622 | 38,035 |
| Other | (801) | - | (636) | - |
| | 231,708 | 530 | 183,939 | 421 |
| Operating expense | | | | |
| Staff cost | 277,101 | 258,467 | 219,974 | 205,181 |
| Administration expense | 120,651 | 89,736 | 95,778 | 71,236 |
| Depreciation and other | 83,844 | 95,815 | 66,559 | 76,062 |
| | 481,596 | 444,018 | 382,311 | 352,479 |
| Operating income | 229,494 | 1,050,340 | 182,180 | 833,802 |
| Non-operating revenue | 56,559 | 1,174,272 | 44,899 | 932,184 |
| Non-operating expense | 37,751 | 3,438,484 | 29,968 | 2,729,605 |
| Ordinary income (loss) | 248,302 | (1,213,872) | 197,111 | (963,619) |
| Extraordinary gain | - | 209,800 | - | 166,547 |
| Income (loss) before taxes | W 248,302 | W (1,004,072) | \$ 197,111 | \$ (797,072) |
| Income tax expense (Note 20) | (58,098) | 587 | (46,121) | 466 |
| Net Income (loss) | W 306,400 | W (1,004,659) | \$ 243,232 | \$ (797,538) |
| Ordinary earnings (loss) per share (Note 21) | W 1,067 | W (2,059) | \$ 0.85 | \$ (1.63) |
| Net earnings (loss) per share (Note 21) | W 1,562 | W (1,703) | \$ 1.24 | \$ (1.35) |

(Korean Won and U.S. Dollar in units)

See accompanying notes

Non-Consolidated Statements of Appropriations of Unappropriated Retained Earnings (Banking Accounts)

Years ended December 31, 2000 and 1999

| | 2000 | 1999 | 2000 | 1999 |
|---|---------------------------|--------------|---------------------------------------|---------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Retained earnings before appropriations (accumulated deficit before disposition) | | | | |
| Undisposed accumulated deficit at January 1 | W (14,125) | W(1,686,961) | \$ (11,213) | \$(1,339,177) |
| Cumulative effect of accounting changes | - | (668,559) | - | (530,729) |
| Net income (loss) | 306,400 | (1,004,659) | 243,232 | (797,538) |
| Other | (15) | (842) | (12) | (668) |
| | 292,260 | (3,361,021) | 232,007 | (2,668,112) |
| Appropriations of unappropriated retained earnings | | | | |
| Legal reserve | 30,641 | - | 24,324 | - |
| Amortization of discounts on stock issuance | 2,531 | - | 2,009 | - |
| Transfer to other reserves | 990 | - | 786 | - |
| | 34,162 | - | 27,119 | - |
| Disposition of accumulated deficit | | | | |
| Transfer from capital surplus | - | 3,349,426 | - | 2,658,908 |
| Amortization of discounts on stock issuance | - | (2,530) | - | (2,009) |
| | - | 3,346,896 | - | 2,656,899 |
| Unappropriated retained earnings (undisposed accumulated deficit) at December 31 | W 258,098 | W (14,125) | \$ 204,888 | \$ (11,213) |

See accompanying notes

Non-Consolidated Statements of Cash Flows (Banking Accounts)

Years ended December 31, 2000 and 1999

| | 2000 | 1999 | 2000 | 1999 |
|--|---------------------------|--------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income (loss) | W 306,400 | W(1,004,659) | \$ 243,232 | \$ (797,538) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Provision for possible loan losses | 56,269 | (1,268,716) | 44,669 | (1,007,157) |
| Provision for guarantees and other assets | 7,084 | (9,978) | 5,623 | (7,921) |
| Depreciation | 39,062 | 40,205 | 31,009 | 31,916 |
| Provision for severance and retirement benefits | 41,122 | 48,493 | 32,644 | 38,496 |
| Interest on present value discounts on loan | (4,402) | (30,131) | (3,494) | (23,919) |
| Interest on KDIC receivables | (26,095) | - | (20,715) | - |
| Other, net | (47,035) | (273,448) | (37,338) | (217,074) |
| Changes in operating assets and liabilities: | | | | |
| Due from banks | 703,773 | (38,927) | 558,683 | (30,902) |
| Securities | 1,184,505 | (3,359,600) | 940,307 | (2,666,984) |
| Loans | (1,518,904) | 2,199,442 | (1,205,766) | 1,746,005 |
| Deposits | 1,205,766 | 1,834,952 | 957,185 | 1,456,658 |
| Other, net | 2,842,315 | (370,939) | 2,256,342 | (294,467) |
| Net cash provided by (used in) operating activities | 4,789,860 | (2,233,306) | 3,802,381 | (1,772,887) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Acquisition of fixed assets | (40,015) | (23,936) | (31,765) | (19,001) |
| Other, net | 3,501 | 164,180 | 2,779 | 130,332 |
| Net cash provided by (used in) investing activities | (36,514) | 140,244 | (28,986) | 111,331 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Decrease in borrowings from Trust Account | (682,201) | (222,828) | (541,558) | (176,890) |
| Decrease in borrowings in Won | (1,775,064) | 50,769 | (1,409,116) | 40,302 |
| Decrease in borrowings in foreign currencies | (2,117,620) | (1,699,363) | (1,681,051) | (1,349,022) |
| Other, net | 25,066 | 2,452,229 | 19,898 | 1,946,677 |
| Net cash provided by (used in) financing activities | (4,549,819) | 580,807 | (3,611,827) | 461,067 |
| Net increase (decrease) in cash and cash equivalents | 203,527 | (1,512,255) | 161,568 | (1,200,489) |
| Cash and cash equivalents at beginning of year | 1,621,325 | 3,133,580 | 1,287,072 | 2,487,561 |
| Cash and cash equivalents at end of year | W 1,824,852 | W 1,621,325 | \$ 1,448,640 | \$ 1,287,072 |

See accompanying notes

Notes to Financial Statements

December 31, 2000 and 1999

1. ORGANIZATION AND BUSINESS

Korea First Bank ("the Bank") was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 339 local branches and 4 overseas networks as of December 31, 2000.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. The par value of the Bank's common stock outstanding at December 31, 2000 is W981 billion.

As of December 31, 2000, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the major controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the Korea Deposit Insurance Corporation ("KDIC") effective December 31, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 4. As of December 31, 2000, the KDIC and Ministry of Finance and Economy own 45.92% and 3.09%, respectively, of the Bank's common stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presenting Financial Statements

The Bank maintains its official accounting records in Korean Won and prepares its statutory financial statements in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP") and Accounting Standards applicable to the Korean Banking Industry, which may differ from accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. Accordingly, the accompanying financial statements are not intended for use by those who are not informed about Korean GAAP and their application in practice.

For the convenience of the reader, in preparing the accompanying financial statements, certain reclassifications and changes in statement format and extent of disclosures have been made to the financial statements issued in the Korean language for domestic statutory purposes. Certain reclassification, and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year presentation.

Certain supplementary information included in the Korean language annual and semi-annual statutory financial statements but not required for a fair presentation of the Bank's financial position or results of operations and cash flows, is not presented in the accompanying financial statements.

Cash and cash equivalents include time deposits with a maturity of 3 months or less (see Note 5).

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

Equity-method Investees

Investments in 20% to 50% owned companies (except for consolidated companies) are recorded using the equity method of accounting. The Bank records changes in its proportionate ownership of the net book value of the investee as current operations, capital surplus and or adjustment to retained earnings, depending on the nature of the underlying change in book value of the investee.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean Won using the exchange rate of W1,259.70 : US\$1, the exchange rate in effect as of December 31, 2000 (W1,145.40 : US\$1 as of December 31, 1999). Resulting translation

gains or losses are credited or charged to current operations.

Recognition of Interest and Fee Income

Interest income on loans and investments, including those guaranteed by the KDIC, is recognized on an accrual basis, while interest income on other overdue and dishonored loans, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis (see Note 4). Loan fees and certain direct origination costs are recognized when received or paid.

Allowance for Possible Loan Losses

The Bank calculates the allowance for possible loan losses of corporate loans based on borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"). This credit rating model includes financial and non-financial factors of borrowers.

Provisions are determined by applying the following minimum percentages to the various credit ratings:

| Credit ratings | Loan classifications | Minimum provision percentages |
|----------------|----------------------|-------------------------------|
| 1 ~ 4 | Normal | 0.5% or above |
| 5 | Precautionary | 2% or above |
| 6 | Substandard | 20% or above |
| 7 | Doubtful | 50% or above |
| 8 | Estimated loss | 100% |

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

Loans which are deemed uncollectible are fully reserved by the allowance. However, charge-offs of actual loan balances may be delayed due to certain banking regulations governing actual charge-offs of loan balances.

Present Value Discounts

In accordance with the revised financial accounting standards, if the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the present value of the loans is offset against the allowance for possible loan losses, if available, or charged to current expense.

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

Securities

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

Equity securities held for trading are carried at fair value at the balance sheet date. Unrealized gains and losses on trading securities are included in current operations.

Marketable equity securities of non-controlled investees held for investment are carried at fair value. Temporary changes in fair value are accounted for as a capital adjustment, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

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

Debt securities are classified as trading or investment securities. Investment debt securities are further classified as available-for-sale or held-to-maturity. The cost of debt securities includes the premium paid or discount received at the time of purchase. Debt securities held for trading are stated at fair value with gains and losses recorded in income.

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

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

During 2000, the Bank did not record losses on the valuation of trading securities as described above for those securities that have a principal and yield guarantee by the KDIC (see Note 4).

Fixed Assets

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

Depreciation is computed using the declining-balance method over the estimated useful lives of the assets except for structures and buildings acquired after January 1, 1995, which are depreciated using the straight-line method.

Foreclosed assets are stated at cost and are not depreciated. Any deficit between the book value and the final public auction price of the foreclosed assets is reflected in other operating expenses and is accounted for as discounts.

Intangible assets are amortized using the straight-line method over an estimated useful life of 5 years.

New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from capital adjustments and the amounts of debenture issuance, respectively. New stock issuance costs are amortized as an appropriation of retained earnings over 3 years. Debenture issuance costs are amortized as interest expense over the redemption period using the straight-line method.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

Accrued Severance and Retirement Benefits

Certain executives and employees with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance and retirement benefits represent the amounts to be paid if all eligible employees were to terminate their employment as of the balance sheet date. Actual payments of severance and retirement benefits for the year ended December 31, 2000 were W112,823 million.

Special and one time severance payments of W29,881 million were paid during 2000 to early voluntary retirees and are not included in the estimated liability accrued for severance and retirement benefits. The severance payments were accounted for as current period expense.

Reserve for Acceptances and Guarantees

Pursuant to the revised financial accounting standards, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides an allowance of 0.5% of guaranteed amounts for companies classified as "normal", 2% for "precautionary", 20% for "substandard," 50% for "doubtful" and 100% for "estimated loss." Refer to Note 4 for discussion of guarantees protected by the KDIC.

Income Tax Expense

Deferred income taxes are recognized for the tax consequences of differences between the tax and financial reporting amounts of assets and liabilities at each period-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense consists of income tax payable for the period and the change during the period in deferred tax assets and liabilities.

The Bank has tax basis net operating loss carryforwards of approximately W4,925 billion as of December 31, 2000.

Derivative Financial Instruments

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

Derivative financial instruments, regardless whether they are entered for trading or hedging purposes, are valued at fair value. Resulting unrealized valuation gains or losses are reflected in fees, commissions, and other revenues and expenses. Unrealized valuation gains on cash-flow-hedge derivatives are accounted for as adjustments for capital until gains or losses are realized. If the cash-flow-hedge derivatives are not effective, unrealized gains and losses are recorded in current operations. The underlying assets, liabilities or transactions hedged or associated with derivatives are also valued at fair value.

Prior to 2000, derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the assets, liabilities or transactions hedged or associated with such contracts. Such instruments are valued at fair value when the underlying transactions are valued at market, and resulting unrealized valuation gains or losses are recognized currently. The instruments are not marked-to-market when the underlying transactions are not required to be valued at market. The unrealized gains or losses on hedging transactions arising from different rates between derivatives and underlying transactions are amortized through the term of the underlying transactions.

Since the cumulative effect of this change in accounting principle for derivatives as of December 31, 1999 is not material, the cumulative effect was charged to current operations. All derivative financial instruments as of December 31, 2000 were entered into for trading purposes.

Unsettled Spot Foreign Exchange Positions

The Bank presented unsettled spot exchange balances as an off-balance sheet item prior to 2000. According to the revised regulations of the Financial Supervisory Service, effective from 2000, assets and liabilities associated with unsettled spot positions are accounted for as accounts receivable and accounts payable, respectively. Accordingly, W214,573 million of assets and W214,573 million of liabilities associated with unsettled spot positions were included in the 2000 balance sheet.

3. UNITED STATES DOLLAR AMOUNTS

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. All Won amounts expressed in U.S. Dollars are at the rate of W1,259.70 : US\$1, the basic exchange rate on December 31, 2000. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

The 1999 U.S. Dollar amounts, which were previously expressed at W1,145.40 : US\$1, the rate prevailing at December 31, 1999 have been restated to reflect the exchange rate in effect at December 31, 2000.

4. GOVERNMENT ASSISTANCE

On December 30, 1999, Newbridge entered into an agreement with the Korean government whereby Newbridge acquired 50.99% of the outstanding common stock of the Bank from the Korea Deposit Insurance Corporation ("KDIC") effective December 31, 1999 ("Closing").

In connection with this transaction, the KDIC entered into an Assistance Agreement with the Bank to provide certain protections to the Bank with respect to credit losses for specified periods of time. These protections apply to certain loans and similar credit instruments remaining on the Bank's balance sheet after Closing ("Remaining Loans"). Remaining Loans include any loans in guaranteed trust accounts and certain designated loans in mixed trust accounts but do not include any loans in performance trust accounts.

Depending on the type and circumstances of the particular Remaining Loan, these protections may take the form of: (i) the Bank's right to transfer the Remaining Loan to the Resolution Finance Corporation ("RFC"), the entity designated by the KDIC, and obtain payment from the KDIC equal to the adjusted book value, or (ii) the Bank's right to obtain payment from the KDIC for certain specific allowances which the Bank determines to take against the Remaining Loan. Certain guarantees and commitments of the Bank are also subject to credit protection.

The periods of credit protection provided by the KDIC vary depending on the type of asset involved. The protection periods are generally (i) three years for Remaining Loans that were or had been subject to certain workout procedures under the "Agreement among Financial Institutions for the Promotion of Corporate Restructuring" dated June 25, 1998 as of Closing, (ii) three years for Remaining Loans to certain financial institutions, and (iii) two years for other Remaining Loans. The protection period for commitments range from one to three years, depending on the type of commitment involved. Certain actions will cause loans to lose their protection and loans originated after December 31, 1999 have no protection. Loans with an outstanding principal balance totaling W10,088 billion and commitments and guarantees amounting to W601 billion have no protection as of December 31, 2000, respectively.

The types of protection available depends on whether the Remaining Loan is (i) one of certain specified Remaining Loans to the Daewoo group chaebol, (ii) one of specified Remaining Loans to borrowers subject to workout procedures and classified as substandard or below as of Closing, or one of specified Remaining Loans that as of Closing were or had been the subject of certain private restructuring arrangements, or (iii) any other Remaining Loan.

In addition, the KDIC guarantees the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio as of December 31, 1999, until each such security matures, is sold, or is otherwise liquidated by the Bank. In general, the guaranteed rate is the annualized weighted average interest rate applied by the Bank to its deposits and other interest bearing liabilities shown on the Bank's balance sheet, plus 106 basis points. As of December 31, 2000, fixed income securities, primarily government bonds, with an outstanding principal balance totaling W592 billion have no principal or yield guarantee.

Except to the extent that it is permitted to pay in cash, the KDIC has and will in the future pay for its obligations by issuing one or more notes that have an initial maturity of three years and a declining interest rate based on a spread over specified liabilities of the Bank.

The receivable from KDIC at December 31, 2000 is comprised of the following:

| | 2000 |
|------------------------------|-----------------|
| | Millions of Won |
| Settlement of reserves | W 375,207 |
| Settlement of asset transfer | 15,220 |
| Other settlements | 26,094 |
| | W 416,521 |

The KDIC exercised its call option for certain substandard loans and below for protected loans on September 14, 2000. As a result of this transaction, the Bank received W1,095 billion for loans in Won currency, US\$1,009 million for loans in foreign currency and W73.8 billion for the guaranteed yield payment on Chaebol loans.

5. CASH AND DUE FROM BANKS

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

| | 2000 | 1999 |
|--------------------------------------|-------------|-------------|
| Millions of Won | | |
| Cash on hand | W 1,211,400 | W 1,263,925 |
| Foreign currencies | 28,083 | 23,962 |
| Due from banks in Korean Won | 919,904 | 1,202,624 |
| Due from banks in foreign currencies | 205,300 | 277,221 |
| | W 2,364,687 | W 2,767,732 |

Due from banks denominated in Korean Won at December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------------------|-------------------|--------------------------------|------------|
| December 31, 2000 | | | |
| Checking accounts | - | Bank of Korea | W 173,927 |
| Employee's Retirement deposit | 7.50 | Samsung Life Insurance etc. | 163,350 |
| Other deposits | 0.00 ~ 8.10 | Hanvit Bank etc. | 582,627 |
| | | | W 919,904 |
| December 31, 1999 | | | |
| Checking accounts | - | Bank of Korea | W 369,641 |
| Time deposits | 6.30 | Tongyang Merchant Banking etc. | 200,000 |
| Employee's Retirement deposit | 7.50 | Samsung Life Insurance etc. | 237,600 |
| Other deposits | 4.96 ~ 6.46 | Korea Stock Exchange etc. | 395,383 |
| | | | W1,202,624 |

Checking accounts deposited with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits. At December 31, 2000 and 1999, W163,350 and W237,600 million, respectively, were included in due from banks and represents group severance deposits made under a group severance insurance plan. The withdrawal of these deposits is restricted to the actual payment of severance and retirement benefits (see Note 15).

Due from banks denominated in foreign currencies at December 31, 2000 and 1999 are as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------|-------------------|--------------------------|-----------|
| December 31, 2000 | | | |
| Demand deposits | - | Bank of Korea and others | W 56,416 |
| Time deposits | 6.65 ~ 7.62 | Korea First Finance, HK | 139,385 |
| Other deposits | 0.00 ~ 6.45 | HSBC Future and others | 9,499 |
| | | | W 205,300 |
| December 31, 1999 | | | |
| Demand deposits | - | Bank of Korea and others | W 36,238 |
| Time deposits | 5.90 ~ 7.90 | Citibank Seoul, etc. | 237,098 |
| Other deposits | 4.00 ~ 5.30 | Bank of Korea and others | 3,885 |
| | | | W 277,221 |

Demand deposits amounting to W10,728 million at December 31, 2000 and W10,450 million at December 31, 1999 with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits.

The term structure of amounts of due from banks at December 31, 2000 is as follows (millions of Won):

| Year ending December 31, | Due from Banks in Korean Won | Due from Banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|--------------------|
| 2001 | W 680,582 | W 205,300 | W 885,882 |
| 2002 | 46,272 | - | 46,272 |
| After 2003 | 193,050 | - | 193,050 |
| | W 919,904 | W 205,300 | W 1,125,204 |

The term structure of amounts of due from banks at December 31, 1999 is as follows (millions of Won):

| Year ending December 31, | Due from Banks in Korean Won | Due from Banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|--------------------|
| 2000 | W 965,024 | W 277,221 | W 1,242,245 |
| 2001 | - | - | - |
| After 2002 | 237,600 | - | 237,600 |
| | W1,202,624 | W 277,221 | W 1,479,845 |

Major transactions among items not resulting in cash flows for the years ended December 31, 2000 and 1999 are as follows (millions of Won):

| | 2000 | 1999 |
|---|-----------|-----------|
| Loss Reserve - KDIC Receivable | W 366,058 | W - |
| Present value discount - KDIC Receivable | 9,149 | - |
| Gain on capital reduction | - | 3,349,426 |
| Transfer to accumulated deficit for gain on capital reduction | - | 3,349,426 |
| Adjustment to accumulated deficit for losses on investments using the equity method | - | 265,910 |
| Adjustment to accumulated deficit for restructuring of credits | - | 318,649 |
| Adjustment to accumulated deficit of reserve for acceptances and guarantees | - | 76,458 |
| Transfer to tangible assets from construction in progress | - | 3,175 |

Cash and cash equivalents at December 31, 2000 and 1999 are comprised as follows (millions of Won):

| | 2000 | 1999 |
|---|--------------------|--------------------|
| Cash on hand | W 1,211,400 | W 1,263,925 |
| Foreign currencies | 28,083 | 23,962 |
| Bonds purchased under resale Agreements | - | 97,200 |
| Due from banks in Won | 502,929 | 200,000 |
| Due from banks in foreign currency | 82,440 | 36,238 |
| | W 1,824,852 | W 1,621,325 |

6. TRADING SECURITIES

There are no trading securities at December 31, 2000 and trading securities at December 31, 1999 are comprised of the following (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Adjustment | Market value (*) |
|--------------------------|-------------------|-----------------|------------------|-----------------|------------------|
| Government bonds | 6.47 ~ 10.05 | W 167,901 | W 178,691 | W 174,651 | W 169,374 |
| Financial debentures | 6.20 ~ 9.01 | 60,000 | 58,133 | 58,213 | 57,305 |
| Corporate debentures | 7.52 | 45,000 | 45,224 | 45,137 | 42,117 |
| Beneficiary certificates | - | 488,523 | 488,523 | 488,523 | 502,875 |
| | | W761,424 | W770,571 | W766,524 | W771,671 |

(*) Market value does not include accrued interest related to bonds.

Trading securities are stated at market value. W14,355 million and W9,208 million of unrealized gains and losses, respectively, are recorded in the accompanying statement of operations for year ended December 31, 1999.

For the Daewoo related beneficiary certificates, a valuation loss of W32,350 million was not reflected due to the existence of the Assistance Agreement with the KDIC.

7. INVESTMENT SECURITIES

Investment securities at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|---|--------------------|--------------------|
| Equity securities | | |
| Korean Won | | |
| Affiliated companies | W 4,264 | W 27,490 |
| Listed companies | 36,574 | - |
| Unlisted companies | 62,830 | 5,840 |
| | 103,668 | 33,330 |
| Foreign currency - affiliated companies | 52,178 | 44,588 |
| | 155,846 | 77,918 |
| Debt securities held for investment | | |
| Bonds available-for-sale | | |
| Korean Won | 650,031 | 1,027,187 |
| Foreign currencies | 58,238 | 58,499 |
| | 708,269 | 1,085,686 |
| Bonds held-to-maturity | | |
| Korean Won | 6,213,342 | 6,264,504 |
| Foreign currencies | 62,888 | 95,286 |
| | 6,276,230 | 6,359,790 |
| | W 7,140,345 | W 7,523,394 |

Equity Securities Held for Investment

Equity investments in affiliated companies denominated in Korean Won as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership(%) | Acquisition cost | Net asset value | Book value |
|-------------------------|------------------|--------------|------------------|-----------------|----------------|
| December 31, 2000 | | | | | |
| Korea First Data System | 400,000 | 100.0 | W 2,000 | W 4,264 | W 4,264 |
| | | | W 2,000 | W 4,264 | W 4,264 |
| December 31, 1999 | | | | | |
| Korea First Data System | 400,000 | 100.00 | W 2,000 | W 4,271 | W 4,271 |
| First Citicorp Leasing | 2,750,000 | 49.11 | 11,775 | 23,219 | 23,219 |
| | | | W13,775 | W27,490 | W27,490 |

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. W168 million of unrealized gains are included in current operations, and a W15 million decrease in retained earnings of affiliated companies is debited to the opening balance of accumulated deficit. The Bank received W160 million of dividends.

The Bank sold its investment in First Citicorp Leasing for W27,600 million on October 26, 2000 and recorded a gain of W1,749 million and accrued equity income of W4,608 million, which is included in other income.

