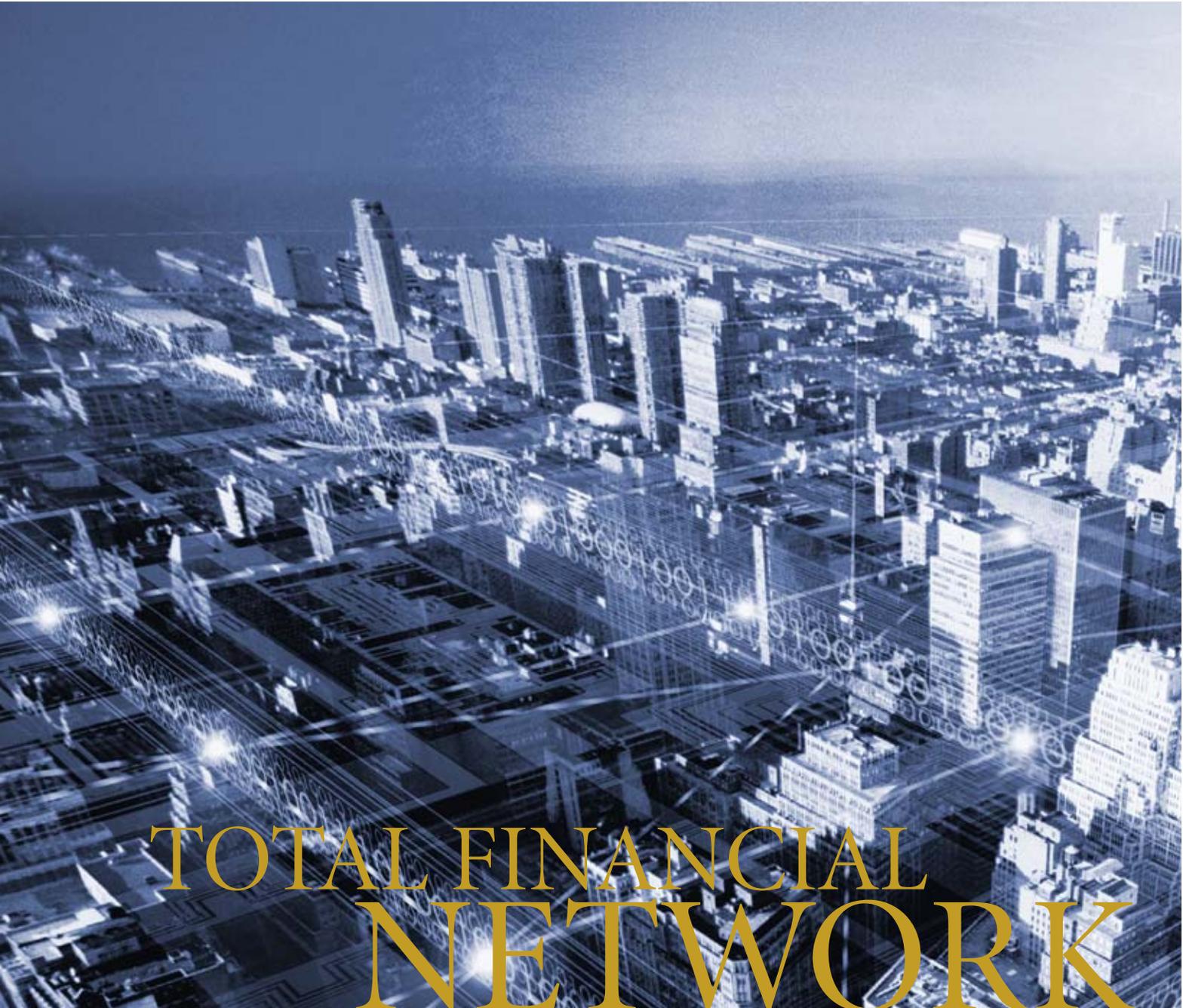


ANNUAL REPORT 2002

IBK

INDUSTRIAL BANK OF KOREA



TOTAL FINANCIAL NETWORK

CONTENTS

04 Performance Highlights

12 Review of Operations

06 CEO's Message

25 Financial Report

10 Achievements in 2002

141 Organization and Directory



Industrial Bank of Korea (IBK) was established in 1961 under the Industrial Bank of Korea Act to promote the growth of small- and medium-sized enterprises (SMEs). Today, IBK is committed to offering a broad range of high-quality products and services to business, personal and premium customers through our extensive network – nine regional headquarters and 391 branches, including four overseas branches in New York, Tokyo, Hong Kong and Tianjin.

In 2002, we recorded positive growth for the fourth consecutive year, posting net income of US\$484 million, while securing credit ratings of 'A3' by Moody's, 'A' by Fitch Ratings and 'BBB+' by S&P. Our assets, loans and deposits also significantly expanded to US\$54.2 billion, US\$38.6 billion and US\$26.8 billion, respectively. The non-performing loan (NPL) ratio stood at 1.92% and the BIS capital adequacy ratio remained at a solid 10.43%, positioning IBK among the finest financial institutions in Korea.

Backed by approximately 6,400 dedicated employees, we envision becoming a preeminent financial institution providing innovative financial services and adding values for optimal customer satisfaction. We are determined to focus on our core strengths with our leadership in SME banking, and to continue our profitable expansion.

Performance Highlights

	2001		2002	
	In billions of KRW	In millions of USD	In billions of KRW	In millions of USD
At year-end				
Total assets	₩ 55,689	\$ 46,393	₩ 65,036	\$ 54,179
Loans	35,629	29,681	46,385	38,641
Deposits	28,944	24,112	32,144	26,778
Total shareholders' equity	2,886	2,404	3,368	2,806
For the years ended				
Total revenues	4,977	4,146	5,922	4,933
Total expenses	4,495	3,745	5,202	4,334
Net income	455	379	581	484
BIS capital adequacy ratio				
Tier 1	9.06%		8.43%	
Tier 2	1.86%		2.01%	
Total ratio	10.90%		10.43%	

1) The fiscal year is from January 1 to December 31.

2) The Korean Won amounts are converted into U.S. Dollars, solely for the convenience of the reader, at 1,200.40 to US\$1, the rate of exchange quoted by the Korea Financial Telecommunications and Clearings Institute as of December 31, 2002.

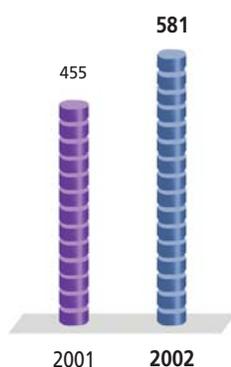
3) Non-consolidated data except BIS capital adequacy ratio.

Credit ratings

Moody's	Fitch Ratings	S&P
A3	A	BBB+

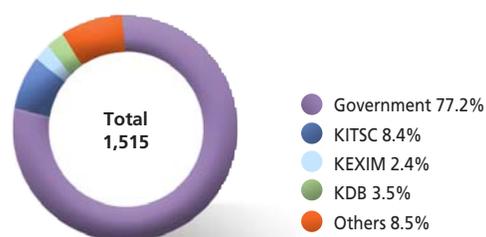
Net Income

(in billions of won)

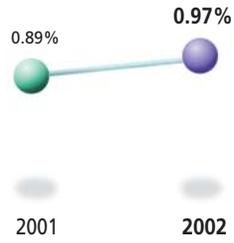


Controlling Interest

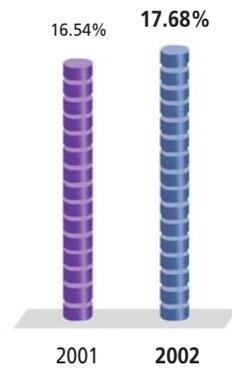
(in billions of won)



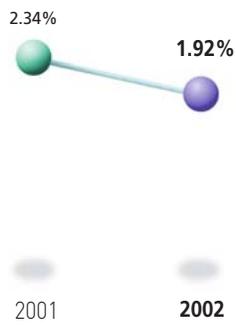
ROA



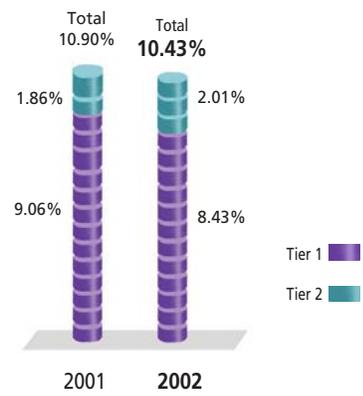
ROE



NPL Ratio

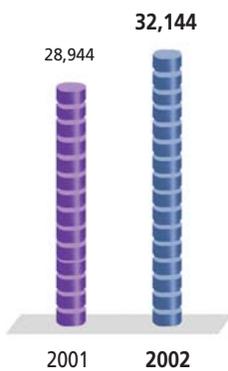


BIS Ratio



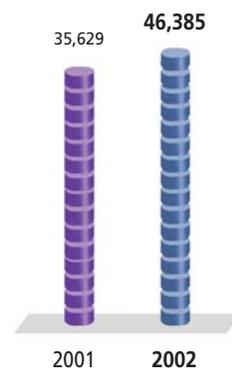
Deposits

(in billions of won)



Loans

(in billions of won)



CEO's Message



Dear shareholders and clients,

The year 2002 was truly remarkable for the Industrial Bank of Korea (IBK) as we delivered record earnings and demonstrated true strength amid a whirlwind of change in the domestic and global economies. Not only did we continue to fulfill our policy role of fostering small- and medium-sized enterprises (SMEs), but we also outperformed our competitors in terms of qualitative and quantitative growth. Our track record of success during the year has given IBK a solid foundation to build upon, which we will continue to strengthen as we meet new opportunities, and challenges in the years ahead.

The Korean economy experienced considerable difficulties in 2002 due to the delayed global economic recovery. Given the intensifying competition among domestic financial institutions and increasingly diversifying client needs, our management focused our priorities on our core strengths in order to sustain our industry-leading position and to maximize customer satisfaction.

In 2002, we successfully completed the implementation of the Business Division System; a transformation from a traditional functional organization to a client-oriented and performance-based organizational structure. We reorganized the head office into five profit-generating divisions and five operation-support divisions and redefined the branch units along client segments and product lines. The new units are Corporate Banking Team, Consumer Banking Team and Private Banking Team which were created to better service our clients with our distinctive products. In support of this initiative, we redesigned the branch layout to address clients that IBK is indeed responding to their changing needs and the changing environment.

In an effort to enhance branch performance, we ran a pilot version of the Sales Stimulation Program (SSP) at 32 sample branches. SSP is a scientific and systemic performance management program designed to enhance customer satisfaction as well as the self-confidence of our staff. The testing results were overwhelmingly positive, which helped to crystallize our plan to implement the system on a bank-wide basis.

Despite the challenging market environment, we were able to maintain and strengthen our industry-leading position in the SME finance market. In recognition of our significant contribution to the development of the SME sector, we received an award from the President of the Republic of Korea in November. Moreover, we won a grand prize of the Customer Satisfaction Management Award from the Korea Management Association in the same month. I believe that our unwavering commitment to excellence coupled with recognition from industry associations affirms our position as a client-focused bank seeking to provide premier services backed by unmatched competitiveness.

Our initiatives in 2002 helped obtain remarkable financial results. During 2002, IBK attained positive growth for four consecutive years, posting a record net income of ₩581 billion (US\$484 million) while simultaneously providing sufficient provisioning. Total assets expanded to ₩65 trillion (US\$54 billion) largely due to a net increase of ₩8.2 trillion (US\$6.9 billion) in SME financing. Notwithstanding such sizable growth, IBK maintained prudent management practices as evidenced by its key financial ratios. Our non-performing loan (NPL) ratio improved to 1.92% during 2002, placing IBK amongst the healthiest financial institutions in Korea. Also, capital adequacy ratio remained steady at 10.43% with a Tier I ratio of 8.43% while ROA and ROE recorded a solid 0.97% and 17.68%, respectively.

Our superior financial results and many feats throughout 2002 confirm our commitment to building IBK as a leading financial institution in Korea. One of our most notable achievements was a credit rating upgrade by all three major agencies. Moody's, S&P, and Fitch Ratings raised the bank's credit rating to A3, BBB+, and A, respectively, affirming IBK's remarkable credit improvements. Moreover, we demonstrated strong funding capability in successfully closing US\$1.6 billion of long term financing including US\$850 million of Eurobond issuance.

Meeting Future Challenges

The year 2003 will bring new challenges for the bank. Externally, we must weather sluggish economic growth, interest margin pressures and intensifying competition. Internally, we must successfully complete the second round of reorganization. In the face of these challenges, we realize that our future growth can only be achieved by focusing on our core strengths and by living up to our values as a leader in innovation.

In 2003, we will continue to play a vital role in SME financing by maximizing synergies among SME banking units. In addition, we will launch a SOHO (small office, home office) marketing team to reach out and service the smallest end of the SME sector.

While expanding our SME financing activities, we will reinforce our risk management system to minimize credit risks embedded in SME lending operations. We will further upgrade our SME Credit Rating Model to sufficiently incorporate up-to-date

characteristics of SME clients. In the area of credit management, we will establish an Internal Bad Bank (IBB) unit in pursuit of enhanced efficiency by consolidating the bank's NPL management functions.

To sharpen our competitive edge in the face of a new business paradigm, we will focus on expanding the scope of our services by cross-selling a wide range of products through our strategic alliances with non-banking institutions. In particular, we will continue to develop innovative financial products in the areas of asset management and bancassurance.

Finally, we will strive to improve management efficiency through continued structural reform, the expansion of a performance-based culture, and ongoing education programs. We will also implement Business Process Re-engineering (BPR) to reform our business procedures, thereby improving overall productivity. In creating a more dynamic working environment for our people, we will expand incentive programs to all operating units and continue to provide education in various fields including marketing, finance, corporate management, risk management, and international banking.

Positioned To Thrive

Over the long term, our competition will be against fewer but stronger rivals as consolidation has made the financial services market an industry where only the fittest survive. Accordingly, we must keep a strong competitive edge to endure adverse markets and economic conditions. We must have financial strength and we must become increasingly

efficient. Above all, we must offer added value to our clients through the quality and diversity of our products and services, and through the expertise of the dedicated staff.

Our vision is to solidify our position as a world-class financial institution, providing a full spectrum of innovative financial products and services. Though a great deal has been accomplished thus far, we must continue to capitalize on new opportunities. Our commitment to preeminence will ensure that we service our clients with integrity and move forward with our vision.

In closing, I extend my sincere gratitude to all IBK employees for their hard work and dedication to the bank's success. I also express my grateful appreciation for the loyalty and support of our clients and shareholders. In 2003 and beyond, we pledge to continue our efforts to serve the financial needs of our clients and to prosper in this dynamically changing environment. We look forward to your continued support. Thank you.



Jong-Chang Kim
Chairman and CEO



Our vision is to solidify our position as a world-class financial institution, providing a full spectrum of innovative financial products and services.

Though a great deal has been accomplished thus far, we must continue to capitalize on new opportunities.

Achievements in 2002

Our vision is to build a **Total Financial Network Bank**, providing innovative financial services through a digitized network. We are determined to focus on our core strengths and to face the challenges and opportunities that lie ahead.

January
February

January

- Awarded the Gold Prize for Banking in the 11th Dasan Financial Awards.
- Received the Ministry of Science and Technology's Best Institution Award, recognizing IBK's utilization of Science & Technology Promotion Funds.
- Formed a strategic partnership with Schroders Investment Management Limited, Korea.

February

- Introduced 'Fine Happy-net Card', an exclusive card product providing discounted overseas telephone call service.

March
April

March

- Obtained approval to open a branch office in Qingdao, China, a first for a Korean bank in the region.
- Credit rating upgraded to 'A3' by Moody's.

April

- Issued HK\$1.2 billion in floating rate notes, achieving the lowest funding cost among domestic financial institutions since the Asian financial crisis.

With our **Leadership in SME Banking, Superior Financial Strength, Strong Operating Platform and Expertise of our Staff**, we are confident that we will continue our profitable expansion in 2003 and going forward.



June
July

June

- Credit rating upgraded to 'A' by Fitch Ratings.
- 'Fine Family Loan' selected a hit product by Nae Way Economic Daily.

July

- Launched 'Multi-pack' Mobile Banking Service through a strategic alliance with KT Freetel.
- Credit rating upgraded to 'BBB+' by S&P.

September
October
November

September

- Issued US\$500 million in Eurobonds.

October

- Launched EBPP (Electronic Bill Presentment and Payment) Service.

November

- Received an award from the President of the Republic of Korea, recognizing IBK's important policy function for SMEs.
- Won a grand prize of the Customer Satisfaction Management Award from the Korea Management Association.

Review of Operations

Focused on supplying customized products and services, designed to maximize client satisfaction



14 Governance
18 Credit Cards
21 Trust Services

15 SME Banking
19 Electronic Banking
22 Risk Management

17 Consumer Banking
20 International Banking



Governance

Relationship with the Government

Industrial Bank of Korea (IBK) was established by the Korean government in 1961 under the Industrial Bank of Korea Act (IBK Act) which set IBK's mission to enhance the economic presence of small- and medium-sized enterprises (SMEs) and to provide developmental finance and banking services to SMEs nationwide. Under the IBK Act, the bank warrants treatment as a special legal entity. Irrespective of ownership, the government retains full control over the management, policies and operations of IBK, including the right to appoint or dismiss the entire Board of Directors and the Auditor. Any amendment to the Bylaws of IBK must be approved by the Minister of Finance and Economy. Annually, IBK must submit, for the Minister's approval, both the proposed business plan for the following year and the guidelines governing all principal operations.

IBK's operations are supported by the government in accordance with Article 43 of the IBK Act which states, in part, "...the annual net losses of the Bank shall be offset each year by the reserve, and if the reserve is insufficient, the government shall assume the deficit." Accordingly, the government is responsible for the operations of IBK and is legally obligated to replenish any deficit if IBK's reserves cannot cover the annual net losses.

Ownership Structure

IBK's initial public offering in 1994 decreased the government's ownership from 99.9% to 64.5%. Following the Asian financial crisis in 1997, the government made a capital contribution of ₩1.7 trillion in October 1998 and an additional ₩100 billion in January 1999, raising its direct stake in IBK to 98.0%.

In late 1999, the government announced a recapitalization plan to rehabilitate troubled investment trust companies. IBK and two other state-controlled banks, the Korea Development Bank (KDB) and the Export-Import Bank of Korea (KEXIM), were chosen as facilitators of the plan.

Upon implementation, KDB and the Korea Investment Trust and Securities Company (KITSC) became new shareholders of IBK in December, 1999, receiving a portion of the shares previously held by the government. KEXIM became an IBK shareholder by contributing ₩200 billion on January, 29 and ₩166.7 billion on June 23, 2000 in exchange for IBK's newly issued shares. As of December 31, 2002, the government's direct controlling interest stood at 77.2%.

Ownership structure

(in billions of won)

Shareholders	Dec. 31, 2002		
	Common shares	Preferred shares	Total
Government	1,169 (77.2%)	0 (0.0%)	1,169 (51.0%)
KITSC	128 (8.4%)	230 (29.6%)	358 (15.6%)
KEXIM	37 (2.4%)	312 (40.2%)	349 (15.2%)
KDB	52 (3.5%)	235 (30.2%)	287 (12.5%)
Others	129 (8.5%)	0 (0.0%)	129 (5.7%)
Total	1,515 (100.0%)	777(100.0%)	2,292(100.0%)



Controlling interest
(in billions of won)

- Government 77.2%
- KITSC 8.4%
- KEXIM 2.4%
- KDB 3.5%
- Others 8.5%

SME Banking

As the government's only policy bank for SME development, IBK continued to maintain its dominance by providing financing support worth ₩18 trillion (net increase of ₩8.2 trillion) in 2002. In particular, IBK focused on promoting SME technological reforms.

In order to maintain its leading status, IBK reinforced its marketing efforts through the implementation of Relationship Marketing Support System (RMSS). The system provides marketing officers with an access to comprehensive marketing data which incorporated client profile, credit histories and analysis of client banking records. The system also provides insightful information on VIP clients, inactive clients and potential clients regarding their specific financial objectives and helps target these client groups with tailored marketing.

In 2002, IBK supplied a variety of new products including Fine Start-Up Loan, Pension Loan and Foreign Currency Option Yen Loan. Among the products, Foreign Currency Option Yen Loan was particularly well received by SME clients. The product is engineered with an option to convert Japanese Yen to Korean Won at a prefixed price in case Yen strengthens up to a certain level. With the product, clients can take advantage of low interest rates on Japanese Yen while effectively hedging against related foreign exchange risk. The product greatly contributed to a dramatic surge of ₩2.6 trillion in foreign currency loans in 2002.

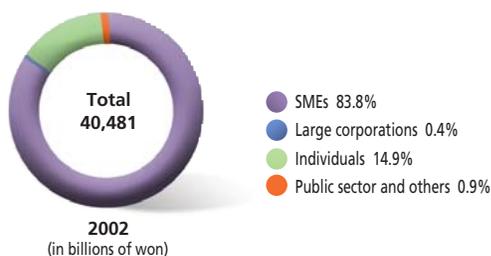
As a result of the initiatives outlined above, SME loans increased 32.1% to ₩33,918 billion compared to ₩25,680 billion of the previous year, accounting for 83.8% of the bank's total domestic loan portfolio as of the year end 2002.

Loan profile

(in billions of won)

	2001	2002
SMEs	25,680 (85.3%)	33,918 (83.8%)
Large corporations	28 (0.1%)	172 (0.4%)
Individuals	4,096 (13.6%)	6,019 (14.9%)
Public sector and others	319 (1.0%)	372 (0.9%)
Total ⁽¹⁾	30,123(100.0%)	40,481(100.0%)

(1) Includes domestic currency loans, credit card loans and foreign currency loans (excluding offshore loans and loans extended from overseas branches).



SME loans by type

(in billions of won)

	2001		2002	
Working capital loans	20,167	78.5%	23,180	68.3%
Facility loans	4,597	17.9%	7,197	21.2%
Foreign currency loans	916	3.6%	3,541	10.5%
Total ⁽¹⁾	25,680	100.0%	33,918	100.0%

(1) Includes domestic currency loans and foreign currency loans (excluding offshore loans and loans extended from overseas branches) extended to small and medium companies.





Policy Loans

In conformance with government policy, IBK provides loans funded from the national budget and international agencies. These policy loans are extended at favorable interest rates compared with market-funded loans. Earmarked for specific purposes, the policy loans include financing to support technology development, productivity improvement and automation.

Policy loans by funding source

	2001	2002
SME Start-up & Promotion Fund	1,750	1,947
Local Industry Restructuring Fund	941	1,025
Industrial Formation Fund	308	343
SME Bills Discount Fund	274	156
Industrial Technology Fund	210	183
Industrial Disasters Prevention Fund	152	154
Information Facility Promotion Fund	142	166
Civilian Hospital Fund	106	81
Others	392	400
Total	4,275	4,455

Venture Financing

IBK provides financial support to venture companies to encourage growth in Korea's venture sector. Since IBK began offering venture financing, over 3,510 firms have become IBK clients, representing 35.8% of Korea's total venture industry. As of December 31, 2002, IBK's venture financing amounted to approximately ₩1,410 billion. Of the total, equity financing was ₩53 billion and loans were ₩1,357 billion.

Venture financing by type

	2001	2002
Loans	1,774	1,357
Equity financing	31	53
Total	1,805	1,410

Trade Services

IBK supports SMEs with international trade activities through various measures. In addition to general services such as trade financing, foreign exchange, international money transfers and letters of credit, IBK offers consulting services on various aspects of international trade including financial assistance, duty drawback claims, international disputes, overseas office establishment and foreign investments.

In 2002, the bank's trade services focused on expanding SMEs' presence in the burgeoning e-trade business. IBK promoted Electronic Data Interchange (EDI) service which facilitates trade activities online. In addition, the bank introduced Internet foreign exchange service and Internet letters of credit issuance.

Currently, IBK has four overseas branches to provide trade services to SMEs operating abroad, in New York, Tokyo, Hong Kong, and Tianjin. In 2003, IBK will add a second China branch in Qingdao, a region where business activities of SME clients are swiftly increasing.

Consumer Banking

In 2002, IBK took a number of major steps to materialize qualitative service improvements. Most importantly, the bank enhanced relationship management in pursuit of closer communication with clients. By combining strong client relationships with its expertise in the field, IBK delivered tailored products and services best-suited for the needs of clients.

Deposits

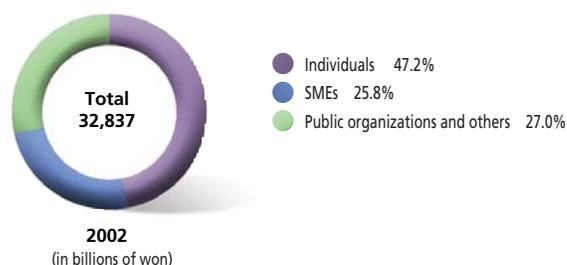
In 2002, IBK enhanced financial advisory services and reinforced consumer marketing to strengthen customer relationships. Furthermore, the bank introduced a variety of innovative cross-selling products including Fine 2030 Deposit, Fine Weekend Deposit, Fine Double Chance Time Deposit and Multiple-service Time Deposit. The products were designed to deliver a wide range of value-added services including stock trading, insurance, travel advisory, and sports activities. Among the products, IBK's Fine Double Chance Time Deposit particularly attracted a large number of clients with a balance amounting to ₩2,853 billion at year-end. The interest rate of the deposit is linked to stock index movement, which enables clients to achieve higher interest income during stock market rally while securing a certain level of yield-to-maturity even with a bearish market.

These initiatives led to a successful attraction of more than 870,000 new individual clients and the growth of consumer deposits to ₩15,490 billion, up 10.1% compared to ₩14,076 billion in 2001.

Deposits by customer

	2001		2002	
	(in billions of won)			
Individuals	14,076	49.1%	15,490	47.2%
SMEs	8,000	27.9%	8,488	25.8%
Public organizations and others	6,576	23.0%	8,859	27.0%
Total ⁽¹⁾	28,652	100.0%	32,837	100.0%

(1) The balance of the deposits includes deposits in domestic currency, CDs, and bills sold.



Loans

Under the IBK Act, the bank is not allowed to allocate more than 20% of its loan portfolio to non-SMEs, including individuals. Therefore, IBK uses target marketing to attract individual clients with superior credit status. By providing financing services, IBK can draw deposits from such clientele and gain a valuable source of low-cost funds for its SME lending operations. As of December 31, 2002, consumer loans amounted to ₩6,019 billion, accounting for only 14.9% of IBK's total domestic loans, while consumer deposits comprised 47.2% of total deposits. (See "Loan profile" on page 15)

Credit Cards

As a member of BC Card, a consortium of 11 Korean banks, IBK issued its first credit card in 1983. IBK's credit cards are currently accepted by over 214,000 merchants throughout Korea.

IBK's credit card services concentrate on providing a variety of services through its strategic alliances with non-banking institutions such as department stores, telecommunication companies, insurance companies, airlines, motor companies and leisure service firms. IBK offers K-one Card, which is issued exclusively by the bank, and Internet Card Loan which enables the entire lending process to be completed over the Internet. In 2002, IBK introduced a number of new products including Fine Happy-net Card and Fine-weekend Card. The Fine Happy-net Card provides discounted overseas telephone call service and has been vigorously marketed to individual clients through the Internet. Fine-weekend Card was launched in response to the implementation of the five-day work week and delivers various services relating to leisure activities.

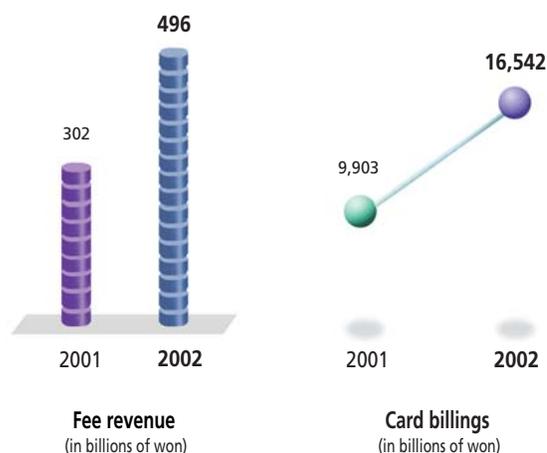
In 2002, IBK leveraged its electronic banking system and e-mail outbound marketing system to market its credit card products. The bank built the 'Sales Mall' on its electronic banking system to accumulate and manage a comprehensive marketing data on credit cardholders and their specific financial needs. The Sales Mall helps develop distinctive marketing strategies and provide tailor-made card products, enabling the bank to service the diverse needs of clients.

IBK's vigorous marketing efforts in the area of credit cards greatly contributed to enhancement of the bank's market presence. During 2002, the number of credit card holders recorded a sharp growth of 32.0% to exceed 2.6 million people. As a result, card billings jumped 67.0% compared to the previous year, reaching ₩16,542 billion while fee revenue surged 64.2% to post ₩496 billion, up from ₩302 billion in 2001.

While expanding its credit card business, the bank also reformed its credit review procedures and upgraded its Credit Scoring System in an effort to maintain sound asset quality. The Credit Scoring System automatically controls credit limit and promptly follows changes in the credit status of a cardholder.

Credit cards

	2001	2002	Growth
Number of cardholders	1,954,131	2,580,401	32.0%
Card billings (in billions of won)	9,903	16,542	67.0%
Fee revenue (in billions of won)	302	496	64.2%
Merchants accepting credit cards	195,875	214,358	9.4%





Electronic Banking

IBK delivers a full spectrum of financial services through its electronic banking system which also functions as an effective tool to market its products. As such, IBK puts e-business at the top of its agenda and allocates considerable resources for system development.

In March 2002, IBK launched Electronic-Corporate Banking System (e-CBS), an exclusive service for SME clients. E-CBS was aimed at enabling SMEs to secure a concrete position in the rapidly changing operating environment. In addition to general banking services, e-CBS provides financial management and mobile banking services as well as comprehensive support of business-to-business (B2B) activities. As of December 2002, over 9,900 companies were actively utilizing the system.

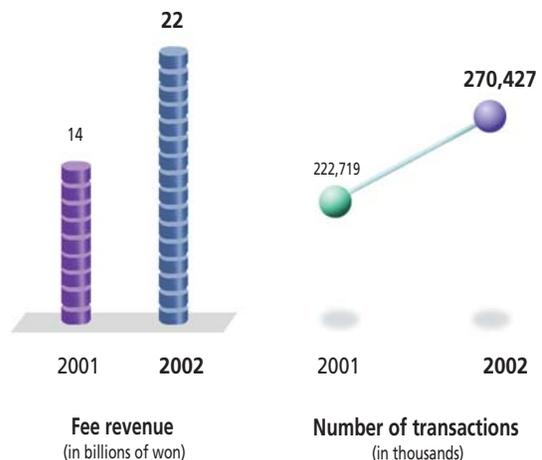
In addition, IBK established a Computer Telephony Integration (CTI) Customer Service Center to consolidate the customer service function into its electronic banking system. Through consulting and advisory assistance, the CTI Customer Service Center notably improved interactive communication with clients during 2002. Most importantly, the Center has been playing a vital role in promoting e-mail outbound marketing since its inception, catalyzing an overall sales growth for the bank.

In 2002, IBK introduced a number of innovative e-banking products including mobile banking, electronic cash, e-lottery, e-trade and Electronic Bill Presentment & Payment (EBPP) service. Developed through the bank's strategic partnership with Korea Telecom, EBPP service enables customers to present and pay bills online.

Boosted by successful implementation of growth strategies, IBK's electronic banking business accomplished a remarkable expansion in 2002. Compared to 2001, the number of customers increased 55.4% to exceed 1.8 million and the number of transactions climbed 21.4%, reaching over 270 million. Accordingly, fee revenue surged 61.1% to ₩22 billion.

Electronic banking

	2001	2002	Growth
Number of customers (in thousands)	1,191	1,851	55.4%
Number of transactions (in thousands)	222,719	270,427	21.4%
Fee revenue (in billions of won)	14	22	61.1%



International Banking

IBK has been involved in international banking since 1967. International Banking Department, Treasury Department, and Trading Department are primarily responsible for the bank's international banking business which are correspondent banking, international finance, investment banking, project finance, foreign exchange trading and financial derivatives engineering. In 2002, the departments developed foreign currency-denominated products jointly with Corporate and Retail Banking Departments. These products included Foreign Currency Option Yen Loan, Fine Double Chance Time Deposit and Interest Rate Option Won Deposit.

International Funding

In 2002, IBK demonstrated its strong funding capability in the international capital markets. To address rising demand for foreign currency loans from SMEs during the year, IBK raised approximately US\$2.5 billion through money market transactions, floating rate notes, Eurobonds and syndicated loans. One of the most successful transactions was the issuance of floating rate notes worth HK\$1.2 billion in April. The deal was an outstanding success and drew particular attention of market participants as the funding price was the lowest charged to a Korean bank since the Asian financial crisis. Following its syndicated loan transaction of ¥15 billion in May, IBK successfully closed the issuance of five-year Eurobonds worth US\$500 million in September and three-year Eurobonds worth US\$350 million in December, respectively, attracting investors mainly from Europe and Asia.

Investment Banking

IBK actively expanded its investment banking activities and made investments worth US\$147 million in syndicated loans, bonds and credit guarantees in 2002. In the field of project finance, IBK began making a presence with investments of ₩29 billion and also realized considerable fee income from its agent services. In 2003, IBK will continue to expand investment banking activities and to enhance its presence in the fee-generating business areas.

Foreign Exchange (Forex) Trading

IBK has solidified its base of operations in Forex trading, particularly in the domestic Forex market such as the ₩/US\$ market. Since 1999, IBK has been designated by the Korea Financial Telecommunications and Clearings Institute as one of the ten price-quoting banks for ₩/US\$ forward exchange rates. In addition, the bank was awarded 'Dealer of the Year' by the Korea Forex Club in recognition of its dominant role in promoting the domestic Forex market. As of December 31, 2002, IBK's market share stood at 13%.

Risk Management Advisory Services

As part of its international banking services, IBK provides risk management advisory services mainly to corporate clients which include research reports and daily market analyses, as well as risk management seminars.

During 2002, IBK arranged three foreign exchange risk management seminars jointly with the Korea Credit Guarantee Fund, the Korea International Trade Association, and the Ministry of Commerce, Industry and Energy.

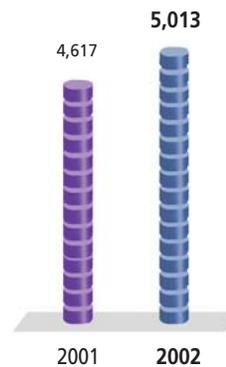


Trust Services

Money Trusts

In order to attract long-term funds and expand its client base, IBK began to offer trust account services in 1989. The trust accounts are not subject to the IBK Act or Decree, but are governed by the Trust Act and the Trust Business Act of Korea. Under the 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 depositors or other creditors. Accordingly, in IBK's financial statements, trust accounts are recorded and reported separately from bank accounts.

Thanks to a stock market rally in the first half and a continued low interest rate trend, the outstanding balance of trust accounts increased 8.6% to ₩5,013 billion from ₩4,617 billion in 2002 as depositors shifted their attention from general bank deposits to trust products in pursuit of higher returns.



Money trusts
(in billions of won)

Money trusts

	(in billions of won)		
	2001	2002	Share
Household Money Trusts	62	51	1.0%
Corporate Money Trusts	55	49	1.0%
Development Trusts	4	0	0.0%
Individual Pension Trusts	28	26	0.5%
Specified Money Trusts	777	1,735	34.6%
Installment Savings Trusts	160	111	2.2%
Personal Pension Trusts	506	545	10.9%
National Stock Trusts	3	3	0.1%
Household Long - Term Trusts	478	379	7.6%
Workers Preferential Treatment Trusts	133	86	1.7%
New Installment Trusts	1,536	1,191	23.8%
Retirement Money Trusts	106	136	2.7%
Unit Money Trusts	14	44	0.9%
Open-end Money Trusts	175	177	3.5%
New Personal Pension Trusts	2	3	0.1%
New Individual Pension Trusts	398	277	5.5%
Pension Trusts	5	13	0.2%
Separate Taxation Trusts	175	185	3.7%
Real Estate Investment Trusts (REIT)	0	2	0.0%
Total	4,617	5,013	100.0%

Beneficiary Certificates

As part of its effort to address the diverse needs of clients while expanding fee-generating business, IBK expanded sales of beneficiary certificates and introduced several funds through strategic alliances with asset management companies. The new products are Prime Fixed Income Fund, Prime Balanced Fund, Korea Balanced Equity Income Fund, Dividend Plus Balanced Fixed Income Fund, LG Fine Tax Benefit Fund and Growth Fund #4. As of December 31, 2002, the balance of beneficiary certificates totaled ₩179 billion.

