



Chohung Bank is a leading financial institution in Korea. Established in 1897, it is the nation's oldest entity, not only in the financial sector but also of any business. The Bank has now completed mergers with two regional banks incorporating one merchant bank. These mergers have enabled Chohung Bank to maintain extensive networks in provinces, while further consolidating its leadership position, particularly in retail banking.

Recently, the Bank re-engineered its organization to establish a new credit risk evaluation system and a profit and customer-oriented organizational structure. With the aid of leading international financial advisors and management consultants, the Bank indentified key initiatives to attain its vision of becoming the "Best Bank" in Korea.

### Contents

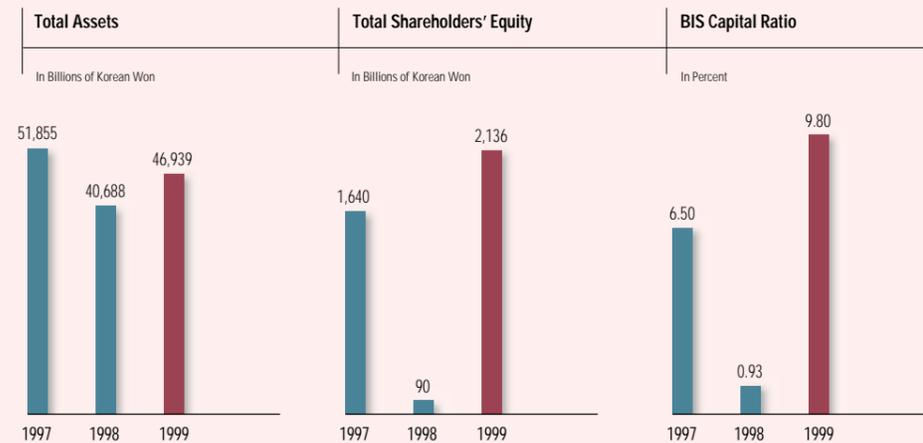
- ...o1 Financial Highlights
- ...o2 Message from Management
- ...o7 Management Focus for 2000
- ...1o e-Business
- ...12 Review of Operations
- ...17 Financial Section
- ...96 Organization Chart
- ...97 Board of Directors
- ...98 International Banking Directory
- ...1oo Corporate Date

### Financial Highlights

#### FINANCIAL HIGHLIGHTS

Consolidated Basis	Millions of Korean Won		Thousands of U.S. Dollars <sup>1)</sup>	
	1999	1998	1999	1998
<b>For the Year</b>				
Total income	W 5,802,615	W 7,255,919	\$ 5,066,016	\$ 6,007,550
Total expenses	6,511,381	9,399,671	5,684,809	7,782,473
Income (loss) before income taxes	(708,766)	(2,143,752)	(618,793)	(1,774,923)
Net income (loss)	(746,322)	(2,082,789)	(651,582)	(1,724,449)
<b>At Year-End</b>				
Total assets	W46,939,185	W40,688,204	\$40,980,605	\$33,687,866
Loans	24,899,471	24,193,041	21,738,669	20,030,668
Securities	14,045,291	10,038,033	12,262,346	8,311,005
Deposits	30,334,444	24,405,827	26,483,712	20,206,845
Total Shareholders' Equity	2,135,863	90,357	1,864,731	74,811
<b>Financial Ratios (%)<sup>2)</sup></b>				
	1999		1998	
Return on assets (ROA)	(1.69)%		(4.80)%	
Return on shareholders' equity (ROE)	(24.72)%		(84.77)%	
BIS capital ratio	9.80 %		0.93 %	

Notes : 1) The Korean Won amounts are translated into U.S. dollars solely for purposes of comparison, at the exchange rate of W1,145.40 and W1,207.80 to US\$1.00, the prevailing exchange rate on December 31, 1999 and 1998, respectively.  
 2) ROA and ROE calculations are based on non-consolidated data, while BIS capital ratios are based on consolidated data.



MESSAGE FROM MANAGEMENT



**Sung Bok Wee**  
President and Chief Executive Officer

We are indeed honored to report on Chohung Bank's business performance for the year ended December 31, 1999 to our shareholders and customers, in the first year of the new millennium.

Last year, the Korean economy enjoyed remarkable growth, recovering rapidly from the financial crisis that emerged in late 1997. This dramatic rebound was made possible due to the sweeping reforms undertaken by all economic segments, including the banking sector.

Despite the economic recovery, 1999 was another tough year for the domestic banking sector. The Daewoo Group, one of Korea's largest chaebol groups, fell into serious financial difficulty during the second half of 1999. The Daewoo crisis impacted significantly on the nation's financial community. To effectively cope with such adversity and enhance its financial condition, the Bank undertook various restructuring measures, including an overhaul of its management infrastructure, and streamlining of the organizational structure.

Particularly, to further reduce operating expenses, the Bank implemented an extensive restructuring and downsizing of its work force and branch network. The number of employees was reduced by 38.3% to 6,944 as of December 31, 1999, while the number of branches was cut back to 483, a decrease of 24.8% since 1997.

The Korean government assisted Chohung Bank with a capital injection totaling W2.7 trillion. In connection with these capital injections, the Bank has signed a memorandum of understanding (MOU) with the government outlining various performance targets. Two of the capital injections were linked to mergers with Chungbuk Bank and Kangwon Bank. The Bank acquired Chungbuk Bank as of April 30, 1999 as well as Kangwon Bank on September 11, 1999, which had already merged with Hyundai International Merchant Bank (HIMB). These acquisitions provided the Bank with a broader customer base, especially in the Chungbuk and Kangwon provinces, in addition to a platform to expand its financial and banking products, and related customer services. Moreover, the



**Choong Yong Ahn**  
Chairman of the Board

Bank gained the capacity to enter the investment banking sector and access to a different customer base through HIMB. The Bank intends to fully capitalize on the competitive advantages and synergies derived from these mergers.

Improving asset quality is one of the Bank's highest priorities. To this end, the Bank has strengthened its credit decision processes through the implementation of two new credit management systems. The first, a new Credit Risk Rating System (CRRS), is focused closely on the ex-post facto management of existing corporate credits and more prudent management of new credits. The CRRS, developed in consultation with Booz-Allen & Hamilton to introduce advanced risk management practices, is currently under pilot operation. This system standardizes the Bank's credit decisions, while focusing on the Forward Looking Criteria (FLC) to assess corporate solvency and the likelihood of default. Secondly, the Bank has also implemented a new Credit Scoring System (CSS) for its retail customers, which has improved the

timeliness and accuracy of credit decisions.

Furthermore, the Bank has fundamentally altered the way it thinks about its business. In the past, many deficiencies were hidden by Korea's tremendous economic growth, and management decisions were largely driven by relationships. The Bank is required to adapt to a new environment where shareholder value is its primary focus, and where management decisions are based on objective and clear analysis. With this in mind, the Bank has adopted an advanced corporate governance system. For example, 60% of the Bank's board of directors is composed of non-standing directors, and the chairman of the board is elected from among the non-standing directors. The Bank has also expanded the powers and independence of its auditor, whose main role now involves protecting the Bank against problems that may result from a lack of adequate internal controls and policy guidelines.

These recent changes have contributed to improvement in our business performance. The Bank recorded exceptional growth in operating income by making full

Message from Management

use of its expanded customer base. Gross operating income amounted to W1,037 billion in 1999, which represented a remarkable turnaround from the previous year's deficit of W914 billion, primarily attributable to a significant contraction of losses on non-performing loan (NPL) sales and higher net interest income.

Compared to 1998, losses on NPL sales were dramatically reduced by W1,059 billion. Net interest income rose sharply, up 39% to W990 billion over the previous year, as a result of improvement in the net interest margin. Although interest income declined 16% from the previous year, related interest expenses decreased even further. The net interest margin in 1999 rose to 2.91%, as compared to 2.18% the year before. Income from credit card business grew 38% to W270 billion due to a recovery in private consumption. In addition, an especially bullish stock market bolstered the Bank's securities-related performance during 1999, resulting in a gain of W204 billion, in sharp contrast to a loss of W73 billion the year before.

However, various factors transformed last year's impressive gross operating profit into a net loss, after provisions and taxes. As a result of the implementation of the new Financial Supervisory Commission (FSC) guidelines and the introduction of FLC in asset quality classification standards, the Bank increased its loan loss reserves by more than double, from W599 billion in 1998 to W1,658 billion in 1999. A major contribution to this figure was the Bank's exposure to the insolvent Daewoo Group which required W1,202 billion as provision for loan losses. Consequently, the Bank recorded a net loss of W698 billion in fiscal 1999.

Despite the net loss, the Bank's BIS capital adequacy ratio improved to 9.80%, compared to 0.93% at fiscal 1998 year-end. Over this period, the Bank managed to increase its total qualifying capital to W3,148 billion from W253 billion. The bulk of this capital increase came through the capital injection by the government, totaling W2.7 trillion. The Bank also successfully increased its paid-up capital by W302.5 billion through a public offering in November 1999, and its tier II capital by a US\$ 100 million subordinated debt issue in December 1999, the first such issue by a Korean commercial bank since the onset of Korea's

financial crisis in late 1997. In March, 2000, the Bank successfully issued US\$400 million of global subordinated debt which followed W150 billion of domestic subordinated debt. The successful issue of the subordinated debt is expected to raise Chohung's capital adequacy ratio over 10 percent.

The Bank is now at a historic juncture that requires us to respond to the new global order quickly and adeptly with a clear understanding of the changing paradigms throughout all society. The revolutionary transformation into an information society is proceeding at an accelerating pace due to the tremendous development of information technology.

A new era is unfolding, dominated by the Internet revolution and the digital economy, providing entirely new business opportunities, while reshaping the financial industry landscape in the 21st century. In this regard, the Bank has designated "Future-oriented Management for the New Millennium," as its management goal in 2000. This will be an integral part of achieving the Bank's overall vision of being the "Best Bank" in Korea. To transform this vision into reality, the Bank is focusing on the following key strategies:

Firstly, the Bank will concentrate on the enhancement and expansion of future business areas with high value added. To this end, we will focus on diversification of financial services, strategic alliances, proactive participation in e-Business, and specialized financial services. In particular, Internet banking is destined to become one of our core businesses in the near future. The digitalization of the banking sector is hastening disintermediation in banking services and the expansion of cyber banking. This seismic transformation of the financial industry has forced us to overhaul our existing system which is heavily dependent on branch banking, and to place greater emphasis on the creation of higher value-added services, largely centered on electronic banking.

We have already established an e-Business Division in order to establish a solid foothold in the Internet banking market while designating the "Cyber & Human Bank" as its basic vision. The Bank plans to exert its utmost efforts

Message from Management

to stay ahead of its rivals and to offer a comprehensive range of attractive products and services to its customers. As part of the Bank's long-term vision, we are determined to remain highly competitive in electronic banking, while actively promoting "bancassurance" which involves the consolidation of banking and insurance services. Thus, the Bank will strive to emerge as a universal banking entity which will enable us to elevate our services to an even higher plane.

At the same time, we will forge ahead with strategic alliances not only with other financial institutions, but also with non-financial institutions. In particular, the Bank will focus on domestic and foreign high-tech firms which are positioned to dominate the Internet business sector in the years ahead. All this will contribute to strengthening our revenue and profitability. We can assure you that the Bank will harness all its resources to significantly improve its asset management capability in view of the fact that the direct-financing market is rapidly rising due to the growing trend of securitization of banking services

Secondly, the Bank will make every endeavor to significantly strengthen its asset quality through capital expansion, NPL reduction, resource allocation based on strategic priorities, and refinement of financial and management restructuring. The Bank will be pursuing a number of different strategies to reduce its NPLs to a more preferable level. By the end of 2000, we plan to reduce approximately 50% of our NPLs. In addition to writing-off and restructuring NPLs, we intend to sell NPLs to the Korea Asset Management Corporation or to other interested third parties. We expect to accomplish this by setting up joint venture asset management companies, as we recently did with the Lone Star of the United States. Under this arrangement the Bank plans to sell W136 billion of NPLs to Lone Star in April 2000.

Thirdly, we will establish a customer and market-focused, profit-oriented organizational structure. The Bank has installed improved credit management and risk management systems to ensure transparency and eliminate the risk of individual decision making. Once we finalize the installation of our four major infrastructure systems - Credit Risk Management System, Total Risk

Management System, Individual Performance Management System and Profitability Management System - we will be able to fully implement performance-based business management and undertake our database marketing.

For the purpose of nurturing a corporate culture focused on value-based management, Chohung Bank will promote the specialization of each business unit, timely management processes, the enhancement of productivity, the upgrading of group specialists, and the renovation of the organizational culture for better performance evaluation.

We strongly believe that all these measures will enable the Bank to maintain its leadership position in the financial sector, while being transformed into a high-tech entity. In order to prepare for these challenges, the Bank will step up efforts to improve its organizational structure, develop new products, reinforce its financial soundness, and promote the specialization of employees.

By implementing these initiatives, the Bank will be able to improve its stock price, which has languished in previous years, thus providing a measure of reward to our shareholders for their continuing support and loyalty.

There will be a wide range of opportunities ahead and the Bank will not miss the chance to mobilize its resources and move ahead with confidence to achieve our long-term vision. The times require us to rally together, renewing our commitment and determination to implement initiatives in keeping with the new competitive business environment. In this manner, let us embark on a journey toward the prosperity of the 21st century.



**Choong Yong Ahn**  
Chairman of the Board



**Sung Bok Wee**  
President and Chief Executive Officer



# Management Focus for 2000

With a view toward achieving its long-term vision of becoming Korea's "Best Bank," Chohung Bank has designated 2000 as a year of "Future-oriented Management in the New Millennium." With this goal in mind, CHB has developed a management strategy which puts great emphasis on the expansion and strengthening of future-oriented businesses that generate higher value-added. To implement this strategy, three key areas of management improvement will be focused on: promotion of the Bank's financial soundness, establishment of a customer and market-focused profit base, and the nurture of a culture of value-based management.

Initially, CHB plans to diversify into new financial products and services, draw up and implement a marketing strategy for the burgeoning Internet banking market, rebuild its client and business portfolio, and implement an innovative business strategy tailored to meet the unique needs of its customers. CHB will place utmost emphasis on future-oriented management in an effort to adapt to the challenges of the marketplace.

Secondly, CHB plans to expand its capital base and liquidate its non-performing and less profitable assets. A number of measures will be taken to radically enhance the Bank's financial health through the efficient distribution of

financial resources based on profit maximization, and the bank's overall restructuring plan.

In order to seize a greater market share in new businesses with growth potential, the Bank plans to provide one-stop financial services and to transform itself into an innovative 21st-century financial service entity. More specifically, the focus will be on developing Internet portal services, expanding electronic commerce based on credit cards, participating in cyber trading, and strengthening the potential of digital banking services.

The Bank intends to forge strategic alliances with foreign financial institutions, while striving to establish an integrated financial services company, and expand its cross-sales of financial products and services.

Moreover, the Bank will intensify its foray into specialized banking services, and to this end will reinforce its investment banking activities through the Merchant Banking Group and strengthen its asset and risk management capabilities. At the same time, the Bank will actively participate in project financing and the enhancement of private banking.

**Enhancing Soundness of Management - Clean, Well-capitalized Bank**

The Bank plans to significantly enhance its soundness of management by building an integrated Credit Management System in cooperation with the Boston Consulting Group. To improve its asset quality, the Bank has changed its credit approval system and implemented credit decision tools, such as the Credit Risk Rating System(CRRS) and a Credit Scoring System(CSS). Previously, credit assessment mainly took place at the branch level, resulting in a lack of consistency and monitoring of credit decisions. Now, the Bank has developed a system of credit approvals, where committees, rather than branches, are responsible for the decision making.

The new CRRS, developed in cooperation with Booz-Allen & Hamilton, enables the Bank to price loans on a standardized, risk-weighted basis. It also enables systematic capital allocation at the portfolio level. This means that the Bank looks at the entire loan portfolio on a risk-weighted basis to determine the appropriate volume of each type of loan. Under the CSS for retail customers,

loans are provided automatically based on the statistical processing of individual customers' data.

We believe that the implementation of standardized credit assessment and underwriting procedures through the new CRRS aids the introduction of risk-based pricing of individual loan products, which helps safeguard asset quality in the future and creates a culture of credit awareness within the organization. The Bank has extensively trained its employees to support its credit risk management system and will continue to train and educate key employees on credit risk management techniques.

Meanwhile, in connection with the Bank's restructuring, and the mergers, the Bank received capital contributions from the government through the Korea Deposit Insurance Corporation. The Bank also sold a substantial amount of its non-performing assets to Korea Asset Management Corporation. In 1999, the Bank completed a right offering, a bond offering and a subordinated debt offering. These actions have improved the Bank's capital base. To restore the Bank's capital position to a level that complies with regulatory requirements and to provide the Bank with a sound capital base to support future growth, the Bank will continue its recapitalization efforts.

**Focus on Business Unit Management and Profitability**

The Bank is focused on improving efficiency and profitability by eliminating redundancies in its business activities and enhancing its core capabilities across its business units while directing its resources towards markets with greater profit potential. Accordingly, the Bank has reorganized itself around five customer-focused profit centers—Retail Banking, Business Banking, Corporate Banking, Trust Business, and Finance & Treasury. Each one is accountable for its own performance. By reorganizing its operations around customer needs, the Bank believes that it is able to maximize revenue generation from clients through, among other things, improved decision making, providing for the effective flow of information between clients and management and being more responsive in addressing client needs.

Moreover, the Bank believes that there is substantial room for growth and improvement in the profitability of its retail and middle market businesses, including special savings plans linked to government-subsidized housing loans. The Bank intends to strengthen its business in these markets by developing targeted products, differentiating the Bank's distribution channels, and utilizing the Bank's data warehousing system currently under development.

The Bank has one of the most advanced management information systems (MIS) and information technology (IT) systems among Korean banks. The Bank is undertaking various programs to further automate and improve its data processing, management information and control systems domestically and internationally. With the help of PricewaterhouseCoopers, we are developing integrated profit management systems and a data warehousing system that will record and manage customer information by segment. The Bank anticipates that the new systems will result in higher quality service to customers and a reduction in operating costs, as it will enable the Bank to focus on more profitable activities.

To enhance its competitive position in the market, the Bank will increase its efforts in developing and introducing new products by capitalising on its large customer base and leading industry position. These efforts should allow the Bank to cross-sell a broad range of tailored financial products, including bancassurance products, with a view toward satisfying the increasingly complex needs of its customer base and ultimately generating significant incremental, recurring fee income for the Bank. In addition, the Bank plans to continue to broaden its electronic and Internet banking network to take advantage of its large customer base. In August 1999, the Bank introduced Internet banking which currently provides services such as balance checking, funds transfer, lending, and payment settlement for internet shopping. In general, electronic and Internet banking can be operated at low fixed costs, and the electronic and Internet banking segments will grow substantially in the next few years.

**Value-based Management**

To improve profitability per employee, and personnel efficiency, the Bank has partially introduced performance-based compensation policies and contract-based employment schemes. These measures will enhance individual accountability in terms of decision-making and create strong incentives to improve individual efficiency as well as the overall operating efficiency of the Bank. The Bank is scheduled to expand such performance-based compensation and contract-based employment schemes to all employees by the end of 2001. The Bank also intends to increase specialization within each division by recruiting and training employees in specific fields of expertise. To this end, the Bank plans to expand its existing advanced educational program.

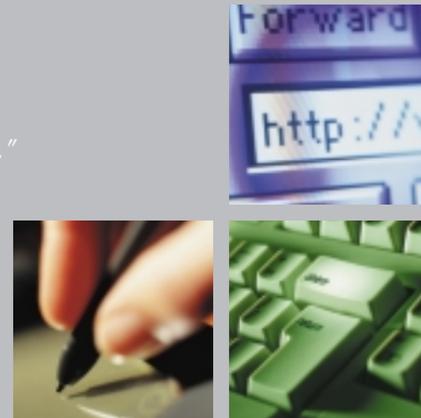


# e-Business

*Chohung Bank's e-Business vision is a "Cyber & Human Bank."*

*"Cyber & Human" means the cyber space*

*that puts utmost importance on human beings.*



In the 21st century, it is readily apparent that the electronic revolution will reshape the financial industry. The prime example is the rapid growth of cyber banking. With today's high-speed advanced communication media, we are now able to gain easy access to the Internet. Bank customers will thus be able to enjoy the convenience of handling their banking business from the comfort of their own home.

The breaking down of barriers between existing financial institutions will gain momentum, while the settlement of electronic transactions will become concentrated in commercial banks. In the earlier stages, the majority of partnerships among financial institutions will take the form of strategic alliances, but as the industry approaches a more mature stage, integrated cyber financial entities are certain to emerge. In addition, alternative payment methods, such as electronic cash and electronic payments, will enjoy widespread usage.

Against this backdrop, Chohung Bank takes much pride in being a true pioneer in Korea, equipped with the hardware, software and mental infrastructure essential to e-Business, and is fully prepared for the advancement of e-banking. The Bank was one of the first banks in Korea to introduce firm banking in 1989. Thereafter, the Bank initiated home banking in 1992 and phone banking one year later, to be followed by Internet banking in 1999.

The Bank currently operates e-Banking Division with a staff of 24, which will be increased to 60 when the Bank launches its financial portal services. The Bank's e-banking usage is already phenomenal, with 6.7 billion out of its total 8.9 million customers conducting on-line banking. This includes 1,370 corporate customers. Of the total customers, 1.5 million take advantage of the Bank's phone banking facilities. In particular, the outstanding popularity of our e-banking business is well-reflected by its 99 million hits in host banking in 1999, as compared to the industry average of 30 million hits, and 57 million hits in phone banking, as compared to the industry average of 10 million hits.

The core strength of the Bank lies in its unwavering commitment to build up the Bank's technical infrastructure. The Bank is the first Korean bank to develop the state-of-the-art Data-Warehouse technology and adopt a data-mining technique. With the innovative Data-Warehouse system and Internet Customer Relationship Management (CRM), the Bank is able to analyze the transactions and behavioral patterns of all customers, thus allowing the Bank to offer customized one-to-one service for its clients. As a result, the Bank can provide a wide range of fully tailored financial products and services, including effective financial asset management, to its customers.

Furthermore, the Bank boasts Korea's most extensive network for facilitating business to business transactions in the e-Business sector, while maintaining partnership relations for electronic payment transfers with 1,370 enterprises, the largest number in Korea. As for phone banking, the Bank offers its customers a wide range of assistance and marketing services over the phone. Based on its customer database related to the above-mentioned Data-Warehouse technology, the Bank plans to launch telemarketing activities in the near future.

An advantage which will further differentiate the Bank from its competitors, is the Bank's ability to provide loans and accounts to customers on a real time basis, without requiring any documentation. The Bank can thus extend loans to its customers promptly in the form of unsecured or deposit backed loans, taking advantage of its flawless security warrants. Furthermore, the Bank is the only domestic bank to introduce a direct payment scheme for electronic transactions. This means that our customers are able to pay for goods that they have purchased via Internet shopping malls, without passing through either the shopping malls or the Value-Added Network (VAN) companies. The Bank offers mobile banking services in partnership with telecommunication companies. Using their mobile phones, the Bank's Internet banking customers now conduct diverse functions such as fund transfers and checks on account balances.

The Bank's e-Business vision is that of a "Cyber & Human Bank." The Bank will see to it that cyber space enriches the lives of human beings. As such, the prime objective of CHB's e-Business is to avail all its customers of an "optimal experience," which means services tailored to the diverse needs of individual customers. The Bank strongly believes that it has all the necessary infrastructure in place for us to march into the era of e-Business successfully.

Through Internet banking, all types of banking services and financial settlements will be possible, along with diversified points of sale and distribution channels. With e-Business, the Bank can offer personalized and customized marketing, thanks to its Data-Warehouse technology. To facilitate personalization in financial services, the Bank plans to establish a vertical portal and an integrated cyber financial company in the near future.

The Bank will establish host banking as a strategic base for its e-Business applications by developing individually tailored services and new markets that satisfy the diverse needs of its corporate customers. As for phone banking, the Bank intends to further augment the range of its one-stop services, while establishing the Call Center that provides multimedia assistance services. The Bank will seek to maximize cost saving opportunities through its e-Banking sector by optimally integrating its existing channel services, such as ATM and off-line bank teller services, with new low-cost channel services.

# Review of Operations



## Riding the Wave of Future Banking Services

Chohung Bank has done its utmost to bolster its profitability and distinguish itself as a premier financial institution in Korea, while striving to cope with the rapid pace of change in the financial sector. Under our belief that electronic banking will be the wave of future banking services, the Bank has also spared no efforts to establish a solid foothold in the emerging Internet market.

## The Market Environment

During 1999, the Korean economy enjoyed rapid recovery. However, the financial industry continued to face a difficult business environment. In particular, major corporations were busy accelerating their restructuring efforts in accordance with the government policy aimed at upgrading the overall competitiveness of Korean enter-

prises. Meanwhile, commercial banks placed their focus on the improvement of their asset management, rather than credit expansion, to help boost their BIS capital adequacy ratios.

Of note, Chohung Bank has re-engineered its organization in order to establish a profit and customer-focused business unit system. In response to the growing crossovers of financial instruments, the Bank has been working diligently to broaden its non-banking business by forming strategic alliances with other financial institutions such as securities and insurance firms. Furthermore, the Bank has been going all out to implement short- and long-term strategies designed to capture a significant share of the Internet banking market.

Overall, the Bank has stepped up its reforms to ensure that it is a more transparent and sound financial institution. As such, intensive efforts have been exerted to maintain the Bank's operations on the right track in light of the substantial injection of public funds.

## Funding

The Bank seeks to maintain stable and low cost funding. The Bank's principal source of funding is customer deposits. Based on daily average balances, as of December 31, 1999, deposits constituted 63.6% of the total funding sources of the bank accounts. In 1999, the Bank noticeably strengthened its competitive position in retail banking with the aid of the rapid recovery of the domestic economy.

The Bank has an extensive nationwide network of branches covering all regions of Korea, which provides the Bank with a stable and relatively low-cost funding source. Retail deposits from individual and small and medium-sized enterprise customers were up 40.9% relative to 1998, to W23,290 billion. In addition, the number of retail deposit customers increased 19.8% to 8.57 million as of the end of 1999. This was mainly attributable to the extension of the Bank's retail network into provincial areas following mergers with Chungbuk Bank and Kangwon Bank. Strenuous measures have also been taken to increase the Bank's direct investments in promising venture businesses.

The Bank has continued to enjoy an industry-best net interest margin, that is, the difference between average interest rates on loans and deposits in local currency in banking accounts. The margin was 4.8% in 1999, mainly due to its successful strategy of attracting low-cost demand deposits. The Bank holds the largest amount of deposits made by litigants in connection with legal proceedings in Korean courts. The Bank has been performing these services since 1958, and has developed an infrastructure of equipment, software and personnel for such business. Such deposits involve below-market interest rates of approximately 2%.

The Bank's other sources of funding consisted principally of borrowing from the Bank of Korea and borrowings in both Won and foreign currencies. Similar to other commercial banks, the Bank's access to the capital markets for funding was limited to issuances of equity and

issuances outside Korea of notes and commercial paper denominated in foreign currencies. At the end of 1999, the Bank had W1,602.8 billion of Won-denominated debentures outstanding.

## Credit Card Business

The Bank had more than 1.9 million credit card members in 1999, up 17.0% from the previous year, primarily as a result of its efforts to focus on and expand retail banking. Fees and commissions received from credit card business also rose sharply, from W196 billion in 1998 to W270 billion in 1999.

Credit card balances, including credit card loans, practically doubled to W1,422 billion from W745 billion the previous year. Credit card billings registered an increase of 58.3% over 1998. Of particular note, the delinquency ratio fell to 1.7% from 6.3% the previous year (the delinquency ratio equals the total delinquency balance, which overdue for more than three months, divided by the total credit card balance).

The Bank commenced its credit card operations in 1982 when BC Card Co., Ltd. was established. BC Card is currently owned by 12 member banks. BC Card Company issues credit cards under the names of the member banks, all of which are licensed to use MasterCard, Visa or JCB, as the case may be. Chohung Bank has placed a high priority on cutting costs by developing an independent card processing system that will allow the Bank to process future billings for the existing BC Cards on its own.

Credit-card transactions are expected to increase significantly in the years ahead as merchants and consumers are encouraged by national tax authorities to exploit credit cards in purchasing goods and services as part of the effort to prevent tax avoidance.

Loans

Korean corporations, which implemented extensive restructuring measures in 1999, have expanded their fund raising activities through the stock market while reducing their external borrowings. Of note, the Top 5 business groups, which are major clients of the Bank's merchant banking services, paid off a large portion of their bank loans toward the end of fiscal 1999 to reduce their debt-to-equity ratio to below 200%, as called for by the government.

Despite the dwindling demand for loan funds among major corporations, the Bank has managed to record an impressive performance in the loan sector. The performance was buoyed by its enhanced creditworthiness, as well as its expanded marketing activities.

Total loans outstanding as of the end of 1999 expanded 13% over the previous year to W23,596 billion. Last year's Won-denominated loans swelled by 39.2% to W15,445 billion, while foreign-currency loans dropped 24.9% to W4,149 billion. The contraction in foreign-currency loans was primarily attributable to the repayment of W494 billion worth of foreign currency loans that had been extended to domestic leasing companies, and the dearth of new loan demand.

Won-denominated loans to small and medium-sized enterprises (SMEs) increased sharply by 57.2% in line with

the government efforts to encourage banks to extend more loans to SMEs. In 1999, loans in default amounted to W225.7 billion, down W790.1 billion from the year before. This significant improvement reflected a diminishing trend in defaults thanks to a recovering economy.

The Bank is placing utmost emphasis on upgrading the effectiveness of its asset management by implementing new credit risk management systems. To reduce possible loan losses and ensure asset soundness, the Bank put into place a Loan Review System for more efficient management and introduced a Credit Risk Rating System for stringent oversight of the existing corporate credits and more prudent underwriting of new corporate credits. Furthermore, the Credit Scoring System is being applied in the case of retail customers.

Securities

During the year in review, KOSPI jumped 82.8% over the previous year and this surging stock market was well reflected in the Bank's securities-related performance, resulting in gain of W204 billion, in sharp contrast to a loss of W73 billion the year before.

Total securities investments in banking accounts totaled W12,000 billion, up 91.2% from W6,274 billion in 1998. The increase came entirely both from the capital contribution of Korea Deposit Insurance Corporation

*Chohung Bank has done its utmost to bolster its profitability and distinguish itself as a premier financial institution in Korea, while striving to cope with the rapid pace of change in the financial sector.*



International Banking

The foreign currency market, which went into a tailspin in the aftermath of Korea's financial crisis in late 1997, regained much of its normalcy in 1999 with a steady inflow of funds from foreign investors whose confidence had been buoyed by Korea's restructuring efforts. Korea's increased foreign currency holdings, stemming from the improved international balance of payments situation, also played a role in stabilizing the foreign currency market. However, overall international financial dealings have remained relatively stagnant.

Although Standard and Poor's Rating Services and Moody's Investors Service, Inc., raised the sovereign credit rating of Korea to BBB in December 1999 and Baa2 in the first quarter of 1999, respectively, the credit ratings of most Korean corporations and financial institutions remained below investment grade level. Moreover, the recent volatility of Asian financial markets led the Bank to phase down its international capital market activities.

During 1999, the Bank strove to reduce its low-performing foreign currency assets to improve its foreign currency liquidity, while focusing on the expansion of its fee-based business. Loans in foreign currencies decreased from W5,514 billion in 1998 to W4,149. The foreign currency-denominated securities investment shrank by 10.2% from the previous. These reductions were primarily attributed to the appreciation of the Korean Won's value against the U.S. dollar and the Bank's reduction of its low-performing foreign currency assets.

