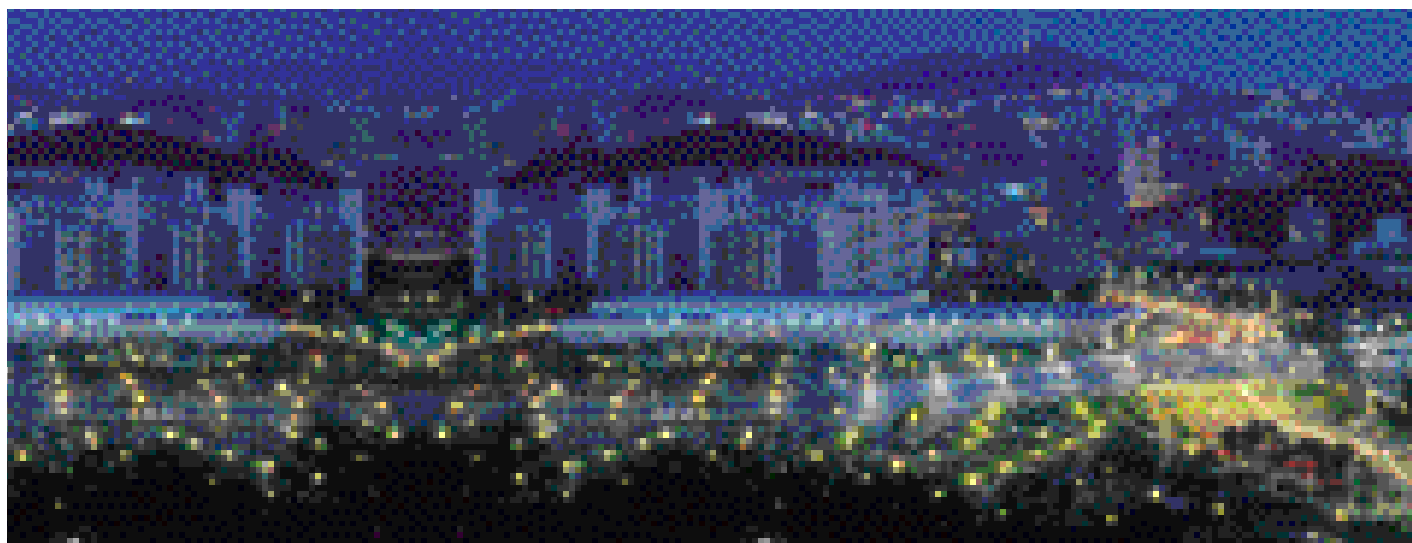


Annual Report 20

Growing to serve you better

02

Our long term vision: Building a **WORLD CLASS** Bank



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First Bank

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Review of Operations
Building a strong platform for
growth and profitability

Founded in 1929, Korea First Bank (KFB) offers financial services that include retail and commercial banking, as well as trust and securities-related services.

Korea First Bank was the leading corporate Bank in Korea before the 1997 crisis and was severely hurt by it. The Korean government made it the example of Korean financial renewal by removing bad assets, recapitalizing the Bank, and selling 51% to a foreign investor (Newbridge Capital Asia) through an international bid.

Today KFB is a totally renewed Bank, with assets balanced between corporate and retail and an "international level" of financial and risk management.

Korea First Bank has
- over 3.5 million clients - 333 retail branches - 56 corporate branches
and was in 2002 the fastest growing Bank in Korea in client assets.



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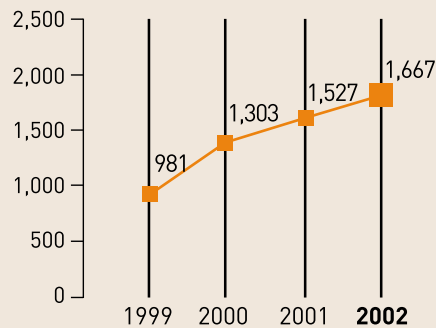
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Corporate Data
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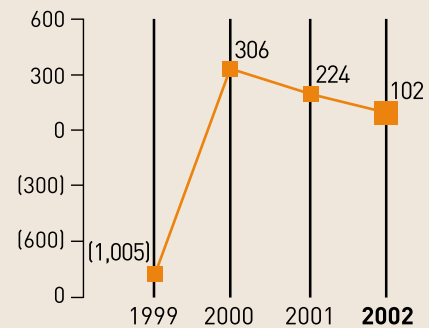
Financial Highlights

Korea First Bank continued to build the foundation for future growth with a net income of W102 billion, providing three straight years of stable profitability. As of December 31, 2002, the Bank recorded total assets of W32,231 billion and total shareholders' equity of W1,667 billion. The Bank's Capital Adequacy Ratio was 11.55% in 2002, one of the highest in Korea.

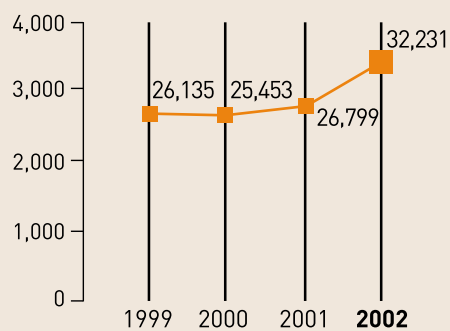
Total Shareholders' Equity
(Won in Billions)



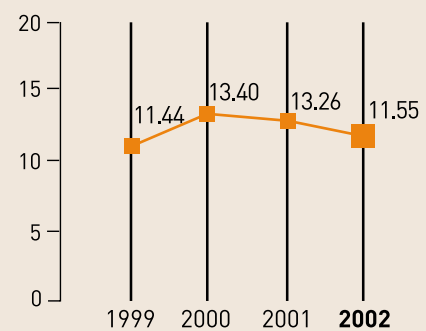
Net Income (Won in Billions)



Total Assets (Won in Billions)



BIS Capital Adequacy Ratio (%)





December 31, 2002 and 2001

	(In billions of Korean Won)		(In millions of U.S. Dollars*)	
	2002	2001	2002	2001

BANKING ACCOUNTS

At Year-End

Loans	W 20,027	W15,948	\$16,684	13,286
Securities	7,591	6,383	6,324	5,318
Total assets	32,231	26,799	26,851	22,325
Deposits	23,272	17,800	19,387	14,829
Borrowings	2,441	4,242	2,034	3,534
Total liabilities	30,565	25,272	25,462	21,053
Common stock	981	981	817	817
Total shareholders' equity	1,667	1,527	1,388	1,272

For the Year

Interest income	1,585	1,668	1,321	1,390
Interest expenses	1,038	1,147	865	956
Net interest income	547	521	456	434
Provision for loan losses	132	81	110	68
Fees, commissions, and other revenue, net	260	283	217	235
Income before taxes	95	124	79	103
Income taxes benefit	(6)	(100)	(5)	(84)
Net income	102	224	85	187

Credit Quality

Non-performing loans	288	392	240	327
Reserve for loan losses	402	745	335	620

TRUST ACCOUNTS

At year-end

Total assets	1,482	1,454	1,235	1,211
Money trust	1,208	1,148	1,006	956

CONSOLIDATED FINANCIAL DATA

BIS Capital Ratios

Tier 1 capital	7.31%	8.67%
Tier 2 capital	4.30%	4.68%
Total capital	11.55%	13.26%

* Korean Won accounts are translated solely for the convenience of readers into U.S. dollars at KRW1,200.4: US\$ 1, the rate prevailing at December 31, 2002.

“ Korea First Bank: A dynamic team ”

In 2002, Korea First Bank made great progress in building a very strong franchise serving our corporate, SME, and retail customers. We have nearly completed the significant investment in infrastructure that has allowed us to rebuild both our retail and wholesale businesses. We can now service our customers through multiple channels with a wide variety of products that have created a strong foundation for our future.

The year 2002 also marked the end of the period during which the government has bought back bad loans that had been made before the Newbridge acquisition. The public funds went to pay for the bad loans of prior managements so that no depositor in KFB lost any money. Frankly, I will be glad that the rhetoric surrounding the implementation of this agreement will disappear and we can all focus on the future, not the past. We appreciate having the government as our partner in KFB and look forward to a very successful future for the government's investment.

As our Board of Directors comes up for re-election in 2003, we will miss the vision and leadership of our Vice Chairman, Dr. Chulsu Kim. New government regulations prevent university presidents from holding board seats in private companies and Dr. Kim will no longer be able to serve on the Board of KFB. I would also like to thank the Board for their guidance and very active participation in KFB. Most importantly, I would like to thank those who make Korea First Bank unique and the quality bank that it is today. We thank our loyal customers and thank all the Korea First Bank employees whose hard work and service-oriented attitude are rebuilding Korea First Bank.



A handwritten signature in black ink, appearing to be 'D. Kim', written in a cursive style.



“ Korea First Bank: A clear goal ”



Robert A. Cohen
President & CEO

Firstly, let me extend my warm appreciation to our Shareholders and our Clients.....and our Employees.

.....to our Shareholders who have been fully supportive of our investment needs over the past three years, and of providing the Bank a high level of equity with which to operate. In addition, they have indicated a willingness to provide more equity to support our growth, whether it is organic, or externally-generated through acquisition.

.....to our existing Clients who have been extremely loyal throughout the difficult and transitioning years, and to our new Clients, all of whom have embraced the newly-renovated branches and the services we provide, together with more modern technology, through our dedicated and highly-motivated Bank employees.

.....to our Employees who have shown extraordinary drive during a year in which we have restructured our branch networks and the way in which we serve our customers, enabling us to exceed our asset growth goals despite physically moving hundreds of people and reducing the workforce through voluntary programs. Tripling our mortgage portfolio and growing our commercial

business by 30% are just two examples of their dedication.

All of this has culminated in strong morale and an improved image in the market, has caused the principal global rating agencies to raise the Bank to investment grade, and has afforded the opportunity to now consider adding to our franchise with selected acquisitions.

Let me now explain in more depth the environment throughout much of 2002.....how we did....and finally present a view of the future.

Our Environment

Korea's growth of 6% in 2002 is the envy of most industrialized nations. Most of this was fueled by consumer spending, which resulted from a dramatic expansion in consumer credit availability. Exports recovered mid-year, which allowed the government to adopt measures to slow the rapid growth in retail mortgages and consumer finance towards the latter part of the year.

Card growth in Korea over the past three years had been rapid, and the impact of this began to be felt late in the year as new policies were adopted. The authorities took a series of measures to prevent the market from overheating and the effect of these measures was quite dramatic for consumers mostly using cash advances on their credit cards.

Delinquency in credit card debt grew dramatically in the last two quarters, as issuers began to experience the price of rapid growth. Increased provisioning imposed by the government sought to mitigate this situation, but clearly the economic impact has and will continue to impact issuers' results.

The banking industry continues to consolidate, with mergers under way, and an expectation that more will come.

Our Bank

2002 was an important milestone on the road to reaching our 2004 goal of Won 40 trillion in assets with a 25% pre-tax return on equity. Our achievements included....

.....accelerating the structural changes in our branch network, separating retail from corporate, and creating two centralized customer service facilities, all designed to create more efficiency and more sales capacity,

.....reinforcing our risk management disciplines and financial reporting to stress accountability,

.....continuing to invest ambitiously to modernize both the physical network and our technology,

.....converting the top 500 officers to a performance-based compensation system, with the hope of modifying the compensation of all employees based on similar principles in 2003.

Despite the large amount of restructuring and remodeling during the year, one of our biggest achievements was the tremendous increase in our loan production.....all focused on reaching our 2004 goals. Our client-based loan assets increased a tremendous 60% in 2002, quickly filling the historical gap in our loans caused by the transfer of assets to the government as part of the purchase agreement. This growth is quickly resolving a critical mass issue in our branch network, which will lead to a much improved efficiency ratio in the months and years ahead.

This growth did not impact the integrity of our risk disciplines. The growth was balanced between retail and commercial, and highly diversified, with retail growth having to go through modern scoring models that follow international best practices. We also continued our policy of very conservative provisioning.

As a consequence, our "Value at Risk (VaR)" amounts to less than half of our capital base, an exceptionally low level for this market, and one that demonstrates our ability to continue our balanced growth.

With a disciplined approach to risk and pricing on our portfolio and good profitability on risks taken (RAROC), our low level of risk has depressed our overall return on equity. At year-end 2002, the low yielding KDIC bonds that replaced loan assets in the past matured and were paid. The acquisition costs of our large increase in mortgage assets in 2002, which had to be expensed upfront, will have less effect in 2003 and beyond, even as we continue to focus on that segment. Both of these factors contributed to depressing our profitability in 2002.

So, what lies ahead.....

Organic growth will allow us to achieve our goal of Won 40 trillion in assets, and a 25% return on equity by 2004...we have the platform in place, and the production of profitable assets going into 2003 is firing on all cylinders. We continue to maintain strict disciplines on risk screening, provisioning, and pricing, as well as investing to make our Bank a model for the industry.

We will focus more attention in 2003 on our large corporate customers, as well as further developing our private banking capabilities. As Korean corporates have become more transparent and increasingly have access to the capital markets, we see their need for other banking services. Equally, with the increase in individual wealth, there is now a need, in Korea, for specialized financial services oriented to affluent and wealthy clients.

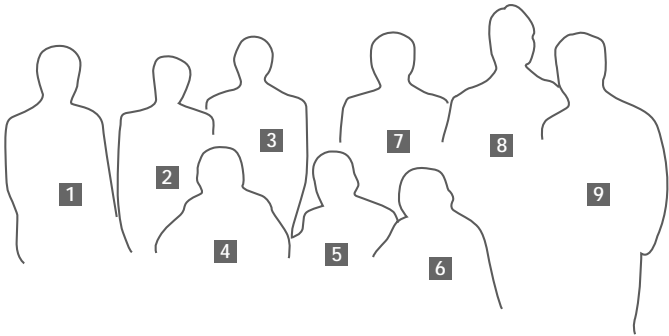
We continue to place a high degree of importance on the growth of our consumer loan portfolio, whether through mortgages, cards, or personal loans. This market will continue to expand, as consumer spending remains such a critical component of Korea's development and, of course, we will continue our traditional support to middle market and small business, which represent so well the vitality of the Korean economic system.

We will also be very aware of market opportunities, selectively looking at acquisitions that would provide the type of synergies beneficial to the Bank. On other hand, we have a very strong balance sheet that allows us to remain independent, and thrive...

Korea First Bank will be the best bank in Korea.....our dedicated employees are committed to this.



Executive Officers





1 Robert A. Cohen
President & Chief Executive Officer

2 Ranvir Dewan
Executive Vice President & Chief Financial Officer

3 Duncan Barker
Executive Vice President & Chief Operating Officer

4 Hak Yong Shim
Executive Vice President & Chief of Corporate Network

5 Seung Yeal Yang
Executive Vice President & Chief of Retail Network

6 Won Kyu Choi
Executive Vice President & Chief of International Business

7 SooHo Lee
Executive Vice President & Chief Credit Officer

8 Keith Shachat
Executive Vice President & Chief Consumer Risk Officer

9 Jae Myung Hyun
Executive Vice President & Chief Information Officer



Advancing together.

KFB continues to build...



The best bank for our customers in all areas of the Bank's operations and solid relationships with our customers based on trust, value and satisfaction: our continued growth is the proof that KFB is truly Korea's FIRST bank.



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An introduction to our international standard of management



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1>> A view of a corporate branch

2>> A branch manager consulting with a customer at a newly re-engineered retail branch

3>> "Convenience for customers, whether corporations or consumers, is our priority"

" The best and most convenient customer service "



Much of 2002 was highlighted with regulatory changes aimed at slowing the rampant growth in consumer lending. While these changes had a significant short term economic impact on the Bank's consumer business, we welcomed the government's direction in creating more discipline in the burgeoning consumer markets. Risk-based pricing has long been at the core of our business model and, with the new regulatory measures introduced during the year, more financial institutions will need to adopt similar practices and differentiate between customers.

For the past two and a half years, the Bank has focused on a few key guiding principles as the balance sheet mix has been re-balanced between corporates and consumers: rigorous underwriting policies with strong pricing disciplines; improved customer penetration with multiple products; a focus on transactional services; and developing a performance-based culture throughout the Bank. These guiding principles have not only allowed us to maintain a disciplined approach in a highly competitive market, but have also made it possible for us to build a strong foundation for consistent earnings growth into the future.

To underscore our strategy, we adopted a new advertising slogan in 2002, focused again around our customers. This campaign was designed to convey a simple message - "WE LISTEN" - and highlight the importance we place on customer service, particularly how we deliver differentiated products and services to different customer segments. The second part of this message contained the word "convenience," emphasizing how it has become increasingly important to provide different channels for customers to interact with the Bank. These channels have become even more vital since banks adopted the 5-day work week in July 2002.

In 2002, we implemented the new branch structure that began in 2001. This structure separates consumer branches from corporate ones, allowing our professionals to focus on relationship and sales to their respective valued customers. In conjunction with this re-orientation, we established two Customer Service Centers, one in Seoul and one in Busan, effectively backing up each other in the event of business interruption. These two centers were able to handle the tripling of consumer loan volumes during 2002 with fewer overall total staff. Customer service, collections, and telemarketing were wrapped into these two centers to give our customers the best possible banking experience to meet their needs. This growth in business and transaction volume, and the faster turnaround of loan decisions, would not have been possible without these new initiatives.

2002 was the third year of our 5-year plan to completely renovate all our branches and the Bank's ATM network. Customers have responded very favorably to the new branch environments, finding it easier to communicate with branch staff. Similarly, our on-line channels are continuously being upgraded to meet the increasing demands of our very discerning customer base. We also launched a new small business suite of products called First Biz, aimed at assisting SME customers with their online banking and financial services needs. Since its inception, we have been very pleased with customers' response.

Additional new products launched during 2002 included more features for our popular First Home Loan product. The networks had a tremendous year with this product suite, generating over 4 trillion Won in new loan volume. In unsecured loan products, we launched a new revolving consumer loan called the First Convenient Loan which, together with our installment Quick Cash Loan, provides customers with different payment options to suit their particular financial situation. We have been very encouraged by the growth of this new product since its launch in the third quarter. We also introduced a number of new credit card offerings focused on wealthier customer segments, with new affinity relationships. While the card business in Korea has received a lot of publicity recently, we believe our portfolio is well-positioned to weather the current crisis.

Critical to providing the best customer service is the importance we place on our regular deposit customers. Significant progress continues to be made in growing our core deposit base and, in 2003, we will be expanding our Platinum Banking Service into Wealth Management to ensure our customers continue to be provided with the best service. New investment services, including new CD products and investment funds alternatives, were launched in 2002 to optimize customer returns in a low interest rate environment.

Following the very successful World Cup performance by Korea, we signed an agreement with the captain of the Korean Soccer squad, Hong Myung Bo, who heads a foundation that supports underprivileged children. As part of our agreement, we offer special deposit accounts which trigger donations to the Hong Myung Bo Foundation. This new service has not only proven successful in raising deposits, it has, more importantly, allowed us to give something back to the underprivileged children in our community.

In each of our initiatives adopted over the past year, as well as into the future, our customers remain at the forefront of our minds. Continuous improvement in the products and services we provide them is one of our primary objectives.

“ Strong risk management disciplines ”

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1>> “Our conservative management approach greatly reduces our customers’ risk”

2>> KFB maintains the most advanced and state-of-the-art risk management system.



Since the acquisition of the Bank in early 2000, risk management has been one of the most important elements of building a strong foundation for the new Bank. The whole portfolio has been repositioned with an emphasis on retail assets in order to balance the assets between corporate and retail, while continuing to support the Bank's good SME and large corporate customers. The new risk policies, as well as new scoring models, have ensured a disciplined growth of retail assets without overly exposing the Bank.

The Bank looks at risk in many ways, with oversight from the Board of Directors committee, to the individuals tasked with monitoring overall risk profiles. The Bank's Chief Credit Officer is responsible for commercial risks, and the Chief Consumer Risk Officer is responsible for consumer risks. The Bank also maintains an overall view of total risks, including market and operational risk.

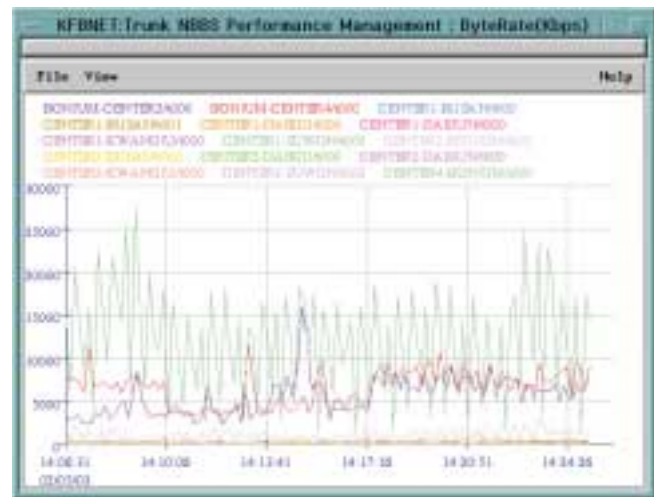
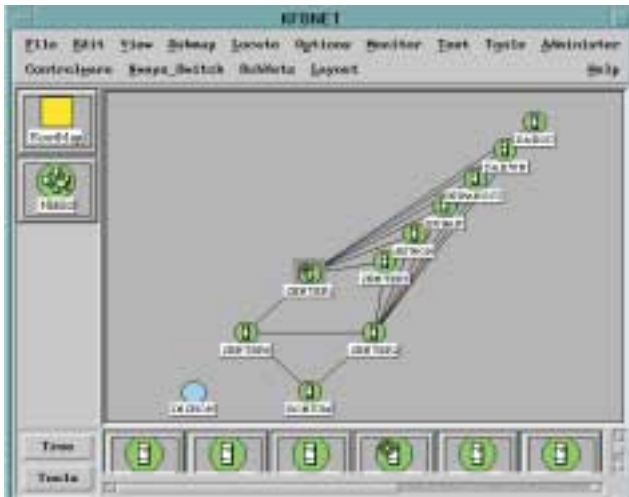
Much attention has been focused in recent months on consumer delinquencies. The Bank's policy on these assets has been very stringently controlled, with a tendency to be more conservative than the industry norm.

Since 2001, secured consumer loan assets have overtaken unsecured loans as a percentage of the Bank's consumer portfolio. While the Bank has seen solid growth in both portfolios, the underwriting criteria has remained disciplined, with the Bank using many information sources to populate its risk databases. The Bank is recognized as having one of the most advanced and robust consumer underwriting models in the market, and has been disciplined in implementing them.

In the commercial business, the Bank adopted a new Credit Risk Management System (CRMS) in 2002 that splits risks into borrower risk ratings and facility risk ratings. The borrower risk rating is used to categorise customers, and the facility risk rating is used to evaluate the expected loss on any credit and the appropriate pricing, providing a stronger basis to proactively manage potential non-performing assets. This new system is a critical component as the Bank increases its exposure to SME and large corporates in 2003.

The Bank's overall approach to credit risk remains conservative as is shown by our low VaR.





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- 1>> A map of connection status between the IT Center and the main facilities of the branches
- 2>> Trunk NBBS performance management system
- 3>> "Our progressive changes streamline all operations, offer our customers convenience, and guarantee security."

" Innovative new technologies "

The Bank achieved various objectives in 2002, by implementing a variety of innovative new technology applications to support both business and operational strategies. Among the major objectives were.....

.....gradual integration of specific legacy systems into the new Enterprise Application Integration (EAI) architecture,

.....inclusion of e-commerce compatibility in new product applications,

.....migration from proprietary technology to packaged solutions,

.....and utilization of industry standards as the blueprint for acquisition, development, and support for the Bank's overall information technology direction.

2002 saw continued investment as part of our three-year plan, with a great deal of focus on improving our data warehouse, developing new credit and treasury risk management applications, and implementing a new front-end loan application and decisioning system, as well as supporting the roll-out of our branch restructuring, and the launching of our new centralized customer service facilities. Added to this were the implementation of new loan and deposit products and the first phase of a new loan processing platform. All of these are intended to create more standardization and efficiency in both our front and our back offices.

The new front-end consumer loan application system has been designed to dramatically shorten the time needed to respond to a customer loan application, while automating the process straight into the back office. This has been especially important in supporting the rapid growth of our consumer portfolio, while optimizing the time of our sales staff. The introduction of the first phase of our new back-end processing system has been a critical component of this change, as it has allowed us to more quickly bring new and different features to consumer loan products in a highly competitive market.

As we integrate specific legacy systems into the new EAI architecture, we have created more flexibility and operational quality in our day-to-day business. This new architecture enables us to more quickly respond to business requirements, and more readily access information to support decision-making.

The launching of our new Customer Service Center early in 2002 was a major success, bringing together duplicative functions from various pockets in the Bank into one environment, and then backing it up with a mirror facility in Busan, not only to shift workloads, but also to provide back-up in the event of a disaster or other event in one of the sites. Sophisticated new software has been introduced to support not only customer communication in the areas of telesales, collections, customer service and secured loan underwriting and processing, but also to allow the branch network to focus on expanding client relationships.

As Korea leads the world in acceptance and use of online applications by consumers, we have continued to make investments to ensure a safe and stable environment for them. We are committed to making these channels convenient and easy to use, while recognizing the need for security.

In 2002, we also developed and implemented a new Human Resource system to improve the way in which we manage our most critical asset....our employees.

For 2003, our journey to upgrade and implement new applications continues, as we focus on introducing a new teller system for our branches, as well as completing the roll-out of the new loan processing system. Upgrading our Business Continuity Plan and expanding the integration of our legacy systems into EAI are also important initiatives for 2003, so that we can continue to support the activities of both our external as well as our internal customers.



“ Strong relationships with our community ”

1
2 3

1>> “ Investing in our employees is a solid investment in our future ”

2>> Joong-Ang Daily Marathon 2002 - Employees run for their lives!

3>> Water at the World Cup - KFB offers relief to thirsty fans.



2002 was another busy year for our community activities. We continue to feel very strongly about giving back to the communities where we operate and about supporting national programs.

Donations by our employees to the Community Chest of Korea kicked off a busy year. The "HANSARANG" campaign involved close to 1,400 of our employees and all their donations were matched by the Bank. KFB received a special award from United Way International in recognition of its pioneering spirit in promoting this campaign.

Following quickly behind this was our "Scholarship of Love" celebration for handicapped children. Scholarships of Won 1 million each were given to 100 children selected from across the nation to encourage them to pursue their academic dreams.

Various other lively events took place over the summer months including open-air concerts, exhibitions, and shows. However, none of these events were more exciting for our employees than the support they were pleased to offer to the national soccer team supporters during the World Cup: over 100,000 bottles of water and 250,000 stickers were given to the general public by KFB employees to honor the fans and their tremendous support of the Korean team.

To commemorate this event, the Bank launched an event entitled "I LOVE KOREA" which included the signing of an alliance with the Hong Myung Bo Foundation. This foundation was established by the Korean soccer team captain and other players to provide opportunities for underprivileged children. KFB makes donations through new linked deposit accounts which automatically trigger contributions to the Foundation.

Unfortunately, 2002 was a year marked with devastating floods across Korea. To assist the affected people, the Bank introduced special criteria for loan customers, either to assist them with payments, or to provide emergency cash. We also held functions in the Headquarters building, the proceeds of which went to the flood victims.

Each year we have co-sponsored a marathon to promote healthy lifestyles and strong morale. Over 1,200 employees participated in the Joong-Ang Daily Marathon this year, with the best runners being provided the opportunity to run in the Honolulu Marathon. These events and others epitomize the commitment that the Bank has to the community. This commitment has developed into a strong culture among our employees.

Our employees are very important to the Bank. Investing in them is at the forefront of our strategy. Improving skills, providing both internal and external training courses, and creating opportunities for both personal and professional knowledge enhancement is critical in allowing them to better serve our customers.

As the Bank continues to evolve, and the market environment becomes more competitive, providing our employees with the tools to compete is central to the Bank regaining its position as the "Best Bank in Korea".

Many changes have occurred in 2002, and training and retraining our staff into new sales or support roles have better prepared them to meet these challenges. Focusing on customer service, nurturing a sales mindset, putting customers first, listening to our customers and employees, and implementing creative solutions have all played a major role in our success, and they are strategies that will continue to be vital to KFB far into the future.





Quality operations and procedures are maintained through internal and external reviews.

“ Sound corporate governance ”



The Bank has adopted an international standard corporate governance structure and the Board of Directors oversees the operations of the Bank through several committees. Ensuring the Bank is always operating in the best interests of the shareholders, the Board of Directors meets quarterly, is responsible for policy and strategic planning, and holds the ultimate responsibility for the administration of the affairs of the Bank. This system has allowed the Bank to more effectively control management, ensure more accountability and transparency, and offer appropriate compensation based on performance.

The Board comprises one standing director and fifteen non-standing directors. The non-standing directors monitor governance of the Bank.

Currently, the Bank has four committees serving under the Board: Executive, Compensation, Risk Management & Financial Control, and Audit committees. A brief discussion of the purpose of each committee and the Bank's system of internal control follows.

The Executive Committee of the Board comprises six directors including the President and CEO of the Bank. Its major functions include the setting and reviewing of the policies of the Bank, reviewing the capital structure of the Bank and authorizing required changes to the capital structure, reviewing matters delegated to it by the Board and reviewing any other matters deemed necessary in the opinion of the Chairman of the Executive Committee or the President and CEO.

The Compensation Committee is composed of four directors, all non-standing. The Compensation Committee's main job is to evaluate the performance and compensation of executive officers. It is also responsible for approving stock option programs and granting stock options, reviewing and monitoring the Bank's labor relations, and discussing any other matters deemed necessary by the Committee.

The Risk Management and Financial Control Committee is composed of four directors. Its duties include supervising matters relating to the principal risk management guidelines for the Bank in accordance with the Bank's business strategies, and managing the Bank's risk positions, including credit, liquidity, currency and interest rate risk, as well as the use of derivative products in risk management. It is also responsible for establishing investment limits and loss-cut limits, supervising matters regarding risk-based capital allocation, reviewing the details of the financial situation of the

Bank, supervising matters delegated by the Board and other matters approved by the Chairman of the committee or the President and CEO.

The Board of Directors exercises its responsibility for the financial statements and related information through the Audit Committee. The Audit Committee, to whom the internal auditor reports, comprises at least 3 directors, two-thirds of whom must be non-standing directors. The Audit Committee meets regularly with management, the internal auditor of the Bank, and the independent auditors, Ernst & Young, to assess the scope of the annual audit plan, to review the status and results of audits, to review the financial statements, and to discuss other matters affecting the Bank's internal accounting controls and financial reporting, including major changes in accounting policies and reporting practices, and to approve non-audit services rendered by the independent auditors.

Ernst & Young also meets with the Audit Committee, without management present, to afford the Committee the opportunity to express its opinion on the adequacy of compliance with established corporate policies and procedures and the quality of financial reporting.

The Bank maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with the Bank's authorizations and policies, and that transactions are properly recorded so as to permit preparation of financial statements that fairly present the financial position and results of operations in conformity with generally accepted accounting principles. Internal accounting controls are augmented by written policies covering standards of personal and business conduct and an organizational structure providing for division of responsibility and authority.

The effectiveness of and compliance with established control systems is monitored through a continuous program of internal audit and credit examinations. In recognition of cost-benefit relationships and inherent control limitations, some features of the control systems are designed to detect rather than prevent errors, irregularities, and departures from approved policies and practices. Management believes the system of controls has prevented or detected, on a timely basis, any occurrences that could be material to the financial statements and that timely corrective actions have been initiated when appropriate.

We listen to customers first
and then make our move



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Non-Consolidated Balance Sheets



Through working as a team to meet the standards set by international best banking practices and building strategies based on those practices, KFB had an impressive year: results for 2002 highlight that KFB, every day and in every way, is truly growing to serve you better.