Risk Management

Organization

The Board of Directors and three administrative units assume principal responsibility for managing risks. The Risk Management Committee is the senior administrative and policy-making unit. Under supervision of the committee, the Working Level Conference and the Risk Management Department enforce the policy decisions.

The Risk Management Committee is an independent, policy-making body which reports directly to the Board of Directors. The committee is responsible for creating and reviewing risk policy, taking into account both on- and off-balance-sheet sources of risk. The committee allocates exposure limits by business division and type of risk, assesses risk levels, monitors management processes, sets standards, and establishes internal control systems to prevent unauthorized activities on the part of operational departments. In addition, the committee oversees capital adequacy ratios, and supervises asset and liability management practices. Major policy changes require approval of the Board of Directors.

The Working Level Conference reviews matters of a practical nature and makes recommendations to the Risk Management Committee. The Risk Management Department monitors compliance with standards and implements the committee's policy decisions on a bankwide basis. The department oversees the daily management of risks and reports any significant developments to senior management.

Credit Risk

IBK controls credit risk by establishing credit risk limits, assessing current risk levels and monitoring compliance with risk limits.

When assessing the level of credit risk, the expected loss level is calculated based on historical data regarding the probability of insolvency. In arriving at these figures, credit ratings and recovery ratios relative to collateral are all factored in. The unexpected loss level incorporates the possibility of fluctuations exceeding the expected level. The volatilities of bankruptcy ratios and recovery ratios relative to collateral are factored into the calculation of the unexpected loss level with a 99% confidence level.

■ Loan Portfolio Management

IBK maintains two kinds of loan portfolios, one for individual clients and the other for industries. Credit limits are established for both individuals and industries as a whole. The former is intended to prevent excess exposure to any given client and the latter is intended to reduce risk should a downturn particularly endanger one sector of the economy.

■ Credit Policies and Approval Procedure

IBK's credit policies have been developed from its own prudence and banking experience with SMEs since 1961. Credit policies are formulated by the Board of Directors. The principal goal is to reduce risk by thorough credit analysis of loan applicants, strict adherence to credit evaluation and approval procedures and maintenance of a diversified and balanced loan portfolio.



Generally speaking, the head office or a branch performs credit analysis and approval, depending upon the size of the loan. In case a loan application exceeds the approval limit of a General Manager at a branch, the Credit Assessment Department conducts credit analysis and credit committees hold the approval authority.

■ SME Credit Rating Model

All loan applicants are subject to credit review, except governmental entities and applicants whose loans are fully secured by deposits. IBK uses the SME Credit Rating Model to evaluate each applicant's future prospects, management ability, debt servicing capability and financial records. The model is designed to evaluate the applicant's long-term earning potential rather than short-term performance, with emphasis placed on the applicant's business ability.

In 1995, IBK developed its SME Credit Rating Model by capitalizing on its cumulative experience and know-how in SME financing in order to improve the accuracy of bankruptcy forecasting and to institutionalize the control of risk. It was the first in-house developed rating model in the domestic financial industry, specifically targeting SME lending operations.

The SME Credit Rating Model is a hybrid synthesizing the Credit Scoring Model and the Insolvency Forecasting Model. The Credit Scoring

Model, comprised of six sub-models incorporating business sector and asset size, scores both financial and non-financial data. The Insolvency Forecasting Model, comprised of two sub-models, measures the potential default risk. The SME Credit Rating Model has a neural network system which accumulates and manages financial and non-financial data on SMEs nationwide and regularly updates rating criteria and rating samples.

■ Credit Analysts

Highly qualified credit analysts are stationed in the head office and branches to evaluate the creditworthiness of loan applicants. In conducting credit reviews, analysts act independently from decision makers. The analysts also perform periodic credit research to minimize loan defaults.



Market Risk

IBK sets limits for all market risk factors on a value at risk (VaR) basis and applies strict stop-loss rules for transactions exposed to market risk. The Risk Management Department monitors compliance with risk limits and stop-loss rules.

■ Value at Risk (VaR)

IBK computes VaR, the maximum loss that could occur, through a comprehensive risk measurement model. To gauge the accuracy of its internal model, IBK conducts back-testing, comparing actual daily profits and losses with model-generated risk potentials. This back-testing confirms a 99% confidence level over the previous 250 trading days. These results are reported to senior management. In addition, IBK conducts quarterly stress-testing that estimates losses in a worst-case scenario.

Liquidity Risk

IBK manages liquidity risk by establishing separate limits and target ratios for funds in domestic currency, foreign currencies and trust accounts. Contingency plans have been prepared for use in an actual crisis. IBK determines its current funding status by reviewing monthly and quarterly data and overnight money positions. It also monitors liquidity status to meet the guidelines for liquidity ratios established by the Financial Supervisory Service (FSS).

As of December 31, 2002, the three-month won-denominated liquidity ratio was 91.9%, conforming to a minimum ratio of 70% under the FSS directive. IBK's foreign currency liquidity ratio was 96.7%, well above the 80% FSS guidelines established for foreign currency-denominated assets and liabilities maturing within 90 days.

■ Market Risk Management Process



Financial Report

Management's Discussion & Analysis	26
Report of Independent Public Accountants	38
Non-consolidated Balance Sheets	40
Non-consolidated Statements of Operations	41
Non-consolidated Statements of Appropriations of Retained Earnings	43
Non-consolidated Statements of Cash Flows	44
Notes to Non-consolidated Financial Statements	46
Report of Independent Public Accountants	94
Consolidated Balance Sheets	96
Consolidated Statements of Operations	97
Consolidated Statements of Changes in Shareholders' Equity	99
Consolidated Statements of Cash flows	102
Notes to Consolidated Financial Statements	105

Management's Discussion & Analysis

Selected financial data (Bank accounts)

(in billions of won, except per share and ratio data)

	2001	2002
Operating results		
Operating revenue	409	691
Net interest income	1,008	1,332
Net income	455	581
Profitability ratios		
Return on assets	0.89%	0.97%
Return on equity	16.54%	17.68%
Net interest margin	2.54%	2.95%
Balance sheet data		
Assets		
Assets	55,690	65,036
Cash and due from banks	3,086	1,631
Loans	35,629	46,385
Allowance for loan losses	695	883
Securities	13,086	12,070
Fixed assets	818	862
Other assets	3,071	4,088
Liabilities		
Liabilities	52,804	61,668
Deposits	28,944	32,144
Borrowings	13,699	14,938
Debentures	6,001	9,570
Other liabilities	4,160	5,016
Shareholders' equity		
Shareholders' equity	2,886	3,368
Common stock	1,418	1,515
Preferred stock	873	777
Legal reserve	123	269
Other reserve	291	652
Capital adjustments	181	155
Capital adequacy ratio		
Capital ratio	10.90%	10.43%
Tier I capital ratio	9.06%	8.43%
Tier II capital ratio	1.86%	2.01%

Overview

Given its public objective, Industrial Bank of Korea does not seek to maximize profits. The bank, however, does seek an overall profit to strengthen its equity base in order to support growth. The government, under the IBK Act, has full control over the management, policies and operations of the bank. Accordingly, the bank's financial condition and performance are directly affected by government policies. In 2002, IBK continued to demonstrate impressive growth recording net income of ₩581 billion, an increase of 27.7% from 2001. In addition, IBK's total assets reached ₩65 trillion while total loans and total deposits increased to ₩46 trillion and ₩32 trillion, respectively.

Assets

In 2002, total assets in the bank accounts moved up 16.8% to ₩65,036 billion from ₩55,690 billion in 2001, principally due to an increase in total loans which grew 30.2% to ₩46,385 billion from a year earlier. In line with its policy objective, IBK expanded SME lending to small companies and venture firms to encourage growth in the weaker end of the SME sector. Meanwhile, cash and due from banks dropped 47.2% to ₩1,631 billion. Securities showed a slight decrease of 7.8% to ₩12,070 billion from ₩13,086 billion in the previous year. The bank's securities holdings are mainly comprised of corporate bonds issued by government related institutions.

Management's Discussion & Analysis

Liabilities

Total liabilities in the bank accounts increased 16.8% to ₩61,668 billion, largely due to increases in deposits and debentures. Deposits and debentures rose 11.1% and 59.5% to ₩32,144 billion and ₩9,570 billion, respectively. The dramatic growth in debentures is attributed to the increase in foreign-currency debentures issued to address the rising demand for foreign-currency loans.

Shareholders' Equity

Total shareholders' equity expanded to ₩3,368 billion, a 16.7% increase from ₩2,886 billion in 2001, mainly due to net income of ₩581 billion earned for the year ended December 31, 2002. With the increase in retained earnings, IBK's Tier I capital increased by 20.2% to ₩3,153 billion from ₩2,623 billion in 2001. As a result, the bank continued to maintain a steady capital adequacy ratio of 10.43% with Tier I ratio of 8.43% and Tier II ratio of 2.01% despite the 29.1% increase in total risk-weighted assets to ₩37,385 billion compared to ₩28,949 billion at year-end 2001.

Average Interest Earning Assets and Liabilities

(in billions of won for the years ended)

	2001			2002		
	Average Balance	Interest Amount	Average Interest Rate	Average Balance	Interest Amount	Average Interest Rate
Interest earning assets:						
Loans and bills discounted	32,659	2,786	8.53%	40,669	3,185	7.83%
Won	26,260	2,188	8.33%	32,301	2,439	7.55%
Foreign currency	2,039	114	5.61%	3,408	137	4.02%
Inter-bank loans	1,862	107	5.73%	1,774	92	5.16%
Credit card accounts	1,282	299	23.35%	2,587	496	19.19%
Others	1,216	78	6.44%	599	21	3.51%
Investment securities	12,962	743	5.73%	12,394	725	5.85%
Won (Monetary stabilisation bonds, government bonds and municipal bonds)	5,893	433	7.35%	4,351	284	6.53%
Foreign currency	310	18	5.79%	458	24	5.24%
Other	6,759	292	4.32%	7,585	417	5.50%
Other interest earning assets	1,240	63	5.00%	1,192	58	4.82%
Total interest earning assets	46,861	3,592	7.66%	54,255	3,968	7.31%
Non-interest earning assets⁽¹⁾	4,484			5,108		
Total assets	51,345			59,363		
Interest bearing liabilities:						
Deposits	27,400	1,382	5.04%	30,887	1,168	3.78%
Won	26,438	1,356	5.13%	29,979	1,158	3.86%
Foreign currency	962	26	2.73%	908	10	1.06%
Small and Medium Industry Finance Bonds	5,804	435	7.49%	6,828	410	6.01%
Bonds sold under repurchase agreements	603	33	5.41%	1,726	82	4.75%
Borrowings	11,343	520	4.58%	12,426	472	3.79%
Borrowings from government and the Bank of Korea	6,804	324	4.76%	7,460	324	4.35%
Foreign currency	3,345	140	4.18%	3,695	93	2.52%
Other	1,194	56	4.74%	1,271	55	4.26%
Total interest bearing liabilities	45,150	2,370	5.25%	51,867	2,132	4.11%
Non-interest bearing liabilities and stockholders' equity	6,195			7,496		
Total liabilities and stockholders' equity	51,345			59,363		
Interest margin			2.41%			3.20%

(1) Excludes figures for overseas branches.

Management's Discussion & Analysis

The bank's average interest earning assets rose to ₩54,255 billion, a 15.8 % increase year-on-year. The accounts that recorded major growth were loans in foreign currencies, credit card accounts and investment securities in foreign currencies with 67.1%, 101.8%, and 47.7% growth, respectively, year-on-year.

Average interest bearing liabilities expanded 14.9% to ₩51,867 billion in 2002 compared to ₩45,150 billion in 2001. The foremost increased liabilities were bonds sold under repurchase agreements which posted a dramatic 186.2% growth.

Overall, interest margin improved to 3.20% in 2002 from 2.41% in 2001.

Income and Expenses

(in billions of won for the years ended)

	2001	2002
Interest income	3,401	3,485
Interest from loans	2,448	2,701
Interest from securities	791	694
Other interest income	162	90
Interest expenses	2,393	2,153
Interest on deposits	1,330	1,098
Interest on SMIF Bonds ⁽¹⁾ , etc.	1,063	1,055
Net interest income	1,008	1,332
Non-interest income	1,383	2,215
Income from securities	48	86
Gain from foreign exchange trading	619	637
Gain from financial derivatives trading	181	746
Fees from credit cards	302	496
Fees and commissions from trust accounts	65	88
Other non-interest income	168	162
Non-interest expenses	944	1,539
Loss on securities	23	58
Loss on foreign exchange trading	440	506
Loss on financial derivatives trading	269	768
Other non-interest expenses	101	101
Loss from trust accounts	44	-
Commission expenses	67	106
Net non-interest income	439	676
General and administrative expenses	573	682
Provision for possible loan losses	465	635
Net operating income	409	691
Non-operating income	193	222
Non-operating expenses	120	193
Net non-operating income (loss)	73	29
Earnings before income tax expense	482	720
Income tax expense (benefit)	27	139
Net income	455	581
Pre-provision profit	920	1,216

(1) Small and Medium Industry Finance (SMIF) Bonds.

Management's Discussion & Analysis

The bank's principal source of revenue is derived from loans, which comprised 71.3% of the total assets as of December 31, 2002. The primary expenses of the bank are interest expenses on deposits, Small and Medium Industry Finance (SMIF) Bonds and other borrowings and general and administrative expenses.

Interest Income and Expenses

In 2002, total interest income posted modest growth of 2.5% to ₩3,485 billion from ₩3,401 billion in 2001. Interest income from loans increased only 10.3% to ₩2,701 billion, representing 45.6% of total revenue of ₩5,922 billion while the balance of loans increased 30.2% to ₩46,385 billion. This is primarily a result of the stabilization of interest rates during the year and IBK's effort to facilitate SME funding activities by lowering lending rates. Interest income from securities declined 12.3% to ₩694 billion, comprising 11.7% of total revenue.

During 2002, total interest expenses declined 10.0% to ₩2,153 billion from ₩2,393 billion in 2001 due to lower interest rates. Interest expenses on deposits and the aggregate interest expenses on borrowings and SMIF Bonds fell 17.4% and 0.8%, respectively, year-on-year.

Overall, net interest income recorded a 32.1% increase to ₩1,332 billion in 2002 from ₩1,008 billion in 2001, which was driven by a net increase in interest earning assets of ₩7,394 billion and an improvement of interest margin by 0.8%.

Non-interest Income and Expenses

In 2002, non-interest income increased 60.2% to ₩2,215 billion while non-interest expenses rose 63.0% to ₩1,539 billion from a year earlier. On the whole, net non-interest income climbed 54.0% to ₩676 billion, primarily due to a 64.2% jump in credit card fees and an increase in net gain from trust accounts by ₩67 billion in 2002.

Loan Portfolio

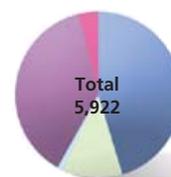
The bank's lending operations (excluding certain of the credit policies, which are determined by the bank) are subject to the close control of the government. For example, in providing financial support to the bank, the government specifies the broad areas of the economy on which the bank should focus its lending activities.

The bank will often lend at below market interest rates in respect of borrowers in these specified areas and in the case of weaker credits will receive guarantees from certain government-related entities or third party credit guarantee institutions. In most circumstances of policy lending, the government provides preferential funding to the bank.

As of December 31, 2002, the bank's total outstanding domestic loans from the bank accounts were ₩40,481 billion, which represented 62.2% of its total non-consolidated assets. Of those loans, ₩33,918 billion was extended to SMEs, representing 83.8% of the domestic loan portfolio as of December 31, 2002.

The composition of the corporate loan portfolio is primarily based on manufacturing which accounts for 55.4% of total domestic loans as of December 31, 2002. However, within this broad category, loans are well diversified into a wide range of manufacturing sub-sectors.

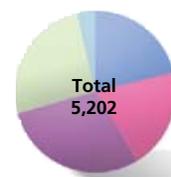
Total revenue
(in billions of won)



2002

Interest from loans	45.6%
Interest from securities	11.7%
Other interest income	1.5%
Non-interest income	37.4%
Non-operating income	3.8%

Total expenses
(in billions of won)



2002

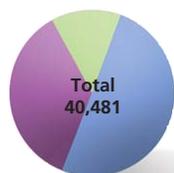
Interest on deposits	21.1%
Interest on SMIF bonds, etc.	20.3%
Non-interest expense	29.6%
Provision & general and administrative expenses	25.3%
Non-operating expenses	3.7%

Management's Discussion & Analysis

Loans by business sector

(in billions of won)

Loans by business sector
(in billions of won)



2002

- Manufacturing 55.4%
- Non-manufacturing SMEs 29.7%
- Households 14.9%

Business sector	2001		2002	
	Outstanding balance	Relative share	Outstanding balance	Relative share
Mining	61	0.2%	72	0.2%
Manufacturing	18,193	60.4%	22,417	55.4%
Construction	1,360	4.5%	1,826	4.5%
Wholesale & retail Trade	3,673	12.2%	5,185	12.8%
Transport, storage, communications	377	1.3%	491	1.2%
Others	2,363	7.8%	4,471	11.0%
Subtotal	26,027	86.4%	34,462	85.1%
Households	4,096	13.6%	6,019	14.9%
Total⁽¹⁾	30,123	100.0%	40,481	100.0%

(1) Includes domestic-currency loans, credit card loans and foreign-currency loans (excluding offshore loans and loans extended from overseas branches).

Loans within the manufacturing sector

(in billions of won)

Manufacturing sub-sector	2002	
	Outstanding balance	Relative share
Food products, beverages	905	4.0%
Apparel	2,746	12.2%
Chemicals products, rubber and plastic products	2,964	13.2%
Non-metallic mineral products	806	3.6%
Basic metals	1,133	5.1%
Assembled metal products	2,162	9.6%
Machinery and equipment	3,040	13.6%
Electrical machinery and converters	975	4.4%
Electronic parts, communications equipment	1,748	7.8%
Automobile and trailers	1,495	6.7%
Other	4,443	19.8%
Total	22,417	100.0%

In accordance with its lending principles, the bank avoids large exposure to an individual borrower. As illustrated below, the bank extended 56.5% of its domestic loans in amounts less than ₩1 billion, and provided 68.2% of its domestic corporate loans to small companies that employ less than 30 people. This is due to the fact that the bank, given its policy role, functions as an incubator for the weaker end of the SME sector.

Loans by size

(in billions of won)

Loan amounts	2001		2002	
	Outstanding balance	Relative share	Outstanding balance	Relative share
Up to 0.1	6,876	22.8%	9,191	22.7%
Over 0.1 to 0.5	6,317	21.0%	7,760	19.2%
Over 0.5 to 1	4,377	14.5%	5,901	14.6%
Over 1 to 3	7,306	24.3%	9,747	24.1%
Over 3 to 5	2,481	8.2%	3,653	9.0%
Over 5 to 10	1,853	6.2%	2,593	6.4%
Over 10	913	3.0%	1,636	4.0%
Total⁽¹⁾	30,123	100.0%	40,481	100.0%

(1) Includes domestic-currency loans, credit card loans and foreign-currency loans (excluding offshore loans and loans extended from overseas branches).

Management's Discussion & Analysis

Loans by number of employees of the corporate borrower

(in billions of won at year-end 2002)

No. of employees	No. of companies	Relative share	Loan amount	Relative share
30 or less	211,170	95.4%	23,492	68.2%
31 ~ 50	4,738	2.1%	3,426	9.9%
51~ 100	3,204	1.5%	3,595	10.4%
101 ~ 300	1,845	0.8%	3,130	9.1%
301 or more	345	0.2%	819	2.4%
Total	221,302	100.0%	34,462	100.0%

Loan Analysis

As of December 31, 2002, ₩27,271 billion of the total domestic loans had a remaining maturity of less than one year, representing 67.4% of the aggregate amount of such loans.

The following table sets forth a summary of the bank's domestic loans by remaining maturity as of December 31, 2001 and 2002.

Loans by remaining maturity

(in billions of won)

Loan amounts	2001		2002	
	Amount	Relative share	Amount	Relative share
Less than 1 year	20,034	66.5%	27,271	67.4%
1 to 3 years	4,156	13.8%	6,023	14.9%
3 to 5 years	2,113	7.0%	2,949	7.3%
More than 5 years	3,820	12.7%	4,238	10.4%
Total⁽¹⁾	30,123	100.0%	40,481	100.0%

(1) Includes domestic-currency loans, credit card loans and foreign-currency loans (excluding offshore loans and loans extended from overseas branches).

As of December 31, 2002, 63.3% of the bank's domestic loans, which amounted to ₩25,624 billion, was secured by either collateral or guarantees. Of the total, ₩15,270 billion of domestic loans was secured by land and buildings and other assets and ₩10,354 billion was secured by guarantees. Assets taken as collateral for secured loans, which consist primarily of developed real estate, equipment and manufacturing plants, are generally subject to appraisal and loan-to-value limits.

The following table shows the distribution of domestic loans by type of security as of December 31, 2001 and 2002.

Loans by type of security

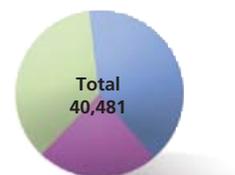
(in billions of won)

	2001		2002	
	Amount	Relative share	Amount	Relative share
Secured loans	10,008	33.2%	15,270	37.7%
With credit guarantees ⁽¹⁾	9,150	30.4%	10,354	25.6%
Unsecured loans	10,965	36.4%	14,857	36.7%
Total⁽²⁾	30,123	100.0%	40,481	100.0%

(1) Includes guarantees from the Korea Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund.

(2) Includes domestic-currency loans, credit cards and foreign-currency loans (excluding offshore loans and loans extended from overseas branches).

Loans by type of security
(in billions of won)



2002

- Secured loans 37.7%
- With credit guarantees 25.6%
- Unsecured loans 36.7%

Management's Discussion & Analysis

Asset Quality

In accordance with Financial Supervisory Service (FSS) guidelines, the bank classifies its credit exposures into five categories (normal, precautionary, substandard, doubtful, estimated loss) based on borrowers' future repayment capability (Forward Looking Criteria or FLC) and historical financial transaction records. The FSS also requires providing minimum rate of loss provision for each category.

Loans and confirmed acceptances and guarantees provided by the bank to corporate borrowers whose total assets amount to ₩1 billion or more (₩2 billion or more prior to January 2003, ₩5 billion or more prior to June, 2000 and ₩7 billion or more prior to December, 1999) are classified into five categories based on historical debt repayment capability. In determining historical debt repayment capability, the bank takes into consideration certain factors, such as the relevant past due period and status of bankruptcy filing.

The bank also classifies these loans into 14 categories, based on future repayment capability. In determining future repayment capability, the bank takes into consideration such factors as operating performance, financial position, cash flows, industrial characteristics, management capabilities. The bank then reclassifies these loans into five categories. The ultimate classification of these loans is the lower of the classification according to historical debt repayment capability and the classification according to future repayment capability.

Credits extended to households and other corporate borrowers whose assets amount to less than ₩1 billion are classified into five categories based only on historical debt repayment capability considering various factors such as past due period, status of bankruptcy filing and others.

IBK's asset quality continued to improve throughout 2002. The non-performing loan (NPL) ratio improved from 2.34% in 2001 to 1.92% at year-end 2002, positioning the bank as one of the healthiest financial institutions in Korea. Such an accomplishment is attributable to the bank's stringent loan review and prudent credit management practices.

The following table sets out the bank's loans categorized in accordance with FSS guidelines for the years indicated.

Asset classification

	(in billions of won)	
	2001	2002
Total credit extended	35,316	46,188
Normal	31,060	41,808
Precautionary	3,013	3,122
Substandard	892	788
Doubtful	170	309
Estimated loss	182	161
Substandard and below (a)	1,244	1,258
Excluded from NPL according to FSS guidelines (b)	416	369
NPLs (a-b)	828	889
NPL ratio	2.34%	1.92%
Reserve (c)	745	899
Reserve ratio (c/a)	59.89%	71.46%
Reserve/NPLs (c/(a-b))	89.98%	101.12%

(1) Inclusive of trust accounts

Management's Discussion & Analysis

Loan Loss Provisioning

For the year-end 2002, the bank made provisions for possible loan losses of ₩635 billion, a 36.6% increase from ₩465 billion in 2001. Loan loss provisions for credit card accounts constituted the majority of the increase which amounted to ₩419 billion.

The table below summarizes the changes in the bank's provisions for credit losses for the periods indicated.

Loan loss reserve

	(in billions of won)	
	2001	2002
Beginning balance	599.9	695.5
Written off charged to present value discount	(0.5)	(1.0)
Loans written off	(409.5)	(524.7)
Changes in foreign exchange rates	3.5	(8.3)
Others	37.2	86.3
Provision for possible loan losses	464.9	635.2
Ending balance	695.5	883.0

The bank previously set the allowance rate for possible loan losses at 0.5%, 2%, and 50% of loan balances classified as normal, precautionary and doubtful, respectively. However, beginning in 2002, the bank increased the allowance ratio for household loans to 0.75%, 8%, and 55% of loan balances classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card accounts were raised to 1%, 12% and 65% of the loan balance classified as normal, precautionary and doubtful, respectively. The request to adjust the ratios upward was made by FSS in response to sudden increases in household loans and credit card loans. Based on these changes in accounting estimates, the bank additionally provided allowances for possible loan losses and other allowances of ₩86 billion and ₩6 billion, respectively, which decreased net income by ₩65 billion in 2002 compared to those accounted for using the previous methodology.

New FSS guidelines on minimum loan loss reserve ratio

Classification	Corporate loans	Household loans	Credit card accounts
Normal	0.5%	0.75%	1.0%
Precautionary	2.0%	8.0%	12.0%
Substandard	20.0%	20.0%	20.0%
Doubtful	50.0%	55.0%	65.0%
Estimated loss	100.0%	100.0%	100.0%

Regardless of the minimum reserve ratio established by FSS, loans to specific borrowers on credit watch are dealt with separately. In such cases, the default probability for each loan is first calculated and then a specific level of loan loss reserve is determined. For instance, loan loss provisioning for companies under a workout program is dealt with in this manner. In short, the loan loss reserve levels are determined by periodical comparison with past bankruptcy probabilities and an internal credit watch system.

The bank has instituted an early remedial management process to identify potential problem loans even though interest and principal payments are not yet in arrears. The bank regularly performs an analysis of non-government companies. Companies, placed on the watch list or potential problem list as a result of such analysis, receive a more stringent review on a quarterly basis and credit review in respect of any extension of credit to such companies.

Management's Discussion & Analysis

Remedial management is conducted primarily at the branch level. If the amount of credit exceeds a certain level, the Credit Collection Department handles such management for better efficiency.

Recognition of problem loans begins the moment a loan payment is overdue. Through the bank's information system, the bank produces regular reports containing arrears information from the head office and branches. The bank also utilizes its computer system to identify borrowers who have received a 'yellow' or 'red' warning of arrears exceeding three months and six months, respectively, from any bank branch located in Korea. The bank monitors a daily report derived from a computer network system originating from the Korea Financial Telecommunications and Clearings Institute, which includes borrowers who have declared bankruptcy.

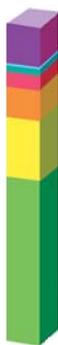
Securities Investment

As of December 31, 2002, the securities portfolio had a book value of ₩12,070 billion, representing 18.6% of total assets. The investment securities portfolio consists primarily of debt securities issued or guaranteed by the government (including Monetary Stabilization Bonds), municipal debt securities and debt securities and shares issued by Korean and foreign companies. Monetary Stabilization Bonds are securities issued by the government as part of its strategy to control the money supply in Korea.

The following table sets forth the book value of the bank's securities as of December 31, 2001 and 2002.

Securities investment
(in billions of won)

12,070



2002

Investment securities : Corporate bonds	45.7%
Investment securities : Finance debentures	17.9%
Investment securities : Government and public bonds	8.7%
Investment securities : Stock investments	6.9%
Investment securities : Debt securities in foreign currencies	4.7%
Investment securities : Equity securities	0.5%
Trading securities	15.6%

Securities investment

(in billions of won)

	2001		2002	
	Value	Percentage	Value	Percentage
Investment securities	12,656	96.7%	10,190	84.4%
Stock investments	1,671	12.8%	834	6.9%
Equity securities	63	0.5%	60	0.5%
Government and public bonds	1,650	12.6%	1,051	8.7%
Finance debentures	2,671	20.4%	2,164	17.9%
Corporate bonds	5,461	41.7%	5,510	45.7%
Debt securities in foreign currencies	442	3.4%	570	4.7%
Other securities	698	5.3%	0	0.0%
Trading securities	430	3.3%	1,880	15.6%
Total	13,086	100.0%	12,070	100.0%

The net unrealized gain or loss on the valuation of investment securities is presented as a gain or loss, as the case may be, on valuation of investment securities in capital adjustments. Capital adjustments for gains on valuation of investment securities amounted to ₩156 billion as of the year-end 2002.

In making securities investments, the bank's principal objectives are to maintain the stability of the bank's assets and obtain consistent, stable returns on its investment. The bank takes into account a number of factors, including macroeconomic trends, industrial analysis and credit evaluation.

Management's Discussion & Analysis

Funding

The bank's sources of funding are divided into deposits and other borrowed funds. Deposits include demand deposits, time and savings deposits, mutual installments, and certificates of deposit. The bank's other sources of funding principally consist of borrowings from the government, the Bank of Korea (BOK), other banks and the SMIF Bonds.

The table below sets forth a summary of the bank's deposits and other borrowed funds by type as of December 31, 2001 and 2002.

Sources of funding

(in billions of won)

	2001		2002	
Deposits (won)	27,514	57.2%	29,630	52.3%
Demand deposits	3,397	7.1%	3,947	7.0%
Savings deposits	24,117	50.1%	25,683	45.3%
Deposits (foreign currencies)	1,020	2.1%	966	1.7%
Certificates of deposit	410	0.8%	1,548	2.7%
Bills sold ⁽¹⁾	728	1.5%	1,659	2.9%
SMIF Bonds	5,523	11.5%	7,980	14.1%
Borrowings (won)	7,297	15.2%	7,553	13.4%
Borrowings (foreign currencies)	2,843	5.9%	3,351	5.9%
Due to BOK (foreign currencies)	82	0.2%	32	0.1%
Other borrowings ⁽²⁾	2,236	4.6%	2,343	4.1%
Bonds issued (foreign currencies)	478	1.0%	1,590	2.8%
Total	48,131	100.0%	56,652	100.0%

(1) The bills are issued by IBK under its own name on the basis of underlying commercial bills discounted from SMEs.

(2) Includes bonds sold under repurchase agreements, borrowings from Industry Foundation Fund, and call money.

The bank attracts deposits from SMEs and individuals principally through its extensive branch network. In the field of deposit-taking, the bank competes with commercial banks and other financial institutions in Korea. It also borrows funds from the government at rates of interest below market rates, which it may utilize only to make loans to SMEs in certain industrial or other sectors identified by the government as requiring support on favorable terms or the growth of which the government wishes to encourage (such as start-up companies and advanced technology companies). The bank is the only financial institution in Korea which may borrow government funds for the benefit of SMEs and issue the SMIF Bonds. The bank believes SMIF Bonds provide a stable source of funding because the SMIF Bonds, unlike the bonds issued by commercial banks, may, among other things, have more flexibility in maturity structure.

Management's Discussion & Analysis

As of December 31, 2002, ₩20,054 billion, representing 65.5% of total deposits, had a remaining maturity of less than one year. However, deposits are generally rolled over at maturity at the prevailing rates of interest, providing the bank with a stable source of funding.

The following table sets forth a summary of the bank's deposits by remaining maturity as of December 31, 2002.

Deposits by remaining maturity
(in billions of won)



2002

3 months or less	36.7%
3 to 6 months	11.7%
6 to 12 months	17.1%
1 to 3 years	6.7%
More than 3 years	27.8%

Deposits by remaining maturity

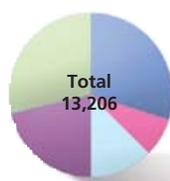
(in billions of won)

Remaining maturity	Local currency	Foreign currencies	Total	Percentage
3 months or less	10,297	923	11,220	36.7%
3 to 6 months	3,553	33	3,586	11.7%
6 to 12 months	5,239	9	5,248	17.1%
1 to 3 years	2,040	1	2,041	6.7%
More than 3 years	8,501	-	8,501	27.8%
Total	29,630	966	30,596	100.0%

The bank determines the rate of interest which it pays on local currency deposits according to prevailing market conditions, except for demand deposits and certain savings deposit interest rates which are fixed by the Monetary Board from time to time. Interest on savings deposits is paid at variable rates of interest, while interest on mutual installments and certificates of deposit is generally paid at fixed rates. Interest rates on foreign currency deposits are principally based on the London Interbank Offered Rate (LIBOR).

The following table sets forth a summary of the bank's borrowings by remaining maturity as of December 31, 2002.

Borrowings by remaining maturity
(in billions of won)



2002

3 months or less	29.7%
3 to 6 months	7.6%
6 to 12 months	12.3%
1 to 3 years	21.6%
More than 3 years	28.8%

Borrowings by remaining maturity

(in billions of won)

Remaining maturity	2002	
3 months or less	3,917	29.7%
3 to 6 months	1,008	7.6%
6 to 12 months	1,628	12.3%
1 to 3 years	2,847	21.6%
More than 3 years	3,806	28.8%
Total⁽¹⁾	13,206	100.0%

(1) Includes borrowings in local currency and foreign currencies, bills sold, borrowings from Industry Foundation Fund, due to BOK in foreign currencies and call money (excluding bonds sold under repurchase agreements).

Management's Discussion & Analysis

Capital Adequacy

FSS has introduced risk-adjusted capital standards in consideration of the standards set by the Bank for International Settlements (BIS), implementing the requirements of these standards on December 31, 1995. Under FSS guidelines, all banks in Korea are required to maintain a capital adequacy ratio (Tier I and Tier II) of at least 8% based on consolidated financial statements. To the extent a bank fails to maintain such ratio, Korean regulatory authorities may impose penalties on such bank ranging from a warning to a suspension or revocation of its license. As of December 31, 2002, IBK's capital adequacy ratio stood at 10.43% with Tier I ratio of 8.43% and Tier II ratio of 2.01%.

Capital adequacy is measured by risk-weighted capital ratios. Risk-weighted capital ratios are calculated as the percentage of the amount of Tier I and Tier II Capital (less any capital deductions) divided by the risk-weighted assets. Tier I capital is the core capital, which is the sum of paid-in capital, capital surplus, retained earnings, minority interests in consolidated subsidiaries and unpaid share dividends minus deductions. Tier II capital is the supplementary capital, including allowances for loan losses for credits classified as normal or precautionary up to 1.25% of total risk-weighted assets, subordinated debts with an initial maturity of at least five years and revaluation surplus. The amount of the risk-weighted assets is the sum of (i) risk-weighted assets on the balance sheet and (ii) other risk-weighted assets off the balance sheet multiplied by the applicable credit translation rate provided in the FSS guidelines.

Starting in 1999, the risk weight has been liberalized from 20 percent in 1998 to the various risk weights applicable to the credit of each borrower. The credit translation rate for guaranteed trust account assets increased to 100% from 50%, beginning in January 2000.

The following table sets out a summary of the bank's capital base and its capital adequacy ratio as of December 31, 2001 and 2002.

Capital adequacy

	(in billions of won)	
	2001	2002
Tier I	2,623	3,153
Common stock	1,418	1,515
Preferred stock	873	777
Retained earnings	420	934
Minority interests in consolidated subsidiaries	1	1
(Value loss on investment securities, etc.)	(89)	(74)
Tier II	539	752
Loan loss provisions	235	343
45% of valuation gains on securities and others	100	91
Subordinated debt	204	318
(Interest in unconsolidated subsidiaries)	(5)	(5)
Total capital	3,157	3,899
Total risk-weighted assets	28,949	37,385
Total capital to risk-weighted assets ratio	10.90%	10.43%
Tier I capital to risk-weighted assets ratio	9.06%	8.43%
Tier II capital to risk-weighted assets ratio	1.86%	2.01%

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

English Translation of a Report Originally Issued in Korean

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**Deloitte
Touche
Tohmatsu**

To the Shareholders and Board of Directors of Industrial Bank of Korea:

We have audited the accompanying non-consolidated balance sheets of the bank accounts of Industrial Bank of Korea as of December 31, 2002 and 2001 and the related statements of operations, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Industrial Bank of Korea as of December 31, 2002 and 2001 and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea [see Note 2].