Borrowings in foreign currencies, including offshore borrowings, stood at US\$4,842 million as of December 31, 1999, a 17.5% fall from the year before. Of note, the Bank managed to repay US\$1,010 million in mid- and long-term convertible foreign currency debts that carried relatively high-level interest rates. The Bank was thus able to reduce its foreign currency funding costs.

(KDIC), and the Bank's investment in the Bond Market Stabilization Fund. Meanwhile, the Bank's investment in foreign currency securities dropped 8.7% to reach W1,048 billion due to the reduction of low-performing foreign currency assets to improve its foreign currency liquidity.

In making securities investments, the Bank's principal objectives are to maintain the stability and diversification of the Bank's assets and match the maturity of its funding and investments.

Trust Business

The business environment for the Bank's trust accounts deteriorated in 1999 due to the intensive restructuring in the corporate sector, and the Daewoo Group crisis. Lower market interest rates also weakened the competitive edge of the trust accounts. Restrictions on development trusts also resulted in reducing the trust accounts, along with increasing direct corporate financing.

As of December 31, 1999, the Bank had total trust assets of W26,999 billion, a drop of 466 billion over the previous year. The total comprised principally securities investments of W18,917 billion, and loans of W2,857 billion. Securities investments consisted of corporate bonds, government-related bonds and other securities, which were primarily commercial paper. At the end of 1999, stocks accounted for 3.1% of the Bank's total trust assets.

The balance of money trusts managed by the Bank was W9,416 billion at December 31, 1999, down 11% from a year earlier, due primarily to an increase in withdrawals caused by the exclusion of money trusts from KDIC's insurance coverage. The decrease in monetary trusts resulted primarily from the prohibition on providing guarantees to trust accounts and a broader selection of trust-account-like products. This more than offset the increase as a result of the mergers and the economic recovery.

The Bank boasted a 9.2% market share in Won/dollar trading in 1999, which provided it with W8.8 billion in net gains. This enabled the Bank to retain its No. 1 position in Won/US\$ FX translations in the year.

The Bank is primarily involved in arranging and participating in various types of international financing, foreign currency securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign retail banking operations through the Bank's overseas branches and subsidiaries.

### Electronic Banking

Commercial banks, like most other business establishments, are marshalling their resources to keep pace with the emerging trends in electronic banking, since transactions in electronic banking are certain to mushroom in the years to come.

Fee revenues earned from electronic banking services in 1999 amounted to W14,047 million, up 51.3% over the previous year. The rise was primarily attributable to an increase in the number of electronic transactions and the Bank's development of special electronic banking services designed for large companies. Firm banking fees rose from W6,637 million to W9,801 million in 1999. Firm banking has generated, and is expected to continue to generate, most of the Bank's fee income relating to electronic banking.

In terms of transactions, phone banking posted a growth of 24.7%, or 49.2 million transactions, from 39.4 million the year before. PC banking also grew 67.8% to 8.1 million transactions, while firm banking grew 21.4%, from 67.2 million to 81.6 million transactions.

Electronic banking is expected to generate increased fees as a result of the rapid advancement of internet banking on which the Bank is placing a high priority. The Bank will continue to exert efforts to develop new internet banking services. In November 1999, the Bank initiated a service in which users of the Bank's Internet and PC banking can pay customs duties online.

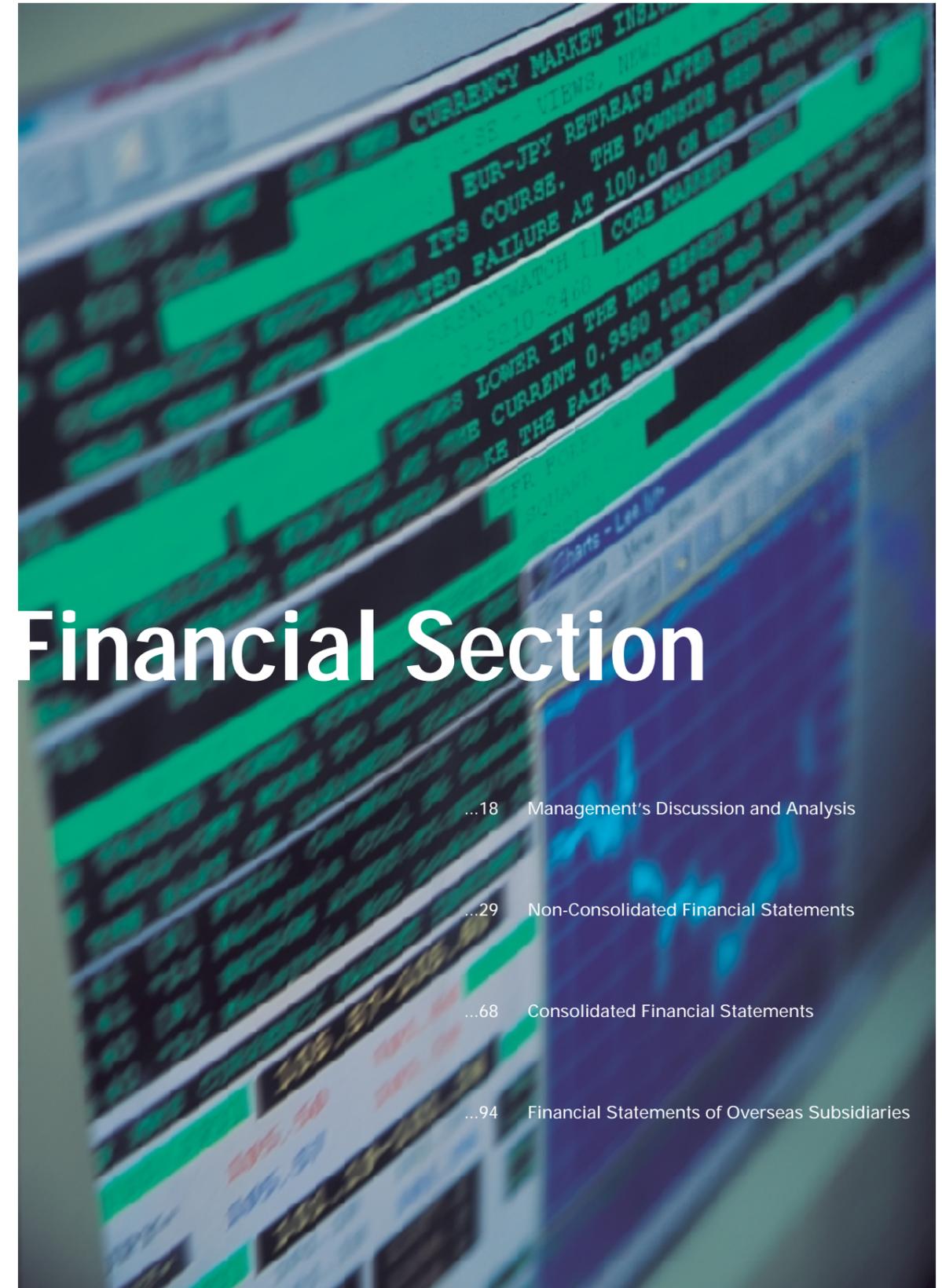
The internet banking system is expected to enable customers to deposit, withdraw and transfer funds more conveniently than under existing electronic banking services. Currently, the Bank's Internet banking provides the same service as its PC banking. The Bank is in the process of further developing its Internet banking services and plans to add more services in the near future.

### Profit Performance

Buoyed by a significant contraction in bad loan sales losses and higher interest income, the Bank recorded W1,037 billion in operating income, a remarkable turnaround from the previous year. However, the toughening of loan loss provision regulations required the Bank to sharply increase its provisions, and as a result the Bank suffered a net loss of W698 billion. This was still a noticeable improvement over 1998.

The Bank's prospects for profit performance are much brighter in fiscal 2000, with a net profit of some W550 billion expected in the first year of the new millennium. The Bank is projected to record W1,200 billion in gross operating income taking advantage of its profitable retail franchise, low funding costs and high operating efficiency.

Provisioning pressure is also certain to lighten up considerably. In 2000, the Bank plans to reserve an additional W370 billion, while a loss of W250 billion stemming from NPL sales is anticipated. The Bank is confident that the projected business improvements will help it to reach ROE above 17.9% and ROA above 1.2% for 2000, bringing the Bank closer to achieving its goal of becoming Korea's "Best Bank."



# Financial Section

- ...18 Management's Discussion and Analysis
- ...29 Non-Consolidated Financial Statements
- ...68 Consolidated Financial Statements
- ...94 Financial Statements of Overseas Subsidiaries

Management's Discussion & Analysis

Overview

The following analysis is based on non-consolidated data. Therefore, the Bank's results of operations and financial conditions should be read in conjunction with the audited non-consolidated financial statements and notes unless otherwise specified.

The Bank's financial position and recent results of operations for the periods under review have been significantly affected by economic and business conditions in Korea and in other parts of Asia. In the wake of the currency crisis of late 1997, and following economic reforms in 1998, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in loan classification, provisioning guidelines and securities valuation.

Chohung Bank exhibited clear signs of recovery in 1999. The Bank posted net interest income of W990 billion or an increase of approximately 40% over the previous year's W712 billion, improving the net interest margin and the interest spread. Despite a huge increase in operating profits before the provision for loan losses, the Bank suffered a net loss of W698 billion. The overall result of operations, however, greatly improved from the previous period, reducing the amount of net loss by W1,273 billion.

The increase in provisions for loan losses, which eroded the overall performance of the Bank, was anticipated upon the adoption of the new Financial Supervisory Commission Guidelines, and loans outstanding to the Daewoo Group. Net income before provision for loan losses in 1999 was W964 billion, while the same figure for 1998 exhibited a net loss of W1,370 billion. The Bank expects that the year 2000 will become a year of turn-around in terms of overall profitability, and will continue to make efforts to improve the results of operations.

Throughout 1999, the Bank put emphasis on asset quality and stabilizing income sources, employing conservative policies toward low-risk investment and low-cost funding. In relation to capital adequacy, the Bank posted a BIS ratio of 9.8%, a dramatic increase from the previous year's 0.93%, reflecting the Bank's sincere efforts to improve its capital adequacy.

Chart 1. Total Assets

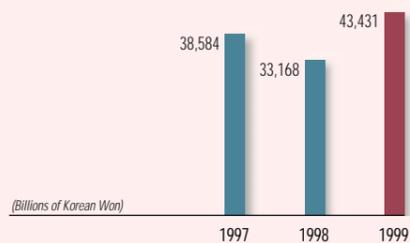


Table 1. Selected Financial Data

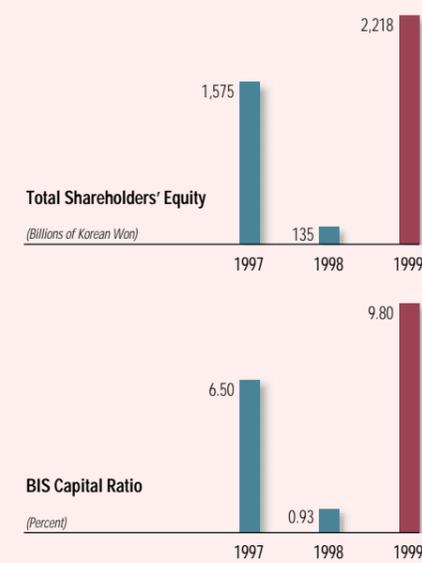
	(Billions of Korean Won)		
	1999	1998	1997
<b>Non-Consolidated Statement of Operations (Bank Accounts)</b>			
Interest income and dividends	3,066	3,651	2,802
Interest expenses	2,076	2,939	2,042
Net interest income	990	712	760
Provision for loan losses	1,658	598	393
Non-interest income	1,679	2,055	861
Non-interest expenses	1,705	4,137	1,508
Income (loss) before income taxes	(694)	(1,968)	(280)
Net income (loss)	(698)	(1,971)	(290)
<b>Non-Consolidated Balance Sheet Data (Bank Accounts)</b>			
Loans	23,596	20,877	26,492
Allowance for loan losses <sup>1)</sup>	2,482	756	643
Securities	12,000	6,274	5,573
Total assets <sup>2)</sup>	43,431	33,168	38,584
Deposits	27,621	18,669	16,876
Borrowings	8,945	10,313	16,067
Total liabilities	41,213	33,033	37,009
Total shareholders' equity	2,218	135	1,575
<b>Per Share (In Korean Won)</b>			
Net income (loss)	(1,505)	(10,591)	(1,556)
Dividends	-	-	-
<b>Profitability Ratios (%)<sup>3)</sup></b>			
Return on assets	(1.69)%	(4.80)%	(0.72)%
Return on shareholders' equity	(24.72)%	(84.77)%	(11.91)%
<b>BIS Capital Ratio (%)<sup>4)</sup></b>			
Tier 1	5.66%	0.47%	3.50%
Tier 2	4.18%	0.46%	3.00%

1) Including merchant accounts  
 2) Total assets and liabilities under the new accounting rules effective from 1999, which exclude customers' liabilities under acceptances and guarantees, as well as acceptances and guarantees, record loans net of allowance and fixed assets net of accumulated depreciation  
 3) Based on non-consolidated data, including trust accounts  
 4) Based on consolidated data

Changes in Bank Accounting Guidelines

In accordance with recent changes in accounting rules, certain line items in the Bank's 1999 audited consolidated and non-consolidated financial statements have been reclassified to include or exclude certain sub-categories which previously were excluded or included. As a result, certain line items and amounts in the Bank's 1998 and 1997 audited consolidated and non-consolidated financial statements have also been reclassified in order to present a meaningful basis for comparison with the corresponding line items and amounts in the Bank's 1999 audited consolidated and non-consolidated financial statements.

Chart 2. Total Shareholders' Equity, BIS Capital Ratio



Analysis of the Statements of Operations

Net Interest Income

Table 2. Net Interest Income

	(Billions of Korean Won)	
	1999	1998
Interest on Loans	W2,101	W2,885
Interest on loans	1,734	2,288
Interest on bills bought in foreign currency	260	407
Interest on advances for customer	32	32
Interest on call loans	19	55
Other	56	103
Interest on due from banks	115	219
Interest and dividend on trading securities	129	50
Interest and dividend on investment securities	645	496
Other interest income	76	1
Interest Income and Dividends	3,066	3,651
Interest on deposit	1,237	1,384
Interest on borrowings	642	1,324
Interest on dentures	127	153
Other interest income	70	78
Interest Expenses	2,076	2,939
Net Interest Income	W 990	W 712

While downward movements in interest rates caused both interest income and expenses to shrink, the Bank posted net interest income of W990 billion or an increase of approximately 40% over the previous year's W712 billion. The increase was primarily attributable to the improved net interest margin and interest spread. The net interest mar-

gin, which is net interest income before provisions for loan losses divided by average interest-earning assets, was improved to 2.91% in 1999, a 0.73 percentage point higher than that of 2.18% in 1998. In 1999, interest rates were declining. Since deposit rates were more sensitive to changes in the market interest rates than loan rates, the interest rate spread has improved. Despite downward movements in lending rates, funding costs decreased further, contributing to the overall increase in net interest income.

More specifically, interest income and expenses in 1999 were W3,066 billion and W2,076 billion, respectively. Interest income decreased by 16% over the previous period, while the decrease in interest expenses was even greater at 29.4% over the same period. Consequently, the ratio of interest expense to interest income improved from 80.5% to 67.7%, a 12.8% improvement over the previous period.

Chart 3. Net Interest Income, Rate of Interest Expenses to Interest Income

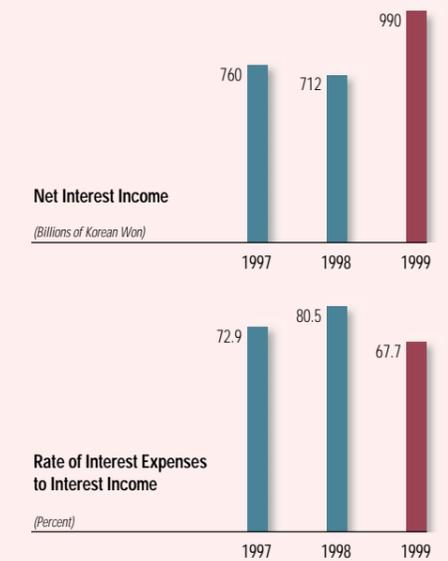


Chart 4. Average Interest-Earning Assets Mix



The changes in interest income and expenses should be read in conjunction with not only the net interest margin and interest rate spread, but also average balances. Average interest-earning assets totaled W33,961.2 billion in 1999, a slight increase compared with

Management's Discussion & Analysis

W32,726.3 billion in 1998. The increase stemmed from increased interest-earning securities holdings, while decreases in the loans and due from banks categories partially offset such increases.

Average loans before allowances for loan losses in 1999 decreased by 9.7% to W22,288.5 billion compared with W24,674.4 billion in 1998. Average loans in Won increased 5.5% over the year and average foreign currency loans contracted 28.8% for the same period, reflecting the Bank's policy to reduce its exposure to lower margin foreign currency lending, as well as the impact of the appreciation of the Korean Won against the U.S. dollar.

Interest rate on average interest-earning assets averaged 9.03% in 1999, down 2.12% points from 1998. The average interest rate of loans in Won declined to 10.3% from 13.7% and that of foreign currency

loans also decreased to 7.8% in 1999 from 9.1% in 1998. As a result, interest income on loans decreased by 27.2% in 1999 compared to the previous year.

In terms of currency denomination, average Won currency interest-earning assets increased by W4,791 billion to W24,012 billion in 1999, while the average interest-earning assets denominated in foreign currency shrunk 26.3% to W9,949 billion in 1999 from W13,505 billion in 1998. Average interest-earning assets in Won currency represented 70.7% of total average interest-earning assets in 1999 compared with 58.7% in 1998. The decrease in foreign currency assets brought the magnitude of increases in total interest-earning assets down slightly.

Average interest-bearing liabilities exhibited the same trend for each currency category. The Bank reported total interest-bearing liabilities

Table 3. Average Interest-Earning Assets

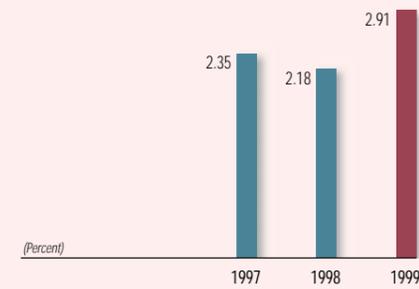
	1999			1998		
	Average	Interest	Rate	Average	Interest	Rate
	Balance			Balance		
Loans	W22,288.5	W2,100.6	9.42%	W24,674.4	W2,885.0	11.69%
Won	14,508.6	1,496.8	10.32	13,745.9	1,888.6	13.74
Foreign currencies	7,779.9	603.8	7.76	10,928.5	996.4	9.12
Due from banks	2,192.1	115.4	5.26	2,468.3	218.8	8.86
Won	1,045.4	62.7	6.00	1,093.6	138.2	12.64
Foreign currencies	1,146.7	52.7	4.60	1,374.7	80.6	5.86
Securities	9,480.6	773.6	8.16	5,583.6	546.7	9.79
Trading	1,714.4	128.5	7.50	732.6	50.3	6.87
Investment	7,766.2	645.1	8.31	4,851.0	496.4	10.23
Won	8,457.9	715.1	8.45	4,381.8	477.1	10.89
Foreign currencies	1,022.7	58.5	5.72	1,201.8	69.6	5.79
Other	—	76.0	—	—	0.8	—
<b>Total Interest Earning Assets</b>	<b>W33,961.2</b>	<b>W3,065.6</b>	<b>9.03%</b>	<b>W32,726.3</b>	<b>W3,651.3</b>	<b>11.15%</b>

Table 4. Average Interest-Bearing Liabilities

	1999			1998		
	Average	Interest	Rate	Average	Interest	Rate
	Balance			Balance		
Deposits	W22,244.7	W1,236.6	5.56%	W17,471.5	W1,383.7	7.92%
Won	20,258.0	1,122.1	5.54	15,223.8	1,239.9	8.14
Demand deposits	4,583.5	64.3	1.40	3,157.7	39.8	1.26
Time & saving deposits	14,251.3	939.3	6.59	10,943.5	1,037.4	9.48
Mutual installments	336.6	38.9	11.56	712.8	90.9	12.75
Certificates of deposits	768.5	59.3	7.72	409.8	71.8	17.52
Other	318.1	20.2	6.35	—	—	—
Foreign currencies	1,986.6	114.5	5.76	2,247.7	143.8	6.40
Borrowings	9,854.4	642.3	6.52	13,410.3	1,323.7	9.87
Won	3,361.2	185.5	5.52	3,292.5	405.1	12.30
Foreign currencies	6,493.2	456.8	7.04	10,117.8	918.6	9.08
Other	1,730.2	197.2	11.40	2,009.4	231.4	11.52
<b>Total Interest Bearing Liabilities</b>	<b>W33,829.2</b>	<b>W2,076.1</b>	<b>6.14%</b>	<b>W32,891.2</b>	<b>W2,938.8</b>	<b>8.93%</b>

Management's Discussion & Analysis

Chart 5. Net Interest Margin



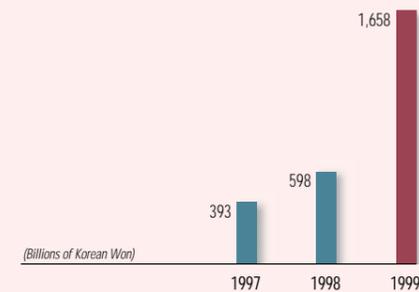
ties of W33,829.2 billion, compared with W32,891.2 billion in 1998. Compared to 1998, average deposits increased by 27.3% to W22,244.7 billion and average borrowings decreased by 26.5% to W9,854.4 billion in 1999. The increase in average deposits stemmed from a 33.1% increase in Won deposits on an average basis, which was primarily attributable to the prevailing uncertain economic environment, and receipts from Kangwon Bank and Chungbuk Bank of Won demand deposits amounting to approximately W256 billion. Despite the huge increase in Won currency deposits, the lower interest rate environment of 1999 allowed interest expenses on Won deposits to decrease by W117.8 billion.

The decrease in average borrowings was primarily attributable to a 35.8% decrease in average foreign currency borrowings, while average borrowings in Won increased due to the Bank's assumption of W270.3 billion and W1,534.4 billion in borrowings from Chungbuk Bank and Kangwon Bank, respectively, through the mergers. Due to the combined results of lower interest rates and decreases in average borrowings, interest expenses on borrowings incurred in 1999 were less than half of such expenses in 1998. On the other hand, a decline in interest rates on average deposits was partially offset by the increase in average deposits, resulting in a 10.6% overall decline in the interest expense on deposits.

Provision for Loan Losses

The provision made for possible loan losses in 1999 amounted to W1,658 billion, an increase of 177% over the previous year. This increase was anticipated because of the adoption of new Financial

Chart 6. Provision for Loans Losses



Supervisory Commission Guidelines and the introduction of Forward Looking Criteria in asset quality classification standards. Further, the Bank's exposure the Daewoo Group brought additional increases in the provision for loan losses of approximately W1 trillion.

Non-Interest Income

The Bank's non-interest income consists of fees and commissions received, trust fees, gains on trading securities and gains on foreign currency trading and other miscellaneous income.

Table 5. Non-Interest Income

	(Billions of Korean Won)	
	1999	1998
Fees and commissions	W 427	W 369
Credit card fees	270	196
Guarantee fees	11	14
Commissions received from termination of trust accounts	19	35
Service charge on other financial services	127	124
Gain on trading securities	270	60
Gain on foreign currency trading	475	1,283
Fees and commissions from trust accounts	122	145
Other	385	198
<b>Non-Interest Income</b>	<b>W1,679</b>	<b>W2,055</b>

Chart 8. Non-Interest Income



Non-interest income in 1999 decreased by W376 billion or 18.3% from the previous year to W1,679 billion. The decrease was primarily due to a reduction in gains on foreign currency trading, which was partially offset by the increase in gains on sale and revaluation of trading account securities and credit card fees. Income from credit card business grew 38% to W270 billion due to the increase in consumption.

Gains on foreign currency trading decreased by W808 billion in 1999, while gains on trading securities and credit card fees increased by W210 billion and W74 billion, respectively. The drop in gains on foreign currency trading was expected as the exchange rate of Won currency against other major foreign currencies stabilized during the period. But net performance was positive, registering a net profit of W147 billion, which is an improvement of W50 billion or 51.5% over the previous year. When gains on foreign exchange transactions are excluded, non-interest income would in fact have increased by W432

Management's Discussion & Analysis

billion. The increase in gains on trading securities reflected a rise in the Korean stock market during 1999.

Non-Interest Expenses

Table 6. Non-Interest Expenses

(Billions of Korean Won)		
	1999	1998
Commissions	W 74	W 54
General and administrative expenses	619	801
Loss on foreign currency trading	328	1,186
Loss on sale of loans	202	1,107
Loss on trading securities	72	113
Payments to guaranteed return trust accounts	187	731
Other	223	145
<b>Non-Interest Expenses</b>	<b>W1,705</b>	<b>W4,137</b>

The Bank's non-interest expenses were greatly reduced from W4,137 billion in 1998 to W1,705 billion in 1999, a decrease of W2,432 billion or 58.8%. The biggest decrease was in the loss on foreign currency trading category, posting a decrease of W858 billion. As mentioned earlier, this decrease was mainly driven by stabilized foreign exchange rates during the period.

As a result of the Bank's various measures to reduce administrative expenses, including a reduction in the numbers of employees and branches, and operational efficiency improvements, general and administrative expenses declined by 22.7% to W619 billion. Loss on trading securities was also reduced by W41 billion to W72 billion from W113 billion in 1998.

A decrease of 81.8% in loss on sales of loans was primarily due to a relatively lower volume of sales to KAMCO of non-performing assets. The Bank's payments to the guaranteed return trust accounts also significantly reduced from W731 billion to W187 billion. A decrease of W544 was due to improved trust operations as a result of the economic recovery, partially offset by increased provisions for loan losses in the trust accounts.

Net Income (Loss)

Table 7. Net Income (Loss)

(Billions of Korean Won)		
	1999	1998
Net interest income	W 990	W 712
Provision for loan losses	1,658	598
Non-interest income	1,679	2,055
Non-interest expenses	1,705	4,137
Income taxes	4	3
<b>Net Loss</b>	<b>W(698)</b>	<b>W(1,971)</b>

Despite a huge increase in operating profits before the provision for loan losses was made, the Bank suffered a net loss of W698 billion. The overall result of operations, however, was greatly improved from

the previous period, reducing the amount of net loss by W1,273 billion.

The net loss per share improved from W10,591 in 1998 to W1,505 in 1999. The main factor causing the current period loss was, as explained, provisions made for loans outstanding with the Daewoo Group and other increases in non-performing loans, which drove the overall results of the bank account operation into net loss.

Analysis of Balance Sheets

Loans

Table 8. Loans

(Billions of Korean Won)		
	1999	1998
Loans in Won	W15,445	W11,096
Bills bought in Won*	2,578	1,465
Loans in foreign currencies	4,149	5,524
Bills bought in foreign currencies	2,928	3,131
Advances for customers	610	576
Credit card accounts	1,422	745
Call loans	48	462
Privately placed bonds	257	49
Other	1,317	50
	<b>26,176</b>	<b>21,633</b>
Less: Allowance for loan losses	2,432	756
Present value discount	148	-
	<b>W23,596</b>	<b>W20,877</b>

\* Excluding Local L/C bills bought of W74,513 million

Reversing the trend of last year, loans increased by W2,719 billion or 13%. Loans in Won increased by 39.2% over the previous period. And credit card loans registered W1,422 billion, almost doubling the previous year's W745 billion.

Loans in foreign currencies decreased from W5,524 billion in 1998 to W4,149, and bills bought in foreign currency slightly decreased. A contraction in foreign currency denominated loans resulted from the appreciation of the Korean Won in comparison with the U.S. Dollar, and the Bank's efforts to reduce its foreign currency loans that provide a lower interest margin compared to loans in Won. Domestic loans in foreign currencies by the Bank, which aggregated to W1,340 billion in 1999, are principally made to finance equipment purchases and to provide lease financing. Loans in foreign currencies extended by overseas branches of the Bank, which amounted to W1,702 billion in 1999, are primarily made to affiliates of large Korean manufacturing companies for trade financing and working capital. Syndicated loans were W802 billion and offshore loans amounted to W305 billion.

Overall, despite increases in allowance set aside for loan losses during the period, increases in the Bank's holdings of Won-denominated loans and credit card loans led the way back to the improving trend the Bank experienced before 1998.

Management's Discussion & Analysis

Table 9. Won-Denominated Loan Portfolio by Type of Borrower

(Billions of Korean Won)				
	1999		1998	
Small and medium-sized enterprises	W 7,392	47.9%	W 4,702	42.4%
Large corporations	4,079	26.4%	3,303	29.8%
Public sector enterprises	309	2.0%	437	3.9%
Individuals	3,665	23.7%	2,654	23.9%
	<b>W15,445</b>	<b>100%</b>	<b>W11,096</b>	<b>100%</b>

Breaking down the Won-denominated loan portfolio by borrower group revealed a slight change. The percentage of loans in Won made to small and medium-sized enterprises (SMEs) loans, which already accounted for the biggest proportion of total loans, grew to account for 47.9% compared with 42.4% the previous year, following government efforts to encourage banks to extend more loans to SMEs. Meanwhile, the share of loans to large corporations decreased by 3.4%, to 26.4%. Large corporations contracted their external borrowings to reduce their indebtedness in response to high prevailing rates of interest and to reduce their debt-to-equity ratios. The proportion of loans to individual borrowers repeated last year's performance, slightly decreasing to 23.7% from 23.9%. Public sector enterprise loans decreased slightly. The amount of loans to all groups of borrowers increased except for public sector enterprise borrowers, and the Won-denominated loan portfolio exhibited virtually the same make-up except for a slight shift from large corporation to small and medium-sized company loans.

As the Korean economy recovered from the crisis of 1997-8, loan

Table 10. Won-Denominated Loan Portfolio by Industry Sector

(Billions of Korean Won)		
	1999	1998
Corporations	W11,780	W 8,442
Agro-fishery & mining	70	34
Manufacturing	6,636	5,011
Construction	1,177	932
Wholesale & retail	1,632	1,055
Transportation/warehouse/telecommunications	852	607
Finance/insurance	332	210
Real estate	304	129
Other	777	464
Households	3,665	2,654
	<b>W15,445</b>	<b>W11,096</b>

Table 11. Won-Denominated Loan Portfolio by Maturity

(Billions of Korean Won)		
	1999	1998
Due in 3 months or less	W 5,129	W 3,734
Due between 3 months and 6 months	2,771	2,168
Due between 6 months and 1 year	3,906	3,229
Due between 1 year and 3 years	2,089	570
Due after 3 years	1,550	1,395
	<b>W15,445</b>	<b>W11,096</b>

demands in all sectors of industry have grown at a rapid pace. The most notable increase was in the manufacturing sector. Loans to the manufacturing industry increased by W1,625 billion or 32.4% over 1998. Households loan increased by W1,011 billion, and loans to the wholesale and retail industry grew by W577 billion.

Approximately 76.4% of the loans in Won have maturities of one year or less. A significant portion of the loans with a maturity of one year are renewed annually. Loans with maturity between one and three years registered the biggest increase of W1,519 billion or 266%, followed by loans with maturity of 3 months or less, which increased by W1,395 billion. However, longer-term loan such as the loans due after 3 years category accounted for 10% of the total loan portfolio, down by 2.5% from the previous year.

