

Korea Exchange Bank,  
Turning the Crisis into an Opportunity

KEB

Annual Report 1998

KOREA  EXCHANGE BANK

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## Profile

**K**orea Exchange Bank (KEB) was established as a government-owned bank in January 1967, when it was separated from the Bank of Korea to specialize in the foreign exchange and trade business. For the following decade, KEB was the only Korean bank to offer trade financing and foreign exchange services.

To keep pace with Korea's booming economic growth in the 1970s, the Bank expanded and diversified its activities to include a full range of commercial banking services with extensive financial networks at home and abroad. In 1977, when trade finance and foreign banking businesses were liberalized to spur the export-driven economy, the Bank ventured into commercial banking after losing its proprietary grip on these lucrative sectors. KEB, a latecomer to commercial banking steadfastly developed a wide range of innovative products and services, built up a strong customer base and established extensive branch networks while continuing to sharpen its traditional dominance in international banking. Following privatization in 1989, the Bank offered its shares for public ownership in 1991 and all shares were listed on the Korea Stock Exchange in 1994. The Bank has since enjoyed the distinction of being one of the leading commercial banks in Korea. In July, 1998 the Bank increased its capital to W1,175 billion by successful attracting W350 billion worth capital participation from Commerzbank. KEB is a banking pioneer on a number of fronts: it is the first Korean bank to establish overseas branches and subsidiaries, as well as the first to introduce cash dispensers, credit cards, and an on-line deposit/withdrawal system.

In January 1999, KEB merged with Korea International Merchant Bank, one of its subsidiaries, increasing its paid-in capital to W1,460 billion.

As of January 1, 1999, KEB had 325 branches and 5 subsidiaries in the domestic market and 22 branches, 2 sub-branches, 1 representative office, and 10 subsidiaries in overseas markets.

## Contents

1	Financial Highlight
2	Message from the President
5	Medium-term Management Plan
6	Domestic Banking
11	International Banking
17	Financial Report
79	Standing Directors and Auditor
80	Non-standing Directors
81	Organization Chart
82	Global Directory

# FINANCIAL HIGHLIGHTS

## Selected Non-consolidated Financial Data for Korea Exchange Bank

	1998	1997	1998
	Won (billions)	Won (billions)	US\$ (millions)
<b>At Year-end</b>			
Total Assets	46,551	56,415	38,542
Loans	19,319	23,673	15,995
Deposits	22,085	26,473	18,285
Shareholders' Equity	1,664	1,992	1,378
<b>For the Year</b>			
Total Income	4,387	3,678	3,632
Total Expenses	5,225	3,746	4,326
Current Operating Income	1,039	704	860
Net Income before Income Taxes	(838)	(68)	(694)
Net Income (Loss)	(844)	(68)	(699)

1) The 1998 financial data have been converted into U.S. dollars at the rate of W1,207.80 to US\$1.

2) Current Operating Income = Operating Income (Net Income before Income Taxes + Provisions) - Losses on Stock Trading - Losses on Asset Sales

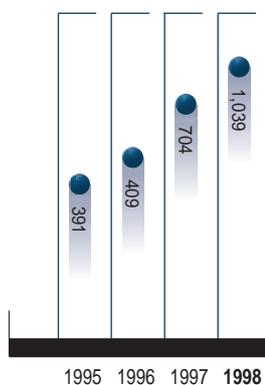
### Total Assets

(Won in billions)



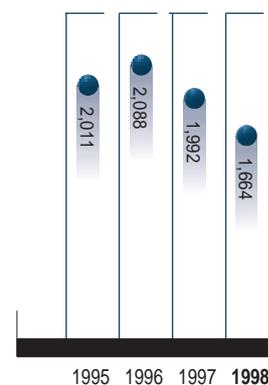
### Current Operating Income

(Won in billions)



### Shareholders' Equity

(Won in billions)



# MESSAGE FROM THE PRESIDENT



**L**ooking back over the past year, it was indeed a most difficult time for Korea. The financial industry, in particular, was thrust into hardship under the weight of massive restructuring and M&As. As the soundness of assets crumbled due to a tidal wave of bankruptcies, an unprecedented number of banks were taken over by other banks in the wake of the financial restructuring process.

Now, however, as a result of its rigorous restructuring efforts, Korea's international credit rating has recently taken a turn for the better and the overall economy has been regaining stability, though difficulties still persist in many sectors.

**The Bank was successful in securing investment worth W350 billion from Commerzbank, while also bringing some of its specialists on board to participate in the management.**

Despite the overwhelming change and profoundly difficult financial environment, I am pleased to report that everyone at Korea Exchange Bank rallied together at this most distressing time to implement a dynamic new management principle which consequently allowed us to record W25 trillion in total usable deposits. In foreign exchange and trade-related business sectors, the Bank managed transactions totaling US\$41.8 billion and US\$46.2 billion respectively, making it Korea's best-performing bank.

Despite formidable obstacles in raising capital both at home and abroad, the Bank was the first domestic financial institution to attract foreign investment in the wake of the IMF-led austerity period. The Bank was successful in securing investment worth W350 billion from Commerzbank, while also bringing some of its specialists on board to participate in the management.

However, a series of corporate bankruptcies and subsequent surge in bad loans led to increased loan loss provisioning requirement and huge losses stemming from the sale of non-performing assets. The unfortunate bottom line was that the Bank was left registering a net loss of W843.5 billion for 1998, and for that I am obliged to express my deep regret to the shareholders.

Nevertheless, the Bank is determined to turn these times of trial into an opportunity for renewing ourselves. To this end, the Bank initiated a restructuring program that included downsizing the workforce, closing unprofitable branches and restructuring subsidiaries.

In our determination to maintain global competitiveness and to stand side by side with the world's most respected financial institutions, the Bank's executive leadership has adopted the watchwords, "Management Innovation, Maximization of Shareholder Value" as our management goal, while

all our employees are prepared to work together under the catch phrase, "Recreate Ourselves and Challenge for the Future."

The Bank has also set bold but attainable financial targets for the year ahead, including: W28 trillion in total usable deposits, US\$94.1 billion in foreign exchange and trade related business and W818.2 billion in operating income. And while setting these financial sights for the coming year, the Bank is also looking to the longer term, making a genuine commitment to laying the foundations of a world-class bank, one that can proudly represent Korea in the 21st century.

To meet its near and long-term goals, the Bank has recently taken or will soon be taking, the following steps:

First, by undergoing a comprehensive recapitalization in the first half of the year, the Bank will revamp its financial structure and build a stable capital base by raising its BIS capital ratio to 10% or higher. To effectively manage non-performing loans, the Bank will set up an in-house "Bad Bank" division, making it a center that specializes in handling problem assets. By adopting advanced loan screening techniques and carrying out total exposure management and follow-up measures, the Bank will drastically improve its lending practices, thereby reinforcing the competitiveness and stability of the management.

Second, in order to enhance management accountability and transparency, the Bank has reorganized the board of directors in such a way that non-standing directors and working committee members can have a greater say by introducing a new corporate governance structure. By way of a special executive committee composed of two Commerzbank members and two KEB members, the Bank will also foster a closer cooperation with Commerzbank in its business strategy.

**While remaining keenly aware that our customers are of the utmost importance to the Bank's prosperity, we are dedicated to becoming a Global Universal Bank that provides comprehensive world-class financial services. And to this end, we are determined to do our very best.**

Third, the Bank implemented a Business Unit System in an effort to create a customer and market-oriented organization, as well as to establish an accountable management system focused on profitability. This strategy will mark a shift from a function-oriented organization to a customer-centered organization, putting in place a clear-cut performance management and evaluation system for each Business Unit.

Fourth, by instituting a rational, comprehensive risk management system, the Bank will pursue the strategic goal of achieving sound management while simultaneously developing a competitive edge. The Bank will also adopt advanced management practices which minimize risk and maximize profit by separating marketing processes from credit screening processes. To do this, the Bank will introduce a new set of credit evaluation systems, such as the Credit Scoring system and the Corporate Credit Risk Management system.

Finally, the Bank will redouble its efforts to put in place an IT infrastructure that is geared to the future. This will be accomplished by continuing to focus on the IT-2000 project which is now underway. The Bank is Y2K compliant and is striving to cope with changes stemming from the launch of the Euro. The Bank will also establish a comprehensive communications network, computerize our business information, install the next-generation computer systems and implement a new marketing system based on a database.

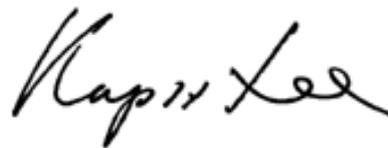
The Bank made a resolve to withstand all its current difficulties. It will face the current crisis and turn it into an opportunity to chart a new future. By combining advanced management techniques with the expertise it already has accumulated, the Bank will build a new governance structure and corporate culture. While remaining keenly aware that our customers are of the utmost importance to the Bank's

prosperity, we are dedicated to becoming a Global Universal Bank that provides comprehensive world-class financial services. And to this end, we are determined to do our very best.

In closing, I would like to take this opportunity to express my gratitude to our shareholders, customers and correspondent banks for their continued trust over the past years.

And more than ever, I am looking forward to your renewed support and confidence in our Bank.

March 31, 1999



**Kap-Hyun Lee**

*President and Chief Executive Officer*



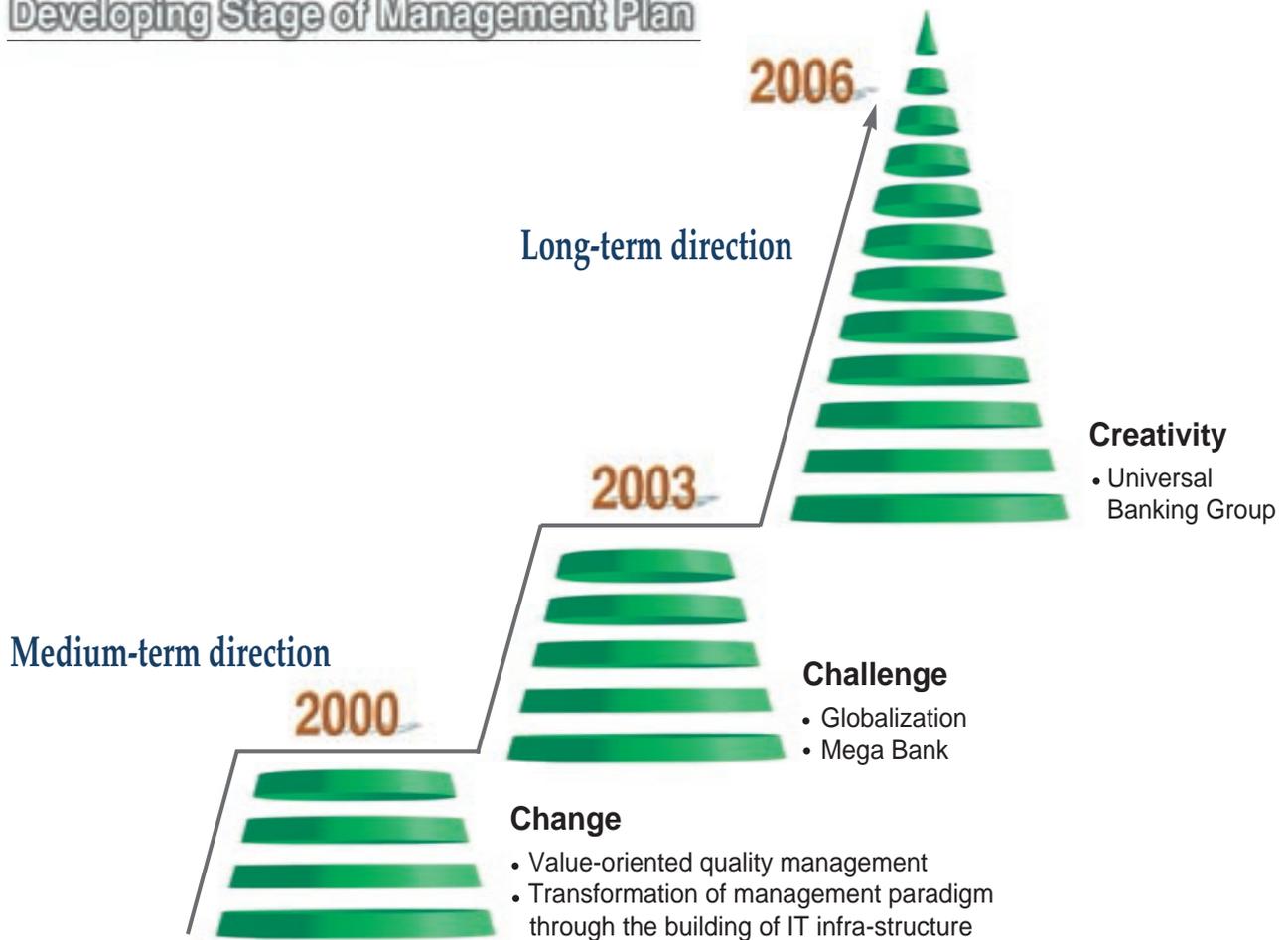
# MEDIUM-TERM MANAGEMENT PLAN (1998 ~ 2000)

The Korean financial industry is facing a score of challenges from within and without. The protective environment of the past few decades has led the industry to focus on volume growth without much regard to efficiency and competitiveness. With market opening, which has been accelerated in the last two years, foreign financial institutions have been increasing their presence as well as interest in market dominance. A choice for domestic financial institutions is clear: reform and survive, or suffer the consequence. KEB is determined to survive in this increasingly competitive environment and remerge as Korea's Foremost Global Universal Bank. With its long-term vision thus set, the Bank defines a medium-term and related objectives by business area as follows:

**Corporate Vision :**  
To Become Korea's Foremost Global Universal Bank

**Management Goals:**  
To Reform Management & Restructure Business Base by Focusing on Profitability & Information Technology

## Developing Stage of Management Plan



# *Domestic Banking*

*Building Partnerships Based on solid  
Banking Fundamentals*



# Retail Banking



**In order to provide quality service, the Bank has been steadily expanding its automated banking systems and diversifying services to fulfill the needs of the dawning Electronic Banking Era.**



## Overview

As a result of its ongoing efforts to improve customer satisfaction and to create new financial products, the Bank has realized significant growth in retail banking over the past several years. Despite the recent unfavorable market conditions, underscored by a weakened domestic economy and tight household spending, the Bank performed remarkably well in 1998, posting W6.6 trillion in total domestic household deposits, a healthy 17.4% rise over the previous year. Additionally, the number of accounts stood at 7.4 million.

Such an encouraging performance was possible due to nationwide marketing activities which focused on retail banking. These included the 'Top Bank' campaign, aimed at promoting customer awareness; the introduction of innovative products such as the "Guaranteed Deposits" and the "Yes Plus Accounts" and the inception of a branch evaluation system that places more emphasis on retail performance. The Bank will continue to expand and invigorate its retail customer base in the year ahead with more specialized services.

On the downside, the Bank's household loans decreased by 23.0% to W1.4 trillion in 1998 from the year before, but renewed efforts to foster this business will be made by formulating more favorable conditions.

## Service Delivery Channel

A total of 80 conventional branches which were deemed unprofitable or showed poor performance were either closed or merged in the last year as part of the Bank's restructuring efforts. In addition, 46 more branches will be merged or closed this year.

At the end of 1998, the Bank had 325 conventional branches nationwide, including six new 'compact' branches opened in the Seoul

metropolitan area. The Bank expects that these compact branches, located in relatively affluent areas, will produce higher returns on investment with slim operating costs.

In an effort to improve productivity and profitability, the Bank also regrouped its branches based on regional characteristics so that each branch can focus on its own target markets.

As a result, the bank's service delivery channels consist of 175 branches in the full-service group; 62 branches in the commercial and retail group; 56 branches in the retail-only group; as well as 32 sub-branches.

In an effort to increase low-cost, automated delivery channels, the Bank operated 150 unstaffed service centers, 543 off-branch service booths and 272 year-round service corners as of the end of 1998. The number of automated banking machines decreased by 61 to 2,492 units (700 ATMs and 1,792 cash dispensers) over the previous year. This was mainly due to the closure of 80 staffed branches.

The Bank will continue to expand its electronic banking services this year to meet the increasingly diversified needs of customers. Compared to 1997, the number of customers using phone banking rose last year from 539,000 to 681,000, while the number of customers using PC banking increased from 354,000 to 398,000.



**The Bank will continue to develop its trust business through diligent market analysis and by offering new and competitive products to meet customers' needs.**



Much media attention has been given to a potential worldwide computing disaster on the eve of the new millennium, the so-called Y2K problem, but the KEB has already addressed and successfully resolved all related issues to its computer systems, peripherals and other equipment.

In order to provide quality service, the Bank has been steadily expanding its automated banking systems and diversifying services to fulfill the needs of the dawning Electronic Banking Era. And as new cutting-edge technologies become applicable to its operations, the Bank will be striving to lead the way in implementing them.

### Trust Business

The Bank's total trust account balance for 1998 stood at W12.1 trillion, down 16.1% from the previous year due to the deteriorating business environment. Though it offered little consolation, the Bank outperformed Korea's top three commercial banks. The "Yes Number One Trust", a stable high-yield product where real market interest rates apply, has consistently drawn customers, recording a balance of W1.3 trillion at the end of 1998. The "New Premium Trust", another high-yield product featuring monthly compound interest, provides a higher dividend yield than real market interest. It also offers favorable tax terms of up to W20 million per client.

The Bank will continue to develop its trust business through diligent market analysis and by offering new and competitive products to meet customers' needs.

### Credit Card Business

The Bank has long maintained a competitive edge in the credit card market, being the first to introduce the Visa Card to Korea in 1978.

Credit card holders form the backbone of our retail customer base and last year numbered 4.6 million, a 3% rise over 1997 despite adverse market conditions. New products such as the "Picture Card", "Yes Bonus Card" (point accumulation rewards), "Yes Trans Card" (transit card) and "Platinum Card" were the main contributing factors to this growth. In anticipation of a new system that will allow credit card companies to share their merchant networks, the Bank has aggressively accelerated efforts to sign up new merchants and to begin managing merchant performance. Accordingly, the total number of merchants at the end of 1998 totaled 568,000, a 28.8% increase over the year before, while aggregate draft-purchased sales totaled W3.2 trillion.





## Corporate Banking

As for the trade and foreign exchange sectors, where it has traditional leadership, the Bank has further expanded its customer base in the wake of the consolidation of the domestic banking industry.



### Overview

The year 1998 was one of the most difficult years for corporate banking in Korea, as many enterprises, large and small, declared bankruptcies with the national economy showing few signs of viable recovery.

Thus, it became very important to take strong, proactive measures to build a sound loan portfolio. In response, the Bank established an advanced credit screening system. It also curtailed loans to conglomerates and their subsidiaries with low capital ratios, while increasing loans to healthy small & medium-sized enterprises.

In particular, the Bank made its utmost effort to control the rise of high-risk loans which may pose a threat to maintaining its BIS capital ratio, while simultaneously refraining from the less-profitable payment guarantee business.

As for the trade and foreign exchange sectors, where it has traditional leadership, the Bank has further expanded its customer base in the wake of the consolidation of the domestic banking industry.

### Corporate Loan Business

In 1998, the Bank reduced the volume of total domestic corporate loans, including foreign currency loans, by 8% from the previous year, totaling W11.3 trillion. Although total small & medium business loans in foreign and local currencies dropped by 5.2% to W5.6 trillion in 1998, the Bank increased small & medium business loans in local currency by 3.5% to W4.6 trillion over a year earlier, reflecting its strategy to disperse loan concentration.

In the year ahead, the bank will focus on retaining profitable small & medium-sized enterprises as customers, while developing new income sources. To accomplish these objectives, it will develop a variety of

new loan products and initiate target marketing efforts.

### Credit Quality

The Bank has initiated drastic and proactive efforts to improve its credit structure by taking analytical and systematic approaches to its credit structures, categorized by group and industry.

As a result of these efforts, a sounder asset portfolio was created, with credits more dispersed, while reducing loans to large corporations and their subsidiaries. In particular, by implementing a Foreign Currency Exposure system which places ceilings on combined foreign currency loans, the Bank last year successfully reduced foreign currency loans by 8.4% over the previous year.

The Bank has introduced a new loan screening process, including an industry-specific screening system, for the purpose of emphasizing prudence in its lending activities. The Bank has also focused on liquidating existing problem loans as early as possible while taking proactive measures to prevent bad loans in the future.



**In regard to the foreign exchange business, the Bank plans to concentrate more on profitability and to gear its increased marketing activities toward healthy small & medium-sized trading firms, as well as affluent individual customers, to expand its customer base in the year ahead.**



As a result of its efforts and bad loans sale to KAMCO, the non-performing loan ratio decreased from 5.74% in 1997 to 4.76% in 1998, while the overdue loan ratio fell from 7.51% to 4.79% during the same period.

In 1999, the Bank will further enhance its risk management system, by revamping its organization and introducing cutting-edge risk management techniques. In particular, the Bank will strengthen its credit-screening function by initiating a Four-Eye process, which will separate marketing from loan screening activities. The Bank also plans to increase its credit management efficiency by employing the Corporate Credit Risk Management (CCRM) system.

The Bank's target is to reduce the volume of non-performing loans as soon as possible and to strengthen the early warning system for problem loans in order to keep the ratio of non-performing loans below 3.95% by the end of 1999.

### **Trade and Foreign Exchange Business**

Despite an adverse operational environment, such as the prolonged economic recession and the diminishing volume of foreign exchange transaction caused by volatile rates, the Bank held a lion's share of the trade and foreign exchange sectors in 1998, retaining its No. 1 position.

As for trade-related business, the Bank posted US\$46.2 billion in 1998, and a increase of 4.8% over the previous year, accounting for 20.4% of Korea's import/export market share. The Bank's share of the export market in 1998 rose by 2.6% to 21.1%, while the import market share jumped 6.3% to 19.4%.

In regard to the foreign exchange business, the Bank plans to concentrate more on profitability and to gear its increased marketing activities toward healthy small & medium-sized trading firms, as well as affluent individual customers, to expand its customer base in the year ahead.



# *International Banking*

*The Bank focused on deals which would maximize profit  
and keep asset quality sound.*



# Investment Banking

**In response to these changes in the international financial environment, KEB switched its former growth-oriented business strategy to a profit-based one, while also focusing on asset enhancement.**



Investment banking activities were sharply curtailed in 1998. Foreign funding costs rose dramatically as a result of the downgrading of Korea's national credit rating, while markets were inevitably weakened due to the widespread recession among Southeast Asian economies. In response to these changes in the international financial environment, KEB switched its former growth-oriented business strategy to a profit-based one, while also focusing on asset enhancement.

## Asset-Backed Securities (ABS)

Based on its accumulated expertise and solid reputation in the aircraft and ship finance markets, the Bank has maintained its leading position among Korean banks in international lease transactions. Backed by its aircraft and ship finance assets, the Bank is currently spearheading ABS deals and is acting as a contact point for joint financing deals with other Korean banks.