Equity securities of listed companies denominated in Korean Won as of December 31, 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|---------------------------------|------------------|---------------|-----------------|
| Korea Development Leasing Corp. | 2,491,010 | 9.76 | W 12,502 |
| Keangnam Enterprises Co., Ltd. | 169,400 | 0.61 | 847 |
| Ssang Yong Motor | 1,000,000 | 2.63 | 5,000 |
| Anam Semiconductor Corp. | 136,250 | 0.12 | 1,090 |
| Maxon Telecom Co. | 1,382,800 | 3.15 | 6,914 |
| Hanmi Capital | 631,400 | 1.71 | 3,157 |
| Shin Won Co. | 296,400 | 0.24 | 1,482 |
| ETRONICS | 407,140 | 0.63 | 2,850 |
| Sepoong Corp. | 36,600 | 0.21 | 183 |
| Chohung Capital | 509,800 | 1.73 | 2,549 |
| | 7,060,800 | | W 36,574 |

All listed and unlisted investment securities, except BC Card and Korea Securities Finance Corporation, totalling W86,064 million are comprised of loans converted to equity in connection with a workout or private restructuring. These securities are scheduled to be transferred to the KDIC and are stated at their loan book value prior to conversion (see Note 17).

Unlisted equity securities denominated in Korean Won as of December 31, 2000 and 1999 are as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|--|------------------|---------------|-----------------|
| December 31, 2000 | | | |
| Daewoo Heavy Industries & Machinery Ltd. (*) | 4,525,386 | 2.72 | W 31,032 |
| Daewoo Shipbuilding & Marine Engineering Co., Ltd. (*) | 1,713,804 | 0.86 | 18,458 |
| Korea Securities Finance Corporation | 1,500,000 | 2.21 | 7,500 |
| BC Card | 653,400 | 14.85 | 5,840 |
| | 8,392,590 | | W 62,830 |
| December 31, 1999 | | | |
| BC Card | 653,400 | 14.85 | 5,840 |
| | 653,400 | | W 5,840 |

(*) Loans converted to equity in connection with a workout or private restructuring.

Equity securities denominated in foreign currencies at December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Acquisition cost | Equity method | Net asset value | Book value |
|-----------------------------|------------------|---------------|------------------|-----------------|-----------------|-----------------|
| December 31, 2000 | | | | | | |
| Qingdao International Bank | - | 50.0 | W 12,597 | W 10,184 | W 10,184 | W 10,184 |
| Korea First Finance Ltd, HK | 7,000 | 100.0 | 3,779 | 41,994 | 41,994 | 41,994 |
| | | | W 16,376 | W 52,178 | W 52,178 | W 52,178 |
| December 31, 1999 | | | | | | |
| Qingdao International Bank | - | 50.0 | W 11,454 | W 9,163 | W 9,163 | W 9,163 |
| Korea First Finance Ltd, HK | 7,000 | 100.0 | 3,436 | 35,425 | 35,425 | 35,425 |
| | | | W 14,890 | W 44,588 | W 44,588 | W 44,588 |

Equity securities in foreign currency are valued by the equity method. W3,141 million of unrealized gains are included in current operations as of December 31, 2000, W5,919 million of unrealized gains and W3,830 million of unrealized losses are included in current operations as of December 31, 1999.

Debt Securities Held for Investment

Bonds available-for-sale denominated in Korean Won as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Amortized cost | Carrying value (*) |
|--------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| December 31, 2000 | | | | | |
| Government bonds | 5.00 ~ 12.49 | W 428,371 | W 417,868 | W 420,443 | W 443,859 |
| Beneficiary certificates | - | 58,131 | 58,131 | 58,131 | 58,131 |
| Financial debentures | 6.39 ~ 7.45 | 135,000 | 131,763 | 131,470 | 133,609 |
| Corporate debentures | 1.00 ~ 8.35 | 16,976 | 14,432 | 14,432 | 14,432 |
| | | W 638,478 | W 622,194 | W 624,476 | W 650,031 |
| December 31, 1999 | | | | | |
| Government bonds | 7.10 ~ 11.51 | W 537,735 | W 531,860 | W 535,138 | W 529,479 |
| Financial debentures | 7.01 ~ 9.86 | 189,000 | 179,900 | 179,563 | 176,182 |
| Corporate debentures | 11.00 ~ 13.76 | 309,748 | 310,676 | 310,389 | 316,526 |
| Others | 1.00 | 5,000 | 5,000 | 5,000 | 5,000 |
| | | W1,041,483 | W1,027,436 | W1,030,090 | W1,027,187 |

(*) The above carrying values are estimated using the base yield of bonds announced by the Korea Securities Dealers Association at December 31, 2000 and 1999.

Bonds available-for-sale are stated at their market value. As of December 31, 2000 and 1999, W15,318 million and W2,903 million, respectively, of unrealized gains are included in the capital adjustments account. Beneficiary certificates were reclassified from trading securities to investment securities from July 1, 2000.

Bonds available-for-sale denominated in foreign currencies at December 31, 2000 and 1999 are as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|-----------------|------------------|-----------------|
| December 31, 2000 | | | | |
| USD | 7.02 | W 51,449 | W 51,168 | W 50,107 |
| MYR | - | 7,991 | 4,201 | 4,224 |
| JPY | 1.40 | 3,574 | 3,574 | 3,580 |
| IDR | 18.00 | 324 | 324 | 327 |
| | | W 63,338 | W 59,267 | W 58,238 |
| December 31, 1999 | | | | |
| USD | 7.25 | W 44,872 | W 44,617 | W 44,730 |
| MYR | - | 7,258 | 3,815 | 3,841 |
| JPY | 1.97 | 9,239 | 9,239 | 9,255 |
| IDR | 14.99 | 668 | 669 | 673 |
| | | W 62,037 | W 58,340 | W 58,499 |

Bonds available-for-sale in foreign currencies are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are guaranteed by the KDIC.

Bonds held-to-maturity denominated in Korean Won as of December 31, 2000 and 1999 are summarized as follows (million of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Carrying value | Market value |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| December 31, 2000 | | | | | |
| KDIC bonds (*) | 1.00 ~ 7.19 | W5,947,076 | W5,947,076 | W5,947,076 | W5,947,076 |
| Corporate debentures (*) | 1.00 ~ 11.00 | 167,561 | 167,503 | 167,503 | 167,503 |
| Financial debentures (*) | 8.74 ~ 11.00 | 90,004 | 90,004 | 90,004 | 90,004 |
| Government bonds | 3.00 ~ 11.95 | 8,670 | 8,494 | 8,759 | 9,548 |
| | | W6,213,311 | W6,213,077 | W6,213,342 | W6,214,131 |
| December 31, 1999 | | | | | |
| KDIC bonds (*) | 7.30 | W5,856,000 | W5,856,000 | W5,856,000 | W5,856,000 |
| Corporate debentures (*) | 9.33 ~ 11.00 | 226,222 | 223,140 | 223,199 | 223,986 |
| Financial debentures (*) | 1.00 ~ 6.37 | 180,004 | 176,194 | 176,194 | 176,139 |
| Government bonds | 3.00 ~ 11.95 | 9,553 | 8,851 | 9,111 | 9,194 |
| | | W6,271,779 | W6,264,185 | W6,264,504 | W6,265,319 |

(*) W20 billion of financial debentures, W110 billion of corporate debentures and KDIC bonds of W5,947 billion are guaranteed by the government as of December 31, 2000. W80 billion of financial debentures, W110 billion of corporate debentures and KDIC bonds of W5,856 billion are guaranteed by the government as of December 31, 1999.

Bonds intended to be held to maturity are initially stated at their acquisition cost. If the market value of such bonds deteriorates significantly and is not expected to recover, they are reduced to their market value and then reclassified to bonds available-for-sale.

Bonds held-to-maturity denominated in foreign currencies as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|-----------------|------------------|-----------------|
| December 31, 2000 | | | | |
| USD | 8.36 | W 58,557 | W 56,757 | W 57,375 |
| JPY | 0.55 | 5,498 | 5,503 | 5,513 |
| | | W 64,055 | W 62,260 | W 62,888 |
| December 31, 1999 | | | | |
| USD | 7.09 | W 88,090 | W 85,342 | W 86,869 |
| CHF | 2.69 | 8,795 | 8,420 | 8,417 |
| | | W 96,885 | W 93,762 | W 95,286 |

Investment Securities Concentrations

At December 31, 2000 and 1999, information about investment securities by geography, issuer and industry are summarized as follows (millions of Won):

| By Geography | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|-------------------|--------------------------|--------------------------------|--------------------|---------------|
| December 31, 2000 | | | | |
| Korea | W 6,967,041 | W 121,927 | W 7,088,968 | 99.28 |
| China | - | 10,184 | 10,184 | 0.14 |
| Indonesia | - | 6,465 | 6,465 | 0.09 |
| Japan | - | 5,513 | 5,513 | 0.08 |
| Malaysia | - | 11,772 | 11,772 | 0.17 |
| Thailand | - | 17,443 | 17,443 | 0.24 |
| | W 6,967,041 | W 173,304 | W 7,140,345 | 100.00 |

| | | | | |
|-------------------|--------------------|------------------|--------------------|---------------|
| December 31, 1999 | | | | |
| Korea | W 7,325,021 | W 153,819 | W 7,478,840 | 99.41 |
| China | - | 9,163 | 9,163 | 0.12 |
| Indonesia | - | 6,253 | 6,253 | 0.08 |
| Japan | - | 5,609 | 5,609 | 0.07 |
| Malaysia | - | 7,277 | 7,277 | 0.10 |
| Thailand | - | 16,252 | 16,252 | 0.22 |
| | W 7,325,021 | W 198,373 | W 7,523,394 | 100.00 |

| By Issuer | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|--------------------|--------------------------|--------------------------------|--------------------|---------------|
| December 31, 2000 | | | | |
| Public | W 6,695,525 | W 19,528 | W 6,715,053 | 94.04 |
| Financial business | 173,843 | 16,865 | 190,708 | 2.67 |
| Large corporate | 96,412 | 84,733 | 181,145 | 2.54 |
| Others | 1,261 | 52,178 | 53,439 | 0.75 |
| | W 6,967,041 | W 173,304 | W 7,140,345 | 100.00 |

| | | | | |
|-------------------------|--------------------|------------------|--------------------|---------------|
| December 31, 1999 | | | | |
| Middle & small business | W 66,320 | W - | W 66,320 | 0.88 |
| Large corporate | 104,301 | 192,807 | 297,108 | 3.95 |
| Public and other | 7,154,400 | 5,566 | 7,159,966 | 95.17 |
| | W 7,325,021 | W 198,373 | W 7,523,394 | 100.00 |

| By Industry | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|----------------------|--------------------------|--------------------------------|--------------------|---------------|
| December 31, 2000 | | | | |
| Financial business | W 173,842 | W 16,865 | W 190,707 | 2.67 |
| Manufacturing | 19,712 | 80,848 | 100,560 | 1.41 |
| Wholesale and retail | - | 7,555 | 7,555 | 0.11 |
| Construction | - | 4,224 | 4,224 | 0.06 |
| Others | 6,773,487 | 63,812 | 6,837,299 | 95.75 |
| | W 6,967,041 | W 173,304 | W 7,140,345 | 100.00 |
| December 31, 1999 | | | | |
| Financial business | W 375,500 | W 74,100 | W 449,600 | 5.98 |
| Manufacturing | 106,300 | 76,098 | 182,398 | 2.42 |
| Wholesale and retail | 14,500 | 2,618 | 17,118 | 0.23 |
| Construction | 14,500 | - | 14,500 | 0.19 |
| Others | 6,814,221 | 45,557 | 6,859,778 | 91.18 |
| | W 7,325,021 | W 198,373 | W 7,523,394 | 100.00 |

Maturity Schedule

The maturities of investment securities, except equity securities, at December 31, 2000 are as follows (millions of Won):

| Year ending December 31 | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Securities in foreign currencies | Total |
|----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------------|--------------------|
| 2001 | W181,223 | W133,613 | W 10,000 | W 58,131 | W 15,969 | W 398,936 |
| 2002 | 92,732 | 40,000 | 5,866,000 | - | 41,505 | 6,040,237 |
| 2003 | 5,859 | 20,000 | 111,483 | - | - | 137,342 |
| 2004 | 143,360 | 30,000 | 127,097 | - | 6,120 | 306,577 |
| 2005 | 12,018 | - | - | - | - | 12,018 |
| Thereafter | 17,426 | - | 14,431 | - | 57,532 | 89,389 |
| | W452,618 | W223,613 | W6,129,011 | W 58,131 | W 121,126 | W 6,984,499 |

The maturities of investment securities, except Korean Won equity securities, including trading securities at December 31, 1999 are as follows (millions of Won):

| Year ending December 31 | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Others | Securities in foreign currencies | Total |
|----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|----------------|-------------------------------------|-------------------|
| 2000 | W 147,964 | W 208,981 | W 315,242 | W 502,875 | W 5,000 | W 30,722 | W1,210,784 |
| 2001 | 277,000 | 117,500 | 1,494,100 | - | - | 20,139 | 1,908,739 |
| 2002 | 116,200 | 58,700 | 4,402,000 | - | - | 32,726 | 4,609,626 |
| 2003 | 5,500 | 24,500 | 156,900 | - | - | - | 186,900 |
| 2004 | 130,500 | - | 27,500 | - | - | 5,835 | 163,835 |
| Thereafter | 30,800 | - | 42,100 | - | - | 108,951 | 181,851 |
| | W 707,964 | W 409,681 | W6,437,842 | W 502,875 | W 5,000 | W198,373 | W8,261,735 |

(*) Corporate debentures includes KDIC bonds.

8. LOANS

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

| Account | 2000 | | 1999 | |
|-------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Loans in Korean Won | | | | |
| Corporate loans | 6.95 ~ 11.80 | W 3,786,547 | 5.67 ~ 11.45 | W 4,051,956 |
| Household loans | 3.89 ~ 17.36 | 5,032,610 | 4.33 ~ 13.77 | 1,729,772 |
| Loans to public sector | 7.44 ~ 9.65 | 234,002 | 10.66 ~ 13.41 | 157,029 |
| Other loans | 9.55 | 239,727 | 5.12 ~ 10.23 | 608,125 |
| Notes bought | 8.95 ~ 12.42 | 1,018,332 | 7.65 ~ 18.38 | 1,351,785 |
| Advances to customers | 7.19 | 87,736 | 1.94 | 202,189 |
| Credit card accounts | - | 530,793 | - | 403,966 |
| Private placement corporate bonds | 0.52 | 306,422 | 0.30 | 131,412 |
| Call loans | 0.00 ~ 4.52 | 392,400 | - | 165,766 |
| | | 11,628,569 | | 8,802,000 |
| Loans in foreign currencies | | | | |
| Loans | 5.83 ~ 8.54 | 975,993 | 6.17 | 1,743,583 |
| Call loans | 6.03 | 416,331 | 4.81 | 62,997 |
| Off-shore loans | 7.93 | 284,463 | 4.49 | 293,271 |
| Bills bought | 8.43 | 939,357 | 10.29 | 1,877,763 |
| Notes bought | 6.01 ~ 8.60 | 16,241 | 9.86 | 11,221 |
| Bonds purchased on resale agreement | - | - | 5.12 | 97,200 |
| | | 2,632,385 | | 4,086,035 |
| Total loans | | W14,260,954 | | W12,888,035 |

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection from the KDIC on 96.5% of the principal balances of loans outstanding as of December 31, 1999. An addition to the allowance for loan losses of W401,515 million for protected loans from January 1, 2000 through December 31, 2000 are offset by a corresponding increase in receivable from the KDIC to reflect the KDIC protection. The Bank has established additional allowances for new loans and advances on existing loans not meeting protection criteria.

Changes in the allowance for possible loan losses at December 31, 2000 are as follows (millions of Won):

| | Amount |
|--|------------------|
| Beginning balance (initial reserve) | W 439,673 |
| Increase in Government protection for loans | 401,515 |
| Provision for loan losses on unprotected loans | 56,269 |
| Put and call to KDIC | (84,084) |
| Other changes | (24,504) |
| | W 788,869 |

The ratio of allowance for loan losses to total loans as of December 31, 2000 is 5.54%.

The Bank has W199,415 million of loans discounted to present value (amounting to W20,076 million) due to debt restructuring as of December 31, 2000.

At December 31, 2000 and 1999, loans (excluding call loans, credit card accounts and bonds purchased on resale agreement) by geography, borrower type and industry are summarized as follows (millions of Won):

| By Geography | 2000 | | 1999 | |
|-----------------------------|---------------------|----------------|---------------------|----------------|
| Korea | W 12,585,185 | 97.40% | W 11,901,717 | 97.89% |
| Japan | 172,624 | 1.34 | 252,349 | 2.08 |
| United States | 15,857 | 0.12 | 693 | - |
| Other | 147,764 | 1.14 | 3,347 | 0.03 |
| | W 12,921,430 | 100.00% | W 12,158,106 | 100.00% |
| By Borrower Type | 2000 | | 1999 | |
| Corporate | W 7,569,888 | 58.58% | W 10,271,304 | 84.48% |
| Household | 5,033,672 | 38.96 | 1,729,773 | 14.23 |
| Public and Other | 317,870 | 2.46 | 157,029 | 1.29 |
| | W 12,921,430 | 100.00% | W 12,158,106 | 100.00% |
| By Industry | 2000 | | 1999 | |
| Manufacturing | W 4,089,649 | 31.65% | W 4,855,962 | 39.94% |
| Household | 5,040,489 | 39.01 | 1,675,724 | 13.78 |
| Wholesale and retail trade | 1,254,543 | 9.71 | 2,559,096 | 21.05 |
| Financial business | 765,222 | 5.92 | 1,444,115 | 11.88 |
| Construction | 398,252 | 3.08 | 522,316 | 4.30 |
| Transport and communication | 362,597 | 2.81 | 414,195 | 3.41 |
| Other | 1,010,678 | 7.82 | 686,698 | 5.64 |
| | W 12,921,430 | 100.00% | W 12,158,106 | 100.00% |

The maturities of loans in Korean Won and foreign currencies at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Loans in Korean Won | Loans in foreign currencies | Total |
|--------------------------|---------------------|-----------------------------|---------------------|
| 2001 | W 5,367,555 | W 1,738,468 | W 7,106,023 |
| 2002~2003 | 5,044,414 | 46,872 | 5,091,286 |
| 2004~2005 | 904,266 | 75,483 | 979,749 |
| Thereafter | 312,334 | 771,562 | 1,083,896 |
| | W 11,628,569 | W 2,632,385 | W 14,260,954 |

The classification and allowance for loan losses outstanding at December 31, 2000 are as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | Total (*) | Allowance | Allowance percentage |
|--------------------|--------------------|------------------|-----------------|-----------------|----------------|--------------------|-----------------|----------------------|
| Loans in Won | W9,055,903 | W294,640 | W57,415 | W568,093 | W3,198 | W9,979,249 | W394,848 | 3.96% |
| Loans in | | | | | | | | |
| foreign currencies | 1,245,555 | 262,062 | 132,293 | 31,861 | - | 1,671,771 | 86,972 | 5.20 |
| Notes bought | 1,027,708 | 6,271 | 184 | 217 | 193 | 1,034,573 | 47,272 | 4.57 |
| Bills bought | 725,631 | 14,333 | 12,546 | 186,847 | - | 939,357 | 223,509 | 23.79 |
| Advances for | | | | | | | | |
| Customers | 51,130 | 5,985 | 4,382 | 24,344 | 1,101 | 86,942 | 13,185 | 15.17 |
| Credit card | 469,208 | 42,475 | 11,139 | 6,499 | 1,472 | 530,793 | 23,083 | 4.35 |
| Total | W12,575,135 | W 625,766 | W217,959 | W817,861 | W5,964 | W14,242,685 | W788,869 | 5.54% |

(*) Net of present value discounts amounting to W18,269 million.

The allowance for loan and other losses outstanding at December 31, 1999 are as follows (millions of Won):

| | Allowance |
|-----------------------------|------------------|
| Loans in Won | W 229,141 |
| Loans in foreign currencies | 71,290 |
| Notes bought | 47,313 |
| Bills bought | 66,114 |
| Advances for customers | 7,077 |
| Credit card | 14,139 |
| Privately placed debentures | 4,599 |
| Allowance for loan losses | 439,673 |
| Allowance for other | 3,932 |
| Total | W 443,605 |

9. FIXED ASSETS

Premises and equipment at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | Acquisition cost | Accumulated depreciation | Net book value |
|--------------------------|--------------------|--------------------------|--------------------|
| December 31, 2000 | | | |
| Premises and equipment | | | |
| Land | W 796,589 | W - | W 796,589 |
| Buildings and structures | 342,946 | 78,281 | 264,665 |
| Movable property | 153,823 | 113,085 | 40,738 |
| | 1,293,358 | 191,366 | 1,101,992 |
| Intangible assets | 1,759 | - | 1,759 |
| | W 1,295,117 | W 191,366 | W 1,103,751 |
| December 31, 1999 | | | |
| Premises and equipment | | | |
| Land | W 796,606 | W - | W 796,606 |
| Buildings and structures | 336,039 | 62,535 | 273,504 |
| Movable property | 172,333 | 135,635 | 36,698 |
| | 1,304,978 | 198,170 | 1,106,808 |
| Intangible assets | 1,360 | - | 1,360 |
| | W 1,306,338 | W 198,170 | W 1,108,168 |

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2000 and 1999, the government-posted prices of the Bank's land used for tax assessment purposes are W597,628 million and W639,496 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

10. OTHER ASSETS

Other assets at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|--|------------------|------------------|
| Other accounts receivable | W 341,700 | W 112,338 |
| Guarantee money | 300,438 | 303,076 |
| Unsettled exchange | 61,496 | 136,188 |
| Accrued revenues receivables | 143,918 | 197,552 |
| Prepaid expenses | 35,500 | 6,555 |
| Trade bills paid off | 7,853 | 34,722 |
| Present value discount of other assets | (136) | (308) |
| Credit loss reserves of other assets | (686) | (3,932) |
| Deposit Money to court (*) | 3,737 | 4,427 |
| Others | 79,632 | 14,803 |
| | W 973,452 | W 805,421 |

(*) The deposit money to court includes W3,691 million of securities held in escrow.