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As explained in Note 2, beginning in 2002, the Bank has increased its allowance ratio for possible loan losses for the household loans and credit card accounts and has provided additional provision for unused credit and others in accordance with the request of the Financial Supervisory Service and based on the significant increase in household loans and credit card accounts and deterioration of their delinquency ratios. As a result of this change in accounting estimates, the Bank has provided additional allowances for possible loan losses and other allowances of ₩86,248 million (US\$ 71,849 thousand) and ₩6,301 million (US\$ 5,249 thousand), respectively, which decreased net income by ₩65,062 million (US\$ 54,200 thousand) in 2002 compared to those accounted for using the previous method.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

English Translation of a Report Originally Issued in Korean

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



Anjin & Co.

An Associate Member Firm of Deloitte Touche Tohmatsu

Seoul, Korea

February 7, 2003

Notice to Readers

This report is valid as of February 7, 2003, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors report date and the time the auditors' report is read. Such event or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
ASSETS :				
Cash and due from banks (Notes 3, 24 and 25)	₩ 1,631,285	₩ 3,086,200	\$ 1,358,951	\$ 2,570,976
Trading securities (Notes 4, 24 and 25)	1,880,176	429,872	1,566,291	358,107
Investment securities (Notes 5, 24, 25, 30 and 31)	10,189,844	12,656,378	8,488,707	10,543,467
Loans (Notes 6, 7, 8, 16, 24, 25 and 26)	46,384,989	35,629,184	38,641,277	29,681,093
Fixed assets (Note 9)	862,190	817,403	718,252	680,942
Other assets (Notes 10, 16, 21 and 25)	4,087,865	3,070,592	3,405,420	2,557,975
Total assets	₩ 65,036,349	₩ 55,689,629	\$ 54,178,898	\$ 46,392,560
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits (Notes 11, 24, 25 and 26)	₩ 32,144,306	₩ 28,944,008	\$ 26,777,996	\$ 24,111,969
Borrowings (Notes 12, 24 and 25)	14,938,353	13,698,785	12,444,479	11,411,850
Debentures (Notes 13, 24 and 25)	9,569,544	6,000,849	7,971,963	4,999,041
Other liabilities (Notes 14, 15, 16 and 25)	5,016,349	4,160,404	4,178,898	3,465,848
Total liabilities	61,668,552	52,804,046	51,373,336	43,988,708
SHAREHOLDERS' EQUITY (Notes 17 and 22):				
Common stock	1,514,758	1,418,569	1,261,878	1,181,747
Preferred stock	776,627	872,816	646,974	727,104
Legal reserve	269,147	122,777	224,214	102,280
Other reserve	651,852	290,693	543,029	242,164
Unappropriated retained earnings (Net income of ₩581,434 million in 2002 and ₩455,207 million in 2001)	-	-	-	-
Capital adjustments (Notes 5 and 17)	155,413	180,728	129,467	150,557
Total shareholders' equity	3,367,797	2,885,583	2,805,562	2,403,852
Total liabilities and shareholders' equity	₩ 65,036,349	₩ 55,689,629	\$ 54,178,898	\$ 46,392,560

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
OPERATING REVENUE:				
Interest income (Notes 18 and 26):				
Interest on due from banks	₩ 21,345	₩ 58,955	\$ 17,782	\$ 49,113
Interest on trading securities	81,071	20,018	67,537	16,676
Interest on investment securities	612,986	771,061	510,651	642,337
Interest on loans (Note 2)	2,701,183	2,447,808	2,250,236	2,039,160
Other interest income	69,318	103,785	57,745	86,459
Total interest income	3,485,903	3,401,627	2,903,951	2,833,745
Commission income	654,923	439,655	545,587	366,257
Other operating income:				
Gain on disposal of trading securities	62,245	32,042	51,854	26,693
Gain on valuation of trading securities	11,389	4,054	9,488	3,377
Dividends on trading securities	1,030	45	858	37
Dividends on investment securities	10,949	12,051	9,121	10,039
Foreign exchange trading income	637,096	618,503	530,736	515,248
Fees and commissions from trust accounts	87,906	64,829	73,231	54,006
Gain on financial derivatives trading	746,429	180,991	621,817	150,776
Others	3,987	30,398	3,321	25,323
	1,561,031	942,913	1,300,426	785,499
Total operating revenues	5,701,857	4,784,195	4,749,964	3,985,501
OPERATING EXPENSES:				
Interest expenses (Notes 18 and 26):				
Interest on deposits	1,097,700	1,329,982	914,445	1,107,949
Interest on borrowings	590,686	553,327	492,074	460,952
Interest on debentures	448,306	493,842	373,464	411,398
Other interest expenses	16,655	16,254	13,875	13,541
Total operating revenues	2,153,347	2,393,405	1,793,858	1,993,840
Commission expenses	106,134	66,586	88,415	55,470
Other operating expenses:				
Loss on disposal of trading securities	50,012	22,728	41,663	18,934
Loss on valuation of trading securities	7,912	533	6,591	444
Foreign exchange trading loss	506,404	439,770	421,863	366,353
Loss on financial derivatives trading	768,253	269,290	639,997	224,333
Contributions to credit guarantee fund	69,040	57,362	57,514	47,786
Provision for possible loan losses	635,189	464,927	529,148	387,310
Loss from trust business operations (Notes 2 and 27)	-	43,931	-	36,597
Others	31,707	43,272	26,414	36,048
	₩ 2,068,517	₩ 1,341,813	\$ 1,723,190	\$ 1,117,805

(continued)

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
General and administrative expenses (Note 19):				
Salaries, employee benefits and provision for severance indemnities (Note 29)	₩ 437,471	₩ 377,042	\$ 364,438	\$ 314,097
Depreciation and amortization	71,990	48,227	59,972	40,176
Taxes and dues	51,771	45,200	43,128	37,654
Others	120,800	102,810	100,633	85,646
	682,032	573,279	568,171	477,573
Total operating expenses	5,010,030	4,375,083	4,173,634	3,644,688
NET OPERATING INCOME	691,827	409,112	576,330	340,813
NON-OPERATING INCOME (Note 20)	221,602	193,320	184,607	161,046
NON-OPERATING EXPENSES (Note 20)	193,218	120,272	160,961	100,193
ORDINARY INCOME	720,211	482,160	599,976	401,666
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX	720,211	482,160	599,976	401,666
INCOME TAX EXPENSE (Note 21)	138,777	26,953	115,609	22,453
NET INCOME	₩ 581,434	₩ 455,207	\$ 484,367	\$ 379,213
ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 22)	₩ 1,275	₩ 1,003	\$ 1.062	\$ 0.836
NET INCOME PER COMMON SHARE (in currency units) (Note 22)	₩ 1,275	₩ 1,003	\$ 1.062	\$ 0.836
DILUTED ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 22)	₩ 1,269	₩ 993	\$ 1.057	\$ 0.827
DILUTED NET INCOME PER COMMON SHARE (in currency units) (Note 22)	₩ 1,269	₩ 993	\$ 1.057	\$ 0.827

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
RETAINED EARNINGS				
BEFORE APPROPRIATIONS:				
Balance at beginning of year	₩ -	₩ -	\$ -	\$ -
Net Income	581,434	455,207	484,367	379,213
Balance at end of year before appropriations	581,434	455,207	484,367	379,213
APPROPRIATIONS:				
Legal reserve (Note 17)	146,369	114,355	121,934	95,264
Other reserve (Note 17)	361,159	287,585	300,865	239,575
Amortization of discount on stock issuance (Note 17)	14	10	12	8
Dividends (Note 23)	73,892	53,257	61,556	44,366
	581,434	455,207	484,367	379,213
CASH DIVIDENDS:				
Dividend (rate) per share				
Common stock				
Major shareholders (in currency units)	₩ 150(3.0%)	₩ 100(2.0%)	\$ 0.12(3.0%)	\$ 0.08(2.0%)
Minority shareholders (in currency units)	₩ 350(7.0%)	₩ 500(10.0%)	\$ 0.29(7.0%)	\$ 0.42(10.0%)
Preferred stock				
Major shareholders (in currency units)	₩ 150(3.0%)	₩ 100(2.0%)	\$ 0.12(3.0%)	\$ 0.08(2.0%)
Minority shareholders (in currency units)	₩ 350(7.0%)	₩ 500(10.0%)	\$ 0.29(7.0%)	\$ 0.42(10.0%)
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR				
	₩ -	₩ -	\$ -	\$ -

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income	₩ 581,434	₩ 455,207	\$ 484,367	\$ 379,213
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of trading securities, net	(12,233)	(9,314)	(10,191)	(7,759)
Gain on valuation of trading securities, net	(3,477)	(3,521)	(2,897)	(2,933)
Loss on valuation of derivatives trading, net	71,122	58,247	59,249	48,523
Provision for severance benefits	36,585	34,124	30,477	28,427
Depreciation and amortization	71,992	48,227	59,972	40,176
Gain on valuation using the equity method, net	(51,520)	(88,313)	(42,919)	(73,570)
Gain on disposal of loans, net	(200)	(219)	(167)	(182)
Loss (gain) on disposal of investment securities, net	8,808	(38,056)	7,338	(31,703)
Investment securities impairment loss (recovery), net	(5,854)	29,435	(4,877)	24,521
Decrease in accrued income, net	48,541	105,840	40,437	88,171
Increase in prepaid expenses, net	(84,696)	(13,911)	(70,556)	(11,589)
Decrease in deferred tax assets, net	14,451	26,003	12,038	21,662
Decrease in accrued expenses, net	(205,087)	(247,798)	(170,849)	(206,430)
Increase (decrease) in unearned income, net	3,589	(14,264)	2,990	(11,883)
Increase in accounts payable-other, net	3,848	4,270	3,206	3,557
Payment of severance benefits	(2,111)	(395,474)	(1,759)	(329,452)
Decrease in National Pension payments	25	14,775	21	12,308
Decrease (increase) in severance insurance deposits	(22,448)	180,777	(18,700)	150,597
Other operating activities, net	(1,458)	(22,380)	(1,213)	(18,643)
Net cash provided by operating activities	₩ 451,311	₩ 123,655	\$ 375,967	\$ 103,011

(continued)

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of trading securities	₩ 10,495,127	₩ 7,680,470	\$ 8,743,025	\$ 6,398,259
Proceeds from sale of investment securities	3,558,391	2,186,486	2,964,338	1,821,465
Increase in loans, net	(10,765,084)	(3,955,619)	(8,967,914)	(3,295,251)
Proceeds from sale of fixed assets	18,441	20,762	15,362	17,296
Acquisition of trading securities	(11,929,721)	(7,655,050)	(9,938,121)	(6,377,083)
Acquisition of investment securities	(1,051,511)	(2,927,520)	(875,967)	(2,438,787)
Purchase of fixed assets	(141,473)	(60,739)	(117,855)	(50,599)
Increase in guarantee deposits, net	(463)	(10)	(386)	(8)
Decrease in accounts receivable-other, net	147,521	4,296	122,893	3,579
Increase in other assets, net	(1,213,749)	(467,865)	(1,011,120)	(389,758)
Net cash used in investing activities	(10,882,521)	(5,174,789)	(9,065,745)	(4,310,887)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in deposits, net	3,200,298	3,349,512	2,666,026	2,790,330
Increase in borrowings, net	1,239,568	2,218,748	1,032,629	1,848,340
Increase (decrease) in debentures, net	3,567,852	(899,256)	2,972,219	(749,130)
Increase in other liabilities, net	968,577	842,533	806,879	701,877
Net cash provided by financing activities	8,976,295	5,511,537	7,477,753	4,591,417
NET INCREASE (DECREASE) IN CASH	(1,454,915)	460,403	(1,212,025)	383,541
CASH, BEGINNING OF YEAR (Note 32)	3,086,200	2,625,797	2,570,976	2,187,435
CASH, END OF YEAR (Note 32)	₩ 1,631,285	₩ 3,086,200	\$ 1,358,951	\$ 2,570,976

See accompanying notes to non-consolidated financial statements.

1. GENERAL:

Industrial Bank of Korea (the "Bank") was established in 1961 under the Industrial Bank of Korea Act, for the purpose of conducting banking activities and promoting independent economic activities among small and medium-sized companies. In accordance with the revised Industrial Bank of Korea Act effective December 31, 1991, the Bank converted its equity shares into stock on May 15, 1992. The Bank's common stock was listed on KOSDAQ, the Korean over-the-counter-market, on November 30, 1994. The Bank's common stock and preferred stock amounted to ₩1,514,758 million (US\$ 1,261,878 thousand) and ₩776,627 million (US\$ 646,974 thousand), respectively, as of December 31, 2002. The Korean government owns 77.2 percent of the Bank's common stock. The head office of the Bank is located at 50, Uljiro 2-Ga, Chung-Ku, Seoul, Korea. The Bank has 365 branches and 22 depository offices in Korea, and 4 branches in overseas.

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Non-Consolidated Financial Statement Presentation

The Bank maintains its official accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with financial accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's financial position or results of operations, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into U.S. dollars based on the Bank of Korea (BOK) Basic Rate of ₩1,200.40 to US\$ 1.00 at December 31, 2002, solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The significant accounting policies followed by the Bank in preparing the accompanying non-consolidated financial statements are summarized below.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank

deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income.

Unrecorded accrued interest income for the reasons above as of December 31, 2002 and 2001 are summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Overdue loans	₩ 35,048	₩ 38,950	\$ 29,197	\$ 32,448
Loans to companies under legal process	86,133	87,402	71,754	72,811
Loans to the companies under composition proceedings	17,677	57,126	14,726	47,589
Loans to companies under court management	13,169	22,629	10,970	18,851
	₩ 152,027	₩ 206,107	\$ 126,647	\$ 171,699

For overseas branches, accrued interest is recognized on an accrual basis. However, interest income on overdue loans is recognized based on the standard practices in the respective countries.

Valuation of Trading Securities

Trading equity and debt securities are recorded at acquisition cost. If the fair value of trading equity and debt securities differs from the book value as determined by the individual moving average method, trading equity and debt securities are stated at fair value and the unrealized gain or loss is reflected in current operations.

Valuation of Investment Securities

(1) Equity Securities

Equity securities held for investment (excluding those of affiliates and subsidiaries discussed in the next paragraph) that are not actively quoted (unlisted securities) are stated at acquisition cost using the moving average method. Actively quoted (listed) securities, including those traded over-the-counter, are stated at fair value and a valuation gain or loss is recorded as a capital adjustment. If the fair value of a listed equity security or the net equity value of an unlisted equity security held for investment declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to fair value or net equity value and the valuation loss is charged to current operations.

Equity securities held for investment that are in companies in which the Bank is able to exercise significant influence are accounted for using the equity method. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustment of the Bank consistent with the manner reflected in investees' financial statements.

(2) Debt Securities

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Investments in debt securities are classified as available-for-sale investment debt securities as follows:

- ① All held-to-maturity investment debt securities if some portion was sold during the current period
- ② Securities obligated to be sold before maturity by legal regulations
- ③ Securities accounted for as investment securities impairment loss

Held-to-maturity investment debt securities are stated at acquisition cost, as determined by the individual moving average method. When the face value of a held-to-maturity investment debt security differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the security. Available-for-sale investment debt securities are stated at fair value and the resulting valuation gains or losses are recorded as a capital adjustment. If the fair value of a held-to-maturity or a available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to the fair value and the resulting valuation loss is charged to current operations.

(3) Gain or Loss on Valuation of Investment Securities

The net unrealized gain or loss is presented as gain or loss on valuation of investment securities in capital adjustments. An unrealized valuation gain or loss of investment securities incurred in subsequent periods is deducted from or added to the previous balance of unrealized valuation gain or loss of investment securities. When investment securities are sold, the unrealized valuation gain or loss of investment securities included in the capital adjustment account is added to or deducted from gain or loss on disposal. With respect to an impaired investment security, any unrealized valuation gain or loss on the security previously included in the capital adjustment account is reversed.

(4) Recovery of Impaired Investment Securities

If the value of any investment equity security or investment debt security previously recognized as impaired subsequently recovers, in the case of marketable equity securities and available-for-sale debt securities, the increase in value is recorded in current operations up to the amount of the previously recognized impairment loss and any excess is recorded as a capital adjustment. In the case of unlisted equity securities and held-to-maturity debt securities, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss.

(5) Reclassification of Securities

If the Bank's objectives change, trading securities can be reclassified to investment securities, but only as of the balance sheet date. The difference between the fair value of the security as of the balance sheet date and the book value is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. Investment securities cannot be reclassified to trading securities.

Allowance for Possible Loan Losses

The Supervisory Regulation of Banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (the "FSC") requires the Bank classifying all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires providing minimum rate of loss provision for each category as described in the next paragraph.

As required by the FSC, loans and confirmed acceptances and guarantees provided to the corporate borrowers whose total assets amount to ₩2 billion or more and required to prepare the "Credit Evaluation Table for Small and Medium Sized Company" pursuant to the Bank's internal regulation, are classified as normal, precautionary, substandard, doubtful, or estimated loss based on historical debt repayment capability considering various factors such as past due period, status of bankruptcy filing and others, which are called 'Criteria by Historical Financial Transactions'. The Bank also classifies these loans into 14 categories, based on the future repayment capability considering such factors as operating performance, financial position, cash flows, industrial characteristics, management capabilities, upon which the Bank reclassifies these loans into the five categories of normal, precautionary, substandard, doubtful, or estimated loss, which is called 'Criteria by Debt Repayment Capability'. As a result of these two credit analyses based on the 'Criteria

by Historical Financial Transactions' and 'Criteria by Debt Repayment Capability', the Bank finally classifies these loans to corporate borrowers into the five categories aforementioned at the lower of the categories rated by the two credit analyses.

Credits to other corporate borrowers and households, however, are classified into the five categories of normal, precautionary, substandard, doubtful, or estimated loss based only on the historical debt repayment capability of the borrowers considering various factors such as past due period, status of bankruptcy filing and others.

The Criteria by Historical Financial Transactions are set forth as follows:

- Normal - loans in arrears for less than one month
- Precautionary - loans in arrears for one month or more but less than three months
- Substandard - collectible portion of loans in arrears for three months or more and/or loans extended to customers, which are judged to have serious risks in collectibility due to the final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses
- Doubtful - amount in excess of the collectible portion of loans in arrears for three months or more but less than twelve months (less than six months for credit card accounts)
- Estimated Loss - amount in excess of the collectible portion of loans in arrears for twelve months or more (six months or more for credit card accounts) and/or loans extended to customers, which are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses

The Criteria of Debt Repayment Capability based on ability to repay are set forth as follows:

- Normal - credits extended to the customers, which do not raise concerns regarding their capability to repay the credits considering their business and operations, financial position and future cash flows (credits rated AAA to B- based on the 'Small and Medium Sized Company Credit Rating Table' of the Bank). However, the Bank classifies the credits rated C or inferior of the seven categories (A1, A2, A3, B, C, D, E) based on the past bankruptcy rate as precautionary
- Precautionary - credits extended to the customers, which are judged to have potential risks with respect to their capability to repay the credits in the future considering their business and operations, financial position and future cash flows, although there have not occurred any immediate risks for default in the repayment (credits rated CCC)
- Substandard - collectible portion of credits extended to the customers, which are judged to have incurred considerable risks for default in the repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows (credits rated CC)
- Doubtful - amount in excess of the collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in the repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows (credit rating C)
- Estimated Loss - amount in excess of the collectible portion of credits extended to customers, which are judged to have been accounted for as loss as the inability to repay becomes certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows (credit rated D)

As required by the FSC, the allowance for possible loan losses is then calculated at the prescribed minimum percentages of 0.5 percent or more classified as normal, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent of the loan balances classified as precautionary, substandard, doubtful, and estimated loss, respectively. However, the Bank does not provide any allowances for the loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, which are classified as normal, as it is not required by the Accounting Standards for the banking industry. The loans to households and the credit card receivables are also classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. Beginning in 2002, the Bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance

ratios for credit card receivables were raised to 1 percent or more, 12 percent or more, and 65 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary.

As required by the FSC, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same criteria used for loan classification. An allowance is then calculated, using 20 percent or more for confirmed acceptances and guarantees classified as substandard, 50 percent or more for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. Additionally, as prescribed in the debt restructuring accounting standard, loans on companies that were applied for debt restructuring due to the work-out, court receivership or composition and other restructuring process, an allowance for possible loan losses is provided for the residual amount after deducting the present value. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

According to the requirement of the Financial Supervisory Service, beginning in 2002, the Bank provides 1 percent of other allowance in other liabilities for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year.

Restructuring of Loans

A loan, whose contractual terms are modified in a debt restructuring process based on mutual agreements such as commencement of reorganization, court receivership and workout plans, is accounted for at the present value of expected future cash flows, if the book value of the loan differs from the present value. The difference between book value and present value is offset against the allowance for possible loan losses, and any remaining amount is charged to operations as bad debt expense. The difference between book value of a loan and its present value is recorded as present value discount, which is presented as a deduction from the loan. The present value discount is amortized over the remaining maturity using the effective interest rate method, and the amortization amount is recorded as interest income.

Valuation of Receivables and Payables at Present Value

Receivables and payables incurred in long-term installment transactions, long-term borrowing and lending transactions and other similar transactions are stated at the present value of expected future cash flows and the gain or loss on valuation of the related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. The present value discount or premium is amortized using the effective interest rate method and the amortization is recorded as interest income or interest expense.

Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as prescribed by the Corporate Income Tax Law of Korea as follows:

	Year
Buildings	50
Machinery	5
Office equipment	5
Leasehold improvements	5
Vehicles	5

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. Expenditures incurred in conjunction with development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits are probably expected, are capitalized as development costs under intangible assets. If the Bank donates assets such as buildings to government or local government and is given a right to use or benefit from the assets, the donated assets are recorded as beneficial donated assets under intangible assets. Intangible assets are amortized using the straight-line method over the estimated useful lives of 5 years for development costs and other intangible assets, and contractual benefit period for the beneficial donated assets.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations.

Recognition of Asset Impairment

When the book value of assets (except for trading securities, investment securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, those assets are adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as a gain until the recoverable value equals the book value of the assets before the impairment loss was recognized.

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discount or premium is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with more than one year of employment are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of employment and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign as of December 31, 2002 and 2001 amount to ₩62,067 million (US\$ 51,705 thousand) and ₩27,593 million (US\$ 22,987 thousand), respectively. The accrued severance benefits are included in other liabilities. Actual payments of severance indemnities amounted to ₩2,111 million (US\$ 1,759 thousand) and ₩395,474 million (US\$ 329,452 thousand) in 2002 and 2001, respectively.

The Bank has purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Hungkuk Life Insurance and others. Withdrawal of these deposits, with a balance of ₩39,448 million (US\$ 32,862 thousand) and ₩17,000 million (US\$ 14,162 thousand) as of December 31, 2002 and 2001, respectively, is restricted to the payment of severance benefits. These are presented as a deduction from the accrued severance benefits.

Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings when the Bank purchases or sells securities under resale or repurchase agreements.

Accounting for Financial Derivative Instruments

The bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value and the valuation gain or loss is recorded as an asset or liability.

Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria (types of risk hedge, purpose of risk control, official documentation of risk hedge strategy, expected effect of risk hedge and etc.) for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is reflected in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on BOK Basic Rate (₩1,200.40 and ₩1,326.10 to US\$ 1.00 at December 31, 2002 and 2001, respectively) or cross rates for currencies other than U.S. Dollars as of the balance sheet date. Translation gains and losses are credited or charged to current operations. Financial statements of overseas branches are translated based on BOK Basic Rate at the balance sheet date.

Loss from Trust Business Operations

The Bank is engaged in trust business under Article 3 of the Trust Act with the approval from the Ministry of Finance and Economy (MOFE) since February 29, 1988. The Bank maintains the books of account and financial statements in connection with the trust operations (the trust accounts) separately from those of the bank accounts in accordance with the Trust Business Act and the trust accounting guidelines of the MOFE. When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the bank accounts. The Bank receives fees for the operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to bank accounts and receiving compensation contributions from the bank accounts of the Bank. The Bank paid compensating contribution to guaranteed return trusts of nil and ₩43,931 million (US\$ 36,597 thousand) in 2002 and 2001, respectively, to cover such deficiencies, which were reflected as other operating expense of the bank accounts and as other income of the trust accounts. The Bank may be required to make such compensating transfers in the future for any similar loss from trust business operations.

Effects of Changes in Financial Accounting Standards

The cumulative effect on prior periods of changes in financial accounting standards is reflected directly in the beginning accumulated deficit.

Changes in Accounting Principle and Estimates

Beginning in 2002, in accordance with the change in the Executive Guideline of Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, the accounting treatment applied to Banker's Usance transactions was changed by the Bank. All banker's usance, regardless of whether the Bank provides funded credit, directly or not, are now accounted for as "loans and borrowings in foreign currencies" rather than as "acceptance" using contra accounts as an off-balance items. As a result of the above change, loan-domestic import usance and borrowings in foreign currencies were increased by ₩634,347 million (US\$ 528,446 thousand) and ₩96,147 million (US\$ 80,096 thousand), respectively, and due from banks in foreign currencies was decreased by ₩538,200 million (US\$ 448,351 thousand) as of December 31, 2002. For the comparative purposes, the 2001 financial statements have been restated according to the revised standard. The loan-domestic import usance and borrowings in foreign currencies were increased by ₩512,478 million (US\$ 426,923 thousand), respectively, as of December 31, 2001 when compared to previous accounting treatment. This accounting change has no effect on the net income or net asset value as of and for the year then ended December 31, 2001.

The Bank previously set the allowance for possible loan losses at 0.5 percent or more of loan balances classified as normal, and 2 percent or more and 50 percent or more of loan balances classified as precautionary and doubtful, respectively. However, as of December 31, 2002, the Bank increased the allowance ratio for loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratio for credit card accounts was raised to 1 percent or more, 12 percent or more, and 65 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if its collateral is real estate and located in the highly-speculative residential areas designated by the Korean Government and the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary. In addition, beginning in 2002, the Bank provides 1 percent of other allowance in other liabilities for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The aforementioned change in allowance ratio for possible loan losses resulted from the recent sudden increase of loans to households and credit card accounts. It was requested by the Financial Supervisory Service and based on the migration analysis on the default and

collection of such loans. As a result of the changes, the Bank provided additional allowance for possible loan losses and other allowances of ₩86,248 million (US\$ 71,849 thousand) and ₩6,301 million (US\$ 5,249 thousand), respectively, as of December 31, 2002.

3. CASH AND DUE FROM BANKS:

(1) Cash and due from banks in local currency and foreign currencies as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Cash and checks	₩ 935,189	₩ 779,982	\$ 779,064	\$ 649,768
Foreign currencies	56,846	48,064	47,356	40,040
Due from banks in local currency	350,182	1,338,860	291,721	1,115,345
Due from banks in foreign currencies	289,068	919,294	240,810	765,823
	₩ 1,631,285	₩ 3,086,200	\$ 1,358,951	\$ 2,570,976

(2) Restricted due from banks in local currency and foreign currencies as of December 31, 2002 and 2001 consisted of:

	Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason of Restriction
		2002	2001	2002	2001	
Due from banks in local currency						
Reserve deposits with BOK	BOK	₩ 234,367	₩ 969,195	\$ 195,241	\$ 807,393	BOK deposits
Due from banks in foreign currencies						
Time deposits	BOK	35,100	32,793	29,240	27,318	BOK deposits
Others	CSFB	2,164	2,378	1,803	1,982	Securitization of stock issued by KT&G
		₩ 271,631	₩ 1,004,366	\$ 226,284	\$ 836,693	

(3) Due from banks as of December 31, 2002 and 2001 included:

Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Due from banks in local currency				
BOK	₩ 234,367	₩ 969,195	\$ 195,241	\$ 807,393
Korea Exchange Bank	932	5,428	776	4,522
Other financial institutions	114,883	364,237	95,704	303,430
	350,182	1,338,860	291,721	1,115,345
Due from banks in foreign currencies				
BOK and others	65,177	42,232	54,296	35,182
Local banks	174,227	846,161	145,141	704,899
Foreign financial institutions	49,664	30,901	41,373	25,742
	289,068	919,294	240,810	765,823
	₩ 639,250	₩ 2,258,154	\$ 532,531	\$ 1,881,168

4. TRADING SECURITIES:

(1) Trading securities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Government and public bonds	₩ 703,258	₩ 59,668	\$ 585,853	\$ 49,707
Finance debentures	553,983	208,606	461,499	173,780
Corporate bonds	581,128	-	484,112	-
Stocks	4,859	18,927	4,048	15,767
Trading securities in foreign currencies	6,326	91,800	5,269	76,475
Entrusted securities	30,622	50,871	25,510	42,378
	₩ 1,880,176	₩ 429,872	\$ 1,566,291	\$ 358,107

(2) The valuation of trading securities as of December 31, 2002 was as follows (Unit: Won in millions):

	Face value		Acquisition cost	Effective interest rate method fair value	Fair value
Government and public bonds	₩ 690,000	₩ 698,596	₩ 698,490	₩ 703,258	
Finance debentures	550,000	550,251	550,154	553,983	
Corporate bonds	569,121	589,578	586,894	581,128	
Stocks	-	5,169	-	4,859	
Trading securities in foreign currencies	6,002	6,002	6,002	6,326	
Entrusted securities	30,000	30,000	-	30,622	
	₩ 1,845,123	₩ 1,879,596	₩ 1,841,540	₩ 1,880,176	

The valuation of trading securities as of December 31, 2001 was as follows (Unit: Won in millions):

	Face value		Acquisition cost	Effective interest rate method fair value	Fair value
Government and public bonds	₩ 60,000	₩ 60,458	₩ 59,616	₩ 59,668	
Finance debentures	210,000	210,402	208,865	208,606	
Stocks	-	16,107	-	18,927	
Trading securities in foreign currency	91,501	91,764	91,764	91,800	
Entrusted securities	50,000	50,000	-	50,871	
	₩ 411,501	₩ 428,731	₩ 360,245	₩ 429,872	

Fair value of debt securities as of December 31, 2002 was assessed by applying the average of base prices per bond on recent trading day, announced by Korea Bond Pricing and Nice Co., Ltd. Fair value of trading debt securities including government and public bonds in local currency as of December 31, 2001 was determined based on closing yields of bonds announced by the Korea Securities Dealers Association.

(3) The portfolio of trading securities, by industry, as of December 31, 2002 and 2001 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Financial service	₩ 109,851	₩ 13,826	\$ 91,512	\$ 11,518	5.8	3.2
Government	1,628,016	347,778	1,356,228	289,718	86.6	80.9
Manufacturing	14,946	14,823	12,451	12,348	0.8	3.5
Wholesale and retail	-	2,574	-	2,144	-	0.6
Others	127,363	50,871	106,100	42,379	6.8	11.8
	₩ 1,880,176	₩ 429,872	\$ 1,566,291	\$ 358,107	100.0	100.0

(4) The portfolio of trading securities, by type, as of December 31, 2002 and 2001 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Stocks	₩ 4,859	₩ 18,927	\$ 4,048	\$ 15,767	0.3	4.4
Fixed rate bonds	1,370,800	347,778	1,141,953	289,718	72.9	80.9
Floating rate bonds	386,287	-	321,799	-	20.5	-
Convertible bonds	87,608	12,296	72,982	10,243	4.7	2.9
Others	30,622	50,871	25,509	42,379	1.6	11.8
	₩ 1,880,176	₩ 429,872	\$ 1,566,291	\$ 358,107	100.0	100.0

5. INVESTMENT SECURITIES:

(1) Investment securities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Stock investments	₩ 833,685	₩ 1,670,711	\$ 694,506	\$ 1,391,795
Equity securities	60,178	63,426	50,132	52,837
Government and public bonds	1,051,390	1,650,550	875,866	1,375,000
Finance debentures	2,164,263	2,671,161	1,802,952	2,225,226
Corporate bonds	5,510,299	5,460,749	4,590,386	4,549,108
Debt securities in foreign currencies	569,637	441,611	474,539	367,887
Others	392	698,170	326	581,614
	₩ 10,189,844	₩ 12,656,378	\$ 8,488,707	\$ 10,543,467

(2) Stock investments and equity securities as of December 31, 2002 were as follows (Unit: Won in millions, Shares in thousands):

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Equity securities accounted for using the equity method:					
IBK Capital Corporation	10,999	99.18	₩ 54,997	₩ 115,462	₩ 115,462
IBK Mutual Savings and Finance Company	28,000	100.00	139,998	30,095	-
IBK Tech Co., Ltd.	999	24.98	500	718	500
IBK Credit Information Co., Ltd. ⁽¹⁾	300	100.00	1,500	3,325	1,500
Korea Tobacco and Ginseng Corporation ("KT&G") ⁽²⁾	19,510	16.32	353,625	323,848	396,239
			550,620	473,448	513,701
Marketable investment equity securities:					
Pohang Iron & Steel Co., Ltd. ("POSCO")	2,087	2.27	107,613	246,298	246,298
Hyundai Engineering and Construction	1,911	0.39	9,553	3,067	3,067
Byucksan Engineering & Construction	165	0.41	436	362	362
Others			3,035	3,076	3,076
			120,637	252,803	252,803
Unlisted investment equity securities:					
Korea Finance Security Co., Ltd.	176	11.00	880	940	880
Korea Non-bank Lease Financing Co., Ltd.	757	18.93	3,786	(53,682)	3,786
Dongbu Investment Trust Management Co., Ltd.	540	9.00	2,700	3,006	2,700
Samsung Investment Trust Management Co., Ltd.	332	1.78	1,500	1,660	1,500
National Information & Credit Evaluation, Inc.	296	6.25	1,480	2,930	1,480
BC card	218	4.95	1,980	8,040	1,980
Korea Money Broker Corp.	45	2.26	226	818	226
KAMCO	458	1.64	2,290	2,813	2,290
Korea Securities Finance Corp.	1,400	2.06	7,000	8,897	7,000
Kieun Special Purpose Company (1st)	0.3	15.00	2	(10,388)	2
DAEWOO Electronics Corp.	407	-	2,034	2,133	2,034
Others			43,805	43,303	43,303
			67,683	10,470	67,181
Subtotal of stock investments			738,940	736,721	833,685
Equity securities					
Seoul Debt Restructuring Fund	5,240	4.37	11,687	11,376	11,376
Hankang Restructuring Fund	2,920	2.31	10,087	6,132	6,132
Arirang Restructuring Fund	2,920	4.38	12,702	10,171	10,171
Moongunghwa Restructuring Fund	2,920	4.38	14,329	12,499	12,499
DTV Venture Investment Association	10	7.41	1,000	1,011	1,000
INNO-BIZ Special Venture Investment Association ⁽³⁾	10	16.67	5,000	5,084	5,000
KTTC Hansol Technology Industrialization Association ⁽³⁾	200	20.00	2,000	2,041	2,000
Sinbo Environmental Venture Investment Association (II) ⁽³⁾	40	36.36	4,000	4,084	4,000
Hansung high-tech Investment Association	100	6.62	1,000	1,001	1,000
Kieun material special Investment Association ⁽³⁾	500	33.33	5,000	5,038	5,000
MIC 2002-3 Kieun IT special Investment Association ⁽³⁾	200	16.00	2,000	2,000	2,000
Subtotal of equity securities			68,805	60,437	60,178
Total			₩ 807,745	₩ 797,158	₩ 893,863

(1) The company name of Hanil Credit Information Corp was changed.

(2) As of December 31, 2002, the Bank owned 19,510,485 shares of KT&G, which account for 16.32% of 119,567,791 outstanding common shares after deducting 61,874,706 treasury shares from the total 181,442,497 shares issued.

(3) The equity investment associations above are subject to equity method.

