

## Financial Highlights

	In Billions of Korean Won		In Millions of U.S.Dollars****	
	1999*	1998****	1999	1998
<b>At Year-End</b>				
Total Assets	W36,806.9	W19,831.6	\$32,134.5	\$16,419.6
Total Deposits**	28,343.0	14,597.2	24,748.6	12,085.8
Total Loans***	18,958.8	8,609.0	16,552.1	7,127.8
Total Shareholders' Equity	1,758.3	871.1	1,535.1	721.2
Paid-in Capital	1,023.6	349.6	893.7	289.5
<b>For the Year</b>				
Total Revenue	3,774.2	2,541.6	3,295.1	2,104.3
Total Expenses	3,561.7	2,448.1	3,109.6	2,026.9
Net Income	144.3	74.1	126.0	61.4
Earnings per Share (in Won & USD)	W 1,353	W 1,790	\$ 1.18	\$ 1.48
Book Value per Share (in Won & USD)	W 11,735	W 12,345	\$ 10.25	\$ 10.22
<b>Financial Ratios</b>				
Return on Assets	0.47%	0.69%		
Return on Equity	11.03%	11.35%		
BIS Capital Ratio	12.33%	13.10%		

\* Based on consolidated financial data except for EPS, BPS, ROA and ROE data, which are based on non-consolidated data

\*\* Including deposits, bills sold and bonds sold on repurchase agreements.

\*\*\* Total loans excluding call loans

\*\*\*\* Based on consolidated data of Hana only (stand-alone basis) except for EPS, BPS, ROA and ROE data

\*\*\*\*\* Adjusted according to the revised financial accounting standards for comparison only

\*\*\*\*\* Korean Won accounts are translated solely for convenience of the reader into U.S.dollars at W1,145.4 and W1,207.8 against US\$1.0 on December 31, 1999 and 1998, respectively.

# *Letter to Shareholders*

## *Greetings to our customers and shareholders*

I am very glad to report to you that last year, Hana Bank realized a net profit of more than W100 billion, making it the only commercial bank in Korea to post a profit in both 1998 and 1999. Since transforming into a banking institution after its inception as a financial business 30 years ago, the Bank has grown substantially, to a total of 277 branches. The concerted efforts of the Bank's staff helped it to post the second-highest net profit among local banks in 1999 and secure the fourth-highest amount of deposits.

One thing we are particularly proud of is the fact that Hana Bank has retained its position as the Korean bank with the highest level of productivity for nine consecutive years. In addition, the general public selected the Bank as the best in the country, giving it top marks in the 1999 National Customer Satisfaction Index, an annual survey jointly conducted by the Korea Productivity Center, the Chosun Ilbo and the University of Michigan.

We owe much to each of you for the Bank's remarkable performance. We will stay committed to sound management of our assets and higher profits and productivity. To that end, we plan to focus on the following efforts in 2000.

## *Our top-priority will be placed on enhancing asset soundness*

In order to attain success in this goal, we will first of all launch a bank-wide campaign to encourage employees to regard each and every penny entrusted to the Bank by customers as their own.



Byung-Chul Yoon  
*Chairman of the Board of Directors*

Secondly, the Bank is developing a comprehensive risk management system that controls both market risk and liquidity risk on the basis of recently improved systems and processes. Reflecting the introduction of more advanced financing techniques adopted through the recommendations of the World Bank's International Finance Corporation (IFC), these improvements include a new credit appraisal system, a rationalized loan approval process and an enhanced monitoring process which takes into account the type of industry, the individual business group, the size of loans and the loan period.

Thirdly, we are considering adopting the generally accepted accounting principles (GAAP) used in the U.S., which are even stricter than the internationally accepted standards (IAS) we had already adopted pursuant to the advice of the IFC on how to increase transparency.

***Efforts will be directed towards higher profit and productivity***

The number of Hana Bank customers with deposits exceeding W100 million stands at about 34,000 as at the end of 1999, the highest number of large deposits among Korean banks. To maximize our advantage in this area, we are currently laying down plans to offer the full range of financial services required by such customers in areas such as securities and insurance, so that we will be prepared to advance into these non-banking businesses as soon as the government relaxes current regulations and allows for crossover activities in the financial sector. Such expanded services will be centered around 15 new Private Banking Centers, which will bolster the Bank's competitive edge in serving higher-income bracket customers. Especially now that the internationally respected Allianz Group has become our largest shareholder, the Bank expects to benefit enormously from the expertise of its new partner in the bancassurance business and the operation of assets. Hana Bank will soon be well-prepared to meet the needs of our customers for more advanced financing services.



Seung-Yu Kim  
*President and CEO*

Another focus of our effort to achieve higher profits is to make active inroads into the mass market. We are currently in the process of installing more than 3,000 multi-function automated teller machines (ATMs) in 700 Seven-Eleven convenience stores, gas stations, railroad stations and other high-traffic locations for a wider service network and we have every reason to be optimistic about the prospects for this plan. Additionally, the Chungchong Group of Hana Bank, which is traditionally strong in this market, posted 53% growth in deposits in 1999, setting a foundation for success among general customers.

We also plan to strengthen our operations in the area of smaller loans and mortgage banking to expand the amount of household loans. A special credit scoring system and a joint venture with an internationally recognized expert in this area are being considered to help boost our consumer loan business. In the area of mortgage banking, the government's decision to allow all banks to offer Housing Subscription Deposits is expected to bring in many new customers to the Bank. The Bank also stands to benefit considerably from potential cross-sales made by 15,000 planners who currently work for our partner Allianz-Cheil Life Insurance.

In 1999, we greatly enhanced Hana Bank's brand value in successfully playing the role of lead manager in M&As for Papco Chonju, Sithe Ichon, Sithe Daesan and Mando Climate Control. In addition to giving our M&A services a higher profile, our experiences and achievements will also further our overall efforts to take a leading position in the area of investment banking and we plan to actively seek out opportunities in venture capital projects, IPOs, and other investment banking activities.

In serving businesses which need to raise funds, our sales strategy is differentiated from those of our competitors, as we are able to offer total funding solutions packages. We will promote our unique ability to take on the role of a lead-manager for a variety of fund-raising activities, including loans, issuance of bonds, investment and M&As in cooperation with Hana Securities and Korea Merchant Banking Corp.

Significantly, we have been planning to make a dramatic advance into the Internet business, which will be spearheaded by the newly established and independently operating E-Commerce Business Group. The Bank's nation-wide ATM network in convenience stores, gas stations and railroad stations will play a definite role in this area. For corporate customers, our electronic services will be unique in enabling fund management and trading transactions to be completed using cards and the Internet.

Changes to the nation's financial market will continue through 2000 as well. Another round of restructuring will be inevitable due to fiercer competition from business crossovers among financial institutions and implementation of lower limits for deposit insurance. With a strong capital foundation in place, we are ready to face such an era of change, regarding every development as a chance to sharpen our competitive edge. We have taken great encouragement in the vote of confidence shown by the 10% equity investment into the Bank made by Allianz AG, the world's second-largest insurance group and a major shareholder of Deutsche Bank and Dresdner Bank. We will continue preparing for the expected seismic shift in the domestic financial market by continually reinforcing our capital through the issuance of DRs overseas, by making paid-in capital increases at home and through the issuance of subordinated bonds.

In closing, I would like to extend my gratitude to each of our customers and shareholders for invaluable assistance and for showing an interest in Hana Bank's continued growth and success.



Byung-Chul Yoon  
*Chairman of the  
Board of Directors*



Seung-Yu Kim  
*President and CEO*

# *Our goal is to satisfy our customers*

Hana Bank always puts its customers first and in upholding this basic principle, aims to be a bank with vitality; a bank that values its employees; a bank that aims to prosper along with its customers; a bank that contributes to building a better society; a bank that is trustworthy and has a sound structure.

Rooted in our corporate philosophy, complete customer satisfaction is the basis of all Hana Bank policy and decision-making. Hana Bank adopted a business group system, with management geared towards operating the organization more efficiently to provide the highest level of service. We opened a “mobile bank” service for customers unable to reach us, the first service of its kind in the nation, as well as introducing night-time business centers and developing a range of the kinds of products demanded by customers. As a result of its efforts, the Bank won the highest score in the banking sector in the National Consumer Satisfaction Index and was awarded the Customer Management section 1999 Grand Prize for Innovative Information Business.

A focus on intensifying our investor relations (IR) activities to maximize our stock price and raise funds under the most favorable terms possible saw us launching international corporate road shows sponsored by Merrill-Lynch International and hosting one-on-one IR meetings with foreign investors on 37 occasions, on top of IR activities for domestic media outlets. The Bank also won the Gold Prize in the Hankyung IR Grand Prize Awards in the non-manufacturing sector and was selected as a model public corporation by the Korea Stock Exchange (KSE).

Hana Bank also believes it is important to invest in getting the best banking professionals on board and places a high priority on recruitment, training, professional development and rewarding staff based on performance. We encourage self-development among our employees and hire experts in specific fields. Promotions are based not on seniority, but on proven capability and branch managers are selected through fair competition. Relatively new to Korea, we have also introduced an annual performance-based salary system. All these efforts combine to ensure that Hana Bank customers receive the best service available from any bank.

Hana Bank is aware that taking the best possible care of its customers means playing an active role in the community. The Bank is expanding the scope of its public activities by supporting cultural events and programs for society's disadvantaged.

### *Management Philosophy*

- One of Hana Bank's key beliefs is that our employees are our most valuable asset. The management is confident that the Bank's staff is made up of the industry's most capable and knowledgeable banking professionals and has an employee-driven decision-making process built on this belief.
- Hana Bank aims to be a bank that can put itself in the shoes of its customers. Seeing itself as a bank that prospers in mutual cooperation with customers, the Bank seeks to enhance their quality of life and create added value for them.
- Hana Bank also aims to be a credit-worthy bank. Sound operation of assets and responsible management, together with protection of depositors, are the basic elements we have put into place to build a financial institution that deserves the trust of its customers. Thanks to our faithful adherence to these basics, we succeeded in overcoming the challenges that presented themselves in the wake of the financial crisis. We regard it as our duty to protect and enlarge our customers' hard-earned wealth, which has been entrusted to us.
- Hana Bank firmly believes it can only function if prosperity is spread throughout the society in which it operates. We contribute to the nation's industrial development through sound financing and return profits to the community with the hope of improving the lives of people through sponsoring various cultural activities and supporting charitable causes.
- Hana Bank is committed to doing its best in everything it does. It believes its readiness to surpass its past accomplishments will enable it to remain a leader in the business. This mindset encourages cooperation with shareholders, customers, employees and the cooperation community it operates in.

### *Putting Our Customers First*

Hana Bank has opened a new era in customer satisfaction with the introduction of a new system conducive to more responsible and professional management. An atmosphere of healthy competition between independently operating business groups is beginning to take root with separate performance appraisal of each. Encouraging such internal competition has seen higher performance results, the natural outcome of efforts to ensure complete customer satisfaction. We are leaving no stone unturned in our quest to eliminate inefficiency and have invited both local and overseas financial experts to help us in different fields.



*Through the constant development of new services and products, Hana Bank acts proactively to further improve our relationship with customers.*

In August 1999, Hana Bank became the first bank to launch a "mobile bank" that visits customers in remote or inaccessible areas. The Bank's mobile bank services proved invaluable to the inhabitants of Munsan in the summer of 1999, after floods temporarily suspended the normal operation of banks in the area. We also have plans to expand such services which increase customer convenience. One particularly ambitious plan of ours is to be the first bank to open a special branch in North Korea for South Korean tourists visiting Mt. Kumgang, if circumstances allow. Our customers have responded favorably to the night-time service centers we set up at headquarters and in our Pundang building, so we plan to establish additional ones at our Customer Center Building, in the Ilsan corporate building and at the Express Bus Terminal in Socho-dong, Seoul.

Another example of the way the Bank puts customers first is our 2%-Plus-Time-Deposit Account which hedges against risk from interest fluctuation with insurance, thus guaranteeing a high rate of interest for account holders. Through the constant development of such new services and products, Hana Bank acts proactively to further improve our relationship with customers.

#### *IR Activities*

Hana Bank's IR activities center around providing clear-cut management information in a timely fashion to maintain mutually favorable relations between the Bank and its shareholders. We know that accurate information and transparent management will enhance investor interest and encourage purchasing of our stocks. By keeping our investors fully informed, we are able to maintain our stock price at desirable levels and raise funds under favorable terms and conditions.

To strengthen our IR activities, we reorganized the IR team to turn it into an independent business unit. We have begun distributing major results in each quarter to shareholders and those interested in the Bank to provide the most up-to-date information on our management and financial status. The IR section of our Internet homepage includes information on our management status, public data, stock price and other information of interest to our shareholders and investors in general.

### ■ Major IR Activities in 1999

- At the 29th Annual General Meeting of Shareholders, the board of directors reported on the Bank's management status, operational results and explained various financial figures to Bank shareholders. The use of audio-visual tools such as films aided the reporting process.
- The IR team hosted an information session on the Bank's management status and strategy for 200 institutional investors at the 63 Building in Yoido.
- The IR team gave a presentation to overseas institutional investors at an international corporate information session in Singapore sponsored by Merrill-Lynch International.
- Bank President & CEO Seung-Yu Kim met with analysts at major foreign securities firms on two occasions to answer their questions.
- Bank President & CEO Seung-Yu Kim appeared as a guest on news programs at YTN and MSN to explain the Bank's overall status to a television audience.

Additional IR activities in 1999 included one-on-one IR information sessions with foreign investors on 37 occasions, information sessions with domestic institutional investors on two occasions and several other meetings with major economic dailies and business magazines. As a result of such intense IR activity, the Bank won the Gold Prize in the Hankyung IR Grand Prize awards in the non-manufacturing category and was selected as an excellent corporation by the KSE.

### A Personnel Policy Emphasizing Expertise

Hana Bank's motto in the area of personnel is self-reliance, voluntariness and the spirit of enterprise. As a leaner, more competitive organization, we have come to recognize that it is not a matter of balancing business success with individual employee growth, as one is the natural outcome of the other. It is in the best interests of the Bank that it help employees realize their own goals in life and be the best professional bankers in their own field.

To cope with changes in the financial environment requiring more complex and multi-faceted transactions and to expand the scope of its businesses, the Bank has been recruiting legal experts, financial specialists in derivatives and investment banking and multi-lingual professionals with knowledge



Sung-Yoon Song  
Executive Vice President  
& Group Head of  
Banking Support Group



*It is in the best interests of the Bank that it help employees realize their own goals in life and be the best professional bankers in their own field.*



of a broad range of businesses. Unusual for the local banking industry, the Bank has also begun hiring staff on a contract basis as needed.

The Bank is serious about professional development and often sends employees to more advanced countries so they can learn first-hand about the most up-to-date methods and trends in finance and banking. We spent a total of W3.2 billion providing various training opportunities for the staff at home and abroad in 1999, and have budgeted W3.6 billion for 2000. Other plans for the year include recruiting experts through open competition to fill a number of Private Banker and Relationship Manager postings at various branches.

The major guidelines the Bank follows in its personnel policy can be summarized as follows: 1) improve performance through efficient utilization of personnel; 2) train experts in each field; and 3) help employees reach their full professional potential. In addition, promotions are now based on capability rather than seniority, and branch managers are selected through open competition.

With the adoption of a new merit-based annual wage salary system, employees are now compensated based on their performance and ability. The Bank's overall performance and the results of each business unit and team are also reflected in wages.

#### *A Bank with a Social Conscience*

##### ■ An Environment-friendly Bank Committed to Nature Conservation

- Mt. Kumgang Painting Excursion

Hana Bank invited a group of school children and their teachers on a painting trip to Mt. Kumgang in North Korea in an effort to plant the seeds of a lasting appreciation for the natural beauty of the Korean peninsula. Running from August 11-14, the field trip was an unqualified success and has reaffirmed the Bank's commitment to programs of this kind.

- Environmental-Impact Risk Appraisal

Hana Bank has begun factoring in environmental risk when evaluating requests from corporate customers for loans worth W3 billion or more. The Bank considers the type of business, locations and potential impact on the environment before approving financing, denying loans to major projects which are rated as being environmentally unfriendly.

### ■ A Bank that Supports Arts and Culture

- The 4th Annual Women's Writing Campaign, October 15 through November 30, 1999

In one of its most popular cultural initiatives, Hana Bank sponsored the 4th Annual Women's Writing Campaign to encourage women to write literary pieces about their everyday lives. In 1999, the campaign evolved into an Internet contest, the first of its kind, under the sponsorship of the Ministry of Information and Communication. What has become an annual campaign has its roots in an earlier Bank-sponsored event, the highly-praised "Exhibition of Beautiful Books of the World," which the Bank held in 1993 to mark the Year of Books. The Bank has also provided four free women's writing workshops since the launch of the campaign.

- A Folk Song Festival to Ring in the New Millennium, December 26, 1999

The Bank sponsored an evening of live music, "Farewell, the 20th Century and the Songs of My Younger Days!" which was especially meaningful as it gave the audience a chance to look back on the past 30 years of Korean folk music, symbolized by blue jeans and guitars. With several of the country's best-known and most beloved folk singers and songwriters performing, the event was a very special way to ring in the new Millennium.

### ■ A Bank that Takes Care of Its Neighbors

- A Solo Piano Recital and a Fundraising Bazaar

Hana Bank sponsored a solo piano recital given by genius pianist Lee Hee-ah held in the lobby of headquarters. The recital was organized to mark the Week of the Handicapped, and the performance presented by Lee, who is handicapped, was an inspiration to everyone in attendance. On April 23, 1999, the Bank also held a fundraising bazaar featuring merchandise made by the handicapped, contributing all proceeds to an organization for the handicapped.

- Helping Families in Need

The Bank provided 130 children from disadvantaged households in the Inchon and Sungnam areas with an opportunity to spend a day in the woods. The trip included programs designed to help the children feel closer to nature and to teach them about the importance of saving the environment. The Bank is also active in sponsoring or organizing various charity events, such as book bazaars for children from poor families and a program to send Christmas trees to such households.

- PCs for the Handicapped

Hana Bank delivered 300 PCs to handicapped individuals to give them an opportunity to expand their access to information and improve their education.

# Customer-Oriented Decision-Making

Hana Bank's corporate governance and management structure focuses on protecting investor interests and ensuring trust in management, aiming for higher transparency and efficiency and encouraging the active participation of outside board directors with expert knowledge in their fields.

Placing top priority on living up to the demand for a corporate governance structure that meets international standards and building an unassailable reputation as a trustworthy institution, Hana Bank's management is future-oriented, with proper composition and operation of various decision-making organizations, based on the spirit of creative entrepreneurship. Our Board of Directors consists of the following committees:

## *Composition and Role of Committees of the Board of Directors*

### ■ Board of Directors Steering Committee

The committee consists of a maximum of 7 members and is responsible for continually rationalizing the Bank's corporate governance structure, planning for the Board of Directors and its Committees, and appraising the operation of the Board of Directors. It is also in charge of recommending and screening candidates for the Board of Directors based on their qualifications. (Members: Byung-Chul Yoon/Chairman, Kun-Rae Son, Moon-Ho Lee, Joo-Sung Kim, Sang-Hyun Song and Seung-Yu Kim)

### ■ Management Development and Compensation Committee

This committee is in charge of coming up with ways to heighten managerial performance. It also evaluates the performance of the Bank President and standing directors, deciding on their compensation. Other duties also include improving the methods used to measure managerial performance. It consists of 5 or less non-standing directors. (Members: Byung-Chul Yoon/Chairman, Sang-Gi Woo, Jae-Chul Kim and Byung-Taek Yoo)

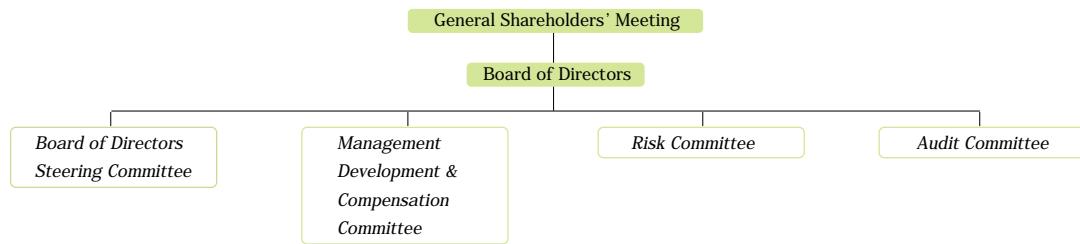
### ■ Risk Committee

This committee is responsible for the Bank's overall risk-management strategy, overseeing the control of general risks and setting limits for each kind of risk. It is also in charge of implementing and revising internal regulations pertaining to risk management as well as reviewing the status of the Bank's risk management activities. (Members: President/Chairman, Kwang-Sun Chung, Karaoglan, Kyo-Joong Yoon, Jin-Suk Chun and Chul-Soo Lee)

### ■ Audit Committee

Scheduled to be launched in 2000, this committee will be in charge of supervising management activities and evaluating internal control systems as well as the activities of the outside auditor.