11. DEPOSITS

Deposits at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | Banks | Other financial institutions | Others | Total |
|--------------------------------|------------------|------------------------------|--------------------|--------------------|
| December 31, 2000 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 1,435 | W 328,710 | W 2,179,846 | W 2,509,991 |
| Time & saving deposits | 96,848 | 2,146,061 | 10,731,004 | 12,973,913 |
| | 98,283 | 2,474,771 | 12,910,850 | 15,483,904 |
| Deposits in foreign currencies | | | | |
| Certificates of deposit | 307 | 66,890 | 506,394 | 573,591 |
| | 783,107 | 3,712 | 59,466 | 846,285 |
| | W 881,697 | W2,545,373 | W13,476,710 | W16,903,780 |
| December 31, 1999 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 7,712 | W 299,991 | W 2,083,083 | W 2,390,786 |
| Time & saving deposits | 200,171 | 2,312,429 | 9,645,665 | 12,158,265 |
| | 207,883 | 2,612,420 | 11,728,748 | 14,549,051 |
| Deposits in foreign currencies | | | | |
| Certificates of deposit | - | 273,354 | 763,209 | 1,036,563 |
| | 1,426 | 25,639 | 85,335 | 112,400 |
| | W 209,309 | W2,911,413 | W12,577,292 | W15,698,014 |

The maturities of deposits at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|-----------------------------------|----------------------------|--------------------|
| 2001 | W12,532,802 | W 573,561 | W 840,055 | W13,946,418 |
| 2002 | 2,451,786 | 2 | 6,230 | 2,458,018 |
| 2003 | 295,280 | - | - | 295,280 |
| 2004 | 128,458 | 2 | - | 128,460 |
| 2005 | 51,370 | 26 | - | 51,396 |
| Thereafter | 24,208 | - | - | 24,208 |
| | W15,483,904 | W 573,591 | W 846,285 | W16,903,780 |

The maturities of deposits at December 31, 1999 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|-----------------------------------|----------------------------|--------------------|
| 2000 | W13,849,013 | W1,036,276 | W112,400 | W14,997,689 |
| 2001 | 454,584 | 287 | - | 454,871 |
| 2002 | 172,384 | - | - | 172,384 |
| 2003 | 50,720 | - | - | 50,720 |
| 2004 | 16,041 | - | - | 16,041 |
| Thereafter | 6,309 | - | - | 6,309 |
| | W14,549,051 | W1,036,563 | W112,400 | W15,698,014 |

12. BORROWINGS

Borrowings at December 31, 2000 and 1999 are comprised of the following:

| | 2000 | | 1999 | |
|--|--------------------------|-------------------|--------------------------|-------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Borrowings in Korean Won: | | | | |
| Aggregate limit borrowings | 3.00 | W 204,149 | 3.00 | W 247,892 |
| Call money | 4.10 ~ 4.70 | 155,600 | 4.30 ~ 4.60 | 804,400 |
| Other | 3.00 ~ 9.20 | 621,468 | 3.00 ~ 8.77 | 1,703,989 |
| | | 981,217 | | 2,756,281 |
| Borrowings in foreign currencies: | | | | |
| Bank of Korea | 6.21 ~ 7.93 | 363,087 | 6-Libor | 2,526,277 |
| Other borrowings | 0.50 ~ 8.34 | 615,646 | 6.56 ~ 7.94 | 415,508 |
| Off-shore borrowings | 6.94 ~ 7.65 | 183,916 | 6.50 ~ 8.125 | 198,170 |
| Call money | 5.50 ~ 7.65 | 25,790 | 5.50 ~ 6.80 | 166,104 |
| | | 1,188,439 | | 3,306,059 |
| Bonds sold under repurchase agreements | 6.21 ~ 8.22 | 2,183,411 | 6.05 ~ 11.49 | 101,697 |
| Bills sold | 6.78 | 621,005 | 6.91 | 65,382 |
| | | W4,974,072 | | W6,229,419 |

The maturities of borrowings at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|-----------------------------|-----------------------------|-------------------------------------|---|------------------|-------------------|
| 2001 | W 374,330 | W 1,188,439 | W 2,183,411 | W 621,005 | W4,367,185 |
| 2002 | 108,652 | - | - | - | 108,652 |
| 2003 | 52,582 | - | - | - | 52,582 |
| 2004 | 65,546 | - | - | - | 65,546 |
| 2005 | 62,548 | - | - | - | 62,548 |
| Thereafter | 317,559 | - | - | - | 317,559 |
| | W 981,217 | W 1,188,439 | W 2,183,411 | W 621,005 | W4,974,072 |

The maturities of borrowings at December 31, 1999 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|-----------------------------|-----------------------------|-------------------------------------|---|-----------------|-------------------|
| 2000 | W 2,063,672 | W 3,235,483 | W 101,697 | W 65,382 | W5,466,234 |
| 2001 | 43,950 | 68,167 | - | - | 112,117 |
| 2002 | 70,489 | - | - | - | 70,489 |
| 2003 | 306,045 | - | - | - | 306,045 |
| 2004 | 210,734 | - | - | - | 210,734 |
| Thereafter | 61,391 | 2,409 | - | - | 63,800 |
| | W 2,756,281 | W 3,306,059 | W 101,697 | W 65,382 | W6,229,419 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 2000 are comprised of the following:

| Lender | Annual interest rate | Millions of Won |
|------------------------|----------------------|------------------|
| Daehan Life Insurance | 8.50 ~ 8.54 | W 98,500 |
| Samsung Life Insurance | 8.50 ~ 8.55 | 94,400 |
| Kyobo Life Insurance | 8.50 ~ 8.54 | 87,100 |
| Dongah Life Insurance | 8.50 | 20,000 |
| | | W 300,000 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 1999 are comprised of the following:

| Lender | Annual interest rate | Millions of Won |
|------------------------|----------------------|------------------|
| Daehan Life Insurance | 8.50 ~ 8.77 | W 98,500 |
| Samsung Life Insurance | 8.50 ~ 8.78 | 94,400 |
| Kyobo Life Insurance | 8.50 ~ 8.77 | 87,100 |
| Dongah Life Insurance | 8.50 | 20,000 |
| | | W 300,000 |

13. DEBENTURES

Debentures at December 31, 2000 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|-------------------------|------------|-----------------|--------------------------|------------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W142,000 | Public rate+2 | 3-31-2003 |
| Bonds with Warrants | 1-31-2000 | 91,076 | - | 12-31-2006 |
| Discount on debenture | | (6) | | |
| | | <u>233,070</u> | | |
| Foreign currency | | | | |
| Subordinated FRN(*) | 6-26-1996 | 251,940 | 6-Libor + 0.85 | 6-26-2006 |
| | | <u>W485,010</u> | | |

Debentures at December 31, 1999 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|-------------------------|------------|-----------------|--------------------------|-----------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W142,000 | Public rate+2 | 3-31-2003 |
| Discount on debenture | | (9) | | |
| | | <u>141,991</u> | | |
| Foreign currency | | | | |
| Subordinated FRN(*) | 6-26-1996 | 229,080 | 6-Libor + 0.85 | 6-26-2006 |
| Euro-MTN | 3-29-1995 | 22,437 | 6-Libor + 0.29 | 6-30-2000 |
| Euro-MTN | 6-15-1995 | 20,617 | 6-Libor + 0.35 | 6-15-2000 |
| Euro-MTN | 6-28-1995 | 45,816 | 3-Libor + 0.30 | 6-28-2000 |
| | | <u>317,950</u> | | |
| | | W459,941 | | |

(*) The Bank has the right to redeem the note (call option) at the end of year 5 and annually thereafter.

The maturities of debentures at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|--------------------------|---------------------------------|---|------------------|
| 2001 | W - | W - | W - |
| 2002 | - | - | - |
| 2003 | 141,994 | - | 141,994 |
| 2004 | - | - | - |
| 2005 | - | - | - |
| Thereafter | 91,076 | 251,940 | 343,016 |
| | <u>W 233,070</u> | <u>W 251,940</u> | <u>W 485,010</u> |

The maturities of debentures at December 31, 1999 are as follows (millions of Won) :

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|--------------------------|---------------------------------|---|------------------|
| 2000 | W - | W 88,870 | W 88,870 |
| 2001 | - | - | - |
| 2002 | - | - | - |
| 2003 | 141,991 | - | 141,991 |
| 2004 | - | - | - |
| Thereafter | - | 229,080 | 229,080 |
| | W 141,991 | W 317,950 | W 459,941 |

14. CONFIRMED ACCEPTANCES AND GUARANTEES

Acceptances and guarantees outstanding at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|--|-------------------|-------------------|
| Acceptances and guarantees in Korean Won | | |
| Corporate debentures | W 7,560 | W 130,030 |
| Other | 157,272 | 120,792 |
| | 164,832 | 250,822 |
| Acceptances and guarantees in foreign currencies | | |
| Acceptances | 642,885 | 438,432 |
| Stand-by letters of credit | 96,797 | 145,071 |
| Letters of guarantee | 22,017 | 24,054 |
| Other | 132,288 | 247,342 |
| | 893,987 | 854,899 |
| | W1,058,819 | W1,105,721 |

According to the contract between KDIC and the Bank, all rights and responsibilities for guarantees and acceptances outstanding as of December 31, 1999 were assumed by the KDIC as of December 31, 1999. The Bank is only entitled to receive certain management fees. Therefore, the Bank did not provide any reserves on acceptances and guarantees assumed by the KDIC amounting to W457,831 million as of December 31, 2000.

The classification and allowance for acceptances and guarantees outstanding at December 31, 2000 are as follows (millions of Won):

| | Amount |
|----------------|--------------------|
| Normal | W 735,645 |
| Precautionary | 70,216 |
| Substandard | 98,281 |
| Doubtful | 142,068 |
| Estimated loss | 12,609 |
| | 1,058,819 |
| Allowance | (6,507) |
| | W 1,052,312 |

At December 31, 2000 and 1999 acceptances and guarantees outstanding by geography and concentration are summarized as follows (millions of Won):

| By Geography | 2000 | | 1999 | |
|--------------|--------------------|----------------|--------------------|----------------|
| Korea | W 1,020,572 | 96.39% | W 1,071,152 | 96.87% |
| Japan | 37,822 | 3.57 | 34,410 | 3.11 |
| Other | 425 | 0.04 | 159 | 0.02 |
| | W 1,058,819 | 100.00% | W 1,105,721 | 100.00% |

| By Concentration | 2000 | | 1999 | |
|-----------------------------|-------------------|----------------|--------------------|----------------|
| Manufacturing | W 831,552 | 78.53% | W 909,196 | 82.22% |
| Wholesale and retail | 90,090 | 8.51 | 80,316 | 7.27 |
| Financial business | 37,985 | 3.59 | 34,611 | 3.13 |
| Construction | 29,928 | 2.83 | 36,199 | 3.28 |
| Transport and communication | 22,398 | 2.11 | 31,438 | 2.84 |
| Others | 46,866 | 4.43 | 13,961 | 1.26 |
| | W1,058,819 | 100.00% | W 1,105,721 | 100.00% |

15. ACCRUED SEVERANCE AND RETIREMENT BENEFITS

The changes in accrued severance benefits for the year ended December 31, 2000 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|-----------------------------------|-------------------|----------------|-----------------|-----------------|
| Accrued severance benefits | W256,907 | W41,122 | W112,823 | W185,206 |
| Transfer to National Pension Fund | (12,358) | - | (3,642) | (8,716) |
| | W244,549 | W41,122 | W109,181 | W176,490 |

The changes in accrued severance benefits for the year ended December 31, 1999 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|-----------------------------------|-------------------|----------------|-----------------|-----------------|
| Accrued severance benefits | W257,882 | W48,493 | W 49,468 | W256,907 |
| Transfer to National Pension Fund | (12,928) | (1,465) | (2,035) | (12,358) |
| | W244,954 | W47,028 | W 47,433 | W244,549 |

16. OTHER LIABILITIES

Other liabilities at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|--------------------------------------|-------------------|-------------------|
| Borrowing from trust account | W 203,773 | W 885,974 |
| Foreign exchange payable | 28,896 | 21,726 |
| Accounts payable | 311,937 | 193,788 |
| Accrued expenses | 372,277 | 317,975 |
| Unearned revenues | 39,091 | 48,503 |
| Domestic exchange obligation payable | 396,236 | 703,257 |
| Others | 257,801 | 350,817 |
| | W1,610,011 | W2,522,040 |

17. COMMITMENTS AND CONTINGENCIES

KDIC Agreement Issues

Due to the complexity of the KDIC assistance under the Acquisition Agreement and Assistance Agreement, several disagreements have arisen between the Bank and the KDIC as to the interpretation of these agreements. These differences will be resolved through negotiations or legal proceedings and the outcome may be different from assumptions used by management, which could materially impact the Bank's future financial results. However, management believes their assumptions are supported and any losses that result from the disposition of these matters are not currently measurable. These are described as follows:

(i) June Claim - The KDIC has disputed and withheld payment of approximately W202 billion relating to the Bank's claim submitted on August 14, 2000. The holdback represents approximately 7% of the original claim and is primarily related to reserve claims for advances and credits extended pursuant to commitments and guarantees that were issued before the Closing Date of the Assistance Agreement, or pursuant to Workout Procedures established before the Closing. The Bank believes that the Assistance Agreement requires the KDIC to provide full reserve protection for these advances and credits as claimed. To the extent that KDIC's interpretation were to prevail, the Bank's reserve claim would be reduced by that amount, but some portion of these claims would be subject to a put or other alternative sources of assistance.

(ii) Loans Converted to Equities - The Bank has also requested the KDIC to buy certain equity securities arising from Special Treatment Loans, Chaebol Loans and certain other loans. The KDIC maintains that it is not required to buy equity securities that relate to workout contracts executed before the Closing or that arise from commitments. The Bank's position is that the KDIC is required to buy all such equity securities. At December 31, 2000, equity securities that the KDIC had refused to purchase had a book value of approximately W29 billion. During January 2001, the KDIC refused to purchase an additional W23 billion book value of equity securities.

(iii) Loans to be Converted to Equities or Bonds - During November 2000 and January 2001, the Bank made a supplemental request for reserve protection for certain loans that were scheduled for conversion into bonds or equities as of June 30, 2000, but had not actually converted as of that date or as to which conversion was cancelled. KDIC has responded that reserve protection does not apply to portions of loans that are scheduled for conversion into bonds or equity. The Bank believes that KDIC's position is an incorrect interpretation of the Assistance Agreement. In addition, even if KDIC's interpretation were adopted, the Bank believes that the result would be that such loan portions would be protected as bonds or equity, meaning that KDIC would be required to buy such loan portions. As of December 31, 2000, the KDIC had made yield guarantee payments in respect of W84 billion book value of bond portion components of such loans. The total book value of the loan portions covered by KFB's supplemental reserve request is about W233 billion.

(iv) Losses on Derivative Positions - During the Closing Audit, the Bank attempted to transfer derivative contracts along with underlying assets to the KDIC. However, because the KDIC is not a financial institution, the Bank's derivative counter-parties did not agree to such a transfer. As the underlying hedged assets have been transferred to the KDIC, the Bank has not recorded mark-to-market valuation losses relating to the derivatives positions. Mark-to-market losses claimable from the KDIC are estimated at approximately W36 billion at December 31, 2000.

(v) Other Claims - The KDIC is disputing various other claims made by the Bank. At December 31, 2000, the Bank's financial statements reflect claims from the KDIC amounting to approximately W13 billion. In addition on January 13, 2001, the KDIC contested other claims made by the Bank amounting to approximately W67 billion.

Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts, interest

rate option contracts and contracts for interest rate futures. At December 31, 2000, those derivative contracts aggregated a notional amount of W1,719,036 million. As of December 31, 2000, the Bank has derivative financial instruments which are all designated as trading, as follows (millions of Won):

| | Currency forwards | Currency swaps | Currency option | Interest rate swaps | Interest rate futures | Total |
|----------|-------------------|-----------------|-----------------|---------------------|-----------------------|-------------------|
| Purchase | W 364,000 | W 22,030 | W 5,039 | W175,827 | W - | W 566,896 |
| Sell | 389,508 | - | 5,039 | 175,612 | 581,981 | 1,152,140 |
| | W 753,508 | W 22,030 | W 10,078 | W351,439 | W581,981 | W1,719,036 |

During 2000, W7,566 million of gains and W23,275 million of losses on valuation at derivative contracts were recorded in fees, commissions, and other revenues and expenses.

Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2000, commitments under letters of credit and endorsed notes aggregated W611,439 million and W14,614 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2000, total loan commitments are W12,522 billion and unused commitments are W8,159 billion.

The Bank has been named as defendant in 5 legal actions amounting to W3,244 million and is plaintiff in 38 legal actions amounting to W39,613 million which have arisen from normal business activities. Management believes that these actions as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

18. COMMON STOCK

As of December 31, 2000 and 1999, the authorized common shares and the outstanding common shares are 1,600 million shares and 196,116,800 shares (at a par value of W5,000), respectively. The Bank's paid in capital is W980,584 million as of December 31, 2000 and 1999 (see Note 1).

The Bank granted stock options to employees and directors. A total of 5,273,217 shares of common stock were granted at an exercise price of W5,079.60 per share. The options are exercisable after 3 years from the grant date and expire in 10 years. Compensation expense related to the grant is not material.

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. The bonds mature in 2006 and carry a stated interest rate of 0 percent. The warrants are convertible to 9,805,840 shares of the Bank's common stock at a price of W5,000 per share. The warrant exercise price escalates at an annual rate of 9.25%. The warrants are non-detachable, non-transferable and exercisable between December 31, 2002 and December 31, 2006.

19. RETAINED EARNINGS

The Bank should reserve as a minimum 10% of its annual net income as a legal reserve in accordance with Korean Banking Regulations. The Tokyo branch also should reserve up to 10% of its annual net income as an other reserve until the amount reaches 2 billion Yen in accordance with Japanese Banking Regulations. These legal reserves cannot be used to pay dividends.

20. INCOME TAX EXPENSE

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 17.6% on taxable income up to W100 million and 30.8% on taxable income in excess of W100 million. Income tax expense for the year ended December 31, 2000 is comprised of the following (millions of Won):

| | |
|--|-----------------|
| | 2000 |
| Income taxes payable | W 1,102 |
| Changes in deferred income taxes due to loss carry forward | (59,200) |
| Income tax expense | <u>(58,098)</u> |
| Deferred income tax asset as of December 31, 2000 | 59,200 |
| Deferred income tax asset as of January 1, 2000 | - |
| Changes in deferred income tax asset | <u>W 59,200</u> |

The Bank has tax basis net operating loss carryforwards ("NOLs") of approximately W4,925,292 million as of December 31, 2000. In the Acquisition Agreement, the KDIC represented to the Bank that as of the date immediately following the Closing, the amount of NOLs that will be available for use by the Bank for the fiscal years after 1999 will be no less than W4 trillion. The KDIC is obligated to indemnify the Bank for any breach of such representation. For tax purposes, net operating losses in Korea may be carried forward for five years against future earnings. There can, however, be no assurance that the Korean Corporate Tax Law and the regulations promulgated thereunder will not be amended to prevent the Bank from using these NOLs.

Adjustments of income before income taxes to taxable income for the year ended December 31, 2000 are comprised of the following (millions of Won):

| | |
|---------------------------------------|------------------|
| Income before income tax expense | W 248,302 |
| Adjustment to increase taxable income | |
| Permanent differences | 10,427 |
| Temporary differences | 224,229 |
| | <u>234,656</u> |
| Adjustment to decrease taxable income | |
| Permanent differences | 1,259 |
| Temporary differences | 310,351 |
| | <u>311,610</u> |
| Taxable income | <u>W 171,348</u> |

Deferred income taxes reflect the net tax effects of the tax loss carryforward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2000 are comprised of the following (in millions of Won):

| | January 1, 2000 | Increase | Decrease | December 31, 2000 |
|--|-----------------|------------|-------------|-------------------|
| Interest receivable on securities | W (116,764) | W (74,886) | W (116,764) | W (74,886) |
| Gain on valuation of securities | (24,205) | - | (24,205) | - |
| Profit from valuation of equity method | (43,579) | (3,309) | (10,918) | (35,970) |
| Excess of loan loss reserve | 185,541 | - | 185,541 | - |
| Present value discounts | 308 | 8,510 | 308 | 8,510 |
| Loss on valuation of derivatives | 13,867 | 23,275 | 13,867 | 23,275 |
| Depreciation | 6,506 | 6,250 | - | 12,756 |
| Loss on valuation of Equity method | 5,266 | - | 1,436 | 3,830 |
| Loss on valuation of securities | 9,208 | - | 9,208 | - |
| Retirement benefits | 962 | 2,478 | 962 | 2,478 |
| Other | (21,558) | 2,402 | (8,593) | (10,563) |
| Tax loss carryforward | 5,096,640 | - | 171,348 | 4,925,292 |
| Total | 5,112,192 | W (35,280) | W 222,190 | 4,854,722 |
| Tax rate | 30.8 % | | | 30.8 % |
| Deferred income tax asset | 1,574,555 | | | 1,495,254 |
| Allowance | (1,574,555) | | | (1,436,054) |
| Net deferred income tax asset | W - | | | W 59,200 |

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income. Based on substantial operating losses prior to 2000, the difficulty in forecasting multiple years of future income, and issues related to the Bank's agreement with the KDIC, management has elected to recognize a portion of the net operating loss carryforwards available and recorded a deferred tax asset of W59 billion.

21. PER SHARE AMOUNTS

Per share amounts for the years ended December 31, 2000 and 1999 are calculated as follows (in Korean Won):

| Ordinary earnings (loss) per share | 2000 | 1999 |
|--|-------------------|-----------------------|
| Ordinary earnings (loss) before income tax expenses | W 210,298,519,289 | W (1,213,872,128,656) |
| Income tax expense related to ordinary earnings (loss) | 1,101,520,000 | 587,146,055 |
| | 209,196,999,289 | (1,214,459,274,711) |
| Weighted average number of common shares (*) | 196,116,800 | 589,750,177 |
| Ordinary earnings (loss) per share | W 1,067 | W (2,059) |
| Net earnings (loss) per share | 2000 | 1999 |
| Net earnings (loss) after income tax expenses | W 303,091,526,363 | W (999,393,422,627) |
| Gain (loss) on investees using the equity method | 3,308,627,253 | (5,266,066,147) |
| | 306,400,153,616 | (1,004,659,488,774) |
| Weighted average number of common shares (*) | 196,116,800 | 589,750,177 |
| Net earnings (loss) per share | W 1,562 | W (1,703) |

(*) The number of common shares outstanding at December 31, 1999 and December 31, 2000 was 196,116,800.
There were no shareholder transactions during the year ended December 31, 2000.

As of December 31, 2000, none of the Bank's outstanding shares are traded or quoted on any stock exchange. As a market value for the Bank's shares cannot be readily determined, the diluted impact on earnings per share from bonds with warrants and stock options has not been calculated.

22. APPLICATION OF THE EQUITY-METHOD

Equity investments at December 31, 2000 and 1999 are as follows (millions of Won):

| | Korea First Finance Ltd., HK | First Citicorp Leasing Inc. | Qingdao International Bank | Korea First Data System Co., Ltd. |
|---|---------------------------------|--------------------------------|-------------------------------|--------------------------------------|
| January 1, 1999 | W 31,113 | W 24,655 | W 13,704 | W 4,194 |
| Equity in net income of affiliates | 5,919 | (1,436) | (3,830) | 77 |
| Exchange rate fluctuation | (1,607) | - | (711) | - |
| Dividends received | - | - | - | - |
| Equity in retained earnings of affiliates | - | - | - | - |
| December 31, 1999 | W 35,425 | W 23,219 | W 9,163 | W 4,271 |
| Equity in net income of affiliates | 3,034 | - | 107 | 168 |
| Exchange rate fluctuation | 3,535 | - | 914 | - |
| Dividends received | - | - | - | (160) |
| Equity in retained earnings of affiliates | - | - | - | (15) |
| Accrued equity income through sale date | - | 4,608 | - | - |
| Offset of capital adjustment recorded in prior year | - | (1,976) | - | - |
| Disposed | - | (25,851) | - | - |
| December 31, 2000 | W 41,994 | W - | W 10,184 | W 4,264 |

23. RELATED PARTY TRANSACTIONS

Significant transactions between the Bank, its controlled subsidiary, and equity-method investees for the year ended December 31, 2000 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|-----------------------------------|----------|-------------------|-----------|
| | Account | Amount | Account | Amount |
| Korea First Finance Ltd., Hong Kong | Interest income on Due from banks | 6,666 | Loans | 21,415 |
| | Interest income on Loans | 1,325 | Due from banks | 89,960 |
| | Interest expense on Deposits | 4 | | |
| | Interest expense on Borrowings | 4 | | |
| Qingdao International Bank | Interest income on Due from banks | 3,477 | Due from banks | 51,648 |
| | Interest expense on Deposits | 3,878 | Deposit | 52,638 |
| Korea First Data System Co., Ltd. | Interest income on Loans | 4 | Deposit | 2,238 |
| | Other revenue | 76 | Borrowings | 1,200 |
| | Interest expense on Deposits | 227 | Other liabilities | 137 |
| | Other expense | 3,486 | | |
| | Revenue Transactions | W 11,548 | Receivables | W 163,023 |
| | Expense Transactions | W 7,599 | Payables | W 56,213 |

Significant transactions between the Bank, its controlled subsidiary, and equity-method investees for the year ended

December 31, 1999 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|----------------------|----------|------------------|-----------|
| | Account | Amount | Account | Amount |
| Korea First Finance Ltd., Hong Kong | Interest income | 9,885 | Due from banks | 73,292 |
| | | | Loans | 21,763 |
| Qingdao International Bank | Interest income | 3,073 | Due from banks | 35,507 |
| | Interest expense | 2,289 | Deposits | 49,832 |
| Korea First Data System Co., Ltd. | Other revenue | 36 | Loans | 22 |
| | Interest expense | 6 | Other assets | 879 |
| | Other expense | 2,395 | Deposits | 336 |
| | | | Other debt | 81 |
| First Citicorp Leasing Inc. | Interest Income | 14,877 | Loans | 202,495 |
| | Interest expenses | 483 | Deposits | 17,500 |
| | Revenue Transactions | W 27,871 | Receivables | W 333,958 |
| | Expense Transactions | W 5,173 | Payables | W 67,749 |

24. KOREAN ECONOMY

Beginning in 1997, the Republic of 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. Through the middle of 2000, it was widely accepted in Korea that the economic situation had stabilized, but not fully recovered from the 1997 crisis.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing forced consolidations. The Bank 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 Bank. Actual results may differ materially from management's current assessment.