Utilizing its assets in the aircraft finance loans, a total of approximately US\$120 million in ABS financing is being arranged with other domestic financial institutions with the Bank playing a lead role. And with its ship finance loans, KEB and one other bank are engaged in an additional US\$200 million in a structured financing.

With the passage of the Act on Asset Securitization in September 1998, a foundation for ABS market in Korea has been established. As a result, ABS financing backed by the assets of corporations and other clients is likely to increase. Backed by its accumulated know-how and dependable reputation, the Bank will seek to develop its dominance in the ABS market by arranging creative deals that cater to the diverse needs of its clients, as well as by providing related services.

## Mergers & Acquisitions (M&A)

Since establishing a M&A Team in August 1996, the Bank has reinforced this unit and enhanced its ability by employing M&A experts in response to rising demands. The Bank is now in an excellent position to tackle large-scale M&A deals.

While developing its own "Valuation Model," the Bank has stepped up its marketing efforts and reinforced its M&A team with industry-specific professionals, thereby enhancing its reputation. In addition, it formed alliances with preeminent overseas M&A mediators while initiating full-scale marketing efforts through its global network, a major strength of the Bank.

As a result, the Bank was able to secure a mandate for deals worth W570 billion last year, including 3 deals in the information and telecommunications fields. In areas such as communications, chemicals and distribution, it has 10 projects underway totaling about W1 trillion. Although relatively new to the M&A business, the Bank has quickly established itself as a reputable player in the market.



## Financial Advisory Services

With a sharp investment increase in social overhead capital (SOC) projects by central and local governments, the need is ever-increasing for professional financial advisory services in arranging long-term projects that call for massive funding. In particular, the scale of available funds for projects that require foreign funding may vary widely according to the trends of interest rates and foreign exchange. It is therefore critical that financial institutions providing advisory services have professional knowledge and experience in international financing.

Since the early 1980s when Korea began to initiate foreign-funded SOC projects, the Bank has provided financial advisory services for leading private enterprises, public institutions and local government organizations. By the end of 1998, the Bank had been selected to act as financial advisor to 43 organizations including 13 private enterprises, 22 public institutions and 8 local government organizations.

In 1998, the Bank was selected as a designated foreign currency transaction bank for many deals including a US\$300 million syndicated loan for Korea Housing Corporation, and a 42.5 billion yen Samurai Bond, a US\$700 million Yankee Bond, and a US\$100 million Euro FRN issue for KEPCO.

## Trade Finance

Due to a drastic downgrading of Korea's credit rating, credit lines from foreign banks have diminished dramatically and it has been extremely difficult to obtain financing for imports and exports, including usance financing for corporate clients. However, the Bank has successfully secured a line of credit from the ECA (Export Credit Agency), an export financing institution for OECD member countries, to provide financing for its corporate customers. So far, the Bank has secured US\$2.3 billion for import financing that includes mid to long-term ECA facility and short-term banker's usance. By identifying the mid to long-term financing needs of prospective corporate clients and by introducing them to appropriate financing

products, the Bank has been playing an active role in facilitating export/import financing.

## Custody Services

The total volume of the Bank's custody assets surged 63% over the year to W13trillion.

Although the Bank's international custody assets dropped by nearly one-half in 1998 as a result of the "IMF crisis", its domestic custody assets more than doubled. Due to its robust domestic activities, the Bank's custody business recorded a remarkable profit.

To meet explosive growth of the custody business, the Bank's custody team began enhancing its computer processing systems in the summer of 1997, making them highly efficient and reliable by the end of 1998.

As a result, the Bank was able to implement highly sophisticated work such as 'mark-to-market' valuation or funds administration. When mutual funds, a more advanced indirect investment scheme, were introduced in December 1998, few domestic trust banks were capable of providing relevant services. Many of them did not have available systems ready to handle the funds. Such a competitive advantage will surely place the Bank in a stronger position in the years ahead.

As Korea's credit rating improves this year, the Bank's international custody business will again prosper as foreign investors return.

Based on its expertise and experience, and backed by its efficient computing systems, the Bank's custody business is certain to grow in the years ahead.



*The main focus of the Bank's global strategy is on profit-based management with enhancement of risk management*





## Global Banking

**In addition, the Bank will focus its strength on export/import-related business such as trade financing and on building up profitable retail businesses.**



### Overview

The Bank's overseas business turned sluggish in 1998 due to a chain of Korean business bankruptcies, the downgrading of the nation's international credit rating and the protracted recession in East Asia.

At the end of 1998, the Bank's total overseas assets had dropped in value to US\$8.9 billion, down 35.5% from the previous year. The decrease was primarily the result of the liquidation of less-profitable assets and a deterioration in the international money market.

However, despite increased overseas funding costs and reduced asset values, overseas operating income increased by 12% to US\$134 million over the previous year, thanks to increased net interest margin and increased profits on foreign exchange transactions.

As part of its efforts to enhance the profitability and competitiveness of its overseas branch network, the Bank closed eight overseas branches in 1998. At the end of the year, the bank had presence in 23 countries with a total of 52 branches, subsidiaries and representative offices. In 1999, eight additional overseas branches will be closed.

As for global business strategies in 1999, the Bank will pursue aggressive marketing toward financial institutions, actively promoting its products and services.

To stimulate active marketing, the Bank introduced a Business Unit system in which each unit is responsible for its own operations. Under this system, "Area Managers" have been placed in charge of designated activities or region.

Also, the Bank will continue its localization efforts for its overseas offices. More authority on management will be delegated to local staff, and a strong incentive system based on performance will be adopted.

The Bank will also endeavor to advance its strategic alliance with Germany's Commerzbank, a major shareholder in the Bank, in order to build its

client base through information-sharing and cross-selling and to jointly promote competitive products.

### The Americas

The Bank has a network of 25 outlets in the Americas, including 5 branches, 2 subsidiaries and 16 subsidiary branches in the U.S. and Canada, as well as a branch in Panama and a subsidiary in Brazil.

Through this network, the Bank offers wholesale and retail commercial banking services to local businesses, as well as to Korean communities and Korean businesses operating in the region.

In particular, New York branch functions not only as a center for foreign currency funding, but it also carries out securities transactions and investment banking activities.

As part of last year's restructuring plan, the Bank closed its U.S. branches in Flushing and Miami, as well as the Montreal branch of KEB of Canada, while converting its office in Sao Paulo, Brazil into a local subsidiary company.

KEB's future management strategy in the region will be to maximize the efficiency of its existing branch network rather than increase the number of branches. In addition, the Bank will focus its strength on export/import-related business such as trade financing and on building up profitable retail businesses within Korean communities.



The Bank is now focusing its operations on wholesale commercial banking directed at Korean corporations operating in the region, while also strengthening its credit risk management and improving the soundness of assets.



### Europe and the Middle East

The Bank's network in the region consists of 9 outlets: a branch and a local subsidiary in both U.K. and Germany, a branch in each of France, Netherlands and Bahrain, and a local subsidiary in both Ireland and Luxembourg.

In 1998, the Bank closed its local subsidiary in Switzerland and its representative offices in Warsaw, Poland and Johannesburg, South Africa, all of which had demonstrated unfavorable business prospects and weak customer base.

The Bank's business operations in this region revolve around wholesale-based commercial banking and investment banking activities, including Euro market financing for Korean corporations and custody business.

As for its European strategy, the Bank will build a Euro currency trading base while promoting active trading with compatible customers. In addition, the Bank will gear its business operations toward EU market activities and focus on enhancing its branch business strategies.

### Asia and Oceania

Since the region is an important strategic area for the Bank's global banking operations, KEB has established its presence in several countries including Japan, China, Singapore, Hong Kong, Australia, Thailand, Indonesia, the Philippines, Vietnam and Sri Lanka. At the end of 1998, the Bank's regional network consisted of 16 branches, local subsidiary companies or representative offices, as well as a business office in North Korea.

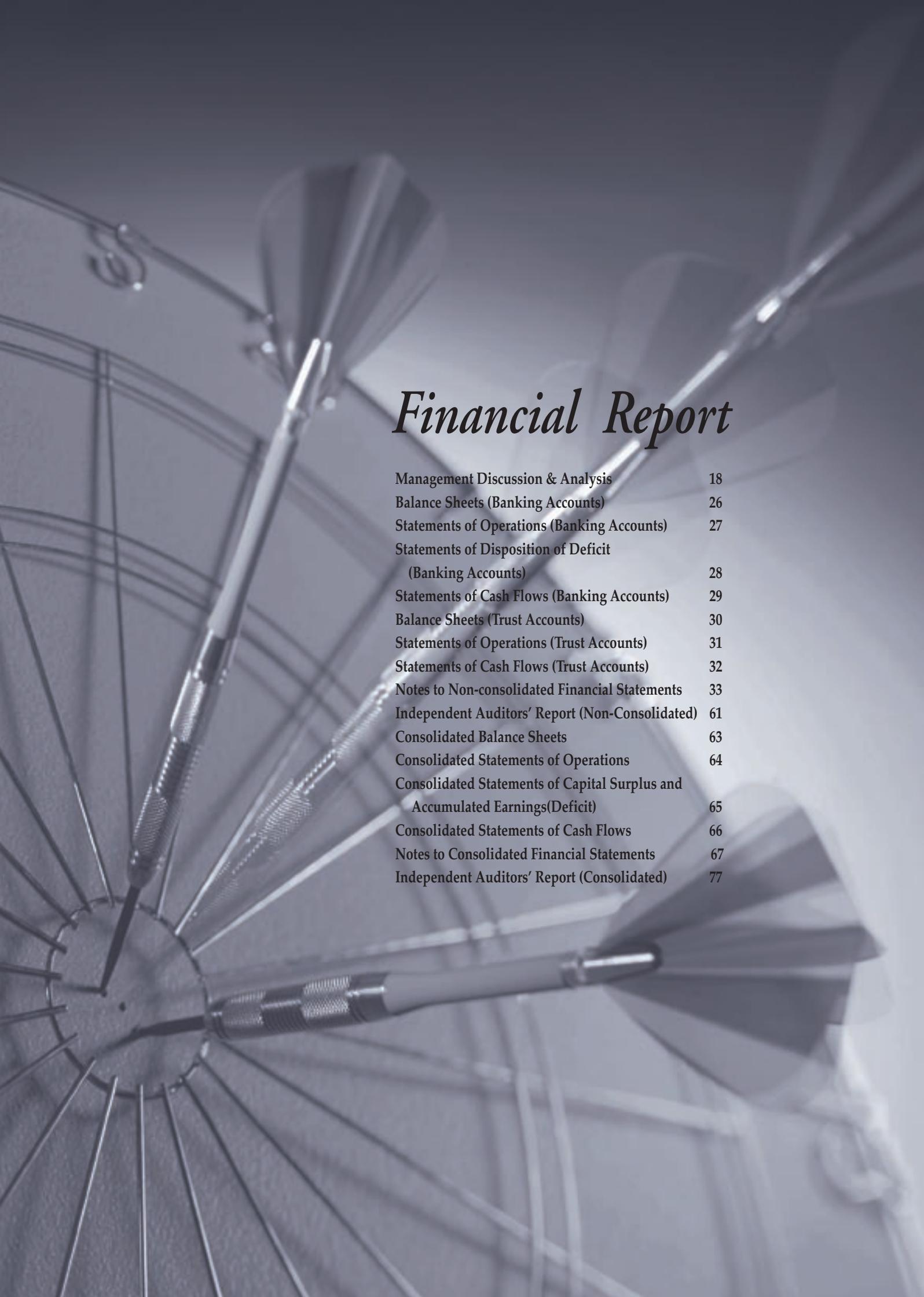
The Bank had recorded strong performance over the past few years in the region. However, as many economies in the region suffered slowdown in 1998, the Bank sharply reduced investment banking activities such as arranging syndicated loans and project financing for Chinese and Southeast Asian borrowers, as well as Korean companies. Due to a significant increase in provisions for bad loans, the Bank reported a regional net loss in 1998.

The Bank is now focusing its operations on wholesale commercial banking directed at Korean corporations operating in the region, while also strengthening its credit risk management and improving the soundness of assets.

In Japan, the Bank has branch offices in Tokyo, Osaka and Fukuoka which engage in loans and export/import business directed towards Korean corporations and smaller retail businesses run by Korean residents in Japan.

In 1998, the Bank recorded loss due to an increase in provisions for bad loans and the depressed Japanese economy.

The Bank's future operations in Japan will focus on building a strong asset base, closing those branches with poor sales bases and increasing productivity.



# *Financial Report*

Management Discussion & Analysis	18
Balance Sheets (Banking Accounts)	26
Statements of Operations (Banking Accounts)	27
Statements of Disposition of Deficit (Banking Accounts)	28
Statements of Cash Flows (Banking Accounts)	29
Balance Sheets (Trust Accounts)	30
Statements of Operations (Trust Accounts)	31
Statements of Cash Flows (Trust Accounts)	32
Notes to Non-consolidated Financial Statements	33
Independent Auditors' Report (Non-Consolidated)	61
Consolidated Balance Sheets	63
Consolidated Statements of Operations	64
Consolidated Statements of Capital Surplus and Accumulated Earnings(Deficit)	65
Consolidated Statements of Cash Flows	66
Notes to Consolidated Financial Statements	67
Independent Auditors' Report (Consolidated)	77

**Overview of Result**

The Bank's net losses for 1998 totaled W844 billion, an increase of W776 billion over the previous year. Such a significant setback was the result of several factors, including an enormous shortfall from the sale of bad loans to the Korea Asset Management Corp.(KAMCO); an increased provision for loan losses as a result of the sharp rise in problem loans and strengthened loan classification standards; and enlarged provisions for severance benefits following the Bank's large-scale early retirement program. The Bank's current operating income at the end of 1998, excluding the losses on stock trading and asset sales, came to W1,039 billion, an increase of W335 billion from W704 billion a year ago.

**Net Interest Income**

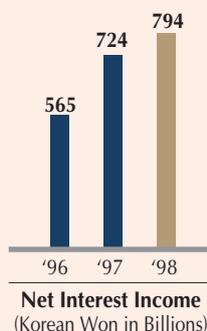
The Bank's net interest income amounted to W794 billion, up W70 billion or 9.7% from W724 billion in 1997.

The increase is attributable to the rise in the operating yield rate, which exceeded the funding cost rate despite the decrease of interest earning assets. The Bank's net interest margin was 2.07%, an increase of 0.28% over the previous year.

**Interest Income/ Expenses Analysis**

(Won in billions, %)

	1998			1997		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
<b>Interest-earning Assets</b>						
Loans	22,724	2,285	10.06	23,088	1,838	7.96
Deposits with other banks	4,404	423	9.60	4,869	362	7.43
Securities	6,606	647	9.79	4,722	399	8.45
Others	4,696	633	13.48	7,801	544	6.97
<b>Total Interest-earning Assets</b>	<b>38,430</b>	<b>3,988</b>	<b>10.38</b>	<b>40,480</b>	<b>3,143</b>	<b>7.76</b>
<b>Interest-bearing Liabilities</b>						
Deposits	23,038	1,877	8.15	22,375	1,358	6.07
Borrowed funds	14,572	1,296	8.89	16,728	1,054	6.30
Others	31	21	-	43	7	-
<b>Total Interest-bearing Liabilities</b>	<b>37,641</b>	<b>3,194</b>	<b>8.49</b>	<b>39,146</b>	<b>2,419</b>	<b>6.18</b>
<b>Net Interest Income</b>		<b>794</b>			<b>724</b>	
<b>Net Interest Income as a Percentage of Average Interest-earning Assets</b>			<b>2.07</b>			<b>1.79</b>

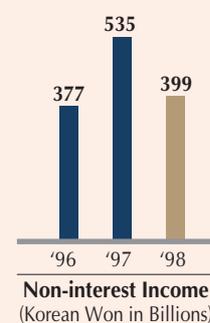


**Non-interest Income**

Non-interest income in 1998 totaled W399 billion, down W136 billion or 25.4% from 1997. The decrease was mainly the result of a considerable drop in trust fees, despite remarkable gains on foreign exchange transactions. Gains on foreign exchange transactions totaled W436 billion, an increase of W208 billion or 91.2% over 1997, while trust fees decreased by W317 billion.

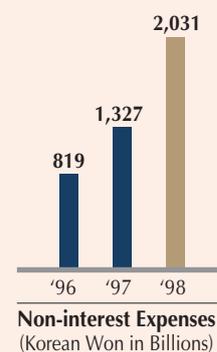
The main factors for the big gains on foreign exchange transactions were the strengthened foreign exchange business and widening foreign exchange spreads in the 1st half of last year. The decline in trust fees was attributable to losses from the sale of bad loans to KAMCO and losses on stock trading.

	1998	1997	1998
	Won (billions)	Won (billions)	US\$ (millions)
Fee and commissions	174	219	144
Gains on foreign exchange transactions	436	228	361
Trust fees(Net)	(287)	30	(238)
Other non-interest income	76	58	63
<b>Total Non-interest Income</b>	<b>399</b>	<b>535</b>	<b>330</b>


**Non-interest Expenses**

Total non-interest expenses recorded W2,031 billion in 1998, or W704 billion or a 53% increase over the previous year. The increase was primarily due to the surge in other expenses caused by losses from the sale of bad loans to KAMCO, as well as losses on stock trading following the Bank's curtailed securities investment.

	1998	1997	1998
	Won (billions)	Won (billions)	US\$ (millions)
General and administrative expenses	433	519	359
Personnel expenses	211	254	175
Other G&A expenses	222	265	184
Provision for loan losses	248	291	205
Provision for severance benefits	206	80	171
Depreciation & amortization	65	77	54
Other expenses	1,079	360	893
Losses on asset sales	826	181	684
<b>Total Non-interest Expenses</b>	<b>2,031</b>	<b>1,327</b>	<b>1,682</b>



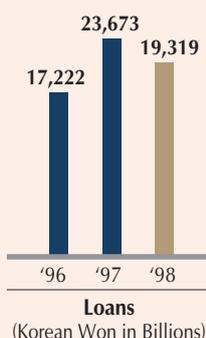
### Balance Sheet Analysis

#### Assets

The Bank's total assets outstanding at the end of 1998 amounted to W46,551 billion, representing a decrease of 17.5% from the year before. The downturn was attributable to a reduction in foreign currency assets made to improve the Bank's BIS capital ratio and to resolve liquidity problems, as well as a decrease in the value of won-converted foreign assets following the appreciation of the Korean won.

#### Loan Portfolio

Total loans outstanding at the year-end totaled W19,319 billion, down 18.4% or W4,354 billion from the previous year. Outstanding domestic loans were W13,957 billion, W890 billion or 6.0% decrease from 1997. The decline was mainly the result of the sale of bad loans to KAMCO and dwindling household loans. Outstanding overseas loans stood at W5,362 billion, which represented a decrease of W3,464 billion or 39.2% from a year before. The decrease was caused by reductions in loans following the Bank's efforts to enhance its BIS capital ratio and liquidity.



	1998	1997	1998
	Won (billions)	Won (billions)	US\$ (millions)
<b>Loans by Domestic Offices</b>			
Manufacturing industry	5,711	6,554	4,728
Banking & insurance	1,380	1,829	1,143
Transportation & communication	1,363	1,275	1,128
Wholesale and retail trade	1,064	1,087	881
Construction	708	522	586
Household loans	1,444	1,874	1,196
Others	2,287	1,706	1,894
<b>Total Domestic Loans</b>	<b>13,957</b>	<b>14,847</b>	<b>11,556</b>
<b>Loans in Overseas Branches</b>	<b>5,362</b>	<b>8,826</b>	<b>4,439</b>
<b>Total Loans</b>	<b>19,319</b>	<b>23,673</b>	<b>15,995</b>

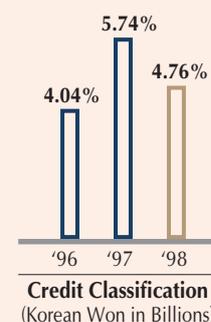
Note) Others include off-shore loans, call loans and others

**Credit Classification**

The non-performing loan(NPL) ratio was 4.76%, representing a decrease of 0.98% point from the previous year. The NPL amount was W1,508 billion, down W1,010 billion from 1997. The steep drop was mainly attributable to the sale of bad loans to KAMCO and the stringent loan screening system.

(Won in billions)

	1998	1997	1996
Current	25,206	37,440	27,995
Special mention	4,978	3,916	2,784
Substandard	872	1,889	1,064
Doubtful	567	603	206
Loss	69	26	24
<b>Total</b>	<b>31,692</b>	<b>43,874</b>	<b>32,073</b>
<b>NPL Ratio</b>	<b>4.76%</b>	<b>5.74%</b>	<b>4.04%</b>

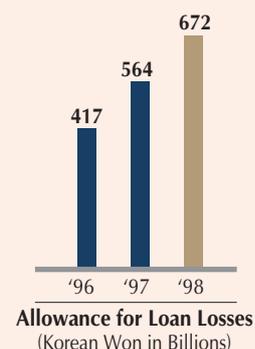


**Allowance for Loan Losses**

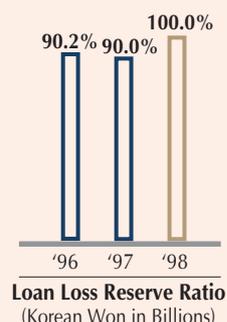
Due to the increase in bad loans and strengthened loan classification standards, allowance for loan losses increased by W108 billion or 19.1%, to W672 billion. The loan loss reserve ratio increased to 100%, compared to 90% in 1997.

(Won in billions)

	1998	1997	1996
Provision for loan losses	248	291	135
Charge-offs	(155)	(187)	(86)
Others	15	43	(6)
Allowance for loan losses	672	564	417
Loan Loss reserve ratio	100.0%	90.0%	90.2%



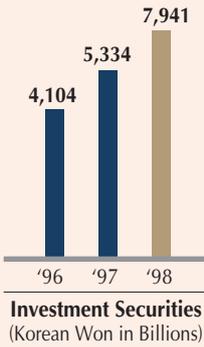
Note : Others include translation adjustment



**Investment Securities**

Total investment securities at the end of 1998 stood at W7,941 billion, an increase of W2,607 billion or 48.9% over the previous year. The increase was the result of expanded investment in securities as a result of the tight loan market. In particular, marketable securities grew by W3,403 billion to W4,619 billion over the previous year.