## &lt;Corporate Governance Structure&gt;

***Major Activities of the Board of Directors and Its Committees***

■ Board of Directors

*The Board of Directors met 10 times in 1999 and major agenda items and resolutions are as follows:*

- *The 1st meeting on January 4: Report on merger with Boram Bank*
- *The 2nd meeting on January 26: Resolved to issue new stocks for paid-in capital increase*
- *The 3rd meeting on February 19: Resolved to liquidate affiliate, Hana Finance Corp.*
- *The 4th meeting on April 23: Establishment and start of operation of Board committees*
- *The 5th meeting on July 23: Resolved to increase limits on the issuance of financial bonds*
- *The 6th meeting on August 23: Approved participation of Hana Securities in paid-in capital increase*
- *The 7th meeting on September 21: Approved purchasing shares of Korea Merchant Banking Corporation*
- *The 8th meeting on October 22: Amendment to regulations for Risk Management Committee*
- *The 9th meeting on November 24: Approved investment in SK Securities*
- *The 10th meeting on December 16: Approved general business plan for fiscal year 2000*

## ■ Board Committees

- Board of Directors Steering Committee

The committee met on January 22, 2000 and discussed the following:

- Report on settlement of accounts for fiscal year 1999, including achievement of performance targets, supply and operation of funds and the status of profits
- Setting up of major strategies, including those for one-stop-banking, bancassurance and asset management
- Changes to the corporate governance structure
- Contents of amendment to internal rules and regulations, M&As, schedule for issuance of DRs and schedule for general shareholders' meeting

- Risk Committee

The committee met on four occasions and discussed and made major decisions on the following:

	<i>Decisions</i>	<i>Reported</i>
<i>The first meeting on May 21, 1999</i>	Selection of the committee chairman; approval of a plan for future operation of the committee	Status of asset operation; review of Hana Bank Credit Grading System and allowance levels
<i>The 2nd meeting on September 14</i>	Approval of credit policy; acceptance of exceptions in the case of the Daewoo Group for limits on loans to the same business group	Status of application of FLC (forward-looking criteria); status of loans approved by the Loan Committee
<i>The 3rd meeting on November 5</i>	Amendment to policy for management of the loan portfolio	Status of changes in the rate for allowances and portfolio management; status of progress of the Daewoo Group's workout
<i>The 4th meeting on December 16, 1999</i>	Wider application of limits on loans to the same business group; set credit-risk limits for 2000	Status of portfolio management; results of deliberation on the agenda submitted to the Loan Committee.

### *Stock Options*

At the Annual General Shareholders' Meeting on February 19, 1999, it was decided that the Bank should give stock options to upper management and to regional senior managers as an incentive to improve performance for better results. The details are as follows:

- *Stock Options Provided*
- *Kind: Hana Bank registered common shares*
- *Exercise price: W10,020*
- *Exercise Period: February 20, 2002 to February 19, 2005*
- *If retiring within 3 years, options for only the number of stocks calculated pro-rata to the length of period of continuous employment can be exercised.*

<Number of Stock Options Provided>

	Number of stocks		Number of stocks
Executive Directors			
Seung-Yu Kim	150,000	Kwang-Yong Choi	30,000
Kyo-Joong Yoon	70,000	Sung-Ho Choi	30,000
Chul-Soo Lee	70,000	Hyo-Joo Kang	20,000
Jin-Suk Chun	70,000	Min-Soo Kim	20,000
Surkoo Hahn	70,000	Jung-Tae Kim	20,000
Senior Managers		Hee-Dae Kim	20,000
Hoon-Kyu Kim	50,000	Eui Sung	20,000
Tae-Ho Son	50,000	Sung-Yoon Song	20,000
Sang-Heun Lee	50,000	Hee-Won Sim	20,000
Young-Don Chun	50,000	Myung-Soo Woo	20,000
Young-Duk Kim	30,000	Byung-Gap Yoon	20,000
Jong-Yeul Kim	30,000	Byung-Gon Choi	20,000
Jai-Soo Na	30,000	Joon-Sik Hong	20,000

## *Trends and Prospects in the Economy and Financial Sector*

### ■ 1999 Economic and Financial Sector Trends

In 1999, the nation's economy showed rapid recovery, overcoming the difficulties of a financial crisis that necessitated an IMF bailout in late 1997. The return to economic growth was due to stable commodity prices, low interest rates, a bull stock market, upgrading of the nation's credit-rating and international cooperation in the wake of the financial crisis in Asia.

The local financial market became more stable, relaxing from an earlier credit crunch, with interest rates falling and exchange rates stabilizing. In the first half, banking deposit products showed a clear weakness, whereas investment-type products such as beneficiary certificates did well, as stock prices rose by a wide margin and market interest rates remained in the single digits. In the second half, however, a liquidity crisis erupted at the Daewoo Group, causing major problems in the investment trust sector, with a number of investment trust firms having to close their doors. Partially due to the shaking of investor confidence in investment trust products, investment funds in the market flowed either to safer investments such as banking deposits, or into IPOs and the booming KOSDAQ. Consequently, corporate fund raising centered around capital markets, with the issuance of corporate bonds and new shares in the first half, and indirect financing such as bank loans in the second half.

### ■ Restructuring

In the wake of the financial crisis, a total of 264 local financial institutions shut down, 12.6% of a total of 2,102 institutions at the end of 1997. The government put up public funds amounting to W55.2 trillion by the end of October 1999 for financial institutions showing a good chance of survival on the condition that they reform and introduce self-rescue programs. Out of the total amount spent by the government for financial sector restructuring, W41.7 trillion, or 76%, was supplied to banks.

### ■ Economic and Financial Sector Prospects for 2000

Although the pace of economic expansion will slow down from 1999, growth is expected to continue in 2000. Thanks to optimism over future prospects for the economy, capital investment will also increase. In particular, investment in the construction sector is expected to play an important role in boosting overall business conditions due to an increase in demand for industrial projects as well as brisk construction demand in the Middle East - traditionally one of the biggest overseas markets for Korean contractors - thanks to a booming economy in the region due to high oil prices.

Turning to the financial market, demand for bond-type products will be slow in the first half of 2000 due to destabilizing factors such as the ongoing restructuring of investment trust companies and implementation of a mark-to-market system for bonds. Instead, funds will continue to flow into banking deposits for safety due to an increase in price-related variables in the financial market.

From the third quarter on, interest in investment-type assets should increase, with the economy posting stable growth and insecurities about the capital market allayed, as problems in the investment trust sector become resolved.

Noteworthy trends in the domestic financial market in 2000 will be the redemption of Daewoo bond-type beneficiary certificates and the introduction of a mark-to-market system for bonds, which could see the outflow of a large amount of funds from poorly performing large-sized investment trust companies, prompting a seismic shift in the investment trust industry.

Observers are also not discounting the possibility of a second across-the-board restructuring, necessitated by the new market order in the banking sector. Amidst fears that the impact of the Daewoo group's failure and stricter FLC (forward-looking criteria) could cast a shadow over financial indices, consumers are expected to benefit, as they will have a wider selection of financial institutions and products to choose from. It is also expected that healthy and unhealthy banks will become more clearly differentiated in the minds of consumers, with new regulations seeing reduced depositor protection.

### *Management Strategy*

#### ■ Long-term Strategy

- Stricter Risk Management for Higher Asset Soundness

Hana Bank took steps to overhaul its credit evaluation and loan approval system in cooperation with AIB (Allied Irish Bank) under a partnership program with the IFC (the World Bank's International Finance Corporation). For more efficient management of marketable securities, which are on the rise, we now constantly monitor market risks and liquidity, following reorganization of ALM (Asset and Liability Management) procedures and the adoption of more advanced risk-measuring techniques such as VaR (value-at-risk).



Jong-Yeul Kim  
Senior Executive Vice  
President & Group  
Head of Strategic  
Planning Group

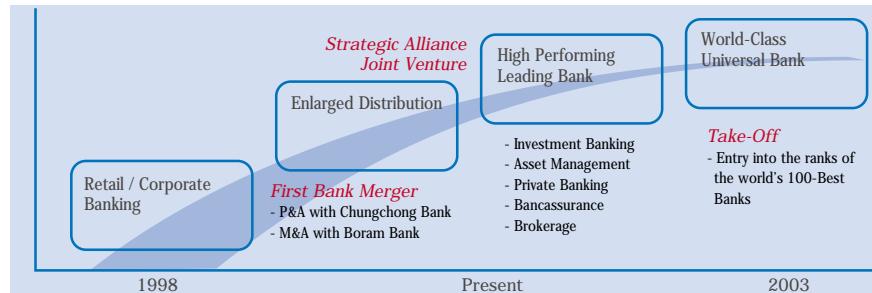
- Increased Profitability and Greater Efficiency

Hand-in-hand with efforts to form new strategic alliances to secure a wider customer base, Hana Bank is also seeking ways to diversify its sources of profits through development of new businesses that round out its ability to meet customer needs. In the retail banking area, we have diversified the services and products available to customers in the mid-to-high income brackets through the introduction of Private Bankers who are exclusively in charge of customer service. At the same time, we have also continued to improve the level of service through strengthening marketing and delivery of services through low-cost channels. In the corporate banking area, we are gradually reducing our exposure to large corporations and focusing instead on providing professional services to medium-sized corporations and mid-level business groups through Relationship Managers.

- Making Inroads into New Businesses by Diversifying Services

Hana Bank is expanding the scope of its business activities in the areas of investment banking, asset management, insurance and retail brokerage. The Bank is forming a strategic alliance with Allianz AG to establish a joint-venture asset management company and a cross-over business in the new area of bancassurance. The Bank's Investment Banking Group will also bolster investment businesses such as project financing and M&A consulting in cooperation with Bank affiliates Korea Merchant Banking Corporation and Hana Securities. In addition, the Internet Business Group is working as an independent team to market various cyber-banking services in cooperation with Internet industry partners.

&lt; Long Term Strategic Direction &gt;



#### ■ Management Objectives for 2000: Year One of Our New Aggressive Approach to Management

- Management Based on Market Principles

Markets have a built-in mechanism for maintaining efficiency in which competition awards the winner and drives out the loser. Because timely, fully-informed management decisions are necessary in this kind of environment, Hana Bank is strengthening its information-gathering systems and SIS, and intends to play as hard as it can by the rules of the market and cope with market changes both ahead of and better than others. We will also more actively carry out programs to train employees and help them to build up their careers in specialized fields to ensure that we have the best players in the industry.

- Prepare for Integration of Financial Businesses

We ultimately aim to be a universal financial institution where our customers can get services in a full range of areas, including banking, securities and insurance, with the Bank acting as an asset management company. We also plan to strengthen ourselves in the investment banking business through nurturing the organic links between our Corporate Banking Group and Investment Banking Group.

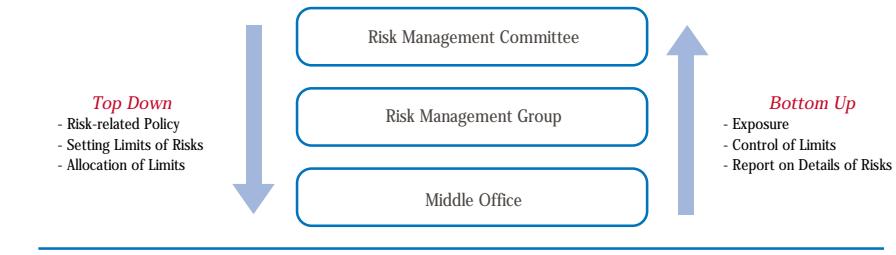
- Carving out a Dominant e-Presence

The current trend among banks is to expand service delivery by taking advantage of the rapid progress in information & communications technology. Hana Bank will expand into the mass market by attracting more low-cost customers to our Internet banking services. We will also set up more automated teller machines, expand our phone banking services and focus on the lucrative business of credit cards, strengthening existing channels for higher returns. The Bank is also considering further expanding its ATM services through a nation-wide network at Seven-Eleven convenience stores.

## Risk Management

### Hana Bank's Risk-Management System

<Organization>



- System of Regulation

- Regulations for Risk Committee - Guidelines for the decisions and deliberation process of the Committee.
- Regulations for Risk Management Committee - Matters pertaining to operation and composition of the Committee.
- Regulations for General Risk Management - Matters pertaining to strategies and policies for risk management; setting limits for general risk as well as for each type of risk; strategies for how to carry out risk management and implement other initiatives in keeping with Bank policies and principles for risk management.

### Management of Price Risk

Hana Bank's price risk management activities cover all its assets that are subject to change in value due to market variables, including marketable securities, stocks, foreign exchange open positions, derivatives and so on.

A crucial method for managing price risk is to take a daily measure of the VaR of the estimated maximum loss (assuming regular distribution) that could occur while maintaining the maximum confidence level for a given period of time by using historical data on market variables. A supplementary method also used in measuring price risk is a stress test that calculates the estimated amount of loss based on a worst-case scenario. This takes into consideration the weak point of the daily measured VaR, which is that it reflects trust levels assuming regular distribution and therefore fails to account for a possible shock from extreme stock positions.

<Targets and Limits for VaR>

(Unit: Billions of Won)

	Bonds	Stocks	Foreign Exchange Open Position	Futures on the Exchange	Total
VaR for 10 days	134.1	28.7	1.3	7.3	171.4
Ratio to Equity Capital	3.82%	0.82%	0.04%	0.21%	4.89%

### Status of Credit Risk

Hana Bank's credit philosophy lies in its criteria for approving credit, which in turn define its philosophical basis for credit risk management and loan operations. Aimed at achieving common value to ensure financial soundness and profitability, the Bank's credit strategy includes securing asset soundness; objective evaluation of creditability; maintaining transparency; achieving balance; nurturing expertise; and having in place consistent, rational credit policies.

We have two main policies in our risk management strategy: a credit exposure policy for individual borrowers or business groups, and a portfolio policy for each industry. The former establishes a ceiling for total loans to the same person or business group to aid in efficient control, while the latter sets a 10% limit for the Bank's direct credit exposure to any one industry.



Dal-Yong Lee  
Senior Executive Vice  
President & Group  
Head of Risk  
Management Group

Key tools that Hana Bank uses to manage credit risk are the Hana Credit Grading system and credit review. The Hana Credit Grading system follows an international system for grading credit recognized by the IFC, which is also one of the Bank's shareholders. The Bank classifies potential borrowers into one of 13 grades based on a proven system used by AIB (Allied Irish Bank) which evaluates their future cash flow and ability to repay loans in a comprehensive review of their industry risk, competitiveness and financial risk, as well as an appraisal of their top management. The Bank also uses credit reviews to enhance the soundness of its loan assets, taking into account customer creditworthiness, proper levels for loan amounts, recoverability, appropriateness of terms and conditions, suitability of asset composition and so on.

#### < Credit Exposure Limits by Borrower >

	Risk-Adjusted Credit Exposure	Total Credit Exposure
Big Five Business Groups	W1,500 - 2,500 billion	W2,000 - 3,000 billion
Other Business Groups	W550 billion	W630 billion
Individuals	W280 billion	W350 billion

#### < Limits for Portfolio Policy for Each Industry >

	Limits in 2000
Construction business	9% of equity capital of the Bank
Wholesale and retail business	10% of equity capital of the Bank
Real estate business	10% of equity capital of the Bank
Wireless telecommunications business	W700 billion
Supplementary communications business	W700 billion
Financial and insurance business	10% of equity capital of the Bank

## *Review of Operations*

### Retail Banking

Hana Bank's goal is to remain a financial industry leader engaged in the general management of assets. In doing this, we will continue providing diversified products and services that meet the specialized needs of our customers by ensuring a wide range of service delivery channels and by staying on top of rapid changes in the market. Our retail strategy is to firm up our marketing base by focusing on sharpening our competitive edge with higher-income bracket customers. This should provide the impetus for promoting electronic banking businesses and in turn help us to expand and strengthen services to our middle-income bracket customers, a market segment where we are aiming to strengthen our presence.

We are strengthening our business for our VIP customers by posting 79 Private Bankers at 15 Private Banking centers and 50 branches. These Private Bankers will provide our best customers with general asset management services such as wrap accounts, sales of mutual funds and beneficiary certificates, and Tax-Favored Specified Money Trust. In 2000, we are increasing the number of outlets with Private Bankers to 100 for better service for VIP customers. Middle-income bracket customers will also find it much more convenient to do business with us, as we now offer a variety of alternative ways to complete transactions, such as phone banking, Internet banking, PC banking, CDs/ATMs, mobile bank and night counters. In order to broaden our customer base, we will work hard to provide more secure and profitable products including home financing services, so we will come to be known as *the bank that satisfies its customers completely*.

The use of electronic banking for transactions is continuously on the rise. The number of subscribers to our phone-banking services stands at 245,000, with the average monthly number of electronic transactions coming to 1,140,000 and the number of outbound calls surpassing 21,000. A total of 44,000 PC banking customers make more than 45,000 transactions a month, with the number of transactions conducted through our firm banking services in excess of 200,000. The number of transactions made through our 24-hour CDs and ATMs has reached more than 3.4 million a month.

In response to ever-growing use of our phone-banking services, we are increasing the number of phone banking lines from 450 up to 700, which will also help to enhance the level of service at our call centers. We also plan to adopt a WCS/WEB call system and a UMS/Integrated Messaging system. On top of replacing or newly installing 320 ATMs across the country, the Bank is also installing 700 hi-tech multi-function ATMs in Seven-Eleven stores nation-wide. These machines will prominently display the Bank's logo and our "Magic Bank" brand which we expect will give a marketing boost in broadening our base of middle-income bracket customers.



Tae-Ho Son  
Senior Executive Vice President & Group Head of Retail Banking Group



Jung-Tae Kim  
Executive Vice President & Group Head of Retail Branch Management Group

The Bank is also in planning to introduce a Community Group system to be used for PR activities directed towards various groups such as associations for medical doctors, pharmacists, the alumni of different universities, non-profit organizations, SMEs and other institutions, on web browsers. Virtual account services, BOB (Back-Office Banking), Mobile Banking, PDA and Web TV are also among the new electronic banking services we will eventually be providing to our customers. An Internet Banking Team has been newly established in response to the explosive growth in Internet users and in anticipation of continued expansion in the area. Strategic alliances with portal site PAXNET, Internet travel agency 3Wtour, Internet real estate agent Ten and other e-commerce firms will help us achieve our target of 300,000 subscribers to our Internet banking services. We will also strengthen our e-mail marketing and activate Internet-based loans in linkage with our new computerized credit scoring system (CSS). Our ultimate aim here is to be the best electronic banking service provider in the industry through the construction of a complete banking portal site that provides all the information anybody would ever need on banking, securities, insurance and real estate; a site that through its Payment Gateway system makes it easy for users to pay for all online purchases; and a site where applications for credit cards can be made online and monthly credit card bills can be settled.

#### Chungchong Group

With the P&A of Chungchong Bank in June 1998, Hana Bank firmed up its operations in the Chungchong area and posted considerable growth in one fell swoop, taking over 59 of the regional bank's 112 branches and retaining 496 of its 1,616 employees. Chungchong Bank had a total of W3,000.7 billion in its banking deposits at the end of 1999, a 53.5% (W1,015.9 billion) increase from the previous year's W1,899.5 billion, making for the largest market share of 15.9% among all local banks in the region. Chungchong Bank's operating income also showed considerable growth in its first full year as part of the Hana family, posting at W77.4 billion, a 310.5% year-on-year increase.

Chungchong Bank will remain as a financial institution that represents the region both in name and in substance. No effort will be spared in ensuring that it continues to command the highest market share in the region and the target for deposits in 2000 has been set at W4.5 trillion. Its emphasis will be on retail banking, with the expansion of electronic banking and a drive to increase the number of retail banking customers by 22.6% from the current 1,090,000 to 1,324,000. This ambitious plan includes activities for bolstering the credit card business to achieve 60% growth in both turnover and profit, with a sales target of W200 billion and a goal for profit from commissions of W8 billion in 2000.

Efforts will also be made to expand the retail customer base by capitalizing on the arrival of several new residents to the region following the completion of several newly built apartment complexes. Consequently, Chungchong Bank has set an ambitious goal to increase its sales by 64.4% from 1999 to reach W2,220 billion in 2000. Backing up efforts to attract new retail business, employees will undergo additional training so they know how to provide the kind of pleasant, efficient service which will not only reinforce Chungchong Bank's reputation as the best bank in the region, but will ultimately lead to greater profitability.



Sung-Ho Choi  
Executive Vice President  
& Group Head of  
Chungchong HanaBank

## ■ Corporate Banking

In 1999, Hana Bank's Corporate Banking unit placed 75 Relationship Managers at 5 Corporate Banking divisions and 30 Relationship Management branches. Providing diversified information and services, this team handled transactions with about 6,000 corporate customers over the course of the year, for total loans and deposits amounting to W12,917.1 billion and 9,353.7 billion respectively, and a total of US\$24.242 billion in foreign exchange transactions.

The Bank's asset structure, which had been disproportionately focused on large corporations, was drastically changed for a better balance between large corporations and SMEs, with the latter accounting for a 48% portion of the Bank's assets in 1999, up from 34.3% in 1998.

In cooperation with affiliate Hana Securities, the Bank brought in W200 billion in business from the capital market. Factoring receivables, unsecured endorsed discounted notes and factoring were also important sources of income.

In addition, the Bank is developing its B2B cyber-banking system by strengthening its product management to broaden the corporate customer base. In the coming year, the Bank will expand its services in the e-business area to secure its status as a leading bank.

As part of its Relationship Managers' activities, the Bank faxed to more than 3,500 SMEs, information on interest rates, relevant laws and tax-related affairs, a service which will be moved to the Internet. The Bank increased the number of its core corporate customers to 191 firms and introduced a system to provide them with special privileges such as lower commissions for various transactions including currency exchange, and inviting them to various events.

Employees were also able to benefit from a Bank-sponsored professional development program, learning advanced financing techniques in six different RM-training sessions. Topics included direct financial markets; analysis of corporate value; the Internet; and analyzing a company's future ability to repay. The Bank also created business manuals specializing in Relationship Management and Loans to serve as guidelines for smoother, more consistent business operation.

With a new system for internal price transfers based on market interest rates in place, Hana Bank now has rational guidelines for setting interest rates on corporate loans which reflects risk. The Bank also upgraded its foundation for higher productivity through developing a system for settlement of accounts for Relationship Managers to use, as well as a system for analyzing the profitability of corporate customers.