85	86	87	99	100	101	102	104	105
Non-Consolidated Statements of Operations	Non-Consolidated Statements of Cash Flows	Notes to Financial Statements	Consolidated Independent Auditors' Report	Consolidated Balance Sheets	Consolidated Statements of Income	Consolidated Statement of Changes in Capital Surplus and Retained Earnings	Consolidated Statements of Cash Flows	Notes to Consolidated Financial Statements

Management's Discussion & Analysis

Selected Financial Data Years ended December 31

		2002	2001	2002	2001
		Won in Billions		US Dollars in Millions	
BANKING ACCOUNTS					
<i>Operating Results</i>					
Interest income	(1)	1,585.4	1,668.2	1,320.7	1,389.7
Interest expense		1,038.3	1,147.3	864.9	955.8
Net interest income		547.1	520.9	455.8	433.9
Provision for loan losses		132.5	81.5	110.4	67.9
Fees, commissions and other revenue, net		260.4	282.7	216.9	235.5
Operating expenses		590.9	571.6	492.2	476.1
Operating income		84.2	150.5	70.1	125.4
Net non-operating revenue / (expense)		11.1	(26.8)	9.3	(22.3)
Income before tax		95.3	123.7	79.4	103.0
Income tax (includes deferred tax)	(2)	6.2	100.4	5.2	83.6
<i>Net income</i>		101.5	224.1	84.6	186.7
<i>Balance Sheet</i>					
Loans net of loan provisions		19,619.3	15,193.3	16,343.9	12,656.9
Securities		7,591.2	6,383.5	6,323.9	5,317.8
Other interest-earning assets		1,797.9	1,689.7	1,497.8	1,407.6
Non-interest-earning assets		3,222.9	3,532.1	2,684.9	2,942.4
<i>Total assets</i>		32,231.3	26,798.6	26,850.5	22,324.7
Deposits		23,271.7	17,800.4	19,386.6	14,828.7
Borrowings	(3)	2,441.5	4,242.1	2,033.9	3,533.9
Other interest-bearing liabilities		3,512.7	950.3	2,926.3	791.7
Non-interest-bearing liabilities		1,338.7	2,279.3	1,115.2	1,898.8
Total liabilities		30,564.6	25,272.1	25,462.0	21,053.1
Shareholders' equity		1,666.7	1,526.5	1,388.5	1,271.7
<i>Total funding</i>		32,231.3	26,798.6	26,850.5	22,324.7
<i>TRUST ACCOUNTS</i>					
Guaranteed trust		569.6	702.9		
Performance trust		912.6	751.2		
Total guaranteed and performance		1,482.2	1,454.1		
Money trust		1,207.9	1,147.6		
<i>CREDIT QUALITY</i>					
		<i>BANKING</i>		<i>CONSOLIDATED</i>	
		2002	2001	2002	2001
Reserve for loan losses		402.0	744.7	414.9	763.4
Reserve as a percentage of gross loans		2.01%	4.76%	2.04%	4.71%
<i>KEY FINANCIAL RATIOS</i>					
Net interest margin		2.20%	2.34%	2.21%	2.37%
Efficiency ratio		73.17%	71.13%	73.01%	70.83%
Net income to average assets		0.36%	0.86%	0.35%	0.85%
Return on average equity (before tax)		6.65%	9.12%	6.63%	9.12%
Return on average equity (after tax)		6.34%	15.16%	6.32%	15.12%
Tier 1 capital				7.31%	8.67%
Tier 2 capital				4.30%	4.68%
Total capital				11.55%	13.26%
Full Time Employees		4,250	4,456		
Total Employees		5,055	5,511		

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

(2) Includes the recognition of a deferred tax asset to the value of W6.2 billion for 2002 and W100.4 billion for 2001

(3) Borrowings include customer R/Ps and cover bills.

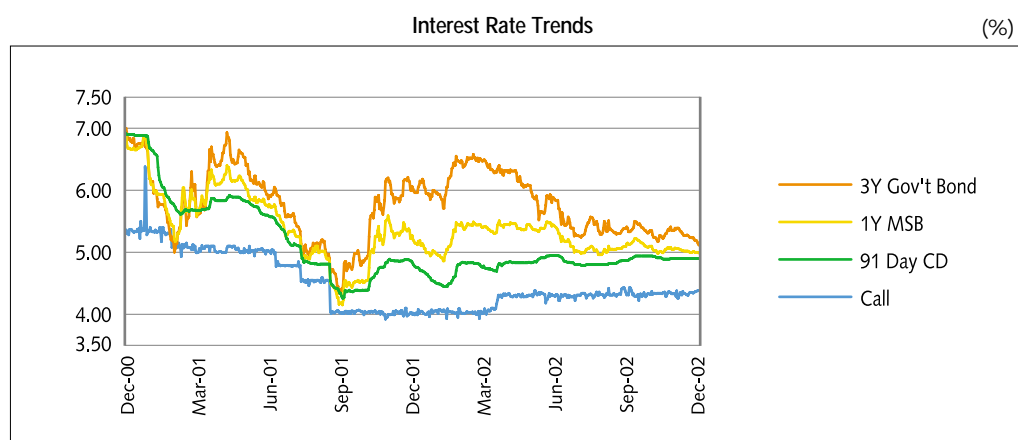
(4) Korean Won accounts are translated solely for the convenience of readers into U.S. dollars at KRW1,200.4 : US\$1, the rate prevailing at December 31, 2002

(5) All figures are rounded up or down to the nearest billion (Won) / Million (US\$)

Management's Discussion & Analysis

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. Amounts are presented in billions of Won, except where stated otherwise.

The following graph is presented for the purposes of understanding the interest rate trends in Korea over the period under review:



Overview

Net income for 2002 was W101.5 billion, a decrease of W122.6 billion from W224.1 billion in 2001. The 2002 results reflect a reduction of W94.2 billion in deferred tax benefits from the prior year and the increase in provisioning expense required by changes in FSS guidelines.

There have been significant regulatory changes in the Korean banking industry in 2002, aimed at slowing the growth in household credit. While these changes have had a significant short term impact on the profitability of the Bank's consumer business, particularly due to the increased provisioning, management welcomes the government's direction in creating more discipline in consumer lending.

With the Bank's advanced corporate and consumer credit risk management methodologies, which include focusing on pricing for risk, the Bank is well positioned to withstand the rising consumer credit risk currently facing the financial services industry in Korea. Rigorous underwriting standards and risk-based pricing are at the core of the Bank's business model.

The past year has seen the Bank continue its focus on balanced loan growth, with consumer loans(excluding bulk consumer loan portfolios purchased) growing by W5,657.9 billion to W10,248.0 billion, or over half(51.2%) of the Bank's total lending at December 31, 2002, compared with 28.8% of the total loan portfolio at December 31, 2001. Growth of the mortgage business of W4,167.3 billion to W5,632.8 billion from W1,465.5 billion at December 31, 2001 is a major achievement, even though this depressed profits in the first year of origination as a result of booking required reserves as well as fully expensing both the loan origination costs and mortgage registration expenses which are borne by the Bank. This growth has built a strong foundation for growth in profitability into the future when the reserves and the expense associated with the growth will not have a negative effect on net income.

Over the year, total loans grew to W20,027.4 billion from W15,948.2 billion at December 31, 2001. Unprotected non-performing loans as a percentage of total loan assets were 1.44%, and the reserve for loan losses was W402.0 billion or 2.01% of the Bank's loan portfolio at December 31, 2002.

The consolidated Capital Adequacy Ratio ("CAR") of 11.55% remains one of the highest of any financial institution in Korea, and appreciably higher than the regulatory requirements for well-capitalized institutions, notwithstanding the strong asset growth during the year. The maintenance of appropriate levels of capital is a management priority, particularly in these uncertain economic times, as capital provides a solid foundation for the future anticipated asset growth and promotes depositor and investor confidence.

Management's Discussion & Analysis

NET INCOME ANALYSIS

	2002	2001	Won in Billions / %	
			Better / (Worse) Amt	%
Interest income	1,585.4	1,668.2	(82.8)	(5.0%)
Interest expense	1,038.3	1,147.3	109.0	(9.5%)
Net interest income	547.1	520.9	26.2	5.0%
Provision for loan losses	132.5	81.5	(51.0)	62.6%
Fees and commissions	260.4	282.7	(22.3)	(7.9%)
Operating expenses	590.9	571.6	(19.3)	3.4%
Operating income	84.2	150.5	(66.3)	(44.1%)
Net non-operating income/(expense)	11.1	(26.8)	37.9	N/M
Income before tax	95.3	123.7	(28.4)	(23.0%)
Income tax (includes deferred tax)	6.2	100.4	(94.2)	(93.8%)
Net income	101.5	224.1	(122.6)	(54.7%)

Net income decreased by W122.6 billion, or 54.7%, to W101.5 billion in 2002 from W224.1 billion in 2001. This decrease was primarily due to the difference in the deferred tax benefit relating to Net Operating Losses recognized in 2002 as compared to 2001, and the higher provisions for loan losses in 2002 resulting from the higher minimum provision levels required by the FSS and the increase in loan balances as the Bank implemented its strategy of increasing its interest earning assets by building its consumer and corporate lending business. These decreases were partially offset by increases in net interest income and net non-operating income.

NET INTEREST INCOME

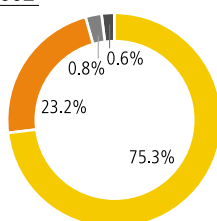
Net interest income increased by W26.2 billion, or 5.0%, to W547.1 billion in 2002 from W520.9 billion in 2001. The increase in net interest income was principally a result of an increase in the average balance of interest earning assets of W2,584.2 billion, or 11.6%, to W24,855.9 billion in 2002 from W22,271.7 billion in 2001 as the Bank increased its consumer loan book. The effect of this increase was partially offset by a decrease in the net interest margin (defined as net interest income as a percentage of the average balance of interest earning assets, calculated on the basis of daily balances) which decreased by 14 basis points, to 2.20% in 2002, from 2.34% in 2001. The decrease in net interest margin was caused primarily by a reduction in the yield earned on KDIC Bonds as well as an increase in interest bearing liabilities as a percentage of interest earning assets from 99.8% in 2001 to 102.6% in 2002.

INTEREST INCOME ANALYSIS

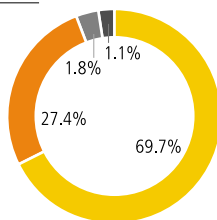
	2002				2001			
	Average: Balance	Rate	Interest Total	%	Average: Balance	Rate	Interest Total	%
Interest-Earning Assets								
Loans	16,932.8	7.05%	1,194.3	75.3%	14,046.9	8.28%	1,162.5	69.7%
Securities	6,971.0	5.29%	368.6	23.2%	7,011.3	6.53%	458.0	27.4%
Due from banks	777.9	1.63%	12.7	0.8%	905.3	3.28%	29.7	1.8%
Other	174.2	5.68%	9.9	0.6%	308.1	5.81%	17.9	1.1%
Total	24,855.9	6.38%	1,585.4	100.0%	22,271.7	7.49%	1,668.2	100.0%

Interest Income
Composition Analysis
(In Billions of Korean Won)

2002



2001



Loans
Securities
Due from banks
Other

Management's Discussion & Analysis

Interest income decreased by W82.8 billion, or 5.0%, to W1,585.4 billion in 2002 from W1,668.2 billion in 2001. This decrease was due to a decline in yields on substantially all interest earning assets, which was partially offset by an increase in the average balance of interest earning assets. The yield on interest earning assets declined by 111 basis points to 6.38% in 2002 from 7.49% in 2001, primarily due to an overall decrease in average market rates which resulted in lower overall rates on the Bank's interest earning assets. The growth in the average balance of interest earning assets was driven by increases in the average balance of consumer loans, primarily mortgages, which was partially offset by a reduction in the average balance of corporate loans and small decreases in the average balance of securities, balances due from banks and other interest earning assets. The average balance of total interest earning assets increased by W2,584.2 billion, or 11.6%, to W24,855.9 billion in 2002 from W22,271.7 billion in 2001 primarily as a result of the implementation of the Bank's strategy to increase its consumer lending, particularly mortgage loans.

In line with the Bank's strategy, the Bank's consumer loan portfolio grew significantly from 2001 to 2002, particularly its portfolio of mortgage loans. The average balance of the Bank's consumer loan portfolio increased by W3,237.2 billion, or 53.1%, to W9,336.4 billion in 2002 from W6,099.2 billion in 2001. This was driven by a substantial increase in the average balance of First Home Loans which increased by W2,420.5 billion, or 298.1%, to W3,232.5 billion in 2002 from W812.0 billion in 2001. Other general consumer loans also increased by W725.8 billion, or 40.1%, to W2,534.6 billion in 2002 from W1,808.8 billion in 2001. Yields on consumer loans, however, fell by 126 basis points to 7.57% in 2002 from 8.83% in 2001, reflecting the general decrease in prevailing market rates. As a result of the growth of balances, interest earned on consumer loans increased by W167.8 billion, or 31.1%, to W706.6 billion in 2002 from W538.8 billion in 2001 despite the decline in rates.

Interest earned on corporate loans decreased by W136.1 billion, or 21.8%, to W487.7 billion in 2002 from W623.8 billion in 2001. This decrease was primarily due to a reduction in average interest rates for corporate loans which fell by 143 basis points to 6.42% in 2002 from 7.85% in 2001 primarily as a result of the general decline in prevailing market rates. The decrease in the average balance of corporate loans of W351.3 billion or 4.4%, also contributed to the reduction in interest income on corporate loans and reflected the Bank's strategic focus on consumer lending and the transfer of loans to the KDIC pursuant to the Assistance Agreement.

Interest earned on securities decreased by W89.4 billion, or 19.5%, to W368.6 billion in 2002 from W458.0 billion in 2001. An increase in interest income from other investment securities of W83.3 billion was offset by the decrease in interest income from KDIC Bonds of W172.7 billion. The lower interest income from KDIC Bonds resulted from a decline in the average balance as well as a reduction in average interest rates. Average balances for KDIC Bonds fell by W1,883.5 billion, or 35.1%, to W3,479.0 billion in 2002 from W5,362.5 billion in 2001 as a result of bonds being redeemed as scheduled by the KDIC, and the yield was reduced by 156 basis points to 4.72% in 2002 from 6.28% in 2001 as a result of a decrease of 35 basis points in the spread of the yield over the base rate in accordance with the Assistance Agreement, as well as a decline in the base rate resulting from lower market rates. Interest earned on other investment securities increased as a result of an increase in the average balance of W1,843.1 billion, or 111.8%, to W3,492.0 billion in 2002 from W1,648.9 billion in 2001 as the Bank replaced KDIC Bonds upon their redemption mainly with Government bonds and monetary stabilization bonds issued by the Government. The average yield on these Government bonds and Monetary Stabilization Bonds decreased by 149 basis points to 5.85% in 2002 from 7.34% in 2001, reflecting the decline in prevailing market rates.

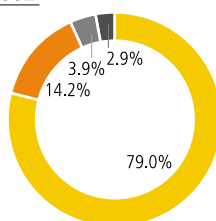
Interest earned on balances due from banks was reduced by W17.0 billion, or 57.2%, to W12.7 billion in 2002 from W29.7 billion in 2001. This decline resulted primarily from a reduction in yields which dropped by 165 basis points to 1.63% in 2002 from 3.28% in 2001 due to falling market rates as well as an increase in the non-interest earning reserves required to be maintained with the BOK. These non-interest earning reserves with the BOK are included in the interest income and expense analysis as they directly affect funding costs. Despite the increase in non-interest earning reserves with the BOK, the average volume of balances due from banks decreased by W127.4 billion, or 14.1%, to W777.9 billion in 2002 from W905.3 billion in 2001.

Interest earned on other balances, including amounts loaned to the trust business, declined by W8.0 billion, or 44.7% to W9.9 billion in 2002 from W17.9 billion in 2001 primarily as a result of a decrease in the average balance as the Bank further reduced its trust business in 2002.

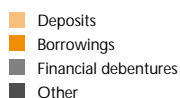
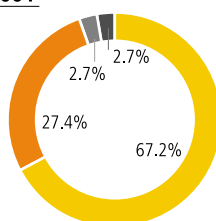
Management's Discussion & Analysis

Interest Expense Composition Analysis (In Billions of Korean Won)

2002



2001



INTEREST EXPENSE ANALYSIS

	2002				2001			
	Average: Balance	Rate	Interest Total	%	Average: Balance	Rate	Interest Total	%
Interest-Bearing Liabilities:								
Deposits	20,373.2	4.02%	819.8	79.0%	16,168.2	4.77%	771.0	67.2%
Borrowings	3,586.2	4.12%	147.8	14.2%	5,278.6	5.95%	314.1	27.4%
Financial Debentures	799.4	5.04%	40.3	3.9%	512.4	5.97%	30.6	2.7%
Other	737.1	4.11%	30.3	2.9%	266.1	11.88%	31.6	2.7%
Total	25,496.0	4.07%	1,038.3	100.0%	22,225.1	5.16%	1,147.3	100.0%

The Bank's interest expense decreased by W109.0 billion, or 9.5%, to W1,038.3 billion in 2002 from W1,147.3 billion in 2001. This decrease resulted primarily from the reduction in the rate paid on the Bank's interest bearing liabilities, which reflected the general decline in prevailing market rates. The average cost of funding decreased by 109 basis points to 4.07% in 2002 from 5.16% in 2001. The impact of the drop in rates was partially offset by an increase in the average balance of interest bearing liabilities which increased by W3,270.9 billion, or 14.7%, to W25,496.0 billion in 2002 from W22,225.1 billion in 2001.

The interest expense on deposits increased by W48.8 billion, or 6.3%, to W819.8 billion in 2002 from W771.0 billion in 2001 as a result of the increase in the average balance of deposits by W4,205.0 billion, or 26.0%, to W20,373.2 billion in 2002 from W16,168.2 billion in 2001. The average rate paid on deposits decreased by 75 basis points to 4.02% in 2002 from 4.77% in 2001. The increase in average balances was due to an increase of W2,063.8 billion in the average balance of CDs and an increase of W1,573.5 billion in the average balance of time deposits. Additional funding from deposits was needed to fund the asset growth and in meeting the Bank's funding requirements. Time deposits and CDs are more readily available sources of deposits as depositors are price sensitive and thus actively seek out slightly higher rates. CDs are attractive to the Bank because, while their yield is relatively high, their tenor is generally longer, and the Bank is not required to pay deposit insurance on CDs.

Interest paid on borrowings decreased by W166.3 billion, or 52.9%, to W147.8 billion in 2002 from W314.1 billion in 2001 as a result of the reduction in the average balance of borrowings as well as the decline in rates paid on borrowings. The average balance of borrowings decreased by W1,692.4 billion, or 32.1%, to W3,586.2 billion in 2002 from W5,278.6 billion in 2001. This decrease was a result of the reduction in the average balance of bonds sold pursuant to repurchase agreements ("RPs sold") of W897.6 billion, or 36.8%, to W1,542.4 billion in 2002 from W2,440.0 billion in 2001 as a result of the redemption of the KDIC Bonds, which were largely used in connection with RPs sold. RPs sold were offered to the Bank's retail customers and were treated by management as similar in nature to time deposits. The average balance of cover bills, which are borrowings secured by bills discounted, decreased by W460.1 billion to W9.2 billion in 2002 from W469.3 billion in 2001. This decrease was due to the Bank deemphasizing cover bills as it no longer realized a yield benefit on the issuance of cover bills to its customers. The average rate paid on borrowings also decreased by 183 basis points to 4.12% in 2002 from 5.95% in 2001 mainly because of the reduction in average balances of cover bills and RPs sold which had relatively high interest rates, as well as resulting from decreases in market rates.

Management's Discussion & Analysis

The interest paid on financial debentures issued by the Bank increased by W9.7 billion, or 31.7%, to W40.3 billion in 2002 from W30.6 billion in 2001 as a result of the increase in the average balance of financial debentures outstanding of W287.0 billion, or 56.0% to W799.4 billion in 2002 from W512.4 billion in 2001. The Bank issued Won-denominated financial debentures in an aggregate amount of W1,646.3 billion towards the end of 2002 to fund loan growth. These financial debentures were used to provide funding with lower overall costs than time deposits of a similar maturity as no deposit insurance is paid on financial debentures. Average interest rates paid on financial debentures decreased by 93 basis points to 5.04% in 2002 from 5.97% in 2001 mainly due to a decrease in prevailing market rates.

Interest paid on other interest bearing funding decreased by W1.3 billion, or 4.1%, to W30.3 billion in 2002 from W31.6 billion in 2001. Other interest bearing funding was comprised of the inter-bank reconciliation account and balances due to the trust account. The inter-bank reconciliation account is an inter-bank balance that is settled through the BOK, reduced by the Bank's customers' withdrawals from other banks and increased by other bank's customers' withdrawals from the Bank.

LOAN LOSS PROVISION

Provisions for loan losses increased by W51.0 billion, or 62.6%, to W132.5 billion in 2002 from W81.5 billion in 2001. The charge for 2002 consists of, (i) provisions required on net new loan growth, (ii) provisions resulting from a deterioration in the quality of assets, and (iii) an increase in the minimum reserve requirements as prescribed in FSS regulations. The provision required on new loan growth amounted to W29.6 billion as the Bank increased its consumer lending business, the provision required as a result of the deterioration in the quality of assets was W46.0 billion, and the additional provision required as a result of a change in the minimum reserve requirements was W51.3 billion (applying the difference to the existing and new loans). As of December 31, 2002, the unprotected allowance for loan losses as a percentage of unprotected Banking Total Loans was 1.78% and unprotected NPLs as a percentage of unprotected Banking Total Loans was 1.48%.

Required reserve ratios were changed as follows:

	December 2002		
	December 2001	Household	Credit Card
Normal	0.50%	0.75%	1.00%
Precautionary	2.00%	8.00%	12.00%
Substandard	20.00%	20.00%	20.00%
Doubtful	50.00%	55.00%	60.00%
Loss	100.00%	100.00%	100.00%

NET FEES AND COMMISSIONS

	2002	2001	Won in Billions / %	
			Better / (Worse)	
			Amt	%
Credit Card Fees	166.5	142.6	23.9	16.8%
Banking fees & commissions	63.1	81.5	(18.4)	(22.6%)
Trust account revenue	13.8	25.1	(11.3)	(45.0%)
Securities	1.3	1.2	0.1	8.3%
Foreign exchange	18.1	32.7	(14.6)	(44.8%)
Other	(2.5)	(0.4)	(2.1)	525.0%
Total fees and commissions	260.4	282.7	(22.3)	(7.9%)

Net fees and commissions decreased by W22.3 billion, or 7.9%, to W260.4 billion in 2002 from W282.7 billion in 2001. This resulted mainly from reductions in banking fees and commissions, trust fee income and foreign exchange income. These decreases were partially offset by an increase in credit card fees. Banking fees and commissions declined by W18.4 billion, or 22.6%, to

Management's Discussion & Analysis

W63.1 billion in 2002 from W81.5 billion in 2001 primarily as a result of (i) a W7.9 billion decrease in the fees earned on assets transferred to the KDIC under the Assistance Agreement which were managed by the Bank as a result of a reduction in the average balance of such transferred assets; (ii) a W5.9 billion increase in the net charge to mortgage origination fees in respect of mortgage origination costs which are charged against gross fee income as these costs are not amortized under Korean GAAP; and (iii) a W4.5 billion decrease in trade related fees and commissions as a result of a decline in trade related business. Trust fee income decreased W11.3 billion, or 45.0%, to W13.8 billion in 2002 from W25.1 billion in 2001 as a result of a reduction in higher fee generating trust balances. Foreign exchange income decreased by W14.6 billion, or 44.8%, to W18.1 billion in 2002 from W32.7 billion in 2001. This decrease was primarily a result of increases in transaction spread fees of W9.8 billion which was offset by a loss of W7.6 billion in the mark-to-market on a swap hedge position the Bank holds which did not exist in the prior year as well as increases in other foreign currency derivative losses of W12.5 billion which were entered into to hedge foreign currency risk on underlying assets and liabilities. These decreases were offset by an increase in credit card fees which increased by W23.9 billion, or 16.8%, to W166.5 billion in 2002 from W142.6 billion in 2001 as a result of the increase in cards-in-force from 1,100, 276 as of December 31, 2001 to 1,584,100 as of December 31, 2002, which resulted in increased card usage. The average outstanding balance of credit card receivables grew 44.4% from W677.7 billion in 2001 to W978.9 billion in 2002.

OPERATING EXPENSES

	2002	2001	Won in Billions / %	
			Better / (Worse) Amt	%
Staff costs	312.3	309.6	(2.7)	(0.9%)
Administration expenses	151.9	164.0	12.1	7.4%
Depreciation, amortization and other	126.7	97.9	(28.8)	(29.4%)
Total operating expenses	590.9	571.6	(19.3)	(3.4%)

Operating expenses increased by W19.3 billion, or 3.4%, to W590.9 billion in 2002 from W571.6 billion in 2001. The increase in operating expenses was primarily due to an increase in depreciation and amortization expenses which was partially offset by a decrease in administrative expenses. Depreciation, amortization and other expenses increased by W28.8 billion, or 29.4%, to W126.7 billion in 2002 from W97.9 billion in 2001 mainly as a result of increased capital expenditures relating to upgrading the Bank's technology as well as branch reconfigurations and head office restacking and leasing of space. In addition, an increase of W10.9 billion of taxes on the registration of property paid by the Bank on mortgages resulted in an increase in depreciation, amortization and other expenses.

Salaries and employee related expenses increased by W2.7 billion, or 0.9%, to W312.3 billion in 2002 from W309.6 billion in 2001. This increase was a combination of an increase in salaries in 2002 of 7.8% offset by the savings resulting from the headcount reduction from the early retirement plan. There were also one-time bonuses of W7.6 billion paid in 2001 whereas no such amount was paid in 2002.

Administrative expenses decreased by W12.1 billion, or 7.4%, to W151.9 billion in 2002 from W164.0 billion in 2001. This decrease resulted primarily from a reduction of W20.3 billion in consulting expenses as most improvement initiatives begun in 2000 and 2001 were completed early in 2002 and a decrease of W7.6 billion in legal expenses mainly attributable to a decline in legal fees incurred in respect of the preparation and arbitration of claims under the Assistance Agreement which were higher in 2001 than in 2002. These decreases were offset by the following: computer service fees increased by W10.0 billion mainly as a result of service contract fees relating to expenditures incurred by the Bank in the revamping of the information technology ("IT") function and equipment; the cost of premises, including lease costs, increased by W3.9 billion as a result of an increase in the number of branches as well as normal rental increases; telecommunication expenses which increased by W2.6 billion as a result of the introduction and use of a more sophisticated network IT communications infrastructure; and other service fees which increased by W3.3 billion mainly as a result of the outsourcing of ATM and cash dispenser filling functions.

Management's Discussion & Analysis

NET NON-OPERATING INCOME / (EXPENSE)

	2002	2001	Won in Billions / %	
			Better / (Worse) Amt	%
Non-operating revenues	29.6	29.8	(0.2)	(0.7%)
Share of income of affiliates	7.6	5.4	2.2	40.7%
Gain on the sale of investment securities	5.5	6.1	(0.6)	(9.8%)
Rental fees received	9.9	5.9	4.0	67.8%
Other	6.7	12.4	(5.7)	(46.0%)
Non-operating expenses	18.5	56.6	38.1	67.3%
Early retirement plan	15.7	22.8	7.1	31.1%
Loss on sales of investment securities	0.0	20.5	20.5	100.0%
Loss on sale of fixed assets	0.5	1.2	0.7	58.3%
Non operating legal expenses	0.9	1.2	0.3	25.0%
Branch closure expenses	0.0	4.5	4.5	100.0%
Other	1.4	6.4	5.0	78.1%
Net non-operating income / (expenses)	11.1	(26.8)	37.9	N/M

The Bank's net non-operating income increased by W37.9 billion to W11.1 billion in 2002 from a net non-operating expense in 2001 of W26.8 billion. This comprised non-operating income of W29.6 billion and non-operating expenses of W18.5 billion in 2002 compared with non-operating income of W29.8 billion and non-operating expenses of W56.6 billion in 2001.

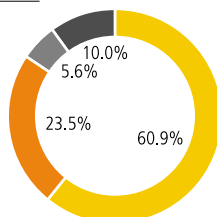
Non-operating income in 2002 and 2001 was primarily comprised of: (i) the Bank's share of the income of its affiliates under the equity method was W7.6 billion in 2002 compared to W5.4 billion in 2001 with most of the increase coming from the Bank's Hong Kong subsidiary, Korea First Finance Ltd., which provides international banking facilities to the Bank's corporate customers; (ii) a profit on sale of investment securities of W5.5 billion in 2002 compared with W6.1 billion in 2001; (iii) rental income of W9.9 billion in 2002 compared with W5.9 billion in 2001 as rental income was received for a full year in 2002 on renovated head office space completed during 2001; and (iv) other non-operating income in 2002 was W6.7 billion compared to W12.4 billion in 2001.

Non-operating expenses in 2002 and 2001 was primarily comprised of: (i) the early retirement program resulted in an expense of W15.7 billion in 2002 compared to W22.8 billion in 2001, which was comprised of early retirement incentives offered to reduce the Bank's headcount to more appropriate levels; (ii) 2001 expenses also included a number of expenses not incurred in 2002, including a mark-to-market revaluation on debt securities of W20.5 billion which included the provision against Hynix Semiconductor debt securities as well as branch closure expense of W4.5 billion; and (iii) other non-operating expenses in 2002 were W1.4 billion compared with W6.4 billion in 2001, which included an adjustment on the settlement in 2000 of a claim against the KDIC of W3.7 billion arising under the Assistance Agreement.

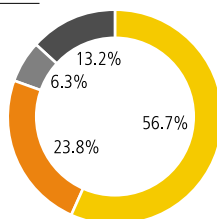
Management's Discussion & Analysis

Asset Composition Analysis (In Billions of Korean Won)

2002



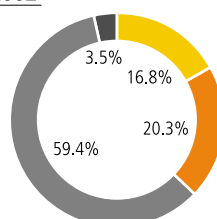
2001



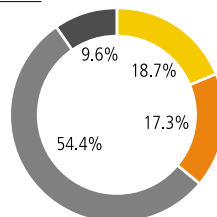
- Loans net of provisions
- Securities
- Other interest-earning assets
- Non-interest-earning assets

Loan Composition Analysis (In Billions of Korean Won)

2002



2001



- Large Corporate
- SME
- Consumer
- Other

Balance Sheet in Brief

ASSET ANALYSIS

	2002	2001	Won in Billions / %	
			Better / (Worse) Amt	%
Loans net of provisions	19,619.3	15,193.3	4,426.0	29.1%
Securities	7,591.2	6,383.5	1,207.7	18.9%
Other interest-earning assets	1,797.9	1,689.7	108.2	6.4%
Non-interest-earning assets	3,222.9	3,532.1	(309.2)	(8.8%)
Total assets	32,231.3	26,798.6	5,432.7	20.3%

Total assets increased by W5,432.7 billion, or 20.3 % , to W32,231.3 billion as of December 31, 2002 from W26,798.6 billion as of December 31, 2001. The increase was primarily due to an increase in loans net of allowance for loan losses and present value discounts ("net loans"), which increased by W4,426.0 billion, or 29.1%, to W19,619.3 billion as of December 31, 2002 from W15,193.3 billion as of December 31, 2001. The most significant portion of the increase came from consumer loans which increased by W3,208.7 billion, or 37.0%. In line with the Bank's strategy of focusing on consumer lending, most of this increase came from the increase in mortgages which increased by W4,167.3 billion.

Securities increased by W1,207.7 billion, or 18.9%, to W7,591.2 billion as of December 31, 2002 from W6,383.5 billion with a decrease in the KDIC Bonds, due to redemptions of W4,392.0 billion , or 98.0%, being offset by purchases of investment securities, mostly Government bonds, of W5,599.6 billion. Other interest-earning assets which include due from banks increased W108.2 billion to W1,797.9 billion at December 31, 2002 from W1,689.7 billion at December 31, 2001. Non-interest-earning assets decreased by W309.2 billion to W3,222.9 billion at December 31, 2002 from W3,532.1 billion at December 31, 2001 primarily due to an increase in fixed assets of W48.7 billion and a decrease in cash balances of W346.7 billion during 2002.

LOAN ANALYSIS

	2002	2001	Won in Billions / %	
			Better / (Worse) Amt	%
Large Corporate	3,362.4	2,980.0	382.4	12.8%
SME	4,066.4	2,752.6	1,313.8	47.7%
Consumer (incl card receivables)	11,891.5	8,682.8	3,208.7	37.0%
Other	707.1	1,532.8	(825.7)	(53.9%)
Banking loans	20,027.4	15,948.2	4,079.2	25.6%
Trust loans	519.4	470.0	49.4	10.5%
Total loans	20,546.8	16,418.2	4,128.6	25.1%

In 2002, total loans grew by W4,128.6 billion, or 25.1%, to W20,546.8 billion with an increase of W4,079.2 billion in Banking total loans and a W49.4 billion increase in Trust total loans. Loans in an aggregate amount of W498.9 billion were transferred to the KDIC pursuant to the Assistance Agreement, with W442.9 billion from the Banking account and W56.0 billion from the Trust account.

The increase in Banking total loans came primarily from an increase of W3,208.7 billion, or 37.0%, in consumer loans, particularly from growth in mortgages of W4,167.3 billion, or 284.4%, to W5,632.8 billion. This growth was partially offset by a decrease in consumer bulk loans of W2,449.3 billion . Loans to corporations in the Banking account increased by W382.4 billion, or 12.8%, to W3,362.4 billion as of December 31, 2002, from W2,980.0 billion as of December 31, 2001. This increase was due to the Bank's selective lending in this customer segment in conjunction

Management's Discussion & Analysis

with its relationship banking strategy, despite loans transferred to the KDIC pursuant to the Assistance Agreement. Loans to SMEs increased by W1,313.8 billion, or 47.7%, to W4,066.4 billion as of December 31, 2002 from W2,752.6 billion as of December 31, 2001 as a result of the Bank's increased focus on lending to this customer segment. Other loans in the Banking account decreased by W825.7 billion largely due to the allocation of private placement corporate bonds to specific customers types which the Bank was previously unable to do.

PROTECTION STATUS AND NON-PERFORMING LOANS

	Dec 2002			Dec 2001		
	Protected	Non-Protected	Total	Protected	Non-Protected	Total
Loans	516.1	19,511.3	20,027.4	2,142.4	13,805.8	15,948.2
% of NPLs to total loans*	0.52%	1.44%	1.95%	6.32%	2.46%	8.78%

*Total loans include both protected and non-protected banking loans.

Non-performing loans comprise the loans classified as substandard, doubtful and estimated loss by the Bank's Asset Soundness Classification Criteria and are shown in the above table broken out according to loans the Bank believes are protected by the KDIC and loans the Bank believes are not protected by the KDIC.