Stock investments and equity securities as of December 31, 2001 were as follows (Unit: Won in millions, Shares in thousands):

	No. of shares	Percentage of ownership (%)	Acquisition cost	Net asset or fair value	Book value
Equity securities accounted for using equity method:					
IBK Capital Corporation	5,500	99.18	₩ 54,997	₩ 113,299	₩ 116,049
IBK Mutual Savings and Finance Company	28,000	99.99	139,998	30,733	-
IBK Tech Co., Ltd.	999	24.98	500	615	500
Korea Tobacco and Ginseng Corporation	56,039	29.34	1,010,347	876,463	1,132,563
Hanil Credit Information Corp.	300	50.00	1,500	1,665	1,500
			1,207,342	1,022,775	1,250,612
Marketable investment equity securities:					
Pohang Iron & Steel Co., Ltd	2,906	3.11	149,841	354,571	354,571
Hyundai Engineering and Construction	3,420	0.70	17,098	11,114	11,114
			166,939	365,685	365,685
Unlisted investment equity securities:					
Korea Finance Security Co., Ltd	176	11.00	880	827	880
Korea Lease Loan Co., Ltd	757	18.93	3,786	(66,751)	3,786
Dongbu Investment Trust Management Co., Ltd	540	9.00	2,700	2,949	2,700
Samsung Investment Trust Management Co., Ltd	332	1.78	1,500	1,447	1,500
National Information & Credit Evaluation, Inc	296	6.25	1,480	2,544	1,480
BC card	218	4.95	1,980	4,575	1,980
Korea Money Broker Corp.	45	2.26	226	695	226
KAMCO	458	1.76	2,290	2,525	2,290
Korea Securities Finance Corp.	1,400	2.06	7,000	8,636	7,000
Kieun Special Purpose Company (1st)	0.3	15.00	2	(6,683)	2
Others			32,570	32,570	32,570
			54,414	(16,666)	54,414
Subtotal of stock investments			1,428,695	1,371,794	1,670,711
Equity securities					
Seoul Debt Restructuring Fund	5,240	4.37	25,677	25,860	25,860
Hankang Restructuring Fund	2,920	2.31	14,600	9,534	9,534
Arirang Restructuring Fund	2,920	4.38	14,600	13,294	13,294
Moogungwha Restructuring Fund	2,920	4.38	14,600	14,738	14,738
Subtotal of equity securities			69,477	63,426	63,426
Total			₩ 1,498,172	₩ 1,435,220	₩ 1,734,137

Net asset value of investment equity securities was computed based on recent financial statements. However, net asset value of others in unlisted investment equity securities was stated at book value, which was the investment for small and medium sized companies and mostly new established companies at the time of investment.

The Bank disposed of 36,727,098 shares of KT&G stock pursuant to the Korean government's privatization program to sell the state-owned shares to overseas or private investors for the year ended December 31, 2002. Also, the Bank sold 819,050 shares of POSCO stocks in 2002.

(3) Investments in domestic equity securities accounted for using the equity method as of December 31, 2002 were as follows (Unit: Won in millions):

	Book value before	Gain (Loss) on valuation using the equity method	Presented in capital adjustment	Book value after valuation
Stock investments				
IBK Capital Corporation	₩ 113,299	₩ 5,279	₩ (3,116)	₩ 115,462
IBK Mutual Savings and Finance Company	-	-	-	-
IBK Tech Co., Ltd.	500	-	-	500
IBK Credit Information Corp.	1,500	-	-	1,500
KT&G	371,308	46,241	(21,310)	396,239
	486,607	₩ 51,520	₩ (24,426)	₩ 513,701
Equity securities				
INNO-BIZ Special Venture Investment Association	5,000	-	-	5,000
KTTC Hansol Technology Industrialization Association	2,000	-	-	2,000
Sinbo Environmental Venture Investment Association(II)	4,000	-	-	4,000
Kieun material special Investment Association	5,000	-	-	5,000
MIC 2002-3 Kieun IT special Investment Association	2,000	-	-	2,000
	18,000	-	-	18,000
	₩ 504,607	₩ 51,520	₩ (24,426)	₩ 531,701

1) Investments in IBK Tech Co., Ltd. and IBK Credit Information Corp. are valued at acquisition cost due to their asset sizes of less than ₩7 billion, which were not required to be accounted for using the equity method under the financial accounting standards in the Republic of Korea.

2) The difference between the Bank's acquisition cost and investment portion of the fair value of KT&G at the time of investment resulted from the revaluation of KT&G's fixed assets. Accordingly, the investment in KT&G is adjusted in line with the depreciation schedule of related fixed assets over the estimated useful lives. The Bank depreciated ₩4,322 million (US\$ 3,600 thousand) in 2002 and the balance as of December 31, 2002 amounted to ₩45,076 million (US\$ 37,551 thousand)

3) As of December 31, 2002, IBK Mutual Savings and Finance Company is under the process of liquidation due to the difficulties encountered such as non-performing assets and liquidity problems.

4) The equity investment associations were assessed at their acquisition costs because these associations were established in 2002 and their accounts were not settled as of the audit date.

5) The closing month of companies accounted for using the equity method and balance sheet date of the financial statements of these companies used for the equity method were as follows:

	Closing month	Balance sheet date
IBK Capital Corporation	December	December 2002
IBK Mutual Savings and Finance Company	June	June 2002
KT&G	December	December 2002

(4) The valuation of investment debt securities, by type, as of December 31, 2002 and 2001 was summarized as follows (Unit: Won in millions):

December 31, 2002:

	Face value	Acquisition cost	Adjusted by effective interest rate method	Fair value (or adjusted book value)
Available-for-sale				
Government and public bonds	₩ 706,805	₩ 700,287	₩ 704,092	₩ 727,101
Finance debentures	1,733,000	1,689,190	1,681,467	1,687,473
Corporate bonds	3,220,693	3,249,772	3,224,613	3,262,464
Other debt securities in foreign currencies	605,101	592,875	592,875	569,637
	6,265,599	6,232,124	6,203,047	6,246,675
Held-to-maturity				
Government and public bonds	323,558	324,593	324,289	344,445
Finance debentures	2,418,315	476,229	476,790	478,010
Corporate bonds	2,429,182	2,252,214	2,247,835	2,235,037
	5,171,055	3,053,036	3,048,914	3,057,492
	₩ 11,436,654	₩ 9,285,160	₩ 9,251,961	₩ 9,304,167

December 31, 2001:

	Face value	Acquisition cost	Adjusted by effective interest rate method	Fair value (or adjusted book value)
Available-for-sale				
Government and public bonds	₩ 901,115	₩ 876,560	₩ 924,646	₩ 921,086
Finance debentures	2,423,434	2,404,263	2,398,969	2,406,579
Corporate bonds	2,445,026	2,472,838	2,462,787	2,441,661
Other debt securities in foreign currencies	510,028	457,343	456,095	441,611
	6,279,603	6,211,004	6,242,497	6,210,937
Held-to-maturity				
Government and public bonds	730,162	722,537	729,464	729,464
Finance debentures	265,000	264,297	264,582	264,582
Corporate bonds	3,022,284	3,017,236	3,019,088	3,019,088
	4,017,446	4,004,070	4,013,134	4,013,134
	₩ 10,297,049	₩ 10,215,074	₩ 10,255,631	₩ 10,224,071

The book values of available-for-sale securities are the sum of the fair value of government and public bonds, finance debentures and corporate bonds and other debt securities in foreign currencies. The book values of held-to-maturity securities are the adjusted value using the effective interest method.

Fair value of debt securities as of December 31, 2002 was assessed by applying the average of base prices per bond on recent trading day announced by Korea Bond Pricing and Nice Co., Ltd. Fair value of trading debt securities including government and public bonds in local currency as of December 31, 2001 was determined based on closing yields of bonds announced by the Korea Securities Dealers Association.

The fair value of debt securities in foreign currencies was determined by the latest market prices provided by reputable market price information providers or by the yields professional dealers presented. Acquisition costs of debt securities in foreign currencies are Korean Won equivalents of foreign currency denominated acquisition costs using BOK Basic Rate at the balance sheet dates.

In 2002 and 2001, investment securities impairment loss on investment debt securities was ₩652 million (US\$ 543 thousand) and ₩26,722 million (US\$ 22,261 thousand), respectively, and recovery of impairment loss was ₩7,006 million (US\$ 5,836 thousand) and ₩2,397 million (US\$ 1,997 thousand), respectively.

In addition, the Bank used derivative instruments to hedge the risk that arose from the interest rate and foreign exchange rate changes. The Bank recorded gain and loss from fair value hedging activities amounting to ₩20,270 million (US\$ 16,886 thousand) and ₩1,930 million (US\$ 1,608 thousand), respectively, in 2002.

(5) The acquisition cost of beneficiary certificates, classified into other investment securities, was ₩ 592 million (US\$ 493 thousand) and ₩ 682,614 million (US\$ 568,655 thousand) in 2002 and 2001, respectively. In addition, the fair value of the above securities was ₩ 392 million (US\$ 327 thousand) and ₩ 698,170 million (US\$ 581,614 thousand) in 2002 and 2001, respectively.

(6) The gain (loss) on valuation of investment securities as of December 31, 2002 and 2001 reflected in capital adjustments was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Marketable investment equity securities and equity investment	₩ 127,490	₩ 198,679	\$ 106,206	\$ 165,511
Equity securities accounted for using the equity method	(39,132)	(41,711)	(32,599)	(34,748)
Available-for-sale investment bonds	67,418	6,380	56,163	5,315
Other securities (beneficiary certificates)	(200)	17,548	(167)	14,618
	₩ 155,576	₩ 180,896	\$ 129,603	\$ 150,696

(7) The portfolio of investment debt securities in foreign currencies, by country, as of December 31, 2002 and 2001 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Korea	₩ 454,748	₩ 271,865	\$ 378,830	\$ 226,479	79.83	61.56
Thailand	2,283	4,116	1,902	3,429	0.40	0.93
Malaysia	4,417	3,650	3,680	3,041	0.78	0.83
Hongkong	8,661	-	7,215	-	1.52	-
Colombia	-	9,775	-	8,143	-	2.21
United States	26,438	61,006	22,024	50,821	4.64	13.81
China	2,900	1,658	2,416	1,381	0.51	0.38
South Africa	6,345	6,201	5,286	5,166	1.11	1.40
India	10,104	10,938	8,417	9,112	1.77	2.48
Chile	2,512	2,770	2,093	2,308	0.44	0.63
Poland	221	244	184	203	0.04	0.06
Croatia	3,293	4,351	2,743	3,625	0.58	0.99
Mexico	17,731	22,047	14,771	18,366	3.11	4.99
Philippines	8,595	20,669	7,160	17,218	1.51	4.68
Others	21,389	22,321	17,818	18,595	3.76	5.05
	₩ 569,637	₩ 441,611	\$ 474,539	\$ 367,887	100.00	100.00

(8) The portfolio of investment securities, by type, as of December 31, 2002 and 2001 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Stocks	₩ 893,863	₩ 1,734,137	\$ 744,638	\$ 1,444,633	8.8	13.7
Fixed rate bonds	7,175,211	8,496,287	5,977,349	7,077,880	70.4	67.1
Floating rate bonds	1,984,693	1,711,604	1,653,360	1,425,861	19.5	13.6
Convertible bonds	135,685	16,180	113,033	13,479	1.3	0.1
Beneficiary certificates	392	698,170	327	581,614	0.0	5.5
	₩10,189,844	₩12,656,378	\$ 8,488,707	\$ 10,543,467	100.0	100.0

(9) The portfolio of investment securities, by industry, as of December 31, 2002 and 2001 was as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Equity securities						
Financial service	₩ 198,104	₩ 203,317	\$ 165,032	\$ 169,374	22.2	11.7
Manufacturing	692,330	1,519,706	576,749	1,266,000	77.4	87.7
Construction	3,429	11,114	2,857	9,259	0.4	0.6
	893,863	1,734,137	744,638	1,444,633	100.0	100.0
Debt securities						
Government	5,461,266	7,076,719	4,549,538	5,895,301	58.7	64.8
Financial service	2,509,106	1,686,764	2,090,225	1,405,168	27.0	15.4
Manufacturing	510,086	559,674	424,930	466,240	5.5	5.1
Construction	3,100	-	2,582	-	0.0	-
Wholesale and retail	90,241	147,497	75,176	122,872	1.0	1.4
Others	722,182	1,451,587	601,618	1,209,253	7.8	13.3
	9,295,981	10,922,241	7,744,069	9,098,834	100.0	100.0
	₩10,189,844	₩12,656,378	\$ 8,488,707	\$ 10,543,467		

(10) As of December 31, 2002, investment securities provided as collateral were as follows (Unit: Won in millions):

Provided to	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Provided for
Bank of Korea	₩ 1,385,700	\$ 1,154,365	Borrowings
Bank of Korea and others	3,299,785	2,748,905	Bonds sold under repurchase agreements
Bank of Korea	110,000	91,636	Overdrafts
Bank of Korea	196,400	163,612	Settlement risk
LG Securities and others	61,300	51,066	Government bond futures and others
Korea Asset Management Corporation	23,945	19,948	Others
	₩ 5,077,130	\$ 4,229,532	

6. LOANS:

(1) Loans as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Loans in local currency	₩ 36,439,411	₩ 28,914,174	\$ 30,356,057	\$ 24,087,116
Loans in foreign currencies	4,057,887	1,620,727	3,380,446	1,350,156
Bills bought in local currency	85,931	83,183	71,585	69,296
Bills bought in foreign currencies	685,342	1,112,129	570,928	926,465
Domestic import usance	634,347	512,478	528,446	426,923
Advances for customers	35,119	37,009	29,256	30,831
Factoring receivables	8,008	9,658	6,671	8,046
Credit card accounts	3,139,329	2,044,243	2,615,236	1,702,968
Call loans	608,740	135,589	507,114	112,953
Privately placed bonds	66,233	45,405	55,176	37,825
Interbank loans	1,512,366	1,804,234	1,259,885	1,503,027
Loan to be swapped to equity	562	17,662	469	14,713
	₩ 47,273,275	₩ 36,336,491	\$ 39,381,269	\$ 30,270,319
Allowance for possible loan losses	(883,047)	(695,467)	(735,627)	(579,363)
Present value discounts	(5,239)	(11,840)	(4,365)	(9,863)
	₩ 46,384,989	₩ 35,629,184	\$ 38,641,277	\$ 29,681,093

(2) Loans in local currency as of December 31, 2002 and 2001, classified by borrower type, were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Loans to enterprises				
Working capital	₩ 25,168,877	₩ 19,472,550	\$ 20,967,075	\$ 16,221,718
Facilities and equipment	4,889,682	4,055,622	4,073,377	3,378,559
	₩ 30,058,559	₩ 23,528,172	\$ 25,040,452	\$ 19,600,277
Loans to households				
General purpose	5,192,177	3,623,777	4,325,372	3,018,808
Housing	265,612	180,847	221,270	150,656
	₩ 5,457,789	₩ 3,804,624	\$ 4,546,642	\$ 3,169,464
Loans to public sector and other				
Others	108,638	50,026	90,502	41,674
	814,425	1,531,352	678,461	1,275,701
	₩ 36,439,411	₩ 28,914,174	\$ 30,356,057	\$ 24,087,116

(3) Loans to financial institutions (excluding inter-bank loans) as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Banks	₩ 243,129	₩ 200,000	\$ 202,540	\$ 166,611
Mutual savings and finance companies	3,350	759	2,792	632
Leasing companies	54,143	109,440	45,104	91,170
Finance companies	6,845	30,398	5,702	25,323
Other	124,913	6,883	104,059	5,734
	₩ 432,380	₩ 347,480	\$ 360,197	\$ 289,470

(4) Loans in local and foreign currencies, by customers, as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Large corporations	₩ 459,070	₩ 463,849	\$ 382,431	\$ 386,412	1.13	1.52
Medium and small corporations	34,072,634	25,785,903	28,384,400	21,481,092	84.14	84.45
Households	5,527,003	3,932,910	4,604,301	3,276,333	13.63	12.88
Others	438,591	352,239	365,371	293,435	1.10	1.15
	₩ 40,497,298	₩ 30,534,901	\$ 33,736,503	\$ 25,437,272	100.00	100.00

(5) Loans in local and foreign currencies, by industry, as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Manufacturing	₩ 22,447,212	₩ 18,253,460	\$ 18,699,777	\$ 15,206,148	55.43	59.78
Construction	1,826,523	1,360,686	1,521,595	1,133,527	4.51	4.46
Wholesale, retail and repair of customer goods	5,199,497	3,707,345	4,331,470	3,088,425	12.84	12.14
Finance and insurance	494,599	380,987	412,029	317,383	1.22	1.25
Transportation, storage and communication	774,024	720,179	644,805	599,949	1.91	2.36
Real estate and renting	1,963,138	803,828	1,635,403	669,633	4.85	2.63
Food and accommodations	674,561	374,698	561,947	312,144	1.67	1.23
Hygiene and social welfare	500,077	322,029	416,592	268,268	1.24	1.05
Public and personal service	524,129	314,686	436,629	262,152	1.29	1.03
Loans to households	5,527,003	3,932,885	4,604,301	3,276,312	13.64	12.88
Other	566,535	364,118	471,955	303,331	1.40	1.19
	₩ 40,497,298	₩ 30,534,901	\$ 33,736,503	\$ 25,437,272	100.00	100.00

(6) Loans in foreign currencies, by country, as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Korea	₩ 3,993,985	₩ 1,539,892	\$ 3,327,212	\$ 1,282,816	98.43	95.01
United States	14,878	18,393	12,394	15,322	0.37	1.14
China	1,561	17,198	1,300	14,327	0.04	1.06
Indonesia	21,319	28,644	17,760	23,862	0.52	1.77
Other	26,144	16,600	21,780	13,829	0.64	1.02
	₩ 4,057,887	₩ 1,620,727	\$ 3,380,446	\$ 1,350,156	100.00	100.00

7. RESTRUCTURING OF LOANS:

(1) Outstanding restructured loans as of December 31, 2002, which were restructured under corporate reorganization, court receivership and workout plans, were as follows (Unit: Won in millions):

	Discount rate (%)	Nominal value	Beginning balance	Present value discounts			Ending balance
				Addition	Deduction		
Court receivership	3.00~12.10	₩ 107,980	₩ 10,947	₩ 823	₩ 6,727	₩ 5,043	
Workout program	6.11~10.70	14,135	890	53	839	104	
Others	7.24~7.30	8,344	3	95	6	92	
		₩ 130,459	₩ 11,840	₩ 971	₩ 7,572	₩ 5,239	

Cash flows from outstanding fixed rate loans were discounted by interest rates originally agreed upon and cash flows from matured fixed rate loans and floating rate loans were discounted by interest rates reflecting debtors' credit at the time of restructuring of the loans.

(2) Restructuring of loans for the year ended December 31, 2002 was as follows (Unit: Won in millions):

Type	Amount before restructuring	Exemption	Transferred to CB	Rescheduling
Court receivership	₩ 189,999	₩ -	₩ -	₩ 189,999
Workout program	55,741	-	-	55,741
Other	18,422	-	-	18,422
	₩ 264,162	₩ -	₩ -	₩ 264,162

8. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) The classification of asset quality for loans and allowance for possible loan losses as of December 31, 2002 was summarized as follows (Unit: Won in millions):

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Loans						
Loan in local currency ⁽¹⁾	₩ 33,372,867	₩ 2,269,786	₩ 620,956	₩ 69,577	₩ 100,986	₩ 36,434,172
Loan in foreign currencies ⁽²⁾	4,073,483	506,218	99,879	9,342	3,312	4,692,234
Bills bought in local currency/ Bills bought in foreign currencies	741,086	24,118	2,143	3,044	882	771,273
Advances for customers	5,269	7,033	13,083	3,643	6,091	35,119
Credit card accounts	2,649,991	229,514	417	214,579	44,828	3,139,329
Privately placed bonds	45,014	16,450	4,425	214	130	66,233
Others ⁽⁴⁾	6,163	1,436	6,267	4,722	7,001	25,589
	40,893,873	3,054,555	747,170	305,121	163,230	45,163,949
Allowance for possible loan losses						
Loan in local currency	181,457	49,161	129,512	56,665	100,986	517,781
Loan in foreign currencies	21,540	26,714	34,025	5,069	3,312	90,660
Bills bought in local currency/ Bills bought in foreign currencies	3,718	482	429	2,425	882	7,936
Advances for customers	26	141	2,617	3,261	6,091	12,136
Credit card accounts	26,499	27,542	84	139,476	44,828	238,429
Privately placed bonds	225	2,109	885	193	130	3,542
Others	31	29	1,253	4,249	7,001	12,563
	233,496	106,178	168,805	211,338	163,230	883,047
	₩ 40,660,377	₩ 2,948,377	₩ 578,365	₩ 93,783	₩ -	₩ 44,280,902

(1) After deducting the present value discounts

(2) Including domestic import usance

(3) Excluding the cash advances provided by the Bank through the ATM installers

(4) Including debit card accounts, credit-related suspense payments and accounts receivable transferred from bills purchased due to defaults, but excluding inter-bank loans, call loans bonds purchased under resale agreements and cash service settlement on behalf of other banks.

The classification of asset quality for loans and allowance for possible loan losses as of December 31, 2001 was summarized as follows (Unit: Won in millions):

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Total loans						
Loan in local currency ⁽¹⁾	₩ 25,520,756	₩ 2,487,060	₩ 687,833	₩ 67,814	₩ 138,871	₩ 28,902,334
Loan in foreign currencies ⁽²⁾	1,710,635	299,574	115,796	1,208	5,992	2,133,205
Bills bought in local currency/ Bills bought in foreign currencies	1,167,701	19,606	6,080	534	1,391	1,195,312
Advances for customers	2,845	1,510	17,735	6,593	8,326	37,009
Credit card accounts ⁽³⁾	1,925,484	58,767	174	29,919	16,503	2,030,847
Privately placed bonds	32,463	5,569	6,101	154	1,118	45,405
Others ⁽⁴⁾	12,152	10,621	4,354	25,256	6,275	58,658
	30,372,036	2,882,707	838,073	131,478	178,476	34,402,770
Allowance for possible loan losses						
Loan in local currency	127,604	50,893	146,112	50,760	138,871	514,240
Loan in foreign currencies	5,991	31,208	44,855	604	5,992	88,650
Bills bought in local currency/ Bills bought in foreign currencies	5,839	392	2,659	267	1,391	10,548
Advances for customers	14	30	3,547	3,297	8,326	15,214
Credit card accounts	9,627	1,175	35	14,960	16,503	42,300
Privately placed bonds	162	111	1,220	77	1,118	2,688
Others	61	1,992	871	12,628	6,275	21,827
	149,298	85,801	199,299	82,593	178,476	695,467
	₩ 30,222,738	₩ 2,796,906	₩ 638,774	₩ 48,885	₩ -	₩ 33,707,303

(1) After deducting the present value discounts

(2) Including domestic import usance

(3) Excluding the cash advances provided by the Bank through the ATM installers

(4) Including debit card accounts, credit-related suspense payments and accounts receivable transferred from bills purchased due to defaults, but excluding inter-bank loans, call loans bonds purchased under resale agreements and cash service settlement on behalf of other banks.

As of December 31, 2002 and 2001, the Bank complied with the minimum regulatory guideline for loan loss provision, as described in Note 2, announced by the Korean Financial Supervisory Commission (the "FSC").

(2) The allowance for possible loan losses compared to total loans of the last 3 years prior to December 31, 2002 was as follows:

	Total loans		Allowance for possible loan losses		Percentage(%)
	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	
December 31, 2000	₩ 29,119,491	\$ 24,258,156	₩ 599,896	\$ 499,747	2.06
December 31, 2001	34,402,770	28,659,422	695,467	579,363	2.02
December 31, 2002	₩ 45,163,949	\$ 37,624,083	₩ 883,047	\$ 735,627	1.96

(3) The changes in allowance for possible loan losses as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Beginning balance	₩ 695,467	₩ 599,896	\$ 579,363	\$ 499,747
Written-off charged to present value discount	(970)	(523)	(808)	(436)
Loans written-off	(524,695)	(409,520)	(437,100)	(341,153)
Changes in foreign exchange rats	(8,291)	3,524	(6,907)	2,936
Other	86,347	37,163	71,932	30,959
	247,858	230,540	206,480	192,053
Provision for possible loan losses	635,189	464,927	529,147	387,310
Ending balance	₩ 883,047	₩ 695,467	\$ 735,627	\$ 579,363

9. FIXED ASSETS:

(1) Fixed assets as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Tangible assets	₩ 1,172,876	₩ 1,078,511	\$ 977,071	\$ 898,460
Less: accumulated depreciation	(311,843)	(266,003)	(259,783)	(221,595)
Intangible assets	-	22	-	18
Non-business use property	1,315	6,490	1,095	5,407
Less: Valuation allowance	(158)	(1,617)	(131)	(1,348)
	₩ 862,190	₩ 817,403	\$ 718,252	\$ 680,942

(2) Tangible assets as of December 31, 2002 consisted of:

	Acquisition cost		Accumulated depreciation	
	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Land	₩ 484,695	\$ 403,778	₩ -	\$ -
Buildings	313,071	260,806	58,112	48,411
Equipment, machinery, vehicles and furniture	345,618	287,919	234,946	195,723
Leasehold improvements	27,246	22,697	18,785	15,649
Construction in progress	2,246	1,871	-	-
	₩ 1,172,876	\$ 977,071	₩ 311,843	\$ 259,783

Tangible assets as of December 31, 2001 consisted of:

	Acquisition cost		Accumulated depreciation	
	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Land	₩ 495,917	\$ 413,126	₩ -	\$ -
Buildings	299,245	249,288	50,992	42,479
Equipment, machinery, vehicles and furniture	261,898	218,176	201,018	167,459
Leasehold improvements	21,090	17,569	13,993	11,657
Construction in progress	361	301	-	-
	₩ 1,078,511	\$ 898,460	₩ 266,003	\$ 221,595

The published value of land as of December 31, 2002 and 2001 was ₩396,178 million (US\$ 330,038 thousand) and ₩395,474 million (US\$ 329,452 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

(3) Fixed assets insured as of December 31, 2002 were as follows (Unit: Won in millions):

Type of insurance	Assets	Net book value	Insured amount
Property composite (Local)	Buildings	₩ 254,635	₩ 245,998
	Equipment, machinery, vehicles and furniture	107,761	71,993
		₩ 362,396	₩ 317,991
Robbery insurance	Leasehold improvements	7,808	4,371
Property composite (Overseas)	Buildings and furniture	6,772	12,928
		₩ 376,976	₩ 335,290

10. OTHER ASSETS:

(1) Other assets as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Guarantee deposits	₩ 749	₩ 286	\$ 624	\$ 239
Accounts receivable	36,310	183,831	30,249	153,141
Accrued income	279,531	328,072	232,865	273,302
Prepaid expenses	174,521	89,825	145,386	74,829
Deferred income tax assets (Note 21)	32,604	47,055	27,161	39,200
Financial derivative instruments (Note 16)	328,086	115,718	273,314	96,400
Sundry assets	3,236,064	2,305,805	2,695,821	1,920,864
	₩ 4,087,865	₩ 3,070,592	\$ 3,405,420	\$ 2,557,975

(2) Sundry assets as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Unsettled spot exchange receivables	₩ 893,936	₩ 583,453	\$ 744,698	\$ 486,049
Domestic exchange settlement debits	1,765,296	1,233,993	1,470,590	1,027,985
Leasehold deposits	403,635	380,140	336,250	316,678
Due from trust accounts	65,000	72,000	54,149	59,980
Deposited money	13,853	3,257	11,540	2,713
Membership rights	6,403	5,275	5,334	4,394
Receivables on cash sent to other banks	1,550	1,100	1,291	916
Card account settlement debits	6,406	4,637	5,337	3,863
Supplies	1,913	1,854	1,594	1,545
Others	78,072	20,096	65,038	16,741
	₩ 3,236,064	₩ 2,305,805	\$ 2,695,821	\$ 1,920,864

11. DEPOSITS:
(1) Deposits as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Deposits in local currency	₩ 29,630,287	₩ 27,513,983	\$ 24,683,678	\$ 22,920,679
Deposits in foreign currencies	966,042	1,019,726	804,767	849,489
Certificates of deposit	1,547,977	410,299	1,289,551	341,801
	₩ 32,144,306	₩ 28,944,008	\$ 26,777,996	\$ 24,111,969

(2) Deposits in local currency as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Demand deposits	₩ 3,947,373	₩ 3,397,178	\$ 3,288,381	\$ 2,830,038
Savings deposits	23,420,176	21,951,589	19,510,310	18,286,895
Mutual installment savings	1,892,888	1,921,930	1,576,881	1,601,075
Housing installment deposits	369,850	243,286	308,106	202,671
	₩ 29,630,287	₩ 27,513,983	\$ 24,683,678	\$ 22,920,679

FINANCIAL STATEMENTS

NOTES TO NON-CONSOLIDATED

December 31, 2002 and 2001

(3) Deposits in foreign currencies as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Deposits in checking accounts	₩ 305	₩ 26,932	\$ 254	\$ 22,436
Passbook deposits	608,798	450,825	507,163	375,563
Notice deposits	13,375	43,623	11,142	36,340
Time deposits	341,288	495,720	284,312	412,962
Temporary deposits	2,276	2,626	1,896	2,188
	₩ 966,042	₩ 1,019,726	\$ 804,767	\$ 849,489

(4) Deposits excluding certificates of deposits, by depositor type, as of December 31, 2002 and 2001 were as follows:

		Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2002	2001	2002	2001
Local					
currency	Individuals	₩ 15,690,436	₩ 14,766,664	\$ 13,071,006	\$ 12,301,453
	Corporations	9,736,262	9,706,635	8,110,848	8,086,167
	Government	1,384,936	1,131,974	1,153,729	942,997
	Commercial banks	166,258	31,070	138,502	25,883
	Non-banking financial institutions	2,222,332	1,311,733	1,851,326	1,092,747
	Municipal governments	384,958	460,876	320,691	383,935
	Non-residents	45,105	105,031	37,576	87,497
		29,630,287	27,513,983	24,683,678	22,920,679
Foreign					
currencies	Deposits in foreign branches	30,291	113,865	25,234	94,856
	Residents and others	935,751	905,861	779,533	754,633
		966,042	1,019,726	804,767	849,489
		₩ 30,596,329	₩ 28,533,709	\$ 25,488,445	\$ 23,770,168

(5) Deposits to financial institutions as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Banks	₩ 166,258	₩ 31,070	\$ 138,502	\$ 25,883
Insurance companies	325,710	218,793	271,335	182,267
Merchant banks	127,391	36,593	106,124	30,484
Mutual savings	395,704	116,268	329,643	96,858
Korea Securities Finance	550,000	490,000	458,181	408,197
SPC (securitization of assets)	143,100	-	119,210	-
Credit guarantee fund	319,922	333,152	266,513	277,534
Others	364,825	173,115	303,919	144,214
	₩ 2,392,910	₩ 1,398,991	\$ 1,993,427	\$ 1,165,437

12. BORROWINGS:

(1) Borrowings as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Borrowings in local currency	₩ 7,552,619	₩ 7,296,988	\$ 6,291,752	\$ 6,078,797
Borrowings in foreign currencies	3,350,523	3,355,133	2,791,172	2,795,012
Bonds sold under repurchase agreements	1,732,342	1,113,127	1,443,137	927,297
Bills sold	1,659,043	728,098	1,382,075	606,546
Borrowings from Industry Foundation Fund	174,413	329,017	145,296	274,090
Due to BOK in foreign currencies	32,364	82,121	26,961	68,411
Call money	437,049	794,301	364,086	661,697
	₩ 14,938,353	₩ 13,698,785	\$ 12,444,479	\$ 11,411,850

(2) Borrowings in local currency as of December 31, 2002 and 2001 consisted of:

	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2002	2001	2002	2001
Bank of Korea (BOK)	2.50	₩ 1,675,429	₩ 1,908,625	\$ 1,395,725	\$ 1,589,991
Governmental policy funds	2.00~7.00	3,066,617	2,550,556	2,554,663	2,124,755
Government	2.20~8.00	2,810,573	2,837,807	2,341,364	2,364,051
		₩ 7,552,619	₩ 7,296,988	\$ 6,291,752	\$ 6,078,797

(3) Borrowings in foreign currencies as of December 31, 2002 and 2001 consisted of:

	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2002	2001	2002	2001
BTC and others	2.00~6.25	₩ 70,374	₩ 482,557	\$ 58,625	\$ 401,997
JP Morgan and others	0.27~2.17	1,410,968	664,170	1,175,415	553,291
Kookmin Bank NY and others	0.33~2.17	222,329	30,645	185,212	25,529
Ministry of Finance and Economy	Libor + 0.3	23,408	29,837	19,500	24,856
Japan Bank for International Cooperation	1.70~2.20	1,277,278	1,549,076	1,064,044	1,290,467
Bank of Tokyo Mitsubishi and others	2.13~2.17	264,088	430,983	220,000	359,033
The Korea Development Bank Small and Medium Industry Promotion Corp.	Libor+1.0~3.0 Libor +1.28~1.78	43,287 8,976	105,221 26,599	36,060 7,478	87,655 22,157
		3,320,708	3,319,088	2,766,334	2,764,985
Loss (gain) on valuation of fair market value risk hedge (current year portion)		(3,347)	1,712	(2,788)	1,426
Loss on valuation of fair market value risk hedge (prior year portion)		33,162	34,333	27,626	28,601
		₩ 3,350,523	₩ 3,355,133	\$ 2,791,172	\$ 2,795,012

(4) Due to BOK in foreign currencies was received for the purpose of working capital and policy lending, and interest rates ranged from 1.75 percent to 1.97 percent per annum as of December 31, 2002.

(5) Call money as of December 31, 2002 and 2001 consisted of:

	Annual interest rate (%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
		2002	2001	2002	2001
LG Investment Trust					
Management and others	4.15	₩ 418,500	₩ 759,300	\$ 348,634	\$ 632,539
Domestic banks	-	-	1,020	-	850
Foreign financial institutions	1.31	13,805	30,534	11,500	25,437
Inter-bank reconciliation fund	-	4,744	3,447	3,952	2,871
		₩ 437,049	₩ 794,301	\$ 364,086	\$ 661,697

(6) Borrowings in local and foreign currencies with financial institutions as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
BOK	₩ 1,675,429	₩ 1,990,746	\$ 1,395,725	\$ 1,658,402
Banks	2,845,907	3,664,229	2,370,799	3,052,507
Insurance companies	-	173,505	-	144,539
Trust management companies	403,500	530,000	336,138	441,520
Other	15,000	97,600	12,496	81,306
	₩ 4,939,836	₩ 6,456,080	\$ 4,115,158	\$ 5,378,274

13. DEBENTURES:

(1) Debentures as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Debentures in local currency	₩ 7,979,891	₩ 5,523,258	\$ 6,647,693	\$ 4,601,181
Less: Discounts	-	(22)	-	(18)
Debentures in foreign currencies	1,594,686	478,260	1,328,462	398,417
Less: Discounts	(5,033)	(647)	(4,192)	(539)
	₩ 9,569,544	₩ 6,000,849	\$ 7,971,963	\$ 4,999,041

(2) Changes in debentures in local currency for the year ended December 31, 2002 were as follows:

	Korean Won (In millions)				U.S. Dollars (Note 2) (In thousands)	
	Beginning balance	Issuance	Redemption	Substitution	Ending balance	Ending balance
Small and Medium Industry (SMI) Finance Bonds	₩ 3,624,898	₩ 6,870,775	₩ 3,358,869	₩ (18,398)	₩ 7,118,406	\$ 5,930,028
SMI Refinance Bonds	81,189	-	71,412	18,398	28,175	23,471
SMI Finance Bonds for automation projects	554,000	-	204,000	-	350,000	291,570
SMI Development Finance Bonds	603,603	-	438,529	-	165,074	137,516
Subordinated SMI Finance Bonds	659,000	318,188	659,000	-	318,188	265,068
	5,522,690	₩ 7,188,963	₩ 4,731,810	₩ -	7,979,843	6,647,653
SMI Finance Bonds, not rendered	568				48	40
	₩ 5,523,258				₩ 7,979,891	\$ 6,647,693

On April 1, 2002, the Bank reimbursed the Subordinated Small and Medium Industry Finance Bonds amounting to ₩659,000 million (US\$ 548,984 thousand) to generate better profitability and the original maturities were March 31, 2003 and March 31, 2004, respectively.

Also, the Bank issued the Subordinated Small and Medium Industry Finance Bonds at 6.10%~7.06% in compounded interest bond and at 6.07%~7.02% in coupon debenture for the year ended December 31, 2002, which maturities starts from April 17, 2008.