On the basis of its considerable performance in 1999, Hana Bank plans to further expand its corporate customer base and enhance profitability through focusing on developing the kinds of products and services needed by customers and by heightening the sophistication of its operating techniques. The Bank will post more Product Managers and strengthen



Hoon-Kyu Kim  
Senior Executive Vice President & Group Head of Corporate Banking Group



Young-Duk Kim  
Executive Vice President & Group Head of Choong-Ang Corporate Banking Division



Hee-Won Shim  
Executive Vice President & Group Head of Kang-Nam Corporate Banking Division

their role to meet the growing need for services in the areas of investment banking, capital markets and settlement, such as reverse purchasing cards. We will also establish branches specializing in specific kinds of business and have plans to place Relationship Managers with expertise in the area of information telecommunications to meet the need for specialists in the area. Through active first-hand participation in venture businesses and activation of program loans to small-sized businesses, we will expand the scope of our core corporate customers, laying the foundations to be a competitive, world-class bank for the 21st century.

#### Investment Banking

Hana Bank's Investment Banking Group is composed of the Investment Banking Team, Financial Derivatives Team and Venture Investment Team. The Investment Banking Team provides financial advisory services relating to M&A, Project Finance, Corporate Restructuring, Privatization and Private Equity Investment. The Financial Derivatives Team offers futures and options related services, while the Venture Investment Team makes equity investment in, and provides related advisory services to, venture companies that are in the initial stages of establishment or in the pre-IPO stage.



Francis W. Lee  
Senior Executive Vice  
President & Group  
Head of Investment  
Banking Group

In 1999 the Investment Banking Team provided M&A advisory services to both buy- and sell-side clients with total transaction value exceeding W 500 billion. The Team also successfully completed more than W700 billion in syndication of non- and limited- recourse project financing, and by first quarter of 2000, it anticipates surpassing the W1trillion mark. For M&A and project financing, the Team placed its primary focus on such industries as power generation, city gas, district heating, water treatment and telecommunications industries. The Team is carrying a significant backlog of active projects into 2000 including several infrastructure projects.

The Investment Banking Group aspires to provide the highest possible quality advisory services with a pool of excellent professional staff that has solid experience and a track record. For business development, the Group makes full utilization of Hana Bank's impressive network and its affiliates as well as the Bank's various partnerships with foreign financial institutions.

#### <Major Transactions in 1999>

M&A and Other Advisory	Project / Structured Finance Lead Arranger
Acquisition of Hyundai Petrochemical	Hyundai Petrochemical Captive Cogeneration Power Plant
Captive Cogeneration Power Plant	Hyundai Electronics Captive Cogeneration Power Plant
Acquisition of Hyundai Electronics	Mando Machinery's Asan Plant
Captive Cogeneration Power Plant	Hansol Paper's Chonju Plant
Sale of Hanjin City Gas	Young-il Chemical
Minor Equity Sale of Korea Telecom Freetel	LG-Dow Polycarbonate Plant

## ■ International Banking

Since acquiring Boram Bank, the Bank's foreign assets have grown much larger, enabling it to carry out more activities in the international financial market. As a result, Hana Bank has become a benchmark for other domestic banks in returning to the international financial market as a pioneer in securing foreign capital. At the same time, it has also become highly regarded among overseas banks as a representative high-end Korean bank.

With the US\$100-million issuance of floating rate notes in June 1999, lead-managed by Citibank and Boston Bank, Hana Bank became the first Korean bank since the financial crisis first broke out to issue 2-year notes. The deal was particularly meaningful as it reinstated the regular method of going through an open syndication after full acceptance by the lead managers on the basis of creditability. In an example of the trust Hana Bank has won in international financial circles, despite the relatively high interest rate on the loans due to the prevailing borrowing conditions at the nation's financial institutions, as many as 22 overseas banks volunteered to lend the money, bringing the total amount offered to about 3 times more than had been originally planned.

As part of the final stage of an investment agreement with IFC, the Bank drew-down funds from an IFC B Loan amounting to US\$65 million, with 6 banks participating. In October, the Bank succeeded in borrowing US\$175 million in the form of a 364-day loan which was the largest single loan extended to a local bank since the start of the financial crisis. Now, the Bank plans to improve the income structure of its foreign exchange business and will be able to boost its credit rating by making early payments on its IFC loan, which carries a high interest rate. The Bank already repaid the US\$94-million first-year portion in April 1999, out of a total US\$582 million in loans which had been converted in April 1998 from short-term loans to mid- and long-term loans under a government guarantee.

Elsewhere, the Bank's offices in Singapore and Shanghai are due to have their status raised to the branch level in the second quarter of 2000. Once this happens, the Bank will be able to better meet the many needs of its corporate customers in China and Southeast Asia. In addition, it will be possible to engage in a wider range of international banking activities due to the expansion of its Asian network, which also includes local branches in Hong Kong and Jakarta.



Chong-Suk Choi  
Executive Vice President  
& Group Head of  
International Banking  
Group

## ■ Trust Banking

The Trust Business Group saw a sharp drop in business due to unease over the changing economic environment, making for a change in customer attitudes towards favoring less risk. With customers seeking out alternate places to park their funds, the Bank's trust assets declined 21.9% from 1998 to W15,406.3 billion as of the end of fiscal 1999.

Hana Bank will reorganize the structure of the Bank's trust banking business to place a greater emphasis on Unit Money/Open Time Money Trusts, Specified Money Trusts and Employee Retirement Trusts, increasing their share of the entire trust business from 31.2% to 72.7%. The Bank will also increase the overall amount of its trust banking business, with a plan to intensify promotional activities for short-term Specified Money Trusts and Treasury Trusts. The Bank will also focus on sales of Open Money Trusts and Employee Retirement Trusts. In addition, the Trust Business Unit has begun working in closer cooperation with the Bank's Private Bankers, Relationship Managers and Corporate Sales Team, which will contribute greatly to efforts to reactivate business in the trust banking area.

The Bank is enhancing its consulting capability by developing tools to survey the relative risks for different customers and by training Private Bankers and other employees who will be exclusively devoted to trust banking. Internal communication channels will also be bolstered by calling regular meetings attended by employees working in the trust banking area. Asset management services will also be strengthened by taking on real estate trusts, securities management trusts and legacy securities trusts.

To build up the credibility of its trust products, the Bank will adopt a system in which each team will be responsible for its operational results. In addition, the Bank will provide full and public disclosure of items such as the performance results of each fund, asset details and risk indices, and make it easy to access this information by posting it on the Internet. The Bank will also strengthen risk management through development of a rationalized risk-management system and by systematizing reporting on the status of such management.

To enhance the expertise of asset operation, a joint trading system of marketable securities will see the Trust Business Group and the Information Systems Department working in partnership with one another. Business partnerships will also be sought with domestic institutions specializing in trust operations and with internationally recognized asset operation firms to acquire advanced know-how in the field. The Bank will also be providing professional development opportunities for employees to prepare them for future expansion of activities in this area and give greater incentives to achieve higher levels of performance.

In 2000, we plan to expand our involvement in securities investment and mutual fund custody. We will also try to bolster profits by basing employee compensation on performance, and by making efforts to expand newly operating assets through ABS business. The Bank will also establish a standard for pricing trust-related products and services based on profit, which will open the way for the Bank's trust business to firmly establish itself as a profit-generating operation.



Hee-Dae Kim  
*Executive Vice President  
& Group Head of  
Trust Business Group*

# Management with a Vision

Hana Bank has grown to join the ranks of the world's 180 best banks, is Korea's fourth largest, in terms of deposit amount, and has posted the second largest profits in the domestic industry in an environment of growing competition. We have now set our sights on being one of the world's top-100 general financing banks by 2003. Management will focus on preparing for integrated financing businesses, increasing our presence in the area of Internet banking, and enlivening our market presence.

## *Strategy and Sales Activities for Higher Customer Gains*

Following the successful P&A of Chungchong Bank in 1998 and M&A with Boram Bank in 1999, Hana Bank was able to further enhance its industry status and expand its scope of business in 1999 by continuing to work on maximizing shareholder value and diversifying its products and services for customers throughout the year. We have been positioning ourselves as a general financial institution with full capability in general asset management centered around the following three areas of business:

### ■ Retail Banking

*The Bank offers its VIP customers a wide range of services, such as general asset management guided by Private Bankers. All of our customers also have convenient access to our E-banking services and can use the Bank's automated teller machines across the country to make transactions.*

### ■ Corporate Banking

*The introduction of specialized Relationship Managers will strengthen our corporate customer base through strict management of credit.*

### ■ Investment Banking

*Activities in this area center around the business of acceptance of marketable securities and M&A consulting.*

The path towards our goal to be one of the world's 100 best banks by 2003 is as follows, with all employees to pay particularly close attention to the areas of investment banking, asset management, private banking, bancassurance and brokerage in the coming years.

	1998	1999	2000 (estimate)	2003 (estimate)
Total assets (Billions of Won)	43,700	47,100	53,400	100,000
Equity capital (Billions of Won)	900	1,300	2,200	5,000
Net profit for the year (Billions of Won)	110.8	144.3	302.3	800
BIS Ratio (%)	12.10	12.50	12.40	12.89

## Key Financial Data\*

Year Ended December 31	In Billions of Korean Won	
	1999	1998*****
<b>OPERATING RESULTS</b>		
Interest income	2,276.6	2,913.0
Interest expense	1,753.7	2,276.4
Net interest income	522.9	636.6
Non-interest income	634.6	613.4
Non-interest expense	538.9	1,235.0
Income before provisions for credit losses	618.6	15.0
Provisions for credit losses	406.4	276.3
Income before income taxes	212.2	(261.3)
Income taxes	67.9	19.0
Net income	144.3	(280.3)
<b>PER SHARE DATA (Won)</b>		
Earnings per common share	1,353	1,790
Dividends per share	400	400
Weighted average number of shares	100,763,739	61,907,841
<b>PROFITABILITY RATIOS</b>		
Return on assets	0.47%	0.69%
Return on stockholders' equity	8.24%	11.35%
Return on common equity	11.03%	11.35%
Net interest margin	2.15%	3.34%
Cost-income ratio**	117.76%	68.77%
<b>BALANCE SHEET DATA AT YEAR END</b>		
Loans	17,970.3	13,224.4
Securities	9,708.2	6,966.5
Total assets	32,378.5	24,488.8
Deposits	23,019.7	15,268.1
Borrowings	5,064.5	4,995.1
Total liabilities	30,613.0	23,559.5
Common equity	550.8	166.7
Total stockholders' equity	1,765.6	929.3
<b>ASSET QUALITY RATIOS***</b>		
NPLs/ total credits outstanding	4.41%	
Allowance for loan losses/NPLs	87.91%	
Allowance for loan losses/		
Total credits outstanding	3.87%	2.89%
<b>CAPITAL RATIOS AT YEAR END***</b>		
Total capital ratio	12.33%	13.10%
Tier 1 capital	8.79%	7.90%
Tier 2 capital	3.54%	5.20%
<b>TRUST ACCOUNTS</b>		
<i>For the year</i>		
Dividends of trust profit to beneficiaries	2,038.9	2,568.6
Trust commissions****	181.6	157.5
<i>At year end</i>		
Money trust	12,145.6	17,253.8
Total assets	15,406.3	19,734.4

\* Based on banking accounts only, unless otherwise specified

\*\* Ratio of non-interest income to non-interest expenses

\*\*\* Based on the consolidated data

\*\*\*\* Include fees from trust account management and termination fee on trust accounts

\*\*\*\*\* Based on the combined statements of Hana Bank and Boram Bank,

except for per share data, profitability ratios, and capital ratios,

which are on a standalone basis without being affected by the Boram Merger

All financial information set forth below, unless otherwise indicated, is given on a non-consolidated basis and classified in accordance with the 1999 Line-item Classifications. Accordingly, the following discussion of the Bank's results of operations and financial condition does not include a discussion of the trust accounts, except with respect to revenues and expenses related to trust account operations which are reflected in the bank accounts under non-interest income and non-interest expense.

The Report on the audit of financial statements in 1999 applied the revised financial accounting standards, and omitted the comparison of 1999 with 1998. However, in our discussion, we adjusted 1998 results according to the revised standards.

# Management Discussion & Analysis

## Overview >>

Following the receipt of a financial aid package from the IMF, the Government initiated a comprehensive program in late 1997 to address some of the structural weaknesses in the Korean economy. As part of that program, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in asset classification standards, provisioning guidelines and securities valuation. The adoption of the New FSC Guidelines combined with the financial difficulties confronting the Daewoo Group resulted in a significant increase in the amount of the Bank's non-performing credits and provisions for loan losses in 1999.

Net income for 1999 was W144.3 billion, an increase of W424.6 billion over the net loss of W280.3 billion in 1998, which was based on the combined statements of Hana Bank and Boram Bank. The substantially decreased non-interest expenses largely led the growth in the net income. Meanwhile, on a per share basis which is on a standalone basis without being affected by the Boram Merger, net income decreased to W1,353 in 1999 from a net income of W1,790 in 1998. Return on assets and return on stockholders' equity were 0.47% and 8.24%, respectively, at year-end 1999. Total revenue, the sum of interest income and non-interest income, were W2,911.2 billion in 1999, a decrease of W615.2 billion or 17.4% from W3,526.4 billion in 1998. On the other hand, total expenses, the sum of interest expense and non-interest expense, were W2,292.6 billion, decreased W1,218.8 billion or 34.7% from W3,511.4 billion in 1998.

Net Income		
In Billions of Korean Won	1999	1998*
Interest income	2,276.6	2,913.0
Interest expense	1,753.7	2,276.4
Net interest income	522.9	636.6
Provision for possible loan losses	406.4	276.3
Non-interest income	634.6	613.4
Non-interest expense	538.9	1,235.0
Income taxes	67.9	19.0
Net Income	144.3	(280.3)

\*Based on the combined financial statements

Total assets came to W32,378.5 billion at December 31, 1999, up W7,889.7 billion or 32.2% from W24,488.8 billion at year-end 1998. The increase in total assets primarily resulted from increased loans. At December 31, 1999, loans increased 35.9% to W17,970.3 billion from W13,224.4 billion at the end of 1998.

As of December 31, 1999, total liabilities in the bank accounts were W30,613.0 billion, showing an increase of 29.9% from total liabilities of W23,559.5 billion as of December 31, 1998. The increase of W7,053.5 billion was primarily attributable to a 50.8% or W7,751.6 billion increase in deposits. Total shareholders' equity amounted to W1,765.6 billion at December 31, 1999, up W836.3 billion or 90.0% from W929.3 billion at year-end 1998.

## Boram Merger and Chungchong P&A >>

During the financial and economic crisis which affected Korean banks and companies since late 1997, the Bank was requested by the Government to purchase certain assets and assume certain liabilities of Chungchong Bank and voluntarily merged with Boram Bank. In both cases, the Government provided support by allowing the disposal of problem assets and contributing capital to the Bank.

On January 1, 1999, the Bank merged with Boram Bank. The Bank issued 8,761,986 shares in exchange for all of the issued and outstanding shares of Boram Bank, at the exchange rates of 0.2549 and 0.1485 shares for each share of Boram Bank's common shares and preferred shares, respectively, based on the valuation of their respective market value and net asset value. As a result of the Boram Merger, the Bank became the fourth largest bank in terms of total Won deposits and seventh largest bank in terms of total assets as of December 31, 1998, based on the FSC reporting guidelines, which include certain deposits and assets in the trust accounts. These figures should be compared to eighth and ninth in deposit size and asset size, respectively, as of the same date prior to being affected by the merger. In connection with the Boram Merger, the Government made, through the Korean Deposit Insurance

# Management Discussion & Analysis

Corporation (KDIC), a capital contribution of W329.5 billion by purchasing 65,900,000 shares of non-voting, non-participatory, non-cumulative preferred stock of the Bank.

As of June 29, 1998, the FSC required the Bank to purchase certain assets and assume certain liabilities of Chungchong Bank, which had been taken over by the FSC. The Bank purchased assets of W2,935.9 billion and assumed liabilities of W3,931.7 billion. The net asset shortfall of W995.7 billion was compensated for by the Government through W108.6 billion worth of bonds issued by Korean Asset Management Corporation (KAMCO), W773.9 billion of KDIC bonds and W41.4 billion cash, the balance being subsequently compensated for by cash and KDIC bonds.

The 17.9% decrease in net interest income before provisions for credit losses for the year ended December 31, 1999 to W522.9 billion from W636.6 billion for the year ended December 31, 1998, primarily due to a larger decrease in the amount of interest income than interest expense. Interest income decreased by W636.4 billion, while interest expense decreased by W522.7 billion in 1999 compared to 1998. As a result, the net interest margin decreased 35.6% to 2.15% in 1999 from 3.34% in 1998. Such decreases in net interest income and net interest margin were primarily attributable to lower average interest rates in 1999 and credits to the Daewoo Group companies which were included in the interest-earning assets but did not actually generate interest income. The ratio of interest expense to interest income was 77.0% in 1999 compared to 78.1% in 1998.

## *Results of Operations>>*

### Net Interest Income

Net Interest Income In Billions of Korean Won	1999	1998***
Interest Income	2,276.6	2,913.0
Won Currency	2,014.2	2,536.5
Loans	1,168.8	1,775.5
Due from banks	162.6	91.6
Securities	653.2	639.8
Others *	29.6	29.6
Foreign Currencies	262.4	376.5
Loans	201.0	300.6
Due from banks	22.3	56.1
Securities	39.1	19.8
Interest expense	1,753.7	2,276.4
Won Currency	1,545.3	1,965.9
Deposits	1,223.7	1,284.1
Borrowings	207.7	535.4
Bond issued	69.1	58.7
Others **	44.8	87.7
Foreign Currencies	208.4	310.5
Deposits	46.2	93.6
Borrowings	144.1	180.6
Bond issued	18.1	36.3
Net Interest Income	522.9	636.6

\* Include certain interest income not directly tied to any assets

\*\* Include due to trust accounts and certain interest expense not directly tied to any liabilities

\*\*\* Based on the combined financial statements

### Interest Income

Interest income for the year ended December 31, 1999 decreased 21.8% to W2,276.6 billion from W2,913.0 billion for the year ended December 31, 1998, primarily due to a decrease in interest on loans by 34.0% or W706.3 billion to W1,369.8 billion from W2,076.1 billion for the year ended December 31, 1998. Such decrease was primarily a result of lower interest rates in 1999 compared to 1998, despite a 20.1% increase in average interest-earning assets in 1999 to W24,358.3 billion from W20,279.0 billion in 1998.

Average loans before allowances for credit losses in 1999 increased 6.6% to W14,839.7 billion compared to W13,926.4 billion in 1998, primarily due to an increase in loans in Korean Won, partially offset by a decrease in loans in foreign currencies. Average loans in Korean Won increased 14.0% to W12,340.2 billion in 1999 from W10,820.7 billion in 1998, primarily due to the Bank's efforts to increase its lending to retail customers and other existing customers who had business with the Bank. Average foreign currency loans contracted 19.5%, primarily due to the Bank's efforts to reduce its exposure to high risk countries such as Indonesia and lower margins on its foreign currency lending as well as an appreciation of the Korean Won against the U.S. dollar.

# Management Discussion & Analysis

Average balance of interest-earning securities investment in 1999 increased to 40.5% to W6,852.9 billion from W4,876.5 billion in 1998, primarily due to a 127.0% or W1,824.1 billion increase in corporate bonds to W3,282.0 billion in 1999 from W1,457.9 billion in 1998. Such substantial increase was primarily attributable to increases in bonds issued by KDIC, KAMCO and other Government controlled entities. In 1999, the Bank's holdings of Government and public bonds and beneficiary certificates also increased 119.4% and 165.0%, respectively, to W1,146.1 billion and W496.2 billion, respectively. These increases were primarily due to the Bank's shift towards relatively less risky assets to further improve its capital adequacy. As a result, the share of loans in the Bank's average interest-earning assets decreased from 68.7% in 1998 to 60.9% in 1999, while that of securities increased from 24.0% to 28.1%.

## Average Interest-Earning Assets

In Billions of Korean Won	1999		1998*	
	Avg. Balance	Rate (%)	Avg. Balance	Rate (%)
Won Currency	21,050.0	9.6	16,007.9	15.8
Loans	12,340.2	9.5	10,820.7	16.4
Due from banks	2,259.7	7.2	655.8	14.0
Securities	6,450.1	10.1	4,531.4	14.1
Foreign Currencies	3,308.3	7.9	4,271.1	8.8
Loans	2,499.5	8.0	3,105.7	9.7
Due from banks	406.0	5.5	820.3	6.8
Securities	402.8	9.7	345.1	5.7
Total	24,358.3	9.35	20,279.0	14.4

\*Based on the combined financial statements

## Average Interest-Earning Assets Mix

	1999	1998*
Loans	60.9%	68.7%
Securities	28.1%	24.0%
Liquid assets & others	11.0%	7.3%
Won currency	86.4%	78.9%
Foreign currencies	13.6%	21.1%

\*Based on the combined financial statements

The average interest rate on the Bank's average interest-earning assets decreased to 9.35% in 1999 from 14.4% in 1998. The average interest rate of Won currency loans declined to 9.5% from 16.4% and the average interest rate of foreign currency loans also decreased to 8.0% in 1999

from 9.7% in 1998. As a result, interest income on loans decreased 34.0% in 1999 compared to 1998.

## Interest Expense

The 23.0% decrease in interest expense to W1,753.7 billion reflected the lower interest rate environment in 1999 compared to 1998. In 1999, interest on deposits declined 7.8% to W1,269.9 billion and interest expense on borrowings also declined 51.0% to W351.8 billion. Other interest expenses, including interest on bonds, declined as well.

In 1999, average deposits increased 41.2% to W17,145.6 billion and average interest-bearing borrowings decreased 16.8% to W5,077.4 billion compared to 1998. The increase in average deposits was attributable to a 46.2% increase in average deposits in Korean Won to W16,301.7 billion in 1999 compared to W10,812.2 billion in 1998, partially mitigated by a 36.4% decrease in average deposits in foreign currencies to W843.9 billion in 1999. The increase in deposits in Korean Won was primarily due to the prevailing uncertain economic environment that made people prefer low risk investments and the inflow of funds from investment trust companies as they experienced financial problems. Average deposits in foreign currencies decreased in 1999, primarily as a result of a general decline in Korean companies' foreign currency deposits as foreign exchange liquidity became less of a concern in 1999 compared to 1998.