FUNDING ANALYSIS

	2002	2001	Better / (Worse)	
			Amt	%
Deposits	23,271.7	17,800.4	5,471.3	30.7%
Borrowings	2,441.5	4,242.1	(1,800.6)	(42.4%)
Other interest-bearing liabilities	3,512.7	950.3	2,562.4	269.6%
Non-interest-bearing liabilities	1,338.7	2,279.3	(940.6)	(41.3%)
Total liabilities	30,564.6	25,272.1	5,292.5	20.9%
Shareholders' equity	1,666.7	1,526.5	140.2	9.2%
Total funding	32,231.3	26,798.6	5,432.7	20.3%

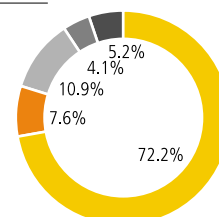
Total deposits increased by W5,471.3 billion, or 30.7%, to W23,271.7 billion as of December 31, 2002 from W17,800.4 billion as of December 31, 2001, primarily due to an increase of W3,362.1 billion in customer CDs to W4,510.4 billion as of December 31, 2002 from W1,148.3 billion as of December 31, 2001. This increase was primarily due to the Bank promoting CDs as no deposit insurance premium is required on these balances. Borrowings decreased by W1,800.6 billion, or 42.4%, to W2,441.5 billion as of December 31, 2002 from W4,242.1 billion as of December 31, 2001 due primarily to the decline in RPs sold which fell by W1,547.4 billion to W451.4 billion as of December 31, 2002 as the KDIC Bonds, which were used in connection with these instruments, were redeemed. This decrease was partially offset by foreign currency denominated borrowings which increased by W124.4 billion. Other interest-bearing liabilities which include financial debentures increased W2,562.4 billion to W3,512.7 billion as of December 31, 2002 from W950.3 billion as of December 31, 2001. Non-interest-bearing liabilities decreased by W940.6 billion to W1,338.7 billion as of December 31, 2002 from W2,279.3 billion as of December 31, 2001.

CAPITAL ADEQUACY

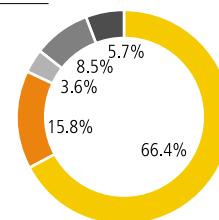
	Dec 2002	Dec 2001
Tier 1	7.31%	8.67%
Tier 2	4.30%	4.68%
Total Capital Adequacy Ratio	11.55%	13.26%
Risk Adjusted Capital	2,190.4	2,075.5
Risk Weighted Assets	18,962.6	15,651.1

Funding Composition Analysis (In Billions of Korean Won)

2002



2001



■ Deposits
■ Borrowings
■ Other interest-bearing liabilities
■ Non-interest-bearing liabilities
■ Shareholders' equity

Management's Discussion & Analysis

At December 31, 2002 the Bank's Tier 1 and total risk-based capital ratios were 7.31% and 11.55%, respectively, compared with 8.67% and 13.26% at December 31, 2001. The Bank's total risk-adjusted capital at December 31, 2002 was W2,190.4 billion compared with W2,075.5 billion at December 31, 2001. The increase during 2002 was largely due to the increase in retained income.

Total risk-weighted assets amounted to W18,962.6 billion at December 31, 2002 compared with W15,651.1 billion at December 31, 2001. Of the total risk weighted assets at December 31, 2002, 97.89% comprised on-balance sheet assets and 2.11% comprised off-balance sheet positions.

TRUST BUSINESS

INCOME FROM TRUST BUSINESS

	2002	2001	Won in Billions / %	
			Better / (Worse) Amt	%
Payment for guaranteed returns	0.0	(0.1)	0.1	N/M
Trust management fees	13.7	23.4	(9.7)	(41.5%)
Early termination fees	0.1	1.8	(1.7)	(94.4%)
	13.8	25.1	(11.3)	(45.0%)

The Bank's trust products can be classified into two categories:

- * principal-only guaranteed trusts, and
- * performance-based dividend trusts

With principal-only guaranteed trusts, the Bank is required to pay customers any loss of principal as a result of investments by the trust. The only types of principal-only guaranteed trusts which the Bank has are trusts established for pensions and trusts established for customers' severance pay obligations. The Financial Supervisory Service must approve the establishment of new guaranteed trusts.

In the case of principal and fixed-dividend guaranteed trusts, the Bank had guaranteed the return of the principal and a fixed return on maturity. This type of trust was closed to new depositors under the government's instruction in January 1999. The subsidy paid to customers on guaranteed products dropped to W6 million in 2002 from W66 million in 2001.

The performance-based dividend trusts guarantee neither principal nor interest with returns being determined solely by the trust's investment performance. Performance-based trusts constitute the Bank's main ongoing trust business.

Total trust assets increased by W28.1 billion to W1,482.2 billion at the end of 2002 from W1,454.1 billion in 2001. Nevertheless, management fees decreased by W9.7 billion to W13.7 billion in 2002 from W23.4 billion in 2001 as a result of a decrease in higher fee generating trust balances under management though lower fee generating trust balances under managed increased in the period. Early termination fees decreased by W1.7 billion to W0.1 billion in 2002 from W1.8 billion in 2001. Overall trust account returns decreased from W25.1 billion to W13.8 billion.

RISK MANAGEMENT

The Bank's core goal in risk management is to enhance profitability in ways that promise sufficient reward for understood and controlled 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 and the general managers of the Asset Liability Management department (the ALM department) and the Treasury department.

ALCO

The ALCO is responsible for establishing risk management 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 investment and lending strategy; reviewing regulatory capital levels to determine sufficiency in light of expected growth, risks, asset mix and quality, regulatory requirements

Management's Discussion & Analysis

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.

CREDIT RISK MANAGEMENT

Credit risk means the possible loan loss that can be incurred by the default of debtors (borrowers of loans or issuers 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.

Consumer Credit Risk Management

The Bank's Decision Science Group has developed its own consumer credit risk management system which uses data drawn from the customer data warehouse and the prospective borrower's loan application. An automated credit scoring module, the Acquisition Risk Management model ("ARM"), produces the statistical probability that an account will default and determines the approval/decline decision on a loan. The system then recommends a maximum loan amount and price based on a multi-dimensional matrix addressing the customer's risk as well as the value of the facility applied for.

To manage risk relating to existing accounts, the Bank has developed the Behavior Risk Management ("BRM") models. Based on multiple sources of information, including the customer data warehouse, application data and payment history, the BRM models produce the statistical probability that an existing account will default. BRM output is used in managing risk associated with the Bank's existing accounts, which includes managing loan extensions/renewals, credit line adjustments, collections and cross-selling other loan products. These automated processes together with the statistical credit scoring model seek to ensure a timely response to customer applications and instil financial discipline in the fact based-decision making process.

While these methods are used to evaluate loan applications and manage credit risk of existing accounts, they are also used to estimate the allowances for consumer loan losses. The Bank records its reserves at the higher of the rate required by the FSS guidelines and the level calculated based on the Bank's consumer credit risk management system. FSS guidelines measure risk classification by the number of days a credit is delinquent.

As the consumer risk management decision process is largely automated, the approval/decline decision on loans is able to be made at the time the application is entered into the sell-station system which is linked to the consumer risk management system. Secured loans require documentary approval. The time involved in verifying the existence and value of the collateral securing the loan as well as the legal process required to confirm the existence and ownership of the collateral and to perfect the security interest determines the overall time for the decision and extension.

Corporate Credit Risk Management

In September 2002, the Bank introduced a new Credit Risk Management System ("CRMS"), a portfolio management tool for the corporate business. The CRMS is made up of nine modules: Credit Rating; Asset Classification; Limits; Portfolio Management; Risk Measures; Pricing; Default; Collateral; and the Early Warning System. The CRMS is designed to comply with the requirements of the Basle II accord on capital adequacy which has been distributed as a draft and comprises 10 grades measured from two aspects: Borrower Risk Rating ("BRR") and Facility Risk Rating ("FRR").

The BRR is based on the probability of default and is a hybrid credit scoring model which evaluates the borrower risk based on three aspects/inputs: (i) actual financial condition, measured using the financial condition of the prospective or existing borrower from audited financial statements as well as other relevant financial information; (ii) evaluation of the business which includes assessing factors such as competitive market position, supply, management of the company and the market of the company; and (iii) cash flow forecast of the borrower, calculated using information from historical financial statements, and information such as industry position and economic forecasts.

The FRR essentially measures the magnitude of the loss expected from a facility granted to a prospective or existing borrower. This combines the probability of default with the Loss Given Default ("LGD"), which is the statistical expected loss based on the prospective or existing borrower's facility and the nature of the credit instrument.

Another important part of enhancing the Bank's credit risk management is the Credit Review Department, which was established to maintain soundness of outstanding loans by keeping close watch on changes in the credit rating of borrowers.

Management's Discussion & Analysis

INTEREST RATE 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 the 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 the 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 re-pricing of an institution's assets, liabilities and off-balance sheet contracts. If more liabilities than assets re-price in a given period, and market rates are declining, then the cost of the re-priced liabilities will fall. This increases the interest rate spread and net interest income. Conversely, if more assets than liabilities re-price in a given period, a decline in market rates will reduce the interest rate spread and also reduce the net interest income. Rising market 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 the 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 behaviour of lending and funding rates - for example when floating rate assets and liabilities with identical re-pricing 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 are used to quantify the potential impact of changing interest rates on earnings over a two-year simulation horizon and to identify the expected earnings trends given longer term rate cycles. Standard gap reports are also used to provide supporting detailed information, and another method the Bank uses 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 the Bank's 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 did not hold trading securities for the purpose of short term capital gains during 2002.

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 mark-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 the liquidity gap structure through ALCO are liquidity risk management strategies.

The Bank strives to maintain liquidity at 5% applying the Basic Surplus method to measure the Bank's ability to provide cash. Management believes that this provides sufficient liquidity to satisfy depositors' normal and expected withdrawal claims.

The Basic Surplus is a measure of the cash a financial institution can raise within a thirty day time frame at a reasonable cost without relying on selling assets, adjusted for funding that might be lost in the event of loss of confidence in the institution. The Bank's Basic Surplus was estimated at W5,493 billion or 17.0% of total assets at the end of 2002.

Independent Auditors' Report



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The Board of Directors and Shareholders of Korea First Bank

We have audited the accompanying balance sheets of Korea First Bank (the "Bank") as of December 31, 2002 and 2001, and the related statements of income, appropriations of unappropriated retained earnings, and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea First Bank at December 31, 2002 and 2001, and the results of its operations, appropriations of unappropriated retained earnings, and cash flows for the years 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.

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

February 12, 2003

Balance Sheets (Banking Accounts)

December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
<i>Assets</i>				
Cash & due from banks (Note 5)	W 2,355,717	W 2,457,344	\$ 1,962,443	\$ 2,047,104
Investment securities (Note 6)	7,500,135	1,900,381	6,248,030	1,583,123
KDIC bonds (Notes 4 and 6)	91,076	4,483,076	75,871	3,734,652
	7,591,211	6,383,457	6,323,901	5,317,775
Loans (Note 7)	20,027,400	15,948,236	16,683,939	13,285,768
Present value discounts for loans	(6,144)	(10,197)	(5,118)	(8,495)
Allowance for possible loan losses (Note 7)	(402,021)	(744,705)	(334,906)	(620,381)
	19,619,235	15,193,334	16,343,915	12,656,892
Receivable from KDIC (Note 4)	286,368	366,333	238,560	305,176
Fixed assets (Note 8)	1,226,223	1,177,510	1,021,512	980,931
Deferred income tax (Note 20)	169,625	159,625	141,307	132,977
Other assets (Note 9)	982,964	1,060,980	818,864	883,856
Total asset	W32,231,343	W26,798,583	\$26,850,502	\$22,324,711
<i>Liabilities and Shareholders' Equity</i>				
Deposits (Note 10)	W23,271,699	W17,800,406	\$19,386,620	\$14,828,729
Borrowings (Note 11)	2,441,456	4,242,108	2,033,869	3,533,912
Financial debentures (Note 12)	2,155,556	598,293	1,795,698	498,411
Accrued severance and retirement benefits (Note 13)	21,570	4,361	17,969	3,633
Other liabilities (Note 15)	2,674,324	2,626,884	2,227,861	2,188,341
Total liabilities	30,564,605	25,272,052	25,462,017	21,053,026
Commitments and contingencies (Note 17)				
Shareholders' equity				
Common stock (Note 18)	980,584	980,584	816,881	816,881
Retained earnings (Note 19)				
Legal reserves	64,141	53,141	53,433	44,269
Voluntary reserve	11,000	-	9,163	-
Other reserves	15,157	14,036	12,627	11,693
Unappropriated retained earnings	536,316	458,159	446,781	381,672
Total retained earnings	626,614	525,336	522,004	437,634
Capital adjustments	59,540	20,611	49,600	17,170
Total shareholders' equity	1,666,738	1,526,531	1,388,485	1,271,685
Total liabilities and shareholders' equity	W32,231,343	W26,798,583	\$26,850,502	\$22,324,711
<i>See accompanying notes</i>				

Statements of Income (Banking Accounts)

Years ended December 31, 2002 and 2001

	2002		2001	
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
Interest income (Note 16)				
Loans	W1,194,253	W1,162,522	\$ 994,879	\$ 968,446
Trading securities	18	-	15	-
Investment securities	204,432	121,140	170,303	100,916
KDIC bonds	164,158	336,901	136,753	280,657
Due from banks	12,667	29,706	10,552	24,747
Other	9,856	17,914	8,211	14,923
	1,585,384	1,668,183	1,320,713	1,389,689
Interest expense (Note 16)				
Deposits	819,762	771,020	682,907	642,303
Borrowings	147,842	314,128	123,161	261,686
Financial debentures	40,322	30,583	33,591	25,477
Other	30,331	31,592	25,267	26,318
	1,038,257	1,147,323	864,926	955,784
Net interest income before provision	547,127	520,860	455,787	433,905
Provision for loan and other losses (Note 7)	132,468	81,463	110,353	67,863
Net interest income after provision	414,659	439,397	345,434	366,042
Fees, commissions, other revenue (expense), net				
Banking fees	63,121	81,493	52,583	67,888
Card fees	166,513	142,593	138,715	118,788
Trust account	13,780	25,101	11,480	20,911
Securities	1,345	1,215	1,120	1,012
Foreign exchange	18,073	32,731	15,056	27,267
Other	(2,470)	(445)	(2,058)	(371)
	260,362	282,688	216,896	235,495
Operating expense				
Staff cost	312,286	309,574	260,152	257,892
Administration expense	151,863	164,027	126,510	136,644
Depreciation and other	126,713	97,949	105,559	81,597
	590,862	571,550	492,221	476,133
Operating income	84,159	150,535	70,109	125,404
Non-operating revenue	29,624	29,768	24,679	24,799
Non-operating expense	18,500	56,584	15,412	47,138
Net non-operating income (loss)	11,124	(26,816)	9,267	(22,339)
Income before taxes	95,283	123,719	79,376	103,065
Income tax benefit (Note 20)	(6,232)	(100,375)	(5,192)	(83,618)
Net income	W 101,515	W 224,094	\$ 84,568	\$ 186,683
Ordinary earnings per share (Note 21)	W 518	W 1,143	\$ 0.43	\$ 0.95
Net earnings per share (Note 21)	W 518	W 1,143	\$ 0.43	\$ 0.95
(Korean Won and U.S. Dollar in units)				
<i>See accompanying notes</i>				

Statements of Appropriations of Unappropriated Retained Earnings (Banking Accounts)

Years ended December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
Retained earnings before appropriations				
Unappropriated retained earnings at January 1	W458,159	W258,098	\$381,672	\$215,010
Net income	101,515	224,094	84,568	186,683
Other	(284)	9	(237)	7
	559,390	482,201	466,003	401,700
Appropriations of unappropriated retained earnings				
Legal reserve	11,000	22,500	9,163	18,744
Voluntary reserve	11,000	-	9,163	-
Amortization of discounts on stock issuance	-	1,124	-	936
Other statutory reserves	1,074	418	896	348
	23,074	24,042	19,222	20,028
Unappropriated retained earnings at December 31	W536,316	W458,159	\$446,781	\$381,672

See accompanying notes

Statements of Cash Flows (Banking Accounts)

Years ended December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
<i>Cash flows from operating activities:</i>				
Net income	W 101,515	W 224,094	\$ 84,568	\$ 186,683
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan and other losses	132,468	81,463	110,353	67,863
Depreciation	67,169	50,002	55,956	41,654
Provision for severance and retirement benefits	36,253	38,760	30,201	32,289
Loss on impairment of investment securities	-	20,511	-	17,087
Interest on KDIC receivables	(14,015)	(32,142)	(11,675)	(26,776)
Other, net	(9,717)	(2,321)	(8,095)	(1,933)
Changes in operating assets and liabilities, net	(103,714)	(76,245)	(86,400)	(63,516)
Net cash provided by operating activities	209,959	304,122	174,908	253,351
<i>Cash flows from investing activities:</i>				
Due from banks	(300,735)	(925,477)	(250,529)	(770,974)
Securities	(5,544,657)	(657,333)	(4,619,008)	(547,595)
KDIC bonds	4,392,000	1,464,000	3,658,780	1,219,593
Loans (*)	(4,375,765)	(1,414,961)	(3,645,256)	(1,178,741)
Acquisition of fixed assets	(117,779)	(125,200)	(98,116)	(104,299)
Other, net	266,849	247,058	222,300	205,814
Net cash used in investing activities	(5,680,087)	(1,411,913)	(4,731,829)	(1,176,202)
<i>Cash flows from financing activities:</i>				
Deposits	5,471,293	896,626	4,557,892	746,939
Borrowings	(1,800,652)	(1,038,839)	(1,500,043)	(865,411)
Financial debentures	1,572,322	100,000	1,309,832	83,306
Borrowing from trust account	(238,194)	148,213	(198,429)	123,470
Domestic exchange obligation payable	55,026	808,785	45,840	673,763
Other, net	(7,971)	56,405	(6,639)	46,988
Net cash provided by financing activities	5,067,766	971,190	4,221,731	809,055
Net decrease in cash and cash equivalents	(402,362)	(136,601)	(335,190)	(113,796)
Cash and cash equivalents at beginning of year	1,191,072	1,327,673	992,229	1,106,026
Cash and cash equivalents at end of year (Note 5)	W 788,710	W1,191,072	\$ 657,039	\$ 992,230

(*) Net of amounts transferred to KDIC of W442,856 million and W230,749 million for the years ended December 31, 2002 and 2001, respectively.

See accompanying notes

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 389 local branches and 4 overseas networks as of December 31, 2002.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. However, in connection with recapitalization by the Korea Deposit Insurance Corporation (“KDIC”) in July 1999, the Bank’s shares were suspended from trading on the Korean Stock Exchange. The par value of the Bank’s common stock outstanding at December 31, 2002 is W981 billion.

As of December 31, 2002, KFB Newbridge Holdings (Private) Limited (“Newbridge”) was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank’s common stock from the KDIC on December 30, 1999 and in connection therewith received various protections against loan, securities and other losses more fully described in Note 4. As of December 31, 2002, 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 the Korean language in conformity with accounting principles generally accepted in the Republic of Korea (“Korean GAAP”) and Accounting Standards applicable to the Korean Banking Industry. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank’s financial position and results of operations, is not presented in the accompanying financial statements. Certain reclassifications, 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’s presentation.

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.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2002 and 2001. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. Resulting translation gains or losses are credited or charged to current operations.

Notes to Financial Statements (continued)

Recognition of Interest and Fee Income

Interest income on loans and investments, including those guaranteed by the KDIC (see Note 4), 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. Loan fees and certain direct origination costs are recognized when received or paid.

Cash and Cash Equivalents

Highly liquid deposits, and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents. Deposits restricted in use are not included in cash and cash equivalents. (see Note 5)

Equity Securities in Controlled Investees

Investments in equity securities of companies over which the Bank exerts significant control or influence, including Korea First Finance Ltd., are recorded using the equity method of accounting. Under the equity method, the Bank records changes in its proportionate ownership of the net book value of the investee as current operations, capital adjustments and or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Equity Securities in Non-Controlled Investees

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 capital adjustments, 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 are recorded in current operations until the previous impairment charge is eliminated.

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 that 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

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 are recorded in current operations up to the amortized cost of the investment.

Notes to Financial Statements (continued)

Investments in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost) using the effective interest method. Declines in the fair value of debt securities that 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.

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.

Credit ratings previously consisted of 8 grades until the third quarter of 2002 but were separated into 10 grades as of December 31, 2002.

	Normal	Precautionary	Substandard	Doubtful	Estimated loss
Before change	Grade 1-4	Grade 5	Grade 6	Grade 7	Grade 8
After change	Grade 1-6	Grade 7	Grade 8	Grade 9	Grade 10

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

Credit ratings	Loan classifications	Corporate loans and others	Household loans	Credit card accounts
1 ~ 6	Normal(*)	0.5% or above	0.75% or above	1.0% or above
7	Precautionary	2% or above	8% or above	12% or above
8	Substandard	20% or above	20% or above	20% or above
9	Doubtful	50% or above	55% or above	60% or above
10	Estimated loss	100%	100%	100%

(*) For call loans and bonds purchased under resale agreements classified as normal, loan loss provisions are not provided in accordance with FSS guidelines.

In 2002, the Financial Supervisory Service ("FSS") increased, on several occasions, minimum loan loss reserve percentages for household and credit card loans. Final percentages are shown in the above table. Prior to 2002, statutory FSS minimum loan loss reserve percentages for household and credit card loans were identical to those shown above for corporate loans. To comply with new minimum reserve percentages as required by FSS guidelines, the Bank provided an additional loan loss provision of W51.3 billion in 2002.

For household and credit card loans, the Bank determines loss percentages using historical migration loss models by loan type. The resulting loss percentages calculated by historical migration loss models are compared to the above minimum provision percentages, on a total basis, and the Bank records a provision based on the overall higher percentage of the two methods.

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 the charge-off of loan balances.

Notes to Financial Statements (continued)

The Bank's classification criteria for credit rating corporate loans are as follows:

Classification	Description
Normal	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose no risk to the Bank's ability to collect the full amount of principal and interest as they become due.
Precautionary	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to have potential weaknesses that may lead to an inability to repay the full principal and interest as they become due in the near future.
Substandard	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose a considerable risk to the Bank's ability to collect the full principal and interest due to revealed weaknesses that may have diminished the customer's capacity to repay the loans in a satisfactory manner.
Doubtful	Portion of assets in excess of the amount expected to be collected from customers who, in light of their management, financial position and future cash flows, are determined to pose a significant risk to the Bank's ability to collect principal and interest due to a considerably weakened capacity to repay the loans in a satisfactory manner.
Estimated Loss	Portion of assets in excess of the amount expected to be collected from customers whose credit must be accounted for as a loss, because, in light of their management, financial position and future cash flows, the Bank's collection of principal and interest is not probable in the foreseeable future due to a serious weakening of such customers' ability to repay the loan in a satisfactory manner.

Present Value Discounts

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 difference in present value of the loan and book 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 a present value discount 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.

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 for construction in progress is deferred until transfer to appropriate fixed asset categories upon completion.

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.

	Estimated useful lives
Buildings	40 ~ 60 years
Structures	5 years
Movable property	3 ~ 20 years

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

Notes to Financial Statements (continued)

New Stock Issuance Costs and Debenture Issuance Costs

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

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2002 and 2001 is sufficient to state the liability under the Korean Labor Standards Law and the Bank's policies based on the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2002 and 2001. Funding of this liability is not required by Korean law. Actual payments of severance and retirement benefits, excluding payments for one-time special retirement programs, were W27,792 million for the year ended December 31, 2002.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W145,558 million at December 31, 2002. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2002, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

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 a minimum allowance percentage on confirmed guarantees of 0.5% 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.

Reserve for Unused Cash Advance Commitments on Credit Cards

Pursuant to a new regulation issued by the FSS, from the third quarter of 2002 the Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months. The allowance for unused cash advance commitments on credit cards as of December 31, 2002 amounted to W5,597 million.

Notes to Financial Statements (continued)

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 W3,713 billion as of December 31, 2002.

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 of whether they are entered for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with gains and losses included in current operations. Derivative contracts qualifying for hedge accounting treatment have unrealized valuation gains and losses recorded as capital adjustments (cash-flow-hedge derivatives) or as other revenues and expenses in current operations in conjunction with recording unrealized gains and losses for underlying assets or liabilities (fair-value-hedge derivatives).

Contingent Liabilities

Guarantees of payment for money indebtedness, acceptances of trade bills related to export or import, guarantees issued on opened letters of credit, etc. are classified as confirmed acceptances and guarantees. Both confirmed acceptances and guarantees and contingent acceptances and guarantees are presented as off-balance sheet items. The notional amount of derivative contracts, bills endorsed and commitments for which the Bank has promised to provide credit to borrowers, if the commitment period is over 1 year and the commitment is irrevocable by the Bank, are also presented as off-balance sheet items.

Investment Distribution Business

The Bank has a consignment contract for sale of beneficiary certificates and mutual funds with an investment trust company. Outstanding beneficiary certificates and mutual funds sold for an outside investment trust company amounted to W889.3 billion as of December 31, 2002.

Trust Accounts

Under the Trust Business Act, fiduciary trust funds held by the Bank are accounted for and reported separately from the Bank's banking accounts. If income from a guaranteed trust account is insufficient to pay the guaranteed amount, the deficiency must be satisfied from either special reserves maintained in the trust accounts or funds transferred from the banking account.

Notes to Financial Statements (continued)

Domestic Import Usance Bills

The Bank has certain confirmed and outstanding domestic import usance bills originated from import L/Cs issued by the Bank. Prior to 2002, these domestic import usance bills were disclosed as an off-balance sheet item (confirmed acceptances and guarantees). According to new guidance of the FSS effective from December 2002, these are recorded on balance sheet as loans (debit) and borrowings (credit) in foreign currencies, respectively, in the amount of W173,142 million as of December 31, 2002.

To conform to the current year's presentation, this reclassification in the amount of W306,875 million was also made to the prior year financial statements.

Korean GAAP Revisions from 2003

In 2002, the Korean Accounting Standards Board issued certain new accounting statements with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards will apply to Korean companies for the first fiscal year starting after December 31, 2002. Early adoption of the revised accounting standards is allowed. The cumulative effect on prior years of the changes in accounting policies will be charged or credited to either opening retained earnings or the capital adjustment account, as required, with disclosures made on the effect of the changes. The revisions include changes in the areas of revenue recognition, intangibles, property, plant and equipment, interest capitalization, marketable and investment securities, events and transactions occurring after the balance sheet date, and convertible securities.

The Bank plans to adopt the revised accounting standards from January 1, 2003. The Bank is currently evaluating the impact that adoption of the revised accounting standards will have on its financial position and results of operations.

3. United States Dollar Amounts

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts 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 W1,200.40 : US\$1, the basic exchange rate on December 31, 2002. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be 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 2001 U.S. Dollar amounts, which were previously expressed at W1,326.10 : US\$1, the rate prevailing at December 31, 2001 have been restated to reflect the exchange rate in effect at December 31, 2002.

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. In general, these protections applied to certain loans and similar credit instruments remaining on the Bank's consolidated balance sheet after Closing ("Remaining Loans"). Remaining Loans included any loans in guaranteed trust accounts and certain designated loans in mixed trust accounts but did not include any loans in performance trust accounts.

Notes to Financial Statements (continued)

In general, depending on the type and circumstances of the particular Remaining Loan, these protections took 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 determined to take against the Remaining Loan. Certain guarantees and commitments of the Bank were also subject to credit protection.

The periods of credit protection provided by the KDIC varied depending on the type of asset involved. The protection periods were generally (i) through December 31, 2002 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) through December 31, 2002 for Remaining Loans to certain financial institutions, and (iii) through December 31, 2001 for other Remaining Loans (see Note 17). The protection period for commitments ranged from one to three years, depending on the type of commitment involved. Loans with an outstanding principal balance totaling W291 billion and commitments and guarantees amounting to W63 billion are considered by the Bank to have had protection as of December 31, 2002, respectively. All reserve protection and transfer rights expired as of January 1, 2003. The Bank is in the process of preparing its final reserve claim, as provided in the Assistance Agreement, for protected loans as of December 31, 2002.

In general, the types of protection available depended on whether the Remaining Loan is (i) one of certain specified Remaining Loans to the Daewoo group, (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.

The KDIC continues to guarantee the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio, 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, 2002, fixed income securities, primarily corporate debentures including private placement corporate bonds, with an outstanding principal balance totaling W401.1 billion have principal or yield guarantee.

Receivables from the KDIC at December 31, 2002 and 2001 are W286,368 million and W366,333 million, respectively. Receivables are primarily for reserves, settlement of asset transfers, and other settlements.

In connection with the expiration of all loan protection, the Bank is in process of preparing their final reserve claim as of December 31, 2002 with the KDIC.

5. Cash and Due from Banks

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

	Millions of Won	
	2002	2001
Cash on hand	W 656,485	W1,019,331
Foreign currencies	46,471	30,333
Due from banks in Korean Won	1,503,716	1,233,992
Due from banks in foreign currencies	149,045	173,688
	W2,355,717	W2,457,344

Notes to Financial Statements (continued)

Due from banks denominated in Korean Won at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Type	Interest rate (%)	Depository	Total
December 31, 2002			
Checking accounts	-	Bank of Korea	W1,165,029
CD purchases	4.90 ~ 4.93	Industrial Bank of Korea, etc.	336,444
Other deposits	0.00 ~ 5.00	Woori Bank, etc.	2,243
			W1,503,716
December 31, 2001			
Checking accounts	-	Bank of Korea	W1,231,971
Other deposits	0.00 ~ 8.10	Woori Bank, etc.	2,021
			W1,233,992

Due from banks denominated in foreign currencies at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Type	Interest rate (%)	Depository	Total
December 31, 2002			
Demand deposits	-	Bank of Korea and others	W 47,089
Time deposits	1.54 ~ 2.21	Korea First Finance, HK	101,794
Other deposits	Sibid-1.75	HSBC Futures	162
			W149,045
December 31, 2001			
Demand deposits	-	Bank of Korea and others	W 59,713
Time deposits	2.29 ~ 2.90	Korea First Finance, HK	113,647
Other deposits	Sibid-1.75	HSBC Futures	328
			W173,688

Restricted balances in due from banks at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Type	Depository	Total	Restriction
December 31, 2002			
Checking accounts	Bank of Korea	W1,165,029	Reserve for payment of deposits
Demand deposits	Bank of Korea	28,129	Reserve for payment of deposits
Time deposits	Woori Bank	1,722	Escrow accounts
Other deposits	HSBC Futures, etc.	392	Deposits for Stock Index Futures, etc.
		W1,195,272	
December 31, 2001			
Checking accounts	Bank of Korea	W1,231,971	Reserve for payment of deposits
Demand deposits	Bank of Korea	25,790	Reserve for payment of deposits
Time deposits	Woori Bank	1,722	Escrow accounts
Other deposits	HSBC Futures, etc.	556	Deposits for Stock Index Futures, etc.
		W1,260,039	

Checking accounts and demand deposits deposited with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits.

Notes to Financial Statements (continued)

The term structure of amounts of due from banks at December 31, 2002 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2002	W1,503,716	W149,045	W1,652,761

The term structure of amounts of due from banks at December 31, 2001 is as follows (millions of Won):

Year ending December 31,	Due from banks in Korean Won	Due from banks in foreign currency	Total
2001	W1,233,992	W173,688	W1,407,680

Major transactions not resulting in cash flows for the years ended December 31, 2002 and 2001 are as follows (millions of Won):

	2002	2001
Loss reserve - KDIC Receivable	W215,965	W114,201
Loans in Won currency converted to equity	25,506	64,351
Present value discount - KDIC Receivable	1,355	591
Transfer of deposits for group severance and retirement benefits	-	153,389

Cash and cash equivalents at December 31, 2002 and 2001 are comprised as follows (millions of Won):

	2002	2001
Cash on hand	W656,485	W1,019,331
Foreign currencies	46,471	30,333
Due from banks in Won	291	71
Due from banks in foreign currency	85,463	141,337
	W788,710	W1,191,072

Notes to Financial Statements (continued)

6. Investment Securities

Investment securities at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Equity securities held for investment		
Korean Won		
Affiliated companies	W 5,596	W 4,654
Listed companies	29,014	104,906
Unlisted companies	15,557	13,340
	50,167	122,900
Foreign currency - affiliated companies	59,840	59,861
	110,007	182,761
Debt securities held for investment		
Bonds available-for-sale		
Korean Won	6,954,300	1,312,260
Foreign currencies	193,636	82,232
	7,147,936	1,394,492
Bonds held-to-maturity		
Korean Won	111,250	264,053
Foreign currencies	130,942	59,075
	242,192	323,128
	7,390,128	1,717,620
Total investment securities	7,500,135	1,900,381
KDIC bonds held-to-maturity	91,076	4,483,076
	W7,591,211	W6,383,457

Equity Securities Held for Investment

Equity investments in affiliated companies, denominated in Korean Won, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
December 31, 2002					
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W5,596	W5,596
December 31, 2001					
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W4,654	W4,654

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. In 2002, W1,788 million of income from affiliated companies is included in current operations, and a W146 million decrease in retained earnings is debited to the opening balance of unappropriated retained earnings. In 2001, W470 million of income from affiliated companies are included in current operations, and a W9 million increase in retained earnings is credited to the opening balance of unappropriated retained earnings. The Bank received W700 million and W89 million of dividends in 2002 and 2001, respectively.

Notes to Financial Statements (continued)

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2002 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Maxon Telecom Co. (preferred)	1,093,841	0.00	W3,380	W21,877
Keangnam Enterprises Co., Ltd	83,536	0.32	182	182
KP Chemical	74,412	0.08	227	372
Ssang Yong Motor	58,534	0.05	293	2,927
Korea Information Service	42,000	0.88	599	599
Jin Do Co., Ltd.	40,669	0.20	17	3,050
Dong Yang Steel Pipe Co., Ltd.	1,180	0.00	-	7
	1,394,172		W4,698	W29,014

All listed investment securities, except Korea Information Service and certain securities of Keangnam Enterprises, were received when outstanding loans were 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 (market value for Korea Information Service and certain securities of Keangnam Enterprises). Loss on valuation of securities of W76 million (gain of W160 million for Korea Information Service and loss of W236 million for Keangnam Enterprises) was included in the capital adjustment account as of December 31, 2002.