Non-Performing Loans

The Korean Financial Supervisory Commission (FSC) requires banks in Korea to analyze and classify their credits into one of five categories by taking into account a number of factors. The FSC revised its regulations concerning the method of classifying credits and providing reserves for credit losses in July 1998 and in September 1999. The new FSC guidelines were devised to fully reflect each borrower's capacity to repay and not solely its past performance. In addition, the FSC changed the asset classification standards for credits in workouts to apply more stringent standards. The criteria of the new FSC guidelines are as set forth below:

*Normal* - Sound credit exposure. 0.5% or more reserves required.

*Precautionary* - Credits are in arrears for more than one month and less than 3 months or credit extended to customers judged to have potential risks with respect to their capability to repay the credits in the future. 2.0% or more reserves required.

*Substandard* - i) The secured portion of total credits that are in arrears for more than 3 months ii) Credit extended to customers judged to have incurred considerable risks for default in repayment as their capability to repay has deteriorated. 20% or more reserves required.

*Doubtful* - The unsecured portion of credits more than 3 months but less than twelve months, or credit extended to customers judged to have incurred serious risks for default in repayment due to a noticeable deterioration in their capability to repay. 50% or more reserves required.

*Estimated Loss* - The unsecured portion of credits that are in arrears for twelve months or more, or credit extended to customers judged to have to be accounted as lost as the inability to repay is certain. 100% reserves required.

The Bank registered non-performing loans (NPLs) amounting to W5,612 billion in 1999, of which loans to the Daewoo Group accounted for W2,237 billion, approximately 40% of total non-performing loans, up W3,929 billion from the 1998. Loans in the "Precautionary" category markedly declined to W2,866 billion from 1998. These shifts resulted mainly from the implementation of the stricter FLC requirements. As a result, the NPL ratio increased to 16.5% from 5.5% the previous year. The upsurge in the NPL ratio was mainly attributable to

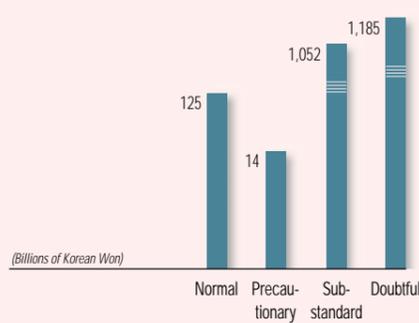
Management's Discussion & Analysis

Table 12. Non-Performing Loans

	(Billions of Korean Won)	
	1999	1998
Normal	W25,458	W23,829
Precautionary	2,866	5,143
Substandard	3,665	846
Doubtful	1,428	723
Estimated loss	519	114
Non-performing loans	5,612	1,683
Total Credit*	W33,936	W30,655

\* Including acceptances and guarantees, advance payments for customers, bills bought, credit card accounts and trust loans, based on new FSC guidelines.

Chart 9. Loans to the Daewoo Group (Bank and trust account data)



the implementation of the FLC and loans outstanding to the Daewoo Group. To facilitate the estimation of NPLs under the Forward Looking Criteria, the Bank hired Booz-Allen & Hamilton to ensure that its systems and internal guidelines are based on international best practice.

As a result, in order to improve asset quality in 1999, the Bank sold non-performing loans of W256 billion from the bank accounts and trust accounts to the Korea Asset Management Corporation (KAMCO). By the end of 2000, the Bank plans to reduce NPLs by W2.0 trillion through write-offs and sales to KAMCO or other third parties such as Lone Star.

Allowance for Loan Losses

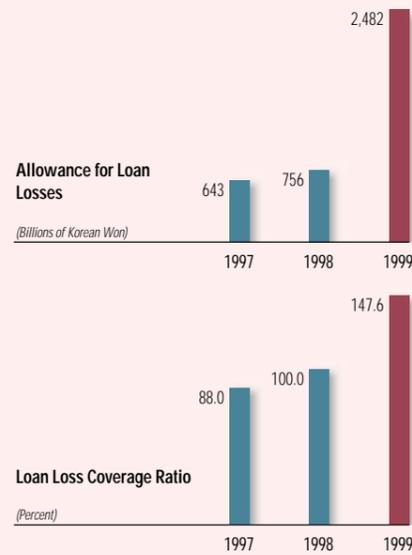
Allowance for loan losses was W2,482 billion in 1999, showing an increase of 228.3% from the previous year. As mentioned earlier, such an increase was mainly due to provisions for loan losses of W1,658 billion, which resulted from the implementation of the new FSC guidelines, and the deterioration of asset quality of credits extended to the Daewoo Group. Out of total W2,376 billion in credit exposure to the Daewoo Group, increases in allowance for loan losses of W1,202 billion were required. Of this, W1,031 billion were recorded in the bank accounts, and W171 were recorded in the trust accounts. Applying the provisioning requirements, an 50.6% of loans outstanding to the Daewoo Group were set aside as allowance for loan losses. The loan loss coverage ratio - the ratio of actual allowance to the allowance required by the FSC - improved to 147.6% in 1999 from 100% in 1998.

Table 13. Allowance for Loan Losses

	(Billions of Korean Won)	
	1999	1998
Balance at beginning of year	W 756	W643
Provision for loan losses	1,658	598
Reversal of allowance for loan losses	(37)	(14)
Write - offs	(322)	(417)
Recoveries (Adjustments)	427	(54)
Balance at End of Year	W2,482*	W756

\* Including merchant account of W50 billion.

Chart 10. Allowance for Loan Losses, Loan Loss Coverage Ratio



Securities

The Bank continued its conservative policy towards securities investments. The Bank's investments in debt securities include primarily government related bonds as well as corporate bonds which are guaranteed by banks, government-related funds or privately-capitalized funds that the Bank considers to have a low credit risk.

Total investment in securities amounted to W12,000 billion in 1999, rising from W6,274 billion in 1998 following a capital injection from the Korea Deposit Insurance Corporation (KDIC) and the Bank's contribution to the Bond Market Stabilization Fund. In February, May and September 1999, in connection with the KDIC 's capital contribution, the Bank received debentures from KDIC, which were, in effect, corporate bonds, of W1,870.7 billion, W212.3 billion and W393.3 billion, respectively, totaling W2,476.3 billion. In addition, the Government established the Bond Stabilization Fund in September 1999, and requested financial institutions including commercial banks, to make contributions to the Bond Stabilization Fund. The Bank contributed W1,344 billion, the full amount that it was requested to contribute. In exchange for such a contribution, the Bank received government and corporate bonds with credit ratings of mostly A or higher, as well as a 7.3% equity interest in

Management's Discussion & Analysis

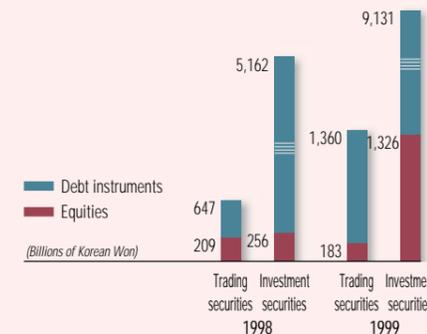
Table 14. Securities

	(Billions of Korean Won)			
	Trading securities		Investment securities	
	1999	1998	1999	1998
Stocks	W 182	W209	W 509	W 204
Government bonds	411	131	1,557	376
Finance debentures	434	319	1,176	1,409
Corporate bonds	182	60	4,999	1,830
Other securities	281	112	1,221	477
Securities denominated in foreign currencies	53	25	995	1,122
Offshore securities	23	11	193	132
	W1,543	W856	W10,457	W5,418

the Bond Stabilization Fund. The Bank's equity investment therefore reached W1,509 billion, an increase of W1,044 billion over the previous year, following the contribution to the Bond Market Stabilization Fund.

Meanwhile, the Bank's investment in foreign currency securities dropped 8.6% to reach W1,048 billion due to the reduction of low-performing foreign currency assets to improve its foreign currency liquidity.

Chart 11. Securities Portfolio



Deposits

The Bank's principal source of funding is customer deposits. Based on daily average balances, as of December 31, 1999, deposits constituted 63.6% of the total funding sources of the bank accounts. Compared to 1998, deposits in Won currency increased by W6,766 billion or 40.9%. Demand deposits, and time and savings deposits increased by W1,525 billion and W5,255 billion, respectively.

Negotiable certificates of deposit surged to W2,003 billion, an increase of W1,944 billion. Deposits in foreign currencies were the sole deposit category which posted a notable decrease compared with the previous year. Deposits in foreign currencies decreased by W462 billion or by 22%. One notable portion of deposits was made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates of up to approximately 2%, which are lower than market rates, and totaled W2,822.9 billion or 12.1% of deposits in Won in 1999.

Table 15. Deposits

	(Billions of Korean Won)	
	1999	1998
Deposits in Won	W23,290	W16,524
Demand deposits	6,051	4,526
Time & savings deposits	16,639	11,384
Mutual installments received	600	614
Negotiable certificates of deposit	2,003	59
Deposits in foreign currencies	1,624	2,086
Other	704	-
	W27,621	W18,669

Table 16. Deposit Portfolio by Maturity in 1999

	(Billions of Korean Won)	
	Korean Won	Foreign Currencies
Due in 3 months or less	W12,170	W1,032
Due between 3 months and 6 months	2,845	367
Due between 6 months and 1 year	2,862	32
Due between 1 year and 3 year	1,414	2
Due after 3 years	5,993	191
	W25,293*	W1,624

\* Exclude deposit in merchant account of W704 billion

Approximately 70.7% of the deposits in Won had current maturities of one year or less or were payable on demand. In the Bank's experience, however, a substantial portion of such customer deposits are rolled over upon maturity or are maintained with the Bank in the case of deposits payable on demand, and have been, over time, a stable source of funding.

Borrowings

Table 17. Borrowing

	(Billions of Korean Won)	
	1999	1998
Borrowings in Won	W1,764	W 2,148
Borrowings in foreign currencies	2,785	3,340
Onshore borrowings	2,696	3,238
Offshore borrowings	89	102
Due to BOK in foreign currency	2,694	3,443
Bonds sold under repurchase agreement	894	315
Bills sold	551	89
Call money	257	978
	W8,945	W10,313

The Bank's other sources of funding consisted principally of borrowings from the Bank of Korea (BOK) and borrowings in both Won and foreign currencies. In 1999, the Bank continued its conservative policy on borrowings, resulting in total borrowing of W8,945 billion, a decrease from W10,313 billion in the previous year. Most of the borrowings in Won are from BOK and other banks, and have historically been rolled over upon maturity.

Management's Discussion & Analysis

Most of the borrowings in foreign currencies are in U.S. dollars and Japanese Yen and have a maturity of less than three years. Both borrowings in Won and borrowings in foreign currency decreased, W384 billion and W555 billion, respectively. Bonds sold under repurchase agreements increased by W579 billion and bills sold were also increased by W462 billion. However, as the financial market conditions in Korea improved and stabilized, the bank reduced dues to BOK in foreign currencies and call money by W749 billion and W721 billion, respectively.

Shareholders' Equity

The Bank's shareholders' equity took a huge blow in 1998 as a result of the net loss incurred during the period. At the end of 1999, however, the Bank's shareholders' equity totaled W2,218 billion, compared with W135 billion in 1998. This was primarily attributable to equity investments by KDIC, mergers with Chungbuk Bank and Kangwon Bank, and a public offering during the year. The Bank has been making steady efforts to expand its capital base and improve capital adequacy.

Capital Adequacy

Table 18. Capital Adequacy\*

(Billions of Korean Won)		
	1999	1998
Paid-up capital	W3,395	W930
Capital surplus	-	-
Retained earnings	(1,029)	(845)
Other	(548)	42
Tier 1 Capital	1,818	127
Allowance for loan losses	434	339
Subordinated debt	909	63
Extraordinary capital surplus	-	(276)
Tier 2 Capital	1,343	126
Consolidation to unconsolidated subsidiaries	(13)	-
Total Qualifying Capital	3,148	253
Balance sheet assets	26,907	22,653
Off-balance sheet assets	5,214	4,448
Total Risk-Weighted Assets	32,121	27,101
Tier 1 capital ratio (%)	5.66%	0.47%
Tier 2 capital ratio (%)	4.18	0.46
BIS Capital Ratio (%)	9.80%	0.93%

\* Based on consolidated data

The Bank posted a BIS ratio of 9.8%, a dramatic improvement from the previous year's 0.93%. In February 1999, the capital stock of the Bank was written off by a ratio of 4.5045 to 1 through a reverse stock split from W930.4 billion to W206.5 billion and KDIC made an aggregate capital contribution of W2,717.9 billion to the Bank in February, May and September 1999. On November 23, 1999, the Bank completed an offering in Korea of 55,000,000 shares of common stock for an aggregate purchase price of approximately W302.5 billion. In addition, on December 7, 1999, the Bank issued subordinated debt in the princi-

pal amount of US\$100.0 million.

As a result of the foregoing, the Bank's capital adequacy ratio as of December, 31, 1999 was well over the required 8.0% and right on track to achieve more than 10% BIS ratio by the end of year 2000. Considering the jump in the provision for loan losses and the increased non-performing loans reported, such an increase in the capital adequacy ratio is breathtaking, reflecting the Bank's sincere efforts to expand its capital adequacy.

Analysis of Trust Accounts

In compliance with the Trust Act and the Trust Business Act, the Bank maintained the books of the trust accounts separately from those of its banking accounts. And, by law, banks are not allowed to transfer customers' money from trust accounts to banking accounts, or vice versa, at their own discretion.

Table 19. Trust Assets

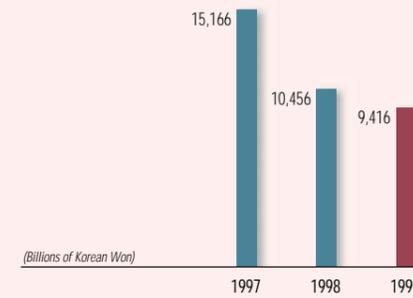
(Billions of Korean Won)		
	1999	1998
Loans and discounts	W 2,857	W 3,290
Call loans	975	1,673
Bonds bought under resale agreements	220	53
Securities	18,917	20,978
Cash and due from banks	161	331
Loans to bank accounts	501	417
Other assets	3,368	723
	W26,999	W27,465

Trust assets at the end of 1999 were W26,999 billion, a slight decrease of W466 billion or 1.7% compared to 1998, reflecting the decrease of W698 billion in call loans over the previous period due to the impact of stabilization of the Korean financial markets during the period. In 1998, the Bank experienced tremendous growth in its trust assets which swelled 18.7% over the previous period, and maintained its level of success in 1999. As with bank accounts, assets of the trust account are invested primarily in securities because trust accounts generally require more liquid assets due to their limited funding source compared to bank accounts. Securities investments totaled W18,917 billion, which represented 70.1% of total trust assets in 1999. Of the securities assets, corporate bonds consisted of W8,590 billion or 45.4% and stocks constituted 4.5%. Loans made by trust accounts are similar in type to those made by the bank accounts. However, trust account loans are made only in Korean Won. Approximately 68.5% of the loans from the trust accounts were collateralized or guaranteed.

The balance of the money trusts was W9,416 billion, a decrease of 9.9% compare to 1998. This decrease was mainly due to the prohibition on providing guarantees to trust accounts and a broader selection of trust account-like products which more than offset the increase arising from the mergers. The balance of the money trust accounts in 1999 decreased by 37.9% compared to the level in 1997, due principally to the economic downturn in Korea and an increase in withdrawals caused by the exclusion of money trusts from KDIC's insurance coverage.

Management's Discussion & Analysis

Chart 6. Money Trust



Risk Management

The Bank's overall risk management is set by the Risk Policy Committee, which consists of three non-standing directors and two standing directors and is chaired by a non-standing director. The Bank's overall risk management is overseen by the Risk Management Committee (RMC), comprising the Heads of the Planning Group, the Treasury Group, the Credit Management Group, the Trust business Group and the Risk Management Group, and whichever additional Group is responsible for the matter under review. The Head of the Risk Management Group chairs the RMC. The primary functions of the RMC are risk reduction and profit improvement. The RMC regularly reviews various risk profiles of the Bank together with its liquidity position, and uses the information to adjust the direction and strategy of the Bank, and to assess the potential profitability of new products. In this regard, the RMC adjusts the interest rates of new products and regulates the procurement and operation of funds. The Bank currently monitors changes in interest rates on a monthly basis.

The effects of interest rate and exchange rate changes for foreign currency assets and liabilities is currently assessed on a monthly basis, with all currencies converted into U.S.dollars since the majority of foreign currency assets and liabilities are U.S.dollar denominated. The Bank is using advanced risk measurement techniques such as Value at Risk (Var) to allow the Bank to react to various positions, and a working-level team and was established to monitor and predict possible interest rate changes. The Independent Risk Management Group has been in place since January 2000.

To assist the RMC, the Bank has also set up two computer-based systems to evaluate and manage risk exposures. Currently, the Bank is having discussions with major consulting firms in regard to the introduction of a credit process management system, a portfolio management system and a credit VaR system.

Liquidity

In dealing with liquidity risk, the following procedures are followed: The Bank reviews its strategy for the sources and uses of funds, with each division submitting projected sources and uses after targets have been set. The RMC continually tracks the performance of each decision, receiving daily reports from the working level committee on funds and interest rates at its meetings on asset/liability management and makes changes accordingly.

The RMC also deals with the potential liquidity problems. Every fortnight, the Treasury Group prepares short-term funding plans to proactively meet the changes in the funding market and this is distributed through the Bank.

In coordination with the risk management teams of the Treasury Group and the Trust Business Group, the Risk Management Group mon-

Table 19. Liquidity Gap

(Billions of Korean Won)				
	Interest Sensitive Assets	Interest Sensitive Liabilities	Interest Gap	Interest Gap as a percentage of Total Average Interest Earning Asset
<b>Korean Won</b>				
Due in 3 months or less	W18,932.4	W12,542.4	W 6,390.0	18.8%
Due between 3 months and 6 months	604.7	2,958.1	(2,353.4)	(6.9)
Due between 6 months and 1 year	682.3	2,828.6	(2,146.3)	(6.3)
Due between 1 year and 3 years	4,930.2	1,036.5	3,893.7	11.5
Due after 3 years	1,379.1	4,765.6	(3,386.5)	(10.0)
<b>Total</b>	<b>W26,528.7</b>	<b>W24,131.2</b>	<b>W 2,397.5</b>	<b>7.1%</b>
<b>Foreign Currencies</b>				
Due in 3 months or less	W 6,407.7	W 5,705.5	W 702.2	7.4%
Due between 3 months and 6 months	0.4	2,639.5	(2,639.1)	(27.9)
Due between 6 months and 1 year	108.1	32.2	75.9	0.8
Due between 1 year and 3 years	1.6	1.0	0.6	0.0
Due after 3 years	594.6	1,086.2	(491.6)	(5.2)
<b>Total</b>	<b>W 7,112.4</b>	<b>W 9,464.4</b>	<b>W(2,352.0)</b>	<b>(24.9)%</b>

Management's Discussion & Analysis

itors the overall liquidity risks of the Bank. In monitoring the market, the Treasury Group especially watches the monetary policies of the BOK analyzing money-supply figures, government credit policies and market rate trends to predict future market liquidity and rates. All market information is centralized at the Treasury Group and is then channeled to the working levels at all branches and divisions. Booklets on interest rates and market liquidity are also distributed on a timely basis both for internal use and for customer marketing purposes.

Starting from January 1, 1999, the Financial Supervisory Commission requires each Korean bank to maintain a Won liquidity ratio (defined as Won assets within three months (including marketable securities) divided by Won liabilities due within three months) in excess of 100% and to make quarterly reports to the FSC. Beginning January 1, 1999, the FSC required each Korean bank to (1) maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) in excess of 70% and to make monthly reports to the FSC, (2) maintain foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign currency assets above 0%, and (3) maintain foreign currency liquid assets due within a month less foreign currency liabilities due within a month divided by total foreign currency assets above negative 10%.

The Bank's liquidity ratio for Won accounts is set as 100% or higher. The ratio is 75% or higher for the foreign currency account.

Interest Rate Management and Sensitivity

A key component of the Bank's asset and liability management policy is the management of interest rate sensitivity. Exposure to interest rate movements arises where there is an imbalance among rate and non-rate sensitivity assets, liabilities and off-balance sheet items. The imbalance of the Bank's assets and liabilities, and the gap resulting from such a composition, may cause net interest income to be affected by changes in the prevailing level of interest rates. Over 80% of the Bank's lending is in the form of floating rate loans and is funded primarily with demand, savings and time deposits and borrowings. Interest rates applicable to interest earning assets and interest bearing liabilities in Korean Won, other than demand deposits and certain savings deposits the interest on which is subject to regulation by the Bank of Korea, are generally based on the Bank-determined minimum rates, which are adjusted periodically based on market and other conditions.

As in the case of other Korean commercial banks, almost all Won currency deposits of the Bank bear fixed rates of interest, and interest on approximately 33% of the Bank's deposit amounts are subject to regulation by the BOK. Adjustments in interest rates offered on deposit products which are not subject to regulation by the BOK can be applied following an adjustment in minimum rates, and have an immediate impact on interest paid or accrued, although such interest rates can be adjusted only upon rollover of the deposits. In addition, most of the Bank's Won currency borrowings bear fixed rates of interest. However, approximately 75% of the Bank's Won currency loans earn interest at a spread above the Bank's prime rate, and any adjustment has immediate effect. The Bank adjusts its prime rate and its lending spreads based on its

average cost of funds. In determining its cost of funds, the Bank takes into account any changes in rates applicable to its deposits. The Bank believes that its interest rate sensitivity is limited because interest rates on approximately one-half of its current Won currency deposits can be adjusted following a change in the Bank's minimum rates, and over 82% of its loans carry floating interest rates, enabling the Bank to match increases in costs of funds with appropriate increases in lending rates.

A majority of the Bank's interest earned and interest paid on foreign currency assets and liabilities are based on floating rates of interest. Due to the financial and economic crisis of late 1997, the Bank was exposed to a significant maturity mismatch with respect to foreign currency assets and liabilities which significantly increased the Bank's foreign currency funding costs. As a result, the Bank made efforts to reduce its foreign currency assets and liabilities.

Foreign Exchange Risk Management

The Bank monitors changes in, and matches of, foreign-currency assets and liabilities in order to reduce exposure to currency fluctuations. Risks relating to exchange rate fluctuations are also managed through the Bank's foreign exchange dealing, which is conducted by the International Division at the Bank's Headquarters and overseas branches. The Foreign exchange dealings conducted by the Bank are primarily on behalf of its customers. Counterparties are restricted to domestic and foreign financial institutions and banks with respect to which the International Division has established a foreign exchange dealing limit. Foreign exchange dealing is primarily in the Won/Dollar market and is subject to what the Bank considers to be conservative daily maximum and closing limits and stop loss limits.

Derivatives

According to the Foreign Exchange Transaction Regulations of Korea which became effective on April 1, 1999, a foreign exchange bank, such as the Bank, may, with certain exceptions, enter into derivative transactions without restriction so long as those are not linked with credit risks of a party thereto or any third party, in which case a report to the BOK is necessary.

All of the derivative products purchased by the Bank are on behalf of its customers or hedge the Bank's own position. As of December 31, 1999, the Bank entered into forward exchange contracts and contracts related to interest rate transactions, including interest rate swaps, options and futures contracts, with an aggregate notional amount equivalent to approximately US\$4,023 million.

Operational Risk Management

The Bank monitors and assesses risk related to the its firm-wide operations. This could include Y2K issues, disaster-recovery scenarios related to bank runs, or severe liquidity strains, as well as non-financial risks such as legal risk, reputation risk, IT risk or management risk. The Bank attempts to identify these disaster type scenarios, and develops and coordinates contingency plans to address potential areas of concern.

Non-Consolidated Balance Sheets (Bank Accounts)

December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Assets</b>				
Cash and due from banks (notes 5, 6, 22 and 26)	W 3,731,911	W 3,221,109	\$ 3,258,173	\$ 2,666,923
Trading securities (notes 7 and 26)	1,542,420	856,443	1,346,621	709,093
Investment securities (notes 8 and 26)	10,457,262	5,417,855	9,129,790	4,485,722
Loans (notes 9, 10, 22, 26, 34, 35 and 36)	23,596,288	20,877,063	20,600,915	17,285,199
Fixed assets (note 11)	1,756,126	1,212,484	1,533,199	1,003,878
Other assets (notes 12 and 25)	2,346,720	1,583,021	2,048,821	1,310,665
<b>Total Assets</b>	<b>W43,430,727</b>	<b>W33,167,975</b>	<b>\$37,917,519</b>	<b>\$27,461,480</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Liabilities:</b>				
Deposits (notes 13, 22 and 26)	W27,621,058	W18,669,469	\$24,114,770	\$15,457,418
Borrowings (notes 14,16, 22 and 26)	8,945,050	10,312,719	7,809,543	8,538,433
Debentures (notes 15,16 and 26)	2,292,870	1,707,399	2,001,807	1,413,644
Other liabilities (notes 17,18 and 26)	2,353,631	2,343,275	2,054,855	1,940,119
<b>Total Liabilities</b>	<b>41,212,609</b>	<b>33,032,862</b>	<b>35,980,975</b>	<b>27,349,614</b>
<b>Shareholders' Equity:</b>				
Common stock, par value W5,000 (note 19)	3,395,391	930,429	2,964,371	770,350
Authorized - 2,000,000,000 shares as of December 31, 1999 and 400,000,000 shares as of December 31, 1998				
Issued and outstanding - 679,078,115 shares as of December 31, 1999 and 186,085,890 shares as of December 31, 1998				
Capital surplus	-	6,381	-	5,283
Other reserve (note 20)	6,520	6,123	5,692	5,069
Accumulated deficit (note 24)	(877,047)	(774,839)	(765,712)	(641,529)
Capital adjustments (note 21)	(306,746)	(32,981)	(267,807)	(27,307)
<b>Total Shareholders' Equity</b>	<b>2,218,118</b>	<b>135,113</b>	<b>1,936,544</b>	<b>111,866</b>
<b>Commitments and contingencies (notes 22, 23 and 34)</b>				
<b>Total Liabilities and Shareholders' Equity</b>	<b>W43,430,727</b>	<b>W33,167,975</b>	<b>\$37,917,519</b>	<b>\$27,461,480</b>

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Operations (Bank Accounts)

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Interest Income and Dividends:</b>				
Interest on due from banks	W 115,420	W 218,815	\$ 100,768	\$ 181,168
Interest and dividend on trading securities	128,467	50,317	112,159	41,660
Interest and dividend on investment securities	645,100	496,387	563,209	410,984
Interest on loans	2,100,592	2,884,955	1,833,937	2,388,603
Other	76,027	784	66,377	650
<b>Total Interest Income and Dividends</b>	<b>3,065,606</b>	<b>3,651,258</b>	<b>2,676,450</b>	<b>3,023,065</b>
<b>Interest Expenses:</b>				
Interest on deposits	1,236,588	1,383,741	1,079,612	1,145,671
Interest on borrowings	642,290	1,323,691	560,756	1,095,952
Interest on debentures	126,978	153,442	110,859	127,043
Other	70,202	77,964	61,291	64,550
<b>Total Interest Expenses</b>	<b>2,076,058</b>	<b>2,938,838</b>	<b>1,812,518</b>	<b>2,433,216</b>
<b>Net Interest Income</b>	<b>989,548</b>	<b>712,420</b>	<b>863,932</b>	<b>589,849</b>
<b>Provision for Possible Loan Losses</b>	<b>1,657,994</b>	<b>598,500</b>	<b>1,447,524</b>	<b>495,529</b>
<b>Net Interest Income (loss) after Provision for Loan Losses</b>	<b>(668,446)</b>	<b>113,920</b>	<b>(583,592)</b>	<b>94,320</b>
<b>Non-Interest Income:</b>				
Fees and commissions (note 28)	427,429	369,187	373,170	305,669
Gain on sale of trading securities	183,492	13,332	160,199	11,038
Gain on valuation of trading securities	86,184	47,090	75,244	38,988
Gain on foreign currency trading	475,448	1,282,484	415,094	1,061,835
Fees and commissions from trust accounts	121,622	145,294	106,183	120,296
Other (note 29)	384,831	197,472	335,979	163,498
<b>Total Non-Interest Income</b>	<b>1,679,006</b>	<b>2,054,859</b>	<b>1,465,869</b>	<b>1,701,324</b>
<b>Non-Interest Expenses:</b>				
Commissions (note 30)	74,160	54,481	64,746	45,108
General and administrative expenses (note 31)	618,863	801,149	540,303	663,313
Loss on foreign currency trading	327,819	1,185,804	286,205	981,788
Contribution to credit guarantee fund	27,787	25,936	24,260	21,474
Loss on sale of loans (note 34)	202,085	1,106,711	176,432	916,303
Loss on sale of trading securities	19,282	111,819	16,834	92,581
Loss on valuation of trading securities	52,459	1,094	45,800	906
Payments to guaranteed return trust accounts (note 2(p))	187,398	731,212	163,609	605,408
Other (note 32)	195,043	118,944	170,283	98,479
<b>Total Non-Interest Expenses</b>	<b>1,704,896</b>	<b>4,137,150</b>	<b>1,488,472</b>	<b>3,425,360</b>
<b>Loss before Income Taxes</b>	<b>(694,336)</b>	<b>(1,968,371)</b>	<b>(606,195)</b>	<b>(1,629,716)</b>
<b>Income Taxes (note 25)</b>	<b>3,707</b>	<b>2,472</b>	<b>3,236</b>	<b>2,047</b>
<b>Net Loss</b>	<b>W(698,043)</b>	<b>W(1,970,843)</b>	<b>\$(609,431)</b>	<b>\$(1,631,763)</b>
<b>Net Loss per Share (note 27)</b>				
<b>(In Korean Won and U.S. Dollars)</b>	<b>W (1,505)</b>	<b>W (10,591)</b>	<b>\$ (1.31)</b>	<b>\$ (8.77)</b>

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Disposition of Accumulated Deficit (Bank Accounts)

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Accumulated Deficit before Disposition:</b>				
Balance at beginning of year	W(774,839)	W -	\$(676,479)	\$ -
Cumulative effect of accounting changes (note 2)	(140,573)	-	(122,728)	-
Prior year adjustments, net (note 24)	3,924	-	3,426	-
Gain on capital reduction (note19)	723,874	-	631,983	-
<b>Net loss</b>	<b>(698,043)</b>	<b>(1,970,843)</b>	<b>(609,431)</b>	<b>(1,631,763)</b>
<b>Balance at end of year</b>	<b>(885,657)</b>	<b>(1,970,843)</b>	<b>(773,229)</b>	<b>(1,631,763)</b>
<b>Disposition:</b>				
Transfers from reserve for overseas investment losses	-	61,243	-	50,706
Transfers from reserve for business rationalization	-	40,089	-	33,192
Transfers from legal reserve	-	121,294	-	100,425
Transfers from capital surplus (note11)	8,610	973,378	7,517	805,910
	8,610	1,196,004	7,517	990,233
<b>Accumulated Deficit after Disposition at End of Year</b>	<b>W(877,047)</b>	<b>W(774,839)</b>	<b>\$(765,712)</b>	<b>\$(641,529)</b>

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows (Bank Accounts)

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Cash Flows from Operating Activities:</b>				
Net loss	W (698,043)	W(1,970,843)	\$ (609,431)	\$(1,631,763)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	147,853	72,907	129,084	60,363
Provision for possible loan losses	1,657,994	598,500	1,447,524	495,529
Provision for retirement and severance benefits	43,300	284,796	37,803	235,797
Loss on disposal of fixed assets	1,019	454,988	889	376,708
Loss (gain) on sale of trading securities, net	(164,210)	98,487	(143,365)	81,543
Gain on valuation of trading securities, net	(33,725)	(45,996)	(29,444)	(38,082)
Foreign exchange transaction loss, net	259	58,030	226	48,046
Payment of retirement and severance benefits	(187,192)	(387,547)	(163,429)	(320,870)
Other, net	245,250	586,886	214,118	485,913
<b>Net Cash Provided by (used in) Operating Activities</b>	<b>1,012,505</b>	<b>(249,792)</b>	<b>883,975</b>	<b>(206,816)</b>
<b>Cash Flows from Investing Activities:</b>				
Decrease (increase) in loans	(2,103,219)	3,548,666	(1,836,231)	2,938,124
Proceeds on sales of fixed assets	4,144	78,449	3,618	64,952
Purchase of fixed assets	(39,730)	(164,188)	(34,686)	(135,940)
Increase in investment securities	(3,541,590)	(732,101)	(3,092,011)	(606,144)
Decrease (increase) in trading securities	163,228	(31,771)	142,507	(26,305)
Increase in cash and due from banks by acquisition	310,589	-	271,162	-
Other, net	80,577	(8,105)	70,348	(6,711)
<b>Net Cash Provided by (used in) Investing Activities</b>	<b>(5,126,001)</b>	<b>2,690,950</b>	<b>(4,475,293)</b>	<b>2,227,976</b>
<b>Cash Flows from Financing Activities:</b>				
Increase (decrease) in deposits	4,995,675	(1,889,619)	4,361,511	(1,564,513)
Decrease in borrowings	(3,172,375)	(2,062,502)	(2,769,666)	(1,707,652)
Decrease in debentures	(47,670)	(493,195)	(41,618)	(408,341)
Issuance of common stock	2,999,012	-	2,618,310	-
Other, net	(150,344)	331,442	(131,259)	274,418
<b>Net Cash Provided by (used in) Financing Activities</b>	<b>4,624,298</b>	<b>(4,113,874)</b>	<b>4,037,278</b>	<b>(3,406,088)</b>
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<b>510,802</b>	<b>(1,672,716)</b>	<b>445,960</b>	<b>(1,384,928)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>3,221,109</b>	<b>4,893,825</b>	<b>2,812,213</b>	<b>4,051,851</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>W3,731,911</b>	<b>W 3,221,109</b>	<b>\$3,258,173</b>	<b>\$ 2,666,923</b>

See accompanying notes to non-consolidated financial statements.