Independent Auditors' Report



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CHIEF EXECUTIVE OFFICER AND TRUST BENEFICIARIES OF KOREA FIRST BANK

We have audited the accompanying balance sheet of Korea First Bank's trust accounts (the "Trust") as of December 31, 2000, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of Korea First Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 1999 were audited by Samil Accounting Corporation, who expressed their unqualified opinion thereon in their audit report dated March 24, 2000.

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.

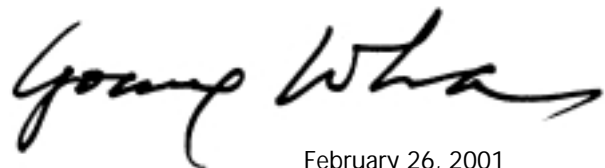
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust at December 31, 2000 and the results of its operations and cash flows for the year then ended in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea.

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

Without qualifying our opinion, we draw attention to Note 9 of the financial statements. The operations of the Trust 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 Trust 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 and 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 in the Republic of Korea 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.



February 26, 2001

Non-consolidated Balance Sheets (Trust Accounts)

December 31, 2000 and 1999

| | 2000 | | 1999 | |
|--|---------------------------|-------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| ASSETS | | | | |
| Securities (Note 5 and 6) | W 1,708,565 | W 3,690,701 | \$ 1,356,327 | \$ 2,929,826 |
| Loans (Note 6) | 238,313 | 1,171,767 | 189,182 | 930,195 |
| Present value discounts for loans | (1,247) | - | (990) | - |
| Allowance for possible loan and securities losses (Note 6) | (35,088) | (62,836) | (27,854) | (49,882) |
| Call loans (Note 7) | 50,000 | 274,000 | 39,692 | 217,512 |
| Due from the Bank Account | 135,612 | 838,930 | 107,654 | 665,976 |
| Accrued income | 36,437 | 57,221 | 28,925 | 45,424 |
| Other assets | 18,855 | 5 | 14,968 | 4 |
| | W 2,151,447 | W 5,969,788 | \$ 1,707,904 | \$ 4,739,055 |
| LIABILITIES | | | | |
| Money trusts (Note 1 and 4) | W 1,586,714 | W 5,085,349 | \$ 1,259,597 | \$ 4,036,952 |
| Borrowings | 500,000 | 394,422 | 396,920 | 313,108 |
| Other liabilities | 60,873 | 488,006 | 48,323 | 387,399 |
| Reserve for future trust losses | 3,860 | 2,011 | 3,064 | 1,596 |
| | W 2,151,447 | W 5,969,788 | \$ 1,707,904 | \$ 4,739,055 |

See accompanying notes

Non-consolidated Statements of Operations (Trust Accounts)

Years ended December 31, 2000 and 1999

| | 2000 | | 1999 | |
|---|---------------------------|-------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| REVENUE | | | | |
| Interest on securities | W 233,301 | W 488,900 | \$ 185,204 | \$ 388,108 |
| Interest on loans | 57,616 | 168,831 | 45,738 | 134,025 |
| Interest on call loans | 6,242 | 15,915 | 4,955 | 12,634 |
| Interest on due from the Bank Account | 17,525 | 16,502 | 13,912 | 13,100 |
| Gain on derivatives transactions | - | 643 | - | 510 |
| Gain on securities valuation and transactions | 31,251 | 126,557 | 24,808 | 100,466 |
| Other income | 109,206 | 776,656 | 86,692 | 616,540 |
| | W 455,141 | W 1,594,004 | \$ 361,309 | \$ 1,265,383 |
| EXPENSES | | | | |
| Interest on borrowings | W 10,009 | W 20,639 | \$ 7,946 | \$ 16,384 |
| Trust fees to the Bank | 34,462 | 39,997 | 27,357 | 31,751 |
| Loss on securities valuation and transactions | 79,607 | 186,656 | 63,195 | 148,175 |
| Other expenses | 6,039 | 586,924 | 4,794 | 465,924 |
| Provision for future trust losses | 1,849 | - | 1,468 | - |
| Provision for possible loan and securities losses (Notes 6) | 9,477 | 89,154 | 7,523 | 70,774 |
| | 141,443 | 923,370 | 112,283 | 733,008 |
| Dividends of trust profit to beneficiaries | W 313,698 | W 670,634 | \$ 249,026 | \$ 532,375 |

See accompanying notes

Non-consolidated Statements of Cash Flows (Trust Accounts)

Years ended December 31, 2000 and 1999

| | 2000 | | 1999 | |
|---|---------------------------|-----------|---------------------------------------|------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Loss on securities transactions, net | W 46,157 | W 76,219 | \$ 36,641 | \$ 60,506 |
| Unrealized loss (gain) on securities, net | 2,199 | (16,120) | 1,746 | (12,797) |
| Loss on sales of loans | - | 574,762 | - | 456,269 |
| Provision for possible loan and securities losses | 9,477 | 89,154 | 7,523 | 70,774 |
| Reversal of allowance for possible loan and securities losses | (7,835) | (394,714) | (6,220) | (313,340) |
| Other, net | (13,050) | (274) | (10,359) | (217) |
| Changes in operating assets and liabilities, net | (845,844) | (465,269) | (671,465) | (369,349) |
| Net cash used in operating activities | (808,896) | (136,242) | (642,134) | (108,154) |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | | | |
| | - | - | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Increase in borrowings | 105,578 | - | 83,812 | - |
| Decrease in borrowings | - | (127,358) | - | (101,102) |
| Net cash provided by (used in) financing activities | 105,578 | (127,358) | 83,812 | (101,102) |
| Net decrease in cash and cash equivalents | (703,318) | (263,600) | (558,322) | (209,256) |
| Cash and cash equivalents at beginning of year | 838,930 | 1,102,530 | 665,976 | 875,232 |
| Cash and cash equivalents at end of year | W 135,612 | W 838,930 | \$ 107,654 | \$ 665,976 |

See accompanying notes

Notes to Financial Statements (Trust Accounts)

December 31, 2000 and 1999

1. Trust Accounts

Key conditions of each fund within Korea First Bank's (the "Bank") trust accounts (the "Trust") are as follows:

| | Minimumcontractperiod (year) | Typeof dividend | Guarantee type |
|---|------------------------------|-----------------|----------------------|
| General Unspecified Money Trust | over 1 | Guaranteed | P & D guaranteed |
| Reserving Objective Money Trust (Guaranteed) | over 1 | Guaranteed | P & D guaranteed |
| Reserving Objective Money Trust (Performance) | over 1.5 | Performance | Mixed |
| House Money Trust | 1.5 | Performance | Mixed |
| Development Trust | 2 or 3 | Guaranteed | P & D guaranteed |
| Pension Trust | over 5 | Performance | Principal guaranteed |
| Business Money Trust | over 1.5 | Performance | Mixed |
| National Stock Trust | over 3 | Performance | Non-guaranteed |
| Workers Retirement Installment Money Trust | over 1 | Performance | Principal guaranteed |
| Personal Pension Trust | over 15 | Performance | Principal guaranteed |
| Long-Term House Trust | 3 - 5 | Performance | Non-guaranteed |
| Workers Preferential Trust | 3 - 5 | Performance | Non-guaranteed |
| New Reserving Trust | over 1.5 | Performance | Non-guaranteed |
| Retirement Trust | none | Performance | Principal guaranteed |
| Specified Money Trust | over 1 | Performance | Non-guaranteed |
| Other Money Trust | over 1.5 | Performance | Non-guaranteed |
| Unit Type Money Trust | over 1 | Performance | Non-guaranteed |
| Open Type Money Trust | over 1 | Performance | Non-guaranteed |
| New Personal Pension Trust | over 15 | Performance | Principal guaranteed |

P: Principal

D: Dividend

Mixed: Principal guaranteed for certain trust beneficiaries

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under the Korean Trust Business Act, trust funds held by the Bank as fiduciary are accounted for and reported separately from the Bank's books and financial statements (the "Bank Account"). The significant accounting policies applied in the preparation of the accompanying financial statements of the Bank's trust accounts are summarized as follows:

Basis of Presenting Financial Statements

The Trust maintains its official accounting records in Korean Won and prepares its statutory financial statements in conformity with the Korean Trust Business Act, related regulations and accounting principles generally accepted in the Republic of Korea ("Korean GAAP") which may differ from accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. Accordingly, the accompanying financial statements are not intended for use by those who are not informed about the Korean Trust Business Act, related regulations and Korean GAAP and their application in practice.

For the convenience of the reader, in preparing the accompanying financial statements, certain reclassifications and changes in statement format and extent of disclosures have been made to the financial statements issued in the Korean language for domestic statutory purpose. Certain reclassification, and changes in statement format and extent of disclosures have also been made for the prior year financial statements and footnotes to conform to current year presentation.

The preparation of financial statements in conformity with applicable regulations and financial accounting standards requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Equity Securities

Listed equity securities, including those registered in secondary markets such as KOSDAQ, are valued at market value. Unlisted equity securities or securities held in specified money trusts are carried at cost.

Debt Securities

Listed debt securities, for which market prices were quoted for more than 10 days a month during the consecutive 3 months prior to the period end, are valued at the closing price as of the valuation date. However, unlisted debt securities are valued at prices converted from adjustment yields supplied by the Korea Securities Dealers Association. These adjustment yields reflect remaining time, credit risk, and current interest rates. Debt securities for which adjustment yield ratios cannot be applied are valued at fair value as calculated by the Trust's valuation committee.

In accordance with Korean Trust Business Supervisory Regulations, debt securities in non-specified money trusts established prior to November 15, 1998 are recorded at cost plus accrued interest. The Trust calculates an allowance for possible losses on those debt securities, except for those issued by the Korean Government and local governments, based on the issuers' future debt service capacity using the same credit rating and provisioning model as it uses for corporate loans (See "Allowance for Possible Loan Losses" below). Provisions are determined by applying the following percentages to the various credit ratings: Normal: 0% (0.5% for the trusts for which dividends are guaranteed) or above, Precautionary: 2% or above, Substandard: 20% or above, Doubtful: 50% or above, Estimated loss: 100%. Debt securities held in the specified money trusts are recorded at cost.

Beneficiary Certificates

Beneficiary certificates are valued at the standard price announced by the issuing company as of the valuation date. Beneficiary certificates in the specified money trusts are carried at cost.

Allowance for Possible Loan Losses

The Trust calculates the allowance for possible loan losses of corporate loans based on borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"). This credit rating model includes financial and non-financial factors of borrowers.

Provisions are determined by applying the following minimum percentages to the various credit ratings:

| Credit ratings | Loan classifications | Provision percentages |
|----------------|----------------------|-----------------------|
| 1 ~ 4 | Normal | 0% (*) or above |
| 5 | Precautionary | 2% or above |
| 6 | Substandard | 20% or above |
| 7 | Doubtful | 50% or above |
| 8 | Estimated loss | 100% |

(*) 0.5% for the trusts for which dividend, are guaranteed

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

Loans which are deemed uncollectible are fully reserved by the allowance. However, charge-offs of actual loan balances may be delayed due to certain banking regulations governing actual charge-offs of loan balances.

Present Value Discounts

In accordance with the revised financial accounting standards, if the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the present value of the loan is offset against the allowance for possible loan losses, if available, or charged to current expense.

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

Due from the Bank Account

The Trust makes certain loans to the Bank for short-term cash management purposes. These are recorded as loans to the Bank by the Trust.

Recognition of Interest Income

Interest income on loans and securities is recognized on an accrual basis, while interest income on overdue and dishonored loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonored loans or securities, which is not recognized, amounted to W40 million as of December 31, 2000.

Income Taxes

The Trust does not have any tax liability for income resulting from operations. When paying trust profits to beneficiaries, the Trust is responsible for withholding appropriate taxes.

Compensation from the Bank

Certain money trust agreements provide that the Bank guarantees a principal amount of trusts deposits or a minimum rate of return. In relation to such guarantees, the Trust is required to set up a special reserve equal to 25% of trust fees until the total reserve

equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the guaranteed rate of return, the deficiency will be recovered from previously established special reserves and then compensated by the Bank if special reserves are insufficient. During the year ended December 31, 2000, W26,847 million of such deficiencies were compensated by the Bank.

Calculation of Trust Profits

Trust profits are calculated under two methods depending on trust agreements: yield calculation method and standard price method.

Under the yield calculation method, the trust profits are calculated using the following formulas:

Trust profits = Trust deposit balance x Average yield rate

$$\text{Average yield rate} = \frac{\text{Accumulated daily yield rate}}{\text{Number of days}} \text{ for a calculation period}$$

$$\text{Daily yield rate} = \frac{\text{Daily profit calculated}}{\text{Outstanding interest bearing assets balance}} - \text{Predetermined trust management fee rate}$$

$$\begin{aligned} \text{Daily profit calculated} = & \text{Interest revenue ; Realized gain (loss) from securities transactions} \\ & - \text{Provision for loan and securities losses} - \text{Other expenses} \end{aligned}$$

Trust profits, net of withholding taxes, are periodically (every six months or one and one half years, or at termination) distributed to depositors by adding to the depositors' principal balance.

Under the standard price method, depositors are entitled to the standard price per share which is calculated daily as follows:

Standard price = Net assets ; Total number of shares of each trust

Trust Fees

The Bank receives trust fees from the trust accounts for its management of trust assets and operations and is entitled to receive special trust fees from certain trust accounts in accordance with relevant laws and regulations applicable to trust operations.

Securities Investment Trusts

The Bank acts as custodian of assets and liabilities for securities investment trusts which are managed by securities investment trust companies. The Bank receives predetermined fees from the securities investment trust companies and does not bear any risk from results of operations for those companies. According to the Korean Trust Business Supervisory Regulations, the Bank included assets belonging to the securities investment trusts in the 1999 financial statements of the Trust. However, due to revised Korean Trust Business Supervisory Regulations effective in 2000, assets of the securities investment trusts are excluded from the 2000 financial statements of the Trust and also from the accompanying 1999 financial statements shown for comparative purposes.

3. UNITED STATES DOLLARS AMOUNTS

The Trust operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. All Won amounts expressed in U.S. Dollars are at the rate of W1,259.70 : US\$1, the basic exchange rate on December 31, 2000. This presentation is not

required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

The 1999 U.S. Dollar amounts, which were previously expressed at W1,145.40 : US\$1, the rate prevailing at December 31, 1999 have been restated to reflect the exchange rate in effect at December 31, 2000.

4. CLASSIFICATION OF TRUST ACCOUNTS

Assets and liabilities of trust accounts at December 31, 2000 and 1999 are classified into principal or dividend guaranteed trusts, mixed guaranteed trusts, and non-guaranteed trusts as follows (millions of Won):

| December 31, 2000 | Principal or dividends guaranteed | Mixed guaranteed (*) | Non-guaranteed | Total |
|---|-----------------------------------|----------------------|--------------------|--------------------|
| Securities | W 753,884 | W 139,837 | W 814,844 | W 1,708,565 |
| Loans | 102,215 | 55,616 | 80,482 | 238,313 |
| Present value discounts | (1,247) | - | - | (1,247) |
| Allowance for possible loan and securities losses | (11,625) | (6,295) | (17,168) | (35,088) |
| Call loans | 20,000 | 5,000 | 25,000 | 50,000 |
| Due from the Bank Account | 41,091 | 24,610 | 69,911 | 135,612 |
| Other assets | 23,304 | 4,453 | 27,535 | 55,292 |
| Total Assets | W 927,622 | W 223,221 | W 1,000,604 | W 2,151,447 |
| Money trust | 407,514 | 216,751 | 962,449 | 1,586,714 |
| Borrowings | 500,000 | - | - | 500,000 |
| Other liabilities | 18,072 | 4,646 | 38,155 | 60,873 |
| Reserve for future trust losses | 2,036 | 1,824 | - | 3,860 |
| Total Liabilities | W 927,622 | W 223,221 | W 1,000,604 | W 2,151,447 |

| December 31, 2000 | Principal or dividends guaranteed | Mixed guaranteed (*) | Non-guaranteed | Total |
|------------------------------------|-----------------------------------|----------------------|--------------------|--------------------|
| Securities | W 1,689,636 | W 280,251 | W 1,720,814 | W 3,690,701 |
| Loans | 750,433 | 202,981 | 218,353 | 1,171,767 |
| Allowance for possible loan losses | (46,814) | (4,844) | (11,178) | (62,836) |
| Call loans | 184,000 | 22,000 | 68,000 | 274,000 |
| Due from the Bank Account | 622,752 | 32,449 | 183,729 | 838,930 |
| Other assets | 8,408 | 5,183 | 43,635 | 57,226 |
| Total Assets | W 3,208,415 | W 538,020 | W 2,223,353 | W 5,969,788 |
| Money trust | 2,431,354 | 525,836 | 2,128,159 | 5,085,349 |
| Borrowings | 394,422 | - | - | 394,422 |
| Other liabilities | 382,346 | 10,466 | 95,194 | 488,006 |
| Reserve for future trust losses | 293 | 1,718 | - | 2,011 |
| Total Liabilities | W 3,208,415 | W 538,020 | W 2,223,353 | W 5,969,788 |

(*) Mixed guaranteed trusts represent trusts for which principal is guaranteed only for certain beneficiaries who entered into the trust agreements prior to April 30, 1996. House Money Trust, Business Money Trust and Reserving Objective Money Trust (Performance) are classified as mixed guaranteed trusts.

5. SECURITIES

Equity Securities

Equity securities as of December 31, 2000 are as follows (millions of Won):

| Company | Number of shares | Acquisition cost | Market value |
|----------------------------------|------------------|------------------|-----------------|
| Daewoo Heavy Ind., Ltd. | 1,755,000 | W 23,880 | W 23,880 |
| Daewoo Heavy Ind., Ltd. Priority | 50,000 | 571 | 571 |
| Samsung Electronics Co., Ltd. | 10,390 | 1,740 | 1,641 |
| Samsung Heavy Industry Co., Ltd. | 80,000 | 371 | 353 |
| Samsung SDI Co., Ltd. | 5,910 | 279 | 278 |
| Sepoong Corporation | 49,400 | 247 | 247 |
| Shinwon Corporation | 565,800 | 2,829 | 2,829 |
| Ssangyong Motor Company | 1,042,000 | 5,210 | 5,210 |
| Cheil Communications Inc. | 8,160 | 675 | 506 |
| Chohung Leasing Corp. | 153,200 | 766 | 766 |
| Chung Bu Leasing Corp. | 505,800 | 2,529 | 2,529 |
| Tae Young Corporation | 6,500 | 182 | 146 |
| Pohang Iron & Steel Co., Ltd | 4,191 | 361 | 321 |
| Korea Development Leasing Corp. | 117,100 | 632 | 632 |
| Korea Telecom Corp. | 28,080 | 1,948 | 1,881 |
| Korea Electric Power Corp. | 53,884 | 1,365 | 1,272 |
| Hanmi Capital Co., Ltd. | 151,800 | 759 | 759 |
| Hyundai Motor Company | 61,890 | 799 | 749 |
| Sk Telecom Co. | 5,500 | 1,479 | 1,392 |
| Others | 129,414 | 551 | 521 |
| | 4,784,019 | W 47,173 | W 46,483 |

Debt Securities

Debt securities as of December 31, 2000 are as follows (millions of Won):

| Type | Face value | Acquisition cost | Fair value |
|--------------------------------------|------------------|------------------|------------------|
| Government bonds | | | |
| Korea treasury bonds | W 102,700 | W 102,784 | W 102,775 |
| Korea housing bonds | 19,150 | 16,773 | 16,773 |
| Korea housing bonds 1 | 45,504 | 40,684 | 40,572 |
| Korea housing bonds 2 | 708 | 471 | 471 |
| Grain bonds | 10,000 | 11,114 | 11,066 |
| Foreign exchange stabilization bonds | 11,000 | 11,630 | 11,623 |
| | 189,062 | 183,456 | 183,280 |
| Financial debentures | | | |
| Monetary stabilization bonds | 271,767 | 264,033 | 264,380 |
| KDB bonds | 27,000 | 26,819 | 26,971 |
| | 298,767 | 290,852 | 291,351 |
| Local government bonds | 15,095 | 13,750 | 13,626 |
| Corporate bonds | 254,811 | 243,427 | 242,127 |
| | W 757,735 | W 731,485 | W 730,384 |

Bills Bought

Bills bought as of December 31, 2000 are as follows (millions of Won):

| | Face value | Acquisition cost | Fair value |
|-----------------------------|------------------|------------------|------------------|
| Guaranteed commercial paper | W 34,600 | W 34,600 | W 34,600 |
| Bills issued | 85,198 | 85,198 | 85,198 |
| Commercial paper | 686,768 | 686,768 | 686,768 |
| | W 806,566 | W 806,566 | W 806,566 |

Other Securities

Other securities as of December 31, 2000 are as follows (millions of Won):

| | Face value | Acquisition cost | Fair value |
|--|------------------|------------------|------------------|
| Beneficiary certificates of development trusts | W 5,000 | W 5,471 | W 5,481 |
| Beneficiary certificates of bond type trusts | 106,469 | 110,219 | 109,706 |
| Negotiable certificates of deposit | 10,000 | 9,834 | 9,945 |
| | W 121,469 | W 125,524 | W 125,132 |

6. ASSET CLASSIFICATION AND ALLOWANCE FOR POSSIBLE LOAN AND SECURITIES LOSSES

The classification of loans and securities at December 31, 2000 is as follows (millions of Won):

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | PVD | Total |
|-----------------|------------------|-----------------|------------------|------------------|----------------|----------------|--------------------|
| Loans | W 168,370 | W 17,350 | W 17,641 | W 30,700 | W 3,005 | W 1,247 | W 238,313 |
| Corporate bonds | 132,582 | 13,866 | 30,275 | 62,456 | 2,948 | - | 242,127 |
| Bills bought | 509,925 | 48,192 | 58,598 | 189,104 | 747 | - | 806,566 |
| | W 810,877 | W 79,408 | W 106,514 | W 282,260 | W 6,700 | W 1,247 | W 1,287,006 |

Protected assets and specified money trust assets were excluded from the allowance for possible loan and securities losses. Credit losses on protected assets are guaranteed by the Korea Deposit Insurance Corporation ("KDIC") according to the Assistance Agreement between the KDIC and the Bank. Specified money trust assets are excluded in accordance with Korean Trust Business Supervisory Regulations. Details of Protected assets and specified money trust assets are as follows (millions of Won)

| | Normal | Precautionary | Substandard | Doubtful | Estimated loss | PVD | Total |
|-----------------|------------------|-----------------|-----------------|------------------|----------------|------------|------------------|
| Loans | W - | W 9,857 | W - | W 22,309 | W - | W - | W 32,166 |
| Corporate bonds | 15,801 | 7,362 | 30,275 | 62,455 | 2,948 | - | 118,841 |
| Bills bought | 222,404 | 13,198 | 38,626 | 189,104 | - | - | 463,332 |
| | W 238,205 | W 30,417 | W 68,901 | W 273,868 | W 2,948 | W - | W 614,339 |

Allowance for possible loan and securities losses as of December 31, 2000 is as follows (millions of Won):

| | Principal or dividends guaranteed | Mixed guaranteed | Non-guaranteed | Total |
|------------------|-----------------------------------|------------------|-----------------|-----------------|
| Allowance | W 11,625 | W 6,295 | W 17,168 | W 35,088 |

In accordance with the Assistance Agreement between the KDIC and the Bank, 96.5% of the principal balances of outstanding loans and certain securities as of December 31, 1999 for principal or dividend guaranteed trusts are protected by the KDIC. Therefore the Trust set up 3.5% of protected loans and securities as an allowance for possible loan and securities losses regardless of their classification as follows (millions of Won):

| | Protected loans | Allowances for possible loan and securities losses |
|-----------------|--------------------|--|
| Loans | W 389,761 | W 13,642 |
| Corporate bonds | 187,578 | 6,565 |
| Bills bought | 797,948 | 27,928 |
| | W 1,375,287 | W 48,135 |

The Trust provided an allowance for possible loan and securities losses amounting to W14,701 million for non-guaranteed trusts as of December 31, 1999.