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2001 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Korea Development Leasing Corp.	2,491,010	9.69	W 2,740	W 12,502
Daewoo Electronics Co., Ltd.	2,288,571	2.55	8,353	15,900
Daewoo Heavy Industries & Machinery Ltd.	1,583,479	0.94	2,985	7,917
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	1,380,239	0.70	8,765	14,865
Ssang Yong Motor	1,000,000	2.63	1,110	5,000
Dong Yang Steel Pipe Co., Ltd.	910,390	1.44	992	5,462
Hanmi Capital Co., Ltd.	631,400	1.71	695	3,157
Chohung Capital	509,800	1.73	846	2,549
ETRONICS	296,420	0.46	111	2,075
Shin Won Co.	296,400	0.18	270	1,482
Maxon Telecom Co.	285,441	0.55	140	28,069
Keangnam Enterprises Co., Ltd.	200,753	0.76	638	1,512
Anam Semiconductor Corp.	136,250	0.12	773	1,090
Haitai Stores Co., Ltd.	103,140	1.48	121	3,094
Sepoong Corp.	36,600	0.21	43	183
The Korea Express Co., Ltd.	1,960	0.03	16	49
	12,151,853		W28,598	W104,906

Notes to Financial Statements (continued)

Unlisted equity securities, denominated in Korean Won, as of December 31, 2002 and 2001 are as follows (millions of Won):

Company	Number of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
December 31, 2002					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W 9,870	W 7,500
BC Card	653,400	14.85	5,840	22,414	5,840
ETRONICS (*)	288,280	0.45	2,018	(638)	2,018
Daewoo Motors (*)	3,868	0.004	193	83	193
Daewoo Commercial Vehicle (*)	1,177	0.01	6	8	6
	2,446,725		W15,557	W31,737	W15,557
December 31, 2001					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W11,088	W 7,500
BC Card	653,400	14.85	5,840	19,545	5,840
	2,153,400		W13,340	W30,633	W13,340

(*) Equity securities of ETRONICS were reclassified from listed equity securities to unlisted equity securities due to delisting as of April 27, 2002. These securities, including equity securities of Daewoo Motors and Daewoo Commercial Vehicle, are stated at acquisition cost because they are scheduled to be transferred to the KDIC in accordance with the agreement between the Bank and the KDIC.

Equity securities, denominated in foreign currencies, at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2002						
Qingdao International Bank	-	50.00	W12,004	W12,258	W12,258	W12,258
Korea First Finance Ltd, HK	7,000	100.00	3,601	47,582	47,582	47,582
	7,000		W15,605	W59,840	W59,840	W59,840
December 31, 2001						
Qingdao International Bank	-	50.00	W13,261	W10,794	W10,794	W10,794
Korea First Finance Ltd, HK	7,000	100.00	3,978	49,067	49,067	49,067
	7,000		W17,239	W59,861	W59,861	W59,861

Equity securities in foreign currencies are valued by the equity method. W5,776 million and W4,932 million of income from affiliated companies is included in current operations for the years ended December 31, 2002 and 2001, respectively, and a W138 million decrease in retained earnings of affiliated companies is debited to the opening balance of unappropriated retained earnings as of December 31, 2002.

Notes to Financial Statements (continued)

Debt Securities Held for Investment

Bonds available-for-sale, denominated in Korean Won, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Account	Interest rate (%)	Face value	Acquisition cost	Amortized cost	Impairment	Capital adjustment	Carrying value (*)
December 31, 2002							
Government bonds	3.00 ~ 11.15	W1,487,452	W1,429,209	W1,434,451	W -	W54,411	W1,488,862
Beneficiary certificates	-	19,690	19,690	19,690	-	-	19,690
Financial debentures	4.37 ~ 7.77	5,020,000	4,823,760	4,820,037	-	1,609	4,821,646
Corporate debentures	5.14 ~ 11.46	558,280	622,250	620,287	-	3,815	624,102
		W7,085,422	W6,894,909	W6,894,465	W -	W59,835	W6,954,300
December 31, 2001							
Government bonds	5.00 ~ 11.49	W 862,243	W 880,827	W 872,412	W -	W 7,320	W 879,732
Beneficiary certificates	-	30,070	30,070	30,070	-	-	30,070
Financial debentures	5.05 ~ 7.80	200,000	198,078	196,302	-	105	196,407
Corporate debentures	1.00 ~ 11.50	228,007	240,420	224,646	(20,511)	1,916	206,051
		W1,320,320	W1,349,395	W1,323,430	W(20,511)	W 9,341	W1,312,260

(*) The above carrying values are estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2002 and by yields announced by Korean Securities Dealers Association at December 30, 2001.

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2002 are summarized as follows (millions of Won):

Currency	Interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (*1)	Capital adjustment	Carrying value (*2)
USD	0.25 ~ 5.14	W177,040	W174,926	W182,524	W1,217	W(236)	W183,505
JPY	0.93	10,129	10,129	10,129	2	-	10,131
		W187,169	W185,055	W192,653	W1,219	W(236)	W193,636

(*1) Asset swap contracts which offset valuation gains and losses on underlying assets as fair value hedges (see Note 17)

(*2) The above carrying values are estimated using yields for bonds announced by quotation services, broker's quotes or estimates of amounts collectable.

As of December 31, 2002, US\$43 million of bonds available-for-sale, denominated in foreign currencies are pledged as collateral for interest rate swaps.

Notes to Financial Statements (continued)

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2001 are summarized as follows (millions of Won):

Currency	Interest rate (%)	Face value	Acquisition cost	Carrying value
USD	3.36 ~ 7.57	W82,395	W82,114	W82,232

A certain portion of bonds available-for-sale in foreign currencies as of December 31, 2002 and bonds available-for-sale in foreign currencies as of December 31, 2001 are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are receivable from the KDIC until sale or maturity. The market values of securities above as of December 31, 2002 and 2001 are W165,999 million and W41,465 million, respectively.

Bonds held-to-maturity, denominated in Korean Won, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Account	Interest rate (%)	Face value	Acquisition cost	Carrying value	Market value
December 31, 2002					
KDIC bonds (*)	1.00	W 91,076	W 91,076	W 91,076	W 86,568
Corporate debentures (*)	5.14	110,223	110,223	110,223	115,171
Government bonds	3.00 ~ 6.00	701	567	1,027	908
		W 202,000	W 201,866	W 202,326	W 202,647
December 31, 2001					
KDIC bonds (*)	1.00 ~ 5.78	W4,483,076	W4,483,076	W4,483,076	W4,484,702
Corporate debentures (*)	1.00 ~ 11.00	167,514	171,906	167,352	167,350
Financial debentures (*)	8.74	90,000	90,000	90,000	90,000
Government bonds	3.00 ~ 11.95	6,551	6,521	6,701	8,275
		W4,747,141	W4,751,503	W4,747,129	W4,750,327

(*) W91 billion of KDIC bonds and W110 billion of corporate debentures are guaranteed by the government as of December 31, 2002
W4,483 billion of KDIC bonds, W110 billion of corporate debentures and W20 billion of financial debentures are guaranteed by the government as of December 31, 2001.

Bonds intended to be held to maturity are initially stated at their acquisition cost which may be subsequently adjusted for amortization of premiums or discounts. 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.

As of December 31, 2002 and 2001, W2,851 billion and W5,132 billion of bonds denominated in Korean Won (both available-for-sale and held-to-maturity bonds) are pledged as collateral for certain borrowings and key money deposits, respectively.

Bonds held-to-maturity, denominated in foreign currencies, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Notes to Financial Statements (continued)

Currency	Interest rate (%)	Face value	Acquisition cost	Carrying value	Fair value
December 31, 2002					
USD	4.11 ~ 5.14	W126,042	W125,829	W125,872	W126,164
JPY	0.10	5,064	5,070	5,070	5,070
		W131,106	W130,899	W130,942	W131,234
December 31, 2001					
USD	6.33 ~ 8.50	W 55,014	W 53,550	W 53,992	W 44,621
PY	0.55	5,046	5,051	5,083	5,083
		W 60,060	W 58,601	W 59,075	W 49,704

As of December 31, 2002, JPY500 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for settlement of accounts. As of December 31, 2001, US\$21 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for bonds sold under repurchase agreement.

Investment Securities Concentrations

At December 31, 2002 and 2001, information about investment securities by geography, issuer, industry and character are summarized as follows (millions of Won):

By Geography	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2002				
Korea	W7,206,793	W179,971	W7,386,764	97.31
USA	-	178,040	178,040	2.35
China	-	12,258	12,258	0.16
Indonesia	-	5,849	5,849	0.08
Japan	-	5,070	5,070	0.06
Malaysia	-	3,230	3,230	0.04
	W7,206,793	W384,418	W7,591,211	100.00
December 31, 2001				
Korea	W6,182,289	W 70,137	W6,252,426	97.95
China	-	59,861	59,861	0.94
Japan	-	44,866	44,866	0.70
Malaysia	-	13,204	13,204	0.21
Thailand	-	6,639	6,639	0.10
Indonesia	-	6,461	6,461	0.10
	W6,182,289	W201,168	W6,383,457	100.00
By Issuer				
December 31, 2002				
Public	W1,711,464	W 21,032	W1,732,496	22.82
Financial business	5,396,818	216,761	5,613,579	73.95
Large corporate	92,908	146,625	239,533	3.16
Others	5,603	-	5,603	0.07
	W7,206,793	W384,418	W7,591,211	100.00
December 31, 2001				
Public	W5,551,509	W 19,836	W5,571,345	87.28
Financial business	469,611	106,292	575,903	9.02
Large corporate	151,053	75,040	226,093	3.54
Others	10,116	-	10,116	0.16
	W6,182,289	W201,168	W6,383,457	100.00

Notes to Financial Statements (continued)

By Industry	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2002				
Public	W1,711,464	W 21,032	W1,732,496	22.82
Financial business	5,396,818	216,761	5,613,579	73.95
Manufacturing	62,638	146,625	209,263	2.76
Wholesale and retail	35,691	-	35,691	0.47
Construction	182	-	182	0.00
	W7,206,793	W384,418	W7,591,211	100.00
December 31, 2001				
Public	W5,551,509	W 19,836	W5,571,345	87.28
Financial business	469,611	106,292	575,903	9.02
Manufacturing	121,400	75,040	196,440	3.08
Wholesale and retail	38,257	-	38,257	0.60
Construction	1,512	-	1,512	0.02
	W6,182,289	W201,168	W6,383,457	100.00
By Character				
By Character	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2002				
Stocks	W 50,167	W 59,840	W 110,007	1.45
Fixed rate bonds	7,136,936	98,997	7,235,933	95.32
Floating rate bonds	-	225,581	225,581	2.97
Beneficiary certificates	19,690	-	19,690	0.26
	W7,206,793	W384,418	W7,591,211	100.00
December 31, 2001				
Stocks	W 122,900	W 59,861	W 182,761	2.86
Fixed rate bonds	1,629,512	52,067	1,681,579	26.34
Floating rate bonds	4,393,421	89,240	4,482,661	70.23
Convertible bonds	6,386	-	6,386	0.10
Beneficiary certificates	30,070	-	30,070	0.47
	W6,182,289	W201,168	W6,383,457	100.00

Maturity Schedule

The maturities of investment securities, except equity securities, at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31	Government bonds	Financial debentures	Corporate debentures (*)	Beneficiary certificates	Securities in foreign currencies	Total
2003	W 269,801	W4,821,646	W236,450	W19,690	W 33,650	W5,381,237
2004	330,124	-	157,323	-	68,902	556,349
2005	105,385	-	-	-	72,861	178,246
2006	302,615	-	-	-	8,402	311,017
2007	481,964	-	431,628	-	120,040	1,033,632
Thereafter	-	-	-	-	20,723	20,723
	W1,489,889	W4,821,646	W825,401	W19,690	W324,578	W7,481,204

Notes to Financial Statements (continued)

The maturities of investment securities, except equity securities, at December 31, 2001 are summarized as follows (millions of Won):

Year ending December 31	Government bonds	Financial debentures	Corporate debentures (*)	Beneficiary certificates	Securities in foreign currencies	Total
2002	W 91,701	W236,407	W4,412,258	W30,070	W 42,971	W4,813,407
2003	271,797	20,000	236,549	-	-	528,346
2004	480,260	-	195,629	-	6,443	682,332
2005	32,460	30,000	3,931	-	-	66,391
2006	10,215	-	-	-	-	10,215
Thereafter	-	-	8,112	-	91,893	100,005
	W886,433	W286,407	W4,856,479	W30,070	W141,307	W6,200,696

(*) Corporate debentures include KDIC bonds.

7. Loans

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

Account	2002		2001	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in Korean Won				
Corporate loans	5.09 ~ 9.79	W 5,038,274	5.80 ~ 11.33	W 3,805,114
Household loans	5.15 ~ 15.55	10,599,731	4.42 ~ 17.56	7,887,417
Loans to public sector	5.23 ~ 7.97	103,351	5.95 ~ 7.83	217,051
Other loans	5.44	133,665	4.85 ~ 7.74	168,818
Notes bought	3.83 ~ 6.38	423,365	6.99 ~ 12.78	530,813
Advances to customers	-	29,609	-	191,174
Credit card accounts	-	1,291,729	-	795,380
Private placement corporate bonds	5.09	760,179	7.96	383,356
		18,379,903		13,979,123
Loans in foreign currencies				
Loans	2.10 ~ 4.49	775,898	4.70 ~ 6.40	1,050,570
Call loans	1.29	84,028	4.22	76,251
Off-shore loans	1.92	42,713	6.09	267,353
Bills bought	3.69	744,858	5.18	570,931
Notes bought	-	-	5.71	4,008
		1,647,497		1,969,113
Total loans		W20,027,400		W15,948,236

Notes to Financial Statements (continued)

Loans made to financial institutions at December 31, 2002 and 2001 are summarized as follows:

Account		Annual interest rate (%)	Millions of Won
December 31, 2002			
Domestic banks	Interbank loans	5.44	W 133,665
Overseas banks	Loans in foreign currencies	1.55	16,806
	Interbank loans in foreign currencies	2.10	48,016
Other	General loans	7.14	533,035
	Private placement corporate bonds	7.55	310,932
	Overdrafts	6.46	7,299
	Loans in foreign currencies	4.58	142,332
			W1,192,085
December 31, 2001			
Domestic banks	Interbank loans	6.52	W 168,691
Overseas banks	Loans in foreign currencies	3.07	22,544
	Interbank loans in foreign currencies	2.81	58,348
Other	General loans	6.83	88,216
	Private placement corporate bonds	8.27	108,392
	Overdrafts	8.85	1,289
	Loans in foreign currencies	4.30	169,935
	Bills bought	3.96	1,012
			W 618,427

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection in connection with the Bank's final reserve claim from the KDIC on a portion of the principal balances of loans outstanding as of December 31, 2002 (see Note 4). The Bank has established additional allowances for new loans and existing loans that the Bank does not believe are protected by assistance from the KDIC.

Changes in the allowance for possible loan losses at December 31, 2002 and 2001 are as follows (millions of Won):

	2002	2001
Beginning balance	W744,705	W788,869
Decrease in reserves for protected loans	(206,513)	(112,504)
Provision for loan losses on unprotected loans (*)	126,871	74,313
Put and call to KDIC	(32,290)	(5,848)
Written off	(237,050)	(7,326)
Other changes	6,298	7,201
Ending balance	W402,021	W744,705

(*) The provision for loan losses on unprotected loans at December 31, 2002 does not include a provision for unused cash advance commitments on credit cards amounting to W5,597 million as the resulting allowance is included in other liabilities.

The provision for loan and other losses per the statements of income includes a provision for other losses of W7,150 million for the year ended December 31, 2001.

The ratios of allowance for loan losses to total loans as of December 31, 2002, 2001 and 2000 are 2.01%, 4.76% and 5.54%, respectively.

Notes to Financial Statements (continued)

At December 31, 2002 and 2001, loans (excluding call loans and credit card accounts) by geography, borrower type and industry are summarized as follows (millions of Won):

By Geography	2002		2001	
Korea	W18,278,136	98.00%	W14,591,392	96.78%
Japan	154,180	0.83	229,389	1.52
China	48,934	0.26	58,348	0.39
Other	170,393	0.91	197,476	1.31
	W18,651,643	100.00%	W15,076,605	100.00%

By Borrower Type	2002		2001	
Household	W10,600,485	56.83%	W 7,891,555	52.34%
Corporate	7,814,142	41.90	6,681,353	44.32
Public and Other	237,016	1.27	503,697	3.34
	W18,651,643	100.00%	W15,076,605	100.00%

By Industry	2002		2001	
Household	W10,600,485	56.84%	W 7,891,555	52.34%
Manufacturing	3,639,243	19.51	4,239,059	28.11
Financial business	1,192,085	6.39	618,427	4.10
Wholesale and retail trade	955,312	5.12	759,424	5.04
Real estate and rental	578,296	3.10	277,460	1.84
Lodging and restaurant	524,373	2.81	146,442	0.97
Construction	264,208	1.42	218,010	1.45
Transport and communication	189,008	1.01	233,443	1.55
Other	708,633	3.80	692,785	4.60
	W18,651,643	100.00%	W15,076,605	100.00%

The maturities of loans in Korean Won and foreign currencies at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2003	W 9,579,946	W1,333,676	W10,913,622
2004 ~ 2005	4,424,145	178,206	4,602,351
2006 ~ 2007	1,502,063	68,886	1,570,949
Thereafter	2,873,749	66,729	2,940,478
	W18,379,903	W1,647,497	W20,027,400

The maturities of loans in Korean Won and foreign currencies at December 31, 2001 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2002	W 9,287,884	W1,339,188	W10,627,072
2003 ~ 2004	3,413,528	282,754	3,696,282
2005 ~ 2006	353,268	165,919	519,187
Thereafter	924,443	181,252	1,105,695
	W13,979,123	W1,969,113	W15,948,236

Notes to Financial Statements (continued)

The classification and allowance for loan losses outstanding at December 31, 2002 are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)	Allowance percentage
Loans in Won	W15,969,692	W415,501	W 94,364	W132,737	W16,801	W16,629,095	
(Allowance)	(114,751)	(16,859)	(20,319)	(56,585)	(16,801)	(225,315)	1.35
Loans in foreign currencies	804,440	60,725	26,918	9,604	952	902,639	
(Allowance)	(19,541)	(1,467)	(6,916)	(7,462)	(952)	(36,338)	4.03
Notes bought	419,085	2,458	457	-	1,365	423,365	
(Allowance)	(9,373)	(49)	(91)	-	(1,365)	(10,878)	2.57
Bills bought	648,658	79,772	-	16,428	-	744,858	
(Allowance)	(3,806)	(1,595)	-	(16,270)	-	(21,671)	2.91
Advances to customers	6,052	45	3,467	10,431	9,575	29,570	
(Allowance)	(2,952)	(1)	(693)	(10,068)	(9,575)	(23,289)	78.76
Credit card	1,158,839	64,757	300	40,662	27,171	1,291,729	
(Allowance)	(25,131)	(7,771)	(60)	(24,397)	(27,171)	(84,530)	6.54
Total (*1)	W19,006,766	W623,258	W125,506	W209,862	W55,864	W20,021,256	
(Allowance) (*2)	(175,554)	(27,742)	(28,079)	(114,782)	(55,864)	(402,021)	2.01
Allowance percentage	0.92	4.45	22.37	54.69	100.00	2.01	

(*1) Net of present value discounts amounting to W6,144 million.

(*2) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W225,150 million based on the agreement between the Bank and KDIC.

Notes to Financial Statements (continued)

The classification and allowance for loan losses outstanding at December 31, 2001 are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)(*3)	Allowance percentage
Loans in Won	W11,713,968	W 67,321	W 78,957	W 582,511	W12,021	W12,454,778	
(Allowance)	(102,814)	(2,043)	(27,221)	(181,776)	(7,958)	(321,812)	2.58
Loans in foreign currencies (*3)	809,465	7,534	123,048	133,587	10,504	1,084,138	
(Allowance) (*3)	(37,448)	(479)	(47,916)	(93,164)	(9,555)	(188,562)	17.39
Notes bought	532,211	818	146	1,410	236	534,821	
(Allowance)	(3,176)	(49)	(36)	(1,398)	(143)	(4,802)	0.90
Bills bought	332,071	7,853	57,634	173,358	15	570,931	
(Allowance)	(2,210)	(157)	(28,302)	(67,633)	(15)	(98,317)	17.22
Advances to customers	6,231	50	23,219	151,442	10,174	191,116	
(Allowance)	(1,551)	(1)	(3,088)	(75,985)	(8,415)	(89,040)	46.59
Credit card	704,008	49,657	16,905	9,312	15,498	795,380	
(Allowance)	(17,686)	(993)	(3,381)	(4,657)	(15,455)	(42,172)	5.30
Total (*1)(*3)	W14,097,954	W133,233	W299,909	W1,051,620	W48,448	W15,631,164	
(Allowance) (*2)	(164,885)	(3,722)	(109,944)	(424,613)	(41,541)	(744,705)	4.76
Allowance percentage	1.17	2.79	36.66	40.38	85.74	4.76	

(*1) Net of present value discounts amounting to W10,197 million.

(*2) Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W527,252 million based on the agreement between the Bank and KDIC.

(*3) Loans amounting to W306,875 million, which were reclassified from confirmed acceptances and guarantees (off-balance sheet item) to conform to the current year's presentation, are not included.

The restructured loans at December 31, 2002 are summarized as follows (millions of Won):

	Corporations under liquidation	Court ordered restructuring	Work-out	Industry rationalization	Private restructuring	Total
Period	5.7~18.6yrs	1.7~2.0yrs	3.4~4.4yrs	8.5~19.5yrs	-	
Balance before restructured	W13,462	W217	W254,446	W37,685	W -	W305,810
D/E swap stock	2,025	-	28,676	-	-	30,701
D/E swap CB	-	-	225,150	-	-	225,150
Interest rate reduction	11,437	217	620	37,685	-	49,959
Balance at end of year	W11,067	W100	W255,100	W28,477	W -	W294,744
Restructuring loss	W 1,686	W -	W -	W -	W -	W 1,686

Notes to Financial Statements (continued)

The restructured loans at December 31, 2001 are summarized as follows (millions of Won):

	Corporations under liquidation	Court ordered restructuring	Work-out	Industry rationalization	Private restructuring	Total
Period	9.6~18.6 yrs	1.7~5.4 yrs	3.4~9 yrs	8.5~19.5 yrs	2~6.9 yrs	
Balance before restructured	W7,970	W1,721	W310,831	W37,685	W104,317	W462,524
D/E swap stock	5,511	-	83,520	-	5,706	94,737
D/E swap CB	-	-	225,150	-	-	225,150
Interest rate reduction	2,459	1,721	2,161	37,685	98,611	142,637
Balance at end of year	W7,268	W1,047	W310,456	W31,797	W 58,526	W409,094
Restructuring loss	W 244	W 222	W -	W -	W -	W 466

The Bank has W44,254 million and W99,891 million of loans discounted to present value (amounting to W6,144 million and W10,197 million) due to debt restructuring as of December 31, 2002 and 2001, respectively.

Loans, which were scheduled to be converted to stock amounting to W91,190 million at December 31, 2001, were recorded at book value and not fair value based on the agreement between the Bank and KDIC.

The Bank transferred loans through monthly put claims and KDIC's exercise of call options amounting to W442,856 million and W230,749 million to the KDIC for the years ended December 31, 2002 and 2001, respectively, according to the agreement between the Bank and the KDIC.

8. Fixed Assets

Premises and equipment at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	Acquisition cost	Accumulated depreciation	Net book value
December 31, 2002			
Premises and equipment			
Land	W 796,646	W -	W 796,646
Buildings and structures	403,978	113,518	290,460
Movable property	222,800	141,089	81,711
	1,423,424	254,607	1,168,817
Intangible assets	57,406	-	57,406
	W1,480,830	W254,607	W1,226,223
December 31, 2001			
Premises and equipment			
Land	W 797,004	W -	W 797,004
Buildings and structures	384,986	94,860	290,126
Movable property	196,488	126,135	70,353
	1,378,478	220,995	1,157,483
Intangible assets	20,027	-	20,027
	W1,398,505	W220,995	W1,177,510

Notes to Financial Statements (continued)

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, 2002 and 2001, the government-posted prices of the Bank's land used for tax assessment purposes are W606,165 million and W598,366 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

9. Other Assets

Other assets at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Other accounts receivable	W 296,053	W 268,371
Guarantee money	285,876	297,475
Fees and interest receivable	216,545	110,256
Loans to trust accounts	134,800	282,000
Bills unsettled	16,704	17,912
Unsettled exchange	11,883	59,032
Prepaid expenses	9,537	15,202
Regulatory and legal deposits (*)	4,925	4,433
Present value discount of other assets		(34)
Credit loss reserves of other assets	(3,761)	(10,453)
Others	10,402	16,786
	W 982,964	W1,060,980

(*) Regulatory and legal deposits include W4,908 million and W4,420 million of securities held in escrow at December 31, 2002 and December 31, 2001, respectively.

10. Deposits

Deposits at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	Banks	Other financial institutions	Others	Total
December 31, 2002				
Deposits in Korean Won				
Demand deposits	W 8,727	W 229,568	W 1,815,659	W 2,053,954
Time & saving deposits	49,135	1,909,157	14,179,217	16,137,509
	57,862	2,138,725	15,994,876	18,191,463
Deposits in foreign currencies	42	16,349	456,013	472,404
Certificates of deposit	97,460	3,916,654	593,718	4,607,832
	W155,364	W6,071,728	W17,044,607	W23,271,699
December 31, 2001				
Deposits in Korean Won				
Demand deposits	W 8,512	W 214,567	W 2,001,606	W 2,224,685
Time & saving deposits	124,327	1,589,243	12,093,396	13,806,966
	132,839	1,803,810	14,095,002	16,031,651
Deposits in foreign currencies	95	184,358	436,029	620,482
Certificates of deposit	117,217	940,938	90,118	1,148,273
	W250,151	W2,929,106	W14,621,149	W17,800,406

Notes to Financial Statements (continued)

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

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2003	W17,357,570	W469,651	W4,607,832	W22,435,053
2004	410,235	2,753	-	412,988
2005	253,498	-	-	253,498
2006	60,931	-	-	60,931
2007	27,496	-	-	27,496
Thereafter	81,733	-	-	81,733
	W18,191,463	W472,404	W4,607,832	W23,271,699

The maturities of deposits at December 31, 2001 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2002	W15,132,504	W618,887	W1,148,273	W16,899,664
2003	545,655	1,595	-	547,250
2004	189,334	-	-	189,334
2005	82,266	-	-	82,266
2006	36,181	-	-	36,181
Thereafter	45,711	-	-	45,711
	W16,031,651	W620,482	W1,148,273	W17,800,406

11. Borrowings

Borrowings at December 31, 2002 and 2001 are comprised of the following:

	2002		2001	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Borrowings in Korean Won:				
Aggregate limit borrowings	2.50	W 46,974	2.50	W 113,970
Call money	4.05 ~ 4.15	73,000	3.00 ~ 3.85	145,900
Other	2.00 ~ 7.45	487,631	2.00 ~ 8.49	508,744
		607,605		768,614
Borrowings in foreign currencies:				
Bank of Korea	1.39 ~ 1.96	23,980	1.91 ~ 3.91	54,753
Other borrowings	0.00 ~ 4.40	1,111,278	0.00 ~ 5.28	986,902
Off-shore borrowings	2.10	96,032	2.11 ~ 3.13	204,750
Call money	0.25 ~ 2.00	13,340	0.55 ~ 1.95	26,146
		1,244,630		1,272,551
Bonds sold under repurchase agreements	1.98 ~ 5.10	574,293	2.30 ~ 6.28	2,194,156
Bills sold	4.56	14,928	7.19	6,787
		W2,441,456		W4,242,108

Notes to Financial Statements (continued)

At December 31, 2002 and 2001, borrowings by borrower type are summarized as follows (millions of Won):

December 31, 2002	Bank of Korea	Commercial banks	Other financial institution	Others	Total (*)
Borrowings in Korean Won	W 46,974	W 180,368	W278,600	W101,663	W 607,605
Borrowings in foreign currencies	23,980	1,042,707	-	177,943	1,244,630
Bonds sold under repurchase agreements	-	122,888	-	-	122,888
	W 70,954	W1,345,963	W278,600	W279,606	W1,975,123

December 31, 2001	Bank of Korea	Commercial banks	Other financial institution	Others	Total (*)
Borrowings in Korean Won	W114,025	W 150,150	W351,500	W152,939	W 768,614
Borrowings in foreign currencies	54,753	1,200,725	13,791	3,282	1,272,551
Bonds sold under repurchase agreements	-	195,385	-	-	195,385
	W168,778	W1,546,260	W365,291	W156,221	W2,236,550

(*) W451,405 million and W1,998,771 million of bonds sold under repurchase agreements and W14,928 million and W6,787 million of bills sold to the public at December 31, 2002 and 2001, respectively, are not included.

The maturities of borrowings at December 31, 2002 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
2003	W254,678	W1,180,965	W574,293	W14,928	W2,024,864
2004	28,118	60,694	-	-	88,812
2005	29,920	-	-	-	29,920
2006	57,378	-	-	-	57,378
2007	164,865	-	-	-	164,865
Thereafter	72,646	2,971	-	-	75,617
	W607,605	W1,244,630	W574,293	W14,928	W2,441,456

The maturities of borrowings at December 31, 2001 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
2002	W341,561	W1,272,551	W2,194,156	W6,787	W3,815,055
2003	29,610	-	-	-	29,610
2004	53,067	-	-	-	53,067
2005	46,972	-	-	-	46,972
2006	65,920	-	-	-	65,920
Thereafter	231,484	-	-	-	231,484
	W768,614	W1,272,551	W2,194,156	W6,787	W4,242,108

Notes to Financial Statements (continued)

The subordinated borrowings included in Korean Won borrowings as of December 31, 2002 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	6.12	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	6.12	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	7.18	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	6.12	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	6.12	20,000
				W205,600

The subordinated borrowings included in Korean Won borrowings as of December 31, 2001 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	6.52	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	6.52	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	7.71	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	6.52	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	6.52	20,000
				W205,600

12. Financial Debentures

Debentures at December 31, 2002 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	07-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	01-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	04-28-2008
Bonds with Warrants	1-31-2000	91,076	-	12-30-2006
General debentures	10-10-2002, etc.	1,620,000	4.91 ~ 5.08	10-10-2003, etc.
Discount on debentures		(71,867)		
				1,915,476
Foreign currency				
Subordinated FRN (*)	6-26-1996	240,080	6ML+2	06-26-2006
				W2,155,556

Notes to Financial Statements (continued)

Debentures at December 31, 2001 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
Subordinated	10-28-2001	100,000	7.23	7-28-2007
Bonds with Warrants	1-31-2000	91,076	-	12-31-2006
Discount on debentures		(3)		
		333,073		
Foreign currency				
Subordinated FRN (*)	6-26-1996	265,220	6ML+2	6-26-2006
		W598,293		

(*) 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, 2002 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2003	W1,491,901	W -	W1,491,901
2004	56,232	-	56,232
2005	-	-	-
2006	91,076	240,080	331,156
2007	100,000	-	100,000
Thereafter	176,267	-	176,267
	W1,915,476	W240,080	W2,155,556

The maturities of debentures at December 31, 2001 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2002	W -	W -	W -
2003	141,997	-	141,997
2004	-	-	-
2005	-	-	-
2006	91,076	265,220	356,296
Thereafter	100,000	-	100,000
	W333,073	W265,220	W598,293

13. Accrued Severance and Retirement Benefits

Deposits for group severance and retirement benefits represent deposits made for a portion of the severance and retirement benefits obligation which are restricted in use for other than payment of severance and retirement benefits. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits, these amounts have been offset against the Bank's liability for severance and retirement benefits.

Notes to Financial Statements (continued)

The changes in accrued severance and retirement benefits for the year ended December 31, 2002 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W164,520	W36,253	W27,792	W172,981
Prepayments to National Pension Corp.	(6,770)	-	(917)	(5,853)
Deposits for group severance and retirement benefits	(153,389)	(16,822)	(24,653)	(145,558)
	W 4,361	W19,431	W 2,222	W 21,570

The changes in accrued severance and retirement benefits for the year ended December 31, 2001 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W185,206	W 38,760	W59,446	W164,520
Prepayments to National Pension Corp.	(8,716)	-	(1,946)	(6,770)
Deposits for group severance and retirement benefits	-	(153,389)	-	(153,389)
	W176,490	W(114,629)	W57,500	W 4,361

14. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Acceptances and guarantees in Korean Won		
Corporate debentures	W 5,225	W 5,600
Other	107,717	122,303
	112,942	127,903
Acceptances and guarantees in foreign currencies		
Acceptances (*)	29,891	134,002
Stand-by letters of credit	57,606	82,039
Letters of guarantee	11,735	15,316
Credit derivatives sold	120,040	-
Other	15,598	18,763
	234,870	250,120
	W347,812	W378,023

(*) Acceptances in foreign currencies as of December 31, 2001 did not include acceptances of banker's usance bills amounting to W306,875 million which were reclassified to loans to conform to the current year's presentation.