(Won in billions)



	1998			1997		
	Debt	Equity	Total	Debt	Equity	Total
Trading	490	62	552	1,314	537	1,851
Long-term investment	6,316	1,073	7,389	2,585	898	3,483
Marketable	4,464	155	4,619	1,216		1,216
Non-marketable	1,271	72	1,343	769	91	860
Held-to-maturity	581	0	581	600		600
Investment in subsidiaries	0	846	846	0	807	807
<b>Total Investment Securities</b>	<b>6,806</b>	<b>1,135</b>	<b>7,941</b>	<b>3,899</b>	<b>1,435</b>	<b>5,334</b>

## Sources of Funds

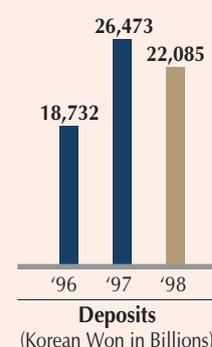
The Bank's total funds outstanding at the end of 1998 was W46,551 billion which was mainly comprised of W22,085 billion (47.4%) in deposits, W12,370 billion (26.6%) in borrowings and debentures, and W1,664 billion (3.1%) in shareholders' equity.

### Deposits

Total deposits declined by 16.6% from 1997, totaling W22,085 billion at the end of 1998.

The main reason for the decrease was a 45.3% drop in foreign currency deposits which is considered as borrowed money. Savings deposits, however, increased by W2,593 billion to W10,886 billion.

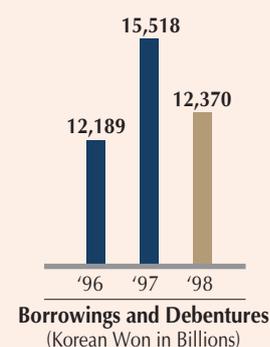
	1998	1997	1998
	Won (billions)	Won (billions)	US\$ (millions)
Demand deposits	1,979	1,935	1,639
Savings deposits	10,886	8,293	9,013
Certificates of deposits	803	866	665
Deposits in foreign currencies and overseas branches	8,417	15,379	6,969
<b>Total Deposits</b>	<b>22,085</b>	<b>26,473</b>	<b>18,286</b>



### Borrowings and Debentures

Outstanding borrowings and debentures at the end of 1998 totaled W12,370 billion, down 20.3% from a year earlier. The decrease was primarily the result of a 33% drop in debentures and a 57.3% reduction in call money.

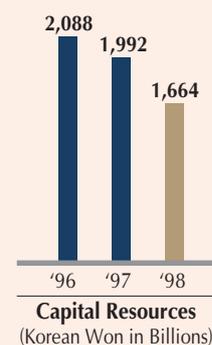
	1998	1997	1998
	Won (billions)	Won (billions)	US\$ (millions)
Borrowings from central bank (Bank of Korea)	995	730	824
Borrowings from other banks	985	878	816
Borrowings in foreign currencies	6,650	6,623	5,506
Call money	949	2,222	786
Debentures	2,275	3,395	1,884
Others	516	1,670	472
<b>Total Borrowing and Debentures</b>	<b>12,370</b>	<b>15,518</b>	<b>10,243</b>



### Capital Resources

By the end of 1998, total paid-in capital increased to W1,175 billion from W825 billion at the end of 1997. This gain was due to a W350 billion equity participation from Commerzbank. Surplus and retained earnings dropped by W678 billion due to current losses. (Won in billions)

	1998	1997	1996
Paid in capital	1,175	825	825
Surplus & retained earnings	489	1,167	1,263
<b>Total Shareholders' Equity</b>	<b>1,664</b>	<b>1,992</b>	<b>2,088</b>



**Risk-adjusted Capital Ratio**

The Bank's BIS capital ratio increased to 8.06% at the end 1998, which represented a 1.27% increase over the previous year. Tier 1 capital stood at W1,470 billion, falling by W88 billion from a year earlier. Despite the W350 billion infusion of fresh capital from the Commerzbank, Tier 1 capital decreased mainly due to net losses.

Risk-adjusted assets decreased by 25.3% to W34,207 billion due to the appreciation of Korean won, as well as asset reduction that took place as a result of the Bank's efforts to improve its BIS capital ratio and liquidity.

**BIS Capital Ratio(Consolidated)**

(Won in billions)

	1998	1997	
		IMF Standard	OBS Standard
<b>Tier I</b>			
Paid-in capital	1,175	825	825
Capital surplus	230	224	224
Retained earnings	(109)	210	658
Minority interest in consolidated subsidiaries	160	321	321
Consolidated-related adjusted account	52	52	5
Capital adjustment	(38)	(74)	(7)
<b>Total</b>	<b>1,470</b>	<b>1,558</b>	<b>2,026</b>
<b>Tier II</b>			
Reserve for loan losses	428	573	575
Asset revaluation surplus	156	360	360
Subordinated debt	735	624	1,013
<b>Total</b>	<b>1,319</b>	<b>1,557</b>	<b>1,948</b>
<b>Investment in Non-consolidated Subsidiary</b>	<b>(34)</b>	<b>(5)</b>	<b>(5)</b>
<b>Total Capital</b>	<b>2,755</b>	<b>3,110</b>	<b>3,969</b>
<b>Risk-adjusted Assets</b>			
Balance sheet amount	28,031	36,590	36,574
Off-balance sheet amount	6,176	9,214	9,400
<b>Total Risk-adjusted Assets</b>	<b>34,207</b>	<b>45,804</b>	<b>45,974</b>
<b>Risk-adjusted Capital Ratios</b>			
<b>Tier I</b>	<b>4.30%</b>	<b>3.40%</b>	<b>4.41%</b>
<b>Total</b>	<b>8.06%</b>	<b>6.79%</b>	<b>8.63%</b>

**Five-year Summary of Selected Financial Data**

(Won in billions)

	1998	1997	1996	1995	1994
<b>For the year</b>					
Interest income	3,988	3,143	2,218	1,847	1,337
Interest expenses	(3,194)	(2,419)	(1,653)	(1,424)	(1,008)
Net interest income	794	724	565	423	329
Provision for loan losses	(248)	(291)	(135)	(172)	(300)
Net interest income after provision for loan losses	546	433	430	251	29
Non-interest income	399	535	377	382	515
Non-interest expenses	(1,783)	(1,036)	(684)	(510)	(423)
Net income before income taxes	(838)	(68)	123	123	121
Income taxes	6	0	(19)	(18)	(21)
Net income(loss)	(844)	(68)	104	105	100
<b>At Year-end</b>					
Total assets	46,551	56,415	41,435	35,553	30,003
Loans	19,319	23,673	18,732	15,046	12,999
Investment securities	7,941	5,334	4,104	3,591	2,919
Deposits	22,085	26,473	18,732	16,929	13,941
Borrowings and debentures	12,370	15,518	12,189	9,246	8,368
Shareholders' equity	1,664	1,992	2,088	2,011	1,640
<b>Profitability Ratios</b>					
Return on equity <sup>1)</sup>	(36.49%)	(2.76%)	4.58%	5.09%	5.55%
Return on assets <sup>2)</sup>	(1.85%)	(0.15%)	0.29%	0.35%	0.41%

Note : 1) Net income as a percentage of average shareholders' equity.

2) Net income as a percentage of average assets, including trust accounts and excluding contra accounts.

## BALANCE SHEET (BANKING ACCOUNTS)

December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>ASSETS :</b>			
Cash and due from banks (Note 5)	W 5,524,848	W 6,623,413	US\$ 4,574,307
Foreign exchange bills purchased	3,694,128	7,448,127	3,058,559
Loans (Note 4)	19,319,458	23,672,576	15,995,577
Investment securities (Note 6)	7,941,619	5,334,413	6,575,276
Customer's liabilities on guarantees and acceptance (Note 12)	6,915,303	9,491,859	5,725,537
Premises and equipment (Note 8)	1,510,207	1,516,473	1,250,378
Other assets (Note 9)	1,645,872	2,328,085	1,362,703
<b>Total Assets</b>	<b>46,551,435</b>	<b>56,414,946</b>	<b>38,542,337</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY :</b>			
<b>Liabilities:</b>			
Deposits (Note 10)	22,084,790	26,473,498	18,285,138
Foreign exchange bills sold	167,513	195,790	138,693
Borrowings and debentures (Note 11)	12,369,719	15,518,084	10,241,529
Guarantees and acceptances outstanding (Note 12)	6,915,303	9,491,859	5,725,537
Guarantee money received	92,410	120,244	76,511
Allowance for loan losses (Note 13)	671,878	563,771	556,282
Other liabilities (Note 14)	2,586,201	2,059,719	2,141,249
<b>Total Liabilities</b>	<b>44,887,814</b>	<b>54,422,965</b>	<b>37,164,939</b>
<b>Commitments and Contingencies (Note 22)</b>			
<b>Shareholders' equity (Note 1) :</b>			
Common stock, W 5,000 par value; 1,000 million shares and 400 million shares authorized in 1998 and 1997, respectively; 235 million shares and 165 million shares issued and outstanding in 1998 and 1997, respectively	1,175,000	825,000	972,843
Capital surplus (Note 18)	310,822	514,413	257,346
Retained earnings (Note 19)	12,222	652,568	10,119
Capital adjustment (Note 19)	165,577	-	137,090
<b>Total Shareholders' Equity</b>	<b>1,663,621</b>	<b>1,991,981</b>	<b>1,377,398</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>W 46,551,435</b>	<b>W 56,414,946</b>	<b>US\$ 38,542,337</b>

The accompanying notes are an integral part of these financial statements

## STATEMENT OF OPERATIONS (BANKING ACCOUNTS)

for the years ended December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>Revenue :</b>			
Interest on due from banks	W 422,530	W 361,556	US\$349,834
Interest on foreign exchange bills purchased	509,814	490,706	422,101
Interest on loans	2,285,411	1,837,981	1,892,210
Interest on investment securities	647,481	399,356	536,083
Other interest income	122,683	52,916	101,576
Total interest income	3,987,919	3,142,515	3,301,804
Fees and commissions	174,064	219,220	144,117
Gains on foreign exchange transactions, net	436,287	228,442	361,225
Trust fee income (compensation), net (Note 27)	(287,390)	29,952	(237,945)
Other income (Note 15)	75,699	57,570	62,674
<b>Total revenue</b>	<b>4,386,579</b>	<b>3,677,699</b>	<b>3,631,875</b>
<b>Expenses :</b>			
Interest on deposits	1,877,378	1,357,363	1,554,378
Interest on borrowings and debentures	1,295,513	1,054,356	1,072,622
Other interest expense	21,117	7,243	17,484
Total interest expenses	3,194,008	2,418,962	2,644,484
Loss on investment primarily valuation losses	164,613	131,008	136,292
Provision for loan losses	247,930	291,000	205,274
General and administrative expenses	433,021	518,654	358,520
Provision for severance benefits	205,636	79,650	170,257
Depreciation and amortization	64,799	77,467	53,650
Other expenses (Note 16)	914,604	229,168	757,248
<b>Total expenses</b>	<b>5,224,611</b>	<b>3,745,909</b>	<b>4,325,725</b>
<b>Net loss before income taxes</b>	<b>(838,032)</b>	<b>(68,210)</b>	<b>(693,850)</b>
<b>Income taxes (Note 23)</b>	<b>5,512</b>	<b>200</b>	<b>4,564</b>
<b>Net loss</b>	<b>W(843,544)</b>	<b>W (68,410)</b>	<b>US\$(698,414)</b>
<b>Loss per share</b> <b>(in Korean Won and U.S. Dollars)</b>	<b>W (4,328)</b>	<b>W (415)</b>	<b>US\$(3.58)</b>

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF DISPOSITION OF DEFICIT (BANKING ACCOUNTS)

for the years ended December 31, 1998 and 1997

Date of disposition : February 26, 1999 and February 27, 1998 the years ended December 31, 1998 and 1997, respectively

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
Accumulated deficit before disposition :			
Unappropriated retained earnings carried over from prior years	W     -	W     91	US\$   -
Reclassification of gain on insurance settlements	-	64	-
As adjusted	-	155	-
Net loss for the year	(843,544)	(68,410)	(698,414)
	(843,544)	(68,255)	(698,414)
Disposition (appropriations)			
Transfer from asset revaluation surplus	203,591	-	168,564
Transfer from statutory reserves	195,634	-	161,975
Transfer from reserve for overseas investment losses	154,000	23,500	127,505
Transfer from business rationalization	31,800	-	26,329
Other statutory reserves	(211)	(234)	(175)
Transfer from voluntary reserves	258,730	44,989	214,216
	843,544	68,255	698,414
<b>Undisposed accumulated deficit to be carried over to subsequent year</b>	W     -	W     -	US\$   -

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF CASH FLOWS (BANKING ACCOUNTS)

December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>Cash flows from operating activities:</b>			
Net loss	W (843,544)	W (68,410)	US\$ (698,414)
Adjustment to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	65,114	77,467	53,911
Provision for loan losses	247,930	291,000	205,274
Provision for severance benefits	205,636	79,650	170,257
Valuation loss on investment securities	68,923	131,482	57,065
Loss on disposal of investment securities, net	111,380	6,550	92,217
Loss on sales of loans	825,174	180,836	683,204
Increase in accrued income	(525,760)	(544,089)	(435,304)
Increase in accrued expenses	634,568	598,661	525,392
Others, net	(91,796)	(17,974)	(76,002)
Net cash provided by operating activities	697,625	735,173	577,600
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(2,839,779)	(1,041,197)	(2,351,200)
Proceeds from disposal of premises and equipment	132,517	3,324	109,718
Net decrease (increase) in loans	3,384,625	(6,808,635)	2,802,306
Acquisitions of premises and equipment	(157,407)	(154,736)	(130,325)
Decrease (increase) in foreign exchange bills purchased	3,571,535	(1,728,225)	2,957,058
Others, net	1,239,607	(115,192)	1,026,335
Net cash provided by (used in) investing activities	5,331,098	(9,844,661)	4,413,892
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in deposits	(4,379,648)	7,747,735	(3,626,137)
Net increase (decrease) in borrowings and debentures	(2,603,433)	3,025,058	(2,155,517)
Net decrease in guarantee money received	(27,834)	(9,261)	(23,045)
Net increase (decrease) in foreign exchange bills sold	(28,277)	14,746	(23,412)
Net decrease in other liabilities	(768,959)	(374,215)	(636,660)
Increase in paid in capital for cash	350,000	-	289,783
Dividends paid	-	(31,375)	-
Net cash provided by (used in) financing activities	(7,458,151)	10,372,688	(6,174,988)
Net increase (decrease) in cash and cash equivalents	(1,429,428)	1,263,200	(1,183,496)
<b>Cash and cash equivalents at beginning of year (Note 26)</b>	7,053,878	5,790,678	5,840,270
<b>Cash and cash equivalents at end of year (Note 26)</b>	W 5,624,450	W 7,053,878	US\$ 4,656,774

The accompanying notes are an integral part of these financial statements

## BALANCE SHEETS (TRUST ACCOUNTS)

December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>ASSETS :</b>			
Cash and due from banks	W 469,549	W 11,553	US\$ 388,764
Call loans	1,155,028	1,782,791	956,307
Securities purchased under agreements to resell	9,062	-	7,503
Loans (Note 27)	2,368,822	3,487,480	1,961,270
Investment securities (Note 27)	21,219,977	16,944,973	17,569,115
Other receivables	657,006	684,637	543,969
Deposits at the Bank	644,310	107,821	533,458
Other assets	3,431	3,825	2,841
	W 26,527,185	W 23,023,080	US\$21,963,227
<b>LIABILITIES AND SHAREHOLDERS' EQUITY :</b>			
Money trusts (Note 27)	W 12,133,226	W 14,450,652	US\$10,045,724
Fund trusts (Note 27)	-	15,500	-
Other trusts (Note 27)	155	160	128
Securities investment trusts (Note 27)	12,125,142	7,126,999	10,039,031
Borrowings	252,500	-	209,058
Special allowance	21,467	38,576	17,774
Allowance for loan losses	198,127	7,860	164,040
Allowance for security valuation	-	134,965	-
Other liabilities (Note 27)	1,796,568	1,248,368	1,487,472
	W 26,527,185	W 23,023,080	US\$ 21,963,227

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF OPERATIONS (TRUST ACCOUNTS)

for the years ended December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>REVENUE :</b>			
Interest on loans	W 446,505	W 404,159	US\$ 369,685
Interest on call loans	38,184	88,988	31,615
Interest on investment securities	2,008,924	1,644,172	1,663,292
Gain on disposal of investment securities	503,529	69,327	416,898
Interest on deposits at the Bank	6,191	2,127	5,126
Gain on derivatives transactions	445,972	-	369,243
Compensation from banking account	496,144	118,902	410,783
Other income	396,571	2,005	328,341
<b>Total revenues</b>	<b>4,342,020</b>	<b>2,329,680</b>	<b>3,594,983</b>
<b>EXPENSES :</b>			
Trust fees to the Bank's banking accounts (Note 27)	141,608	84,877	117,245
Commissions paid	4,133	68,077	3,422
Loss on disposal of investment securities	468,973	255,031	388,287
Valuation loss on securities	9,699	82,711	8,030
Provision for loan losses	211,488	4,362	175,102
Contributions to Korea Credit Guarantee Fund	5,900	5,436	4,885
Loss on derivatives transactions	366,603	-	303,530
Other expenses	279,763	12,221	231,629
<b>Total expenses</b>	<b>1,488,167</b>	<b>512,715</b>	<b>1,232,130</b>
<b>Dividends of trust profit to beneficiaries (Note 27)</b>	<b>W 2,853,853</b>	<b>W 1,816,965</b>	<b>US\$ 2,362,853</b>

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF CASH FLOWS (TRUST ACCOUNTS)

December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>Cash flows from operating activities:</b>			
Net income	W -	W -	US\$ -
Adjustment to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	211,488	4,362	175,102
Valuation loss on investment securities	9,699	82,711	8,030
Loss (gain) on disposal of investment securities, net	(112,307)	196,857	(92,985)
Losses on sale of loans	64,271	-	53,213
Others, net	542,949	(15,863)	449,536
Net cash provided by operating activities	716,100	268,067	592,896
<b>Cash flows from investing activities:</b>			
Increase in deposits at the Bank	(536,489)	(75,409)	(444,187)
Decrease (increase) in loans	1,033,166	(306,716)	855,411
Decrease (increase) in call loans	627,763	(1,049,178)	519,757
Increase in investment securities	(2,893,436)	(2,633,766)	(2,395,625)
Others, net	(8,704)	2,428	(7,206)
Net cash used in investing activities	(1,777,700)	(4,062,641)	(1,471,850)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in money trusts	(2,317,426)	1,771,755	(1,918,717)
Decrease in fund trusts	(15,500)	(3,376)	(12,833)
Increase in securities management trusts	4,998,143	2,224,548	4,138,221
Increase in borrowings	252,500	-	209,058
Net cash provided by financing activities	2,917,717	3,992,927	2,415,729
<b>Net decrease in cash and cash equivalents</b>	1,856,117	198,353	1,536,775
<b>Cash and cash equivalents at beginning of year (Note 27)</b>	937,930	739,577	776,561
<b>Cash and cash equivalents at end of year (Note 27)</b>	W 2,794,047	W 937,930	US\$ 2,313,336

The accompanying notes are an integral part of these financial statements

**1. The Bank:**

Korea Exchange Bank (the "Bank") was established in 1967 as a government-invested bank to engage in foreign exchange and trade finance business under the Korea Exchange Bank Act. In December, 1989, the Bank was converted into a corporation under the Commercial Code of the Republic of Korea as the Korea Exchange Bank Act was repealed.

The Bank provides commercial banking services, trust banking services, foreign exchange and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange. On July 28, 1998, the Bank issued 70 million shares of common stock for cash at par value to Commerzbank, a major commercial bank in Germany. The Bank's shareholders as of December 31, 1998 and 1997 are as follows:

	1998		1997	
	No. of shares owned (shares)	%	No. of shares owned (shares)	%
Bank of Korea	79,000,000	33.62	79,000,000	47.88
Commerzbank	70,000,000	29.79	-	-
Others	86,000,000	36.59	86,000,000	52.12
	235,000,000	100.00	165,000,000	100.00

As of December 31, 1998, the Bank has 350 branches, agencies and offices in domestic and overseas markets. During 1998, the Bank closed 74 domestic branches and 7 overseas branches. The Bank intends to close 35 domestic branches, 2 overseas branches and 5 subsidiaries and to merge or sell five domestic and foreign subsidiaries in 1999.

The operations of the Bank have been significantly affected and will continue to be affected for the foreseeable future by the adverse economic conditions in the Republic of Korea, the Asia Pacific region, Latin America and Russia in general. The ultimate effect that these significant uncertainties would have on the stated value of assets and liabilities cannot presently be determined. Accordingly, the accompanying non-consolidated financial statements do not contain adjustments related to these uncertainties.

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

The significant accounting policies followed by the Bank in the preparation of the accompanying non-consolidated financial statements are summarized as follows:

**Basis of Financial Statement Presentation**

The official accounting records of the Bank are maintained in Korean Won in accordance with the relevant laws and regulations of the Republic of Korea. These non-consolidated financial statements are prepared in accordance with generally accepted financial accounting standards of the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by banking regulatory authorities.

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

For the convenience of the reader, the accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the statutory Korean language non-consolidated financial statements. Certain supplementary information included in the statutory non-consolidated financial statements, not required for a fair presentation of the Bank's financial position or results of operations, is not presented in the accompanying non-consolidated financial statements. Such non-consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea.

Under the accounting and reporting guidelines prescribed by the banking regulatory authorities and generally accepted accounting principles in the Republic of Korea, neither the consolidation method for majority owned subsidiaries nor the equity method of accounting for minority owned companies has been applied in the accompanying non-consolidated financial statements. The consolidated financial statements of the Bank and its subsidiaries are prepared and filed separately.

The preparation of non-consolidated financial statements requires management to make estimates and assumptions that effect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

**Recognition of Interest Income**

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans, not secured by guarantees from financial institutions or bank deposit collateral, is recognized on a cash basis in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities. At December 31, 1998 and 1997, the amount of interest accrued but not recognized as income due to a cash basis income recognition approximate W367,342 million and W555,200 million, respectively.

**Allowances for Loan Losses**

Pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities, from January 1, 1998, allowance for loan losses are required to be provided based on a credit risk classification of the Bank's loan portfolio as of December 31, 1998. Estimated loan losses are determined by applying the following percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	75%
Loss	100%

Major changes in the revised guidelines are changes; in percentage of estimated loan losses for loans classified as special mention from 1% to 2%, in classification criteria based on number of the delinquent months, in estimation of allowances for loan losses based on credit risk classification of the loan portfolio as of from November 30 to December 31, and in full provisioning of estimated loan losses. The adoption of these revised guidelines increased the Bank's 1998 net loss by W103,014million.

In accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities, the Bank does not provide allowances for potential losses, which may result from credit risk exposures on outstanding guarantees and acceptances.