The 16.8% decrease in average interest-bearing borrowings was primarily attributable to a 54.0% or W1,058.8 billion decrease in bonds sold under repurchase agreements to W900.2 billion in 1999 from W1,959.0 billion in 1998, which was partially offset by increases in borrowings in Korean Won and foreign currencies of 27.4% and 31.5%, respectively, in 1999. Won-denominated bonds sold under repurchase agreements decreased 55.1% to W879.0 billion, primarily as a result of the Bank's efforts to procure more of its funds from lower cost sources such as deposits.

As a combined result of lower interest rates and the decrease in average borrowings, interest expense on

# Management Discussion & Analysis

borrowings incurred in 1999 was less than half of that of 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 7.8% decline in interest expense on deposits.

and gains on securities trading and valuation increased by 283.1% or W172.1 billion to W232.9 billion. The Bank's trust fees and gains on securities trading and valuation increased due primarily to the generally strong securities market in Korea and, in the case of trust fees, the Bank's efforts to better manage its trust funds.

## Average Interest-Bearing Liabilities

	In Billions of Korean Won		1999		1998*	
	Avg. Balance	Rate (%)	Avg. Balance	Rate (%)		
Won Currency	20,156.2	7.7	15,465.5	12.7		
Deposits	16,301.7	7.5	10,812.2	11.9		
Borrowings	2,979.9	7.0	3,813.3	14.0		
Bond issued	640.3	10.8	414.6	14.1		
Others	234.3	19.1	425.4	20.9		
Foreign Currencies	3,249.9	6.4	4,219.7	7.4		
Deposits	843.9	5.5	1,331.8	7.0		
Borrowings	2,097.5	6.9	2,287.3	7.9		
Bond issued	308.5	5.9	600.6	6.0		
Total	23,406.1	7.50	19,685.2	11.6		

\*Based on the combined financial statements

## Average Interest-Bearing Liabilities Mix

	1999	1998*
Deposits	73.3%	61.7%
Borrowings	21.7%	31.0%
Liquid liabilities & others	5.0%	7.3%
Won currency	86.1%	78.6%
Foreign currencies	13.9%	21.4%

\*Based on the combined financial statements

## Non-Interest Income

The Bank's non-interest income in 1999 increased 3.5% to W634.6 billion from W613.4 billion in 1998. Fee income in 1999 decreased 33.9% to W106.1 billion, primarily due to the 82.9% decrease in fees on termination of trust accounts, which was primarily a result of unusually high termination of trust accounts in 1998 when the Government allowed introduction of shorter-term trust products. Gains on foreign exchange transactions also decreased by 56.1% or W101.6 billion to W79.5 billion in 1999 and gains on derivatives transactions by 90.7% or W96.2 billion to W9.9 billion. Gains on foreign exchange and derivatives transactions decreased in 1999 compared to 1998 as the Korean foreign exchange market stabilized. Partially offsetting such decreases, fees from trust operations in 1999 increased by 73.5% or W72.7 billion to W171.6 billion

## Non-Interest Income

In Billions of Korean Won	1999	1998*
Fee income	106.1	160.4
Guarantee fees	14.3	22.6
Fees on termination of trust accounts	10.0	58.6
Others	81.8	79.2
Other non-interest income	528.5	453.0
Gains on securities	232.9	60.8
Gains on foreign exchange transactions	79.5	181.1
Fees from trust operations	171.6	98.9
Transfer from allowance	10.7	0.0
Derivatives related gains	9.9	106.1
Gains on sales of loans	17.8	1.0
Others	6.1	5.1
Total Non-Interest Income	634.6	613.4

\*Based on the combined financial statements

## Non-Interest Expense

The Bank's non-interest expense decreased by 56.4% or W696.1 billion to W538.9 billion in 1999 from W1,235.0 billion in 1998. Such decrease was primarily attributable to decreases in losses from foreign exchange and derivatives transactions, losses from trust account operations and losses on securities, as well as a decrease in losses on sales of non-performing assets to KAMCO. As the foreign exchange market became more stable and the Korean stock market in general showed strong performance in 1999, losses from trust operations decreased by W333.6 billion to W42.9 billion in 1999 from W376.6 billion in 1998, and losses from foreign exchange and derivatives transactions decreased in 1999 by W161.9 billion in the aggregate. In addition, losses on sales of non-performing assets to KAMCO decreased by W141.9 billion to W8.4 billion in 1999 from W150.3 billion in 1998, as the principal amounts of such sales decreased to W12.2 billion in 1999 from W342.3 billion in 1998. .

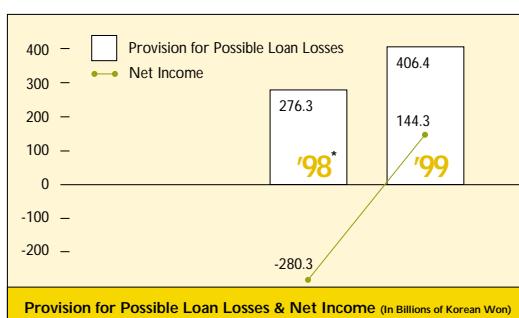
# Management Discussion & Analysis

Non-Interest Expense		
In Billions of Korean Won	1999	1998*
Fees & Commissions	25.8	15.4
Fee expenses	17.2	11.2
Commissions paid on credit cards	8.6	4.2
General & Administrative expenses	299.0	311.1
Salaries & Wages	126.1	92.5
Retirement benefits	9.7	39.9
Fringe benefits	17.7	44.8
Others	145.5	133.9
Other non-interest expenses	214.1	908.5
Expenses relating to securities	24.2	56.8
Foreign exchange losses	53.0	124.3
Losses from trust operation	42.9	376.6
Losses on derivatives	9.3	99.9
Losses on securities	39.3	51.2
Losses on sale of loans	8.4	150.3
Others	37.0	49.4
Total Non-Interest Expense	538.9	1,235.0

\*Based on the combined financial statements

## Provision for Credit Losses

The Bank implemented in April 1999 a new credit grading system ("HCGS"). The HCGS was designed to focus more on forward-looking credit evaluation standards and reflect more stringent international standards for asset classification and provision. In 1999, the Bank's provisions for credit losses increased 47.1% to W406.4 billion, primarily due to the New FSC Guidelines that require more stringent asset classification and credit loss provisions, as well as deterioration of the Bank's credits to the Daewoo Group companies.



\*Based on the combined financial statements

## *Financial Condition >>*

### Asset Portfolio

As of December 31, 1999, total assets in the bank accounts increased 32.2% to W32,378.5 billion from W24,488.8 billion as of December 31, 1999. The increase in total assets was primarily the result of increased loans at year-end 1999. During 1999, the Bank's asset composition was changed with increasing loans and securities in terms of both volume and share and decreasing portions of due from banks and other assets. Of total assets outstanding at the end of 1999, loans accounted for 56% of total assets, securities for 30%, due from banks for 8%, and other assets for 6%. These figures were compared with 54%, 28%, 11%, and 7%, respectively, at the end of the previous year.

### Asset Portfolio

In Billions of Korean Won	1999		1998*	
	Out-standing	Percent (%)	Out-standing	Percent (%)
Due from banks	2,710.0	8	2,622.2	11
Loans	17,970.3	56	13,224.4	54
Securities	9,708.2	30	6,966.5	28
Others	1,990.0	6	1,675.7	7
Total Assets	32,378.5	100	24,488.8	100

\*Based on the combined financial statements

### Loan Portfolio

Total net loans (net of allowances and discounts) increased 45.5% to W17,290.6 billion as of December 31, 1999, compared to W12,740.7 billion as of December 31, 1998. Gross loans increased 35.9% to W17,970.3 billion at the end of 1999 compared to W13,224.4 billion at the end of 1998. Such increase was primarily due to a 49.4% increase in loans in Korean Won to W12,404.5 billion and W920 billion worth of bonds bought under resale agreements. This increase was partially offset by a 33.8% decrease in loans in foreign currencies to W958.5 billion. The increase in loans in Korean Won was mainly due to an increase in individual consumer loans. Individual consumer loans increased W2,040.3 or 164.7% from its 1998 level.

# Management Discussion & Analysis

Loan Portfolio		
In Billions of Korean Won	1999	1998
Won Currency	9,955.9	6,704.0
Corporate Loans	6,516.8	5,240.1
Individual Consumer Loans	3,279.3	1,239.0
Others	159.8	224.9
Foreign Currencies	958.5	1,448.4
Bills purchased in Won currency	2,332.1	1,604.1
Bills purchased		
in foreign currencies	1,181.9	984.2
Advances for customers	192.6	98.3
Bonds purchased on resale		
agreements	920.0	0.0
Call loans	412.3	411.3
Privately-placed debentures	1,774.5	1,841.2
Others	242.5	132.9
Total Loans	17,970.3	13,224.4

\*Based on the combined financial statements

Of total Won-currency loans at the end of 1999, corporate loans accounted for 65.5%, individual consumer loans for 32.9%, and others for 1.6%. Comparable figures at the end of 1998 were 78.2%, 18.5%, and 3.3%, respectively.

## Non-Performing Loans

The financial difficulties confronting the Daewoo Group, combined with the adoption of the New FSC Guidelines, resulted in a significant increase in the amount of the Bank's non-performing credits and/or write downs and provisions for loan losses in 1999. The Bank expects that these adverse effects will continue to exist at least in the short run.

The Bank's total non-performing loans amounted to W1,174.1 billion at the end of 1999. The non-performing loan ratio, non-performing loans to total loans, was 4.41%.

As a result of the New FSC Guidelines and deterioration of the Bank's credits to the Daewoo Group companies, the Bank's allowances for credit losses as of December 31, 1999 increased 34.6% to W1,032.2 billion from W766.9 billion as of December 31, 1998. Such increase was mainly due to provisions for credit losses of W406.4 billion for the year ended December 31, 1999 and recoveries and adjustments to the allowances of W64.1 billion, partially offset by charge-offs amounting to W69.8 billion.

Asset Quality		
In Billions of Korean Won	1999	%
Total Credits	26,643.2	100.00
Normal	22,438.8	84.22
Precautionary	1,919.3	7.20
Substandard	1,710.9	6.42
Doubtful	421.2	1.58
Estimated Losses	153.0	0.58
Non-performing loans (NPLs)	1,174.1	
Non-performing loan ratio(%)	4.41	
Loss risk-weighted loans	705.8	
Loss risk-weighted loan ratio(%)	25.73	
Allowance for loan losses / NPLs(%)	87.91	
Allowance for loan losses / total credits(%)	3.87	

\* FSC revised its credit classification criteria on and from Dec 31, 1999. Thus, the Bank omitted the comparison of 1999 with 1998.

\* Based on the consolidated financial data

\* Include acceptances and guarantees and excluded interbank loans

\* NPL ratio= (credits delinquent for 3 months or more + credits delinquent on interest payment) / total credits

\* Loss risk-weighted loans=substandard\*20%+ doubtful\*50%+ estimated losses\*100%

\* Loss risk-weighted loan ratio = loss risk-weighted loans /(core capital+ allowance)

## Allowance for Credit Losses

In Billions of Korean Won	1999	1998**
Bank Accounts	705.0	452.8
Trust Accounts	327.2	314.1
Total	1,032.2	766.9

\* Allowances in 1999 include W4.4 billion of allowance for unit money trust, W49.9 billion of allowances for possible losses of acceptances and guarantees, W72.3 billion of allowances for corporate bonds & undecided acceptances and guarantees, which are not included in the FLC criteria

\*\* Based on the combined financial statements

# Management Discussion & Analysis

The Daewoo Group is having significant financial difficulties as a result of its high debt. As of December 31, 1999, the Bank's total credits to the Daewoo Group companies was W897.3 billion or 3.4% of the Bank's total credits. As of the same date, the Bank provided allowances for credit losses in the amount of W375.2 billion or 41.8% of the total credits to the Daewoo Group outstanding as of that date. With respect to Daewoo Group's unsecured total credits, the Bank provided on average 52.2% allowances, more than the minimum allowance levels for such total credits prescribed by the FSC.

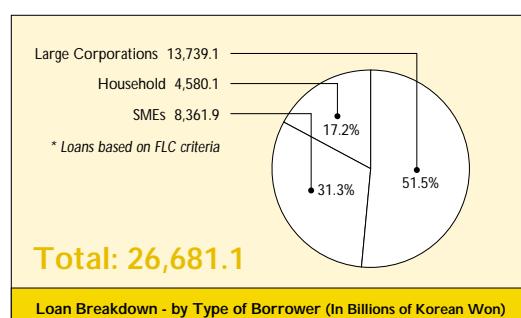
## Credits to Daewoo Group Companies and Allowances for Credit Losses

In Billions of Korean Won	Total	Unsecured	Collateralized	Allowances
Total credits	897.3	673.1	106.0	118.2
Allowances	375.2	351.6	21.2	2.4
Allowance ratios(%)	41.81	52.24	20.00	2.00

\*Exclude W60.5 billion of total credits from the specified money trust accounts and W11.7 billion of present value discounts in respect of credits in workout

\*Individual loss ratios were applied to Daewoo Group companies for their non-collateralized credits and 90% loss ratio was applied for Daewoo Corp's allowance for non-collateralized credits

Total loans based on FLC criteria amounted to W26,681.1 billion as of December 31, 1999. Loans made to large corporations totaled W13,739.1 billion, and accounted for 51.5% of total loans. Loans made to SMEs and household loans accounted for 31.3% and 17.2% of total loans, respectively, at the end of 1999.



## Securities Investment

Securities increased by W2,741.6 billion or 39.4% to W9,708.2 billion at the end of 1999 compared to 1998, as a result of increases in both trading and investment securities. Investment securities increased by W2,444.8 billion or 36.7% to W9,099.3 billion as of December 31, 1999, primarily due to the increased holdings of corporate bonds by W900.2 billion, the Government and public bonds by W964.9 billion and bonds issued by financial institutions by W889.6 billion. These increases were primarily due to the Bank's intention to increase relatively less risky assets to further improve its capital adequacy.

As of December 31, 1999, total investment in securities represented 30.0% of total assets in the Bank Accounts, compared to 28.4% of total assets as of December 31, 1998. As of December 31, 1999, corporate bonds constituted 41.3% of all securities held in the Bank Accounts, finance debentures constituted 26.7%, national and local government bonds constituted 18.8%, stocks constituted 5.4%, securities in foreign currencies constituted 3.8% and beneficiary certificates constituted 3.7% of the securities in the Bank Accounts. 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.

## Securities Investment Portfolio

In Billions of Korean Won	1999	1998*
Won Currency	9,337.5	6,705.3
Corporate bonds	4,010.0	3,109.8
Financial debentures*	2,593.8	1,704.2
Government related bonds	1,821.7	856.8
Stocks	522.3	127.3
Others	389.7	907.2
Foreign Currencies	370.7	261.2
Onshore	368.0	248.2
Offshore	2.7	13.0
<b>Total</b>	<b>9,708.2</b>	<b>6,966.5</b>

\* Include debentures issued by KDIC and KAMCO bonds

\* Based on the combined financial statements

# Management Discussion & Analysis

## Deposits

The Bank's principal source of funding is customer deposits, including demand deposits, time and savings deposits, mutual installments, certificates of deposits and deposits in foreign currencies. The Bank's total deposits as of December 31, 1999 increased 50.8% to W23,019.7 billion compared to 1998. Such increase was due to a 73.8% or W8,764.7 billion increase in deposits in Korean Won to W20,643.9 billion, partially offset by decreases in deposits in foreign currencies and certificates of deposits. The increase in deposits in Korean Won was primarily due to the prevailing uncertain economic environment that made people prefer low risk investments and the inflow of funds from investment trust companies as they experienced financial problems. Deposits in foreign currencies decreased in 1999, primarily as a result of a general decline in Korean companies' foreign currency deposits as foreign exchange liquidity became less of a concern in 1999 compared to 1998.

As of December 31, 1999, deposits constituted 71.1% of the total funding sources of the Bank Accounts, of which deposits in Korean Won accounted for 63.8%. Of Won currency deposits, time and savings deposits increased W8,768.7 billion or 86.0% to W18,966.3 billion. Specifically, time deposits jumped by W5,403.0 billion at year-end 1999 due to the strong sales performance of the Bank's new products.

## Deposits

In Billions of Korean Won	1999	1998*
Won Currency	20,643.9	11,879.2
Demand deposits	1,151.9	930.5
Time and savings deposits	18,966.3	10,197.6
Mutual installment received	525.7	751.1
Foreign Currencies	532.4	1,109.4
Demand deposits	80.1	89.9
Time and savings deposits	452.3	1,019.5
Certificates of deposits	1,843.4	2,279.5
Total	23,019.7	15,268.1

\*Based on the combined financial statements

## Borrowings

The Bank's borrowings at the end of 1999 showed an increase of 1.4% to W5,064.5 billion over 1998. The increase was primarily attributable to a 45.0% increase in borrowings in foreign currencies to W1,779.1 billion and was also offset by a 47.3% or W373.0 billion decrease in due to the BOK in foreign currencies as well as decreases in call money and borrowings in Korean Won. The decrease in borrowings in Korean Won was primarily the result of the Bank's efforts to procure more of its funds from lower cost sources such as deposits.

Most of the Bank's borrowings in Korean Won are from the BOK and other banks and have historically been rolled over upon maturity. Most of the Bank's borrowings in foreign currencies are in U.S. dollars and Japanese Yen and have maturities of less than three years.

## Borrowings

In Billions of Korean Won	1999	1998*
Won currency	1,025.5	1,090.3
Foreign currencies	1,779.1	1,227.1
Bonds sold under repurchase agreements	1,040.0	1,086.5
Bills sold	681.5	378.6
Due to the Bank of Korea		
in foreign currency	415.6	788.6
Call money	122.8	424.0
Total	5,064.5	4,995.1

\*Based on the combined financial statements

## Capital Adequacy

The FSC introduced risk-adjusted capital adequacy standards in consideration of the international guidelines set by BIS with full effect commencing as of December 31, 1995. Under these FSC guidelines, all banks in Korea are required to maintain a capital adequacy ratio (Tier 1 and Tier 2 capital) of at least 8% of risk-weighted assets based on consolidated financial statements. As of December 31, 1999, the Bank's capital adequacy ratio was 12.33% based on the consolidated financial statements. The Bank aims to maintain the ratio above 12%.

\*Based on the combined financial statements

# Management Discussion & Analysis

Total risk-adjusted capital was W2,562.6 billion at year-end 1999. Of total risk adjusted capital, Tier 1 capital and Tier 2 capital were W1,868.4 billion and W735.5 billion, respectively. The Bank's total risk-weighted assets were W20,778.8 billion, up W9,834.3 billion or 89.9% from W10,944.5 billion at the 1998 year-end. The ratio of risk-weighted assets to total assets was 64.2% at the end of the previous year.

BIS Capital Ratio		
In Billions of Korean Won	1999*	1998**
Tier 1 capital	1,868.4	864.8
Capital stock	1,023.6	349.6
Capital surplus	339.7	169.1
Retained earnings	408.9	346.3
Adjustment, etc	96.2	(0.2)
Tier 2 capital	735.5	569.2
Revaluation reserves	-	-
Allowance for loan losses	99.9	136.8
Subordinated debt	635.6	432.4
Capital contribution in non-consolidated subsidiaries	(41.3)	-
<b>Total risk-adjusted capital</b>	<b>2,562.6</b>	<b>1,434.0</b>
Total risk-weighted assets	20,778.8	10,944.5
Capital adequacy ratio(%)		
Tier 1	8.79	7.90
Tier 2	3.54	5.20
Tier 1 and Tier 2	12.33	13.10

\* Based on consolidated financial statements

\*\* Based on standalone financial statement of Hana Bank

Tier 1 capital increased mainly due to the following: Paid-in capital increase due to the Boram Merger and public offerings, the Government's capital contributions by purchasing preferred stocks of the Bank in connection with the Boram Merger and Chungchong P&A, and improved net income for 1999.

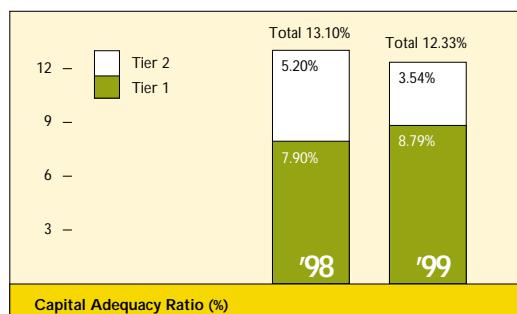
On January 1, 1999, the Bank merged with Boram Bank. The Bank issued 8,761,981 shares in exchange for all of the issued and outstanding shares of Boram Bank. As a result, the paid-in capital of the Bank increased W43.8 billion. On April 20, 1999, the payment date, the Bank issued its 31,475,194 common shares (face value of W5,000) at W7,300 per share. As a result, paid-in capital increased W157.4 billion and Tier 1

capital increased W229.8 billion in 1999.

In connection with Chungchong P&A and the Boram Merger, the Government made capital contributions of W472.8 billion by purchasing non-voting preferred stocks of the Bank. In return for the Government's capital contributions, the Bank received KDIC bonds. On January 27, 2000, the Bank purchased 27,479,000 Merger Preferred Shares in exchange for the corresponding amount of KDIC bonds. Dividend rates for P&A preferred shares and the Merger preferred shares are 1% and 2%, respectively. All of the remaining 67,081,000 preferred shares are scheduled to be redeemed according to the redemption schedule.

Capital increase from the Bank's operations, the balance after subtracting the expected dividend of W52.1 billion from net income of W144.3 billion, was W92.2 billion.