Notes to the Non-Consolidated Financial Statements

December 31, 1999 and 1998

1. The Bank

Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of a merger of Han Sung Bank, which was established on February 19, 1897 and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. In addition to the head office in Seoul, the Bank operates 401 domestic branches, 75 depository offices throughout the Republic of Korea and 6 overseas branches as of December 31, 1999. The Bank's shares were listed on the Korea Stock Exchange Market on March 3, 1956 and on the London Stock Exchange Market for Global Depository Receipts (GDRs) on December 5, 1996. The Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively.

2. Summary of Significant Accounting Policies

(a) Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been extracted from the Bank's Korean language financial statements that were prepared using accounting principles, procedures, and reporting practices generally accepted in the Republic of Korea. These standards may vary from International Accounting Standards or the accounting principles generally accepted in the country of the reader. The non-consolidated financial statements have been translated from those issued in Korea, from the Korean language into the English language, and have been modified to allow for formatting of financial statements in a manner different from the presentation under Korean financial statements practices. Certain modifications have been made in the accompanying non-consolidated financial statements to bring the formal presentation into conformity with practices outside of Korea, and certain information included in the Korean language statutory financial statements, not required for a fair presentation of the Bank's financial position or results of operations, are not presented in the accompanying non-consolidated financial statements. Accordingly, the accompanying non-consolidated financial statements and their utilization are not designed for those who are not informed about Korean accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

Under the Trust Business Law and Accounting and Reporting Guidelines of the Financial Supervisory Commission of the Republic of Korea (the "FSC") the assets, liabilities and operations of trust accounts are not included in the Bank's financial statements. The income and expenses related to the trust accounts are essentially passed through to the individual trust account holders. The Bank guarantees a fixed rate of return and a return of principal of certain trust accounts. Any payments made in respect of these guaranteed return trust accounts are recorded as non-interest expense in the accounts of the Bank.

(b) Valuation of Foreign Currency Items

Monetary assets and liabilities denominated in a foreign currency are translated into Korean Won at W1,145.40 to US\$1 and W1,207.80 to US\$1, the rates of exchange approved by the Bank of Korea ("BOK") as of December 31, 1999 and 1998, respectively, except for forward contracts which are valued at the specified rates in the contract.

(c) Trading Securities

Trading securities purchased for short-term investment purposes are stated at fair value. The valuation gain or loss is recorded in current operations. Prior to 1999, according to the Accounting and Reporting Guideline of the FSC, debt securities denominated in Won are recorded at acquisition cost.

(d) Investment Securities

Marketable investment equity securities (except for investments in subsidiaries) are recorded at fair value with the difference between the acquisition cost and market value included in shareholders' equity as a capital adjustment. Prior to 1999, such equity securities were recorded at the lower of cost or market value, with market value defined as the average market values determined on an individual basis for 30 days immediately preceding the balance sheet date, with the difference between the original acquisition cost and revalued amount charged to current results of operation.

Notes to the Non-Consolidated Financial Statements

Investments in subsidiaries in which the Bank has a more than 20% ownership are accounted for using the equity method. The differences between the original acquisition cost and carrying amounts under the equity method are recorded as non-interest income (expense), retained earnings or capital adjustment consistent with the manner reflected on subsidiaries' financial statements. Prior to 1999, such differences were recorded as capital adjustments.

Unmarketable investments in equity securities (except for investments in subsidiaries) are stated at acquisition cost. If the Bank's portion of the net book value of the investment declines significantly compared to acquisition cost and is not expected to recover, the acquisition cost is adjusted to the net book value of the invested companies. In these cases, the difference between the original acquisition cost and revalued amount is charged to current operations.

Investments in debt securities are classified as either held-to-maturity or available-for-sale at the time of purchase. Held-to-maturity investments debt securities are stated at purchase cost and available-for-sale investments in debt securities are stated at fair value, with resulting valuation gains or losses recorded as a capital adjustment. If the fair value of a held-to-maturity or a available-for-sale investments in debt securities declines significantly compared to the acquisition cost and is not expected to recover, the carrying value of the investment debt security is adjusted to fair value with resulting the valuation gain or loss charged to current operations. Prior to 1999, according to the Accounting and Reporting Guideline of the FSC, debt securities denominated in Won were recorded at acquisition cost.

Beginning in fiscal year 1999, investment in Stock Market Stabilization Fund ("SMSF") is recorded at the Bank's equity ratio of net asset value of SMSF. The related valuation gain or loss is recorded in current operations. Prior to 1999, according to the Accounting and Reporting Guideline of FSC, the investment in SMSF is recorded at acquisition cost.

(e) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation except for upward revaluations made in accordance with the Asset Revaluation Law. Maintenance and repairs are charged to expense when incurred. Expenditures that result in enhancement of the value or expansion of the useful lives of the facilities involved are capitalized as additions to fixed assets. Depreciation for buildings, furniture and equipment is computed using a declining balance method over the estimated useful lives of the respective assets as stipulated in the Korean Tax Law except for buildings acquired after 1995, for which depreciation is computed by the straight-line method without residual value.

(f) Allowance for Possible Loan Losses

According to the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to businesses whose credit limit, including that for securities such as commercial paper and privately placed bonds and financing lease receivables, exceeds W10.0 billion (US\$8.7 million) into ten categories according to (1) past repayment history including overdue period and bankruptcy status of the borrower, and (2) future loan repayment capacity based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to other businesses and individuals are also classified into ten categories based only on past repayment history. The allowance for possible loan losses is then calculated at 0.5% of loan balances classified in categories 1 to 6, and 2%, 20%, 50% and 100% of the loan balances classified in categories 7, 8, 9 and 10, respectively. However, the Bank does not provide, and the Accounting Standards for the Banking Industry does not require, allowances for loans to the Korean government and local government entities, and call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies, which are classified as category 1 to 6.

The allowance for loans to companies under workout are provided at 2%~20% of the balance outstanding, after deducting the present value discount under restructured debt accounting, and the allowance for loans to Daewoo Group are provided at 15% to 80% of the balance outstanding.

In 1998, the Bank used guidelines prescribed by the Korean banking regulatory authorities for determining an allowance for possible loan losses. These guidelines required that all loans be classified based on a number of factors, including the financial position of the borrower, the repayment history of the loan, the bank's past relationship and dealings with the borrower, and the status of any security. In accordance with these guidelines, loans have been classified as of December 31, 1998, as normal, precautionary, substandard, doubtful or loss and an allowance is then calculated on December 31, 1998 loan balances for each classification using the prescribed percentages of 0.5%, 2%, 20%, 75% and 100%, respectively.

Notes to the Non-Consolidated Financial Statements

Beginning in fiscal year 1999, the Bank provides allowances for confirmed guarantees and acceptances which were not subrogated by the Bank. The Bank classifies guarantees and acceptances according to the loan classifications described above and provides allowances in the amount of 20%, 50%, and 100% of those classified in category 8, 9 and 10, respectively. No allowances are provided for guarantees and acceptances in categories below 8.

(g) Accounting for Restructured Loans

Beginning in fiscal year 1999, in cases when there are differences between book values and present value of loans based on restructured terms agreed by the related parties (including court receivership, court mediation and mutual agreement), the present value is recorded in the balance sheet. The difference is offset against the allowance for possible loan losses, and charged to provision for possible loan losses if the difference exceeds the existing balance of the loan's allowance. These differences are recorded as present value discounts which are deducted from the book value of loans and amortized over the restructured terms using the effective interest method. The amortization is recorded as interest income.

(h) Accounting for Leases

The Bank accounts for its leasing business using either the operating method or the direct financing method, depending on the terms of the lease. Direct financing leases contain a transfer of ownership option in the lease agreements, a bargain purchase option, a term which exceeds the estimated economic useful life of the leased property (75% of the useful life for leases entered into after April 1, 1998), or for leases entered into after April 1, 1998, have the present value of the minimum lease payment of 90% or more of the fair value of the leased property.

Under the operating method, income is accrued as lease payments become receivable over the life of the lease.

Under the direct financing method, the excess of the present value of total lease payments to be recorded during the lease term over the cost of the leased property (with no residual value) constitutes unearned interest income which is recognized as revenue over the term of the lease using the interest method.

(i) Present Value Discounts

The difference between the nominal value and the present value of installment accounts receivable or payable arising from installment sales or purchases of foreclosed assets is amortized using the effective interest method and such amortization is included in other income or other expense.

(j) Retirement and Severance Benefits

The Bank's employees, directors and statutory auditors with more than one year of service are entitled to receive lump-sum payments upon termination of their service, based on length of service and rates of pay at the time of termination. The Bank accrues severance benefits at the amount which would be payable if all employees left at the balance sheet date.

Under the National Pension Scheme of Korea, the Bank is required to transfer a certain portion of retirement allowance of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount payable to the employees when they leave the Bank and is accordingly reflected as a reduction of other liabilities in the accompanying financial statements.

(k) Recognition of Interest Income

The Bank recognizes interest income earned on loans, call loans, long term deposits with other banks and securities on an accrual basis, except for interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to customers which are bankrupt, given a grace period or a reduction and exemption of interest payments, or listed as Yellow and Red clients by the Korean Banking Authorities, where interest income is recognized when amounts are collected.

Notes to the Non-Consolidated Financial Statements

(l) *Deferred Income Taxes*

The Bank accounts for income taxes under the provision of the Financial Accounting Standards which requires the recognition of deferred tax assets and liabilities created by temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Prior to 1999, provision is not made in the accounts to reflect the intraperiod allocation of income taxes resulting from certain income and expense items being treated differently for financial reporting purpose than for tax computation purpose, in accordance with generally accepted financial accounting standards in the Republic of Korea. However, overseas branches follow the tax allocation method of providing for income taxes according to local financial accounting standards. Such deferred tax assets and liabilities are included in other assets and liabilities, respectively, in the accompanying financial statements.

(m) *Goodwill*

The excess of consideration distributed for business combinations over net assets transferred is classified as goodwill. Goodwill is amortized using the straight-line method over 5 years.

(n) *Intangible Assets*

Intangible assets (except for goodwill) are stated at acquisition cost plus manufacturing costs and additional costs less accumulated amortization. Intangible assets are amortized using straight-line method for a reasonable period based on the nature of the asset.

(o) *Accounting for Derivatives*

Contract amounts of derivative financial instruments are disclosed in the accompanying note to the financial statements by financial instruments category. Contract amounts denominated in foreign currency are translated at the basic rate of exchange or buying rate of exchange as of the balance sheet date.

Derivative financial instruments used for trading purposes are valued at estimated current market prices and resulting unrealized valuation gains or losses are recognized in current operations.

Derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the transactions being hedged or associated with such contract. The instruments are valued at fair value when underlying transactions are valued at market prices, and resulting unrealized valuation gains or losses are recorded in current operations. Unrealized valuation gains or losses are recognized at the time of settlement when the underlying transactions are not required to be valued at market prices.

(p) *Payments to the Guaranteed Return Trust Accounts*

In respect of certain trust account products, the Bank guarantees the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such deficiency must be satisfied from either reserves maintained in the trust accounts or funds transferred from the bank accounts of the Bank. For the years ended December 31, 1999 and 1998, transfers by the Bank from the bank accounts to cover such deficiencies were W187.4 billion (US\$163.6 million) and W731.2 billion (US\$605.4 million), respectively and were reflected as non-interest expenses of the bank accounts and as other income of the trust accounts. There can be no assurance that the Bank will not be required to make such transfers in the future or that the amounts of such transfers may not be significantly greater in the future.

(q) *Earning (loss) per Share*

Earning (loss) per share is computed by dividing net earnings or loss by the weighted average number of shares of common stock outstanding during the reporting period.

(r) *Contingent Liabilities*

Contingent losses are generally recognized when probable and reasonably estimable.

Notes to the Non-Consolidated Financial Statements

(s) *Accounting Changes*

Effective in fiscal years beginning after December 12, 1998, significant changes were introduced to Financial Accounting Standards in Korea and the Accounting Standards for the Banking Industry were newly introduced. These changes included, among others, changes in accounting for allowance for guarantees and acceptances, restructured loans and valuation of securities.

The cumulative effect on prior years of a change in accounting policy are charged or credited to beginning retained earnings or accumulated deficit carried over from the prior years. As a result of these changes, accumulated deficit increased by W140.5 billion (US\$122.7 million) and loss before income taxes for the year ended December 31, 1999 increased by W122.2 billion (US\$106.7 million) from amounts which would have been reported using the prior methods. The details of the accounting changes are as follows:

	Accumulated Deficit		Loss before Income Taxes	
	Billions of Korean Won	Millions of U.S. Dollars (note 3)	Billions of Korean Won	Millions of U.S. Dollars (note 3)
Allowance for guarantees and acceptances	W (41.3)	\$ (36.1)	W (67.6)	\$ (59.0)
Accounting for restructured loans	(85.5)	(74.6)	(63.0)	(55.0)
Trading and investment securities	(13.8)	(12.1)	8.5	7.4
Other	0.05	0.04	(0.05)	(0.04)
	W(140.5)	\$(122.7)	W(122.2)	\$(106.7)

(t) *Cash Equivalents*

For purposes of the non-consolidated statements of cash flows, cash equivalents include, due from banks in local currency, due from banks in foreign currencies and foreign currency on hand.

(u) *Reclassification*

Certain amounts in the 1998 non-consolidated financial statements have been reclassified to conform with the current year's presentation.

**3. Basis of Translating Financial Statements**

The financial statements as of and for the year ended December 31, 1999 and 1998 are expressed in Korean Won and, solely for the convenience of the reader, has been translated into U.S. Dollars at the rate of W1,145.4 to US\$1 and W1,207.8 to US\$1, the exchange rate at December 31, 1999 and 1998, respectively. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. Dollars at these or any other rates.

**4. Economic Environment**

The liquidity crisis which began in late 1997 in the Republic of Korea and other countries in the Asia Pacific region necessitated assistance from the International Monetary Fund and a comprehensive policy package intended to address the structural weaknesses in the Korean economy and financial sector was developed and implemented by the government of the Republic of Korea. While the reform policies were intended to improve the economy over time, the immediate effects included slower economic growth, a reduction in the availability of credit, an increase in interest rates, significant devaluation of the Korean Won, an increase in the number of bankruptcies of Korean entities, and labor unrest resulting from the increase in unemployment. These conditions and similar conditions in other countries in the Asia Pacific region have had a material adverse effect on the operations of the Bank.

Recently, however, economic difficulties have largely been overcome in the Republic of Korea, as evidenced by significant increase in foreign exchange reserves, above-average economic growth and stabilized foreign exchange rates. Nevertheless, it would be premature to be complacent about the economic recovery given, among other factors, the remaining residual effects of the economic crisis which could have a continuing impact on the economy.

Notes to the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results could differ from management's current assessments and such differences could be material.

5. Cash and Due from Banks

Cash and due from banks as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Cash and checks	W1,210,358	W1,159,265	\$1,056,712	\$ 959,815
Foreign currencies	56,525	36,487	49,350	30,209
Due from banks in Won	1,629,077	1,138,427	1,422,278	942,563
Due from banks in foreign currencies	835,951	886,930	729,833	734,336
	W3,731,911	W3,221,109	\$3,258,173	\$2,666,923

6. Restricted Due from Banks

The bank has certain due from banks restricted in use under the banking regulations in the Republic of Korea. Restricted due from banks as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)		
	1999	1998	1999	1998	
Reserve deposits with the Bank of Korea	W 612,568	W171,868	\$534,807	\$142,298	Required under the Banking Law
National investment fund deposits	-	13,900	-	11,509	National Investment Fund Law
Other deposits	135,200	280,000	118,038	231,826	Deposit for Severance Indemnities
Due from banks on demand in foreign currencies	285,835	48,360	249,550	40,040	Required under the Banking Law
	W1,033,603	W514,128	\$902,395	\$425,673	

7. Trading Securities

Trading securities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Stocks	W 182,351	W209,286	\$ 159,203	\$173,279
Government bonds	410,578	130,792	358,458	108,289
Finance debentures	433,451	318,920	378,428	264,050
Corporate bonds	182,360	59,988	159,211	49,667
Beneficiary certificates	270,863	-	236,479	-
Trading securities in foreign currencies	53,063	25,522	46,327	21,131
Other	9,754	111,935	8,515	92,677
	W1,542,420	W856,443	\$1,346,621	\$709,093

Notes to the Non-Consolidated Financial Statements

8. Investment Securities

Investment securities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Stocks	W 508,631	W 203,642	\$ 444,064	\$ 168,606
Equity investments	817,415	52,581	713,650	43,534
Government bonds	1,557,535	375,579	1,359,818	310,962
Finance debentures	1,176,170	1,408,874	1,026,864	1,166,480
Corporate bonds	4,999,191	1,830,424	4,364,581	1,515,502
Beneficiary certificates	391,722	424,777	341,996	351,695
Investment securities in foreign currencies	994,960	1,121,978	868,657	928,943
Other	11,638	-	10,160	-
	W10,457,262	W5,417,855	\$9,129,790	\$4,485,722

9. Loans and Allowance for Possible Loan Losses

(a) Loans as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loans in Won	W12,867,368	W 9,631,256	\$11,233,951	\$ 7,974,214
Loans in foreign currencies	4,149,132	5,524,572	3,622,431	4,574,078
Bills bought in Won	2,652,391	1,514,650	2,315,690	1,254,057
Bills bought in foreign currencies	2,928,116	3,130,644	2,556,413	2,592,022
Advances for customers	610,085	575,835	532,639	476,764
Factoring receivables	307,281	-	268,274	-
Credit card accounts	1,421,762	744,810	1,241,280	616,667
Bonds bought under resale agreements	198,345	-	173,167	-
Call loans	47,726	461,782	41,668	382,333
Bills discounted	615,432	-	537,307	-
Cash management accounts	108,807	-	94,995	-
Bills overdue	12,717	-	11,103	-
Privately placed bonds	257,362	50,000	224,691	41,398
	26,176,524	21,633,549	22,853,609	17,911,533
Allowance for possible loan losses	(2,431,710)	(756,486)	(2,123,022)	(626,334)
Present value discounts (See note 10)	(148,526)	-	(129,672)	-
	W23,596,288	W20,877,063	\$20,600,915	\$17,285,199

Notes to the Non-Consolidated Financial Statements

(b) Allowance for possible loan losses as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loans in Won	W1,248.7	W308.2	\$1,090.2	\$255.2
Loans in foreign currencies	475.0	263.8	414.7	218.4
Advances for customers	286.0	91.4	249.7	75.7
Bills bought in foreign currencies	295.5	40.2	258.0	33.3
Credit card accounts	24.0	46.2	20.9	38.2
Privately placed bonds	30.7	0.3	26.8	0.2
Others	71.8	6.4	62.7	5.3
Ending balance	W2,431.7	W756.5	\$2,123.0	\$626.3

10. Restructured Loans

Restructured loans as of December 31, 1999 are summarized as follows:

Borrower	Face Value		Interest rate	Maturity date	Present Value Discount	
	Millions of Korean Won	Thousands of U.S. Dollars (note3)			Millions of Korean Won	Thousands of U.S. Dollars (note3)
Korea Development Lease	W 278,690	\$ 243,312	6.18% ~10.00%	2000.06.30	W 55,460	\$ 48,420
Daelim Industry	185,000	161,516	11.50%	2000.12.31	522	456
Jindo	173,991	151,904	9.89% ~21.75%	2002.12.31	31,660	27,641
Ssangyoung Motors	159,618	139,356	7.00% ~10.00%	2000.12.31	11,602	10,129
Hanmi Capital	136,402	119,087	6.95% ~7.13%	2005.08.31	4,784	4,177
Daesung Timber	31,200	27,239	18.25%	2004.12.31	6,751	5,894
Samho	30,000	26,192	11.50%	2001.12.31	307	268
Dongbang T&C	23,601	20,605	9.89% ~10.87%	2002.03.12	3,122	2,726
Anam Semiconductor	20,000	17,461	12.75%	2003.12.31	1,225	1,069
Shinho Paper	18,983	16,573	9.89% ~18.75%	2002.12.31	3,378	2,949
Others (45 companies)	132,003	115,247			29,715	25,943
	W1,189,488	\$1,038,492			W148,526	\$129,672

Notes to the Non-Consolidated Financial Statements

11. Fixed Assets

Fixed assets as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Land	W 955,386	W 801,602	\$ 834,107	\$ 663,688
Buildings	403,867	330,682	352,599	273,789
Leasehold improvements	31,769	31,121	27,736	25,766
Furniture and equipment	354,170	308,845	309,211	255,709
Construction in progress	5,254	4,922	4,587	4,075
Total tangible assets	1,750,446	1,477,172	1,528,240	1,223,027
Accumulated depreciation	(347,422)	(275,055)	(303,319)	(227,732)
Goodwill	347,424	377	303,321	312
Other in tangible assets	5,127	9,219	4,476	7,633
Non-business use property	933	771	815	638
Present value discounts	(213)	-	(186)	-
Valuation allowances	(169)	-	(148)	-
	W1,756,126	W1,212,484	\$1,533,199	\$1,003,878

In 1998 the Bank revalued its land and buildings under the Korean Asset Revaluation Law. As a result, the Bank recorded a revaluation gain of W557,760 million (US\$461,798 thousand), net of revaluation tax of W12,762 million (US\$10,566 thousand) as capital surplus. The asset revaluation gain was used to offset the accumulated deficit in the statement of disposition of accumulated deficit as of December 31, 1998.

12. Other Assets

Other assets as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Guarantee deposits	W 441,677	W 463,509	\$ 385,609	\$ 383,763
Accounts receivable	289,371	135,044	252,638	111,810
Accrued income	251,632	563,947	219,689	466,921
Prepaid expenses	7,241	10,809	6,322	8,949
Deferred income tax asset	9,705	11,967	8,473	9,908
Domestic exchange settlement account - debit	300,105	298,400	262,009	247,061
Adjustment for valuation of financial derivatives	19,299	-	16,849	-
Finance lease receivables	606,525	-	529,531	-
Allowance for possible losses of finance lease receivables	(50,075)	-	(43,718)	-
Properties leased under operating leases, net of depreciation and allowance for loss on proposal of properties	241,485	-	210,830	-
Accounts receivable - other	52,259	48,377	45,625	40,054
Other	177,496	50,968	154,964	42,199
	W2,346,720	W1,583,021	\$2,048,821	\$1,310,665

Notes to the Non-Consolidated Financial Statements

13. Deposits

Deposits as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Deposits in Won	W23,289,996	W16,524,273	\$20,333,504	\$13,681,299
Deposits in foreign currencies	1,623,625	2,085,859	1,417,518	1,726,990
Negotiable certificates of deposits	2,003,511	59,337	1,749,179	49,129
Deposits in bills issued	595,874	-	520,233	-
Trust of cash management account	108,052	-	94,336	-
	W27,621,058	W18,669,469	\$24,114,770	\$15,457,418

14. Borrowings

Borrowings as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Borrowings in Won	W1,763,830	W 2,147,620	\$1,539,925	\$1,778,126
Borrowings in foreign currencies	2,784,691	3,340,043	2,431,195	2,765,394
Bonds sold under repurchase agreements	893,696	314,747	780,248	260,595
Bills sold	551,362	89,710	481,371	74,276
Due to the Bank of Korea in foreign currencies	2,694,630	3,442,713	2,352,567	2,850,400
Call money	256,841	977,886	224,237	809,642
	W8,945,050	W10,312,719	\$7,809,543	\$8,538,433

15. Debentures

Debentures as of December 31, 1999 and 1998 are summarized as follows:

	Interest rate per annum	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
		1999	1998	1999	1998
Debentures in Won	10.00-18.00%	W1,604,953	W 486,700	\$1,401,216	\$ 402,964
Debentures in foreign currencies	6M Libor + 0.25-4.95%	690,104	1,220,699	602,500	1,010,680
Discounts		(2,187)	-	(1,909)	-
		W2,292,870	W1,707,399	\$2,001,807	\$1,413,644

Notes to the Non-Consolidated Financial Statements

16. Subordinate Borrowings and Debentures

Subordinate borrowings and debentures as of December 31, 1999 are summarized as follows:

Description	Lender	Borrowing date	Maturity date	Interest rate per annum	Amount	
					Millions of Korean Won	Thousands of U.S. Dollars (note3)
Borrowings	Samsung Life Insurance	1997-05-31	2007-05-31	7.5%	W 200,000	\$174,611
	Kyobo Life Insurance	1997-05-31	2007-05-31	8.5%	80,000	69,845
	Kyobo Life Insurance	1997-12-31	2007-12-31	14.7%	15,000	13,096
	Daehan Life Insurance	1997-12-31	2007-12-31	8.5%	100,000	87,306
Debentures	Public Capital Management Fund	1997-12-24	2003-03-31	Basis rate+1%	450,000	392,876
	Public Capital Management Fund	1997-12-24	2003-03-31	Basis rate+2%	46,000	40,161
	Public Capital Management Fund	1997-12-24	2003-03-31	Basis rate+2%	43,000	37,541
	CHB Credit Cooperative Association	1997-12-31	2007-12-31	14.45%	2,000	1,746
	Public Capital Management Fund	1998-12-29	2004-03-31	Basis rate+1%	34,700	30,295
	Daesin Securities	1998-01-23	2008-01-23	15.00%	20,000	17,461
	Daesin Securities	1998-02-27	2008-02-27	18.00%	20,000	17,461
	Daesin Securities	1998-03-30	2008-03-30	18.00%	10,000	8,731
Debentures in foreign currencies		1999-12-07	2005-01-07	6M Libor+4.95%	114,540	100,000
					W1,135,240	\$991,130

Basis rate : The deposit interest rate of the Public Capital Management Fund (Three-month flexible rate)

17. Other Liabilities

Other liabilities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Retirement and severance benefits (See note 18)	W 139,020	W 282,811	\$ 121,372	\$ 234,154
Transfer to National Pension Fund	(9,490)	(15,027)	(8,285)	(12,442)
Allowance for possible losses of acceptances and guarantees	172,228	-	150,365	-
Borrowings from trust accounts	501,437	417,351	437,783	345,546
Foreign exchange remittances pending	29,381	24,699	25,651	20,450
Accounts payable	933	9,098	815	7,533
Accrued expenses	750,387	689,073	655,131	570,519
Unearned revenues	101,529	129,075	88,641	106,868
Deposits for letter of guarantees and others	53,986	47,973	47,133	39,719
Domestic exchange settlement account - credit	75,159	109,956	65,618	91,038
Account payable - other	262,950	111,551	229,570	92,359
Adjustment for valuation of financial derivatives	42,125	95,799	36,778	79,317
Other	233,986	440,916	204,283	365,058
	W2,353,631	W2,343,275	\$2,054,855	\$1,940,119

Notes to the Non-Consolidated Financial Statements

18. Retirement and Severance Benefits

The changes in the retirement and severance benefits for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Beginning balance	W282,811	W385,585	\$246,910	\$319,246
Provision for the period	43,300	284,796	37,803	235,797
Payments	(187,192)	(387,547)	(163,429)	(320,870)
Other	101	(23)	88	(19)
Ending balance	W139,020	W282,811	\$121,372	\$234,154

19. Common Stock

According to the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at a rate of 4.505 shares to 1 share without compensation. Due to this reduction, share capital of the Bank was reduced by W723.9 billion (US\$632.0 million) with the resulting gain from capital reduction of W723.9 billion (US\$632.0 million) was transferred to offset accumulated deficit during 1999. On February 19, 1999, May 7, 1999 and September 30, 1999, the Bank increased its share capital by W2,717.9 billion (US\$2,372.9 million) by issuing a total of 544 million shares to Korea Deposit Insurance Corporation ("KDIC") at par value. In addition, the Bank increased its share capital by W196.0 billion (US\$171.1 million) through its mergers with Chungbuk Bank and Kangwon Bank and by W275 billion (US\$240.1 million) through a public offering. As a result, the balance of the Bank's common stock as of December 31, 1999 is W3,395.4 billion (US\$2,964.4 million) and KDIC has ownership of 80.05% of the Bank's outstanding common shares.

As of December 31, 1999, the Bank was authorized to issue 2,000,000,000 shares of common stock, W5,000 par value, and the number of shares of common stock issued and outstanding was 679,078,115 shares. For the years ended December 31, the changes of Common stock are summarized as follows:

Description	Millions of Korean Won	Thousands of U.S. Dollars (note3)	Date
Decrease due to reduction of shares	(723,913)	(632,018)	1999-02-12
Equity investment by KDIC	2,112,300	1,844,159	1999-02-19
Price for acquisition of Chungbuk Bank	1	1	1999-05-03
Investment by KDIC	212,250	185,306	1999-05-07
Price for acquisition of Kangwon Bank	196,024	171,140	1999-09-13
Investment by KDIC	393,300	343,374	1999-09-30
Issuance of new shares	275,000	240,091	1999-11-23
Ending balance	W3,395,391	\$2,964,371	

On November 23, 1999, the Bank completed an offering in Korea of 55,000,000 shares of common stock for an aggregate purchase price of approximately W302.5 billion (US\$261.7 million). In connection with such offering of common stock, on November 22, 1999, the Bank also issued bonds with warrants in the aggregate principal amount of W550.0 billion (US\$475.8 million). The subscription for these offerings, which was not fully subscribed but fully underwritten, took place on November 17 and November 18, 1999. The bonds have a maturity of three years with one year put and call options and pay interest at 10% per annum. The warrants are separable from the bonds upon issuance of the bonds. The warrants are exercisable from February 23, 2000 until October 22, 2002 at an exercise price of W5,790 per share.