**Investment Securities**

Pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities, from June 30, 1998, investment securities are classified in trading and investment securities and accounted for as follows:

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are recorded as trading securities and are reported at market value, with unrealized gains and losses included in earnings.
- Marketable securities held for investment purpose except for debt securities denominated in Korean Won which are stated at cost, as permitted by the revised accounting and reporting guidelines prescribed by the banking regulatory authorities, are carried at market value, with unrealized gains and losses excluded from earnings and reported as capital adjustments in shareholders' equity until realized.
- Investments in affiliated companies and investment securities other than marketable securities are carried at cost. Long-term debt securities such as bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized as an adjustment to interest income using the straight-line method over the period to maturity. However, if the market value or net book value declines significantly compared to acquisition cost and is not expected to recover soon, the acquisition cost is reduced to the market value or net book value, with unrealized gains or losses included in earnings.
- In 1998, unrealized valuation losses on securities were deducted directly from the investment accounts. Previously, the valuation allowances were recorded as liabilities.
- Investment securities held by overseas branches are reported according to the accounting principles generally accepted in each local country.

Previously, investment securities were carried at cost, except for securities revalued under the Asset Revaluation Law as of January 1, 1993. Revalued investment securities are stated at the revalued amounts less revaluation taxes, unless the lower of cost or market is applied as described below:

- Marketable equity securities listed on the Korean Stock Exchange held for sale were stated at their lower of aggregate cost or market. As of December 31, 1997, the Bank had provided allowances for unrealized valuation losses on these marketable equity securities in amounts equal to 50% of the estimated losses for the banking accounts, as permitted under the previous banking accounting and reporting guidelines.

- The foreign currency denominated securities held for sale were stated at their lower of aggregate cost or market.
- Investments in unlisted Korean equity securities including that in which the Bank held more than 10% of the outstanding equity shares and investments in foreign currency denominated equity securities held for investment purposes were stated at their lower of individual cost or estimated market value.

The adoption of these revised guidelines decreased the Bank's 1998 net loss by approximately W74,145 million and increased capital adjustment in shareholders' equity as of December 31, 1998 by W165,577 million.

**Premises and Equipment**

Premises and equipment are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts less revaluation taxes (see Note 18). Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except buildings purchased on or after January 1, 1995 and leasehold improvements for which depreciation is computed using the straight-line method. The residual value of assets fully depreciated is being depreciated using the straight-line method over a three year period commencing in the year following full depreciation.

The estimated useful lives of premises and equipment are as follows:

	Estimated Useful Lives
Buildings	40-60 years
Equipment	4-20 years
Leasehold improvements	5-10 years

Accumulated depreciation is presented as a part of other liabilities in accordance with the banking accounting and reporting guidelines.

Routine maintenance and repairs are charged to operations when incurred. Betterments and renewals enhancing the value or extending the useful life of the facilities involved are capitalized.

**Foreclosed Assets**

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, no depreciation is provided, instead, based on periodic valuations, the asset is carried at the lower of carrying amount or fair value normally determined as its estimated public auction price. The valuation losses are recognized as other operating expense and corresponding allowances are recorded as a liability account in accordance with the accounting and reporting guidelines. In 1998 and 1997, provision for valuation losses amounting to W1,425 million and W1,606 million, respectively, were recorded.

Gains or losses on disposal of foreclosed assets sold on an installment payment basis are deferred and amortized in proportion to subsequent cash collections of the receivables.

**Discounts on Debentures**

Discounts on debentures are recorded as other assets and amortized over the term of the debenture using the effective interest rate method. The amortization is included in interest expenses.

**Deferred Charges**

Deferred charges comprise stock issuance costs, debenture issuance cost and research and development costs and are amortized using the straight-line method. Stock issuance costs and research and development costs are amortized over three and five years, respectively. Debenture issuance costs are amortized over the debenture repayment period, except for the debenture issuance costs incurred before March 29, 1996 which are amortized over the shorter of three years or the debenture repayment period.

Research and development costs incurred and deferred in 1998 and 1997 approximate W3,797 million and W1,831 million, respectively.

**Accrued Severance Benefits**

Employees and executives with one year or more of service with the Bank are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rates of pay at the time of termination. Estimated severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment approximate W287,005 million and W421,620 million at December 31, 1998 and 1997, respectively.

The Bank has not accrued a portion of estimated severance benefit liabilities as permitted by the accounting and reporting guidelines of the banking regulatory authorities. Such unrecorded obligations as of December 31, 1998 and 1997 amount to W17,900 million and W35,800 million, respectively.

In addition to severance benefits, the Bank pays to employees who apply for early retirement certain amount of additional early retirement benefits. No accrual is provided for future early retirement.

Pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities effective from January 1, 1998, net increase in estimated severance benefits and actual payment of severance benefits, including additional early retirement benefits, during the year were fully accrued. Previously, early retirement benefits paid during the period are deferred and accrued over three years. The adoption of these revised guidelines increased the Bank's 1998 net loss by W180,107 million.

The Bank's actual payment of severance benefits, including additional early retirement benefits, amount to W292,373 million and W62,800 million in 1998 and 1997, respectively.

In accordance with the National Pension Act, the Bank deposits a portion of accrued severance benefits with the National Pension Fund in cash. Such deposits amount to W14,654 million and W15,089 million as of December 31, 1998 and 1997, respectively, and are included in other assets.

In addition, the Bank has partially funded accrued severance benefits through group severance insurance plans. As of December 31, 1998, the amounts funded under these insurance plans amount to W263,271 million and are included in cash and due from banks in the accompanying balance sheets.

#### **Present Value Discounts**

The difference between the nominal value and the present value of installment accounts receivable or payable arising from installment sales or purchases of foreclosed assets is amortized using the effective interest rate method. Amortization of these discounts is included in other income or other expenses.

#### **Income Taxes**

The provision for income taxes is comprised of corporate income tax and tax surcharges payable for the current year. In accordance with financial accounting standards generally accepted in the Republic of Korea, the Bank does not recognize deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purposes except for certain overseas branches which account for the interperiod tax allocation by providing for deferred income taxes according to the accounting principles generally accepted in the local countries. Deferred tax assets and liabilities recorded by these branches are included in other assets and liabilities and corresponding income tax benefits and expenses are recorded as other income and expenses in the accompanying non-consolidated financial statements.

Tax credits are accounted for using the flow-through method, whereby they are recognized as a reduction of income tax expense in the year they are utilized for tax purposes.

#### **Securities Bought or Sold Under Agreements to Resell or Repurchase**

Securities bought or sold under resale or repurchase agreements are accounted for as other assets and other liabilities, respectively, and related income and expenses are recorded as other interest income or expenses.

#### **Translation of Foreign Currency Financial Statements and Foreign Currency Transactions**

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date, except for spot and forward exchange contracts which are valued at the rates specified in the contracts. Resulting exchange gains and losses are recognized currently and included in gains on foreign exchange transactions.

The financial statements of overseas branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

The exchange rates used to translate U.S. Dollar amounts at December 31, 1998 and 1997 are W1,207.80 : US\$ 1 and W1,415.20 : US\$ 1, respectively.

#### **Derivative Financial Instruments**

Derivative financial instruments entered into for trading purposes are valued at estimated current market prices and resulting unrealized valuation gains or losses are recognized currently.

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

#### **Earnings Per Share**

Earnings per share is computed using the weighted average number of common shares outstanding during the year.

**Cash and Cash Equivalents**

As presented in the statements of cash flows, cash and cash equivalents consist of cash and due from banks, and short-term liquid securities with original maturities of three months or less (see Note 26).

**Significant Changes in Bank Accounting Standards effective in 1999**

In December 1998, significant changes were announced to the financial accounting standards and the bank accounting standards of the Republic of Korea that will change accounting principles generally accepted in the Republic of Korea to be more consistent with International Accounting Standards. These changes, including the following, are effective for years beginning after December 12, 1998.

- to change valuation of debt securities from presently at cost to at fair value,
- to estimate allowances for loan losses considering factors that may affect the collectibility of the loans,
- to accrue allowance for credit losses on guarantees and acceptances outstanding,
- to account for loans that are restructured in a troubled debt restructuring by measuring impairment based on the present value of the expected cash flows, specified by the new terms of the loans,
- to adopt accounting for deferred income taxes,
- and to expand certain disclosures.

The Bank is currently evaluating the effect that implementation of the new standards will have on its results of operations and financial position.

**Accounting for Trust Accounts**

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

*- Revenues and Expenses of Trust Accounts*

Trust accounts comprise trust operating revenues and expenses, trust fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The trust fees to the Bank are recognized as income of the banking accounts of the Bank.

*- Interest Income Recognition*

Interest incomes on loans and investment securities of the Bank's trust accounts are recognized using the same method as the banking accounts of the Bank, while interest income on overdue and dishonored loans, not secured by guarantees from financial institutions or bank deposit collateral, is recognized on a cash basis in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities. At December 31, 1998, the amount of interest accrued but not recognized as income due to a cash basis income recognition approximates W78,090 million.

*- Deposits at the Bank*

The Bank's trust accounts deposit certain amounts for drawing of unspecified money trust, and account for them as deposits at the Bank. Interest on these deposits is computed and recorded daily.

*- Special Allowance*

Certain money trust agreements provide that the Bank guarantees a minimum rate of return. In relation to such guarantees, the Bank is required to set up a special allowance, not to exceed 5% of annual revenues until the total allowance equals 3% of the related money trust balance. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowance or from the Bank's banking accounts. The balances of special allowance at December 31, 1998 and 1997 amount to W21,467 million and W38,576 million, respectively.

*- Allowance for Loan Losses*

Pursuant to the revised relevant laws and regulations applicable to trust operations prescribed by the banking regulatory authorities effective April 1, 1998, allowances for loan losses are required to be provided based on a credit risk classification of the loan portfolio of the trust accounts as of December 31. Estimated loan losses are determined by applying the same percentages to each credit risk classification as the banking accounts of the Bank.

Previously, an annual provision for loan losses is required to be accrued in an amount not to exceed 0.7% of the outstanding loan balances, until the total allowance equals 3% of the outstanding loan balances, as permitted under the previous Trust Act and relevant accounting and reporting guidelines. Adoption of this revised guideline increased the allowances for loan losses of the Bank's trust accounts as of December 31, 1998 by approximately W86,076 million, which have been compensated by the banking accounts in 1999.

The allowance for loan losses at December 31, 1998 and 1997 amounts to W198,127 million and W7,860 million, respectively. The charge-offs recorded by the Bank's trust accounts in 1998 and 1997 amount to W21,221 million and W9,409 million respectively.

- *Investment Securities*

Pursuant to the revised laws and regulations applicable to trust operations prescribed by the banking regulatory authorities effective January 1, 1998, equity securities and beneficiary certificates held by the Bank's trust accounts subject to a guaranteed minimum rate of return are stated at market or net asset value. Certain debt securities including corporate debentures are stated at cost.

Previously, as of December 31, 1997, the Bank has recognized an allowance for 50% of the unrealized valuation losses on investments in publicly traded marketable equity securities held by the Bank's trust accounts, as permitted under the relevant laws and regulations applicable to trust operations. Adoption of this revised guidelines increased dividends of trust profit to beneficiaries of the Bank's trust accounts as of December 31, 1998 by approximately W5,807 million.

- *Trust Fees*

The Bank's banking accounts receive trust fees from the trust accounts as a compensation for its management of trust assets and operations, and are entitled to receive special trust fees for certain trust accounts subject to guaranteed minimum rates of return in accordance with the relevant laws and regulations applicable to trust operations.

- *Compensation to the Trust Accounts*

The Bank compensates for losses incurred in certain trust accounts subject to minimum return guarantees. Such compensations recorded during 1998 and 1997 amount to W469,144 million and 118,901 million, respectively, and are accounted for as other expenses of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations.

**Reclassification of 1997 Amounts**

Certain amounts in the 1997 non-consolidated financial statements have been reclassified to conform to the 1998 presentation. These reclassifications have had no effect on previously reported net income or retained earnings.

**3. United States Dollar Amounts:**

The Bank operates primarily in Korea Won and its official accounting records are maintained in Korea Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. The 1998 Korean Won amounts are expressed in U.S. Dollars at the rate W1,207.80 : US\$ 1, the rate in effect on December 31, 1998. This presentation is not in accordance with accounting principles generally accepted in either Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

**4. Loans:**

Loans of the Bank's banking accounts at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Domestic offices:</b>		
Local currency loans	W 9,008,155	W 8,697,942
Foreign currency loans	4,091,027	5,403,069
Off-shore loans	169,300	177,445
Call loans and other	688,646	568,270
	13,957,128	14,846,726
<b>Overseas branches:</b>		
Foreign currency loans	5,187,761	8,701,151
Call loan	174,569	124,699
	5,362,330	8,825,850
	W 19,319,458	W 23,672,576

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Interest rates on the above loans are normally determined at prime rates or effective market rates plus a spread of up to 6.5%, as determined based on the types and terms of loans. Most loans bear either floating interest rates or fixed rates which are subject to subsequent change as prime rates fluctuated.

The scheduled repayments of loans of the banking accounts at December 31, 1997 are as follows:

Fiscal Year Ending December 31,	In Millions of Korean Won				
	Local currency loan	Foreign currency loan	off-shore loan	Call loan & others	Total
1999	W 6,258,676	W 4,336,107	W -	W 863,215	W 11,457,998
2000-2001	703,901	1,990,281	-	-	2,694,182
2002 and thereafter	2,045,578	2,952,400	169,300	-	5,167,278
	W 9,008,155	W 9,278,788	W 169,300	W 863,215	W 19,319,458

The Bank recognizes a loss on a troubled loan restructuring under the Bankruptcy Act or similar restructuring agreements if the total undiscounted future cash receipts specified by the modified terms of the loan were less than the recorded investment in the loan before the restructuring. At December 31, 1998, the present value of total future cash receipts under the restructuring plan discounted at 11.75% up to 12.5% are less than its book value of W1,262,026 million by W1,029,493 million.

### 5. Cash and Due from Banks:

Cash and due from banks at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Non-interest bearing:</b>		
Cash on hand	W 1,393,862	W 1,136,703
Deposits in Won with the Bank of Korea (reserve deposits)	178,123	233,673
Deposits in foreign currencies with other banks	438,024	423,594
	2,010,009	1,793,970
<b>Interest bearing:</b>		
Deposits in Won with the Bank of Korea-National Investment Fund account	-	12,100
Time deposits in Won with other banks	1,511,045	1,903,464
Time deposits in foreign currencies with other banks	1,378,000	1,105,646
Off-shore due from banks	169,718	219,636
	3,058,763	3,240,846
<b>Overseas branches:</b>		
Deposits in other banks	456,076	1,588,597
	W 5,524,848	W 6,623,413

Deposits in Won with the Bank of Korea (reserve deposits) represent reserves the Bank is required to maintain for the payment of deposits in accordance with the Banking Act and the Bank of Korea Act. Deposits in Won with the Bank of Korea (National Investment Fund account) are deposited in accordance with the National Investment Fund Act. Accordingly, the withdrawal of these deposits is restricted. As of December 31, 1998 and 1997, time deposits in Won with other banks of W263,271 million and W348,800 million, respectively, represent group severance deposits deposited under the group severance insurance plan, whose withdrawal is restricted to the actual payment of severance benefits (see Note2).

6. Investment Securities:

Investments securities of the Bank's banking accounts at December 31, 1998 and 1997 are as follows:

In Millions of Korean Won				
	1998		1997	
	Debt	Equity	Debt	Equity
Trading	W 490,297	W 62,094	1,313,988	W 537,016
Long-term investment				
marketable	4,463,823	154,859	1,215,771	-
non-marketable	1,271,105	71,853	769,683	91,528
held-to-maturity	581,295	-	599,761	-
investment in subsidiaries	-	846,293	-	806,666
	6,316,233	1,073,005	2,585,215	898,194
	W 6,806,520	W 1,135,099	3,899,203	W 1,435,210

(\*) At December 31, 1997, investment securities were carried at cost, and securities valuation allowances were recorded as other liabilities (see Note 2).

Investment in debt securities of the Bank's banking accounts at December 31, 1998 and 1997 are as follows:

	Annual Interest Rate(%)	In Millions of Korean Won	
	1998. 12. 31	1998	1997
<b>In local currency:</b>			
Monetary stabilization bonds	7.15-35.00	W1,939,103	W 646,409
Bonds issued by government	6.80-20.15	807,303	550,678
Bonds guaranteed by government	8.70-14.12	771,084	75,451
Bonds issued by local government	-	-	15,496
Bonds issued by local companies	9.22-23.70	1,917,755	1,250,036
<b>In foreign currency:</b>			
Debt securities	LIBOR+0.0-2.9	1,365,086	1,338,025
Off-shore debt securities	LIBOR+0.0-0.8125	6,189	23,108
		W6,806,520	W 3,899,203

The scheduled maturities of debt securities of the Bank's banking accounts at December 31, 1998 are as follows:

	In Millions of Korean Won			
	Fiscal Year Ending December 31,			
	1999	2000~2001	2002 and thereafter	Total
<b>In local currency:</b>				
Monetary stabilization bonds	W 1,839,151	W 99,952	W -	1,939,103
Bonds issued by government	250,012	420,618	136,673	807,303
Bonds guaranteed by government	23,574	133,493	614,017	771,084
Bonds issued by local companies	1,372,747	472,148	117,860	1,917,755
	3,485,484	1,081,211	868,550	5,435,245
<b>In foreign currencies:</b>				
Debt securities	684,565	312,172	368,349	1,365,086
Off-shore debt securities	6,043	-	146	6,189
	690,608	312,172	368,495	1,371,275
	W 4,176,092	W 1,393,383	W 1,237,045	6,806,520

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Investments in equity securities of the Bank's banking accounts at December 31, 1998 and 1997 are as follows:

	Shares owned By the Bank (1,000 shares)	Ownership Ratio(%) 1998.12.31	In Millions of Korean Won			
			Acquisition Cost		Market or Net Asse Value	
			1998	1997	1998	1997
<b>Trading</b>						
Listed equity securities	-	-	W 46,668	W 503,539	W 61,853	W 173,267
Unlisted equity securities	-	-	260	33,477	241	24,099
	-	-	46,928	537,016	62,094	197,366
<b>Long -term investment</b>						
Marketable securities	-	-	156,735	-	154,859	-
Non-marketable securities	-	-	78,209	91,528	71,853	91,528
Investment in consolidated domestic subsidiaries						
Korea International Merchant Bank ("KIMB")	9,640	47.2	82,319	54,079	91,554	103,306
KEB Leasing Co., Ltd. ("KEBLS")	2,400	30	12,000	12,000	16,410	18,167
Korea Exchange Bank Credit Service Co., Ltd. ("KEBC")	17,595	100	87,975	85,000	116,310	100,129
KEB Investment Trust Management Co., Ltd. ("KEBIT")	5,460	91	27,076	27,076	31,588	27,550
KEB Research Institute ("KEBR")	1,000	100	4,933	5,000	5,183	4,933
KEB Salomon Smith Barney ("KSB")	-	-	-	25,500	-	23,642
KEB Future Co., Ltd. ("KEBFC")	2,000	100	10,000	10,000	10,325	10,000
			224,303	218,655	271,370	287,727
Investment in consolidated foreign subsidiaries						
California Korea Bank ("CKB")	8,000	100	60,390	63,684	68,020	67,445
Korea Exchange Bank of Canada ("KEBOC")	334	100	19,170	33,004	21,266	24,294
KEB (Asia) Finance Ltd. ("KAF")	4,680	80	57,759	67,677	753	68,404
KEB Holding Co. ("KEBH")	38,000	100	28,063	19,393	31,579	21,176
KEB International Ltd. ("KEBI")	27,000	100	54,140	63,334	34,735	65,794
Korea Exchange Bank Luxembourg S.A. ("KEBL")	41	100	14,475	15,811	14,993	16,867
Korea Exchange Bank (Schewiz) A.G. ("KEBS")	-	100	-	29,210	-	25,524
P.T. Korea Exchange Bank Danamon ("KEBD")	1	85	15,402	19,571	30,075	19,827
Korea Exchange Bank of (Deutschland) A.G. ("KEBD A.G.")	20	100	25,134	27,683	32,491	32,206
KEB Ireland Ltd. ("KEB Ire")	3,000	100	2,997	4,246	3,675	3,520
Cairo Far East BAnk S.A.E. ("CFEB")	8	31.6	8,732	9,730	9,375	10,269
KEB Brzail ("KEBB")	17,890	100	17,818	-	18,928	-
			304,080	353,343	265,890	355,326
Investment in non-consolidated domestic subsidiaries						
KEB Salomon Smith Barney ("KSB")	5,000	50	23,178	-	32,252	-
Korea Heavy Industries	10,000	15.7	82,000	82,000	266,982	158,564
Hyundai Technology Investment	1,800	30	9,000	9,000	9,799	9,000
Export-Import Bank of Korea	-	-	-	143,668	-	174,996
			114,178	234,668	309,033	342,560
			W 924,433	W1,435,210	W1,135,099	W1,274,507

KSB was transferred to equity method investee in 1998 and KEB was liquidated in 1998

**7. Guarantee Deposits for Trust Operations:**

The Bank is required to deposit an amount annually with bank regulators equal to 0.05% of its capital stock until such deposit equals 10% of its capital stock as a security deposit to continue its trust operations in accordance with the relevant Trust Act applicable in the Republic of Korea. The outstanding book value of debt securities provided as security deposits are W 2,163 million, of which face values are W 3,713 million at December 31, 1998.

**8. Premises and Equipment:**

Premises and equipment at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won					
	Acquisition Cost		Accumulated depreciation		Net book value	
	1998	1997	1998	1997	1998	1997
Land	W391,481	W 390,457	W -	W -	W391,481	W390,457
Buildings	343,135	319,922	87,215	80,194	255,920	239,728
Office facilities held on lease	30,626	37,510	15,473	12,810	15,153	24,700
Equipment	274,050	276,645	221,286	202,959	52,764	73,686
Construction in progres	41,193	34,038	-	-	41,193	34,038
Leasehold deposits	422,518	450,464	-	-	422,518	450,464
Intangible fixed assets	7,204	7,437	-	-	7,204	7,437
	<b>W1,510,207</b>	<b>W1,516,473</b>	<b>W323,974</b>	<b>W295,963</b>	<b>W1,186,233</b>	<b>W1,220,510</b>

At December 31, 1998 and 1997, the value of the Bank's domestic lands as determined by the tax authorities for property tax assessment purpose amounts to W443,544 million, and W436,297 million, respectively.

At December 31, 1998, a substantial portion of the Bank's buildings, equipment and foreclosed assets are insured against fire and other casualty losses. The Bank maintains insurance coverage for cars and vehicles against accident losses and liabilities. Leasehold improvements are also insured for theft and casualty losses.