Credit derivatives sold at December 31, 2002 is comprised of the following:

Type	Counterparty	Millions of Won
Credit linked notes	Lehman Brothers Asia Ltd.	W120,040

The Bank provides an allowance of 0.5% of guaranteed amounts for credit derivatives sold.

Notes to Financial Statements (continued)

Contingent acceptances and guarantees outstanding at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Import L/C	W275,906	W230,312
Local L/C	160,951	215,312
Other	-	1,775
	W436,857	W447,399

According to the agreement between the 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. Therefore, the Bank believes that confirmed acceptances and guarantees, amounting to W63,431 million and W181,097 million as of December 31, 2002 and 2001, respectively, are protected by the KDIC.

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2002 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W111,909	W 576	W458	W -	W -	W112,943	
(Allowance)	(561)	(12)	(207)	-	-	(780)	0.69
Acceptances & guarantees in foreign currencies	186,975	30,925	-	14,648	2,321	234,869	
(Allowance)	(934)	(618)	-	(9,805)	(2,321)	(13,678)	5.82
Total	W298,884	W31,501	W458	W14,648	W2,321	W347,812	
(Allowance)	(1,495)	(630)	(207)	(9,805)	(2,321)	(14,458)	4.16
Allowance percentage	0.50	2.00	45.20	66.94	100.00	4.16	

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2001 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won	W112,674	W14,771	W -	W 458	W -	W127,903	
(Allowance)	(559)	-	-	-	-	(559)	0.44
Acceptances & guarantees in foreign currencies (*)	369,490	40,498	58,723	80,408	7,876	556,995	
(Allowance)	(1,770)	(755)	-	(134)	-	(2,659)	0.48
Total	W482,164	W55,269	W58,723	W80,866	W7,876	W684,898	
(Allowance)	(2,329)	(755)	-	(134)	-	(3,218)	0.47
Allowance percentage	0.48	1.37	-	0.17	-	0.47	

(*) Acceptances and guarantees amounting to W306,875 million, which were reclassified to loans in foreign currencies to conform to the current year's presentation, are included.

The ratio of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2002, 2001 and 2000 was 4.16%, 0.47% and 0.61%, respectively.

Notes to Financial Statements (continued)

At December 31, 2002 and 2001, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

By Geography	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2002						
Korea	W199,040	57.23%	W386,799	88.54%	W585,839	74.66%
USA	134,123	38.56	-	-	134,123	17.09
Japan	-	-	50,058	11.46	50,058	6.38
Thailand	14,649	4.21	-	-	14,649	1.87
	W347,812	100.00%	W436,857	100.00%	W784,669	100.00%
December 31, 2001						
Korea	W343,779	90.94%	W447,399	100.00%	W791,178	95.85%
Other	34,244	9.06	-	-	34,244	4.15
	W378,023	100.00%	W447,399	100.00%	W825,422	100.00%
By Concentration	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2002						
Manufacturing	W100,011	28.75%	W242,112	55.42%	W342,123	43.60%
Wholesale and retail	63,494	18.26	158,222	36.22	221,716	28.26
Financial business	120,459	34.63	948	0.22	121,407	15.47
Construction	26,495	7.62	17,209	3.94	43,704	5.57
Transport and communication	16,301	4.69	791	0.18	17,092	2.18
Other	21,052	6.05	17,575	4.02	38,627	4.92
	W347,812	100.00%	W436,857	100.00%	W784,669	100.00%
December 31, 2001						
Manufacturing	W228,434	60.43%	W226,839	50.70%	W455,273	55.16%
Wholesale and retail	63,871	16.90	179,208	40.06	243,079	29.45
Construction	26,250	6.94	29,652	6.63	55,902	6.77
Transport and communication	23,460	6.21	689	0.15	24,149	2.93
Financial business	6,234	1.65	7,028	1.57	13,262	1.61
Other	29,774	7.87	3,983	0.89	33,757	4.08
	W378,023	100.00%	W447,399	100.00%	W825,422	100.00%
By Borrower Type	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2002						
Corporate	W347,812	100.00%	W436,857	100.00%	W784,669	100.00%
December 31, 2001						
Corporate	W359,338	95.06%	W447,399	100.00%	W806,737	97.74%
Public & other	18,685	4.94	-	-	18,685	2.26
	W378,023	100.00%	W447,399	100.00%	W825,422	100.00%

Notes to Financial Statements (continued)

15. Other Liabilities

Other liabilities at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Domestic exchange obligation payable	W1,260,047	W1,205,021
Accrued fees and interest	440,276	418,745
Accounts payable	301,347	331,419
Agency fees payable	261,020	140,313
Foreign exchange payable	113,903	46,368
Borrowing from trust account	113,792	351,986
Unearned revenues	24,766	20,343
Others	159,173	112,689
	W2,674,324	W2,626,884

16. Interest Bearing Assets and Liabilities

Interest bearing assets and liabilities at December 31, 2002 and 2001 are summarized as follows (millions of Won):

	2002		2001	
	Average amount of assets	Interest revenue	Average amount of assets	Interest revenue
<Assets>				
Loans in Won	W14,492,182	W1,082,000	W11,281,567	W 983,954
Loans in foreign currencies	746,427	27,636	1,091,776	65,564
Call loan	304,621	10,613	418,266	18,824
Notes bought	13,852	1,541	16,601	2,245
Private placement corporate bonds	605,718	40,125	339,245	27,014
Bills bought	666,024	27,735	711,046	52,463
Advances to customers	63,587	2,931	140,796	10,279
Bonds purchased on reselling agreements	40,369	1,672	47,574	2,179
	16,932,780	1,194,253	14,046,871	1,162,522
Trading securities	333	18	89	-
Investment securities (*)	6,970,689	368,590	7,011,344	458,041
Due from banks in Won (**)	599,898	9,474	656,304	20,228
Due from banks in foreign currencies (**)	177,995	3,193	248,998	9,478
	777,893	12,667	905,302	29,706
Others	174,187	9,856	308,121	17,914
	W24,855,882	W1,585,384	W22,271,727	W1,668,183

(*) Includes certain equity securities which are scheduled to be transferred to the KDIC.

(**) Includes reserves required to be deposited with the Bank of Korea.

Notes to Financial Statements (continued)

	2002		2001	
	Average amount of liabilities	Interest revenue	Average amount of liabilities	Interest revenue
<Liabilities>				
Deposits in Won	W17,280,612	W 680,194	W14,939,639	W 718,176
Deposits in foreign currencies	443,134	4,434	642,851	15,858
Certificate of deposits	2,649,503	135,134	585,663	36,986
	20,373,249	819,762	16,168,153	771,020
Borrowings in Won	451,621	24,586	644,466	39,787
Borrowings in foreign currencies	941,764	21,850	928,848	48,347
Call money	497,281	19,289	525,617	22,706
Bonds sold on repurchase agreements	1,686,408	81,727	2,710,318	169,538
Cover bills sold	9,151	390	469,308	33,750
	3,586,225	147,842	5,278,557	314,128
Debentures in Won	550,107	30,673	254,276	13,578
Debentures in foreign currencies	249,319	9,649	258,095	17,005
	799,426	40,322	512,371	30,583
Others	737,077	30,331	266,068	31,592
	W25,495,977	W1,038,257	W22,225,149	W1,147,323

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. Certain of these disagreements were disclosed in previous financial statements and were submitted to arbitration. These disagreements were resolved by an Award by Consent issued by the International Chamber of Commerce in December of 2001 and such resolution did not result in any material impact on the Bank's financial statements.

Certain other disagreements have arisen between the Bank and the KDIC and will be resolved through negotiations or legal proceedings. The Bank commenced arbitration proceedings in June 2002 in accordance with the Assistance Agreement and the Acquisition Agreement with respect to certain of the differences. The KDIC responded in September 2002 and asserted in its response certain counterclaims relating primarily to the counterclaims and set-offs described in (iii) below. The outcome of these negotiations and proceedings 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. The disputed items are the following:

(i) December 31, 2001 Reserve Claim - The KDIC disputed and withheld payment of approximately W163.4 billion relating to the Bank's reserve claim submitted on February 18, 2002. Subsequently, the Bank revised its reserve claim for certain loans and the KDIC paid reserves or transfer price for a portion of those loans, leaving the disputed reserve claim amount at W83.9 billion. The remaining KDIC holdback is principally related to reserve claims for advances and credits extended pursuant to commitments and guarantees that were issued before the Closing Date or pursuant to workout procedures initiated before the

Notes to Financial Statements (continued)

Closing Date. The Bank believes that the Assistance Agreement requires the KDIC to provide full reserve protection for these credits as claimed. To the extent that KDIC's interpretation were to prevail, the Bank's reserve claim would be reduced by that amount.

(ii) Losses on Derivative Positions - Prior to Closing, the Bank attempted to transfer derivative contracts along with underlying assets to the KDIC. However, the counterparties to such derivative contracts did not agree to such a transfer. Although 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, because the Bank believes that the KDIC is obligated to indemnify KFB against such losses. Realized losses claimed from the KDIC plus unrealized losses that may become claimable from the KDIC are estimated at approximately W44.5 billion at December 31, 2002.

(iii) Post Closing Adjusting Entries - In accordance with the Acquisition Agreement, Newbridge submitted a claim requesting that the KDIC pay to the Bank an additional amount of W44.5 billion for adjustment or correction of the Closing Balance Sheet with respect to the acquisition of a controlling interest in the Bank by Newbridge effective December 31, 1999. The amount claimed included W31.9 billion for mark-to-market valuations related to derivative positions at Closing discussed in (ii) above. The KDIC submitted counterclaims requesting that the Bank pay W97.2 billion to the KDIC for adjustment or correction of the Closing Balance Sheet. On March 20, 2002, the KDIC withheld, as a set-off from amounts it did not dispute that it owed with respect to the Bank's reserve claim discussed in (i) above W80.2 billion, including interest, for the claims it had previously asserted related to the Closing Balance Sheet and also withheld W6.4 billion for other adjustments which it had not previously claimed. In addition, on September 15, 2002, the KDIC submitted an additional claim for W2.2 billion, which it had not previously claimed, in its response to the Bank's arbitration claim.

The Bank believes that most of the KDIC's counterclaims and all of its withholdings from the March settlement are based on incorrect interpretations of the Acquisition Agreement and that its withholding of amounts from the March settlement is improper. If the KDIC were to prevail in each of its positions, the Bank's loss, before any interest would be approximately W29.4 billion, which is the amount the Bank had recorded in income in respect of such items as of December 31, 2002.

(iv) Other Claims - The KDIC is disputing various other claims made by the Bank. At December 31, 2002, approximately W30.7 billion of such other claims are reflected in the Bank's financial statements as loans or other assets.

Reserve for Unused Cash Advance Commitments on Credit Cards

The allowance for unused cash advance commitments on credit cards at December 31, 2002 is as follows (million of Won):

Commitment	Outstanding balance	Unused commitment (*)	Allowance	Allowance percentage
W1,157,931	W308,694	W559,755	W5,597	1.00%

(*) Commitment x 75% - outstanding balance

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 and interest rate futures contracts. As of December 31, 2002 and 2001, the Bank has derivative financial instruments for trading purposes, as follows (millions of Won):

Notes to Financial Statements (continued)

<Trading purposes>

	Currency forwards	Interest rate swaps	Interest rate futures	Total notional amount
December 31, 2002				
Purchase	W126,266	W 560,290	W -	W 686,556
Sell	18,757	560,290	174,058	753,105
	W145,023	W1,120,580	W174,058	W1,439,661
December 31, 2001				
Purchase	W553,727	W 118,741	W -	W 672,468
Sell	266,917	118,741	348,764	734,422
	W820,644	W 237,482	W348,764	W1,406,890

For the years ended December 31, 2002 and 2001, W969 million and W8,405 million of gains and W8,621 million and W5,322 million of losses, respectively, on valuation of derivative contracts for trading purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2002				
Currency forwards	W 820	W 948	W 820	W 948
Interest rate swaps	149	7,673	2,591	7,562
	W 969	W8,621	W3,411	W8,510
December 31, 2001				
Currency forwards	W5,343	W4,071	W5,343	W4,071
Interest rate swaps	3,062	1,251	3,215	2,467
	W8,405	W5,322	W8,558	W6,538

As of December 31, 2002 (zero as of December 31, 2001), the Bank has derivative financial instruments for hedging purposes, as follows (millions of Won):

<Hedging purposes>

	Interest rate swaps
December 31, 2002	
Purchase	W 73,750
Sell	73,750
	W147,500

Notes to Financial Statements (continued)

For the year ended December 31, 2002, W1,313 million of loss on valuation of derivative contracts for hedging purposes was recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability (*)
December 31, 2002				
Interest rate	W -	W1,313	W -	W8,711

(*) Contains W7,398 million of liabilities incurred upon initiation of derivatives for swaption premiums and transfer of convertible bond rights.

The difference between valuation losses of derivative contracts and gains on underlying assets and liabilities being hedged is W95 million as of December 31, 2002.

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, 2002, commitments and endorsed notes aggregated W7,581 million and W6,709 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2002, total loan commitments are W14,672 billion and unused commitments are W9,616 billion.

The Bank has been named as defendant in 25 legal actions not indemnified by the KDIC amounting to W18,169 million and is plaintiff in 226 legal actions not indemnified by the KDIC amounting to W41,893 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named 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, 2002 and 2001, 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, 2002 and 2001 (see Note 1).

The Bank has granted stock options which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2002 are as follows.

Options granted and outstanding	Grant date	Exercise price	Exercise period
1,099,998 shares	March 30, 2000	W 9,834 per share	From March 30, 2003 until March 30, 2010
1,121,531 shares	October 19, 2001	W12,497 per share	From October 19, 2004 until October 19, 2011

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% from the base price of W5,000 per share. The warrants are non-detachable, non-transferable and exercisable between December 31, 2002 and December 30, 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 Bank also reserves 10% of its annual net income as a voluntary reserve until ratio of net equity to total assets (including guaranteed trusts) reaches 5.5% in accordance with recommendation by the Financial Supervisory Commission. 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

Up to December 31, 2001, the Bank had been 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. Starting on January 1, 2002, such tax rates are reduced resulting in revised aggregate rates of 16.5% and 29.7%, respectively. The income tax benefit for the years ended December 31, 2002 and 2001 is comprised of the following (millions of Won):

	2002	2001
Income tax expense	W 3,768	W 50
Changes in deferred income taxes due to loss carryforwards	(10,000)	(100,425)
Income tax benefit	(6,232)	(100,375)
Deferred income tax asset at end of the year	169,625	159,625
Deferred income tax asset at beginning of the year	159,625	59,200
Changes in deferred income tax asset	W10,000	W100,425

The Bank has tax basis net operating loss carryforwards (“NOLs”) of approximately W3,713 billion as of December 31, 2002. For tax purposes, net operating losses in Korea may be carried forward for five years from the year of origination against future earnings.

Adjustments of income before income taxes to taxable income for the year ended December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Income before income tax expense	W95,283	W123,719
Adjustment to increase taxable income		
Permanent differences	21,018	12,564
Temporary differences	263,530	152,837
	284,548	165,401
Adjustment to decrease taxable income		
Permanent differences	4,794	463
Temporary differences	297,971	99,934
	302,765	100,397
Taxable income	W77,066	W188,723

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, 2002 are

Notes to Financial Statements (continued)

comprised of the following (in millions of Won):

	January 1, 2002 (*)	Increase	Decrease	December 31, 2002
Interest receivable on securities	W (42,268)	W(83,312)	W (42,268)	W (83,312)
Profit from valuation of equity method	(41,381)	(7,564)	(284)	(48,661)
Gain on valuation of derivatives	(8,558)	(3,411)	(8,558)	(3,411)
Discount amortization on securities	(1,504)	(21,017)	(164)	(22,357)
Present value discounts	177	4,003	177	4,003
Loss on valuation of derivatives	6,538	17,221	6,538	17,221
Depreciation	20,627	4,457	-	25,084
Loss on valuation of equity method	3,830	-	-	3,830
Deemed dividends	9,691	4,859	-	14,550
Retirement benefits	-	4,600	-	4,600
Loss on reduction of investment debentures	20,511	-	20,511	-
Other	15,459	32,587	10,912	37,134
Tax loss carryforward	4,735,971	-	1,022,961	3,713,010
Total	4,719,093	W(47,577)	W1,009,825	3,661,691
Tax rate	29.7%			29.7%
Deferred income tax asset	1,401,571			1,087,522
Allowance	(1,241,946)			(917,897)
Net deferred income tax asset	W159,625			W169,625

(*) The amounts are different from those in the prior year's audit report to reflect the 2001 final tax return filed in March 2002.

Utilization of net operating loss carryforwards will depend on the Bank's ability to generate future income. Based on a forecast of future income, management recognized a portion of the net operating loss carryforwards available and recorded a deferred tax asset of W169,625 million, which is included in other assets.

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2001 are comprised of the following (in millions of Won):

	January 1, 2001 (*)	Increase	Decrease	December 31, 2001
Interest receivable on securities	W(74,886)	W(42,268)	W (74,886)	W (42,268)
Profit from valuation of equity method	(35,970)	(5,411)	-	(41,381)
Gain on valuation of derivatives	(7,566)	(8,558)	(7,566)	(8,558)
Present value discounts	9,689	143	9,655	177
Loss on valuation of derivatives	23,275	6,538	23,275	6,538
Depreciation	12,186	8,441	-	20,627
Loss on valuation of equity method	3,830	-	-	3,830
Deemed dividends	6,690	3,001	-	9,691
Retirement benefits	2,478	-	2,478	-
Other	(9,687)	32,506	(11,467)	34,286
Tax loss carryforward	4,924,673	-	188,723	4,735,950
Total	4,854,712	W (5,608)	W130,212	4,718,892
Tax rate	30.8%			29.7%
Deferred income tax asset	1,495,251			1,401,511
Allowance	(1,436,051)			(1,241,886)
Net deferred income tax asset	W 59,200			W159,625

Notes to Financial Statements (continued)

21. Per Share Amounts

Per share amounts for the years ended December 31, 2002 and 2001 are calculated as follows (in Korean Won):

Ordinary earnings per share	2002	2001
Ordinary earnings before income tax expenses	W95,282,981,976	W123,719,361,727
Income tax benefits related to ordinary earnings	(6,232,123,600)	(100,374,530,000)
	101,515,105,576	224,093,891,727
Weighted average number of common shares (*)	196,116,800	196,116,800
Ordinary earnings per share	W 518	W 1,143

Net earnings per share	2002	2001
Net earnings after income tax expenses	W101,515,105,576	W224,093,891,727
Weighted average number of common shares (*)	196,116,800	196,116,800
Net earnings per share	W 518	W 1,143

(*) The number of common shares outstanding at December 31, 2002 and 2001 was 196,116,800. There were no shareholder transactions during the years ended December 31, 2002 and 2001.

In July 1999, the Bank's shares were suspended from trading on the Korean 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, 2002 and 2001 are as follows (millions of Won):

	Korea First Finance Ltd., HK	Qingdao International Bank	Korea First Data System Co., Ltd.
January 1, 2001	W41,994	W10,184	W4,264
Equity in net income of affiliates	4,859	73	470
Exchange rate fluctuation	2,214	537	-
Dividends received	-	-	(89)
Equity in retained earnings of affiliates	-	-	9
December 31, 2001	W49,067	W10,794	W4,654
Equity in net income of affiliates	3,149	2,627	1,788
Exchange rate fluctuation	(4,651)	(1,025)	-
Dividends received	-	-	(700)
Equity in retained earnings of affiliates	-	(138)	(146)
Capital adjustment	17	-	-
December 31, 2002	W47,582	W12,258	W5,596

23. Related Party Transactions

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

Notes to Financial Statements (continued)

31, 2002 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Korea First Finance Ltd., Hong Kong	Interest income	W 4,096	Due from banks	W108,084
			Loans	52,818
			Other assets	289
Qingdao International Bank	Interest income	474	Loans	12,004
	Interest expense	495	Other assets	54
			Deposits	167
			Borrowings	12,124
			Other liabilities	54
Korea First Data System Co., Ltd.	Interest income	1	Other assets	600
	Other revenue	40	Deposits	4,189
	Interest expense	166	Other liabilities	367
	Other expense	14,126		
	Revenue Transactions	W 4,611	Receivables	W173,849
	Expense Transactions	W14,787	Payables	W 16,901

Significant transactions between the Bank, its controlled subsidiary, and equity-method investees for the year ended December 31, 2001 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Korea First Finance Ltd., Hong Kong	Interest income	W 7,791	Due from banks	W115,019
			Loans	55,696
			Borrowings	789
Qingdao International Bank	Interest income	2,485	Loans	39,783
	Interest expense	2,504	Deposits	149
			Borrowings	40,313
Korea First Data System Co., Ltd.	Interest income	11	Deposits	2,869
	Other revenue	38	Other liabilities	361
	Interest expense	198		
	Other expense	6,632		
	Revenue Transactions	W10,325	Receivables	W210,498
	Expense Transactions	W 9,334	Payables	W 44,481

24. Employee Welfare

The Bank provided W33,665 million and W36,090 million of housing loans for its employees at December 31, 2002 and 2001, respectively with terms generally more favourable than prevailing market terms.

Expenditures for the training of specialists for 2002, 2001 and 2000 are as follows (millions of Won):

Type	2002	2001	2000
Korea Banking Institute	W178	W218	W 97
Special skill training	443	583	198
Foreign language training	11	45	88
Overseas service training	141	99	21
	W773	W945	W404

Notes to Financial Statements (continued)

25. Book Value and Fair Value of Trust Accounts

Book value and fair value of principal or dividend guaranteed trust accounts as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

	Book value	Provisions	Fair value (*)	Charge on Bank Accounts
December 31, 2002				
Principal guaranteed trust accounts	W428,009	W14,481	W440,673	W -
Principal and dividend guaranteed trust accounts	94,746	1,492	94,760	-
	W522,755	W15,973	W535,433	W -
December 31, 2001				
Principal guaranteed trust accounts	W405,708	W13,272	W412,007	W -
Principal and dividend guaranteed trust accounts	231,931	7,224	228,434	-
	W637,639	W20,496	W640,441	W -

(*) Assets guaranteed by the KDIC are carried at book values

26. Korean Economy

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is continuing. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above.

The accompanying 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 sheets of Korea First Bank's trust accounts (the "Trust") as of December 31, 2002 and 2001, and the related statements of operations and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust at December 31, 2002 and 2001, and the results of its operations and cash flows for the years 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.

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



February 12, 2003

Balance Sheets (Trust Accounts)

December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
<i>Assets</i>				
Securities (Notes 5 and 6)	W 1,203,010	W 1,230,780	\$ 1,002,175	\$ 1,025,308
Loans (Notes 6 and 7)	29,232	85,034	24,352	70,838
Present value discounts for loans (Note 7)	-	(1,217)	-	(1,014)
Allowance for possible loan and securities losses (Note 6)	(17,161)	(32,487)	(14,296)	(27,063)
Money Receivables	14,122	-	11,764	-
Movables & real estate	95,616	-	79,653	-
Due from the Bank Account	81,414	128,217	67,822	106,812
Accrued income	36,884	29,354	30,726	24,454
Other assets	39,067	14,369	32,545	11,970
	W 1,482,184	W 1,454,050	\$ 1,234,741	\$ 1,211,305
<i>Liabilities</i>				
Money trusts (Note 1)	W 1,207,900	W 1,147,637	\$ 1,006,248	\$ 956,045
Borrowings	134,800	282,000	112,296	234,922
Property Trust	109,738	-	91,417	-
Other liabilities	23,042	19,247	19,195	16,034
Reserve for future trust losses	6,704	5,166	5,585	4,304
	W 1,482,184	W 1,454,050	\$ 1,234,741	\$ 1,211,305

See accompanying notes

Statements of Operations (Trust Accounts)

Years ended December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
<i>Revenues</i>				
Interest on securities	W 77,150	W 104,393	\$ 64,270	\$ 86,965
Interest on loans	2,956	12,143	2,463	10,116
Interest on call loans	-	12	-	10
Interest on due from the Bank Account	3,653	8,657	3,043	7,212
Gain on securities valuation and Transactions	6,414	18,932	5,343	15,771
Other income	5,839	8,941	4,864	7,448
	W 96,012	W 153,078	\$ 79,983	\$ 127,522
<i>Expenses</i>				
Interest on borrowings	W 8,054	W 20,668	\$ 6,709	\$ 17,218
Trust fees to the Bank	11,614	20,609	9,675	17,168
Loss on securities valuation and Transactions	5,464	34,515	4,552	28,753
Other expenses	1,072	2,468	893	2,056
Provision for future trust losses	1,538	1,306	1,281	1,088
Provision for possible loan and securities losses (Note 6)	-	1,497	-	1,247
	W 27,742	W 81,063	\$ 23,110	\$ 67,530
Dividends of trust profit to beneficiaries	W 68,270	W 72,015	\$ 56,873	\$ 59,992
<i>See accompanying notes</i>				

Statements of Cash Flows (Trust Accounts)

December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
Cash flows from operating activities:				
Loss (gain) on securities transactions, net	W (2,755)	W 12,276	\$ (2,295)	\$ 10,227
Unrealized loss on securities, net	1,805	3,307	1,504	2,755
Provision for possible loan and securities losses	-	1,497	-	1,247
Reversal of allowance for possible loan and securities losses	(272)	(1,994)	(227)	(1,661)
Other, net	(520)	(9,324)	(433)	(7,767)
Changes in operating assets and liabilities, net	267	(31,913)	223	(26,585)
Net cash used in operating activities	(1,475)	(26,151)	(1,228)	(21,784)
Cash flows from investment activities:				
Decrease(Increase) in securities	(17,791)	469,054	(14,821)	390,748
Decrease in loans & discounts	55,126	144,016	45,923	119,973
Decrease in call loans	-	50,000	-	41,653
Other, net	(101,658)	14,459	(84,687)	12,045
Net cash provided by (used in) investment activities	(64,323)	677,529	(53,585)	564,419
Cash flows from financing activities:				
Increase(Decrease) in money trust	170,001	(439,077)	141,620	(365,776)
Decrease in borrowings	(147,200)	(218,000)	(122,626)	(181,606)
Other, net	(3,806)	(1,696)	(3,171)	(1,413)
Net cash provided by (used in) financing activities	18,995	(658,773)	15,823	(548,795)
Net decrease in cash and cash equivalents	(46,803)	(7,395)	(38,990)	(6,160)
Cash and cash equivalents at beginning of year	128,217	135,612	106,812	112,972
Cash and cash equivalents at end of year	W 81,414	W 128,217	\$ 67,822	\$ 106,812

See accompanying notes

1. Trust Accounts

Money Trusts

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

	Minimum contract period (year)	Type of dividend	Type of principal
General Unspecified Money Trust	1	Guaranteed	Guaranteed
Reserving Objective Money Trust (Guaranteed)	1	Guaranteed	Guaranteed
Reserving Objective Money Trust (Performance)	1.5	Performance	Mixed
House Money Trust	1.5	Performance	Mixed
Development Trust	2 or 3	Guaranteed	Guaranteed
Old Age Pension Trust	5	Performance	Guaranteed
Business Money Trust	1.5	Performance	Mixed
National Stock Trust	3	Performance	Non-guaranteed
Personal Pension Trust	15	Performance	Guaranteed
Long-Term House Trust	3 ~ 5	Performance	Non-guaranteed
Workers Preferential Trust	3 ~ 5	Performance	Non-guaranteed
New Reserving Trust	1.5	Performance	Non-guaranteed
Retirement Trust	none	Performance	Guaranteed
Specified Money Trust	as per contract	Performance	Non-guaranteed
Unit Type Money Trust	5	Performance	Non-guaranteed
Open Type Money Trust	1	Performance	Non-guaranteed
New Personal Pension Trust	15	Performance	Guaranteed
Pension Trust	15	Performance	Guaranteed

Mixed: Principal guaranteed for certain trust beneficiaries

Property Trusts

Property trusts are created when non-cash assets are given to the Bank as Trustee. As Trustee, the Bank manages two property trusts, Accounts Receivable Trust and Movable and Real Estate Trust as of December 31, 2002.

Assets Principal for the Accounts Receivable Trust consist of Trustor's future accounts receivable. The Trust issued a beneficiary certificate for which underlying assets are the Principal. The Bank executed loans to the Trustor with the beneficiary certificate as collateral. Whenever accounts receivable are collected, the cash is remitted to the Trust. The Trust repays the loans with some or all the cash according to the loan repayment schedule and transfers any remaining cash to the Trustor.

The Principal of the Movable and Real Estate Trust is real estate owned by the Trustor. The Trust issued a beneficiary certificate for which underlying asset is the Principal. The Bank executed loans to the Trustor with the beneficiary certificate as collateral. In the case of loan defaults, the Bank can exercise its rights to the Principal by requesting payment of the beneficiary certificate to the Fund. The Trust would then sell the collateral and remit the proceeds to the Bank.

The Trust is not allowed to operate nor dispose of the Principal, unless there is a default by the Trustor. The Trust is obliged only to manage the Principal. Accordingly no interest is earned on the Principal. Instead the Trust as Trustee is entitled to receive pre-agreed commissions.

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"). Certain accounting principles applied by the Trust that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

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, changes in statement format and extent of disclosures have also been made for the prior year financial statements and footnotes to conform to the current year's presentation.

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

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 are carried at cost. Equity securities held in the Specified Money Trust are recorded at cost until termination, when they are then valued at market value if listed.

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 market price as of the valuation date. However, unlisted debt securities are valued using an average of yields for bonds announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2002 and by yields announced by Korea Securities Dealers Association at December 31, 2001. 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.

Notes to Financial Statements (continued)

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 Trust are recorded at cost until termination, when they are then valued by market prices or adjustment yields as previously described.

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 Trust are recorded at cost until termination, when they are then valued at the standard price announced by the issuing company.

Allowance for Possible Loan Losses

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

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

Credit ratings previously consisted of 8 grades until the third quarter of 2002, but were separated into 10 grades as of December 31, 2002.

	Normal	Precautionary	Substandard	Doubtful	Estimated loss
Before change	Grade 1 ~ 4	Grade 5	Grade 6	Grade 7	Grade 8
After change	Grade 1 ~ 6	Grade 7	Grade 8	Grade 9	Grade 10

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

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

(*) 0.5% for trusts in which dividends are guaranteed

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

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 difference in present value of the loan and the book 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 a present value discount 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, including those guaranteed by the KDIC, is recognized on an accrual basis, while interest income on overdue and dishonoured loans or securities, except for those secured and guaranteed by other financial institutions, is recognized on a cash basis. Interest income on overdue and dishonoured loans or securities, which is not recognized, amounted to W627 million and W1,234 million as of December 31, 2002 and 2001, respectively.

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 trust deposits or principal plus a guaranteed 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 trust fees paid to the Bank, and then compensated by the Bank if special reserves or previously paid fees are insufficient. During the year ended December 31, 2002, W6 million (W66 million as of December 31, 2001) of such deficiencies were compensated by the Bank.

Calculation of Trust Profits

Trust profits are calculated under one of the two following methods depending on the trust agreements: yield calculation method, closing method and standard price method.

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

Trust profits = Trust deposit balance x Average yield rate

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

Notes to Financial Statements (continued)

$$* \text{ Daily yield rate} = \frac{\text{Daily profit calculated}}{\text{Outstanding interest bearing asset balance}^{1)}} - \text{Predetermined trust management fee}$$

¹⁾ Allowance for possible loan and securities losses and reserve for future trust losses are deducted from outstanding interest bearing asset balance when calculating the daily yield rate.

$$* \text{ Daily profit calculated} = \text{Interest revenue} \pm \text{Realized gain (loss) from securities transactions} \\ - \text{Provision for loan and securities losses} - \text{Other expenses}$$

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 closing method, trust profits are calculated by closing the books at the date of maturity or at the designated date.

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

$$\text{Standard price} = \text{Net assets} \div \text{Total number of shares of each trust}$$

Trust Fees to the Bank

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 a 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, assets belonging to the securities investments trusts are excluded from the 2002 and 2001 financial statements of the Trust Accounts.

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 W1,200.40 : US\$1, the basic exchange rate on December 31, 2002. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be 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 2001 U.S. Dollar amounts, which were previously expressed at W1,326.10 : US\$1, the rate prevailing at December 31, 2001 have been restated to reflect the exchange rate in effect at December 31, 2002.

Notes to Financial Statements (continued)

4. Classification of Trust Accounts

Assets and liabilities of trust accounts at December 31, 2002 and 2001 are classified into principal or dividend guaranteed trusts, mixed guaranteed trusts, and non-guaranteed trusts as follows (millions of Won):

December 31, 2002	Principal or dividends guaranteed	Mixed guaranteed	Non- guaranteed	Total
Securities	W 458,116	W 49,212	W 695,682	W 1,203,010
Loans	22,145	1,488	5,599	29,232
Money receivables	-	-	14,122	14,122
Movables & Real Estate	-	-	95,616	95,616
Other assets	50,532	1,826	23,593	75,951
Due from the Bank Account	29,149	4,595	47,670	81,414
Allowance for possible loan and securities losses	(7,349)	(4,458)	(5,354)	(17,161)
Total Assets	W 552,593	W 52,663	W 876,928	W 1,482,184
Money trust	W 404,498	W 50,147	W 753,255	W 1,207,900
Property trust	-	-	109,738	109,738
Borrowings	134,800	-	-	134,800
Other liabilities	8,415	692	13,935	23,042
Reserve for future trust losses	4,880	1,824	-	6,704
Total Liabilities	W 552,593	W 52,663	W 876,928	W 1,482,184

December 31, 2001	Principal or dividends guaranteed	Mixed guaranteed	Non- guaranteed	Total
Securities	W 565,604	W 78,528	W 586,648	W 1,230,780
Loans	51,425	9,464	24,145	85,034
Other assets	20,398	3,069	20,256	43,723
Due from the Bank Account	57,524	14,852	55,841	128,217
Present value discounts	(1,217)	-	-	(1,217)
Allowance for possible loan and securities losses	(12,269)	(4,856)	(15,362)	(32,487)
Total Assets	W 681,465	W 101,057	W 671,528	W 1,454,050
Money trust	W 383,584	W 98,019	W 666,034	W 1,147,637
Borrowings	282,000	-	-	282,000
Other liabilities	12,539	1,214	5,494	19,247
Reserve for future trust losses	3,342	1,824	-	5,166
Total Liabilities	W 681,465	W 101,057	W 671,528	W 1,454,050

Notes to Financial Statements (continued)

General unspecified Money Trust, Reserving Objective Money Trust(Guaranteed), Development Trust, Old Age Pension Trust, Personal Pension Trust, Retirement Trust, New Personal Pension Trust, and Pension Trust are classified as principal or dividends guaranteed trusts.