7. CALL LOANS

Call loans as of December 31, 2000 consisted of the following (millions of Won):

| | Interest rate | Amount |
|---|---------------|----------|
| The Chase Manhattan Bank - Seoul Branch | 6.0% | W 50,000 |

8. INCOME STATEMENT FOR MANAGEMENT OF THE TRUST ACCOUNTS

Pro forma income statement for management of the trust accounts for the year ended December 31, 2000, which is prepared and disclosed in accordance with the Korean Trust Business Supervisory Regulations, is as follows (millions of Won):

| | | |
|---|--|------------------|
| Operating income | | |
| 1. Trust fees, net of subsidy for trust deficiencies | | W 10,508 |
| 2. Commissions received from early redemptions of trust | | 3,817 |
| | | <u>14,325</u> |
| Operating expenses (*) | | |
| 1. Salaries & employee benefits | | 6,262 |
| 2. Administration expenses | | 6,993 |
| 3. Taxes & dues | | 299 |
| 4. Amortization | | 1,559 |
| 5. Provision for severance and retirement benefits | | 1,707 |
| | | <u>16,820</u> |
| Net loss | | W (2,495) |

(*) Operating expenses are derived by allocating the Bank's operating expenses to the Trust according to activity of the Trust, which is based on amount of each account and number of transactions of the Trust.

9. KOREAN ECONOMY

Beginning in 1997, the Republic of 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. Through the middle of 2000, it was widely accepted in Korea that the economic situation had stabilized, but not fully recovered from the 1997 crisis.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing forced consolidations. The Trust 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 Trust. Actual results may differ materially from management's current assessment.

Independent Auditors' Report



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THE BOARD OF DIRECTORS AND SHAREHOLDERS OF KOREA FIRST BANK

We have audited the accompanying consolidated balance sheet of Korea First Bank and subsidiaries (the "Bank") as of December 31, 2000, and the related consolidated statements of operations, changes in capital surplus and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 1999 were audited by Samil Accounting Corporation, who expressed their unqualified opinion thereon in their audit report dated March 24, 2000. The 1999 financial statements are presented for comparison purposes.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea First Bank and subsidiaries at December 31, 2000 and the consolidated results of its operations, changes in capital surplus and retained earnings, and cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

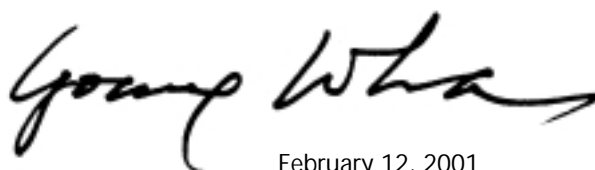
The preparation of consolidated financial statements for the Bank in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Without qualifying our opinion, we draw attention to Note 17 of the consolidated financial statements. As discussed in Note 17, certain assumptions were made regarding the resolution of disagreements that have arisen as to the interpretation of agreements negotiated between the Bank and the Korea Deposit

Insurance Corporation. These differences will be resolved through negotiations or legal proceedings and the outcome of those agreements may be different from assumptions used by management, which could materially impact the Bank's future financial results.

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

Without qualifying our opinion, we draw attention to Note 24 of the consolidated financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying consolidated financial statements related to such uncertainties.

The accompanying financial statements are not intended to present the financial position and 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 in the Republic of Korea 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.



February 12, 2001

Consolidated Balance Sheets

December 31, 2000 and 1999

| | 2000 | 1999 | 2000 | 1999 |
|---|---------------------------|--------------------|---------------------------------------|----------------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| ASSETS | | | | |
| Cash & due from banks (Note 5) | W 1,775,171 | W 2,302,037 | \$ 1,409,201 | \$ 1,827,449 |
| Trading securities (Note 6) | - | 771,671 | - | 612,583 |
| Investment securities (Note 7) | 1,168,919 | 1,649,192 | 927,934 | 1,309,194 |
| KDIC bonds (Notes 4 and 7) | 5,947,076 | 5,856,000 | 4,721,026 | 4,648,726 |
| Trust securities | 415,674 | 724,730 | 329,979 | 575,320 |
| Loans (Note 8) | 14,919,074 | 14,956,158 | 11,843,355 | 11,872,794 |
| Present value discounts for loans | (19,516) | - | (15,493) | - |
| Allowance for possible loan losses (Note 8) | (806,653) | (491,901) | (640,353) | (390,491) |
| Receivable from KDIC (Note 4) | 432,072 | 707,226 | 342,996 | 561,424 |
| Fixed assets (Note 9) | 1,103,902 | 1,108,284 | 876,321 | 879,800 |
| Other assets (Note 10) | 984,186 | 815,207 | 781,286 | 647,143 |
| Total assets | W25,919,905 | W28,398,604 | \$ 20,576,252 | \$ 22,543,942 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Deposits (Note 11) | W17,391,793 | W18,217,162 | \$ 13,806,298 | \$ 14,461,508 |
| Borrowings (Note 12) | 4,974,072 | 6,229,420 | 3,948,616 | 4,945,162 |
| Financial debentures (Note 13) | 485,010 | 459,941 | 385,020 | 365,119 |
| Accrued severance and retirement benefits (Note 15) | 176,490 | 244,550 | 140,105 | 194,134 |
| Other liabilities (Note 16) | 1,585,471 | 2,266,947 | 1,258,610 | 1,799,592 |
| Total liabilities | 24,612,836 | 27,418,020 | 19,538,649 | 21,765,515 |
| Commitments and contingencies (Note 17) | | | | |
| Shareholders' equity | | | | |
| Common stock | 980,584 | 980,584 | 778,427 | 778,427 |
| Capital surplus (Note 18) | 5,039 | 4,582 | 4,000 | 3,637 |
| Retained earnings | 307,459 | - | 244,073 | - |
| Capital adjustments (Note 19) | 13,987 | (4,582) | 11,103 | (3,637) |
| Total shareholders' equity | 1,307,069 | 980,584 | 1,037,603 | 778,427 |
| Total liabilities and shareholders' equity | W25,919,905 | W28,398,604 | \$ 20,576,252 | \$ 22,543,942 |

See accompanying notes

Consolidated Statements of Operations

Years ended December 31, 2000 and 1999

| | 2000 | | 1999 | |
|--|---------------------------|---------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| Interest income | | | | |
| Loans | W 1,292,383 | W 1,331,749 | \$ 1,025,945 | \$ 1,057,195 |
| Trading securities | 18,038 | 44,214 | 14,319 | 35,099 |
| Investment securities | 112,014 | 460,110 | 88,921 | 365,254 |
| KDIC bonds | 438,956 | - | 348,461 | - |
| Trust securities | 43,549 | 134,791 | 34,571 | 107,002 |
| Due from banks | 28,295 | 49,713 | 22,462 | 39,464 |
| Other | 54,360 | 741 | 43,153 | 589 |
| | 1,987,595 | 2,021,318 | 1,577,832 | 1,604,603 |
| Interest expense | | | | |
| Deposits | 1,087,728 | 1,259,545 | 863,481 | 999,877 |
| Borrowings | 328,854 | 493,450 | 261,058 | 391,720 |
| Financial debentures | 35,733 | 45,564 | 28,366 | 36,171 |
| Other | 15,791 | 82,731 | 12,536 | 65,675 |
| | 1,468,106 | 1,881,290 | 1,165,441 | 1,493,443 |
| Net interest income before provision | 519,489 | 140,028 | 412,391 | 111,160 |
| Provision for loan and other losses | 50,793 | (1,613,340) | 40,321 | (1,280,733) |
| Net interest income after provision | 468,696 | 1,753,368 | 372,070 | 1,391,893 |
| Fees, commissions, other revenue (expense), net | | | | |
| Banking fees | 65,122 | 59,920 | 51,696 | 47,567 |
| Card fees | 116,255 | 101,487 | 92,288 | 80,564 |
| Trust account | 24,848 | 45,279 | 19,725 | 35,944 |
| Securities | 2,667 | 76,008 | 2,117 | 60,338 |
| Foreign exchange | 42,370 | 47,788 | 33,635 | 37,936 |
| Other | (801) | (4,226) | (636) | (3,354) |
| | 250,461 | 326,256 | 198,825 | 258,995 |
| Operating expense | | | | |
| Staff cost | 278,016 | 190,226 | 220,700 | 151,009 |
| Administration expense | 121,758 | 159,908 | 96,656 | 126,941 |
| Depreciation and other | 85,367 | 102,077 | 67,768 | 81,033 |
| | 485,141 | 452,211 | 385,124 | 358,983 |
| Operating income | 234,016 | 1,627,413 | 185,771 | 1,291,905 |
| Non-operating revenue | 53,524 | 1,175,516 | 42,489 | 933,171 |
| Non-operating expense | 37,790 | 4,013,320 | 29,999 | 3,185,933 |
| Ordinary income (loss) | 249,750 | (1,210,391) | 198,261 | (960,857) |
| Extraordinary gain | - | 207,226 | - | 164,505 |
| Income (loss) before taxes | 249,750 | (1,003,165) | 198,261 | (796,352) |
| Income tax expense (Note 20) | (56,650) | 1,494 | (44,971) | 1,186 |
| Consolidated net income (loss) | W 306,400 | W (1,004,659) | \$ 243,232 | \$ (797,538) |
| Ordinary earnings (loss) per share (Note 21) | W 1,067 | W (2,046) | \$ 0.85 | \$ (1.62) |
| Net earnings (loss) per share (Note 21) (Korean Won and U.S. Dollar in units) | W 1,562 | W (1,703) | \$ 1.24 | \$ (1.35) |

See accompanying notes

Consolidated Statements of Changes in Capital Surplus and Retained Earnings

Year ended December 31, 2000

| | Capital stock | Capital surplus | Retained earnings | Capital adjustment | Total |
|--|------------------|-----------------|-------------------|--------------------|--------------------|
| (In Millions of Korean Won) | | | | | |
| Beginning balances at January 1, 2000 | W 980,584 | W 4,582 | W - | W (4,582) | W 980,584 |
| Consolidated net income | - | - | 306,400 | - | 306,400 |
| Increase in other reserves | - | - | 3,605 | - | 3,605 |
| Equity in retained earnings of affiliates | - | - | (15) | - | (15) |
| Amortization of discounts on stock issuance | - | - | (2,531) | 2,531 | - |
| Gain on valuation of investment securities | - | - | - | 16,038 | 16,038 |
| Increase due to foreign currency translation | - | 457 | - | - | 457 |
| Ending balances at December 31, 2000 | W 980,584 | W 5,039 | W 307,459 | W 13,987 | W 1,307,069 |

(In Thousands of U.S. Dollars, see Note 3)

| | | | | | |
|--|-------------------|-----------------|-------------------|------------------|---------------------|
| Beginning balances at January 1, 2000 | \$ 778,427 | \$ 3,637 | \$ - | \$ (3,637) | \$ 778,427 |
| Consolidated net income | - | - | 243,232 | - | 243,232 |
| Increase in other reserves | - | - | 2,862 | - | 2,862 |
| Equity in retained earnings of affiliates | - | - | (12) | - | (12) |
| Amortization of discounts on stock issuance | - | - | (2,009) | 2,009 | - |
| Gain on valuation of investment securities | - | - | - | 12,731 | 12,731 |
| Increase due to foreign currency translation | - | 363 | - | - | 363 |
| Ending balances at December 31, 2000 | \$ 778,427 | \$ 4,000 | \$ 244,073 | \$ 11,103 | \$ 1,037,603 |

See accompanying notes

Consolidated Statements of Changes in Capital Surplus and Retained Earnings

Year ended December 31, 1999

| | Capital stock | Capital surplus | Retained earnings | Capital adjustment | Total |
|---|------------------|--------------------|----------------------|-----------------------|-------------|
| (In Millions of Korean Won) | | | | | |
| Beginning balances at January 1, 1999 | W 1,600,000 | W 16,610 | W (1,914,597) | W 349,231 | W 51,244 |
| Retired capital stock | (619,416) | - | - | - | (619,416) |
| Consolidated net loss | - | - | (1,004,659) | - | (1,004,659) |
| Decrease in consolidated capital adjustment | - | - | - | (353,813) | (353,813) |
| Gain on capital reduction | - | 3,349,426 | - | - | 3,349,426 |
| Disposition of accumulated deficit | - | (3,349,426) | 3,349,426 | - | - |
| Increase (decrease) due to change in reporting entity | - | (16,610) | 246,672 | - | 230,062 |
| Cumulative effect of changes in accounting principle | - | - | (668,559) | - | (668,559) |
| Other, net | - | 4,582 | (8,283) | - | (3,701) |
| Ending balances at December 31, 1999 | W 980,584 | W 4,582 | W - | W (4,582) | W 980,584 |

(In Thousands of U.S. Dollars, see Note 3)

| | | | | | |
|---|-------------|-------------|----------------|------------|------------|
| Beginning balances at January 1, 1999 | \$1,270,144 | \$ 13,186 | \$ (1,519,884) | \$ 277,234 | \$ 40,680 |
| Retired capital stock | (491,717) | - | - | - | (491,717) |
| Consolidated net income loss | - | - | (797,538) | - | (797,538) |
| Decrease in consolidated capital adjustment | - | - | - | (280,871) | (280,871) |
| Gain on capital reduction | - | 2,658,908 | - | - | 2,658,908 |
| Disposition of accumulated deficit | - | (2,658,908) | 2,658,908 | - | - |
| Increase (decrease) due to change in reporting entity | - | (13,186) | 195,818 | - | 182,632 |
| Cumulative effect of changes in accounting principle | - | - | (530,729) | - | (530,729) |
| Other, net | - | 3,637 | (6,575) | - | (2,938) |
| Ending balances at December 31, 1999 | \$ 778,427 | \$ 3,637 | \$ - | \$ (3,637) | \$ 778,427 |

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31, 2000 and 1999

| | 2000 | | 1999 | |
|--|---------------------------|---------------|---------------------------------------|--------------|
| | In Millions of Korean Won | | In Thousands of U.S. Dollars (Note 3) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Consolidated net income (loss) | W 306,400 | W (1,004,659) | \$ 243,232 | \$ (797,538) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Provision for possible loan losses | 50,793 | (1,609,352) | 40,321 | (1,277,568) |
| Provision for guarantees and other assets | 7,084 | (9,978) | 5,624 | (7,921) |
| Depreciation | 39,131 | 40,298 | 31,064 | 31,990 |
| Provision for severance and retirement benefits | 41,141 | 48,503 | 32,659 | 38,504 |
| Interest on present value discounts on loans | (4,867) | (30,130) | (3,864) | (23,918) |
| Interest on KDIC receivables | (31,207) | - | (24,773) | - |
| Other, net | (41,723) | (264,688) | (33,121) | (210,120) |
| Changes in operating assets and liabilities: | | | | |
| Due from banks | 329,885 | 120,653 | 261,876 | 95,779 |
| Securities | 1,496,246 | (1,261,381) | 1,187,780 | (1,001,334) |
| Loans | (130,041) | 2,225,482 | (103,232) | 1,766,676 |
| Deposits | (825,369) | 465,816 | (655,210) | 369,783 |
| Other, net | 2,461,573 | (1,289,155) | 1,954,094 | (1,023,383) |
| Net cash provided by (used in) operating activities | 3,699,046 | (2,568,591) | 2,936,450 | (2,039,050) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Acquisition of fixed assets | (40,010) | (23,936) | (31,762) | (19,001) |
| Other, net | 3,439 | 164,180 | 2,730 | 130,333 |
| Net cash provided by (used in) investing activities | (36,571) | 140,244 | (29,032) | 111,332 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Decrease in borrowings from Trust Account | (89,038) | - | (70,682) | - |
| Decrease in borrowings in Won | (1,775,064) | - | (1,409,116) | - |
| Decrease in borrowings in foreign currencies | (2,117,620) | (1,732,223) | (1,681,051) | (1,375,108) |
| Other, net | 25,066 | 2,535,806 | 19,898 | 2,013,024 |
| Net cash provided by (used in) financing activities | (3,956,656) | 803,583 | (3,140,951) | 637,916 |
| Net decrease in cash and cash equivalents | (294,181) | (1,624,764) | (233,533) | (1,289,802) |
| Cash and cash equivalents at beginning of year | 1,619,036 | 3,251,175 | 1,285,256 | 2,580,912 |
| Decrease in cash and cash equivalents due to consolidation change | - | (7,375) | - | (5,855) |
| Cash and cash equivalents at end of year | W 1,324,855 | W 1,619,036 | \$ 1,051,723 | \$ 1,285,255 |

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2000 and 1999

1. ORGANIZATION AND BUSINESS

Korea First Bank ("the Bank") was established in 1929 under the name of Chosun Savings Bank and changed its name to Korea First Bank in 1958. The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 339 local branches and 4 overseas networks as of December 31, 2000.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. The par value of the Bank's common stock outstanding at December 31, 2000 is W981 billion.

As of December 31, 2000, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the major controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the Korea Deposit Insurance Corporation ("KDIC") effective December 31, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 4. As of December 31, 2000, the KDIC and Ministry of Finance and Economy own 45.92% and 3.09%, respectively, of the Bank's common stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presenting Consolidated Financial Statements

The Bank maintains its official accounting records in Korean Won and prepares its statutory financial statements in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP") and Accounting Standards applicable to the Korean Banking Industry, which may differ from accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. Accordingly, the accompanying financial statements are not intended for use by those who are not informed about Korean GAAP and their application in practice.

For the convenience of the reader, in preparing the accompanying financial statements, certain reclassifications and changes in statement format and extent of disclosures have been made to the financial statements issued in the Korean language for domestic statutory purposes. Certain reclassification, and changes in statement format and extent of disclosures have also been made to the prior year financial statements and footnotes to conform to the current year presentation.

Certain supplementary information included in the Korean language annual and semi-annual statutory financial statements but not required for a fair presentation of the Bank's financial position or results of operations and cash flows, is not presented in the accompanying consolidated financial statements.

Cash and cash equivalents include time deposits with a maturity of 3 months or less (see Note 5).

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

Scope of Consolidation

The accompanying consolidated financial statements include the banking accounts and certain trust accounts (money trusts which are subject to a guaranteed principal repayment or a fixed rate of return) of the Bank and its controlled subsidiary. General information describing the Bank's controlled subsidiary and equity-method investees are provided below.

A summary of the Bank's controlled subsidiary as of December 31, 2000 is as follows:

| Subsidiaries | Number of invested shares | Percentage of ownership |
|-------------------------------------|---------------------------|-------------------------|
| Korea First Finance Ltd., Hong Kong | 7,000 | 100.00 |

Korea First Finance Ltd., Hong Kong ("KFF") was established on May 23, 1980. KFF is engaged in banking according to the provision of the local general banking act. KFF's common stock outstanding at December 31, 2000 is US\$7 million.

A summary of the Bank's equity-method investees as of December 31, 2000 is as follows:

| Subsidiaries | Number of invested shares | Percentage of ownership |
|-----------------------------------|---------------------------|-------------------------|
| Qingdao International Bank | Limited company | 50.00 |
| Korea First Data System Co., Ltd. | 400,000 | 100.00 |

Qingdao International Bank, in Qingdao China, is engaged in banking according to the provisions of the local general banking act. Qingdao International Bank's total common stock outstanding at December 31, 2000 is US\$20 million.

Korea First Data System Co., Ltd was established in May 1, 1990 for the purpose of offering services and developing computer software. Korea First Data System Co., Ltd.'s total common stock outstanding at December 31, 2000 is W2 billion.

The Bank transacts loans, deposits, commissions, guarantees and other transactions with its controlled subsidiary KFF and equity-method investees.

Accounting Standards for Consolidated Financial Statements

Inter-company transactions and balances

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

All significant inter-company transactions and account balances have been eliminated in consolidation.

Translation of foreign subsidiary financial statements

The financial statements and accounting records of KFF are maintained in Hong Kong dollars. In translating the financial statements of KFF, the Bank applies the appropriate rate of exchange at the balance sheet date.

Accounting for trust accounts

The Bank receives fees from the trust accounts for its management or custodian of trust assets and operations, and is entitled to receive special fees from certain trust accounts in accordance with relevant laws and regulations applicable to trust operations.

Certain money trust agreements provide that the Bank guarantees a principal amount of trusts or a minimum rate of return. In relation to such guarantees, the Bank's trust accounts are required to set up a special reserve equal to 25% of trust fees until the total reserve equals 5% of the related money trust balance. If income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special reserves or compensated by the banking accounts, in accordance with the relevant laws and regulations applicable to the trust business.

Equity-method Investees

Investments in 20% to 50% owned companies (except for consolidated companies) are recorded using the equity method of accounting. The Bank records changes in its proportionate ownership of the net book value of the investee as current operations, capital surplus and or adjustment to retained earnings, depending on the nature of the underlying change in book value of the investee.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Korean Won using the exchange rate of W1,259.70 : US\$1, the exchange rate in effect as of December 31, 2000 (W1,145.40 : US\$1 as of December 31, 1999). Resulting translation gains or losses are credited or charged to current operations.

Recognition of Interest and Fee Income

Interest income on loans and investments, including those guaranteed by the KDIC, is recognized on an accrual basis, while interest income on other overdue and dishonored loans, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis (see Note 4). Loan fees and certain direct origination costs are recognized when received or paid.

Allowance for Possible Loan Losses

The Bank calculates the allowance for possible loan losses of corporate loans based on borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"). This credit rating model includes financial and non-financial factors of borrowers.

Provisions are determined by applying the following minimum percentages to the various credit ratings:

| Credit ratings | Loan classifications | Minimum provision percentages |
|----------------|----------------------|-------------------------------|
| 1 ~ 4 | Normal | 0.5% or above |
| 5 | Precautionary | 2% or above |
| 6 | Substandard | 20% or above |
| 7 | Doubtful | 50% or above |
| 8 | Estimated loss | 100% |

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

An allowance for possible loan losses on the principal and dividends from guaranteed trusts and from Korea First Finance Ltd., Hong Kong has been established on the same basis as above.

Loans which are deemed uncollectible are fully reserved by the allowance. However, charge-offs of actual loan balances may be delayed due to certain banking regulations governing actual charge-offs of loan balances.

Present Value Discounts

In accordance with the revised financial accounting standards, if the present value of a loan is different from its book value due to a rescheduling of terms as agreed by the related parties (as in the case of court receivership, court mediation or workout), the present value of the loans is offset against the allowance for possible loan losses, if available, or charged to current expense.

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

Securities

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

Equity securities held for trading are carried at fair value at the balance sheet date. Unrealized gains and losses on trading securities are included in current operations.

Marketable equity securities of non-controlled investees held for investment are carried at fair value. Temporary changes in fair value are accounted for as a capital adjustment, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

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

Debt securities are classified as trading or investment securities. Investment debt securities are further classified as available-for-sale or held-to-maturity. The cost of debt securities includes the premium paid or discount received at the time of purchase.

Debt securities held for trading are stated at fair value with gains and losses recorded in income.

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

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

During 2000, the Bank did not record losses on the valuation of trading securities as described above for those securities that have a principal and yield guarantee by the KDIC (see Note 4).

Fixed Assets

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

Depreciation is computed using the declining-balance method over the estimated useful lives of the assets except for structures and buildings acquired after January 1, 1995, which are depreciated using the straight-line method.