Notes to the Non-Consolidated Financial Statements

20. Other Reserve

Certain regulations require the Bank's branches located in Japan to appropriate a minimum of 100% of annual income before income taxes as a Japanese legal reserve, until such reserve equals W1,000 million. This reserve is not available for the payment of cash dividends, and may be utilized upon liquidation of the Japanese branches.

21. Capital Adjustments

Capital adjustments as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Discounts on stock issuance	W (2,449)	W -	\$ (2,138)	\$ -
Treasury stock	(262,742)	-	(229,389)	-
Loss on valuation of investment securities	(41,555)	(32,981)	(36,280)	(27,307)
	W(306,746)	W(32,981)	\$(267,807)	\$(27,307)

22. Transactions with Affiliated Companies

(a) Balance sheet amounts due to transactions with affiliated companies which occur in the normal course of business as of December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Chohung Securities Co., Ltd.</b>				
Loans in Won	W -	W40,000	\$ -	\$33,118
Loan in foreign currencies	-	1,691	-	1,400
Deposits in Won	3,005	2,923	2,624	2,420
<b>Chohung Mutual Savings and Finance Co., Ltd.</b>				
Due from banks	-	10,000	-	8,280
Deposits in Won	9,068	5,416	7,917	4,484
<b>Chohung Leasing Co., Ltd.</b>				
Loans in Won	-	11,203	-	9,276
Loans in foreign currencies	112,888	226,142	98,558	187,235
Deposits	24,216	6,774	21,142	5,609
<b>Chohung Factoring &amp; Finance Co., Ltd.</b>				
Loans in Won	-	28,657	-	23,727
Deposits	-	1,300	-	1,076
<b>Chohung Investment Trust and Management Co., Ltd.</b>				
Deposits in Won	W31,992	W27,533	\$27,931	\$22,796

Continued

Notes to the Non-Consolidated Financial Statements

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Chohung Finance Ltd., Hong Kong</b>				
Loans in foreign currencies	W18,326	W19,325	\$16,000	\$16,000
Due from banks	132,502	186,173	115,682	154,142
Deposits in foreign currencies	18,125	-	15,824	-
Borrowings in foreign currencies	19,472	50,134	17,000	41,509
<b>Chohung Bank of New York</b>				
Due from banks	36,704	167	32,045	138
<b>Chohung Bank (Deutschland) GmbH</b>				
Loans in foreign currencies	8,824	10,772	7,704	8,919
Due from banks	33,430	32,533	29,186	26,936
Borrowing in foreign currencies	4,412	11,874	3,852	9,831
<b>California Chohung Bank</b>				
Due from banks	5,540	2,020	4,837	1,672
<b>Chohung Bank (Moscow) Ltd.</b>				
Due from banks	-	3,183	-	2,635
Deposit	-	3,020	-	2,500
<b>Chohung Bank of Canada</b>				
Loans in foreign currencies	-	7,454	-	6,172
Due from banks	-	5,205	-	4,309
<b>Kangeun Mutual Savings and Finance Co., Ltd.</b>				
Deposits in Won	W 3,670	W -	\$ 3,204	\$ -

(b) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 1999 are summarized as follows:

Company	Millions of	Thousands of	Description
	Korean Won	U.S. Dollars (note3)	
Chohung Finance Ltd. Hong Kong	W 770	\$ 672	L/C Guarantees
Chohung Bank (Deutschland) GmbH	19,144	16,714	Guarantees for borrowings

Notes to the Non-Consolidated Financial Statements

23. Commitments and Contingencies

In the normal course of its commercial banking business, the Bank makes various commitments and incurs certain contingent liabilities which are not recorded in the financial statements.

(a) Guarantees and acceptances provided by the Bank as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Confirmed:</b>				
Local currency				
Debtentures	W 627,751	W 303,867	\$ 548,063	\$ 251,587
Financing	94,890	101,254	82,844	83,833
Other	251,623	108,207	219,681	89,590
Foreign currencies				
Acceptance	1,694,950	2,154,357	1,479,789	1,783,703
Advance of import freight	59,122	82,354	51,617	68,185
Other	833,712	1,316,679	727,878	1,090,148
	W3,562,048	W4,066,718	\$3,109,872	\$3,367,046
<b>Unconfirmed:</b>				
L/C open	W2,238,338	W2,325,243	\$1,954,198	\$1,925,189
Other	143,388	122,685	125,186	101,577
	W2,381,726	W2,447,928	\$2,079,384	\$2,026,766

(b) The amounts of derivative contracts as of December 31, 1999 and 1998 are summarized as follows:

Derivatives		1999			1999		
		Billions of Korean Won			Millions of U.S. Dollars (note3)		
		Total	Trading	Hedging	Total	Trading	Hedging
Currency	Forward	W2,536.2	W 423.1	W2,113.1	\$2,214.2	\$ 369.4	\$1,844.8
	Swap	310.2	243.3	66.9	270.8	212.4	58.4
	Option	0.9	-	0.9	0.8	-	0.8
		2,847.3	666.4	2,180.9	2,485.8	581.8	1,904.0
Interest	Swap	1,761.0	687.3	1,073.7	1,537.5	600.1	937.4
		W4,608.3	W1,353.7	W3,254.6	\$4,023.3	\$1,181.9	\$2,841.4

Derivatives		1998			1998		
		Billions of Korean Won			Millions of U.S. Dollars (note3)		
		Total	Trading	Hedging	Total	Trading	Hedging
Currency	Forward	W2,546.8	W1,408.0	W1,138.8	\$2,108.6	\$1,165.8	\$ 942.9
	Swap	768.4	618.0	150.4	636.2	511.7	124.5
		3,315.2	2,026.0	1,289.2	2,744.8	1,677.5	1,067.4
Interest	Swap	2,158.8	1,642.6	516.1	1,787.3	1,360.0	427.3
		W5,474.0	W3,668.6	W1,805.3	\$4,532.1	\$3,037.5	\$1,494.7

Notes to the Non-Consolidated Financial Statements

(c) Other commitments as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Commitments	W 59,247	W158,733	\$ 51,726	\$131,423
Bills endorsed	948,892	28,135	828,437	23,294
Unpaid spot exchange sold	1,060,245	858,101	925,655	710,466
Loan charge - offs	1,294,307	932,870	1,130,004	772,371
OTC government and public bonds sold	689	19,396	602	16,059
Loans sold under repurchase agreements	1,180,411	388,827	1,030,567	321,930
Unpaid tax for asset revaluation	W -	W 6,381	\$ -	\$ 5,283

(d) Litigation

The Bank is engaged in certain legal actions as the plaintiff for delinquent and written-off loans amounting to W123,927 million (US\$108,195 thousand) and W82,483 million (US\$68,292 thousand) as of December 31, 1999 and December 31, 1998, respectively, and as the defendant against the exercise of commitments filed by a plaintiff amounting to W2,601,308 million (US\$2,271,091 thousand) and W22,808 million (US\$18,884 thousand) as of December 31, 1999 and 1998, respectively.

As for the proceedings pending against or involving the Bank, management does not expect the aggregate liability or loss, if any, to have a material adverse effect on the financial condition of the Bank.

24. Prior Year Adjustments

Prior year adjustments included in accumulated deficit for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loss on prior year adjustments:				
Payment of other income in prior years	W1,367		\$1,193	
Repayment of excess interest in prior years	43		38	
	1,410		1,231	
Gain on prior year adjustments:				
Reversal of interest recorded in prior years	5,253		4,586	
Reversal of other expense recorded in prior years	81		71	
	W5,334		\$4,657	

25. Income Taxes

The Bank is subject to a number of taxes based upon earnings which result in the normal tax rate of 30.8%.

The Bank has provided for income tax (benefit) for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Current - overseas branches	W3,707	W2,472	\$3,236	\$2,047
Deferred	-	-	-	-
	W3,707	W2,472	\$3,236	\$2,047

Notes to the Non-Consolidated Financial Statements

Losses determined under the Korean Corporate Tax Law can be carried forward for five years. The Bank has a tax loss carryforward amounting to W2,956 billion (US\$2,581 million) as of December 31, 1999 which may offset against taxable income of the Bank in the future.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 1999 are presented below:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Deferred Tax Assets (Liabilities):</b>				
Tax loss carry forward	W 910,472		\$ 794,894	
Allowance for possible loan losses	246,549		215,251	
Accrued interest	(99,786)		(87,119)	
Loss on valuation of securities	(13,599)		(11,873)	
Reserve for loss on overseas' investment	(7,582)		(6,619)	
Allowance for possible losses of acceptances and guarantees	31,359		27,378	
Bad debt-overseas branches	9,705		8,473	
Other	25,477		22,243	
	1,102,595		962,628	
Valuation allowance	(1,092,890)		(954,155)	
	W 9,705		\$ 8,473	

The management of the Bank believes that total deferred tax assets except the deferred asset on bad debt recorded at the New York Branch is more likely than not to be realizable and, accordingly, has established a valuation allowance for this amount as of December 31, 1999.

26. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Assets</b>				
Cash and due from banks	W 892,476	W 923,417	\$ 779,183	\$ 764,545
Securities	1,048,023	1,147,500	914,984	950,074
Loans	7,114,974	9,117,998	6,211,781	7,549,262
	W9,055,473	W11,188,915	\$7,905,948	\$9,263,881
<b>Liabilities</b>				
Deposits	W1,623,625	W2,085,859	\$1,417,518	\$1,726,990
Borrowings	5,546,557	7,092,026	4,842,463	5,871,855
Debentures	690,104	1,220,699	602,500	1,010,680
Other	29,381	24,699	25,651	20,449
	W7,889,667	W10,423,283	\$6,888,132	\$8,629,974

Notes to the Non-Consolidated Financial Statements

27. Net Loss per Share

Net losses per share for the years ended December 31, 1999 and 1998 are computed as follows:

	Millions (except per share amounts) of Korean Won		Thousands (except per share amounts) of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Net loss	W (698,043)	W (1,970,843)	\$ (609,431)	\$ (1,631,763)
Weighted average number of common shares	463,729,376	186,085,890	463,729,376	186,085,890
Net loss per common share	W (1,505)	W (10,591)	\$ (1.31)	\$ (8.77)

28. Fees and Commissions

Fees and Commissions for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Credit card fees	W270,110	W196,323	\$235,822	\$162,546
Guarantee fees	11,359	14,107	9,917	11,680
Commissions received from termination of commodities	19,230	34,705	16,789	28,734
Service charge on other financial services	126,730	124,052	110,642	102,709
	W427,429	W369,187	\$373,170	\$305,669

29. Other Non-Interest Income

Other non-interest income for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Gain on derivatives trading in Won	W 7,613	W 1,437	\$ 6,647	\$ 1,190
Gain on sale of investment securities	17,471	877	15,253	726
Recovery of investment bond impairment loss	10,209	-	8,913	-
Recovery of bad debt	34,621	17,636	30,226	14,602
Gain on valuation of stock market stabilization fund	17,106	-	14,935	-
Gain on sale of loans	208,199	120,938	181,770	100,131
Recovery of allowance for possible loan losses	37,326	14,470	32,588	11,980
Other	52,286	42,114	45,647	34,869
	W384,831	W197,472	\$335,979	\$163,498

30. Commissions

Commissions for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Commission expense	W45,774	W34,428	\$39,963	\$28,505
Commission on credit cards	28,386	20,053	24,783	16,603
	W74,160	W54,481	\$64,746	\$45,108

Notes to the Non-Consolidated Financial Statements

31. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Salaries	W177,000	W189,866	\$154,531	\$157,200
Provision for retirement and severance benefits	43,300	284,796	37,803	235,797
Other employee benefits	86,786	94,063	75,769	77,880
Rent	17,040	19,636	14,877	16,258
Entertainment	9,076	9,626	7,924	7,970
Depreciation	59,407	68,785	51,866	56,951
Amortization of intangible asset	88,446	4,122	77,218	3,413
Taxes and dues	34,887	34,305	30,459	28,403
Advertising	10,655	5,668	9,302	4,693
Other	92,266	90,282	80,554	74,748
	W618,863	W801,149	\$540,303	\$663,313

32. Other Non-Interest Expenses

Other non-interest expenses for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loss on disposition of investment securities	W 11,480	W 21,115	\$ 10,023	\$17,482
Provision for possible losses of acceptances and guarantees	67,600	-	59,019	-
Investment stock impairment loss	29,433	-	25,697	-
Insurance expenses	11,279	9,021	9,847	7,469
Other	75,251	88,808	65,697	73,528
	W195,043	W118,944	\$170,283	\$98,479

33. Acquisition of Chungbuk Bank and Kangwon Bank

(a) Chungbuk Bank

Under the contract of merger with Chungbuk Bank dated March 22, 1999 and the approval at the shareholders' meeting on April 14, 1999, the Bank acquired Chungbuk Bank on April 30, 1999.

Chungbuk Bank was established in 1971 under the Korean Banking Law to engage in commercial banking and trust operation. Chungbuk Bank's shares were listed on the Korea Stock Exchange Market on March 30, 1974.

The Bank issued 144 shares of common stock under the merger agreement, exchanging 0.0144 shares of the Bank's common stock for each share of Chungbuk Bank.

Summary of financial information of Chungbuk Bank as of and for the four-month period ended April 30, 1999 is as follows.

Notes to the Non-Consolidated Financial Statements

Summary of Balance Sheet - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Cash and due from banks	W 137,875	\$ 120,373
Trading securities	134,314	117,264
Investment securities	493,551	430,898
Loans	741,212	647,121
Fixed assets	108,651	94,859
Other assets	111,435	97,288
<b>Total Assets</b>	<b>W1,727,038</b>	<b>\$1,507,803</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits	W1,396,905	\$1,219,578
Borrowings	270,283	235,973
Debentures	46,043	40,198
Other liabilities	133,921	116,920
<b>Total Liabilities</b>	<b>1,847,152</b>	<b>1,612,669</b>
Common stock	50	44
Accumulated deficit	(120,164)	(104,910)
<b>Total Shareholders' Equity</b>	<b>(120,114)</b>	<b>(104,866)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>W1,727,038</b>	<b>\$1,507,803</b>

Summary of Statement of Operations - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Operating income	W 85,329	\$ 74,497
Operating expenses	71,351	62,294
Non-operating income	1,256	1,097
Non-operating expenses	37,610	32,836
<b>Net Loss</b>	<b>W(22,376)</b>	<b>\$(19,536)</b>

Summary of Balance Sheet - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Loans	W 27,339	\$ 23,869
Securities	129,334	112,916
Other assets	14,444	12,610
Loans to bank accounts	58,819	51,352
<b>Total Assets</b>	<b>W229,936</b>	<b>\$200,747</b>
<b>Liabilities</b>		
Money trusts	W197,344	\$172,293
Other liabilities	25,470	22,236
Special reserve	326	285
Allowance for credit losses	6,796	5,933
<b>Total Liabilities</b>	<b>W229,936</b>	<b>\$200,747</b>

Notes to the Non-Consolidated Financial Statements

Summary of Statement of Operations - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Interest income	W8,827	\$7,706
Interest paid	9,532	8,322
Other revenues	2,004	1,750
Other expenses	1,299	1,134

Certain accounts in the balance sheet of Chungbuk Bank were changed and reclassified according to the Accounting and Reporting Guidelines of the Bank. The assets and liabilities of Chungbuk Bank were accounted for at their book value as of April 30, 1999, in accordance with the Accounting Standards for Business Combinations. In connection with the merger with Chungbuk Bank, the Bank recorded goodwill amounting to W120,115 million (US\$104,867 thousand), which is the excess of considerations distributed for the business combination over net assets transferred.

(b) Kangwon Bank

Under the contract of merger with Kangwon Bank dated at May 10, 1999, the Bank acquired Kangwon Bank on September 11, 1999.

Kangwon Bank was established in 1970 under the Korean Banking Law to engage in commercial banking and trust operation. Kangwon Bank's shares were listed on March 30, 1972 on the Korea Stock Exchange Market.

The Bank issued 39,204,718 shares of common stock under the merger agreement, exchanging 0.1043 shares of the Bank's common stock for each share of Kangwon Bank.

Summary of financial information of Kangwon Bank as of and for the nine-month period ended September 11, 1999 is as follows.

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Cash and due from banks	W 172,714	\$ 150,789
Trading securities	516,956	451,332
Investment securities	781,467	682,266
Loans	1,899,019	1,657,953
Fixed assets	122,643	107,074
Other assets	1,211,649	1,057,839
<b>Total Assets</b>	<b>W4,704,448</b>	<b>\$4,107,253</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits	W2,559,011	\$2,234,164
Borrowings	1,534,424	1,339,640
Debentures	587,097	512,569
Other liabilities	328,387	286,701
<b>Total Liabilities</b>	<b>5,008,919</b>	<b>4,373,074</b>
Common stock	1,879,278	1,640,718
Accumulated deficit	(2,051,558)	(1,791,128)
Capital adjustments	(132,191)	(115,411)
<b>Total Shareholders' Equity</b>	<b>(304,471)</b>	<b>(265,821)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>W4,704,448</b>	<b>\$4,107,253</b>

Notes to the Non-Consolidated Financial Statements

Summary of Statement of Operations - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Operating income	W 592,488	\$ 517,276
Operating expenses	2,195,646	1,916,925
Non-operating income	22,993	20,074
Non-operating expenses	177,835	155,260
Net Loss	W(1,758,000)	\$(1,534,835)

Summary of Balance Sheet - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Loans	W 66,131	\$ 57,736
Securities	355,841	310,670
Other assets	31,875	27,829
Loans to bank accounts	34,383	30,018
Total Assets	W488,230	\$426,253
<b>Liabilities</b>		
Money trusts	W384,979	\$336,109
Other liabilities	44,999	39,287
Special reserve	1,153	1,006
Allowance for credit losses	57,099	49,851
Total Liabilities	W488,230	\$426,253

Summary of Statement of Operations - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Interest income	W41,374	\$36,122
Interest paid	42,023	36,688
Other revenues	45,918	40,089
Other expenses	45,269	39,522

Certain accounts in the balance sheet of Kangwon Bank were changed and reclassified according to the Accounting and Reporting Guidelines of the Bank. The assets and liabilities of Kangwon Bank were accounted for at their book value as of September 11, 1999, in accordance with the Accounting Standards for Business Combinations. In connection with the merger with Kangwon Bank, the Bank recorded goodwill amounting to W314,091 million (US\$274,219 thousand), which is the excess of considerations distributed for the business combination over net assets transferred.

Notes to the Non-Consolidated Financial Statements

34. Sale of Non-Performing Loans

From December 15, 1997 to December 31, 1999, the Bank sold non-performing loans totaling W3,517.9 billion (US\$3,071.3 million), including W256.3 billion (US\$223.8 million) in 1999, of the bank accounts and trust accounts to Korea Asset Management Corporation ("KAMCO") at a price of W1,999.8 billion (US\$1,745.9 million) and recognized a net loss of W1,518.1 billion (US\$1,325.4 million) included in other non-interest expense in the statements of operations. As of December 31, 1999, the outstanding balance of the loans sold, on which payment remains to be settled, is W915.5 billion (US\$799.3million).

Notwithstanding the sale and the elimination of these assets from the balance sheet, the Bank remains liable to KAMCO for the purchase price of the non-performing assets that were sold on a recourse basis totaling W2,112.2 billion (US\$1,844.1million). If KAMCO recovers or restructures such non-performing loans, the Bank is either (i) entitled to receive from KAMCO the amount KAMCO ultimately recovers (less expenses) from the defaulting borrower in excess of the purchase price KAMCO paid to the Bank for such loans or (ii) required to pay to KAMCO any shortfall between the purchase price KAMCO paid for the loans and the amount KAMCO ultimately recovers (less expenses) from the defaulting borrowers.

No contingent liability has been recorded in the Bank's financial statements. No assurance can be given that, in connection with the loans sold to KAMCO with recourse, further losses will not be recognized by the Bank in the event KAMCO recovers less than the discounted price of the loans sold to it. Any such losses could have a material adverse effect on the financial condition and results of operations of the Bank.

35. Restructured Loans Under Workout Program

As of December 31, 1999, the Bank's outstanding total exposure (including loans, confirmed guarantees and acceptances and trust accounts) to companies, other than Daewoo Group, under workout plans amounts to W2,149.5 billion (US\$1,876.6million). A total allowance for possible loan losses (including confirmed acceptances and guarantees and trust accounts) of W273.8 billion (US\$239.0 million), after deducting present value discounts of W108.3 billion (US\$94.6 million), has been provided related to this aggregate exposure. The Bank's results of operations and financial condition will be affected for the foreseeable future by the collectability of these loans. The ultimate effect that these significant uncertainties will have on the stated value of the related loans at the balance sheet date cannot presently be determined.

36. Loans to Daewoo Group

Daewoo Group, which was placed under a workout plan in August 1999 due to its liquidity problems, is undergoing a business restructuring as of December 31, 1999. As of December 31, 1999, the Bank has loans outstanding to Daewoo Group (including confirmed acceptances and guarantees and trust accounts) of W2,375.8 billion (US\$2,074.2 million) for which an allowance for possible loan losses of W1,202.0 billion (US\$1,049.4 million) has been provided according to provisioning requirements based on loan classifications. The Bank also has securities issued by Daewoo Group (including trust accounts) of W188.6 billion (US\$164.7 million) for which loss on valuation of trading securities and investment bond impairment loss of W133.0 billion (US\$116.1 million) has been recognized. The recovery of loans outstanding to Daewoo Group is mainly dependent upon the results of the business restructuring which is not finalized and continues to be under negotiations as of December 31, 1999. The ultimate effect that these significant uncertainties will have on the financial position of the Bank cannot presently be determined.

37. The Sale of Subsidiary

As of December 30, 1999, the Bank's 100% ownership in Chohung Factoring & Finance Co., Ltd. was sold to Comit Capital Inc. and the Bank recorded a loss of W10.0 billion (US\$8.7 million) as loss on sale of investment securities.

38. Subsequent Event

The Bank sold its 51% ownership in Chohung Securities Co., Ltd. to KGI Korea Ltd. on January 7, 2000 and its 100% ownership in Chohung Mutual Savings and Finance Co., Ltd. to Shin An Co., Ltd. and its related party on January 10, 2000. As a result of these transactions, the Bank recorded loss on sale of investment securities of W19.7 billion (US\$17.2 million) and W24.4 billion (US\$21.3 million), respectively, in fiscal year 2000.

Schedule of Trust Assets and Liabilities

December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
<b>Assets</b>				
Loans and discounts (note 3)	W 2,856,954	W 3,290,136	\$ 2,494,285	\$ 2,724,073
Call loans	975,049	1,672,770	851,274	1,384,973
Bonds bought under resale agreements	219,986	53,000	192,061	43,882
Securities (note 4)	18,917,168	20,977,793	16,515,774	17,368,598
Cash & due from banks	160,757	330,734	140,350	273,832
Loans to bank accounts	501,437	417,351	437,783	345,546
Other assets (note 5)	3,367,599	723,667	2,940,107	599,161
<b>Total Assets</b>	<b>W26,998,950</b>	<b>W27,465,451</b>	<b>\$23,571,634</b>	<b>\$22,740,065</b>
<b>Liabilities</b>				
Money trusts (note 6)	W 9,415,515	W10,455,750	\$ 8,220,285	\$ 8,656,855
Securities investment trusts	15,524,003	14,647,355	13,553,346	12,127,302
Borrowings	553,232	614,222	483,003	508,546
Special reserve	11,369	9,890	9,926	8,188
Allowance for credit losses	414,646	178,046	362,010	147,413
Other liabilities (note 7)	1,080,185	1,560,188	943,064	1,291,761
<b>Total Liabilities</b>	<b>W26,998,950</b>	<b>W27,465,451</b>	<b>\$23,571,634</b>	<b>\$22,740,065</b>

See accompanying notes to schedules

Schedule of Revenues and Expenses of Trust Accounts

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
<b>Revenue:</b>				
Interest on loans and discounts (note 9)	W 325,655	W 628,553	\$ 284,316	\$ 520,412
Interest on call loans	310,453	121,992	271,043	101,004
Interest and dividend on securities (note 10)	4,264,135	2,128,245	3,722,835	1,762,084
Gain on sale and valuation of securities (note 11)	1,014,631	292,148	885,831	241,884
Interest on due from banks	62,569	8,308	54,626	6,879
Interest on bonds under repurchase agreements	70,885	1,782	61,887	1,475
Gain on transaction of derivatives	115,382	22,023	100,735	18,234
Interest on loans to bank accounts	21,498	11,483	18,769	9,507
Reversal of special reserve	4,926	9,415	4,301	7,795
Reversal of allowance for credit losses	3,889	-	3,395	-
Receipt from Bank accounts for guaranteed trust	187,398	731,212	163,609	605,408
Other	169,984	734,846	148,406	608,417
<b>Total Revenue</b>	<b>6,551,405</b>	<b>4,690,007</b>	<b>5,719,753</b>	<b>3,883,099</b>
<b>Expenses:</b>				
Interest paid on trust deposits (note 12)	4,937,370	3,379,561	4,310,608	2,798,113
Interest paid on borrowing	26,688	78,063	23,300	64,633
Commission paid	3,223	19,744	2,814	16,347
Loss on sale and valuation of securities (note 13)	1,135,279	372,152	991,164	308,124
Contribution to credit guarantee fund (note 14)	7,760	9,311	6,775	7,709
Taxes and dues	2,031	522	1,773	433
Fees and commissions to bank accounts	121,622	145,295	106,183	120,297
Loss on transaction of derivatives	65,290	20,138	57,002	16,673
Provision for special reserve	4,926	5,608	4,300	4,643
Provision for credit losses	236,027	172,310	206,065	142,664
Other (note 15)	11,189	487,303	9,769	403,463
<b>Total Expenses</b>	<b>W6,551,405</b>	<b>W4,690,007</b>	<b>\$5,719,753</b>	<b>\$3,883,099</b>

See accompanying notes to schedules

Statements of Cash Flows of Trust Accounts

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
<b>Cash Flows from Operating Activities:</b>				
Net income	W -	W -	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities :				
Loss on sales and valuation of securities, net	120,648	80,004	105,333	66,239
Provision for possible loan losses	236,027	172,310	206,065	142,664
Increase in accrued income and interest receivables	(2,106,587)	(135,311)	(1,839,171)	(112,031)
Increase (decrease) in undistributed trust profit	(732,821)	415,005	(639,795)	343,604
Increase in prepaid expenses	(421,638)	(2,530)	(368,114)	(2,095)
Other, net	68,478	344,831	59,784	285,504
<b>Net Cash Provided by (used in) Operating Activities</b>	<b>(2,835,893)</b>	<b>874,309</b>	<b>(2,475,898)</b>	<b>723,885</b>
<b>Cash Flows from Investing Activities :</b>				
Changes in loans	457,722	1,047,662	399,618	867,413
Changes in call loans	697,721	(1,156,770)	609,151	(957,750)
Changes in securities	2,425,150	(3,879,597)	2,117,295	(3,212,119)
Other, net	146,286	(347,588)	127,716	(287,784)
<b>Net Cash Provided by (used in) Investing Activities</b>	<b>3,726,879</b>	<b>(4,336,293)</b>	<b>3,253,780</b>	<b>(3,590,240)</b>
<b>Cash Flows from Financing Activities :</b>				
Changes in money trusts	(745,910)	3,138,146	(651,223)	2,598,233
Changes in borrowings	(60,990)	614,221	(53,247)	508,545
<b>Net Cash Provided by (used in) Financing Activities</b>	<b>(806,900)</b>	<b>3,752,367</b>	<b>(704,470)</b>	<b>3,106,778</b>
<b>Net Increase in Loans to Bank Accounts</b>	<b>84,086</b>	<b>290,383</b>	<b>73,412</b>	<b>240,423</b>
<b>Loans to Bank Accounts at Beginning of Year</b>	<b>417,351</b>	<b>126,968</b>	<b>364,371</b>	<b>105,123</b>
<b>Loans to Bank Accounts at End of Year</b>	<b>W 501,437</b>	<b>W 417,351</b>	<b>\$ 437,783</b>	<b>\$ 345,546</b>

See accompanying notes to schedules

Notes to Schedules of Trust Accounts

December 31, 1999 and 1998

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Schedules

Chohung Bank (the "Bank") maintains its books of the trust accounts in accordance with the provision of the Banking Law and the Accounting and Reporting Guidelines approved by the Financial Supervisory Commission of the Republic of Korea ("FSC"), including the requirements of the Trust Act and the Trust Business Act, under which the Trust Accounts were established.

The schedules have been translated from those issued in Korea, from the Korean language into the English language, and have been modified to allow for formatting of the schedules in a manner different from the presentation under Korean practices. Certain modifications have been made in the accompanying schedules to bring the formal presentation into conformity with practices outside of Korea, and certain information included in the Korean language statutory schedules, not required for a fair presentation of the schedules, is not presented herein. Accordingly, the accompanying schedules and their utilization are not designed for those who are not informed about Korean accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows of the Trust Accounts in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

Under the Trust Business Law and related regulations, the assets, liabilities and operations of trust accounts are not included in the Bank's financial statements. The income and expenses related to the trust accounts are essentially passed through to the individual trust account holders.

(b) Special Reserve

A special reserve is required to be set up each year not to exceed 5% of total annual revenues for possible future losses until the total provision equals 3% of money in trust under non-specific money trusts, other than national stock trusts, specific money trusts, and fund trusts.

(c) Allowance for Possible Loan Losses

The Bank classifies loans to businesses whose credit limit, including that for securities such as commercial paper and privately placed bonds, exceeds ₩10.0 billion (US\$87.3 million) into ten categories according to (1) past repayment history including overdue period and bankruptcy status of the borrower, and (2) future loan repayment capacity based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to other businesses and individuals are also classified into ten categories based only on past repayment history. The allowance for possible loan losses is then calculated at 0.5% of loan balances classified in categories 1 to 6, and 2%, 20%, 50% and 100% of the loan balances classified in categories 7, 8, 9 and 10, respectively. However, the Bank does not provide, and the Accounting Standards for the Banking Industry does not require, allowances for loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies which are classified in categories 1 to 6.

The allowance for loans to companies under workout are provided at 2%-20% of the balance outstanding, and the allowance for loans to Daewoo Group are provided at 15% to 80% of the balance outstanding.

In 1998, the Bank used guidelines prescribed by the Korean banking regulatory authorities for determining an allowance for possible loan losses. These guidelines required that all loans be classified based on a number of factors, including the financial position of the borrower, the repayment history of the loan, the bank's past relationship and dealings with the borrower, and the status of any security. In accordance with these guidelines, loans have been classified as of December 31, 1998, as normal, precautionary, substandard, doubtful or loss and an allowance is then calculated on December 31, 1998 loan balances for each classification using the prescribed percentages of 0.5%, 2%, 20%, 75% and 100%, respectively. However, under the Accounting and Reporting Guidelines of the FSC, the Bank did not provide allowance for possible loan losses to the loans of unspecified money trust accounts which do not guarantee a fixed rate of return on and the repayment of principal (non-guarantee) as of December 31, 1998.

Notes to Schedules of Trust Accounts

(d) Securities

Stocks and certificates of beneficiary, which are managed in the trust accounts other than the individually managed and performance-based trust accounts, are stated at market value. However, under the Accounting and Reporting Guidelines of the FSC, debt securities of unspecified money trust which were established before November 13, 1998 are stated at acquisition cost.

(e) Management Fees to Bank Accounts

Management fees are income of the bank accounts from the trust accounts and are determined by the trust contracts of unspecified money trust accounts which guarantee a fixed rate of return on and the repayment of principal pursuant to the Accounting and Reporting Guidelines of the FSC.