Mixed guaranteed trusts represent trusts for which principal is guaranteed only for certain beneficiaries who entered into the trust agreements prior to May 1, 1996. House Money Trust, Business Money Trust and Reserving Objective Money Trust (Performance) are classified as mixed guaranteed trusts.

National Stock Trust, Long-Term House Trust, Workers Preferential Trust, New Reserving Trust, Specified Money Trust, Unit Type Money Trust, and Open Type Money Trust are classified as non-guaranteed trusts.

5. Securities

Equity Securities

Equity securities as of December 31, 2002 are as follows (millions of Won):

Company	Number of shares	Acquisition cost	Market value
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	385,187	W 5,218	W 5,218
Daewoo Heavy Industries & Machinery Ltd.	326,344	4,421	4,421
Daewoo Capital Corporation CRB	434,234	4,342	4,342
Digital Power Communications	1,055,970	2,496	2,496
Daewoo Securities Co.,Ltd	408,158	2,388	2,388
Midopa Department Co.	16,269	1,952	1,952
Korea Development Leasing Corp.	218,860	1,572	1,572
Kyung Nong Corporation	128,710	1,499	1,499
The Korea Express Co., Ltd.	59,104	1,393	1,393
Heehoon	1,180,584	1,267	1,267
Saehan Industries Inc.	540,300	1,167	1,113
Ilryung Telesys.Inc	407,958	998	998
C&H Capital Co., Ltd	153,200	766	766
Deesys Co. Ltd.	372,205	762	762
Hanmi Capital Co., Ltd.	151,800	759	759
SK Telecom Co.	1,300	321	298
Samsung Electronics Co.Ltd	750	273	236
Daewoo Motor Co., Ltd.	30,248	151	151
SBS Co., Ltd	3,900	188	143
Others	29,485	977	809
	5,904,566	W 32,910	W 32,583

Certain listed investment securities were received when outstanding loans were 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.

Notes to Financial Statements (continued)

Equity securities as of December 31, 2001 are as follows (millions of Won):

Company	Number of shares	Acquisition cost	Market value
Daewoo Engineering & Construction Co., Ltd.	7,949,600	W 39,748	W 39,748
Daewoo International Corporation	1,236,800	6,184	6,184
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	415,187	5,422	5,408
Ssangyong Motor Company	1,042,000	5,210	5,210
Daewoo Heavy Industries & Machinery Ltd.	326,344	4,421	4,421
Saehan Industries Inc.	675,400	3,377	1,459
Shinwon Corporation	565,800	2,829	2,829
Daewoo Electronics Co., Ltd.	400,000	2,000	2,000
Kyung Nong Corporation	128,710	1,499	1,499
The Korea Express Co., Ltd.	50,280	1,337	1,257
Chohung Leasing Corp.	153,200	766	766
Hanmi Capital Co., Ltd.	151,800	759	759
Korea Development Leasing Corp.	117,100	632	632
Ilryung Telesys Inc.	163,153	394	394
Samsung Electronics Co., Ltd.	1,000	256	279
Sepoong Corporation	49,400	247	247
LG Cable Ltd.	16,180	246	233
Samsung Heavy Industries Co., Ltd.	55,000	219	207
Daelim Industrial Co., Ltd.	15,000	193	206
Others	106,311	1,128	1,205
	13,618,265	W 76,867	W 74,943

Debt Securities

Debt securities as of December 31, 2002 are as follows (millions of Won):

Type	Face value	Acquisition cost	Fair value
Government bonds			
Korea treasury bonds	W 50,500	W 52,356	W 51,593
Korea housing bonds	147,520	137,832	138,606
Foreign exchange stabilization bonds	40,000	43,682	42,484
	238,020	233,870	232,683
Financial debentures			
Monetary stabilization bonds	120,000	120,310	120,336
Others	35,793	33,617	33,598
	155,793	153,927	153,934
Local government bonds	34,658	32,467	32,672
Corporate bonds	326,745	323,331	322,906
	W 755,216	W 743,595	W 742,195

Notes to Financial Statements (continued)

Debt securities as of December 31, 2001 are as follows (millions of Won):

Type	Face value	Acquisition cost	Fair value
Government bonds			
Korea treasury bonds	W 60,700	W 63,152	W 62,494
Korea housing bonds	145,740	134,868	135,422
Foreign exchange stabilization bonds	50,000	55,318	54,536
	256,440	253,338	252,452
Financial debentures			
Monetary stabilization bonds	130,000	130,284	130,068
Others	55,993	53,440	53,417
	185,993	183,724	183,485
Local government bonds	20,165	18,687	18,726
Corporate bonds	292,323	292,503	291,842
	W 754,921	W 748,252	W 746,505

Bills Bought

Bills bought as of December 31, 2002 and 2001 are as follows (millions of Won):

December 31, 2002	Face value	Acquisition cost	Book value
Bills issued	W 588	W 588	W 588
Commercial paper	409,567	409,567	409,567
	W 410,155	W 410,155	W 410,155
December 31, 2001	Face value	Acquisition cost	Book value
Bills issued	W 70,931	W 70,931	W 70,931
Commercial paper	312,444	312,444	312,444
	W 383,375	W 383,375	W 383,375

Other Securities

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

December 31, 2002	Face value	Acquisition cost	Fair value
Negotiable certificate of deposits	W 6,740	W 6,643	W 6,643
Beneficiary certificates of bond type trusts	10,803	10,834	10,837
Beneficiary certificate of equity type trust	596	596	596
	W 18,139	W 18,073	W 18,076
December 31, 2001	Face value	Acquisition cost	Fair value
Beneficiary certificates of bond type trusts	W 25,884	W 25,664	W 25,957

Notes to Financial Statements (continued)

6. Asset Classification and Allowance for Possible Loan and Securities Losses

The classification of loans and securities at December 31, 2002 and 2001 is as follows (millions of Won):

December 31, 2002	Normal	Precautionary	Substandard	Doubtful	Estimated loss	PVD	Total
Loans	W 26,200	W 908	W 547	W 1,309	W 268	W -	W 29,232
Corporate bonds	196,039	103,145	11,175	12,449	98	-	322,906
Bills bought	294,252	88,334	25,396	-	2,173	-	410,155
	W 516,491	W 192,387	W 37,118	W 13,758	W 2,539	W -	W 762,293

December 31, 2001	Normal	Precautionary	Substandard	Doubtful	Estimated loss	PVD	Total
Loans	W 44,195	W 11,388	W 3,462	W 23,649	W 1,124	W 1,216	W 85,034
Corporate bonds	181,976	27,338	17,638	64,890	-	-	291,842
Bills bought	242,087	-	32,389	108,287	612	-	383,375
	W 468,258	W 38,726	W 53,489	W 196,826	W 1,736	W 1,216	W 760,251

Protected assets and Specified Money Trust assets were excluded from recording an allowance for possible loan and securities losses and are maintained at book value. 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 at December 31, 2002 and 2001 are as follows (millions of Won):

December 31, 2002	Normal	Precautionary	Substandard	Doubtful	Estimated loss	PVD	Total
Corporate bonds	W 43,478	W 103,145	W 11,175	W 12,449	W 98	W -	W 170,345
Bills bought	284,252	88,334	25,396	-	1,585	-	399,567
	W 327,730	W 191,479	W 36,571	W 12,449	W 1,683	W -	W 569,912

December 31, 2001	Normal	Precautionary	Substandard	Doubtful	Estimated loss	PVD	Total
Loans	W -	W 9,857	W -	W 15,457	W -	W -	W 25,314
Corporate bonds	35,620	27,338	17,638	61,512	-	-	142,108
Bills bought	167,025	-	32,389	94,723	-	-	294,137
	W 202,645	W 37,195	W 50,027	W 171,692	W -	W -	W 461,559

The allowance for possible loan and securities losses as of December 31, 2002 and 2001 is as follows (millions of Won):

December 31, 2002	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Allowance	W 7,349	W 4,458	W 5,354	W 17,161

December 31, 2001	Principal or dividends guaranteed	Mixed guaranteed	Non-guaranteed	Total
Allowance	W 12,269	W 4,856	W 15,362	W 32,487

Notes to Financial Statements (continued)

7. Restructured Loans

Restructured loans at December 31, 2002 and 2001 are as follows (millions of Won):

December 31, 2002	Corporations under liquidation	Work-out	Private restructuring	Total
Period	0.8~8.0yrs	0.8 ~ 2.0 yrs	2.7 ~ 9.0 yrs	
Balance before restructuring	W 3,570	W 75,508	W 9,835	W 88,913
D/E swap stock	3,520	7,044	5,485	16,049
D/E swap CB	50	68,464	4,350	72,864
Balance at end of year	W 3,570	W 73,974	W 9,835	W 87,379

December 31, 2001	Corporations under liquidation	Work-out	Private restructuring	Total
Period	8.2 yrs	1 ~ 3 yrs	2 ~ 3 yrs	
Balance before restructuring	W 1,505	W 119,590	W 16,341	W 137,436
D/E swap stock	1,257	59,595	-	60,852
D/E swap CB	-	59,995	-	59,995
D/E swap bond	248	-	-	248
Interest rate reduction	-	-	16,341	16,341
Balance at end of year	W 1,505	W 117,672	W 7,616	W 126,793

(*) Restructured assets consist of loan and securities.

The Trust has W8,833 million of loans discounted to present value (amounting to W1,217 million) due to debt restructurings as of December 31, 2001.

Loans, which were scheduled to be converted to stock amounting to W47,091 million at December 31, 2001, were recorded at book value and not fair value based on the agreement between the Bank and KDIC.

8. Income Statement for Management of the Trust Accounts

Pro forma income statements for Bank operations related to management of the trust accounts for the years ended December 31, 2002 and 2001, which are prepared and disclosed in accordance with the Korean Trust Business Supervisory Regulations, are as follows (millions of Won):

	2002		2001	
Operating income				
1. Trust fees, net of subsidy for trust deficiencies	W	13,746	W	23,290
2. Commissions received from early redemptions		52		1,811
		13,798		25,101
Operating expenses (*)				
1. Salaries & employee benefits		3,054		5,051
2. Administration expenses		1,704		5,478
3. Taxes & dues		691		258
4. Amortization		769		1,359
5. Provision for severance and retirement benefits		334		1,063
		6,552		13,209
Net income (loss)	W	7,246	W	11,892

(*) 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.
The expenses are not charged to the Trust but calculated to determine the Bank's internal costs related to management of the Trust.

9. Korean Economy

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is continuing. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Trust may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above.

The accompanying financial statements reflect management's 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 sheets of Korea First Bank and subsidiaries (the "Bank") as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in capital surplus and retained earnings, and cash flows for the years 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 audits.

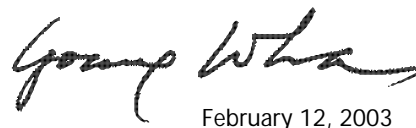
We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on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

In our opinion, the 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, 2002 and 2001, and the consolidated results of its operations, changes in capital surplus and retained earnings, and cash flows for the years 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 16 of the consolidated financial statements. As discussed in Note 16, 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.

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


February 12, 2003

Consolidated Balance Sheets

December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
<i>Assets</i>				
Cash & due from banks (Note 5)	W 2,253,932	W 2,343,592	\$ 1,877,651	\$ 1,952,343
Investment securities (Note 6)	7,533,043	1,891,546	6,275,444	1,575,763
KDIC bonds (Notes 4 and 6)	91,076	4,483,076	75,871	3,734,652
	7,624,119	6,374,622	6,351,315	5,310,415
Trust securities	386,471	448,549	321,952	373,666
Loans (Note 7)	20,310,107	16,212,444	16,919,449	13,505,868
Present value discounts for loans	(6,144)	(11,414)	(5,118)	(9,509)
Allowance for possible loan losses (Note 7)	(414,947)	(763,354)	(345,674)	(635,916)
	19,889,016	15,437,676	16,568,657	12,860,443
Receivable from KDIC (Note 4)	319,958	379,218	266,543	315,910
Fixed assets (Note 8)	1,226,277	1,177,608	1,021,557	981,013
Deferred income tax (Note 19)	169,625	159,625	141,307	132,976
Other assets (Note 9)	867,191	790,296	722,418	658,361
Total assets	W32,736,589	W27,111,186	\$27,271,400	\$22,585,127
<i>Liabilities and Shareholders' Equity</i>				
Deposits (Note 10)	W23,786,370	W18,252,726	\$19,815,370	\$15,205,537
Borrowings (Note 11)	2,447,174	4,143,108	2,038,632	3,451,440
Financial debentures (Note 12)	2,155,556	598,293	1,795,698	498,411
Accrued severance and retirement benefits (Note 13)	21,570	4,361	17,969	3,633
Other liabilities (Note 15)	2,652,476	2,581,001	2,209,660	2,150,117
Total liabilities	31,063,146	25,579,489	25,877,329	21,309,138
Commitments and contingencies (Note 16)				
Shareholders' equity				
Common stock (Note 17)	980,584	980,584	816,881	816,881
Capital surplus	-	4,831	-	4,024
Retained earnings (Note 18)	633,319	530,502	527,590	441,938
Capital adjustments	59,540	15,780	49,600	13,146
Total shareholders' equity	1,673,443	1,531,697	1,394,071	1,275,989
Total liabilities and shareholders' equity	W32,736,589	W27,111,186	\$27,271,400	\$22,585,127
<i>See accompanying notes</i>				

Consolidated Statements of Income

Years ended December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)	
Interest income				
Loans	W1,203,934	W1,192,364	\$1,002,944	\$ 993,306
Trading securities	18	-	15	-
Investment securities	206,726	124,515	172,214	103,728
KDIC bonds	164,158	336,901	136,753	280,657
Trust securities	28,271	33,538	23,551	27,939
Due from banks	9,663	18,338	8,050	15,277
Other	1,858	1,974	1,548	1,644
	1,614,628	1,707,630	1,345,075	1,422,551
Interest expense				
Deposits	839,434	794,037	699,295	661,477
Borrowings	147,842	314,128	123,161	261,686
Financial debentures	40,322	30,583	33,590	25,477
Other	28,745	29,730	23,946	24,767
	1,056,343	1,168,478	879,992	973,407
Net interest income before provision	558,285	539,152	465,083	449,144
Provision for loan and other losses (Note 7)	131,961	81,490	109,931	67,886
Net interest income after provision	426,324	457,662	355,152	381,258
Fees, commissions, other revenue (expense), net				
Banking fees	64,107	82,502	53,405	68,729
Card fees	166,513	142,814	138,715	118,972
Trust account	6,739	14,390	5,614	11,988
Securities	1,490	(236)	1,241	(197)
Foreign exchange	18,079	32,748	15,061	27,281
Other	(2,470)	(666)	(2,058)	(555)
	254,458	271,552	211,978	226,218
Operating expense				
Staff cost	313,110	310,530	260,838	258,689
Administration expense	152,860	165,153	127,341	137,581
Depreciation and other	127,416	98,525	106,145	82,077
	593,386	574,208	494,324	478,347
Operating income	87,396	155,006	72,806	129,129
Non-operating revenue	26,480	25,581	22,060	21,310
Non-operating expense	18,500	56,589	15,412	47,142
Net non-operating income	7,980	(31,008)	6,648	(25,832)
Income before taxes	95,376	123,998	79,454	103,297
Income tax benefit (Note 19)	(6,139)	(100,096)	(5,114)	(83,386)
Consolidated net income	W 101,515	W 224,094	\$ 84,568	\$ 186,683
Ordinary earnings per share (Note 20)	W 518	W 1,143	\$ 0.43	\$ 0.95
Net earnings per share (Note 20)	W 518	W 1,143	\$ 0.43	\$ 0.95

See accompanying notes

Consolidated Statement of Changes in Capital Surplus and Retained Earnings

Years ended December 31, 2002

(In Millions of Korean Won)	Capital stock	Capital surplus	Retained earnings	Capital adjustment	Total
Beginning balances at January 1, 2002	W980,584	W4,831	W530,502	W15,780	W1,531,697
Consolidated net income			101,515		101,515
Decrease in consolidated capital surplus		(4,831)			(4,831)
Increase in other reserves			1,538		1,538
Equity in retained earnings of affiliates			(284)		(284)
Gain on valuation of investment securities				43,760	43,760
Increase due to foreign currency translation			48		48
Ending balances at December 31, 2002	W980,584	W -	W633,319	W59,540	W1,673,443
(In Thousands of U.S. Dollars, see Note 3)					
Beginning balances at January 1, 2002	\$816,881	\$4,024	\$441,938	\$13,146	\$1,275,989
Consolidated net income			84,568		84,568
Decrease in consolidated capital surplus		(4,024)			(4,024)
Increase in other reserves			1,281		1,281
Equity in retained earnings of affiliates			(237)		(237)
Gain on valuation of investment securities				36,454	36,454
Increase due to foreign currency translation			40		40
Ending balances at December 31, 2002	\$816,881	\$ -	\$527,590	\$49,600	\$1,394,071
<i>See accompanying notes</i>					

Consolidated Statement of Changes in Capital Surplus and Retained Earnings

Years ended December 31, 2001

(In Millions of Korean Won)	Capital stock	Capital surplus	Retained earnings	Capital adjustment	Total
Beginning balances at January 1, 2001	W980,584	W5,039	W307,459	W13,987	W1,307,069
Consolidated net income			224,094		224,094
Increase in other reserves			1,306		1,306
Equity in retained earnings of affiliates			9		9
Amortization of discounts on stock issuance			(1,124)	1,124	-
Gain on valuation of investment securities				669	669
Decrease due to foreign currency translation		(208)	(1,242)		(1,450)
Ending balances at December 31, 2001	W980,584	W4,831	W530,502	W15,780	W1,531,697
(In Thousands of U.S. Dollars, see Note 3)					
Beginning balances at January 1, 2001	\$816,881	\$4,198	\$256,130	\$11,652	\$1,088,861
Consolidated net income			186,683		186,683
Increase in other reserves			1,088		1,088
Equity in retained earnings of affiliates			7		7
Amortization of discounts on stock issuance			(936)	936	-
Gain on valuation of investment securities				558	558
Decrease due to foreign currency translation		(174)	(1,034)		(1,208)
Ending balances at December 31, 2001	\$816,881	\$4,024	\$441,938	\$13,146	\$1,275,989

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001	2002	2001
	In Millions of Korean Won	In Thousands of U.S. Dollars (Note 3)		
Cash flows from operating activities:				
Consolidated net income	W 101,515	W 224,094	\$ 84,568	\$ 186,683
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan and other losses	131,961	81,490	109,931	67,886
Depreciation	67,212	50,064	55,991	41,706
Provision for severance and retirement benefits	36,272	38,781	30,217	32,307
Loss on impairment of investment securities	-	20,511	-	17,087
Interest on KDIC receivables	(19,257)	(42,674)	(16,042)	(35,550)
Other, net	(5,247)	4,218	(4,372)	3,514
Changes in operating assets and liabilities, net	(108,321)	(81,147)	(90,237)	(67,600)
Net cash provided by operating activities	204,135	295,337	170,056	246,033
Cash flows from investing activities:				
Due from banks	(271,677)	(982,594)	(226,322)	(818,555)
Securities	(5,546,943)	(663,063)	(4,620,912)	(552,368)
KDIC bonds	4,392,000	1,464,000	3,658,781	1,219,593
Loans (*)	(4,312,094)	(1,169,199)	(3,592,214)	(974,008)
Acquisition of fixed assets	(117,779)	(125,217)	(98,116)	(104,313)
Other, net	31,142	45,048	25,941	37,527
Net cash used in investing activities	(5,825,351)	(1,431,025)	(4,852,842)	(1,192,124)
Cash flows from financing activities:				
Deposits	5,533,644	860,933	4,609,833	717,204
Borrowings	(1,695,934)	(1,039,627)	(1,412,808)	(866,068)
Financial debentures	1,572,322	100,000	1,309,832	83,306
Borrowing from trust account	(208,193)	132,960	(173,436)	110,763
Domestic exchange obligation payable	55,026	808,785	45,840	673,763
Other, net	3,014	55,048	2,511	45,859
Net cash provided by financing activities	5,259,879	918,099	4,381,772	764,827
Net decrease in cash and cash equivalents	(361,337)	(217,589)	(301,014)	(181,264)
Cash and cash equivalents at beginning of year	1,083,553	1,301,142	902,660	1,083,924
Cash and cash equivalents at end of year (Note 5)	W 722,216	W1,083,553	\$ 601,646	\$ 902,660

(*) Net of amounts transferred to KDIC of W498,834 million and W302,410 million for the years ended December 31, 2002 and 2001, respectively.

See accompanying note

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 389 local branches and 4 overseas networks as of December 31, 2002.

In March 1956, the Bank listed its shares on the Korean Stock Exchange. However, in connection with recapitalization by the Korea Deposit Insurance Corporation ("KDIC") in July 1999, the Bank's shares were suspended from trading on the Korean Stock Exchange. The par value of the Bank's common stock outstanding at December 31, 2002 is W981 billion.

As of December 31, 2002, KFB Newbridge Holdings (Private) Limited ("Newbridge") was the controlling shareholder of the Bank. Newbridge acquired 50.99% of the Bank's common stock from the KDIC on 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, 2002, 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 the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP") and Accounting Standards applicable to the Korean Banking Industry. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices.

The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's financial position and results of operations, is not presented in the accompanying financial statements. Certain reclassifications, 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's presentation. 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.

Notes to Consolidated Financial Statements (continued)

A summary of the Bank's controlled subsidiary as of December 31, 2002 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, 2002 is US\$7 million.

A summary of the Bank's equity-method investees as of December 31, 2002 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 (*)

(*) The equity-method is applied since total assets are less than W7 billion.

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 equity outstanding at December 31, 2002 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, 2002 is W2 billion.

In the normal course of business, 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 foreign currencies. 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.

Notes to Consolidated Financial Statements (continued)

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies and financial statements of foreign branches are translated into Korean Won using applicable exchange rates in effect as of December 31, 2002 and 2001. Foreign currency transactions in the domestic banking branches are accounted for at the exchange rates prevailing on the dates of the transactions. 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 (see Note 4), 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. Loan fees and certain direct origination costs are recognized when received or paid.

Cash and Cash Equivalents

Highly liquid deposits, and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents. Deposits restricted in use are not included in cash and cash equivalents (see Note 5).

Equity 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 are recorded in current operations until the previous impairment charge is eliminated.

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 the underlying book value of the investee that 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

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 are recorded in current operations up to the amortized cost of the investment .

Notes to Consolidated Financial Statements (continued)

Investments in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost) using the effective interest method. Declines in the fair value of debt securities that 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.

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.

Credit ratings previously consisted of 8 grades until the third quarter of 2002 but were separated into 10 grades as of December 31, 2002.

	Normal	Precautionary	Substandard	Doubtful	Estimated loss
Before change	Grade 1-4	Grade 5	Grade 6	Grade 7	Grade 8
After change	Grade 1-6	Grade 7	Grade 8	Grade 9	Grade 10

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

Credit ratings	Loan classifications	Corporate loans and others	Household loans	Credit card accounts
1 - 6	Normal (*)	0.5% or above	0.75% or above	1.0% or above
7	Precautionary	2% or above	8% or above	12% or above
8	Substandard	20% or above	20% or above	20% or above
9	Doubtful	50% or above	55% or above	60% or above
10	Estimated loss	100%	100%	100%

(*) For call loans and bonds purchased under resale agreements classified as normal, loan loss provisions are not provided in accordance with FSS guidelines.

In 2002, the Financial Supervisory Service ("FSS") increased, on several occasions, minimum loan loss reserve percentages for household and credit card loans. Final percentages are shown in the above table. Prior to 2002, statutory FSS minimum loan loss reserve percentages for household and credit card loans were identical to those shown above for corporate loans. To comply with new minimum reserve percentages as required by FSS guidelines, the Bank provided an additional loan loss provision of W 51.3 billion in 2002.

For household and credit card loans, the Bank determines loss percentages using historical migration loss models by loan type. The resulting loss percentages calculated by the historical migration loss models are compared to the above minimum provision percentages, on a total basis, and the Bank records a provision based on the overall higher percentage of the two methods.

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 the charge-off of loan balances.

Notes to Consolidated Financial Statements (continued)

The Bank's classification criteria for credit rating corporate loans are as follows:

Classification	Description
Normal	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose no risk to the Bank's ability to collect the full amount of principal and interest as they become due.
Precautionary	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to have potential weaknesses that may lead to an inability to repay the full principal and interest as they become due in the near future.
Substandard	Assets extended to customers who, in light of their management, financial position and future cash flows, are determined to pose a considerable risk to the Bank's ability to collect the full principal and interest due to revealed weaknesses that may have diminished the customer's capacity to repay the loans in a satisfactory manner.
Doubtful	Portion of assets in excess of the amount expected to be collected from customers who, in light of their management, financial position and future cash flows, are determined to pose a significant risk to the Bank's ability to collect principal and interest due to a considerably weakened capacity to repay the loans in a satisfactory manner.
Estimated Loss	Portion of assets in excess of the amount expected to be collected from customers whose credit must be accounted for as a loss, because, in light of their management, financial position and future cash flows, the Bank's collection of principal and interest is not probable in the foreseeable future due to a serious weakening of such customers' ability to repay the loan in a satisfactory manner.

Present Value Discounts

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 difference in present value of the loan and the book 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 a present value discount 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.

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 for construction in progress is deferred until transfer to appropriate fixed asset categories upon completion.

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.

	Estimated useful lives
Buildings	40 ~ 60 years
Structures	5 years
Movable property	3 ~ 20 years

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 paid-in capital in excess of par value (capital surplus) and the amounts of debenture issuance, respectively. Debenture issuance costs are amortized as interest expense over the redemption period using the effective interest rate 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 sheets.

Accrued Severance and Retirement Benefits

In accordance with the Korean Labor Standards Law and the Bank's policies, employees terminating their employment with more than one year of service are entitled to severance and retirement benefits, based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision for the years ended December 31, 2002 and 2001 is sufficient to state the liability under the Korean Labor Standards Law and the Bank's policies based on the estimated obligation arising from services performed to and at rates of pay in effect at December 31, 2002 and 2001. Funding of this liability is not required by Korean law. Actual payments of severance and retirement benefits, excluding payments for one-time special retirement programs, were W27,845 million for the year ended December 31, 2002.

The Bank has deposited a portion of its severance and retirement benefits obligation with insurance companies as deposits for group severance and retirement benefits. Such deposits amounted to W145,889 million at December 31, 2002. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits in respect of what is due to them as of December 31, 2002, those amounts have been offset against the Bank's liability for severance and retirement benefits as of such date.

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 a minimum allowance percentage on confirmed guarantees of 0.5% 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.

Reserve for Unused Cash Advance Commitments on Credit Cards

Pursuant to a new regulation issued by the FSS, from the third quarter of 2002 the Bank records reserves for a certain portion of unused cash advance commitments on credit cards as a liability on the balance sheet. The Bank provides a minimum allowance percentage of 1.0% on a portion of unused cash advance commitments which have been used at least once in the last twelve months. The allowance for unused cash advance commitments on credit cards as of December 31, 2002 amounted to W5,597 million.

Notes to Consolidated Financial Statements (continued)

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 W3,713 billion as of December 31, 2002.

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 of whether they are entered for trading or hedging purposes, are valued at fair value. Derivative contracts not meeting the requirements for hedge accounting treatment are classified as trading contracts with gains and losses included in current operations. Derivative contracts qualifying for hedge accounting treatment have unrealized valuation gains and losses recorded as capital adjustments (cash-flow-hedge derivatives) or as other revenues and expenses in current operations in conjunction with recording unrealized gains and losses for underlying assets or liabilities (fair-value-hedge derivatives).

Contingent Liabilities

Guarantees of payment for money indebtedness, acceptances of trade bills related to export or import, guarantees issued on opened letters of credit, etc. are classified as confirmed acceptances and guarantees. Both confirmed acceptances and guarantees and contingent acceptances and guarantees are presented as off-balance sheet items. The notional amount of derivative contracts, bills endorsed and commitments for which the Bank has promised to provide credit to borrowers, if the commitment period is over 1 year and the commitment is irrevocable by the Bank, are also presented as off-balance sheet items.

Investment Distribution Business

The Bank has a consignment contract for sale of beneficiary certificates and mutual funds with an investment trust company. Outstanding beneficiary certificates and mutual funds sold for an outside investments trust company amounted to W889.3 billion as of December 31, 2002.

Domestic Import Usance Bills

The Bank has certain confirmed and outstanding domestic import usance bills originated from import L/Cs issued by the Bank. Prior to 2002, these domestic import usance bills were disclosed as an off-balance sheet item (confirmed acceptances and guarantees). According to new guidance of the FSS effective from December 2002, these are recorded on balance sheet as loans (debit) and borrowings (credit) in foreign currencies, respectively, in the amount of W91,389 million as of December 31, 2002.

To conform to the current year's presentation, this reclassification in the amount of W208,663 million was also made to the prior year financial statements.

Notes to Consolidated Financial Statements (continued)

Korean GAAP Revisions from 2003

In 2002, the Korean Accounting Standards Board issued certain new accounting statements with the intention to revise Korean GAAP and disclosure rules to meet international practices. The revised accounting standards will apply to Korean companies for the first fiscal year starting after December 31, 2002. Early adoption of the revised accounting standards is allowed. The cumulative effect on prior years of the changes in accounting policies will be charged or credited to either opening retained earnings or the capital adjustment account, as required, with disclosures made on the effect of the changes. The revisions include changes in the areas of revenue recognition, intangibles, property, plant and equipment, interest capitalization, marketable and investment securities, events and transactions occurring after the balance sheet date, and convertible securities.

The Bank plans to adopt the revised accounting standards from January 1, 2003. The Bank is currently evaluating the impact that adoption of the revised accounting standards will have on its financial position and results of operations.

3. United States Dollar Amounts

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts 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 W1,200.40 : US\$1, the basic exchange rate on December 31, 2002. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be 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 2001 U.S. Dollar amounts, which were previously expressed at W1,326.10 : US\$1, the rate prevailing at December 31, 2001 have been restated to reflect the exchange rate in effect at December 31, 2002.

4. Government Assistance

On December 31, 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. In general, these protections applied to certain loans and similar credit instruments remaining on the Bank's consolidated balance sheet after Closing ("Remaining Loans"). Remaining Loans included any loans in guaranteed trust accounts and certain designated loans in mixed trust accounts but did not include any loans in performance trust accounts.

In general, depending on the type and circumstances of the particular Remaining Loan, these protections took 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 determined to take against the Remaining Loan. Certain guarantees and commitments of the Bank were also subject to credit protection.

The periods of credit protection provided by the KDIC varied depending on the type of asset involved. The protection periods were generally (i) through December 31, 2002 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) through December 31, 2002 for Remaining Loans to certain financial institutions, and (iii) through December 31, 2001 for other Remaining Loans (see Note 16). The protection period for commitments ranged from one to three years, depending on the type of commitment involved. Loans with an outstanding principal balance totaling W312 billion and commitments and guarantees amounting to W63 billion are considered by the Bank to have had protection as of

Notes to Consolidated Financial Statements (continued)

December 31, 2002, respectively. All reserve protection and transfer rights expired as of January 1, 2003. The Bank is in the process of preparing its final reserve claim, as provided in the Assistance Agreement, for protected loans as of December 31, 2002.

In general, the types of protection available depended on whether the Remaining Loan is (i) one of certain specified Remaining Loans to the Daewoo group, (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.

The KDIC continues to guarantee the book value of and a yield at a guaranteed rate on certain fixed income securities in the Bank's investment portfolio, 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, 2002, fixed income securities, primarily corporate debentures including private placement corporate bonds, with an outstanding principal balance totaling W538.7 billion have principal or yield guarantee.

Receivables from the KDIC at December 31, 2002 and 2001 are W319,958 million and W379,218 million, respectively. Receivables are primarily for reserves, settlement of asset transfers, and other settlements.

In connection with the expiration of all loan protection, the Bank is in process of preparing their final reserve claim as of December 31, 2002 with the KDIC.