In 2000, the Bank and Allianz AG will enter into a strategic alliance. Allianz AG will invest in the Bank by purchasing 14.2 million shares.



## Liquidity

The purpose of liquidity management is to provide the Bank with available funds to meet its present and future financial obligations and to take advantage of appropriate market opportunities as they arise. The Bank has several sources of liquidity and manages its liquidity through Euro-currency and

# Management Discussion & Analysis

## Liquidity Ratio

In Billions of Korean Won	Assets	Liabilities	Gap	Liquidity gap % of total assets
Won Currency	30,026.6	29,379.0	647.6	2.2
Due in 3 months or less	15,846.2	13,618.5	2,227.7	7.4
Due between 3 months and 6 months	3,584.7	4,622.4	(1,037.7)	-3.5
Due between 6 months and 1 year	4,112.7	4,242.2	(129.5)	-0.4
Due between 1 year and 3 years	1,774.3	1,794.1	(19.8)	-0.1
Due after 3 years	3,099.5	5,101.8	(2,002.3)	-6.7
Assets classified as NPL	1,639.2	-	1,639.2	5.5
Foreign Currencies	2,597.5	2,639.2	(41.7)	-1.6
Due in 3 months or less	1,459.7	1,083.2	376.5	14.5
Due between 3 months and 6 months	298.7	542.1	(243.4)	-9.4
Due between 6 months and 1 year	123.3	383.5	(260.2)	-10.0
Due between 1 year and 3 years	329.5	431.6	(102.1)	-3.9
Due after 3 years	234.8	198.8	36.0	1.4
Assets classified as NPL	151.5	-	151.5	5.8

## Maturity Gap

In Billions of Korean Won	Assets	Liabilities	Gap	Liquidity gap % of total assets
Won Currency	29,431.1	29,380.9	50.2	0.2
Due in 3 months or less	10,002.3	13,618.0	(3,615.7)	-12.3
Due between 3 months and 6 months	4,247.1	4,622.5	(375.4)	-1.3
Due between 6 months and 1 year	5,988.9	4,242.2	1,746.7	5.9
Due between 1 year and 3 years	3,820.7	1,794.1	2,026.6	6.9
Due after 3 years	5,372.1	5,104.1	268.0	0.9
Foreign Currencies	2,947.4	2,997.7	(50.3)	-1.7
Due in 3 months or less	1,674.6	1,230.4	444.2	15.1
Due between 3 months and 6 months	302.3	607.3	(305.0)	-10.3
Due between 6 months and 1 year	147.8	439.3	(291.5)	-9.9
Due between 1 year and 3 years	378.9	460.7	(81.8)	-2.8
Due after 3 years	443.8	260.0	183.8	6.2

Asian-currency markets. The Bank seeks to minimize its Won-currency liquidity risks by closely managing its liquidity position on a daily basis and restricting the amount of cash at any given time which is not invested in interest earning deposits or money market instruments.

The Bank conducts a monthly analysis of its assets and liabilities according to their maturity structure and calculates the monthly liquidity gap ratio which is used as a measure of liquidity risk management. The Bank makes efforts to ensure that such monthly liquidity gap does not exceed the limit set by the Bank's Risk Committee.

## Trust Accounts

Under Korean law, assets accepted in trust by a bank are segregated from other assets of the bank and are not available to satisfy the claims of the depositors or other creditors of the bank. Accordingly, trust accounts are accounted for and reported separately from the bank accounts. The Bank is permitted, however, to lend funds from its trust accounts to its bank accounts and to pay interest thereon to the trust accounts. The Bank generally lends temporary surplus funds from its trust accounts to its bank accounts to earn interest.

# Management Discussion & Analysis

## Interest Gap

In Billions of Korean Won	Assets	Liabilities	Liquidity gap	
			Gap	% of total assets
Won Currency	26,349.9	25,193.6	1,156.3	4.4
Due in 3 months or less	12,082.3	13,430.2	(1,347.9)	-5.1
Due between 3 months and 6 months	3,409.5	4,070.5	(661.0)	-2.5
Due between 6 months and 1 year	4,658.5	3,390.0	1,268.5	4.8
Due between 1 year and 3 years	3,345.8	1,792.6	1,553.2	5.9
Due after 3 years	2,853.8	2,510.3	343.5	1.3
Foreign Currencies	3,047.5	2,835.6	211.9	6.9
Due in 3 months or less	2,235.5	1,639.7	595.8	19.6
Due between 3 months and 6 months	639.4	992.4	(353.0)	-11.6
Due between 6 months and 1 year	45.0	199.9	(154.9)	-5.1
Due between 1 year and 3 years	5.1	3.6	1.5	0.0
Due after 3 years	122.5	-	122.5	4.0

Total securities of the Bank decreased W2,313.0 billion or 18% from W12,821.2 billion at year-end 1998 to W10,508.2 billion at year-end 1999. Dividends of trust profit to beneficiaries were W2,038.9 billion at the 1999 year-end, compared to W2,568.6 billion at its 1998 level. The decrease in the dividends of trust profit was largely attributable to the decrease in the amount of funds held in trust. Money trust at December 31, 1999 amounted to W12,145.6 billion, down W5,108.2 billion or 29.6% from W17,253.8 billion at December 31, 1998.

The Bank set aside W327.2 billion for reserve for possible loan losses at the 1999 year end. The provision for possible loan losses was W109.3 billion.

Due to the prevailing uncertain economic environment, people preferred low risk investments. As a result, the domestic trust business slowed down during 1999. At

December 31, 1999, the Bank's outstanding assets in trust accounts were W15,406.3 billion, down W4,328.1 billion or 21.9% from W19,734.4 billion at the end of 1998. Of total assets in trust accounts, loans totaled W3,395.6 billion at year-end 1999, and accounted for 22.0% of total assets. At year-end 1998, total loans were W4,206.7 billion and accounted for 21.3% of total loans. Securities and other assets accounted for 68.2% and 9.8% of total assets, respectively, at December 31, 1999. Comparable figures at December 31, 1998 were 65.0% and 13.7%, respectively.

Total revenues from the trust business decreased to W2,869.1 billion in 1999 from W3,277.4 billion in 1998. The decrease in total revenues was largely due to interest income, which decreased W918.1 billion from its 1998 level. Meanwhile, gains on securities increased W786.9 billion from W187.6 billion to W974.5 billion at the end of 1999.

# *Report of Independent Accountants*

## SAMIL ACCOUNTING CORPORATION



Samil Accounting Corporation  
 Hanil Group Building 21st Flr.  
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 Seoul 140-702, KOREA  
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To the Board of Directors and Shareholders of Hana Bank

We have audited the accompanying balance sheet of Hana Bank ("the Bank") as of December 31, 1999, and the related statements of income, appropriations of retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hana Bank as of December 31, 1999, and the results of its operations, the changes in its retained earnings, and its cash flows for the year then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in note 2 to the financial statements, during 1999, the Bank changed its method of accounting and presentation for certain items in accordance with revised financial accounting standards. The accounting changes include accounting treatment for the valuation of securities, valuation of troubled debt restructurings, reserve for possible losses on acceptances and guarantees, deferred taxes, prior period adjustments, and stock issuance costs. In addition, the financial statements for the year ended December 31, 1998 are not presented herein for comparative purposes pursuant to the addendum to the revised financial accounting standards.

As discussed in note 2 to the financial statements, during 1999, the Bank changed its method used in calculating the allowance for possible loan losses of corporate loans. The new method reflects the borrowers' future debt service capacity ("Forward Looking Criteria (FLC)").

As discussed in note 26 to the financial statements, on January 1, 1999, the Bank merged with Boram Bank, whose business is similar to that of Hana Bank. The Bank issued 8,761,986 shares of common stock in exchange for all of the issued and outstanding shares of Boram Bank. The exchange rate was 0.2549 share and 0.1485 share of the Bank's common stock for each share of Boram Bank's common stock and preferred stock, respectively.

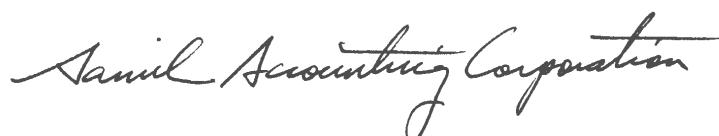
As discussed in note 6 to the financial statements, in 1999, the Bank, as a result of a merger with Boram Bank, acquired the stocks of Hana Securities, Hana Mutual & Savings, and Hana Risjed Finance, which are the former subsidiaries of Boram Bank.

As discussed in note 6 to the financial statements, during 1999, the Bank purchased 4,263,590 shares (22.61% of outstanding common stocks) of Korea Merchant Banking Corporation, resulting in a gain on equity method of W23,547 million. Furthermore, the Bank sold all of its investments in Hana Mutual & Savings, resulting in a gain on disposition of W4,675 million. In addition, the liquidation of Hana Finance, the Bank's former subsidiary, on September 21, 1999, resulted in a loss on disposition of investment securities of W1,725 million.

Without qualifying our opinion, we draw attention to Note 14 to the financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. Under these adverse economic conditions, certain customers of the Bank, including Daewoo Group companies, have been or are in the process of restructuring loans with their creditor banks. As discussed in the note 7 to the financial statements, the Bank provided loans of W566,331 million (related present value discounts and allowance for possible loan losses are W12,868 million and W63,417 million, respectively) to companies under restructuring and W676,433 million (related present value discounts and allowance for possible loan losses are W11,722 million and W310,514 million, respectively) to Daewoo Group companies, as of December 31, 1999. Actual results of the credit loss from the loans to the customers could differ from the allowance reserved. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties other than those adjustments disclosed in these financial statements.

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

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea. The standards, procedures and practices used to audit such financial statements are those generally accepted and applied in Korea.



Seoul, Korea  
January 21, 2000

# Non-Consolidated Balance Sheet (Banking Accounts)

December 31, 1999

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars (Note 3)</i>
<b>ASSETS</b>		
Cash and due from banks (Note 4)	W 3,714,476	\$ 3,242,951
Trading securities (Note 5)	608,846	531,557
Investment securities (Note 6)	9,099,314	7,944,224
Loans (Note 7)	17,970,292	15,689,097
(Allowance for possible loan losses)	(655,095)	(571,936)
(Present value discounts)	(24,590)	(21,468)
Premises and equipment (Note 8)	509,255	444,609
(Accumulated depreciation)	(137,762)	(120,274)
Intangible assets (Note 8)	266	232
Guarantee deposits	299,114	261,144
Accounts receivable	9,853	8,603
Accrued income	547,749	478,216
Prepaid expenses	153,627	134,125
Deferred income tax assets (Note 19)	55,851	48,761
Other	227,340	198,481
Total assets	W32,378,536	\$28,268,322
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits (Note 9)	W 23,019,724	\$ 20,097,541
Call money	122,735	107,155
Borrowings (Note 10)	2,804,664	2,448,632
Bonds sold on repurchase agreements	1,040,013	907,991
Bills sold	681,504	594,993
Due to Bank of Korea in foreign currencies	415,537	362,788
Debentures (Note 11)	920,411	803,572
Reserve for possible losses on acceptances and guarantees (Note 12)	49,914	43,578
Due to trust accounts	372,323	325,059
Unearned income	104,862	91,550
Accrued expenses	715,197	624,408
Other	366,093	319,620
Total liabilities	30,612,977	26,726,887
Commitments and contingencies (Note 13)		
Common stock, par value: W5,000, authorized: 500 million shares, issued and outstanding: 110,163,180 shares (Note 14)	550,816	480,894
Preferred stock, par value: W5,000, non-cumulative, non-participating preferred stock authorized: 250 million shares, issued and outstanding: 94,560,000 shares (Note 14)	472,800	412,782
Capital surplus (Note 15)	345,784	301,889
Retained earnings (Note 16)	412,239	359,909
Capital adjustments	(16,080)	(14,039)
Total shareholders' equity	1,765,559	1,541,435
Total liabilities and shareholders' equity	W32,378,536	\$28,268,322

The accompanying notes are an integral part of these statements.

# Non-Consolidated Income Statement (Banking Accounts)

for the year ended December 31, 1999

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars (Note 3)</i>
<b>Revenue</b>		
Interest income:		
Interest on due from banks	W 184,889	\$ 161,418
Interest on securities	692,280	604,400
Interest on loans	1,369,824	1,195,935
Other	29,647	25,884
	<hr/>	<hr/>
	2,276,640	1,987,637
Commission income	106,151	92,676
Other operating income:		
Gain on disposition of trading securities	65,428	57,122
Gain on valuation of trading securities	5,488	4,792
Dividends on securities	3,269	2,854
Gain on foreign currency trading	79,481	69,392
Fees from trust accounts	171,562	149,783
Other	20,600	17,985
	<hr/>	<hr/>
	345,828	301,928
Non-operating income (Note 18)	182,665	159,477
Total revenue	<hr/>	<hr/>
	2,911,284	2,541,718
<b>Expenses</b>		
Interest expenses:		
Interest on deposits	1,269,896	1,108,692
Interest on borrowings	351,757	307,104
Interest on debentures	87,253	76,177
Other	44,783	39,098
	<hr/>	<hr/>
	1,753,689	1,531,071
Commission expenses	25,771	22,500
Other operating expenses:		
Loss on disposition of trading securities	17,428	15,216
Loss on valuation of trading securities	6,772	5,912
Loss on foreign currency trading	52,951	46,229
Bad debt expense	406,460	354,863
Other	85,622	74,753
	<hr/>	<hr/>
	569,233	496,973
General and administrative expenses (Note 17)	298,976	261,023
Non-operating expenses (Note 18)	51,382	44,860
Total expense	<hr/>	<hr/>
	2,699,051	2,356,427
Income before income taxes	212,233	185,291
Income tax expenses (Note 19)	67,911	59,290
Net income (Note 20)		
(Ordinary income per share and earnings per share: W1,353 Diluted ordinary income per share and Diluted earnings per share: W736)	W 144,322	\$ 126,001

The accompanying notes are an integral part of these statements.

# ***Non-Consolidated Statement of Appropriations of Retained Earnings***

for the year ended December 31, 1999

Date of Appropriation: March 20, 2000

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	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars (Note 3)</i>
Unappropriated retained earnings at end of year:		
Carried over from prior year	W 143	\$ 125
Cumulative effect from accounting changes (Note 16)	(63,499)	(55,438)
Gain on prior period adjustments, net (Note 16)	1,024	895
Net income	144,322	126,001
	<hr/>	<hr/>
	81,990	71,583
Appropriations:		
Legal reserve	14,500	12,659
Reserve for business rationalization	63	55
Reserve for future dividends	9,000	7,858
General purpose contingency reserve	6,200	5,413
Cash dividends		
(8% for common stock and 1% or 2%		
for preferred stock )	52,088	45,476
	<hr/>	<hr/>
	81,851	71,461
Unappropriated retained earnings carried-over to subsequent year	W 139	\$ 122

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

# ***Non-Consolidated Statement of Cash Flows (Banking Accounts)***

*for the year ended December 31, 1999*

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars (Note 3)</i>
Cash provided from operating activities:		
Net income	W144,322	\$126,001
Items not affecting operating cash flows:		
Depreciation and amortization	32,292	28,193
Provision for possible loan losses	406,460	354,863
Provision for severance benefits	8,563	7,476
Unrealized gain on securities, net	(52,318)	(45,677)
Gain on securities transactions, net	(113,840)	(99,389)
Reversal of reserve for possible losses on acceptances and guarantees	(10,711)	(9,351)
Payment of retirement benefits	(1,179)	(1,029)
Gain on sales of loans, net	(9,347)	(8,161)
Changes in accrual basis accounts, net	595,682	520,065
Other	(1,105)	(964)
	W998,819	\$872,027

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

*Continued;*

# Non-Consolidated Statement of Cash Flows, continued (Banking Accounts)

for the year ended December 31, 1999

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In Millions of Korean Won      In Thousands of U.S.Dollars (Note 3)

## Cash provided by investing activities:

Increase in marketable securities	W (232,523)	\$ (203,006)
Increase in investment securities	(54,179)	(47,301)
Increase in premises and equipment	(143,263)	(125,077)
Decrease in intangible assets	6,188	5,402
Decrease in leasehold deposits	8,706	7,601
Decrease in accounts receivables	85,391	74,551
Cash inflows from business combination	492,592	430,061
Other	16	14
	162,928	142,245

## Cash used in financing activities:

Increase in borrowings	487,252	425,399
Increase in bills sold	302,859	264,413
Decrease in debentures	(20,337)	(17,755)
Increase in foreign exchanges payable	13,403	11,702
Issuance of new stock for cash	228,424	199,427
Decrease in bonds sold under repurchase agreements	(46,464)	(40,565)
Decrease in due to Bank of Korea in foreign currencies	(373,049)	(325,693)
Decrease in call money	(301,219)	(262,982)
Decrease in due to trust accounts	(275,212)	(240,276)
Decrease in accounts payable	(101,754)	(88,837)
Cash dividends	(27,955)	(24,406)
Other	1,187	1,036
	(112,865)	(98,537)
Net increase in cash	1,048,882	915,735
Cash and cash equivalents at beginning of the year	2,665,594	2,327,216
Cash and cash equivalents at end of the year	W3,714,476	\$3,242,951

Cash	W 980,260	\$ 855,823
Foreign currencies	24,220	21,146
Due from Banks	2,468,740	2,155,352
Due from Banks in foreign currencies	241,256	210,630

The accompanying notes are an integral part of these statements.

# Non-Consolidated Balance Sheet (Trust Accounts)

December 31, 1999

	In Millions of Korean Won	In Thousands of U.S.Dollars (Note 3)
<b>ASSETS</b>		
Loans:		
Loans collateralized by real estate	W 936,336	\$ 817,475
Loans collateralized by other than real estate	184,811	161,350
Uncollateralized loans	<u>2,274,442</u>	<u>1,985,719</u>
	3,395,589	2,964,544
Call loans	577,200	503,929
Securities:		
Government and public bonds	810,990	708,041
Debentures issued by financial institutions	660,601	576,742
Corporate bonds	3,693,787	3,224,888
Stocks	1,020,149	890,649
Bills purchased	3,150,017	2,750,146
Other securities	<u>1,172,695</u>	<u>1,023,830</u>
	10,508,239	9,174,296
Trusted money receivables	50,302	43,917
Cash and due from banks	45,390	39,628
Accrued income	457,195	399,158
Due from banking accounts	372,323	325,059
Other	<u>22</u>	<u>19</u>
	<b>W15,406,260</b>	<b>\$13,450,550</b>
<b>LIABILITIES</b>		
Money trusts		
Installment money trusts	W 1,169,241	\$ 1,020,815
Household money trusts	1,051,762	918,248
Development money trusts	3,136,132	2,738,023
New installment money trusts	2,503,596	2,185,783
Specified money trusts	2,115,904	1,847,306
Other	<u>2,168,927</u>	<u>1,893,598</u>
	12,145,562	10,603,773
Security management trusts	201,050	175,528
Money receivable trusts	50,499	44,089
Security investment trusts	1,225,308	1,069,765
Unearned income	52,540	45,870
Accrued trust fees payable	21,207	18,515
Accrued trust dividends payable	1,334,951	1,165,489
Reserve for trust losses	2,491	2,175
Reserve for possible loan losses	327,185	285,651
Other	<u>45,467</u>	<u>39,695</u>
	<b>W15,406,260</b>	<b>\$13,450,550</b>

The accompanying notes are an integral part of these statements.

# ***Non-Consolidated Statement of Operations (Trust Accounts)***

for the year ended December 31, 1999

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## Revenue

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars (Note 3)</i>
Interest income:		
Interest on loans	W 378,922	\$ 330,821
Interest on call loans	25,680	22,420
Interest and dividends on securities	1,366,824	1,193,316
Interest on trusted money receivables	408	357
Interest on due from banking accounts	13,992	12,215
Other	1,469	1,283
	<hr/>	<hr/>
	1,787,295	1,560,412
Gain on securities	974,473	850,771
Other	107,320	93,696
	<hr/>	<hr/>
	2,869,088	2,504,879
Expenses		
Trust fees to the bank	171,562	149,783
Commissions paid	5,564	4,858
Loss on securities	434,405	379,261
Provision for possible loan losses	109,291	95,417
Other	109,382	95,497
	<hr/>	<hr/>
	830,204	724,816
Dividends of trust profit to beneficiaries	W2,038,884	\$1,780,063

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

# ***Non-Consolidated*** ***Statement of Cash Flows (TRUST ACCOUNTS)***

for the year ended December 31, 1999

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars (Note 3)</i>
<b>Cash used in operating activities:</b>		
Changes in accrual basis accounts, net	W(4,007,893)	\$(3,499,121)
Transferred from reserve for trust losses	(6,752)	(5,895)
Provision for possible loan losses	108,638	94,847
Unrealized gain on securities, net	(60,760)	(53,047)
Gain on securities transactions, net	(479,309)	(418,464)
Other	71,844	62,724
	<hr/>	<hr/>
	(4,374,232)	(3,818,956)
<b>Cash provided from investing activities:</b>		
Decrease in securities	3,895,027	3,400,582
Decrease in trusted money receivables	4,872	4,254
Cash inflow from business combination	510,183	445,419
Increase in accounts receivable	933	814
	<hr/>	<hr/>
	4,411,015	3,851,069
<b>Cash used in financing activities:</b>		
Decrease in borrowings	(21,695)	(18,941)
Decrease in accounts payable	(1,369)	(1,195)
	<hr/>	<hr/>
Net increase in cash	(23,064)	(20,136)
Cash and cash equivalents at beginning of the year	13,719	11,977
Cash and cash equivalents at end of the year	403,994	352,710
	<hr/>	<hr/>
Cash and due from banks	W 417,713	\$ 364,687
Due from Banking accounts	W 45,390	\$ 39,628
	<hr/>	<hr/>
	372,323	325,059

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

# *Non-Consolidated Notes to Financial Statements*

December 31, 1999

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Financial  
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## **1. The Bank:**

Hana Bank ("the Bank") was incorporated in 1971 as Korea Investment and Finance Corporation under the Commercial Code of the Republic of Korea to provide financing services as a financial intermediary. On September 20, 1972, the Bank was granted approval by the Ministry of Finance (presently the Ministry of Finance and Economy) to operate under the short-term Financing Business Law.