(f) Payments to the Guaranteed Return Trust Accounts

In respect of certain trust account products, the Bank guarantees the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such deficiency must be satisfied from either reserves maintained in the trust accounts or funds transferred from the bank accounts of the Bank. For the year ended December 31, 1999 and 1998, transfers by the Bank from the bank accounts to cover such deficiencies were W187.4 billion (US\$163.6 million) and W731.2 billion (US\$605.4 million), respectively and were reflected as non-interest expense of the bank accounts and as revenue of the trust accounts. There can be no assurance that the Bank will not be required to make such transfers in the future or that the amounts of such transfers may not be significantly greater in the future.

(g) Loans to Bank Accounts

When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. These deposits earn more than the interest rate applied to loans to blue-chip companies of the bank accounts pursuant to the Accounting and Reporting Guidelines of the FSC.

(h) Securities Investment Trusts

In connection with the securities investment trusts, the Bank, as the trustee, serves as the physical custodian of securities, based on the instructions from the trustor. Assets and liabilities of the Bank which are related to securities investment trusts represent the balances which are carried in the books of individual trustor companies in connection with the securities investment trusts.

(i) Statements of Cash Flows

For the purposes of the statements of cash flows, loans to bank accounts is considered as operating cash.

2. Basis of Translating Schedules

Schedules 1, 2 and 3 are expressed in Korean Won and, solely for the convenience of the reader, have been translated into U.S. Dollars at the rate of W1,145.4 to US \$1 and W1,207.8 to US\$1, the exchange rate at December 31, 1999 and 1998, respectively. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. Dollars at these or any other rates.

Notes to Schedules of Trust Accounts

3. Loans and Discounts

Loans and discounts as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Bills discounted	W 7,090	W 11,797	\$ 6,190	\$ 9,768
Loans secured by real properties	1,035,716	862,736	904,239	714,303
Loans on guarantees	27,109	43,485	23,668	36,003
Loans on deeds	620,431	975,301	541,672	807,502
Loans on promissory notes	1,166,608	1,396,817	1,018,516	1,156,497
	W2,856,954	W3,290,136	\$2,494,285	\$2,724,073

4. Securities

Securities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Government bonds	W 881,451	W 454,649	\$ 769,557	\$ 376,427
Finance debentures	1,385,603	279,669	1,209,711	231,552
Municipal bonds	104,753	74,793	91,455	61,925
Debentures	8,589,746	9,263,067	7,499,342	7,669,372
Securities in foreign currencies	123,533	317,772	107,851	263,100
Stocks	848,081	279,907	740,424	231,749
Bills bought in Won	3,372,266	-	2,944,182	-
Other	3,611,735	10,307,936	3,153,252	8,534,473
	W18,917,168	W20,977,793	\$16,515,774	\$17,368,598

5. Other Assets

Other assets as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Interest receivables	W2,574,342	W682,806	\$2,247,548	\$565,330
Accrued income	261,042	-	227,905	-
Prepaid expenses	462,499	40,861	403,788	33,831
Accounts receivable	69,539	-	60,712	-
Other	177	-	154	-
	W3,367,599	W723,667	\$2,940,107	\$599,161

Notes to Schedules of Trust Accounts

6. Money Trusts

Money trusts as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Unspecified money trusts	W 2,157	W 4,817	\$ 1,883	\$ 3,988
Accumulated money trusts	2,265,775	1,450,782	1,978,152	1,201,177
Household money trusts	351,674	394,329	307,032	326,485
Development trusts	1,732,648	2,947,464	1,512,701	2,440,358
Pension trusts for the elderly	114,108	63,599	99,623	52,657
Corporate trusts	274,730	86,230	239,855	71,394
National stock trusts	10,041	6,643	8,766	5,500
Individual pension trusts	515,736	451,287	450,267	373,644
Household long-term trusts	1,070,781	922,603	934,853	763,871
Workers preferential treatment trusts	203,609	107,780	177,762	89,237
New reserving trusts	974,603	2,506,859	850,885	2,075,558
Unit money trusts	1,343,992	-	1,173,382	-
Specified money trusts	555,661	1,513,357	485,124	1,252,986
	W9,415,515	W10,455,750	\$8,220,285	\$8,656,855

7. Other Liabilities

Other liabilities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Suspense from Korea Guarantee Fund	W 327	W 413	\$ 286	\$ 342
Accounts payable	52,096	118,639	45,483	98,227
Unearned revenues	7,788	29,144	6,799	24,130
Undistributed trust pay	41,332	10,074	36,085	8,341
Undistributed trust profit	693,706	1,401,918	605,645	1,160,721
Accrued expenses	284,935	-	248,765	-
Other	1	-	1	-
	W1,080,185	W1,560,188	\$943,064	\$1,291,761

8. Asset Transfer between Trusts

For the year ended December 31, 1999, the Bank transferred loans to Daewoo Group and certain companies under work-out and securities issued by Daewoo Group from non-guaranteed trusts accounts to guaranteed trust accounts amounting to W478.0 billion (US \$ 417.3 million).

9. Interest on Loans and Discounts

Interest on loans and discounts for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Bills discounted	W 909	W 5,030	\$ 794	\$ 4,165
Loans secured by real property	109,682	180,468	95,759	149,419
Loans on guarantees	4,529	9,003	3,954	7,454
Loans on deeds	96,531	182,797	84,277	151,347
Loans on promissory notes	114,004	251,255	99,532	208,027
	W325,655	W628,553	\$284,316	\$520,412

10. Interest and Dividend on Securities

Interest and dividend on securities for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Government bonds	W 207,159	W 45,286	\$ 180,863	\$ 37,495
Finance debentures	187,707	27,881	163,879	23,084
Municipal bonds	17,101	3,878	14,930	3,211
Debentures	2,205,345	670,876	1,925,393	555,453
Stocks	4,495	5,433	3,924	4,498
Bills bought in Won	1,321,602	-	1,153,834	-
Other	320,726	1,374,891	280,012	1,138,343
	W4,264,135	W2,128,245	\$3,722,835	\$1,762,084

11. Gain on Sale and Valuation of Securities

Gain on sale and valuation of securities for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Gain on sale of securities	W 723,609	W151,530	\$631,752	\$125,460
Gain on redemption of securities	165,239	16,740	144,263	13,860
Gain on valuation of securities	125,783	123,878	109,816	102,564
	W1,014,631	W292,148	\$885,831	\$241,884

Notes to Schedules of Trust Accounts

12. Interest Paid on Trust Deposits

Interest paid on trust deposits for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Unspecified money trusts	W 173	W 3,677	\$ 150	\$ 3,044
Accumulated money trusts	168,209	228,035	146,856	188,802
Household money trusts	21,444	117,519	18,722	97,300
Development trusts	349,574	401,854	305,198	332,716
Pension trust for the elderly	5,252	11,758	4,585	9,735
Corporate trusts	9,983	10,367	8,716	8,583
National stock trusts	5,427	6,551	4,738	5,424
Individual pension trusts	38,604	59,867	33,704	49,567
Household long-term trusts	86,258	106,501	75,308	88,178
Workers preferential treatment trusts	14,559	10,375	12,711	8,590
New reserving trusts	143,068	403,133	124,907	333,775
Unit money trusts	82,591	-	72,107	-
Specified money trusts	122,844	332,650	107,250	275,418
Securities investment trusts	3,889,384	1,687,274	3,395,656	1,396,981
	W4,937,370	W3,379,561	\$4,310,608	\$2,798,113

13. Loss on Sale and Valuation of Securities

Loss on sale and valuation of securities for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Loss on sale of securities	W 755,716	W308,547	\$659,783	\$255,462
Loss on redemption of securities	353,612	27,778	308,724	22,999
Loss on valuation of securities	25,951	35,827	22,657	29,663
	W1,135,279	W372,152	\$991,164	\$308,124

14. Contribution to Fund

Contribution to fund for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Contribution to Korea Guarantee Fund	W6,044	W7,540	\$5,277	\$6,243
Insurance fee on trust	1,716	1,771	1,498	1,466
	W7,760	W9,311	\$6,775	\$7,709

Notes to Schedules of Trust Accounts

15. Other Expenses

Other expenses for the years ended December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 2)	
	1999	1998	1999	1998
Loss on sale of loans	W 9,499	W329,440	\$8,293	\$272,760
Other	1,690	157,863	1,476	130,703
	W11,189	W487,303	\$9,769	\$403,463

Independent Auditors' Report



**KPMG San Tong Corp.**

P.O. Box Kangnam 1989  
Seoul 135-701  
Republic of Korea

15th Fl., Construction Center  
71-2 Nonhyun-Dong Kangnam-Ku  
Seoul 135-701 Republic of Korea

Telephone (822) 3438-2000  
Fax (822) 3442-3200  
www.kr.kpmg.com

**The Shareholders and Board of Directors**

**Chohung Bank :**

We have audited the accompanying non-consolidated balance sheet of Chohung Bank (the "Bank") as of December 31, 1999 and the related non-consolidated statements of operations, disposition of accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain unconsolidated subsidiaries. The Bank's investment in these subsidiaries at December 31, 1999 was W130.0 billion (US\$113.5 million) and its equity in earnings of these subsidiaries was W1.5 billion (US\$1.3 million) for the year 1999. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of other auditors. The non-consolidated financial statements of the Bank as of December 31, 1998 were audited by other auditors whose report dated January 23, 1999, expressed an unqualified opinion on those statements.

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

In our opinion, based on our audit and the report of the other auditors, the non-consolidated financial statements referred to above give a true and fair view, in all material respects, of the financial position of the Bank as of December 31, 1999, and of the result of its operations, the changes in its accumulated deficit and cash flows for the year then ended in accordance with Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

Our audit for the year ended December 31, 1999, was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information included in Schedules 1 through 3 as of and for the year ended December 31, 1999, is presented for purposes of additional analysis and is not a required part of basic non-consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic non-consolidated financial statements and, in our opinion, is fairly stated in all material respects in accordance with the provision of the Banking Law and the Accounting and Reporting Guideline approved by the Financial Supervisory Commission of the Republic of Korea, including the requirement of the Trust Act and Trust Business Act, under which the Trust Accounts were established.

The report of the other auditors referred to above, dated January 23, 1999, stated that the non-consolidated balance sheet for the trust accounts of the Bank as of December 31, 1998, and the non-consolidated statements of operations and of cash flows for the trust accounts for the year then ended, were audited by them, and they expressed an unqualified opinion on those statements.

Without qualifying our opinion, we draw attention to the followings:

As discussed in note 2(s) to the non-consolidated financial statements, the Bank changed its accounting policies on, among others, allowance for guarantees and acceptances, accounting for restructured loans and valuation of securities, according to the Accounting Standards for the Banking Industry applied from January 1, 1999. As a result of these changes, accumulated deficit as of December 31, 1999 increased by W140.5 billion (US\$122.7 million) and loss before income taxes for the year ended December 31, 1999 increased by W122.2 billion (US\$106.7 million) from amounts which would have been reported using the prior methods.

Independent Auditors' Report

As discussed in note 36 to the non-consolidated financial statements, Daewoo Group, which was placed under a workout plan in August 1999 due to its liquidity problems, is undergoing a business restructuring as of December 31, 1999. As of December 31, 1999, the Bank has loans outstanding to Daewoo Group (including confirmed acceptances and guarantees and trust accounts) of W2,375.8 billion (US\$2,074.2 million) for which an allowance for possible loan losses of W1,202.0 billion (US\$1,049.4 million) has been provided according to provisioning requirements based on loan classifications. The Bank also has securities issued by Daewoo Group (including trust accounts) of W188.6 billion (US\$164.7 million) for which loss on valuation of trading securities and investment bond impairment loss of W133.0 billion (US\$116.1 million) has been recognized. The recovery of loans outstanding to Daewoo Group is mainly dependent upon the results of the business restructuring which is not finalized and continues to be under negotiations as of December 31, 1999. The ultimate effect that these significant uncertainties will have on the financial position of the Bank cannot presently be determined.

As discussed in note 35 to the non-consolidated financial statements, as of December 31, 1999, the Bank's outstanding total exposure (including loans, confirmed guarantees and acceptances and trust accounts) to companies, other than Daewoo Group, under workout plans amounts to W2,149.5 billion (US\$1,876.6 million). A total allowance for possible loan losses (including confirmed acceptances and guarantees and trust accounts) of W273.8 billion (US\$239.0 million), after deducting present value discounts of W108.3 billion (US\$94.6 million), has been provided related to this aggregate exposure. The Bank's results of operations and financial condition will be affected for the foreseeable future by the collectability of these loans. The ultimate effect that these significant uncertainties will have on the stated value of the related loans at the balance sheet date cannot presently be determined.

As discussed in note 34 to the non-consolidated financial statements, from December 1997 to December 31, 1999, the Bank sold non-performing loans totaling W3,517.9 billion (US\$3,071.3 million), including W256.3 billion (US\$223.8 million) in 1999, of its bank and trust accounts to Korea Asset Management Corporation ("KAMCO"). As of December 31, 1999, the outstanding balance of the loans sold, on which payment remains to be settled, is W915.5 billion (US\$799.3 million). Notwithstanding the sale of these assets, the Bank remains liable to KAMCO for the purchase price of the non-performing assets that were sold on a recourse basis totaling W2,112.2 billion (US\$1,844.1 million). If KAMCO recovers or restructures such non-performing loans, the Bank is either (i) entitled to receive from KAMCO the amount KAMCO ultimately recovers (less expenses) from the defaulting borrower in excess of the purchase price KAMCO paid to the Bank for such loans or (ii) required to pay to KAMCO any shortfall between the purchase price KAMCO paid for the loans and the amount KAMCO ultimately recovers (less expenses) from the defaulting borrowers. No contingent liability has been recorded in the Bank's non-consolidated financial statements. No assurance can be given that, in connection with the loans sold to KAMCO with recourse, further losses will not be recognized by the Bank in the event KAMCO recovers less than the discounted price of the loans sold to it. Any such losses could have a material effect on the financial condition and results of the operations of the Bank.

As discussed in note 33 to the non-consolidated financial statements, the Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively. The Bank issued 144 shares and 39,204,718 shares of common stock under the merger agreements, exchanging 0.0144 shares and 0.1043 shares of the Bank's common stock for each share of Chungbuk Bank and Kangwon Bank, respectively.

As discussed in note 4 to the non-consolidated financial statements, the operations of the Bank has been affected and may continue to be affected for the foreseeable future by the adverse economic conditions in the Republic of Korea in recent years and those in the Asia Pacific region in general. The ultimate effect that these significant uncertainties will have on the financial position of the Bank at the balance sheet date cannot presently be determined and accordingly no provisions have been made.

As discussed in note 2(a) to the non-consolidated financial statements, the accompanying non-consolidated financial statements are not intended to present the Bank's financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The standards and practices under which such non-consolidated financial statements were prepared are those generally accepted and applied in the Republic of Korea.

*KPMG San Tong Corp.*

February 2, 2000

 KPMG San Tong Corp., a corporation established under Korean law, is a member of KPMG International, a Swiss association.

Consolidated Balance Sheets

December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Assets</b>				
Cash and due from banks (notes 5, 6 and 20)	W 3,143,406	W 2,557,803	\$ 2,744,374	\$ 2,117,737
Trading securities (note 7)	3,694,215	4,657,700	3,225,262	3,856,350
Investment securities (note 8)	10,351,076	5,380,333	9,037,084	4,454,655
Loans (notes 9, 10 and 20)	24,899,471	24,193,041	21,738,669	20,030,668
Fixed assets (note 11)	1,810,571	1,539,274	1,580,732	1,274,445
Other assets (note 12)	3,040,446	2,360,053	2,654,484	1,954,011
<b>Total Assets</b>	<b>W46,939,185</b>	<b>W40,688,204</b>	<b>\$40,980,605</b>	<b>\$33,687,866</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Liabilities:</b>				
Deposits (notes 13 and 20)	W30,334,444	W24,405,827	\$26,483,712	\$20,206,845
Borrowings (notes 14, 16 and 20)	9,284,909	11,409,105	8,106,259	9,446,187
Debentures (notes 15 and 16)	2,392,463	1,703,357	2,088,758	1,410,297
Other liabilities (note 17)	2,734,266	3,026,374	2,387,171	2,505,692
<b>Total Liabilities</b>	<b>44,746,082</b>	<b>40,544,663</b>	<b>39,065,900</b>	<b>33,569,021</b>
Minority interests	57,240	53,184	49,974	44,034
<b>Shareholders' Equity:</b>				
Common stock, par value W5,000 (note 18)	3,395,391	930,429	2,964,371	770,350
Authorized - 2,000,000,000 shares as of December 31, 1999 and 400,000,000 shares as of December 31, 1998				
Issued and outstanding - 679,078,115 shares as of December 31, 1999 and 186,085,890 shares as of December 31, 1998				
Capital surplus	-	6,381	-	5,283
Accumulated deficit (note 23)	(1,028,582)	(834,903)	(898,011)	(691,259)
Capital adjustments (note 19)	(230,946)	(11,550)	(201,629)	(9,563)
<b>Total Shareholders' Equity</b>	<b>2,135,863</b>	<b>90,357</b>	<b>1,864,731</b>	<b>74,811</b>
Commitments and contingencies (note 22)				
<b>Total Liabilities and Shareholders' Equity</b>	<b>W46,939,185</b>	<b>W40,688,204</b>	<b>\$40,980,605</b>	<b>\$33,687,866</b>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Interest Income and Dividends:</b>				
Interest income in Won	W1,925,261	W 2,756,097	\$1,680,864	\$ 2,281,915
Interest income in foreign currencies	675,520	1,124,265	589,768	930,837
Interest and dividend on trading securities	346,832	461,552	302,804	382,143
Interest and dividend on investment securities	660,990	515,429	577,082	426,750
<b>Total Interest Income and Dividends</b>	<b>3,608,603</b>	<b>4,857,343</b>	<b>3,150,518</b>	<b>4,021,645</b>
<b>Interest Expenses:</b>				
Interest expense in Won	1,935,420	2,838,954	1,689,733	2,350,517
Interest expense in foreign currencies	636,850	1,169,718	556,006	968,470
<b>Total Interest Expenses</b>	<b>2,572,270</b>	<b>4,008,672</b>	<b>2,245,739</b>	<b>3,318,987</b>
<b>Net Interest Income</b>	<b>1,036,333</b>	<b>848,671</b>	<b>904,779</b>	<b>702,658</b>
<b>Provision for Possible Loan Losses</b>	<b>(1,936,987)</b>	<b>(859,672)</b>	<b>(1,691,101)</b>	<b>(711,767)</b>
<b>Net Interest Income (loss) after Provision for Loan Losses</b>	<b>(900,654)</b>	<b>(11,001)</b>	<b>(786,322)</b>	<b>(9,109)</b>
<b>Non-Interest Income:</b>				
Fees and commissions	591,445	473,285	516,365	391,858
Gain on sale and valuation of trading securities	451,837	192,062	394,480	159,018
Gain on sale and valuation of investment securities	64,922	71,658	56,681	59,329
Gain on sale of loans	280,199	181,770	244,630	150,497
Gain on foreign currency trading	506,011	1,283,399	441,777	1,062,592
Gain on sale of leasing assets	44,905	22,742	39,205	18,829
Other	254,693	173,660	222,360	143,782
<b>Total Non-Interest Income</b>	<b>2,194,012</b>	<b>2,398,576</b>	<b>1,915,498</b>	<b>1,985,905</b>
<b>Non-Interest Expenses:</b>				
Commissions	117,401	101,007	102,498	83,629
Loss on sale and valuation of trading securities	176,899	378,896	154,443	313,707
Loss on sale and valuation of investments securities	64,046	87,010	55,916	72,040
Selling and administration expenses	741,291	826,789	647,190	684,541
Loss on sale of loans	184,444	1,436,094	161,030	1,189,016
Provision for possible losses of acceptances and guarantees	67,600	-	59,019	-
Contribution to fund	27,787	25,936	24,260	21,474
Loss on foreign currency trading	370,283	1,244,504	323,278	1,030,389
Provision for retirement and severance benefits	44,947	285,281	39,241	236,199
Other	207,426	145,810	181,094	120,724
<b>Total Non-Interest Expenses</b>	<b>2,002,124</b>	<b>4,531,327</b>	<b>1,747,969</b>	<b>3,751,719</b>
<b>Loss before Income Taxes</b>	<b>(708,766)</b>	<b>(2,143,752)</b>	<b>(618,793)</b>	<b>(1,774,923)</b>
<b>Income Taxes (note 21)</b>	<b>31,781</b>	<b>9,685</b>	<b>27,747</b>	<b>8,019</b>
<b>Net Loss before Minority Interests</b>	<b>(740,547)</b>	<b>(2,153,437)</b>	<b>(646,540)</b>	<b>(1,782,942)</b>
<b>Loss (income) Attributable to Minority Interests</b>	<b>(5,775)</b>	<b>70,648</b>	<b>(5,042)</b>	<b>58,493</b>
<b>Net Loss</b>	<b>W (746,322)</b>	<b>W(2,082,789)</b>	<b>\$ (651,582)</b>	<b>\$(1,724,449)</b>
<b>Net Loss per Share (note 24)</b>				
<b>(In Korean Won and U.S. Dollars)</b>	<b>W (1,609)</b>	<b>W (11,193)</b>	<b>\$ (1.40)</b>	<b>\$ (9.27)</b>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Capital Surplus and Accumulated Deficit

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Capital Surplus:</b>				
Balance at beginning of year	W 6,381	W 415,726	\$ 5,571	\$ 344,201
Issuance of stock, excess of par value	8,610	-	7,517	-
Reserve for asset revaluation	-	570,522	-	472,365
Transfer to accumulated deficit	(8,610)	(973,378)	(7,517)	(805,910)
Payment of asset revaluation tax	(6,381)	(6,381)	(5,571)	(5,283)
Other	-	(108)	-	(90)
Balance at end of year	-	6,381	-	5,283
<b>Accumulated Deficit:</b>				
Balance at beginning of year	(834,903)	294,240	(728,918)	243,616
Gain on capital reduction	723,874	-	631,984	-
Transfer from capital surplus	8,610	973,378	7,517	805,910
Prior year adjustments, net (note 23)	(14,068)	-	(12,282)	-
Minority interest's portion of capital deficiency attributable to the Bank	(44,579)	-	(38,920)	-
Cumulative effect of accounting changes (note 2)	(128,396)	-	(112,097)	-
Other	7,202	(19,732)	6,287	(16,338)
Net loss	(746,322)	(2,082,789)	(651,582)	(1,724,447)
Balance at end of year	(1,028,582)	(834,903)	(898,011)	(691,259)
<b>Consolidated Capital Surplus and Accumulated Deficit at End of Year</b>	<b>W(1,028,582)</b>	<b>W(828,522)</b>	<b>\$(898,011)</b>	<b>\$(685,976)</b>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
<b>Cash Flows from Operating Activities:</b>				
Net loss	W (746,322)	W(2,082,789)	\$ (651,582)	\$(1,724,449)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Provision for possible loan losses	1,936,987	859,672	1,691,101	711,767
Provision for retirement and severance benefits	44,947	285,281	39,241	236,199
Loss (gain) on sale and valuation of trading securities, net	(274,938)	186,834	(240,037)	154,689
Loss (gain) on sale and valuation of investment securities, net	(876)	15,352	(765)	12,711
Income (loss) attributable to minority interests	5,775	(70,648)	5,042	(58,493)
Payment of retirement severance benefits	(190,478)	(397,291)	(166,298)	(328,938)
Decrease in key money deposits	92,977	-	81,174	-
Decrease (increase) in other liabilities	(618,590)	571,294	(540,065)	473,004
Other, net	(1,674)	(251,230)	(1,461)	(208,006)
<b>Net Cash Provided by (used in) Operating Activities</b>	<b>247,808</b>	<b>(883,525)</b>	<b>216,351</b>	<b>(731,516)</b>
<b>Cash Flows from Investing Activities:</b>				
Decrease in trading securities	2,549,203	686,437	2,225,600	568,337
Decrease (increase) in investment securities	(3,711,467)	1,244,416	(3,240,324)	1,030,317
Proceeds on sale of fixed assets	342,035	61,574	298,616	50,980
Decrease (increase) in loans	(126,500)	6,763,646	(110,442)	5,599,972
Increase in cash and due from banks by acquisition	310,589	-	271,162	-
Other, net	52,956	81,769	46,235	67,701
<b>Net Cash Provided by (used in) Investing Activities</b>	<b>(583,184)</b>	<b>8,837,842</b>	<b>(509,153)</b>	<b>7,317,307</b>
<b>Cash Flows from Financing Activities:</b>				
Increase (decrease) in deposits	1,972,703	(6,857,620)	1,722,283	(5,677,777)
Decrease in borrowings	(3,928,902)	(2,313,254)	(3,430,157)	(1,915,262)
Decrease in debentures	55,965	(761,842)	48,861	(630,768)
Issuance of common stock	2,999,012	-	2,618,310	-
Other, net	(177,799)	5,408	(155,230)	4,475
<b>Net Cash Provided by (used in) Financing Activities</b>	<b>920,979</b>	<b>(9,927,308)</b>	<b>804,067</b>	<b>(8,219,332)</b>
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<b>585,603</b>	<b>(1,972,991)</b>	<b>511,265</b>	<b>(1,633,541)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>2,557,803</b>	<b>4,530,794</b>	<b>2,233,109</b>	<b>3,751,278</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>W3,143,406</b>	<b>W 2,557,803</b>	<b>\$2,744,374</b>	<b>\$ 2,117,737</b>

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 1999 and 1998

1. Organization and Business

(1) Chohung Bank (the "Bank") was established on October 1, 1943 under the Korean Banking Law as a result of a merger of Han Sung Bank, which was established on February 19, 1897 and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. In addition to the head office in Seoul, the Bank operates 401 domestic branches, 75 depository offices throughout the Republic of Korea and 6 overseas branches as of December 31, 1999. The Bank's shares were listed on the Korea Stock Exchange Market on March 3, 1956 and on the London Stock Exchange Market for Global Depository Receipts (GDRs) on December 5, 1996. The Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively.

2. Summary of Significant Accounting Policies and Basis of Presenting Consolidated Financial Statements

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been extracted from the Bank's Korean language financial statements that were prepared using accounting principles, procedures, and reporting practices generally accepted in the Republic of Korea. These standards may vary from International Accounting Standards or the accounting principles generally accepted in the country of the reader. The consolidated financial statements have been translated from those issued in Korea, from the Korean language into the English language, and have been modified to allow for formatting of financial statements in a manner different from the presentation under Korean financial statements practices. Certain modifications have been made in the accompanying consolidated financial statements to bring the formal presentation into conformity with practices outside of Korea, and certain information included in the Korean language statutory financial statements, are not required for a fair presentation of the Bank's financial position or results of operations, are not presented in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements and their utilization are not designed for those who are not informed about Korean accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea.

(b) Scope of Consolidation

The consolidated financial statements include the banking accounts and the trust accounts of the Bank and its wholly or partially owned subsidiaries. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial statements in accordance with the accounting guidelines of the Financial Supervisory Commission ("FSC").

Consolidated subsidiaries at December 31 1999 and 1998 are as follows:

Subsidiaries	Percentage of ownership		Fiscal year-end	Date of acquisition of controlling interest
	1999	1998		
Chohung Securities Co., Ltd.	59.76%	59.76%	Mar. 31	Dec. 31, 1984
Chohung Mutual Savings and Finance Co., Ltd.	100.00%	100.00%	Jun. 30	Dec. 31, 1984
Chohung Leasing Co., Ltd.	33.40%	33.40%	Mar. 31	Aug. 23, 1989
Chohung Investment Trust and Management Co.,Ltd.	49.00%	49.00%	Mar. 31	Nov. 19, 1992
Kangeun Mutual Savings and Finance Co., Ltd.	100.00%	-	Jun. 30	Sep. 11, 1999
Chohung Finance Ltd., Hong Kong	99.99%	99.99%	Dec. 31	Dec. 31, 1984
Chohung Bank of New York	100.00%	100.00%	Dec. 31	Oct. 31, 1990
Chohung Bank (Deutschland) GmbH	100.00%	100.00%	Dec. 31	Oct. 10, 1994
California Chohung Bank	100.00%	100.00%	Dec. 31	Apr. 11, 1995
Chohung Leasing & Finance (Hong Kong) Ltd.	100.00%	100.00%	Mar. 31	Mar. 27, 1995
Chohung Factoring & Finance Co., Ltd.	-	100.00%	Dec. 31	Oct. 18, 1995
Chohung Bank of Canada	-	100.00%	Oct. 31	Oct. 31, 1990
Chohung Bank (Moscow) Ltd.	-	99.29%	Dec. 31	Feb. 2, 1998

Notes to the Consolidated Financial Statements

(i) Chohung Securities Co., Ltd.

Chohung Securities Co., Ltd. was established in 1982 under the name of Pacific Investment and Finance Company. In 1991, under governmental encouragement to convert all short-term finance companies into banks or securities firms, the company changed its investment and finance license to a securities license and changed its name to Chohung Securities Co., Ltd. As of December 31, 1999, its capital stock amounts to W160,000 million (US\$139,689 thousand), of which the Bank owns 59.76%.

(ii) Chohung Mutual Savings and Finance Co.,Ltd.

Chohung Mutual Savings and Finance Co.,Ltd. was established in 1972 under the name of Cho Won Mutual Savings and Finance Co., Ltd. and was acquired by the Bank in 1984. As of December 31, 1999, its capital stock amounts to W40,500 million (US\$35,359 thousand).

(iii) Chohung Leasing Co.,Ltd.

Chohung Leasing Co., td. was established in 1989 and engages in operating and financing lease activities. As of December 31, 1999, its capital stock amounts to W40,000 million (US\$34,922 thousand), of which the Bank owns 33.4%.

(iv) Chohung Investment Trust and Management Co., Ltd.

Chohung Investment and Trust Management Co., Ltd. was established in 1988 and engages in securities management services and surveying the economic and capital markets. In 1997 the company changed its name from Chohung Investment Management Co., Ltd. to Chohung Investment Trust and Management Co., Ltd. As of December 31, 1999, its capital stock amounts to W30,000 million (US\$26,192 thousand), of which the Bank owns 49.0%.

(v) Kangeun Mutual Savings and Finance Co., Ltd.

Kangeun Mutual Savings and Finance Co., Ltd. was established in 1971 and was acquired by the Bank in 1999 through acquisition of Kangwon Bank. As of December 31, 1999, its capital stock amounts to W2,000 million (US\$1,746 thousand).

(vi) Chohung Finance Ltd., Hong Kong

Chohung Finance Ltd., Hong Kong is a subsidiary of the Bank engaged in various merchant banking activities in Hong Kong. As of December 31, 1999, its capital stock amounts to US\$15,000 thousand, of which the Bank owns 99.99%.

(vii) Chohung Bank of New York

Chohung Bank of New York is a wholly-owned subsidiary of the Bank that offers full banking services mainly to Korean residents and businesses in the New York metropolitan area. As of December 31, 1999, its capital stock amounts to US\$14,000 thousand.

(viii) Chohung Bank (Deutschland) GmbH

Chohung Bank (Deutschland) GmbH was established in 1994 as a wholly-owned subsidiary of the Bank. As of December 31, 1999, its capital amounts to EUR15,339 thousand.

(ix) California Chohung Bank

California Chohung Bank was established in 1995 as a wholly-owned subsidiary of the Bank with paid-in-capital of US\$30,681 thousand as of December 31, 1999, by the purchasing of Seoul Bank of California from Seoul Bank. It specializes in retail banking business.

(x) Chohung Leasing and Finance (Hong Kong)

Chohung Leasing and Finance (Hong Kong) Ltd. was established in 1995 as a wholly-owned subsidiary of Chohung Leasing Co., Ltd. The company engages in various leasing and finance activities. As of December 31, 1999, its capital stock amounts to US\$2,000 thousand.