**9. Other Assets:**

Other assets at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Accrued interest and commissions income	W 525,760	W 544,089
Payment in subrogation	205,404	358,388
Prepaid expenses	179,389	17,500
Prepaid income taxes	-	60,304
Deferred income taxes	15,109	21,805
Bills bought on local letter of credit	62,952	84,056
Suspense debits	24,511	36,362
Receivables on disposal of foreclosed assets	55,539	70,435
Loans to the trust accounts	252,500	-
Deferred charges	6,200	4,580
Foreclosed assets	13,655	16,591
Credit card bills	11,248	199,376
Bonds purchased under resale agreements	-	701,600
Other receivables	124,472	65,425
Unrealized valuation gains for derivatives	1,479	76,098
Deposits with the National Pension Fund	14,654	15,089
Domestic exchange settlement	104,006	6,613
Others	48,994	49,774
	<b>W 1,645,872</b>	<b>W 2,328,085</b>

**10. Deposits:**

Deposits at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Domestic offices:</b>		
Demand deposits in Won	W 1,979,486	W 1,934,513
Saving deposits in Won	10,886,137	8,293,665
Deposits in foreign currencies	5,987,897	9,222,710
Certificates of deposits in Won	802,763	866,314
	19,656,283	20,317,202
<b>Overseas branches:</b>		
Deposits in foreign currencies	2,428,507	6,156,296
	W 22,084,790	W 26,473,498

**11. Borrowings and Debentures:**

Borrowings and debentures at December 31, 1998 and 1997 are as follows:

	Annual Interest Rate(%)	In Millions of Korean Won	
		1998	1997
	1998. 12. 31		
<b>Borrowings in local currency:</b>			
Borrowings from the Bank of Korea	3.00-5.00 (*)	W 995,175	W 730,073
Borrowings from the National Investment Fund	8.50	181	891
Borrowing from the Government Fund	4.00-9.00	136,363	97,502
Borrowings from other financial institutions	2.20-10.625	848,651	779,121
Call money	LIBOR-1.2-5.0	375,881	162,900
Securities sold under repurchase agreements	(*)	314,930	926,410
Covering notes sold	(*)	199,427	744,359
		2,870,608	3,441,256
<b>Borrowings in foreign currencies:</b>			
Borrowings from foreign banks and financial institutions	LIBOR+0.35-2.75	6,495,042	6,120,418
Off-share borrowings from foreign banks and financial institutions	LIBOR+0.3-0.375	155,439	502,222
Call money	(*)	573,285	2,059,598
		7,223,766	8,682,238
<b>Debentures in foreign currencies:</b>			
Debentures in foreign currencies	LIBOR+0.26-0.72	2,214,920	3,282,449
Off-shore debentures in foreign currencies	LIBOR+0.41	60,390	112,105
Others	-	35	36
		2,275,345	3,394,590
		W 12,369,719	W 15,518,084

(\*) Interest rates on these borrowings are normally determined at the effective market rates at the time of transactions.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 1998, the Bank provided as collateral for borrowings from the Bank of Korea, promissory notes receivable from borrowers, received in the normal course of lending activities, amounting to W504,101 million and debt securities amounting to W453,402 million.

The scheduled maturities of borrowings and debentures at December 31, 1998 are as follows:

	1999	2000~2001	2002	Total
<b>Borrowings in local currency:</b>				
Borrowings from the Bank of Korea	W 995,175	W -	W -	W 995,175
Borrowings from National Investment Fund	181	-	-	181
Borrowing from the Government Fund	10,914	47,210	78,239	136,363
Borrowings from other financial institutions	102,736	203,954	541,961	848,651
Call money	375,881	-	-	375,881
Securities sold under repurchase agreements	314,930	-	-	314,930
Covering notes sold	199,427	-	-	199,427
	1,999,244	251,164	620,200	2,870,608
<b>Borrowings in foreign currencies:</b>				
Borrowings from foreign banks and financial institutions	1,065,155	5,387,749	42,138	6,495,042
Off-share borrowings from foreign banks and financial institutions	-	123,835	31,604	155,439
Call money	573,285	-	-	573,285
	1,638,440	5,511,584	73,742	7,223,766
<b>Debentures in foreign currencies:</b>				
Debentures in foreign currencies	1,027,391	505,402	682,127	2,214,920
Off-shore debentures in foreign currencies	60,390	-	-	60,390
Others	35	-	-	35
	1,087,816	505,402	682,127	2,275,345
	W 4,725,500	W 6,268,150	W 1,376,069	W 12,369,719

## 12. Guarantees and Acceptances:

By means of extending credit, the Bank makes various commitments whereby it accepts customer contingencies or guarantees customer's liabilities. Such acceptances and guarantees outstanding at December 31, 1998 and 1997 are summarized as follows:

	In Millions of Korean Won	
	1998	1997
<b>Guarantees:</b>		
Local currency	W 718,440	W 842,383
Foreign currencies	4,482,644	6,531,421
	5,201,084	7,373,804
Acceptances in foreign currencies	1,714,219	2,118,055
	W 6,915,303	W 9,491,859

As a contra account for guarantees and acceptances, customers' liabilities on guarantees and acceptances have been presented as an asset in the accompanying balance sheets in accordance with accounting and reporting guidelines prescribed by banking regulatory authorities. The Bank does not provide allowances for potential losses, which may result from credit risk exposures on outstanding customer liabilities on guarantees and acceptances (see Note 2). Had allowances for loan losses been provided at the full amount estimated based on the credit risk classification of the outstanding guarantees and acceptances with low credit quality as of December 31, 1998 using the same method for estimating allowances for loan losses on loan portfolio, an additional allowance of W54,020 million would have been recorded in the banking accounts of the Bank.

### 13. Allowances for Possible Loan Losses:

An analysis of the change in allowances for loan losses of the Bank's banking accounts at December 31, 1998 and 1997 is as follows:

	In Millions of Korean Won	
	1998	1997
Balance at the beginning of year	W 563,771	W 416,874
<b>Addition:</b>		
Provision for loan losses	247,930	291,000
Reversal of allowance	(20,936)	(5,137)
Transferred from closed branches	51,827	-
Net Provision	278,821	285,863
<b>Deduction:</b>		
Loans charged off	(155,392)	(186,943)
Foreign exchange translation adjustment	(15,322)	47,977
Balance at the end of year	W 671,878	W 563,771

Recovery of charge-offs in 1998 and 1997 approximates W5,396 million and W3,332 million, respectively, which are recorded as other income.

### 14. Other Liabilities:

Other liabilities at December 31, 1998 and 1997 consist of the following:

	In Millions of Korean Won	
	1998	1997
Accrued interest expenses	W 634,568	W 598,661
Unearned income	97,624	110,634
Accrued severance benefits	269,105	355,977
Securities valuation allowance	-	212,817
Accumulated depreciation	323,974	295,963
Due to treasury agency	133,503	28,179
Due to trust accounts	644,310	107,821
Suspense receipts	264,036	38,910
GIRO accounts	49,978	51,099
Deferred income taxes	9,218	10,878
Others	159,885	248,780
	W 2,586,201	W 2,059,719

**15. Other Income:**

Details of other income of the years ended December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Gain on disposal of premises and equipment	W 20,024	W 10,815
Deferred tax benefits	2,049	7,735
Gain on prior years adjustment	2,965	10,509
Recovery of loans charged off	5,396	3,332
Lease rental earned	2,336	2,486
Others	42,929	22,693
	W 75,699	W 57,570

**16. Other Expenses:**

Details of the other expenses for the years ended December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Public dues	W 29,202	W 21,377
Deferred tax expenses (see Note 2)	5,763	8,960
Loss on disposal of premises and equipment	7,012	4,565
Administrative expenses of collateral	685	1,282
Valuation losses of foreclosed assets	1,425	1,606
Loss on sales of loans	826,268	180,837
Losses on prior years adjustment	2,751	3,652
Others	41,498	6,889
	W 914,604	W 229,168

In 1998 and 1997, the Bank sold a portion of its non-performing loans approximating W1,880 billion and W438 billion, respectively, to Korea Asset Management Corporation("KAMCO") and resulting losses of W431 billion and W157 billion, respectively, were included in other expenses. Under the loan sale agreements with KAMCO, the sales amount for certain loans are subject to adjustments based on the final restructuring plans approved by the courts.

**17. Monetary Assets and Liabilities Denominated in Foreign Currencies:**

Monetary assets and liabilities denominated in foreign currencies of the banking accounts at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars Equivalents	
	1998	1997	1998	1997
<b>ASSETS:</b>				
Loans	W 10,311,304	W 14,918,599	US\$ 8,538,623	US\$ 10,541,689
Cash and due from banks	2,441,818	3,337,473	2,021,707	2,358,305
Foreign exchange bills purchased	3,694,128	7,448,127	3,061,408	5,262,950
Investment securities	1,578,278	1,724,649	1,306,741	1,218,661
Customer's liabilities on guarantees and acceptance	6,200,395	8,309,621	5,133,628	5,871,694
Other assets	266,981	423,879	221,045	299,518
	W 24,492,904	W 36,162,348	US\$ 20,283,152	US\$ 25,552,817

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	In Millions of Korean Won		In Thousands of U.S. Dollars Equivalents	
	1998	1997	1998	1997
<b>LIABILITIES:</b>				
Deposits	W 8,416,404	W 15,379,007	US\$ 6,969,546	US\$ 10,867,020
Foreign exchange bills sold	167,513	195,750	138,711	138,320
Borrowings and debentures	9,019,782	11,716,290	7,467,953	8,278,894
Guarantees and acceptances outstanding	6,200,395	8,309,621	5,133,628	5,871,694
Guarantee money received	63,602	90,291	52,660	63,801
Other liabilities	356,768	376,159	295,385	265,799
	W 24,224,464	W 36,067,118	US\$ 20,057,883	US\$ 25,485,528

A substantial portion of foreign currency monetary assets and liabilities of the Bank are denominated in U.S. Dollars at December 31, 1998 and 1997. The conversion of Korean Won amounts to U.S. Dollars equivalent in 1998 and 1997 is made using the exchange rate of W1,207.80 : US\$1 and W1,415.20 : US\$1, the basic rates on December 31, 1998 and 1997, respectively.

### 18. Capital Surplus:

Capital surplus as of December 31, 1998 and 1997 are as follows:

	In Millions of Korea Won	
	1998	1997
Paid-in capital in excess of par value	W 154,800	W 154,800
Asset revaluation surplus	156,017	359,608
Other	5	5
	W 310,822	W 514,413

As permitted under the Asset Revaluation Law, the Bank revalued land, buildings and investment securities on January 1, 1993. The revaluation gain of W370,730 million represents the difference between the revalued amount and the net book value of the revalued assets at January 1, 1993, of which, W156,017 million was included in capital surplus, a component of shareholders' equity, net of 3% revaluation taxes and disposition of accumulated deficit.

The asset revaluation surplus may not be used for the payment of cash dividends. However, it may be transferred to capital stock in connection with stock dividends or may be used to dispose accumulated deficit, if any, with shareholders' approval.

### 19. Retained Earnings:

Retained earnings of December 31, 1998 and 1997 are as follows:

	In Millions of Korea Won	
	1998	1997
Legal reserve	W -	W 195,634
Reserve for business rationalization	-	31,800
Reserve for overseas investment losses	-	154,000
Other statutory reserves	12,222	12,404
Voluntary reserve	-	258,730
	W 12,222	W 652,568

#### Restriction of Dividends

In accordance with the guidelines provided by the banking authorities, the Bank is allowed to declare dividends for the years ended December 31, 1997 and 1998, only when the Bank is able to achieve an 8% risk weighted capital ratio (the

“BIS capital ratio”), as calculated based on its consolidated financial statements after providing full allowances for the unrealized valuation losses on investment securities and full allowances for estimated loan losses (see Note 2).

**Legal Reserve**

The Banking Act requires the Bank to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income, until such reserve equals 100% of its capital stock. This reserve is not available for payment of cash dividends but may be transferred to capital stock by an appropriate resolution by the Bank’s board of directors or used to reduce accumulated deficit, if any, by appropriate resolution of the Bank’s shareholders.

**Reserve for Business Rationalization**

Pursuant to the Tax Exemption and Reduction Control Law, the Bank is required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

**Reserve for Overseas Investment Losses**

Pursuant to the Korean tax laws, the Bank is allowed to claim the amount of retained earnings appropriated to reserves for overseas investment loss as deductions from taxable income for tax return purposes. These reserves are not available for payment of dividends until used for the specified purpose or reversed.

**Other Statutory Reserves**

Relevant Japanese regulations require the Bank’s overseas branches located in Japan to appropriate a minimum of 10% of annual income before income taxes as a Japanese legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends, and may be utilized upon liquidation of the Japanese branches.

**Voluntary Reserve**

The Bank appropriates a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

**Disposition of Accumulated Deficit**

Details of disposition of accumulated deficit approved by the annual shareholders’ meeting on February 26, 1999 and February 27, 1998 are as follows:

	In Millions of Korean Won	
	1998	1997
Accumulated deficit before disposition	W 843,544	W 68,255
Disposition		
Transfer from asset revaluation surplus	203,591	-
Transfer from statutory reserve	195,634	-
Transfer from business rationalization	31,800	-
Transfer from reserve for overseas investment losses	154,000	23,500
Appropriation for other statutory reserves	(211)	(234)
Transfer from voluntary reserves	258,730	44,989
	843,544	68,255
	W -	W -

**Capital Adjustment**

At December 31, 1998, capital adjustment is as follows:

	In Millions of Korean Won	
Valuation losses on investment in debt securities	W	(38,154)
Valuation gain on investment in equity securities		203,731
	W	165,577

**20. Prior Period Adjustments:**

Adjustments for correction of prior year's errors reflected in the 1998 and 1997 non-consolidated financial statements are as follows:

	Gain(losses) in Millions of Korean Won	
	1998	1997
Adjustments for income taxes	W 991	W (1,260)
Payment of prior period expense, net	(764)	(730)
Others, net	(13)	8,847
<b>Total</b>	<b>W 214</b>	<b>W 6,857</b>

**21. Dividends Information:**

No dividends are declared for 1998 due to the accumulated deficit.

**22. Commitments and Contingencies:**

**Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the banking regulatory authorities. Under capital adequacy guidelines, the Bank shall report to the regulatory banking authorities its capital adequacy information as of December 31, 1998 as measured based on its consolidated financial statements. The capital guidelines involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to quantitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain a minimum 8% of total adjusted capital to risk weighted assets (the BIS capital ratio).

**Derivative Financial Instruments**

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

Summary of derivative financial instrument information as of December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Interest Rate Related Contracts</b>		
Interest rate sales contracts	W 3,473,220	W 5,787,134
Interest rate purchase contracts	3,800,579	6,490,852
<b>Foreign Currency Related Contracts</b>		
Sales contracts	2,226,827	5,711,831
Purchase contracts	2,556,243	5,461,797
<b>Equity Security Related Contracts</b>		
Stock purchase contracts	35	643
Stock sales contracts	2,287	-
<b>Credit Related Contracts</b>		
Credit purchase contracts	130,442	297,611

**Off-Balance Sheet Guarantees and Acceptances**

In addition to guarantees and acceptances stated in the balance sheet of the Bank's banking accounts (see Note 12), the notional amounts of the Bank's guarantees and acceptances with off-balance sheet risks, provided in the normal course of business, at December 31, 1998 and 1997 are as follows:

	Gain(losses) in Millions of Korean Won	
	1998	1997
Letters of credit issued but not being drawn yet	W4,350,637	W4,898,521
Other guarantees and acceptance	7,588	22,737
	W 4,358,225	W4,921,258

The Bank has entered into various loan commitments to provide certain amount of loans, including overdraft financing, for its customers in the normal course of business. As of December 31, 1998, the amount committed but not yet drawn approximate W19,444 million.

**Litigation**

The Bank has been named as the defendant or the plaintiff in various legal actions arising from normal business activities. The aggregate amounts of claims brought against the Bank is approximately W44,665 million as of December 31, 1998. The Bank management believes that the outcome of these matters is uncertain but, in any event, they will not result in a material adverse impact on the Bank's financial position or operations. Accordingly, no provision for potential losses arising from these claims is reflected in the accompanying non-consolidated financial statements.

**Notes Delivered With Recourse**

The Bank has delivered a portion of customers' promissory notes acquired in the course of normal banking operations to other financial institutions with recourse. As of December 31, 1998 there is no outstanding balance of the notes delivered with recourse and, as of December 31, 1997, the outstanding balance amounts to approximately W149,642 million.

**Loans Sold under Repurchase Agreements**

In 1998, the Bank sold a portion of its non-performing loans to Korea Asset Management Corporation ("K AMCO") and others. As of December 31, 1998, the outstanding balance of loans sold but subject to subsequent adjustments upon settlements approximates W289,352 million (see Note 16.).

**Certain Investment Securities, Loans or Guarantees With Low Credit Quality**

In accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities, the Bank does not provide allowances for potential losses which may result from credit risk exposures on outstanding guarantees and acceptances and investments in certain corporate bonds. As of December 31, 1998, such guarantees and acceptances and investments for which the credit risk classification is "substandard" or below are summarized below:

	In Millions of Korean Won		
	Credit Risk Classification		
	Substandard	Doubtful	Loss
<b>Banking accounts</b>			
Investment securities recorded at cost	W -	W -	W 700
<b>Trust accounts subject to a guaranteed minimum rate of return</b>			
Investment securities, including corporate bonds	-	22,160	8,259
<b>Trust accounts with no guarantees of return</b>			
Loans, including commercial papers and guaranteed notes(*)	22,107	12,969	819

(\*) The Bank accrued W8,802 million of allowance for loan losses as of December 31, 1998 for these loans to prepare for implementation of the revised accounting and reporting guidelines effective in December 1999 which requires the Bank to accrue the allowance using the same method applied to trust accounts subject to a guaranteed minimum rate of return.

In addition, W41,524 million of call loans at December 31, 1998 have been provided to certain merchant banks whose operation have been suspended by the Ministry of Finance and Economy.

The ultimate losses which might result from these loans and investment securities cannot presently be determined. Accordingly, no provision for losses have been reflected in the accompanying non-consolidated financial statements.

#### Restructured Loans Under Workout Program

As of December 31, 1998, the Bank's outstanding loans (including customer's liabilities on guarantees and acceptances and loans in trust accounts of the Bank) to certain companies in process of restructuring their debt structure under workout programs amount to W1,610,372 million. As of December 31, 1998, restructuring plans for W1,439,006 million among these loans have been finalized. These loans are classified into special mention category and, accordingly, 2% of loan loss allowance is provided for these loans in accordance with revised accounting and reporting guidelines prescribed by banking regulatory authorities. The Bank's result of operation may be affected by the collectability of these loans. The ultimate effect that these significant uncertainties will have on the stated value of related loans at balance sheet date cannot presently be determined.

#### Country Risks

As of December 31, 1998, country exposures of outstanding loan balances (including customer's liabilities on guarantees and acceptances) and investment security of the Bank and overseas subsidiaries with respect to financial institutions and companies in certain countries including Asia Pacific region, Latin America and Russia whose economies recently entered into a period of significant financial volatility are as follows:

In Millions of Korean Won, In Thousands of USD					
	Loans	Guarantees	Securities	Others	Total
<b>OECD countries</b>	US\$ 902,756	US\$ 7,009	US\$ 652,889	US\$ 52,334	US\$ 1,614,988
<b>Southeast Asia</b>					
Thailand	105,346	10,441	48,081	-	163,868
Indonesia	101,398	287	58,722	-	160,407
Malaysia	7,750	-	24,013	-	31,763
Philippine	125	-	20,279	-	20,404
China	86,100	-	1,020	1,212	88,332
Hong Kong	61,337	356	45,762	1,620	109,075
Other	13,795	-	8,002	367	22,164
Sub-total	375,851	11,084	205,879	3,199	596,013
<b>Latin America</b>					
Brazil	5,592	-	22,799	-	28,391
Mexico	287	-	30,135	-	30,422
Other	6,782	-	3,558	-	10,340
Sub-total	12,661	-	56,492	-	69,153
<b>Russia</b>	125,400	-	135	-	125,535
<b>Total</b>	<b>US\$ 1,416,668</b>	<b>US\$ 18,093</b>	<b>US\$ 915,395</b>	<b>US\$ 55,533</b>	<b>US\$ 2,405,689</b>
<b>Won Equivalents</b>	<b>W 1,711,052</b>	<b>W 21,853</b>	<b>W 1,105,614</b>	<b>W 67,073</b>	<b>W 2,905,592</b>

The Bank's operations and assets will continue to be affected for the foreseeable future by the adverse economic conditions of the troubled countries, and the ultimate effect that these significant uncertainties will have on the stated value of related assets and liabilities at balance sheet date cannot presently be determined.

**Year 2000 Problem With Regard To Computer System**

The Bank relies heavily on IT systems for processing of transactions in its normal business activities and operations, thus, without an effective solution of year 2000 problems with regard to its IT system, the Bank's operations would be significantly affected. Year 2000 problem is the issue of computer programs and embedded computer chips being unable to distinguish between the year 1900 and the year 2000. The Bank's company-wide year 2000 project is presently proceeding on schedule to address any material year 2000 problem.

**23. Income Taxes:**

The statutory income tax rates applicable to the Bank, including resident tax surcharges, approximate 30.8%. No income taxes are payable in 1998 and 1997 due to operational losses. The income tax amount shown in the banking accounts are taxes on capital gain arising from sales of certain foreclosed assets.

**24. Added Value Information:**

The details of costs constituting value added expenses for the years ended December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Personnel expenses	W 210,667	W 254,128
Welfare expenses	92,479	79,820
Provision for severance benefits	205,636	79,650
Rental charges	28,935	31,877
Depreciation	64,799	77,467
Taxes and levies	29,202	21,377
	W 631,718	W 544,319

**25. Employee Welfare and Social Contributions:**

The Bank's social contributions, including environmental campaign contribution for the years ended December 31, 1998 and 1997 amount to W476 million and W673 million, respectively. The contribution to the employee welfare fund by the Bank in 1997 amount to W28,869 million and there has been no contribution in 1998.

The Bank provides housing loans bearing interest at a rate of 1.0% to prime rate per annum, to directors and employees, up to maximum of W50 million per person. The outstanding balance of housing loans receivable as of December 31, 1998 and 1997 amount to W98,892 million and W134,054 million, respectively.