Foreclosed assets are stated at cost and are not depreciated. Any deficit between the book value and the final public auction price of the foreclosed assets is reflected in other operating expenses and is accounted for as discounts.

Intangible assets are amortized using the straight-line method over an estimated useful life of 5 years.

New Stock Issuance Costs and Debenture Issuance Costs

New stock issuance costs and debenture issuance costs are deducted from capital adjustments and the amounts of debenture issuance, respectively. New stock issuance costs are amortized as an appropriation of retained earnings over 3 years. Debenture issuance costs are amortized as interest expense over the redemption period using the straight-line method.

Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements

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

Accrued Severance and Retirement Benefits

Certain executives and employees with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance and retirement benefits represent the amounts to be paid if all eligible employees were to terminate their employment as of the balance sheet date. Actual payments of severance and retirement benefits for the year ended December 31, 2000 were W112,843 million.

Special and one time severance payments of W29,881 million were paid during 2000 to early voluntary retirees and were not included in the estimated liability accrued for severance and retirement benefits. The severance payments were accounted for as current period expense.

Reserve for Acceptances and Guarantees

Pursuant to the revised financial accounting standards, acceptances and guarantees outstanding do not appear on the balance sheet, but are presented as off-balance sheet items in the notes to the financial statements. The Bank provides an allowance of 0.5% of guaranteed amounts for companies classified as "normal", 2% for "precautionary", 20% for "substandard," 50% for "doubtful" and 100% for "estimated loss." Refer to Note 4 for discussion of guarantees protected by the KDIC.

Income Tax Expense

Deferred income taxes are recognized for the tax consequences of differences between the tax and financial reporting amounts of assets and liabilities at each period-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense consists of income tax payable for the period and the change during the period in deferred tax assets and liabilities.

The Bank has tax basis net operating loss carryforwards of approximately W4,924 billion as of December 31, 2000.

Derivative Financial Instruments

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

Derivative financial instruments, regardless whether they are entered for trading or hedging purposes, are valued at fair value. Resulting unrealized valuation gains or losses are reflected in fees, commissions, and other revenues and expenses. Unrealized valuation gains on cash-flow-hedge derivatives are accounted for as adjustments of capital until gains or losses are realized. If the cash-flow-hedge derivatives are not effective, unrealized gains and losses are recorded in current operations. The underlying assets, liabilities or transactions hedged or associated with derivatives are also valued at fair value.

Prior to 2000, derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the assets, liabilities or transactions hedged or associated with such contracts. Such instruments are valued at fair value when the underlying transactions are valued at market, and resulting unrealized valuation gains or losses are recognized currently. The instruments are not marked-to-market when the underlying transactions are not required to be valued at market. The unrealized gains or losses on hedging transactions arising from different rates between derivatives and underlying transactions are amortized through the term of the underlying transactions.

Since the cumulative effect of this change in accounting principle for derivatives as of December 31, 1999 is not material, the cumulative effect was charged to current operations. All derivative financial instruments as of December 31, 2000 were entered into for trading purposes.

Unsettled Spot Foreign Exchange Positions

The Bank presented unsettled spot exchange balances as an off-balance sheet item prior to 2000. According to the revised regulations of the Financial Supervisory Service, effective from 2000, assets and liabilities associated with unsettled spot positions are accounted for as accounts receivable and accounts payable, respectively. Accordingly, ₩214,573 million of assets and ₩214,573 million of liabilities associated with unsettled spot positions were included in the 2000 balance sheet.

3. UNITED STATES DOLLAR AMOUNTS

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. All Won amounts expressed in U.S. Dollars are at the rate of ₩1,259.70 : US\$1, the basic exchange rate on December 31, 2000. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

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

4. GOVERNMENT ASSISTANCE

On December 30, 1999, Newbridge entered into an agreement with the Korean government whereby Newbridge acquired 50.99% of the outstanding common stock of the Bank from the Korea Deposit Insurance Corporation ("KDIC") effective December 31, 1999 ("Closing").

In connection with this transaction, the KDIC entered into an Assistance Agreement with the Bank to provide certain protections to the Bank with respect to credit losses for specified periods of time. These protections apply to certain loans and similar credit instruments remaining on the Bank's consolidated balance sheet after Closing ("Remaining Loans"). Remaining Loans include any loans in guaranteed trust accounts and certain designated loans in mixed trust accounts but do not include any loans in performance trust accounts.

Depending on the type and circumstances of the particular Remaining Loan, these protections may take the form of: (i) the Bank's right to transfer the Remaining Loan to the Resolution Finance Corporation ("RFC"), the entity designated by the KDIC, and obtain payment from the KDIC equal to the adjusted book value, or (ii) the Bank's right to obtain payment from the KDIC for certain specific allowances which the Bank determines to take against the Remaining Loan. Certain guarantees and commitments of the Bank are also subject to credit protection.

The periods of credit protection provided by the KDIC vary depending on the type of asset involved. The protection periods are generally (i) three years for Remaining Loans that were or had been subject to certain workout procedures under the

"Agreement among Financial Institutions for the Promotion of Corporate Restructuring" dated June 25, 1998 as of Closing, (ii) three years for Remaining Loans to certain financial institutions, and (iii) two years for other Remaining Loans. The protection period for commitments range from one to three years, depending on the type of commitment involved. Certain actions will cause loans to lose their protection and loans originated after December 31, 1999 have no protection. Loans with an outstanding principal balance totaling W10,375 billion and commitments and guarantees amounting to W601 billion have no protection as of December 31, 2000, respectively.

The types of protection available depends on whether the Remaining Loan is (i) one of certain specified Remaining Loans to the Daewoo group chaebol, (ii) one of specified Remaining Loans to borrowers subject to workout procedures and classified as substandard or below as of Closing, or one of specified Remaining Loans that as of Closing were or had been the subject of certain private restructuring arrangements, or (iii) any other Remaining Loan.

In addition, the KDIC guarantees the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio as of December 31, 1999, until each such security matures, is sold, or is otherwise liquidated by the Bank. In general, the guaranteed rate is the annualized weighted average interest rate applied by the Bank to its deposits and other interest bearing liabilities shown on the Bank's consolidated balance sheet, plus 106 basis points.

As of December 31, 2000, fixed income securities, primarily government bonds, with an outstanding principal balance totaling W603 billion have no principal or yield guarantee.

Except to the extent that it is permitted to pay in cash, the KDIC has and will in the future pay for its obligations by issuing one or more notes that have an initial maturity of three years and a declining interest rate based on a spread over specified liabilities of the Bank.

The receivable from KDIC at December 31, 2000 is comprised of the following:

| | Millions of Won |
|------------------------------|------------------|
| Settlement of reserves | W 375,280 |
| Settlement of asset transfer | 25,585 |
| Other settlements | 31,207 |
| | W 432,072 |

The KDIC exercised its call option for substandard loans and below for protected loans on September 14, 2000. As a result of this transaction, the Bank received W1,759 billion for loans in Won currency, US\$1,012 million for loans in foreign currency and W102.4 billion for the guaranteed yield payment on Chaebol loans.

5. CASH AND DUE FROM BANKS

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

| | 2000 | 1999 |
|--------------------------------------|--------------------|--------------------|
| | Millions of Won | |
| Cash on hand | W 1,211,400 | W 1,263,925 |
| Foreign currencies | 28,086 | 23,970 |
| Due from banks in Korean Won | 419,904 | 808,203 |
| Due from banks in foreign currencies | 115,781 | 205,939 |
| | W 1,775,171 | W 2,302,037 |

Due from banks denominated in Korean Won at December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------------------|-------------------|------------------------------|------------------|
| December 31, 2000 | | | |
| Checking accounts | - | Bank of Korea | W 173,927 |
| Employee's Retirement deposit | 7.50 | Samsung Life Insurance, etc. | 163,350 |
| Other deposits | 0.00 ~ 8.10 | Hanvit Bank, etc. | 82,627 |
| | | | W 419,904 |
| December 31, 1999 | | | |
| Checking accounts | - | Bank of Korea | W 369,641 |
| Employee's Retirement deposit | 7.50 | Samsung Life Insurance, etc. | 237,600 |
| Other deposits | 4.96 ~ 6.46 | Korea Stock Exchange, etc. | 200,962 |
| | | | W 808,203 |

Checking accounts deposited with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits. At December 31, 2000 and 1999, W163,350 and W237,600 million, respectively, were included in due from banks and represents group severance deposits made under a group severance insurance plan. The withdrawal of these deposits is restricted to the actual payment of severance and retirement benefits (see Note 15).

Due from banks denominated in foreign currencies at December 31, 2000 and 1999 are as follows (millions of Won):

| Type | Interest rate (%) | Depository | Total |
|-------------------|-------------------|----------------------------|------------------|
| December 31, 2000 | | | |
| Demand deposits | - | Bank of Korea and others | W 54,446 |
| Time deposits | 7.01 ~ 7.44 | Qingdao International Bank | 51,836 |
| Other deposits | 0.00 ~ 6.45 | HSBC Future and others | 9,499 |
| | | | W 115,781 |
| December 31, 1999 | | | |
| Demand deposits | - | Bank of Korea and others | W 33,941 |
| Time deposits | 5.90 ~ 7.90 | Citibank Seoul, etc. | 168,113 |
| Other deposits | 4.00 ~ 5.30 | Bank of Korea and others | 3,885 |
| | | | W 205,939 |

Demand deposits amounting to W10,728 million at December 31, 2000 and W10,450 million at December 31, 1999 with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits.

The term structure of amounts of due from banks at December 31, 2000 is as follows (millions of Won):

| Year ending December 31, | Due from banks in Korean Won | Due from banks in foreign currency | Total |
|--------------------------|------------------------------|------------------------------------|------------------|
| 2001 | W 180,582 | W 115,781 | W 296,363 |
| 2002 | 46,272 | - | 46,272 |
| After 2003 | 193,050 | - | 193,050 |
| | W 419,904 | W 115,781 | W 535,685 |

Major transactions among items not resulting in cash flows for the years ended December 31, 2000 and 1999 are as follows (millions of Won):

| | 2000 | 1999 |
|---|-----------|-----------|
| Loss reserve - KDIC Receivable | W 366,131 | W - |
| Present value discount - KDIC Receivable | 9,149 | - |
| Gain on capital reduction | - | 3,349,426 |
| Transfer to accumulated deficit for gain on capital reduction | - | 3,349,426 |
| Adjustment to accumulated deficit for losses on investments using the equity method | - | 265,910 |
| Adjustment to accumulated deficit for restructuring of credits | - | 318,649 |
| Adjustment to accumulated deficit of reserve for acceptances and guarantees | - | 76,458 |
| Transfer to tangible assets from construction in progress | - | 3,175 |

Cash and cash equivalents at December 31, 2000 and 1999 are comprised as follows (millions of Won):

| | 2000 | 1999 |
|---|-------------|-------------|
| Cash on hand | W 1,211,400 | W 1,263,925 |
| Foreign currencies | 28,086 | 23,970 |
| Bonds purchased under resale agreements | - | 97,200 |
| Due from banks in Won | 2,929 | 200,000 |
| Due from banks in foreign currency | 82,440 | 33,941 |
| | W 1,324,855 | W 1,619,036 |

6. TRADING SECURITIES

There are no trading securities at December 31, 2000 and trading securities at December 31, 1999 are comprised of the following (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Adjustment | Market value (*) |
|--------------------------|-------------------|------------|------------------|------------|------------------|
| Government bonds | 6.47 ~ 10.05 | W 167,901 | W 178,691 | W 174,651 | W 169,374 |
| Financial debentures | 6.20 ~ 9.01 | 60,000 | 58,133 | 58,213 | 57,305 |
| Corporate debentures | 7.52 | 45,000 | 45,224 | 45,137 | 42,117 |
| Beneficiary certificates | - | 488,523 | 488,523 | 488,523 | 502,875 |
| | | W 761,424 | W 770,571 | W 766,524 | W 771,671 |

(*) Market value does not include accrued interest related to bonds.

Trading securities are stated at market value. W14,355 million and W9,208 million of unrealized gains and losses, respectively, are recorded in the accompanying statement of operations for year ended December 31, 1999.

For the Daewoo related beneficiary certificates, a valuation loss of W32,350 million was not reflected due to the existence of the Assistance Agreement with the KDIC.

7. INVESTMENT SECURITIES

Investment securities at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|---|-------------|-------------|
| Equity securities held for investment | | |
| Korean Won | | |
| Affiliated companies | W 4,264 | W 27,490 |
| Listed companies | 36,574 | - |
| Unlisted companies | 62,830 | 5,840 |
| | 103,668 | 33,330 |
| Foreign currency - affiliated companies | 10,184 | 9,163 |
| | 113,852 | 42,493 |
| Debt securities held for investment | | |
| Bonds available-for-sale | | |
| Korean Won | 650,031 | 1,027,187 |
| Foreign currencies | 58,238 | 75,722 |
| | 708,269 | 1,102,909 |
| Bonds held-to-maturity | | |
| Korean Won | 6,213,342 | 6,264,504 |
| Foreign currencies | 80,532 | 95,286 |
| | 6,293,874 | 6,359,790 |
| | W 7,115,995 | W 7,505,192 |

Equity Securities Held for Investment

Equity investments in affiliated companies denominated in Korean Won as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership percentage | Acquisition cost | Net asset value | Book value |
|-------------------------|------------------|----------------------|------------------|-----------------|------------|
| December 31, 2000 | | | | | |
| Korea First Data System | 400,000 | 100.0 | W 2,000 | W 4,264 | W 4,264 |
| | | | W 2,000 | W 4,264 | W 4,264 |
| December 31, 1999 | | | | | |
| Korea First Data System | 400,000 | 100.0 | W 2,000 | W 4,271 | W 4,271 |
| First Citicorp Leasing | 2,750,000 | 49.11 | 11,775 | 23,219 | 23,219 |
| | | | W 13,775 | W 27,490 | W 27,490 |

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. W168 million of unrealized gains are included in current operations, and a W15 million decrease in retained earnings of affiliated companies is debited to the opening balance of accumulated deficit. The Bank received W160 million of dividends.

The Bank sold its investment in First Citicorp Leasing for W27,600 million on October 26, 2000 and recorded a gain of W1,749 million and accrued equity income of W4,608 million, which is included in other income.

Equity securities of listed companies denominated in Korean Won as of December 31, 2000 are summarized as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|---------------------------------|------------------|---------------|-----------------|
| Korea Development Leasing Corp. | 2,491,010 | 9.76 | W 12,502 |
| Keangnam Enterprises Co., Ltd. | 169,400 | 0.61 | 847 |
| Ssang Yong Motor | 1,000,000 | 2.63 | 5,000 |
| Anam Semiconductor Corp. | 136,250 | 0.12 | 1,090 |
| Maxon Telecom Co. | 1,382,800 | 3.15 | 6,914 |
| Hanmi Capital | 631,400 | 1.71 | 3,157 |
| Shin Won Co. | 296,400 | 0.24 | 1,482 |
| ETRONICS | 407,140 | 0.63 | 2,850 |
| Sepoong Corp. | 36,600 | 0.21 | 183 |
| Chohung Capital | 509,800 | 1.73 | 2,549 |
| | 7,060,800 | | W 36,574 |

All listed and unlisted investment securities, except BC Card and Korea Securities Finance Corporation, totalling W86,064 million are comprised of loans converted to equity in connection with a workout or private restructuring. These securities are scheduled to be transferred to the KDIC and are stated at their loan book value prior to conversion (see Note 17).

Unlisted equity securities denominated in Korean Won as of December 31, 2000 and 1999 are as follows (millions of Won):

| Company | Number of shares | Ownership (%) | Book value |
|--|------------------|---------------|-----------------|
| December 31, 2000 | | | |
| Daewoo Heavy Industries & Machinery (*) | 4,525,386 | 2.72 | W 31,032 |
| Daewoo Shipbuilding & Marine Engineering (*) | 1,713,804 | 0.86 | 18,458 |
| Korea Securities Finance Corporation | 1,500,000 | 2.21 | 7,500 |
| BC Card | 653,400 | 14.85 | 5,840 |
| | 8,392,590 | | W 62,830 |
| December 31, 1999 | | | |
| BC Card | 653,400 | 14.85 | 5,840 |
| | 653,400 | | W 5,840 |

(*) Loans converted to equity in connection with a workout or private restructuring.

Equity securities denominated in foreign currencies at December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Company | Ownership (%) | Acquisition cost | Equity method | Net asset value | Book value |
|----------------------------|---------------|------------------|-----------------|-----------------|-----------------|
| December 31, 2000 | | | | | |
| Qingdao International Bank | 50.0 | W 12,597 | W 10,184 | W 10,184 | W 10,184 |
| | | W 12,597 | W 10,184 | W 10,184 | W 10,184 |
| December 31, 1999 | | | | | |
| Qingdao International Bank | 50.0 | W 11,454 | W 9,163 | W 9,163 | W 9,163 |
| | | W 11,454 | W 9,163 | W 9,163 | W 9,163 |

Equity securities in foreign currency are valued by the equity method. W107 million of unrealized gains and W3,830 million of unrealized losses are included in current operations as of December 31, 2000 and 1999, respectively.

Bonds available-for-sale denominated in Korean Won as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Amortized cost | Carrying value (*) |
|--------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| December 31, 2000 | | | | | |
| Government bonds | 5.00 ~ 12.49 | W 428,371 | W 417,868 | W 420,443 | W 443,859 |
| Beneficiary certificates | - | 58,131 | 58,131 | 58,131 | 58,131 |
| Financial debentures | 6.39 ~ 7.45 | 135,000 | 131,763 | 131,470 | 133,609 |
| Corporate debentures | 1.00 ~ 8.35 | 16,976 | 14,432 | 14,432 | 14,432 |
| | | W 638,478 | W 622,194 | W 624,476 | W 650,031 |
| December 31, 1999 | | | | | |
| Government bonds | 7.10 ~ 11.51 | W 537,735 | W 531,860 | W 535,138 | W 529,479 |
| Financial debentures | 7.01 ~ 9.86 | 189,000 | 179,900 | 179,563 | 176,182 |
| Corporate debentures | 11.00 ~ 13.76 | 309,748 | 310,676 | 310,389 | 316,526 |
| Others | 1.00 | 5,000 | 5,000 | 5,000 | 5,000 |
| | | W1,041,483 | W1,027,436 | W1,030,090 | W1,027,187 |

(*) The above carrying values are estimated using the base yield of bonds announced by the Korea Securities Dealers Association at December 31, 2000 and 1999.

Bonds available-for-sale are stated at their market value. As of December 31, 2000 and 1999, W15,318 million and W2,903 million, respectively, of unrealized gains are included in the capital adjustments account. Beneficiary certificates were reclassified from trading securities to investment securities from July 1, 2000.

Bonds available-for-sale denominated in foreign currencies at December 31, 2000 and 1999 are as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|-----------------|------------------|-----------------|
| December 31, 2000 | | | | |
| USD | 7.02 | W 51,449 | W 51,168 | W 50,107 |
| MYR | - | 7,991 | 4,201 | 4,224 |
| JPY | 1.40 | 3,574 | 3,574 | 3,580 |
| IDR | 18.00 | 324 | 324 | 327 |
| | | W 63,338 | W 59,267 | W 58,238 |
| December 31, 1999 | | | | |
| USD | 7.25 | W 62,074 | W 61,869 | W 61,953 |
| MYR | - | 7,258 | 3,815 | 3,841 |
| JPY | 1.97 | 9,239 | 9,239 | 9,255 |
| IDR | 14.99 | 668 | 669 | 673 |
| | | W 79,239 | W 75,592 | W 75,722 |

Bonds available-for-sale in foreign currencies are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are guaranteed by the KDIC.

Bonds held-to-maturity denominated in Korean Won as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Account | Interest rate (%) | Face value | Acquisition cost | Carrying value | Market value |
|--------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| December 31, 2000 | | | | | |
| KDIC bonds (*) | 1.00 ~ 7.19 | W 5,947,076 | W 5,947,076 | W 5,947,076 | W 5,947,076 |
| Corporate debentures (*) | 1.00 ~ 11.00 | 167,561 | 167,503 | 167,503 | 167,503 |
| Financial debentures (*) | 8.74 ~ 11.00 | 90,004 | 90,004 | 90,004 | 90,004 |
| Government bonds | 3.00 ~ 11.95 | 8,670 | 8,494 | 8,75 | 9,548 |
| | | W 6,213,311 | W 6,213,077 | W 6,213,342 | W 6,214,131 |
| December 31, 1999 | | | | | |
| Corporate debentures (*) | 9.33 ~ 11.00 | W 6,082,222 | W 6,079,140 | W 6,079,199 | W 6,079,986 |
| Financial debentures (*) | 1.00 ~ 6.37 | 180,004 | 176,194 | 176,194 | 176,139 |
| Government bonds | 3.00 ~ 11.95 | 9,553 | 8,851 | 9,111 | 9,194 |
| | | W 6,271,779 | W 6,264,185 | W 6,264,504 | W 6,265,319 |

(*) W20 billion of financial debentures, W110 billion of corporate debentures and KDIC bonds of W5,947 billion are guaranteed by the government as of December 31, 2000. W80 billion of financial debentures, W110 billion of corporate debentures and KDIC bonds of W5,856 billion are guaranteed by the government as of December 31, 1999.

Bonds intended to be held to maturity are initially stated at their acquisition cost. If the market value of such bonds deteriorates significantly and is not expected to recover, they are reduced to their market value and then reclassified to bonds available-for-sale.

Bonds held-to-maturity denominated in foreign currencies as of December 31, 2000 and 1999 are summarized as follows (millions of Won):

| Currency | Interest rate (%) | Face value | Acquisition cost | Carrying value |
|-------------------|-------------------|-----------------|------------------|-----------------|
| December 31, 2000 | | | | |
| USD | 8.36 | W 76,193 | W 74,393 | W 75,018 |
| JPY | 0.55 | 5,498 | 5,503 | 5,514 |
| | | W 81,691 | W 79,896 | W 80,532 |
| December 31, 1999 | | | | |
| USD | 7.09 | W 88,090 | W 85,342 | W 86,869 |
| CHF | 2.69 | 8,795 | 8,420 | 8,417 |
| | | W 96,885 | W 93,762 | W 95,286 |

Investment Securities Concentrations

At December 31, 2000, information about investment securities by geography, issuer and industry are summarized as follows (millions of Won):

| By Geography | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|-------------------|--------------------------|--------------------------------|--------------------|-----------------|
| December 31, 2000 | | | | |
| Korea | W 6,967,041 | W 97,577 | W 7,064,618 | 99.28 % |
| China | - | 10,184 | 10,184 | 0.14 |
| Indonesia | - | 6,465 | 6,465 | 0.09 |
| Japan | - | 5,513 | 5,513 | 0.08 |
| Malaysia | - | 11,772 | 11,772 | 0.17 |
| Thailand | - | 17,443 | 17,443 | 0.24 |
| | W 6,967,041 | W 148,954 | W 7,115,995 | 100.00 % |

| By Issuer | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|--------------------|--------------------------|--------------------------------|--------------------|-----------------|
| December 31, 2000 | | | | |
| Public | W 6,695,525 | W 19,528 | W 6,715,053 | 94.37 % |
| Financial business | 173,843 | 16,865 | 190,708 | 2.67 |
| Large corporate | 96,412 | 84,733 | 181,145 | 2.55 |
| Others | 1,261 | 27,828 | 29,089 | 0.41 |
| | W 6,967,041 | W 148,954 | W 7,115,995 | 100.00 % |

| By Industry | Securities in Korean Won | Securities in foreign currency | Total | Percentage |
|----------------------|--------------------------|--------------------------------|--------------------|-----------------|
| December 31, 2000 | | | | |
| Public | W6,695,525 | W 19,528 | W 6,715,053 | 94.37 % |
| Financial business | 173,842 | 16,865 | 190,707 | 2.68 |
| Manufacturing | 19,712 | 80,848 | 100,560 | 1.41 |
| Wholesale and retail | - | 7,555 | 7,555 | 0.11 |
| Construction | - | 4,224 | 4,224 | 0.06 |
| Others | 77,962 | 19,934 | 97,896 | 1.37 |
| | W 6,967,041 | W 148,954 | W 7,115,995 | 100.00 % |

Maturity Schedule

The maturities of investment securities, except equity securities, at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Government bonds | Financial debentures | Corporate debentures (*) | Beneficiary certificates | Securities in foreign currencies | Total |
|-----------------------------|---------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------------|--------------------|
| 2001 | W 181,223 | W 133,613 | W 10,000 | W 58,131 | W 15,969 | W 398,936 |
| 2002 | 92,732 | 40,000 | 5,866,000 | - | 54,110 | 6,052,842 |
| 2003 | 5,859 | 20,000 | 111,483 | - | - | 137,342 |
| 2004 | 143,360 | 30,000 | 127,097 | - | 6,120 | 306,577 |
| 2005 | 12,018 | - | - | - | - | 12,018 |
| Thereafter | 17,426 | - | 14,431 | - | 62,571 | 94,428 |
| | W 452,618 | W 223,613 | W 6,129,011 | W 58,131 | W 138,770 | W 7,002,143 |

(*) Corporate debentures includes KDIC bonds.