On June 29, 1991, the Bank was granted approval by the Ministry of Finance (presently the Ministry of Finance and Economy) to engage in banking activities and the Bank's name was changed to Hana Bank. It became a nationwide commercial bank in July 1991.

On June 29, 1998, the Bank purchased certain assets and assumed most of the liabilities of Choong-Chung Bank by the order of the Financial Supervisory Commission (see note 25). In addition, the Bank completed the merger with Boram Bank as of January 1, 1999 (see note 26).

The Bank is engaged in the commercial banking business under the Banking Act, in the foreign exchange transaction business, in the trust business under the Trust Business Act and in other related businesses.

On June 5, 1972, the Bank listed its shares on the Korean Stock Exchange. On February 12, 1973, the Bank was registered as a foreign capital invested company under the Foreign Capital Inducement Law. The Bank's common stock and preferred stock outstanding on December 31, 1999 are W550,816 million and W472,800 million, respectively.

In accordance with its Article of Incorporation, the Bank is authorized to issue convertible bonds and bonds with stock warrants in amounts up to W200,000 million each. As of December 31, 1999, the Bank has issued convertible bonds of W84,360 million (see note 11).

## **2. Summary of Significant Accounting Policies:**

The significant accounting policies followed by the Bank in the preparation of its financial statements are summarized below. The financial statements for the year ended December 31, 1998 are not presented herein for comparative purposes pursuant to the addendum to the revised financial accounting standards.

### *Basis of Financial Statement Presentation*

The official accounting records of the Bank are maintained in Korean Won in accordance with the relevant laws and regulations of the Republic of Korea.

The Bank operates both a commercial banking business and a trust business in which the Bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust funds are accounted for and reported separately from the Bank's own commercial banking business.

For the convenience of the readers, the accompanying financial statements have been condensed, restructured and translated into English from the Bank's statutory Korean language financial statements. Such financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea.

The preparation of financial statements in conformity with financial accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

### *Accounting Changes*

During 1999, the Bank changed its method of accounting and presentation for certain items in accordance with revised financial accounting standards. The accounting changes include accounting treatment for the valuation of securities, valuation of troubled debt restructurings, reserve for possible losses of guarantees and acceptances, deferred taxes, prior period adjustments, and stock issuance costs.

The W63,499 million cumulative effect on assets and liabilities was deducted from beginning retained earnings or capital adjustments pursuant to the addendum to the revised financial accounting standards.

### *Recognition of Interest Income*

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans, except for those secured and guaranteed by financial institutions, is recognized on a cash basis. As of December 31, 1999, accrued interest income not recognized in the financial statements is W94,831 million.

# *Non-Consolidated*

## *Notes to Financial Statements, continued*

December 31, 1999

### *Allowance for possible loan losses*

During 1999, the Bank changed its method used in calculating the allowance for possible loan losses of corporate loans. The new method reflects the borrowers' future debt service capacity ("Forward Looking Criteria (FLC)"), rather than solely past performance. This credit rating model includes the financial and non-financial factors of borrowers. Provisions are determined by applying the following minimum percentages to the various credit ratings:

Credit ratings	Loan classifications	Provision percentages
1 ~ 8+	Normal	0 ~ 1.2%
8	Precautionary	2%
9	Substandard	20%
10+	Doubtful	50%
10	Estimated loss	100%

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

### *Securities*

In accordance with the revised financial accounting standards, the Bank changed its method of valuating and classifying of securities in the financial statements.

The valuation method for marketable bonds denominated in Won currency was changed from cost to market value. The equity method of accounting for unrealized gains on investment securities was changed from charging to shareholders' equity to recognizing as current income.

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

#### Trading securities

Trading securities are carried at their market values at balance sheet date. Unrealized gain and loss on trading securities are included in current operations.

#### Investment securities

All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of stockholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. The amount of such loss recognized, for the year ended December 31, 1999, is W8,203 million. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

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

Investments in equity securities of companies over which the Bank exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. Differences between the initial purchase price and the Bank's initial proportionate ownership of the net book value of the investee are amortized less than 5 years using the straight-line method. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities which the Bank has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. The amount of such loss recognized, for the year ended December 31, 1999, is W10,357 million. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

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

# *Non-Consolidated Notes to Financial Statements, continued*

December 31, 1999

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## *Premises and Equipment*

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

Depreciation is computed using the declining-balance method (the straight-line method for buildings purchased after January 1, 1995) over the estimated useful lives of the assets as described below.

	Estimated Useful Life-years
Buildings, structures and auxiliary facilities	6 ~ 60
Vehicles, furniture and fixtures	3 ~ 20
Structures in leased offices used for business purposes	5

## *Intangible Assets*

Trademarks and goodwill are stated at cost, net of accumulated amortization. Goodwill and trademarks are amortized using the straight-line method over five and ten years, respectively.

## *Present Value Discounts*

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

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

## *New Stock Issuance Costs and Debenture Issuance Costs*

Pursuant to the revised financial accounting standards, new stock issuance costs and debenture issuance costs, which had been recorded as deferred charges until December 31, 1998, are deducted from paid-in capital in excess of par value and the amounts of debenture issuance, respectively. Debenture issuance costs are amortized as interest expense over the redemption term using the effective interest rate method.

## *Foreign Currency Translation*

Assets and liabilities denominated in foreign currencies are translated into Korean Won using the exchange rate of W1,145.4:US\$1 in effect as of balance sheet date, except for spot and forward exchange contracts which are valued at the rates specified in the contracts. Resulting translation gain and loss are charged to current operations.

## *Bonds Purchased Under Resale Agreements and Bonds Sold Under Repurchase Agreements*

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

## *Accrued Severance Benefits*

Directors and employees with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amounts to be paid if all eligible employees and directors were to terminate their employment as of the balance sheet date. Actual payments of severance benefits for the year ended December 31, 1999 were W1,179 million.

## *Reserve for Possible Losses on Acceptances and Guarantees*

Pursuant to revised financial accounting standards, acceptances and guarantees outstanding do not appear on balance sheet, but are presented as off-balance sheet items in the notes to the financial statements.

The Bank provides a provision of 20% of guaranteed amounts for companies classified "substandard," 50% for "doubtful," and 100% for "estimated loss."

## *Income Tax Expenses*

Pursuant to revised financial accounting standards generally accepted in the Republic of Korea, the Bank changed its method of accounting for income tax expenses from the current income tax method to the deferred tax method in 1999. In connection with such change, net income for the year ended December 31, 1999, is approximately W10,497 million less than that which would have been recorded under the previous method.

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## Notes to Financial Statements, *continued*

December 31, 1999

Deferred taxes represent the tax effects of the different tax and financial account bases of assets and liabilities, and are recorded at enacted tax rates which are expected to be in effect when the temporary differences reverse. The provision for income taxes represents taxes currently payable for the year plus the change in the net deferred tax balance from the previous balance sheet date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

### *Gain (Loss) on Prior Period Adjustments*

Pursuant to the revised financial accounting standards generally accepted in the Republic of Korea, prior period adjustments are charged to retained earnings for the year ended December 31, 1999.

### *Derivative Financial Instruments*

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

Derivative financial instruments entered into for trading purposes are valued at current market prices. Resulting unrealized valuation gains or losses are reflected in other revenues and expenses. Derivative financial instruments used for hedging purposes are accounted for in a manner consistent with the accounting treatment appropriate for the transactions hedged or associated with such contracts.

Such instruments are valued at fair value when the underlying transactions are valued at market, and resulting unrealized valuation gains or losses are recognized currently. The instruments are not marked to market when the underlying transactions are not required to be valued at market. The unrealized gains or losses on hedging transactions arising from different rates between derivatives and underlying transactions are amortized according to the term of the underlying transactions.

### *Translation of Financial Statements of Overseas Branches*

Accounts and records of the overseas branches are maintained in foreign currencies. In translating financial statements of overseas branches, the Bank applied the appropriate rate of exchange at balance sheet date.

### *Stock Options*

The difference between the exercise price and the market price of stock options granted to management of the Bank is charged to current operations by allocating among the exercise periods of the stock option.

### 3. United States Dollar Amounts:

The Bank operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. All Won amounts are expressed in U.S. Dollars at the rate of W1,145.4:US\$1, the base exchange rate on December 31, 1999. This presentation is not required by or in accordance with Korean or United States generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be converted in or settled in U.S. Dollars at this or any other rate.

### 4. Cash and Due from Banks:

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

	Millions of Won
Cash on hand	W 980,260
Foreign currencies	24,220
Due from banks in Won currency	2,468,740
Due from banks in foreign currencies	241,256
	<b>W3,714,476</b>

Due from banks in Won currency at December 31, 1999 comprises the following (millions of Won):

	Annual interest rate (%)	Depository			
		Banks	Other financial Institutions	Others	Total
Checking accounts	-	W 489,375	W -	W -	W 489,375
Certificates of Deposits	6.5 - 8.7	1,200,295	W -	W -	W 1,200,295
Time deposits	6.5 - 8.6	W -	709,917	W -	W 709,917
Other deposits	0.0 - 12.2	21	43,282	25,850	W 69,153
		W 1,689,691	W 753,199	W 25,850	W 2,468,740

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## Notes to Financial Statements, *continued*

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Checking accounts deposited with the Bank of Korea represent reserves required and restricted for the payment of deposits under the Bank of Korea Act. W646 million of other deposits are restricted to withdraw under the agreements with counterparts.

Due from banks in foreign currencies as of December 31, 1999 comprises the following (millions of Won):

	Annual interest rate (%)	Depository		
		Domestic bank	Foreign bank	Total
Checking accounts	-	W -	W84,107	W 84,107
Time deposits	7.5 - 8.4	148,914	-	148,914
Other deposits in foreign currencies	3 month	labor+ 0.05	-	8,235
		W148,914	W92,342	W241,256

W29,133 million of checking accounts are deposits reserved at the Bank of Korea under the Bank of Korea Act for the settlement with foreign banks. W8,235 million of other deposits in foreign currencies are restricted as to withdrawal under the agreements with counterparts.

The term structures of due from banks outstanding at December 31, 1999 are as follows (millions of Won):

Term Structures	Due from Banks in Won currency	Due from Banks in foreign currencies	Total
Within 1 month	W 58,286	W128,028	W 186,314
1 ~ 3 months	1,144,518	87,812	1,232,330
3 ~ 6 months	548,914	25,416	574,330
6 months ~ 1 year	173,181	-	173,181
1 ~ 3 years	30,116	-	30,116
Thereafter	513,725	-	513,725
	W2,468,740	W241,256	W2,709,996

### 5. Trading Securities:

Trading securities as of December 31, 1999 comprise the following (millions of Won):

	Annual interest rate (%)	Acquisition cost	Carrying value
Equity securities	-	W 50,836	W 56,105
Government and public bonds	4.71 - 8.60	391,343	385,213
Debentures issued by financial institutions	6.50 - 14.82	156,410	154,753
Corporate bonds	5.01 - 13.69	8,963	8,113
Securities denominated in foreign currencies	8.38 - 9.36	4,623	4,662
		W612,175	W608,846

Par value, acquisition cost and fair value of trading debt securities as of December 31, 1999 are as follows (millions of Won):

	Par value	Acquisition cost	Fair value
Government and public bonds	W386,400	W391,343	W385,213
Debentures issued by Financial institutions	160,873	156,410	154,753
Corporate bonds	7,944	8,963	8,113
Securities in foreign currencies	4,582	4,623	4,662
	W559,799	W561,339	W552,741

The information about trading securities by industry as of December 31, 1999 is summarized as follows:

Industry	Millions of Won	Ratio (%)
Financial business	W176,488	28.99
Public administration	388,754	63.85
Manufacturing	24,400	4.01
Wholesale and retail	14,299	2.35
Other	4,905	0.80
	W608,846	100.00

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## Notes to Financial Statements, *continued*

December 31, 1999

### 6. Investment Securities:

Investment securities as of December 31, 1999 comprise the following (millions of Won):

	Annual interest rate (%)	Acquisition cost	Carrying value
Stocks and equity investments	-	W 397,123	W 466,239
Government and public bonds	5.00 - 18.50	1,440,744	1,436,442
Debentures issued by financial institutions	5.60 - 18.00	2,438,979	2,439,100
Corporate bonds	1.00 - 19.00	4,031,092	4,001,842
Beneficiary certificates	-	358,920	360,639
Securities denominated in foreign currencies	-	376,068	366,045
Other	-	23,947	29,007
		W9,066,873	W9,099,314

W1,055,254 million of the investment securities are restricted as collateral for borrowings from the Bank of Korea.

Stocks and equity investments as of December 31, 1999 are as follows (millions of Won):

	Ownership (%)	Carrying value
Investments using the equity method		
Hana Securities	39.68	W 96,066
Korea Merchant Banking Corporation	22.61	41,291
Hana Research	100.00	1,998
Hana Risjad Finance	70.00	155
		139,510
Marketable equity securities (non-equity method)		
39 Shopping	2.91	16,704
SK Securities	2.26	31,264
Han-Kang Debt-Restructuring Fund	1.64	12,792
Dong Ah Construction Ind. Co., Ltd.	1.91	2,525
NamKwang Engineering & Construction Co., Ltd.	17.96	6,750
Ssangyong Engineering & Construction Co. Ltd.	3.50	4,365
Anam Semi-Conductor	0.05	2,298
Kohap	0.81	1,292
Donghae Pulp	1.87	1,367
Other	-	1,311
		80,668
Other equity securities (non-equity method)		
Korea Housing Guarantee Insurance	1.33	19,200
Seoul Debt-Restructuring Fund	3.13	18,800
Mugunghwa Debt-Restructuring Fund	3.12	10,400
Arirang Debt-Restructuring Fund	3.11	10,400
Korea Securities Finance Corporation	2.65	6,250
LG Capital	0.82	3,293
Korea Asset Management Corporation	11.36	2,507
Halla Heavy Industries	2.05	2,056
Other	-	16,008
		88,914
Other investments		
		157,147
		W466,239

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## Notes to Financial Statements, *continued*

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Investment securities valued by the equity method as of December 31, 1999 are summarized as follows (millions of Won):

	Cumulative adjustments				Book value
	Acquisition cost	Gain (Loss) on equity method (*)	Capital adjustment	Retained earnings	
<b>Domestic subsidiaries</b>					
Hana Securities	W53,305	W38,650	W5,274	W(1,163)	W 96,066
Korea Merchant Banking Corporation	17,744	23,547	-	-	41,291
Hana Research	1,998	-	-	-	1,998
	73,047	62,197	5,274	(1,163)	139,355
<b>Overseas subsidiaries</b>					
Hana Rijstad Finance	215	(60)	-	-	155
	W73,262	W62,137	W5,274	W(1,163)	W139,510

(\*) Net asset values of investees are calculated by using the most recent financial information of the subsidiaries.

### 7. Loans:

Loans as of December 31, 1999 comprise the following:

	Annual interest rate (%)	Millions of Won
<b>Loans in Won currency</b>		
Corporate loans	7.67-12.62	W 6,516,794
Household loans	9.37-14.40	3,279,323
Others	5.50-7.79	159,776
		9,955,893
<b>Loans in foreign currencies</b>		
Bills purchased in Won currency	8.02 - 9.70	2,332,055
Bills purchased in foreign currencies	10.80	1,181,917
Advances to customers	1.63 - 9.33	192,554
Factoring receivables	8.08 - 20.70	124,132
Credit card loans	5.89 - 16.15	118,394
Bonds purchased on resale agreements	1.37 - 5.48	920,000
Call loans	0.35 - 5.32	412,311
Privately-placed debentures	0.50 - 16.9	1,774,542
		W17,970,292

The information about loans in Won currency (including bills purchased and factoring receivables) and loans in foreign currencies by industry as of December 31, 1999 is summarized as follows (millions of Won):

Industry	Loans in Won currency	Loans in foreign currencies	Total	Ratio (%)
Manufacturing	W 4,637,712	W343,602	W 4,981,314	37.3
Wholesale & retail	1,158,746	49,288	1,208,034	9.0
Financial business	453,362	412,703	866,065	6.5
Construction	938,703	24,583	963,286	7.2
Households	3,279,323	-	3,279,323	24.5
Utility	323,973	-	323,973	2.4
Real estate & renting	309,870	3,630	313,500	2.3
Public & Other	1,310,391	124,688	1,435,079	10.8
	W12,412,080	W958,494	W13,370,574	100.0

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## Notes to Financial Statements, *continued*

December 31, 1999

The information about loans in foreign currencies by country as of December 31, 1999 is summarized as follows:

Country	Millions of Won	Ratio (%)
Republic of Korea	W888,477	92.7
Indonesia	28,006	2.9
China	15,198	1.6
Thailand	4,116	0.4
Hong Kong	13,980	1.5
Brazil	3,168	0.3
Turkey	5,549	0.6
	<b>W958,494</b>	<b>100.0</b>

The term structures of loans in Won currency (including bills purchased and factoring receivables), loans in foreign currencies and bills purchased in foreign currencies as of December 31, 1999 are summarized as follows (millions of Won):

Term Structures	Loans in Won currency	Loans in foreign currencies	Bills purchased in foreign currencies	Total
Within 1 month	W 1,091,806	W 70,843	W 472,694	W 1,635,343
1 - 3 months	2,479,638	77,548	510,572	3,067,758
3 - 6 months	2,883,347	64,867	140,649	3,088,863
6 months - 1 year	3,563,681	76,307	10,699	3,650,687
1 - 3 years	1,126,961	238,047	41	1,365,049
Thereafter 3 years	1,266,647	430,882	47,262	1,744,791
	<b>W12,412,080</b>	<b>W 958,494</b>	<b>W1,181,917</b>	<b>W14,552,491</b>

As of December 31, 1999, the classification of loans is as follows (millions of won):

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans in Won currency (*)	W10,836,049	W 675,733	W514,586	W144,211	W46,844	W12,217,423
Loans in foreign currencies	563,017	208,654	126,369	49,872	9,810	957,722
Bills purchased in foreign currency	1,133,810	844	24,851	22,072	340	1,181,917
Advances to customers	659	14,765	131,669	16,878	26,849	190,820
Credit card loans	113,846	1,694	286	1,455	1,113	118,394
Privately-placed debentures	1,514,320	100,644	24,578	135,000	-	1,774,542
Other	124,131	6,010	4,504	88	-	134,733
	<b>W14,285,832</b>	<b>W1,008,344</b>	<b>W826,843</b>	<b>W369,576</b>	<b>W84,956</b>	<b>W16,575,551</b>
Ratio(%)	86.2	6.1	5.0	2.2	0.5	100.0

(\*) Including bills purchased and factoring receivables

In presentation of the table above, inter-bank loans of W37,841 million are not included and the related present value discounts are deducted.

As of December 31, 1999, allowance for possible loan losses is provided for the following accounts:

Allowance for:	Millions of Won
Loans in Won currency (including bills purchased)	W307,484
Loans in foreign currencies	81,111
Bills purchased in foreign currencies	37,770
Advances to customers	82,679
Credit card loans	2,501
Privately - placed debentures	134,795
Other	8,755
	<b>W655,095</b>

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## Notes to Financial Statements, *continued*

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Ratios of allowance for possible loan losses to total loans for the most recent three years are as follows:

As of		
1999. 12. 31	1998. 12. 31	1997. 12. 31
4.0 %	3.2 %	1.2 %

Details of loans written-off for the year ended December 31, 1999 are as follows (millions of Won):

	Millions of Won
Loans in Won currency	W 73,242
Loans in foreign currencies	91,729
Bills purchased in foreign currencies	713
Credit card loans	5,047
Other	7,446
	<u>W178,177</u>

During 1999, the amount offset against the allowance for possible loan losses was W168,548. The remaining W9,629 million was charged directly to bad debt expense.

The Bank has entered into contracts to sell non-performing loans to KAMCO and to settle the sales amounts as the loans are collected or disposed. During 1999, gains of W6,535 million and losses of W3,205 million from these settlements are recorded as gain on sales of loans (non-operating income) and loss on sales of loans (non-operating expense), respectively.

The changes in present value discounts related to troubled debt restructurings are as follows (millions of Won):

	Changes in details	Millions of Won
Beginning balance		W -
Increase	Written off charged to allowance	20,428
	Adjustment to retained earnings	3,144
	Adjustment to loans from Boram Bank	5,941
Decrease	Amortized amount (interest income)	(3,864)
	Reversal of allowance for possible loan losses (from early redemption)	(1,059)
Ending balance		<u>W24,590</u>

Details of restructured loans, excluding the loans provided to Daewoo Group companies, due to changes in contractual terms as of December 31, 1999 are as follows (millions of Won) :

	Details of cumulative restructurings		Restructured loans		
	Converted to equity securities	Convertible bonds	Outstanding loans	Present value discounts	Allowance for losses
Work out	W30,076	W41,174	W286,192	W 5,289	W32,769
Court receivership	10,352	-	51,556	3,490	13,005
Court mediation	25,840	19,200	168,209	4,089	17,643
	<u>W66,268</u>	<u>W 60,374</u>	<u>W505,957</u>	<u>W12,868</u>	<u>W63,417</u>

As of December 31, 1999, W10,601 million of loans, included as outstanding loans in the table above, is scheduled to be converted to equity securities or convertible bonds after 1999.

Loans to Daewoo Group companies comprise of W67,625 million of guarantees loans, W105,991 million of collateralized loans, and W502,817 million of credit loans. The present value discounts and the allowance for possible loan losses related to these loans are W11,722 million and W310,514 million, respectively.