(c) Accounting Standards for Consolidated Financial Statements

(i) Offset of Investments and shareholders' equity

The investment account of the Bank and equity accounts of subsidiary were eliminated at the acquisition date when the Bank obtained control of the subsidiary. Any differences were accounted for as consolidation adjustment, which is amortized by the straight-line method over five years.

Notes to the Consolidated Financial Statements

(ii) Inter-company transactions and balances

All inter-company transactions and balances have been eliminated in the consolidation process.

(iii) Minority Interest

The portion of a subsidiary's shareholders' equity not attributable to the Bank, in cases when the Bank has controlling interest, are presented as minority interest.

(iv) Capital stock owned by subsidiary companies

The Bank's capital stock owned by a subsidiary, when the Bank has controlling interest, are presented as capital stock owned by subsidiaries in the consolidated balance sheets.

(v) Fiscal years of subsidiaries

The accounts of consolidated subsidiaries whose fiscal year are different from those of the Bank have been adjusted to reflect balances as of December 31, 1999 and 1998.

(vi) Translation of foreign subsidiaries financial statements

The financial statements of foreign subsidiaries are translated into Korean Won at current rates of exchange as of the balance sheet date. Gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as adjustments to accumulated deficit.

(d) Valuation of Foreign Currency Items

Monetary assets and liabilities denominated in a foreign currency are translated into Korean Won at W1,145.40 to US\$1 and W1,207.80 to US\$1, the rates of exchange approved by the Bank of Korea ("BOK") as of December 31, 1999 and 1998, respectively, except for forward contracts which are valued at the specified rates in the contract.

(e) Trading Securities

Trading securities purchased for short-term investment purposes are stated at fair value. The valuation gain or loss is recorded in current operations. Prior to 1999, according to the Accounting and Reporting Guideline of the FSC, debt securities denominated in Won are recorded at acquisition cost.

(f) Investment Securities

Marketable investment equity securities (except for investments in subsidiaries) the Bank are recorded at fair value with the difference between the acquisition cost and market value included in shareholders' equity as a capital adjustment. Prior to 1999, such equity securities were recorded at the lower of cost or market value, with market value defined as the average market values determined on an individual basis for 30 days immediately preceding the balance sheet date, with the difference between the original acquisition cost and revalued amount charged to current results of operation.

Unmarketable investments in equity securities (except for investments in subsidiaries) are stated at acquisition cost. If the Bank's portion of the net book value of the investment declines significantly compared to acquisition cost and is not expected to recover, the acquisition cost is adjusted to the net book value of the invested companies. In these cases, the difference between the original acquisition cost and revalued amount is charged to current operations.

Investments in debt securities are classified as either held-to-maturity or available-for-sale at the time of purchase. Held-to-maturity investments in debt securities are stated at purchase cost and available-for-sale investments in debt securities are stated at fair value, with resulting valuation gains or losses recorded as a capital adjustment. If the fair value of a held-to-maturity or a available-for-sale investments in debt securities declines significantly compared to the acquisition cost and is not expected to recover, the carrying value of the investment in debt securities is adjusted to fair value with resulting the valuation gain or loss charged to current operations. Prior to 1999, according to the Accounting and Reporting Guideline of the FSC, debt securities denominated in Won were recorded at acquisition cost.

Notes to the Consolidated Financial Statements

Beginning in fiscal year 1999, investment in Stock Market Stabilization Fund ("SMSF") is recorded at the Bank's equity ratio of net asset value of SMSF. The related valuation gain or loss is recorded in current operations. Prior to 1999, according to the Accounting and Reporting Guideline of FSC, the investment in SMSF is recorded at acquisition cost.

(g) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation except for upward revaluations made in accordance with the Asset Revaluation Law. Maintenance and repairs are charged to expense when incurred. Expenditures that result in enhancement of the value or expansion of the useful lives of the facilities involved are capitalized as additions to fixed assets. Depreciation for buildings, furniture and equipment is computed using a declining balance method over the estimated useful lives of the respective assets as stipulated in the Korean Tax Law except for buildings acquired after 1995, for which depreciation is computed by the straight-line method without residual value.

(h) Allowance for Possible Loan Losses

According to the Accounting Standards for the Banking Industry applied from January 1, 1999, the Bank classifies loans to businesses whose credit limit, including that for securities such as commercial paper and privately placed bonds and financing lease receivable, exceeds W10.0 billion (US\$8.7 million) into ten categories according to (1) past repayment history including overdue period and bankruptcy status of the borrower, and (2) future loan repayment capacity based on the borrower's business performance, financial status, cash flows, collateral, industry characteristics and evaluation of the management. Loans to other businesses and individuals are also classified into ten categories based only on past repayment history. The allowance for possible loan losses is then calculated at 0.5% of loan balances classified in categories 1 to 6, and 2%, 20%, 50% and 100% of the loan balances classified in categories 7, 8, 9 and 10, respectively. However, the Bank does not provide, and the Accounting Standards for the Banking Industry does not require, allowances for loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, and inter-bank loans in foreign currencies which are classified as category 1 to 6.

The allowance for loans to companies under workout are provided at 2%-20% of the balance outstanding, after deducting the present value discount under restructured debt accounting, and the allowance for loans to Daewoo Group are provided at 15% to 80% of the balance outstanding.

In 1998, the Bank used guidelines prescribed by the Korean banking regulatory authorities for determining an allowance for possible loan losses. These guidelines required that all loans be classified based on a number of factors, including the financial position of the borrower, the repayment history of the loan, the bank's past relationship and dealings with the borrower, and the status of any security. In accordance with these guidelines, loans have been classified as of December 31, 1998, as normal, precautionary, substandard, doubtful or loss and an allowance is then calculated on December 31, 1998 loan balances for each classification using the prescribed percentages of 0.5%, 2%, 20%, 75% and 100%, respectively.

Beginning in fiscal year 1999, the Bank provides allowances for confirmed guarantees and acceptances which were not subrogated by the Bank. The Bank classifies guarantees and acceptances according to the loan classifications described above and provides allowances in the amount of 20%, 50%, and 100% of those classified in category 8, 9 and 10, respectively. No allowance are provided for guarantees and acceptances in categories below 8.

(i) Accounting for Restructured Loans

Beginning in fiscal year 1999, in cases when there are differences between book values and present value of loans based on restructured terms agreed by the related parties (including court receivership, court mediation and mutual agreement), the present value is recorded in the balance sheet. The difference is offset against the allowance for possible loan losses, and charged to provision for possible loan losses if the difference exceeds the existing balance of the loan's allowance. These differences are recorded as present value discounts, which are deducted from the book value of loans and amortized over the restructured terms using the effective interest method. The amortization is recorded as interest income.

Notes to the Consolidated Financial Statements

(j) Accounting for Leases

The Bank accounts for its leasing business using either the operating method or the direct financing method, depending on the terms of the lease. Direct financing leases contain a transfer of ownership option in the lease agreements, a bargain purchase option, a term which exceeds the estimated economic useful life of the leased property (75% of the useful life for leases entered into after April 1, 1998), or for leases entered into after April 1, 1998, have the present value of the minimum lease payment of 90% or more of the fair value of the leased property.

Under the operating method, income is accrued as lease payments become receivable over the life of the lease.

Under the direct financing method, the excess of the present value of total lease payments to be recorded during the lease term over the cost of the leased property (with no residual value) constitutes unearned interest income which is recognized as revenue over the term of the lease using the interest method.

(k) Present Value Discounts

The difference between the nominal value and the present value of installment accounts receivable or payable arising from installment sales or purchases of foreclosed assets is amortized using the effective interest method and such amortization is included in other income or other expense.

(l) Retirement and Severance Benefits

The Bank's employees, directors and statutory auditors with more than one year of service are entitled to receive lump-sum payments upon termination of their service, based on length of service and rates of pay at the time of termination. The Bank accrued severance benefits at the amount that would be payable if all employees left at the balance sheet date.

Under the National Pension Scheme of Korea, the Bank is required to transfer a certain portion of retirement allowance of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount payable to the employees when they leave the Bank and is accordingly reflected as a reduction of other liabilities in the accompanying financial statements.

(m) Recognition of Interest Income

The Bank recognizes interest income earned on loans, call loans, long term deposits with other banks and securities on an accrual basis, except for interest income on loans having overdue interest, dishonored bills bought in foreign currencies, and all credits to customers which are bankrupt, given a grace period or a reduction and exemption of interest payments, or listed as Yellow and Red clients by the Korean Banking Authorities, where interest income is recognized when amounts are collected

(n) Deferred Income Taxes

The Bank accounts for income taxes under the provision of the Financial Accounting Standards which requires the recognition of deferred tax assets and liabilities created by temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Prior to 1999, provision is not made in the accounts to reflect the intraperiod allocation of income taxes resulting from certain income and expense items being treated differently for financial reporting purpose than for tax computation purpose, in accordance with generally accepted financial accounting standards in the Republic of Korea. However, overseas branches follow the tax allocation method of providing for income taxes according to local financial accounting standards. Such deferred tax assets and liabilities are included in other assets and liabilities, respectively, in the accompanying financial statements

(o) Goodwill

The excess of consideration distributed for business combinations over net assets transferred is classified as goodwill. Goodwill is amortized using the straight-line method over 5 years.

(p) Intangible Assets

Intangible assets (except for goodwill) are stated at acquisition cost plus manufacturing costs and additional costs less accumulated amortization. Intangible assets are amortized using straight-line method for a reasonable period based on the nature of the asset.

Notes to the Consolidated Financial Statements

(q) Accounting for Derivatives

Contract amount of derivative financial instruments is disclosed in the accompanying note to the consolidated financial statements by financial instruments category. Contract amounts denominated in a foreign currency are translated by the basic rate of exchange or buying rate of exchange as of the balance sheet date.

Derivatives financial instruments used for trading purposes are valued at estimated current market prices and resulting unrealized valuation gains or losses are recognized in current operations.

Derivatives financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the transactions being hedged or associated with such contract. The instruments are valued at fair value when underlying transactions are valued at market prices, and resulting unrealized valuation gains or losses are recorded in current operations. Unrealized valuation gains or losses are recognized at the time of settlement when the underlying transactions are not required to be valued at market prices.

(r) Earning (loss) per Share

Earning (loss) per share is computed by dividing net earnings or loss by the weighted average number of shares of common stock outstanding during the reporting period.

(s) Contingent Liabilities

Contingent losses are generally recognized when probable and reasonably estimable.

(t) Accounting Changes

Effective in fiscal years beginning after December 12, 1998, significant changes were introduced to Financial Accounting Standards in Korea and the Accounting Standards for the Banking Industry were newly introduced. These changes included, among others, changes in accounting for allowance for guarantees and acceptances, restructured loans and valuation of securities.

The cumulative effect on prior years of a change in accounting policy are charged or credited to beginning retained earnings or accumulated deficit carried over from the prior years. As a result of these changes, accumulated deficit increased by W128.4 billion (US\$112.1 million) and loss before income taxes for the year ended December 31, 1999 increased by W145.2 billion (US\$126.8 million) from amounts which would have been reported using the prior methods. The details of the accounting changes are as follows:

	Accumulated deficit		Loss before income taxes	
	Billions of Korean Won	Millions of U.S. Dollars (note 3)	Billions of Korean Won	Millions of U.S. Dollars (note 3)
Allowance for guarantees and acceptances	W (41.3)	\$ (36.1)	W (81.5)	\$ (71.2)
Accounting for restructured loans	(86.0)	(75.1)	(68.8)	(60.0)
Trading and investment securities	(13.9)	(12.1)	7.0	6.1
Deferred income taxes	14.9	13.0	-	-
Other	(2.1)	(1.8)	(1.9)	(1.7)
	W(128.4)	\$(112.1)	W(145.2)	\$(126.8)

(u) Cash Equivalents

For purpose of the consolidated statements of cash flows, cash equivalents include due from banks in local currency, due from banks in foreign currencies and foreign currency on hand.

(v) Reclassification

Certain amounts in the 1998 consolidated financial statements have been reclassified to conform with the current year's presentation.

Notes to the Consolidated Financial Statements

3. Basis of Translating Consolidated Financial Statements

The Consolidated financial statements as of and for the year ended December 31, 1999 and 1998 are expressed in Korean Won and, solely for the convenience of the reader, have been translated into U.S. Dollars at the rate of W1,145.4 to US\$1 and W1,207.8 to US\$1, the exchange rate at December 31, 1999 and 1998, respectively. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. Dollars at these or any other rates.

4. Economic Environment

The liquidity crisis which began in late 1997 in the Republic of Korea and other countries in the Asia Pacific region necessitated assistance from the International Monetary Fund and a comprehensive policy package intended to address the structural weaknesses in the Korean economy and financial sector was developed and implemented by the government of the Republic of Korea. While the reform policies were intended to improve the economy over time, the immediate effects included slower economic growth, a reduction in the availability of credit, an increase in interest rates, significant devaluation of the Korean Won, an increase in the number of bankruptcies of Korean entities, and labor unrest resulting from the increase in unemployment. These conditions and similar conditions in other countries in the Asia Pacific region have had a material adverse effect on the operations of the Bank. Recently, however, economic difficulties have largely been overcome in the Republic of Korea, as evidenced by significant increase in foreign exchange reserves, above-average economic growth and stabilized foreign exchange rates. Nevertheless, it would be premature to be complacent about the economic recovery given, among other factors, the remaining residual effects of the economic crisis which could have a continuing impact on the economy.

The accompanying consolidated financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results could differ from management's current assessments and such differences could be material.

5. Cash and Due from Banks

Cash and due from banks as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Cash and checks	W1,210,399	W1,159,282	\$1,056,748	\$ 959,829
Foreign currencies	60,830	40,418	53,108	33,464
Due from banks in Won	1,222,857	630,939	1,067,624	522,387
Due from banks in foreign currencies	649,320	727,164	566,894	602,057
	W3,143,406	W2,557,803	\$2,744,374	\$2,117,737

6. Restricted Deposits

The bank has certain deposits restricted in use under the banking regulations in the Republic of Korea. Restricted deposits as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Reserve deposits with BOK	W 615,857	W223,792	\$537,678	\$185,289
Group severance deposits	135,597	282,466	118,384	233,868
Others	359,199	13,900	313,602	11,509
	W1,110,653	W520,158	\$969,664	\$430,666

Notes to the Consolidated Financial Statements

7. Trading Securities

Trading securities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Stocks	W 245,031	W 358,181	\$ 213,926	\$ 296,557
Government bonds	466,040	340,619	406,880	282,016
Finance debentures	653,721	514,608	570,736	426,071
Local government bonds	70,795	12,006	61,808	9,940
Corporate bonds	471,680	747,052	411,804	618,523
Trading securities in foreign currencies	54,854	50,007	47,891	41,403
Other	1,732,094	2,635,227	1,512,217	2,181,840
	W3,694,215	W4,657,700	\$3,225,262	\$3,856,350

8. Investment Securities

Investment securities as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Stocks	W 381,723	W 66,483	\$ 333,266	\$ 55,045
Government bonds	1,535,556	375,551	1,340,629	310,938
Finance debentures	1,176,170	1,408,874	1,026,864	1,166,479
Local government bonds	22,014	84	19,219	70
Corporate bonds	5,000,664	1,836,482	4,365,867	1,520,518
Investment securities in foreign currencies	970,093	1,202,041	846,947	995,232
Other	1,264,856	490,818	1,104,292	406,373
	W10,351,076	W5,380,333	\$9,037,084	\$4,454,655

9. Loans and Allowance for Possible Loan Losses

Loans and allowance for possible loan losses as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loans in Won	W18,066,367	W14,055,724	\$15,772,976	\$11,637,460
Loans in foreign currencies	4,345,567	6,089,045	3,793,930	5,041,434
Other	5,570,962	5,119,531	4,863,770	4,238,725
	27,982,896	25,264,300	24,430,676	20,917,619
Allowance for possible loan losses	(2,926,404)	(1,071,259)	(2,554,919)	(886,951)
Present value discounts (see note 10)	(157,021)	-	(137,088)	-
	W24,899,471	W24,193,041	\$21,738,669	\$20,030,668

Notes to the Consolidated Financial Statements

10. Restructured Loans

Restructured loans as of December 31, 1999 are summarized as follows:

Borrower	Face Value		Interest rate	Maturity date	Present Value Discount	
	Millions of Korean Won	Thousands of U.S. Dollars (note3)			Millions of Korean Won	Thousands of U.S. Dollars (note3)
Korea Development Lease	W 278,690	\$ 243,312	6.18%~10.00%	2000.06.30	W 55,460	\$ 48,420
Daelim Industry	185,000	161,516	11.50%	2000.12.31	522	456
Jindo	173,991	151,904	9.89%~21.75%	2002.12.31	31,660	27,641
Ssangyoung Motors	159,618	139,356	7.00%~10.00%	2000.12.31	11,602	10,129
Hanmi Capital	136,402	119,087	6.95%~ 7.13%	2005.08.31	4,784	4,177
Daesung Timber	31,200	27,239	18.25%	2004.12.31	6,751	5,894
Samho	30,000	26,192	11.50%	2001.12.31	307	268
Kohap	25,518	22,279	10.13%	2003.12.31	2,302	2,010
Dongbang T&C	23,601	20,605	9.89%~10.87%	2002.03.12	3,122	2,726
Shinho Paper	18,983	16,573	9.89%~18.75%	2002.12.31	3,378	2,949
Others	185,178	161,671			37,133	32,418
	W1,248,181	\$1,089,734			W157,021	\$137,088

11. Fixed Assets

Fixed assets as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Land and buildings	W1,398,812	W1,170,219	\$1,221,243	\$ 968,885
Equipment	377,996	976,581	330,012	808,562
Leasehold improvements	32,560	32,558	28,427	26,957
Construction in progress	5,254	4,922	4,587	4,075
Total tangible assets	1,814,622	2,184,280	1,584,269	1,808,479
Accumulated depreciation	(367,457)	(664,686)	(320,810)	(550,328)
Goodwill	347,424	1,124	303,321	931
Other intangible assets	5,300	10,615	4,627	8,788
Non-business use property	11,064	7,941	9,659	6,575
Present value discounts	(213)	-	(186)	-
Valuation allowances	(169)	-	(148)	-
	W1,810,571	W1,539,274	\$1,580,732	\$1,274,445

Notes to the Consolidated Financial Statements

12. Other Assets

Other assets as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Guarantee deposits	W 441,677	W 471,925	\$ 385,609	\$ 390,731
Accounts receivables	310,316	146,166	270,924	121,018
Accrued income	367,686	983,499	321,012	814,290
Finance lease receivables	1,012,655	-	884,106	-
Allowance for possible loan losses	(104,539)	-	(91,269)	-
Properties leased under operating leases, net of depreciation and allowance for loss on disposal of properties	358,132	-	312,669	-
Local exchange remittances receivable	300,105	298,400	262,009	247,061
Others	354,414	460,063	309,424	380,911
	W3,040,446	W2,360,053	\$2,654,484	\$1,954,011

13. Deposits

Deposits as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Deposits in local currency:				
Bank-bank accounts	W23,930,919	W16,492,936	\$20,893,067	\$13,655,354
Bank-trust accounts	2,463,506	5,381,596	2,150,782	4,455,701
Subsidiaries	178,000	170,689	155,405	141,322
	26,572,425	22,045,221	23,199,254	18,252,377
Deposits in foreign currencies	1,758,508	2,301,269	1,535,279	1,905,339
Negotiable certificates of deposits	2,003,511	59,337	1,749,179	49,129
	W30,334,444	W24,405,827	\$26,483,712	\$20,206,845

14. Borrowings

Borrowings as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Borrowings in Won	W1,796,970	W 2,426,262	\$1,568,858	\$2,008,828
Borrowings in foreign currencies	3,060,059	3,997,338	2,671,607	3,309,603
Bonds sold under repurchase agreements	893,702	314,747	780,253	260,595
Bills sold	551,362	89,710	481,371	74,275
Due to the Bank of Korea in foreign currencies	2,694,630	3,442,713	2,352,567	2,850,400
Call money	288,186	1,138,335	251,603	942,486
	W9,284,909	W11,409,105	\$8,106,259	\$9,446,187

Notes to the Consolidated Financial Statements

15. Debentures

Debentures as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Debentures in Won	W1,705,234	W1,308,406	\$1,488,768	\$1,083,297
Debentures in foreign currencies	690,104	394,951	602,500	327,000
Discounts	(2,875)	-	(2,510)	-
	W2,392,463	W1,703,357	\$2,088,758	\$1,410,297

16. Subordinate Borrowings and Debentures

Subordinate borrowings and debentures as of December 31, 1999 are summarized as follows:

Description	Lender	Borrowing date	Maturity date	Interest rate per annum	Amount	
					Millions of Korean Won	Thousands of U.S. Dollars (note3)
Borrowings	Samsung Life Insurance	1997-05-31	2007-05-31	7.5%	W 200,000	\$174,611
	Kyobo Life Insurance	1997-05-31	2007-05-31	8.5%	80,000	69,845
	Kyobo Life Insurance	1997-12-31	2007-12-31	14.7%	15,000	13,096
	Daehan Life Insurance	1997-12-31	2007-12-31	8.5%	100,000	87,306
Debentures	Public Capital Management Fund	1997-12-24	2003-03-31	Basis rate+1%	450,000	392,876
	Public Capital Management Fund	1997-12-24	2003-03-31	Basis rate+2%	46,000	40,161
	Public Capital Management Fund	1997-12-24	2003-03-31	Basis rate+2%	43,000	37,541
	CHB Credit Cooperative Association	1997-12-31	2007-12-31	14.45%	2,000	1,746
	Public Capital Management Fund	1998-12-29	2004-03-31	Basis rate+1%	34,700	30,295
	Daishin Securities	1998-01-23	2008-01-23	15.00%	20,000	17,461
	Daishin Securities	1998-02-27	2008-02-27	18.00%	20,000	17,461
	Daishin Securities	1998-03-30	2008-03-30	18.00%	10,000	8,731
	Debentures in Foreign currency	1999-12-07	2005-01-07	6M Libor+4.95%	114,540	100,000
				W1,135,240	\$991,130	

Basis rate : The deposit interest rate of the Public Capital Management Fund (Three-month flexible rate)

Notes to the Consolidated Financial Statements

17. Other Liabilities

Other liabilities as of December 31, 1999 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Accrued severance benefits	W 140,879	W 286,348	\$ 122,995	\$ 237,082
Transfer to National Pension	(9,674)	(15,507)	(8,446)	(12,839)
Allowance for possible losses of acceptances and guarantees	189,892	-	165,787	-
Other allowances	61,482	2,826	53,677	2,340
Borrowings from trust accounts	634,568	183,955	554,014	152,306
Foreign exchange remittances pending	30,159	25,519	26,331	21,128
Deposits for letter of guarantees and others	60,327	58,888	52,669	48,756
Accrued expenses	751,913	1,189,959	656,463	985,229
Domestic exchange settlement credit	75,159	109,956	65,618	91,038
Unearned revenue	105,798	144,683	92,368	119,791
Accounts payable-other	289,918	123,571	253,115	102,311
Other	403,845	916,176	352,580	758,550
	W2,734,266	W3,026,374	\$2,387,171	\$2,505,692

18. Common Stock

According to the general shareholders' meeting held on January 27, 1999, the Bank reduced its outstanding shares at a rate of 4.505 shares to 1 share without compensation. Due to this reduction, share capital of the Bank was reduced by W723.9 billion (US\$632.0 million) with the resulting gain from capital reduction of W723.9 billion (US\$632.0 million) was transferred to offset accumulated deficit during 1999. On February 19, 1999, May 7, 1999 and September 30, 1999, the Bank increased its share capital by W2,717.9 billion (US\$2,372.9 million) by issuing a total of 544 million shares to Korea Deposit Insurance Corporation ("KDIC") at par value. In addition, the Bank increased its share capital by W196.0 billion (US\$171.1 million) through its mergers with Chungbuk Bank and Kangwon Bank and W275 billion (US\$240.1 million) through a public offering. As a result, the balance of the Bank's common stock as of December 31, 1999 is W3,395.4 billion (US\$2,964.4 million) and Korean Deposit Insurance Corporation has ownership of 80.05% of the Bank's outstanding common shares.

As of December 31, 1999, the Bank was authorized to issue 2,000,000,000 shares of common stock, W5,000 par value, and the number of shares of common stock issued and outstanding was 679,078,115 shares. For the years ended December 31, the changes of Common stock are summarized as follows:

Description	Millions of	Thousands of	Date
	Korean Won	U.S. Dollars (note3)	
Beginning balance	W 930,429	\$ 812,318	1998-12-31
Decrease due to reduction of shares	(723,913)	(632,018)	1999-02-12
Investment by KDIC	2,112,300	1,844,159	1999-02-19
Price for acquisition of Chungbuk Bank	1	1	1999-05-03
Investment by KDIC	212,250	185,306	1999-05-07
Price for acquisition of Kangwon Bank	196,024	171,140	1999-09-13
Investment by KDIC	393,300	343,374	1999-09-30
Issuance of new shares	275,000	240,091	1999-11-23
Ending balance	W3,395,391	\$2,964,371	

Notes to the Consolidated Financial Statements

On November 23, 1999, the Bank completed an offering in Korea of 55,000,000 shares of common stock for an aggregate purchase price of approximately W302.5 billion (US\$261.7 million). In connection with such offering of common stock, on November 22, 1999, the Bank also issued bonds with warrants in the aggregate principal amount of W550.0 billion (US\$475.8 million). The subscription for these offerings, which was not fully subscribed but fully underwritten, took place on November 17 and November 18, 1999. The bonds have a maturity of three years with one year put and call options and pay interest at 10% per annum. The warrants are separable from the bonds upon issuance of the bonds. The warrants are exercisable from February 23, 2000 until October 22, 2002 at an exercise price of W5,790 per share.

19. Capital Adjustments

Capital adjustments as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Treasury stock	W(262,742)	W -	\$(229,389)	\$ -
Loss on valuation of investment securities	(30,800)	(11,517)	(26,890)	(9,536)
Discounts on stock issuance	(2,552)	-	(2,228)	-
Bank's stocks owned by subsidiaries	(4)	(33)	(4)	(27)
Debt for equity conversion	65,152	-	56,882	-
	W(230,946)	W(11,550)	\$(201,629)	\$(9,563)

20. Transactions with Affiliated Companies

(1) Significant transactions between the Bank and its subsidiaries which have been eliminated from the accompanying consolidated financial statements for the years ended December 31, 1999 and 1998 are as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loans in Won	W -	W79,860	\$ -	\$66,120
Loans in foreign currencies	112,888	265,384	98,558	219,725
Due from bank in Won	89,498	-	73,772	-
Due from bank in foreign currencies	150,828	239,281	131,682	198,113
Deposits in Won	71,951	46,964	62,817	38,884
Borrowings in Won	4,412	-	3,852	-
Borrowings in foreign currencies	37,597	W62,007	32,824	\$51,339

(2) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 1999 are summarized as follows:

Company	Millions of	Thousands of	Description
	Korean Won	U.S. Dollars	
Chohung Finance Ltd. Hong Kong	W 770	\$ 672	L/C Guarantees
Chohung Bank (Deutschland) GmbH	19,144	16,714	Guarantees for borrowings

Notes to the Consolidated Financial Statements

21. Income Taxes

The Bank is subject to a number of taxes based upon earnings which result in the normal tax rate of 30.8%.

The Bank has provided for income tax expense (benefit) for the years ended December 31, 1999 and 1998 as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Current	W13,996	W9,685	\$12,219	\$8,019
Deferred	17,785	-	15,528	-
	W31,781	W9,685	\$27,747	\$8,019

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 1999 are presented below:

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Deferred tax assets (Liabilities):		
Tax loss carryforward	W 910,472	\$ 794,894
Allowance for possible loan losses	257,225	224,572
Accrued interest	(99,863)	(87,186)
Loss on valuation of securities	(15,264)	(13,326)
Reserve for loss on overseas' investment	(7,582)	(6,619)
Allowance for possible losses of acceptances and guarantees	31,666	27,646
Other	44,914	39,212
	1,121,568	979,193
Valuation allowance	(1,103,783)	(963,666)
	W 17,785	\$ 15,527

The management of the Bank believes that total deferred tax assets amounting W1,103,783 million (US\$963,666 thousand) is not, more likely than not, realizable and, accordingly, has established a valuation allowance for this amount as of December 31, 1999.

22. Commitments and Contingencies

In the normal course of its commercial banking business, the Bank makes various commitments and incurs certain contingent liabilities which are not recorded in the financial statements.

(1) Guarantees and acceptances provided by the Bank as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Confirmed	W3,573,326	W4,120,228	\$3,119,719	\$3,411,350
Unconfirmed	2,411,346	2,488,528	2,105,244	2,060,381
Indorsed note	948,892	28,135	828,437	23,294

Notes to the Consolidated Financial Statements

(2) The amounts of derivative contracts as of December 31, 1999 and 1998 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Forward exchange sales contracts	W1,894,016	W1,526,851	\$1,653,585	\$1,264,159
Forward exchange purchase contracts	976,253	1,301,023	852,325	1,077,184
Interest rate sales contracts	1,016,081	1,125,466	887,097	931,831
Interest rate purchase contracts	1,015,461	1,125,640	886,556	931,975

(3) Litigation

The Bank is engaged in certain legal actions as the plaintiff for delinquent and written-off loans amounting to W123,927 million (US\$108,195 thousand) and W82,483 million (US\$68,292 thousand) as of December 31, 1999 and 1998, respectively, and as the defendant against the exercise of commitments filed by a plaintiff amounting to W2,601,308 million (US\$2,271,091 thousand) and W22,808 million (US\$18,884 thousand) as of December 31, 1999.

As for the proceedings pending against or involving the Bank, management does not expect the aggregate liability or loss, if any, to have a material adverse effect on the financial condition of the Bank.

23. Prior Year Adjustments

Prior year adjustments included in accumulated deficit for the year ended December 31, 1999 are summarized as follows:

	Millions of Korean Won		Thousands of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Loss on prior year adjustments:				
Payment of other income in prior years	W 1,613		\$ 1,408	
Amortization of exchange adjustment	17,746		15,493	
Repayment of excess interest in prior years	43		38	
	W19,402		\$16,939	
Gain on prior year adjustments:				
Reversal of interest recorded in prior years	W 5,253		\$ 4,586	
Reversal of other expenses recorded in prior years	81		71	
	W 5,334		\$ 4,657	

24. Net Loss per Share

Net loss per share for the years ended December 31, 1999 and 1998 are computed as follows:

	Millions (except per share amounts) of Korean Won		Thousands (except per share amounts) of U.S. Dollars (note 3)	
	1999	1998	1999	1998
Net loss	W (746,322)	W (2,082,789)	\$ (651,582)	\$ (1,724,449)
Weighted average number of common shares	463,729,376	186,085,890	463,729,376	186,085,890
Net loss per common share	W (1,609)	W (11,193)	\$ (1.40)	\$ (9.27)

Notes to the Consolidated Financial Statements

25. Acquisition of Chungbuk Bank and Kangwon Bank

(a) Chungbuk Bank

Under the contract of merger with Chungbuk Bank dated March 22, 1999 and the approval at the shareholders' meeting on April 14, 1999, the Bank merged with Chungbuk Bank on April 30, 1999.

Chungbuk Bank was established in 1971 under the Korean Banking Law to engage in commercial banking and trust operation. Chungbuk Bank's shares were listed on the Korea Stock Exchange Market on March 30, 1974.

The Bank issued 144 shares of common stock under the merger agreement, exchanging 0.0144 shares of the Bank's common stock for each share of Chungbuk Bank.

Summary of financial information of Chungbuk Bank as of and for the four-month period ended April 30, 1999 is as follows.