(3) Debentures in foreign currencies as of December 31, 2002 and 2001 were as follows:

Type	Issuance date	Annual interest rate(%)	Expiration date	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				2002	2001	2002	2001
Euro Bond 350M	Sep. 1999	6ML+1.9	Sep. 2002	₩ -	₩ 464,135	\$ -	\$ 386,650
HKD 1.2 BLN	Apr. 2002	USD 3ML+0.19	Apr. 2003	184,704	-	153,869	-
JPY 4 BLN	Mar. 2002	JPY 3ML+0.51	Mar. 2007	40,515	-	33,751	-
ML FRN 50M	July 2002	6ML+0.43	July 2004	60,020	-	50,000	-
UBS Warburg	July 2002	3ML+0.32	July 2003	65,837	-	54,846	-
Daiwa	Aug. 2002	JPY 6ML+0.32	Aug. 2003	40,515	-	33,751	-
Shinkin	Aug. 2002	3ML+0.56	Aug. 2005	36,012	-	30,000	-
Natexis A	Aug. 2002	3ML+0.49	Aug. 2004	24,008	-	20,000	-
Natexis B	Aug. 2002	3ML+0.29	Aug. 2004	36,012	-	30,000	-
Mizuho	Sep. 2002	6ML+0.29	Sep. 2003	40,515	-	33,751	-
Euro Bond 500M	Sep. 2002	6ML+0.74	Sep. 2005	600,200	-	500,000	-
JP Morgan	Dec. 2002	6ML+0.87	Dec. 2007	447,149	-	372,500	-
				1,575,487	464,135	1,312,468	386,650
Loss on valuation of fair market value risk hedge (current year)				19,199	9,808	15,994	8,171
Loss on valuation of fair market value risk hedge (prior year)				-	4,317	-	3,596
				₩1,594,686	₩ 478,260	\$ 1,328,462	\$ 398,417

14. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Accrued severance benefits (Note 2)	₩ 62,067	₩ 27,593	\$ 51,705	\$ 22,987
Less: Transfer to National Pension (Note 2)	(59)	(84)	(49)	(70)
Less: Severance insurance deposits (Note 2)	(39,448)	(17,000)	(32,862)	(14,162)
Allowance for possible losses on acceptances and guarantees (Note 2)	1,267	5,165	1,055	4,303
Due to trust accounts	326,121	468,584	271,677	390,357
Other allowances	20,918	17,450	17,426	14,537
Accounts payable	9,782	5,934	8,149	4,943
Accrued expenses	906,492	1,111,579	755,158	926,007
Unearned revenues	96,108	92,519	80,063	77,073
Deposits for letter of guarantees and others	119,389	100,096	99,458	83,386
Financial derivative instruments (Note 16)	379,066	101,534	315,783	84,582
Dividends payable	73,950	53,302	61,605	44,404
Sundry liabilities	3,060,696	2,193,732	2,549,730	1,827,501
	₩ 5,016,349	₩ 4,160,404	\$ 4,178,898	\$ 3,465,848

(2) Sundry liabilities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Accounts payable	₩ 8,016	₩ 9,633	\$ 6,678	\$ 8,025
Payables on cash received from other banks	6,805	6,891	5,669	5,741
Withholding taxes	36,467	39,741	30,379	33,107
Management funds	15,029	37,838	12,520	31,521
Deposits for securities subscription	9,221	9,841	7,682	8,198
Domestic exchange settlement credits	1,674,728	1,290,259	1,395,142	1,074,858
Agencies	80,442	91,420	67,012	76,158
Giro accounts	52,992	56,935	44,145	47,430
Unsettled spot exchange payables	893,812	583,672	744,595	486,231
Others	283,184	67,502	235,908	56,232
	₩ 3,060,696	₩ 2,193,732	\$ 2,549,730	\$ 1,827,501

15. ACCEPTANCES AND GUARANTEES AND ALLOWANCES FOR POSSIBLE LOSSES:

(1) Acceptances and guarantees provided by the Bank as of December 31, 2002 and 2001 were summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debenture	₩ 100	₩ 300	\$ 83	\$ 250
Payment guarantee for loan	93,478	71,484	77,873	59,550
Others	277,440	207,093	231,123	172,520
	371,018	278,877	309,079	232,320
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letters of credit	105,290	132,045	87,712	110,001
Letters of guarantees for importers	159,307	165,873	132,712	138,181
	12,004	-	10,000	-
	276,601	297,918	230,424	248,182
Unconfirmed acceptances and guarantees				
Customer's liability on letters of credit	1,191,699	1,120,770	992,752	933,664
Others	171,103	134,054	142,538	111,674
	1,362,802	1,254,824	1,135,290	1,045,338
	₩ 2,010,421	₩ 1,831,619	\$ 1,674,793	\$ 1,525,840

In accordance with the change in the Executive Guideline of Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, the Bank reclassified ₩512,478 million (US\$ 426,923 thousand) of confirmed acceptances and guarantees in foreign currencies as domestic import usance in 2002 balance sheet presented for comparative purpose.

(2) Confirmed acceptances and guarantees (excluding unconfirmed acceptances and guarantees), by customer, as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Large corporations	₩ 48,346	₩ 12,635	\$ 40,275	\$ 10,526	7.47	2.19
Small and medium corporations	589,082	536,601	490,738	447,018	90.96	93.03
Others	10,191	27,559	8,490	22,958	1.57	4.78
	₩ 647,619	₩ 576,795	\$ 539,503	\$ 480,502	100.00	100.00

(3) Confirmed acceptances and guarantees, by industry, as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Manufacturing	₩ 341,647	₩ 155,112	\$ 284,611	\$ 129,217	52.76	26.89
Wholesale and retail	149,802	224,661	124,794	187,155	23.13	38.95
Financial service and insurance	2,744	9,542	2,286	7,949	0.42	1.65
Construction	53,346	68,216	44,440	56,828	8.24	11.83
Transportation and storage	9,857	-	8,211	-	1.52	-
Others	90,223	119,264	75,161	99,353	13.93	20.68
	₩ 647,619	₩ 576,795	\$ 539,503	\$ 480,502	100.00	100.00

(4) Confirmed acceptances and guarantees, by country, as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Percentage(%)	
	2002	2001	2002	2001	2002	2001
Korea	₩ 371,664	₩ 278,877	\$ 309,617	\$ 232,320	57.39	48.35
America	19,605	81,850	16,332	68,186	3.03	14.19
Japan	58,335	164,510	48,596	137,046	9.01	28.52
Others	198,015	51,558	164,958	42,950	30.57	8.94
	₩ 647,619	₩ 576,795	\$ 539,503	\$ 480,502	100.00	100.00

(5) Allowance for possible losses on confirmed acceptances and guarantees as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Normal	₩ 600,746	₩ 465,764	\$ 500,455	\$ 388,007
Precautionary	41,984	92,766	34,975	77,279
Substandard	4,443	16,285	3,701	13,566
Doubtful	135	846	113	705
Estimated loss	311	1,134	259	945
	647,619	576,795	539,503	480,502
Allowance for possible losses	₩ 1,267	₩ 5,165	\$ 1,055	\$ 4,303
Ratio (%)	0.2	0.9	0.2	0.9

16. CONTINGENCIES AND COMMITMENTS:

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

(1) The Bank manages written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩ 1,627,923 million (US\$ 1,356,150 thousand) and ₩ 1,213,247 million (US\$ 1,010,702 thousand), as of December 31, 2002 and 2001, respectively.

(2) The Bank has ₩ 7,186 million (US\$ 5,986 thousand) and ₩ 7,868 million (US\$ 6,554 thousand) of outstanding endorsed notes for sale, which has been purchased at a discount, as of December 31, 2002 and 2001, respectively.

(3) As of December 31, 2002, the Bank has provided ₩ 56,767 million (US\$ 47,290 thousand) of local currency and ₩ 15,699 million (US\$ 13,078 thousand) of foreign currencies for the loan commitments to be executed in the near future. As of December 31, 2001, the Bank provided loan commitment in local currency amounting to ₩ 10,000 million (US\$ 8,331 thousand).

(4) Derivative instruments:

As of and for the years ended December 31, 2002 and 2001, outstanding contract amount, gain or loss on valuation of derivative instruments in the statement of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheet were as follows (Unit: Won in millions):

December 31, 2002:

Type	Outstanding contract amount (*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 6,142,343	₩ -	₩ (9,078)	₩ -	₩ (9,454)
Currency swaps	1,334,189	611,210	(43,980)	(3,867)	(24,813)
Currency options	149,955	-	(946)	-	(1,131)
Currency futures	3,001	-	-	-	-
	7,629,488	611,210	(54,004)	(3,867)	(35,398)
Interest rate					
Interest rate options	100,000	-	188	-	242
Interest rate futures	202,323	-	-	-	-
Interest rate swaps	11,716,795	1,220,232	(17,983)	4,108	(15,130)
	12,019,118	1,220,232	(17,795)	4,108	(14,888)
Stock					
Stock price index futures	8,189	-	-	-	-
Stock price index options	16,366	-	614	-	(693)
	24,555	-	614	-	(693)
	₩ 19,673,161	₩ 1,831,442	₩ (71,185)	₩ 241	₩ (50,979)

December 31, 2001:

Type	Outstanding contract amount (*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 917,685	₩ -	₩ (16,745)	₩ -	₩ (16,520)
Currency swaps	553,305	651,179	6,851	(57,716)	26,227
Currency options	762	-	3	-	3
	1,471,752	651,179	(9,891)	(57,716)	9,710
Interest rate					
Interest rate futures	293,679	-	-	-	-
Interest rate swaps	2,764,288	542,209	1,773	7,587	4,474
	3,057,967	542,209	1,773	7,587	4,474
	₩ 4,529,719	₩ 1,193,388	₩ (8,118)	₩ (50,129)	₩ 14,184

(1) In the translation of derivative contracts from local currency to foreign currency and from foreign currency to foreign currency, the contractual exchange rate against foreign currency and market exchange rate at the balance sheet date against purchased foreign currency are applied, respectively.

Outstanding contractual amount and gain or loss on valuation for hedging purpose in the table included and resulted from both derivative instruments accounted for using hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70 and derivative instruments used for hedging activities but not accounted for using hedge accounting.

Hedged items, to which fair value hedge accounting was applied, consisted of investment securities, borrowings and bonds issued and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair values of hedged items resulting from interest rate changes. Resulting from valuation of hedged items accounted for as fair value hedge accounting in 2002, gain on valuation of ₩18,340 million (US\$ 15,278 thousand) on foreign investment securities, gain on valuation of ₩3,347 million (US\$ 2,788 thousand) on borrowings in foreign currencies, and loss on valuation of ₩19,200 million (US\$ 15,995 thousand) on debentures in foreign currencies were reflected in current operations, and the opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for using fair value hedge accounting were reflected in other assets or liabilities.

Futures and options such as currency options and currency futures were subjected to market to market accounting with valuation gain or loss recorded as settlement accounts in the balance sheet.

(5) In the normal course of its business, the Bank regularly files lawsuits and takes other legal actions in connection with its business, primarily with respect to collection actions. As of December 31, 2002, the Bank was a plaintiff in 1,079 legal cases-involving ₩ 120.3 billion (US\$ 100.2 million) - and as a defendant in 131 legal cases-involving ₩20.0 billion (US\$ 16.7 million). The Bank has provided an allowance of ₩ 14,618 million (US\$ 12,178 thousand) for the cases of which the ultimate outcome is likely to have unfavorable effects on the Bank.

17. SHAREHOLDERS' EQUITY:

(1) Common stock and Preferred stock

The Bank is authorized to issue up to 800 million shares of capital stock (₩5,000 par value). The number of shares of common stock and preferred stock issued by the Bank as of December 31, 2002 were 302,951,585 shares and 155,325,315 shares, respectively.

The major shareholders as of December 31, 2002 were as follows (Unit: Shares in thousands):

Shareholder	Common stock		Preferred stock (*1)	
	No. of shares	Percentage (%)	No. of shares	Percentage (%)
Korean Government	233,734	77.15	-	-
Korea Investment Trust Company	25,533	8.43	46,000	29.62
Korea Development Bank	10,490	3.46	46,915	40.18
Export-Import Bank of Korea	7,301	2.41	62,410	30.20
Others	25,894	8.55	-	-
	302,952	100.00	155,325	100.00

(1) The preferred stock could be converted into common stock and participating as to dividends.

(2) Legal reserve

The Industrial Bank of Korea Act requires the Bank to appropriate at least 25 percent of net income, as a legal reserve, until such reserve equals 100 percent of its paid-in capital. The legal reserve may only be used to offset against any future deficit or be transferred to capital stock.

(3) Capital adjustments

Capital adjustments as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Treasury stock	₩ (460)	₩ (460)	\$ (383)	\$ (383)
Gain on valuation of investment securities (Note 5)	155,576	180,896	129,603	150,696
Others	297	292	247	244
	₩ 155,413	₩ 180,728	\$ 129,467	\$ 150,557

Treasury stock as of December 31, 2002 was acquired in connection with the capital reduction executed prior to December 31, 1998. The bank intends to dispose of this treasury stock in the near future.

18. INTEREST REVENUE AND EXPENSES:

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expense as of and for the years ended December 31, 2002 and 2001 were as follows (Unit: Won in millions):

	2002		2001	
	Average balance	Interest revenue/expense	Average balance	Interest revenue/expense
Assets				
Due from banks	₩ 1,327,014	₩ 21,345	₩ 1,818,976	₩ 58,955
Trading securities	1,574,356	81,071	360,388	20,018
Investment securities	9,507,940	612,986	12,672,947	771,061
Loans	38,301,102	2,701,183	31,687,629	2,447,808
Others	694,514	69,318	1,168,842	103,785
	51,404,926	3,485,903	47,708,782	3,401,627
Liabilities				
Deposits	29,569,648	1,097,700	26,632,405	1,329,982
Borrowings	15,220,994	590,686	12,149,053	553,327
Debenture	7,629,672	448,306	6,578,723	493,842
Others	364,686	16,655	270,820	16,254
	₩ 52,785,000	₩ 2,153,347	₩ 45,631,001	₩ 2,393,405

19. GENERAL AND ADMINISTRATIVE EXPENSES:

(1) General and administrative expenses for the years ended December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Salaries	₩ 335,195	₩ 261,812	\$ 279,236	\$ 218,104
Provision for severance benefits	36,585	34,124	30,477	28,427
Other employee benefits	65,691	81,106	54,724	67,566
Rent	18,042	15,851	15,030	13,205
Entertainment	4,740	3,768	3,949	3,139
Depreciation	71,970	48,200	59,955	40,153
Amortization of intangible assets	20	27	17	23
Taxes and dues	51,771	45,200	43,128	37,654
Advertising	16,613	14,173	13,840	11,807
Others	81,405	69,018	67,815	57,495
	₩ 682,032	₩ 573,279	\$ 568,171	\$ 477,573

(2) The value added information on the administrative expense account for the years ended December 31, 2002 and 2001 consisted of the following:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Salaries	₩ 335,195	₩ 261,812	\$ 279,236	\$ 218,104
Provision for severance benefits	36,585	34,124	30,478	28,427
Other employee benefits	65,691	81,106	54,724	67,566
Rent	18,042	15,851	15,030	13,205
Depreciation	71,970	48,200	59,955	40,153
Taxes and dues	51,771	45,200	43,128	37,654
	₩ 579,254	₩ 486,293	\$ 482,551	\$ 405,109

20. NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Non-operating income:				
Gain on valuation using the equity method	₩ 51,520	₩ 88,313	\$ 42,919	\$ 73,570
Rent	3,271	3,266	2,725	2,721
Gain on disposal of investment securities	131,129	75,051	109,238	62,522
Recovery of investment securities impairment loss	7,006	2,397	5,836	1,997
Gain on disposal of tangible assets	819	546	682	455
Gain on disposal of non-business assets	156	1,744	130	1,453
Gain on sale of loans	200	248	167	207
Others	27,501	21,755	22,910	18,121
	₩ 221,602	₩ 193,320	\$ 184,607	\$ 161,046

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Non-operating expenses:				
Loss on sale of loans	₩ -	₩ 29	\$ -	\$ 24
Loss on disposal of investment securities	139,937	36,995	116,575	30,819
Investment securities impairment loss	1,152	31,832	960	26,518
Loss on disposal of non-business assets	-	10,323	-	8,600
Loss on disposal of tangible assets	6,654	3,233	5,543	2,692
Others	45,475	37,860	37,883	31,540
	₩ 193,218	₩ 120,272	\$ 160,961	\$ 100,193

21. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income for the year ended December 31, 2002 and taxable income pursuant to Korean Corporate Tax Law was summarized as follows:

	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Income before income tax	₩ 720,211	\$ 599,976
Taxable and non-deductible items		
Temporary difference	856,474	713,491
Permanent difference	23,396	19,490
	879,870	732,981
Deductible and non-taxable items		
Temporary difference	629,771	524,634
Permanent difference	83,220	69,327
	712,991	593,961
Taxable income	887,090	738,995
Tax loss carryforwards	445,315	370,972
Excess of deductible donation carried forward from prior years	19,927	16,600
Taxable income after tax loss	421,848	351,423
Tax rate	(15%, 27%)	(15%, 27%)
Income tax payable	113,887	94,874
Tax due in overseas branches	2,335	1,945
Income tax currently payable (including resident tax of 10%) in local	₩ 122,707	\$ 102,222

(2) Changes in cumulative temporary differences for the year ended December 31, 2002 were as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	Beginning of period	Addition	Deduction	End of period	End of period
Accrued income	₩ (201,093)	₩ (127,314)	₩ (201,093)	₩ (127,314)	\$ (106,060)
Gain on valuation of trading securities	(3,521)	(590)	(3,521)	(590)	(492)
Gain on valuation of investment securities	(213,532)	(156,710)	(213,532)	(156,710)	(130,548)
Allowance for possible losses on acceptances and guarantees	5,165	1,267	5,165	1,267	1,055
Gain (Loss) on valuation using the equity method	(81,448)	16,831	(63,013)	(1,604)	(1,336)
Accrued severance benefits	6,599	30,592	582	36,609	30,497
Allowance for non-business real estate	1,617	158	1,617	158	132
Investment securities impairment loss	90,422	-	27,986	62,436	52,013
Other allowance	17,451	20,918	17,451	20,918	17,426
Gain on valuation of derivatives	(115,718)	(326,808)	(115,718)	(326,808)	(272,249)
Loss on valuation of derivatives	101,534	379,066	101,534	379,066	315,783
Advanced depreciation allowance	(257,666)	-	(12,844)	(244,822)	(203,950)
Allowance for possible loan losses	17,650	-	17,650	-	-
Others	106,241	19,503	67,946	57,798	48,149
	(526,299)	(143,087)	(369,790)	(299,596)	(249,580)
Less: advanced depreciation allowance & gain (loss) on valuation of investment securities	(471,198)	(156,710)	(226,376)	(401,532)	(334,499)
	(55,101)	13,623	(143,414)	101,936	84,919
Income tax rate	29.70%			29.70%	29.70%
Effect of deferred income taxes	₩ (16,365)	₩	₩	₩ 30,275	\$ 25,221

(3) Deferred income tax assets as of December 31, 2002 consisted of:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
Local:					
Tax effect on tax loss carry forwards	₩ -	₩ 60,375	\$ -	\$ 50,296	
Tax effect on cumulative temporary differences	30,275	(16,365)	25,221	(13,633)	
Overseas branches:	2,329	3,045	1,940	2,537	
	₩ 32,604	₩ 47,055	\$ 27,161	\$ 39,200	

In addition, ₩60,375 million (US\$ 50,296 thousand) of deferred tax assets resulted from tax loss carryforward which was recognized as of December 31, 2001 was fully realized in 2002.

(4) Income tax expense for the year ended December 31, 2002 was summarized as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2) (In thousands)	
	Local	Overseas branches	Total		
Tax liabilities	₩ 122,707	₩ 1,619	₩ 124,326	\$ 103,570	
Decrease of deferred tax assets	13,735	716	14,451	12,039	
	₩ 136,442	₩ 2,335	₩ 138,777	\$ 115,609	

(5) The legal income tax rate, including resident tax, applied to the Bank was 29.7%. However, the effective tax rate calculated by dividing income tax expense by income before income tax expense was 19.3% and 5.6% in 2002 and 2001, respectively, due to the effect of aforementioned tax reconciling items and tax loss carry forwards.

22. ORDINARY INCOME PER SHARE AND NET INCOME PER SHARE:

(1) Ordinary income per share and net income per share

Since the preferred shares are convertible into common stock and participating as to dividends, the computation of ordinary income per share and net income per share below applies to both common shares and preferred shares. Ordinary income per common share and net income per common share are computed by dividing the ordinary income (after deducting the tax effect) and net income available to common shareholders, respectively, by the weighted average number of common shares outstanding during the period. The capital injection in common stock is also considered in the calculation of the weighted average number of common shares based on the payment date.

Ordinary income per common share, net income per common share, ordinary income per preferred share, and net income per preferred share for the year ended December 31, 2002 were calculated as follows:

1) Computation of the weighted average number of common shares and preferred shares outstanding during 2002:

	No. of shares	Days	Cumulative no. of shares
Common stock			
Beginning balance	283,713,663	365	103,555,486,995
Treasury stock	(80,614)	365	(29,424,110)
Treasury stock	(1)	331	(331)
Treasury stock	(1)	320	(320)
Treasury stock	(1)	278	(278)
Treasury stock	(1)	261	(261)
Treasury stock	(1)	226	(226)
Treasury stock	(1)	214	(214)
Treasury stock	(1)	2	(2)
Conversion from preferred stock	19,237,922	365	7,021,841,530
	302,870,964		110,547,902,783
Preferred stock			
Beginning balance	174,563,237	365	63,715,581,505
Conversion into common stock	(19,237,922)	365	(7,021,841,530)
	155,325,315		56,693,739,975

No. of common shares outstanding: $110,547,902,783 \div 365 \text{ days} = 302,870,967 \text{ shares}$

No. of preferred shares outstanding: $56,693,739,975 \div 365 \text{ days} = 155,325,315 \text{ shares}$

2) Computation of net income applicable to common shares and to preferred shares (Unit: Won in millions):

	Net income applicable to common shares	Net income applicable to preferred shares	Total
Dividends	₩ 50,593	₩ 23,299	₩ 73,892
Additional net income available for dividends ⁽¹⁾	335,489	172,053	507,542
	₩ 386,082	₩ 195,352	₩ 581,434

(1) Additional net income available for dividends: ₩581,434 million - ₩73,892 million = ₩507,542 million

Additional net income available for dividends to common shareholders:

₩507,542 million X 302,870,964 shares ÷ (302,870,964 shares + 155,325,315 shares) = ₩335,489 million

Additional net income available for dividends to preferred shareholders:

₩507,542 million X 155,325,315 shares ÷ (302,870,964 shares + 155,325,315 shares) = ₩172,053 million

Since there were no extraordinary items for the year ended December 31, 2002, ordinary income applicable to common shares and to preferred shares is the same as net income applicable to common shares and to preferred shares as computed above.

3) Computation of per share amounts for the year ended December 31, 2002 (Unit : Korean Won):

	Computation	Amount
Net income per common share	₩386,082 million ÷ 302,870,967 shares =	₩ 1,275
Ordinary income per common share	₩386,082 million ÷ 302,870,967 shares =	₩ 1,275
Net income per preferred share	₩195,352 million ÷ 155,325,315 shares =	₩ 1,258
Ordinary income per preferred share	₩195,352 million ÷ 155,325,315 shares =	₩ 1,258

(2) Diluted ordinary income per share and diluted net income per share

Diluted ordinary income and diluted net income are computed by adding the ordinary income and net income applicable to convertible preferred shares to ordinary income and net income applicable to common shares. Diluted ordinary income per share and diluted net income per share are computed by dividing diluted ordinary income and diluted net income in 2002 by the number of common shares outstanding plus the number of convertible preferred shares outstanding during the year.

The diluted ordinary income per share and diluted net income per share for the year ended December 31, 2002 were computed as follows:

- 1) Diluted ordinary income and diluted net income: ₩581,434 million (Since there were no extraordinary items in 2002, diluted ordinary income and diluted net income are the same)
- 2) Number of diluted shares: 302,870,967 common shares + 155,325,315 preferred shares = 458,196,282 shares
- 3) Diluted ordinary income per share and diluted net income per share: ₩581,434 million ÷ 458,196,282 shares = ₩1,269

(3) As of December 31, 2002, convertible preferred shares were summarized as follows (Unit: Won in millions):

Issuance date	Preferred stock at par value	Exercise period	Number of common shares to be issued	Remarks
1999.12.28	₩ 464,577	6 months after issuance date	92,915,315	Conversion ratio is 1 : 1
2000.01.29	145,350	6 months after issuance date	29,070,000	"
2000.06.29	166,700	6 months after issuance date	33,340,000	"
	₩ 776,627		155,325,315	

23. DIVIDENDS:

(1) Dividends per share in 2002 amounted to ₩ 150 for the major shareholders such as the Korean government and ₩ 350 for minority shareholders. Details of the dividends were as follows:

Shareholder	No. of shares entitled to receive dividends	Par value	Dividend rate(%)	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				Dividends	Dividends	Dividends	Dividends
Common stock:							
Major shareholders	277,057,650	₩ 5,000	3.0	₩ 41,559		\$ 34,621	
Minority shareholders	25,813,314	5,000	7.0	9,034		7,526	
	302,870,964			50,593		42,147	
Preferred stock:							
Major shareholders	155,325,282	5,000	3.0	23,299		19,409	
Minority shareholders	33	₩ 5,000	7.0	-		-	
	155,325,315			23,299		19,409	
	458,196,279			₩ 73,892		\$ 61,556	

(2) Dividend to net income ratio and dividend yield ratio (for common shares) in 2002 were as follows:

Classification	Computation	Ratio	Remarks
Dividend to net income ratio	Dividend amount / Net income	12.71%	
Dividend yield ratio (Common shares) ⁽¹⁾	Dividend per share / Stock price	2.62%	Major shareholders
	(Closing price at balance sheet date)	6.11%	Minority shareholders

(1) Yield of preferred shares, which did not have any closing price available, was not calculated.

24. TERM STRUCTURE OF ASSETS AND LIABILITIES:

The term structure of assets and liabilities as of December 31, 2002 was as follows (Unit: Won in millions):

	Less than 3 months	Less than 6 months	Less than 1 year	Less than 3 years	More than 3 years	Total
Due from banks:						
Local currency	₩ 350,182	₩ -	₩ -	₩ -	₩ -	₩ 350,182
Foreign currencies	289,068	-	-	-	-	289,068
Held-to-maturity securities:						
Government, public, and local government bonds	-	1,994	27,496	144,685	150,114	324,289
Finance debentures	85,416	213,804	147,610	29,960	-	476,790
Corporate bonds	195,249	112,505	450,642	1,136,630	352,809	2,247,835
Loans:						
Local currency	5,196,622	7,331,450	13,108,323	6,814,127	3,988,889	36,439,411
Foreign currencies	316,511	596,593	921,346	1,004,365	1,219,072	4,057,887
Bills bought in local currency	84,764	-	-	-	1,167	85,931
Bills bought in foreign currencies	588,291	78,238	12,494	6,319	-	685,342
Domestic import usance	468,288	161,738	4,321	-	-	634,347
Advances for customers	8,067	-	-	-	27,052	35,119
Factoring receivables	8,008	-	-	-	-	8,008
Credit card accounts	67,444	99,379	198,389	45,415	2,728,702	3,139,329
Call loans	608,740	-	-	-	-	608,740
Privately placed bonds	1,037	3,994	4,755	51,603	4,844	66,233
Inter-bank loans	73,351	72,875	137,211	637,342	591,587	1,512,366
Deposits:						
Local currency	10,296,747	3,553,508	5,238,905	2,039,701	8,501,426	29,630,287
Foreign currencies	922,813	33,217	9,204	808	-	966,042
Borrowings:						
Local currency	1,886,074	235,395	607,039	1,819,268	3,004,843	7,552,619
Foreign currencies	996,522	221,878	491,135	1,014,971	626,017	3,350,523
Bills sold	591,871	544,708	522,464	-	-	1,659,043
Borrowings from Industry Foundation Fund	-	-	-	-	174,413	174,413
Due to BOK in foreign currencies	5,359	4,477	7,812	13,438	1,278	32,364
Call money	437,049	-	-	-	-	437,049
Debentures						
Local currency	1,295,102	2,254,936	2,846,806	1,179,047	404,000	7,979,891
Foreign currencies	₩ -	₩ 184,608	₩ 182,821	₩ 755,584	₩ 471,673	₩ 1,594,686

25. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Assets:				
Cash-foreign currencies	₩ 56,846	₩ 48,064	\$ 47,356	\$ 40,040
Due from banks-foreign currencies	289,068	919,294	240,810	765,823
Trading securities-foreign currencies	6,326	91,800	5,270	76,475
Investment securities-foreign currencies	569,637	441,611	474,539	367,887
Loans-foreign currencies	4,057,887	1,620,727	3,380,446	1,350,156
Bills bought in foreign currencies	685,342	1,112,129	570,928	926,465
Call loans-foreign currencies	432,144	1,993	360,000	1,660
Others	2,281,145	1,448,601	1,900,320	1,206,765
	₩ 8,378,395	₩ 5,684,219	\$ 6,979,669	\$ 4,735,271
Liabilities:				
Deposits-foreign currencies	966,042	1,019,726	804,767	849,489
Borrowings-foreign currencies	3,350,523	3,355,133	2,791,172	2,795,012
Due to BOK-foreign currencies	32,364	82,121	26,961	68,411
Call money-foreign currencies	13,805	31,554	11,500	26,286
Debentures-foreign currencies	1,594,686	478,260	1,328,462	398,417
Others	2,003,488	2,004,988	1,669,017	1,670,267
	₩ 7,960,908	₩ 6,971,782	\$ 6,631,879	\$ 5,807,882

26. TRANSACTIONS WITH RELATED PARTIES:

(1) Significant transactions with related parties during the years ended December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Revenues:				
Trust accounts of the Bank ⁽¹⁾	₩ 42,910	₩ 18,226	\$ 35,746	\$ 15,183
IBK Capital Corporation	4	5	3	4
IBK Mutual Savings and Finance Company	-	40	-	33
Export-Import Bank of Korea	5,589	2,762	4,656	2,301
	₩ 48,503	₩ 21,033	\$ 40,405	\$ 17,521
Expenses:				
Trust accounts of the Bank ⁽¹⁾	4,479	5,292	3,731	4,409
KT&G	735	308	612	256
IBK Mutual Savings and Finance Company	73	133	61	111
IBK Capital Corporation	46	71	38	59
IBK Tech Co., Ltd.	95	24	79	20
Export-Import Bank of Korea ⁽²⁾	235	851	196	709
	₩ 5,663	₩ 6,679	\$ 4,717	\$ 5,564

(1) Certain trust accounts whose principal or interest is guaranteed by the Bank are included.

(2) Shareholder of the Bank

(2) Significant balances with related parties as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Assets:				
Trust accounts of the Bank ⁽¹⁾	₩ 65,000	₩ 72,000	\$ 54,149	\$ 59,980
Export-Import Bank of Korea	200,000	200,000	166,611	166,611
	265,000	272,000	220,760	226,591
Liabilities:				
Trust accounts of the Bank ⁽¹⁾	58,883	157,143	49,053	130,909
KT&G	17	30,000	14	24,992
IBK Mutual Savings and Finance Company	1,732	5,892	1,443	4,908
IBK Capital Corporation	4,398	5,860	3,664	4,882
IBK Tech Co., Ltd.	6,114	6,531	5,093	5,441
Export-Import Bank of Korea	83	2,523	69	2,102
	₩ 71,227	₩ 207,949	\$ 59,336	\$ 173,234

(1) Certain trust accounts whose principal or interest is guaranteed by the Bank are included.

(3) The Bank has provided ₩ 2,143 million (US\$ 1,785 thousand) of acceptances and guarantees to IBK Capital Corporation as of December 31, 2002.

27. TRUST ACCOUNTS:

(1) As of December 31, 2002 and 2001, assets and liabilities of the trust accounts were summarized as follows (Unit: Won in million):

December 31, 2002:

Accounts	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts	Performance - based trust accounts	Total
Cash and due from banks	₩ -	₩ -	₩ -	₩ 2,165	₩ 2,165
Securities	74,111	922,517	213,960	3,905,720	5,116,308
Loans	12,100	33,048	4,189	30,157	79,494
Other assets	118	21,586	4,634	105,346	131,684
Bank accounts credit	5,614	51,362	5,348	206,213	268,537
Present value discounts	(5,865)	-	-	-	(5,865)
Allowances for valuation of assets	(20,325)	(162)	(542)	(1,445)	(22,474)
Total assets	65,753	1,028,351	227,589	4,248,156	5,569,849
Money trusts	410	999,561	210,940	3,802,093	5,013,004
Property trusts	-	-	-	382,888	382,888
Borrowings	65,000	-	-	-	65,000
Other liabilities	322	17,831	14,235	63,175	95,563
Special reserves	21	10,959	2,414	-	13,394
Total liabilities	₩ 65,753	₩ 1,028,351	₩ 227,589	₩ 4,248,156	₩ 5,569,849

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

December 31, 2001:

Accounts	Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal	Trust accounts guaranteeing the repayment of principal	Mixed trust accounts	Performance - based trust accounts	Total
Cash and due from banks	₩ -	₩ -	₩ -	₩ 2,378	₩ 2,378
Securities	129,103	869,805	254,198	3,349,757	4,602,863
Loans	19,955	23,041	6,017	59,443	108,456
Other assets	63	23,941	5,750	88,488	118,242
Bank accounts credit	2,775	148,882	30,377	212,443	394,477
Present value discounts	(15,904)	-	-	-	(15,904)
Allowances for valuation of assets	(57,732)	(507)	(2,293)	(5,371)	(65,903)
Total assets	78,260	1,065,162	294,049	3,707,138	5,144,609
Money trusts	4,377	1,044,821	277,508	3,290,347	4,617,053
Property trusts	-	-	-	379,128	379,128
Borrowings	72,000	-	-	-	72,000
Other liabilities	1,879	13,171	14,127	37,663	66,840
Special reserves	4	7,170	2,414	-	9,588
Total liabilities	₩ 78,260	₩ 1,065,162	₩ 294,049	₩ 3,707,138	₩ 5,144,609

(2) Of the certain trust that a fixed rate of return, and/or the repayment of principal is guaranteed by the Bank, the possible losses that the bank accounts may bear due to the difference between the book value and the fair market value as of December 31, 2002 and 2001 consisted of the following (Unit: Won in millions):

December 31, 2002:

Classification	Book value	Fair market value	Charge to the Bank account
Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal			
Development money trust	₩ 419	₩ 419	₩ -
Unspecified money trust	94	94	-
	513	513	-
Trust accounts guaranteeing the repayment of principal			
Household money trusts	14,774	14,929	-
Corporate money trusts	11,637	11,690	-
Individual pension trusts	27,402	27,846	-
Specified Money Trusts	3,179	3,224	-
Personal pension trusts	553,479	565,919	-
Retirement money trusts	136,736	136,736	-
New personal pension trusts	3,019	3,019	-
New individual pension trusts	292,445	292,445	-
Pension Trust	13,235	13,235	-
	1,055,906	1,069,043	-
	₩ 1,056,419	₩ 1,069,556	₩ -

December 31, 2001:

Classification	Book value		Fair market value		Charge to the bank account	
Trust accounts guaranteeing a fixed rate of return on, and the repayment of principal						
Development money trust	₩	6,021	₩	5,994	₩	27
Unspecified money trust		91		91		-
		6,112		6,085		27
Trust accounts guaranteeing the repayment of principal						
Household money trusts		15,743		16,276		-
Corporate money trusts		11,830		12,128		-
Individual pension trusts		29,519		30,689		-
Specified Money Trusts		7,591		7,886		-
Personal pension trusts		511,898		521,438		-
Retirement money trusts		106,099		106,099		-
New personal pension trusts		1,873		1,873		-
New individual pension trusts		408,329		408,329		-
Pension Trust		5,455		5,455		-
		1,098,337		1,110,173		-
	₩	1,104,449	₩	1,116,258	₩	27

28. EMPLOYEE BENEFITS:

Employee benefit expenses for the years ended December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Health and medical	₩ 495	₩ 406	\$ 412	\$ 338
Legal benefits	11,965	10,248	9,968	8,537
Congratulations & condolences	1,426	1,490	1,188	1,241
Fringe benefits	51,805	68,962	43,156	57,449
	₩ 65,691	₩ 81,106	\$ 54,724	\$ 67,565

Legal benefits included medical insurance premiums, industrial accident compensation insurance premiums, insurance premiums for industrial casualties, and insurance premiums for wage guarantee.

29. EXPERT TRAINING EXPENSES:

The Bank incurred ₩4,436 million (US\$ 3,695 thousand) and ₩2,215 million (US\$ 1,845 thousand) for expert training from local and foreign training institutes during the years ended December 31, 2002 and 2001, respectively.

30. SECURITIZATION OF ASSETS:

(1) Kieun Special Purpose Company:

The Bank sold non-performing loans of ₩575,786 million (US\$ 479,662 thousand), including ₩26,230 million (US\$ 21,851 thousand) in trust accounts, on March 14, 2000 to Special Purpose Company (SPC) at a price of ₩330,000 million (US\$ 274,908 thousand), including ₩16,718 million (US\$ 13,927 thousand) for trust accounts. With respect to this transaction, the Bank purchased subordinated bonds of ₩80,000 million (US\$ 66,644 thousand).

The Kieun Special Purpose Company reimbursed early the subordinated bonds of ₩80,000 million (US\$ 66,644 thousand) by selling the underlying assets to the third party in 2002.