8. LOANS

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

| Account | 2000 | | 1999 | |
|---|--------------------------|--------------------|--------------------------|--------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Loans in Korean Won | | | | |
| Corporate loans | 6.74 ~ 11.80 | W 3,786,547 | 5.67 ~ 11.45 | W 4,051,956 |
| Household loans | 3.89 ~ 17.36 | 5,032,610 | 4.33 ~ 13.77 | 1,729,772 |
| Loans to public sector | 7.44 ~ 9.65 | 234,002 | 10.23 ~ 13.41 | 765,154 |
| Trust loans | 8.04 | 420,660 | - | 1,582,132 |
| Other loans | 9.55 | 239,727 | - | - |
| Notes bought | 8.95 ~ 12.42 | 1,018,332 | 7.65 ~ 18.38 | 1,351,785 |
| Advances to customers | 7.19 | 87,736 | - | 202,189 |
| Credit card accounts | - | 530,794 | - | 403,966 |
| Private placement corporate bonds-bank | 0.52 | 306,422 | 0.30 | 131,412 |
| Private placement corporate bonds-trust | 0.52 | 49,765 | - | 187,578 |
| Call loans | 0.00 ~ 4.52 | 413,443 | - | 352,965 |
| Bonds purchased under resale agreements | | - | 5.12 | 97,200 |
| | | 12,120,038 | | 10,856,109 |
| Loans in foreign currencies | | | | |
| Loans | 5.83 ~ 8.54 | 1,163,091 | 6.17 | 1,867,240 |
| Call loans | 6.17 | 413,521 | 4.81 | 57,270 |
| Off-shore loans | 7.74 | 266,827 | 4.49 | 277,235 |
| Bills bought | 8.43 | 939,356 | 10.29 | 1,887,083 |
| Notes bought | 6.01 ~ 8.60 | 16,241 | 9.86 | 11,221 |
| | | 2,799,036 | | 4,100,049 |
| Total loans | | W14,919,074 | | W14,956,158 |

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection from the KDIC on 96.5% of the principal balances of loans outstanding as of December 31, 1999. An addition to the allowance for loan losses of W403,070 million for protected loans from January 1, 2000 through December 31, 2000 are offset by a corresponding increase in receivable from the KDIC to reflect the KDIC protection. The Bank has established additional allowances for new loans and advances on existing loans not meeting protection criteria.

Changes in the allowance for loan losses at December 31, 2000 are as follows (millions of Won):

| | Amount |
|--|------------------|
| Beginning balance | W 491,901 |
| Increase in Government protection for loans | 403,070 |
| Provision for loan losses on unprotected loans | 50,793 |
| Put and call to KDIC | (108,832) |
| Other changes | (30,279) |
| | W 806,653 |

The ratio of the allowance for loan losses to total loans as of December 31, 2000 is 5.50%.

The Bank has W210,881 million of loans discounted to present value (amounting to W21,323 million) due to debt restructuring as of December 31, 2000.

At December 31, 2000, loans (excluding call loans, credit card accounts, trust loans and private placement corporate bonds - trust) by geography, borrower type and industry are summarized as follows (millions of Won):

| By Geography | Amount | Percentage |
|---------------|---------------------|-----------------|
| Korea | W 12,730,846 | 97.25 % |
| Japan | 172,624 | 1.32 |
| United States | 15,857 | 0.12 |
| Other | 171,564 | 1.31 |
| | W 13,090,891 | 100.00 % |

| By Borrower Type | Amount | Percentage |
|------------------|---------------------|-----------------|
| Corporate | W 7,610,955 | 58.14 % |
| Household | 5,033,802 | 38.45 |
| Public and Other | 446,134 | 3.41 |
| | W 13,090,891 | 100.00 % |

| By Industry | Amount | Percentage |
|-----------------------------|---------------------|-----------------|
| Manufacturing | W 4,107,978 | 31.38 % |
| Household | 5,040,619 | 38.50 |
| Wholesale and retail trade | 1,261,832 | 9.64 |
| Financial business | 854,197 | 6.53 |
| Construction | 398,252 | 3.04 |
| Transport and communication | 378,046 | 2.89 |
| Other | 1,049,967 | 8.02 |
| | W 13,090,891 | 100.00 % |

The maturities of loans in Korean Won and foreign currencies (excluding trust loans and private placement corporate bonds - trust) at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Loans in Korean Won | Loans in foreign currencies | Total |
|--------------------------|---------------------|-----------------------------|---------------------|
| 2001 | W 5,390,484 | W 1,829,943 | W 7,220,427 |
| 2002~2003 | 5,042,527 | 50,336 | 5,092,863 |
| 2004~2005 | 904,267 | 77,539 | 981,806 |
| Thereafter | 312,335 | 841,218 | 1,153,553 |
| | W 11,649,613 | W 2,799,036 | W 14,448,649 |

The classification and allowance for loan losses outstanding at December 31, 2000 (excluding trust loans and private placement corporate bonds - trust) are as follows (millions of Won):

| | | Precautionary | Substandard | Doubtful | Estimated loss | Total (*) | Allowance | Allowance percentage |
|-----------------------------|---------------------|------------------|------------------|------------------|----------------|---------------------|------------------|----------------------|
| Loans in Won | W 9,076,945 | W 294,640 | W 57,415 | W 568,093 | W 3,198 | W 10,000,291 | W 394,848 | 3.95% |
| Loans in foreign currencies | 1,405,703 | 267,920 | 132,938 | 31,861 | - | 1,838,422 | 91,188 | 4.96 |
| Notes bought | 1,027,708 | 6,272 | 184 | 217 | 193 | 1,034,574 | 47,272 | 4.57 |
| Bills bought | 725,631 | 14,333 | 12,546 | 186,846 | - | 939,356 | 223,509 | 23.79 |
| Advances for customers | 51,131 | 5,985 | 4,382 | 24,344 | 1,101 | 86,943 | 13,185 | 15.17 |
| Credit card | 469,208 | 42,475 | 11,139 | 6,500 | 1,472 | 530,794 | 23,083 | 4.35 |
| Total | W 12,756,326 | W 631,625 | W 218,604 | W 817,861 | W 5,964 | W 14,430,380 | W 793,085 | 5.50% |

(*) Net of present value discounts amounting to W18,269 million (excluding present value discounts in trust account amounting to W1,247 million).

9. FIXED ASSETS

Premises and equipment at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | Acquisition cost | Accumulated depreciation | Net book value |
|--------------------------|--------------------|--------------------------|--------------------|
| December 31, 2000 | | | |
| Premises and equipment | | | |
| Land | W 796,589 | W - | W 796,589 |
| Buildings and structures | 342,946 | 78,281 | 264,665 |
| Movable property | 153,974 | 113,085 | 40,889 |
| | <u>1,293,509</u> | <u>191,366</u> | <u>1,102,143</u> |
| Intangible assets | 1,759 | - | 1,759 |
| | <u>W 1,295,268</u> | <u>W 191,366</u> | <u>W 1,103,902</u> |
| December 31, 1999 | | | |
| Premises and equipment | | | |
| Land | W 796,606 | W - | W 796,606 |
| Buildings and structures | 336,109 | 62,535 | 273,574 |
| Movable property | 172,379 | 135,635 | 36,744 |
| | <u>1,305,094</u> | <u>198,170</u> | <u>1,106,924</u> |
| Intangible assets | 1,360 | - | 1,360 |
| | <u>W 1,306,454</u> | <u>W 198,170</u> | <u>W 1,108,284</u> |

The Bank's premises and equipment, except for land and construction in progress, are covered by insurance policies against fire and other casualty losses. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 2000 and 1999, the government-posted prices of the Bank's land used for tax assessment purposes are W597,628 million and W639,496 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

10. OTHER ASSETS

Other assets at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|--|------------------|------------------|
| Other accounts receivable | W 341,700 | W 112,338 |
| Guarantee money | 300,667 | 303,284 |
| Unsettled exchange | 61,496 | 136,188 |
| Accrued revenues receivables | 154,423 | 207,133 |
| Prepaid expenses | 35,500 | 6,555 |
| Trade bills paid off | 7,853 | 34,722 |
| Present value discount of other assets | (136) | (308) |
| Credit loss reserves of other assets | (686) | (3,932) |
| Deposit money to court (*) | 3,737 | 4,427 |
| Other | 79,632 | 14,800 |
| | W 984,186 | W 815,207 |

(*) The deposit money to court includes W3,691 million of securities held in escrow.

11. DEPOSITS

Deposits at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | Banks | Other financial institutions | Others | Total |
|--------------------------------|------------------|------------------------------|---------------------|---------------------|
| December 31, 2000 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 1,435 | W 328,710 | W 2,179,846 | W 2,509,991 |
| Money trust | - | - | 441,378 | 441,378 |
| Time & saving deposits | 96,848 | 2,146,061 | 10,731,004 | 12,973,913 |
| | 98,283 | 2,474,771 | 13,352,228 | 15,925,282 |
| Deposits in foreign currencies | 307 | 66,890 | 553,029 | 620,226 |
| Certificates of deposit | 783,107 | 3,712 | 59,466 | 846,285 |
| | W 881,697 | W 2,545,373 | W 13,964,723 | W 17,391,793 |
| December 31, 1999 | | | | |
| Deposits in Korean Won | | | | |
| Demand deposits | W 7,712 | W 299,991 | W 2,083,083 | W 2,390,786 |
| Money trust | - | - | 2,502,422 | 2,502,422 |
| Time & saving deposits | 200,171 | 2,312,429 | 9,645,665 | 12,158,265 |
| | 207,883 | 2,612,420 | 14,231,170 | 17,051,473 |
| Deposits in foreign currencies | - | 273,354 | 779,935 | 1,053,289 |
| Certificates of deposit | 1,426 | 25,639 | 85,335 | 112,400 |
| | W 209,309 | W 2,911,413 | W 15,096,440 | W 18,217,162 |

The maturities of deposits (excluding money trust deposits) at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Deposits in Korean Won | Deposits in foreign currencies | Certificates of deposit | Total |
|-----------------------------|---------------------------|-----------------------------------|----------------------------|---------------------|
| 2001 | W 12,532,802 | W 620,196 | W 840,055 | W 13,993,053 |
| 2002 | 2,451,786 | 2 | 6,230 | 2,458,018 |
| 2003 | 295,280 | - | - | 295,280 |
| 2004 | 128,458 | 2 | - | 128,460 |
| 2005 | 51,370 | 26 | - | 51,396 |
| Thereafter | 24,208 | - | - | 24,208 |
| | W 15,483,904 | W 620,226 | W 846,285 | W 16,950,415 |

12. BORROWINGS

Borrowings at December 31, 2000 and 1999 are comprised of the following:

| | 2000 | | 1999 | |
|--|-----------------------------|--------------------|-----------------------------|--------------------|
| | Annual interest rate (%) | Millions of Won | Annual interest rate (%) | Millions of Won |
| Borrowings in Korean won | | | | |
| Aggregate limit borrowings | 3.00 | W 204,149 | 3.00 | W 247,892 |
| Other | 3.00 ~ 9.20 | 621,468 | 3.00 ~ 8.77 | 1,703,989 |
| | | 825,617 | | 1,951,881 |
| Borrowings in foreign currencies | | | | |
| Bank of Korea | 6.21 ~ 7.93 | 363,087 | 6-Libor | 2,526,277 |
| Other borrowings | 0.50 ~ 8.34 | 615,646 | 6.56 ~ 7.94 | 415,508 |
| Off-shore borrowings | 6.94 ~ 7.65 | 183,916 | 6.50 ~ 8.125 | 198,170 |
| | | 1,162,649 | | 3,139,955 |
| Bonds sold under repurchase agreements | 6.21 ~ 8.22 | 2,183,411 | 6.50 ~ 11.49 | 101,698 |
| Bills sold | 6.78 | 621,005 | 6.91 | 65,382 |
| Call money | 4.10 ~ 7.65 | 181,390 | 4.30 ~ 6.80 | 970,504 |
| | | W 4,974,072 | | W 6,229,420 |

The maturities of borrowings at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Borrowings in Korean Won | Borrowings in foreign currencies | Bonds sold under repurchase agreements | Bills sold | Total |
|-----------------------------|-----------------------------|-------------------------------------|---|------------------|--------------------|
| 2001 | W 374,330 | W 1,188,439 | W 2,183,411 | W 621,005 | W 4,367,185 |
| 2002 | 108,652 | - | - | - | 108,652 |
| 2003 | 52,582 | - | - | - | 52,582 |
| 2004 | 65,546 | - | - | - | 65,546 |
| 2005 | 62,548 | - | - | - | 62,548 |
| Thereafter | 317,559 | - | - | - | 317,559 |
| | W 981,217 | W 1,188,439 | W 2,183,411 | W 621,005 | W 4,974,072 |

The subordinated borrowings included in Korean Won borrowings as of December 31, 2000 are comprised of the following:

| Lender | Annual interest rate (%) | Millions of Won |
|------------------------|--------------------------|------------------|
| Daehan Life Insurance | 8.50 ~ 8.54 | W 98,500 |
| Samsung Life Insurance | 8.50 ~ 8.55 | 94,400 |
| Kyobo Life Insurance | 8.50 ~ 8.54 | 87,100 |
| Dongah Life Insurance | 8.50 | 20,000 |
| | | W 300,000 |

13. DEBENTURES

Debentures at December 31, 2000 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|-----------------------|------------|------------------|--------------------------|------------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W 142,000 | Public rate+2 | 3-31-2003 |
| Bonds with Warrants | 1-31-2000 | 91,076 | - | 12-31-2006 |
| Discount on debenture | | (6) | | |
| | | <u>233,070</u> | | |
| Foreign currency | | | | |
| Subordinated FRN(*) | 6-26-1996 | 251,940 | 6-Libor + 0.85 | 6-26-2006 |
| | | <u>W 485,010</u> | | |

Debentures at December 31, 1999 are comprised of the following:

| | Issue date | Millions of Won | Annual interest rate (%) | Due date |
|-----------------------|------------|------------------|--------------------------|-----------|
| Korean Won | | | | |
| Subordinated | 12-24-1997 | W 142,000 | Public rate+2 | 3-31-2003 |
| Discount on debenture | | (9) | | |
| | | <u>141,991</u> | | |
| Foreign currency | | | | |
| Subordinated FRN(*) | 6-26-1996 | 229,080 | 6-Libor + 0.85 | 6-26-2006 |
| Euro-MTN | 3-29-1995 | 22,437 | 6-Libor + 0.29 | 6-30-2000 |
| Euro-MTN | 6-15-1995 | 20,617 | 6-Libor + 0.35 | 6-15-2000 |
| Euro-MTN | 6-28-1995 | 45,816 | 3-Libor + 0.30 | 6-28-2000 |
| | | <u>317,950</u> | | |
| | | W 459,941 | | |

(*) The Bank has the right to redeem the note (call option) at the end of year 5 and annually thereafter.

The maturities of debentures at December 31, 2000 are as follows (millions of Won):

| Year ending December 31, | Debentures issued in Korean Won | Debentures issued in foreign currencies | Total |
|-----------------------------|------------------------------------|--|------------------|
| 2001 | W - | W - | W - |
| 2002 | - | - | - |
| 2003 | 141,994 | - | 141,994 |
| 2004 | - | - | - |
| 2005 | - | - | - |
| Thereafter | 91,076 | 251,940 | 343,016 |
| | <u>W 233,070</u> | <u>W 251,940</u> | <u>W 485,010</u> |

14. CONFIRMED ACCEPTANCES AND GUARANTEES

Acceptances and guarantees outstanding at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|--|--------------------|--------------------|
| Acceptances and guarantees in Won currency | | |
| Corporate debentures | W 7,560 | W 130,030 |
| Other | 157,273 | 120,782 |
| | 164,833 | 250,812 |
| Acceptances and guarantees in foreign currencies | | |
| Acceptances | 642,885 | 438,432 |
| Stand-by letters of credit | 81,689 | 97,027 |
| Letters of guarantee | 22,017 | 24,054 |
| Other | 132,288 | 244,804 |
| | 878,879 | 804,317 |
| | W 1,043,712 | W 1,055,129 |

According to the contract between the KDIC and Newbridge, all rights and responsibilities for guarantees and acceptances outstanding as of December 31, 1999 were assumed by the KDIC as of December 31, 1999. The Bank is only entitled to receive certain management fees. Therefore, the Bank did not provide any reserves on acceptances and guarantees assumed by the KDIC amounting to W442,640 million as of December 31, 2000.

The classification and allowance for acceptances and guarantees outstanding at December 31, 2000 are as follows (millions of Won):

| | Amount |
|----------------|-------------------|
| Normal | W 720,538 |
| Precautionary | 70,216 |
| Substandard | 98,281 |
| Doubtful | 142,068 |
| Estimated loss | 12,609 |
| | 1,043,712 |
| Allowance | (6,507) |
| | W1,037,205 |

At December 31, 2000, acceptances and guarantees outstanding by geography and concentration are summarized as follows (millions of Won):

| By Geography | Amount | Percentage |
|--------------|--------------------|-----------------|
| Korea | W 1,005,381 | 96.33 % |
| USA | 262 | 0.03 |
| Other | 38,069 | 3.64 |
| | W 1,043,712 | 100.00 % |

| By Concentration | Amount | Percentage |
|-----------------------------|--------------------|-----------------|
| Manufacturing | W 816,361 | 78.22 % |
| Wholesale and retail | 90,093 | 8.63 |
| Financial business | 37,985 | 3.64 |
| Construction | 29,928 | 2.87 |
| Transport and communication | 22,479 | 2.15 |
| Others | 46,866 | 4.49 |
| | W 1,043,712 | 100.00 % |

15. ACCRUED SEVERANCE AND RETIREMENT BENEFITS

The changes in accrued severance benefits for the year ended December 31, 2000 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|-----------------------------------|-------------------|-----------------|------------------|------------------|
| Accrued severance benefits | W 256,908 | W 41,141 | W 112,843 | W 185,206 |
| Transfer to National Pension Fund | (12,358) | - | (3,642) | (8,716) |
| | W 244,550 | W 41,141 | W 109,201 | W 176,490 |

The changes in accrued severance benefits for the year ended December 31, 1999 are as follows (millions of Won):

| | Beginning balance | Increase | Decrease | Ending balance |
|-----------------------------------|-------------------|-----------------|-----------------|------------------|
| Accrued severance benefits | W 257,882 | W 48,493 | W 49,468 | W 256,908 |
| Transfer to National Pension Fund | (12,928) | (1,465) | (2,035) | (12,358) |
| | W 244,954 | W 47,028 | W 47,433 | W 244,550 |

16. OTHER LIABILITIES

Other liabilities at December 31, 2000 and 1999 are comprised of the following (millions of Won):

| | 2000 | 1999 |
|--------------------------------------|--------------------|--------------------|
| Borrowing from trust account | W 156,514 | W 245,552 |
| Foreign exchange payable | 28,896 | 21,726 |
| Accounts payable | 321,132 | 194,544 |
| Accrued expenses | 381,577 | 697,405 |
| Unearned revenues | 41,963 | 52,788 |
| Domestic exchange obligation payable | 396,236 | 703,257 |
| Others | 259,153 | 351,675 |
| | W 1,585,471 | W 2,266,947 |

17. COMMITMENTS AND CONTINGENCIES

KDIC Agreement Issues

Due to the complexity of the KDIC assistance under the Acquisition Agreement and Assistance Agreement, several disagreements have arisen between the Bank and the KDIC as to the interpretation of these agreements. These differences will be resolved through negotiations or legal proceedings and the outcome may be different from assumptions used by management, which could materially impact the Bank's future financial results. However, management believes their assumptions are supported and any losses that result from the disposition of these matters are not currently measurable. These are described as follows:

(i) June Claim - The KDIC has disputed and withheld payment of approximately W204 billion relating to the Bank's claim submitted on August 14, 2000. The holdback represents approximately 7% of the original claim and is primarily related to reserve claims for advances and credits extended pursuant to commitments and guarantees that were issued before the Closing Date of the Assistance Agreement, or pursuant to Workout Procedures established before the Closing. The Bank believes that the Assistance Agreement requires the KDIC to provide full reserve protection for these advances and credits as claimed. To the extent that KDIC's interpretation were to prevail, the Bank's reserve claim would be reduced by that amount, but some portion of these claims would be subject to a put or other alternative sources of assistance.

(ii) Loans Converted to Equities - The Bank has also requested the KDIC to buy certain equity securities arising from Special Treatment Loans, Chaebol Loans and certain other loans. The KDIC maintains that it is not required to buy equity securities that relate to workout contracts executed before the Closing or that arise from commitments. The Bank's position is that the KDIC is required to buy all such equity securities. At December 31, 2000, equity securities that the KDIC had refused to purchase had a book value of approximately W37 billion. During January 2001, the KDIC refused to purchase an additional W23 billion book value of equity securities.

(iii) Loans to be Converted to Equities or Bonds - During November 2000 and January 2001, the Bank made a supplemental request for reserve protection for certain loans that were scheduled for conversion into bonds or equities as of June 30, 2000, but had not actually converted as of that date or as to which conversion was cancelled. KDIC has responded that reserve protection does not apply to portions of loans that are scheduled for conversion into bonds or equity. The Bank believes that KDIC's position is an incorrect interpretation of the Assistance Agreement. In addition, even if KDIC's interpretation were adopted, the Bank believes that the result would be that such loan portions would be protected as bonds or equity, meaning that KDIC would be required to buy such loan portions. As of December 31, 2000, the KDIC had made yield guarantee payments in respect of W91 billion book value of bond portion components of such loans. The total book value of the loan portions covered by KFB's supplemental reserve request is about W344 billion.

(iv) Losses on Derivative Positions - During the Closing Audit, the Bank attempted to transfer derivative contracts along with underlying assets to the KDIC. However, because the KDIC is not a financial institution, the Bank's derivative counter-parties did not agree to such a transfer. As the underlying hedged assets have been transferred to the KDIC, the Bank has not recorded mark-to-market valuation losses relating to the derivative positions. Mark-to-market losses claimable from the KDIC are estimated at approximately W36 billion at December 31, 2000.

(v) Other Claims - The KDIC is disputing various other claims made by the Bank. At December 31, 2000, the Bank's financial statements reflect claims from the KDIC amounting to approximately W13 billion. In addition, on January 13, 2001, the KDIC contested other claims made by the Bank amounting to approximately W67 billion.