**26. Supplemental Cash Flow Information:**

**Definition of Cash and Cash Equivalents**

As presented in the statement of cash flows, cash and cash equivalents at December 31, 1998 and 1997 consist of the followings:

	Gain(losses) in Millions of Korean Won	
	1998	1997
Cash and due from banks	W 5,524,848	W 6,623,413
Cash equivalents	99,602	430,465
	W 5,624,450	W 7,053,878

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### Transactions Not Affecting Cash Flows

Transactions not affecting cash flows for the years ended December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Loans charged off	W 139,914	W 169,132
Increase in capital adjustment associated with evaluation of investment securities	165,577	-
Other assets charged off	15,478	17,811
Foreclosed assets included in other assets	8,993	8,796
Increase in other liabilities associated with foreclosed assets sold	3,403	5,808
Miscellaneous income	7,079	5,855
	W 340,444	W 207,402

### 27. Trust Accounts:

#### Trust Type

Trust funds managed by the Bank at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Money Trusts:</b>		
General unspecified money trusts	W 5,242	W 193,802
Development trusts	3,198,667	3,105,294
Old-age living pension trusts	181,739	634,907
Long-term household trusts	841,584	490,916
Employee preferential trusts	92,340	17,467
New installment trusts	2,286,827	1,216,083
Installment savings trust (actual)	2,088,378	3,033,201
Household money trusts	332,729	1,912,617
Corporation money trusts	57,232	173,053
Individual pension trusts	298,372	263,596
Specified money trusts	2,708,016	3,357,748
National stock trusts	42,100	51,968
	12,133,226	14,450,652
Securities investments trusts	12,125,142	7,126,999
Fund trusts	-	15,500
Others	155	160
	W 24,258,523	W 21,593,311

#### Money Trusts

Key conditions of money trusts are as follows:

	Period of Trusts	Type of Dividends
General unspecified money trusts	1.5 years or more	Dividends guaranteed
Development trusts	2 years or more	"
Old-age living pension trusts	5 years or more	Principal guaranteed
Installment savings trusts (*)	1.5 years or more	No guarantee

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	Period of Trusts	Type of Dividends
Household money trusts (*)	1.5 years or more	“
Corporation money trusts (*)	1.5 years or more	“
Retirement trusts	before retirement	“
Individual pension trusts	10 years or more	“
Long-term household trusts	3-5 years	“
Employee preferential trusts	3-5 years	“
New installment trusts	1.5 years or more	“
Specified money trusts	1.5 years or more	“
National stock trust	expired	“

(\*) For beneficiaries of these trusts who contracted with the Bank prior to April 30, 1996, the Bank guaranteed the repayment of principal, if these trusts incur net loss.

### In Millions of Korean Won

	Trust accounts subject to a guaranteed minimum rate of return	Trust accounts with no guarantees of return	Securities investment trust	Total
<b>ASSETS:</b>				
Loans	W 1,069,388	W 1,299,434	W -	W 2,368,822
Call loans	97,076	102,449	955,503	1,155,028
Securities purchased under agreement resell	-	-	9,062	9,062
Investment securities	3,069,346	6,882,071	11,268,560	21,219,977
Cash and due from Banks	-	-	469,549	469,549
Deposits at the bank	518,587	90,989	34,734	644,310
Others	82,206	300,520	277,711	660,437
	W 4,836,603	W 8,675,463	W 13,015,119	W 26,527,185
<b>LIABILITIES AND SHAREHOLDER'S EQUITY:</b>				
Money trusts	W 3,938,859	W 8,153,345	W 41,022	W 12,133,226
Other trusts	-	155	-	155
Securities investment trusts	-	-	12,125,142	12,125,142
Borrowing allowance	252,500	-	-	252,500
Allowance for loan losses	9,088	5,126	7,253	21,467
Guarantee money received	189,325	8,802	-	198,127
Others	446,831	508,035	841,702	1,796,568
	W 4,836,603	W 8,675,463	W 13,015,119	W 26,527,185
<b>REVENUE:</b>				
Interest on loans	W 161,693	W 284,812	W -	W 446,505
Interest on call loans	9,327	28,857	-	38,184
Interest on investment securities	339,422	1,100,178	569,324	2,008,924
Interest on deposits at the Bank	-	-	102,786	102,786
Gain on disposal of investment securities	25,115	18,568	459,846	503,529
Other income	525,529	19,890	696,673	1,242,292
	W 1,061,086	W 1,452,305	W 1,828,629	W 4,342,020

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

	In Millions of Korean Won						
	Trust accounts subject to a guaranteed minimum rate of return		Trust accounts with no guarantees of return		Securities investment trust	Total	
<b>EXPENSES:</b>							
Trusts fees to the Bank's Banking accounts	W	21,525	W	114,419	W	5,664	W 141,608
Commissions paid		3,732		410		-	4,133
Securities investment trusts		164,847		1,820		302,310	468,973
Loss on disposal of investment securities		9,699		-		-	9,699
Provision for loan losses		198,688		12,800		-	211,488
Contributions to Korea Credit Guarantee Fund		3,558		2,342		-	5,900
Others		112,859		1,092		532,415	646,366
	W	514,904	W	132,874	W	840,389	W 1,488,167
Dividends of trust profit to beneficiaries	W	546,182	W	1,319,431	W	988,240	W 2,853,853

### Securities Investment Trusts:

Securities investment trusts represent investment trust funds in custody of the Bank and are managed by the investment trust companies.

Details of securities investment trust fund as of December 31, 1998 and 1997 is as follows:

	In Millions of Korean Won	
	1998	1997
Daehan Investment Trust Co., Ltd.	W 3,827,112	W 3,321,245
Citizens Investment Trust Management Securities company	4,470,839	1,830,568
Korea Investment Trust Co., Ltd.	588,582	863,113
Korea International Merchant Bank	152,210	259,800
Central Banking Corporation	61,047	159,797
Asian Banking Corporation	90,700	150,300
KEB Investment Management Co., Ltd.	2,699,171	102,121
Others	235,481	440,055
	W 12,125,142	W 7,126,999

**Dividends of Trust Profit to Beneficiaries**

Dividends of trust profit to beneficiaries by trust types for the years ended December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Money trusts :</b>		
General unspecified money trusts	W 14,827	W 54,348
Development trusts	413,228	359,141
Old-age living pension trusts	31,424	101,250
Long-term household trusts	99,369	38,546
Employee preferential trusts	8,742	418
New installment trusts	377,124	5,975
Installment savings trusts(actual)	68,338	309,101
Household money trusts	275,896	347,651
Corporation money trusts	10,019	22,577
Retirement trusts	-	9,717
Individual pension trusts	41,015	29,118
Specified money trusts	526,412	339,470
National stock trusts	(781)	94
	1,865,613	1,617,406
Securities investment trusts	988,240	197,692
Fund and other trusts	-	1,867
	<b>W2,853,853</b>	<b>W1,816,965</b>

**Trust Fees to the Bank**

Trust fees to the Bank by trust type for the years ended December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Money trusts:</b>		
General unspecified money trusts	W -	W -
Old-age living pension trusts	10,572	14,125
Long-term household trusts	7,511	3,015
Employee preferential trusts	449	56
New installment trusts	49,672	287
Installment savings trusts	3,196	18,835
Installment savings trusts	19,411	26,031
Corporation money trusts	7,616	2,798
Retirement trusts	1,082	2,466
Individual pension trusts	2,154	3,818
Installment savings trusts	34,275	9,856
National stock trusts	7	9
	135,945	81,296
Securities investment trusts	5,663	3,449
Fund and other trusts	-	132
	141,608	84,877
Early withdrawal fees	67,146	63,977
Compensation from banking account	(496,144)	(118,902)
	<b>W(287,390)</b>	<b>W 29,952</b>

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### Loans

Loans of the trust accounts at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
<b>Loans secured by:</b>		
Real estate	W 887,737	W 1,399,427
Certificates of deposit and commercial paper	35,971	54,584
Trust beneficiary certificates	149,780	258,621
Guarantees of financial institutions or Korea Credit Guarantee Fund	135,936	180,980
Securities	347	611
Movable property	9	18
	1,209,780	1,894,241
Unsecured loans	1,159,042	1,593,239
	W 2,368,822	W 3,487,480

Interest rates on the above loans are normally determined at prime rates plus a spread of up to 6.5%, as determined based on the types and terms of loans. Most loans bear either floating interest rates or fixed rates which are subject to subsequent change as prime rates fluctuated.

### Investment Securities

Investment securities of the trust accounts at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Bonds	W 8,259,938	W 5,963,838
Stocks	460,526	853,249
Securities issued by government	490,717	290,783
Securities issued by local government	137,938	47,351
Securities guaranteed by government	434,629	148,612
Monetary stabilization bonds	630,998	68,381
Other securities, primarily commercial paper	10,735,147	9,001,918
Foreign securities	70,084	570,841
	W21,219,977	W16,944,973

### Other Liabilities

Other liabilities of the trust accounts at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Unearned income	W 73,629	W 26,449
Accrued interest payable	1,577,463	1,143,008
Others	145,476	78,911
	W 1,796,568	W 1,248,368

**Cash and Cash Equivalents**

As presented in the statements of cash flows of the trust accounts, cash and cash equivalents at December 31, 1998 and 1997 are as follows:

	In Millions of Korean Won	
	1998	1997
Cash and due from Banks	W 469,549	W 11,553
Cash equivalents	2,324,498	926,377
	W 2,794,047	W 937,930

**Statement of Cash Flows**

Details of transactions not involving cash flows of the trust accounts are as follows:

	In Millions of Korean Won	
	1998	1997
Loans charged off	W 7,829	W 5,047
Decrease in trusted money receivables associated with money receivable trust	5	5
Decrease in trust real estate associated with real estate trusts	-	184
Increase in other receivables associated with trust account	7	1,131
Increase(decrease) in other liabilities Associated with trust account premises and equipment	(195)	113
Decrease in investment securities associated with securities trust	-	239
	W 7,646	W 6,719

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### 28. Related Party Transactions:

normal course of business with subsidiaries during 1998 and 1997 and related account balances as of December 31, 1998 and 1997 are

	KAF	KIMB	KEBLs	KEBC	KEBL	KEBDAG	KEBA
<b>ASSETS:</b>							
Cash and due from banks	286,242	713,930			49,700	49,324	12,768
Loans	12,078		231,917		6,039	10,772	
Others	18,008	879,251	26,780	33,380	52,014	80,061	207,729
<b>LIABILITIES:</b>							
Deposits	7	944	16,953	6,310	24,561	31,947	
Guarantee Money Received		2		1,385			
Others	18,149	560,752	24,295	200	36,197	84,024	121,897
<b>REVENUES:</b>							
Interest in Won currency		9	1,300	29,333			
Interest in foreign currencies	42,145	61,097	20,087	16	9,959	3,821	15,762
Fees and commissions							
Others	2,963	1,452		25,109	1,553	732	209
<b>EXPENSES:</b>							
Interest in Won currency		297	981				
Interest in foreign currencies	386	169		1,809	4,998	1,585	
Fees and commissions				111			
Others	2,525			57			

re summarized as follows:

Significant transactions made in the

In Millions of Korean Won								
1998							1997	
KEBI	KEBIRE	KEBD	KEBL&F	KEBOC	Others	Trust	Total	Total
10,394	148,439	13,329		6,299	4,085		1,294,510	1,839,554
60,156	8,455		79,473	9,662			418,552	758,335
187,959	1,727	114,250	444	14,652		278,879	1,895,134	338,441
		65,671	126	43	46,369		192,931	291,309
					7		1,394	1,344
113,276		1,386		31,374	1,406	522,587	1,515,543	220,563
					5,802	31,489	67,933	51,934
11,515	8,587	18,437	5,499	3,104	2,599		202,628	111,577
						14,104	14,104	72,439
194	146	166	163			21,525	54,212	204,273
					5,973	1,384	8,635	21,297
3,214		491	50	445	52		13,199	8,360
							111	129,282
					185	467,883	470,650	119,550

The full names and relationship of the subsidiaries included in the preceding analysis are as follows:

	Full Name	Relationship
KEBA	Korea Exchange Bank Australia LTD.	100% owned subsidiary of KEBH
KEBL&F	Korea Exchange Bank Leasing & Finance Ltd.	100% owned subsidiary of KEBS

See Note 6 for the full names and relationship of the other subsidiaries.

**29. Merger:**

On January 1, 1999, the Bank merged with Korea International Merchant Bank ("KIMB"), a domestic subsidiaries of the Bank, through an exchange of 56,947,525 newly issued shares of the Bank's common stock for all of the outstanding shares of KIMB in accordance with resolution of board of directors on October 16, 1998 and subsequent approval of shareholders' meeting on November 26, 1998 to comply with the Bank's Rehabilitation Plan filed to the banking regulatory authorities.

**30. Subsequent Event:**

The Bank is in the process of increasing its capital in 1999 by issuing W1,260 billion of new shares to Commerzbank, the Export-Import Bank of Korea and others.

**To the Board of Directors and Shareholders**KJREA  EXCHANGE BANK

We have audited the accompanying non-consolidated balance sheet of banking accounts of Korea Exchange Bank (the "Bank") as of December 31, 1998 and the related non-consolidated statements of operations, disposition of deficit and cash flows for the year then ended, expressed in Korean Won, and we have audited the accompanying non-consolidated balance sheet of the trust accounts of Korea Exchange Bank as of December 31, 1998 and the related non-consolidated statements of operations and cash flows for the year then ended, expressed in Korean Won. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion, as independent accountants, on these non-consolidated financial statements, as to whether they have been prepared in conformity with financial accounting standard generally accepted in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by banking regulatory authorities. For this purpose, we conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. We did not audit the financial statements of certain foreign branches of the Bank, of which statements reflect total assets and total revenues constituting 9.44% and 7.89%, respectively, of the related amounts of banking accounts in the Bank's financial statements for the year ended December 31, 1998. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these branches, is based solely on the reports of the other auditors.

In our opinion, based on our audit and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of banking accounts of Korea Exchange Bank as of December 31, 1998, and the results of its operations, the changes in its retained earnings and its cash flows for the year then ended, and the financial position of trust accounts of Korea Exchange Bank as of December 31, 1998, and the results of its operations and its cash flows for the year then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by banking regulatory authorities.

We have also audited the Bank's financial statements for the year ended December 31, 1997, presented herein for comparative purposes, and we expressed an unqualified opinion thereon in our report dated on January 26, 1998.

As described in Note 2, the accompanying non-consolidated financial statements were prepared in conformity with generally accepted financial accounting standards in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the banking regulatory authorities. Certain accounting policies adopted by the Bank differ in some respects from generally accepted international accounting standards. Accordingly, the non-consolidated financial statements referred to above are not intended to present financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of Korea.

As discussed in Note 2 to the non-consolidated financial statements, effective January 1, 1998, the Bank changed its method of accounting for investment securities, allowance for loan losses and accrued severance benefits pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities. The adoption of the revised guidelines increased the Bank's 1998 net loss by W289,245 million and decreased shareholders' equity as of December 31, 1998 by W123,668 million.

As discussed in the Note 1 to the non-consolidated financial statements, the Bank's operations have been significantly affected and will continue to be affected for the foreseeable future by the adverse economic conditions in the Republic of Korea, the Asia Pacific region, Latin America and Russia in general. The ultimate effect that these significant uncertainties will have on the stated value of assets and liabilities cannot presently be determined. Accordingly, the accompanying non-consolidated financial statements do not contain adjustments related to these uncertainties.

As discussed in Note 29 to the non-consolidated financial statements, on January 1, 1999, the Bank merged with Korea International Merchant Bank ("KIMB"), a domestic subsidiary of the Bank, through an exchange of 56,947,525 newly issued shares of the Bank's common stock for all of the outstanding shares of KIMB in accordance with resolution of board of directors on October 16, 1998 and subsequent approval of shareholders' meeting on November 26, 1998 to comply with the Bank's Rehabilitation Plan filed to the banking regulatory authorities.

As discussed in Note 30 to the non-consolidated financial statements, the Bank is in the process of increasing its capital in 1999 by issuing W1,260 billion of new shares to Commerzbank, a major shareholder of the Bank, Export-Import Bank of Korea and others.

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

January 28, 1999



Samil Accounting Corporation is the Korean member firm of the worldwide Pricewaterhouse Coopers organization.

**CONSOLIDATED BALANCE SHEET**

December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>ASSETS :</b>			
Cash and due from banks	W 4,492,048	W 5,104,680	US\$ 3,719,199
Foreign exchange bills purchased	3,765,573	7,806,510	3,117,712
Loans	24,394,821	33,536,126	20,197,732
Investment securities	11,937,941	12,811,732	9,884,038
Customer's liabilities on guarantees and acceptances	7,151,538	11,259,035	5,921,128
Premises and equipment	2,269,514	2,621,934	1,879,048
Other assets	2,932,506	5,432,670	2,427,973
<b>Total Assets</b>	<b>W 56,943,941</b>	<b>W 78,572,687</b>	<b>US\$4 7,146,830</b>
<b>LIABILITIES MINORITY INTEREST AND SHAREHOLDERS' EQUITY :</b>			
<b>Liabilities:</b>			
Deposits	W 27,381,099	W 38,332,708	US\$ 22,670,226
Foreign exchange bills sold	130,795	180,718	108,292
Borrowings and debentures	16,028,081	21,604,920	13,270,476
Guarantees and acceptances outstanding	7,151,538	11,259,035	5,921,128
Guarantee money received	102,194	125,598	84,612
Allowance for loan losses	1,155,164	711,905	956,420
Other liabilities	3,173,309	3,932,735	2,627,346
<b>Total Liabilities</b>	<b>55,122,180</b>	<b>76,147,619</b>	<b>45,638,500</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>159,606</b>	<b>321,467</b>	<b>132,146</b>
<b>Commitments and contingencies</b>			
<b>Shareholders' equity</b>			
Common stock, W5,000 par value; 1,000 million shares and 400 million shares authorized in 1998 and 1997, respectively; 235 million shares and 165 million shares issued and outstanding in 1998 and 1997, respectively	1,175,000	825,000	972,843
Capital surplus	386,243	583,374	319,791
Accumulated earnings (deficit)	(99,502)	696,991	(82,383)
Capital adjustments	185,668	(7,385)	153,724
Consolidation differentials, credit	14,746	5,621	12,209
<b>Total shareholders' equity</b>	<b>1,662,155</b>	<b>2,103,601</b>	<b>1,376,184</b>
<b>Total Liabilities, Minority Interest and Shareholders' Equity</b>	<b>W 56,943,941</b>	<b>W 78,572,687</b>	<b>US\$ 47,146,830</b>

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	(Except for EPS data)		(Except for EPS data)
	1998	1997	1998
<b>Revenue :</b>			
Interest on due from banks	W 338,711	W 367,617	US\$ 280,436
Interest on foreign exchange bills purchased	516,753	502,316	427,846
Interest on loans	3,227,745	2,996,266	2,672,417
Interest on investment securities	1,070,741	1,489,189	886,522
Other interest income	108,294	53,596	89,662
<b>Total interest income</b>	<b>5,262,244</b>	<b>5,408,984</b>	<b>4,356,883</b>
Fees and commissions	448,430	457,671	371,278
Gains on foreign exchange transactions, net	395,723	285,488	327,640
Trust fees, net	164,242	20,158	135,984
Other income	285,252	76,342	236,175
<b>Total revenue</b>	<b>6,555,891</b>	<b>6,248,643</b>	<b>5,427,960</b>
<b>Expenses :</b>			
Interest on deposits	2,576,075	2,694,046	2,132,866
Interest on borrowings and debentures	1,756,874	1,577,741	1,454,607
Other interest expense	55,115	38,817	45,632
<b>Total interest expenses</b>	<b>4,388,064</b>	<b>4,310,604</b>	<b>3,633,105</b>
Loss on investment, primarily valuation losses	429,698	238,858	355,769
Provision for possible loan losses	653,441	367,253	541,018
General and administrative expenses	549,867	670,990	455,263
Provision for severance benefits	214,004	89,744	177,185
Depreciation and amortization	212,146	308,569	175,647
Other expenses	1,194,480	284,015	988,971
<b>Total expenses</b>	<b>7,641,700</b>	<b>6,270,033</b>	<b>6,326,958</b>
Net loss before income taxes	(1,085,809)	(21,390)	(898,998)
Income taxes	14,293	33,977	11,834
Net loss before amortization of consolidation differentials	(1,100,102)	(55,367)	(910,832)
Minority interest in earnings of consolidated subsidiaries, net	131,628	(28,377)	108,982
Amortization of consolidation differentials, net	3,430	1,029	2,840
Equity in earnings of equity-method investees	9,805	155	8,118
<b>Net loss</b>	<b>W (955,239)</b>	<b>W (82,560)</b>	<b>US\$ (790,892)</b>
<b>Loss per share (in Korean Won and U.S. Dollars)</b>	<b>W (4,901)</b>	<b>W (500)</b>	<b>US\$ (4.06)</b>

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENTS OF CAPITAL SURPLUS AND ACCUMULATED EARNINGS (DEFICIT)

for the years ended December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>Consolidated capital surplus (Note 12)</b>			
Balance at beginning of year	W 583,374	W 547,960	US\$ 483,005
Capital stock of consolidated subsidiaries transferred from accumulated earnings	15,732	35,477	13,025
Asset revaluation surplus used to offset accumulated deficit	(203,591)	-	(168,564)
Reclassification of gain on insurance settlements	-	(63)	-
Other	(9,272)	-	(7,677)
<b>Balance at end of year</b>	<b>386,243</b>	<b>583,374</b>	<b>319,789</b>
<b>Consolidated accumulated earning (deficit)</b>			
Balance at beginning of year	696,991	823,115	577,075
Accumulated deficit offset by asset revaluation surplus	203,591	-	168,564
Net loss	(955,239)	(82,560)	(790,892)
Cash dividends	-	(31,375)	-
Others, net	(44,845)	(12,189)	(37,129)
<b>Balance at end of year</b>	<b>(99,502)</b>	<b>696,991</b>	<b>(82,382)</b>
<b>Balance of consolidated capital surplus and accumulated earnings (deficit) at end of year</b>	<b>W 286,741</b>	<b>W 1,280,365</b>	<b>US\$ 237,407</b>

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 1998 and 1997

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 3)
	1998	1997	1998
<b>Cash flows from operating activities:</b>			
Net loss	W (955,239)	W (82,560)	US\$ (790,892)
Adjustment to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	521,448	308,569	431,734
Provision for loan losses	653,441	367,253	541,018
Provision for severance benefits	214,004	89,744	177,185
Valuation loss on investment securities, net	85,231	213,684	70,567
Loss on disposal of investment securities, net	315,418	3,708	261,151
Loss on sales of loans	891,079	180,836	737,770
Minority interest in earnings of consolidated subsidiaries	(131,628)	28,377	(108,982)
Increase (decrease) in accrued income	329,621	(152,158)	272,910
Equity in earnings (losses) of equity method investees	(9,805)	(155)	(8,118)
Amortization of consolidation differentials, net	(3,431)	(1,029)	(2,841)
Increase (decrease) in accrued expenses	(347,438)	282,811	(287,662)
Severance benefit payments	(313,387)	(74,212)	(259,469)
Others, net	(164,066)	(64,797)	(135,838)
<b>Net cash provided by operating activities</b>	<b>1,085,248</b>	<b>1,100,071</b>	<b>898,533</b>
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of investment securities	760,364	85,775	629,545
Disposals (acquisitions) of premises and equipment	18,123	(314,858)	15,005
Decrease (increase) in foreign exchange bills purchased	3,911,508	(1,792,802)	3,238,539
Net decrease (increase) in loans	8,111,484	(8,833,659)	6,715,917
Decrease (increase) of securities bought under agreements to resell	1,377,040	(851,455)	1,140,123
Others, net	810,265	(980,589)	670,860
<b>Net cash provided by(used in) investing activities</b>	<b>14,988,784</b>	<b>(12,687,588)</b>	<b>12,409,989</b>
<b>Cash flows from financing activities:</b>			
Net decrease (increase) in deposits	(10,942,545)	7,888,770	(9,059,898)
Net decrease (increase) in borrowings and debentures	(5,576,839)	4,626,240	(4,617,353)
Net decrease (increase) in foreign exchange bills sold	(49,923)	932	(41,334)
Net decrease in other liabilities	(249,162)	(174,668)	(206,295)
Dividends paid	-	(31,375)	-
<b>Net cash provided by(used in) financing activities</b>	<b>(16,818,469)</b>	<b>12,309,899</b>	<b>(13,924,880)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(744,437)</b>	<b>722,382</b>	<b>(616,358)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>5,742,533</b>	<b>5,020,151</b>	<b>4,754,540</b>
<b>Cash and cash equivalents at end of year</b>	<b>W 4,998,096</b>	<b>W 5,742,533</b>	<b>US\$ 4,138,182</b>

The accompanying notes are an integral part of these financial statements

**1. The Consolidated Companies:**

The accompanying consolidated financial statements include the banking and certain trust accounts of Korea Exchange Bank (the "Bank" or the "Parent") and its consolidated subsidiaries. General information of the Bank, its consolidated subsidiaries, and equity-method investees is described below.