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## Notes to Financial Statements, *continued*

December 31, 1999

### 8. Premises and Equipment & Intangible Assets:

Premises and equipment & intangible assets as of December 31, 1999 are summarized as follows (millions of Won):

	Acquisition cost	Accumulated depreciation	Net book value
Premises and equipment			
Land	W163,029	W -	W163,029
Buildings, structures and auxiliary facilities	203,577	40,968	162,609
Vehicles, furniture and fixtures	142,649	96,794	45,855
	509,255	137,762	371,493
Intangible assets	266	-	266
	W509,521	W137,762	W371,759

The Bank's premises and equipment, except for land, are covered by insurance policies against fire and other casualty losses up to W170,393 million in accordance with the bank supervisory regulations. Automotive equipment is covered by a legal and general insurance policy. As of December 31, 1999, the government-posted prices of the Bank's land are W100,746 million.

### 9. Deposits:

Deposits as of December 31, 1999 comprise the following:

	Annual interest rate (%)	Millions of Won
Won currency deposits:		
Demand deposits	0.0 - 1.0	W 1,151,923
Time and savings deposits	3.3 - 11.1	18,966,292
Mutual installment received	10.2	525,730
		20,643,945
Foreign currency deposits:		
Demand deposits	0.0 - 2.1	80,025
Time and savings deposits	4.5 - 8.7	452,339
		532,364
Certificates of deposits:	7.3	1,843,415
		W23,019,724

Deposits from financial institutions as of December 31, 1999 are as follows:

	Millions of Won
Won currency deposits:	
Demand deposits	W 84,030
Time and savings deposits	243,405
Mutual installment received	2,229
	329,664
Foreign currency deposits:	
Demand deposits	9,908
Time and savings deposits	12,723
	22,631
	W352,295

The term structures of deposits as of December 31, 1999 are summarized as follows (millions of Won):

Term Structures	Won currency deposits	Foreign currency deposits	Certificates of deposits	Total
Within 1 month	W 7,334,356	W243,337	W 115,927	W 7,693,620
1 - 3 months	2,989,679	99,258	227,455	3,316,392
3 - 6 months	3,411,332	54,190	932,030	4,397,552
6 months - 1 year	4,022,159	62,830	34,752	4,119,741
1 - 3 years	1,018,101	1,872	533,251	1,553,224
Thereafter	1,868,318	70,877	-	1,939,195
	W20,643,945	W532,364	W1,843,415	W23,019,724

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## Notes to Financial Statements, *continued*

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### 10. Borrowings:

Borrowings as of December 31, 1999 comprise the followings:

	Annual interest rate (%)	Millions of Won
Won currency borrowings:		
Bank of Korea	3.00	W 416,316
Korean Government	4.00 - 5.00	75,709
Industrial Bank of Korea	3.75 - 7.45	96,048
Korea Development Bank	2.50	3,775
Other	4.50 - 8.50	<u>433,689</u>
		<u>1,025,537</u>
Foreign currency borrowings:		
IFC & other	Libor+ 0.37-2.75	1,625,098
Bank of Mont Chicago	5.60 - 7.90	99,737
Dai-ichi Kangyo & other	Libor+ 0.59 - 2.75	<u>54,292</u>
		<u>1,779,127</u>
		<u>W2,804,664</u>

The subordinated borrowings included in Won currency borrowings as of December 31, 1999 comprise the following:

Lender	Annual interest rate (%)	Millions of Won	Condition of borrowings
Kyobo Life Insurance	10.0 -14.9	W100,000	Lump sum reimbursement
Samsung Life Insurance	9.0 -16.2	70,000	"
LG Fire & Marine Insurance	16.0	<u>48,000</u>	"
<u>W218,000</u>			

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

Period	Won currency borrowings	Foreign currency borrowings	Total
2000.1.1 ~ 2000.12.31	W 483,297	W1,390,064	W1,873,361
2001.1.1 ~ 2001.12.31	64,877	296,953	361,830
2002.1.1 ~ 2002.12.31	96,607	32,453	129,060
2003.1.1 ~ 2003.12.31	172,317	32,453	204,770
Thereafter	<u>208,439</u>	<u>27,204</u>	<u>235,643</u>
	<u>W1,025,537</u>	<u>W1,779,127</u>	<u>W2,804,664</u>

### 11. Debentures:

Debentures as of December 31, 1999 comprise the followings:

	Annual interest rate (%)	Millions of Won
Won currency debentures:		
Subordinated bonds	Prime + 0-15.63	W672,012
Subordinated convertible bonds	8.0	49,998
Bonds	8.96 - 9.17	<u>55,000</u>
(Adjustments for conversion rights)		<u>(4,923)</u>
		<u>772,087</u>
Foreign currency debentures:		
Foreign currency bonds	L + 0.35 - 1.75	115,685
Subordinated convertible bonds	6M libor	<u>34,362</u>
(Present value discounts)		<u>150,047</u>
		<u>(1,723)</u>
		<u>148,324</u>
		<u>W920,411</u>

# Non-Consolidated

## Notes to Financial Statements, *continued*

December 31, 1999

Details of the terms of outstanding subordinated convertible bonds as of December 31, 1999 are as follows:

	Issue date	Due date	Annual interest rate (%)	Millions of Won
Won currency debentures				
Boram 1st	1997.11.25	2003. 1.31	8.0	W30,000
Boram 2nd	-	-	-	19,998
		(Adjustments for conversion rights)		(4,923)
				45,075
Foreign currency debentures				
IFC 1st	1998. 6.29	2004. 2.15	6 M libor	34,362
				W79,437
	Boram 1st & 2nd	IFC 1st		
Conversion price	W19,616	W6,236		
Conversion period	1998.11.26 - 2002.12.31	1999.6.29 - 2003.2.15		
Disbursement at due date	100% of par value	100% of par value		
Interest term	Annual	Annual		

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

Period	Won currency debentures	Foreign currency debentures	Total
2001.1.1 - 2001.12.31	W -	W 1,145	W 1,145
2002.1.1 - 2002.12.31	80,000	114,540	194,540
2003.1.1 - 2003.12.31	429,079	-	429,079
Thereafter	267,931	34,362	302,293
	W777,010	W150,047	W927,057

### 12. Confirmed Acceptances and Guarantees:

Confirmed acceptances and guarantees as of December 31, 1999 comprise the following:

	Millions of Won
Acceptances and guarantees in Won currency:	W 635,790
Acceptances and guarantees in foreign currencies:	
Acceptances for letters of credit	1,182,248
Letters of guarantee for importers	56,653
Guarantees on credit derivatives	28,635
Other	453,575
	<u>1,721,111</u>
	<u>W2,356,901</u>

Before January 1, 1999, the Bank reported confirmed acceptances and guarantees outstanding as a liability, offset by an asset on the balance sheet. In accordance with the revised financial accounting standards, effective January 1, 1999, the Bank has not reported the acceptances and guarantees in the accompanying balance sheet. The Bank has, however, recorded reserve for possible losses on the acceptances and guarantees as a liability.

Information about confirmed acceptances and guarantees by industry as of December 31, 1999 is summarized as follows:

Industry	Millions of Won	Ratio (%)
Manufacturing	W1,452,802	61.7
Construction	231,441	9.8
Wholesale & retail	179,865	7.6
Transport & storage	81,698	3.5
Financial business	7,590	0.3
Real estate & renting	783	0.0
Other	402,722	17.1
	<u>W2,356,901</u>	<u>100.0</u>

# Non-Consolidated Notes to Financial Statements, *continued*

December 31, 1999

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Information about confirmed acceptances and guarantees in foreign currencies by country as of December 31, 1999 is summarized as follows:

Country	Millions of Won	Ratio (%)
Korea	W1,691,928	98.30
China	28,635	1.66
Hong Kong	548	0.04
	<u>W1,721,111</u>	<u>100.00</u>

Reserve for possible losses on acceptances and guarantees as of December 31, 1999 is comprised of the following (millions of Won):

	Amount of acceptances and guarantees	Amount of reserve	Reserve ratio (%)
		W	
Acceptances and guarantees in Won currency	635,790	13,080	2.06
Acceptances and guarantees in foreign currencies	1,721,111	33,530	1.95
	<u>W2,356,901</u>	<u>W46,610</u>	<u>1.98</u>

W3,304 million of additional reserves on unconfirmed acceptances and guarantees of W10,715 million, provided to Daewoo Group companies, are excluded in the amount of reserve for possible losses on acceptances and guarantees shown above.

### 13. Commitments and Contingencies:

In the normal course of business, the Bank enters into outstanding commitments, which under the banking accounting standards in the Republic of Korea, are not reflected in the accompanying financial statements. In the opinion of management, these do not represent unusual risks and losses for the Bank. Certain commitments represent various degrees and types of risk to the Bank including credit, interest rate, foreign exchange rate, and liquidity risk. In many cases, the commitments involving interest and foreign exchange result from decisions to hedge overall interest rate and foreign exchange risk. A summary of significant commitments, categorized in accordance with bank supervisory regulations is as follows:

	Millions of Won
Commercial letters of credit	W1,234,310
Loan commitments	70
Endorsed notes	47,499
Spot exchange contracts	155,987
Futures and forward contracts:	
Commitments to purchase	497,602
Commitments to sell	436,878

As of December 31, 1999, the Bank has derivative financial instruments as follows:

	Millions of Won
Foreign exchange contracts	W894,647
Interest rate contracts	34,106
Credit derivatives	28,635
	<u>W957,388</u>

For the year ended December 31, 1999, the Bank recognized a unrealized gain of W2,722 million and a unrealized loss of W538 million from derivative financial instruments.

In connection with the Bank's letter of credit guarantee for Shinhan International Corporation amounting to US\$ 3,397 thousand, Society General, Seoul Branch has filed a lawsuit against the Bank claiming settlement. On December 11, 1998, the court determined that the Bank should pay the claim, including interest for the delayed payment period and the cost of the lawsuit. The Bank made an appeal, immediately, to a higher court whose determination is pending as of December 31, 1999. The Bank accounted for the expected loss of W5,748 million as reserve for possible losses on acceptances and guarantees.

Among the written-off claims of the Bank, the amount on which the legal rights of claims have not been expired is W284,706 million as of December 31, 1999.

The Bank recognizes, in accordance with the Trust Business Act, trust fees to the banking accounts as income from trust operations. If losses are incurred on trust accounts that have guarantee of principal repayment trust terms, the losses are recognized as a loss from trust operations. Based on the financial statements of Trust Accounts prepared in accordance with the Trust Business Act, the Bank recorded W42,942 million of other operating expense.

# *Non-Consolidated*

## *Notes to Financial Statements, continued*

December 31, 1999

In connection with the Asian financial crisis which began in 1997, the Korean economy as well as other economies in the Asia Pacific region experienced economic contractions, a reduction in the availability of credit, increased interest rates, increased inflation, negative fluctuations in currency exchange rates, increased numbers of bankruptcies, increased unemployment and labor unrest. Such conditions had a significant adverse effect on the operations of the Bank and other companies in Korea and in the Asia Pacific region. Recently, economic conditions in the Republic of Korea have improved as evidenced by an increased trade surplus, increases in foreign exchange reserves, record levels of foreign investment and economic growth, lower inflation and interest rates and stabilized foreign exchange rates. Notwithstanding the current recovery, significant uncertainties still exist related to the economy in Korea and in the Asia Pacific region. The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Due to the economic crisis mentioned above, Daewoo Group companies and other debtor companies have entered into or are currently in corporate restructuring agreements with major creditor banks. The actual future loan losses amount for those companies under corporate restructuring agreements may be different from the Bank's estimated allowance for possible loan losses. Consequently, the financial statements do not include any adjustments that might result from these uncertainties other than those adjustments disclosed in these financial statements.

### **14. Capital Stock:**

On January 1, 1999, the Bank issued W43,810 million (8,761,986 shares) of common stock at W5,000 per share related to the merger with Boram Bank.

On January 8, 1999, related to a P&A (Purchase of assets and Assumption of liabilities) contract (see note 25) and the merger with Boram Bank, the Bank issued W472,800 million (94,560,000 shares) of non-cumulative, non-participating preferred stock for cash at W5,000 per share to Korea Deposit Insurance Corporation.

On February 19, 1999, the Bank granted stock options to 27 members of management. Depending on the Bank's future condition, the holder of the option may request a cash benefit or exercise the right to purchase up to 1,040,000 common stocks at an exercise price of W10,020 per share. The stock options are exercisable during the fourth through sixth years following the option grant date.

On April 20, 1999, the Bank issued W229,769 million (31,475,194 shares) of common stock for cash at W7,300 per share to its shareholders. Paid-in capital in excess of par value of 72,393 million was recorded as paid-in capital in excess of par value, a component of capital surplus (see note 16).

### **15. Capital Surplus:**

Capital surplus as of December 31, 1999 comprises the following:

	<u>Millions of Won</u>
Paid-in capital in excess of par value	W240,130
Other capital surplus	105,654
	<u>W345,784</u>

Changes in Paid-in capital in excess of par value for the year ended December 31, 1999 are summarized as follows:

	<u>Millions of Won</u>
Beginning balance	W169,082
Paid-in capital in excess of par value	72,393
Stock issuance costs	(1,345)
Ending balance	<u>W240,130</u>

Changes in other capital surplus for the year ended December 31, 1999 are summarized as follows:

	<u>Millions of Won</u>
Beginning balance	W -
Negative goodwill from merger	105,407
Deferred tax adjustment to capital surplus	103
Other valuation adjustment	144
Ending balance	<u>W105,654</u>

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## Notes to Financial Statements, *continued*

December 31, 1999

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### 16. Retained Earnings:

Retained earnings as of December 31, 1999 comprise the following:

	Reference	Millions of Won
Appropriated:		
Legal reserve	(A)	W 67,200
Reserve for business rationalization	(B)	10,600
Reserve for overseas investment loss	(C)	12,200
Reserve for future dividends	(D)	62,800
General purpose contingency reserve	(E)	<u>259,300</u>
		412,100
Unappropriated		<u>139</u>
		<u>W412,239</u>

- (A) The general Banking Act requires the Bank to appropriate a minimum of 10% of annual income before income taxes as a legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.
- (B) The reserve for business rationalization is appropriated in accordance with Korean tax laws and provides the Bank with a deduction from taxable income. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.
- (C) Pursuant to the Korean tax laws, the Bank is allowed to claim the amount of retained earnings appropriated for reserve for overseas investment loss as deduction from taxable income for the current year. This reserve is not available for payment of dividends until used for the specified purpose or reversed.
- (D) The reserve for future dividends represents amounts appropriated by the Bank for equalizing dividend rates through the years of business and can be used for any purpose by subsequent stockholders' resolution.
- (E) The general-purpose contingency reserve does not have any specified purpose and may be restored to unappropriated retained earnings through future shareholders' resolution.

Pursuant to the revised financial accounting standards generally accepted in the Republic of Korea, during 1999, the Bank adopted or changed certain of its accounting methods. The details of cumulative effect from the newly applied accounting methods, as adjusted to retained earnings, are as follows:

Cumulative effect from accounting changes	Millions of Won
Accumulated temporary differences as of beginning of the year	W(37,140)
Deferred tax adjustment to retained earnings	11,702
Valuation using the equity method	(36,313)
Present value discounts	(3,144)
Change in depreciation method of buildings	<u>1,396</u>
	<u>W(63,499)</u>

Prior period adjustments for the year ended December 31, 1999 are summarized as follows:

Gains on prior period adjustments	Millions of Won
Overstatement of accrued severance benefits	W1,288
Overstatement of employee insurance expense	43
Other	16
	<u>W1,347</u>

Losses on prior period adjustments	Millions of Won
Understatement of prior year's income tax expense	W 45
Adjustment to gain on valuation of securities	261
Other	17
	<u>W323</u>

# Non-Consolidated Notes to Financial Statements, *continued*

December 31, 1999

## 17 General and Administrative Expenses:

General and administrative expenses for the year ended December 31, 1999 comprise the following:

	Millions of Won
Salaries and wages	W126,085
Severance benefits	9,742
Other employee benefits	17,665
Rent 1	5,863
Entertainment	2,690
Depreciation and amortization	32,292
Taxes and dues	20,471
Advertising	11,798
Consulting fees	21,669
Other	40,701
	<hr/> <hr/> W298,976

## 18. Non-operating Income and Non-operating Expenses:

Non-operating income for the year ended December 31, 1999 comprises the following:

	Millions of Won
Gain on disposition of investment securities	W 86,564
Unrealized gain on investment securities	10,025
Gain on equity method	62,137
Gain on sales of loans	17,762
Other	6,177
	<hr/> <hr/> W182,665

Non-operating expenses of the year ended December 31, 1999 comprise the following:

	Millions of Won
Loss on disposition of investment securities	W20,725
Loss on impairment of investment securities	18,560
Loss on sales of loans	8,415
Other	3,682
	<hr/> <hr/> W51,382

## 19. Income Tax Expenses:

Income tax expenses for the year ended December 31, 1999 comprise the following:

	Millions of Won
Current income taxes	W57,414
Deferred taxes	(16,237)
Realization of tax effect from tax loss carryforward	11,241
Deferred tax adjustments to shareholders' equity	15,493
	<hr/> <hr/> W67,911

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is about 30.8%, however, effective tax rate for the year ended December 31, 1999 is approximately 32.0% due to the deferred tax adjustments

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## Notes to Financial Statements, *continued*

December 31, 1999

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Tax adjustments between pretax income and taxable income for the year ended December 31, 1999 are summarized as follows:

Taxable revenues & nondeductible expenses	Millions of Won
Allowance for possible loan losses	W117,892
Reserve for possible losses on acceptances and guarantees	49,914
Accrued income	223,608
Present value discounts	28,812
Gain on valuation of securities	11,618
Loss on valuation of securities	6,832
Loss on impairment of investment securities	18,560
Gain on equity method	25,538
Other	16,845
	<b>W499,619</b>

Deductible expenses & nontaxable revenues	Millions of Won
Allowance for possible loan losses	W 35,468
Present value discounts	12,948
Accrued income	272,700
Loss on equity method	42,531
Gain on equity method	62,137
Gain on valuation of securities	24,516
Loss on valuation of securities	30,633
Goodwill amortization	3,260
Other	4,663
	<b>W488,856</b>

Changes in accumulated temporary differences for the year ended December 31, 1999 are as follows (millions of Won):

Accounts	Beginning balance	Increase	Decrease	Ending Balance
Allowance for possible loan losses	W 35,468	W 117,892	W 35,468	W 117,892
Reserve for possible losses on acceptances and guarantees				
Accrued income	(223,608)	(272,700)	(223,608)	(272,700)
Gain on valuation of securities	(15,889)	(24,516)	(11,618)	(28,787)
Loss on valuation of securities	31,901	6,832	30,633	8,100
Loss on impairment of investment securities	-	18,560	-	18,560
Gain on equity method	-	(62,137)	-	(62,137)
Goodwill amortization	13,052	-	3,260	9,792
Reserve for overseas investment loss	(11,433)	-	(2,000)	(9,433)
Present value discounts	-	28,812	-	28,812
Other	1,827	23,888	1,693	24,022
	<b>W(168,682)</b>	<b>W(113,455)</b>	<b>W(166,172)</b>	<b>W(115,965)</b>

As of December 31, 1999, deferred income tax assets (liabilities) from temporary differences comprise the following (Millions of Won):

	Total amounts	Deferred income tax assets (liabilities)
Accumulated temporary differences as of beginning of the year (*)	W(120,584)	W(37,140)
Temporary differences transferred in from Boram Bank (**)	(48,098)	(14,814)
Tax effect from Tax loss carryforward (***)	297,299	91,568
Changes in temporary differences for the year	52,717	16,237
	<b>W 181,334</b>	<b>W 55,851</b>

(\*) The tax effect of accumulated temporary differences from prior year was adjusted to retained earnings (see note 16)

(\*\*) The tax effect of temporary differences transferred in, related to a merger with Boram Bank, was adjusted to negative goodwill

(\*\*\*) The tax loss carryforward is transferred in from Boram Bank and deductible in the future years under the Korean Tax Law.

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## Notes to Financial Statements, *continued*

December 31, 1999

### 20. Earnings Per Share and Ordinary Income Per Share:

Earnings per share and ordinary income per share for the year ended December 31, 1999 are calculated as follows:

	Korean Won
Ordinary income per share	
Ordinary Income after income tax expenses	W144,321,608,268
Dividends on Preferred stock	<u>(8,023,000,000)</u>
	136,298,608,268
Weighted average of common shares (*)	100,763,739
Ordinary Income per share	<u>W</u> 1,353
Earnings per share	
Net Income	W144,321,608,268
Dividends on Preferred Stock	<u>(8,023,000,000)</u>
	136,298,608,268
Weighted average of common shares (*)	100,763,739
Earnings per share	<u>W</u> 1,353

(\*) Weighted average number of common shares

	Number of days	Number of common shares	Accumulated number of common shares
Beginning of the year	365	69,926,000	25,522,990,000
Issuance of common stocks in a merger	365	8,761,986	3,198,124,890
Issuance of capital stocks	256	31,475,194	8,057,649,664
		<u>110,163,180</u>	<u>36,778,764,554</u>

- Weighted average number of common shares  
 $= 36,778,764,554 \div 365 = 100,763,739$

Diluted earnings per share and ordinary income per share for the year ended December 31, 1999 are calculated as follows:

	Korean Won
Diluted ordinary income per share	
Ordinary income after income tax expenses	W144,321,608,268
Interest expense on convertible bonds	<u>4,918,632,074</u>
	149,240,240,342
Weighted average number of common shares (**)	<u>202,803,804</u>
	<u>W</u> 736
Diluted earnings per share	
Net Income	W144,321,608,268
Interest expense on convertible bonds	<u>4,918,632,074</u>
	149,240,240,342
Weighted average number of common shares (**)	<u>202,803,804</u>
	<u>W</u> 736

(\*\*) Weighted average number of common shares

	Number of days	Number of common shares	Accumulated number of common shares
Beginning of the year	365	69,926,000	25,522,990,000
Issuance of common stocks in a merger	365	8,761,986	3,198,124,890
Convertible bonds	365	9,293,545	3,392,143,925
Convertible preferred stocks	358	94,560,000	33,852,480,000
Issuance of capital stocks	256	31,475,194	8,057,649,664
		<u>214,016,725</u>	<u>74,023,388,479</u>

- Weighted average number of common shares  
 $= 74,023,388,479 \div 365 = 202,803,804$

# *Report of Independent Accountants*

## SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS 

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To the Board of Directors and Shareholders of Hana Bank

We have audited the accompanying consolidated balance sheet of Hana Bank and its subsidiaries ("the Bank") as of December 31, 1999, and the related consolidated statements of income, changes in capital surplus and retained earnings 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 consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hana Bank and its subsidiaries as of December 31, 1999, and the results of their operations, the changes in their capital surplus and retained earnings, and their cash flows for the year then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

As discussed in note 2 to the consolidated financial statements, during 1999, the Bank changed its method of accounting and presentation for certain items in accordance with revised financial accounting standards. The accounting changes include accounting treatment for the valuation of securities, valuation of troubled debt restructurings, reserve for possible losses on acceptances and guarantees, deferred taxes, prior period adjustments, and stock issuance costs. In addition, the consolidated financial statements for the year ended December 31, 1998 are not presented herein for comparative purposes pursuant to the addendum to the revised financial accounting standards.