(2) KT & G common stock:

In 2000, the Bank entrusted 18,999,985 shares of its shareholdings in KT&G common stock (the "Trusted Securities") to its Securities Trust. As of December 31, 2002, the trusted shares totaled to 19,510,485 shares subsequent to the Bank's purchase of additional 510,500 shares with special dividend of KT&G Co. Using Trusted Securities as underlying assets, the Securities Trust of the Bank issued a subordinated trust certificate to the Bank and a senior trust certificate to IBK Cayman Finance Company, a limited liability corporation organized and existing under the laws of Cayman Islands. The owner of the senior trust certificate is entitled to exercise a call option, which gives the owner a right to buy the KT&G shares at US\$ 352,909 thousand that expires in August 2003. Also, IBK Cayman Finance Company issued secured exchangeable notes (coupon rate of 1.5 percent) of US\$ 352,909 thousand due 2003 on the basis of the senior trust certificate, and purchased U.S. Treasuries with the proceeds obtained from the secured exchangeable notes. In case the holders of the secured exchangeable notes exercise the exchange option, IBK Cayman Finance Company is required to transfer the purchased U.S. Treasuries to the Bank's Securities Trust who will cause the shares to be delivered to the note-holders.

As the holder of the subordinated trust securities, the Bank absorbs the operating results of the Trust Securities and holds the voting rights until the owner of the senior trust securities exercises the call option. Due to the aforementioned practical control over the KT&G common shares, the Bank classified the trust securities as investment securities that was accounted for using the equity method.

31. LIQUIDATION OF IBK MUTUAL SAVINGS AND FINANCE COMPANY:

IBK Mutual Savings and Finance Company, which is 100 percent owned subsidiary, is currently in the process of liquidation. The liquidation decision was made on October 23, 2001 due to the company's financial difficulty and uncertainty on its future operations. With respect to the liquidation process, the Bank paid ₩78,000 million (US\$ 64,978 thousand) as the guarantor of the borrowings of IBK Mutual Savings and Finance Company and wrote off ₩71,300 million (US\$ 59,397 thousand) for the year ended December 31, 2001.

32. STATEMENT OF CASH FLOWS:

Cash flows from operating activities are presented by the indirect method. Cash in the cash flow statements includes cash and due from banks as of December 31, 2002 and 2001.

Significant transactions not involving cash inflows and outflows in 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Write-offs of loans	₩ 524,695	₩ 410,398	\$ 437,100	\$ 341,884
Increase (decrease) in capital adjustments due to valuation of investment securities	(25,320)	93,455	(21,093)	77,853
Transfer from common stock to preferred stock	96,189	51,900	80,131	43,236
Increase in dividends payable	₩ 73,892	₩ 53,257	\$ 61,556	\$ 44,366

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

English Translation of a Report Originally Issued in Korean

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Deloitte Touche Tohmatsu

To the Shareholders and Board of Directors of Industrial Bank of Korea:

We have audited the accompanying consolidated balance sheets of Industrial Bank of Korea and its subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statement of IBK Capital Corporation, whose statement reflect total asset and total revenue of 0.93 percent and 0.51 percent, respectively, of the related consolidated totals in 2002. Also, we did not audit the financial statements of IBK Capital Corporation, IBK Mutual Savings and Finance Company, Korea Tobacco and Ginseng Corporation (KT&G), Korea Ginseng Corporation (KG) and Korea Ginseng Hong Kong Ltd. (KG Hong Kong), whose statements reflect total assets and total revenues of 8.15 percent and 29.87 percent, respectively, of the related consolidated totals in 2001. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

94

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Industrial Bank of Korea and its subsidiaries as of December 31, 2002 and 2001 and the results of their operations, changes in shareholders' equity and their cash flows for the years then ended, in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

English Translation of a Report Originally Issued in Korean

As explained in Note 2, beginning in 2002, the Bank has increased its allowance ratio for possible loan losses for the household loans and credit card accounts and has provided additional provision for unused credit and others in accordance with the request of the Financial Supervisory Service and based on the significant increase in household loans and credit card accounts and deterioration of their delinquency ratios. As a result of this change in accounting estimates, the Bank has provided additional allowances for possible loan losses and other allowances of ₩86,248 million (US\$ 71,849 thousand) and ₩6,301 million (US\$ 5,249 thousand), respectively, which decreased net income by ₩65,062 million (US\$ 54,200 thousand) in 2002 compared to those accounted for using the previous method.

As explained in Note 2, the Bank disposed of 36,727,098 shares of KT&G stock pursuant to the Korean government's privatization program to sell the state-owned shares to overseas or private investors during 2002. As a result of the above transaction, the Bank's ownership interest in KT&G, after deducting the decreasing effect caused by the treasury shares held by KT&G, was reduced to 16.32% as of December 31, 2002 from 35.20% as of December 31, 2001. Therefore, according to the Rules for Preparation of Consolidated Financial Statements, KT&G and its subsidiaries were excluded from consolidation, and investment securities of KT&G owned by the Bank were accounted for by using the equity method.

Also, IBK Mutual Savings and Finance Company, which is a 99.99 percent owned subsidiary, went into the process of liquidation due to financial difficulty and uncertainty of its future as of December 31, 2001. Due to the liquidation process, IBK Mutual Savings and Finance Company was excluded from the scopes for the consolidated financial statements since 2001.

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



Anjin & Co.

An Associate Member Firm of Deloitte Touche Tohmatsu

Seoul, Korea

February 7, 2003

95

Notice to Readers

This report is effective as of February 7, 2003, the auditors' report date. Certain events or circumstances may have occurred between the auditors report date and the time of the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
ASSETS				
Cash and due from banks (Notes 3 and 22)	₩ 1,631,130	₩ 3,245,200	\$ 1,358,822	\$ 2,703,432
Trading securities (Notes 4 and 22)	2,838,548	1,399,800	2,364,668	1,166,111
Investment securities (Notes 5, 6, 11, 22 and 25)	10,139,981	11,848,209	8,447,168	9,870,217
Loans (Notes 7, 22 and 25)	47,010,598	36,438,166	39,162,444	30,355,020
Fixed assets (Notes 6 and 8)	866,912	2,755,393	722,186	2,295,396
Other assets (Note 9)	4,048,410	3,023,688	3,372,552	2,518,900
Other assets for non-financial business (Notes 10 and 22)	-	1,826,913	-	1,521,921
Total assets	₩ 66,535,579	₩ 60,537,369	\$ 55,427,840	\$ 50,430,997
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits (Notes 12, 22 and 23)	₩ 33,167,100	₩ 30,094,259	\$ 27,630,040	\$ 25,070,192
Borrowings (Notes 13, 22 and 23)	15,432,601	14,157,737	12,856,215	11,794,183
Debentures (Notes 14 and 22)	9,570,035	6,312,634	7,972,372	5,258,775
Other liabilities (Notes 15, 17 and 22)	4,983,722	4,597,306	4,151,718	3,829,812
Other liabilities for non-financial business (Notes 16, 17 and 22)	-	303,605	-	252,920
Total liabilities	63,153,458	55,465,541	52,610,345	46,205,882
SHAREHOLDERS' EQUITY				
Capital stock, par value ₩5,000 (Note 18)	2,291,385	2,291,385	1,908,851	1,908,851
Capital surplus	-	32,916	-	27,420
Retained earnings (Note 18) (Net income of ₩581,431 million in 2002 and ₩492,144 million in 2001)	934,294	368,202	778,319	306,733
Capital adjustments (Note 18)	155,508	230,638	129,547	192,134
Minority interests (Note 2)	934	2,148,687	778	1,789,977
Total shareholders' equity	3,382,121	5,071,828	2,817,495	4,225,115
Total liabilities & shareholders' equity	₩ 66,535,579	₩ 60,537,369	\$ 55,427,840	\$ 50,430,997

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
OPERATING REVENUE				
Interest income (Note 23):				
Interest income in local currency	₩ 2,645,821	₩ 2,424,383	\$ 2,204,116	\$ 2,019,646
Interest income in foreign currencies	167,694	208,615	139,698	173,788
Interest and dividends on trading securities	154,318	92,216	128,556	76,821
Interest and dividends on investment securities	624,001	783,207	519,828	652,455
Total interest income	3,591,834	3,508,421	2,992,198	2,922,710
Commission income				
Commission received in local currency	588,473	377,629	490,231	314,586
Commission received in foreign currencies	70,733	65,735	58,924	54,761
Total commission income	659,206	443,364	549,155	369,347
Other operating income				
Gain on disposal and valuation of trading securities	85,571	44,689	71,285	37,228
Gain on financial derivatives trading	746,429	180,991	621,817	150,776
Gain on foreign currency trading	637,096	618,503	530,736	515,247
Fees and commissions from trust accounts	87,906	64,829	73,231	54,006
Others	3,099	91,423	2,582	76,161
	1,560,101	1,000,435	1,299,651	833,418
SALES OF GOODS:	-	1,869,437	-	1,557,345
Total operating revenue	5,811,141	6,821,657	4,841,004	5,682,820
OPERATING EXPENSES				
Interest expense (Note 23):				
Interest expense in local currency	2,106,390	2,269,152	1,754,740	1,890,330
Interest expense in foreign currencies	113,825	190,888	94,823	159,020
Total interest expense	2,220,215	2,460,040	1,849,563	2,049,350
Commission expense				
Commission paid in local currency	94,449	53,097	78,682	44,233
Commission paid in foreign currencies	11,835	13,569	9,859	11,303
Total commission expense	106,284	66,666	88,541	55,536
Other operating expenses				
Loss on disposal and valuation of trading securities	73,271	38,169	61,039	31,797
Provision for possible losses on acceptances and guarantees	638,808	524,119	532,163	436,620
Selling and administrative expenses	687,243	919,266	572,512	765,800
Loss on financial derivatives trading	768,253	269,290	639,998	224,334
Loss on foreign currency trading	506,404	439,770	421,863	366,353
Others	115,967	149,250	96,605	124,333
	₩ 2,789,946	₩ 2,339,864	\$ 2,324,180	\$ 1,949,237

(continued)

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Cost of goods sold	₩ -	₩ 1,044,571	\$ -	\$ 870,186
Total operating expenses	5,116,445	5,911,141	4,262,284	4,924,309
NET OPERATING INCOME	694,696	910,516	578,720	758,511
NON-OPERATING INCOME	221,368	204,559	184,412	170,409
NON-OPERATING EXPENSES	194,176	226,341	161,759	188,555
ORDINARY INCOME	721,888	888,734	601,373	740,365
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	721,888	888,734	601,373	740,365
INCOME TAX EXPENSE (Note 19)	140,413	184,495	116,972	153,695
NET INCOME BEFORE MINORITY INTERESTS	581,475	704,239	484,401	586,670
MINORITY INTERESTS, GAIN	44	212,095	37	176,687
CONSOLIDATED NET INCOME	₩ 581,431	₩ 492,144	\$ 484,364	\$ 409,983
BASIC ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 20)	₩ 1,275	₩ 1,084	\$ 1.062	\$ 0.903
BASIC NET INCOME PER COMMON SHARE (in currency units) (Note 20)	₩ 1,275	₩ 1,084	\$ 1.062	\$ 0.903
DILUTED ORDINARY INCOME PER COMMON SHARE (in currency units) (Note 20)	₩ 1,269	₩ 1,074	\$ 1.057	\$ 0.895
DILUTED NET INCOME PER COMMON SHARE (in currency units) (Note 20)	₩ 1,269	₩ 1,074	\$ 1.057	\$ 0.895

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(Won in millions)

Description	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustment	Minority Interests	Total
2001.1.1	₩2,291,385	₩ 59,532	₩ (60,907)	₩ 156,674	₩2,149,291	₩4,595,975
Change in the scope of consolidation	-	-	-	530	-	530
Gain on valuation of investment securities	-	-	-	73,883	-	73,883
Change of capital adjustment in subsidiary company	-	-	-	(608)	-	(608)
Adjustment due to fluctuation of foreign exchange rates	-	-	-	159	-	159
Changes due to differential dividend in subsidiary company	-	-	(5,125)	-	-	(5,125)
Transferred from special reserve for the trust accounts	-	-	1,330	-	-	1,330
Dividends	-	-	(53,257)	-	-	(53,257)
Consolidated net income	-	-	492,144	-	-	492,144
Decrease due to the cancellation of transactions with affiliated companies	-	-	(7,187)	-	-	(7,187)
Disposal of subsidiary shares	-	(6,996)	-	-	-	(6,996)
Additional acquisition of subsidiary shares	-	(635)	-	-	-	(635)
Acquisition of treasury stock in subsidiary company	-	(18,570)	-	-	-	(18,570)
Gain attributable to minority interests	-	-	-	-	(212,699)	(212,699)
Changes in minority interest	-	-	-	-	212,095	212,095
Other	-	(415)	1,204	-	-	789
2001.12.31	₩2,291,385	₩ 32,916	₩ 368,202	₩ 230,638	₩2,148,687	₩5,071,828

(continued)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(U.S. Dollar in thousands)

Description	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustment	Minority Interests	Total
2001.1.1	\$ 1,908,851	\$ 49,593	\$ (50,738)	\$ 130,518	\$ 1,790,479	\$ 3,828,703
Change in the scope of consolidation	-	-	-	442	-	442
Gain on valuation of investment securities	-	-	-	61,548	-	61,548
Change of capital adjustment in subsidiary company	-	-	-	(506)	-	(506)
Adjustment due to fluctuation of foreign exchange rates	-	-	-	132	-	132
Changes due to differential dividend in subsidiary company	-	-	(4,269)	-	-	(4,269)
Transferred from special reserve for the trust accounts	-	-	1,108	-	-	1,108
Dividends	-	-	(44,366)	-	-	(44,366)
Consolidated net income	-	-	409,983	-	-	409,983
Decrease due to the cancellation of transactions with affiliated companies	-	-	(5,987)	-	-	(5,987)
Disposal of subsidiary shares	-	(5,828)	-	-	-	(5,828)
Additional acquisition of subsidiary shares	-	(529)	-	-	-	(529)
Acquisition of treasury stock in subsidiary company	-	(15,471)	-	-	-	(15,471)
Gain attributable to minority interests	-	-	-	-	(177,189)	(177,189)
Changes in minority interest	-	-	-	-	176,687	176,687
Other	-	(345)	1,002	-	-	657
2001.12.31	\$ 1,908,851	\$ 27,420	\$ 306,733	\$ 192,134	\$ 1,789,977	\$ 4,225,115

(continued)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(Won in millions)

Description	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustment	Minority Interests	Total
2002.1.1	₩2,291,385	₩ 32,916	₩ 368,202	₩ 230,638	₩2,148,687	₩5,071,828
Change in the scope of consolidation	-	(32,916)	54,762	(49,910)	(2,147,751)	(2,175,815)
Gain on valuation of investment securities	-	-	-	(22,203)	-	(22,203)
Change of capital adjustment in subsidiary company	-	-	-	(3,021)	(25)	(3,046)
Transferred from special reserve for the trust accounts	-	-	3,806	-	-	3,806
Dividends (Note 21)	-	-	(73,892)	-	(21)	(73,913)
Consolidated net income	-	-	581,431	-	-	581,431
Gain attributable to minority interests	-	-	-	-	44	44
Other	-	-	(15)	4	-	(11)
2002.12.31	₩2,291,385	₩ -	₩ 934,294	₩ 155,508	₩ 934	₩3,382,121

(U.S. Dollar in thousands)

Description	Capital Stock	Capital Surplus	Retained Earnings	Capital Adjustment	Minority Interests	Total
2002.1.1	\$ 1,908,851	\$ 27,421	\$ 306,733	\$ 192,134	\$ 1,789,976	\$ 4,225,115
Change in the scope of consolidation	-	(27,421)	45,620	(41,578)	(1,789,196)	(1,812,575)
Gain on valuation of investment securities	-	-	-	(18,496)	-	(18,496)
Change of capital adjustment in subsidiary company	-	-	-	(2,516)	(21)	(2,537)
Transferred from special reserve for the trust accounts	-	-	3,171	-	-	3,171
Dividends (Note 21)	-	-	(61,556)	-	(17)	(61,573)
Consolidated net income	-	-	484,364	-	-	484,364
Gain attributable to minority interests	-	-	-	-	36	36
Other	-	-	(13)	3	-	(10)
2002.12.31	\$ 1,908,851	\$ -	\$ 778,319	\$ 129,547	\$ 778	\$ 2,817,495

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩ 581,431	₩ 492,144	\$ 484,364	\$ 409,983
Addition of expenses not involving cash outflows:				
Loss on disposal and valuation of trading securities	73,271	23,309	61,039	19,418
Loss on disposal and valuation of investment securities	4,468	-	3,722	-
Loss on disposal of loans	-	29	-	24
Loss on valuation of financial derivatives	378,088	126,016	314,968	104,978
Provision for retirement and severance benefits	36,955	66,968	30,786	55,788
Depreciation and amortization	72,204	134,208	60,150	111,803
Loss on disposal of tangible assets	6,654	29,443	5,543	24,528
Loss on disposal of investment securities	139,937	18,224	116,575	15,182
Loss on impairment of investment securities	1,152	31,832	959	26,518
Minority interests, gain	44	212,095	37	176,687
Others	8,135	63,767	6,777	53,121
	720,908	705,891	600,556	588,047
Deduction of revenues not involving cash inflows:				
Gain on disposal and valuation of trading securities	85,571	67,983	71,285	56,634
Gain on disposal of investment securities	135,868	75,107	113,186	62,568
Recovery of investment securities impairment loss	7,006	2,397	5,836	1,997
Gain on valuation of investments securities	46,281	300	38,555	250
Gain on valuation of financial derivatives	306,966	68,149	255,720	56,772
Gain on disposal of tangible assets	979	14,233	816	11,857
Others	11,825	56,777	9,850	47,298
	₩ 594,496	₩ 284,946	\$ 495,248	\$ 237,376

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Changes in assets and liabilities resulting from operations:				
Net decrease in other accounts receivable	₩ 147,580	₩ 6,228	\$ 122,942	\$ 5,188
Net decrease in accrued income	52,303	120,088	43,571	100,040
Net increase in prepaid expense	(85,286)	(16,649)	(71,048)	(13,870)
Net increase (decrease) in other account payable	(105,486)	57,696	(87,876)	48,064
Net increase (decrease) in accrued expenses	853,397	(234,344)	710,927	(195,222)
Net decrease in unearned income	(91,738)	(15,271)	(76,423)	(12,722)
Withdrawal (purchase) of retirement insurance	(22,651)	167,374	(18,869)	139,432
Severance benefit payments	(2,143)	(408,097)	(1,785)	(339,967)
Net increase in assets of non-financial business	-	(141,162)	-	(117,596)
Net decrease in liabilities of non-financial business	-	(346,928)	-	(289,010)
Others	14,172	32,761	11,806	27,292
	760,148	(778,304)	633,245	(648,371)
Total cash flows from operating activities	1,467,991	134,785	1,222,917	112,283
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease (increase) in trading securities	(1,519,532)	269,910	(1,265,855)	224,850
Net decrease (increase) in investment securities	2,494,871	(1,320,678)	2,078,366	(1,100,198)
Net increase in loans	(10,740,005)	(3,887,152)	(8,947,021)	(3,238,214)
Net increase in fixed assets	(123,077)	(156,700)	(102,530)	(130,540)
Others	(1,221,267)	(479,107)	(1,017,383)	(399,122)
Total cash flows from investing activities	₩ (11,109,010)	₩ (5,573,727)	\$ (9,254,423)	\$ (4,643,224)

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won (In millions)		Translation into U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase in deposits	₩ 3,146,153	₩ 3,770,163	\$ 2,620,921	\$ 3,140,756
Net increase in borrowings	1,311,708	2,290,633	1,092,726	1,908,225
Net increase (decrease) in debentures	3,567,857	(573,858)	2,972,223	(478,056)
Net increase in other liabilities	217,593	578,848	181,267	482,213
Decrease in common stock and minority interests	-	(72,124)	-	(60,083)
Purchase of treasury stock	-	(277,520)	-	(231,190)
Others	(53,268)	48,727	(44,375)	40,592
Total cash flows from financing activities	8,190,043	5,764,869	6,822,762	4,802,457
NET DECREASE IN CHANGE OF SCOPE IN CONSOLIDATION	(163,094)	(16,252)	(135,866)	(13,539)
INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(1,614,070)	309,675	(1,344,610)	257,977
CASH AND DUE FROM BANKS, BEGINNING OF YEAR (Note 26)	3,245,200	2,935,525	2,703,432	2,445,455
CASH AND DUE FROM BANKS, END OF YEAR (Note 26)	₩ 1,631,130	₩ 3,245,200	\$ 1,358,822	\$ 2,703,432

See accompanying notes to consolidated financial statements.

1. GENERAL:

Industrial Bank of Korea (the "Bank") was established in 1961 under the Industrial Bank of Korea Act, for the purpose of conducting banking activities and promoting independent economic activities among small and medium-sized companies. In accordance with the revised Industrial Bank of Korea Act effective December 31, 1991, the Bank converted its equity shares into stock on May 15, 1992. The Bank's common stock was listed on KOSDAQ, the Korean over-the-counter-market, on November 30, 1994. The Bank's common stock and preferred stock amounted to ₩1,514,758 million (US\$ 1,261,878 thousand) and ₩776,627 million (US\$ 646,974 thousand), respectively, as of December 31, 2002. The Korean government owns 77.2 percent of the Bank's common stock. The head office of the Bank is located at 50, Uljiro 2-Ga, Chung-Ku, Seoul, Korea. The Bank has 365 branches and 22 depository offices in Korea, and 4 branches in overseas.

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. These general unstable economic conditions and the reform program described above may either directly or indirectly affect the Bank and its subsidiaries. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank and its subsidiaries. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Bank and its subsidiaries maintains their official accounting records in Korean won and prepares statutory consolidated financial statements in the Korean language (Hangul) in conformity with financial accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's and its subsidiaries' financial position or results of operations, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean Won into U.S. dollars based on the Bank of Korea (BOK) Basic Rate of ₩1,200.40 to US\$ 1.00 at December 31, 2002, solely for the convenience of the reader. The convenience translations into U.S. dollars should not be construed as a representation that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The significant accounting policies followed by the Bank in preparing the accompanying consolidated financial statements are summarized below.

Scope of Consolidation and Accounting using the equity method

The consolidated financial statements include the bank accounts and the trust accounts of the Bank and its wholly or partially owned subsidiaries. Certain trust accounts whose principal is not guaranteed by the Bank are excluded from the consolidated financial

statements in accordance with the Supervisory Regulation of Banking Business issued by the Financial Supervisory Commission (the "FSC").

Subsidiaries of the Bank as of December 31, 2002 were as follows:

Subsidiaries	Percentage of ownership by the Bank (%)	Business	Fiscal year-end	Date of acquisition of controlling interest
Consolidation:				
IBK Capital Corporation	99.18	Financial	Dec. 31	Nov. 1, 1986
Accounting for using the equity method:				
Korea Tobacco and Ginseng Corporation ("KT&G") ⁽¹⁾	16.32	Manufacturing	Dec. 31	
INNO-BIZ Special Venture Investment Association ⁽²⁾	16.67	Investment association	Dec. 31	
KTTC Hansol Technology Industrialization Association ⁽²⁾	20.00	Investment association	Dec. 31	
Sinbo Environmental Venture Investment Association (II) ⁽²⁾	36.36	Investment association	Dec. 31	
Kieun Material Special Investment Association ⁽³⁾	66.66	Investment association	Dec. 31	
MIC 2002-3 Kieun IT special Investment Association ⁽⁴⁾	60.00	Investment association	Dec. 31	
Excluded from consolidation:				
IBK Tech Co., Ltd. ⁽⁵⁾	24.98	System management	Dec. 31	
IBK Credit Information ⁽⁵⁾	100.00	Financial	Dec. 31	
IBK Mutual Savings and Finance Company ⁽⁶⁾	99.99	Financial	Jun. 30	

(1) The Bank's ownership interest in KT&G, after deducting the decreasing effect caused by treasury shares held by KT&G, has reduced to 16.32% as of December 31, 2002 from 35.20% as of December 31, 2001. Therefore, the investment securities of KT&G owned by the Bank was accounted for using the equity method.

(2) It was owned by the Bank. However, it was excluded from the consolidation in accordance with the Rules for Preparation of Consolidated Financial Statements, since it was not considered as a company under The Korean Commercial Code.

(3) 33.33% owned by IBK Capital Corporation

(4) 44.00% owned by IBK Capital Corporation

(5) It was excluded from consolidation and stated at cost because its total assets are less than ₩7,000 million.

(6) In accordance with the Rules for Preparation of Consolidated Financial Statements, it was excluded from the consolidation since it has been in the process of liquidation.

Subsidiaries of the Bank as of December 31, 2001 were as follows:

Subsidiaries	Percentage of ownership by the Bank (%)	Business	Fiscal year-end	Date of acquisition of controlling interest
Consolidation:				
IBK Capital Corporation	99.18	Financial	Dec. 31	Nov. 1, 1986
Korea Tobacco and Ginseng Corporation ["KT&G"](1)	29.34	Manufacturing	Dec. 31	Oct. 31, 1998
Korea Ginseng Corporation (2)	29.34	Manufacturing	Dec. 31	Oct. 31, 1998
Korea Ginseng Hong Kong Ltd. (3)	29.34	Trading	Dec. 31	Oct. 31, 1998
Accounting for using the equity method:				
YTN Co., Ltd. (4)	6.15	Broadcasting	Dec. 31	
Tong Yang Mart Co., Ltd (5)	12.81	Distribution	Dec. 31	
Hong Reung Venture No.1 (6)	57.52	Investment association	Nov. 31	
IBK Capital Venture No.7 (6)	11.41	Investment association	Nov. 31	
Excluded from consolidation:				
IBK Tech Co., Ltd. (7)	24.98	System management	Dec. 31	
IBK Mutual Savings and Finance Company (8)	99.99	Financial	Jun. 30	

(1) It was included in the consolidation since the Bank's ownership reached 33.5% of common shares outstanding as of December 31, 2001, excluding KT&G's purchase of treasury stock of 23,718,120 shares (12.4% of total shares issued by KT&G)

(2) Wholly owned by KT&G

(3) 99.99% owned by Korea Ginseng Corporation

(4) 20.95% owned by KT&G, second largest shareholder

(5) 43.67% owned by KT&G, second largest shareholder

(6) In accordance with the Rules for Preparation of Consolidated Financial Statements, it was excluded from the consolidation, since it was not considered as a company under The Korean Commercial Code.

(7) It was excluded from consolidation and stated at cost because its total assets are less than ₩7,000 million.

(8) In accordance with the Rules for Preparation of Consolidated Financial Statements, it was excluded from the consolidation since it has been in the process of liquidation.

IBK Capital Corporation, which is a 99.18% owned subsidiary of the Bank, was incorporated on November 1, 1986 to engage in investments in newly organized small and medium-sized enterprises (venture companies). At its inception, IBK Capital Corporation had a paid-in capital of ₩5,001 million (US\$ 4,166 thousand), which was increased to ₩55,452 million (US\$ 46,195 thousand) as of December 31, 2002 through the capital injections and the merger with KIEUN Finance Company.

Changes in Scope of Consolidation

During 2002, the Bank disposed of 36,727,098 shares of KT&G stock pursuant to the Korean government's privatization program to sell the state-owned shares to overseas or private investors for the year ended December 31, 2002. As a result of the above transaction, the Bank's ownership interest in KT&G, after deducting the decreasing effect caused by treasury shares held by KT&G, has reduced to 16.32% as of December 31, 2002 from 35.20% as of December 31, 2001. Therefore, beginning in 2002, according to the Rules for Preparation of Consolidated Financial Statements, KT&G and its subsidiaries were excluded from consolidation, and investment securities of KT&G owned by the Bank were accounted for using the equity method.

Also, IBK Mutual Savings and Finance Company, a 99.99 percent owned subsidiary went into the process of liquidation due to financial

difficulty and uncertainty of its future as of December 31, 2001. Due to the liquidation process, the financial statement of IBK Mutual Savings and Finance Company was excluded from the scopes for the consolidated financial statements since 2001.

Key Financial statements of the Subsidiaries

The material data on financial statements of the subsidiaries included in the consolidation as of December 31, 2002 and 2001 were as follows (Unit: Won in millions):

Subsidiaries	Total assets	Total liabilities	Total shareholders' equity	Operating revenue /Sales of goods	Operating income (loss)	Net income (loss)
2002:						
IBK Capital Corporation	₩ 620,243	₩ 506,325	₩ 113,918	₩ 34,498	₩ 7,595	₩ 5,320
2001:						
IBK Capital Corporation	599,101	484,961	114,140	41,240	18,327	13,797
Korea Tobacco and Ginseng Corporation ("KT&G")	3,670,512	1,054,565	2,615,947	1,701,401	449,216	333,845
Korea Ginseng Corporation	283,190	29,902	253,288	174,339	42,100	29,406
Korea Ginseng Hong Kong Co., Ltd.	₩ 64,169	₩ 61,565	₩ 2,604	₩ 22,717	₩ (996)	₩ (1,214)

The trust accounts operated by the Bank as of December 31, 2002 and 2001 were summarized as follows (Unit: Won in millions):

	Total assets		Total revenue	
	2002	2001	2002	2001
Excluded from the consolidation	₩ 1,124,032	₩ 1,171,108	₩ 126,952	₩ 150,685
Included in the consolidation	4,062,258	3,594,372	313,749	370,495
	₩ 5,186,290	₩ 4,765,480	₩ 440,701	₩ 521,180

Basis of Consolidated Financial Statement Preparation

(1) Offset of investments and shareholders' equity

Investments in subsidiaries and equity accounts of subsidiaries were eliminated at the date when the Bank obtained control over the subsidiaries. The differences between the acquisition cost and the fair value of the identifiable assets and liabilities acquired are recorded as goodwill, which is determined as excess residual cost of acquisition after recognizing identifiable assets and liabilities at their fair values. Goodwill is amortized using a straight-line method over 5 or 20 years. If additional shares are purchased after acquiring control, the difference between the additional acquisition cost and the portion of net assets acquired is credited or charged to capital surplus. If the acquisition date does not agree with the year-end balance sheet date of the subsidiary, the closest date to the acquisition date is regarded as the acquisition date. Receivables and payables, profits and losses and unrealized profits and losses between the Bank and its subsidiaries are eliminated in the consolidated financial statements.

(2) Recognition of identifiable assets and liabilities

Identifiable assets and liabilities acquired are recognized separately at their fair value on the basis of a reliable measure at the dates the Bank obtained control of the subsidiaries.

(3) Disposition of subsidiaries' securities

If the subsidiaries of the Bank are still subject to the scope of consolidation even after certain portions of securities are disposed to minority interests, gain/loss on disposal of investment securities is recognized as capital surplus. If the subsidiaries of the Bank are subject to the equity method due to the disposition of securities, the investment account is recorded at net assets of subsidiaries at the time of disposition, net of unamortized goodwill or negative goodwill in the consolidated financial statement.

(4) Inter-company transactions and balances

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

(5) Minority Interest

The portion of a subsidiary's shareholders' equity not attributable to the Bank, in cases when the Bank has a controlling but less than 100 percent interest, is presented as minority interest.

(6) Capital stock owned by subsidiary companies

Capital stock of the Bank owned by subsidiaries in which the Bank has controlling interests, is presented as capital stock owned by subsidiaries in the consolidated balance sheets.

(7) Fiscal years of subsidiaries

The accounts of consolidated subsidiaries whose fiscal years are different from those of the Bank have been adjusted to reflect balances as of December 31, 2002 and 2001.

(8) Translation of financial statements of foreign subsidiaries

Financial statements of foreign subsidiaries are translated into Korean Won at current rates of exchange as of the balance sheet date. Gain and losses resulting from translation of financial statements of foreign subsidiaries are recorded as capital adjustment.

Interest Income Recognition

The Bank applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status and deducted from current interest income. Unrecorded accrued interest income for the reasons stated above amounted to ₩152,027 million (US\$ 126,647 thousand) and ₩206,107 million (US\$171,699 thousand) as of December 31, 2002 and 2001, respectively. For overseas branches, accrued interest is recognized on an accrual basis. However, interest income on overdue loans is recognized based on the standards of practices in the respective countries.

Valuation of Trading Securities

Trading equity and debt securities are recorded at acquisition cost. If the fair value of trading equity and debt securities differs from the book value as determined by the individual moving average method, trading equity and debt securities are stated at fair value and the unrealized gain or loss is reflected in current operations.

Valuation of Investment Securities

(1) Equity Securities

Equity securities held for investment (excluding those of affiliates and subsidiaries discussed in the next paragraph) that are not actively quoted (unlisted securities) are stated at acquisition cost using the moving average method. Actively quoted (listed) securities, including those traded over-the-counter, are stated at fair value and a valuation gain or loss is recorded as a capital adjustment. If the fair value of a listed equity security or the net equity value of an unlisted equity security held for investment declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to fair value or net equity value and the valuation loss is charged to current operations.

Equity securities held for investment that are in companies in which the Bank is able to exercise significant influence are accounted for using the equity method. The Bank's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustment of the Bank consistent with the manner reflected in investees' financial statements.

(2) Debt Securities

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Investments in debt securities are classified as available-for-sale investment debt securities as follows:

- ① All held-to-maturity investment debt securities if some portion was sold during the current period
- ② Securities obliged to be sold before maturity by legal regulations
- ③ Securities accounted for as investment securities impairment loss

Held-to-maturity investment debt securities are stated at acquisition cost, as determined by the individual moving average method. When the face value of a held-to-maturity investment debt security differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the security. Available-for-sale investment debt securities are stated at fair value and the resulting valuation gains or losses are recorded as a capital adjustment. If the fair value of a held-to-maturity or a available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to the fair value and the resulting valuation loss is charged to current operations.

(3) Gain or Loss on Valuation of Investment Securities

The net unrealized gain or loss is presented as gain or loss on valuation of investment securities in capital adjustments. An unrealized valuation gain or loss of investment securities incurred in subsequent periods is deducted from or added to the previous balance of unrealized valuation gain or loss of investment securities. When investment securities are sold, the unrealized valuation gain or loss of investment securities included in the capital adjustment account is added to or deducted from gain or loss on disposal. With respect to an impaired investment security, any unrealized valuation gain or loss on the security previously included in the capital adjustment account is reversed.

(4) Recovery of Impaired Investment Securities

If the value of any investment equity security or investment debt security previously recognized as impaired subsequently recovers, in the case of marketable equity securities and available-for-sale debt securities, the increase in value is recorded in current operations up to the amount of the previously recognized impairment loss and any excess is recorded as a capital adjustment. In the case of unlisted equity securities and held-to-maturity debt securities, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss.

(5) Reclassification of Securities

If the Bank's objectives change, trading securities can be reclassified to investment securities, but only as of the balance sheet date. The difference between the fair value of the security as of the balance sheet date and the book value is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. Investment securities cannot be reclassified to trading securities.

Allowance for Possible Loan Losses

The Supervisory Regulation of banking Business (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Commission (the "FSC") requires the Bank to classify all credits into five categories as normal, precautionary, substandard, doubtful, or estimated loss based on borrowers' repayment capability and historical financial transaction records. The Supervisory Regulation also requires providing minimum rate of loss provision for each category as described in the next paragraph.

As required by the FSC, loans and confirmed acceptances and guarantees provided to the corporate borrowers whose total assets amount to ₩2 billion or more and required to prepare the "Credit Evaluation Table for Small and Medium Sized Company" pursuant to the Bank's internal regulation, are classified as normal, precautionary, substandard, doubtful, or estimated loss based on historical debt repayment capability considering various factors such as past due period, status of bankruptcy filing and others, which are called 'Criteria by Historical Financial Transactions'. The Bank also classifies these loans into 14 categories, based on the future repayment capability considering such factors as operating performance, financial position, cash flows, industrial characteristics, management capabilities, upon which the Bank reclassifies these loans into the five categories of normal, precautionary, substandard, doubtful, or estimated loss, which is called 'Criteria by Debt Repayment Capability'. As a result of these two credit analyses based on the 'Criteria by Historical Financial Transactions' and 'Criteria by Debt Repayment Capability', the Bank finally classifies these loans to corporate borrowers into the five categories aforementioned at the lower of the categories rated by the two credit analyses.

Credits to other corporate borrowers and households, however, are classified into the five categories of normal, precautionary, substandard, doubtful, or estimated loss based only on the historical debt repayment capability of the borrowers considering various factors such as past due period, status of bankruptcy filing and others.