**The Bank**

Korea Exchange Bank was established in 1967 as a government-invested bank to engage in foreign exchange and trade finance under the Korea Exchange Bank Act. In December 1989, the Bank was converted into a corporation under the Commercial Code of the Republic of Korea as the Korea Exchange Bank Act was repealed.

The Bank provides commercial banking services, trust banking services, foreign exchange and other related operations as permitted under the Bank Act and other relevant laws and regulations in the Republic of Korea.

In 1994, the Bank offered its shares for public ownership and all shares are listed on the Korean Stock Exchange. On July 28, 1998, the Bank issued 70 million shares of common stock for cash at par value to Commerzbank, a major commercial bank in Germany. The Bank's shareholders as of December 31, 1998 and 1997 are as follows:

	1998		1997	
	No. of shares owned (shares)	%	No. of shares owned (shares)	%
Bank of Korea	79,000,000	33.62	79,000,000	47.88
Commerzbank	70,000,000	29.79	-	-
Others	86,000,000	36.59	86,000,000	52.12
	235,000,000	100.00	165,000,000	100.00

As of December 31, 1998, the Bank has 350 branches, agencies and offices in domestic and overseas markets. During 1998, the Bank closed 74 domestic branches and 7 overseas branches. The Bank intends to close 35 domestic branches, 2 overseas branches and 5 subsidiaries and to merge or sell five domestic and foreign subsidiaries in 1999.

**Consolidated Subsidiaries**

Summarized information regarding the consolidated subsidiaries as of December 31, 1998 is as follows

Subsidiaries	Number of Invested Shares or Invested Amounts (In Thousands)		Ownership (Ratio)
<b>Domestic</b>			
Korea International Merchant Bank ("KIMB")	9,640	shares	47.16%
Korea Exchange Bank Credit Service Co., Ltd. ("KEBC")	17,595	shares	100%
KEB Leasing Co., Ltd. ("KEBLS")	2,400	shares	30%
KEB Investment Trust Management Co., Ltd. ("KEBIT")	5,460	shares	91%
KEB Finance Co., Ltd. ("KEBF")	2,500	shares	62.5%
KEB Futures Co., Ltd. ("KEBFC")	2,000	shares	100%
<b>Foreign</b>			
California Korea Bank ("CKB")	US\$	50,000	100%
Korea Exchange Bank of Canada ("KEBOC")	CAD	33,400	100%
KEB (Asia) Finance Ltd. ("KAF")	US\$	47,821	80%
KEB Holding Co. ("KEBH")	AUD	38,000	100%
KEB Australia Ltd. ("KEBA")	AUD	38,000	100%
KEB International Ltd. ("KEBI")	GBP	27,000	100%
KEB Deutschland A.G. ("KEBDAG")	DEM	35,000	100%
KEB Luxembourg S.A. ("KEBL")	BEF	412,500	100%
P.T.KEB Danamon ("KEBD")	IDR	102,000,000	85%
Cairo Far East Bank S.A.E. ("CFEB")	US\$	7,230	31.5%
KEB Ireland Ltd. ("KEB Ire")	US\$	3,000	100%
KIMB Finance Ltd. ("KIMBFL")	US\$	9,432	41.16%
KEB Leasing & Finance Ltd. ("KEBL&F")	US\$	900	30%
Banco KEB do Brazil S.A.	BRL	17,890	100%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The ownership of KEBF, KEBA, KIMBFL and KEBL&F are an aggregate ratio of direct and indirect capital participation of the Bank and its subsidiaries.

In 1998 the Bank liquidated Korea Exchange Bank (Schweiz) A.G. ("KEBS"), a foreign subsidiary located in Switzerland, and Banco KEB do Brazil S.A. were established and included in consolidation.

The Bank operates a trust business in which the Bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust accounts are accounted for and reported separately from the Bank's own commercial banking business. Certain trust accounts are consolidated in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities.

Condensed balance sheet and income statement information of consolidated subsidiaries as of December 31, 1998 and for the year then ended are as follows:

### Condensed Balance Sheet and Income Statement Information(\*)

	In Millions of Korean Won				
	KIMB	KEBC	KEBLS	Others(**)	Total
Loans	W2,571,598	W250,024	W669,420	W3,535,425	W7,026,467
Cash and due from banks	112,944	12,249	27,382	493,237	645,812
Investment Securities	787,651	12,800	31,098	3,783,485	4,615,034
Premises and equipment	45,999	82,614	579,007	61,708	769,328
Other assets	1,138,177	988,074	136,118	274,231	2,536,600
<b>Total assets</b>	<b>W4,656,369</b>	<b>W1,345,761</b>	<b>W1,443,025</b>	<b>W8,148,086</b>	<b>W15,593,241</b>
Deposits	W 450,545	W -	W -	W5,069,945	W 5,520,490
Borrowings and debentures	2,811,825	998,047	1,002,068	1,822,357	6,634,297
Allowances	143,526	81,403	323,364	307,770	856,063
Other liabilities	1,046,759	150,001	62,891	612,736	1,872,387
<b>Total liabilities</b>	<b>4,452,655</b>	<b>1,229,451</b>	<b>1,388,323</b>	<b>7,812,808</b>	<b>14,883,237</b>
Common stock	102,214	87,975	40,000	409,959	640,148
Capital surplus	61,840	-	-	19,765	81,605
Accumulated earnings (deficit)	39,660	28,335	14,702	(94,446)	(11,749)
<b>Total shareholders' equity</b>	<b>203,714</b>	<b>116,310</b>	<b>54,702</b>	<b>335,278</b>	<b>710,004</b>
<b>Total liabilities and shareholders' equity</b>	<b>W4,656,369</b>	<b>W1,345,761</b>	<b>W1,443,025</b>	<b>W8,148,086</b>	<b>W15,593,241</b>
Operating revenue	W 593,096	W 370,633	W 389,470	W 940,359	W 2,293,558
Operating expenses	708,355	353,073	400,558	1,473,111	2,935,097
Operating income (loss)	(115,259)	17,560	(11,088)	(532,752)	(641,539)
Non-operating income	5,519	6,752	133,140	514,760	660,171
Non-operating expenses	6,659	3,953	140,755	68,038	219,405
Ordinary income (loss)	(116,399)	20,359	(18,703)	(86,030)	(200,773)
Income taxes	(12,435)	7,652	(72)	13,635	8,780
<b>Net income (loss)</b>	<b>W(103,964)</b>	<b>W 12,707</b>	<b>W (18,631)</b>	<b>W (99,665)</b>	<b>W (209,553)</b>

(\*) Condensed balance sheet and income statement information is based on the consolidated subsidiaries' financial statements before consolidation adjustments.

(\*\*) Others include financial statement data of "KEBIT", "KEBF", "KSB", "KEBFC", consolidated trust accounts and other foreign consolidated subsidiaries.

The brief explanation of the primary business activities of the consolidated subsidiaries is as follows:

(1) *Korea International Merchant Bank (KIMB)*

KIMB was established on May 28, 1979 under the Merchant Banking Act and is engaged in leasing, CMA, foreign exchange, and other related operations. KIMB's stocks were listed on the Korea Stock Exchange on September 9, 1989. As of December 31, 1998, its capital stock is W102,214 million.

On January 1, 1999, the Bank merged with KIMB, through an exchange of 56,947,525 newly issued shares of the Bank's common stock for all of the outstanding shares of KIMB in accordance with the resolution of board of directors on October 16, 1998 and subsequently approval of shareholders' meeting on November 26, 1998 to comply with the Bank's Rehabilitation Plan filed to the banking regulatory authorities.

(2) *Korea Exchange Bank Credit Service Co., Ltd. (KEBC)*

KEBC was established on May 19, 1988 under the Credit Card Business Law. KEBC's credit card operations include consumer installment financing, factoring and providing payment guarantees. As of December 31, 1998, its capital stock is W87,975 million.

On January 1, 1999, KEBC merged with KEBF, through an exchange of 2,381,120 shares of the KEBC's newly issued common stock for all the outstanding shares of KEBF in accordance with the resolution of board of directors on October 20, 1998 and subsequent approval of shareholders' meeting on November 13, 1998 to comply with the Bank's Rehabilitation Plan submitted to the banking regulatory authorities.

(3) *KEB Leasing Co., Ltd. (KEBLS)*

KEBLS was incorporated on September 11, 1989 to engage in leasing industrial equipment. As of December 31, 1998, its capital stock is W40,000 million, of which Korea Exchange Bank and other shareholders own 30% and 70%, respectively.

(4) *KEB Investment Trust Management Co., Ltd. (KEBIT)*

KEBIT was established on April 6, 1988 to provide investment consulting and information services under the name of Korea Securities Investment Management Co., which was changed to KEB Investment Management Co. on September 16, 1992 and KEB Investment Trust Management Co., Ltd. on July, 1997. As of December 31, 1998, its capital stock is W30,000 million.

(5) *KEB Finance Co., Ltd. (KEBF)*

KEBF was incorporated on September 15, 1995 under the Credit Card Business Law to provide consumer financing services for installment purchases. As of December 31, 1998, its capital stock is W20,000 million, of which KEBC owns 62.5%. On January 1, 1999, KEBF merged with KEBC.

(6) *KEB Futures Co., Ltd. (KEBFC)*

KEBFC was incorporated on September 24, 1997 to engage in brokerage or agency of financial futures. KEBFC commenced operation on December 5, 1997. As of December 31, 1998, its capital stock is W10,000 million.

(7) *California Korea Bank (CKB)*

CKB was established on September 24, 1974 in Los Angeles, California, in the United States to provide financial services for Korean companies and residents in the United States. As of December 31, 1998, its capital stock is US\$40,000 thousand and it has eleven branches.

(8) *KEB (Asia) Finance Ltd. (KAF)*

KAF was established in Hong Kong on August 10, 1976 to provide financial services to Korean companies and to engage in securities investment. As of December 31, 1998, its capital stock is US\$58,500 thousand, of which Korea Exchange Bank and Korea Investment Trust own 80% and 20%, respectively.

(9) *KEB International Ltd. (KEBI)*

KEBI was established in London in the United Kingdom on November 1, 1988 to engage in investing and financing activities in the international financial markets. As of December 31, 1998, its capital stock is GBP27,000 thousand.

All consolidated subsidiaries including certain trust accounts are consolidated in the accompanying 1998 consolidated financial statements.

### Equity-Method Investee

In accordance with financial accounting standards for consolidated financial statements generally accepted in the Republic o

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Korea, the Bank's investment in Hyundai Technology Investment Co., a 30% owned subsidiary and KEB Smith Barney Securities Co., Ltd. ("KSB"), a 50% owned subsidiary, are accounted for on an equity basis.

Hyundai Technology Investment Co. was incorporated on April 8, 1997 to support venture capital. As of December 31, 1998, its capital stock is W30,000 million.

KEB Smith Barney Securities Co., Ltd.(KSB) was established on October 22, 1996 to conduct domestic and international security operations and investment management services. KSB commenced its operations on January 11, 1997. On October 28, 1999, the Bank sold 100,000 shares of KSB's common stock to Salomon Smith Barney Inc., the joint shareholder of KSB. As a result of this sales of stock, the Bank and Salomon Smith Barney Inc. now each have ownership 50%, respectively. As of December 31, 1998, its capital stock is W 50,000 million.

Pursuant to the financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea, KSB is carried at equity in 1998 while its financial statements were consolidated in 1997. Condensed balance sheet of KSB as of December 31, 1998 and its income statements for the year then ended are as follows:

### (1) Condensed Balance Sheet

	In Millions of Korean Won	
	1998	
Loans	W	174
Cash and due from banks		279,142
Investment securities		251,130
Premises and equipment		8,477
Other assets		13,030
Total assets	W	551,953
Deposits	W	20,545
Borrowings and debentures		449,800
Allowances		3,998
Other liabilities		13,106
Total liabilities		487,449
Common stock		50,000
Retained earnings		14,504
Total shareholders' equity		64,504
Total liabilities and shareholders' equity	W	551,953

### (2) Condensed Income Statement

	In Millions of Korean Won	
	1998	
Operating revenue	W	152,711
Operating expenses		117,536
Operating income		35,175
Non-operating income		93
Non-operating expenses		8,343
Ordinary income		26,925
Income taxes		5,072
Net income	W	21,853

In accordance with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea, the bank's investment in KEB Research Institute, which is in process of liquidation, as of December 31, 1998, is accounted for on an equity basis.

#### **Trust Accounts**

Trust accounts, for which no guarantees of minimum return or repayment of principals are provided, are excluded from the Bank's consolidated financial statements in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

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

The significant accounting policies followed by the Bank and consolidated subsidiaries in the preparation of the accompanying consolidated financial statements are summarized below:

#### **Basis of Consolidated Financial Statement Presentation**

The official accounting records of the domestic and overseas consolidated branches and subsidiaries, on which the Korean language financial statements are based, are maintained in accordance with the relevant laws and regulations of the Republic of Korea and local countries, respectively. The accompanying consolidated financial statements are prepared in conformity with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the banking regulatory authorities.

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

The preparation of consolidated financial statements requires management to make estimates and assumptions that effect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Financial statements for the year ended December 31, 1998 were used for consolidation of KIMB, KEBS, KEBIT, KEBFC, KIMBFL and KEBL&F having a fiscal year ending March 31. The financial statements of KEBOC for the year ended October 31, 1997 were used for consolidation since difference between the fiscal year of the Bank and KEBOC is less than three months.

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Bank and its consolidated subsidiaries (together, the "consolidated companies").

The Bank records differences between the investment account and corresponding capital account of subsidiaries as a consolidation differential, which is amortized over five years using the straight-line method. The differential between the investment account and corresponding capital account for equity-method investee companies at the date of acquisition of the investment are amortized over five years using the straight-line method. Such amortization is included in determination of equity in earnings (losses) of equity-method investees.

All significant intercompany transactions and balances among the consolidated companies have been eliminated in consolidation.

#### **Recognition of Interest Income**

Interest income on loans and investments is recognized on an accrual basis, while interest income on overdue and dishonored loans, not secured by guarantees from financial institutions or bank deposit collateral, is recognized on a cash basis in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities. At December 31, 1998 and 1997, the amount of interest accrued but not recognized as income due to cash basis income recognition approximates W367,342 million and W555,200 million, respectively.

#### **Allowance for Loan Losses**

Pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities, from January 1, 1998, allowance for loan losses are required to be provided based on a credit risk classification of the Bank's loan portfolio as of

December 31, 1998. Estimated loan losses are determined by applying the following percentages to each credit risk classification:

Current	0.5%
Special mention	2%
Substandard	20%
Doubtful	75%
Loss	100%

Major changes in the revised guidelines are changes; in percentage of estimated loan losses for loans classified as special mention from 1% to 2%, in classification criteria based on number of the delinquent months, in estimation of allowances for loans based on credit risk classification of the loan portfolio as of from November 30 to December 31, and in full provisioning of estimated loan losses. The adoption of these revised guidelines increased the Bank's 1998 net loss by W103,014 million.

In accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities, the Bank does not provide allowances for potential losses, which may result from credit risk exposures on outstanding guarantees and acceptances. Had allowances for loan losses been provided at the full amount estimated based on the credit risk classification of the outstanding guarantees and acceptances with low quality credit as of December 31, 1998 using the same method for estimating allowances for loan losses on loan portfolio, an additional allowance of W54,020 million would have been recorded.

Consolidated subsidiaries provide allowances for loan losses according to the relevant laws and regulations applicable in their respective jurisdictions, or based on the aggregate estimated collectability of the loans and receivables.

**Investment Securities**

Pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities, from June 30, 1998, investment securities are classified in trading and investment securities and accounted for as follows:

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are recorded as trading securities and are reported at market value, with unrealized gains and losses included in earnings.
- Marketable securities held for investment purpose except for debt securities denominated in Korean Won which are stated at cost, as permitted by the revised accounting and reporting guidelines prescribed by the banking regulatory authorities, are carried at market value, with unrealized gains and losses excluded from earnings and reported as capital adjustments in shareholders' equity until realized.
- Investments in affiliated companies and investment securities other than marketable securities are carried at cost. Long-term debt securities such as bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized as an adjustment to interest income using the straight-line method over the period to maturity. However, if the market value or net book value declines significantly compared to acquisition cost and is not expected to recover soon, the acquisition cost is reduced to the market value or net book value, with unrealized gains or losses included in earnings.
- In 1998, unrealized valuation losses on securities were deducted directly from the investments accounts. Previously, the valuation allowances were recorded as liabilities.
- Investment securities held by overseas branches are reported according to the accounting principles generally accepted in each local country.

Previously, investment securities were carried at cost, except for securities revalued under the Asset Revaluation Law as of January 1, 1993. Revalued investment securities are stated at the revalued amounts less revaluation taxes, unless the lower of cost or market is applied as described below:

- Marketable equity securities listed on the Korean Stock Exchange held for sale were stated at their lower of aggregate cost or market. As of December 31, 1997, the Bank had provided allowances for unrealized valuation losses on these marketable equity securities in amounts equal to 50% of the estimated losses for the banking accounts, as permitted under the previous banking accounting and reporting guidelines.
- The foreign currency denominated securities held for sale were stated at their lower of aggregate cost or market.

- Investments in unlisted Korean equity securities including that in which the Bank held more than 10% of the outstanding equity shares and investments in foreign currency denominated equity securities held for investment purposes were stated at their lower of individual cost or estimated market value.

The adoption of these revised guidelines decreased the Bank's 1998 net loss by approximately W74,145 million and increased capital adjustment in shareholders' equity as of December 31, 1998 by W165,577 million.

#### **Premises and Equipment**

Premises and equipment are recorded at cost, except for those revalued under the Asset Revaluation Law, which are stated at the revalued amounts less revaluation taxes. Depreciation is computed using the declining-balance method over the estimated useful lives of the related assets, except buildings purchased on or after January 1, 1995 and leasehold improvements for which depreciation is computed using the straight-line method.

Accumulated depreciation is presented as a reserve account in other liabilities according to banking accounting and reporting guidelines.

Routine maintenance and repairs are charged to operations when incurred. Betterments and renewals enhancing the value or extending the useful life of the facilities involved are capitalized.

#### **Foreclosed Assets**

Foreclosed assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, no depreciation is provided, instead, based on periodic valuations, the asset is carried at the lower of carrying amount or fair value normally determined as its estimated public auction price. The valuation losses are recognized as other operating expense and corresponding allowances are recorded as a liability account in accordance with the accounting and reporting guidelines. In 1998 and 1997, provision for valuation losses amounting to W1,425 million and W1,606 million, respectively, were recorded.

Gains or losses on disposal of foreclosed assets sold on an installment payment basis are deferred and amortized in proportion to subsequent cash collections of the receivables.

#### **Lease Transactions**

KIMB and KEBLS, consolidated subsidiaries, account for lease transactions as operating or financing leases, depending upon the terms of the underlying lease agreements. In general, leases are recognized as financing leases when ownership title transfers after expiration of non-cancellable leases, when a bargain purchase option exists, or when the lease term exceeds the economic life of the related asset.

Under the financing lease method, aggregate lease rentals are recorded as financing lease receivable, net of unearned interest based on the excess of gross rental revenue over the cost of the leased assets. Unearned interest is recognized as interest income over the lease term using the effective interest method.

Operating leases are reported as premises and equipment stated at cost, and depreciated using the straight-line method over the lease term. The related lease rental income is recognized as revenue on an accrual basis over the lease term.

#### **Goodwill**

The value of the consideration delivered by the Bank in excess of the net asset of acquired companies is recorded as goodwill, and amortized over five years using the straight-line method.

#### **Deferred Charges**

Deferred charges comprise stock issuance costs, debenture issuance costs and research and development costs and are amortized using the straight-line method. Stock issuance costs and research and development costs are amortized over three and five years, respectively. Debenture issuance costs are amortized over the debenture repayment period, except for the debenture issuance costs incurred before March 29, 1996 which are amortized over the shorter of three years or the debenture repayment period.

#### **Accrued Severance Benefits**

Employees and executives with one year or more of service with the Bank are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rates of pay at the time of termination. Estimated severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment approximate W287,005 million and W421,620 million at December 31, 1998 and 1997, respectively.

The Bank has not accrued a portion of estimated severance benefit liabilities as permitted by the accounting and reporting guidelines of the banking regulatory authorities. Such unrecorded obligations as of December 31, 1998 and 1997 amount to W17,900 million and W35,800 million, respectively.

In addition to severance benefits, the Bank pays to employees who apply for early retirement certain amount of additional early retirement benefits. No accrual is provided for future early retirement.

Pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities effective from January 1, 1998, net increase in estimated severance benefits and actual payment of severance benefits, including additional early retirement benefits, during the year were fully accrued. Previously, early retirement benefits paid during the period are deferred and accrued over three years. The adoption of these revised guidelines increased the Bank's 1998 net loss by W180,107 million.

The Bank's actual payment of severance benefits, including additional early retirement benefits, amount to W292,373 million and W62,800 million in 1998 and 1997, respectively.

Domestic subsidiaries have fully accrued estimated severance benefits in accordance with the relevant severance benefit laws and regulations in Korea. Overseas subsidiaries accrue employees' retirement benefits according to the local laws and regulations in the jurisdictions in which they operate.

In accordance with the National Pension Act, the Bank and domestic subsidiaries deposit a portion of accrued severance benefits with the National Pension Fund in cash. Such aggregate deposits as of December 31, 1998 and 1997 amount to W16,052 million and W16,637 million, respectively, and are recorded in other assets.

In addition, the Bank has partially funded accrued severance benefits through group severance insurance plans. As of December 31, 1998, the amounts funded under these insurance plans amount to W272,791 million, and are included in cash and due from banks in the accompanying consolidated balance sheets.