5. Cash and Due from Banks

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

	Millions of Won	
	2002	2001
Cash on hand	W 656,485	W1,019,331
Foreign currencies	46,475	30,337
Due from banks in Korean Won	1,503,716	1,233,992
Due from banks in foreign currencies	47,256	59,932
	W2,253,932	W2,343,592

Due from banks denominated in Korean Won at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Type	Interest rate (%)	Depository	Total
December 31, 2002			
Checking accounts	-	Bank of Korea	W1,165,029
CD purchased	4.90 ~ 4.93	Industrial Bank of Korea, etc.	336,444
Other deposits	0.00 ~ 5.00	Woori Bank, etc.	2,243
			W1,503,716
December 31, 2001			
Checking accounts	-	Bank of Korea	W1,231,971
Other deposits	0.00 ~ 8.10	Woori Bank, etc.	2,021
			W1,233,992

Notes to Consolidated Financial Statements (continued)

Due from banks denominated in foreign currencies at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Type	Interest rate (%)	Depository	Total
December 31, 2002			
Demand deposits	-	Bank of Korea and others	W47,094
Other deposits	Sibid-1.75	HSBC Futures	162
			W47,256
December 31, 2001			
Demand deposits	-	Bank of Korea and others	W59,604
Other deposits	Sibid-1.75	HSBC Futures	328
			W59,932

Restricted balances in due from banks at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Type	Depository	Total	Restriction
December 31, 2002			
Checking accounts	Bank of Korea	W1,165,029	Reserve for payment of deposits
Demand deposits	Bank of Korea	28,129	Reserve for payment of deposits
Other deposits	Woori Bank	1,722	Escrow accounts
Other deposits	HSBC Futures, etc.	392	Deposits for Stock Index Futures, etc.
		W1,195,272	
December 31, 2001			
Checking accounts	Bank of Korea	W1,231,971	Reserve for payment of deposits
Demand deposits	Bank of Korea	25,790	Reserve for payment of deposits
Time deposits	Woori Bank	1,722	Escrow accounts
Other deposits	HSBC Futures, etc.	556	Deposits for Stock Index Futures, etc.
		W1,260,039	

Checking accounts and demand deposits deposited with the Bank of Korea represent reserves required under the General Banking Act for the payment of deposits.

The term structure of amounts due from banks at December 31, 2002 is as follows (millions of Won):

Year ending December 31, 2003	Due from banks in Korean Won	Due from banks in foreign currency	Total
	W1,503,716	W47,256	W1,550,972

The term structure of amounts due from banks at December 31, 2001 is as follows (millions of Won):

Year ending December 31, 2002	Due from banks in Korean Won	Due from banks in foreign currency	Total
	W1,233,992	W59,932	W1,293,924

Notes to Consolidated Financial Statements (continued)

Major transactions not resulting in cash flows for the years ended December 31, 2002 and 2001 are as follows (millions of Won):

	2002	2001
Loss reserve - KDIC Receivable	W218,250	W111,415
Loans in Won currency converted to equity	25,506	64,351
Present value discount - KDIC Receivable	1,422	524
Loans in Trust converted to equity	-	47,990
Transfer of deposits for group severance and retirement benefits	-	153,754

Cash and cash equivalents at December 31, 2002 and 2001 are comprised as follows (millions of Won):

	2002	2001
Cash on hand	W656,485	W1,019,331
Foreign currencies	46,475	30,337
Due from banks in Won	291	71
Due from banks in foreign currency	18,965	33,814
	W722,216	W1,083,553

6. Investment Securities

Investment securities at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Equity securities held for investment		
Korean Won		
Affiliated companies	W 5,596	W 4,654
Listed companies	29,014	104,906
Unlisted companies	15,557	13,340
	50,167	122,900
Foreign currency - affiliated companies	12,258	10,794
	62,425	133,694
Debt securities held for investment		
Bonds available-for-sale		
Korean Won	6,954,300	1,312,260
Foreign currencies	229,023	82,232
	7,183,323	1,394,492
Bonds held-to-maturity		
Korean Won	111,250	264,053
Foreign currencies	176,045	99,307
	287,295	363,360
	7,470,618	1,757,852
Total investment securities	7,533,043	1,891,546
KDIC bonds held-to-maturity	91,076	4,483,076
	W7,624,119	W6,374,622

Notes to Consolidated Financial Statements (continued)

Equity Securities Held for Investment

Equity investments in affiliated companies, denominated in Korean Won, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
December 31, 2002					
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W5,596	W5,596
December 31, 2001					
Korea First Data System Co., Ltd.	400,000	100.00	W2,000	W4,654	W4,654

In accordance with banking regulations, equity investments in Korean Won in affiliated companies are valued using the equity method. In 2002, W1,788 million of income from affiliated companies is included in current operations, and a W146 million decrease in retained earnings is debited to the opening balance of unappropriated retained earnings. In 2001, W470 million of income from affiliated companies are included in current operations, and a W9 million increase in retained earnings is credited to the opening balance of unappropriated retained earnings. The Bank received W700 million and W89 million of dividends in 2002 and 2001, respectively.

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2002 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Maxon Telecom Co. (preferred)	1,093,841	0.00	W3,380	W21,877
Keangnam Enterprises Co., Ltd.	83,536	0.32	182	182
KP Chemical	74,412	0.08	227	372
Ssang Yong Motor	58,534	0.05	293	2,927
Korea Information Service	42,000	0.88	599	599
Jin Do Co., Ltd.	40,669	0.20	17	3,050
Dong Yang Steel Pipe Co., Ltd.	1,180	0.00	-	7
	1,394,172		W4,698	W29,014

All listed investment securities, except Korea Information Service and certain securities of Keangnam Enterprises, were received when outstanding loans were 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 (market value for Korea Information Service and certain securities of Keangnam Enterprises). Loss on valuation of securities of W76 million (gain of W160 million for Korea Information Service and loss of W236 million for Keangnam Enterprises) was included in the capital adjustment account as of December 31, 2002.

Notes to Consolidated Financial Statements (continued)

Equity securities of listed companies, denominated in Korean Won, as of December 31, 2001 are summarized as follows (millions of Won):

Company	Number of shares	Ownership (%)	Fair value	Book value
Korea Development Leasing Corp.	2,491,010	9.69	W 2,740	W 12,502
Daewoo Electronics Co., Ltd.	2,288,571	2.55	8,353	15,900
Daewoo Heavy Industries & Machinery Ltd.	1,583,479	0.94	2,985	7,917
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	1,380,239	0.70	8,765	14,865
Ssang Yong Motor	1,000,000	2.63	1,110	5,000
Dong Yang Steel Pipe Co., Ltd.	910,390	1.44	992	5,462
Hanmi Capital Co., Ltd.	631,400	1.71	695	3,157
Chohung Capital	509,800	1.73	846	2,549
ETRONICS	296,420	0.46	111	2,075
Shin Won Co.	296,400	0.18	270	1,482
Maxon Telecom Co.	285,441	0.55	140	28,069
Keangnam Enterprises Co., Ltd.	200,753	0.76	638	1,512
Anam Semiconductor Corp.	136,250	0.12	773	1,090
Haitai Store Co., Ltd.	103,140	1.48	121	3,094
Sepoong Corp.	36,600	0.21	43	183
The Korea Express Co., Ltd.	1,960	0.03	16	49
	12,151,853		W28,598	W104,906

Unlisted equity securities, denominated in Korean Won, as of December 31, 2002 and 2001 are as follows (millions of Won):

Company	Number of shares	Ownership (%)	Acquisition cost	Net asset value	Book value
December 31, 2002					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W 9,870	W 7,500
BC Card	653,400	14.85	5,840	22,414	5,840
ETRONICS (*)	288,280	0.45	2,018	(638)	2,018
Daewoo Motors (*)	3,868	0.004	193	83	193
Daewoo Commercial Vehicle (*)	1,177	0.01	6	8	6
	2,446,725		W15,557	W31,737	W15,557
December 31, 2001					
Korea Securities Finance Corporation	1,500,000	2.21	W 7,500	W11,088	W 7,500
BC Card	653,400	14.85	5,840	19,545	5,840
	2,153,400		W13,340	W30,633	W13,340

(*) Equity securities of ETRONICS were reclassified from listed equity securities to unlisted equity securities due to delisting as of April 27, 2002. These securities, including equity securities of Daewoo Motors and Daewoo Commercial Vehicle, are stated at acquisition cost because they are scheduled to be transferred to the KDIC in accordance with the agreement between the Bank and the KDIC.

Notes to Consolidated Financial Statements (continued)

Equity securities, denominated in foreign currencies, at December 31, 2002 and 2001 are summarized as follows (millions of Won):

Company	Ownership (%)	Acquisition cost	Equity method	Net asset value	Book value
December 31, 2002					
Qingdao International Bank	50.00	W12,004	W12,258	W12,258	W12,258
December 31, 2001					
Qingdao International Bank	50.00	W13,261	W10,794	W10,794	W10,794

Equity securities in foreign currencies are valued by the equity method. W2,627 million and W73 million of income from affiliated companies is included in current operations for the years ended December 31, 2002 and 2001, respectively, and a W138 million decrease in retained earnings of affiliated companies is debited to the opening balance of unappropriated retained earnings as of December 31, 2002.

Debt Securities Held for Investment

Bonds available-for-sale, denominated in Korean Won, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Account	Interest rate (%)	Face value	Acquisition cost	Amortized cost	Impairment	Capital adjustment	Carrying value (*)
December 31, 2002							
Government bonds	3.00 ~ 11.15	W1,487,452	W1,429,209	W1,434,451	W -	W54,411	W1,488,862
Beneficiary certificates	-	19,690	19,690	19,690	-	-	19,690
Financial debentures	4.37 ~ 7.77	5,020,000	4,823,760	4,820,037	-	1,609	4,821,646
Corporate debentures	5.14 ~ 11.46	558,280	622,250	620,287	-	3,815	624,102
		W7,085,422	W6,894,909	W6,894,465	W -	W59,835	W6,954,300
December 31, 2001							
Government bonds	5.00 ~ 11.49	W 862,243	W 880,827	W 872,412	W -	W 7,320	W 879,732
Beneficiary certificates	-	30,070	30,070	30,070	-	-	30,070
Financial debentures	5.05 ~ 7.80	200,000	198,078	196,302	-	105	196,407
Corporate debentures	1.00 ~ 11.50	228,007	240,420	224,646	(20,511)	1,916	206,051
		W1,320,320	W1,349,395	W1,323,430	W(20,511)	W 9,341	W1,312,260

(*) The above carrying values are estimated using the more conservative yield for bonds between rates announced by KIS Pricing Inc. and Korea Bond Pricing Co. at December 31, 2002 and by yields announced by Korean Securities Dealers Association at December 31, 2001.

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2002 are summarized as follows (millions of Won):

Currency	Interest rate (%)	Face value	Acquisition cost	Amortized cost	Valuation gain (loss) (*1)	Capital adjustment	Carrying value (*2)
USD	0.25 ~ 5.14	W212,452	W210,306	W217,894	W1,217	W(219)	W218,892
JPY	0.93	10,129	10,129	10,129	2	-	10,131
		W222,581	W220,435	W228,023	W1,219	W(219)	W229,023

(*1) Asset swap contracts which offset valuation gains and losses on underlying assets as fair value hedges (see Note 16)

(*2) The above carrying values are estimated using yields for bonds announced by quotation services, broker's quotes or estimates of amounts collectable.

Notes to Consolidated Financial Statements (continued)

As of December 31, 2002, US\$43 million of bonds available-for-sale, denominated in foreign currencies are pledged as collateral for interest rate swaps.

Bonds available-for-sale, denominated in foreign currencies, at December 31, 2001 are summarized as follows (millions of Won):

Currency	Interest rate (%)	Face value	Acquisition cost	Carrying value
USD	3.36 ~ 7.57	W82,395	W82,114	W82,232

A certain portion of bonds available-for-sale in foreign currencies as of December 31, 2002 and bonds available-for-sale in foreign currencies as of December 31, 2001 are stated at amortized cost since the book value and a guaranteed yield rate on those bonds are receivable from the KDIC until sale or maturity. The market values of securities above as of December 31, 2002 and 2001 are W201,836 million and W41,465 million, respectively.

Bonds held-to-maturity, denominated in Korean Won, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Account	Interest rate (%)	Face value	Acquisition cost	Carrying value	Market value
December 31, 2002					
KDIC bonds (*)	1.00	W 91,076	W 91,076	W 91,076	W 86,568
Corporate debentures (*)	5.14	110,223	110,223	110,223	115,171
Government bonds	3.00 ~ 6.00	701	567	1,027	908
		W 202,000	W 201,866	W 202,326	W 202,647
December 31, 2001					
KDIC bonds (*)	1.00 ~ 5.78	W4,483,076	W4,483,076	W4,483,076	W4,484,702
Corporate debentures (*)	8.74 ~ 11.00	167,514	171,906	167,352	167,350
Financial debentures (*)	8.74	90,000	90,000	90,000	90,000
Government bonds	3.00 ~ 11.95	6,551	6,521	6,701	8,275
		W4,747,141	W4,751,503	W4,747,129	W4,750,327

(*) W91 billion of KDIC bonds and W110 billion of corporate debentures are guaranteed by the government as of December 31, 2002. W4,483 billion of KDIC bonds, W110 billion of corporate debentures and W20 billion of financial debentures are guaranteed by the government as of December 31, 2001.

Bonds intended to be held to maturity are initially stated at their acquisition cost which may be subsequently adjusted for amortization of premiums or discounts. 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.

As of December 31, 2002 and 2001, W2,851 billion and W5,132 billion of bonds denominated in Korean Won (both available-for-sale and held-to-maturity bonds) are pledged as collateral for certain borrowings and key money deposits, respectively.

Notes to Consolidated Financial Statements (continued)

Bonds held-to-maturity, denominated in foreign currencies, as of December 31, 2002 and 2001 are summarized as follows (millions of Won):

Currency	Interest rate (%)	Face value	Acquisition cost	Carrying value	Fair value
December 31, 2002					
USD	4.11 ~ 7.25	W170,542	W171,006	W170,975	W171,267
JPY	0.10	5,064	5,070	5,070	5,070
		W175,606	W176,076	W176,045	W176,337
December 31, 2001					
USD	6.33 ~ 8.50	W 95,460	W 94,005	W 94,224	W 84,853
JPY	0.55	5,046	5,051	5,083	5,083
		W100,506	W 99,056	W 99,307	W 89,936

As of December 31, 2002, JPY500 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for settlement of accounts. As of December 31, 2001, US\$26 million of bonds held-to-maturity, denominated in foreign currencies are pledged as collateral for bonds sold under repurchase agreement.

Investment Securities Concentrations

At December 31, 2002 and 2001, information about investment securities by geography, issuer, industry and character are summarized as follows (millions of Won):

By Geography	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2002				
Korea	W7,206,793	W206,263	W7,413,056	97.23
USA	-	178,040	178,040	2.33
China	-	18,874	18,874	0.25
Indonesia	-	5,849	5,849	0.08
Japan	-	5,070	5,070	0.07
Malaysia	-	3,230	3,230	0.04
	W7,206,793	W417,326	W7,624,119	100.00
December 31, 2001				
Korea	W6,182,289	W103,736	W6,286,025	98.61
Japan	-	44,866	44,866	0.70
Malaysia	-	13,204	13,204	0.21
China	-	10,794	10,794	0.17
Thailand	-	6,639	6,639	0.11
USA	-	6,633	6,633	0.10
Indonesia	-	6,461	6,461	0.10
	W6,182,289	W192,333	W6,374,622	100.00

Securities in Securities in

Notes to Consolidated Financial Statements (continued)

By Issuer	Korean Won	foreign currency	Total	Percentage
December 31, 2002				
Public	W1,711,464	W 21,032	W1,732,496	22.72
Financial business	5,396,818	169,179	5,565,997	73.01
Large corporate	92,908	227,115	320,023	4.20
Middle & small business	5,603	-	5,603	0.07
	W7,206,793	W417,326	W7,624,119	100.00
December 31, 2001				
Public	W5,551,509	W 31,557	W5,583,066	87.58
Financial business	469,611	57,225	526,836	8.27
Large corporate	151,053	81,670	232,723	3.65
Middle & small business	10,116	21,881	31,997	0.50
	W6,182,289	W192,333	W6,374,622	100.00

By Industry	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2002				
Public	W1,711,464	W 21,032	W1,732,496	22.72
Financial business	5,396,818	200,449	5,597,267	73.42
Manufacturing	62,638	195,845	258,483	3.39
Wholesale and retail	35,691	-	35,691	0.47
Construction	182	-	182	0.00
	W7,206,793	W417,326	W7,624,119	100.00
December 31, 2001				
Public and others	W5,551,509	W 31,557	W5,583,066	87.58
Financial business	469,611	57,225	526,836	8.27
Manufacturing	121,400	103,551	224,951	3.53
Wholesale and retail	38,257	-	38,257	0.60
Construction	1,512	-	1,512	0.02
	W6,182,289	W192,333	W6,374,622	100.00

By Character	Securities in Korean Won	Securities in foreign currency	Total	Percentage
December 31, 2002				
Stocks	W 50,167	W 12,258	W 62,425	0.82
Fixed rate bonds	7,136,936	105,613	7,242,549	94.99
Floating rate bonds	-	299,455	299,455	3.93
Beneficiary certificates	19,690	-	19,690	0.26
	W7,206,793	W417,326	W7,624,119	100.00
December 31, 2001				
Stocks	W 122,900	W 10,794	W 133,694	2.10
Fixed rate bonds	1,629,512	58,701	1,688,213	26.48
Floating rate bonds	4,393,421	122,838	4,516,259	70.85
Convertible bonds	6,386	-	6,386	0.10
Beneficiary certificates	30,070	-	30,070	0.47
	W6,182,289	W192,333	W6,374,622	100.00

Notes to Consolidated Financial Statements (continued)

Maturity Schedule

The maturities of investment securities, except equity securities, at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31	Government bonds	Financial debentures	Corporate debentures (*)	Beneficiary certificates	Securities in foreign currencies	Total
2003	W 269,801	W4,821,646	W236,450	W19,690	W 53,457	W5,401,044
2004	330,124	-	157,323	-	71,903	559,350
2005	105,385	-	-	-	117,288	222,673
2006	302,615	-	-	-	8,402	311,017
2007	481,964	-	431,628	-	131,410	1,045,002
Thereafter	-	-	-	-	22,608	22,608
	W1,489,889	W4,821,646	W825,401	W19,690	W405,068	W7,561,694

The maturities of investment securities, except equity securities, at December 31, 2001 are summarized as follows (millions of Won):

Year ending December 31	Government bonds	Financial debentures	Corporate debentures (*)	Beneficiary certificates	Securities in foreign currencies	Total
2002	W 91,701	W236,407	W4,412,258	W30,070	W 56,235	W4,826,671
2003	271,797	20,000	236,549	-	21,881	550,227
2004	480,260	-	195,629	-	6,443	682,332
2005	32,460	30,000	3,931	-	-	66,391
2006	10,215	-	-	-	-	10,215
Thereafter	-	-	8,112	-	96,980	105,092
	W886,433	W286,407	W4,856,479	W30,070	W181,539	W6,240,928

(*) Corporate debentures include KDIC bonds.

7. Loans

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

Account	2002		2001	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Loans in Korean Won				
Corporate loans	5.09 ~ 9.79	W 5,038,274	5.80 ~ 11.33	W 3,805,114
Household loans	5.15 ~ 15.55	10,599,731	4.42 ~ 17.56	7,887,417
Loans to public sector	5.23 ~ 7.97	103,351	5.95 ~ 7.83	217,051
Trust loans	5.96	40,472	4.05	128,261
Other loans	5.44	133,665	4.85 ~ 7.83	168,818
Notes bought	3.83 ~ 6.38	423,365	6.99 ~ 12.78	530,813
Advances to customers	-	29,609	-	191,174
Credit card accounts	-	1,291,729	-	795,380
Private placement corporate bonds-bank	5.09	760,179	7.96	383,356
Private placement corporate bonds-trust	1.07	68,465	0.87	56,752
		18,488,840		14,164,136

Notes to Consolidated Financial Statements (continued)

Loans in foreign currencies				
Loans	2.10 ~ 4.49	962,649	2.81 ~ 6.40	1,153,325
Call loans	1.29	84,028	4.22	70,946
Off-shore loans	1.92	25,908	6.09	248,788
Bills bought	3.69	748,682	5.18	571,241
Notes bought	-	-	5.71	4,008
		1,821,267		2,048,308
Total loans		W20,310,107		W16,212,444

Loans made to financial institutions at December 31, 2002 and 2001 are summarized as follows:

Account		Annual interest rate (%)	Millions of Won
December 31, 2002			
Domestic banks	Interbank loans	5.44	W 133,665
Overseas banks	Interbank loans in foreign currencies	2.10	12,004
Other	General loans	7.14	533,035
	Private placement corporate bonds	7.55	310,932
	Overdrafts	6.46	7,299
	Loans in foreign currencies	4.58	142,332
			W1,139,267
December 31, 2001			
Domestic banks	Interbank loans	6.52	W 168,691
Overseas banks	Loans in foreign currencies	3.07	3,978
	Interbank loans in foreign currencies	2.81	26,522
Other	General loans	6.83	88,216
	Private placement corporate bonds	8.27	108,392
	Overdrafts	8.85	1,289
	Loans in foreign currencies	4.30	171,912
	Bills bought	3.96	1,012
			W 570,012

In accordance with the agreement between the KDIC and the Bank, the Bank is to receive protection in connection with the Bank's final reserve claim from the KDIC on a portion of the principal balances of loans outstanding as of December 31, 2002 (see Note 4). The Bank has established additional allowances for new loans and existing loans that the Bank does not believe are protected by assistance from the KDIC.

Changes in the allowance for possible loan losses at December 31, 2002 and 2001 are as follows (millions of Won):

	2002	2001
Beginning balance	W763,354	W806,653
Decrease in reserves for protected loans	(206,513)	(109,720)
Provision for loan losses on unprotected loans (*)	126,364	74,340
Put and call to KDIC	(36,838)	(8,325)
Written off	(237,534)	(7,598)
Other changes	6,114	8,004
Ending balance	W414,947	W763,354

(*) The provision for loan losses on unprotected loans at December 31, 2002 does not include a provision for unused cash advance commitments on credit cards amounting to W5,597 million as the resulting allowance is included in other liabilities. The provision for loan and other losses per the statements of income includes a provision for other losses of W 7,150 million for the year ended December 31, 2001.

Notes to Consolidated Financial Statements (continued)

The ratios of the allowance for loan losses to total loans (excluding trust loans and private placement corporate bonds - trust) as of December 31, 2002, 2001 and 2000 are 2.01%, 4.74% and 5.50%, respectively.

At December 31, 2002 and 2001, 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	2002		2001	
Korea	W18,451,906	98.01%	W14,725,707	97.13%
Japan	154,180	0.82	229,389	1.51
China	48,934	0.26	7,957	0.05
Other	170,393	0.91	198,052	1.31
	W18,825,413	100.00%	W15,161,105	100.00%

By Borrower Type	2002		2001	
Corporate	W 7,854,018	41.72%	W 6,651,224	43.87%
Household	10,600,595	56.31	7,891,753	52.05
Public and other	370,800	1.97	618,128	4.08
	W18,825,413	100.00%	W15,161,105	100.00%

By Industry	2002		2001	
Household	W10,600,596	56.31%	W 7,891,753	52.05%
Manufacturing	3,757,426	19.96	4,274,764	28.20
Financial business	1,139,267	6.05	570,012	3.76
Wholesale and retail trade	988,556	5.25	784,351	5.17
Real estate and rental	596,302	3.17	277,460	1.83
Lodging and restaurant	524,373	2.79	146,442	0.97
Other	1,218,893	6.47	1,216,323	8.02
	W18,825,413	100.00%	W15,161,105	100.00%

The maturities of loans in Korean Won and foreign currencies (excluding trust loans and private placement corporate bonds - trust) at December 31, 2002 are summarized as follows (millions of Won):

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2003	W 9,579,946	W1,428,796	W11,008,742
2004~2005	4,424,145	216,619	4,640,764
2006~2007	1,502,063	99,346	1,601,409
Thereafter	2,873,749	76,506	2,950,255
	W18,379,903	W1,821,267	W20,201,170

The maturities of loans in Korean Won and foreign currencies (excluding trust loans and private placement corporate bonds - trust) at December 31, 2001 are summarized as follows (millions of Won):

Notes to Consolidated Financial Statements (continued)

Year ending December 31,	Loans in Korean Won	Loans in foreign currencies	Total
2002	W 9,287,884	W1,348,007	W10,635,891
2003-2004	3,413,528	303,761	3,717,289
2005-2006	353,268	207,027	560,295
Thereafter	924,443	189,513	1,113,956
	W13,979,123	W2,048,308	W16,027,431

The classification and allowance for loan losses outstanding at December 31, 2002 (excluding trust loans and private placement corporate bonds - trust) are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)	Allowance percentage
Loans in Won	W15,969,692	W415,501	W 94,364	W132,737	W16,801	W16,629,095	
(Allowance)	(114,751)	(16,859)	(20,319)	(56,585)	(16,801)	(225,315)	1.35
Loans in foreign currencies	971,025	64,086	26,918	9,604	952	1,072,585	
(Allowance)	(23,036)	(1,535)	(6,916)	(7,462)	(952)	(39,901)	3.72
Notes bought	419,085	2,458	457	-	1,365	423,365	
(Allowance)	(9,373)	(49)	(91)	-	(1,365)	(10,878)	2.57
Bills bought	652,482	79,772	-	16,428	-	748,682	
(Allowance)	(3,845)	(1,595)	-	(16,270)	-	(21,710)	2.90
Advances to customers	6,052	45	3,467	10,431	9,575	29,570	
(Allowance)	(2,952)	(1)	(693)	(10,068)	(9,575)	(23,289)	78.76
Credit card	1,158,839	64,757	300	40,662	27,171	1,291,729	
(Allowance)	(25,131)	(7,771)	(60)	(24,397)	(27,171)	(84,530)	6.54
Total (*1)	W19,177,175	W626,619	W125,506	W209,862	W55,864	W20,195,026	
(Allowance) (*2)	(179,088)	(27,810)	(28,079)	(114,782)	(55,864)	(405,623)	2.01
Allowance percentage	0.93	4.44	22.37	54.69	100.00	2.01	

(*1) Net of present value discounts amounting to W6,144 million.

(*2) Net of allowance for trust loans and private placement corporate bonds - trust amounting to W9,324 million. Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W225,150 million based on the agreement between the Bank and KDIC.

The classification and allowance for loan losses outstanding at December 31, 2001 (excluding trust loans and private placement corporate bonds - trust) are summarized as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total (*1)(*3)	Allowance percentage
Loans in Won	W11,713,968	W 67,321	W 78,957	W 582,511	W12,021	W12,454,778	
(Allowance)	(102,814)	(2,043)	(27,221)	(181,776)	(7,958)	(321,812)	2.58
Loans in foreign currencies (*3)	982,053	12,043	123,048	133,587	10,504	1,261,235	
(Allowance) (*3)	(41,821)	(639)	(47,916)	(93,164)	(9,555)	(193,095)	15.31
Notes bought	532,211	818	146	1,410	236	534,821	
(Allowance)	(3,176)	(49)	(36)	(1,398)	(143)	(4,802)	0.90
Bills bought	332,381	7,853	57,634	173,358	15	571,241	
(Allowance)	(2,213)	(157)	(28,302)	(67,633)	(15)	(98,320)	17.21
Advances to customers	6,231	50	23,219	151,442	10,174	191,116	
(Allowance)	(1,551)	(1)	(3,088)	(75,985)	(8,415)	(89,040)	46.59

Notes to Consolidated Financial Statements (continued)

Credit card (Allowance)	704,008 (17,686)	49,657 (993)	16,905 (3,381)	9,312 (4,657)	15,498 (15,455)	795,380 (42,172)	5.30
Total (*1)(*3) (Allowance) (*2)	W14,270,852 (169,261)	W137,742 (3,882)	W299,909 (109,944)	W1,051,620 (424,613)	W48,448 (41,541)	W15,808,571 (749,241)	4.74
Allowance percentage	1.19	2.82	36.66	40.38	85.74	4.74	

(*1) Net of present value discounts amounting to W10,197 million (excluding present value discounts in trust account amounting to W1,217 million).

(*2) Net of allowance for trust loans and private placement corporate bonds - trust amounting to W14,113 million. Allowances may be lower than FSS minimum guidelines due to provisions not being recorded for convertible loans and others with a book value of W527,252 million based on the agreement between the Bank and KDIC.

(*3) Loans amounting to W208,663 million, which were reclassified from confirmed acceptances and guarantees (off-balance sheet item) to conform to the current year's presentation, are not included.

The restructured loans at December 31, 2002 are summarized as follows (millions of Won):

	Corporations					Total
	under liquidation	Court ordered restructuring	Work-out	Industry rationalization	Private restructuring	
Period	5.7~18.6yrs	1.7~2.0yrs	3.4~4.4yrs	8.5~19.5yrs	2.7~9.0yrs	
Balance before restructured	W15,590	W217	W310,570	W37,685	W7,447	W371,509
D/E swap stock	4,153	-	28,784	-	3,097	36,034
D/E swap CB	-	-	281,166	-	4,350	285,516
Interest rate reduction	11,437	217	620	37,685	-	49,959
Balance at end of year	W13,195	W100	W311,162	W28,477	W7,447	W360,381
Restructuring loss	W 1,686	W -	W -	W -	W -	W 1,686

The restructured loans at December 31, 2001 are summarized as follows (millions of Won):

	Corporations					Total
	under liquidation	Court ordered restructuring	Work-out	Industry rationalization	Private restructuring	
Period	9.6~18.6 yrs	1.7~5.4 yrs	3.4~9 yrs	8.5~19.5 yrs	2~6.9 yrs	
Balance before restructured	W7,970	W1,721	W423,859	W37,685	W120,658	W591,893
D/E swap stock	5,511	-	139,796	-	5,706	151,013
D/E swap CB	-	-	281,902	-	-	281,902
Interest rate reduction	2,459	1,721	2,161	37,685	114,952	158,978
Balance at end of year	W7,268	W1,047	W514,674	W31,797	W 66,143	W620,929
Restructuring loss	W 244	W 222	W -	W -	W -	W 466

The Bank has W44,254 million and W108,724 million of loans discounted to present value (amounting to W6,144 million and W11,414 million) due to debt restructuring as of December 31, 2002 and 2001, respectively.

Loans, which were scheduled to be converted to stock amounting to W138,281 million at December 31, 2001, were recorded at book value and not fair value based on the agreement between the Bank and KDIC.

Notes to Consolidated Financial Statements (continued)

The Bank transferred loans through monthly put claims and KDIC's exercise of call options amounting to W498,834 million and W302,410 million to the KDIC for the years ended December 31, 2002 and 2001, respectively, according to the agreement between the Bank and the KDIC.

8. Fixed Assets

Premises and equipment at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	Acquisition cost	Accumulated depreciation	Net book value
December 31, 2002			
Premises and equipment			
Land	W 796,646	W -	W 796,646
Buildings and structures	403,978	113,518	290,460
Movable property	222,854	141,089	81,765
	1,423,478	254,607	1,168,871
Intangible assets	57,406	-	57,406
	W1,480,884	W254,607	W1,226,277
December 31, 2001			
Premises and equipment			
Land	W 797,004	W -	W 797,004
Buildings and structures	384,986	94,860	290,126
Movable property	196,586	126,135	70,451
	1,378,576	220,995	1,157,581
Intangible assets	20,027	-	20,027
	W1,398,603	W220,995	W1,177,608

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, 2002 and 2001, the government-posted prices of the Bank's land used for tax assessment purposes are W606,165 million and W598,366 million, respectively. Certain Bank properties are subject to use restrictions by local governments or security interests from lessees.

9. Other Assets

Other assets at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Other accounts receivable	W300,324	W268,371
Guarantee money	286,137	297,773
Fee and interest receivable	231,039	121,274
Bills unsettled	16,704	17,912
Unsettled exchange	11,883	59,032
Prepaid expenses	9,537	15,202
Regulatory and legal deposits (*)	4,925	4,433
Present value discount of other assets	-	(34)
Credit loss reserves of other assets	(3,761)	(10,453)
Others	10,403	16,786
	W867,191	W790,296

(*) Regulatory and legal deposits include W4,908 million and W4,420 million of securities held in escrow at December 31 2002 and 2001, respectively.