Summary of Balance Sheet - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Cash and due from banks	W 137,875	\$ 120,373
Trading securities	134,314	117,264
Investment securities	493,551	430,898
Loans	741,212	647,121
Fixed assets	108,651	94,859
Other assets	111,435	97,288
<b>Total Assets</b>	<b>W1,727,038</b>	<b>\$1,507,803</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits	W1,396,905	\$1,219,578
Borrowings	270,283	235,973
Debentures	46,043	40,198
Other liabilities	133,921	116,921
<b>Total Liabilities</b>	<b>1,847,152</b>	<b>1,612,670</b>
Common stock	50	43
Accumulated deficit	(120,164)	(104,910)
<b>Total Shareholders' Equity</b>	<b>(120,114)</b>	<b>(104,867)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>W1,727,038</b>	<b>\$1,507,803</b>

Notes to the Consolidated Financial Statements

Summary of Statement of Operations - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Operating Income	W 85,329	\$ 74,497
Operating Expense	71,351	62,294
Non-operating Income	1,256	1,097
Non-operating expense	37,610	32,836
Net Loss	W(22,376)	\$(19,536)

Summary of Balance Sheet - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Loans	W 27,339	\$ 23,869
Securities	129,334	112,916
Other assets	14,444	12,610
Loans to bank accounts	58,819	51,352
Total Assets	W229,936	\$200,747
<b>Liabilities</b>		
Money trusts	W197,344	\$172,293
Other liabilities	25,470	22,237
Special reserve	326	284
Allowance for credit losses	6,796	5,933
Total Liabilities	W229,936	\$200,747

Summary of Statements of Operations - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Interest Income	W8,827	\$7,706
Interest paid	9,532	8,322
Other revenues	2,004	1,750
Other expenses	1,299	1,134

Certain accounts in the balance sheet of Chungbuk Bank were changed and reclassified according to the Accounting and Reporting Guidelines of the Bank. The assets and liabilities of Chungbuk Bank were accounted for at their book value as of April 30, 1999, in accordance with the Accounting Standards for Business Combinations. In connection with the merger with Chungbuk Bank, the Bank recorded goodwill amounting to W120,115 million (US\$104,867 thousand), which is the excess of considerations distributed for the business combination over net assets transferred.

Notes to the Consolidated Financial Statements

(b) Kangwon Bank

Under the contract of merger with Kangwon Bank dated at May 10, 1999, the Bank merged with Kangwon Bank on September 11, 1999.

Kangwon Bank was established in 1970 under the Korean Banking Law to engage in commercial banking and trust operation. Kangwon Bank's shares were listed on March 30, 1972 on the Korea Stock Exchange Market.

The Bank issued 39,204,718 shares of common stock under the merger agreement, exchanging 0.1043 shares of the Bank's common stock for each share of Kangwon Bank.

Summary of financial information of Kangwon Bank as of and for the nine-month period ended September 11, 1999 is as follows.

Summary of Balance Sheet - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Cash and due from banks	W 172,714	\$ 150,789
Trading securities	516,956	451,332
Investment securities	781,467	682,266
Loans	1,899,019	1,657,953
Fixed assets	122,643	107,074
Other assets	1,211,649	1,057,839
Total Assets	W4,704,448	\$4,107,253
<b>Liabilities and Shareholders' Equity</b>		
Deposits	W2,559,011	\$2,234,164
Borrowings	1,534,424	1,339,640
Debentures	587,097	512,569
Other liabilities	328,387	286,700
Total Liabilities	5,008,919	4,373,073
Common stock	1,879,278	1,640,718
Accumulated deficit	(2,051,558)	(1,791,128)
Capital adjustments	(132,191)	(115,410)
Total Shareholders' Equity	(304,471)	(265,820)
Total Liabilities and Shareholders' Equity	W4,704,448	\$4,107,253

Summary of Statement of Operations - Bank Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Operating income	W 592,488	\$ 517,276
Operating expense	2,195,646	1,916,925
Non-operating income	22,993	20,074
Non-operating expense	177,835	155,260
Net Loss	W(1,758,000)	\$(1,534,835)

Notes to the Consolidated Financial Statements

Summary of Balance Sheet - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
<b>Assets</b>		
Loans	W 66,131	\$ 57,736
Securities	355,841	310,670
Other assets	31,875	27,829
Loans to bank accounts	34,383	30,018
Total Assets	W488,230	\$426,253
<b>Liabilities</b>		
Money trusts	W384,979	\$336,109
Other liabilities	44,999	39,287
Special reserve	1,153	1,006
Allowance for credit losses	57,099	49,851
Total Liabilities	W488,230	\$426,253

Summary of Statement of Operations - Trust Accounts

	Millions of Korean Won	Thousands of U.S. Dollars (note 3)
Interest income	W41,374	\$36,122
Interest paid	42,023	36,688
Other revenues	45,918	40,089
Other expenses	45,269	39,522

Certain accounts in the balance sheet of Kangwon Bank were changed and reclassified according to the Accounting and Reporting Guidelines of the Bank. The assets and liabilities of Kangwon Bank were accounted for at their book value as of September 11, 1999, in accordance with the Accounting Standards for Business Combinations. In connection with the merger with Kangwon Bank, the Bank recorded goodwill amounting to W314,091 million (US\$274,219 thousand), which is the excess of considerations distributed for the business combination over net assets transferred.

26. Sale of Non-Performing Loans

From December 15, 1997 to December 31, 1999, the Bank sold non-performing loans totaling W3,518.2 billion (US\$3,071.6 million), including W256.6 billion (US\$224.0 million) in 1999, to Korea Asset Management Corporation ("KAMCO") at a price of W2,000.0 billion (US\$1,746.1 million) and recognized a net loss of W1,518.2 billion (US\$1,325.5 million) included in other non-interest expense in the statements of operations. As of December 31, 1999, the outstanding balance of the loans sold, on which payment remains to be settled, is W915.5 billion (US\$799.3 million).

Notwithstanding the sale and the elimination of these assets from the balance sheet, the Bank remains liable to KAMCO for the purchase price of the non-performing assets that were sold on a recourse basis totaling W2,112.2 billion (US\$1,844.1 million). If KAMCO recovers or restructures such non-performing loans, the Bank is either (i) entitled to receive from KAMCO the amount KAMCO ultimately recovers (less expenses) from the defaulting borrower in excess of the purchase price KAMCO paid to the Bank for such loans or (ii) required to pay to KAMCO any shortfall between the purchase price KAMCO paid for the loans and the amount KAMCO ultimately recovers (less expenses) from the defaulting borrowers.

No contingent liability has been recorded in the Bank's financial statements. No assurance can be given that, in connection with the loans sold to KAMCO with recourse, further losses will not be recognized by the Bank in the event KAMCO recovers less than the discounted price of the loans sold to it. Any such losses could have a material adverse effect on the financial condition and results of operations of the Bank.

Notes to the Consolidated Financial Statements

27. Restructured Loans Under Workout Program

As of December 31, 1999, the Bank's outstanding total exposure (including loans, confirmed guarantees and acceptances) to companies, other than Daewoo Group, under workout plans amounts to W2,238.8 billion (US\$1,954.6 million). A total allowance for possible loan losses (including confirmed acceptances and guarantees) of W308.1 billion (US\$269.0 million), after deducting present value discounts of W113.2 billion (US\$98.8 million), has been provided related to this aggregate exposure. The Bank's results of operations and financial condition will be affected for the foreseeable future by the collectability of these loans. The ultimate effect that these significant uncertainties will have on the stated value of the related loans at the balance sheet date cannot presently be determined.

28. Loans to Daewoo Group

Daewoo Group, which was placed under a workout plan in August 1999 due to its liquidity problems, is undergoing a business restructuring as of December 31, 1999. As of December 31, 1999, the Bank has loans outstanding to Daewoo Group (including confirmed acceptances and guarantees) of W2,389.6 billion (US\$2,086.3 million) for which an allowance for possible loan losses of W1,270.2 billion (US\$1,109.1 million) has been provided according to provisioning requirements based on the loan classifications. The Bank also has securities issued by Daewoo Group of W223.9 billion (US\$195.5 million) for which loss on valuation of trading securities and investment bond impairment loss of W133.1 billion (US\$116.2 million) has been recognized. The recovery of loans outstanding to Daewoo Group is mainly dependent upon the results of the business restructuring which is not finalized and continues to be under negotiations as of December 31, 1999. The ultimate effect that these significant uncertainties will have on the financial position of the Bank cannot presently be determined.

29. Subsequent Events

The Bank sold its 51% ownership in Chohung Securities Co., Ltd. to KGI Korea Ltd. for W81.5 billion (US\$71.2 million) on January 7, 2000, and its 100% ownership in Chohung Mutual Savings and Finance Co., Ltd. to Shin An Co., Ltd., and its related party for W2.5 billion (US\$2.2 million) on January 10, 2000. As a result of these transactions, the Bank recorded losses on sale of investment securities of W19.7 billion (US\$17.2 million) and W24.4 billion (US\$21.3 million), respectively, in fiscal year 2000.

Independent Auditors' Report



**KPMG San Tong Corp.**

P.O. Box Kangnam 1989  
Seoul 135-701  
Republic of Korea

15th Fl., Construction Center  
71-2 Nonhyun-Dong Kangnam-Ku  
Seoul 135-701 Republic of Korea

Telephone (822) 3438-2000  
Fax (822) 3442-3200  
www.kr.kpmg.com

**The Shareholders and Board of Directors**

**Chohung Bank :**

We have audited the accompanying consolidated balance sheet of Chohung Bank and subsidiaries (the "Bank") as of December 31, 1999 and the related consolidated statements of operations, changes in capital surplus and accumulated deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets constituting approximately 2.5% and total revenues constituting 10.1%, respectively, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of other auditors. The consolidated financial statements of the Bank as of December 31, 1998 were audited by other auditors whose report dated February 13, 1999, expressed an unqualified opinion on those statements.

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

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above give a true and fair view, in all material respects, of the financial position of Chohung Bank and subsidiaries as of December 31, 1999, and of the result of their operations, the changes in their capital surplus and accumulated deficit and cash flows for the year then ended in accordance with Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(s) to the consolidated financial statements, the Bank changed its accounting policies on, among others, allowance for guarantees and acceptances, accounting for restructured loans and valuation of securities, according to the Accounting Standards for the Banking Industry applied from January 1, 1999. As a result of these changes, accumulated deficit as of December 31, 1999 increased by W128.4 billion (US\$112.1 million) and loss before income taxes for the year ended December 31, 1999 increased by W145.2 billion (US\$126.8 million) from amounts which would have been reported using the prior methods.

As discussed in note 28 to the consolidated financial statements, Daewoo Group, which was placed under a workout plan in August 1999 due to its liquidity problems, is undergoing a business restructuring as of December 31, 1999. As of December 31, 1999, the Bank has loans outstanding to Daewoo Group (including confirmed acceptances and guarantees) of W2,389.6 billion (US\$2,086.3 million) for which an allowance for possible loan losses of W1,270.2 billion (US\$1,109.1 million) has been provided according to provisioning requirements based on loan classifications. The Bank also has securities issued by Daewoo Group of W223.9 billion (US\$195.5 million) for which loss on valuation of trading securities and investment bond impairment loss of W133.1 billion (US\$116.2 million) has been recognized. The recovery of loans outstanding to Daewoo Group is mainly dependent upon the results of the business restructuring which is not finalized and continues to be under negotiations as of December 31, 1999. The ultimate effect that these significant uncertainties will have on the financial position of the Bank cannot presently be determined.

Independent Auditors' Report

As discussed in note 27 to the consolidated financial statements, as of December 31, 1999, the Bank's outstanding total exposure (including loans, confirmed guarantees and acceptances) to companies, other than Daewoo, under workout plans amounts to W2,238.8 billion (US\$1,954.6 million). A total allowance for possible loan losses (including confirmed acceptances and guarantees) of W308.1 billion (US\$269.0 million), after deducting present value discounts of W113.2 billion (US\$98.8 million), has been provided related to this aggregate exposure. The Bank's results of operations and financial condition will be affected for the foreseeable future by the collectability of these loans. The ultimate effect that these significant uncertainties will have on the stated value of the related loans at the balance sheet date cannot presently be determined.

As discussed in note 26 to the consolidated financial statements, from December 1997 to December 31, 1999, the Bank sold non-performing loans totaling W3,518.2 billion (US\$3,071.6 million), including W256.6 billion (US\$224.0 million) in 1999, to Korea Asset Management Corporation ("KAMCO"). As of December 31, 1999, the outstanding balance of the loans sold, on which payment remains to be settled, is W915.5 billion (US\$799.3 million). Notwithstanding the sale of these assets, the Bank remains liable to KAMCO for the purchase price of the non-performing assets that were sold on a recourse basis totaling W2,112.2 billion (US\$1,844.1 million). If KAMCO recovers or restructures such non-performing loans, the Bank is either (i) entitled to receive from KAMCO the amount KAMCO ultimately recovers (less expenses) from the defaulting borrower in excess of the purchase price KAMCO paid to the Bank for such loans or (ii) required to pay to KAMCO any shortfall between the purchase price KAMCO paid for the loans and the amount KAMCO ultimately recovers (less expenses) from the defaulting borrowers. No contingent liability has been recorded in the Bank's consolidated financial statements. No assurance can be given that, in connection with the loans sold to KAMCO with recourse, further losses will not be recognized by the Bank in the event KAMCO recovers less than the discounted price of the loans sold to it. Any such losses could have a material effect on the financial condition and results of the operations of the Bank.

As discussed in note 25 to the consolidated financial statements, the Bank acquired Chungbuk Bank and Kangwon Bank on April 30, 1999 and September 11, 1999, respectively. The Bank issued 144 shares and 39,204,718 shares of common stock under the merger agreements, exchanging 0.0144 shares and 0.1043 shares of the Bank's common stock for each share of Chungbuk Bank and Kangwon Bank, respectively.

As discussed in note 4 to the consolidated financial statements, the operations of the Bank has been affected and may continue to be affected for the foreseeable future by the adverse economic conditions in the Republic of Korea in recent years and those in the Asia Pacific region in general. The ultimate effect that these significant uncertainties will have on the financial position of the Bank at the balance sheet date cannot presently be determined and accordingly no provisions have been made.

As discussed in note 2(a) to the consolidated financial statements, the accompanying consolidated financial statements are not intended to present the Bank's financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The standards and practices under which such consolidated financial statements were prepared are those generally accepted and applied in the Republic of Korea.

*KPMG San Tong Corp.*

February 7, 2000

 KPMG San Tong Corp., a corporation established under Korean law, is a member of KPMG International, a Swiss association.

Financial Statements of Overseas Subsidiaries / Balance Sheets

Thousands of U.S. Dollars

December 31, 1999

	Chohung Finance Ltd. Hong Kong	Chohung Bank of New York	Chohung Bank (Deutscheland) GmbH	California Chohung Bank
<b>Assets</b>				
Cash and due from banks	34,556	10,225	22,252	5,035
Loans and bills discounted	129,336	76,695	76,651	71,011
Call loans	-	-	-	9,500
Securities	40,922	18,981	16,251	499
Customers' liabilities under acceptances and guarantees	5,239	175	3,852	-
Premises and equipment	448	9,302	159	541
Other assets	17,009	1,739	1,011	2,751
<b>Total Assets</b>	<b>227,510</b>	<b>117,117</b>	<b>120,176</b>	<b>89,337</b>
<b>Liabilities and Stockholders' Equity</b>				
<b>Liabilities</b>				
Deposits	140,175	56,125	14,036	53,756
Borrowings	36,500	32,325	84,308	-
Acceptances and guarantees	5,239	175	3,635	-
Import guarantee money	-	249	217	-
Other Liabilities	21,242	831	2,011	207
<b>Total Liabilities</b>	<b>203,156</b>	<b>89,705</b>	<b>104,207</b>	<b>53,963</b>
<b>Stockholders' Equity</b>				
Paid-in capital	15,000	14,000	15,382	30,681
Reserve and surplus	9,354	13,412	587	4,693
<b>Total Stockholders' Equity</b>	<b>24,354</b>	<b>27,412</b>	<b>15,969</b>	<b>35,374</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>227,510</b>	<b>117,117</b>	<b>120,176</b>	<b>89,337</b>

Financial Statements of Overseas Subsidiaries / Statements of Operations

Thousands of U.S. Dollars

For the year ended December 31, 1999

	Chohung Finance Ltd. Hong Kong	Chohung Bank of New York	Chohung Bank (Deutscheland) GmbH	California Chohung Bank
<b>Interest Income</b>				
Interest on loans and bills discounted	14,738	7,404	6,416	5,027
Interest on due from banks	2,385	-	1,391	-
Interest and dividends on securities	3,932	1,227	1,146	33
Other interest income	1,144	711	-	857
<b>Total Interest Income</b>	<b>22,199</b>	<b>9,342</b>	<b>8,953</b>	<b>5,917</b>
<b>Interest Expenses</b>				
Interest on deposits	15,207	2,181	339	1,415
Interest on borrowings	1,620	1,776	5,618	2
Other interest expenses	-	4	-	-
<b>Total Interest Expenses</b>	<b>16,827</b>	<b>3,961</b>	<b>5,957</b>	<b>1,417</b>
<b>Net Interest Income</b>	<b>5,372</b>	<b>5,381</b>	<b>2,996</b>	<b>4,500</b>
<b>Provision for Loan Losses</b>	<b>5,352</b>	<b>951</b>	<b>3,005</b>	<b>2,254</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>20</b>	<b>4,430</b>	<b>(9)</b>	<b>2,246</b>
<b>Non-Interest Income</b>				
Fees and commissions received	2,036	2,093	1,836	3,588
Other operating income	1,465	164	258	1,080
<b>Total Non-Interest Income</b>	<b>3,501</b>	<b>2,257</b>	<b>2,094</b>	<b>4,668</b>
<b>Non-Interest Expenses</b>				
Fees and commissions paid	153	-	-	490
General and administrative expenses	1,896	4,845	1,833	3,173
Other operating expenses	372	443	239	673
<b>Total Non-Interest Expenses</b>	<b>2,421</b>	<b>5,288</b>	<b>2,072</b>	<b>4,336</b>
<b>Income before Income Taxes</b>	<b>1,100</b>	<b>1,399</b>	<b>13</b>	<b>2,578</b>
<b>Provision for Income Taxes</b>	<b>-</b>	<b>506</b>	<b>-</b>	<b>1,030</b>
<b>Net Income</b>	<b>1,100</b>	<b>893</b>	<b>13</b>	<b>1,548</b>

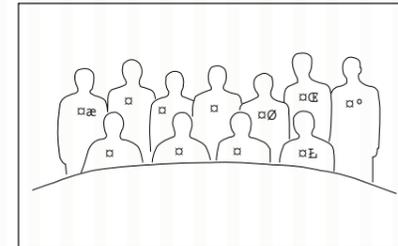
Organization Chart

ORGANIZATION CHART

Group	Division	Dept.(Offices)	
General Meeting of Shareholders Board of Directors Audit Committee President and Chief Executive Officer Executive Committee	<b>Retail Banking</b>	<ul style="list-style-type: none"> <li>Consumer Business Division</li> <li>e-Banking Division</li> <li>Credit Card Division</li> <li>Housing Loan Division</li> </ul>	<ul style="list-style-type: none"> <li>Branch Administration Dept.</li> <li>Consumer Credit Dept.</li> <li>Consumer Loan Collection Dept.</li> <li>Group Planning Office</li> </ul>
	<b>Business Banking</b>		<ul style="list-style-type: none"> <li>Business Banking Dept.</li> <li>Group Planning Office</li> </ul>
	<b>Corporate Banking</b>	<ul style="list-style-type: none"> <li>International Business Division</li> </ul>	<ul style="list-style-type: none"> <li>Long-Term Finance Dept.</li> <li>Group Planning Office</li> </ul>
	<b>Trust Business</b>	<ul style="list-style-type: none"> <li>Trust Fund Management Division</li> </ul>	<ul style="list-style-type: none"> <li>Trust Business Dept.</li> <li>Trust Accounting Dept.</li> </ul>
	<b>Merchant Banking</b>	<ul style="list-style-type: none"> <li>Short-Term Finance Division</li> <li>Investment Banking Division</li> </ul>	
	<b>Treasury</b>	<ul style="list-style-type: none"> <li>Treasury Division</li> </ul>	<ul style="list-style-type: none"> <li>Dealing &amp; Investment Dept.</li> </ul>
	<b>Credit Management</b>	<ul style="list-style-type: none"> <li>Credit Assessment Division</li> <li>Loan Recovery Division</li> </ul>	<ul style="list-style-type: none"> <li>Group Planning Office</li> </ul>
	<b>Operational Services</b>	<ul style="list-style-type: none"> <li>Human Resources Division – Training Center</li> <li>Information &amp; Technology Division</li> </ul>	<ul style="list-style-type: none"> <li>Security Control Dept.</li> <li>General Affairs Dept.</li> <li>International Operations Dept.</li> <li>Clearing Services Dept.</li> </ul>
	<b>Risk Management</b>	<ul style="list-style-type: none"> <li>Risk Management Division</li> <li>Loan Review Division</li> </ul>	<ul style="list-style-type: none"> <li>Credit Portfolio Management Dept.</li> </ul>
	<b>Planning</b>	<ul style="list-style-type: none"> <li>Planning Division – Research Institute</li> </ul>	<ul style="list-style-type: none"> <li>Financial Accounting Dept.</li> <li>Capital Planning Dept.</li> </ul>
	<b>Regional Headquarters</b>	<ul style="list-style-type: none"> <li>Examination Division</li> </ul>	<ul style="list-style-type: none"> <li>Secretariat</li> <li>Public Relations Dept.</li> </ul>
	<ul style="list-style-type: none"> <li>Pusan</li> <li>Honam</li> <li>Chungbuk</li> <li>Taegu</li> <li>Chungchong</li> <li>Kangwon</li> </ul>		

Board of Directors

BOARD OF DIRECTORS



Standing Directors

- Sung Bok Wee**  
President and Chief Executive Officer
- Jae Hyung Kim**  
Standing Auditor
- Kang Ryung Lee**  
Deputy President and Head
- Dong-Soo Choi**  
Deputy President and Head
- Wan Lee**  
Deputy President and Head

Non-Standing Directors

- Choong Yong Ahn**  
Chairman of the Board  
Professor of Chung Ang University
- Seong Kee Kim**  
Director  
Attorney at law,  
Chung & Hyun Law Office
- Soo Young Lee**  
Director  
Chairman of  
Oriental Chemical Industries
- Sung Won Kang**  
Director  
Partner, Ahn Kwon & Co.
- Bong Youn Cho**  
Director  
President & CEO of  
Oriens Capital, Ltd.
- Dong-Hyun Ji**  
Director  
Senior Fellow,  
Korea Institute of Finance

INTERNATIONAL BANKING DIRECTORY

| Overseas Network |

Asia

**Tokyo Branch**

8-6, Nishi-Shimbashi, 2-Chome  
Minato-ku, Tokyo 105, Japan  
Phone: (81-3) 3595-1341/5  
Fax: (81-3) 3595-1349  
Telex: J22555 CHOBANK  
SWIFT: CHOH JP JT  
http://www.chohungbank.co.jp  
Kyung Yong Park, *General Manager*

**Singapore Branch**

50 Raffles Place  
#40-02/03 Singapore Land Tower  
Singapore 048623  
Phone: (65) 536-1144  
Fax: (65) 533-1244  
Telex: 25049 CHOBANK  
SWIFT: CHOH SG SG  
E-Mail: chohsgem@singnet.com.sg  
Ha Wook Park, *General Manager*

**Tianjin Branch**

Room 1901-1906, Tianjin Int'l Bldg.  
75 Nanjing Road, Tianjin, China  
Phone: (86-22) 2339-4070  
Fax: (86-22) 2339-4043  
Telex: 234190 CHBTJ  
SWIFT: CHOH CN BT  
http://www.chbchina.co.kr  
Young Pyo Kim, *General Manager*

**Mumbai Branch**

63, Nariman Bhavan 6th Fl., 227,  
Nariman Point Mumbai 400-021, India  
Phone: (91-22) 282-2200  
Fax: (91-22) 288-4277  
Telex: 1186312 CHOH IN  
SWIFT: CHOH IN BB  
E-Mail: chbmb@bom4.vsnl.net.in  
Ill Hwan Roh, *General Manager*

**Cho Hung Finance Ltd.**

(A wholly-owned subsidiary)  
Suites 512-520A, 5/F., Jardine House  
1 Connaught Place, Central  
Hong Kong, China  
Phone: (852) 2523 6143/4  
Fax: (852) 2810 1426, 1928  
Telex: 63016 CHOBK HX  
SWIFT: CHOH HK HH  
E-Mail: chb212a@hkstar.com  
Soo-Young Cho, *Managing Director*

North America

**New York Branch**

27th Fl., 320 Park Avenue  
New York, NY 10022-6815, U.S.A.  
Phone: (1-212) 935-3500  
Fax: (1-212) 355-2231  
Telex: 662314/5 CHBK UW  
SWIFT: CHOH US 33  
http://www.chbny.com  
Byung Soo Moon, *General Manager*

**Cho Hung Bank of New York**

(A wholly-owned subsidiary)  
241 Fifth Avenue  
New York, NY 10016, U.S.A.  
Phone: (1-212) 679-7900  
Fax: (1-212) 447-7477  
Telex: 6730116 CHBONY  
SWIFT: CHNY US 33  
http://www.chbny.com  
Choon Kee Park, *President and General Manager*

**Cho Hung Bank of New York**

**Flushing Branch**  
136-68, Roosevelt Avenue  
Flushing, NY 11354, U.S.A.  
Phone: (1-718) 939-9595  
Fax: (1-718) 939-3229  
Telex: 6732491 CHBNFL  
SWIFT: CHNY US 33 FLU  
http://www.chbny.com  
Kyung Sik Kim, *General Manager*

**California Cho Hung Bank**

(A wholly-owned subsidiary)  
3000 West Olympic Blvd.  
Los Angeles, CA 90006, U.S.A.  
Phone: (1-213) 380-8300  
Fax: (1-213) 386-7208  
Telex: 188486 CCHB  
SWIFT: CCHO US 6L  
http://www.cchbla@cchbla.com  
Dong Keon Sohn, *President and CEO*

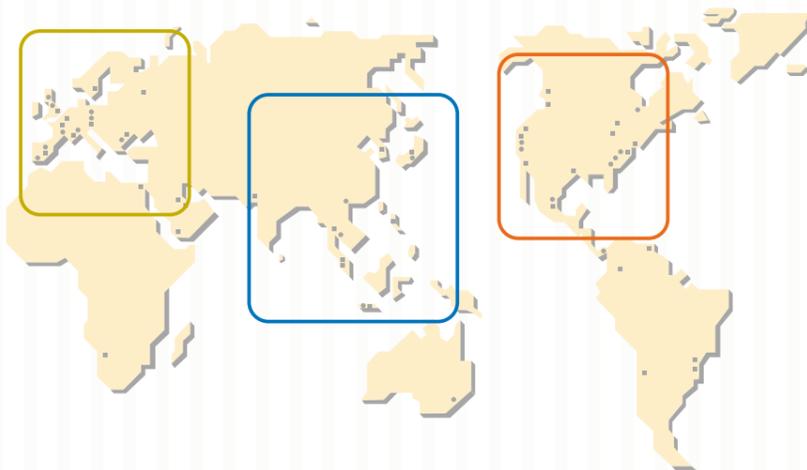
Europe

**London Branch**

1 Minster Court, Mincing Lane  
London, EC3R 7AA  
United Kingdom  
Phone: (44-171) 623-7791  
Fax: (44-171) 283-8464  
Telex: 8951125 CHOBNK G  
SWIFT: CHOH GB 2L  
E-Mail: chbcom@dircon.co.uk  
Chan-Il Park, *General Manager*

**Cho Hung Bank (Deutschland) GmbH**

(A wholly-owned subsidiary)  
MesseTurm, Friedrich-Ebert-Anlage 49  
60327 Frankfurt Am Main, Germany  
Phone: (49-69) 975-7130  
Fax: (49-69) 741-0506  
Telex: 410181 CHOHFMD  
SWIFT: CHOH DE FF  
E-Mail: chb@euko.de  
Ki Dae Kim, *Managing Director*  
Ernst-Dieter Kircher, *Managing Director*



| Domestic Network |

Head Office

14, 1-ka, Namdaemun-ro, Chung-ku  
Seoul 100-757, Korea  
Mail Add.: C.P.O. Box 2997  
Seoul 100-629, Korea  
Phone: (82-2) 733-2000  
Fax: (82-2) 3700-4971/2  
Telex: CHOBANK K23321/5  
SWIFT: CHOH KR SE  
http://www.chb.co.kr

**Retail Banking Group**

Wan Lee  
Deputy President & Head

**Business Banking Group**

Kyu Sung Yun  
Managing Director & Head

**Corporate Banking Group**

Myong Hyun Kyong  
Managing Director & Head

**Trust Business Group**

Soon-Hong Kee  
Managing Director & Head

**Merchant Banking Group**

Byung Ok Choi  
Managing Director & Head

**Treasury Group**

Dong-Soo Choi  
Deputy President & Head

**Credit Management Group**

Chil Sun Hong  
Managing Director & Head

**Operational Services Group**

Won Chung Cho  
Managing Director & Head

**Risk Management Group**

Kun Ho Lee  
Head

**Planning Group**

Kang Ryung Lee  
Deputy President & Head

**International Business Division**

Keun Taek Han  
General Manager  
Phone: (82-2) 3700-4246

**Correspondent Banking**

Kang Hyun Cho  
Deputy General Manager  
Phone: (82-2) 3700-4037

**Investor Relations**

Shin-Seong Kang  
Chief of Capital Planning Dept.  
Phone: (82-2) 734-0542

**Trade Finance (Operations)**

Young Hee Kim  
Chief of International Operations Dept.  
Phone: (82-2) 734-0547

Pusan Regional Headquarters

130-3, Pujon 1-dong, Pusanjin-ku  
Pusan 614-031, Korea  
Mail Add.: C.P.O. Box 701  
Pusan 600-607, Korea  
Phone: (82-51) 816-2300  
Fax: (82-51) 817-2738  
Telex: K52236, K53544 CHOBANK  
SWIFT: CHOH KR SE 498  
Yong-Won Lim  
Regional Head

Taegu Regional Headquarters

1317-3, Pisan 7-dong, Seo-ku  
Taegu 703-047, Korea  
Phone: (82-53) 354-2204/5  
Fax: (82-53) 354-3050  
Telex: K54341 CHBKDB  
SWIFT: CHOH KR SE 898  
Si Gil Kim  
Regional Head

Corporate Data

CORPORATE DATA

As of December 31, 1999

**Date of Establishment**

February 19, 1897

**Head Office**

14, 1-ka, Namdaemun-ro  
Chung-ku, Seoul 100-757, Korea  
Phone: (82-2) 733-2000  
Fax: (82-2) 3700-4971/2

**Domestic Network**

1,393 (including automated cash lobbies)

**Overseas Network**

6 Branches  
5 Subsidiaries

**Number of Employees**

6,944

**Paid-up Capital**

3,395 Billion Korean Won

**Number of Shares of Common Stock**

Authorized: 2,000,000,000 shares  
Issued: 679,078,115 shares

**Number of Shareholders**

70,595

**Major Shareholders**

Korea Deposit Insurance Corporation	80.05%
Hyundai Group	3.76%
Daewoo Securities	3.70%

**General Meeting of Shareholders**

March 27, 2000

**Independent Accountants**

KPMG San Tong Corp.

**Investor Relations**

Capital Planning Department  
Phone: (82-2) 3700-4674  
Fax: (82-2) 3700-4923