The Criteria by Historical Financial Transactions are set forth as follows:

- Normal - loans in arrears for less than one month
- Precautionary - loans in arrears for one month or more but less than three months
- Substandard - collectible portion of loans in arrears for three months or more and/or loans extended to customers, which are judged to have serious risks in collectibility due to the final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses
- Doubtful - amount in excess of the collectible portion of loans in arrears for three months or more but less than twelve months (less than six months for credit card accounts)

- Estimated Loss - amount in excess of the collectible portion of loans in arrears for twelve months or more (six months or more for credit card accounts) and/or loans extended to customers, which are judged to have serious risks in collectibility due to final default by non-payment of their promissory notes, liquidation or bankruptcy proceedings or closing of their businesses

The Criteria of Debt Repayment Capability based on ability to repay are set forth as follows:

- Normal - credits extended to the customers, which do not raise concerns regarding their capability to repay the credits considering their business and operations, financial position and future cash flows (credits rated AAA to B- based on the 'Small and Medium Sized Company Credit Rating Table' of the Bank). However, the Bank classifies the credits rated C or inferior of the seven categories (A1, A2, A3, B, C, D, E) based on the past bankruptcy rate as precautionary
- Precautionary - credits extended to the customers, which are judged to have potential risks with respect to their capability to repay the credits in the future considering their business and operations, financial position and future cash flows, although there have not occurred any immediate risks for default in the repayment (credits rated CCC)
- Substandard - collectible portion of credits extended to the customers, which are judged to have incurred considerable risks for default in the repayment as the customers' capability to repay has deteriorated considering their business and operations, financial position and future cash flows (credits rated CC)
- Doubtful - amount in excess of the collectible portion of credits extended to customers, which are judged to have incurred serious risks for default in the repayment due to noticeable deterioration in their capability to repay considering their business and operations, financial conditions and future cash flows (credit rating C)
- Estimated Loss - amount in excess of the collectible portion of credits extended to customers, which are judged to have been accounted for as loss as the inability to repay becomes certain due to serious deterioration in their capability to repay considering their business and operations, financial position and future cash flows (credit rated D)

As required by the FSC, the allowance for possible loan losses is then calculated at the prescribed minimum percentages of 0.5 percent or more classified as normal, 2 percent or more, 20 percent or more, 50 percent or more and 100 percent of the loan balances classified as precautionary, substandard, doubtful, and estimated loss, respectively. However, the Bank does not provide any allowances for the loans to the Korean government and local government entities, call loans, bonds bought under resale agreements, inter-bank loans, which are classified as normal, as it is not required by the Accounting Standards for the banking Industry. The loans to households and the credit card receivables are also classified as of the balance sheet dates as normal, precautionary, substandard, doubtful, or estimated loss. Beginning in 2002, the Bank increased the allowance ratio for the loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratios for credit card receivables were raised to 1 percent or more, 12 percent or more, and 65 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary.

As required by the FSC, the Bank also provides an allowance for possible losses on confirmed acceptances and guarantees. Confirmed acceptances and guarantees are classified as of the balance sheet dates using the same criteria used for loan classification. An allowance is then calculated, using 20 percent or more for confirmed acceptances and guarantees classified as substandard, 50 percent or more for doubtful and 100 percent for estimated loss. No allowance is provided for those confirmed acceptances and guarantees classified as normal and precautionary. Additionally, as prescribed in the debt restructuring accounting standard, loans on companies that were applied for debt restructuring due to the work-out, court receivership or composition and other restructuring process, an allowance for possible loan losses is provided for the residual amount after deducting the present value. The allowance for possible losses on confirmed acceptances and guarantees is presented in other liabilities.

According to the requirement of the Financial Supervisory Service, beginning in 2002, the Bank provides 1 percent of other allowance in other liabilities for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year.

Restructuring of Loans

A loan, whose contractual terms are modified in a debt restructuring process based on mutual agreements such as commencement of reorganization, court receivership and workout plans, is accounted for at the present value of expected future cash flows, if the book value of the loan differs from the present value. The difference between book value and present value is offset against the allowance for possible loan losses, and any remaining amount is charged to operations as bad debt expense. The difference between book value of a loan and its present value is recorded as present value discount, which is presented as a deduction from the loan. The present value discount is amortized over the remaining maturity using the effective interest rate method, and the amortization amount is recorded as interest income.

Valuation of Receivables and Payables at Present Value

Receivables and payables incurred in long-term installment transactions, long-term borrowing and lending transactions and other similar transactions are stated at the present value of expected future cash flows and the gain or loss on valuation of the related receivables and payables is reflected in current operations, unless the difference between nominal value and present value is immaterial. The present value discount or premium is amortized using the effective interest rate method and the amortization is recorded as interest income or interest expense.

Tangible Assets and Depreciation

Tangible assets included in fixed assets are stated at cost, except for the assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to tangible assets.

Depreciation is computed using the declining-balance method (straight-line method for buildings purchased since January 1, 1995 and leasehold improvements) based on the estimated useful lives of the assets as prescribed by the Corporate Income Tax Law of Korea as follows:

	Estimated useful lives	
	Financial business	Non-financial business
Buildings	15 ~ 60	33
Leasehold improvements	5 ~ 15	-
Fixtures	-	21
Equipment	5 ~ 15	10 ~ 12
Furniture and tools	5 ~ 21	4 ~ 11
Vehicles	5 ~ 6	4 ~ 6

Intangible Assets

Intangible assets included in fixed assets are recorded at the production cost or purchase cost, plus incidental expenses. Expenditures incurred in conjunction with development of new products or technology and others, in which the elements of costs can be individually identified and future economic benefits are probably expected, are capitalized as development costs under intangible assets. If the Bank donates assets such as buildings to government or local government and is given a right to use or benefit from the assets, the donated assets are recorded as beneficial donated assets under intangible assets. Intangible assets are amortized using the straight-line method over the estimated useful lives of 5 years for development costs and other intangible assets, and contractual benefit period for the beneficial donated assets.

Valuation Allowance for Non-Business Use Property

Non-business use property included in fixed assets is recorded when the Bank acquires collateral by foreclosure on the mortgage for loans. If the auction price is lower than book value, the difference is provided as a valuation allowance and the valuation loss is charged to current operations.

Recognition of Asset Impairment

When the book value of assets (except for trading securities, investment securities and assets valued at present value) exceeds the recoverable value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, those assets are adjusted to recoverable value in the balance sheet and the resulting impairment loss is charged to current operations. If the recoverable value of the assets increases in subsequent years, the increase in value is credited to operations as a gain until the recoverable value equals the book value of the assets before the impairment loss was recognized.

Amortization of Discount (Premium) on Debentures

Discount or premium on debentures issued is amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discount or premium is recognized as interest expense or interest income on the debentures.

Accrued Severance Benefits

Employees and directors with more than one year of employment are entitled to receive a lump-sum payment upon termination of their employment with the Bank and its subsidiaries, based on their length of employment and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees and directors were to resign are ₩62,693 million (US\$ 52,227 thousand) and ₩79,275 million (US\$ 66,040 thousand) as of December 31, 2002 and 2001, respectively. The accrued severance benefits are included in other liabilities. Actual payments of severance indemnities amounted to ₩2,143 million (US\$ 1,785 thousand) and ₩408,097 million (US\$ 339,968 thousand) in 2002 and 2001, respectively.

The Bank and its subsidiaries have purchased severance benefits insurance, which meets the funding requirement for tax purposes, and made deposits with Hungkuk Life Insurance and others. Withdrawal of these deposits, with a balance of ₩39,815 million (US\$ 33,168 thousand) and ₩48,513 million (US\$ 40,414 thousand) as of December 31, 2002 and 2001, respectively, is restricted to the payment of severance benefits.

Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings when the Bank purchases or sells securities under resale or repurchase agreements.

Accounting for Financial Derivative Instruments

The bank accounts for financial derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53-70 on accounting for financial derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value and the valuation gain or loss is recorded as an asset or liability.

Hedge accounting is classified into fair value hedges and cash flow hedges. Fair value hedge accounting and cash flow hedge accounting are applied only to the financial derivative instruments that meet certain criteria (types of risk hedge, purpose of risk control, official documentation of risk hedge strategy, expected effect of risk hedge and etc.) for hedge accounting of financial derivative instruments used for hedging activities. Fair value hedge accounting is applied to a financial derivative instrument designated to hedge the exposure to the changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated to hedge the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is reflected in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged expected transaction actually affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and offset against income tax assets and liabilities in future periods.

Accounting for Foreign Currency Transactions and Translation

The Bank maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on BOK Basic Rate (₩1,200.40 and ₩1,326.10 to US\$ 1.00 at December 31, 2002 and 2001, respectively) or cross rates for currencies other than U.S. Dollars as of the balance sheet date. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on BOK Basic Rate at the balance sheet date.

Summary of Accounting Policies for the Bank's Trust Accounts

Significant accounting policies for the Bank's trust accounts are summarized as follows:

(1) Valuation of Securities

Performance-based trust accounts

Debt securities are generally recorded at acquisition costs, which include in additional costs and deduct accrued interest income for the period before acquisition. If the acquisition cost differs from face value, the difference is adjusted using the effective interest method for the period up to maturity.

Also, debt securities are classified into five categories to provide loss provision in accordance with the credit rates of bonds issued by each company. The classification of bonds for allowance for possible losses is summarized as follows:

Classification	Corporate bonds	CP
Normal	BBB above	A3 above
Precautionary	BB	B
Substandard	B	-
Doubtful	C~CCC	C
Estimated loss	D	D

In accordance with classification above, an allowance is then calculated to be at least zero percent (0.5 percent for the trusts that guarantee a fixed rate of return), 2 percent, 20 percent, 50 percent, and 100 percent, respectively.

Base price-based trust accounts

Debt securities, which were traded for the 3 months and 10 days over within each month, are stated at fair value. Unlisted bonds and listed bonds not traded as of the value date are estimated by applying the average of base prices per bond closing on recent trading day announced by Korea Bond Pricing and Nice Co., Ltd. Some of debt securities such as defaulted bonds, which prices are not announced by bond price evaluation institute or which prices did not reflect the market value, are assessed by the market price evaluation committee of the trust.

Stocks are stated at acquisition cost determined by the individual moving average method plus incidental expenses. Stocks traded on the Korea Stock Exchange or the Korea Securities Dealers Association (KOSDAQ) are stated at market value.

(2) Allowance for Possible Credit Losses

An allowance for possible credit losses is provided for the assets (including loans, commercial papers and guaranteed notes (loans) that are managed in unspecified monetary trust accounts), which were not marked to market, pursuant to the asset classification criteria promulgated by the FSC.

Loans are classified, as of the balance sheet date, into normal, precautionary, substandard, doubtful and estimated loss. An allowance is then calculated to be at least zero percent (0.5 percent for the trusts that guarantee a fixed rate of return), 2 percent, 20 percent, 50 percent, and 100 percent, respectively.

Summary of Accounting Policies for Non-financial business

Significant accounting policies for non-financial business are summarized as follows.

(1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided based on historical bad debt experience and management's estimate on the collectibility of accounts receivable.

(2) Inventories

All inventories are stated at the lower of cost or net realizable values. Cost is primarily determined on the weighted average method for finished goods and the moving average method for raw materials.

Changes in Accounting Principle and Estimates

Beginning in 2002, in accordance with the change in the Executive Guideline of Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, the accounting treatment applied to Banker's Usance transactions was changed by the Bank. All banker's usance, regardless of whether the Bank provides funded credit, directly or not, are now accounted for as "loans and borrowings in foreign currencies" rather than as "acceptance" using contra accounts as an off-balance items. As a result of the above change, loan-domestic import usance and borrowings in foreign currencies were increased by ₩634,347 million (US\$ 528,446 thousand) and ₩96,147 million (US\$ 80,096 thousand), respectively, and due from banks in foreign currencies was decreased by ₩538,200 million (US\$ 448,351 thousand) as of December 31, 2002. For comparative purposes, the accompanying 2001 financial statements were restated according to the revised standard. As a result, loan-domestic import usance and borrowings in foreign currencies were increased by ₩512,478 million (US\$ 426,923 thousand), respectively, as of December 31, 2001 when compared to previous accounting treatment. This accounting change has no effect on the net income or net asset value as of and for the year then ended December 31, 2001.

The Bank previously set the allowance for possible loan losses at 0.5 percent or more of loan balances classified as normal, and 2 percent or more and 50 percent or more of loan balances classified as precautionary and doubtful, respectively. However, as of December 31, 2002, the Bank increased the allowance ratio for loans to households to 0.75 percent or more, 8 percent or more and 55 percent or more classified as normal, precautionary and doubtful, respectively. Also, the allowance ratio for credit card accounts was raised to 1 percent or more, 12 percent or more, and 65 percent or more classified as normal, precautionary and doubtful, respectively. In addition, for the secured household loans newly placed after September 9, 2002, if its collateral is real estate and located in the highly-speculative residential areas designated by the Korean Government and the ratio of loans to collateral value (loan to value; LTV) exceeds 60 percent, the Bank provides the allowance for possible loan losses of 1 percent or more for the normal and 10 percent or more for the precautionary instead of providing 0.5 percent or more for the normal and 2.0 percent or more for the precautionary. In addition, beginning in 2002, the Bank provides 1 percent of other allowance in other liabilities for certain portion of unused cash advance facility (75 percent of the facility less used balance) of active credit card accounts having transaction records during the recent one year. The aforementioned change in allowance ratio for possible loan losses resulted from the recent sudden increase of loans to households and credit card accounts. It was requested by the Financial Supervisory Service and based on the migration analysis on the default and collection of such loans. As a result of the changes, the Bank provided additional allowance for possible loan losses and other allowances of ₩86,248 million (US\$ 71,849 thousand) and ₩6,301 million (US\$ 5,249 thousand), respectively, as of December 31, 2002.

3. CASH AND DUE FROM BANKS:

Restricted due from banks in local currency and foreign currencies as of December 31, 2002 and 2001 consisted of:

	Financial institution	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Reason of restriction
		2002	2001	2002	2001	
Due from banks in local currency						
Overdraft	BOK	₩ 234,367	₩ 969,195	\$ 195,241	\$ 807,393	BOK deposits
Guarantee deposits of current accounts	KDB	1,075	5,968	895	4,972	Guarantee deposits
Due from banks in foreign currencies						
Time deposits	BOK	35,100	32,793	29,240	27,318	BOK deposits
Other	CSFB	2,164	2,378	1,803	1,981	Securitization of stock issued by KT&G
		₩ 272,706	₩ 1,010,334	\$ 227,179	\$ 841,664	

4. TRADING SECURITIES:

Trading securities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Government and public bonds	₩ 844,248	₩ 323,240	\$ 703,306	\$ 269,277
Finance debentures	909,775	406,240	757,893	338,421
Corporate bonds	832,239	122,834	693,301	102,328
Stocks	18,258	27,021	15,210	22,510
Others	234,028	520,465	194,958	433,575
	₩ 2,838,548	₩ 1,399,800	\$ 2,364,668	\$ 1,166,111

5. INVESTMENT SECURITIES:

(1) Investment securities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Stock investments	₩ 843,795	₩ 603,487	\$ 702,928	\$ 502,738
Government and public bonds	1,051,595	1,651,831	876,037	1,376,067
Finance debentures	2,164,263	2,679,145	1,802,952	2,231,877
Corporate bonds	5,510,299	5,569,749	4,590,386	4,639,911
Other securities	570,029	1,343,997	474,865	1,119,624
	₩ 10,139,981	₩ 11,848,209	\$ 8,447,168	\$ 9,870,217

(2) Investment equity securities valued using the equity method

The investment equity securities valued using the equity method as of December 31, 2002 and 2001 were as follows:

December 31, 2002:

	Acquisition cost	Retained earnings	Gain (loss) on valuation of investments using the equity method of accounting	Gain (loss) on valuation of investments securities	Book value
Korea Tobacco and Ginseng Corporation ("KT&G")	₩ 353,625	₩ 32,389	₩ 46,241	₩ (36,016)	₩ 396,239
INNO-BIZ Special Venture Investment Association	5,000	-	-	-	5,000
KTTC Hansol Technology Industrialization Association	2,000	-	-	-	2,000
Sinbo Environmental Venture Investment Association	4,000	-	-	-	4,000
Kieun Material Special Investment Association	10,000	-	39	-	10,039
MIC 2002-3 Kieun IT special Investment Association	7,500	-	1	-	7,501
	₩ 382,125	₩ 32,389	₩ 46,281	₩ (36,016)	₩ 424,779

December 31, 2001

	Acquisition cost	Retained earnings	Gain (loss) on valuation of investments using the equity method of accounting	Gain (loss) on valuation of investments securities	Book value
YTN	₩ 44,000	₩ (22,050)	₩ (7,955)	₩ 18,828	₩ 32,823
Tong Yang Mart Co., Ltd.	26,000	(2,298)	(140)	-	23,562
Hong Reung Venture Valley No.1	5,800	-	206	-	6,006
IBK Capital Venture No.7	600	323	94	-	1,017
	₩ 76,400	₩ (24,025)	₩ (7,795)	₩ 18,828	₩ 63,408

As of December 31, 2001, the differences between the cost of investment and the investor's share of the net asset of investee arose at the time of investment, which were accounted for as investment adjustment and amortized using the straight-line method over five years, was ₩39,744 million (US\$ 33,109 thousand) on YTN and ₩11,047 million (US\$ 9,203 thousand) on Tong Yang mart Co., Ltd., respectively. The amortization of investment adjustment in 2001 was ₩7,949 million (US\$ 6,622 thousand) on YTN and ₩2,209 million (US\$ 1,840 thousand) on Tong Yang mart Co., Ltd.

Also, the Bank recorded the loss on valuation of investment securities using the equity method of ₩766 million (US\$ 638 thousand) and ₩16,063 million (US\$ 13,381 thousand) on the investment in IBK Europe S.A. and IBK Mutual Savings and Finance Company for the year ended December 31, 2001, respectively.

6. AMORTIZATION OF CONSOLIDATION ADJUSTEMENT:

As of December 31, 2001, the differences between the Bank's acquisition cost and investment portion of equity account of the KT&G Corporation that resulted from the revaluation of KT&G's fixed assets and goodwill at the time of investment were as follows (Unit: Won in millions):

	Amount incurred at the first investment	Amortization		Balance
		Before 2001	2001	
The differences of the fair value and book value				
Land	₩ 705,165	₩ 10,554	₩ 11,811	₩ 682,800
Building	235,674	20,410	7,776	207,488
Other	38,758	8,821	2,775	27,162
	979,597	39,785	22,362	917,450
Goodwill	415	106	67	242
	₩ 980,012			₩ 917,692

As of December 31, 2002, the Bank accounted for the security of KT&G using the equity method due to the decrease in ownership interest as explained in Note 2. When the Bank applied the equity method in evaluating the investment securities of KT&G, the Bank amortized the difference of fair value and book value arose from the above identifiable assets by ₩4,322 million (US\$ 3,600 thousand) in 2002, which resulted in proportionate remaining balance of ₩45,076 million (US\$ 37,551 thousand).

7. LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) Loans and allowance for possible loan losses as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Loans				
Loans in local currency	₩ 36,500,748	₩ 28,964,117	\$ 30,407,154	\$ 24,128,721
Loans in foreign currencies	4,057,887	1,622,765	3,380,446	1,351,854
Other	7,366,482	6,688,651	6,136,689	5,572,018
	47,925,117	37,275,533	39,924,289	31,052,593
Allowance for possible loan losses	(904,304)	(749,030)	(753,336)	(623,984)
Present value discounts:				
Financial business	(10,215)	(28,108)	(8,509)	(23,416)
Non-financial business	-	(60,229)	-	(50,173)
	₩ 47,010,598	₩ 36,438,166	\$ 39,162,444	\$ 30,355,020

As of December 31, 2001, loans held by non-financial subsidiary was loans to Tobacco Agriculture Cooperative Federation and Korea Ginseng Cooperative extended by KT&G, which mature in 2007 with annual interest rates between 0.7% and 1.5%. The effective interests (9.7%~14.01%) applied for the present value of loans were based on the average outstanding interest rate of unwarranted corporate bonds maturity in 3 years.

(2) The classification of asset quality for loans and allowance for possible loan losses of the Bank and IBK Capital Corporation as of December 31, 2002 and 2001 are summarized as follows (Unit: Won in millions):

December 31, 2002:

Classification	The Bank		IBK Capital Corporation	
	Loans	Allowance for possible loans losses	Loans	Allowance for possible loans losses
Normal	₩ 40,893,873	₩ 233,496	₩ 541,796	₩ 2,783
Precautionary	3,054,555	106,178	517	6
Substandard	747,170	168,805	753	150
Doubtful	305,121	211,338	1,033	774
Estimated Loss	163,230	163,230	640	640
	₩ 45,163,949	₩ 883,047	₩ 544,739	₩ 4,353

December 31, 2001:

Classification	The Bank		IBK Capital Corporation	
	Loans	Allowance for possible loans losses	Loans	Allowance for possible loans losses
Normal	₩ 30,372,036	₩ 149,298	₩ 528,254	₩ 2,385
Precautionary	2,882,707	85,801	74	1
Substandard	838,073	199,299	3,028	606
Doubtful	131,478	82,593	1,136	851
Estimated Loss	178,476	178,476	1,504	1,504
	₩ 34,402,770	₩ 695,467	₩ 533,996	₩ 5,347

8. FIXED ASSETS:

Fixed assets as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Tangible assets:				
Land	₩ 484,996	₩ 1,485,707	\$ 404,029	\$ 1,237,677
Building	315,047	1,009,177	262,452	840,701
Movable property	348,929	357,980	290,677	298,217
Machinery	-	593,486	-	494,407
Construction in-progress	2,246	64,037	1,871	53,346
Other	28,012	21,971	23,335	18,303
	1,179,230	3,532,358	982,364	2,942,651
Accumulated depreciation	(313,479)	(784,207)	(261,145)	(653,288)
	865,751	2,748,151	721,219	2,289,363
Intangible assets	-	2,366	-	1,971
Non-business property	1,318	6,493	1,098	5,409
Valuation allowances	(157)	(1,617)	(131)	(1,347)
	₩ 866,912	₩ 2,755,393	\$ 722,186	\$ 2,295,396

The published value of land as of December 31, 2002 and 2001 was ₩398,720 million (US\$ 332,156 thousand), and ₩1,287,036 million (US\$ 1,072,173 thousand), respectively, using the disclosed public land price announced annually by the Government pursuant to the Laws on Disclosure of Land Price and Valuation of Land.

9. OTHER ASSETS:

(1) Other assets as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Guarantee deposits	₩ 1,253	₩ 17,045	\$ 1,044	\$ 14,199
Accounts receivable	36,677	185,244	30,554	154,319
Accrued income	301,114	356,788	250,845	297,224
Prepaid expenses	177,423	93,606	147,803	77,979
Deferred income tax assets (Note 19)	31,300	-	26,075	-
Financial derivative instruments (Note 17)	328,086	119,937	273,314	99,914
Sundry assets	3,172,557	2,251,068	2,642,917	1,875,265
	₩ 4,048,410	₩ 3,023,688	\$ 3,372,552	\$ 2,518,900

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(2) Sundry assets as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Unsettled spot exchange receivables	₩ 893,936	₩ 583,453	\$ 744,698	\$ 486,049
Domestic exchange settlement debits	1,765,296	1,233,993	1,470,590	1,027,985
Leasehold deposits	403,635	380,140	336,250	316,678
Due from trust accounts	65,000	72,000	54,149	59,980
Deposited money	13,853	3,257	11,540	2,713
Membership rights	6,403	5,275	5,334	4,394
Receivables on cash sent to other banks	1,550	1,100	1,291	916
Card account settlement debits	6,406	4,637	5,337	3,863
Supplies	1,913	1,854	1,594	1,545
Others	78,072	20,096	65,038	16,741
	3,236,064	2,305,805	2,695,821	1,920,864
Subsidiaries	60,376	174,601	50,297	145,452
Inter-company transactions	(123,883)	(229,338)	(103,201)	(191,051)
	₩ 3,172,557	₩ 2,251,068	\$ 2,642,917	\$ 1,875,265

10. OTHER ASSETS FOR NON-FINANCIAL BUSINESS:

As of December 31, 2001, other assets for non-financial business were as follows:

	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Trade receivables	₩ 100,088	\$ 83,379
Allowance for doubtful accounts	(5,845)	(4,869)
Advanced payments	51,489	42,893
Allowance for doubtful accounts	(345)	(287)
Prepaid tobacco consumption tax	145,532	121,236
Inventories	1,535,994	1,279,569
	₩ 1,826,913	\$ 1,521,921

11. COLLATERALIZED ASSETS:

Collateralized assets as of December 31, 2002 and 2001 were as follows:

Collateralized assets	Provided to	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Provided for
		2002	2001	2002	2001	
Government bonds	Bank of Korea	₩ 3,299,785	₩ 1,409,555	\$ 2,748,905	\$ 1,174,238	Bonds sold under repurchase agreements
Government bonds	Bank of Korea	1,385,700	2,231,761	1,154,365	1,859,181	Collateral for borrowings
Government bonds	LG securities and others	391,645	160,180	326,262	133,438	Collateral for government bonds
Time deposits	Small business administration	1,070	380	891	317	Collateral for borrowings
		₩ 5,078,200	₩ 3,801,876	\$ 4,230,423	\$ 3,167,174	

12. DEPOSITS:

Deposits as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Deposits in local currency	₩ 30,653,082	₩ 28,664,234	\$ 25,535,723	\$ 23,878,902
Deposits in foreign currencies	966,042	1,019,726	804,767	849,489
Certificates of deposit	1,547,976	410,299	1,289,550	341,801
	₩ 33,167,100	₩ 30,094,259	\$ 27,630,040	\$ 25,070,192

13. BORROWINGS:

Borrowings as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Borrowings in local currency	₩ 8,029,129	₩ 7,687,178	\$ 6,688,711	\$ 6,403,847
Borrowings in foreign currencies	3,352,260	3,393,895	2,792,619	2,827,304
Bonds sold under repurchase agreements	1,732,343	1,113,127	1,443,138	927,297
Bills sold	1,659,043	728,098	1,382,075	606,546
Borrowings from Industry Foundation Fund	174,413	329,017	145,296	274,089
Due to BOK in foreign currencies	32,364	82,121	26,961	68,411
Call money	453,049	824,301	377,415	686,689
	₩ 15,432,601	₩ 14,157,737	\$ 12,856,215	\$ 11,794,183

14. DEBENTURES:

(1) Debentures as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Debentures in local currency	₩ 7,980,391	₩ 5,841,225	\$ 6,648,110	\$ 4,866,065
Less: Discounts	(9)	(6,204)	(7)	(5,168)
Debentures in foreign currencies	1,594,686	478,260	1,328,462	398,417
Less: Discounts	(5,033)	(647)	(4,192)	(539)
	₩ 9,570,035	₩ 6,312,634	\$ 7,972,372	\$ 5,258,775

(2) Changes in debentures in local currency for the year ended December 31, 2002 were as follows:

	Korean Won (In millions)				U.S. Dollars (Note 2) (In thousands)	
	Beginning balance	Issuance	Redemption	Substitution	Ending balance	Ending balance
Small and Medium Industry (SMI) Finance Bonds	₩ 3,624,898	₩ 6,870,775	₩ 3,358,869	₩ (18,398)	₩ 7,118,406	\$ 5,930,028
SMI Refinance Bonds	81,189	-	71,412	18,398	28,175	23,471
SMI Finance Bonds for automation projects	554,000	-	204,000	-	350,000	291,570
SMI Development Finance Bonds	603,603	-	438,529	-	165,074	137,516
Subordinated SMI Finance Bonds	659,000	318,188	659,000	-	318,188	265,068
	5,522,690	₩ 7,188,963	₩ 4,731,810	₩ -	7,979,843	6,647,653
SMI Finance Bonds, not rendered	568				48	40
	5,523,258				7,979,891	6,647,693
Subsidiary company	317,967				500	417
	₩ 5,841,225				₩ 7,980,391	\$ 6,648,110

On April 1, 2002, the Bank reimbursed the Subordinated Small and Medium Industry Finance Bonds amounting to ₩659,000 million (US\$ 548,984 thousand) to generate better profitability and the original maturities were March 31, 2003 and March 31, 2004, respectively.

Also, the Bank issued the Subordinated Small and Medium Industry Finance Bonds at 6.10%~7.06% in compounded interest bond and at 6.07%~7.02% in coupon debenture for the year ended December 31, 2002, which maturities starts from April 17, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(3) Debentures in foreign currencies as of December 31, 2002 and 2001 were as follows:

Type	Issuance date	Annual interest rate(%)	Expiration date	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
				2002	2001	2002	2001
Euro Bond 350M	Sep. 1999	6ML+1.9	Sep. 2002	₩ -	₩ 464,135	\$ -	\$ 386,650
HKD 1.2 BLN	Apr. 2002	USD 3ML+0.19	Apr. 2003	184,704	-	153,869	-
JPY 4 BLN	Mar. 2002	JPY 3ML+0.51	Mar. 2007	40,515	-	33,751	-
ML FRN 50M	July 2002	6ML+0.43	July 2004	60,020	-	50,000	-
UBS Warburg	July 2002	3ML+0.32	July 2003	65,837	-	54,846	-
Daiwa	Aug. 2002	JPY 6ML+0.32	Aug. 2003	40,515	-	33,751	-
Shinkin	Aug. 2002	3ML+0.56	Aug. 2005	36,012	-	30,000	-
Natexis A	Aug. 2002	3ML+0.49	Aug. 2004	24,008	-	20,000	-
Natexis B	Aug. 2002	3ML+0.29	Aug. 2004	36,012	-	30,000	-
Mizuho	Sep. 2002	6ML+0.29	Sep. 2003	40,515	-	33,751	-
Euro Bond 500M	Sep. 2002	6ML+0.74	Sep. 2005	600,200	-	500,000	-
JP Morgan	Dec. 2002	6ML+0.87	Dec. 2007	447,149	-	372,500	-
				1,575,487	464,135	1,312,468	386,650
Loss on valuation of fair market value risk hedge (current year)				19,199	9,808	15,994	8,171
Loss on valuation of fair market value risk hedge (prior year)				-	4,317	-	3,596
				₩1,594,686	₩ 478,260	\$1,328,462	\$ 398,417

15. OTHER LIABILITIES:

(1) Other liabilities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Accrued severance benefits (Note 2)	₩ 62,693	₩ 79,275	\$ 52,227	\$ 66,040
Less: Severance insurance deposits	(39,815)	(48,513)	(33,168)	(40,414)
Less: Transfer to National Pension (Note 2)	(68)	(93)	(57)	(77)
Allowance for possible losses on acceptances and guarantees (Note 2)	1,267	5,165	1,055	4,303
Other allowances	20,918	17,450	17,426	14,537
Due to trust accounts	267,239	311,441	222,625	259,448
Accounts payable	10,062	122,495	8,382	102,045
Dividends payable (Note 21)	73,970	64,291	61,621	53,558
Accrued expenses	923,452	85,358	769,287	71,108
Unearned revenues	102,377	194,312	85,286	161,873
Deposits for letter of guarantees and others	119,389	99,018	99,458	82,488
Deferred income tax liabilities	-	226,619	-	188,786
Financial derivative instruments	379,066	101,534	315,783	84,583
Sundry liabilities	3,063,172	3,338,954	2,551,793	2,781,534
	₩ 4,983,722	₩ 4,597,306	\$ 4,151,718	\$ 3,829,812

(2) Sundry liabilities as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Accounts payable	₩ 8,016	₩ 9,633	\$ 6,678	\$ 8,025
Payables on cash received from other banks	6,805	6,891	5,669	5,741
Withholding taxes	36,467	39,741	30,379	33,107
Management funds	15,029	37,838	12,520	31,521
Deposits for securities subscription	9,221	9,841	7,682	8,198
Domestic exchange settlement credits	1,674,728	1,290,259	1,395,142	1,074,858
Agencies	80,442	91,420	67,012	76,158
Giro accounts	52,992	56,935	44,145	47,430
Unsettled spot exchange payables	893,812	583,672	744,595	486,231
Others	283,184	67,502	235,908	56,232
	3,060,696	2,193,732	2,549,730	1,827,501
Subsidiary	2,476	1,145,222	2,063	954,033
	₩ 3,063,172	₩ 3,338,954	\$ 2,551,793	\$ 2,781,534

16. OTHER LIABILITIES FOR NON-FINANCIAL BUSINESS:

As of December 31, 2001, other liabilities for non-financial business are summarized as follows:

	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Trade payables	₩ 20,040	\$ 16,694
Advanced receipts	13,432	11,190
Unpaid tobacco consumption tax	270,133	225,036
	₩ 303,605	\$ 252,920

17. CONTINGENCIES AND COMMITMENTS:
(1) As of December 31, 2002 and 2001, the Bank has provided acceptances and guarantees as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Confirmed acceptances and guarantees in local currency				
Payment guarantee for issuance of debenture	₩ 100	₩ 300	\$ 83	\$ 250
Payment guarantee for loan	93,478	71,484	77,873	59,550
Others	277,440	207,093	231,122	172,520
	371,018	278,877	309,079	232,320
Confirmed acceptances and guarantees in foreign currencies				
Acceptances for letters of credit	105,290	132,045	87,712	110,001
Letters of guarantees for importers	159,307	165,873	132,712	138,181
	12,004	-	10,000	-
	276,601	297,918	230,424	248,182

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Unconfirmed acceptances and guarantees				
Customer's liability on letters of credit	1,191,699	1,120,770	992,752	933,664
Others	171,103	134,054	142,538	111,674
	1,362,802	1,254,824	1,135,290	1,045,338
	₩ 2,010,421	₩ 1,831,619	\$ 1,674,793	\$ 1,525,840

In accordance with the change in the Executive Guideline of Supervisory Regulation of Banking Business issued by the Financial Supervisory Service, the Bank reclassified ₩512,478 million (US\$ 426,923 thousand) of confirmed acceptances and guarantees in foreign currencies as domestic import usance in 2002 balance sheet.

Allowance for possible losses on confirmed acceptances and guarantees as of December 31, 2002 and 2001 were as follows:

Classification	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Normal	₩ 600,746	₩ 465,764	\$ 500,455	\$ 388,007
Precautionary	41,984	92,766	34,975	77,279
Substandard	4,443	16,285	3,701	13,566
Doubtful	135	846	113	705
Estimated loss	311	1,134	259	945
	647,619	576,795	539,503	480,502
Allowance for possible losses	₩ 1,267	₩ 5,165	\$ 1,055	\$ 4,303
Ratio (%)	0.2	0.9	0.2	0.9

(2) The Bank has managed written-off loans whose time period for legal claim has not lapsed. The balances of such loans were ₩1,627,923 million (US\$ 1,356,150 thousand) and ₩1,213,247 million (US\$ 1,010,702 thousand) as of December 31, 2002 and 2001, respectively.

(3) The Bank has ₩7,186 million (US\$ 5,986 thousand) and ₩7,868 million (US\$ 6,554 thousand) of outstanding endorsed notes for sale, which has been purchased at a discount, as of December 31, 2002 and 2001, respectively.

(4) As of December 31, 2002, the Bank has provided ₩56,767 million (US\$ 47,290 thousand) of local currency and ₩15,699 million (US\$ 13,078 thousand) of foreign currencies for the loan commitments to be executed in the near future. As of December 31, 2001, the Bank provided loan commitment in local currency amounting to ₩10,000 million (US\$ 8,331 thousand) of local currency.

(5) As of December 31, 2002, IBK Capital Corporation, a subsidiary of the Bank offered 2 blank notes and 2 blank checks to Kookmin Venture Capital as collateral and guarantee. Also, IBK Capital Corporation provided acceptances and guarantees of ₩10,120 million (US\$ 8,431 thousand) to guarantee for venture funds.

(6) Derivative instruments:

As of and for the years ended December 31, 2002 and 2001, outstanding contract amount, gain or loss on valuation of derivative instruments in the statements of operations, and assets and liabilities for the accumulated gain or loss on valuation of derivative instruments in the balance sheets were as follows (Unit: Won in millions):

December 31, 2002:

Type	Outstanding contract amount (*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 6,142,343	₩ -	₩ (9,078)	₩ -	₩ (9,454)
Currency swaps	1,334,189	611,210	(43,980)	(3,867)	(24,813)
Currency options	149,955	-	(946)	-	(1,131)
Currency futures	3,001	-	-	-	-
	7,629,488	611,210	(54,004)	(3,867)	(35,398)
Interest rate					
Interest rate options	100,000	-	188	-	242
Interest rate futures	202,323	-	-	-	-
Interest rate swaps	11,716,795	1,220,232	(17,983)	4,108	(15,130)
	12,019,118	1,220,232	(17,795)	4,108	(14,888)
Stock					
Stock price index futures	8,189	-	-	-	-
Stock price index options	16,366	-	614	-	(693)
	24,555	-	614	-	(693)
	₩19,673,161	₩ 1,831,442	₩ (71,185)	₩ 241	₩ (50,979)

December 31, 2001:

Type	Outstanding contract amount (*)		Gain (loss) on valuation (I/S)		Gain (loss) on valuation (B/S)
	Trading	Hedging	Trading	Hedging	
Currency					
Currency forwards	₩ 917,685	₩ -	₩ (16,745)	₩ -	₩ (16,520)
Currency swaps	553,305	651,179	6,851	(57,716)	26,227
Currency options	762	-	3	-	3
	1,471,752	651,179	(9,891)	(57,716)	9,710
Interest rate					
Interest rate futures	293,679	-	-	-	-
Interest rate swaps	2,764,288	542,209	1,773	7,587	4,474
	3,057,967	542,209	1,773	7,587	4,474
	₩ 4,529,719	₩ 1,193,388	₩ (8,118)	₩ (50,129)	₩ 14,184

(1) In the translation of derivative contracts from local currency to foreign currency and from foreign currency to foreign currency, the contractual exchange rate against foreign currency and market exchange rate at the balance sheet date against purchased foreign currency are applied, respectively.