#### **Present Value Discounts**

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

Amounts recorded for payment in subrogation are determined by the amount of cash actually remitted, and rescheduled loans are recorded in rescheduled principal amounts to be collected.

#### **Discounts on Debentures**

Discounts on debentures are recorded as other assets and amortized over the term of the debenture using the effective interest rate method. Amortization of these accounts is included in interest expenses.

#### **Income Taxes**

The provision for income taxes is comprised of corporate income tax and tax surcharges payable for the current year. In accordance with financial accounting standards generally accepted in the Republic of Korea, the Bank and consolidated domestic subsidiaries do not recognize deferred income taxes arising from temporary differences between amounts reported for financial accounting and income tax purposes except for certain consolidated overseas branches and subsidiaries which account for the interperiod tax allocation by providing for deferred income taxes according to the local generally accepted accounting principles. Deferred tax assets and liabilities recorded at these branches and subsidiaries are included in other assets and liabilities and related income tax benefits and expenses are recorded as other income and expenses in the accompanying consolidated financial statements.

Tax credits are accounted for using the flow-through method, whereby they are recognized as a reduction of income tax expense in the year they are utilized for tax purposes.

#### **Securities Bought or Sold Under Agreements to Resell or Repurchase**

Securities bought or sold under resale or repurchase agreements are accounted for as other assets and other liabilities, respectively, and related income and expenses are recorded as other interest income or expenses.

#### **Translation of Foreign Currency Financial Statements and Foreign Currency Transactions**

Foreign currency denominated assets and liabilities are translated into Korean Won at the basic rates in effect at the balance sheet date, except for spot and forward exchange contracts which are valued at the rates specified in the contracts. Resulting exchange gains and losses are recognized currently and included in gains on foreign exchange transactions.

The financial statements of overseas subsidiaries, branches and offices are translated into Korean Won at the basic rates in effect at the balances sheet dates in accordance with the accounting and reporting guidelines prescribed by the banking regulatory authorities.

Foreign currency translation losses or gains from foreign currency borrowings to finance the acquisition of operating lease property of a domestic subsidiary are deferred and recognized in operations when related rental revenues are recognized in accordance with financial accounting standards for lease transactions generally accepted in the Republic of Korea.

The exchange rates used to translate U.S. Dollar amounts at December 31, 1998 and 1997 are W1,207.80 : US\$ 1 and W1,415.20 : US\$ 1, respectively.

#### **Derivative Financial Instruments**

Derivative financial instruments entered into for trading purposes are valued at estimated current market prices and resulting unrealized valuation gains or losses are recognized currently.

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

#### **Loss Per Share**

Loss per share is computed using the weighted average number of common shares outstanding during the year.

#### **Cash and Cash Equivalents**

As presented in the consolidated statements of cash flows, cash and cash equivalents consist of cash and due from banks, and short-term liquid securities with original maturities of three months or less.

#### **Trust Fees**

The Bank's banking accounts receive trust fees from the trust accounts for its management of trust accounts' assets and operations, and are entitled to receive special trust fees for certain guaranteed trust accounts in accordance with the relevant laws and regulations applicable to trust operations. Trust fees, received from consolidated trusts accounts are eliminated in consolidation.

#### **Significant Changes in Bank Accounting Standards effective in 1999**

In December 1998, significant changes were announced to the financial accounting standards and the bank accounting standards of the Republic of Korea that will change accounting principles generally accepted in the Republic of Korea to be more consistent with International Accounting Standards. These changes, including the following, are effective for years beginning after December 12, 1998.

- to change valuation of debt securities from presently at cost to at fair value,
- to estimate allowances for loan losses considering factors that may affect the collectability of the loans,
- to accrue allowance for credit losses on guarantees and acceptances outstanding,
- to account for loans that are restructured in a troubled debt restructuring by measuring impairment based on the present value of the expected cash flows, specified by the new terms of the loans,
- to adopt accounting for deferred income taxes,
- and to expand certain disclosures.

The Bank is currently evaluating the effect that implementation of the new standards will have on its results of operations and financial position.

#### **Accounting for Trust Accounts**

As explained in Note 1, guaranteed trust accounts operated and managed by the Bank as a fiduciary are consolidated in accordance with accounting and reporting guidelines prescribed by the banking regulatory authorities. The significant accounting policies in the preparation of the accompanying financial statements of the consolidated trust accounts are summarized as follows:

##### *- Revenues and Expenses of Trust Accounts*

Consolidated trust accounts comprise trust operating revenues and expenses, trust fees to the Bank, and dividends of trust profit to the beneficiaries of the trust accounts. The non-consolidated trust accounts' trust fees to the Bank are recognized as income of the banking accounts of the Bank.

- *Interest Income Recognition*

Interest incomes on loans and investment securities held by the consolidated trust accounts are recognized using the same method as the banking accounts of the Bank.

- *Deposits at the Bank*

The Bank's consolidated trust accounts deposit certain amounts for drawing of unspecified money trust and account for them as deposits at the Bank. Interest on these deposits is computed and recorded daily. Deposits at the Bank and their interest are eliminated in consolidation.

- *Special Allowance*

Certain consolidated money trust agreements provide that the Bank guarantee a minimum rate of return. In relation to such guarantees, the Bank is required to set up a special allowance, not to exceed 5% of annual revenue until the total allowance equals 3% of related money trust amounts, for these consolidated trust accounts. If the income from trust operations is insufficient to generate the required rate of return, the deficiency may be either recovered from previously established special allowance or from the Bank's banking business operations. These special allowances amounting W9,088 million and W38,576 million at December 31, 1998 and 1997, respectively, are reclassified into consolidated retained earnings.

- *Allowance for Loan Losses*

Pursuant to the revised relevant laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, effective April 1, 1998, allowances for loan losses are required to be provided based on a credit risk classification of the loan portfolio of the trust accounts as of December 31. Estimated loan losses are determined by applying the same percentages to each credit risk classification as the banking accounts of the Bank.

Previously, an annual provision for loan losses was required to be accrued in an amount not to exceed 0.7% of the outstanding loan balances, until the total allowance equals 3% of the outstanding loan balances, as permitted under the previous Trust Act and relevant accounting and reporting guidelines.

Adoption of this revised guideline increased allowances for loan losses by approximately W86,076 million, which have been compensated by the banking accounts for the period ended at December 31, 1998.

The allowance for loan losses at December 31, 1998 and 1997 amounts to W189,325 million and W7,860 million, respectively.

- *Investment Securities*

Pursuant to the revised laws and regulations applicable to trust operations prescribed by the banking regulatory authorities, from January 1, 1998, equity securities and beneficiary certificates held by the Bank's trust accounts subject to a guaranteed minimum rate of return are stated at market value using the market prices on balance sheet date. However, other securities including corporate debentures and commercial paper are stated at cost.

Previously, as of December 31, 1997, the Bank has recognized an allowance for only 50% of the unrealized valuation losses on investments in publicly traded marketable equity securities held by the trust accounts, as permitted under the relevant laws and regulations applicable to trust operations.

Adoption of this revised guidelines increased dividends of trust profit to beneficiaries of the Bank's trust accounts as of December 31, 1998 by approximately W5,807 million.

**Compensation to the Trust Accounts**

The Bank compensates for losses incurred in certain consolidated trust accounts. Such compensation is accounted for as other expenses of the banking accounts and other income of the trust accounts, respectively, in accordance with the relevant laws and regulations applicable to trust operations. Such compensation was eliminated in the consolidated financial statements.

**Reclassification of 1997 Amounts**

Certain amounts in the 1997 financial statements have been reclassified to conform to the 1998 presentation. These reclassifications have had no effect on previously reported net income or retained earnings.

**3. United States Dollar Amounts:**

The Bank operates primarily in Korea Won and its official accounting records are maintained in Korea Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. The 1998 Korean Won amounts are expressed in U.S. Dollars at the rate W1,207.80 : US\$ 1, the rate in effect on December 31, 1998. This presentation is not in accordance with accounting principles generally accepted in either Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

**To the Board of Directors and Shareholders**KJAEA  EXCHANGE BANK

We have audited the accompanying consolidated balance sheet of Korea Exchange Bank (the "Bank") and its subsidiaries as of December 31, 1998 and the related consolidated statements of operations, capital surplus and accumulated earnings (deficit) and cash flows for the year then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion, as independent accountants, on these financial statements, as to whether they have been prepared in conformity with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by banking regulatory authorities. For this purpose we conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. We did not audit the financial statements of certain foreign branches and consolidated subsidiaries of the Bank, whose statements reflect total assets and total revenues constituting 14.07% and 13.18%, respectively, of the related amounts in the Bank's consolidated financial statements for the year ended December 31, 1998. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these branches and subsidiaries, is based solely on the reports of the other auditors.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Korea Exchange Bank and its subsidiaries as of December 31, 1998, and the consolidated results of their operations, the consolidated changes in their capital surplus and accumulated earnings (deficit) and their consolidated cash flows for the year then ended in conformity with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by banking regulatory authorities.

We have also audited the consolidated financial statements of the Bank and its subsidiaries for the year ended December 31, 1997, presented herein for comparative purposes, and we expressed an unqualified opinion thereon in our report dated January 26, 1998.

As described in Note 2, the accompanying consolidated financial statements were prepared in conformity with generally accepted financial accounting standards for consolidated financial statements in the Republic of Korea, as modified by the accounting and reporting guidelines prescribed by the banking regulatory authorities. Certain accounting policies adopted by the Bank and subsidiaries differ from generally accepted international accounting standards. Accordingly, the consolidated financial statements referred to above are not intended to present consolidated financial position, consolidated results of operations and consolidated cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The standards, procedures and practices utilized to audit such consolidated financial statements are those generally accepted and applied in the Republic of Korea.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 1998, the Bank changed its method of accounting for investment securities, allowance for loan losses and accrued severance benefits pursuant to the revised accounting and reporting guidelines prescribed by the banking regulatory authorities. The adoption of the revised guidelines increased the Bank's 1998 consolidated net loss by W289,245 million and decreased consolidated shareholders equity as of December 31, 1998 by W123,668 million.

As discussed in Note 17 to the consolidated financial statements, operations of the Bank and its subsidiaries have been significantly affected and will continue to be affected for the foreseeable future by the adverse economic conditions in the Republic of Korea, the Asia Pacific region, Latin America and Russia in general. The ultimate effect that these significant uncertainties will have on the stated value of assets and liabilities cannot presently be determined. Accordingly, the accompanying consolidated financial statements do not contain adjustments related to these uncertainties.

As discussed in Note 1 to the consolidated financial statements, on January 1, 1999, the Bank merged with Korea International Merchant Bank ("KIMB"), a domestic consolidated subsidiary of the Bank, through the exchange of 56,947,525 shares of the Bank's newly issued common stock for all of the outstanding shares of KIMB in accordance with the resolution of board of directors on October 16, 1998 and subsequent approval of shareholders' meeting on November 26, 1998 to comply with the Bank's Rehabilitation Plan filed to the banking regulatory authorities.

As discussed in Note 26 to the consolidated financial statements, the Bank is in the process of increasing its capital in 1999 by issuing W1,260 billion of new shares to Commerzbank, a major shareholder of the Bank, Export-Import Bank of Korea and others.

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

January 28, 1999



Samil Accounting Corporation is the Korean member firm of the worldwide Pricewaterhouse Coopers organization.

This is the independent auditors' report expressing an opinion on the consolidated financial statement, including all footnote disclosures thereto, of Korea Exchange Bank for the year ended December 31, 1998. The accompanying consolidated financial statement include only a portion of the footnote disclosures. The Bank's complete consolidated financial statement, including all footnotes there, are available at the Bank's premises.



**Kap-Hyun Lee**  
President and Chief Executive Officer



**Manfred Drost**  
Senior Managing Director and  
Deputy President



**Ko-Kwang Huh**  
Standing Auditor



**Hans-Bernhard Merforth**  
Managing Director



**Eui-Jei Woo**  
Managing Director



**Byung-Koo Chang**  
Managing Director

**NON-STANDING DIRECTORS**



**Yung-Chul Park**  
Chairman of the Board of Directors



**Jürgen Lemmer**  
Non-standing Director



**Wolfgang Hönig**  
Non-standing Director



**Hong-Shik Chae**  
Non-standing Director



**Alan John Timblick**  
Non-standing Director



**Hwi-Soo Lee**  
Non-standing Director



**Doo-Han Song**  
Non-standing Director

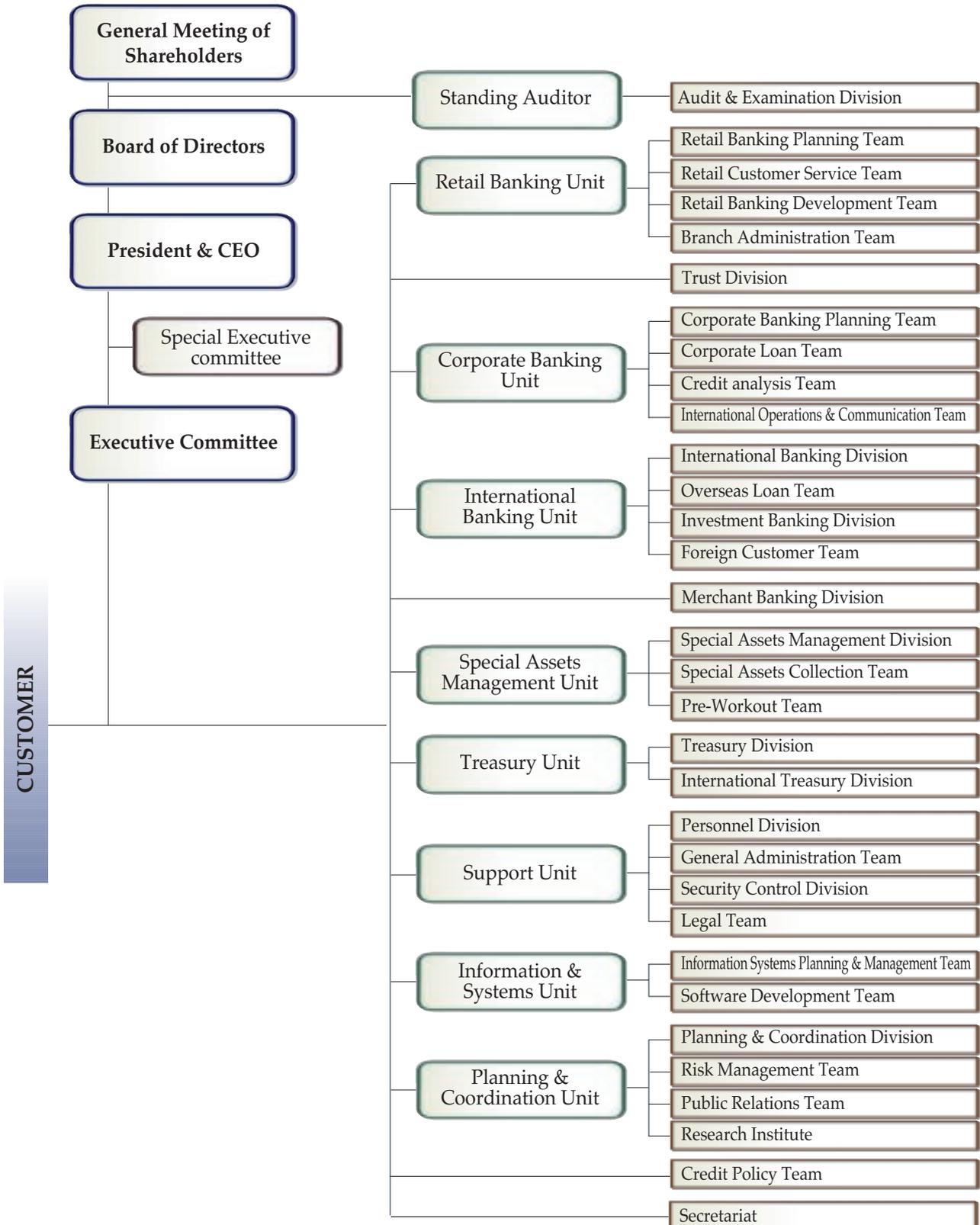


**Sang-Kyung Kim**  
Non-standing Director



**Jong-Heon Back**  
Non-standing Director

# ORGANIZATION CHART



**INTERNATIONAL BANKING GROUP**

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**INTERNATIONAL BANKING DIVISION**

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**Int'l Planning & Global Strategy,  
Financial Institutions Business & Credit Risk  
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**Correspondent Banking**

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*Middle East, Asia and Oceania*

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*Korea*

Manager: Sung-Jae Lee  
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*Product Planning & alliance*

Manager: Wang-Woong Kim  
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**Credit Risk Management**

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Assistant: Byung-Chul Kim  
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Manager: Wan-Deok Lee  
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**M & A**

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Manager: Jae-Hak Lee  
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**Custody Sales**

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Manager: Jin-Mo Lee  
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*Securities Dealing*

Manager: Kyu-Sung Chai  
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*Derivatives*

Manager: Hee-Dong Kim  
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*Market Research*

Manager: Hong-Hoo Moon  
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*Forex Dealing*

Manager: Chang-Hun Lee  
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Manager: Hong-Hoo Moon  
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*Corporate Customer Desk*

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*Medium & Long-Term Financing*

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**Middle Office, Back Office & Correspondent  
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*Middle Office*

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*Back Office*

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*ALM*

Assistant Manager: Sang-Bae Lee  
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*Correspondent Account Services*

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**International Operations & Communication  
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**Bank Notes/Travellers Cheques**  
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OVERSEAS NETWORK

BRANCHES & REPRESENTATIVE OFFICES

The Americas

Regional Office for America

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General Manager: Jong-Chul Kim  
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Hamkyungnamdo, D.P.R.K.  
Tel: 850-660/662 (Domestic)  
850-0549-20408 (Overseas)  
Fax: 850-669 (Domestic)

**SUBSIDIARIES**

**California Korea Bank**

President: Kwang-Soon Park

**Head Office**

3530 Wilshire Blvd., 18th Floor  
Los Angeles, CA 90010, U.S.A.  
Tel: 1-213-385-0909/269-1988  
Tlx: 212804  
Fax: 1-213-386-6869/6889

**Korea Exchange Bank of Canada**

President: Byung-Choon Ahn

**Head Office**

2345 Yonge Street, Suite 600  
Edison Centre Toronto, Ontario M4P 2E5,  
Canada  
Tel: 1-416-932-1234/489-1988  
Tlx: 623274, 06218077  
Fax: 1-416-932-1235

**KEB(Asia) Finance Ltd.**

Managing Director: Sun-Dong Chung  
33rd Floor, Far East Finance Centre  
16 Harcourt Road, Central Hong Kong  
Tel: 852-2520-1221  
Tlx: 85180  
Fax: 852-2865-4746

**KEB Australia Ltd.**

Managing Director: Soo-Shin Lee  
4th Floor, N.A.B. House 255 George Street  
Sydney, N.S.W. 2000, Australia  
Tel: 61-2-9251-3355/9241-1988  
Tlx: 24932  
Fax: 61-2-9251-3853

**KEB International Ltd.**

Managing Director: Choong-Suk Suh  
2nd Floor, Crosby Court 38 Bishopsgate  
London EC2N 4AJ, U.K.  
Tel: 44-171-650-1500  
Tlx: 925855  
Fax: 44-171-650-1501

**Korea Exchange Bank Luxembourg S.A.**

Managing Director: Nak-Keun Lee  
33 rue, Notre-Dame, L-2240, Luxembourg  
Tel: 352-460-033  
Tlx: 60609  
Fax: 352-470-333

**Korea Exchange Bank(Deutschland) A.G.**

Managing Director: Dae-Soo Kwon  
Bockenheimer, Landstrasse 51-53  
60325 Frankfurt/Main  
Federal Republic of Germany  
Tel: 49-69-71290/721988  
Tlx: 412105  
Fax: 49-69-712-9122

**P.T. Korea Exchange Bank Danamon**

President: Jin-Woo Park  
Wsima G.K.B.I. 12th Floor  
Suite 10210 Jalan Jenderal Sudirman, No. 28  
P.O. Box 2317, Jakarta 10001, Indonesia  
Tel: 6221-574-1030  
Tlx: 65060  
Fax: 6221-574-1031/2

**KEB Ireland Ltd.**

Managing Director: Yung-Man Seul  
1st Floor, Russell House Stokes Place  
St. Stephen's Green, Dublin 2, Ireland  
Tel: 353-1-475-2000  
Tlx: 32340  
Fax: 353-1-478-5612/3

**Banco KEB do Brasil S.A.**

President: Won-Kil Kang  
Av. Paulista 1842,  
13 Andar CJ. 136  
Cetenco Plaga, Torre Norte,  
Cerqueira Cesar Sao Paulo,  
S.P. BRASIL CEP: 01310-200  
Tel: 55-11-3171-1122  
Fax: 55-11-3171-1100

**AFFILIATE**

**Cairo Far East Bank S.A.E.**

104, E1 Nil Street, Dokki Gizza  
P.O. Box 757, Cairo, Egypt  
Tel: 202-348-0243/332-2648  
Tlx: 20809  
Fax: 202-348-3818

**DOMESTIC NETWORK**

**Head Office**

181, 2-Ga, Ulchiro, Chung-gu  
C.P.O. Box 2924, Seoul 100-793, Korea  
Tel: (82-2) 729-8000  
Tlx: 23141

**SUBSIDIARIES**

**Korea Exchange Bank Credit Service Co., Ltd.**

President: Sang-Chul Kim  
935-34, Pangbae-dong, Socho-gu  
Seoul 137-060, Korea  
Tel: (82-2) 524-8000  
Fax: (82-2) 524-8052

**KEB Leasing Co., Ltd.**

President: Ro-Sang Ryu  
2nd Fl, Kyeyang Bldg., 548-1, Anyang 8  
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430-018, Korea  
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Fax: (82-343) 40-8555

**KEB Investment Trust Management Co., Ltd.**

President: Soo-Jung Park  
23-5, Youido-dong, Youngdungpo-gu  
Seoul 150-010, Korea  
Tel: (82-2) 3772-6700  
Fax: (82-2) 3772-6748/9

**KEB Smith Barney Securities Co., Ltd.**

President: Kyung-Min Kim  
13th Floor, Dong-Ah Life Ins. Bldg.  
33, Da-dong, Chung-gu  
Seoul 110-080, Korea  
Tel: (82-2) 3705-0600  
Fax: (82-2) 3705-0990

**KEB Futures Co., Ltd.**

President: Kyung-Sik Ko  
3rd Floor, Victoria Bldg.  
705-1 Yoksam-dong, Kangnam-Ku  
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# KOREA EXCHANGE BANK

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Internet : //www.koexbank.co.kr

## **Corporate Data** (as of December 31, 1998)

### **Established**

January 30, 1967

### **Paid-in Capital**

1,175,000 Millions

### **Common Stock Issued and Outstanding**

235,0000,000

### **Stock Exchange Listing**

Korea Stock Exchange

### **Number of Stockholders**

90,898

### **Number of Employees**

5,889