Derivative Financial Instruments

The Bank has entered into various agreements to exchange different currencies at predetermined future dates and rates. The Bank has also entered into various interest related agreements with customers, including interest rate swap contracts, interest rate option contracts and contracts for interest rate futures. At December 31, 2000, those derivative contracts aggregated a notional amount of W1,731,633 million. As of December 31, 2000, the Bank has derivative financial instruments which are all designated as trading, as follows (millions of Won):

| | Currency forwards | Currency swaps | Currency option | Interest rate swaps | Interest rate futures | Total |
|----------|-------------------|----------------|-----------------|---------------------|-----------------------|-------------|
| Purchase | W 364,000 | W 22,030 | W 5,039 | W 182,125 | W - | W 573,194 |
| Sell | 389,508 | - | 5,039 | 181,911 | 581,981 | 1,158,439 |
| | W 753,508 | W 22,030 | W 10,078 | W 364,036 | W 581,981 | W 1,731,633 |

During 2000, W7,566 million of gains and W23,275 million of losses on valuation of derivative contracts were recorded in fees, commissions, and other revenues and expenses.

Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities, consisting primarily of commitments to extend credit and letters of credit. At December 31, 2000, commitments under letters of credit and endorsed notes aggregated W620,215 million and W14,614 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2000, total loan commitments are W12,726 billion and unused commitments are W8,170 billion.

The Bank has been named as defendant in 5 legal actions amounting to W3,244 million and is plaintiff in 38 legal actions amounting to W39,613 million which have arisen from normal business activities. Management believes that these actions as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

18. COMMON STOCK

As of December 31, 2000 and 1999, the authorized common shares and the outstanding common shares are 1,600 million shares and 196,116,800 shares (at a par value of W5,000), respectively. The Bank's paid in capital is W980,584 million as of December 31, 2000 and 1999 (see Note 1).

The Bank granted stock options to employees and directors. A total of 5,273,217 shares of common stock were granted at an exercise price of W5,079.60 per share. The options are exercisable after 3 years from the grant date and expire in 10 years. Compensation expense related to the grant is not material.

In January 2000, the Bank sold long-term bonds with attached warrants to the KDIC, a related party. The bonds mature in 2006 and carry a stated interest rate of 0 percent. The warrants are convertible to 9,805,840 shares of the Bank's common stock at a price of W5,000 per share. The warrant exercise price escalates at an annual rate of 9.25%. The warrants are non-detachable, non-transferable and exercisable between December 31, 2002 and December 31, 2006.

19. RETAINED EARNINGS

The Bank should reserve as a minimum 10% of its annual net income as a legal reserve in accordance with Korean Banking Regulations. The Tokyo branch also should reserve up to 10% of its annual net income as an other reserve until the amount reaches 2 billion Yen in accordance with Japanese Banking Regulations. These legal reserves cannot be used to pay dividends.

20. INCOME TAX EXPENSE

The Bank is subject to corporate income taxes, including resident surtax, at aggregate rates of 17.6% on taxable income up to W100 million and 30.8% on taxable income in excess of W100 million. Income tax expense for the year ended December 31, 2000 is comprised of the following (millions of Won):

| | 2000 |
|--|------------|
| Income taxes payable | W 2,550 |
| Changes in deferred income taxes due to loss carry forward | (59,200) |
| Income tax expense | W (56,650) |
| Deferred income tax asset as of December 31, 2000 | W 59,200 |
| Deferred income tax asset as of January 1, 2000 | - |
| Changes in deferred income tax asset | W 59,200 |

The Bank has tax basis net operating loss carryforwards of approximately W4,923,844 million as of December 31, 2000. In the Acquisition Agreement, the KDIC represented to the Bank that as of the date immediately following the Closing, the amount of NOLs that will be available for use by the Bank for the fiscal years after 1999 will be no less than W4 trillion. The KDIC is obligated to indemnify the Bank for any breach of such representation. For tax purposes, net operating losses in Korea may be carried forward for five years against future earnings. There can, however, be no assurance that the Korean Corporate Tax Law and the regulations promulgated thereunder will not be amended to prevent the Bank from using these NOLs.

Adjustments of income before income taxes to taxable income for the year ended December 31, 2000 are comprised of the following:

| | |
|---------------------------------------|------------------|
| Income before income tax expense | W 249,750 |
| Adjustment to increase taxable income | |
| Permanent differences | 10,427 |
| Temporary differences | 224,229 |
| | <u>234,656</u> |
| Adjustment to decrease taxable income | |
| Permanent differences | 1,259 |
| Temporary differences | 310,351 |
| | <u>311,610</u> |
| Taxable income | <u>W 172,796</u> |

Deferred income taxes reflect the net tax effects of the tax loss carryforward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2000 are comprised of the following (in millions of Won):

| | January 1, 2000 | Increase | Decrease | December 31, 2000 |
|--|--------------------|-------------------|------------------|--------------------|
| Interest receivable on securities | W(116,764) | W (74,886) | W (116,764) | W (74,886) |
| Gain on valuation of securities | (24,205) | - | (24,205) | - |
| Profit from valuation of equity method | (43,579) | (3,309) | (10,918) | (35,970) |
| Excess of loan loss reserve | 185,541 | - | 185,541 | - |
| Present value discounts | 308 | 8,510 | 308 | 8,510 |
| Loss on valuation of derivatives | 13,867 | 23,275 | 13,867 | 23,275 |
| Depreciation | 6,506 | 6,250 | - | 12,756 |
| Loss on valuation of Equity method | 5,266 | - | 1,436 | 3,830 |
| Loss on valuation of securities | 9,208 | - | 9,208 | - |
| Retirement benefits | 962 | 2,478 | 962 | 2,478 |
| Other | (21,558) | 2,402 | (8,593) | (10,563) |
| Tax loss carryforward | 5,096,640 | - | 172,796 | 4,923,844 |
| Total | <u>5,112,192</u> | <u>W (35,280)</u> | <u>W 223,638</u> | <u>4,853,274</u> |
| Tax rate | <u>30.8 %</u> | | | <u>30.8 %</u> |
| Deferred income tax asset | <u>1,574,555</u> | | | <u>1,494,808</u> |
| Allowance | <u>(1,574,555)</u> | | | <u>(1,435,608)</u> |
| Net deferred income tax asset | <u>W -</u> | | | <u>W 59,200</u> |

Utilization of the operating loss carryforwards will depend on the Bank's ability to generate future income. Based on substantial operating losses prior to 2000, the difficulty in forecasting multiple years of future income, and issues related to the Bank's agreement with the KDIC, management has elected to recognize a portion of the operating loss carryforwards available and recorded a deferred tax asset of W59 billion.

21. CONSOLIDATED PER SHARE AMOUNTS

Consolidated per share amounts for the years ended December 31, 2000 and 1999 are calculated as follows (in Korean Won):

| Consolidated ordinary earnings (loss) per share | 2000 | 1999 |
|--|-------------------|-----------------------|
| Consolidated ordinary earnings (loss) before income tax expenses | W 211,747,316,635 | W (1,205,202,213,518) |
| Income tax expense related to ordinary earnings (loss) | 2,550,317,346 | 1,494,156,244 |
| | 209,196,999,289 | (1,206,696,369,762) |
| Weighted average number of common shares (*) | 196,116,800 | 589,750,177 |
| Consolidated ordinary earnings (loss) per share | W 1,067 | W (2,046) |

| Consolidated net earnings (loss) per share | 2000 | 1999 |
|--|-------------------|---------------------|
| Consolidated net earnings (loss) after income tax expenses | W 306,125,731,741 | W (999,470,118,747) |
| Gain (loss) on investees using the equity method | 274,421,875 | (5,189,370,027) |
| | 306,400,153,616 | (1,004,659,488,774) |
| Weighted average number of common shares (*) | 196,116,800 | 589,750,177 |
| Consolidated net earnings (loss) per share | W 1,562 | W (1,703) |

(*) The number of common shares outstanding at December 31, 1999 and December 31, 2000 was 196,116,800.

There were no shareholder transactions during the year ended December 31, 2000.

As of December 31, 2000, none of the Bank's outstanding shares are traded or quoted on any stock exchange. As a market value for the Bank's shares cannot be readily determined, the diluted impact on earnings per share from bonds with warrants and stock options has not been calculated.

22. APPLICATION OF THE EQUITY-METHOD

Equity investments at December 31, 2000 and 1999 are as follows (millions of Won):

| | First Citicorp Leasing Inc. | Qingdao International Bank | Korea First Data System Co., Ltd. |
|---|--------------------------------|-------------------------------|--------------------------------------|
| January 1, 1999 | W 24,655 | W 13,704 | W 4,194 |
| Equity in net income of affiliates | (1,436) | (3,830) | 77 |
| Exchange rate fluctuation | - | (711) | - |
| Dividends received | - | - | - |
| Equity in retained earnings of affiliates | - | - | - |
| December 31, 1999 | W 23,219 | W 9,163 | W 4,271 |
| Equity in net income of affiliates | - | 107 | 168 |
| Exchange rate fluctuation | - | 914 | - |
| Dividends received | - | - | (160) |
| Equity in retained earnings of affiliates | - | - | (15) |
| Accrued equity income through sale date | 4,608 | - | - |
| Offset of capital adjustment recorded in prior year | (1,976) | - | - |
| Disposed | (25,851) | - | - |
| December 31, 2000 | W - | W 10,184 | W 4,264 |

23. RELATED PARTY TRANSACTIONS

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2000 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|-----------------------------------|----------|-------------------------|-----------|
| | Account | Amount | Account | Amount |
| Trust accounts | Interest income on due from banks | W 10,009 | Cash and due from banks | W 500,000 |
| | Commissions received | 663 | Other liabilities | 47,259 |
| | Trust fees & commissions | 6,534 | | |
| | Compensation | 26,847 | | |
| | Interest expense on others | 8,097 | | |
| Korea First Finance Ltd., Hong Kong | Interest income on due from banks | 6,666 | Loans | 21,415 |
| | Interest income on loans | 1,325 | Due from banks | 89,960 |
| | Interest expense on deposits | 4 | | |
| | Interest expense on borrowings | 4 | | |
| | Revenue transactions | W 25,197 | Receivables | W 611,375 |
| Expense transactions | W 34,952 | Payables | W 47,259 | |

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 1999 are as follows (millions of Won):

| | Transactions | | Account balances | |
|--|----------------------|-----------|-------------------|-----------|
| | Account | Amount | Account | Amount |
| Trust accounts | Interest income | W 20,639 | Due from banks | W 394,422 |
| | Other revenue | 6,048 | Other assets | 748 |
| | Interest expense | 6,001 | Other liabilities | 640,411 |
| | Compensation | 379,614 | | |
| Korea First Finance Ltd., Hong Kong | Interest income | 9,885 | Loans | 21,763 |
| | Interest expense | - | Due from banks | 73,292 |
| | Revenue transactions | W 36,572 | Receivables | W 490,225 |
| | Expense transactions | W 385,615 | Payables | W 640,411 |

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 2000 are as follows (millions of Won):

| | Transactions | | Account balances | |
|-----------------------------------|----------------------|----------|------------------|----------|
| | Account | Amount | Account | Amount |
| Qingdao International Bank | Interest income | W 3,477 | Due from bank | W 51,648 |
| | Interest expense | 3,878 | Deposit | 52,638 |
| Korea First Data System Co., Ltd. | Interest income | 4 | Deposit | 2,238 |
| | Other revenue | 76 | Borrowing | 1,200 |
| | Interest expense | 227 | Other | 137 |
| | Other expense | 3,486 | | |
| | Revenue Transactions | W 3,557 | Receivables | W 51,648 |
| Expense Transactions | W 7,591 | Payables | W 56,213 | |

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 1999 are as follows (millions of Won):

| | Transactions | | Account balances | |
|-----------------------------------|----------------------|----------|-------------------|-----------|
| | Account | Amount | Account | Amount |
| First Citicorp Leasing Inc. | Interest income | W 14,877 | Loan | W 202,495 |
| | Interest expense | 483 | Deposit | 17,500 |
| Qingdao International Bank | Interest income | 3,073 | Due from bank | 35,507 |
| | Interest expense | 2,289 | Deposit | 49,832 |
| Korea First Data System Co., Ltd. | Other revenue | 36 | Loan | 22 |
| | Interest expense | 6 | Other assets | 879 |
| | Other expense | 2,395 | Other liabilities | 417 |
| | Revenue Transactions | W 17,986 | Receivables | W 238,903 |
| | Expense Transactions | W 5,173 | Payables | W 67,749 |

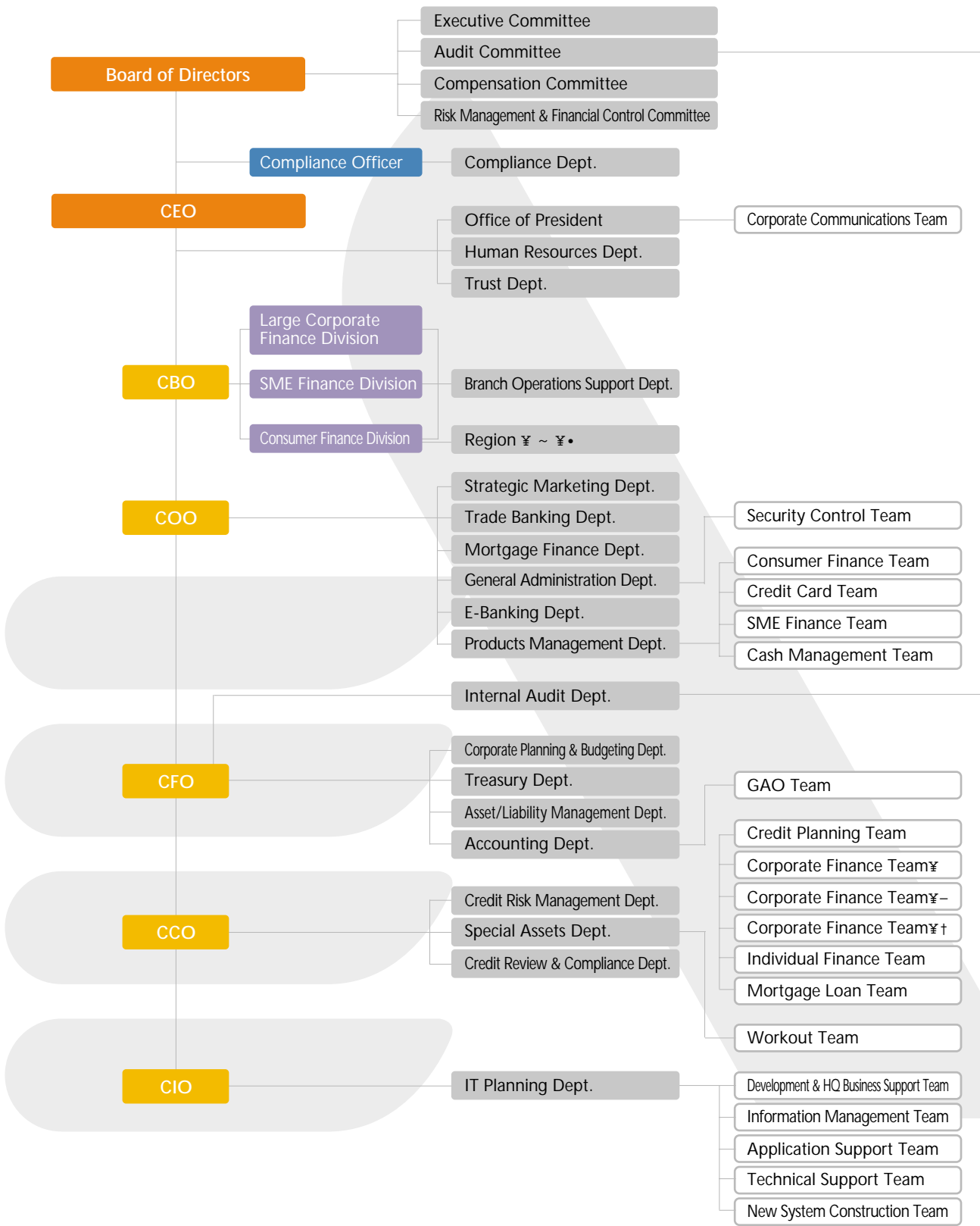
24. KOREAN ECONOMY

Beginning in 1997, the Republic of 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. Through the middle of 2000, it was widely accepted in Korea that the economic situation had stabilized, but not fully recovered from the 1997 crisis.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking and financial services industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking and financial services industry is currently undergoing forced consolidations. The Bank 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 Bank. Actual results may differ materially from management's current assessment.

Organization chart



Directors and Officers

PRINCIPAL OFFICERS

- Wilfred Y. Horie** *President & Chief Executive Officer*
- Kwang Woo Chong** *Deputy President & Chief of Branch Operations*
- Duncan W. Barker** *Executive Vice President & Chief Operating Officer*
- Ranvir Dewan** *Executive Vice President & Chief Financial Officer*
- SooHo Lee** *Executive Vice President & Chief Credit Officer*
- Jay Hyun** *Executive Vice President & Chief Information Officer*
- Jin Tae Kim** *Executive Vice President & Head of Large Corporate Finance Division*
- Hak Yong Shim** *Executive Vice President & Head of SME Finance Division*
- Won Kyu Choi** *Executive Vice President & Head of Consumer Finance Division*

BOARD OF DIRECTORS

- Robert T. Barnum** *Chairman, Board of Directors,
Non-Standing Director, Executive Committee,
Risk Management & Financial Control Committee*
- Chulsu Kim** *Vice-Chairman, Board of Directors, Non-Standing Director*
- Wilfred Y. Horie** *President, Standing Director, Executive Committee*
- Thomas J. Barrack, Jr.** *Non-Standing Director*
- Richard C. Blum** *Non-Standing Director, Executive Committee*
- David Bonderman** *Non-Standing Director*
- Daniel A. Carroll** *Non-Standing Director, Compensation Committee,
Audit Committee*
- Robert A. Cohen** *Non-Standing Director, Compensation Committee,
Risk Management & Financial Control Committee*
- Jonathan S. Epstein** *Non-Standing Director*
- Michael O' Hanlon** *Non-Standing Director, Audit Committee*
- Michael "Mickey" Kantor** *Non-Standing Director*
- Yoon-Jae Lee** *Non-Standing Director, Executive Committee,
Compensation Committee*
- Frank N. Newman** *Non-Standing Director, Executive Committee,
Compensation Committee, Risk Management &
Financial Control Committee*
- Seonghwan Oh** *Non-Standing Director, Risk Management &
Financial Control Committee*
- Seunghee Park** *Non-Standing Director, Audit Committee*
- Weijian Shan** *Non-Standing Director, Executive Committee, Risk
Management & Financial Control Committee*
- Francis Yeo Teng Yang** *Non-Standing Director, Audit Committee*

Business Network

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INTERNATIONAL BUSINESS RELATED DEPARTMENTS

Trade Banking Department

Eung Bok Park
General Manager
Tel: 82-2-3702-3218

Correspondent Banking Section
(Ext: 3844)
Foreign Exchange Information
Center (Ext: 3913)
Foreign Investment Service
Center (Ext: 3916)
Export Section (Ext: 3833)
Import Section (Ext: 3887)
Remittance (Ext: 3879)
L/C Advising (Ext: 4796)
Reconcilement (Ext: 3906)
SWIFT/Telex (Ext: 3895)
Marketing (Ext: 3503)

Telex: K24249, K24479, K25363,
K26535, K28784,
K28785 FIRSTBK
Fax: 82-2-3702-4933-8

Treasury Department

Jin Hang Lee
General Manager
Tel: 82-2-3702-3204

Long-term Borrowing (Ext: 4401)
Custody (Ext: 4463)
Customer Dealing/Marketing
(Ext: 4407)
Money Dealing (Ext: 4401)
Won Dollar, FX Dealing
(Ext: 4400)
Derivatives (Ext: 4432)

Telex: K25364, K26104, K22363
FIRSTBK
Fax: 82-2-3702-4943/44

Corporate Planning & Budgeting Department

Moon Hwan Cho
General Manager
Tel: 82-2-3702-3201

Credit Rating/IR/
Annual Report
(Ext: 4316, 3543)

OVERSEAS NETWORK

Tokyo Branch

Yeong Jin Jeon
General Manager

701 Hibiya Park Building,
1-8-1, Yurakucho, Chiyoda-ku,
Tokyo 100, Japan
Cable: KOFIRST TOKYO
Telex: J23329, J22695 KOFIRST
Tel: 81-3-3201-6261/6204
Fax: 81-3-3201-4558

London Branch

Tae Ro Kim
General Manager

80 Cannon Street, London EC4N
6HL, United Kingdom
Cable: KOFIRST LONDON
Telex: 895672, 889350 KFIRST G
Tel: 44-20-7626-9264
Fax: 44-20-7626-2840

Korea First Finance Ltd.

Sun Taek Lim
Managing Director

2007 Jardine House, 1 Connaught
Place, Central Hong Kong
Cable: KOFIRST HONGKONG
Telex: 85962 KOFST HX,
71933 KOFST HK
Tel: 85-2-2526-5025/6
Fax: 85-2-2521-7611

[Qingdao International Bank](#)

Duck Sung Yun
President & Managing Director

Wu Gang
Deputy President & Managing Director

C. Full Hope Mansion 12
Hongkong, Middle Road,
Qingdao 266071, P.R.
China
Tel: 86-532-502-6210
Fax: 86-532-502-6222

BRANCH OPERATIONS
SUPPORT DEPARTMENT

[Region I](#)

Jong Sub Cheon
General Manager
Tel: 82-2-3702-3280

[Region II](#)

Byung Moon Chung
General Manager
Tel: 82-2-3702-3272

[Region III](#)

Dal Won Lee
General Manager
Tel: 82-2-3702-3273

[Region IV](#)

Hyun Nam Kim
General Manager
Tel: 82-51-805-4844

[Region V](#)

Jeong Geun Lee
General Manager
Tel: 82-2-3702-3270

[Region VI](#)

Jong Wan Kim
General Manager
Tel: 82-2-3702-3271

[Region VII](#)

Jeong Gu Ko
General Manager
Tel: 82-2-3702-3278

[Region VIII](#)

Choon San Lee
General Manager
Tel: 82-62-222-2445

DOMESTIC SUBSIDIARIES

[Korea First Data Systems Corp., Ltd.](#)

Myung Ahm Cho
President

7-11 Shinchun-dong,
Songpa-gu,
Seoul, 138-240, Korea
Tel: 82-2-3433-2955
Fax: 82-2-3433-2661

Corporate Data

As of December 31, 2000

HEAD OFFICE

100 Kongpyung-dong, Chongno-gu,
Seoul 110-702, Korea

Mail: C.P.O. Box 2242, Seoul, Korea

SWIFT: KOFB KR SE

Telex: K23685 FIRSTBK

Tel: 82-2-3702-3114

Fax: 82-2-3702-4901/4903

Internet: www.kfb.co.kr

DATE OF ESTABLISHMENT

July 1, 1929

PAID-IN CAPITAL

W980.6 Billion

NUMBER OF EMPLOYEES

4,574

NUMBER OF OFFICES

Domestic: 339

Overseas: 4

DISTRIBUTION OF SHAREHOLDERS

KFB Newbridge Holdings (private) Ltd. 50.99%

Korea Deposit Insurance Corp. 45.92%

Ministry of Finance & Economy 3.09%

NUMBER OF DOMESTIC OFFICES

| | |
|---------------------------|------------|
| Branches | 295 |
| Sub-branches | 44 |
| Automated Service Centers | (106) |
| Total | 339 |

DISTRIBUTION OF DOMESTIC BRANCHES

| Region | 2000 |
|-----------------|------------|
| Seoul | 184 |
| Pusan | 21 |
| Taegu | 13 |
| Inchon | 7 |
| Kwangju | 4 |
| Taejon | 5 |
| Ulsan | 5 |
| Kyonggi-do | 43 |
| Kangwon-do | 7 |
| Choongcheong-do | 10 |
| Cheolla-do | 17 |
| Kyongsang-do | 20 |
| Cheju-do | 3 |
| Total | 339 |



 *Racing to be No.1
in 2001*

 KOREA FIRST BANK





First is the Best —

KOREA FIRST BANK

www.kfb.co.kr

100 Kongpyung-dong, Chongno-gu, Seoul 110-702, Korea
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SWIFT: KOFB KR SE Telex: K23685 FIRSTBK
Tel: (82-2) 3702-3114 Fax: (82-2) 3702-4901/4903
Reuter Dealing Code: KFBH