Outstanding contractual amount and gain or loss on valuation for hedging purposes in the table included and resulted from both derivative instruments accounted for using hedge accounting pursuant to the Interpretations on Financial Accounting Standards 53-70 and derivative instruments used for hedging activities but not accounted for using hedge accounting.

Hedged items, to which fair value hedge accounting was applied, consisted of investment securities, borrowings and bonds issued and hedging derivative instruments such as currency swaps and interest rate swaps, which were used to cover exposures to changes in fair values of hedged items resulting from interest rate changes. Resulting from valuation of hedged items accounted for as fair value hedge accounting in 2002, gain on valuation of ₩18,340 million (US\$ 15,278 thousand) on foreign investment securities, gain on valuation of ₩3,347 million (US\$ 2,788 thousand) on borrowings in foreign currencies, and loss on valuation of ₩19,200 million (US\$ 15,995 thousand) on debentures in foreign currencies were reflected in current operations, and the opposite corresponding amounts of gain or loss from valuation of derivative instruments accounted for using fair value hedge accounting were reflected in other assets or liabilities.

Futures and options such as currency options and currency futures were subjected to market-to-market accounting with valuation gain or loss recorded as settlement accounts in the balance sheet.

(7) In the normal course of its business, the Bank regularly files lawsuits and takes other legal actions in connection with its business, primarily with respect to collection actions. As of December 31, 2002, the Bank was a plaintiff in 1,079 legal cases-involving ₩120.3 billion (US\$ 100.2 million) - and as a defendant in 131 legal cases-involving ₩20.0 billion (US\$ 16.7 million). The Bank has provided an allowance of ₩14,618 million (US\$ 12,178 thousand) for the cases of which the ultimate outcome is likely to have unfavorable effects on the Bank.

18. SHAREHOLDERS' EQUITY:

(1) Common stock and Preferred stock

The Bank is authorized to issue up to 800 million shares of capital stock (₩5,000 par value). The number of shares of common stock and preferred stock issued by the Bank as of December 31, 2002 were 302,951,585 shares and 155,325,315 shares, respectively.

The major shareholders as of December 31, 2002 were as follows (Unit: Shares in thousands):

Shareholder	Common Stock		Preferred Stock (*1)	
	No. of shares	Percentage (%)	No. of shares	Percentage (%)
Korean Government	233,734	77.15	-	-
Korea Investment Trust Company	25,533	8.43	46,000	29.62
Korea Development bank	10,490	3.46	46,915	40.18
Export-Import bank of Korea	7,301	2.41	62,410	30.20
Others	25,894	8.55	-	-
	302,952	100.00	155,325	100.00

(1) The preferred stock could be converted into common stock and participating as to dividends.

(2) Accumulated earnings:

Accumulated earnings as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Legal reserve	₩ 269,147	₩ 122,777	\$ 224,214	\$ 102,280
Other reserve	653,958	290,693	544,784	242,163
Unappropriated retained earnings (accumulated deficit)	11,189	(45,268)	9,321	(37,710)
	₩ 934,294	₩ 368,202	\$ 778,319	\$ 306,733

(3) Legal reserve

The Industrial Bank of Korea Act requires the Bank to appropriate at least 25 percent of net income, as a legal reserve, until such reserve equals 100 percent of its paid-in capital. The legal reserve may only be used to offset against any future deficit or be transferred to capital stock.

(4) Capital adjustment:

Capital adjustment as of December 31, 2002 and 2001 consisted of:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Treasury stock	₩ (460)	₩ (460)	\$ (383)	\$ (383)
Gain on valuation of investment securities	155,671	229,522	129,683	191,205
Overseas operations transaction credit	-	1,284	-	1,070
Other	297	292	247	242
	₩ 155,508	₩ 230,638	\$ 129,547	\$ 192,134

Treasury stock as of December 31, 2002 was acquired in connection with the capital reduction executed prior to December 31, 1998. The Bank intends to dispose of this treasury stock in the near future.

19. INCOME TAX EXPENSE:

(1) The differences between pretax accounting income for the year ended December 31, 2002 and taxable income pursuant to Korean Corporate Tax Law of the Bank are summarized as follows:

	Korean Won (In millions)	U.S. Dollars (Note 2) (In thousands)
Income before income tax	₩ 720,211	\$ 599,976
Taxable and non-deductible items		
Temporary difference	856,474	713,491
Permanent difference	23,396	19,490
	879,870	732,981
Deductible and non-taxable items		
Temporary difference	629,771	524,634
Permanent difference	83,220	69,327
	712,991	593,961
Taxable income	887,090	738,995
Tax loss carryforwards	445,315	370,972
Excess of deductible donation carried forward from prior years	19,927	16,600
Taxable income after tax loss	421,848	351,423
Tax rate	(15%, 27%)	(15%, 27%)
Income tax payable	113,887	94,874
Tax due in overseas branches	2,335	1,945
Income tax currently payable (including resident tax of 10%) in local	₩ 122,707	\$ 102,222

(2) Changes in cumulative temporary differences for the year ended December 31, 2002 were as follows:

	Korean Won (In millions)				U.S. Dollars (Note 2) (In thousands)
	Beginning of period	Addition	Deduction	End of period	End of period Accrued income
Accrued income	₩ (201,093)	₩ (127,314)	₩ (201,093)	₩ (127,314)	\$ (106,060)
Gain on valuation of trading securities	(3,521)	(590)	(3,521)	(590)	(492)
Gain on valuation of investment securities	(213,532)	(156,710)	(213,532)	(156,710)	(130,548)
Allowance for possible losses on acceptances and guarantees	5,165	1,267	5,165	1,267	1,055
Gain (Loss) on valuation using the equity method	(81,448)	16,831	(63,013)	(1,604)	(1,336)
Accrued severance benefits	6,599	30,592	582	36,609	30,497
Allowance for non-business real estate	1,617	158	1,617	158	132
Investment securities impairment loss	90,422	-	27,986	62,436	52,013
Other allowance	17,451	20,918	17,451	20,918	17,426
Gain on valuation of derivatives	(115,718)	(326,808)	(115,718)	(326,808)	(272,249)
Loss on valuation of derivatives	101,534	379,066	101,534	379,066	315,783
Advanced depreciation allowance	(257,666)	-	(12,844)	(244,822)	(203,950)
Allowance for possible loan losses	17,650	-	17,650	-	-
Others	106,241	19,503	67,946	57,798	48,149
	₩ (526,299)	₩ (143,087)	₩ (369,790)	₩ (299,596)	\$ (249,580)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

	Beginning of period	Korean Won (In millions)		End of period	U.S. Dollars (Note 2)
		Addition	Deduction		(In thousands)
Less: advanced depreciation allowance & gain (loss) on valuation of investment securities	(471,198)	(156,710)	(226,376)	(401,532)	(334,499)
	(55,101)	13,623	(143,414)	101,936	84,919
Income tax rate	29.70%			29.70%	29.70%
Effect of deferred income taxes	₩ (16,365)			₩ 30,275	\$ 25,221

(3) Deferred income tax assets and liabilities of the Bank and its subsidiary as of December 31, 2002 were as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2)	
	The Bank	Subsidiary	Total	(In thousands)	
Local:					
Tax effect on cumulative temporary differences	₩ 30,275	₩ (1,304)	₩ 28,971	\$	24,135
Overseas branches:	2,329	-	2,329		1,940
Deferred income tax assets (liabilities)	₩ 32,604	₩ (1,304)	₩ 31,300	\$	26,075

In addition, ₩60,375 million (US\$ 50,296 thousand) of deferred tax assets of the Bank resulted from tax loss carryforward, which was recognized as of December 31, 2001, was fully realized in 2002.

(4) Income tax expense of the Bank and its subsidiary for the year ended December 31, 2002 is summarized as follows:

	Korean Won (In millions)			U.S. Dollars (Note 2)	
	The Bank	Subsidiary	Total	(In thousands)	
Income tax currently payable in local	₩ 122,707	₩ 1,965	₩ 124,672	\$	103,859
Income tax payable in overseas Branches	2,335	-	2,335		1,945
Decrease of deferred income tax assets (liabilities)	13,735	(329)	13,406		11,168
	₩ 138,777	₩ 1,636	₩ 140,413	\$	116,972

(5) The legal income tax rate, including resident tax, applied to the Bank was 29.7%. However, the effective tax rate calculated dividing income tax expense by income before income tax expense was 19.5% and 20.8% in 2002 and 2001, respectively, due to the effect of aforementioned tax reconciling items and tax loss carry forwards.

20. ORDINARY INCOME PER SHARE AND NET INCOME PER SHARE:

(1) Ordinary income per share and net income per share

Since the preferred shares are convertible into common stock and participating as to dividends, the computation of ordinary income

per share and net income per share below applies to both common shares and preferred shares. Ordinary income per common share and net income per common share are computed by dividing the ordinary income (after deducting the tax effect) and net income available to common shareholders, respectively, by the weighted average number of common shares outstanding during the period. The capital injection in common stock is also considered in the calculation of the weighted average number of common shares based on the payment date.

Ordinary income per common share, net income per common share, ordinary income per preferred share, and net income per preferred share for the year ended December 31, 2002 were calculated as follows:

1) Computation of the weighted average number of common shares and preferred shares outstanding during 2002

	No. of shares	Days	Cumulative no. of shares
Common stock			
Beginning balance	283,713,663	365	103,555,486,995
Treasury stock	(80,614)	365	(29,424,110)
Treasury stock	(1)	331	(331)
Treasury stock	(1)	320	(320)
Treasury stock	(1)	278	(278)
Treasury stock	(1)	261	(261)
Treasury stock	(1)	226	(226)
Treasury stock	(1)	214	(214)
Treasury stock	(1)	2	(2)
Conversion from preferred stock	19,237,922	365	7,021,841,530
	302,870,964		110,547,902,783
Preferred stock			
Beginning balance	174,563,237	365	63,715,581,505
Conversion into common stock	(19,237,922)	365	(7,021,841,530)
	155,325,315		56,693,739,975

No. of common shares outstanding: $110,547,902,783 \div 365 \text{ days} = 302,870,967 \text{ shares}$

No. of preferred shares outstanding: $56,693,739,975 \div 365 \text{ days} = 155,325,315 \text{ shares}$

2) Computation of net income applicable to common shares and to preferred shares (Unit: Won in millions)

	Net income applicable to common shares		Net income applicable to preferred shares		Total
Dividends:	₩	50,593	₩	23,299	₩ 73,892
Additional net income available for dividends (*):		335,487		172,052	507,539
	₩	386,080	₩	195,351	₩ 581,431

(1) Additional net income available for dividends:

$₩581,431 \text{ million} - ₩73,892 \text{ million} = 507,539 \text{ million}$

Additional net income available for dividends to common shareholders:

$₩507,539 \text{ million} \times 302,870,964 \text{ shares} \div (302,870,964 \text{ shares} + 155,325,315 \text{ shares}) = ₩335,487 \text{ million}$

Additional net income available for dividends to preferred shareholders:

$₩507,539 \text{ million} (155,325,315 \text{ shares} \div (302,870,964 \text{ shares} + 155,325,315 \text{ shares})) = ₩172,052 \text{ million}$

Since there were no extraordinary items for the year ended December 31, 2002, ordinary income applicable to common shares and to preferred shares is the same as net income applicable to common shares and to preferred shares as computed above.

3) Ordinary income per common share, net income per common share and others (Unit: Korean Won):

	Computation	Amount
Net income per common share	₩ 386,082 million ÷ 302,870,967 shares =	₩ 1,275
Ordinary income per common share	₩ 386,082 million ÷ 302,870,967 shares =	₩ 1,275
Net income per preferred share	₩ 195,352 million ÷ 155,325,315 shares =	₩ 1,258
Ordinary income per preferred share	₩ 195,352 million ÷ 155,325,315 shares =	₩ 1,258

(2) Diluted ordinary income per share and diluted net income per share

Diluted ordinary income and diluted net income were computed by adding the ordinary income and net income applicable to convertible preferred shares to ordinary income and net income applicable to common shares. Diluted ordinary income per share and diluted net income per share were computed by dividing diluted ordinary income and diluted net income in 2002 by the number of common shares outstanding plus the number of convertible preferred shares outstanding during the year.

The diluted ordinary income per share and diluted net income per share for the year then ended December 31, 2002 were computed as follows (Unit: Korean Won):

	Diluted net income per share	Diluted ordinary income per share
Diluted net income and ordinary income	₩ 581,431 million	₩ 581,431 million
No. of diluted shares ⁽¹⁾	458,196,282 shares	458,196,282 shares
	₩ 1,269	₩ 1,269

(1) No. of diluted shares: 302,870,967 common shares + 155,325,315 preferred shares = 458,196,282 shares

(3) As of December 31, 2002, convertible preferred shares are summarized as follows (Unit: Won in millions):

Issuance date	Preferred stock at par value	Exercise period	Number of common shares to be issued	Remarks
1999.12.28	₩ 464,577	6 months after issuance date	92,915,315	Conversion ratio is 1 : 1
2000.01.29	145,350	6 months after issuance date	29,070,000	"
2000.06.29	166,700	6 months after issuance date	33,340,000	"
	₩ 776,627		155,325,315	

21. DIVIDENDS:

(1) Dividends per share in 2002 amounted to ₩150 for the major shareholders such as the Korean government and ₩350 for minority shareholders. Details of the dividends are as follows:

Shareholder	No. of shares entitled to receive dividends	Par value	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
			Dividend rate(%)	Dividends	Dividends	Dividends
Common stock:						
Major shareholders	277,057,650	₩ 5,000	3.0	₩ 41,559	\$ 34,621	
Minority shareholders	25,813,314	5,000	7.0	9,034	7,526	
	302,870,964			50,593	42,147	
Preferred stock:						
Major shareholders	155,325,282	5,000	3.0	23,299	19,409	
Minority shareholders	33	₩ 5,000	7.0	-	-	
	155,325,315			23,299	19,409	
	458,196,279			₩ 73,892	\$ 61,556	

(2) Dividend to net income ratio and dividend yield ratio (for common shares) in 2001 are as follows:

Classification	Computation	Ratio	Remarks
Dividend to net income ratio	Dividend amount / Net income	12.71 %	
Dividend yield ratio (Common shares) ⁽¹⁾	Dividend per share / Stock price	2.62 %	Major shareholders
	(Closing price at balance sheet date)	6.11 %	Minority shareholders

(1) Yield of preferred shares, which did not have any closing price available, was not calculated.

22. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of December 31, 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Assets:				
Foreign currencies	₩ 56,846	₩ 48,065	\$ 47,356	\$ 40,041
Due from banks-foreign currencies	289,068	928,523	240,810	773,511
Trading securities-foreign currencies	6,326	91,800	5,270	76,475
Investment securities-foreign currencies	569,637	441,611	474,539	367,887
Loans-foreign currencies	4,057,887	1,622,765	3,380,446	1,351,854
Bills bought in foreign currencies	685,342	1,112,129	570,928	926,465
Call loans-foreign currencies	432,144	22,054	360,000	18,372
Others	2,281,145	1,476,285	1,900,321	1,229,827
	₩ 8,378,395	₩ 5,743,232	\$ 6,979,670	\$ 4,784,432
Liabilities:				
Deposits-foreign currencies	966,042	1,019,726	804,767	849,489
Borrowings-foreign currencies	3,352,260	3,393,895	2,792,619	2,827,303
Due to BOK-foreign currencies	32,364	82,121	26,961	68,411
Call money-foreign currencies	13,805	31,555	11,500	26,287
Debentures-foreign currencies	1,594,686	478,260	1,328,462	398,417
Others	2,003,488	2,022,235	1,669,017	1,684,634
	₩ 7,962,645	₩ 7,027,792	\$ 6,633,326	\$ 5,854,541

23. TRANSACTIONS WITH AFFILIATED COMPANIES:

(1) Significant balances with related parties as of December 31, 2002 and 2001 were as follows (Unit: Won in millions):

Assets:

Subsidiary	Accounts	2002	2001
Trust accounts	Loan to bank accounts	₩ 65,000	₩ 72,000

Liabilities (December 31, 2002):

Subsidiaries	Deposits in local currency	Borrowings from trust accounts	Others	Total
Trust accounts	₩ -	₩ 58,883	₩ -	₩ 58,883
IBK Capital Corporation	4,377	-	20	4,397
	₩ 4,377	₩ 58,883	₩ 20	₩ 63,280

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

Liabilities (December 31, 2001):

Subsidiaries	Deposits in local currency	Borrowings from trust accounts	Others	Total
Trust accounts	₩ -	₩ 157,143	₩ -	₩ 157,143
IBK Capital Corporation	-	-	5,860	5,860
KT&G Co., Ltd	30,000	-	-	30,000
	₩ 30,000	₩ 157,143	₩ 5,860	₩ 193,003

(2) Significant transactions with related parties during the years ended December 31, 2002 and 2001 were as follows (Unit: Won in millions):

	Interest Income and other		Interest expense and other	
	2002	2001	2002	2001
Trust accounts	₩ 42,910	₩ 18,226	₩ 4,479	₩ 5,292
IBK Capital Corporation	4	5	46	71
IBK Mutual Savings and Finance Company	-	40	73	133
KT&G Co., Ltd	-	-	735	308
IBK Tech Co., Ltd	-	-	95	24
	₩ 42,914	₩ 18,271	₩ 5,428	₩ 5,828

(3) Significant transactions between subsidiaries during the years ended December 31, 2002 and 2001 were as follows (Unit: Won in millions):

2002: N/A

2001:

	The company who sold the goods	The company who purchased the goods	Sales	Trade receivables
Sales of goods	Korea Ginseng Co.	Korea Ginseng Hong Kong KT&G	₩ 26,664 2,356	₩ 8,869 46
			₩ 29,020	₩ 8,915

(4) Guarantees and acceptances provided by the Bank to affiliated companies as of December 31, 2002 and 2001 are summarized as follows:

Company	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)		Description
	2002	2001	2002	2001	
IBK Capital Corporation	₩ 2,143	₩ 2,143	\$ 1,785	\$ 1,785	Guarantees for borrowings

For the year ended December 31, 2001, the Bank accounted a loss from guarantees and acceptances of ₩71,300 million (US\$ 59,397 thousand) due to guarantees and acceptances payments made pertaining to IBK Mutual Savings and Finance Company. Also, the outstanding balance of guarantees and acceptances provided by the Korea Ginseng Co. to Korea Ginseng Hong Kong Co., as of December 31, 2001 was US\$30,000,000.

24. INDUSTRY SEGMENT INFORMATION:
(1) Balance sheet by industry segment

Balance sheet by industry segment as of December 31, 2001 is summarized as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	Financial business (*1)	Non-financial business (*2)	Financial business (*1)	Non-financial business (*2)
ASSETS:				
I. Cash & due from banks	₩ 3,082,106	₩ 193,094	\$ 2,567,566	\$ 160,858
II. Trading securities	1,306,715	93,084	1,088,566	77,544
III. Investment securities	12,599,415	381,358	10,496,014	317,692
IV. Loans	35,767,443	158,244	29,796,270	131,826
V. Fixed assets	821,601	1,037,357	684,439	864,176
VI. Other assets	3,028,617	45,044	2,523,007	37,524
VII. Other assets for non-financial assets	-	1,826,913	-	1,521,921
Total assets	₩ 56,605,897	₩ 3,735,094	\$ 47,155,862	\$ 3,111,541
LIABILITIES:				
I. Deposits	₩ 30,020,947	₩ 103,312	\$ 25,009,119	\$ 86,065
II. Borrowings	13,608,416	36,844	11,336,568	30,693
III. Debentures	6,001,334	311,299	4,999,445	259,329
IV. Other liabilities	4,079,188	366,442	3,398,191	305,267
V. Other liabilities for non-financial liabilities	-	303,605	-	252,920
Total liabilities	53,709,885	1,121,502	44,743,323	934,274
STOCKHOLDERS' EQUITY				
I. Capital stock	2,291,385	954,959	1,908,851	795,534
II. Capital surplus	-	337	-	281
III. Accumulated surplus (deficit)	422,963	2,108,880	352,352	1,756,814
IV. Capital adjustment	180,728	(450,584)	150,556	(375,362)
V. Minority interests	936	-	780	-
Total stockholders' equity	2,896,012	2,613,592	2,412,539	2,177,267
Total liabilities and stockholders' equity	₩ 56,605,897	₩ 3,735,094	\$ 47,155,862	\$ 3,111,541

(1) Financial business: The Bank is the parent company, and the Bank's trust accounts and IBK Capital Corporation were included in the scope of financial business consolidation.

(2) Non-financial business: KT&G is the parent company, and Korea Ginseng Corporation and Korea Ginseng Hong Kong Ltd. were included in the scope of non-financial business consolidation.

As a result of the separation of consolidated subsidiaries into financial business and non-financial business, which reverses the consolidation adjustments, the sum of the assets and liabilities of financial business and non-financial business does not equal to the consolidated assets and liabilities.

The balance sheet as of December 31, 2002 consisted only of financial business because KT&G and its subsidiaries were excluded from the consolidation scope as explained in Note 2.

(2) Income statements by industry segment

Income statement by industry segment for the year ended December 31, 2001 is summarized as follows (Unit: Won in millions):

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	Financial business (*1)	Non-financial business (*2)	Financial business (*1)	Non-financial business (*2)
I. Operating revenue	₩ 4,952,529	₩ 1,869,437	\$ 4,125,732	\$ 1,557,345
II. Operating expenses	4,525,089	1,377,683	3,769,651	1,147,687
III. Operating income	427,440	491,754	356,081	409,658
IV. Non- operating income	189,348	91,101	157,737	75,892
V. Non-operation expenses	121,249	87,914	101,007	73,237
VI. Ordinary income	495,539	494,941	412,812	412,313
VII. Extraordinary items	-	-	-	-
VIII. Income before income tax expense	495,539	494,941	412,812	412,313
IX. Income tax expense	(30,863)	(160,273)	(25,711)	(133,516)
X. Net income before minority interests	464,676	334,668	387,101	278,797
XI. Minority interests gain	(113)	-	(94)	-
XII. Consolidated net income	₩ 464,563	₩ 334,668	\$ 387,007	\$ 278,797

(1) (2): See Note 24 (2) "Balance sheet by industry segment"

As a result of separation of consolidated subsidiaries into financial business and non-financial business, which reverses the consolidation adjustments, the sum of the operating results of financial business and non-financial business does not equal to the consolidated operating results.

The income statement for the year ended December 31, 2002 consisted only of financial business because KT&G and its subsidiaries were excluded from the consolidation scope as explained in Note 2.

25. SECURITIZATION OF ASSETS:

(1) Kieun Special Purpose Company:

The Bank sold non-performing loans of ₩575,786 million (US\$ 479,662 thousand), including ₩26,230 million (US\$ 21,851 thousand) in trust accounts, on March 14, 2000 to special purpose company (SPC) at a price of ₩330,000 million (US\$ 274,908 thousand), including ₩16,718 million (US\$ 13,927 thousand) for trust accounts. With respect to this transaction, the Bank purchased subordinated bonds of ₩80,000 million (US\$ 66,644 thousand).

The Kieun Special Purpose Company reimbursed early the subordinated bonds of ₩80,000 million (US\$ 66,644 thousand) by selling the underlying assets to the third party in 2002.

(2) KT & G common stock:

In 2000, the Bank entrusted 18,999,985 shares of its shareholdings in KT&G common stock (the "Trusted Securities") to its Securities Trust. As of December 31, 2002, the trusted shares totaled 19,510,485 shares subsequent to the Bank's purchase of additional 510,500 shares with special dividend of KT&G Co. Using Trusted Securities as underlying assets, the Securities Trust of the Bank issued a subordinated trust certificate to the Bank and a senior trust certificate to IBK Cayman Finance Company, a limited liability corporation organized and existing under the laws of Cayman Islands. The owner of the senior trust certificate is entitled to exercise a call option, which gives the owner a right to buy the KT&G shares at US\$ 352,909 thousand that expires in August 2003. Also, IBK Cayman Finance Company issued secured exchangeable notes (coupon rate of 1.5 percent) of US\$ 352,909 thousand due 2003 on the basis of the senior trust certificate, and purchased U.S. Treasuries with the proceeds obtained from the secured exchangeable notes. In case the holders of the secured exchangeable notes exercise the exchange option, IBK Cayman Finance Company is required to transfer the purchased U.S. Treasuries to the Bank's Securities Trust who will cause the shares to be delivered to the note-holders. As the holder of the subordinated trust securities, the Bank absorbs the operating results of the Trust Securities and holds the voting rights until the owner of the senior trust securities exercises the call option. Due to the aforementioned practical control over the KT&G common shares, the Bank classified the trust securities as investment securities that were accounted for using the equity method.

26. STATEMENT OF CASH FLOWS:

Cash flows from operating activities are presented by the indirect method.

Material transactions not involving cash inflows and outflows in 2002 and 2001 were as follows:

	Korean Won (In millions)		U.S. Dollars (Note 2) (In thousands)	
	2002	2001	2002	2001
Write-offs of loans	₩ 524,695	₩ 437,804	\$ 437,100	\$ 364,715
Increase in capital adjustments due to valuation of investment securities	(25,260)	73,785	(21,043)	61,467
Decrease of retained earnings due to accounting changes	96,189	-	80,131	-
Increase of dividends payable	₩ 73,913	₩ 194,312	\$ 61,573	\$ 161,873

Organization and Directory

Board of Directors & Management 142

Organization Chart 143

Regional Network 144

Contact Information 146

Board of Directors & Management



1. Jong-Chang Kim
Chairman & CEO
2. Nam-Ryul Yoon
Director & Deputy President
3. Koon-Saeng Kang
Auditor



4. Jae-Man Kim
Director, Head of Computer Systems Division
5. Young-Chin Kim
Director, Head of Treasury & Global Markets Division
6. Kye-Hwa Hong
Director, Head of Corporate Banking Division

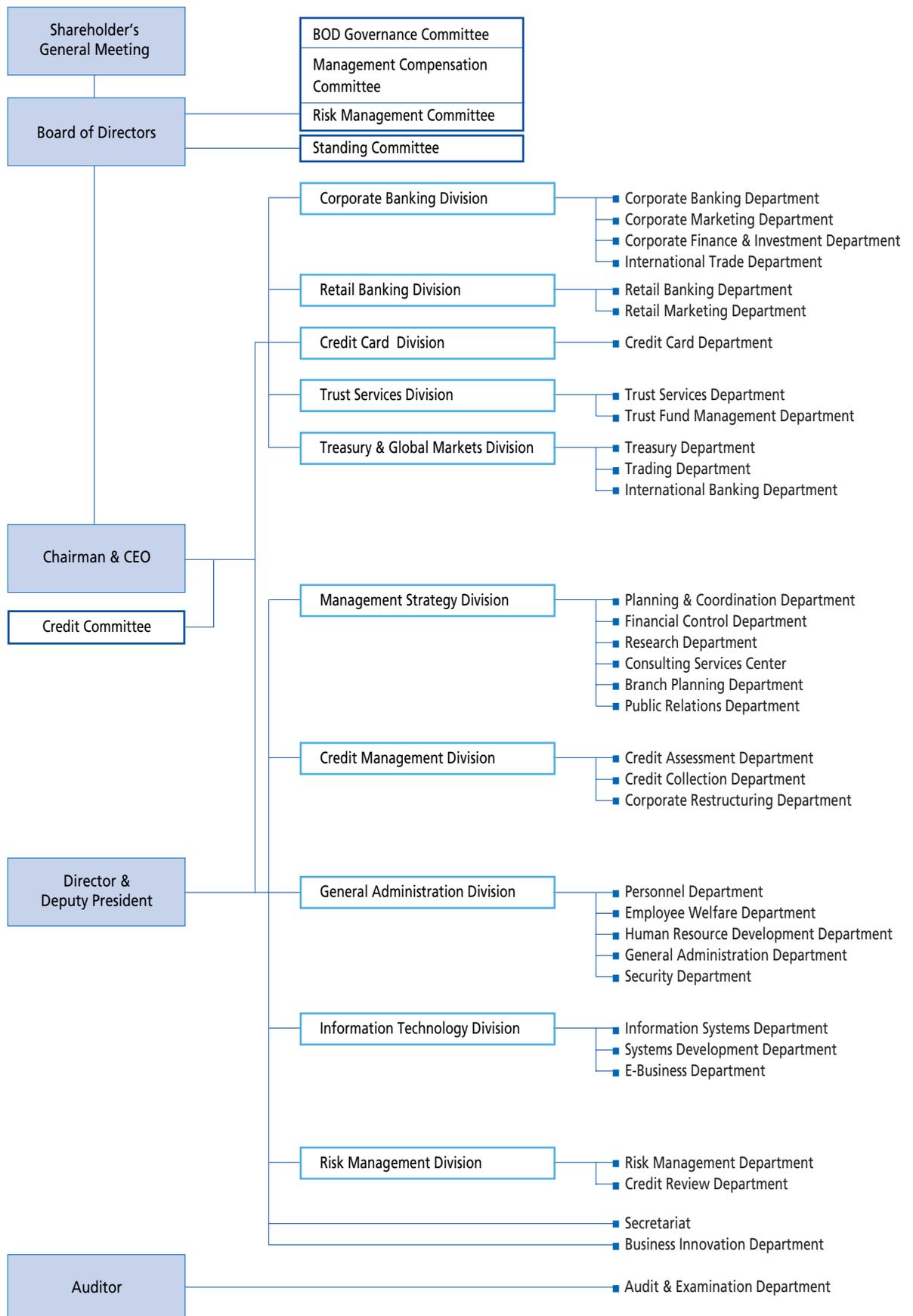


7. In-Hwan Kim
Director, Head of Management Strategy Division
8. Jin-Seok Chang
Director, Head of General Administration Division
9. Yee-Soo Oh
Director, Head of Retail Banking Division



10. Dae-Ick Chang
Head of Trust Services Division
11. Kyung-Il Bae
Head of Credit Management Division
12. Kyung-Jun Lee
Head of Credit Card Division

Organization Chart



Regional Network

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50, Ulchiro 2-ga, Chung-gu, Seoul,
100-758, Korea
Tel: 82-2-729-6114/7114
Fax: 82-2-729-7904
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Cable: IBK SEL
SWIFT: IBKOKRSE
<http://www.ibk.co.kr>

International Banking Department

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Fax: 82-2-729-7904

International Trade Department

Tel : 82-2-729-7210
Fax: 82-2-729-7204

Trading Department

Tel : 82-2-729-7012
Fax: 82-2-729-7944

Treasury Department

Tel : 82-2-729-6840
Fax: 82-2-729-6885

Risk Management Department

Tel : 82-2-729-6312
Fax: 82-2-729-6808

e-Business Department

Tel : 82-2-729-6345
Fax: 82-2-729-7704

Regional Headquarters

Bukbu Regional Headquarters

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Dongbu Regional Headquarters

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Kyongsu Regional Headquarters

817, Kuro-dong, Kuro-gu
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Fax: 82-2-838-8768~9

Sobu Regional Headquarters

255-1, Gongdeok 2-dong, Mapo-gu
Seoul, 121-022, Korea
Tel : 82-2-3272-4234~9
Fax: 82-2-3272-4181~2

Choongchung Regional Headquarters

56-3, Won-dong, Tong-gu
Taejon, 300-010, Korea
Tel : 82-42-252-4000
Fax: 82-42-254-5974

Honam Regional Headquarters

1600-3, Usan-dong, Kwangsan-ku
Kwangju, 506-050, Korea
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Fax: 82-62-949-5666~7

Kyongin Regional Headquarters

126-7, Bupyong 5-dong, Bupyong-gu
Inchon, 403-015, Korea
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Fax: 82-32-501-4822~3

Pusan and Kyongnam Regional Headquarters

2, Kwangbok-dong, 1-ga, Chung-gu
Pusan, 600-031, Korea
Tel : 82-51-245-9573
Fax: 82-51-245-9644~5

Taegu and Kyongbuk Regional Headquarters

189-1, Pomo-dong, Susong-gu
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Tel : 82-53-749-5401
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Overseas Branches

Industrial Bank of Korea, New York

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Tel : 1-212-268-6363
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SWIFT: IBKOUS33

Industrial Bank of Korea, Tokyo

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17-22, Akasaka 2-Chome, Minato-ku
Tokyo 107-0052
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Fax: 81-3-3586-7269
Telex: 2423058 IBK.J
SWIFT: IBKOJPJT

Industrial Bank of Korea, Hong Kong

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12 Harcourt Road, Central, Hong Kong
Tel : 852-2521-1398
Fax: 852-2525-7862
Telex: 791117 IBKHK HX
SWIFT: IBKOHKHH

Industrial Bank of Korea, Tianjin

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75 Nanjing Road Heping District
Tianjin, 300050, China
Tel : 86-22-2330-5842
Fax: 86-22-2330-1847
Telex: 85234099 IBKTJ CN
SWIFT: IBKOCNBT

Subsidiaries

IBK Capital Corporation

702-22, Yoksam-dong, Kangnam-gu
Seoul, 135-080, Korea
Tel : 82-2-554-3131
Fax: 82-2-568-3533

IBK Credit Information Inc.

822-2, Yoksam-dong, Kangnam-gu
Seoul, Korea
Tel : 82-2-6289-8100
Fax: 82-2-6289-7106

Contact Information

International Banking Department

Capital markets	Tel:82-2-729-7030	Fax:82-2-729-7904
Money market transactions	Tel:82-2-729-7075	Fax:82-2-729-7095
Correspondents banking	Tel:82-2-729-7959	Fax:82-2-729-7904
Credit ratings	Tel:82-2-729-7076	Fax:82-2-729-7904
Foreign currency loans	Tel:82-2-729-7932	Fax:82-2-729-7904
Investment banking	Tel:82-2-729-7058	Fax:82-2-729-7003
Overseas network information	Tel:82-2-729-7031	Fax:82-2-729-7904

International Trade Department

Export payments	Tel:82-2-729-7230	Fax:82-2-729-7204~6
Foreign investors services	Tel:82-2-729-7208	Fax:82-2-729-7204~6
International factoring business	Tel:82-2-729-7064	Fax:82-2-729-7204~6
Letters of credit advising	Tel:82-2-729-7208	Fax:82-2-729-7204~6
Letters of credit issuance	Tel:82-2-729-7233	Fax:82-2-729-7204~6
Remittance inquiries	Tel:82-2-729-7220	Fax:82-2-729-7204~6

Trading Department

Financial derivatives	Tel:82-2-729-7968	Fax:82-2-729-7944
Foreign exchange trading	Tel:82-2-729-7083	Fax:82-2-729-7944

Treasury Department

Derivatives settlement	Tel:82-2-729-7092	Fax:82-2-729-7002
Foreign exchange settlement	Tel:82-2-729-7962	Fax:82-2-729-7002

Corporate Data (Non-Consolidated)

Date of Establishment	August 1, 1961
Head Office	50, Ulchiro 2-ga, Chung-gu, Seoul, 100-758, Korea Tel: 82-2-729-6114/7114 Fax: 82-2-729-7904 Cable: IBK SEL SWIFT: IBKOKRSE Homepage: http://www.ibk.co.kr
Domestic Network	9 regional headquarters, 387 branches, 2 subsidiaries
International Network	4 overseas branches
Number of Employees	6,393
Total Assets	₩65,036 billion (US\$ 54,179 million)
Shareholders' Equity	₩3,368 billion (US\$ 2,806 million)
Shares Authorized	800 million
Shares Issued and Outstanding	Common stocks : 303 million Preferred stocks : 155 million
Controlling Interest	Government of the Republic of Korea, 77.2%
Credit Ratings	Moody's A3 Fitch Ratings A S&P BBB+



INDUSTRIAL BANK OF KOREA

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