Notes to Consolidated Financial Statements (continued)

10. Deposits

Deposits at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	Banks	Other financial institutions	Others	Total
December 31, 2002				
Deposits in Korean Won				
Demand deposits	W 8,727	W 229,568	W 1,815,659	W 2,053,954
Money trust	-	-	419,429	419,429
Time & saving deposits	49,135	1,909,157	14,179,217	16,137,509
	57,862	2,138,725	16,414,305	18,610,892
Deposits in foreign currencies				
Certificates of deposit	91,582	16,349	459,715	567,646
	97,460	3,916,654	593,718	4,607,832
	W246,904	W6,071,728	W17,467,738	W23,786,370
December 31, 2001				
Deposits in Korean Won				
Demand deposits	W 8,512	W 214,567	W 2,001,606	W 2,224,685
Money trust	-	-	402,891	402,891
Time & saving deposits	124,327	1,589,243	12,093,396	13,806,966
	132,839	1,803,810	14,497,893	16,434,542
Deposits in foreign currencies				
Certificates of deposit	43,061	184,358	442,492	669,911
	117,217	940,938	90,118	1,148,273
	W293,117	W2,929,106	W15,030,503	W18,252,726

The maturities of deposits (excluding money trust deposits) at December 31, 2002 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2003	W17,357,570	W564,893	W4,607,832	W22,530,295
2004	410,235	2,753	-	412,988
2005	253,498	-	-	253,498
2006	60,931	-	-	60,931
2007	27,496	-	-	27,496
Thereafter	81,733	-	-	81,733
	W18,191,463	W567,646	W4,607,832	W23,366,941

The maturities of deposits (excluding money trust deposits) at December 31, 2001 are as follows (millions of Won):

Year ending December 31,	Deposits in Korean Won	Deposits in foreign currencies	Certificates of deposit	Total
2002	W15,132,504	W668,316	W1,148,273	W16,949,093
2003	545,655	1,595	-	547,250
2004	189,334	-	-	189,334
2005	82,266	-	-	82,266
2006	36,181	-	-	36,181
Thereafter	45,711	-	-	45,711
	W16,031,651	W669,911	W1,148,273	W17,849,835

Notes to Consolidated Financial Statements (continued)

11. Borrowings

Borrowings at December 31, 2002 and 2001 are comprised of the following:

	2002		2001	
	Annual interest rate (%)	Millions of Won	Annual interest rate (%)	Millions of Won
Borrowings in Korean Won				
Aggregate limit borrowings	2.50	W 46,974	2.50	W 113,970
Call money	4.05 ~ 4.15	73,000	3.00 ~ 3.85	145,900
Other	2.00 ~ 7.45	487,631	2.00 ~ 8.49	508,744
		607,605		768,614
Borrowings in foreign currencies				
Bank of Korea	1.39 ~ 1.96	23,980	1.91 ~ 3.91	54,753
Other borrowings	0.00 ~ 4.40	1,116,996	0.00 ~ 5.28	887,902
Off-shore borrowings	2.10	96,032	2.11 ~ 3.13	204,750
Call money	0.25 ~ 2.00	13,340	0.55 ~ 1.95	26,146
		1,250,348		1,173,551
Bonds sold under repurchase agreements	1.98 ~ 5.10	574,293	2.30 ~ 6.28	2,194,156
Bills sold	4.56	14,928	7.19	6,787
		W2,447,174		W4,143,108

At December 31, 2002 and 2001, borrowings by borrower type are summarized as follows (millions of Won):

December 31, 2002	Bank of Korea	Commercial banks	Other financial institution	Others	Total (*)
	Borrowings in Korean Won	W 46,974	W 180,368	W278,600	W101,663
Borrowings in foreign currencies	23,980	1,048,425	-	177,943	1,250,348
Bonds sold under repurchase agreements	-	122,888	-	-	122,888
	W 70,954	W1,351,681	W278,600	W279,606	W1,980,841
December 31, 2001					
Borrowings in Korean Won	W114,025	W 150,150	W351,500	W152,939	W 768,614
Borrowings in foreign currencies	54,753	1,101,725	13,791	3,282	1,173,551
Bonds sold under repurchase agreements	-	195,385	-	-	195,385
	W168,778	W1,447,260	W365,291	W156,221	W2,137,550

(*) W451,405 million and W1,998,771 million of bonds sold under repurchase agreements and W14,928 million and W6,787 million of bills sold to the public at December 31, 2002 and 2001, respectively, are not included.

Notes to Consolidated Financial Statements (continued)

The maturities of borrowings at December 31, 2002 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
2003	W254,678	W1,186,683	W574,293	W14,928	W2,030,582
2004	28,118	60,694	-	-	88,812
2005	29,920	-	-	-	29,920
2006	57,378	-	-	-	57,378
2007	164,865	-	-	-	164,865
Thereafter	72,646	2,971	-	-	75,617
	W607,605	W1,250,348	W574,293	W14,928	W2,447,174

The maturities of borrowings at December 31, 2001 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
2002	W341,561	W1,173,551	W2,194,156	W6,787	W3,716,055
2003	29,610	-	-	-	29,610
2004	53,067	-	-	-	53,067
2005	46,972	-	-	-	46,972
2006	65,920	-	-	-	65,920
Thereafter	231,484	-	-	-	231,484
	W768,614	W1,173,551	W2,194,156	W6,787	W4,143,108

The subordinated borrowings included in Korean Won borrowings as of December 31, 2002 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	6.12	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	6.12	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	7.18	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	6.12	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	6.12	20,000
				W205,600

The subordinated borrowings included in Korean Won borrowings as of December 31, 2001 are comprised of the following:

Lender	Issue date	Due date	Annual interest rate (%)	Millions of Won
Korea Life Insurance	12-31-1996	12-31-2006	6.52	W 20,000
Korea Life Insurance	6-13-1997	6-13-2007	6.52	78,500
Samsung Life Insurance	12-31-1996	12-31-2011	7.71	30,000
Kyobo Life Insurance	6-13-1997	6-13-2007	6.52	57,100
Kumho Life Insurance	12-31-1996	12-31-2006	6.52	20,000
				W205,600

Notes to Consolidated Financial Statements (continued)

12. Financial Debentures

Debentures at December 31, 2002 are comprised of the following:

	Issue date	Millions of Won	Annual interest rate (%)	Due date
Korean Won				
Subordinated	10-28-2001	W 100,000	7.00 ~ 7.04	7-28-2007
Subordinated	2-28-2002	150,000	7.72 ~ 7.77	1-28-2008
Subordinated	11-28-2002	26,267	6.46 ~ 6.49	4-28-2008
Bonds with warrants	1-31-2000	91,076	-	12-30-2006
General debentures	10-10-2002, etc.	1,620,000	4.91 ~ 5.08	10-10-2003, etc.
Discount on debenture		(71,867)		
		1,915,476		
Foreign currency				
Subordinated FRN (*)	6-26-1996	240,080	6ML+2	6-26-2006
		W2,155,556		

Debentures at December 31, 2001 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
Subordinated	10-28-2001	100,000	7.23	7-28-2007
Bonds with warrants	1-31-2000	91,076	-	12-31-2006
Discount on debentures		(3)		
		333,073		
Foreign currency				
Subordinated FRN (*)	6-26-1996	265,220	6ML+2	6-26-2006
		W598,293		

(*) 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, 2002 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2003	W1,491,901	W -	W1,491,901
2004	56,232	-	56,232
2005	-	-	-
2006	91,076	240,080	331,156
2007	100,000	-	100,000
Thereafter	176,267	-	176,267
	W1,915,476	W240,080	W2,155,556

Notes to Consolidated Financial Statements (continued)

The maturities of debentures at December 31, 2001 are as follows (millions of Won):

Year ending December 31,	Debentures issued in Korean Won	Debentures issued in foreign currencies	Total
2002	W -	W -	W -
2003	141,997	-	141,997
2004	-	-	-
2005	-	-	-
2006	91,076	265,220	356,296
Thereafter	100,000	-	100,000
	W333,073	W265,220	W598,293

13. Accrued Severance and Retirement Benefits

Deposits for group severance and retirement benefits represent deposits made for a portion of the severance and retirement benefits obligation which are restricted in use for other than payment of severance and retirement benefits. Since the Bank's employees are individually nominated as the vested beneficiaries of the deposits, these amounts have been offset against the Bank's liability for severance and retirement benefits.

The changes in accrued severance and retirement benefits for the year ended December 31, 2002 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W164,885	W36,272	W27,845	W173,312
Prepayments to National Pension Corp.	(6,770)	-	(917)	(5,853)
Deposits for group severance and retirement benefits	(153,754)	(16,841)	(24,706)	(145,889)
	W 4,361	W19,431	W 2,222	W 21,570

The changes in accrued severance and retirement benefits for the year ended December 31, 2001 are as follows (millions of Won):

	Beginning balance	Increase	Decrease	Ending balance
Accrued severance and retirement benefits	W185,206	W 38,781	W59,102	W164,885
Prepayments to National Pension Corp.	(8,716)	-	(1,946)	(6,770)
Deposits for group severance and retirement benefits	-	(153,754)	-	(153,754)
	W176,490	W(114,973)	W57,156	W 4,361

14. Acceptances and Guarantees

Confirmed acceptances and guarantees outstanding at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Acceptances and guarantees in Won currency		
Corporate debentures	W 5,225	W 5,600
Other	107,717	122,303
	112,942	127,903
Acceptances and guarantees in foreign currencies		
Acceptances (*)	29,891	232,214
Stand-by letters of credit	46,542	61,671
Letters of guarantee	11,735	15,316
Credit derivatives sold	120,040	-
Other	15,598	18,763
	223,806	327,964
	W336,748	W455,867

Notes to Consolidated Financial Statements (continued)

(*) Acceptances in foreign currencies as of December 31, 2001 did not include acceptances of banker's usance bills amounting to W208,663 million which were reclassified to loans to conform to the current year's presentation.

Credit derivatives sold at December 31, 2002 is comprised of the following:

Type	Counterparty	Millions of Won
Credit linked notes	Lehman Brothers Asia Ltd.	W120,040

The Bank provides an allowance of 0.5% of guaranteed amounts for credit derivative sold.

Contingent acceptances and guarantees outstanding at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Import L/C	W285,171	W238,733
Local L/C	160,951	215,312
Other	-	1,775
	W446,122	W455,820

According to the agreement between the 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. Therefore, the Bank believes that confirmed acceptances and guarantees, amounting to W63,431 million and W176,323 million as of December 31, 2002 and 2001, respectively, are protected by the KDIC.

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2002 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won (Allowance)	W111,909 (561)	W 576 (12)	W458 (207)	W - -	W - -	W112,943 (780)	0.69
Acceptances & guarantees in foreign currencies (Allowance)	175,911 (934)	30,925 (618)	- -	14,648 (9,805)	2,321 (2,321)	223,805 (13,678)	6.11
Total (Allowance)	W287,820 (1,495)	W31,501 (630)	W458 (207)	W14,648 (9,805)	W2,321 (2,321)	W336,748 (14,458)	4.29
Allowance percentage	0.52	2.00	45.20	66.94	100.00	4.29	

The classification and allowance for confirmed acceptances and guarantees outstanding at December 31, 2001 are as follows (millions of Won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total	Allowance percentage
Acceptances & guarantees in Won (Allowance)	W112,674 (559)	W14,771 -	W - -	W 458 -	W - -	W127,903 (559)	0.44
Acceptances & guarantees in foreign currencies (*) (Allowance)	349,122 (1,770)	40,498 (755)	58,723 -	80,408 (134)	7,876 -	536,627 (2,659)	0.50
Total (Allowance)	W461,796 (2,329)	W55,269 (755)	W58,723 -	W80,866 (134)	W7,876 -	W664,530 (3,218)	0.48
Allowance percentage	0.50	1.37	-	0.17	-	0.48	

Notes to Consolidated Financial Statements (continued)

(*) Acceptances and guarantees amounting to W208,663 million, which were reclassified to loans in foreign currencies to conform to the current year's presentation, are included.

The ratios of allowance for confirmed acceptances and guarantees to total confirmed acceptances and guarantees as of December 31, 2002, 2001 and 2000 are 4.29%, 0.48% and 0.62%, respectively.

At December 31, 2002 and 2001, acceptances and guarantees outstanding by geography, concentration and borrower type are summarized as follows (millions of Won):

By Geography	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2002						
Korea	W187,927	55.81%	W396,064	88.78%	W583,991	74.60%
U.S.A	134,123	39.83	-	-	134,123	17.13
Japan	-	-	50,058	11.22	50,058	6.39
Other	14,698	4.36	-	-	14,698	1.88
	W336,748	100.00%	W446,122	100.00%	W782,870	100.00%
December 31, 2001						
Korea	W421,569	92.48%	W455,820	100.00%	W877,389	96.24%
Other	34,298	7.52	-	-	34,298	3.76
	W455,867	100.00%	W455,820	100.00%	W911,687	100.00%
By Concentration						
	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2002						
Manufacturing	W 88,898	26.40%	W242,112	54.27%	W331,010	42.28%
Wholesale and retail	63,497	18.86	167,487	37.54	230,984	29.50
Financial business	120,459	35.77	948	0.21	121,407	15.51
Construction	26,495	7.87	17,209	3.86	43,704	5.58
Transport and communication	16,301	4.84	791	0.18	17,092	2.19
Other	21,098	6.26	17,575	3.94	38,673	4.94
	W336,748	100.00%	W446,122	100.00%	W782,870	100.00%
December 31, 2001						
Manufacturing	W291,394	63.92%	W226,839	49.77%	W518,233	56.84%
Wholesale and retail	75,895	16.65	187,629	41.16	263,524	28.91
Construction	26,250	5.76	29,652	6.51	55,902	6.13
Transport and communication	23,511	5.16	689	0.15	24,200	2.66
Financial business	6,234	1.37	7,028	1.54	13,262	1.45
Other	32,583	7.14	3,983	0.87	36,566	4.01
	W455,867	100.00%	W455,820	100.00%	W911,687	100.00%

Notes to Consolidated Financial Statements (continued)

By Borrower Type	Confirmed acceptances and guarantees		Contingent acceptances and guarantees		Total	
December 31, 2002						
Corporate	W336,748	100.00%	W446,122	100.00%	W782,870	100.00%
December 31, 2001						
Corporate	W437,182	95.90%	W455,820	100.00%	W893,002	97.95%
Public & other	18,685	4.10	-	-	18,685	2.05
	W455,867	100.00%	W455,820	100.00%	W911,687	100.00%

15. Other Liabilities

Other liabilities at December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Domestic exchange obligation payable	W1,260,047	W1,205,021
Accrued fee and interest	446,402	425,786
Accounts payable	304,829	339,467
Agency fees payable	261,020	140,313
Foreign exchange payable	113,903	46,368
Borrowing from trust account	81,281	289,474
Unearned revenues	24,967	20,741
Others	160,027	113,831
	W2,652,476	W2,581,001

16. 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. Certain of these disagreements were disclosed in previous financial statements and were submitted to arbitration. These disagreements were resolved by an Award by Consent issued by the International Chamber of Commerce in December of 2001 and such resolution did not result in any material impact on the Bank's financial statements.

Certain other disagreements have arisen between the Bank and the KDIC and will be resolved through negotiations or legal proceedings. The Bank commenced arbitration proceedings in June 2002 in accordance with the Assistance Agreement and the Acquisition Agreement with respect to certain of the differences. The KDIC responded in September 2002 and asserted in its response certain counterclaims relating primarily to the counterclaims and set-offs described in (iii) below. The outcome of these negotiations and proceedings 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. The disputed items are the following:

(i) December 31, 2001 Reserve Claim - The KDIC disputed and withheld payment of approximately W163.4 billion relating to the Bank's reserve claim submitted on February 18, 2002. Subsequently, the Bank revised its reserve claim for certain loans and the KDIC paid reserves or transfer price for a portion of those loans, leaving the disputed reserve claim amount at W83.9 billion. The remaining KDIC holdback is principally related to reserve claims for advances and credits extended pursuant to commitments and guarantees that were issued before the Closing Date or pursuant to workout procedures initiated before the Closing Date. The Bank believes that the Assistance Agreement requires the KDIC to provide full reserve protection for these credits as claimed. To the extent that KDIC's interpretation were to prevail, the Bank's reserve claim would be reduced by that amount.

(ii) Losses on Derivative Positions - Prior to Closing, the Bank attempted to transfer derivative contracts along with underlying assets to the KDIC. However, the counterparties to such derivative contracts did not agree to such a transfer. Although 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, because the Bank believes that the KDIC is obligated to indemnify KFB against such losses. Realized losses claimed from the KDIC plus unrealized losses that may become claimable from the KDIC are estimated at approximately W44.5 billion at December 31, 2002.

(iii) Post Closing Adjusting Entries - In accordance with the Acquisition Agreement, Newbridge submitted a claim requesting that the KDIC pay to the Bank an additional amount of W44.5 billion for adjustment or correction of the Closing Balance Sheet with respect to the acquisition of a controlling interest in the Bank by Newbridge effective December 31, 1999. The amount claimed included W31.9 billion for mark-to-market valuations related to derivative positions at Closing discussed in (ii) above. The KDIC submitted counterclaims requesting that the Bank pay W97.6 billion to the KDIC for adjustment or correction of the Closing Balance Sheet. On March 20, 2002, the KDIC withheld, as a set-off from amounts it did not dispute that it owed with respect to the Bank's reserve claim discussed in (i) above, W80.2 billion, including interest, for the claims it had previously asserted related to the Closing Balance Sheet and also withheld W6.4 billion for other adjustments which it had not previously claimed. In addition, on September 15, 2002, the KDIC submitted an additional claim for W2.2 billion, which it had not previously claimed, in its response to the Bank's arbitration claim.

The Bank believes that most of the KDIC's counterclaims and all of its withholdings from the March settlement are based on incorrect interpretations of the Acquisition Agreement and that its withholding of amounts from the March settlement is improper. If the KDIC were to prevail in each of its positions, the Bank's loss, before any interest, would be approximately W29.8 billion, which is the amount the Bank had recorded in income in respect of such items as of December 31, 2002.

(iv) Other Claims - The KDIC is disputing various other claims made by the Bank. At December 31, 2002, approximately W31.0 billion of such other claims are reflected in the Bank's financial statements as loans or other assets.

Reserve for Unused Cash Advance Commitments on Credit Cards

The allowance for unused cash advance commitments on credit cards at December 31, 2002 is as follows (millions of Won):

Commitment	Outstanding balance	Unused commitment (*)	Allowance	Allowance percentage
W1,157,931	W308,694	W559,755	W5,597	1.00

(*) Commitment x 75% - outstanding balance

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 and interest rate futures contracts. As of December 31, 2002 and 2001, the Bank has derivative financial instruments for trading purposes, as follows (millions of Won):

Notes to Consolidated Financial Statements (continued)

<Trading purposes>

	Currency forwards	Interest rate swaps	Interest rate futures	Total notional amount
December 31, 2002				
Purchase	W 126,266	W 560,290	W -	W 686,556
Sell	18,757	560,290	174,058	753,105
	W 145,023	W1,120,580	W174,058	W1,439,661
December 31, 2001				
Purchase	W 553,727	W 125,371	W -	W 679,098
Sell	266,917	125,371	348,764	741,052
	W 820,644	W 250,742	W348,764	W1,420,150

For the years ended December 31, 2002 and 2001, W969 million and W8,405 million of gains and W8,621 million and W5,322 million of losses, respectively, on valuation of derivative contracts for trading purposes were recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability
December 31, 2002				
Currency forwards	W 820	W 948	W 820	W 948
Interest rate swaps	149	7,673	2,591	7,562
	W 969	W8,621	W3,411	W8,510
December 31, 2001				
Currency forwards	W5,343	W4,071	W5,343	W4,071
Interest rate swaps	3,062	1,251	3,215	2,467
	W8,405	W5,322	W8,558	W6,538

As of December 31, 2002 (zero as of December 31, 2001), the Bank has derivative financial instruments for hedging purposes, as follows (millions of Won):

<Hedging purposes>

	Interest rate swaps
December 31, 2002	
Purchase	W 73,750
Sell	73,750
	W147,500

For the year ended December 31, 2002, W1,313 million of loss on valuation of derivative contracts for hedging purposes was recorded in fees, commissions, and other revenues and expenses as follows (millions of Won):

	Recognized during the period		Accumulated balance of valuation	
	Valuation gain	Valuation loss	Asset	Liability (*)
December 31, 2002				
Interest rate swaps	W -	W1,313	W -	W8,711

(*) Contains W7,398 million of liabilities incurred upon initiation of derivatives for swaption premiums and transfer of convertible bond rights.

Difference between valuation losses of related derivative contracts and gains on underlying assets and liabilities for hedge risk is W95 million as of December 31, 2002.

Notes to Consolidated Financial Statements (continued)

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, 2002, commitments and endorsed notes aggregated W7,581 million and W6,709 million, respectively.

The Bank has entered into overdraft contracts and other loan commitments. At December 31, 2002, total loan commitments are W14,672 billion and unused commitments are W9,616 billion.

The Bank has been named as defendant in 25 legal actions not indemnified by the KDIC amounting to W18,169 million and is plaintiff in 226 legal actions not indemnified by the KDIC amounting to W41,893 million which have arisen from normal business activities. Management believes that the actions in which the Bank is named as defendant are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

17. Common Stock

As of December 31, 2002 and 2001, 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, 2002 and 2001 (see Note 1).

The Bank has granted stock options which may be settled by the issuance of additional shares or by cash payments equal to the difference between market values and exercise prices. Details of outstanding stock options granted by the Bank as of December 31, 2002 are as follows.

Options granted and outstanding	Grant date	Exercise price	Exercise period
1,099,998 shares	March 30, 2000	W 9,834 per share	From March 30, 2003 until March 30, 2010
1,121,531 shares	October 19, 2001	W12,497 per share	From October 19, 2004 until October 19, 2011

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% from the base price of W5,000 per share. The warrants are non-detachable, non-transferable and exercisable between December 31, 2002 and December 30, 2006.

18. 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 Bank also reserves 10% of its annual net income as a voluntary reserve until ratio of net equity to total assets (including guaranteed trusts) reaches 5.5% in accordance with recommendation by the Financial Supervisory Commission. 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.

Notes to Consolidated Financial Statements (continued)

19. Income Tax Expense

Up to December 31, 2001, the Bank had been 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. Starting on January 1, 2002, such tax rates are reduced resulting in revised aggregate rates of 16.5% and 29.7%, respectively. The income tax benefit for the years ended December 31, 2002 and 2001 is comprised of the following (millions of Won):

	2002	2001
Income tax expense	W 3,861	W 329
Changes in deferred income taxes due to loss carryforwards	(10,000)	(100,425)
Income tax benefit	W (6,139)	W(100,096)
Deferred income tax asset as of December 31, 2002 and 2001	W 169,625	W 159,625
Deferred income tax asset as of December 31, 2001 and 2000	159,625	59,200
Changes in deferred income tax asset	W 10,000	W 100,425

The Bank has tax basis net operating loss carryforwards ("NOLs") of approximately W3,713 billion as of December 31, 2002. For tax purposes, net operating losses in Korea may be carried forward for five years from the year of origination against future earnings.

Adjustments of income before income taxes to taxable income for the years ended December 31, 2002 and 2001 are comprised of the following (millions of Won):

	2002	2001
Income before income tax expense	W 95,376	W 123,998
Adjustment to increase taxable income		
Permanent differences	21,018	12,564
Temporary differences	263,530	152,837
	284,548	165,401
Adjustment to decrease taxable income		
Permanent differences	4,887	742
Temporary differences	297,971	99,934
	302,858	100,676
Taxable income	W 77,066	W188,723

Notes to Consolidated Financial Statements (continued)

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, 2002 are comprised of the following (millions of Won):

	January 1, 2002 (*)	Increase	Decrease	December 31, 2002
Interest receivable on securities	W (42,268)	W (83,312)	W (42,268)	W (83,312)
Profit from valuation of equity method	(41,381)	(7,564)	(284)	(48,661)
Gain on valuation of derivatives	(8,558)	(3,411)	(8,558)	(3,411)
Discount amortization on securities	(1,504)	(21,017)	(164)	(22,357)
Present value discounts	177	4,003	177	4,003
Loss on valuation of derivatives	6,538	17,221	6,538	17,221
Depreciation	20,627	4,457	-	25,084
Loss on valuation of equity method	3,830	-	-	3,830
Deemed dividends	9,691	4,859	-	14,550
Retirement benefits	-	4,600	-	4,600
Loss on reduction of investment debentures	20,511	-	20,511	-
Other	15,459	32,587	10,912	37,134
Tax loss carryforward	4,735,971	-	1,022,961	3,713,010
Total	4,719,093	W(47,577)	W1,009,825	3,661,691
Tax rate	29.7%			29.7%
Deferred income tax asset	1,401,571			1,087,522
Allowance	(1,241,946)			(917,897)
Net deferred income tax asset	W159,625			W169,625

(*) The amounts are different from those in the prior year's audit report to reflect the 2001 final tax return filed in March 2002.

Utilization of the operating loss carryforwards will depend on the Bank's ability to generate future income. Based on a forecast of future income, management recognized a portion of the operating loss carryforwards available and recorded a deferred tax asset of W169,625 million.

Significant changes in cumulative temporary differences and tax loss carryforward for the year ended December 31, 2001 are comprised of the following (millions of Won):

	January 1, 2001 (*)	Increase	Decrease	December 31, 2001
Interest receivable on securities	W (74,886)	W (42,268)	W (74,886)	W (42,268)
Profit from valuation of equity method	(35,970)	(5,411)	-	(41,381)
Gain on valuation of derivatives	(7,566)	(8,558)	(7,566)	(8,558)
Present value discounts	9,689	143	9,655	177
Loss on valuation of derivatives	23,275	6,538	23,275	6,538
Depreciation	12,186	8,441	-	20,627
Loss on valuation of equity method	3,830	-	-	3,830
Deemed dividends	6,690	3,001	-	9,691
Retirement benefits	2,478	-	2,478	-
Other	(9,687)	32,506	(11,467)	34,286

Notes to Consolidated Financial Statements (continued)

Tax loss carryforward	4,924,673	-	188,723	4,735,950
Total	4,854,712	W (5,608)	W130,212	4,718,892
Tax rate	30.8%			29.7%
Deferred income tax asset	1,495,251			1,401,511
Allowance	(1,436,051)			(1,241,886)
Net deferred income tax asset	W 59,200			W159,625

20. Consolidated Per Share Amounts

Consolidated per share amounts for the years ended December 31, 2002 and 2001 are calculated as follows (in Korean Won):

Consolidated ordinary earnings per share	2002	2001
Consolidated ordinary earnings before income tax expenses	W95,375,998,511	W123,997,796,486
Income tax benefits related to ordinary earnings	(6,139,107,065)	(100,096,095,241)
	101,515,105,576	224,093,891,727
Weighted average number of common shares (*)	196,116,800	196,116,800
Consolidated ordinary earnings per share	W 518	W 1,143
Consolidated net earnings per share	2002	2001
Consolidated net earnings after income tax expenses	W101,515,105,576	W224,093,891,727
Weighted average number of common shares (*)	196,116,800	196,116,800
Consolidated net earnings per share	W 518	W 1,143

(*) The number of common shares outstanding at December 31, 2002 and 2001 was 196,116,800. There were no shareholder transactions during the years ended December 31, 2002 and 2001.

In July 1999, the Bank's shares were suspended from trading on the Korean 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.

21. Application of the Equity-method

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

	Qingdao International Bank	Korea First Data System Co., Ltd.
January 1, 2001	W10,184	W4,264
Equity in net income of affiliates	73	470
Exchange rate fluctuation	537	-
Dividends received	-	(89)
Equity in retained earnings of affiliates	-	9
December 31, 2001	W10,794	W4,654
Equity in net income of affiliates	2,627	1,788
Exchange rate fluctuation	(1,025)	-
Dividends received	-	(700)
Equity in retained earnings of affiliates	(138)	(146)
December 31, 2002	W12,258	W5,596

Notes to Consolidated Financial Statements (continued)

22. Related Party Transactions

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2002 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Trust accounts	Interest income	W 8,054	Other assets	W134,800
	Commissions received	30	Other liabilities	32,511
	Trust fees & commissions	5,479		
	Interest expense	1,833		
	Compensation	6		
Korea First Finance Ltd., Hong Kong	Interest income	4,096	Due from banks	108,084
			Loans	52,818
			Other assets	289
	Revenue transactions	W17,659	Receivables	W295,991
	Expense transactions	W 1,839	Payables	W 32,511

Significant transactions between the Bank, its controlled subsidiary, and the trust department for the year ended December 31, 2001 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Trust accounts	Interest income	W20,668	Other assets	W282,000
	Commissions received	1,619	Other liabilities	62,512
	Trust fees & commissions	7,852		
	Compensation	66		
	Interest expense	3,313		
Korea First Finance Ltd., Hong Kong	Interest income	7,791	Due from banks	115,019
			Loans	55,696
			Borrowings	789
	Revenue transactions	W37,930	Receivables	W452,715
	Expense transactions	W 3,379	Payables	W 63,301

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 2002 are as follows (millions of Won):

	Transactions		Account balances	
	Account	Amount	Account	Amount
Qingdao International Bank	Interest income	W 474	Loans	W12,004
	Interest expense	495	Other assets	54
			Deposits	167
			Borrowings	12,124
			Other liabilities	54

Notes to Consolidated Financial Statements (continued)

Korea First Data System Co., Ltd.	Interest income	1	Other assets	600
	Other revenue	40	Deposits	4,189
	Interest expense	166	Other liabilities	367
	Other expense	14,126		
	Revenue transactions	W 515	Receivables	W12,658
Expense transactions	W14,787	Payables	W16,901	

Significant transactions between the Bank and its equity-method investees for the year ended December 31, 2001 are as follows (millions of Won):

		Transactions		Account balances	
Account		Amount	Account	Amount	
Qingdao International Bank	Interest income	W2,485	Loans	W39,783	
	Interest expense	2,504	Deposits	149	
			Borrowings	40,313	
Korea First Data System Co., Ltd.	Interest income	11	Deposits	2,869	
	Other revenue	38	Other liabilities	361	
	Interest expense	198			
	Other expense	6,632			
	Revenue transactions	W2,534	Receivables	W39,783	
Expense transactions	W9,334	Payables	W43,692		

23. Employee Welfare

The Bank provided W33,665 million and W36,090 million of housing loans for its employees at December 31, 2002 and 2001, respectively with terms generally more favourable than prevailing market terms.

Expenditures for the training of specialists for the years ended December 31, 2002, 2001, and 2000 are as follows (millions of Won):

Type	2002	2001	2000
Korea Banking Institute	W178	W218	W 97
Special skill training	443	583	198
Foreign language training	11	45	88
Overseas service training	141	99	21
	W773	W945	W404

24. Korean Economy

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is continuing. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above.

The accompanying 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.

Board of Directors

As of December 31, 2002

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

Robert A. Cohen

President, Chief Executive Officer,
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

Paul H. Chen

Non-Standing Director, Audit Committee

Michael O'Hanlon

Non-Standing Director, Audit Committee

Michael "Mickey" Kantor

Non-Standing Director, Compensation Committee

Jong Tae Kim

Non-Standing Director, Audit Committee

YoonJae 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

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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Cable: FIRSTBANK SEOUL
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Internet: www.kfb.co.kr

[Investor Relations](#)

(Ext: 3542)
E-mail: ir@kfb.co.kr

[Corporate Communications Department](#)

E-mail: pr@kfb.co.kr

INTERNATIONAL BUSINESS- RELATED DEPARTMENTS

[Trade Banking Department](#)

Foreign Exchange Information
Center (Ext: 3913)
Foreign Investment Service
Center (Ext: 3916)
Export Section (Ext: 3874)
Import Section (Ext: 3887)
Remittance (Ext: 3879)
L/C Advising (Ext: 3912)
Reconciliation (Ext: 3912)
SWIFT/Telex (Ext: 3895)
Marketing (Ext: 3825)

Telex: K24249, K24479,
K25363, K26535, K28784,
K28785 FIRSTBK
Fax: 82-2-3702-4933, 4935-4938

[International Department](#)

Correspondent Banking
(Ext : 3844)
Fax: 82-2-3702-4934

[Treasury Department](#)

Term Borrowing (Ext: 4401)
Custody (Ext: 4463)
Marketing (Ext: 4410)
Money Market (Ext: 4403)
FX (Ext: 4408)
Derivatives (Ext: 4412)
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OVERSEAS NETWORK

[Tokyo Branch](#)

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Telex: J23329, J22695 KOFIRST
Tel: 81-3-3201-6261/6204
Fax: 81-3-3201-4558

[London Branch](#)

50 Liverpool Street, London EC2M
7PR, United Kingdom
Cable: KOFIRST LONDON
Telex: 8956724 KFIRST G
Tel: 44-20-7392-2800
Fax: 44-20-7392-2819

[Korea First Finance Ltd.](#)

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71933 KOFST HK
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[Qingdao International Bank](#)

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P.R. China
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Fax: 86-532-502-6222

DOMESTIC NETWORK

[Customer Service Center](#)

Seoul

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#84-11, Namdaemunro-5ga, Jung-gu,
Seoul, 100-753, Korea
Tel: 82-2-2129-6114
Fax: 82-2-2129-6131

Busan

18-1, Jungang-dong 3ga, Jung-gu,
Busan, Korea
Tel: 82-51-661-7114
Fax: 82-51-661-7143

DOMESTIC SUBSIDIARY

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

7-11 Shinchun-dong, Songpa-gu,
Seoul, 138-240, Korea
Tel: 82-2-3433-2955
Fax: 82-2-2202-2441

Working together.
Growing together.
KFB is your bank.



Grand Prize in the children's drawing contest of KFB Family
"Dae - Han-Min-Kook" (South Korea)
Seoul Dongjak Elementary School, 1st year, Kyung Bin Min

NUMBER OF DOMESTIC OFFICES

Retail Branches	333
Corporate Branches	56
Total	389

HEAD OFFICE

100 Gongpyung-dong, Jongno-gu,
Seoul 110-702, Korea
Mail: C.P.O. Box 2242, Seoul, Korea
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Tel: 82-2-3702-3114
Fax: 82-2-3702-4901/4903
Internet: www.kfb.co.kr
E-mail: ir@kfb.co.kr

DATE OF ESTABLISHMENT

July 1, 1929

PAID-IN CAPITAL

₩980.6 Billion

NUMBER OF EMPLOYEES

4,250

NUMBER OF OFFICES

Domestic: 389

Overseas: 4

DISTRIBUTION OF SHAREHOLDERS

KFB Newbridge Holdings(private) Ltd.

50.99%

Korea Deposit Insurance Corp.

45.92%

Ministry of Finance & Economy

3.09%



DISTRIBUTION OF DOMESTIC BRANCHES

Seoul	203	Gyeonggi-do	59
Busan	22	Gangwon-do	10
Daegu	13	Choongcheong-do	14
Incheon	9	Jeolla-do	16
Gwangju	6	Gyeongsang-do	23
Daejeon	7	Jeju-do	3
Ulsan	4		
		Total	389



We support you first



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