As discussed in note 2 to the consolidated financial statements, during 1999, the Bank changed its method used in calculating the allowance for possible loan losses of corporate loans. The new method reflects the borrowers' future debt service capacity ("Forward Looking Criteria (FLC)").

As discussed in note 11 to the consolidated financial statements, on January 1, 1999, the Bank merged with Boram Bank, whose business is similar to that of Hana Bank. The Bank issued 8,761,986 shares of common stock in exchange for all of the issued and outstanding shares of Boram Bank. The exchange rate was 0.2549 share and 0.1485 share of the Bank's common stock for each share of Boram Bank's common stock and preferred stock, respectively.

# *Report of Independent Accountants*

As discussed in note 1 to the consolidated financial statements, during 1999, Hana Securities and Hana Risjad Finance, as a result of a merger with Boram Bank, are included in the reporting entities for consolidation.

As discussed in note 1 to the consolidated financial statements, Hana Finance, a former subsidiary, liquidated on September 21, 1999, is excluded from consolidation. Furthermore, Hana Finance Asia, Ltd., the Bank's subsidiary in Hong Kong, is currently in the process of liquidation, and therefore, is excluded from consolidation.

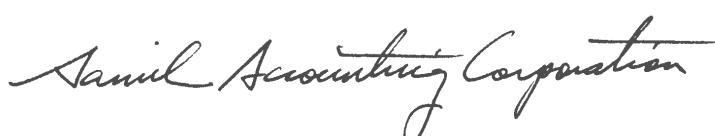
Without qualifying our opinion, we draw attention to note 4 to the consolidated financial statements. The operations of the Bank have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. Under these adverse economic conditions, certain customers of the Bank, including Daewoo Group companies, have been or are in the process of restructuring loans with their creditor banks. As discussed in the note 2 to the consolidated financial statements, the Bank provided loans of W575,777 million (related present value discounts and allowance for possible loan losses are W16,956 million and W63,524 million, respectively) to companies under restructuring and W676,433 million (related present value discounts and allowance for possible loan losses are W11,722 million and W310,514 million, respectively) to Daewoo Group companies, as of December 31, 1999. Actual results of the credit loss from the loans to the customers could differ from the allowance reserved. The ultimate effect of these significant uncertainties on the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying consolidated financial statements related to such uncertainties other than those adjustments disclosed in these financial statements.

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

The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Korea. The standards, procedures and practices used to audit such consolidated financial statements are those generally accepted and applied in Korea.

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Seoul, Korea

January 21, 2000

# Consolidated Balance Sheet

December 31, 1999

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars</i>
<b>ASSETS</b>		
Cash and due from banks	W 3,976,698	\$ 3,471,886
Trading securities	3,407,784	2,975,191
Investment securities	9,041,660	7,893,889
Loans	19,411,083	16,946,991
(Allowance for possible loan losses)	(909,414)	(793,971)
(Present value discounts)	(28,678)	(25,037)
Premises and equipment	604,334	527,618
(Accumulated depreciation)	(157,510)	(137,515)
Intangible assets	266	232
Guarantee deposits	308,750	269,557
Accounts receivable	16,571	14,467
Accrued income	687,506	600,232
Prepaid expenses	155,418	135,689
Deferred income tax asset	55,851	48,761
Other	230,949	201,632
Goodwill	5,622	4,908
Total assets	<u>W36,806,890</u>	<u>\$32,134,530</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	W 26,620,895	\$ 23,241,571
Call money	132,735	115,885
Borrowings	2,915,204	2,545,140
Bonds sold on repurchase agreements	1,040,560	908,469
Bills sold	681,504	594,992
Due to Bank of Korea in foreign currencies	415,537	362,788
Debentures	946,930	826,724
Reserve for possible losses on acceptances and guarantees	53,050	46,316
Due to trust accounts	262,459	229,142
Unearned income	122,568	107,009
Accrued expenses	725,302	633,230
Other	959,351	837,569
Total liabilities	<u>34,876,095</u>	<u>30,448,835</u>
Commitments and contingencies (Note 3)		
Minority interest	172,509	150,610
Common stock, par value : W5,000, authorized :500 million shares, issued and outstanding :110,163,180 shares	550,816	480,894
Preferred stock, par value : W5,000, non-cumulative, non-participating preferred stock authorized :250 million shares, issued and outstanding .94,560,000 shares	472,800	412,782
Capital surplus (Note 4)	339,703	296,580
Retained earnings (Note 5)	409,806	357,784
Capital adjustments	(21,340)	(18,631)
Negative goodwill	6,501	5,676
Total shareholders' equity	<u>1,758,286</u>	<u>1,535,085</u>
Total liabilities, minority interest and shareholders' equity	<u>W36,806,890</u>	<u>\$32,134,530</u>

The accompanying notes are an integral part of these statements.

# Consolidated Income Statement

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S.Dollars
<b>Revenue</b>		
Interest income:		
Interest on due from banks	W 196,487	\$ 171,545
Interest on securities	1,092,163	953,521
Interest on loans	1,520,977	1,327,900
Other	32,602	28,463
	<hr/> 2,842,229	<hr/> 2,481,429
Commission income	274,101	239,306
Other operating income:		
Gain on disposition of trading securities	150,704	131,573
Gain on valuation of trading securities	37,099	32,389
Dividend on securities	8,904	7,774
Gain on foreign currency trading	107,938	94,236
Fees from trust accounts	160,689	140,291
Other	92,721	80,951
	<hr/> 558,055	<hr/> 487,214
Non-operating income	133,225	116,313
Total revenue	<hr/> W3,807,610	<hr/> \$3,324,262

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

# Consolidated Income Statement, *Continued*

for the year ended December 31, 1999

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars</i>
<b>Expenses</b>		
Interest expenses:		
Interest on deposits	W1,823,063	\$1,591,639
Interest on borrowings	355,133	310,051
Interest on debentures	95,847	83,680
Other	42,594	37,187
	2,316,637	2,022,557
Commission expenses	69,119	60,345
Other operating expenses:		
Loss on disposition of trading securities	56,794	49,584
Loss on valuation of trading securities	6,960	6,076
Loss on foreign currency trading	81,605	71,246
Bad debt expense	488,529	426,514
Other	100,288	87,557
	734,176	640,977
General and administrative expenses	363,050	316,964
Non-operating expenses	74,586	65,118
Total expense	3,557,568	3,105,961
Ordinary income	250,042	218,301
Extraordinary loss, net	2,755	2,405
Income before income taxes and consolidation adjustments	247,287	215,896
Income tax expense	67,911	59,290
Total net income before consolidation adjustments	179,376	156,606
Minority interest income	(58,609)	(51,169)
Amortization of goodwill, net	220	191
Gain on investee from equity method	23,547	20,558
Consolidated net income (Note 6)	W 144,534	\$ 126,186
(Ordinary income per share: W1,728		
Earnings per share: W1,355		
Diluted ordinary income per share: W922		
Diluted earnings per share: W737)		

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

# *Consolidated Statement of Changes in Capital Surplus and Retained Earnings*

for the year ended December 31, 1999

	<i>In Millions of Korean Won</i>	<i>In Thousands of U.S.Dollars</i>
<b>Consolidated capital surplus:</b>		
Carried over from prior year	W169,084	\$147,620
Paid-in capital in excess of par value	71,048	62,029
Negative goodwill from merger	105,406	92,025
Purchase of subsidiary's preferred stock	(6,081)	(5,309)
Other	246	215
<b>Carried over to subsequent year</b>	<b>339,703</b>	<b>296,580</b>
<b>Consolidated retained earnings:</b>		
Carried over from prior year	352,587	307,829
Net income for the year	144,534	126,186
Prior period adjustments, net	1,025	895
Cash dividends	(52,088)	(45,476)
Cumulative effect from accounting changes	(63,499)	(55,438)
Other	27,247	23,788
<b>Carried over to subsequent year</b>	<b>409,806</b>	<b>357,784</b>
<b>Consolidated capital surplus and retained earnings carried over to subsequent year</b>	<b>W749,509</b>	<b>\$654,364</b>

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

# Consolidated Statement of Cash Flows

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S.Dollars
Cash provided from operating activities		
Net income	W144,534	\$126,186
Items not affecting operating cash flows:		
Depreciation and amortization	36,104	31,521
Provision for possible loan losses	488,529	426,514
Provision for severance benefits	11,792	10,295
Unrealized gain on securities, net	(24,586)	(21,465)
Gain on securities transactions, net	(148,397)	(129,559)
Reversal of provision for losses of acceptances and guarantees	(10,711)	(9,351)
Payment of retirement benefits	(2,131)	(1,861)
Gain on sales of loans, net	(5,438)	(4,748)
Gain on investee from equity method	(23,547)	(20,558)
Changes in accrual basis account, net	207,605	181,252
Amortization of goodwill, net	(210)	(183)
Minority interest income	58,609	51,169
Other	924	806
	<hr/> W733,077	<hr/> \$640,018

The accompanying notes are an integral part of these statements.

# Consolidated Statement of Cash Flows, *Continued*

for the year ended December 31, 1999

	In Millions of Korean Won	In Thousands of U.S.Dollars
<b>Cash used in investing activities:</b>		
Increase in marketable securities	W(3,009,820)	\$(2,627,746)
Decrease in investment securities	528,212	481,159
Increase in premises and equipment	(150,528)	(131,420)
Increase in intangible assets	(299)	(261)
Increase in leasehold deposits	(308,751)	(269,557)
Decrease in accounts receivables	(16,571)	(14,467)
Sales of treasury stock	17	15
	<hr/>	<hr/>
	(2,957,740)	(2,582,277)
<b>Cash provided by financing activities:</b>		
Increase in borrowings	1,339,609	1,169,555
Increase in bills sold	468,870	409,350
Increase in debentures	352,207	307,497
Increase in foreign exchanges payable	15,213	13,282
Issuance of stock for cash	228,424	199,427
Increase in securities sold under repurchase agreement	223,430	195,068
Increase in due to Bank of Korea in foreign currencies	415,537	362,788
Decrease in call money	(98,003)	(85,562)
Increase in due to trust accounts	111,446	97,299
Decrease in accounts payable	(25,347)	(22,129)
Cash dividends	<hr/>	<hr/>
	(27,970)	(24,420)
	<hr/>	<hr/>
Net increase in cash	3,003,416	2,622,155
Cash and cash equivalents at beginning of the year	<hr/>	<hr/>
Cash and cash equivalents at end of the year	W3,976,698	\$3,471,886
	<hr/>	<hr/>
Cash	980,263	855,826
Foreign currencies	24,227	21,152
Due from Banks	2,727,152	2,380,960
Due from Banks in foreign currencies	245,056	213,948

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

December 31, 1999

## 1. The Consolidated Companies:

The accompanying consolidated financial statements include the banking accounts and trust accounts of Hana Bank and its controlled subsidiaries ("the Bank"). General information describing the Bank's trust accounts and its controlled subsidiaries, and equity-method investee is provided below.

### *Trust Accounts and Controlled Subsidiaries*

A summary of investment and financial data of the Bank's trust accounts and its controlled subsidiaries ("Subsidiaries") as of December 31, 1999 is as follows:

Subsidiaries	Number of Invested Shares	Percentage of Ownership	Millions of Won		
			Total Assets	Operating Revenues	Shareholder's equity
Trust Accounts	-	-	W4,274,710	W 683,819	W 1,859
Hana Securities	6,913	39.68%	589,602	295,082	253,564
Hana Risjad Finance	17,500	70%	24,296	2,816	324

Consolidation of trust accounts include only certain money trusts which are subject to a guaranteed principal repayment or a fixed rate of return in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

The details of those trusts, which are consolidated, are as follows:

Trusts	Trust Terms		
	Period (Years)	Dividend Rate	Guarantee of principal repayment
General unspecified money trusts	1.5 - 5	Fixed	Yes
Development trusts	2, 3	"	"
Old-age living pension trusts	over 5	Floating	"
Retirement trusts	retirement	"	"
Individual pension trusts	over 15	"	"

Hana Securities and Hana Risjad Finance, as a result of a merger with Boram Bank on January 1, 1999, are included in reporting entities for consolidation. Hana Securities was listed in the Korea Stock Exchange as of November 25, 1986. Hana Risjad Finance is a financial services company located in Indonesia and its capital stock is W4,033 million as of December 31, 1999.

Hana Finance, a former subsidiary, liquidated on September 21, 1999, is excluded from consolidation. Furthermore, Hana Finance Asia, Ltd., the Bank's subsidiary in Hong Kong, is currently in the process of liquidation, and therefore, is excluded from consolidation.

In accordance with the Financial Accounting Standards for Consolidated financial statements, Hana Research & Consulting Inc., a small-sized company, is excluded from consolidation.

### *Investment Accounted by Equity Method*

A summary of investment and financial data of Korea Merchant Banking Corporation, to which equity method of accounting is applied in consolidation, is as follows:

	Number of Invested Shares	Percentage of Ownership	Millions of Won(*)		
			Total Assets	Operating Revenues	Shareholder's equity
Korea Merchant Banking Corporation	4,264	26.36(%)	W3,304,478	W284,626	W210,475

(\*) Financial information as of September 30, 1999

Korea Merchant Banking Corporation was established on August 24, 1976 to engage in financial services and was listed in the Korea Stock Exchange as of March 29, 1994. Its capital stock is W94,300 million as of September 30, 1999.

# Notes to Consolidated Financial Statements, *continued*

December 31, 1999

## 2. Summary of Significant Accounting Policies:

### *Principles of Consolidation*

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

All significant inter-company transactions and account balances among the consolidated companies have been eliminated in consolidation.

Investment in 20% to 50% owned company (except for consolidated companies) is accounted using equity method and all the inter-company transactions have been eliminated.

Certain money trust agreements provide that the Bank guarantees a principal amount of trusts or a minimum rate of return. In relation to such guarantees, the Bank's trust accounts are required to set up a special reserve, not to exceed 5% of annual revenues, until the total reserve equals 3% of the related money trust balance. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special reserve or compensated by the Bank's banking accounts. Such compensation is accounted for as other operating expenses of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to the trust business. Such compensation amount is W42,942 million for the year ended December 31, 1999 and this has been eliminated in consolidation of related trust accounts.

## 3. Commitments and Contingencies:

In the normal course of business, the Bank enters into outstanding commitments, which under the financial accounting standards in the Republic of Korea, are not reflected in the accompanying consolidated financial statements. In the opinion of management, these do not represent unusual risks and losses for the Bank. Certain commitments represent various degrees and types of risk to the Bank including credit, interest rate, foreign exchange rate, and liquidity risk. In many cases the commitments involving interest and foreign exchange result from decisions to hedge overall interest rate and foreign exchange risk.

Confirmed acceptances and guarantees as of December 31, 1999 comprise the following:

Millions of Won	
Acceptances and guarantees in Won currency:	W 708,273
Acceptances and guarantees in foreign currencies:	
Acceptances for letters of credit	1,182,248
Letters of guarantee for importers	56,653
Guarantees on credit derivatives	28,635
Other	453,575
	1,721,111
	W2,429,384

Before January 1, 1999, the Bank reported confirmed acceptances and guarantees outstanding as a liability, offset by an asset on the consolidated balance sheet. In accordance with the revised financial accounting standards, effective January 1, 1999, the Bank has not reported the acceptances and guarantees in the accompanying consolidated balance sheet. The Bank has, however, recorded the reserve for possible losses on the acceptances and guarantees as a liability.

A summary of other significant commitments, categorized in accordance with bank supervisory regulations is as follows:

Millions of Won	
Commercial letters of credit	W1,234,310
Loan commitments	70
Endorsed notes	47,499
Spot exchange contracts	155,987
Futures and forward contracts:	
Commitments to purchase	527,383
Commitments to sell	499,392

# Notes to Consolidated Financial Statements, *continued*

December 31, 1999

As of December 31, 1999, the Bank has derivative financial instruments as follows:

	Millions of Won
Foreign exchange contracts	W 894,647
Interest rate contracts	34,106
Credit derivatives	98,022
	<u>W1,026,775</u>

In connection with the Bank's securities agency operation, the amount of depository securities, as of December 31, 1999, is W 1,660,621 million.

#### 4. Consolidated Capital Surplus:

The changes in consolidated capital surplus during the year ended December 31, 1999, are as following:

	Millions of Won
Carried over from prior year	W169,084
Paid-in capital in excess of par value	72,393
Stock issuance costs	(1,345)
Negative goodwill from merger	105,407
Other	(5,836)
	<u>W339,703</u>

#### 5. Consolidated Retained Earnings:

The changes in consolidated retained earnings during the year ended December 31, 1999, are as following:

	Millions of Won
Carried over from prior year	W352,587
Net income for the year	144,534
Changes in reporting entity	24,024
Cash Dividends	(52,088)
Cumulative effect from accounting changes	(63,499)
Other	4,248
	<u>W409,806</u>

#### 6. Consolidated Earnings Per Share and Ordinary Income Per Share:

Consolidated earnings per share and ordinary income per share for the year ended December 31, 1999 are calculated as follows:

	Korean Won
Consolidated ordinary income per share	
Consolidated ordinary Income after income tax expenses	W182,131,606,793
Dividends on Preferred stock	(8,023,000,000)
	<u>174,108,606,793</u>
Weighted average of common shares (*)	100,763,739
Consolidated ordinary income per share	<u>W 1,728</u>
Consolidated earnings per share	
Consolidated ordinary Income after income tax expenses	W182,131,606,793
Dividends on Preferred stock	(8,023,000,000)
Extraordinary loss	(2,755,186,330)
Minority interest income	(58,609,423,306)
Reversal of negative goodwill	1,625,473,621
Amortization of goodwill	(1,405,523,655)
Gain on equity method	23,546,705,749
	<u>136,510,652,872</u>
Weighted average of common shares (*)	100,763,739
Consolidated earnings per share	<u>W 1,355</u>

(\*) Weighted average number of common shares

# Notes to Consolidated Financial Statements, *continued*

December 31, 1999

	Number of days	Number of common shares	Accumulated number of common shares
Beginning of the year	365	69,926,000	25,522,990,000
Issuance of common stock in the merger	365	8,761,986	3,198,124,890
Issuance of capital stock	256	31,475,194	8,057,649,664
		110,163,180	36,778,764,554

- Weighted average number of common shares  
 $= 36,778,764,554 \div 365 = 100,763,739$

Diluted earnings per share and ordinary income per share for the year ended December 31, 1999 are calculated as follows:

	Korean Won
Diluted consolidated ordinary income per share	
Consolidated ordinary Income after income tax expenses	W182,131,606,793
Interest expense on convertible bonds	<u>4,918,632,074</u>
	187,050,238,867
Weighted average of common shares (**)	<u>202,803,804</u>
Consolidated ordinary income per share	<u>W 922</u>
Diluted consolidated earnings per share	
Consolidated ordinary Income after income tax expenses	W182,131,606,793
Interest expense on convertible bonds	4,918,632,074
Extraordinary loss	(2,755,186,330)
Minority interest income	(58,609,423,306)
Reversal of negative goodwill	1,625,473,621
Amortization of goodwill	(1,405,523,655)
Gain on equity method	23,546,705,749
	<u>149,452,284,946</u>
Weighted average of common shares (**)	<u>202,803,804</u>
Consolidated earnings per share	<u>W 737</u>

(\*\*) Weighted average number of common shares

	Number of days	Number of common shares	Accumulated number of common shares
Beginning of the year	365	69,926,000	25,522,990,000
Issuance of common stock in the merger	365	8,761,986	3,198,124,890
Convertible bonds	365	9,293,545	3,392,143,925
Convertible preferred stock	358	94,560,000	33,852,480,000
Issuance of capital stock	256	31,475,194	8,057,649,664
		214,016,725	74,023,388,479

- Weighted average number of common shares  
 $= 74,023,388,479 \div 365 = 202,803,804$

## 7. Inter-Company Transactions:

Significant transactions between the Bank and its subsidiaries during the year ended December 31, 1999 and related account balances at December 31, 1999 are as follows (millions of Won):

Related parties	Account balances	Transactions
Hana Securities	Loans W3,507 Deposits 9,779	Interest income W2,799 Interest expenses 1,201
Korea Merchant Banking Corporation		Interest income 12 Interest expenses 7
Hana Risjad Finance		Interest income 4 Interest expenses 60